



# Re-Think Social Security

## Help Your Clients and Build Your Practice

Many Americans, including financial advisors, are confused and overwhelmed by the rules that surround Social Security. They are also uncertain about its future. One thing that is certain: the age at which you start taking benefits affects the size of your monthly benefits check. So why is it that nearly three-fifths of retirees start “early,” that is, before Full Retirement Age (FRA)?<sup>1,2</sup>

In addition, women tend to file for benefits earlier than men do—which may have potentially serious consequences.<sup>3</sup> On average, a woman’s lifetime earnings tend to be lower than a man’s. This results in a smaller Social Security benefit, even at FRA. Filing for benefits before FRA reduces this even further, which is one reason the average monthly amount paid to women in 2013 was 28% less than what men received.<sup>4</sup> Given the fact that they tend to live longer than men, the combination of these two trends means that many women end up with significantly smaller benefits in their later years. This can be particularly problematic for those who do not qualify for a widow’s benefit.

### Just Tell Me...

“When is the best age to start receiving Social Security?”

Frankly, there is no single “right” answer because it depends on each individual’s unique circumstances. Social Security is designed to be a safety net that, along with other assets, provides the income you need to support yourself in retirement.

Unfortunately, for a significant number of individuals, the decision about when to file for Social Security comes down to “As soon as I qualify.” Even though they know their monthly benefit will be smaller, they may be concerned that it’s not going to be there in the future, so they figure “I’d better get it while I can.”

### SEE SOCIAL SECURITY IN A NEW LIGHT

Clients may make the wrong choice about when and how to claim Social Security because they simply do not understand its value. Much of this may have to do with the way the topic is framed.

The next time the subject of Social Security comes up, pay attention to the language clients use. You’ll find that most describe it in terms of a monthly amount such as “I’m going to get \$1,500” or “My benefit is only \$700.” In essence, they think of Social Security as a monthly governmental I.O.U. This way of thinking shows that they not only misunderstand what Social Security is, it also diminishes the true value of this unique retirement income asset.

Yes, “asset.”

### Think of It as an Investment in Retirement Income

While there can be no guarantee that the future program will operate as it has in the past, for many people Social Security has historically amounted to a government-guaranteed, inflation-adjusted, lifetime annuity. Most Americans have made contributions to it for decades. There is not a single product in the financial services industry that can duplicate Social Security.

Re-framing the discussion about Social Security is the first step in helping clients make wiser decisions about when to begin to receiving benefits. This is not only good for them, it is important for you as their advisor. Among other things, the larger someone’s Social Security benefit, the less they may have to draw down from their other personal assets. This can provide you, as their advisor, with more options for their retirement income plan.

Moreover, due to its unique nature and even without an explicit government guarantee, Social Security can fit with the “inflation adjusted guaranteed income” portion of a client’s portfolio. Maximizing this segment of your client’s total assets may free up other assets that could be allocated elsewhere, such as to higher risk growth-oriented investments that also seek to provide the long-term inflation protection clients need for a 25–35 year retirement.

**A Simple Example**

**Social Security Benefit Payment Hypothetical Examples (for a person born June 15, 1955 currently earning \$80,000/year)<sup>5</sup>**

Begin Benefits	Estimate Monthly Benefits in Future Dollars <sup>6</sup>	If You Receive Social Security Benefits Until Age...	Estimated Total Benefits Paid to You <sup>7</sup>	Lump-Sum That Would Be Required to Create a Stream of Payments Equal to Social Security Benefit <sup>8</sup>
62	\$1,571	80	\$448,030	\$286,253
		85	\$620,979	\$349,698
		90	\$821,474	\$407,327
		95	\$1,053,902	\$459,672
66 and 2 months <sup>9</sup> (FRA)	\$2,496	80	\$514,454	\$361,917
		85	\$758,593	\$470,779
		90	\$1,041,617	\$569,661
		95	\$1,369,719	\$659,477
70	\$3,758	80	\$524,730	\$409,420
		85	\$851,318	\$586,430
		90	\$1,229,923	\$747,211
		95	\$1,668,829	\$893,253

This hypothetical example using simple assumptions illustrates the potential impact of the Social Security claiming decision on an individual who is entitled to a monthly benefit of \$2,496 at FRA. Filing to begin benefits at 62, the earliest age possible, results in a 25% less benefit than waiting until Full Retirement Age, 66 and 2 months. Delaying until age 70 produces a significantly higher monthly benefit. In fact, according to the National Academy of Social Insurance, on average, waiting until age 70 to begin receiving Social Security results in a monthly benefit that is 76% greater than the amount an individual would receive at 62.<sup>10</sup>

This is the first eye-opener. Most people don't realize how big a difference eight years can make. Another common surprise is that this reduction in monthly benefits is permanent. Some assume that once they reach FRA, their reduced monthly benefit will jump up to the amount they would have received had they waited until then to file.

**The “Break-Even” Question**

Many think of it this way: the individual who starts benefits early receives a smaller amount, but they get that lesser benefit for four more years than someone who waits until 66 and 2 months and eight more years than the person who postpones until 70. They believe it will take a long time for the individuals who wait until 66 and 2 months or 70 to “catch up” on the cumulative benefits received (even with those “early” benefits being spent rather than being invested).

The fourth column of this chart dispels the certainty of this idea. In our example, waiting four years to claim at age 66 and 2 months translates into \$925/month more income. But by age 80, by waiting until FRA, this person will have received more than half a million dollars in cumulative income—\$66,424 more than filing at age 62. What if this person lives to 90? The reward for waiting exceeds \$200,000.

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). Thanks to this credit, the boost in cumulative benefits you get by waiting until age 70 is even greater. Ten years after starting benefits at age 70, this individual has received over \$70,000 more than he would have had he begun at 62. And the gap just gets wider with age.

If you live the average life expectancy for someone your age, you will receive roughly the same amount in lifetime benefits no matter whether you choose to start receiving benefits at age 62, FRA, age 70 or any age in between.<sup>11</sup> However, many of us will live much longer than the “average” retiree, and women tend to live longer than men. Be sure to help your clients plan for the long term.

### Social Security's Value in Today's Dollars

Finally, in the right-hand column of the chart, we show the present value for each lifetime stream of Social Security benefits. This column helps clients understand what it would cost today to replace the income Social Security will pay them in the example. It reinforces the concept that Social Security can be thought of as an asset.

### How to Use This

The purpose of this chart is not to suggest that everyone should wait until age 70 to start Social Security. Decisions regarding Social Security are highly personal and depend on a number of factors such as the client's health and family longevity, whether they plan to work in retirement, whether they have other income sources as well as anticipated future financial needs and obligations, and potential tax consequences. Some clients simply cannot afford to wait until age 70. On the other hand, if a client has significant assets in defined benefit plans and/or traditional IRAs, you might want to discuss the possibility of tapping these accounts before age 70½ (when required minimum distributions start). This might enable them to at least postpone the onset of Social Security until FRA.

The point is that by helping clients think of Social Security in terms of cumulative, as opposed to monthly, income and showing them what a lifetime of benefits could be worth today as a lump sum shifts the conversation. Once clients see that Social Security is, in fact, a valuable asset that they have been contributing to for years, they will put more thought into deciding when and how to claim it.

They might still decide to file for Social Security benefits sooner than you recommend, but at least they'll have a better understanding of certain trade-offs they are making.

**This material is being provided for general information purposes only and 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 final determinant of the best strategy on how and when to claim Social Security benefits.** 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. Clients are strongly advised to consult with appropriate financial, legal or tax advisors about their specific circumstances and individual goals.

1. Full Retirement Age is 66 for those born from 1943–1954. It is gradually increasing to 67 for anyone born later. See <http://www.ssa.gov/retirement/1943.html>.
2. Franklin Templeton Retirement Income Strategies and Expectations (RISE) Survey, 2015.
3. In 2012 43.3% of women began receiving Social Security at age 62 compared to 38.0% of men. Annual Statistical Supplement, 2013, Table 6.B51. <http://www.ssa.gov/policy/docs/statcomps/supplement/2013/6b.html>.
4. Fast Facts & Figures About Social Security, Sept. 2014, page 20. [http://www.socialsecurity.gov/policy/docs/chartbooks/fast\\_facts/2014/fast\\_facts14.pdf](http://www.socialsecurity.gov/policy/docs/chartbooks/fast_facts/2014/fast_facts14.pdf).
5. 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.
6. Source: Franklin Templeton with data derived from the Social Security Administration, Quick Calculator on 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>).
7. 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. Figures are estimates and may differ from cumulative benefits stated by the Social Security Administration.
8. This is calculated using the net present value of the monthly payments from Social Security as of February 2015. Hypothetical investment assumes an 5% (pre-tax) rate of return, compounded monthly, and monthly withdrawals equal to the Social Security benefit payment.
9. Full Retirement Age based on a birth year of 1955 is 66 and 2 months.
10. "When Should I Take Social Security Benefits," NASI, Feb. 2014. P.3. [http://www.nasi.org/sites/default/files/research/When%20to%20Take%20Social%20Security\\_SS\\_Brief\\_031.pdf](http://www.nasi.org/sites/default/files/research/When%20to%20Take%20Social%20Security_SS_Brief_031.pdf).
11. "When To Start Receiving Retirement Benefits," January 2014. <http://www.socialsecurity.gov/pubs/EN-05-10147.pdf>.



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