WHAT, *when*, *who*, HOW? THE SOCIAL SECURITY DECISIONS

PACIFIC FINANCIAL ADVISORS

FINANCIAL SECURITY UNDER OUR UMBRELLA

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HOW TO POTENTIALLY OPTIMIZE SOCIAL SECURITY BENEFITS

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It's important to know how integrating Social Security benefits into your retirement income plan can play a role in your overall financial strategy. Working with a financial professional, including licensed insurance agents, investment advisors and tax professionals can help you understand how Social Security benefits may fit into your plan for retirement.

EXECUTIVE SUMMARY

The biggest story in Social Security today concerns the large number of baby boomers set to retire over the next 20 years and the relatively smaller younger generations feeding Social Security payroll taxes into the system. The Bipartisan Budget Act of 2015, signed into law Nov. 2, 2015, attempts to begin to address this disparity by eliminating some popular claiming options.

Adding additional stress to the system is the reality that, on average, today's seniors are living longer than any previous generation. While that's good news, it presents challenges to the Social Security system, and in other areas as well. Living longer increases the potential for increased medical and long-term care expenses while in retirement. This may be particularly true for those who have been active all their lives and had relatively few medical expenses prior to retirement.

Furthermore, the value of your nest egg could be more significantly impacted by increases in the cost of living over a longer term. Quite simply, you could outlive your savings. When you consider all of these factors, it is important to make informed decisions about when to begin receiving Social Security benefits within the context of your overall retirement income strategy.

There are strategies a financial professional could help you implement, including identifying income gaps for which insurance products, such as annuities, may be a solution to help reduce the risks of outliving your money.

Individuals should consult with an employee of the Social Security Administration office, as insurance agents and Registered Representatives can provide information but not advice regarding Social Security benefits.

THE STATUS OF SOCIAL SECURITY

Social Security benefits are largely funded by today's workers via payroll taxes. In 2014, the Old-Age and Survivors Insurance and Disability Insurance Trust Funds collected $884.3 billion in revenues from the following sources:[1]

- 85.5% from payroll taxes and reimbursements from the General Fund of the Treasury
- 3.4% from income taxes on Social Security benefits
- 11.1% from interest earned on the government bonds held by the trust funds

The number of retired workers is projected to double in 50 years. Adding to the Social Security funding dilemma, people are also living longer and the national birth rate is low. As a result, the ratio of workers paying Social Security taxes to people collecting benefits is projected to fall from 2.8 to 1 in 2014 to 2.1 to 1 in 2035. The most recent report from the Old-Age and Survivors Insurance and Disability Insurance Trust Fund board of trustees projects that there will be a shortfall in payroll taxes needed to fund benefits, yet the redemption of trust fund assets will be sufficient to allow for full payment of scheduled benefits until 2034. At that point, payroll taxes and other income will be sufficient to pay only 79 percent of program costs.[2]

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[1] Social Security Administration. "Fast Facts & Figures About Social Security, 2015." http://www.ssa.gov/policy/docs/chartbooks/fast_facts/index.html. Page 35. Accessed Oct. 8, 2015.

[2] Social Security Administration. July 22, 2015. "The 2015 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds." http://www.ssa.gov/oact/tr/2015/tr2015.pdf. Pages 13 and 14. Accessed Oct. 8, 2015.

TIMING YOUR BENEFIT DISTRIBUTIONS

As of 2015, full retirement age (referred to as FRA) is age 66 for anyone born between 1943 and 1954. Beginning with those born in 1955, an additional two months is added to the full retirement age each year through 1959. If you were born in 1960 or later, full retirement age is 67. You may begin taking benefits starting at age 62, but they will be permanently reduced.

Covered workers need 40 credits to be eligible for their own benefit, which works out to about 10 years of work history. Your benefit is calculated based on your average earnings over the highest-earning 35 years.

Working up to full retirement age may increase your benefit while at the same time any contributions you continue to make to a 401(k) plan and/or investment portfolio will have more time to potentially accrue higher gains.

If you begin drawing benefits before full retirement age, they are reduced as shown in the accompanying table.[4]

In 2015, the maximum payout for any beneficiary was $2,663 per month.[3]

FULL RETIREMENT AND AGE 62 BENEFIT BY YEAR OF BIRTH[4]

Year of Birth[1]	Full (normal) retirement age	Months between age 62 and full retirement age[2]	A $1,000 retirement benefit would be reduced to	The retirement benefit is reduced by[4]	A $500 spouses's benefit would be reduced to	The spouses's benefit is reduced by[3]
1937 or earlier	65	36	$800	20.00%	$375	25.00%
1938	65 and 2 months	38	$791	20.83%	$370	25.83%
1939	65 and 4 months	40	$783	21.67%	$366	26.67%
1940	65 and 6 months	42	$775	22.50%	$362	27.50%
1941	65 and 8 months	44	$766	23.33%	$358	28.33%
1942	65 and 10 months	46	$758	24.17%	$354	29.17%
1943-1954	66	48	$750	25.00%	$350	30.00%
1955	66 and 2 months	50	$741	25.83%	$345	30.83%
1956	66 and 4 months	52	$733	26.67%	$341	31.67%
1957	66 and 6 months	54	$725	27.50%	$337	32.50%
1958	66 and 8 months	56	$716	28.33%	$333	33.33%
1959	66 and 10 months	58	$708	29.17%	$329	34.17%
1960 and later	67	60	$700	30.00%	$325	35.00%

1. If you were born on Jan. 1, you should refer to the previous year.

2. If you were born on the first of the month, SSA figures your benefit (and full retirement age) as if your birthday was in the previous month. If you were born on Jan. 1, SSA figures your benefit as if your birthday was in December of the previous year.

3. You must be at least 62 years old for the entire month to receive benefits.

4. Percentages are approximate due to rounding.

5. The maximum benefit for the spouse is 50 percent of the benefit the worker would receive at full retirement age. The percentage reduction for the spouse should be applied after the automatic 50 percent reduction. Percentages are approximate due to rounding.

[3] Social Security Administration. "Fast Facts & Figures About Social Security, 2015." http://socialsecurity.gov/policy/docs/chartbooks/fast_facts/2015/fast_facts15.html#contributions. Accessed Oct. 8, 2015.

[4] Social Security Administration. "Retirement Planner: Benefits By Year of Birth." https://www.socialsecurity.gov/planners/retire/agereduction.html. Accessed Oct. 8, 2015.

No matter what age you begin receiving Social Security benefits, your payout will receive an automatic annual cost of living adjustment when there is a comparative increase in the consumer price index.

A LOOK AT SPOUSAL BENEFITS

Spousal or "derivative" Social Security benefits are determined by the work history and earnings of each spouse and the age at which they apply for and/or begin drawing benefits.

The spousal – or derivative - benefit is 50 percent of the higher earner's accrued benefit at the spouse's full retirement age. Should the higher-earning spouse start taking benefits earlier than full retirement age, the spouse's derivative benefit will be less.[5]

When spouses take time off from the workforce to have children, raise children or even provide care for senior parents, years with part-time or zero earnings may factor into the 35 years and result in a much lower benefit than people who work full time throughout their adult lives. This is why many women might qualify for a higher benefit based on their husband's work history.

Plan for Surviving Spouse

Common sense may tell you that – among couples – the higher earner should claim benefits as early as possible and the lower earner should delay in order to receive a higher benefit. In reality, the exact opposite may be the better option because if the higher earner claims early and then dies first, he or she is likely to have shortchanged the lower earner's survivor benefit.

In this scenario, the higher earner should consider delaying claiming benefits so the lower earner can claim the highest possible benefit for life – whether it's the lower earner's own benefit or a derivative of the higher earner's highest available benefit. If the lower earner dies first, there is no lost benefit, as the higher earner simply keeps his or her own benefit.[6]

[5] Social Security Administration. January 2015. "Social Security Retirement Benefits." http://www.socialsecurity.gov/pubs/EN-05-10035.pdf. Page 9. Accessed Oct. 15, 2015.

[6] Social Security Administration. "Retirement Planner: Other Things to Consider; Will other family members qualify for benefits with you on your record?" www.ssa.gov/retire2/otherthings.htm. Accessed Oct. 15, 2015.

File and Suspend

For many years, married couples had the option for the lower-earning spouse to begin receiving benefits based on the higher-earning spouse's work history, even as the higher earner delayed drawing benefits in order to take advantage of additional earnings contributions and delayed retirement credits (DRC). As long as the higher earner had reached full retirement age, he or she could apply for benefits — thereby allowing his or her spouse to apply to receive the spousal benefit — and then immediately file to suspend drawing benefits until a later date. The lower-earning spouse could continue to draw the spousal benefit, even though the higher earner had suspended benefits.

When the Bipartisan Budget Act of 2015 was signed into law late last year, the file and suspend provision was eliminated for most people. If you had already filed and suspended your benefits at the time the bill was signed, you are able to continue the strategy. Those reaching full retirement age within six months of the date the bill was signed (approximately May 1, 2016) also retain the option to file and suspend under the old rules.[7]

For those reaching full retirement age after the six-month deadline, the file and suspend strategy is off the table. If you're in this category, you can still suspend your benefits once you've reached full retirement age, enabling you to earn delayed retirement credits of 8 percent a year until you reach age 70, but neither you nor any of your family members can collect benefits based on your earning history while your benefits are suspended.[8]

Delayed Retirement Credits

If you do not feel the need to draw benefits at full retirement age and/or would like to continue working, you are eligible to earn delayed retirement credits (DRC) for each month that you do not start receiving benefits.

- Currently, the full-year DRC for those born in 1943 or later is 8% per year (pro-rated monthly).
- The credit stops once you reach age 70.
- In limited cases, a spouse may draw benefits while the higher earner accrues DRCs.
- Derivative benefits for your spouse do not include any DRCs.

[7] Mary Beth Franklin. Investment News. Nov. 2, 2015. "Social Security claiming strategy triage." http://www.investmentnews.com/article/20151102/BLOG05/151109994/social-security-claiming-strategy-triage. Accessed Nov. 4, 2015.

[8] Ibid.

In 2014, the average monthly Social Security benefit received by retired women was $1,167, compared to $1,488 for men.[11]

Options for Spouses

With the changes brought on by the 2015 budget act, most spouses no longer have the option to choose between claiming benefits based upon their own work history or benefits based upon their spouse's work history. Only those who were 62 years old or older by Dec. 31, 2015, retain the option to claim only spousal benefits when they reach full retirement age (assuming their spouse has either claimed benefits or was able to file and suspend their benefits). Doing so allows them to continue working and accruing earnings contributions, as well as DRCs until they turn age 70. At that time, they can begin claiming their own, higher benefit amount.

If you turned 62 after Dec. 31, 2015, you are no longer able to claim spousal benefits only. Instead, you will be subject to what are known as "deeming rules." Based on the 2015 budget act, deeming rules apply through age 70 and mean that once you reach age 62, if you file for benefits and are eligible for both your own retirement benefit and a spousal benefit, you will be deemed to have applied for both benefits. The benefit paid out to you will be the higher of the two amounts.[9]

This new provision also eliminates the restricted benefit option, which had allowed anyone who had reached full retirement age to apply for a restricted benefit based on his or her spouse's earnings, provided the spouse was already receiving benefits. This was true even for the spouse who was the higher earner. He or she could restrict the benefit to the spouse's lower benefit, allowing their own benefit to accrue DRCs up to age 70, and then switch to their higher benefit amount.

With the new deeming rules, the restricted benefit is no longer available to anyone who was not 62 years old by the end of 2015.[10]

[9]Jamie Hopkins. Forbes. Oct. 29, 2015. "New Budget Deal Is Cutting Your Social Security Benefits And It's A Good Thing." www.forbes.com/sites/jamiehopkins/2015/10/29/new-budget-deal-is-cutting-your-social-security-benefits-and-its-a-good-thing. Accessed Nov. 4, 2015.
[10]Social Security Administration. 2015. "Retirement Planner: Deemed Filing FAQs." https://www.ssa.gov/planners/retire/deemedfaq.html. Accessed April 4, 2016.

Divorced Spouse[10]

If a couple was married for at least 10 years and then divorces, either one of the spouses may qualify for Social Security benefits at age 62 under the other's work history. Even if the higher-earning ex-spouse has not applied for benefits yet, as long as he or she is eligible for them and the couple has been divorced for at least two years, the other ex-spouse may apply for a derivative benefit.

Once an ex-spouse remarries, he or she is no longer eligible to receive a benefit based on the first spouse's work history unless the second (third, fourth, etc.) marriage ends in divorce, annulment or death. You are eligible for the highest derivative available from any number of ex-spouses as long as each marriage lasted at least 10 years and you are not currently married.

Divorced spouses who turned 62 prior to the end of 2015 are able to restrict their claim to only spousal benefits, even if they qualify for their own retirement benefit. [11]

Widowed Spouse[12]

Among married couples, the age at which the higher-earning spouse applies for Social Security benefits is very important, since the surviving spouse is entitled to the higher of his or her own or the deceased spouse's benefit. The higher earner can increase the survivor's benefit by waiting to receive any benefits until age 70.

If the higher-earning spouse dies, the widow(er) is entitled to the higher earner's full retirement benefit and may begin receiving benefits starting at age 60 (or at any age if he or she has a dependent who is under age 16 or disabled). Should the widow(er) remarry prior to reaching age 60 (or age 50 if the widow(er) is disabled), the Social Security benefit for the widow(er) will terminate, but the benefit for the eligible child will not. If the widow(er) continues to receive survivor benefits and would be eligible for a higher spousal benefit after age 62, the benefit amount will switch to the higher spousal benefit upon reaching the eligible age.

[10]Social Security Administration. "Retirement Planner: If You Are Divorced." www.socialsecurity.gov/retire2/divspouse.htm. Accessed Nov. 14, 2014.
[11]Mary Beth Franklin. Investment News. Oct. 30, 2015. "Who is affected by the new Social Security rules?" http://www.investmentnews.com/article/20151030/FREE/151039996/advisers-rethink-retirement-plans-amid-social-security-changes. Accessed Nov. 4, 2015.
[12] Social Security Administration. Feb. 10, 2014. "Survivor's Planner: How Much Would Your Benefit Be?" www.socialsecurity.gov/survivorplan/ifyou5.htm#a0=1. Accessed Nov. 14, 2014.

A surviving spouse may also claim a reduced benefit on the deceased's working record and then switch to his or her own later. The surviving spouse may wait until full retirement age delay benefits until age 70 to accrue DRCs based on his or her own work history. Once the survivor applies for his or her own benefit, the payout will automatically be at the highest amount.

How a Job Impacts Benefits

Once you reach full retirement age, there is no longer an earnings limit, meaning you can earn any amount of income without it impacting your benefits.

However, if you begin drawing Social Security benefits before you reach full retirement age and your earnings exceed the eligible limit, your benefits will likely be taxed, yielding an even lower amount.[13] You may earn up to $15,720 in 2016 before your Social Security benefits will be reduced. Thereafter, $1 in benefits will be deducted for every $2 earned above $15,720.[14]

In the year you reach full retirement age, you may earn up to $41,880 (in 2016) ending the month before your birthday before benefits are reduced. Thereafter, $1 for every $3 earned above $41,880 will be deducted from your benefits.[15]

In both scenarios, however, your benefit will be increased at full retirement age to account for benefits withheld due to earlier earnings.

Lower-wage earners receive a higher percentage benefit than higher-wage earners.[16]

[13] Social Security Administration. "Retirement Planner: Getting Benefits While Working." https://www.socialsecurity.gov/planners/retire/whileworking.html. Accessed Nov. 10, 2015.
[14]Social Security Administration. "Fact Sheet: 2016 Social Security Changes." https://www.ssa.gov/news/press/factsheets/colafacts2016.pdf. Accessed Nov. 24, 2015.
[15]Ibid.
[16] Social Security Administration. "Retirement Planner: Getting Benefits While Working." https://www.socialsecurity.gov/planners/retire/whileworking.html. Accessed Nov. 10, 2015.

Where Do You Apply

Contact Social Security at (800) 772-1213 or TTY (800) 325-0778 about three months before the date you'd like your benefits to start. You may also visit your local Social Security office or apply online at http://ssa.gov/planners/about.htm.

PREPARING FOR RETIREMENT INCOME

According to the 2015 Risk and Process of Retirement Survey by the Society of Actuaries, 40 percent of retirees do not have a plan for how much money they will spend each year in retirement and where that money will come from.[17] To help you prepare for a possible reduction in Social Security benefits and/or an overall shortfall in your retirement income, calculate the general amount of income you expect to need in retirement.

Add up your monthly expenses and factor in a 3.32 percent long-term annual inflation rate (the average annual inflation rate from 1914 through 2014).[18] If the retirement age increases in the future, you may be able to continue working and delay your own retirement. However, if you need to retire before the full retirement age, you'll need to factor in the potential for reduced Social Security benefits during those years.

You may receive a personalized estimate of your Social Security benefits by using the online Retirement Estimator at http://ssa.gov/estimator.

Once you've identified your level of benefits, subtract this amount from the total income you've calculated that you need. The balance will give you an idea of the amount that would need to come from other sources.

(Please note, this is a general calculation and not intended to be the sole basis of any financial decisions.)

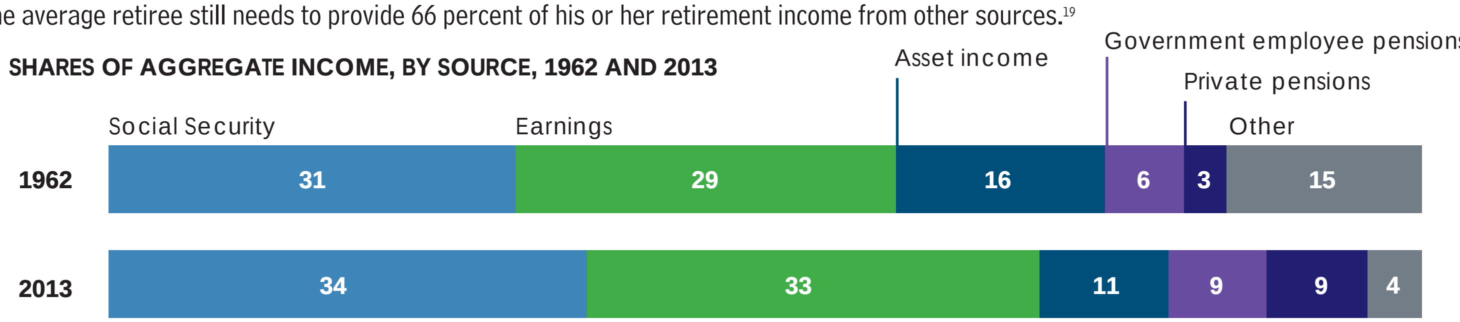
[17] The Society of Actuaries. January 2016. "The 2015 Risk and Process of Retirement Survey." Page 132. Accessed April 4, 2016.

[18] U.S. Inflation Calculator. March 16, 2016. "Consumer Price Index Data from 1913 to 2016." http://www.usinflationcalculator.com/inflation/consumer-price-index-and-annual-percent-changes-from-1913-to-2008/. Accessed April 4, 2016.

Other Income Sources

For most Americans, Social Security offers a guaranteed source of income during retirement. Understanding your distribution options can potentially help optimize your benefits. However, Social Security was not designed to provide 100 percent of the income America's retirees need throughout their golden years. In fact, Social Security represented just 34 percent of total retirement income in 2013, which means the average retiree still needs to provide 66 percent of his or her retirement income from other sources.[19]

SHARES OF AGGREGATE INCOME, BY SOURCE, 1962 AND 2013



Sources: Data for 1962 are from SSA, *The Aged Population of the United States: SSA. 1967. "The Aged Population of the United States: The 1963 Social Security Survey of the Aged."* Data for 2013 are are from SSA. March 2014. "Annual Social and Economic Supplement to the Current Population Survey."

Social Security. "Fast Facts & Figures About Social Security, 2015."https://www.ssa.gov/policy/docs/chartbooks/fast_facts/2015/fast_facts15.pdf. Accessed April 4, 2016.

Notes: The unit of analysis is the aged unit, defined as a married couple living together or a nonmarried person, which also includes persons who are separated or married but not living together.

Data for 1962 have been revised to reflect a slight refinement of the income category definitions.

Typically, there are three ways to supplement Social Security benefits for retirement income:

1. *Employer-defined benefit plans, also known as "pensions." Unfortunately, the number of employer-sponsored plans continues to drop, from 103,346 in 1975 to 44,163 in 2013.* [20] *This leaves far more Americans responsible for a larger portion of their retirement income.*

2. *Work earnings. Many retirees choose to work long past traditional retirement age, or even retire from their career and then take a job or launch a small business to supplement other retirement income sources. In 2013, 33 percent of retiree income came from earnings — nearly the same percentage (34 percent) as Social Security benefits.* [21]

3. *Savings and investments. Long-term saving and prudent investing may enable you to accumulate a significant nest egg from which to draw income. The following are two traditional retirement income account options:* [22]

    a. Maximize contributions to a defined contribution employer plan, such as a 401(k), 403(b), 457 plan or Thrift Savings Plan. In 2016, participants may contribute up to $18,000, or $24,000 for employees age 50 and older.

    b. Maximize contributions to a Roth or traditional IRA. If you are not eligible for a tax deduction for traditional IRA contributions due to participation in an employer-sponsored retirement plan, you may want to consider contributing to a Roth instead so you benefit from tax-free distributions during retirement. In 2015, participants may contribute up to $5,500, or $6,500 for those age 50 and older.

[19] Social Security Administration. "Fast Facts & Figures About Social Security, 2015." Page 7. https://www.ssa.gov/policy/docs/chartbooks/fast_facts/2015/fast_facts15.pdf. Accessed Nov. 11, 2015.

[20] U.S. Department of Labor. September 2015. "Private Pension Plan Bulletin Historical Tables and Graphs 1975-2013." http://www.dol.gov/ebsa/pdf/historicaltables.pdf. Accessed Nov. 24, 2015.

[21] Social Security Administration. "Fast Facts & Figures About Social Security, 2015." Page 7. https://www.ssa.gov/policy/docs/chartbooks/fast_facts/2015/fast_facts15.pdf . Accessed Nov. 11, 2015.

[22] IRS. Oct. 21, 2015. "IRS Announces 2016 Pension Plan Limitations; 401(k) Contribution Limit Remains Unchangged at $18,000 for 2016." https://www.irs.gov/uac/Newsroom/IRS-Announces-2016-Pension-Plan-Limitations;-401(k)-Contribution-Limit-Remains-Unchanged-at-$18,000-for-2016 . Accessed Nov. 10, 2015.

Fixed Index Annuity

Today, there is another option that is fast becoming a popular choice to help supplement a portion of your retirement income. The fixed index annuity (FIA) enables you to convert a current asset into guaranteed income.* The FIA protects your hard-earned retirement savings and offers the potential for growth via an interest credit based on the performance of an external market index — without participating directly in the stock market, and without being subject to the risk of loss when that index does not perform well. You also may have the option to purchase a rider (for an additional fee) that guarantees you'll receive retirement income for the rest of your life or provide for loved ones upon your death.

The FIA is designed for risk-averse retirees who want growth but cannot afford losses during retirement. Your initial premium is protected, the interest credits you earn are protected and you can even lock in a guarantee that the income you receive will increase over time to keep pace with inflation.

An FIA helps protect your retirement savings throughout the most key phase of your life — when you no longer have a long-term time frame to recover from market losses. A viable alternative to shrinking pension plans, the FIA is a good source for reliable income in retirement. In doing so, you transfer both market risk and the risk of outliving your retirement income to the issuing insurance company.*

*Guarantees backed by the financial strength and claims-paying ability of the issuing insurer.

Long-Term Care Costs

Because Americans are living longer than they ever have before, the chances of needing long-term care are much higher, and this is an expense that could be far greater than your Social Security benefits will cover. In fact, the median annual cost for care in an assisted living facility is $43,200.[23]

There are a number of options for covering long-term care expenses, each with its own advantages and disadvantages. It makes sense to discuss your options with a licensed insurance agent or other qualified individual, such as a tax advisor or attorney.

Medicare

Medicare may pay for up to 100 days of care in a skilled nursing facility for each benefit period, but it only pays 100 percent for the first 20 days in each period, the remaining days require a copayment. Those benefits may not be available for home care, and once Medicare stops paying, any Medicare supplement insurance policy will also stop paying. It's also important to remember that Medicare pays for acute care, but not for long-term residency.

[23] Genworth Financial. March 20, 2015. "Genworth 2015 Cost of Care Survey." https://www.genworth.com/corporate/about-genworth/industry-expertise/cost-of-care.html. Accessed Nov. 10, 2015.

Medicaid

Medicaid may be available to pay for some long-term care services both at home and in the community, but it does set limits on the amount of assets you may own and the amount of income you may receive each month in order to be eligible for benefits. Coverage eligibility varies from state to state.

Personal Savings

You could plan to use your personal savings to cover any long-term care costs you may encounter, allowing you to maintain control over your assets and ensure there are no restrictions on the type of care you choose to receive. However, as stated earlier, these costs can be considerable. If long-term care costs increase, and your retirement assets shrink, you may run the risk of depleting your retirement savings and your freedom to choose the care you need may become limited as your retirement savings are reduced.

Long-Term Care Insurance

Long-term care insurance may be a more sensible option, increasing the funds you have available to pay long-term care expenses and allowing you to transfer the risk of long-term care expenses away from your current retirement assets to an insurance company. However, the insurance will come at a cost, and generally speaking, the longer you wait to purchase long-term care insurance the higher the premiums are likely to be. In addition, the premiums may not be guaranteed and could increase in later years, and if you never need long-term care, the money you spend in premiums may be lost.

Life Insurance With Accelerated Benefits

Another option for helping to pay long-term care expenses is a life insurance policy with accelerated benefits. A universal life insurance policy with an optional accelerated benefits rider offers an income tax free death benefit as well as limited access to the policy's death benefit (subject to qualifications), which could be used to help cover expenses associated with long-term care.[24] This customized strategy may help you protect your financial and retirement assets while providing confidence that you'll be able to fund potential long-term care needs.

[24] Actual rider benefit amount will vary according to the rules and restrictions of the specific universal life insurance product selected and will reduce the ultimate death benefit and cash value. Some accelerated benefit riders may require an additional fee; riders and/or life insurance products may not be available in all states. Accelerated benefits are not a replacement for long-term care insurance and are subject to eligibility requirements. In most cases, a licensed physician must deem the insured incapable of performing at least two of six activities of daily living to qualify for benefits.

Longevity Annuity

In early 2012, the Treasury Department issued several regulations to encourage plan sponsors of employer-based pension and 401(k) plans to enable retirees to use a portion of their 401(k) plan to purchase a longevity annuity. With this option, a portion of their balance would be reserved for conversion to annuity income starting later in life, around age 80 or 85. There may be no cash value on the death benefit during the deferral period; the rest of the account would be available for withdrawals for the first phase of retirement. This arrangement can assure that you have a second leg of income available should you run out midway through retirement.

CONCLUSION

Obviously, it's important to build a savings/investment nest egg to help supplement Social Security benefits with your personal retirement income sources. However, given today's health and longevity among older Americans, it is equally important to create a long-term health care plan to help prepare for a more satisfactory quality of life in your senior years.

The simple fact is that Social Security may not always be straightforward. Just like every other facet of retirement income planning, there are strategies you can employ to potentially optimize the benefits you are eligible to receive – particularly among married couples.

Many people are hesitant to delay receiving benefits because they don't want to lose money they've contributed to the system for the past 35 years. While people who apply for Social Security benefits early may get more dollars if they die soon after, the opposite may also be true – they may receive less if they live significantly longer.

The monthly benefit paid out at age 62 is actuarially reduced to account for the eight more years that the recipient will be paid benefits as compared to someone who begins drawing payouts at age 70. Waiting to claim benefits until age 70 will result in an increase in your benefits for each year you delayed claiming benefits. The percentage of increase will vary depending on the year you were born. Those born in 1943 or later will see an 8 percent increase in benefits for each year they delay taking benefits, up to age 70. [25]

What's most important in making Social Security decisions for your situation is at what point you can no longer live comfortably without those benefits due to job loss, health care expenses or other issues. The question isn't how to beat the system, but rather how to potentially optimize the amount of income you receive for the length of time that you need it.

For this reason, it can be worthwhile to speak with a financial professional before you begin drawing benefits in order review possible payout scenarios for Social Security benefits to help determine the most appropriate time for you to begin drawing benefits. This can also include a discussion about the role of insurance products in your overall financial picture. Your financial professional can provide information, but not advice, related to Social Security benefits. For more information, please contact your local Social Security Administration office, or visit www.ssa.gov regarding your particular situation.

[25] Social Security Administration. January 2015. "Retirement Benefits." http://www.ssa.gov/pubs/EN-05-10035.pdf, page 7. Accessed July 15, 2015.

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