WINDGATE
WEALTH MANAGEMENT

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WHEN SHOULD I TAKE SOCIAL SECURITY?

Baby Boomers who are entering their 60's or reaching retirement need to think about planning their Social Security benefits now. When to take Social Security can be one of the most important decisions you make when planning for retirement. Just remember that you are not alone: we can analyze your personal circumstances, help you plan to receive the most lifetime Social Security income possible AND develop an optimal strategy in conjunction with all of your existing retirement assets. If any of the following issues in this Social Security overview are prompting questions regarding your own strategy, *give us a call*.

Social security is a lot more valuable than many people realize. Someone who receives a $2,000 monthly benefit and lives for 30 more years, with an annual cost-of-living adjustment of 2.9% (current long term estimates from 2014 Social Security Trustees report), will collect over $1.1 million in lifetime income. Realizing this, a guide to potential Social Security claiming strategies is in order.

The Age When You Apply for Benefits Has a Great Impact on the Monthly Income You Receive

- The full retirement age (FRA) for people born between 1943 and 1954 is age 66 (age 67 for those born in 1960 or after). At full retirement age, you earn 100% of your Primary Insurance Amount (PIA), which is based on your highest 35 years of earnings.
- Early eligibility begins at age 62. Between age 62 and FRA you can claim and receive 75% of your PIA. Notably, you lock-in benefits at 75% of PIA for the rest of your life.
- You can delay benefits until age 70. Your benefit will increase by 8% per year for each year past FRA you delay. Increases are calculated monthly so you can claim at any time between FRA and your 70th birthday and receive a prorated increase.
- Remember that if you are still working and decide to claim before FRA, your benefits are reduced by $1 for every $2 you earn above the annual limit ($15,720 in 2015).

So Where Do I Begin Analysis? Life Expectancy and the Break even Age

If you apply **early** your monthly checks will be smaller, but you'll receive them for a longer time. If you wait to take benefits **later**, you receive fewer checks but each one will be of a higher amount. Personal circumstances aside, you can calculate your "break even age" to determine which option is best. The break even age is the point where the total Social Security income from two claiming options is the same. Knowing the break even age, we just need to use our crystal ball and determine if you will outlive that age (delayed benefits are best) or not reach it (early benefits are best).

Extended Life Expectancy for Couples

A married person is eligible to receive the higher of their own retirement benefit or ½ of their spouse's benefit. At death, the surviving spouse is eligible to receive the larger of the deceased spouse's full benefit or their own. In essence, this means that your true break even age should be compared to the longer of your expected lifetime or your spouse's expected lifetime should they outlive you. Particularly for high earners who will have a greater benefit than their spouse, delaying can often be the right strategy because it is easier to reach the break even age using two life expectancies than one.

Three Strategies for Couples

Coordinating spousal benefits provides many opportunities to maximize a married couple's benefits, but it is one of the most complicated areas of Social Security planning. Let's say that delaying benefits until age 70 is a general rule of thumb for a high earner, based on our assumption that life expectancy for both spouses will outlast the break even age, as outlined above. Now we can look at ways to maximize the income you can get out of the system while you wait for the delayed benefit during your 60's.

Assume below that Mary and John have a FRA of 66, Mary has little earnings history and John was a high earner with a large benefit:

Someone who receives a $2,000 monthly benefit and lives for 30 more years, with an annual cost-of-living adjustment of 2.9%, will collect nearly $1.1 million in lifetime income.

- **Mary starts at 62 and John waits to 70.** By delaying until 70, John has maximized not only his own benefit but also the survivor benefit Mary would receive. Mary gets a benefit from age 62 on.

- **Restricted Application: Mary starts at 66, John takes spousal benefits at 66 and switches to his own benefits at 70.** At FRA, you are able to take a spouse's benefit and still have the option to switch to your own benefit at age 70. The caveat is you can't start this strategy at 62, you need to wait until FRA; however it does allow a spouse to receive some income before bumping up to their own benefit at 70.

- **File and Suspend: John files at 66 and suspends until 70, March claims spousal benefit at 66.** Here, instead of having John take spousal benefits first, we "file and suspend," allowing Mary to take spousal benefits while John's benefits are delayed until age 70. Mary gets a spousal benefit which may be higher than her own benefit (it is based off of John's higher earnings), while John's benefit is maximized at age 70.

Knowing your claiming options, break even age, and potential spousal benefit strategies are all necessary steps as you begin to make your decision. Other considerations include your needs for cash flow, retirement plans, and size and objective of your investment portfolio. Call 1-800-331-8936 or email us at sean@windgatewealth.com for a complementary report outlining the Social Security Strategy that may be right for you.

Consider Taking Early	Consider Waiting
No longer working and need cash	Still working, don't rely on benefit income
Poor health, don't expect to reach average life expectancy	Good health, expect to exceed average life expectancy
You are lower earning spouse and your higher earning spouse can wait to file for higher benefit	You are higher earning spouse and want to ensure surviving spouse receives maximum benefit

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