



# QUARTER NOTES

Fourth Quarter 2015

What if . . .

## Social Security benefits can be boosted?

After paying the mortgage and covering education expenses for the kids, the biggest financial challenge most people face is building financial security in retirement. The three resource prongs are qualified retirement plans (employer plans and IRAs), after-tax savings, and Social Security. With 401(k) plans, IRAs and taxable savings, one needs to be thrifty and have some investment savvy to maximize the resource. For the largest possible Social Security benefit, one only needs patience.



The value of patience, when it comes to collecting Social Security benefits, is well documented by financial advisor Brian Doherty in his book *Getting Paid to Wait* (Acanthus Publishing, 2015). Several other books have been published recently to guide seniors to their optimal strategies, because this area of financial planning is not as simple as one might think.

For the unmarried, Social Security claiming issues are pretty straightforward. The longer one works, the more that one earns, the larger the basic benefit will be. The normal retirement age for full benefits is 66 for those born from 1943 through 1954; that is, people who are age 61 through 72 this year. For each year that one delays beyond normal retirement age, an 8% bonus may be earned, to a maximum of 32%. The enhanced benefit lasts for life. It also provides a larger base for future inflation adjustments as they are made to benefits generally.

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What if you are single?



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## What if . . . continued

Retirement as early as age 62 is permitted, but results in a significant, permanent decrease in benefits. For those in the 1943-1954 age group, the reductions are as follows:

Age	Percentage of full benefit
62	75%
63	80%
64	86 <sup>2</sup> / <sub>3</sub> %
65	93 <sup>1</sup> / <sub>3</sub> %

Source: [http://www.socialsecurity.gov/OACT/ProgData/ar\\_drc.html](http://www.socialsecurity.gov/OACT/ProgData/ar_drc.html)

Actuarially speaking—that is, looking at benefits paid to retirees as a whole—there is no difference between the early and normal benefit payments. Individuals have a different calculus, however. Not collecting benefits at age 62, waiting until age 66, means that one gives up the equivalent of three years of full benefits. It will take the retiree until age 78 to “break even” on that deal. Roughly half of retirees will live longer than that.



For married couples, *spousal* Social Security benefits are based upon the work record of a living spouse or ex-spouse. They are generally 50% of the worker’s benefit. *Survivor benefits*, based upon the work record of a deceased spouse or ex-spouse, are 100% of the deceased worker’s last benefit. There are a number of other differences to keep in mind:

- The earliest age for obtaining spousal benefits is 62, and the earliest age for survivor’s benefits is 60. The spousal benefit at 62 is 35% of the worker’s benefit, and the

survivor’s benefit taken at age 60 is 71.5% of the worker’s benefit.

- Persons born in 1944 or 1955 will have a different full retirement age for their spousal and survivor benefits. Full retirement age is 66 for spousal benefits for those born between 1943 and 1954, but for survivor benefits the window is 1945 to 1956.

- Spousal benefits do not get the benefit of delayed retirement credits, but survivor benefits do.

- Survivor benefits become available after nine months of marriage, but 12 months are required for spousal benefits.

When both marital partners have an earnings record, a door opens wide for planning. Each partner may collect benefits on his or her own earnings, or

spousal benefits, but not both.

### Spousal benefits in action—simplified

Meet John and Mary, a married couple, both the same age. John’s full monthly benefit at age 66 will be \$1,500, Mary’s \$1,000. Should they both retire at age 62, John will receive \$1,125 per month, Mary \$750, each on his or her own earning record.

Let’s say that John dies at age 68. At that point Mary will begin receiving survivor benefits, which are a minimum of 82.5% of John’s full retirement benefit. Accordingly, Mary will receive \$1,237 for the rest of her life. (Annual inflation adjustments are ignored in this example for simplicity.)

Here’s how that looks year by year.

Table 1

Age	62	63	64	65	66	67	68	69
John’s benefit	\$1,125	\$1,125	\$1,125	\$1,125	\$1,125	\$1,125	—	—
Mary’s benefit	\$750	\$750	\$750	\$750	\$750	\$750	\$1,237	\$1,237
Total	\$1,875	\$1,875	\$1,875	\$1,875	\$1,875	\$1,875	\$1,237	\$1,237

Source: M.A. Co.

New facts: Rather than take both benefits, John decides to wait until age 70 to maximize his benefits. He still dies at age 68. Here’s how those benefits play out.

Table 2

Age	62	63	64	65	66	67	68	69
John’s benefit	\$0	\$0	\$0	\$0	\$0	\$0	—	—
Mary’s benefit	\$750	\$750	\$750	\$750	\$750	\$750	\$1,740	\$1,740
Total	\$750	\$750	\$750	\$750	\$750	\$750	\$1,740	\$1,740

Source: M.A. Co.

Mary’s survivor benefit is nearly 50% greater with the second strategy. Why? Because she will receive 100% of the benefit to which John was entitled in the year that he died. He waited two years before collecting, and so he had a 16% bonus on his normal benefit of \$1,500. Mary will receive this larger benefit for the rest of her life.



Advanced strategies

Brian Doherty offers several strategies for increasing a couple's total Social Security benefits.

Indeed, it is surviving widows who are the greatest beneficiaries of the strategy of maximizing Social Security benefits, and it is they who are most in need of that protection.

Now let's say that John had a \$1,500 monthly benefit; Mary had an \$1,800 benefit, and they both want to wait to age 70 to get that 32% bonus. John dies at age 66, before collecting anything. Mary immediately begins to collect benefits on her own earnings record.

Age	62	63	64	65	66	67	68	69	70
John's benefit	\$0	\$0	\$0	\$0	—	—	—	—	—
Mary's benefit	\$0	\$0	\$0	\$0	\$1,800	\$1,800	\$1,800	\$1,800	\$1,800
Total	\$0	\$0	\$0	\$0	\$1,800	\$1,800	\$1,800	\$1,800	\$1,800

Source: M.A. Co.

The better course for Mary would be to collect her spousal benefits from John's earning record for four years, allowing her own benefit to build up until age 70.

Age	62	63	64	65	66	67	68	69	70
John's benefit	\$0	\$0	\$0	\$0	—	—	—	—	—
Mary's benefit	\$0	\$0	\$0	\$0	\$1,500	\$1,500	\$1,500	\$1,500	\$2,376
Total	\$0	\$0	\$0	\$0	\$1,500	\$1,500	\$1,500	\$1,500	\$2,376

Source: M.A. Co.

The money that Mary forgoes in the first four years will be recovered within two years of her higher benefit beginning at age 70, and that higher benefit will last for the rest of her life.

*Claim early and claim late.* The spouse with lower earnings takes early retirement benefits at age 62; the higher-earning spouse claims spousal benefits at age 66. The higher earner claims his or her own benefit at age 70, reaping the 32% bonus.

*Normal age and spousal claim.* Similar to above, except that the spouse with lower earnings keeps working until normal retirement age of 66.

*Claim and suspend.* The higher-earning spouse claims benefits at age 66, but immediately suspends them. He or she waits until age 70 to begin the benefits, thus securing the credit for delay. The filing permits the lower-earning spouse to claim full spousal benefits. The lower-earning spouse also waits until age 70 to begin benefits on his or her own earnings record. This approach maximizes the monthly benefit for the couple after age 70, but at the cost of giving up most Social Security benefits before that age.

These examples have all assumed that the couple is the same age, and most are not. Other variables, such as health expectations, also need to be factored into the equation. The complexities have creating a thriving niche for financial consultants.

Social Security benefits for same-sex couples

The Social Security Administration has announced that, as a consequence of the U.S. Supreme Court's decision last June recognizing same-sex marriage throughout the country, Social Security benefits will be extended to same-sex married couples. These include:

- ▲ survivor's benefits;
- ▲ spousal benefits;
- ▲ divorced spousal benefits;
- ▲ children's benefits;
- ▲ Supplemental Security Income; and
- ▲ Medicare benefits.

The Social Security Administration is working with the Department of Justice to develop instructions for processing claims. In the meantime, same-sex couples are being encouraged to apply for benefits under existing procedures. More information may be found at <http://www.ssa.gov/people/same-sex-couples>.

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### Just Ask Us

#### *Q. How much of my retirement income should come from Social Security benefits?*

There's no single answer to that question that is correct for everyone. The old rule of thumb was that Social Security was an equal part of a three-legged stool, the other legs being personal savings and an employer's retirement plan. That objective is rarely met today.

In fact, for roughly one-third of recipients, Social Security payments are 90% or more of their retirement income. For another third they are about half of their income.

The more important metric to measure is how will the benefit payments compare to your retirement expenses? If you can cover those expenses from Social Security, you'll be fine. Otherwise, you'll need to dip into your savings to make up the difference.

Developing a sound retirement budget is an important first step to taking control of your financial future.

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