

Unraveling Social Security Benefit Options: What is your best strategy?

Deciding when to apply for social security benefits is mysterious in its own right. Should I apply as soon as I am eligible? Should I wait until my Full Retirement Age? When is my Full Retirement Age? What if I am still working? It is a complicated decision that requires thoughtful consideration of many issues: personal health, family longevity, current disposable income needs and current quality of life sacrificed for future higher payments. When to start collecting Social Security benefits is a very personal decision and there is no easy answer.

In addition to answering the question about when to apply for social security benefits there are other concepts and strategies that can be applied that will also significantly alter your maximum family benefits. These strategies are very rarely presented by social security administration employees when applying for benefits, and are not even mentioned in the Social Security Administration's handout "When To Start Receiving Retirement Benefits".

There are three types of benefits for married couples: Retired Worker Benefit (based on your earnings record), Spousal Benefit (available to a spouse ONCE the worker has claimed his/her Retired Worker Benefit), and a Survivor Benefit (provides for a surviving spouse after a worker's death).

Most people believe the primary factor in the social security benefit decision is taking your benefit immediately upon eligibility, waiting for Full Retirement Age, or age 70. There are two other strategies that can provide greater lifetime income

benefits that are seldom discussed: File and Suspend and the Restricted Application Strategies.

The File and Suspend Strategy is particularly beneficial for married couples when both have reached their Full Retirement Age. The spouse with the highest benefit applies for social security benefits (immediately suspending benefits) which then allow the spouse to apply for spousal benefits. The spouse receives a benefit equal to 50% of the highest benefit, and both continue to accrue delayed retirement credits (DRC).

Example:

Mark (66) and Jane (66) - Mark has a benefit of \$1,500 and Jane has a benefit of \$1,000. Mark applies for benefits and suspends until age 70. Jane applies for spousal benefits and starts receiving monthly benefit payments of \$750. They both continue to accrue delayed retirement credits that increase their future checks by 8 percent a year until age 70, a total 32 percent increase.

The Restricted Application Strategy is used to maximize social security benefits if both spouses have comparable incomes or if one spouse would like to retire and the other continues working.

Example:

Ed (66) and Mary (66) both have a retirement benefit of \$1,000. Mary wants to continue working. Ed wants to retire. Ed applies for benefits and receives \$1,000 per month; Mary applies for spousal benefits (also referred to as a restricted application) and receives \$500 per month. Mary will continue to accrue DRC, and when she reaches 70 her benefit will be \$1,320 per month.

I recently applied these strategies in a plan I was creating for a husband (50) and wife (48) who were interested in what their social security income would be in retirement. The assumptions were that they both died at their average life expectancy (82 and 79 respectively), a 3% inflation rate, and a risk free rate of return of 1.80% to make comparisons over time. The wife was the higher wage earner. I will not overwhelm you with all the numbers, but simply provide the estimated bottom line numbers:

The expected lifetime family benefit if both spouses elect at 62 was \$548,500.

The expected lifetime family benefit if both spouses elect at 66 was \$556,100.

If the wife elects and takes benefits at age 62, at 67 the husband files a Restricted application to receive spousal benefits, and files at age 70 for his own benefits;

The expected lifetime family benefit is \$588,250.

A significant difference. Interesting note, that electing at 62 versus 66 is not really a significant difference; that election choice (smaller payment over a longer period of time or a higher payment over a shorter period of time) is most affected by life expectancy.

The bottom line, it is a difficult decision with many moving parts. It might be best to consult your financial advisor if you are considering any of the above techniques.

Suzanne M. Antonelli, CFP®

Well-deserved Award and Recognition

So often we take for granted our good fortune. Working with colleagues and clients at Sigma is truly my good fortune. It has also been my good fortune to have known Bob and Shari Bilkie for almost twenty years. Not only do they take their commitment to Sigma seriously but that commitment carries through to their personal lives as well. Over the years Bob and Shari have made many generous donations to various organizations and causes with little fanfare or recognition, just the way they prefer it. However, their contributions and long hours of dedication in the creation and development of the Miracle League of Plymouth, a baseball field and pavilion for children with special needs, has not gone unnoticed by their colleagues nor their community. The Washtenaw Contractors Association has announced that the 2012 Pyramid Award for Best Team Project under \$3,000,000 has been awarded to the Miracle League of Plymouth. The award itself is tied to the team effort of the Architectural and Contractor contribution; it is recognition of a job well done. On behalf of my colleagues at Sigma we would like to extend congratulations to the Miracle League of Plymouth on the well-deserved recognition. It also provides us an opportunity to recognize and congratulate Bob and Shari on being part of a team that has made a significant contribution to a community. Truly a job well done.

Denise M. Farkas, CFA

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