ADVISER INVESTMENTS

ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

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The Role of Social Security in an Investor's Retirement

Social Security is commonly perceived more as a safety net than an investment, but we encourage our clients to look at it through an investor's lens. For many, the monthly payments are a substantial source of income in retirement, and it's worth gaining a greater understanding of how the program works, how to maximize your benefits and how to account for Social Security when planning for your financial future.

Anyone who's earned a paycheck is aware of Social Security as a regular deduction and the promise of income from the program upon retirement. It was initially established to keep older Americans from falling into poverty, but anyone who qualifies for the program is eligible to receive benefits once they reach age 62 (in some cases, even earlier, in the case of disability or the death of a spouse or guardian).

The program still serves its initial purposes for nearly half of all recipients, while also providing a significant proportion of income for many more—in 2015, Social Security represented 39% of income for those aged 65 and older, with nine out of 10 Americans in that age group receiving benefits. Social Security provided the majority of income for 53% of beneficiary couples and 74% of unmarried beneficiaries. About 32% of beneficiaries were 75 years of age or older in December 2012, a number that can be expected to rise given longevity trends.

While Americans who have been able to fund a good nest egg won't have to rely so much on Social Security, the monthly check can still be a considerable source of income and should be accounted for when allocating your portfolios ahead of retirement.

Benefits

Any worker who spent at least 10 years in the workforce at a job covered by Social Security is eligible to receive benefits, but in order to maximize your potential earnings, at least 35 years of employment is necessary. (To determine your benefit amount, the program looks at your highest 35 years of income and then runs a series of calculations to come up with your monthly payment.)

So what exactly *are* these benefits? The primary one is income, obviously, but there are several factors that make this income unique. First, it's important to know that once you stop paying into the program, you will have a predetermined amount set aside based on your career earnings. This amount can vary depending on when you apply for benefits (we'll return to this later). That income, as the rules currently stand, is paid monthly, adjusted for inflation based on the Consumer Price Index, and will last for the rest of your life—regardless of whether you live 20, 30 or 40 more years, that check will be in the mail every month.

Spousal benefits built into Social Security entitle a spouse (or ex-spouse) to, generally, half of the full earned benefit of their better half. These can play an important factor in maximizing benefits regardless of whether one spouse was the primary breadwinner or both earned the same amount of money in their respective careers.

There are also *survivor benefits* for a spouse and/or dependents—the amount will be calculated based on what was contributed to Social Security and their age and relationship to you. If the surviving spouse is a retired worker, they are entitled to the higher amount of benefits being paid to the household.

So How Much Do I Get?
There are quite a few wrinkles and strategies for maximizing your monthly income (which we will delve into in a future edition), but, as mentioned above, how much you'll receive depends a great deal on when you apply for benefits.

Early eligibility begins at age 62, while eligibility for full benefits begins after age 66 for those born between 1943 and 1954—if you were born after that, the full retirement age could be up to a year older. You also can defer benefits until age 70; in general, the longer you wait to claim, the larger your monthly check will be. Those who start at the earliest eligibility will only receive about 75% of their primary insurance amount (PIA, or the monthly payment), while those who wait until full retirement age (age 66) will receive 100% of their PIA. For every year up to age 70 that you defer eligibility, your benefit will increase by 8%, up to 132% of PIA. For reference, for people who retire in 2016 at full retirement age, the maximum PIA is $2,639 per month; the average retired worker will received an estimated $1,636 monthly.

According to the Center for Retirement Research at Boston College, in 2013, 48% of women and 42% of men that filed for Social Security benefits did so at age 62, a number that has been falling since the mid-1990s. We're pleased to see this trend; as more people are saving for retirement, they have been feeling less pressured to take the early benefits and allow their future monthly payment to grow—a bit like a guaranteed return on investment for those who can afford to wait.

Of course, maximizing benefits is not as simple as picking an age to collect—you also need to consider your likely life expectancy (as far as is possible), employment and marriage status, as well as other sources of income and tax liabilities. If you need the income for expenses sooner than later or worry that you have a shorter life expectancy, it may make sense to apply for benefits before reaching full retirement age. If you or your spouse plans to work late into your 60s or beyond, deferring until age 70 makes sound financial sense.

The Social Security Administration's website provides helpful calculators that can help figure out what your specific payment might be based on these various factors, but discussing the topic with a trusted financial adviser who can unwind the program's complicated rules and work with you on an overall retirement-income plan might be your best option. After all, there are up to a ridiculous 10,000 benefit-claiming combinations!

With Social Security likely to play a significant role in your retirement income, you owe it to yourself and your years of hard work to create a plan that will help you get everything you can—after all, you've earned it.

In a future issue, we'll look at some of the benefits of delaying, strategies to consider, potential pitfalls to avoid and the impact of changing your recipient status.

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