

Retirement Planning: How important is Social Security to your retirement planning?

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Planning for retirement is different for all of us. Some of us think about retiring at age 55; some at age 65. Some people never plan to retire until their health prevents them from working. Others look forward to semi-retirement and doing part-time work or charitable work. One thing is for certain, we all have a different definition of what retirement means to us.

Prior to the 1930's retiring from the work force was relatively uncommon. The traditional retirement model of retiring at age 65, developed in 1932, is based on a 75-year-old Social Security model. One precept of this model is the intention to provide only 40% of the median wage earners pre-retirement salary.

In 1932, with 20% unemployment and the world in the midst of The Great Depression, discussion led to an "experiment" called Social Security. According to Ken Dychtwald, a gerontologist, historian and authority on aging and Social Security, the Social Security experiment began designed to guarantee income to older workers so they would leave their jobs and free up slots for younger workers. Prior to Social Security, workers stayed in the work force as long as they were healthy and productive.

Age 65 was selected as the normal social security retirement age because the average life expectancy of a person born in 1932 was 65. In 2008, the average life expectancy of a newborn is 77.

Dychtwald, in his book **The Power Years: A Guide to the Rest of Your Life**, declared – "It's time to retire retirement." He believes that continuing to work, by downshifting to part-time employment or changing to a more fulfilling career is the way to continue to be vibrant, connected, fulfilled and healthy. It's also a way to continue to earn money and provide greater financial security. Dychtwald states – "Logically, doesn't it make sense that the social security retirement age be moved to age 77 to match the increase in life expectancy?"

Attempts to move the normal retirement age to later ages have met with a great deal of resistance. Currently, for those persons born in 1954 and beyond, the normal retirement age will be 67, yet further attempts to move the retirement age back have been met with resounding opposition.

Historically, 50% of people attaining age 62, begin receiving their SSI benefits and only receive 75% of the full retirement benefit available at age 65. Forty-seven percent start their benefit between ages 63 and 65. Only 3% of Social Security beneficiaries have delayed receiving benefits at age 70, even though they will receive 132% of their full retirement benefit. By waiting to start your SSI payment at age 70 versus age 62, you can increase your SSI payments by 76%, for an average annual return of 7.32%. Also, by delaying SSI benefits to age 70, you can reduce the amount of savings needed at retirement by about 40%.

The table below demonstrates how a couple making \$70,000 per year and delaying retirement from age 62 to 70 can decrease the amount of retirement nest egg needed by \$617,000.



Current Annual Salary	Current Salary after FICA tax & savings	Age you retire	80% of current salary after tax and savings	Annual SSI payment received	Annual Income gap need to be funded	Assets needed to produce income thru Joint life annuity
\$77,000	\$63,410	62	\$50,728	\$20,088	\$30,640	\$963,900
\$77,000	\$63,410	66	\$50,728	\$27,648	\$23,080	\$683,600
\$77,000	\$63,410	70	\$50,728	\$38,136	\$12,592	\$347,000

The most significant factor that determines how much you need to save for retirement is "when" you choose to start your Social Security benefits. The longer you delay those benefits, the less savings you will need.

Watch for future articles on how you can calculate the amount you need to save for retirement. You can also visit our website for more financial planning articles www.wflains.org.