The INVESTMENT LETTER

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When to put down the plow?

hat is retirement, and how is it defined? Up until the late 1800's retirement was mostly unknown, if you were alive, you worked; on your farm or business, until you died. If you were wealthy enough to not have to labor, you managed the farm or business. The idea of not working and having idle time to travel, play golf, or other pursuits was not common. Retirement is a relatively modern status. There are social reasons beyond enjoyment that make retirement a benefit to all. As people retire it makes jobs available to younger people, life expectancy has increased dramatically in the past 100 years, and the overall standard of living has increased beyond subsistence living. Not all people had, or have, the means of discipline to save for retirement. This led to the genesis of Social Security. As the workforce and retirees continue to age, and their needs change, Social Security has had to change as well. One of the current options is to accelerate or defer collecting benefits.

Social security benefits can be an important part of your retirement plan. It is unlikely that this income will be sufficient to cover all your living expenses in retirement and may represent a small portion of your overall wealth. Still, these payments can help with monthly expenses and, as a result, allow your investment portfolio to continue to grow, and compound, throughout retirement.

There can be confusion surrounding Social Security, especially regarding when

it is best to begin receiving benefits. Each person's situation is unique, but we wanted to take the opportunity to discuss a step-by-step approach to thinking about your Social Security benefits.

Understanding Social Security Basics

There are three types of Social Security benefits: Retirement Benefits, Survivor Benefits, and Disability Benefits. We will focus on Retirement Benefits here, as it is the most common type of Social Security benefits our clients ask about.

Retirement Benefits are just as the name implies: income paid to individuals to help meet living expenses in retirement. Social Security income is paid monthly once a person starts to receive the benefits and lasts for the remainder of that person's life. The monthly payment amounts are different for each person, determined in large part by your income while working and the age you began taking distributions. In general, the higher the income earned throughout one's life, the higher the Social Security payments will be in retirement. The Social Security Administration has a calculator online to help with this process, and a wealth of other information, which can be found here: https://www.ssa.gov/retire/estimator.html.

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Determining Full Retirement Age

In general, individuals can start taking Social Security benefits once they hit "full retirement age," which is determined by birth year. For those born in 1960 or later, the IRS has defined full retirement age to be 67. For those born in 1938 or earlier, on the other hand, the full retirement age is 65. For anything in between, full retirement age will range between 65 and 67. So, the next step is to determine what the IRS determines your full retirement age to be.

Understand Impacts of Beginning Early and Late

While the full retirement age is a target set by the Social Security Administration, it is possible to draw benefits earlier or later than this threshold. Notably, the age at which you begin receiving benefits, relative to your full retirement age, will affect the amount of monthly payments you will receive throughout the duration of your retirement. The Social Security Administration allows individuals to begin receiving benefits prior to the full retirement age. However, you will receive smaller monthly payments when you elect to receive the benefits at an earlier age. On the other hand, monthly payments will be larger when you delay Social Security benefits. You can delay Social Security benefits up to the age of 70.

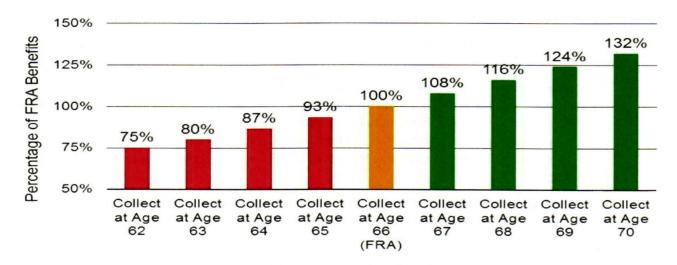
Deciding Whether to Take Social Security Benefits Early

By electing to take benefits early, you will receive as little as 75% of the full retirement age monthly benefits – a reduction that is certainly noticeable!¹ Nonetheless, there are some good reasons to take Social Security benefits early, especially because you would be receiving those payments for a longer period. Here are three of those reasons:

First, it may make sense to take Social Security benefits early when you have cash needs that are forcing you to make material withdrawals from your savings. In this case, by starting to receive Social Security benefits early, you are protecting your savings and may allow it to compound over time, throughout retirement.

Second, electing Social Security benefits at an earlier age may make sense if you are working

Collection Age Impacts Benefits



Source: Social Security Administration (www.ssa.gov). Assumes full retirement age of 66 and individual born in 1943 or later.

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part-time or at a lower wage. However, as your earned income increases it may make a portion of your Social Security benefit subject to income taxes, thus reducing your net benefit. Many people begin reducing their hours when they approach retirement for several different reasons. If you find yourself in this position, Social Security benefits can help supplement income and help meet daily expenses.

Third, if your anticipated life expectancy is lower than average, it certainly makes sense to begin receiving the benefits at an earlier age.

Deciding Whether to Take Social Security Benefits Late

For most of our Investment Counsel client's the more pressing question is should you defer collecting benefits. By deferring Social Security benefits, you may be able to increase your monthly payments to up to 130%. Still, because you would be receiving these payments for a shorter amount of years, it is important to review when it may be a good idea to delay.

First, delaying Social Security benefits may be a good idea when you currently have a high-paying job. The Social Security Administration uses a formula to compute monthly payments based on your lifetime earnings. As a part of that formula, it is possible to have your later, higher-paying years replace some lower-earning years from a younger age. Therefore, you may be able to increase your monthly payments both by delaying and because of a higher calculation of monthly payments based on your current job.

Second, deferring Social Security benefits may be a good fit when you have no problems meeting your liquidity needs and maintaining your lifestyle. As mentioned, by deferring payments, you increase the amount of monthly payments and can increase the cumulative amount paid over your life. If you don't have a problem meeting your cash needs, it may be wise to hold off for those higher monthly payments.

Third, deferring Social Security benefits is a good idea when you are in good health. Though none of us have a crystal ball, it is important to honestly assess your current health and any family health history. There is an important reason to do this: the longer you live, the more it makes sense to delay your Social Security benefits as much as possible.

Conclusion

Social Security can be a complex topic, but it is important to incorporate this additional income source into your retirement, and investment plan. Because the age at which we can begin receiving Social Security benefits is not set in stone, and varies by person, it is reasonable to have questions about when the best time is to start. Both early and delayed elections have their benefits, especially because both strategies can shield your other investment assets from withdrawals.

By no means, however, does this newsletter mean to be all-inclusive. We are always happy to discuss our client's specific situation and help make sense of how to best utilize Social Security benefits in retirement. On the previous page, is a simplified chart of the estimated impact of selecting Social Security benefits in advance of normal retirement age or deferring until a later date. If you find this to be complex, it is. However, if the alternative is to get behind a plow on the family farm, maybe this is worth the complexity.

¹https://www.forbes.com/sites/nancyanderson/2014/01/24/when-it-makes-sense-to-take-social-security-income-at-62/#203c7dff7a86