



Vanguard Research Insight

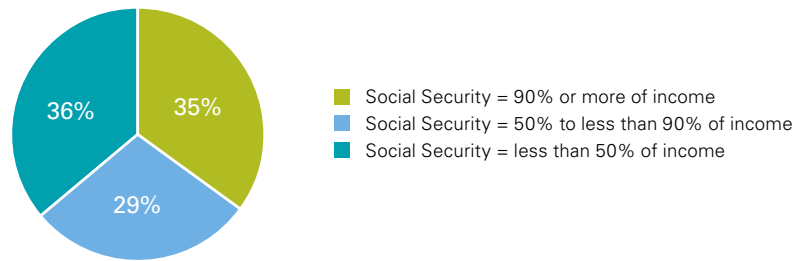
Ready to retire? Don't rush your Social Security start date

Vanguard research | February 2016

For most Americans, Social Security is a big part of their retirement income

An estimated 91% of Americans aged 65 or older receive Social Security benefits¹—the average annual benefit for a retiree is about \$16,000.² For most of these retirees (64%), Social Security represents a significant portion of their income. Even for affluent retirees (those aged 60–79 with at least \$100,000 in financial assets), Social Security accounts for 29% of total retirement income, on average.³ Given that Social Security provides a base level of guaranteed income for most retirees, it's an important benefit for investors and their advisors to consider when designing a comprehensive plan for retirement income.

Social Security: A major income source for most people aged 65 and older

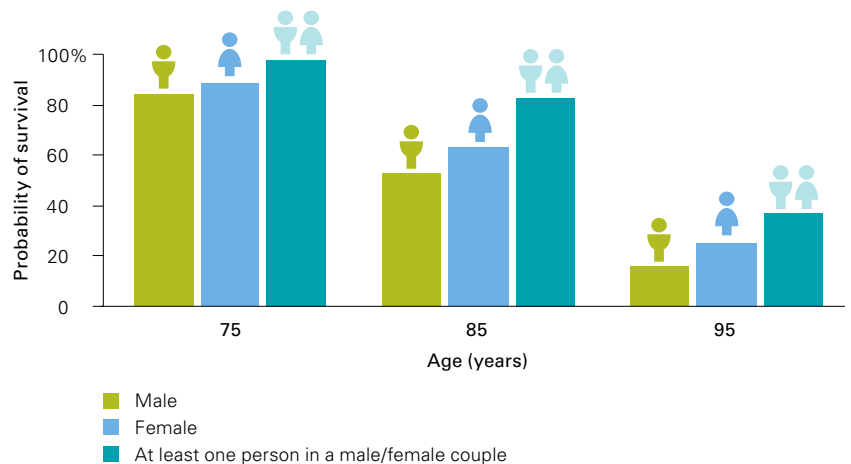


Sources: Vanguard calculations, based on data from U.S. Social Security Administration's *Fast Facts & Figures About Social Security*, 2015 (see footnote 2, below).

By delaying Social Security, retirees can stretch their savings

In the past, the decision as to the "right" time to claim Social Security has often been based on a break-even analysis of a retiree's expected benefits versus his or her life expectancy. That approach, however, ignores two key features of Social Security, namely: Once you start receiving it, it's paid for the rest of your life, no matter how long you live, and is adjusted upward for inflation. A big concern for most retirees is the risk of outliving their savings. For many retirees who can afford to do so, deferring Social Security for a few years (even past their "full retirement age"—defined by Social Security according to one's birth year—to the maximum annual benefit at age 70) greatly increases their lifetime monthly benefit. Given that at age 65, more than 50% of women can expect to live past age 88 (and 50% of men past 85), delaying Social Security can provide powerful longevity protection.

For many individuals and couples, retirement can span 30 years



Note: Chart assumes mortality rates from RP-2014 head-count-weighted tables projected with scale MP-2014 and a starting age of 65.

Sources: Vanguard calculations, based on data from Society of Actuaries, 2014, *RP-2014 Mortality Tables Report* (Schauberg, III.: Society of Actuaries); available at soa.org/Research/Experience-Study/pension/research-2014-rp.aspx. Also Society of Actuaries, 2014, *Mortality Improvement Scale MP-2014 Report* (Schauberg, III.: Society of Actuaries); available at soa.org/Research/Experience-Study/Pension/research-2014-mp.aspx.

1 U.S. Census Bureau, Population Division, June 2015, Annual Estimates of the Resident Population for Selected Age Groups by Sex for the United States: July 1, 2014 ; available at factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=bkmk. Also U.S. Social Security Administration, 2015, *Annual Statistical Supplement to Social Security Bulletin, 2015* (Washington, D.C.: U.S. Government Printing Office). (Note: All Social Security benefit amounts shown in this research brief are before any federal income tax.)

2 U.S. Social Security Administration, 2015, *Fast Facts & Figures About Social Security* (Washington, D.C.: GPO).

3 Anna Madamba, Stephen P. Utkus, and John Ameriks, 2014. *Retirement Income Among Wealthier Retirees* (Valley Forge, Pa.: The Vanguard Group).

Social Security acts like an inflation-protected annuity

The act of delaying the claiming of Social Security is analogous to purchasing an inflation-protected deferred income annuity. Benefits increase by up to 8% in real terms for every year that claiming is delayed. The adjacent chart demonstrates the effectiveness of a deferred claiming strategy both for increasing guaranteed income and providing longevity protection. Also, in the case of a married couple, one of whom, for instance, delays claiming until age 70 (for maximum benefit), a surviving spouse receives the larger of the two Social Security benefits—thus further demonstrating Social Security’s role in protecting lifetime income.

Delaying Social Security increases the benefit received

Annual hypothetical combined benefits for a couple at age (years):

Claiming age	Age 62	Age 66	Age 70	Survivor
62/62	\$36,000	\$36,000	\$36,000	\$18,000
62/66	\$18,000	\$42,000	\$42,000	\$24,000
66/66	\$0	\$48,000	\$48,000	\$24,000
62/70	\$18,000	\$18,000	\$49,680	\$31,680
66/70	\$0	\$24,000	\$55,680	\$31,680
70/70	\$0	\$0	\$63,360	\$31,680

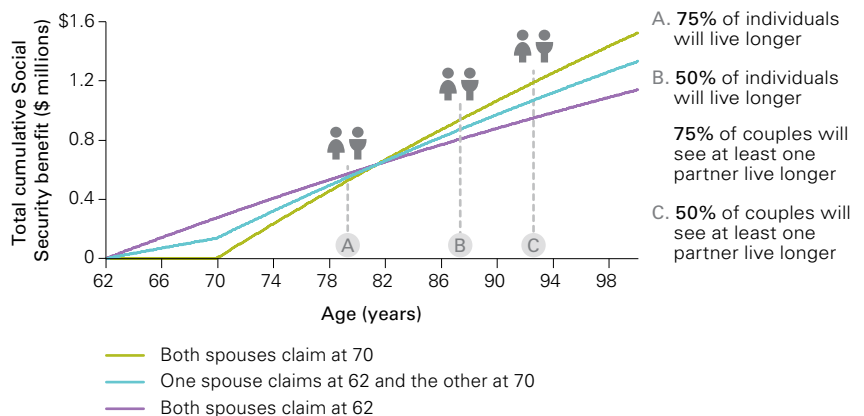
Notes: Chart assumes beneficiaries are born between 1943 and 1954 and thus reach “full retirement age” (FRA) at 66; also, that each has a “primary insurance amount” (Social Security benefit at FRA) of \$2,000 per month.

Sources: Vanguard calculations, based on U.S. Social Security Administration data at ssa.gov, 2015.

Thoughtful claiming strategies can help retirees make the most of their benefits

A careful review of Social Security regulations, your financial situation, and any health considerations you may have are crucial to developing a strategy to maximize income during retirement. (Note that the regulations can be complex, and you may benefit from seeking professional advice.) For individuals in poor health or with little or no other financial resources, early Social Security claiming may be appropriate, but for most retirees, the increase in guaranteed income gained by deferring Social Security makes waiting to start benefits an appropriate strategy. The accompanying chart shows the potential impact on a couple’s lifetime Social Security income of three different approaches: both spouses claiming at 62 (the earliest possible age), a hybrid strategy where one spouse claims at age 62 while the other delays until age 70, or both spouses delaying until age 70 to accumulate the maximum amount of delayed retirement credits.

The power of longevity protection provided by deferring Social Security



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