

# Will the increase of the Social Security benefit in 2012 make a difference in your financial plans?

Wealth Management Insights December 2011

For the first time in two years, Social Security recipients will receive an increase to compensate for the increased cost of living in 2012. Given the current economic environment, this development could impact the financial plans of the one in five Americans who currently receive Social Security, as well as those trying to determine when they should start taking their benefits.

.....  
In general, the longer you expect to live after retirement, the better off you are deferring the start of your payments.  
.....

## What You Should Know:

### 1. How are benefits increases decided?

Contrary to many people's belief, neither the current administration nor Congress determines if Social Security recipients need a raise in any given year. Cost-of-living adjustments for benefits are set automatically according to an inflation measure established more than 35 years ago.

- The last time the inflation measurement warranted a COLA increase was at the end of 2008. The resulting increase for 2009 was larger than normal because of increased energy prices in late 2008.
- The formula does not account for all increases in everyone's living costs. For instance, Medicare Part B premiums will be higher in 2012. These premiums are

deducted automatically from monthly Social Security payments to cover doctor visits for many recipients. However, the amount of the increase – \$3.50 more per month for most beneficiaries, according to the U. S. Department of Health and Human Services – was not announced until after the 3.6% COLA, which the Social Security Administration estimates will average \$43 more per month for most recipients.

- Fears of a “double-dip” recession in the United States has driven prices for staple commodities, such as oil and food, down from the highs reached last spring. More recently, however, those prices have begun to climb again, reinforcing the need for cost of living increases. ▶

## 2. When you file for benefits can make a difference

If you're at or approaching retirement age, you should consider all aspects of your financial picture when deciding when to start receiving benefits. Eligibility for most people begins at age 62, but many continue to work well beyond that age. Until you reach Full Retirement Age – between ages 65 and 67, based on your year of birth – wages or self-employment income earned while receiving Social Security can greatly reduce or even eliminate your benefits. Once you reach FRA, however, you can have unlimited earnings without penalty. Therefore:

- If you retire early, Social Security can immediately replace a portion of your lost income, but this benefit should be compared to the larger benefit amount you could receive by waiting.
- If you stop working and defer benefits until later, consider other sources of income you might rely on until you reach FRA (see No. 3 below).
- Health and family history should also be considered. In general, the longer you expect to live after retirement, the better off you are deferring the start of your payments.
- A spouse, minor or disabled children and dependent parents all can potentially collect benefits based on your earnings. Taking benefits early and allowing other family members to receive benefits, even if for a relatively short time, could be more advantageous than deferring them.

## 3. Social Security should be part of a broader plan

What could confound the Fed's efforts and bond investors is inflation, which has been a growing concern for some economists.

- Other sources of income – such as those you could receive from a properly calibrated and managed mix of fixed-income and dividend-yielding equity investments – could allow you to defer the start of benefits, ultimately leading to a larger annual benefit amount and a significant increase in lifetime benefits.
- Using personal savings in the early years of retirement allows you to take advantage of delayed retirement credits for deferring Social Security beyond your FRA. This option might be particularly attractive in what many expect to be a persistently low-interest-earning environment for money markets and other savings vehicles.

### What You Should Do Now:

If you're currently receiving Social Security Benefits and want to get a better sense of what 2012's cost-of-living adjustment might mean for your particular situation, or if you are wondering when it makes the most sense to start receiving your benefits, talk to your Financial Advisor. In many cases, there are planning strategies that could help you and your family maximize your Social Security benefits within your lifetime. ■

---

*Stocks and bonds are materially different investments and an investment should not be made in stocks for the sole purpose of attempting to generate investment income. Investments in high-yield corporate bonds typically offer higher yields than investment-grade securities, but they also include greater risks including increased credit risk and the increased risk of default or bankruptcy. There is the potential for loss of principal in any investment.*