



By James E. Leemann, Ph.D.

Your future financial safety

Social Security decisions to consider

Let's face it guys, we are becoming a little older each day and those of us at or near retirement, older Baby Boomers, need to be focusing on our Social Security claiming strategy like a laser beam. Recently, I became aware of a book I would highly recommend to anyone facing their personal Social Security decision, entitled "Social Security Strategies" by Dr. William Reichenstein and William Meyer.¹

Many of us will take the position: "I cannot wait until I become eligible to start taking Social Security." Currently, the age is 62. Not so fast. Waiting longer will often result in higher monthly payments. Full Retirement Age (FRA) for those born between January 2, 1945 and January 1, 1957 is 66. At 66, individuals will receive 100% of their Primary Insurance Amount (PIA), which is the monthly dollar amount. To see your personal FRA and PIA, look at your annual Social Security Statement.

Bottom line questions

There are two primary questions retirees must answer when deciding when to begin Social Security benefits:

1. How do I **maximize** my expected cumulative lifetime benefits?
2. How do I **minimize** my longevity risks?

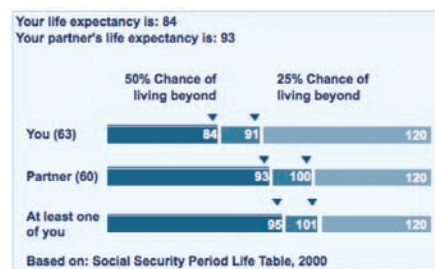
Rather than simply apply for Social Security when you are eligible (i.e., 62), recognize the answers are inextricably linked. In other words, to maximize your cumulative lifetime benefit, you need to minimize your longevity risk. Minimizing your longevity risk involves avoiding the risk of depleting your financial resources before you die.

Always keep in mind that the age

at which you decide to begin Social Security will impact your benefits for the rest of your life and potentially benefits available to your spouse.

Of course, none of us has any idea when we are going to die, but there are a number of life expectancy calculators on the Internet you can use to estimate how long you may live. These calculators take into account such things as Marital Status, Age, Gender, Height, Blood Pressure, Exercise Activity, Alcohol Consumption, and Smoking.

The following illustrates a hypothetical married couple where the husband is 63 and the wife is 60, the husband is 6' 1" and weighs 235 lbs. and the wife is 5' 4" and weighs 130 lbs. The husband's blood pressure is between 120/80 and 140/90 and the wife's is 120/80 or lower. Both exercise several times per week, consume two alcoholic drinks per day or less and neither have smoked.



How long have you got?

Deciding when to begin receiving your Social Security benefit hinges to a great extent on how long you think you are going to live. If longevity is not an attribute found in your family, in other words, members in your family do not live beyond 80 years old, then starting your benefits before your Full Retirement Age may be prudent. However, if you expect to live well beyond 80, starting your benefits at your FRA, or even waiting

until you are 70, will prove to be much more financially beneficial and you will likely not outlive your benefit payments. Indeed, some individuals will need their Social Security benefits to start as soon as possible for many personal and other household reasons.

Other factors to consider beyond your health status and life expectancy include your need for income, whether or not you plan to continue to work, and how concerned you are about running out of money in your lifetime. Additionally, if you are married, other factors to consider are your spouse's life expectancy, which of you is the higher wage earner, and how concerned are you about running out of money in your joint lifetimes.

Case study

For the case study, I asked William Meyer of Social Security Solutions, Inc. to run the numbers on the company's recently released web-based tool for creating a Social Security claiming strategy. Using the above hypothetical married couple and assuming both have worked their entire lives, our couple's 2010 Social Security Statements present their monthly benefit amounts for age 62, 66 and 70. (See table 1)

Recognizing the difference between starting early versus waiting, our couple needs to determine what their expected monthly expenses will be from now until when they expect to die. In this case, both expect to die at 90 years old.

Assuming our couple wants to accumulate the most lifetime benefit and have income protection in case they live longer than expected, their Social Security claiming strategy will total \$1,444,886. The difference in both taking Social Security early (i.e., age 62) results in a total lifetime benefit of \$1,140,956 or \$303,930 less at age of death

than if they waited until age 70.

In order to take advantage of a larger cumulative lifetime benefit, our couple will utilize spousal benefits, survivor benefits and switching strategies in the following manner. The wife will begin spousal benefits at her FRA (66) in October 2016. For the wife to be eligible for spousal benefits, the husband must file and suspend benefits for himself before his wife attains FRA. He will then file for his own benefits at age 70 in December 2017, and his wife will switch to her own benefits at age 70 in October 2020.

By following this Social Security claiming strategy, our couple also protects themselves against the possibility of living longer than they expect and incurring the wrath of “longevity risk.” Recall, both expect to die

at age 90. Table 2 presents presents three life expectancy scenarios – Short Life Span equals living 10 years less than expected (80), Normal Life Span equals both living to age 90, and Long Life Span equals living 10 years more than expected (100).

By following the recommended claiming strategy, our couple will likely receive the maximum cumulative lifetime benefits along with maximizing both their combined monthly benefits while they are alive and the monthly benefits of the surviving spouse after the first spouse dies. Additionally, this strategy will reduce the risk of the couple outliving their other resources.

To gain a sense of the Recommended Claiming Strategy, table 3 provides the monthly income amounts our couple can expect if they both live to age 90.

Since the husband and wife are 63 and 60, respectfully, and continue to work, these amounts will likely increase until they actually decide to begin receiving their Social Security benefits. Be mindful that if either or both decide to begin their benefits before their FRA is

reached, their Social Security will be subject to an earnings test, which could reduce or even eliminate the benefit entirely. This is an excellent reason for waiting until you at least reach your FRA or until you stop working, whichever is sooner.

William Meyer has offered Premier Plus package to all *ISHN* readers at a discounted price of \$99.95, which is normally \$124.95. If you are interested, go to <http://www.socialsecuritysolutions.com/index.html> and click **Start Now** after which you will enter Promotion Code **ISHN** to receive the discount. Full disclosure; I am not receiving any fee for this offer.

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1 Reichenstein, W. and W. Meyer. 2011. Social Security Strategies – How to Optimize Retirement Benefits. Self-published.

Table 1
Husband – 63 years old

Monthly Benefits if begun @ 62	\$1,930
Monthly Benefits if begun at FRA – 66	\$2,301
Monthly Benefits if begun @ 70	\$3,037

Wife – 60 years old

Monthly Benefits begun @ 62	\$1,546
Monthly Benefits if begun at FRA – 66	\$2,050
Monthly Benefits if begun @ 70	\$2,706

Table 2

Claiming Strategy	Early Age (62)	Recommended Age (70)	Full Retirement Age (66)
Short Life Span	\$723,798	\$755,687	\$739,502
Normal Life Span	\$1,140,956	\$1,444,886	\$1,261,622
Long Life Span	\$1,412,530	\$1,898,719	\$1,605,435

Table 3

Husband Age	Wife Age	Monthly Income
69	66	\$1,151
70 – 72	67 – 69	\$4,188
73 – 89	70 – 86	\$5,743
90	87	\$6,074
Deceased	88 – 90	\$3,037