WHEN TO START TAKING YOUR SOCIAL SECURITY RETIREMENT BENEFIT

Social Security is one of the largest programs administered by the federal government. Nearly 58 million Americans currently receive benefits. These benefits will total about $820 billion annually. Retirement benefits (paid to retired workers and their dependents) make up about 70% of that figure.[1]

The decision as to when to take benefits is a very important one for a retiree. This inflation-adjusted income stream may make up a material amount of a retiree's cash flow. In the current low interest rate environment, this income stream takes on even more importance.

Social Security is misunderstood by many of its beneficiaries. Consequently, thousands of retirees, their spouses and their families are not taking maximum advantage of their benefit.

As a worker, the earliest you, or your spouse, can begin receiving retirement benefits is age 62. If you start collecting your Social Security payments before your full retirement age (FRA), under current rules you will receive a reduction in your monthly benefit. The table below outlines FRAs[2] and shows the approximate reduction in retirement benefits that occurs if you elect to receive payments beginning at age 62.

Conversely, if you elect to begin receiving benefits after your FRA, you should see a increase in your monthly payments. The longer you wait, the more your Social Security benefit is likely to increase (regardless of any inflation adjustment). This increase in benefits does end when you turn age 70. Therefore, it probably makes no sense to delay receiving Social Security benefits beyond age 70. You can see the approximate increase in benefits received if you wait until age 70 to begin receiving them in the table below.

YEAR OF BIRTH	FULL RETIREMENT AGE	AGE 62 Approx. Benefit Reduction[2]	AGE 70 Yearly Increase[3]
1937 or earlier	65	20.00%	6.5%
1938	65 and 2 months	20.83%	6.5%
1939	65 and 4 months	21.67%	7.0%
1940	65 and 6 months	22.50%	7.0%
1941	65 and 8 months	23.33%	7.5%
1942	65 and 10 months	24.17%	7.5%
1943 – 1954	66	25.00%	8.0%
1955	66 and 2 months	25.83%	8.0%
1956	66 and 4 months	26.67%	8.0%
1957	66 and 6 months	27.50%	8.0%
1958	66 and 8 months	28.33%	8.0%
1959	66 and 10 months	29.17%	8.0%
1960 and later	67	30.00%	8.0%

[1] http://www.socialsecurity.gov/pressoffice/basicfact.htm
[2] http://www.socialsecurity.gov/retire2/agereduction.htm
[3] http://www.socialsecurity.gov/retire2/delayret.htm

Depending on your FRA and when you elect to start taking your benefit, the monthly payments can be significantly larger or smaller.

Even if you don't have a work history long enough to qualify for a benefit on your own record, you still may be able to receive a spousal benefit. Generally, a spousal benefit can be received any time after the spouse reaches age 62. Similar to the worker's benefit, under current rules a spousal benefit is reduced if the spouse begins to receive it before their FRA. However, unlike the worker benefit, there is no increase in benefit if the spouse waits beyond their FRA. Therefore, it generally is most effective for a spouse not to wait after their FRA to begin receiving a spousal benefit.

Currently, Social Security benefits are indexed to inflation. This adjustment helps maintain purchasing power of the benefit. The cost of living adjustment (COLA) is based on the percentage increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W)[4].

There are several factors to consider when deciding when to begin receiving Social Security benefits. It is especially important for married couples to plan and coordinate when they receive their respective benefits. Every family situation is different, and individual consultation with a financial advisor is important. Here are some general issues to consider:

- Cash flow needs in retirement
- Other sources of income in retirement (i.e. investment portfolios, pensions, annuities, part time work, deferred compensation plans, etc.)
- Age of spouse
- Health of spouse
- Family history of longevity (or lack thereof)
- Work history
- Marital status and marital history
- Tax situation

Here are some common strategies around when to start taking social security, based on current rules for workers:

1. **TAKE BENEFITS EARLY.** Most Americans, in fact about 74% of all retired workers, have elected to receive their benefits before their FRA[5]. The most obvious advantage is that the inflation adjusted income stream starts earlier. The main disadvantage is that the monthly payment is reduced. In some situations the need for an earlier income stream is greater than the benefit for waiting later in life. In situations like this, monitoring cash flow may become especially important.

2. **TAKE BENEFIT AT FRA.** By waiting until your FRA, you or your spouse can claim the full benefit. This is a middle of the road strategy that neither bets on a long or short life expectancy. The timing and amount of the cash flow is also meant to seek a middle ground.

3. **TAKE BENEFIT AT AGE 70.** By waiting every year after the FRA, you may receive an increase in your benefit. These increases cease at age 70. If you can wait, it may be an effective strategy to wait until age 70 to receive the maximum benefit available. A question that comes up quite often is "For how long do I have to receive benefits before it makes sense to wait until age 70 as opposed to taking them at my FRA or earlier?" The answer to this question is a little more complicated than it may seem. Not only should your life expectancy be taken into account, but your spouse's as well. This is because a surviving spouse may take your benefit in place of his or her benefit (be it spousal or their own primary benefit). Therefore, depending on the situation, it may be effective to wait to receive the maximum worker's benefit, not for the worker, but ultimately for the surviving spouse. Analysis of income sources, available assets and life expectancies should be carefully considered before selecting this option.

[4] http://www.socialsecurity.gov/cola/index.htm

[5] Social Security Administration Annual Statistical Supplement, 2012

4. **FILE AND SUSPEND.** This strategy can be very effective with spouses who have had one worker and are close in age or the same age. It may even be beneficial if one of the spouse's own work record wouldn't provide a benefit greater than a spousal benefit. When the higher income earning spouse or the worker (if the other spouse doesn't have an extensive enough work history) reaches their FRA, they file for their benefit and then suspend the claim. By filing for the benefit, the Social Security Administration can calculate the worker's benefit. After the worker's benefit is calculated the spousal benefit can be determined, since the spousal benefit is based on a percentage of the worker's benefit. By suspending the worker's benefit, the worker can keep accruing an increased benefit due to delayed retirement credits. The worker's benefit will keep increasing until he or she reaches age 70. Couples who employ this strategy need to have sufficient cash flow to fund their lifestyle until the worker, or higher earning spouse, turns age 70. Very often this strategy produces the most income over the spouses' lifetimes.

5. **FILE FOR ONE BENEFIT THEN ANOTHER.** This strategy is sometimes called "restricted application" or "free spousal benefit." This technique is most effective when it makes sense for both spouses to claim benefits based on their own work histories. When one spouse reaches their FRA, they file for spousal benefits only. This filing is sometimes called "restricted application." The filer is filing for a spousal benefit only. This type of filing allows for the spouse who is receiving the spousal benefit to continue to grow their own primary benefit (based on their own work history) through delayed retirement credits while they collect a spousal benefit. Once the spouse receiving the spousal benefit reaches age 70, they switch to their own larger worker's benefit (you can only receive one Social Security benefit at a time). The spouse who has yet to claim any benefit claims the benefit when they reach age 70 as well. If other sources of cash flow allow, this strategy may provide a very effective lifetime stream of income.

STRATEGY	CONSIDER USING WHEN
Take Benefits Early	Cash flow is needed to support lifestyle. Worker doesn't have a long life expectancy, and minimum survivor benefit is fine.
Take Benefits at FRA	Middle of the road strategy is desired. Doesn't bet on a long or short life expectancy.
Take Benefit at Age 70	Want maximum worker benefit. Want to maximize survivor benefit. Life expectancy is long.
File and Suspend	One spouse will use a worker benefit, and one will use a spousal benefit. Want to maximize worker benefit. Want to maximize spousal benefit.
File for One Benefit Then Another	Want maximum benefit for two workers. Want to collect a benefit while accruing delayed retirement credits.

Social Security is a complex benefit that can have a material impact on retirement cash flows. Because every family's situation is different, it is recommended that you have a discussion with your financial advisor about your particular situation to help determine the most effective strategy to help you meet your goals.

Please contact a Northern Trust professional if you would like assistance in making decisions about social security benefits. For more information about retirement, please visit northerntrust.com/retirewell.