Consider waiting until your full retirement age or beyond to collect Social Security payments and help increase your benefit.

What if you had a monthly income stream in retirement that you could be confident would last — no matter how long you lived or how the market performed? About 96% of working Americans have just that with Social Security. But only about 3% of those claiming Social Security do so in a way that maximizes their monthly benefits. That’s something worth thinking about, because the median expected lifetime benefit for a retired couple between ages 65 and 69 is $470,000.

Although Social Security has all the trappings of a complicated government program, the basic guideline for most people is remarkably simple: If you (and your spouse, if applicable) are in reasonably good health and can afford to wait a few more years before taking Social Security, you can collect larger monthly payments in the future. Yet three-quarters of Americans do the opposite, filing for benefits within two months of retiring. That’s true even for wealthy retirees who don’t need their Social Security payments to meet their monthly living expenses.

“People don’t view when to begin collecting Social Security as a strategic choice,” says Ben Storey, director, Retirement & Personal Wealth Solutions, Merrill Lynch. “In their minds, ‘when I retire’ and ‘when I take Social Security’ are the same thing. Yet, for those with adequate savings, the decision of when to retire and when to collect Social Security should be considered separately because the longer you wait to claim, the higher your monthly benefit.”


For retirees between 65 and 69 years old, the median expected value of lifetime benefits is $230,000 for singles and $470,000 for couples.

And for high-income families, Social Security’s expected value of benefits is $390,000 for singles and $710,000 for couples.

Key Points
- The age at which you begin collecting Social Security will affect how much you get each month. After the first year of benefits, you can’t change it. That’s why you need to choose your start date carefully.
- It pays to delay Social Security if you can. Between the ages of 62 and 70, your monthly benefit will rise 7% to 8% each year you wait to claim benefits.
- In your Social Security timing decision, consider factors such as your health, life expectancy, marital status, retirement assets and risk tolerance, as well as your current need for income.

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In fact, your benefit grows by approximately 7% to 8% each year from age 62 (the earliest age you can begin collecting) until age 70. And that adds up. Claiming at age 70 instead of age 62 increases your lifetime monthly benefit by 76%.3

Annual Social Security benefit increases
The older you are when you file for Social Security benefits, the greater your annual payment, until you reach age 70, when benefit increases cease. The chart below shows how the annual benefit can change for a retiree who is eligible to receive $24,000 per year at the full retirement age (FRA) of 66.

For example, if the annual benefit at your FRA of 66 is $24,000 a year, 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. The chart on the left shows how much more you may have each year you delay.

"Waiting adds up," says Storey. "A single retiree with an average life expectancy who decides to wait until age 70 can boost expected lifetime benefits by $60,000." And waiting until age 70 to claim can be even more beneficial for couples with average life expectancies, he says, because the longer you wait, the more you’ll have each month throughout retirement.

The extra income you gain is certainly not pocket change. So why do so many Americans make the decision to take Social Security benefits as soon as they become eligible rather than at their FRA?

Many people are simply unaware that they can delay their Social Security payments and that there are significant advantages to doing so, says Bill Hunter, director, personal retirement strategy and solutions, Bank of America Merrill Lynch. "A host of behavioral issues also fuels the decision to start payments early, from our preference for a bird in the hand to the inclination to move with the crowd — and assume that the crowd knows where it’s going," he says.

Being an early bird usually doesn’t pay
If you were born between 1943 and 1954, your full retirement age (FRA) — the age at which you are entitled to full benefits — is 66. If you were born between 1955 and 1959, your FRA is between age 66 and 67. And, if you were born in 1960 or later, your FRA is 67. However, anyone can begin collecting a reduced benefit at age 62.5

Filing before your FRA means accepting a permanently discounted monthly benefit. Although, it is reversible during the first year of filing. Your benefit, officially known as the Primary Insurance Amount, or PIA, is based on the highest 35 years of your earnings history. If your FRA is age 66 (see chart above), you will receive 75% of your PIA at age 62, versus 100% at your FRA of 66 and 132% at age 70. Waiting past age 70 will not increase your benefit.6
“In the case of Social Security, the fact that others probably made the mistake of filing early doesn’t mean that you should.”

Another reason many file early may be the reluctance to spend time planning. “Because the decision about when to take Social Security can be more complicated than researching the purchase of an automobile or a refrigerator, people get frustrated and spend even less time on it,” says Hunter.

Get helpful tools and information from the Social Security Administration

You can estimate your Social Security benefit and find more information to help you decide when to file by using the Social Security Administration’s Benefits Planners at socialsecurity.gov/planners.

You also can use its Retirement Estimator at socialsecurity.gov/estimator and get your annual Social Security Statement at socialsecurity.gov/myaccount. Both tools provide retirement benefit estimates based on your actual earnings record.

For more about how working can affect your benefits, view and print the booklet How Work Affects Your Benefits at ssa.gov/pubs.

When you are ready to collect benefits, you can apply online at socialsecurity.gov/applyforbenefits.

Four factors to drive your decision

It’s important to realize that your decision of when to begin collecting Social Security is weightier than it was decades ago.

“Many of today’s retirees don’t have pensions, and longevity is increasing, so Social Security becomes a bigger part of their nest eggs,” explains Hunter. “Even for individuals age 65 or older whose income places them in the highest income quintile, Social Security accounts for approximately 15% of their aggregate income.” And retirement could last for 30 years. So deciding how to maximize benefits demands more attention than it did for previous generations.” A longer retirement also means that it’s more important than ever for today’s workers to contribute as much as they can to their retirement plans during their maximum earning years.

To help you make the decision that’s best for your situation, Hunter and Storey suggest considering these factors:

1. Other sources of income. Are you eligible for a pension or other guaranteed income payments? Do you have significant retirement savings? Will you work part time in retirement? If you want to delay taking Social Security to increase your benefits, you need to determine whether you can afford to meet your monthly expenses in the meantime.

But if you can tap into other income sources while you wait, the delay can be worth it. Between the ages of 62 and 70, your monthly Social Security benefit will rise 7% to 8% each year you wait to claim benefits. “No insurance company is going to give you a product with this kind of growth and guarantee,” says Storey. “But the question is whether you can afford to live without the extra Social Security income each year.”

One option may be to use withdrawals from your IRA, 401(k) or 403(b) to fill the gap while your Social Security continues to grow. This also reduces the size of those accounts, so any Required Minimum Distributions (RMDs) at age 70½ would be lower, which could have a positive impact on income taxes. (RMDs are amounts that the federal government requires you to withdraw annually from your retirement plans after age 70½.)

Working part time in retirement may be another way to manage the cost of allowing your benefits to grow. And waiting until your FRA to take Social Security has an additional advantage if you’re still working. “If you are at full retirement age or older, there’s no reduction of your Social Security benefits, no matter how much you earn,” explains Hunter.

But the rules are very different if you work and collect Social Security before your FRA, he says. In this case the government reduces your benefits based on the income you earn until you reach your full retirement age. Just
how much is reduced — and how much may eventually be restored at your FRA — can get complicated. For this reason, Hunter suggests that those who want to explore this option talk with their tax professionals and take full advantage of the Social Security tools and information at socialsecurity.gov. See “Get helpful tools and information from the Social Security Administration” on page 3.

2. **Your health and life expectancy.** Consider your general health and your family history. If you are in poor health, you smoke or your parents didn’t live long, your life span could be shorter and you might consider claiming your Social Security benefits earlier. If not, consider holding off as long as you can.

‘People like to focus on the break-even points. That is, ‘At what age would I have to live beyond to have been better off by waiting to collect benefits versus collecting now.’ But that can be misleading,” says Storey. Instead he suggests thinking of Social Security as longevity insurance that delivers a higher guaranteed benefit when you wait longer to receive it. Then, come what may, that increased monthly benefit is there for you. “If you can wait a few years to maximize your benefit,” he says, “there’s also a better chance you won’t run out of your other retirement money if you live to be 100.”

3. **Marital status.** For single women, a delay in collecting Social Security can be especially beneficial because it can mean higher income throughout a typically longer life span. But this advice also applies to married couples because there are two life expectancies to consider.

“If the spouse with the shorter life expectancy is also the primary earner, delaying until FRA or beyond boosts benefits for both spouses because the widowed partner can step up to a greater survivor benefit,” explains Storey. The delay is especially powerful if the lower-earning spouse is younger than the primary earner, he says. “Even if the primary earner has health problems, it can still pay to delay, especially if the younger spouse is in good health, because you are looking past the primary earner’s life.”

Hunter suggests that couples make a household decision about when to begin collecting benefits, taking into consideration health and longevity factors, earning power and the desire (or ability) to keep working part time. He also notes that a divorcée is entitled to spousal benefits without having to notify the ex-spouse and, if the ex-spouse dies, the surviving ex-spouse also is entitled to survivor benefits if the marriage lasted 10 years.

4. **Risk tolerance.** In retirement you face three major risks: longevity, inflation and market risk. If you wait to claim Social Security so you can increase your benefit, you’re effectively making this guaranteed, inflation-indexed source of income a larger percentage of your nest egg. Because that reduces your exposure to all three risks, waiting to collect may be a favorable strategy for the risk-averse.

If you delay taking your Social Security benefit to allow it to grow, Storey suggests reevaluating how you’ve allocated your other assets. “With a greater guaranteed floor in the future, perhaps you can afford being more aggressive in other parts of your investment portfolio for a while,” he says.

Of course some retirees might be inclined to take Social Security early with the notion that the benefit will help them meet expenses while they invest their other assets in the stock market. If they are willing to take a greater risk, they might expect higher returns.

“*You would have to be very successful in the market to beat the risk-free return that is equivalent to what delaying Social Security provides.*”

*Ben Storey, director, Retirement & Personal Wealth Solutions, Merrill Lynch*

However, Storey cautions against this approach.

“You would have to be very successful in the market to beat the risk-free return that is equivalent to what delaying Social Security provides,” he says. “Rather than counting on significant future returns, a more relevant comparison would be to determine where you can get more than 7% to 8% a year risk free. Because you have no way of knowing what you might earn by taking on additional risk in the market, this is the more accurate benchmark.”
### Factors to consider before taking your first Social Security check

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<tr>
<th>Factor</th>
<th>Key decision</th>
<th>Other considerations</th>
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<tbody>
<tr>
<td>Other retirement assets</td>
<td>Determine how long you can afford to delay taking Social Security.</td>
<td>If you delay taking Social Security, you might consider taking more risk with other investments based on having created a higher inflation-protected lifetime income stream. Spending down your retirement assets to afford delaying collecting Social Security may also reduce your Required Minimum Distributions (RMDs) at age 70½.</td>
</tr>
<tr>
<td>Health and longevity</td>
<td>Estimate your life expectancy.</td>
<td>The longer your life expectancy, the riskier it is to take Social Security early. Age 62, your full retirement age (currently 66 for those born in 1959 or before, 67 for those after) and age 70 are not your only choices. You can claim Social Security any time after age 62. Every month you wait adds to your benefit.</td>
</tr>
<tr>
<td>Marital status</td>
<td>Single: Choose a date to collect Social Security benefits.</td>
<td>Delaying collecting Social Security can be especially beneficial for single women, given women’s longer life expectancy. Many couples stand to benefit from having the higher-earning spouse wait to claim.</td>
</tr>
<tr>
<td>Risk tolerance</td>
<td>Consider the kinds of guarantees you need and your expected rate of return on other investments.</td>
<td>For most people, taking Social Security at age 62 is riskier because it increases exposure to longevity, market and inflation risk. In today’s low-yield environment, it’s difficult to beat the risk-free 7% to 8% annual growth you earn by waiting beyond age 62 to collect your benefit.</td>
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In today’s low-yield environment, Storey says, Social Security’s annual 7% to 8% risk-free growth looks especially attractive.

### Take your time

As you evaluate when to begin your lifetime income stream, keep in mind that for every month you delay collecting after age 62, your benefit grows. Also, correcting a Social Security mistake is not as easy as switching your investments after you review your IRA or workplace plan statement. Unless you change your mind within one year of filing for Social Security and pay back all your benefits, your decision of when to claim benefits is irreversible.

That’s why it’s important to take the time now to think about your Social Security decisions. Discuss your options with your spouse. Review them with your tax professional. Make it part of your annual investment review and revisit your plans as your circumstances change. You’ll find helpful tools on the Social Security Administration’s website: [ssa.gov](http://ssa.gov).

“Your Social Security benefit could potentially be worth more than your house or 401(k),” concludes Hunter. “So it’s wise to invest at least as much time deciding when to collect it as you spent house hunting, choosing a mortgage or constructing and managing your retirement portfolio.”
How Merrill Edge® can help

Merrill Edge® offers insights and resources to help you evaluate your retirement strategy today and discover the steps you can take to help pursue your goals.

• To see how your Social Security benefit fits into your overall retirement strategy, use the Retirement Evaluator on merrilledge.com (login required).
• To learn more about Social Security, use the benefits estimator and view your personal statement, go to socialsecurity.gov.

Looking for more assistance with your retirement saving and investing strategy?

A Merrill Edge Financial Solutions Advisor™ can discuss how to factor Social Security into your retirement strategy and help you keep your plan on track. Visit locations.merrilledge.com to find a Merrill Edge Financial Solutions Advisor™ at a select financial center near you. Or call us at 888.ML.INVEST (888.654.6837), Monday through Friday, 8 a.m. to 10 p.m. Eastern.

If you are not a Merrill Edge client, please call 888.MER.EDGE (888.637.3343) to learn more and get started.

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