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Getting the Most Out of Social Security



The words **Social Security** conjure two immediate questions for most Americans:

“Will I get my benefits?” And, if so, “At what age should I elect to receive my first check?”

It’s no secret that the Social Security system is experiencing financial problems—people are living longer, the Baby Boomers are reaching retirement, and the current birth rate is low. In 2010 the program ran at a deficit for the first time since 1983, a trend that is expected to accelerate as 10,000 Baby Boomers reach retirement age each day for the next two decades. The resulting drop in the worker-to-beneficiary ratio has caused the Social Security Board of Trustees to project that by 2035 payroll, taxes will be enough to pay for only 75% of scheduled benefits.

While the future of the program is a lingering question for many, those approaching retirement age in the next few years are likely to collect their full benefits. For those eligible to receive Social Security, the monthly inflows can be a material benefit (up to \$3,300/mo) and there are some strategies for maximizing one’s benefit which can result in tens of thousands of dollars of additional benefits over the course of retirement.

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The Basics

Social Security provides a lifetime of monthly, inflation-adjusted retirement benefits to those who have worked for at least 10 years. Benefits are based on a combination of your earnings and the age at which you file for benefits. Your “full retirement age” (FRA), determined by the year you were born, is the magic date when you are eligible to receive 100% of your earned benefit (see Chart 1). There is flexibility to begin your benefit as soon as age 62, but at a permanently reduced amount. Alternatively, you may postpone the benefit start date to age 70 and receive a 32% higher benefit (see Chart 2).

Chart 1:

This chart indicates your FRA, which is based on your year of birth.

Year of Birth	Full Retirement Age “FRA”
1943-1954	66
1955	66 & 2 MONTHS
1956	66 & 4 MONTHS
1957	66 & 6 MONTHS
1958	66 & 8 MONTHS
1959	66 & 10 MONTHS
1960 & Later	67

Chart 2:

The table below shows the range of benefits for people between the age of 62 – 70 (i.e. born between 1942 and 1950) beginning Social Security retirement benefits this year.

Apply at Age (For People Born 1943 -1954)	Eligible Monthly Benefit	Maximum Beginning Monthly Benefit (2012)
62	75.0%	\$1,885
63	80.0%	\$2,010
64	86.7%	\$2,179
65	93.3%	\$2,345
66 (“FRA”)	100%	\$2,513
67	108%	\$2,714
68	116%	\$2,915
69	124%	\$3,116
70	132%	\$3,317

If you’re married (Social Security benefits do not currently extend to unmarried couples), you’re entitled to receive the higher of the benefit you earned or 50% of the benefit your spouse earned (the “spousal benefit”), even if you’ve never earned income. At the first spouse’s death, the survivor receives the higher of his/her benefit or 100% of the deceased spouse’s benefit.

Take It or Leave It?

Many people elect to start Social Security payments at 62, locking in a permanently discounted benefit. By age 66, virtually all those that are eligible elect to receive benefits. Generally speaking, Aspiriant clients are in the fortunate position of not relying on Social Security benefits to make ends meet and, consequently, have more options as it relates to the timing of making an election with the idea of maximizing their benefits over time.

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The Social Security benefit formula is complex and varies by person, but the general rule of thumb is that you should delay benefits to age 70 if you expect that you will live into your early 80s, at which point the accumulated higher benefits will surpass the lower age 62 or age 66 benefits. In contrast, someone with a short life expectancy would generally begin taking benefits as early as possible. This analysis relies on several assumptions about the benefit amount, tax rates, and opportunity cost (i.e., the return you could achieve if you receive benefits now and invest them). Your client service team can help you determine the appropriate step for your own circumstances.

Me, My Spouse and Social Security

Like other financial decisions made by married couples, the Social Security choice made by one spouse usually impacts the other. There are some general guidelines to follow when deciding how and when each of you should file for benefits:

- The higher earning spouse should usually wait until age 70 to take benefits. This ensures the highest joint lifetime benefit if either spouse lives into their early eighties...a high likelihood these days.
- The lower earning spouse should usually wait until age 66 (full retirement age) to take his/her own benefits or, if higher, spousal benefits.
- If both spouses are high earners, both should wait until age 70 to take benefits, and one (the lower earner of the two) should take spousal benefits at age 66, and then flip to his/her own benefit at age 70.

The general concept—that at least one spouse should delay benefits to age 70 while the second claims reduced benefits at 66—is straight forward, but the process necessary to achieve this result isn't particularly well-known by the public or even by many at the Social Security Administration itself. The process involves a couple of steps and can yield significant financial results, which is best illustrated by a common fact pattern.

Scenario: Husband and wife, both age 66, entitled to monthly benefits of \$2,500 and \$1,500, respectively, based on their own earnings histories.

Strategy: Husband delays onset of benefits to age 70, when he will collect a \$3,300 benefit. Wife collects 50% spousal benefit based on husband's earnings (\$1,250/mo) from age 66 to 70, then wife collects own larger benefit (\$2,000/mo) at age 70.

Result: Additional \$60,000 of benefits collected versus both simply delaying until age 70.

Process: Achieving this result requires the husband to file for a benefit at age 66 then immediately suspend his benefit. This gives the wife the opportunity to file an application restricted to her husband's benefit rather than her own, thus allowing her own benefit to continue growing to age 70.

This is just one of many potential fact patterns, and given the numerous variables at play, an approach that is best for one household might not work for another.

Decisions, Decisions

Deciding when to begin Social Security can be tricky, and is usually more nuanced for married couples. While not a critical financial decision for most clients, optimizing one's Social Security benefits can result in tens of thousands of dollars of additional benefits over one's retirement, making it worthy of some conversation. Your Aspiriant client service team will help you develop a customized strategy that optimizes the benefits that your family has earned.

Lisa Colletti, JD, CFP®
Director - Wealth Management
New York Office

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