Time is money: How waiting to collect Social Security can boost your benefit

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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 certain would last — no matter how long you lived or how the market performed? More than 96% of working Americans have just that with Social Security. But less than 3% of those claiming Social Security do so in a way that maximizes their monthly benefits.[1] That's something worth thinking about because the average expected lifetime benefit for a retired couple between age 65 and 69 is more than $470,000.[2]

Although Social Security has all the trappings of a complicated government program, the basic guideline for most people is remarkably simple: If you or your spouse are in reasonably good health and you can afford to, wait to collect your payments for as long as you can. Yet three quarters of Americans do the very 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.[2]

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David Laster, Chartered Financial Analyst®
director, Investment Analytics
Merrill Lynch

What's the lifetime value of Social Security?

More than you might think.

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.[3]

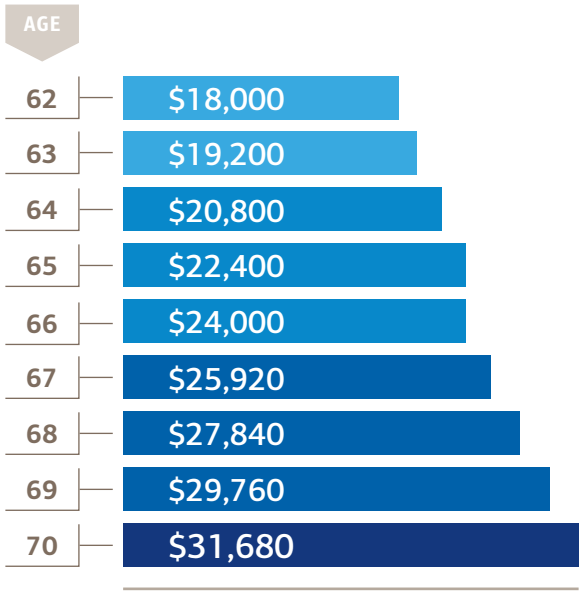
"People don't view when to begin collecting Social Security as a strategic choice," says David Laster, Chartered Financial Analyst®, director, Investment Analytics, Merrill Lynch. "In their minds, 'when I retire' and 'when I take Social Security' are the same thing. Yet, for those with adequate savings, the decision of when to retire and when to collect Social Security should be decoupled because the longer you wait to claim, the higher your monthly benefit."

[1] Source: Government Accountability Office, "Retirement Income: Ensuring Income throughout Retirement Requires Difficult Choices," June 2011, p. 22.
[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.
[3] James Poterba, Steven Venti and David Wise, "The Composition and Drawdown of Wealth in Retirement," Journal of Economic Perspectives, Fall 2011.

In fact your benefit grows by approximately 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%.

Annual Social Security benefit increases

The older you are when you file for Social Security benefits, the higher 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.



Source: Merrill Lynch Investment Management & Guidance calculations based on Social Security Administration data available at socialsecurity.gov/OACT/quickcalc/early_late.html#drcTable, accessed February 2013.

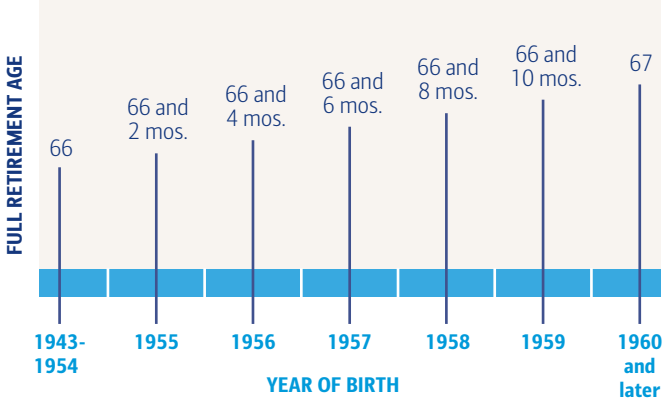
Being an early bird usually doesn't pay

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 from 1955 to 1960, your FRA is between age 66 and 67.[4] And, if you were born anytime after 1960, your FRA is 67. However, anyone can begin collecting a reduced benefit at age 62.

Filing before your FRA means accepting a permanently discounted monthly benefit. Your benefit, officially known as the Primary Insurance Amount, or PIA, is based on the highest 35 years of your earnings history. At age 62 you

Age to receive full Social Security benefits

The date when you can receive 100% of your Social Security benefit (FRA) depends on the year you were born.



NOTE: People who were born on January 1 of any year should refer to the previous year.
Source: Social Security Administration, Social Security Retirement Benefits, July 2012 ssa.gov/pubs/EN-05-10035.pdf

receive 75% of your PIA, versus 100% at your FRA of 66 or 67, and 132% at age 70. Waiting past age 70 will not increase your benefit.

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.

"Waiting adds up," says Laster. "A single retiree with an average life expectancy who decides to wait until age 70 can boost expected lifetime benefits by $60,000. Waiting until age 70 to claim can be even more beneficial for couples with average life expectancies, increasing expected lifetime benefits by more than $150,000."

That's certainly not pocket change. So why do so many Americans make the decision to take Social Security 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, Chartered Financial Analyst®, director, Personal Retirement Solutions, Bank of America Merrill Lynch. "A host of behavioral issues

[4] Social Security Administration, *Social Security Retirement Benefits*, July 2012. ssa.gov/pubs/EN-05-10035.pdf

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. "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 their Retirement Estimator at **socialsecurity.gov/estimator** and get your annual Social Security Statement at **socialsecurity.gov/mystatement**. 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/EN-05-10069.pdf**.

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's increasing, so Social Security becomes a bigger part of their nest eggs," explains Hunter. "Even for families whose income is in the top 5%, Social Security accounts for 29% of household income in retirement.[5] 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 Laster 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.

   For example: If you qualify to collect $18,000 a year at age 62 and you delay taking your payment for four years until you reach your FRA, you'll forgo receiving $18,000 each year for a total of $72,000. But you'll also boost your future annual income by $6,000 and get a guaranteed $24,000 (indexed for inflation) for life. "No insurance company is going to give you a product with this kind of growth and guarantee," says Laster. "But the question is whether you can afford to live without the $18,000 a 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[6] would be lower, which could have a positive impact on income taxes. (Remember, 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

[5] Congressional Budget Office, *The 2012 Long-Term Projections for Social Security: Additional Information.*
[6] You generally have until April 1 of the year following the calendar year you turn age 70½ to take your first RMD. In subsequent years, the deadline is December 31.

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.

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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 lifespan 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 identify the break-even points. That is, 'If I take my money now and live beyond my life expectancy, then I'm ahead.' But that can be misleading," says Laster. 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.** The advice for most single people to delay claiming goes double for 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 the deceased spouse's benefit," explains Laster. 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 divorcee 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.

   Additionally, married couples who delay filing for Social Security until their full retirement ages may be able to take advantage of strategies that can significantly increase their total lifetime benefits. For more details see "Waiting until your FRA has extra benefits for married couples" on page 5.

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.

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Waiting until your FRA has extra benefits for married couples

If you're married and can delay taking your Social Security benefits until you both reach Full Retirement Age (FRA), you may be able to take advantage of one of several strategies that use the spousal benefit to increase your total lifetime income.

We've outlined one of those strategies below, often referred to as the "Claim Twice" plan. Your tax professional may suggest others based on your personal needs and goals.

How the Claim Twice strategy works

Let's say you and your spouse are both at FRA and need some additional cash to meet monthly expenses, but not the full amount of your combined Social Security benefits. The Claim Twice strategy may be an option. In this case one of you collects 100% of the benefit at FRA, while the other collects "spousal benefits" on that same account, so that account continues to grow.

Consider a hypothetical example of Kate and Pete, who are married and have each reached their FRA of 66, making them eligible for 100% of their Social Security benefits. (For this example we assumed that Kate's Social Security benefit is higher than Pete's because she earned more during her working years.)

- At age 66 Kate started taking her benefits.
- Instead of filing for his own benefits at age 66, Pete chose to take the "spousal benefit," which was 50% of Kate's benefit.
- Although this spousal benefit is lower than 100% of Pete's benefit based on his work history, by not filing for his own benefit at age 66, Pete allowed his benefit to grow at 8% a year until he reached age 70.
- At age 70 Pete filed for his own benefit, which had grown to 132% of what he would have had at age 66.
- While Pete's benefit grew, the couple received 100% of Kate's benefit, plus 50% of Kate's amount as a spousal benefit for four years.

One other option for this couple: If they were using the Claim Twice strategy and found that the spousal benefit continued to be higher than Pete's own benefit would be at age 70, he could decide to keep collecting the spousal benefits rather than file for his own. Later, if Kate passed away before him, he would then become eligible to receive 100% of her benefits, as a survivor.

Because both of these strategies may have tax and retirement planning implications, it's a good idea to check in with your tax professional before you decide to move forward.

Social Security "Claim Twice" strategy for couples can increase lifetime income

With the "Claim Twice" strategy, one spouse collects 100% of the benefit at Full Retirement Age (FRA), while the other collects spousal benefits on that same account, allowing his or her own account to continue to grow. In this example Kate and Pete have reached their FRA of 66, and Kate's Social Security benefit is assumed to be higher.

If you delay taking your Social Security benefit to allow it to grow, Laster 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 have a willingness to take a greater risk, they might have the expectation of higher returns.

However, Laster 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 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."

In today's low-yield environment, Laster says, Social Security's annual 8% risk-free growth looks especially attractive.

Factors to consider before taking your first Social Security check

FACTOR	KEY DECISION	OTHER CONSIDERATIONS
OTHER RETIREMENT ASSETS	Determine how long you can afford to delay taking Social Security.	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.
HEALTH AND LONGEVITY	Estimate your life expectancy.	The longer your life expectancy, the riskier it is to take Social Security early. 62, Full Retirement Age (FRA) and 70 are not your only choices. You can claim Social Security any time after 62. Every month you wait adds to your benefit.
MARITAL STATUS	Single: Choose a date to collect Social Security benefits. Married: Figure how each spouse's timing affects the other's benefits.	Delaying collecting Social Security can be especially beneficial for single women, given women's longer life expectancy. The Claim Twice strategy allows married couples to collect greater benefits. (See sidebar on page 5 for details.)
RISK TOLERANCE	Consider the kinds of guarantees you need and your expected rate of return on other investments.	For most people taking Social Security at age 62 is riskier because it increases exposure to longevity, market and inflation. In today's low-yield environment, it's difficult to beat the *risk-free* 8% annual growth you earn by waiting beyond age 62 to collect your benefit.

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. 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**.

"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 has tools and services to help you evaluate your retirement strategy today and discover the steps you can take to help pursue your goals. Our Retirement Evaluator on **merrilledge.com** can help you determine how your Social Security benefit fits into your overall retirement strategy. Once you log in, you can access the tool under the Planning & Products section.

If you are a Merrill Edge Advisory Center™ client, 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 **merrilledge.com/fsalocator** to find a Merrill Edge Financial Solutions Advisor at a select banking center near you. Or call us at **1.888.ML.INVEST** (**1.888.654.6837**), Monday through Friday from 7:30 a.m. to 1:00 a.m. Eastern.

If you are not a Merrill Edge client, please call **1.888.MER-EDGE (1.888.637.3343)** to get started.