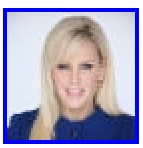
Women Advisors forum



Your Female Clients Need Guidance on How to Maximize Social Security Benefits

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How many of your women clients consult you about their decision regarding when to start collecting Social Security? I bet there are plenty who don't, even though Social Security is an important piece to the retirement income puzzle that carries special significance for women due to their longer life expectancies.

Without advice, clients may make the mistake of viewing the decision of when to retire and when to begin collecting Social Security as one in the same (and they'd have good company). According to "The Decision to Delay Social Security Benefits: Theory and Evidence," published by the National Bureau of Economic Research, 75 percent of those filing for Social Security do so within two months of retiring. That's a problem if your clients retire early—before what Social Security has set as the "Full Retirement Age" (FRA) to receive the full Social Security benefit.

I'm betting most women's rationale to begin collecting Social Security early, before FRA, goes something like this:

"Why wait? I read that Social Security will soon be insolvent. It's my money and I don't want to lose it. Plus, my parents retired and took Social Security early and everything worked out fine for them."
However, it is important to alert clients that Social Security's challenges are twofold:

- First, it's funded primarily through the collection of payroll taxes and, with higher unemployment and changing demographics, fewer workers are paying into Social Security than in the past. At the same time, the large number of baby boomers reaching retirement age and Americans increasing longevity are increasing the demands on Social Security.
- Second, Social Security benefits are pulled from two different areas. The Old-Age and Survivors Insurance (OASI) program covers retired workers and their families and remaining family workers of the deceased, while people who are unable to work because of a disability fall under the Disability Insurance (DI) program.

It's also important for you to ensure that clients who want to collect Social Security benefits before their FRA understand that taking the benefit early permanently discounts their benefit. Again, this is particularly important for women, given that they have longer life expectancies than men. In fact, the Social Security benefit grows at a respectable 8 percent a year from age 62 when workers first qualify to receive benefits all the way to age 70. So, if your client retires at age 62 and begins collecting right away, she forgoes eight years of risk-free 8 percent growth. How does that translate to dollars? An $18,000 annual benefit at age 62 would increase to an annual benefit of $24,000 at age 66 or nearly $32,000 at age 70.

It is not your parents' retirement

It is important to underscore for clients that their retirement is not their parents' retirement. A crucial difference is that many in their parents' generation had pensions, that all-important steady lifetime income stream. Further, as longevity increases, clients need to plan for a retirement that could last more than three decades, perhaps even longer than they worked. With that in mind, it's easy to see the value in waiting to collect Social Security because that ensures clients maximize that vital lifelong income stream.

My bottom line is that women need to approach the Social Security decision with the same seriousness that we apply to other investment decisions. Accordingly, the first step is to ensure all the work history data is correct so we get full credit for all the years we worked. Naturally, this is more complicated than it used to be when Americans worked 30 years at the same company and then retired. This is especially true for women who may have full- and part-time jobs, gaps in their earnings history to care for children and family, as well as self-employment earnings.

Suggestions and examples to share

Encourage clients to request a summary of their benefits by calling the Social Security Administration (800-772-1213) and asking for a form SSA-7004, or by downloading this form. The statement provides a record of their earnings history, the number of credits they have accumulated to date and an estimate of the retirement benefits available if they wait until full retirement age.

Additionally, with so many Americans choosing to transition into retirement by working part-time, it's also imperative to understand how earned income impacts Social Security benefits. Here, your clients will find another advantage in waiting until FRA or older. That's because if they work part-time and wait to collect Social Security until FRA or older, there's no reduction of Social Security benefits, no matter how much is earned. However, if they are younger than full retirement age, there's a limit to how much they can earn and still receive full Social Security benefits. The government deducts $1 for each $2 earned above $15,120. More information on Social Security benefits and employment can be found here.

Lastly, if married couples you work with have enough other income to be able to delay claiming Social Security until they both reach age 70, you should explore the "file and suspend" strategy with them. This could mean an additional 20 percent in lifetime benefits compared to what they would receive by both claiming Social Security at age 62.

Here's how it works for Jack and Jill, who are both age 66 (FRA):

- Jill (our higher wage earner) files for Social Security benefits at her FRA of 66. She immediately suspends those benefits until a future date.
- Her suspension allows Jack to begin claiming a "spousal benefit," which is half of the suspended benefit. For example, if Jill's monthly benefit was $2,000, Jack will collect $1,000 a month, or $12,000 a year.
- While Jack collects the spousal benefit, both Jill's suspended benefit and Jack's untapped benefit continue to grow at 8 percent a year.
- At age 70, when their benefits stop increasing at 8 percent a year, Jill restarts her benefit and receives 132 percent of her original Primary Insurance Amount (PIA).
- Jack's spousal benefit stops, so he files for his own benefits, also 132 percent of his original Primary Insurance Amount (PIA).

In the four years they used this strategy, Jack and Jill received $48,000 in benefits while their monthly benefits for the future grew by 8 percent a year. Not bad.

Often, the women I talk with debate when to take Social Security based on what they figure their life expectancy will be. Clearly, that exercise can ratchet up emotion. If a client is very ill, smokes or has parents who died young, you might want to reconsider the strategy of waiting until, or beyond, FRA to collect benefits. However, in most cases, the decision is best made by considering the math. So, I come back to the fact that 8 percent risk-free annual growth is hard to turn your back on. What your client might forgo collecting from age 62 to 66 or even age 62 to 70 will likely seem a small price to pay for what is essentially a greater, guaranteed lifetime income stream.

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