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WEALTH MANAGEMENT

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Perhaps more than any other government program, misunderstandings abound about the Social Security. First, it's crucial to understand that being an early bird doesn't pay. Your Social Security benefit, officially known as the Primary Insurance Amount, or PIA, is based on your earnings history. At age 62, you receive 75% of your PIA, versus 100% at your Full Retirement Age (FRA) of 66 or 67 and 132% at age 70, when your benefit stops growing.

If you file before your FRA, you'll be accepting permanently discounted monthly payments. For example, if you qualify for an annual benefit of $24,000 at your FRA of 66, you would receive just $18,000 a year if you claimed your benefit at age 62. Conversely, waiting to claim until age 70 would increase your benefit dramatically to nearly $32,000 a year.

Interestingly, many Americans are unaware of their FRA. If you were born January 2, 1943, through January 1, 1955, your FRA, the age when you can collect full Social Security benefits, is 66. If you were born from 1943 to 1960, your FRA increases gradually to 67.[1] And, if you were born any time after 1960, your FRA is 67. However, anyone can begin collecting a reduced benefit at age 62. Please see the figure below:

Age to Receive Full Social Security Benefits

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Year of birth	Full retirement age
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

NOTE: People born on January 1 of any year should refer to the previous year

Waiting adds up. In fact, for every month you delay collecting after age 62, your benefit grows. Still, less than 3% of those claiming Social Security do so in a way that maximizes their benefit. Whe[2] n you begin collecting Social Security is worth thinking about and planning for because the average expected lifetime benefit for a retired couple aged 65 and 69 could be more than $470,000. [3] Yet, three-quarters of Americans do exact opposite and file for benefits within two months of retiring, not factoring in how their benefit might increase if they wait. According to the Social Security Administration, that's true even for wealthy retirees who don't need their Social Security payments to meet their monthly expenses.

To be clear, it is not mandatory to begin collecting Social Security once you retire. When to retire and when to collect your benefit are two separate decisions.

I am happy to consult with you on when to begin collecting Social Security. Frankly, that decision can be more complicated than other investment decisions as we must weigh your health and life expectancy, marital status, the rest of your investment portfolio, and your risk tolerance.

Folks also tend to be somewhat confused about how Social Security works, and that leads to concerns that their benefit will not be there when they need it. Social Security is a direct transfer program, so the money that comes into the plan is immediately paid out to retired or disabled participants. Time was when more money came into the Social Security Administration than it paid out in benefits. At that point, the program loaned the excess to the U.S. Treasury Department to fund government operating expenses, receiving Treasury bonds in return. However, in 2010, as demographics shifted, the Social Security Program began paying more out in benefits than it received from participants.

And that prompts worries that Social Security is about to go broke. However, all it means is that the Social Security Administration has begun to redeem its Treasury bonds. Officials project that in 2033 the program will have depleted its investment in bonds and will need to either adjust benefits, raise the payroll tax, or borrow from the US Treasury. That's a long way from going belly-up.

I encourage clients to think of Social Security like an annuity, fully aware that annuities are difficult financial instruments to understand! The bottom line is that, like an annuity, Social Security provides a monthly income stream in retirement that will last no matter how long you live or, we certainly expect, whatever happens in the market. Each full year you wait to collect, your benefit increases by 8%, an impressive return for a no-risk investment.

I'm happy to answer questions about Social Security, but you also can find detailed information at www.socialsecurity.gov. In fact, you can estimate your Social Security benefit and find more information about when to file by using the Social Security Administration's Benefits Planners at http://www.socialsecurity.gov/planners/index.html.

Stay Diversified, Stay the Course!

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1. http://www.ssa.gov/pubs/EN-05-10035.pdf. Social Security Administration, Social Security Retirement Benefits, July 2012.

2. . John Shoven and Sita Slavov, "The Decision to Delay Social Security Benefits: Theory and Evidence," National Bureau of Economic Research working paper 17866, February 2012, Table 6 and Figure 11. For purposes of this calculation, the wait until claiming for people who retire before age 62 is measured from age 62.

3. . James Poterba, Steven Venti and David Wise, "The Composition and Drawdown of Wealth in Retirement," Journal of Economic Perspectives, Fall 2011. The authors compute expected lifetime benefits based on the Social Security Administration life tables. Their estimates are based on the University of Michigan's 2008 Health and Retirement Study and, as such, are slightly low. The CPI has increased 7% from 2008 to2012, and benefits have risen accordingly.

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