Michigan PRIME

TIME IS MONEY

WHY DELAYING YOUR SOCIAL SECURITY RETIREMENT BENEFIT MAKES SENSE

By: Claire Charlton - May 8, 2016

You've worked hard for a lifetime. Now you're 62 and ready to relax and reap Social Security retirement benefits.

Not so fast. Age matters when claiming Social Security retirement benefits.

"People spend more time planning a Disney trip than they spend planning when to take Social Security benefits," says wealth preservation specialist Pat Simasko, elder law attorney with Simasko Law in Mount Clemens. "Everyone knows they can claim at 62 and they want their money now. That's typically the worst thing you can do."

Why wait? We asked experts to explain:

I can claim at 62, wait until my full retirement age (66 if born 1943-1954, increasing incrementally to 67 if born 1960 or later) or I can wait until 70. What's the difference?

Because benefit amounts are based on average life expectancy, Social Security provides lower monthly payments for a longer period of time or higher monthly payments for a shorter period of time, but the amount you begin to receive sets the base for the rest of your life.

"Social Security, for some, is the largest asset pool in terms of monthly payout. It can be a phenomenal amount of money, maybe more than you have in your IRA. But people don't look at it as a lump sum the way they do their 401(k) or IRA," says Chris Alberta, president and senior financial adviser at Principium Tactical Wealth Management in Brighton. "Mathematically, most should defer as long as they can. The amount is literally almost double, even if you have to wait eight years to claim."

Here's an Example: Your full retirement age, or FRA, is 66 and your benefit is $1,000 per month at that age. If you claim at 62, your monthly benefit is permanently reduced to $750. If you wait until age 70, your monthly benefit is $1,320, or 32 percent more than if you claimed at FRA and 76 percent more than if you claimed at 62.

Wow! I'm convinced. But can I wait until I'm 70 to receive my maximum benefit?

"The answer is based on an individual's health, income, assets and expenses," says Jeff Klauenberg of Klauenberg Retirement Solutions in Baltimore and co-author of "What You Don't Know About Retirement Income Can Hurt You!"

Like many financial professionals, Klauenberg asks clients to separate retirement necessities, such as monthly living expenses, from wishes like travel.

"If it looks like a significant benefit and if they are healthy, clients tend to go along with delaying their claim," Klauenberg says.

Some, he says, still claim early due to health issues or family health history.

How will I fund the gap between 62 and 70?

"Some may have to work longer or start spending out of savings or retirement accounts," explains Simasko, who says that money making zero interest in a savings account can be used to delay claiming benefits that increase in value by 8 percent each year delayed.

In his book, Klauenberg outlines a laddered strategy using liquid investments like CDs, short-term bonds, immediate annuities and savings accounts to fund the income gap. Because no two retirements are identical, professional advice can help build strategies to maximize options.

How could my spouse benefit?

Increasingly, households are dual-income, but when a higher-earner dies, the survivor receives the greater of either their individual or spousal benefit, so it makes sense to lock in the highest allowable benefit.

"Especially when there is a sizeable age gap between spouses, one of the most loving acts is to defer as long as possible so the survivor can benefit for as long as possible," Alberta says.

Is it too late to plan to defer?

"First, come to the realization that you will live longer than your parents did. Deferring benefits means you will have a larger paycheck for a longer time," Alberta says.

He suggests maximizing savings by slowing your spending in your 50s, even if it means foregoing the beloved cottage purchase. Next, talk with a financial adviser to plan for Social Security deferment.

"Nothing is a substitute for being a great saver," Alberta says.

"It's never too late. You can always have a plan in place," says elder law attorney Farrah Ramdayal of Schock Solaiman Ramdayal PLLC in Clinton Township and Dearborn. "The sooner you talk to a financial planner or elder law or estate planning attorney, the more options you will have available. More time gives you more options."

Jeff Klauenberg, MA, RIS, CFP and owner of Klauenberg Retirement Solutions, began his insurance career in 1983. His firm has continually aimed to be on the "cutting edge" of financial and retirement planning.

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