Navigating Social Security:
What to consider when claiming benefits

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One of the larger decisions nearly every American will face revolves around developing a claiming strategy for their Social Security benefits. The maze of rules and claiming strategies can make navigating the landscape rather daunting. In this article, Senior Investment Advisor Matt Sampson shares key factors individuals should carefully consider that will help them make informed decisions to maximize their lifetime benefits while also providing a greater degree of financial security during their golden years.

It is not uncommon for healthy individuals living into their 90s to have a projected lifetime payout north of $1,000,000 from Social Security. How an individual claims their benefits can have significant impacts on their financial picture in retirement, so careful strategizing around this decision is an important planning step.

Full Retirement Age (FRA)

Understanding your Full Retirement Age (FRA) is essential when planning your Social Security benefits. Your FRA is the age at which you become eligible to receive 100% of your retirement benefit. If you were born in 1960 or later, your FRA is 67. If you were born between the years 1955-1959, your FRA ranges between 66 years & two months and 66 years & ten months.

You can either claim early Social Security benefits prior to your FRA, claim at your FRA, or delay benefits, all of which affect your lifetime benefit:

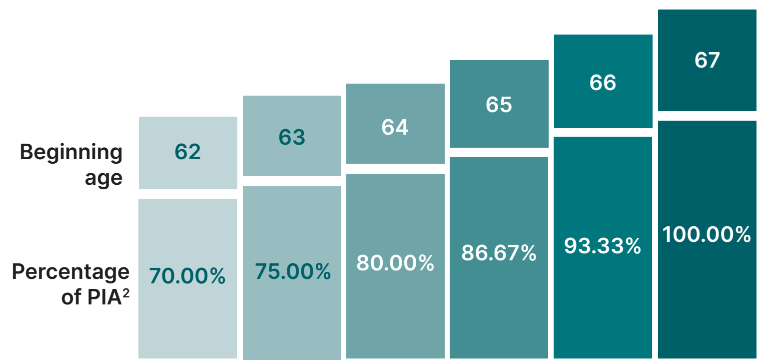
Impact of Claiming Early

You can claim benefits as early as age 62, but doing so will result in a permanent reduction in monthly payments. The reduction is calculated at five-ninths of 1% for each month you claim prior to your FRA. Stated in more easily digestible round numbers, if your FRA is 67 and you take benefits starting at 64, your monthly benefit will be 20% lower than your benefit would have been if you claimed at FRA. Starting your benefits at 62 results in a 30% lower monthly benefit than your FRA.

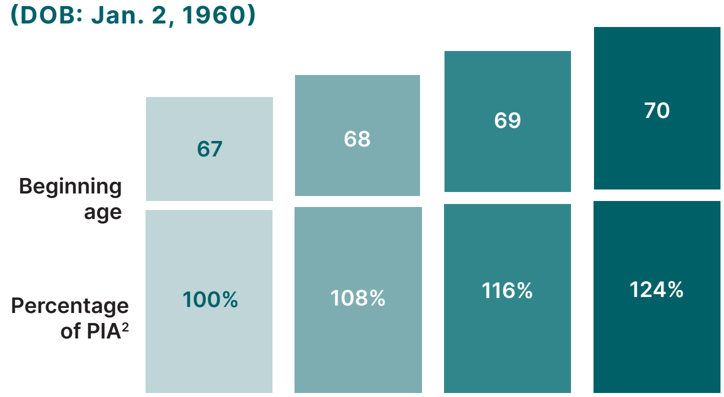
Deciding to Delay

On the other side of the coin, delaying your benefits past your FRA comes with a permanent increase in your monthly benefit. Continuing with the assumption of an FRA of 67, for each year you delay past 67, you would receive an 8% permanent increase in your monthly benefit. The latest you can delay is age 70, resulting in a maximum increase of 24% compared to your FRA.

Effect of taking retirement benefits early (DOB: Jan. 2, 1960)



Effect of taking delayed retirement benefits (DOB: Jan. 2, 1960)



Source: SSA.gov

[1] Represents Full Retirement Age (FRA) based on a DOB of January 2, 1960

[2] PIA= The primary insurance amount is the basis for benefits that are paid to an individual

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How do I decide?

Choosing when to begin withdrawing Social Security is a delicate balancing act. The four most common factors individuals typically consider are their life expectancy, their current health status, the age difference between spouses, and their opinions on the long-term solvency of Social Security.

Life expectancy, age, and health

If you anticipate a longer lifespan and are in good health, delaying benefits may be advantageous as it can result in higher overall lifetime benefits. The break-even for delaying until 70 versus beginning withdrawals at your FRA of 67 tends to fall in your early 80s. The math can get complicated when there is a significant age difference between spouses; we generally run a more thorough analysis if one spouse is more than seven or eight years older than the other. If you have concerns about your health or that of your spouse, claiming benefits earlier may help ensure you receive the maximum amount of lifetime benefits.

The future of Social Security

Given the unsustainable nature of the federal budget and national debt, some clients are beginning to ask whether we think Social Security will be there for them. While we don't have a crystal ball, there are many potential fixes the Social Security Administration could implement to avoid insolvency. We believe the most likely options are some combination of:

1) Further pushing out full retirement age
2) Increasing the Social Security wage base (currently Social Security taxes are only owed on the first $168,600 of earnings)
3) Implementing some form of income or asset-based means testing
4) Reducing benefits

Significant benefit reductions to a program as widely popular as Social Security would almost certainly result in political disaster for the responsible party. As such, we anticipate some combination of the first three levers rather than significant cuts to benefits.

Spousal benefit considerations

While spousal benefits may seem complicated, understanding some key details can help add clarity.

The maximum spousal benefit is 50% of your spouse's benefit at FRA. Your spousal benefits don't increase if you delay withdrawals past your FRA, but are reduced if you file before your FRA. The earlier you file, the greater the reduction in your spousal benefit. You are eligible for the greater of your own benefit or your spousal benefit, not both. Finally, you are not eligible to receive spousal benefits unless your spouse has already filed.

The **Bipartisan Budget Act of 2015** brought changes to retirement and spousal benefits that are still causing confusion today. The act eliminated the popular "file and suspend" strategy. It also introduced the "deemed filing" rule, meaning that filing for either your own benefit or your spousal benefit means you are filing for both. This eliminated the ability to receive spousal benefits while letting your own retirement benefit continue to increase.

Claiming Social Security benefits is a highly personal matter that depends on the specific dynamics in your family. As always, please contact your advisor if you would like help in exploring and developing your own Social Security strategy.