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## SOCIAL SECURITY BENEFIT CONSIDERATIONS

*Most people are confused about the many variables and calculations that affect how much money they will receive from Social Security and when. But if your clients make the wrong choice it can mean losing tens of thousands.*

By Fred Livingston

One of the most widely publicized facets of retirement planning is how to maximize Social Security benefits. It's a critical consideration for most people because making the wrong choices can mean losing tens — or even hundreds — of thousands of dollars.

Yet despite a seemingly endless flood of available information on the subject, I find most people are confused about the many variables and calculations that affect how much money they will receive and when.

Then there is the issue of the solvency of the SS system. The major media has a habit of stoking the fires of uncertainty as a means to garner viewership. Some in the financial community have employed similar tactics to help sell annuities and other retirement funding products. Scare tactics are fine for selling movie tickets but have no place in a serious discussion of retirement funding. Whether SS is fiscally sound or not, it's safe to say that the benefit was never intended to be the sole means of support for retired Americans.

Whatever the result of government policy, economic developments or the financial markets, the most productive planning approach focuses on factors that can be controlled. Obviously, the initial consideration for most is at what age to begin taking benefits.

The calculators designed to estimate the lifetime benefits and income stream breakeven point for retirees can be helpful, but other issues, including health, investment capital, other assets, earned income, taxes and desire to continue working also should be considered. Coordinating and protecting spousal benefits are also factors.

Ill-timed or uninformed benefits decisions can trigger significant financial consequences. One can be potential lost income, which is particularly true for wealthy individuals. Another is diminished lifestyle, a problem that is exacerbated for those of lesser means.

A simple example of well-intentioned but incomplete information is the SS statement, which projects future benefits but does not consider estimated cost of living adjustments (COLA). The longer the delay in claiming benefits, the greater the disparity between projected and actual future payments, which can make a huge difference in retirement benefits planning.

**Strategy: Coordinating Benefits Between Spouses**

Consider Eleanor, recently widowed and about to turn age 62. Her deceased husband, an architect, was about the same age as Eleanor but had a significantly higher Social Security benefit, which Eleanor planned to take. She would be better off to apply and receive her own SS benefit now, at age 62, and wait to take her husband's full benefit until she reaches her full retirement age of 66, which, as his widow, she is allowed to do. If she had taken his full benefit at 62, she would have been locked out of receiving his much higher benefit—in this case several hundred dollars a month—when she reached her full retirement age at 66.

A second example is Lucy, also age 62, who is married and wants to retire. Her SS benefit is considerably smaller than her husband, Joe, 66, a physician who plans to continue practicing medicine for a few more years.

Lucy applies and begins receiving her SS benefits, about $400 monthly. A few months later, Joe changes his mind and decides to join his wife in retirement. If Joe applies for benefits, Lucy can opt for her spousal benefit, based on Joe's lifetime earnings, which is larger than her own benefit. But Lucy's spousal benefit is based in part on her age at the time Joe retires. If Joe delays retirement until he is 70 as planned, Lucy would then be 66 and entitled to a spousal benefit equal to roughly 50% of Joe's benefit or about $1,100 monthly. If Joe retires while Lucy is age 62, her spousal benefit is only about 35% of Joe's benefit or $770 monthly. If Lucy survives Joe by many years, the aggregate amount will be substantial.

If Joe continues working, he could file and immediately suspend benefits at age 66. Lucy could then choose the higher of either her regular benefit or her spousal benefit. Meanwhile, by not claiming until age 70, Joe will receive as much as a 32% greater benefit.

While many are tempted to take SS benefits as early as possible, the more immediate concern should be that of living too long. Taking early benefits for someone who survives to the average life expectancy is a losing proposition.

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