ADVISER INVESTMENTS

ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

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When's the Right Time to File for Social Security?
Last month, we provided an overview of Social Security basics (click here to read it again). In this issue, we'll take a closer look at the options available and some of the strategies people use to maximize their Social Security benefits.

Let's get one thing straight: There is no universal rule to determine the best time to file. Eligible recipients can begin collecting monthly benefits at age 62. 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 moment you file.

People waiting as long as possible to claim are in the distinct minority. In 2013, just 4% of women and 2% of men filing for Social Security did so at age 70. Compare that to 48% of women and 42% of men who filed as soon as possible at age 62. But for those with the means to wait, the benefits can really add up.

There are plenty of justifiable reasons to claim before age 70—illness, a lower life expectancy, current income needs or simply wanting some mad money while you're still young. You've earned it and it's obviously yours to do with as you choose.

But filing at age 62 sets your monthly payment at about 75% of what it would be if you delay until *full retirement age* (age 66 if born before 1960; 67 if born in 1960 or later), 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—will be up to 132% of what it was at full retirement age.

Delay credits haven't changed since 1983, and are based on actuarial charts from more than three decades ago. Given that people are living longer on average and interest rates and bond yields are currently far lower than then, the benefits of delaying are even more lucrative today than they were back in the '80s.

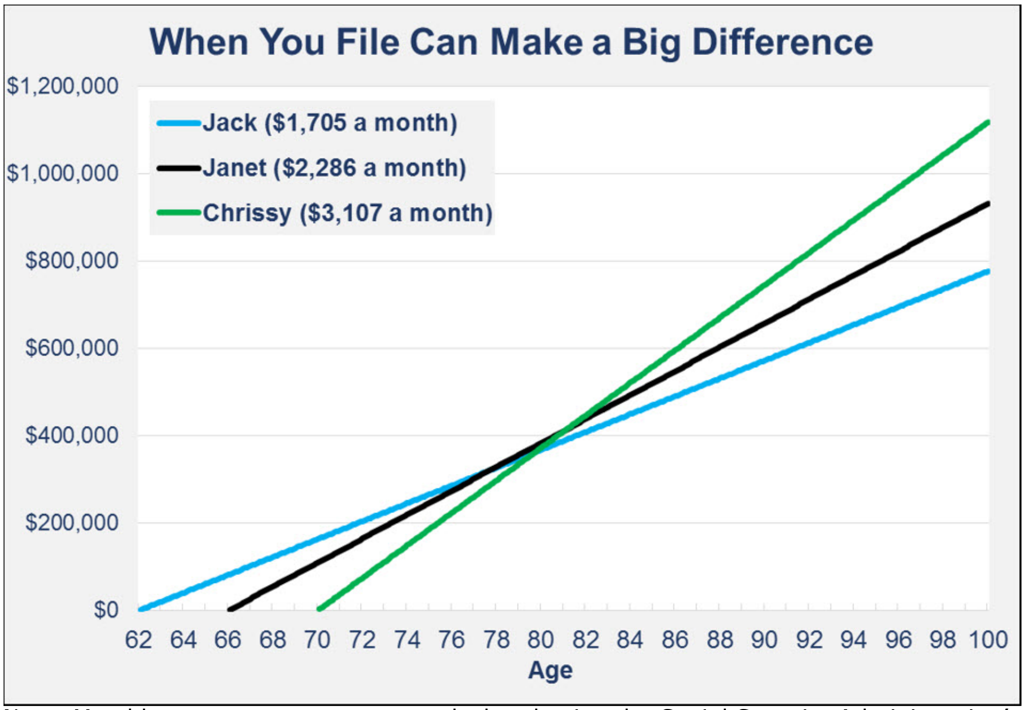
Waiting to file also provides excellent portfolio protection. Paying for short-term income needs during your 60s using your portfolio assets can really pay off; higher benefits from waiting until age 70 could reduce the amount you'll need to withdraw from your investment portfolio later, leaving more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

For Example

Imagine three coworkers—Jack, Janet and Chrissy—all born on June 15, 1954. 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 $2,286 (in 2016 dollars) every month at their full retirement age.

Jack decides to claim his Social Security benefits as soon as possible (this year) on his 62nd birthday. Janet files at her full retirement age of 66 in 2020. Chrissy delays claiming her benefits as long as possible and enrolls at age 70 in 2024.

The chart below shows how much Jack, Janet and Chrissy 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. Janet, who receives the full retirement age benefit, surpasses Jack's earnings just before they turn 78. Chrissy, who started cashing her monthly checks four and eight years after her former co-workers, eclipses Jack's earnings a couple of months before they celebrate their 80th birthdays, and has out-earned Janet shortly after they turn 81.



Note: Monthly payout amounts were calculated using the Social Security Administration's Quick Calculator, assuming a 2016 salary of $100,000 and a birthdate of 6/15/1954. Monthly amounts are in 2016 dollars and are 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.

Restricted Claim Strategy
It used to be that at full retirement age, you were eligible not only for full retirement benefits, but could also utilize several strategies to max out benefits. You may have heard about the "file and suspend" strategy (maybe you learned about it from us) and "restricted claims" for spousal benefits. Unfortunately, these lucrative strategies were eliminated in the Bipartisan Budget Act of 2015 that was signed into law by President Obama on November 2, 2015.

File and suspend came into practice after the 2000 Senior Citizens' Freedom Act, a complicated piece of legislation that unwittingly created a loophole enabling married couples both at or above full retirement age to delay claiming benefits based on their own earnings while collecting spousal benefits based on the other's earnings, then claim maximum benefits at age 70.

Many people used this strategy with great success, but as greater scrutiny was brought to bear on Social Security, file and suspend came to be considered a gaming of the system and an undue strain on the program's finances. The new regulations, adopted by the Bipartisan Budget Act of 2015 mentioned above, grandfathered in people who were already using file and suspend, but as of April 29, 2016, the strategy is no longer allowed for new filers.

Filing a restricted claim for spousal benefits is another strategy that could work especially well for married, higher-income people who are close in age. However, it is no longer available to people born after January 1, 1954.

If you turned 62 before January 2 of this year, restricted spousal benefits are still a viable option. Once you reach full retirement age (or older) and if your spouse has claimed benefits but you have not, you can elect to only take spousal benefits without triggering your own. This way, you can have some cash coming in on a regular basis while your own benefits accrue those 8% annual delay credits until you are required to take them at age 70. Even if your spouse files their own claim early at age 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.

It's worth noting that the elimination of the restricted application also impacts divorced people who were married for 10 years or more who were planning to wait to file their own benefits and use an ex-spouse's benefit before then switching over to use their own. The same age-based rules listed above apply to this scenario.

Potential Pitfalls
The conventional wisdom is that spousal benefits amount to half of your better half's full retirement benefit once your spouse files for their own benefits. However, the following conditions must be satisfied: 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 solely for the spousal benefit, not your own.

Medicare can present a pitfall for those who take delayed benefits. If you enroll in Social Security at 65, you're automatically enrolled in Medicare, too. If not, you have to take the initiative to enroll yourself in Medicare within three months of your 65^{th} birthday. You are penalized with a 10% increase to your Medicare B premiums for every year that you fail to enroll after age 65. If you wait it out until age 70 to file for Social Security and forget to sign up for Medicare, you'll be automatically enrolled, but for the rest of your life you will be stuck paying a 50% higher premium than you would have if you had enrolled on time at age 65.

Changing Your Mind

One question we hear from time to time is whether the decision to delay can be reversed in case of unexpected health issues or financial necessity. Should you change your mind about delaying benefits, you can contact the Social Security Administration, pick the retroactive year you'd like benefits to begin, and you will begin to receive the monthly benefit that matches the age you would have been on the date selected, as well as a lump sum of the total amount accumulated during the time that benefits were suspended.

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

Should you miss that 12-month window or merely needed the cash in your early 60s, you can still suspend benefits at full retirement age to earn delay credits at the same 8% annual rate until it's time to blow out the candles on your 70^{th} birthday cake. At that point, your monthly benefit will be just about 100% of what you would have received at full retirement age if you hadn't filed early.

The Value of a Pro

As you can see, this is a complicated subject and everyone's situation is different; as we noted in our issue last month, even with the elimination of certain delay strategies, there are up to 10,000 different benefit-claiming combinations! If you have 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 or trusted financial planner who works for a fee-only advisory firm (we believe planners employed by firms that charge commissions or have financial incentives to recommend certain investment products operate under an inherent conflict of interest when it comes to how they advise you).

For those thinking about putting off their Social Security payments, you may need to find another source of income 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. After all, how many other investment vehicles can *guarantee* an additional 8% of income a year?

Whatever strategy you choose, seeking professional advice can eliminate confusion and help you find the right solution so that you can enjoy your hard-earned savings and find financial peace of mind in your retirement.

About Adviser Investments

Adviser Investments and its subsidiaries operate as an independent, professional money management firm with particular expertise in Fidelity and Vanguard mutual funds. We advise more than 2,500 clients and have over $3 billion under management. Our investment professionals focus on helping individual investors, trusts, foundations and institutions meet their investment goals. Our minimum account size is $350,000. In 2016, Adviser Investments was named to *Barron's* list of the top 100 independent financial advisers nationwide and its list of the top advisory firms in Massachusetts for the fourth consecutive year. We have also been recognized on the *Financial Times* 300 Top Registered Investment Advisers list in 2014, 2015 and 2016.

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