



By Erik Ford

For most of us, Social Security will play a role (large or small) in our retirement income and cash flow. The question, beyond the program's long-term viability, is how we maximize what we receive from Social Security over our lifetimes. This article will not dive deeply into specifics but is intended to provide a roadmap on what are the important questions to consider regarding your social security benefits. How you answer these and then act can have a measurable impact on your lifetime benefits.

If you are eligible for Social Security, you can start receiving benefits as early as age 62, but by doing so you will receive reduced benefits from what you are entitled to at your Full Retirement Age ("FRA"). Your full benefits are available to you at age 67 if you were born in 1960 or after. If you were born before 1955, your full retirement age is 66 and for years in between it gradually moves from 66 to 67. However, once you are FRA, you still do not have to take your benefits and there are good reasons to

delay if you can. Based on Social Security Administration data, 42% of men and 48% of women take benefits at age 62.

Taking benefits early can be costly as your benefits will be reduced by as much as 30% from your FRA benefit if you take your benefit at age 62 when your FRA is 67. Over time this can make a very big difference in cumulative benefits received in addition to the impact of smaller monthly amounts. The reduction in your benefits for taking them early gradually decreases as you get closer to FRA.


On the opposite end of taking benefits early, if you delay taking benefits beyond your FRA, your benefits will increase by 8% for each year delayed up to age 70. For an FRA of 66, this will result in a 32% higher benefit and for an FRA of 67, the increase is 24%. It does not take long for the higher benefits to make up for the time delay and foregone income of not taking benefits earlier.

In addition to reduced benefits, there are other penalties for taking benefits early. If you choose to work while taking your Social Security benefits, your benefits will be reduced in proportion to your income until you reach your FRA; however, the penalty goes away once you reach FRA. With longer expected lifespans and the potential for working longer because of healthier lifestyles and a robust job market, delaying taking your Social Security benefits until at least FRA, if not until age 70, can add considerably to your lifetime income from Social Security.

The above also affects spousal benefits. As the spouse to a qualified Social Security recipient, you are entitled to the higher of one-half of your spouse's benefit or the benefit you have earned on your own. As a result, the decisions made about when one spouse takes benefits can have a lifetime impact on the other spouse. The benefits for a surviving spouse steps up to the deceased spouse's full benefit, again pointing out the potential impact of maximizing your benefits, as the effect of that initial decision may outlive you by years. Another important factor for consideration is that the reduction in spousal benefits for starting early is greater than that for the primary beneficiary.


Regarding spousal benefits, there are a number of rules relating to marriage length and timing, divorce and remarriage. There are also rules specific to survivor benefits. We will not go into these details here due to space considerations. However, it is important to know that spousal benefits may be available to divorced spouses as well, subject to certain rules.

So how should you look at making these decisions? Health and life expectancy is probably the place to start. Obviously, if you have health issues that may impact how long you will receive benefits, it may indeed be to your advantage to start earlier,



Ford
Wealth Management LLC


Independence - Integrity - Insight



Erik G. Ford, CFP®, AIF®
Financial Advisor

800 Roosevelt Road
Building A Suite 240
Glen Ellyn, IL 60137

fordwealthmanagement.com
Office 630.545.2800
Mobile 312.804.9464
erik@fordwealthmanagement.com



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even before your FRA. An offsetting consideration will be the life expectancy of the spouse. If the spouse will be relying on spousal benefits, rather than their own benefits, and is expected to greatly outlive the qualifying spouse, delaying in order to increase the spousal benefit may be compelling. According to Fidelity, the economic breakeven for most people between starting benefits at age 62 and waiting until FRA or even age 70, ranges from the late-70s to early to mid-80s. Meaning if you expect to live beyond that age, you will likely be economically better off by waiting to start your benefits. Assumptions underlying these estimates are critical, of course.

The role we expect Social Security to play in our retirement planning is as unique as we are. For some, it may be a critical component to monthly income. For others, it may represent something for life's extras in retirement. Regardless, it makes sense to

determine the best way to fit your Social Security benefits into your retirement plan. For that reason, it is recommended that the above questions be reviewed with any retirement plan and a serious review of the numbers and your choices begin as early as your 50s. Seeking professional advice may be helpful to analyze your situation. According to Nationwide, Social Security recipients working with a financial advisor receive 20% more in benefits than those who do not.

Finally, a word about the financial viability of the Social Security program. Under current projections, the funding of Social Security will run into severe deficits in the 2030s. We cannot predict if our elected officials will address this before remedial action is forced on the system, but they have in the past (usually at the last moment). The system is immensely popular and reaches virtually every family, making it a very hot political issue. There are

adjustments that can be made to right the ship, but predictions are always dangerous. We can only go with what we know today.

You can create an account for yourself at SAA.gov and access your benefits information. Since benefits are based on your earning history, it is a good idea to check this on the site for accuracy.

Erik Ford is the owner of Ford Wealth Management LLC in Glen Ellyn, IL. He is a CFP® certificate holder as well as an Accredited Investment Fiduciary®.

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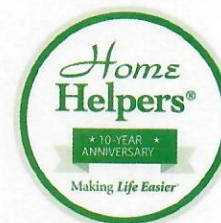
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