



FRANKLIN TEMPLETON  
INVESTMENTS

# Re-Think Social Security: Are You Minimizing the Value of Your Social Security Benefits?



# When Should You Start Receiving Social Security?

Many people think of Social Security as something the government “owes” them. After all, it’s partly a return of the money they paid into the system. However, this attitude may lead you to make the wrong decision about when to start your benefits. You’re more likely to think, “I want the benefit to start as soon as possible.”

Let’s look at some of the issues that you should consider before making this decision.

## Think Carefully about When to Start Receiving Benefits

You’ve worked hard to earn your Social Security benefit. Moreover, at what age and how you file for benefits will literally affect the income you receive for the rest of your life. So, it’s extremely important to understand what your options are and their consequences.

There are three key ages to be aware of. The first is your “full” or “normal” retirement age. As you can see in the chart that follows, it depends upon the year in which you were born. Full Retirement Age, or FRA, is currently age 66. It will gradually increase to age 67 by 2027.

### Age to Receive Full Social Security Benefits<sup>1</sup>

Year of Birth	Full Retirement Age	Year of Birth	Full Retirement Age
1937 or earlier	65	1955	66 and 2 months
1938	65 and 2 months	1956	66 and 4 months
1939	65 and 4 months	1957	66 and 6 months
1940	65 and 6 months	1958	66 and 8 months
1941	65 and 8 months	1959	66 and 10 months
1942	65 and 10 months	1960 and later	67
1943–1954	66		

The second significant age is 62, the earliest age at which you can start a benefit based upon your own earnings record or a current or divorced spouse benefit. (You can begin receiving a widow’s benefit at age 60.) Perhaps it is not surprising that many retirees—37.2% of men and 42.4% of women in 2012—start receiving their monthly Social Security check when they reach age 62.<sup>2</sup> However, there are significant consequences for beginning benefits “early.”

If you file for any type of Social Security benefit before your FRA, you will receive a reduced monthly benefits amount. For example, if you’re a baby boomer who was born in 1950, your monthly benefit will be 25% smaller if you begin receiving it at age 62 instead of waiting until your Full Retirement Age of 66. This is a permanent reduction that will not be restored when you reach your FRA. Moreover, it can reduce the monthly Social Security benefit your surviving spouse receives by up to 28.5%.

The third significant age is 70. If you were born in 1943 or later, for each year beyond your FRA that you *delay* the start of Social Security benefits, your base benefit is increased by 8%, an adjustment known as the “Delayed Retirement Credit” (DRC). In addition, your benefit is also increased by any cost-of-living adjustments (COLA) Social Security beneficiaries receive each year. DRCs no longer apply once you reach age 70.

The example below, generated in October 2014 using the “Quick Benefit Calculator” on Social Security’s website [www.ssa.gov](http://www.ssa.gov), may be helpful. For this example, the individual is currently still working, earning \$80,000/year and was born on June 15, 1955. The calculator has built-in assumptions about future increases in prices and earnings. As a result, the estimated benefit is expressed in future (inflation-adjusted) dollars.

As you can see, for each year that this hypothetical individual postponed the start of Social Security, his/her monthly check increased by a meaningful amount.

It’s important to realize that beginning Social Security before your FRA can have a permanent impact on the size of your benefit. That is, when you reach FRA, your monthly check does not jump up to the amount you would have received if you had waited.

If You Start Benefits in June of	Age	First Year Estimated Monthly Benefit (in Future Inflated Dollars)
2017	62	\$1,653
2018	63	\$1,824
2019	64	\$2,045
2020	65	\$2,281
2021	66½*	\$2,561
<b>2022</b>	<b>67</b>	<b>\$2,829</b>
<b>2023</b>	<b>68</b>	<b>\$3,150</b>
2024	69	\$3,491
2025	70	\$3,854

In this example, waiting an extra year from age 67 to age 68 resulted in 11.3% increase in the monthly benefit.

\* Starting benefits in August of 2021; Full Retirement Age based on a birth year of 1955 is 66 and 2 months.

**Consider this:** what investment could you make today that would offer you what Social Security can provide: a federal government-sponsored program providing a periodically inflation-adjusted stream of income that can last as long as you live?

1. Source: Social Security Administration, [www.ssa.gov](http://www.ssa.gov), “Retirement Benefits by Year of Birth.”  
 2. Source: Social Security Administration, Annual Statistical Supplement 2013, Table 6.B5.

# Determine the “Value” of Your Social Security Benefit

Instead of thinking of Social Security as a benefit that the government owes you, try thinking of Social Security as a type of *asset*. In fact, for most people it is an investment that they have been contributing to for most or all of their work life. By thinking of Social Security as a retirement income asset, it is easier to understand how time can work to your benefit.

What is the value of your Social Security benefit? That depends on a variety of issues including your age, your lifetime earnings, how long you worked, when you start receiving your benefit, the length of your retirement and many other issues. To help better understand the value of your future Social Security payments, review the following example:

## Social Security Benefit Payment Hypothetical Examples (for a person born June 15, 1955 currently earning \$80,000/year)<sup>3</sup>

Begin Benefits	Estimated Monthly Benefit in Future Dollars <sup>4</sup>	If You Receive Social Security Benefits Until Age...	Estimated Total Benefits Paid to You <sup>5</sup>	Lump-Sum That Would Be Required at Retirement to Create a Stream of Payments Equal to Social Security Benefit <sup>6</sup>
62	\$1,653	80	\$471,415	\$301,194
		85	\$653,391	\$367,951
		90	\$864,351	\$428,588
		95	\$1,108,912	\$483,665
66 $\frac{1}{6}$ <sup>7</sup> (FRA)	\$2,561	80	\$527,851	\$371,342
		85	\$778,348	\$483,039
		90	\$1,068,742	\$584,496
		95	\$1,405,389	\$676,651
70	\$3,854	80	\$538,134	\$419,879
		85	\$873,065	\$601,410
		90	\$1,261,342	\$766,299
		95	\$1,711,461	\$916,071

For example, suppose your Full Retirement Age is 66 and 2 months and that your benefit at that time will be \$2,561/month. Also, assume that you will collect checks until age 90, that annual cost-of-living adjustments will be 3%, and you could earn 5% pre-tax on investments.

In order to generate the same income you should receive from Social Security over this timeframe, you would need approximately \$584,000.<sup>8</sup> Surely, if you had \$584,000 sitting in an account, you would not treat that money casually. You would think long and hard about what to do with it. Your decision about when to start receiving Social Security benefits deserves the same amount of careful consideration.

## It's a Personal Decision

Your personal circumstances should weigh heavily on deciding when to start your Social Security benefit.

Of course, while postponing the start of Social Security will increase the size of your monthly benefit, not everyone can afford to wait. If you need the income, that's what Social Security is for. But if you are married, it is possible for one spouse to begin his/her benefit and for the other spouse to delay and possibly earn DRCs. Your financial advisor can help you determine the best strategy and figure out how to possibly generate additional income from other sources, including investment and property assets you may have.

### Did You Know?

If you've earned enough credits to be eligible for disability or retirement benefits, your current or divorced spouse, minor children or adult children disabled before age 22 may also be eligible for Social Security benefits. The total amount depends upon the size of your benefit and the number of dependents you have.

3. This chart is hypothetical and for illustrative purposes only; individual Social Security benefits will vary. Taxes have not been taken into account. For this example, we assume the individual is currently earning \$80,000/year, was born on June 15, 1955, and, as a result has a Full Retirement Age of 66 and 2 months. The calculations make certain assumptions about earnings and assume future increases in prices or earnings so the estimated benefit is in future (inflated) dollars.

4. Source: Franklin Templeton with data derived from the Social Security Administration, Quick Calculator on [ssa.gov](http://ssa.gov) website. Assumes future increases in earnings each year, through retirement year, as estimated in the national average wage index (AWI) under the intermediate assumptions in the 2014 Trustees Report (<http://www.ssa.gov/OACT/TR/TRassum.html>).

5. Source: Franklin Templeton with data derived from the Social Security Administration on [www.ssa.gov](http://www.ssa.gov) estimated future cost-of-living adjustments (COLAs). Assumes cost-of-living adjustment increases of 3% per year effective January of each year.

6. This is calculated using the net present value of the monthly payments from Social Security as of October 2014. Hypothetical investment assumes an 5% (pre-tax) rate of return, compounded monthly, and monthly withdrawals equal to the Social Security benefit payment.

7. Full Retirement Age based on a birth year of 1955 is 66 and 2 months.

8. \$584,496 is the exact number and this calculation uses the same assumptions as noted in the table on page 2.

# Take Care Not to Minimize Your Social Security Benefits

Here are steps you can take with your financial advisor to determine your optimal age for collecting Social Security.

- 1 | Think about longevity in your family and your personal health or circumstances. Little more than a generation ago people commonly assumed they would live about 20 years after they retired at age 65. Thanks to lifestyle changes and medical advances, longevity continues to improve. As you can see below, if you're a 65-year old man today and plan to spend your money as if you're going to live only another 22 years, you have a 25% chance of outliving your assets.<sup>9</sup> Are you willing to take that chance? Make sure you are realistic when you determine how long your retirement income will have to last.

## Probability of Living to...

Age 65 Today	50% Chance of Living to:	25% Chance of Living to:
Male <sup>9</sup>	83	89
Female <sup>9</sup>	86	91

- 2 | Don't forget about taxes. If your income exceeds certain limits, up to 85% of your Social Security may be subject to income tax. Your tax advisor and IRS Publication 915 provide information on how to calculate the tax on your Social Security benefits.
- 3 | Determine the best date to start receiving your Social Security benefits based on your individual needs and situation. For example, if you're married, it might make sense for one spouse to start receiving benefits before their FRA and the other (probably the one entitled to the higher benefit based on their earnings) to wait.

9. Source: U.S. Department Of Health And Human Services. National Vital Statistics Reports, Vol. 62, No. 7, January 6, 2014.

**This material is being provided for general information purposes only. It should not be construed as investment, tax, or legal advice, or as a solicitation to buy or sell any specific securities product, or used as the primary determinant of the best strategy on how and when to claim Social Security benefits.** The hypothetical scenarios are estimates, based on assumptions, and designed to provide a general understanding of the impact of different Social Security benefit claiming strategies. Social Security benefits claiming decisions can be complex and depend on various personal factors, legal and financial considerations, and tax laws, all of which can change frequently. We strongly advise you to consult with the appropriate financial, legal or tax advisors about your specific circumstances and individual goals.



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