ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

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In This Issue

Should You Delay Social Security Payments?

In July, we took a broad look at Social Security (click here if you'd like to read it again). In this issue, we'll dive a little deeper into the options available and some of the ways that people can maximize their Social Security benefits.

There is no universal rule for determining the best time to file. Eligible recipients can begin collecting monthly benefits at age 62, and the benefit amount increases between 6% and 8% every year until age 70, a total increase of more than 70% from age 62 to 70. While the benefits are inflation-adjusted, they are locked in for the rest of your life (and afterwards if your spouse outlives you) from the point that you first file.

It's still the minority of recipients who are waiting as long as possible to collect: Just 1% of men and almost 2% of women who began receiving Social Security benefits in 2012 were at least 70 years old. But for those with the means to do so, waiting can make a lot of sense.

There are certainly reasons not to delay, such as illness, a lower life expectancy, current income needs or simply wanting some mad money to use while you're still young. You've earned it, and it's obviously yours to do with as you choose.

However, filing at age 62 means that your monthly payment is about 75% of what it would be if you wait to file until *full retirement age* (age 66 if born before 1960), at which point you receive 100% of your earned benefits every month. Wait until age 70, and your monthly payment—again, for the rest of your life and then that of a surviving spouse—is 132% of what it was at full retirement age.

Delay credits haven't been changed since 1983, and are based on actuarial charts that are now more than 30 years old. Given the fact that people are now living longer on average and interest rates and bond yields are considerably lower, the benefits of delaying are even more lucrative today than they were back in the '80s.

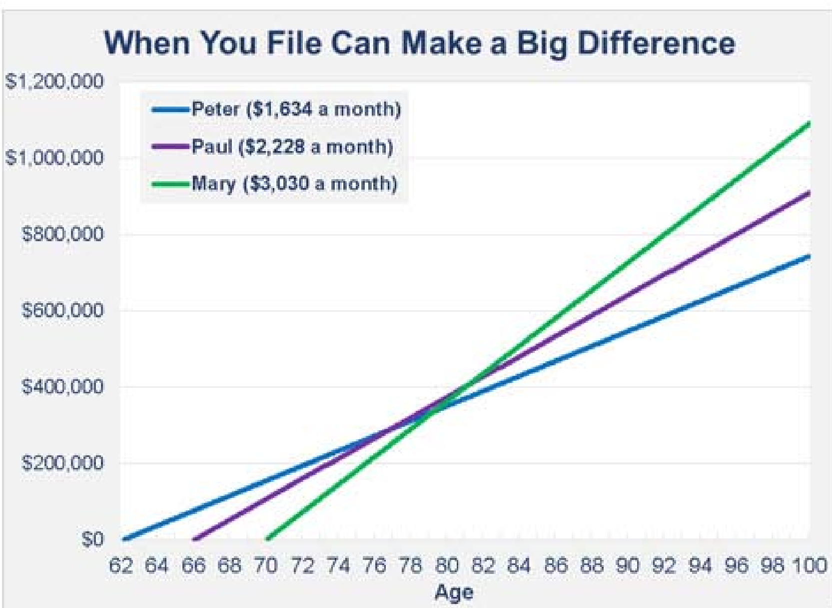
Putting off filing can also provide excellent retirement portfolio protection. Paying for short-term income needs during your 60s from portfolio assets can really pay off; higher benefits from waiting until age 70 could reduce the amount you'll need to withdraw from your investment portfolio later, leaving more for your heirs or more to spend as you grow older.

For Example

Imagine three coworkers—Peter, Paul and Mary—all born on June 15, 1952. They made the exact same amount of money during their respective 35 highest-earning years (how monthly benefits are determined) and are in line to receive $2,228 (in 2014 dollars) every month at their full retirement age.

Peter decides to claim his Social Security benefits as soon as possible (this year) at age 62. Paul, age 66, files at his full retirement age in 2018. Mary delays claiming her benefits as long as possible and enrolls at age 70 in 2022.

The chart below shows how much Peter, Paul and Mary would earn from their monthly payments over time. As you can see, the longer you wait to claim, the higher the monthly payment, and the faster the earnings accumulate. Where the lines cross is also worth noting. Paul, who receives the full retirement age benefit, surpasses Peter's earnings just before they turn 77. Mary, who started cashing her monthly checks four and eight years after her former co-workers, eclipses Peter's earnings a couple of months after they celebrate their 79th birthdays, and has out-earned Paul shortly after they turn 81.



Note: Monthly payout amounts were calculated using the Social Security Administration's Quick Calculator, assuming a 2014 salary of $100,000 and a birthdate of 6/15/1952. Monthly amounts are in 2014 dollars and not adjusted for future cost of living increases.

Those breakeven points are important to consider when choosing when to file, especially for those with spouses who will be eligible for *survivor benefits* if widowed. In the table below, we show the probabilities of reaching various ages for those who are close to retirement age already.

As you may know, women tend to live longer than men. It's estimated that for a married couple who are both 65 years old today, there's a 71% chance the wife will live to 80, a 63% chance the husband will embark on a ninth decade and an 89% chance that one of the two will be alive at that point. While those numbers decrease with age, there is still a 45% chance that one half of a married couple will live to age 90, and an 18% chance that one of the two will see 95. For many people, having more money to spend later is a good tradeoff given steady trends of increased longevity.

At 65, Probability of Living to Age...

	Women	**Men**	**Couple**
70	94%	92%	100%
75	85%	80%	97%
80	71%	63%	89%
85	53%	41%	72%
90	32%	20%	45%
95	13%	6%	18%
100	4%	1%	5%

Note: Age probabilities were generated by The Vanguard Group and based on the Society of Actuaries Retirement Participant 2000 Table. "Couple" column shows the probability of one of the two reaching that age.

Delay Strategies

At full retirement age, you are eligible not only for full retirement benefits, but you can also utilize two strategies that can max out benefits for married couples and provide some insurance for single people.

A new rule in 2000 created a strategy option known as *file and suspend* that can provide an additional boost to lifetime benefits for many married couples. At full retirement age, the higher-earning spouse files for her earned benefit and then immediately suspends receiving payments, allowing the earned benefit to grow via delay credits until age 70. During those four years, her spouse can start taking *spousal benefits* equal to half of the primary earner's full benefit amount. File and suspend allows the primary earner’s benefits and survivor benefits to continue to grow while pulling in some income for the household.

File and suspend is something unmarried people can utilize as an insurance policy of sorts, even though they don't have to be concerned about maxing out spousal or survivor benefits. It easily accommodates a change of mind. If a single person employs the strategy and is then confronted with unexpected illness or needs quick cash, he can get a lump sum payout back to the full retirement date at which he filed and suspended payments. (However, this will wipe out the delay credits, and monthly payments going forward will be as if he'd started receiving benefits at age 66.)

Filing a *restricted claim for spousal benefits* is a strategy that can work especially well for married, higher-income people who are close in age. If you are at full retirement age (or older) and your spouse has already claimed benefits but you have not, you can opt to claim spousal benefits only. This way, you get some income while your own benefits accrue those 8% annual delay credits until you are required to take them at age 70. Even if your spouse filed their own claim early at 62, you are eligible to claim spousal benefits at their full retirement age and get the full age-66 benefit amount, not the reduced early-filing level.

Each spouse can use either file and suspend or restricted claims (though one person cannot use both). Just think: If both spouses have a full monthly benefit of $3,000 at their full retirement age, waiting until age 70 increases each of their monthly payments to $3,960 a month. Combined, waiting four years means more than $23,000 every year in guaranteed, cost-of-living-adjusted benefits.

Potential Pitfalls

The conventional wisdom is that spousal benefits amount to half of your partner's full retirement benefit once your spouse files for their own benefits. However, the following conditions must be met: 1.) You must not qualify for a retirement benefit on your own *or* 2.) You reach full retirement age and haven't filed for Social Security and apply only for the spousal benefit, not your own.

Medicare can create a pitfall for those who take delayed benefits. If you enroll in Social Security at age 65, you're automatically enrolled in Medicare; if not, you have to take the initiative to enroll yourself in Medicare by three months after your 65th birthday. You are penalized 10% on Medicare B premiums for every year that you fail to enroll after age 65. If you wait to file for Social Security until age 70 and forgot to sign up for Medicare, you're now enrolled but stuck paying a 50% increase on premiums for the rest of your life.

Changing Your Mind

One question we get about delayed benefits is whether the decision to delay can be cancelled in case of unexpected medical complications or financial necessity. Should you change your mind about delaying benefits, you can contact the Social Security Administration, pick the year you'd like benefits to begin, and you will immediately receive the monthly benefit at the age you select, as well as a lump-sum of the total amount accumulated during the time that benefits were suspended.

If you file for early benefits, have yet to reach full retirement age and change your mind within 12 months, you can withdraw the early claim. You must repay all benefits received, but the slate is wiped clean and you are eligible for delay credits at full retirement age.

If you missed that 12-month window or merely needed the cash in your early 60s, you can still suspend benefits at full retirement age and earn delay credits at the same 8% rate until your 70th birthday. By age 70, your monthly benefit amount will be just about 100% of what you would have received at full retirement age if you hadn't filed early.

Talk to a Professional
As you can see, this is a complicated subject and everybody's situation is different. If you have any questions about how best to manage your Social Security benefits or when to file for them, we highly recommend you seek out the services of an experienced and trusted financial planner.

For those considering delaying their Social Security payments, you may need to find an alternate source of income somewhere else in the meantime. This is an excellent topic to discuss with your financial adviser to see what other assets you can draw from while waiting on—and growing—your Social Security benefits.

Whatever strategy you choose, seeking professional advice can help you find the solution that works best for you, putting your hard-earned savings to work and providing peace of mind in retirement.

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