

July 10, 2008

Dear Friend,

As Baby Boomers approach retirement age (the first baby boomers began receiving Social Security benefits in January of 2008), the issue of when to begin collecting Social Security benefits is quickly becoming a hot topic.

I often hear it said that "Social Security won't be around when I retire." While it is imperative that changes be made to the Social Security system, anyone who is alive now can expect to receive benefits in some form. Reducing the benefit and delaying retirement are two proposed ways to "fix" the system, but Social Security (at present rates) won't become insolvent (negative cash flows) until 2017. Steps do need to be taken to ensure the future of Social Security, but we aren't really in danger of losing it altogether unless we ignore the problem.

It is also becoming clear that Social Security, by itself, will not fund most people's retirement needs. But then, it was never really meant to do that in the first place. Young people need to begin planning now for retirement through pension plans, company retirement plans and personal savings.

A common question of those nearing retirement age is whether they should begin taking Social Security benefits early (starting at age 62), wait until full retirement age (age 66 for those born prior to 1955), or delay benefits up to age 69. It is a common misperception that one choice is clearly better than another for an individual. In fact, payments received are actuarially equivalent. Based on a life expectancy of 80 years, this simply means that whether you begin early at 62, or wait until you are 69 you will have received an equivalent amount from Social Security by the age of 80. This is the crossover point where those who delayed retirement will be rewarded. Conversely, if one dies before they are 80, that individual will have received more in benefit payments if they took early retirement at age 62.

Women have an automatic built-in advantage here. The average life expectancy of 80 is achieved by taking the average of men (78) and women (82). So, on average, women are going to live two years longer than the number on which the actuary tables are built in the first place.

To maximize the value of a household's future benefits, it often makes sense for the wife to begin receiving benefits early (age 62 in most cases) and for the husband to delay receiving benefits, until age 69 in some cases. The reasoning behind this has to do with the fact that women are likely to outlive their husbands by several years, and because on average the husband has a higher lifetime income. By delaying, the husband has increased his benefit significantly. Upon the death of the husband, the wife is entitled to the larger of her benefit or his, for the remainder of her life. On average, as a couple, they will have received a greater household, lifetime Social Security benefit if she begins receiving payments at age 62 and he waits until full retirement, or longer in some cases. Each case is different depending on the disparity in age and spousal income (for example, women often earn more than their husbands). To be sure, check with your local Social Security office.

We would be happy to answer any questions you may have regarding this topic.

Arcadia Investment Advisors

*References:*

1. "When Should Women Claim Social Security Benefits," by Alicia H. Munnell & Mauricio
2. [www.socialsecurity.gov](http://www.socialsecurity.gov)