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Rethinking Social Security as a Managed Asset

There's an old-school image used by previous generations to define retirement income planning—the three-legged stool.

- Leg number one was your employee retirement benefits. In the bygone era of Corporate America when employees spent their lives with one company, they enjoyed generous employer-provided defined benefit retirement plans.
- Leg number two was your personal retirement savings. This leg was long or short depending on prudence and discipline. The median retirement account balance for all working-age households in the U.S. is $3,000, and $12,000 for near-retirement households, according to the National Institute on Retirement Security.
- The last leg was Social Security, designed as a safety net if the first two legs turned up short.

The Great Depression shortened the first two legs dramatically. The government seemed the most likely institution to be around for retirement, but government assistance was a very controversial proposal. Who should be covered and how should programs be funded aroused passionate debate. Social Security won the debate, although setting retirement at age 65 when life expectancy was 61 made it more of a widows' benefit than a benefit for retirement.

Not so today. Americans currently age 65 have a life expectancy of almost 20 more years. Those extra years turn Social Security into a valuable financial asset. And a managed asset like any other where one can avoid pitfalls and take advantage of opportunities. In fact, good management decisions can swing the value of one's Social Security asset up or down by tens of thousands of dollars over a lifetime. Below are some factors to consider.

Timing

The idea that Social Security benefits start up like automatic sprinklers is over. When you begin your Social Security benefits is a strategic decision with a window opening at age 62 and closing at age 70. You need to ask what the optimal timing is for you.

You can choose early retirement benefits at 62. However, the downside is a reduction in benefits by 25% or more for the rest of your life. In addition, if you continue earning employment income, you lose $1 in benefits for every $2 earned over the limit ($15,720 in 2015). The only good reasons for taking benefits at 62 are very basic.

- You need the money
- You have stopped working and/or you earn less than the income cap
- Your health is compromised and you don't want to wait

Normal retirement age is currently set at 66. That is when you receive your full benefit, and you are not penalized for continuing to earn income. But before you settle for normal, ask a few questions.

- Are you actually retiring at 66 or do you plan to work more years at current income levels?
- Will your Social Security benefit have a significant impact on your lifestyle choices?
- Do you have any health reasons for taking Social Security benefits now?

If you have the financial means to wait until you are 70, you can leave your Social Security asset to accumulate at an attractive 8% each year, or a 32% increase over age 66.

Spouses

So far we have been talking about individual factors that impact timing decisions. However, the decision factors change for spouses, because now there are two kinds of benefits to consider—a retirement benefit and a spousal benefit, and coordinating benefit timing is an asset management opportunity.

In most cases, it makes sense for higher earning spouses to delay benefits as long as possible to lock in the maximum retirement benefit as well as the largest survivor benefit should they die first. Meanwhile, lower earning spouses who are no longer working at 62 can claim reduced benefits of early retirement. However, spousal benefits will not be available until the higher earning spouse claims benefits at 70.

Another option allows lower earning spouses to claim full benefits at age 66, while their higher earning spouses "file and suspend" benefits at 66, triggering full spousal benefits for the lower earning spouse while deferring the higher earning spouse's retirement benefits for added growth.

For spouses who both earn comparable income, there is another option. At age 66 one spouse can file and suspend, triggering benefits for the other. The other spouse files a restricted claim for spousal benefit

only, and both defer claiming their own benefits until age 70.
These spouse-oriented factors also may include Social Security benefit strategies for divorced spouses, same sex couples, and dependent children. Social Security decisions also impact Medicare decisions. There is nothing automatic about Social Security anymore, and what you don't know can hurt.

If Social Security decisions are visible on your planning horizon, you need decision information. This letter was designed only to highlight choices. We are committed to informed decision-making for every factor in retirement income and asset management strategy.

Best regards,

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