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THE FAMILY ISSUE

HOW TO BUILD A **LEGACY** OF WEALTH AND PURPOSE THAT ENDURES FOR **GENERATIONS**

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"What role does Social Security play in your retirement planning?"

By Amy Kothmann

Wealthy retirees may not be as reliant as others on Social Security to sustain their long-term cash flow needs, but the benefits still play a role in every retirement plan.

The key is to implement a strategy that maximizes Social Security for your retirement situation. When making this decision, there are three crucial components for retirees to consider: when to begin benefits, how long to expect to receive them and how they fit into an overall financial plan.

Claiming date is critical: You can claim Social Security benefits as early as age 62, but doing so reduces the amount you will receive and makes your election permanent. This is an important issue for couples, who will eliminate their ability to switch between dual-claiming strategies such as spousal benefits and file-and-suspend combinations.

Waiting until full retirement age, which ranges from 65 to 67 depending on your birth year, is optimal. This allows you to receive 100 percent of your earned benefit, and offers the flexibility to switch between strategies later.

Past full retirement age, you have the option to further delay benefits until age 70, earning an approximate 8 percent increase for every year you delay. This annual increase creates a significant investment opportunity, as few, if any, investments guarantee that level of return.

Life expectancy considerations: While delaying Social Security benefits leads to higher payments, you must also consider life expectancy.

Social Security Administration data indicate that a man reaching age 65 today can expect to live to 84.3; a woman can expect to live to 86.6. Wealthier demographics fall on the high side of these expectations, likely due to greater accessibility to preventative care and other healthcare.

These projections support deferred benefits, as the typical break-even age where delaying becomes more optimal is in a claimant's mid-80s. However, these are general observations. It is important to take your particular situation into consideration.

Someone with significant health issues or a life-threatening disease may not have the time horizon to reap the benefits of deferral.

However, keep in mind that an early claim also affects Social Security benefits for your spouse or dependents. In these situations, waiting still may be the best way to maximize long-term benefits for your survivors.

Coordinating all benefits: Considering how Social Security claim strategies fit into your overall financial plan is critical. Specifically, how will benefits coordinate with other portfolio assets?

Consider, for example, individual retirement accounts.

Many individuals postpone traditional IRA distributions until the Internal Revenue Service mandated age of 70½. However, this can lead to large unanticipated tax hikes when combined with Social Security benefits deferred until age 70. In some instances, beginning withdrawals from an IRA prior to 70 can actually reduce overall income taxes by spreading the income over a longer time horizon at likely lower tax rates if withdrawals are made during post-working years.

Roth conversions during retirement years prior to 70 are also a great tax-planning opportunity. You can realize a portion of IRA assets at current tax rates, while earmarking those assets to grow tax-free without future required minimum distribution requirements. This can be especially impactful where a retiree has a significant amount of assets in taxable brokerage accounts: You can re-characterize a portion of IRA assets now and maintain the ability to reduce taxable accounts by using those assets to supplement cash flow needs instead of the converted IRA monies.

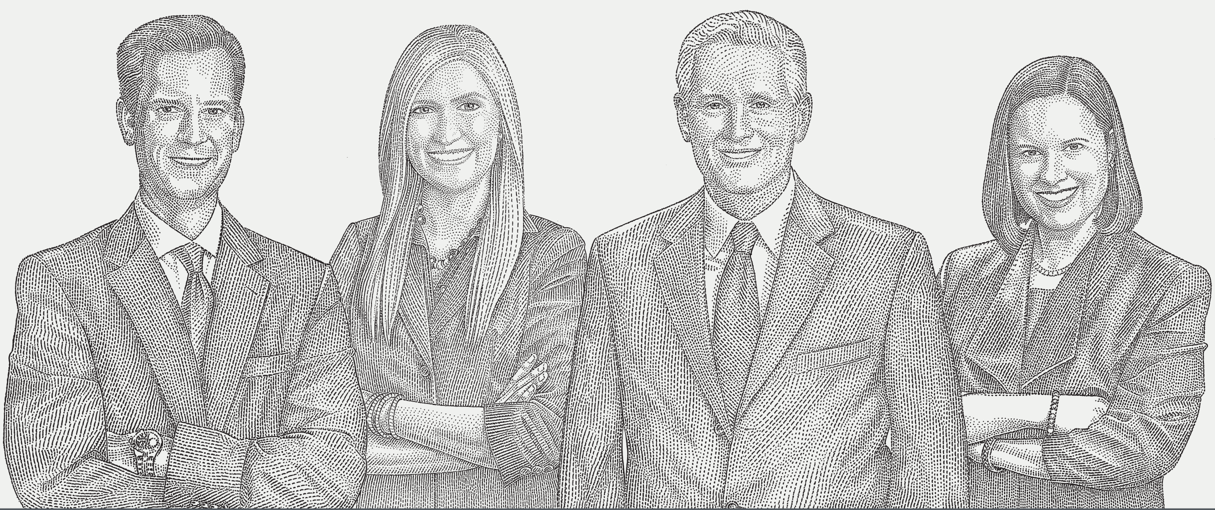
So, while Social Security is a benefit most of us will eventually enjoy, how and when must be carefully reviewed. Your wealth manager can help you determine what strategy is ideal for your situation, as well as identify opportunities to maximize your benefits.

"In some instances, beginning withdrawals from an IRA prior to 70 can actually reduce overall income taxes by spreading the income over a longer time horizon at likely lower tax rates if made during post-working years."

—Amy Kothmann

How to reach
Richard P. Slaughter Associates

You can reach any member of our team at 512.918.0000. We look forward to speaking with you.



Left to right: Bob Tabor, Amy Kothmann, Brooks Slaughter, Darby Armont

ILLUSTRATION BY KEVIN SPROULS

About Richard P. Slaughter Associates

Richard P. Slaughter Associates is a leading wealth management firm, specializing in delivering tailored strategies as a fiduciary and advocate for high net worth individuals, families and businesses. Slaughter Associates constructs wealth management strategies around a financial plan, providing active, diversified and conservative asset management through internal experts. These experts establish a collaborative relationship with clients and all their financial service professionals, helping clients navigate the financial complexities that high net worth individuals and families face. Founded in 1991 in Austin, Texas, by Richard P. Slaughter, Slaughter Associates is one of the original fee-based firms in the nation. Through its subsidiary, RPS Retirement Plan Advisors, Slaughter Associates works with corporate clients by providing 3(38) fiduciary services, which help mitigate risk for plan sponsors and secure retirement readiness for employees. With offices in both Austin and the Dallas–Fort Worth Metroplex, Slaughter Associates has been recognized by the National Association of Board Certified Advisory Practices as a Premier Advisor and has been awarded Exemplary status for expertise in personal risk management.

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Largest Client Net Worth
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Minimum Fee for Initial Meeting
None required

Minimum Asset Requirement
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Asset-based and hourly fees

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Association Memberships
Financial Planning Association, The National Association of Personal Financial Advisors

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