

Retirement Connection

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During his 35 year career with Foresters Financial, Paul has focused on retirement plans. In his current role, Paul provides our branches and Representatives with support and training related to retirement to better serve their existing clients as well as developing new markets.

Why You Need to Plan for Social Security

More than one third of Americans today begin collecting Social Security retirement benefits right after they turn age 62, according to a recent study by the Government Accountability Office.¹ But claiming benefits at that earliest possible age—particularly when there's no justifiable financial reason for doing so—can have severe long-term financial consequences.

Consider this: Retirees who claim Social Security at age 62 receive only 75% of the benefit they would receive if they waited until full retirement age, which is currently age 66 for Americans born between 1943 and 1954. By waiting until age 70, their benefit would be 76% more than the benefit they could claim at age 62.² (That's because delaying Social Security benefits beyond full retirement age increases the value of the benefit by 8% a year until age 70.)

In other words, someone who could receive an annual Social Security payment of \$30,000 by waiting until age 70, would receive only \$23,000 a year at full retirement age and \$17,000 a year at age 62.

Finding the Right Age

Over 30 years, such a reduced benefit could mean the loss of hundreds of thousands of dollars in retirement income because you claimed benefits at age 62 rather than 70. Particularly for married couples where one spouse outlives the other, claiming benefits early could risk retirement income shortfalls later in life due to having a less robust Social Security income stream.

So, how do you figure out what's the right age to start collecting benefits?

A big reason that many people claim their benefits at the earliest age possible is that they don't realize the potential financial rewards of waiting. Moreover, determining the right age to start collecting benefits is tricky especially considering the many possible strategies that can help maximize Social Security benefits.

For example, if you and your spouse both are in poor health, it may make sense to start claiming a retirement benefit at the earliest possible age with the goal of collecting a smaller monthly Social Security benefit but for more years. But if either one of you seems likely to live beyond age 80, it generally makes sense to hold off until at least your full retirement age so that you collect a larger Social Security monthly benefit well into old age.

Some individuals choose or need to work into their retirement years. Special considerations should be taken with this decision. If you have a choice, you generally don't want to begin collecting benefits before full retirement age if you are still working. This is because Social Security benefits are reduced by \$1 for every \$2 you earn over \$15,480 in 2014. However, once you reach full retirement age, there is no penalty for working.³ This decision depends on your need for income and other family decisions, but if you think there's a good chance you will live into your 80s, you may want to delay benefits until you reach age 70 to maximize the monthly payout into old age.

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The Marriage Factor

Married couples have much more complex—and often critical—decisions on their hands when it comes to claiming Social Security. One spouse may live much longer than the other and ultimately rely on Social Security as his or her main income source later in life which makes maximizing the benefit all the more important. Additionally, spouses have the choice of either claiming their own benefit based on their own work history or taking a so-called spousal benefit.

A spousal benefit allows wives or husbands to claim a Social Security retirement benefit that's equal to 50% of their spouse's full retirement age benefit if they wait to claim it until they reach their own full retirement age. (The spousal benefit will be reduced if they claim before full retirement age, such as at age 62.)

Claiming a spousal benefit can be a particularly smart decision for couples in which one spouse didn't work for many years. The lesser-earning spouse may be able to dramatically increase their own Social Security benefit by claiming a spousal benefit rather than one based on his or her own work history.

Furthermore, certain planning strategies can help married couples maximize their Social Security benefits even further.

For example, couples may want to consider a "file and suspend" approach. This strategy requires the spouse with the larger benefit to file for Social Security at full retirement age so that his or her spouse can start claiming spousal benefits. However, that spouse with the larger benefit then suspends, or delays, taking his or her own Social Security benefit until reaching age 70 in order to maximize that larger monthly retirement benefit.

Divorcees and widows also have options, such as claiming a benefit based on their previous spouse's earnings record rather than their own. These options have rules that should be considered as well.

The Benefits of Social Security Planning

Determining when and how to claim and start collecting Social Security is one of the most important retirement decisions you can make, because it will affect your and your family's long-term financial security. It's important to meet with an experienced financial representative who can walk you through the decision and help you determine the right strategy based on your personal retirement situation and goals.

At Foresters Financial, our financial representatives use sophisticated tools and calculators that guide our clients through key factors that can help them determine the right age and strategy to begin collecting Social Security.

Keep in mind that Social Security may be the one guaranteed income stream that will last throughout your retirement—even if you live well into your 90s or past 100. You can't take planning for that income lightly.

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¹ *Government Accountability Office, Retirement Security: Challenges for Those Claiming Social Security Benefits Early and New Health Options, April 2014*

² *SocialSecurity.gov, When to Start Receiving Retirement Benefits*

³ *SocialSecurity.gov, How Work Affects Your Benefits, 2014*