A Decision Framework for Optimizing the Social Security Claiming Age

by Kenn Beam Tacchino, David A. Littell and Bruce D. Schobel, CEBS

The age at which an individual chooses to start Social Security retirement benefits can be arguably the most significant factor in his or her ability to maintain financial security throughout retirement. Unfortunately, some financial advisors erroneously believe the client should maximize years of payments from Social Security, whereas others focus exclusively on a present-value break-even age, or money's worth, analysis. In contrast, the authors argue that basing the decision on only one way of looking at the question is insufficient and propose that practitioners use a comprehensive decision model that accounts for the net present value, longevity risk and Social Security legal strategies in properly framing the solution. Planners working with clients need to set out all the options before clients can select the factors they value the most for their unique situation.

Academics and practitioners in the personal financial planning discipline, as well as workers themselves, have long struggled with the question of the optimal age at which an individual should claim Social Security retirement benefits. For an individual retiring today, a claiming age of 62 (the earliest possible by law) will give him or her a monthly benefit equal to 75% of the primary insurance amount.[1] If, however, the same individual were to wait until the age of 70[2] to collect Social Security retirement benefits, he or she would receive 132% of the primary insurance amount.[3]

For example, consider Joe, who was born in January 1950 and attained the age of 62 in 2012. He has earned the national average wage in every year of his working life. If Joe claims Social Security at the earliest possible moment, he will receive $1,140 per month. If he defers collecting Social Security benefits until he reaches the age of 70 (in 2020), he will receive $2,007 per month. His age-of-70 monthly benefit would be at least $867 larger than his age-of-62 benefit—and could be much more than that if we were to factor in cost-of-living adjustments (COLAs) and potential increases in his benefit due to additional earnings he had during that period.

Or consider Betty, another hypothetical worker, who was born in 1950 but earned the maximum taxable amount under Social Security for every year of her working life. If Betty claims her Social Security benefit at the age of 62, she will get $1,793 per month. But if she waits until the age of 70, she will get at least $3,156 per month. That is a $1,363 difference per month that may be even larger when we factor in COLAs and extra earnings. From these facts alone, it becomes apparent that the age at which an individual chooses to start Social Security retirement benefits can possibly be the most significant factor in his or her ability to maintain financial security throughout retirement.

Research concerning the claiming-age decision has focused to date on recommending discrete solutions based on how the issue is framed. For example, the largest amount of research centers on the net present value, or money's worth, model and tries to discern a break-even age at which the claiming-age decision would be more financially beneficial to the individual or couple. Under this approach, it is assumed that the individual's or couple's primary purpose is to achieve the maximum payout possible. Individuals who elect to begin receiving Social Security benefits before full retirement age get more monthly checks than if they waited, but each check will be smaller.[4] So the question is: Which option pays more if the individual or couple lives to a certain age? Compounding the difficulty of this analysis are complex rules that apply to the survivor benefits of married individuals.[5] Nonetheless, researchers have made significant strides in identifying the factors that need to be considered to reach an optimal choice for both single individuals and married couples when the paradigm is framed in present-value terms.

A few other researchers have focused on a longevity risk component to the claiming-age decision process. They reason that to minimize longevity risk we need to maximize the monthly payments at the age of 70 and beyond.[6] This expansion of the literature identifies the need to factor the insurance value of the claiming-age decision. In other words, we should be framing the decision on the "big picture" approach to retirement security, not a dollars-and-cents assessment. For example, Meyer and Reichenstein, 2010, have shown us that delaying the start of Social Security benefits can extend the portfolio's longevity.[7]

Another stream of research in this area focuses on strategies available under Social Security laws as a way to frame the question and consequently make the optimal decision. One set of this "strategy research" focuses the claiming-age decision around opportunities within the Social Security rules to receive one of three types of benefits (worker benefit, spousal benefit or survivor benefit) and the interaction of timing these options. For example, Munnell et al., 2009a, show the spousal benefit rules at full retirement age (but not if spousal or worker benefits are claimed prior to that age) enable the spouse who has the highest lifetime earnings within a couple to claim a spousal benefit and defer claiming his or her retired worker benefit to a later age. This can be advantageous because the higher earner's retirement benefit will be increased through delayed retirement credits until the age of 70. Depending on the couple's situation, this strategy can lead to significantly higher total Social Security income over the couple's lifetime (see further discussion below in Checklist 2 and Checklist 5). No matter which strategy or strategies are used, however, the strategy stream of research plays an important role in framing the claiming-age issue and helping the client to make the most effective choice.

Despite all the exceptional work done to pinpoint the best claiming age (see reference list), academics and planners still lack a comprehensive decision model that combines the streams of research from all three areas defined above. In order to best serve the client's needs, we propose that practitioners use a comprehensive decision model that accounts for the net present value, longevity risk *and* Social Security legal strategies in properly framing the solution. It is not sufficient to base the decision on only one way of looking at the question. Planners working with clients need to set out all the options before a client can select the factors that he or she values the most for his or her unique situation.

RETIREMENT CLAIMING RULES

The premise of the claiming-age decision is that by starting to receive Social Security retirement benefits at any age other than the full retirement age, individuals will permanently increase or decrease the monthly benefits they are entitled to receive. In order to properly assess the optimal claiming age, any decision model must first consider the Social Security program's key rules. However, before we even begin to catalog these rules a warning must be issued. To remain valid, our model mandates that the planner give a caveat to clients that the claiming-age strategy is contingent on the status quo, and any alteration of the status quo may have an impact on the validity of the decision.

Regardless of the fact that the claiming-age choice may be affected by changes to the law, our decision model is obligated to account for the rules as they currently exist. These rules can best be categorized into three lists: a list that applies to the factors affecting worker benefits that concerns both individuals and couples (Checklist 1), a list that applies to the factors affecting spousal retirement benefits (Checklist 2) and a list of factors affecting survivor benefits for married individuals (Checklist 3).

Checklist 1: Factors Affecting the Worker's Retirement Benefit

- **Benefit calculation:** A worker's retirement benefit is based on a formula referred to as the *Primary Insurance Amount (PIA)*. An eligible worker can receive at full retirement age a monthly benefit of 100% of the PIA. The PIA is tied to average indexed monthly earnings (AIME) and a specific benefit formula. For workers becoming eligible for retirement benefits in 2012, the PIA formula is the sum of:

a. 90% of the first $767 of AIME, plus
b. 32% of AIME over $767 and through $4,624, plus
c. 15% of AIME over $4,624.

It is important to note that the indexed formula used to determine a worker's PIA is the benefit formula for the calendar year in which the worker turns the age of 62—even if benefits are paid out after that date.

- **Earnings:** As earnings from employment impact the worker's benefit amount, there are a number of important observations about the calculation of AIME. First, wages are those subject to Social Security taxes. This means that wages are capped at the taxable wage base ($110,100 in 2012), and benefits do not reflect earnings above the wage base. Also, average wages are based on the highest 35 years of wage history. If an individual has fewer than 35 years of wages, those years count as zero earnings and bring down the average wages. Wages earned up to the age of 60 are indexed for inflation when determining average wages; wages earned after that are not indexed. Finally, as long as a person works and has covered earnings, those higher earnings can increase benefits if current wages increase the calculation of AIME, even for those individuals in pay status.
- **Age benefits begin:** Social Security benefits begin when an eligible worker applies for benefits. A worker applying to begin benefits at full retirement age (also called *normal retirement age*) will be entitled to 100% of the PIA. Full retirement age depends on the year of birth. For example, anyone born from January 2, 1943 through January 1, 1955 has a full retirement age of 66. Regardless of the full retirement age, a worker can choose to begin benefits as early as the age of 62. Starting benefits early, however, results in a permanent reduction in benefits. In the case of a claiming before full retirement age, a retired worker's benefit is reduced 5/9 of 1% of the PIA for each month before full retirement age, up to 36 months. If the number of months exceeds 36, then the benefit is further reduced 5/12 of 1% for each such month. For example, a person who retires three years early will receive 80% of the PIA as a monthly benefit amount. In the case of claiming after full retirement age, a benefit is increased 2/3 of 1% of the PIA for each month for anyone born after 1942. For example, a person who delays one year beyond full retirement age will receive a monthly benefit equal to 108% of the PIA. However, there is no actuarial increase after attaining the age of 70 and no advantage to claiming benefits beyond that age.
- **Automatic increases in benefits:** COLAs are applied to an individual's monthly benefit. COLAs are tied to the consumer price index for urban wage earners and clerical workers (CPI-W). COLAs are effective with monthly benefits for December, which are normally paid in January. In December 2005 (payable in January 2006), the increase was 4.1%; in December 2006, 3.3%; in December 2007, 2.3%; in December 2008, 5.8%; in 2009 and 2010, there were no cost-of-living increases due to inflation being negative over the applicable measuring periods; and in 2011, the COLA was 3.6% (payable starting January 2012).
- **Earnings after Social Security benefits have begun:** If a worker receives Social Security benefits prior to attaining full retirement age and receives income from current employment or self-employment, there can be mandatory suspension of all or a portion of Social Security benefits (under the provision referred to as the *earnings test*). In 2012, the annual exempt amount under the earnings test is $14,640 if the individual is below full retirement age. In the calendar year the individual reaches full retirement age, the annual exempt amount is $38,880, but it applies only to the months before the individual reaches full retirement age. If the individual is below full retirement age, $1 in benefits will be deducted for every $2 in earnings above the annual limit. In the year the individual reaches full retirement age, $1 in benefits will be deducted for each $3 above the limit. If the earnings test does result in a reduction in benefits, the individual's benefit is recalculated at full retirement age as if the individual actually retired later, based on the number of months that benefits were lost. Also, note that the mandatory suspension under the earnings test no longer applies once an individual attains the full retirement age, meaning that an individual can earn full benefits and have an unlimited amount of additional earnings.
- **Windfall elimination provision:** The windfall elimination provision affects workers who earned a pension in any job where they did not pay Social Security taxes and also worked in other jobs long enough to qualify for a Social Security retirement or disability benefit.[8] Since

such workers can inappropriately appear to be low-income workers (since they are likely to have substantially fewer than 35 years of earnings covered by Social Security), the benefit formula is substantially reduced for most with dual benefits. The general rule is that the 90% factor in the PIA formula is reduced to 40%. The formula is not reduced for an individual with 30 or more years of "substantial" earnings covered by Social Security, and is modified if the individual has 21 to 29 years of substantial earnings. This reduction does not appear on Social Security statements, so individuals may not be aware of the reduction until they apply for benefits.

- **Potentially important minutia**: Three application rules can have an impact on benefits:
  1. Retired workers must be eligible for benefits for an entire month in order for Social Security benefits to be paid for that month. People born on the second day of any month are deemed to have attained their next age on the first day of the month in which they were born, so those workers can receive Social Security benefits for the month in which they reach age 62. All other workers must wait until they are aged 62 years and one month, because that's how old they are in their first full month of eligibility. The actuarial reduction factor for an individual claiming at that age is slightly smaller than at the age of 62.
  2. Under Social Security's rules, an individual "attains" an age on the day before the applicable birthday. Thus, an individual who is born on January 1 has the same full retirement age as if he or she were born in the previous year (e.g., someone born on January 1, 1957 will have a 66 and four months full retirement age but someone born, for example, on January 18, 1957 will have a 66 and six months full retirement age.
  3. If a person were born on the first of the month, Social Security figures benefits as if the person were born in the previous month.
- **Tax treatment of Social Security benefits:** Social Security benefits are tax-free if the taxpayer's provisional income is below $25,000 (single) or $32,000 (married, filing jointly). If the provisional income is between $25,000 and $34,000, up to 50% of benefits for single taxpayers may be subject to federal income tax. If the provisional income is between $32,000 and $44,000, up to 50% of benefits for married taxpayers who file jointly may be taxed. If provisional income exceeds $34,000 (single) or $44,000 (married filing jointly), then up to 85% of Social Security benefits may be taxed. For married people who did not live apart but file separate income tax returns, these thresholds are zero. Provisional income is the level of income used to determine whether a taxpayer is liable for tax on his or her Social Security benefits. *Provisional income* equals adjusted gross income, plus certain tax-free income (e.g., income from municipal bonds), plus one-half of Social Security income.

The spousal benefit is not available until the worker has applied for the worker's benefit. However, a worker may apply and suspend immediately, without actually receiving benefits. This allows the spouse to claim, while the worker defers benefits until later. ◄

Checklist 2: Factors Affecting Spousal Retirement Benefits

- **Spousal benefit:** Once a worker's retirement benefit has been claimed, an eligible spouse is entitled to a spousal retirement benefit. The benefit generally requires that the couple has been married for at least one continuous year just before the worker filed the application for benefits and the spouse is at least aged 62; however, benefits can be paid to a younger spouse if caring for a dependent child under the age of 16 (or over 16 if the child is disabled). The benefit payable to a spouse is 50% of the worker's PIA as long as the spouse has attained full retirement age or is caring for a dependent child. Otherwise, benefits that begin early are subject to an actuarial reduction. Unlike the worker's benefit, there is no actuarial increase for benefits beginning after full retirement age, meaning that there is no incentive to wait past full retirement age to begin the spousal benefit.

- **Additional family benefits:** When a retired worker has dependents other than the spouse, the family may be entitled to additional benefits as long as those dependents remain eligible to receive benefits. Generally, unmarried children under the age of 18 are entitled to benefits, and the child's benefit will continue until the age of 19 as long as a child is a full-time student in secondary school. In addition, disabled children of any age are eligible for benefits as long as they were disabled before reaching the age of 22. When there are three or more benefits paid on a single worker's wage history, a family maximum benefit amount will apply.
- **Spousal benefits beginning early:** In the case of a spouse claiming before his or her full retirement age (except if caring for a dependent child), the spousal benefit is reduced 25/36 of 1% for each month before full retirement age, up to 36 months. If the number of months exceeds 36, then the benefit is further reduced by 5/12 of 1% for each such month. For example, a person who has a full retirement age of 66 and claims a spousal benefit at the age of 62 will receive 35% (70% of 50%) of the other spouse's PIA.
- **Dependence on worker's benefits:** The spousal benefit is not available until the worker has applied for the worker's benefit. However, a worker may apply and suspend immediately, without actually receiving benefits. This allows the spouse to claim, while the worker defers benefits until later.
- **Spousal benefits divorce rule:** A divorced spouse aged 62 or older is eligible to receive spousal benefits as long as the divorced spouse is unmarried and the marriage had lasted for at least ten years. The divorced spouse can even begin benefits before the worker claims benefits, as long as the worker is aged 62 or older and fully insured, and the couple has been divorced for not less than two consecutive years. Generally, the divorced spouse is not entitled to benefits if he or she remarries someone other than the former spouse, unless the latter marriage ends (whether by death, divorce or annulment), or the marriage is to a person entitled to certain types of Social Security auxiliary or survivor's benefits.
- **Earnings test and spousal benefits:** The earnings test (described above in Checklist 1) applies to spousal benefits. The worker's excess earnings reduce the entire family benefit (worker, spouse, other family members). The spouse's excess earnings reduce only the spouse's benefits.[9]
- **Termination of spousal benefits:** Spousal benefits end at the death of the covered worker. However, at that point survivor benefits (see the next checklist) become available.
- **Eligibility for multiple benefits:** Married beneficiaries may be eligible for either a worker's benefit or a spousal benefit. However, when a worker has applied (or is deemed to have applied) for his or her own benefit, then that benefit is always paid, and any spousal benefit is reduced dollar-for-dollar by that worker's benefit, before actuarial reductions. Note that the actuarial reductions that apply to retired-worker and spousal benefits are different, so the fact that a worker's benefit is payable almost always affects the monthly benefit amount, even when the spousal benefit is larger.
- **Timing of application for spousal benefits:** Individuals must apply for spousal benefits. Under the deemed-filing provision, an application for a spousal benefit prior to full retirement age is deemed to be an application for the worker benefit and vice versa. In other words, if a married individual is claiming before full retirement age, the Social Security Administration assumes he or she is claiming both retired-worker and spousal benefits and awards both, if eligible, with appropriate reduction of the spousal benefit. However, upon turning full retirement age, the individual who has not yet claimed benefits can choose which benefit to receive. This means that a spouse who has attained full retirement age can apply for a spousal benefit and later apply for a worker's benefit. This option is not allowed if the spouse applies for either benefit prior to full retirement age (Munnell et al., 2009a).

Checklist 3: Factors Affecting Survivor Benefits for Married Retirees

- **Purpose of survivor benefits:** Social Security survivor benefits serve a number of purposes. For younger families, they can provide support for dependent children, spouses caring for these children and even, in rare cases, dependent parents. However, the bulk of survivor benefits are paid to widows and widowers in situations in which the worker had already retired and was receiving benefits. Here, we focus on survivor benefits for retired married spouses. This benefit is referred to as the *widow(er) benefit*.
- **When a widow(er) is entitled to a survivor benefit:** A spouse aged 60 or older (50 and older if disabled) who was married to the worker for at least nine months (with a number of exceptions)

is entitled to a widow(er) benefit. Benefits beginning before full retirement age are generally subject to a reduction in benefits.

- **Divorced spouse:** A divorced spouse aged 60 or older (or aged 50 if disabled) is eligible for a widow(er) benefit if the marriage lasted ten years or longer. In general, an individual cannot receive a divorced widow(er) benefit if he or she remarries before the age of 60 (50 if disabled) unless the latter marriage ends, whether by death, divorce or annulment. Remarriage after the age of 60 does not disqualify the former spouse from eligibility for the widow(er) benefit from the former spouse.
- **Amount of spousal survivor benefits:** The widow(er) benefit is generally 100% of the worker's PIA. However, there are two significant factors that can change this benefit. First, if the worker had begun to receive a retirement benefit either before or after full retirement age, the spouse will receive the adjusted benefit that the worker was receiving, as long as the spouse begins the widow(er) benefit after attaining full retirement age. This is an extremely important consideration for the timing of the worker's benefit, as the spouse "inherits" the worker's decision to take benefits early or late. Second, there is also a reduction factor for the spouse taking benefits before full retirement age (unless the spouse is disabled). Benefits are reduced for each month of entitlement between the age of 60 and full retirement age. The calculation of the benefit becomes more complicated if the widow(er) begins benefits early and the worker began benefits early or late.
- **Effect of government pensions on survivor benefits:** The windfall elimination provision (discussed above in Checklist 1) can reduce a worker's retirement benefit but not the survivor's benefit. What this means is that the widow(er)'s benefit is refigured using the regular Social Security benefit formula when the worker dies. However, when it is the spouse and not the worker that has a pension from noncovered employment, the widow(er) benefit is subject to the same reduction that applies to spousal benefits.
- **Surviving spouse receiving a worker's retirement benefit at the time of death:** A surviving spouse receiving a retirement benefit will continue to receive that benefit. If that benefit exceeds the widow(er)'s benefit, there will be no widow(er)'s benefit payable. If the benefit exceeds the worker's benefit, the widow(er) receives the larger benefit, but technically the worker's benefit is paid and the difference is payable as the widow(er) benefit.
- **Widow(er) becoming eligible for a worker's retirement benefit:** A widow(er) who collects survivor benefits has the option to switch to his or her own worker's retirement benefit, assuming the widow(er) has attained at least the age of 62 and the retirement benefit is higher than the widow(er)'s benefit. This option can be an important one for the widow(er), who may be able to collect the survivor benefit to make ends meet, while increasing the value of the deferred worker's benefit.

NET PRESENT VALUE AND THE BREAK-EVEN AGE

The most common way in which the claiming-age decision is made is to examine which claiming age provides the greatest net present value of lifetime benefits. Essentially, the net-present-value approach compares the net present value of X dollars for Y months (early start) to the net present value of "X plus" dollars for "Y minus" months (later start). Many who have researched focusing on this methodology agree that the actuarial reductions or increases embedded in the Social Security system provide an approximately actuarial equivalent for a person with an average life expectancy, (ignoring gender-based differences, which Social Security must ignore as a matter of law).[10] In other words, at first blush it seems that it does not matter when to start benefits. Upon closer examination, however, present-value analysis is relevant to a variety of individuals. For one thing, individuals are not statistics on an actuarial table. Some will live longer, some not, and their perception about that fact makes the net-present-value consideration a relevant inquiry. For a second thing, survivor benefits for a widow or widower will be affected by the starting date (see Checklist 3).

McCormack and Perdue, 2006, point to five factors that need to be part of the equation when performing a net-present-value analysis. These are:

1. An appropriate discount rate. (Researchers use 3%, 4% and the Treasury inflation-protected securities, or TIPS, rate among other things.)
2. The personal life expectancy for the individual. (McCormack and Perdue emphasize that family health history and lifestyle should play a major role in this assessment.)
3. The earnings test (which may reduce benefits taken at or prior to full retirement age; see Checklist 1)

4. The income taxation of Social Security benefits (because of the presence of other income)
5. The spousal survivor benefit opportunity.

Muksian, 2004, adds COLAs to the list as another key factor and also points out that an individual could spend early retirement benefits, save early retirement benefits, or save the postincome tax amount of early retirement benefits and this should also be factored into the analysis. Mahaney and Carlson, 2008, indicate expenses should also be factored into the net-present-value inquiry. Checklist 4 provides a list of factors that should be considered when performing a net-present-value analysis.

If the client is focused on protection against portfolio failure and financial distress at advanced ages, then strategies that lead to maximizing individual or survivor's benefits should be strongly considered despite the fact that a client may die before the break-even age and "lose" money. ◄

Checklist 4: Factors Needed for a Net-Present-Value Analysis

- Choose an appropriate discount rate. (It may be advisable to model several discount rates since a small change can affect the desirability of a given claiming age.)
- Determine the appropriate life expectancy to see if the client(s) will surpass or fall short of the break-even age.
- Factor in any impact the earnings test may have.
- Factor in any impact the income taxation of Social Security benefits may have.
- Factor in the issue of a spousal survivor benefit (for couples). The compounding effect of COLAs over longer life expectancies makes the actuarial reduction of early claiming even more severe in nominal terms.
- Factor in the impact of COLAs on the break-even age.
- Factor in the issue of spousal benefits (for couples).
- Factor in the impact investment fees may have.
- Factor in what the individual intends to do with the "early claiming" money. Will he or she spend it, save all of it, save the after-tax amount or use a hybrid approach to saving it? Factor in the investment value of the individual's Social Security benefits (or the fact that he or she pulls less from other invested assets).[11]
- If a person opts for a later claiming, he or she may or may not withdraw less from the financial portfolio in the preclaiming years to attain his or her spending goal. The depletion of these assets should be factored into the break-even analysis.

LONGEVITY RISK

Mahaney and Carlson, 2008, believe that the claiming-age decision should incorporate longevity risk. They also point out the benefits of delaying each year after full retirement age and the compounding effect that delay has on COLAs.[12] If the client is focused on protection against portfolio failure and financial distress at advanced ages, then strategies that lead to maximizing individual or survivor's benefits should be strongly considered despite the fact that a client may die before the break-even age and "lose" money. If claiming age is an insurance decision and not an investment decision, then the claiming issue evolves into a consideration of whether increased and cost-of-living-adjusted Social Security benefits would be a better "annuity" than any commercially available annuity product. In other words, so long as the major concern is longevity protection, the question becomes what is the best mechanism for providing that protection.

Most experts agree that the delayed-claiming Social Security "annuity option" is the best choice for three reasons.[13] First, commercial annuities have fees and other charges that are not applicable to the Social Security annuity option. Second, an individual would be hard-pressed to find a commercial product available with the COLA feature equal to Social Security's COLA feature. Finally, when spousal survivor benefits are a consideration, the Social Security opportunity will most likely be superior to any annuity strategy. The planner's problem, however, will probably be convincing an individual or a couple that the choice of a claiming age is an insurance decision rather than a "money's worth" decision. Planners may find it helpful to point to other forms of insurance such as a homeowner's policy when communicating with clients. In the case of homeowner's insurance, it is unlikely that anyone would complain they didn't get their money's worth from the policy because their house did not burn down. They would be content with the protection from catastrophic loss and happy they did not have to endure the catastrophe. Planners need to show clients that a lack of retirement income adequacy is a real and potentially catastrophic concern.

It also may be helpful for planners to remind clients about statistics from the Retirement Security Projection Model produced by the Employee Benefit Research Institute (EBRI)[14] and the National Retirement Risk Index produced by the Boston College Center for Retirement Research.[15] These and other indicators paint a bleak picture of financial sustainability throughout retirement, and the inference can be made that annuities and Social Security may be among very limited options available to clients facing financial shortages. It is incumbent on planners to explain to clients that the viewpoint of "losing money" if they die after the age of 62 but before either the claiming age or the break-even age is only one way to look at the decision. Insurance from extreme poverty in old age will most likely be more important than extra dollars to enhance a lifestyle in the early years of retirement.

STRATEGIES

The strategies central to the claiming-age decision provide for some interesting planning opportunities. For example, there are myriad strategies that can be applied to a married couple's situation. In every case, all applicable strategies become part of the thinking when the claiming-age decision is being considered.

Checklist 5: Strategies

- **Widow or widower strategy:** Meyer and Reichenstein, 2010, illustrate that a widow(er) can begin benefits based on her earnings record and later switch to survivor benefits, or begin survivor benefits and later switch to her record (which will reflect an 8% per year actuarial increase for every year she waits). As the Social Security Administration puts it, "Widows and widowers can take a reduced benefit on one record and later switch to a full benefit on the other record. For example, a woman could take a reduced widow's benefit at the age of 60 or 62 and then switch to her full (100%) retirement benefit when she reaches full retirement age. If you already are receiving a reduced benefit and you then are widowed, you may want to wait until full retirement age to claim survivor's benefits. Then your benefits as a survivor will not be reduced for your age. They may be reduced, however, if your deceased spouse took benefits early and was receiving reduced benefits."[16]
- **Claim now, claim more later strategy:** Munnell et al., 2009a, examine how an individual can claim the spousal benefit (as long as the worker has claimed benefits) when he or she attains full retirement age and continue to accrue actuarial increases in his or her worker benefit. Using the spousal benefit to "top up" the worker benefit allows for half a loaf now and a loaf equal to 132% later (assuming an age of 66 full retirement age). For example, the higher earning spouse could claim a spousal benefit on the lower earning spouse's benefit at full retirement age and then switch to his or her actuarially increased benefit at the age of 70.
- **File and suspend strategy:** In a second article, Munnell et al., 2009b, review the *file and suspend strategy*. This strategy is predicated on the rule that a spouse cannot claim a spousal benefit until the working spouse claims his or her benefit. Under claim and suspend, the working spouse who has reached full retirement age (recall that claiming before full retirement age will not accomplish the intended result because of the deemed-filing provision) will claim and then immediately suspend his or her benefit. This allows the nonworking spouse to take Social Security spousal benefits even though the working spouse continues to accrue delayed-retirement increments. For example, if the husband, a college professor, intends to continue working until the age of 70, he can claim and suspend his benefits at the age of 66 (his full retirement age) to let his 62-year-old wife begin claiming her spousal benefit.
- **Triple-dip strategy:** Munnell and Soto, 2007, show us an opportunity for the spouse with the lower Social Security benefit to maximize what he or she may get from the Social Security system. The spouse with the lower Social Security benefit may consider claiming benefits from his or her own earnings history at the age of 62 and, once the person's spouse retires, he or she will get 50% of the spouse's benefit.[17] From a woman's perspective, the decision regarding when to claim does not affect the survivor benefit, because it is solely determined by the husband's earnings history, and any actuarial reductions or increases to the husband's primary insurance amount will be reflected in the survivor benefit.

For this reason, a spouse may have the opportunity to step up his or her benefit two times during retirement.

- **Maximize the survivor benefit strategy:** Sass, Sun and Webb, 2007, show us that it may be in a couple's best interest to delay the primary worker's Social Security benefit as late as possible because the larger benefit is passed on to the surviving spouse if the primary worker dies first.
- **Minimize the "tax torpedo" strategy:** Cunningham and Erickson, 2009, show us how to minimize the *tax torpedo.* The so-called tax torpedo is initiated when other taxable retirement income combines with Social Security income to drive the provisional income levels to trigger taxation (or increased levels of taxation) of Social Security benefits. The tax torpedo is initiated when a low initial threshold of taxable income is added to the Social Security income and the torpedo triggers increases in marginal tax rates.[18] If, for example, spouses are in the 25% marginal bracket, they must pay 25% on a qualified plan dollar in ordinary income tax and 21.25% (1 × .85 × .25%) on the Social Security dollar (total 46.25% marginal tax rate—plus state and local taxes on the qualified plan income, though usually not on the Social Security benefits).[19]

  One way to minimize the tax torpedo is to minimize the years a client is exposed to it. Therefore, trading retirement asset income for Social Security income can create a reverse tax torpedo and reduce taxes since Social Security income only counts at 50% in provisional income. In other words, much larger amounts of Social Security can be received before the provisional income thresholds are met. When trading a retirement asset dollar of income for a Social Security dollar, not only is the retirement asset dollar no longer present (and thus no tax is due), but less Social Security income is subject to taxation.[20] Another way of looking at this is that if Social Security benefits begin at the age of 70, less of the individual's Social Security will be taxed than if benefits begin at the age of 62, because smaller retirement savings withdrawals will be needed after the age of 70.[21]
- **Maximizing through suspension-of-benefits strategy:** Some individuals, especially those who have been involuntarily terminated, may be forced to begin Social Security benefits early. There are opportunities for these individuals who later go back to work (prior to the age of 70) to suspend benefits in exchange for larger benefits claimed at a later date. If an individual begins to receive benefits prior to full retirement age and earns too much, benefits are reduced under the earnings test (discussed in Checklist 1). Most see this as a complete loss of benefits, but it's actually a forced suspension. At full retirement age, benefits are automatically recalculated, assuming a later retirement age based on the number of months that benefits were suspended. For example, if under the earnings test an individual loses six months of payments, at full retirement age benefits are recalculated based on a retirement age that is six months later than under the initial calculation. After full retirement age, an individual who has not yet attained the age of 70 can elect to voluntarily suspend, and increase benefits by deferring. Because deferred credits stop at the age of 70, there is no advantage to suspending after that age.

THE REASON A NEW DECISION MODEL IS NECESSARY

Currently, over 50% of fully insured workers (who are not already receiving disability benefits) claim Social Security at the age of 62.[22] Only 4% claim after full retirement age and less than 2% wait to the age of 70. Based on much of the research described in this article, this behavior does not match the advice of the experts.

There is no clear evidence why the majority of individuals are taking Social Security at the age of 62, and this is an area that could benefit from additional study. However, Sass, Sun and Webb, 2007, looked at the motivation of married men to take benefits early, even though this behavior was not the optimal choice. The study found a relationship between deferred claiming and education level, implying bad decisions may be a result of lack of understanding of the implications of their decisions.

A decision model to help retirees make better decisions should be a step in the right direction, and we offer one here.

The Model—Step 1: Change Client Perceptions Through an Educational Program

The first step in developing a plan to defer is to begin to change client attitudes. The two most important (and faulty) perceptions that must be addressed are that the claiming age and the retirement decision are inexorably linked (they are not) and that the client should avoid losing out on years of payments from Social Security (that is a secondary concern to running out of money in retirement). Except where absolutely necessary because of lost work and no meaningful savings, the desire for a specified retirement age should not drive the claiming decision. Here is why:

- Deferring Social Security claiming, even if retirement has begun, could increase retirement income substantially.
- A delayed claiming decision may be one of the few planning tools available to an individual with insufficient savings.
- Fiscal concerns for many may make the claiming decision more likely to be an "insurance by necessity" issue and, thus, a delayed claiming age is typically the best alternative.

The concept of passing up "free money" at the age of 62 is a shortsighted way to view a complex issue. Here's why:

- The issue of when to claim is effectively an annuity purchase date choice, and purchasing a larger annuity at an advanced age absent, for example, knowledge of a terminal illness for a single client, will lead to greater insurance protection in the later years.
- The free money that needs to be focused on is not the dollars of low marginal utility at the age of 62, but the dollars of high marginal utility at advanced ages. (Which is more important, a sailboat at aged 62, or food and shelter at aged 85?)

We believe all planners should engage in an educational program with their clients in order to frame the claiming-age decision in the proper context. An educational program should address the seven items listed in Checklist 6.

Checklist 6: Key Components of a Social Security Educational Program

1. **Use a comprehensive planning approach.** The decision about when to begin Social Security benefits is a critical decision that will affect a retiree's long-term financial security. The decision should be part of a comprehensive evaluation of whether the individual has adequate retirement income (as well as addressing risks posed by retirement), and the Social Security claiming decision should be part of a comprehensive retirement income plan.
2. **Focus on the desired replacement ratio.** A major part of the retirement income plan is replacing lost income. For low- and middle-income families relying heavily on Social Security benefits in retirement, it's critical to understand that Social Security can replace a much higher percentage of employment income if benefits are deferred. For example, the Retirement Estimator, which is available at the Social Security Administration's website (www.ssa.gov/estimator/), calculates that, for a married couple with one wage earner earning $80,000, Social Security benefits for the couple replace 31% of employment income at the age of 62, 42% at 66 and 57% at 70.
3. **Strive for peace of mind.** Constantijn and Panis, 2003, have shown that retirees who could finance more of their consumption in retirement with pension annuities were more satisfied. Retirees with lifelong annuities also tended to maintain their level of satisfaction during retirement, whereas those without tended to become less satisfied over time. Also, those without showed more signs of depression during retirement. Maximizing the Social Security benefit annuity may literally mean improving both happiness and health.
4. **Care for the surviving spouse.** Married couples need to be concerned about securing adequate income while both spouses are alive and after one dies. The timing of when the higher wage earner in a couple begins retirement benefits has an impact on the spouse's survivor benefits. Begin early, and the spouse is saddled with this lower benefit for the rest of his or her life. On the other hand, a worker deferring to the age of 70 means that the surviving spouse receives the higher benefit.
5. **Understand the Social Security annuity advantage.** Social Security is a unique type of annuity, since it is eligible for CPI increases. Deferring benefits means that a larger percentage of retirement income is going to be inflation protected. Also, trying to replace this income with a commercial annuity that offers inflation protection will be quite expensive. The commercial annuities are less likely to offer full protection, as they are more likely to have annual increases based on a stated rate (3% a year) or, if tied to CPI, will be subject to a cap. This means that if there is a sudden spike in CPI, only Social Security benefits will keep up.
6. **Prepare to live long and prosper.** Some take benefits early because they think that they won't get their money's worth unless they live a long life. For many, this is a bad gamble—losing means living longer than expected and having financial problems late in life, a time when it is extremely difficult to rectify the situation.
7. **Avoid irrational thinking.** Some take benefits because they think that if Social Security has

insufficient funds they will lose their benefits. It is difficult to imagine that Social Security will be allowed not to pay its promised benefits. This program is just too important to the retirement security of seniors and its financial problems are solvable with modifications to the program. Historically, changes to Social Security are made to future retirees, and not current ones. This is the most likely course of action.

The Model—Step 2: Assess Funding Adequacy

Once the client is educated about the impact of his or her choices, the next step is to do a preliminary assessment of whether the client has adequate resources for retirement. A Social Security claiming decision needs to be made in the context of the client's financial situation, as this helps frame the appropriate way to evaluate the claiming decision. A review of a client's ability to generate income compared to the projected retirement expenses will result in an assessment of the client's funded status. A client may be *fully funded* (income that can be generated exceeds retirement expenses), marginally funded or substantially underfunded.

We believe that in most instances deferred Social Security claiming (depleting 401(k) assets) will be superior to 401(k) preservation (claiming Social Security early). ◄

Fully funded clients: In some instances, clients will possess sufficient assets and income in relation to their projected expenses that they will not be concerned with the possibility of running out of money or having to reduce their lifestyle as they age. These clients may be less concerned about income adequacy and more concerned about maximizing the value of their estate to meet legacy objectives. This group is most likely to frame the issue as a break-even choice (Which claiming decision will give them the greatest amount of wealth based on their life expectancy?). A break-even analysis does point out an important point: A person in bad health at retirement with a short life expectancy should probably take early. However, clients should be careful because a married person taking early may leave the widow(er) with a permanently reduced benefit.

Marginally funded or underfunded clients: A vast majority of clients will fall into the category of marginally or underfunded clients, and their focus will be more on financial security in their later years, portfolio failure and the need to insure their future standard of living. For this group, deferring Social Security and replacing the lost income from earnings from employment should be a strong consideration. This will be the best choice if Social Security benefits increase and other assets do not have to be depleted. However, others will not have this option. These clients will be required to deplete other assets (e.g., 401(k) funds) in lieu of taking the larger Social Security benefit. In this case, the claiming-age analysis will entail examining two different strategies that provide for a given level of inflation-adjusted spending.

The period between the discontinuance of a paycheck and the commencement of Social Security is sometimes called the *bridge period*. Each month of deferral during the bridge period is like buying an additional inflation-adjusted life annuity. Planners must balance the reduction in other retirement assets against the increased Social Security "annuity." In other words, the balancing act is between taking higher income from retirement savings versus taking higher income from Social Security. Advocates for delayed Social Security will point out that there is a "snowballing" effect on delaying Social Security benefits, because of both the actuarial increases and the compounding of COLA increases. They will also argue that there is a "reverse tax torpedo" if Social Security benefits are taken later because only one-half of Social Security benefits are included in the calculation of provisional income. They will argue that the investment risk has been transferred by a delayed claiming. And finally, they will point to less money being paid to investment expenses since assets are consumed earlier in a trade-off for higher Social Security benefits (which are not subject to investment expenses).[23] Advocates of an early claiming age will point to the loss of liquidity by consuming retirement assets early and replacing them with a higher Social Security annuity. They will be concerned with leaving assets to heirs. They also will argue that the rate-ofreturn net of taxes and expenses that can be earned on invested retirement savings may outperform the higher Social Security annuity. Planners are obligated to consider that superior investment performance on retirement investments may offset any mortality gain experienced by a long-lived client (and vice versa).

We believe that in most instances deferred Social Security claiming (depleting 401(k) assets) will be superior to 401(k) preservation (claiming Social Security early). Mahaney and Carlson, 2008, illustrated the value of deferral by showing that for several hypothetical clients retiring at the age of 62, the cost of financing retirement income during the bridge period with a fixed annuity was less expensive than beginning Social Security early and liquidating other assets to finance the income difference. Their research, with which we agree, weighs in favor in many cases of deferring Social Security and using other assets to fund the bridge period.

The Model—Step 3: Assess the Client's Options Under Social Security

Once the preliminary evaluation of the client's funded status has identified the appropriate decision framework, the third step of the decision process is to evaluate the client's specific situation to identify all the factors critical in making a decision (Checklist 7), which should also help determine strategies that may be available to maximize benefits (Checklist 5). With this information, the advisor and client can identify alternative options available and begin to identify the advantages and disadvantages of each approach.

Checklist 7: Potential Differences Among Clients and Their Implications

- **Work and claiming decisions:** The distinction between those who work longer and those who merely delay claiming benefits without working longer is critical. Note that those two decisions—working and claiming benefits—while linked in the minds of most workers, should be independent from a financial planning perspective. Planners will encounter four mutually exclusive and exhaustive possibilities for a worker just attaining the age of 62:
  1. Retire at 62 (or have retired earlier) and claim benefits.
  2. Continue working and claim benefits (in which case the retirement earnings test comes into play until the worker reaches full retirement age).
  3. Retire and defer claiming benefits at least until full retirement age and maybe until the age of 70 (and live off other assets in the meantime).
  4. Continue working and defer claiming benefits.

  Each case can be considered separately, as the important factors differ depending on the circumstances. Financial planners should recognize that every client (or potential client) can be found on this list.
- **Marriage:** Another critical distinction with which the planner must cope is marital status. Most 62-year-olds are married, so that situation rightfully attracts the most attention. The decision process for a single individual is much simpler because there are no spousal or survivor benefits to muddy the waters.

  For married people, financial planners must pay close attention to the gender and age of each spouse.[24] Most people know that women tend to live longer than men, by about six years, and wives tend to be younger than their husbands, by about three years on average. Therefore, a married woman can expect, in the typical case, to experience close to a decade of widowhood. That must be considered in any retirement planning, including when to claim Social Security benefits.

  Finally, before considering specific factors, we must observe that information specific to individuals can throw the best "standard" analysis out the window. The best example of that is health status. Most 62-year-olds are reasonably healthy, but if a worker is terminally ill (or even just very ill, short of terminal), that should and does have major effects on all aspects of retirement planning, including if and when to claim Social Security benefits. This is especially true of married couples where only one of them is ill.
- **Key factors in the claiming decision:** Setting aside such special circumstances, the following 13 factors must be considered in any thorough analysis of the decision to claim benefits:
  1. **Ability or desire to continue working.** Some workers have a choice; others don't. Obviously, those who continue working are financially better off than those who don't. Claiming Social Security benefits while continuing to work is almost always poor financial planning because it creates a much greater income "cliff" to fall off when work stops, as it inevitably does for almost everyone. Deferring benefits leads to a much smaller cliff because the drop from work income to a deferred and therefore larger Social Security benefit (ignoring other forms of retirement income) is not so high. Deferring is also advantageous to any survivor who may be eligible for benefits on the worker's earnings record.

2. **Wealth/net worth/sources of income outside of Social Security.** These affect the ability to meet retirement income needs at the outset of retirement, and the use of other sources of retirement income can allow for deferral of Social Security. That is advantageous because Social Security is, for most people, the only source of retirement income that is indexed for inflation. And deferring Social Security benefits can reduce the amount of federal income taxes paid on those benefits (see the tax torpedo).
3. **Personal risk tolerance/degree of investment savvy.** Workers have differing comfort levels with break-even analysis, insurance pricing decision and framing the claiming-age decision as an insurance, strategy or net-present-value question. Likewise, workers who doubt their ability to manage assets in retirement could decide to draw down assets early and claim Social Security later.
4. **Financial reliance on Social Security.** Workers with low savings and forced workforce exits tend to be completely dependent on Social Security income and therefore have no choice as to when to claim benefits. Other workers with independent wealth will not consume Social Security income at all. The vast majority fall in the middle.
5. **Availability of other Social Security benefits such as disability benefits or nonspousal survivor benefits.** These benefits are often lost if Social Security retirement benefits are started and will therefore affect the decision. Obviously, an individual who is already receiving disabled worker benefits from Social Security has no retirement decision to make and has already claimed Social Security benefits.
6. **Ability to boost Social Security income by working past the age of 62.** We have discussed at length the increase in Social Security benefits (up to 76%) that is available merely by deferring receipt from aged 62 to aged 70. But if the individual continues to work, the additional covered earnings also increase the benefits in most cases. Social Security benefits are based on the 35 highest years of indexed earnings. For a worker with fewer than 35 years of covered earnings at the age of 62 (a common situation for women, in particular), every additional year of earnings is certain to increase the ultimate benefit. For those who work and claim benefits, too (case 2 in the first item in Checklist 7) the retirement earnings test is not a total loss because benefits are recalculated at full retirement age to adjust for any months of benefits lost due to the test; however, losses do affect the net-present-value analysis and insurance-pricing strategy.
7. **Age disparity between spouses.** As noted above, husbands, on average, are three years older than their wives. However, if the age disparity differs greatly from the average, this has an impact on the survivor benefit analysis, in particular. For example, if the wife is ten years younger than the husband, then the likelihood that she will eventually be a widow for a substantial period of time is substantially increased, making the claiming age of the husband even more critical to the financial well-being of the spouse.
8. **Earnings disparity between spouses.** Most husbands earn more than their wives (in addition to being older). Therefore, the husband can expect to receive the higher Social Security benefit based on his own earnings record. In such typical cases, the husband should defer collecting Social Security benefits as long as possible, in order to maximize retirement income at the ages of 70 and above—and especially for his widow, who would be eligible to inherit his benefit, including any delayed retirement increment, if she survives him. The husband can collect a spousal benefit (only) based on his wife's earnings record as soon as (a) she files for her own benefit and (b) he reaches his full retirement age. This is a very powerful strategy to maximize retirement income for most married couples.

▶ THE AUTHORS

Kenn Beam Tacchino, J.D., LL.M., is a professor of taxation and financial planning at Widener University and is co-director of the New York Life Center for Retirement Income, The American College, and editor of the *Journal of Financial Service Professionals*.

David A. Littell, J.D., ChFC, CFP, is the Joseph E. Boettner Chair in Research at the American College and co-director of the New York Life Center for Retirement Income, the American College.

Bruce D. Schobel, CEBS, FSA, CLU, is vice president and an actuary at New York Life Insurance Company.

9. **Work in noncovered employment.** Workers receiving pensions based on employment not covered by Social Security (usually for a state or local government) have their own benefits calculated using the windfall elimination provision and any potential spousal or widow(er) benefits reduced under the government pension offset provision. These special rules can eliminate many of the strategies otherwise available to married couples.
10. Divorce. If a prior marriage lasted ten years or more, then each spouse may be eligible to receive a benefit based on the other spouse's earnings record, depending on whether or not either of them has remarried and at what age. Moreover, a divorced spouse can receive spousal benefits based on a former spouse's earnings record even if the former spouse has not retired or claimed his or her own benefit, provided that the divorce occurred more than two years earlier.
11. **Widow(er)s.** Social Security allows widows and widowers to claim survivor's benefits while their own benefits as workers continue to increase because of deferral.
12. **Federal income taxation of benefits.** Filing status and marginal rates affect any net-present-value analysis as well as being applicable to many claiming strategies. Close to 70% of Social Security beneficiaries have incomes low enough that they pay no income tax on their benefits. Another 15% have incomes so high that they will be taxed on 85% of their benefits no matter what they do in terms of claiming strategies. The remaining 15% of individuals and couples are in the income range where benefit taxation is phasing in, and these taxpayers are subject to the tax torpedo. They can greatly reduce their federal income taxes (and marginal tax rates) by deferring Social Security benefits and drawing down other assets in the meantime. State income taxation, if applicable, should also be considered.
13. **Financial status of Social Security.** Finally, any complete analysis must acknowledge that, absent changes in the law, Social Security faces a long-range funding gap. Program funds are projected to be able to pay full promised benefits until 2036; thereafter, tax income would be sufficient to pay only about three-quarters of scheduled benefits through 2085 (Blahous and Reischauer, 2011). To the extent that legislative changes to close this projected shortfall would affect future benefits, they could tip the claiming-age decision in either direction. For example, one possible change would increase the delayed-retirement increment or allow it to accrue beyond the age of 70. That would obviously increase the incentives to defer claiming benefits. On the other hand, some workers want to claim their benefits as soon as possible, even if they are still working, because they fear—irrationally, in our view—that the program will cease to exist at some point in the future, and they want to get their money while they still can. We strongly advise planners to educate clients and change this unwise thinking.

The Model—Step 4: Integrate the Claiming Decision Into a Cohesive Retirement Income Plan

The final step is making sure that the claiming decision is part of a cohesive retirement income plan. Other parts of the plan, such as other available sources of guaranteed retirement income, clearly affect the claiming decision. Also, if a decision is made to defer to the age of 70, the plan has to address funding the bridge period financial assets or part-time employment.

CONCLUSION

We are concerned that the vast majority of Americans are not properly choosing the optimal Social Security start date. Fewer than 2% claim at the age of 70, and over 50% claim at the age of 62. In all probability, those numbers could be reversed. This new decision model will enable a process that leads to more rational choices. With education, proper framing of the issue, determining the client's claiming options based on his or her unique circumstances and, finally, integrating the decision into the comprehensive retirement income plan, advisors have a process to help clients make better decisions. We are hopeful that financial services firms will create software using the model and information contained in this article and create an improved environment for the claiming-age decision. ◀

Endnotes

1. An individual turning aged 62 in 2012 was born in 1950. Any person born between 1943 and 1954 has a full retirement age of 66. Under Social Security rules, benefits are reduced 5/9 of 1% for the first 36 months prior to full retirement age and 5/12 of 1% for any remaining months. If an individual's normal retirement age is 66, and she retires at the age of 62, then her benefit is reduced by 25% ($5/9 \times 36 = 20\%$) + ($5/12 \times 12 = 5\%$); $20\% + 5\% = 25\%$.
2. There is no legal advantage to claiming after the age of 70.

3. An individual will receive an 8% increase in his or her benefit for each year the individual defers Social Security after full retirement age, until the age of 70. If full retirement age is 66, then a four-year deferral will result in a 32% increase over the age of 66 benefit.

4. C. C. Rose, "Social Security Spousal Benefit Considerations in Early Retirement," *Journal of Financial Service Professionals*, May 2007, p. 51.

5. For example, nonworking spouses aged 62 or older who are married to a fully insured worker may receive the so-called spousal benefit and, on the death of the covered spouse, will "step up" to receive the benefit the covered spouse was receiving.

6. W. Meyer and W. Reichenstein, "Social Security: When to Start Benefits and How to Minimize Longevity Risk," *Journal of Financial Planning*, March 2010, p. 49.

7. Ibid, p. 51.

8. This group includes about 25% of state and local workers who are not covered by the Social Security system in their jobs and federal workers who remained in the Civil Service Retirement System when the law changed in 1983. Also note that the rule applies to people who were in noncovered employment and then "double-dipped" in the private sector for at least ten years.

9. The worker's excess earnings do not cause deductions from the benefits of an entitled divorced spouse if (1) the worker's month of entitlement is prior to the month of divorce, or (2) the divorce occurred more than two years ago.

10. See, in references, Sass, Sun and Webb, 2007; Munnell, Golub-Sass and Karamcheva, 2009; and Meyer and Reichenstein, 2010.

11. R. Muksian, "The Effect of Retirement Under Social Security at Age 62," *Journal of Financial Planning,* January 2004, pp. 64-71.

12. J. I. Mahaney and P. C. Carlson, 2008, "Rethinking Social Security Claiming in a 401(k) World," in *Recalibrating Retirement Spending and Saving*, edited by Ameriks and Mitchell, Chapter 7, p. 146.

13. See, for example, the Social Security videos at The New York Life Center for Retirement Income at The American College website, www.theamericancollege.edu/retirement-income-center.

14. See www.ebri.org/pdf/briefspdf/EBRI_IB_07-2010_No344_RRR-RSPM1.pdf.

15. The National Retirement Risk Index (NRRI) measures the percentage of working-age households that are at risk of being unable to maintain their preretirement standard of living in retirement. For more information and results for different years, see http://crr.bc.edu/special_projects/national_retirement_risk_index.html.

16. Social Security Administration. 2011.

17. The deemed filing rule is not an impediment here since the spouse is not entitled to the spousal benefit until the worker claims retirement benefits, and once the spouse dies, the worker receives the survivor benefit.

18. D. F. Cunningham and P. R. Erickson, "The 'Combined Income' Tax Effect on Early Versus Normal Social Security Benefits for Single Individuals," *Journal of Financial Service Professionals*, March 2009, pp. 51-54.

19. J. I. Mahaney and P. C. Carlson, 2008, "Rethinking Social Security Claiming in a 401(k) World." *Recalibrating Retirement Spending and Saving,* edited by Ameriks and Mitchell, Chapter 7, p. 153.

20. Ibid, pp. 141-167.

21. W. Meyer and W. Reichenstein, "Social Security: When to Start Benefits and How to Minimize Longevity Risk," *Journal of Financial Planning*, March 2010.

22. Ages at which retirement benefits were claimed in 2009: 62, 53.2%; 63, 7.8%; 64, 8.3%; 65, 13.8%; 66, 13.5%; 67, 0.9%; 68, 0.6%; 69, 0.5%; and 70 or older, 1.5%. Source H. J. Aaron, and J. M. Callan, "Who Retires Early?" CRR WP 2011-10 Center for Retirement Research at Boston College, May 2011, Table 2.

23. See Mahaney and Carlson, 2008, and Cunningham and Erickson, 2009.

24. Note that Social Security is prohibited by federal law from recognizing same-sex marriages, despite their recognition by many states.

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