

Maximizing *your Social Security benefits*

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Now that you're getting close to retirement, we'd advise you to start thinking about when and how to begin receiving your Social Security benefits. Even though you're financially comfortable, you need to consider how this income will fit into your overall financial plan and decide which Social Security options make the most sense for you. A lot of things are changing with Social Security, so we thought you might appreciate this information.

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First, the basics. Social Security has long provided Americans with a source of retirement income intended to last a lifetime. Frequent cost-of-living adjustments (COLA) help ensure that this income will keep pace with inflation. While few high net worth clients intend to rely on Social Security benefits as a meaningful source of retirement income, lifetime benefits can be larger than they might expect: nearly \$600,000 on average for a couple who turned 65 in 2010, and significantly more for high earners with longevity.¹

Social Security typically replaces about 40% of an individual's earned income.² That percentage generally is less—about 28%—for those with higher preretirement income.³ But, as a guaranteed benefit, Social Security can play a role in any retirement income plan, particularly given today's volatile investment climate and global economic uncertainty.

Given widespread concerns about the Social Security program's future solvency, it may seem ironic to refer to it as the "guaranteed" portion of your retirement income picture. But Social Security actually is on track to meet its obligations to retirees through 2037, after which, unless action is taken to significantly cut costs, benefits will be reduced by about 25%⁴—and only if no action is taken before then to strengthen the Social Security trust fund.

Your Social Security strategy: making choices

So, what's the best way to receive your Social Security benefits? Compared with other retirement planning decisions, choosing how to take Social Security may seem like an easy one. In fact, it can be surprisingly complex—and highly personal. The key is selecting the strategy that maximizes benefits for you and for your spouse, if you're married. You'll also need to consider how you and your spouse can coordinate strategies given your relative ages and incomes. If you're single, the main considerations are when you plan to retire and your life expectancy. Here's a quick look at some of the choices available.

¹Urban Institute. "Social Security and Medicare Taxes and Benefits Over a Lifetime," June 2011.

²Social Security Administration. "Understanding the Benefits," February 2013.

³National Academy of Social Insurance. "Social Security Benefits, Finances, and Policy Options: A Primer," April 2012. Based on estimates from the 2012 Annual Report of the Board of Trustees, SSA.

⁴SSA Office of Retirement and Disability Policy. "The Future Financial Status of the Social Security Administration," 2010.

When to start benefits

• Age 62

About 74% of today's retirees start benefits at the earliest possible age, locking in a major reduction compared with benefits at full retirement age.⁵ Starting this early may be necessary if you're in poor health or need the income. But with life expectancies now reaching into the 90s, delaying benefits can be preferable for many retirees.

• Full retirement age (FRA)

This is when Social Security will provide you with full benefits. The FRA is used to calculate any reduction in benefits (if taken earlier) or increase (if taken later). FRAs vary based on date of birth; visit ssa.gov to determine your FRA.

• Age 70

For each year you delay benefits between FRA and age 70, Social Security adds 7-8% to future benefits, plus the COLA adjustment. That guaranteed annual return can make this alternative very attractive, provided you have longevity. Delaying benefits until age 70 can also provide more income just when you may need it to help cover healthcare expenses.

• Break-even age

You may want to hedge your decision by identifying the age at which the cumulative benefits from delaying your start date will surpass the cumulative benefits from starting earlier. We can assist you in making this type of calculation.

How to take benefits

• Choosing spousal benefits

A lower-earning spouse may select his or her own benefits; spousal benefits (even those of an ex-spouse) of up to 50% of the higher earner's full benefit (once that spouse files); or a combination equal to the higher amount. Spousal benefits are reduced if the lower earner takes them before reaching FRA.

• Combining "step up" and "file-and-suspend" strategies

This alternative is increasingly popular because it can maximize benefits for both spouses. The lower-earning spouse takes reduced benefits early, then "steps up" to 50% of the higher earner's full benefit once that spouse reaches FRA and files for benefits. If the higher earner

then suspends benefits until a future date—or as late as age 70—he or she potentially can realize up to a 30% increase in lifetime benefits.

• Survivor benefits

A spouse can receive reduced survivor benefits at age 60 (or age 50 if disabled). When that spouse reaches FRA, he or she can step up to the higher of full survivor benefits or his or her full benefits. Note that survivor benefits increase if the higher-earning spouse delays taking benefits.

Other considerations

• Earning income

If you work after starting benefits, your monthly payment may be reduced. Before the year you reach FRA, benefits will be reduced \$1 for every \$2 earned above \$15,120 a year. In your FRA year (up until your FRA month), benefits will be reduced \$1 for every \$3 earned over \$40,080.⁶ After FRA, working will not reduce benefits. In fact, your benefits will be recalculated to include amounts previously withheld.

• Taxes

It's very likely that a portion of your Social Security benefits will be taxable. We can work with your tax advisor to review your situation and plan accordingly.

• A fresh start

Generally, the decisions you make about taking Social Security benefits are irrevocable. But if you change your mind after starting to receive benefits, it's possible to pay back all benefits received to date and reapply at a later age.

Believe it or not, this is just an overview of Social Security. There are a number of sophisticated Social Security strategies you may want to explore. An excellent starting point are calculators on the Social Security Administration website (ssa.gov) that let you and your spouse estimate different benefit amounts at age 62, at full retirement age and at age 70.

We'd like to help you take a closer look at your situation and compare strategies side by side, as well as help you integrate your future Social Security strategy into your broader wealth management plan. Please feel free to contact us at your convenience if you would like to discuss this important matter.

⁵Social Security Administration "Annual Statistical Supplement, 2011," February 2012.

⁶Social Security Administration "How Work Affects Your Benefits," January 2013.

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