

# Workbook: When to Take Social Security

## Six concepts to get more Social Security income

An introduction to roughly 20% of the Social Security income planning concepts that can be applied to nearly 80% of pre/early retirees cases

### Smart Ways to Get More Social Security Income



“Electing your Social Security income benefit may be the most important financial decision you make in your lifetime. Singles and especially couples, can miss opportunities to collect hundreds of thousands of dollars of additional income over their lifetimes by making poor Social Security income election decisions. By applying little-known, yet creative claiming strategies, you may be rewarded with significant additional retirement income over your lifetime.”

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## **Why the Social Security Income Election Decision is So Important**

Planning to collect a strong Social Security income stream is now more important than ever. Due to both longer life expectancies and the continued trend of reduced employer retirement benefits, couples need to plan to make wise Social Security income election choices. There are several smart, creative yet little-known ways for couples to harvest more Social Security income over their lifetimes. Social Security typically accounts for a portion of a couple's retirement income picture. However, with shrinking investment values (e.g. real estate and stock portfolios) and historically low savings account yields, getting more Social Security income is now a cornerstone of a sound retirement income plan.

A multitude of possible combinations are available for choosing your Social Security income election. At first glance, the election process and strategies can seem complicated and confusing. There are literally hundreds of strategic combinations for maximizing and optimizing your lifetime Social Security benefit. Unfortunately, few financial professionals understand how to successfully navigate the Social Security income election waters. Furthermore, only a small handful of diligent retirees investigate this critical financial decision at a deeper level.

A significant portion of pre-retirees and early retirees do not "do the math" to maximize their Social Security income stream. Of course, this is a decision that should be customized for each couple's unique situation. First of all, many folks are not aware these Social Security claiming strategies even exist. And, if they are aware, many do not take the time or are not counseled by a Financial Advisor, who is familiar with how to maximize Social Security income. Failure to examine and implement these claiming strategies can result in a significant shortfall in lifetime income for many retirees.

There are compelling income incentives for couples to apply some of these little-known claiming strategies. Depending on a couple's Social Security "vitals" (earnings history, relative ages, anticipated life expectancies) and their goals, they may wish to apply claiming strategies such as the "File & Suspend," or "Claim Some Now, More Later." These techniques involve the combination of timing for filing of benefits, exercising the spousal income benefit option, and maximizing the survivor benefit income stream.

Maximizing your Social Security income benefit requires a bit of education, good planning, and the application of smart decision tools. In this workbook we highlight six important tools (i.e. concepts and techniques) consumers should be aware of and incorporate into their Social Security income claiming decision. These concepts and tools are as follows...

1. Claim and get it right the first time.
2. Don't elect too early.
3. If married, use your living spousal benefit income stream.
4. If married, leverage the survivor benefit income stream.
5. Compute your optimal benefit.
6. Align your election strategy with your overall portfolio.

Before we begin... What is your current plan for taking your Social Security income? (Check answer)

- a. Age 62
- b. Age 66
- c. Age 70
- d. Don't know
- e. Other (Comments/Notes)

### → Key Takeaway...filing early = a costly mistake

*"About half of all Americans do file at 62—the first year of eligibility for benefits. But for most people, it's a costly mistake that will mean forgoing thousands of dollars in lifetime benefits..."* Source: Huffington Post, June 29, 2010.

Most married men claim Social Security at age 62 or 63, well short of both Social Security's Full Retirement Age and the age that maximizes the household's expected present value of benefits (EPVB). This results in a loss of less than 4% in household EPVB. But essentially the entire loss is borne by the survivor benefit, falls nearly 20 percent. As many elderly widows have very low incomes, early claiming by married men is a major social problem. Source: Why do Married Men Claim Social Security Benefits So Early? Ignorance or Caddishness? By Steven A. Sass, Wei Sun and Anthony Webb, Center for Retirement Research at Boston College, October 2007.

### Strategy #1: Claim and Get it Right the First Time

#### Strategy 1: Claim Correctly the 1<sup>st</sup> Time



When to Take Social Security



1. Why is getting your Social Security income election correct the first time important? (Circle Answer)

- a. You now have only 18 months after you file to fix it?
- b. Your Social Security income election does not impact the longevity of your retirement income.
- c. A sound income election can get you hundreds of thousand of dollars of additional retirement income and more income for a surviving spouse.
- d. None of the above

Notes:

## Strategy #2: Don't Elect Too Early

Strategy 2: Don't Elect too Early

Claimant Age	Benefit Amount	% of PIA	Claiming Zone	Benefit Adjusted 2.8% for Inflation
62	1725	75	Actuarial Reduction "Penalty Zone"	1725
63	1840	80		1891
64	2001	87		2114
65	2139	93		2323
66	2300	100	PIA Income Amount	2568
67	2484	108	Delayed Retirement Credits "Bonus Zone"	2851
68	2668	116		3148
69	2852	124		3460
70	3036	132		3786

When to Take Social Security

2. For those between 1943 and 1954, if they claim at either age 62 or age 70, what percentage of their age 66 Primary Insurance Amount (PIA) will they receive? (Check answer)

- a. 60% or 70%
- b. 70% or 115%
- c. 75% or 132%
- d. 12% or 75%

Notes:

## Strategy #3: If Married, Use Your Living Spousal Income Benefit

### Strategy 3: Spousal Income Benefit

#### Spousal Income Benefit Rules . . .

- Spouse at FRA gets 50% of other spouse's PIA
- Benefit reduced pro-rata between 62 and 66 (35% at age 62)
- One spouse must claim, or file and suspend at FRA, for other spouse to collect
- Opportunities to switch to and from-rules apply



3. Which of the following are true about the spousal income benefit? (Check those which apply.)

- a. A spouse must be at least age 62 to collect the full spousal income benefits.
- b. At full retirement age (FRA), a spouse is entitled to 50% of the other spouse's PIA
- c. A spouse, age 62, is entitled to 30% of the other spouse's PIA.
- d. One spouse must claim, or file and suspend (at FRA), for the other spouse to get the spousal income benefit.
- e. b & d are correct

Notes:

### → Key Takeaway...the spousal income benefit

The spousal income benefit is one of the most under-utilized, little understood, yet powerful Social Security income planning tools. The example above is just a cliff notes version of the spousal income rules; there are some additional rules and caveats that do apply. For example, if a spouse claims his/her spousal income benefit after full retirement age (e.g. age 66) he or she can collect this benefit, then switch to his/her own benefit at age 70. This allows the spouse to "scoop" additional income between 66 and 70, as well as allow the spouse's own benefit to "build-in-background." This is a very powerful—and often missed—technique for a couple to collect more lifetime Social Security income.

## Strategy #4: If Married, Leverage the Survivor Benefit Income Stream

### Strategy 4: Survivor Income Benefit

Jim dies at 82 and Linda, age 77, collects survivor income for 16 years

Jim's Election Age	Linda's Monthly Income	Linda's Benefit In widowhood
Elect at 62	\$1,725	\$331,200
Elect at 70	\$3,036	\$582,912
Difference	\$1,311	\$251,712



4. A husband or wife can potentially do a substantial disservice to his/her surviving spouse by claiming Social Security at age 62?

True

False

Notes:

### → Key Takeaway...Women, the "golden" years, and health care

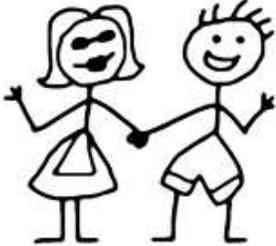
"...in 2005 the median annual rate for a private nursing home room was \$60,224, compared with the 2011 median annual rate of \$77,745," Source: Executive Summary, Genworth 2011, Cost of Care Survey. Women spend twice as many years in a disabled state (as men) as the end of their lives: 2.8 years if they live past age 65 and 3.0 years if they live past age 80. More than 70 percent of nursing home residents are women. Their average age at admission is 80. Over three-fourths (75.7%) of residents in assisted living communities are women. Their average age at admission is 85.7. Almost two-thirds of formal (paid) home care users and informal (unpaid) care recipients are women. Source: American Association of Long-term Care Insurance.

## Strategy #5: Compute Your Optimal Benefit

### Strategy 5: Compute Your Optimal Benefit

#### Case Study 1: The Metros

"Claim Some Now, More Later"



#### Case Study 2: The Heartlands

"File and Suspend"



5. Which of the following concepts and techniques contributes to a couple's ability to capture a greater amount of lifetime Social Security? (Check those which apply.)

- Always claiming at age 62 on both spouses own earnings record.
- Properly utilizing the spousal income benefit then switching to one's own benefit when appropriate.
- Always waiting to claim at age 70 on both spouses' own earnings record.
- Just estimate the calculation—it's a simple mathematical problem.
- Work with an expert and use quality software to determine the best-fit option.

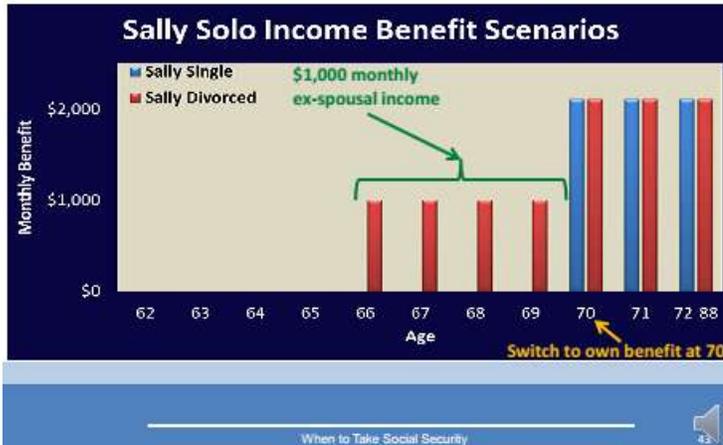
6. A Single (i.e. never married) person should consider claiming Social Security early at age 62 if he or she anticipates the following possibilities: (Check those which apply)

- Living to age 89
- Passing away before age 78
- Needs the cash flow
- Both b & c

Notes:

## Strategy 5: Compute Your Optimal Benefit

Case Study 3: Sally Solo



## Strategy 5: Compute Your Optimal Benefit

Case Study 3: Sally Solo



7. A divorcee can collect a spousal income benefit of an ex-spouse, and cannot switch later to collecting on his/her own record?

True

False

8. Mr. Smith had not claimed Social Security and dies at age 64. When Mrs. Smith is age 58, which of the following is true? (Check all that apply.)

- a. Mrs. Smith can collect her widow/survivor benefit at age 58.
- b. Mrs. Smith can collect 75% of Mr. Smith's PIA at age 60.
- c. Mrs. Smith can collect 71.5% of Mr. Smith's PIA at age 60.
- d. Mrs. Smith has the option of switching from Mr. Smith's benefit to her own benefit at a later date if it makes sense?

9. A divorcee or widow/widower should always collect his/her spousal income benefit first then switch to collecting on his/her own record later?

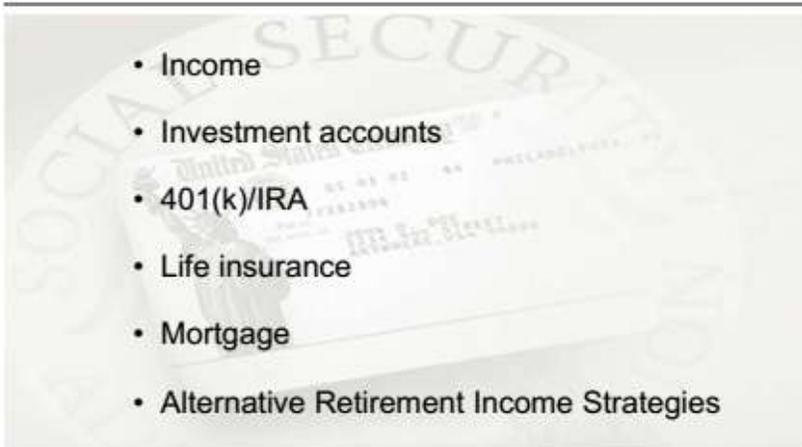
True

False

Notes:

## Strategy #6: Align Your Election Strategy with Your Overall Portfolio

### Strategy 6: Align Your Election Strategy



10. To maximize and optimize your lifetime Social Security income, you need to:  
(Check those that apply)

- a. Be casual about it. You can fix and re-do it in a few years if you like.
- b. Understand your PIA and how your income benefit adjusts if you claim early versus later.
- c. Know that life expectancy is irrelevant and has no impact on your planning.
- d. Correctly apply and time spousal income benefits and switching strategies.
- e. Planning for the surviving spouse's life expectancy is not material to lifetime income.
- f. Consider working with a qualified consultant to help you do the math.

Notes:

Now that we've finished...what is your plan for taking your Social Security income? (Check answer)

- a. Age 62
- b. Age 66
- c. Age 70
- d. Don't know
- e. Do the math to develop my/our best-fit claiming solution.
- f. Other (Comments/Notes):

#### Quiz Questions Answer Key

1. C	5. Both b & e	9. False
2. C	6. D	10. B, D, & F
3. E	7. False	
4. True	8. E	