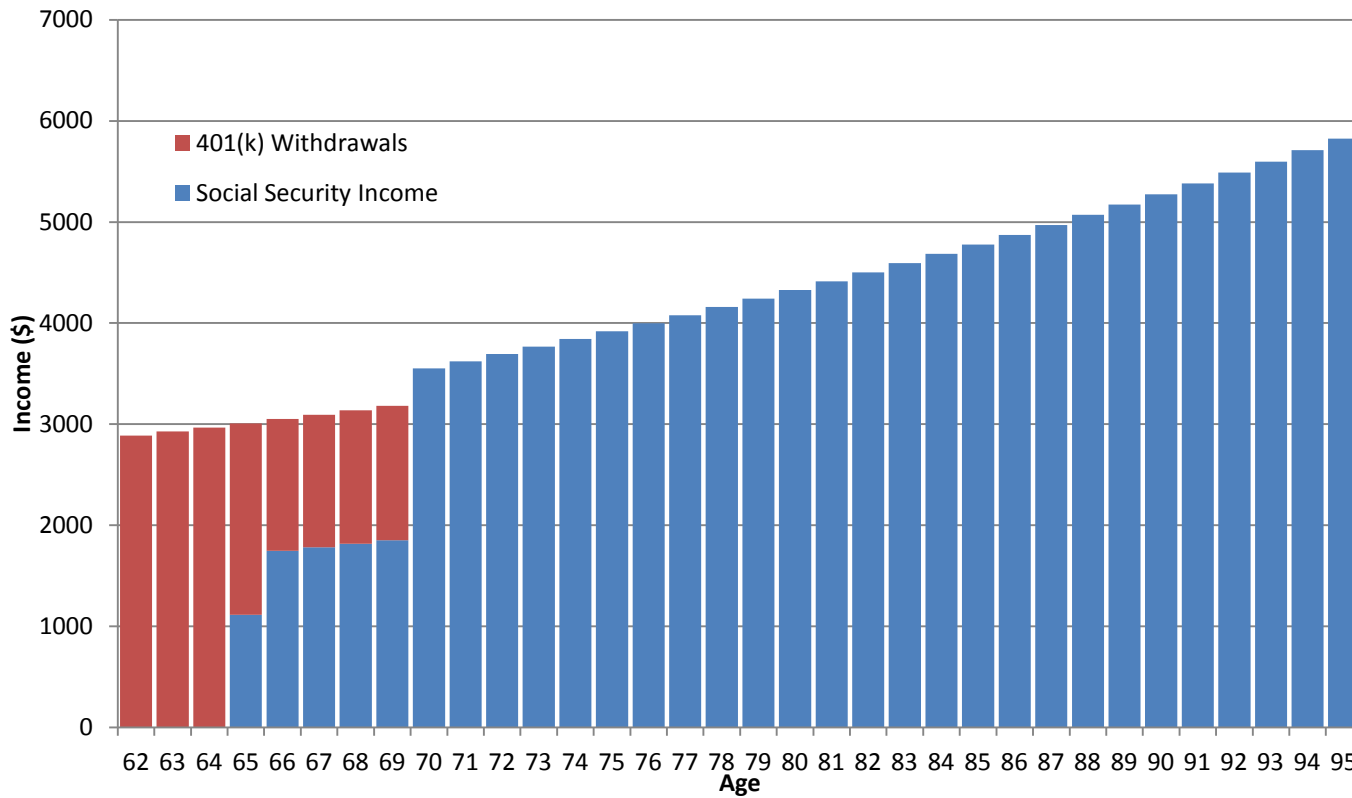


# *Efficient Retirement Design:*

Combining Private Assets and Social Security to Maximize Retirement Resources



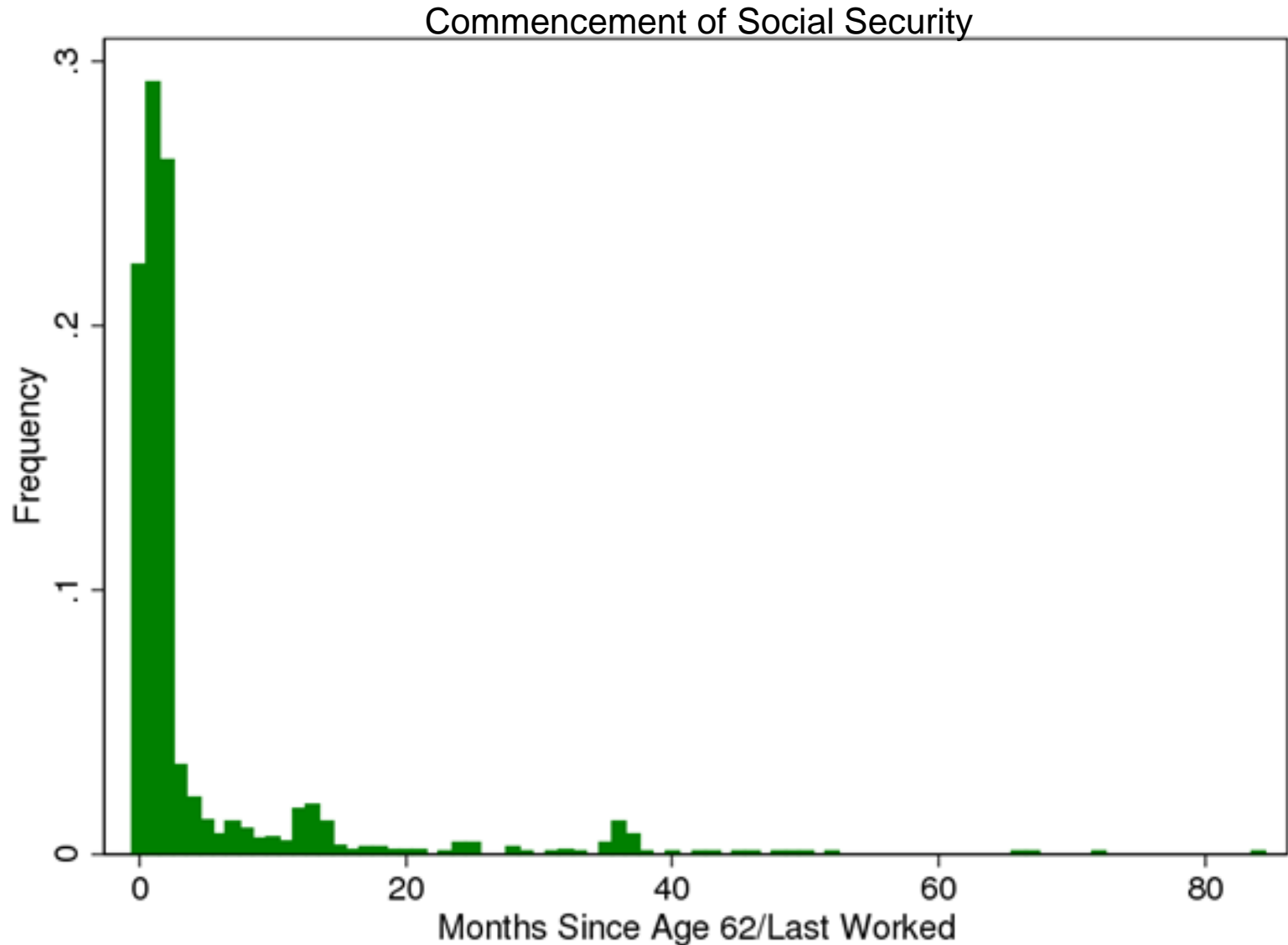
John B. Shoven

Sita Nataraj Slavov

Research Supported by the Social Security Administration and the Sloan Foundation

# What is the Prevalent Retirement Design?

Answer = Start Social Security Almost Immediately



# What Could People Do?

- Separate retirement and Social Security commencement decisions
- Social Security benefits are increased (actuarially adjusted) for later commencement
- DC assets could be used to finance deferral rather than to supplement Social Security benefits

# The Actuarial Adjustments for Delaying Social Security Commencement

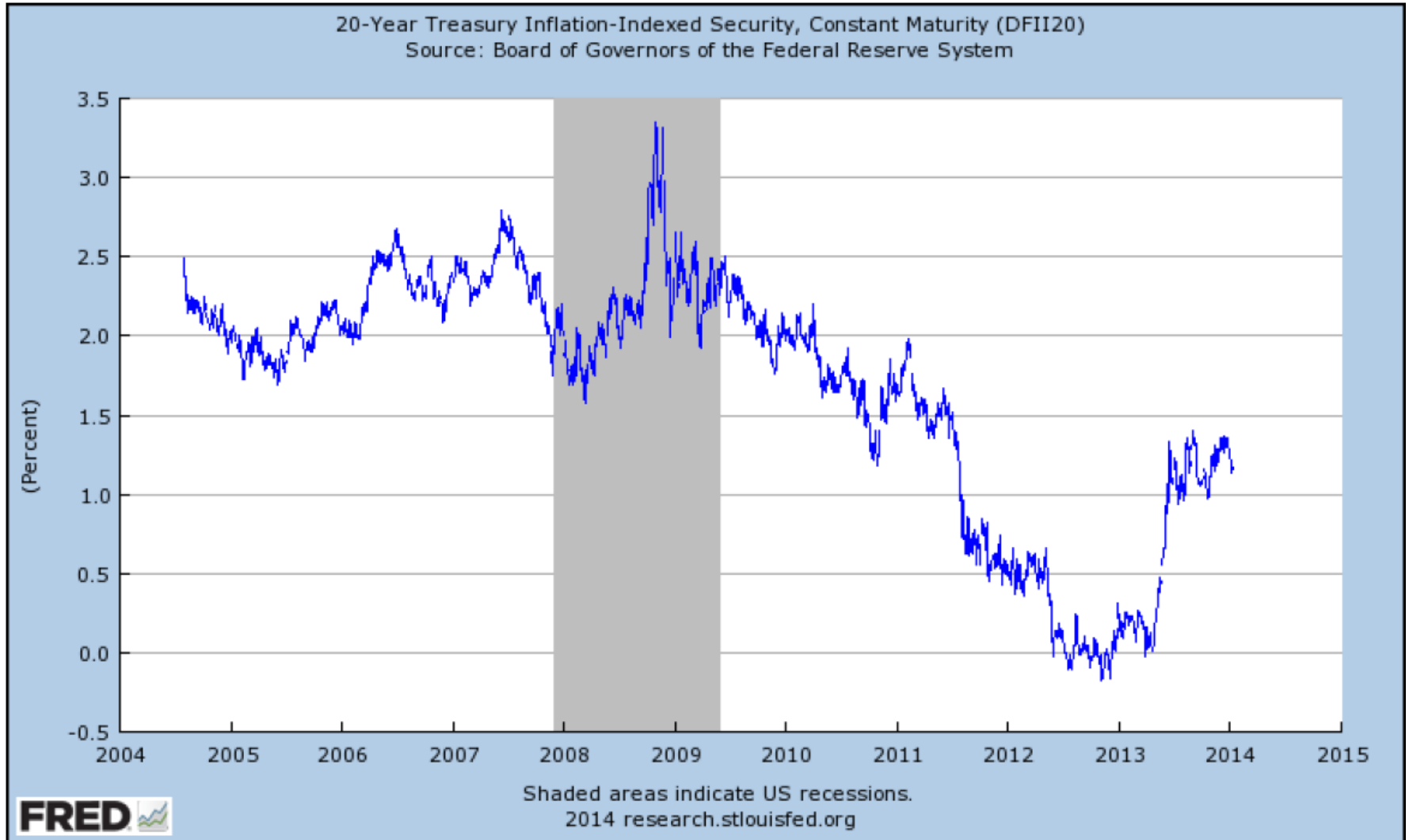
% Change in Monthly Benefit

Defer to

<b>70</b>	<b>76.00</b>	<b>65.00</b>	<b>52.31</b>	<b>41.43</b>	<b>32.00</b>	<b>22.22</b>	<b>13.79</b>	<b>6.45</b>
<b>69</b>	<b>65.33</b>	<b>55.00</b>	<b>43.08</b>	<b>32.86</b>	<b>24.00</b>	<b>14.81</b>	<b>6.90</b>	
<b>68</b>	<b>54.67</b>	<b>45.00</b>	<b>33.85</b>	<b>24.29</b>	<b>16.00</b>	<b>7.41</b>		
<b>67</b>	<b>44.00</b>	<b>35.00</b>	<b>24.62</b>	<b>15.71</b>	<b>8.00</b>			
<b>66</b>	<b>33.33</b>	<b>25.00</b>	<b>15.38</b>	<b>7.14</b>				
<b>65</b>	<b>24.44</b>	<b>16.67</b>	<b>7.69</b>					
<b>64</b>	<b>15.56</b>	<b>8.33</b>						
<b>63</b>	<b>6.67</b>							
	<b>62</b>	<b>63</b>	<b>64</b>	<b>65</b>	<b>66</b>	<b>67</b>	<b>68</b>	<b>69</b>

Defer From

# One Reason that Deferring Social Security is Attractive: Market Interest Rates are Low



# Another Reason: People are Living Much Longer

## Life Expectancy of People in Their 60s Today

Age	Men	Women
60	23.41	26.04
61	22.57	25.13
62	21.73	24.23
63	20.90	23.32
64	20.06	22.44
65	19.26	21.56
66	18.45	20.69
67	17.65	19.83
68	16.88	18.99
69	16.11	18.15
70	15.36	17.33

Based on Social Security Cohort Life Tables

# Life Expectancies for Couples

Husband	Wife	Yrs. To 1st Death	Yrs. To 2nd Death	Widowhood Length
62	60	17.99	29.79	11.80
63	61	17.22	28.81	11.59
64	62	16.46	27.83	11.37
65	63	15.71	26.86	11.15
66	64	14.98	25.91	10.92
67	65	14.27	24.95	10.68
68	66	13.56	24.01	10.45
69	67	12.87	23.07	10.20
70	68	12.20	22.14	9.95

Based on Social Security Cohort Life Tables

# Deferring is a Much Better Deal for the Higher Earner in a Couple

- Survivor (widow) benefits are based on the higher of the two individual benefit amounts
- Higher earner's benefits are paid out as a second-to-die annuity (for 22 to 25 years)
- Lower earner's benefits are paid out as a first-to-die annuity (12 to 15 years)



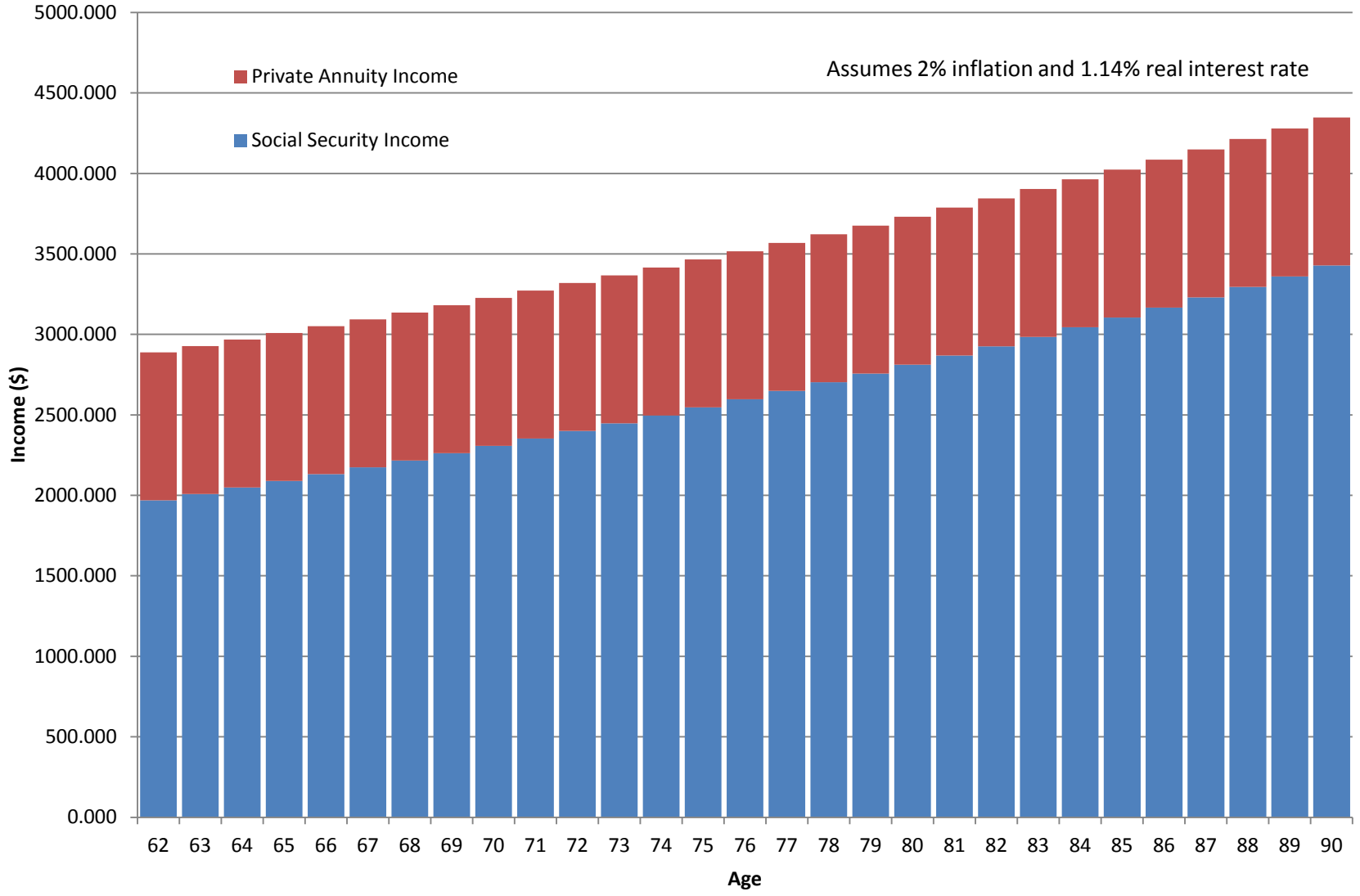
# To Maximize Lifetime Benefits ...

- Single men in average health should defer to 69
- Single women in average health should defer to 70
- For a couple in average health:
  - Higher earner should defer to 70
  - When the lower earner starts benefits doesn't make much difference

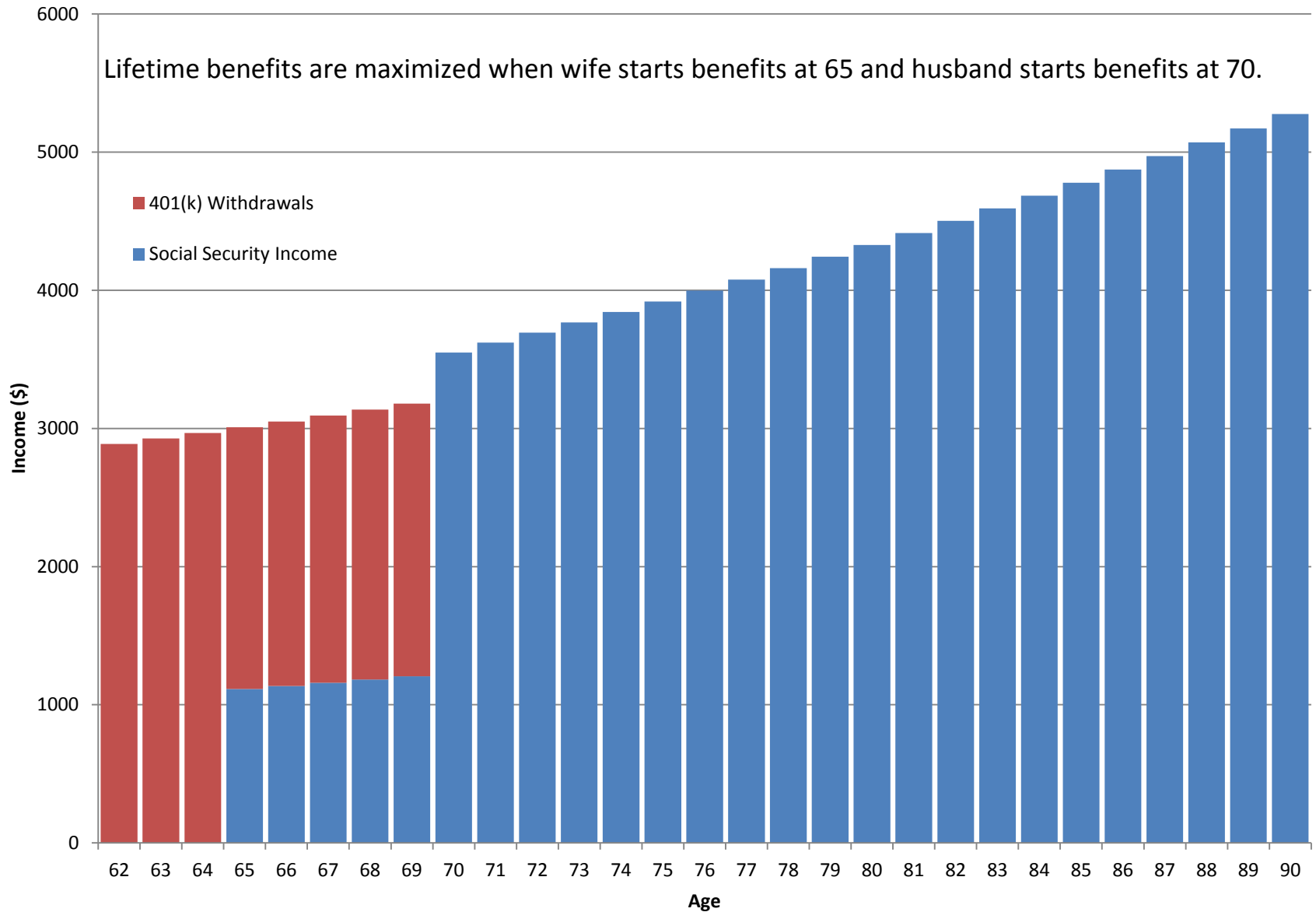
# Case Study of Two-Earner Couple

- Husband and wife aged 62, in average health, have stopped working
- Husband's benefit at FRA is \$1,500 (plus COLAs) and wife's benefit at FRA is \$1,125 (plus COLAs)
- Combined 401(k) Assets are \$201,626
- Common Strategy: Start Social Security at 62 and buy annuity with 401(k) funds
- Benefit Maximizing Strategy: Husband Defers to 70, wife to 65

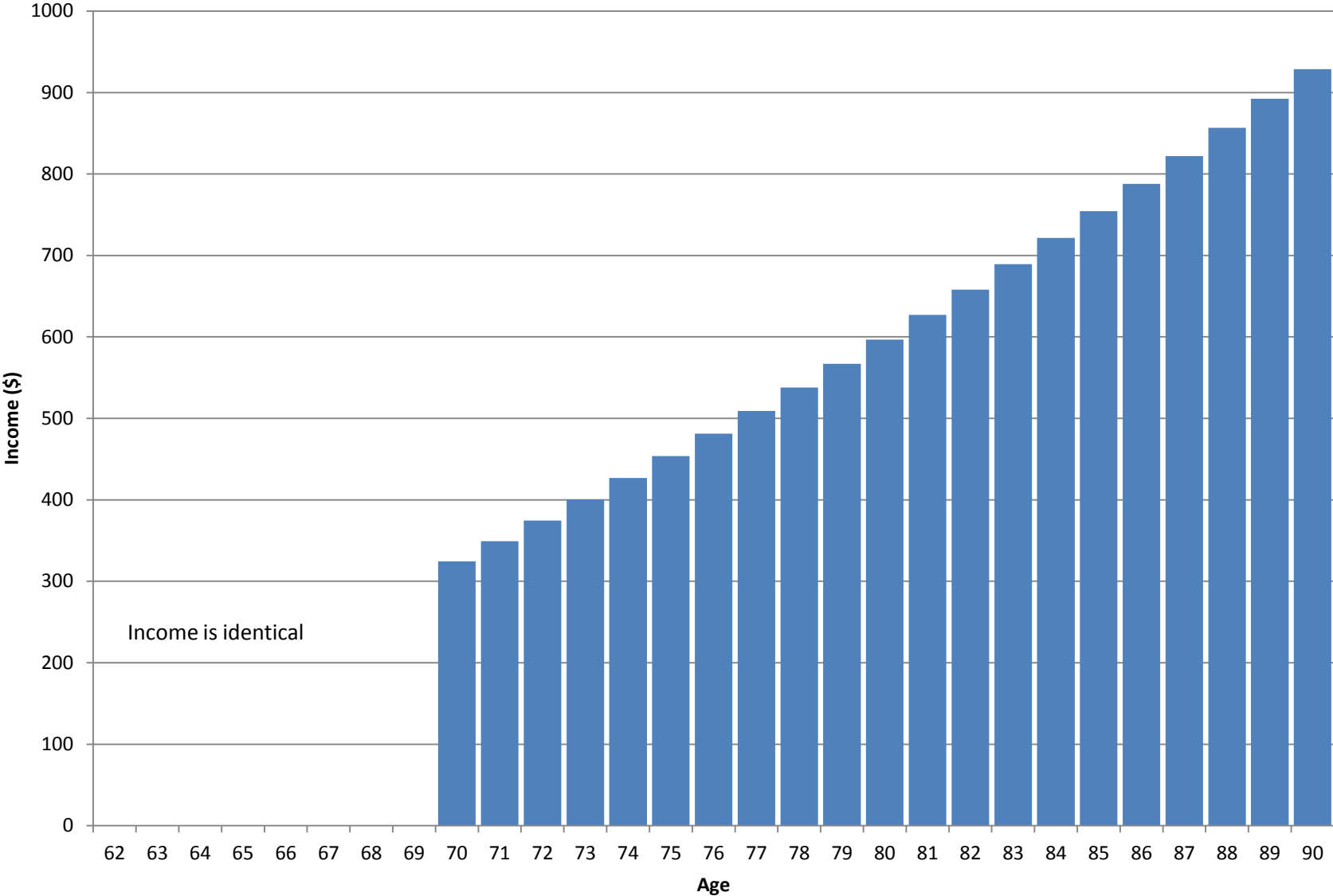
# Couple's Income with Immediate Commencement and Annuity Purchase



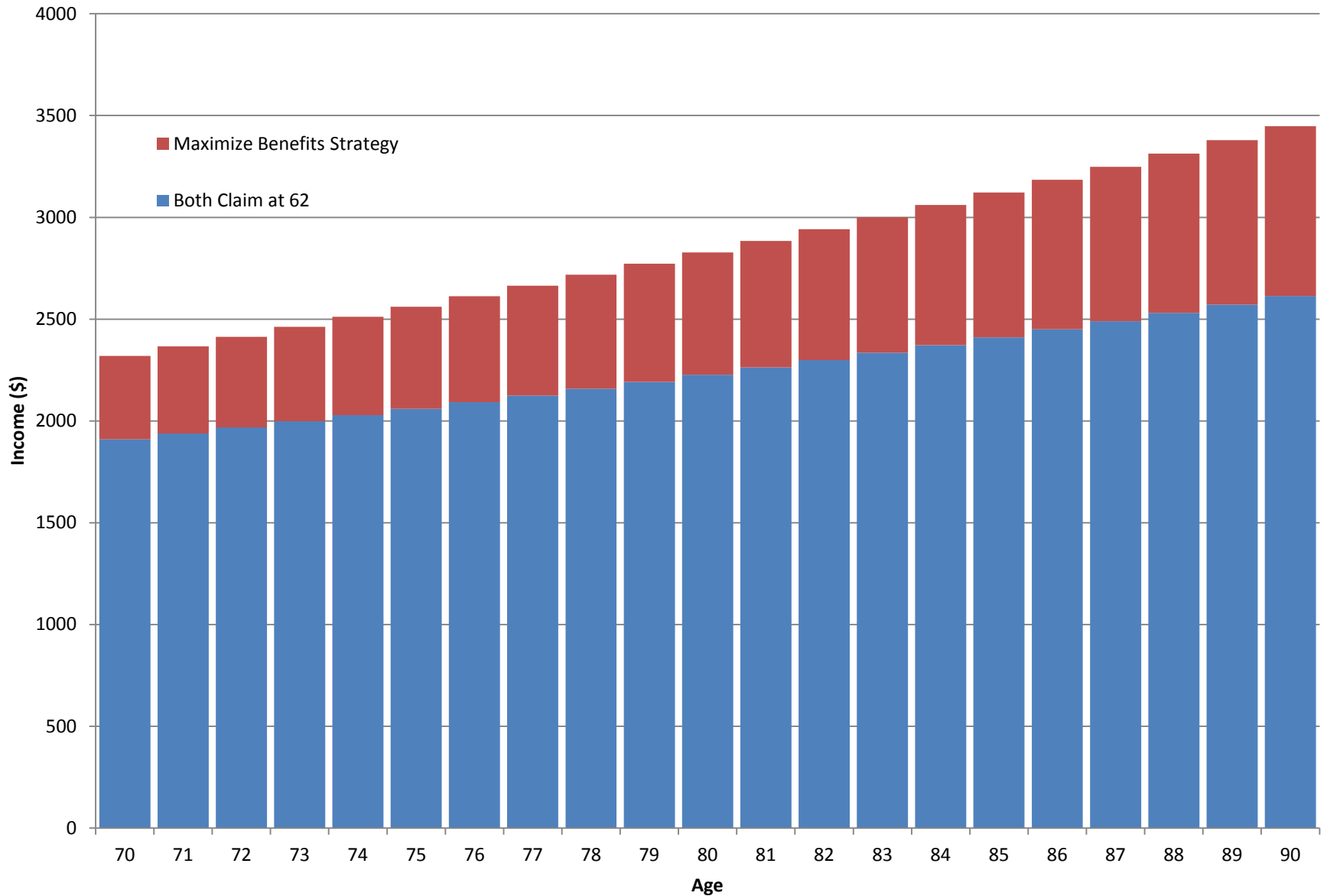
# Couple's Income with Efficient Retirement Design



# Difference in Income at 70 and Beyond



# Advantage : 28-41% Higher Widow's Benefits



# Add It Up

- Couple Has Same Income from 62-69
- 10-21% more per month from 70 onwards
- Survivor (widow) enjoys 28-39% more income
- Children may benefit since likelihood of a dependent widow is reduced
- Deferring to 65 (wife) and 70 (husband) dominates the outcome where both spouses start Social Security at 62