Great outcomes. Done well.

Making the most of your Social Security income

Wealth Management Insights | December 2013

For years, financial planners recommended a "three-legged stool" of pensions, savings and Social Security to fund retirement. However, for many Americans, that stool has become too wobbly for comfort: only 18% of private industry employees have a pension plan – down from 35% twenty years ago – and the median savings of those 10 years away from retirement is only $12,000. December's Wealth Management Insights looks at the third leg of the stool, Social Security, and steps you can take to maximize its benefits.

Those who can afford to defer filing for Social Security until age 70 will see a 76% increase in monthly payments, compared to those who file at 62.

What You Should Know:

1. **Your Social Security benefits are based on your highest 35 years of earnings, indexed for inflation.**
   - The Social Security Administration uses those earnings to compute your monthly primary insurance amount, taking into account changes in general wage levels.
   - You would receive your primary insurance amount every month if you retire at Full Retirement Age, which for those born between 1943 and 1959 is 66 years old. Those who retire at 62 – the earliest you could file for benefits – would see a 25% reduction in their primary insurance amount, while those who wait until age 70 – the latest you could file – would receive 32% more than their primary insurance amount.
   - Social Security pays survivor beneficiaries to your dependents, which can include your dependent spouse, children and even parents.
2. **2014's Social Security benefits will include a 1.5% cost of living adjustment, raising the average monthly payment to $1,290.**
   - This adjustment is in line with previous years, though below its 4% average.
   - The relatively small increase reflects how stagnant consumer prices have been in the past year. For example, gas prices are down more than 2% from a year ago, and food prices are up only slightly. ▶

3. **Often, the longer you wait to file for Social Security, the better.**
   - Those who can afford to defer filing for Social Security until age 70 will see a 76% increase in monthly payments, compared to those who file at 62.
   - Currently the tipping point is approximately age 78: if you wait until age 70 to file for Social Security, by roughly that age you will have made up for the income you missed by not filing earlier.
   - Not everyone should delay filing. Life expectancy, other savings, taxes and estate planning are all factors to consider when deciding when to file. Depending on the individual, it may make more sense to file sooner rather than later.

What you should do now:

There's no question Social Security is an important piece to the retirement planning puzzle: in 2010 it made up more than 36% of seniors' income, greater than any other single source. Taking steps to maximize your Social Security income could go a long way to affording the retirement you want. Your Baird financial advisor has tools to help ensure your Social Security distribution, as part of a larger retirement plan, is right for your unique situation. ■