Maximize Your Social Security for Retirement

FISHER INVESTMENTS®

Maximize Your Social Security for Retirement

Social Security benefits can be an important source of cash flow in retirement and the amount you'll receive is directly affected by the decisions you make leading up to retirement. This guide covers your options for those decisions and is designed to explain how Social Security benefits work, how they are calculated and how Social Security may factor into your retirement investing strategy.

FISHER INVESTMENTS®
INVEST ASSURED

WHAT IS SOCIAL SECURITY?

Social Security is a collection of programs managed by the Social Security Administration, and includes Old-Age, Survivors, and Disability Insurance (OASDI), Medicare and Medicaid. It's based on collecting taxes from current workers and paying a percentage of the proceeds out to those who already paid into the system and are now retired or eligible for benefits. We'll focus on OASDI in this guide.

Who Pays and How Much?

If you're still working, you and your employer contribute by paying taxes specifically earmarked for Social Security and Medicare Part A (hospital insurance). Those who are self-employed must pay the combined employee/employer rate, but they qualify for some additional tax breaks.

In 2015, taxes are 6.2% (5.3% for Social Security and 0.9% for Disability Insurance). Medicare taxes are an additional 1.45%, plus 0.9% for high-income employees. Typically, these taxes (totaling 7.65%) are called "payroll taxes." The self-employed pay a rate of 15.3%.*

Do You Qualify?

Receiving Social Security is predicated on qualifying for retirement benefits. To qualify, you must be "fully insured," meaning you've accumulated enough retirement credits. Most workers need 40 credits to qualify, which is equivalent to about 10 years of work.

WHY IS SOCIAL SECURITY IMPORTANT?

Social Security is a welcome source of additional cash flow in retirement, but for several reasons it shouldn't be counted on for all of your income needs. For example, the benefit payments may not meet your total income needs. Additionally, relying on any one source of income makes it likely you're underdiversified. Plus, Social Security is only guaranteed in the sense it's politically unpalatable to alter a program affecting so many voters. But like anything else in politics, this can change.

That all said, Social Security is still a direct cash transfer. Depending on your situation, you can use this money to invest, save or fund living expenses. The important thing is to recognize it as just one piece of your overall strategy, which should be based on your investing time horizon, cash-flow needs and goals.

** Fisher Investments is not a tax adviser.*

HOW DOES IT WORK?

How Is It Calculated?

Your Social Security payments are calculated based on your lifetime earnings, birth year and whether you've elected to postpone payments until after you've reached full retirement age. The more you've paid into the system, the higher your benefits should be. And the earlier your birth year, the younger you qualify for full retirement age. As of 2015, for those born in 1960 or later, full retirement age is 67.

The Social Security Administration website has several convenient online calculators to estimate your benefits and help give you a better sense of your personal situation.

Calculators available online at:

www.ssa.gov/OACT/anypia/

Who Is Covered?

Your Social Security benefits can go to you, your spouse or your children, depending on the situation. These benefits can start when you retire, become disabled or pass away, if eligibility requirements are met. The following chart shows who often ends up receiving Social Security payments.

Who Receives Benefits?*

	Benefits May Be Paid To:		
When	You	Your Spouse	Your Unmarried Child
Retire	• Age 62 or over	• Age 62 or over • Any age, if caring for your child under 16; or disabled before 22	• Under 18, or up to 19 if in high school; or any age if disabled before 22
Become Disabled	• Any age before full retirement age	• Age 62 or over • Any age, if caring for your child under 16; or disabled before 22	• Under 18, or up to 19 if in high school; or any age if disabled before 22
Pass Away	—	• Age 60 or over, or age 50-59 if disabled • Any age, if caring for your child under 16; or disabled before 22	• Under 18, or up to 19 if in high school; or any age if disabled before 22

Given the wide range of people eligible for benefits, it's natural to wonder how Social Security provides benefits to all those who are eligible and if it can remain solvent indefinitely.

**Source: The 2015 Guide to Social Security, Donna A. Clements, Mercer.*

THE SOCIAL SECURITY FUNDING SHORTFALL

Social Security's trust funds are funded by tax dollars—specifically, payroll taxes authorized by the Federal Insurance Contributions Act (FICA). Social Security collects these taxes from 167 million workers yearly and distributes benefits to about 59 million individuals. Eighty-five cents from each tax dollar collected fund current benefits. The other 15 cents are earmarked to pay people with disabilities and eligible family members.*

Contrary to popular belief, Social Security trust funds are by no means a "lockbox." They're not even a passbook savings account. By law, surplus funds are lent to the federal government through purchases of special-issue Treasury bonds for its general use. The money is spent. Which means current workers' payroll taxes fund benefits for current retirees through a pay-as-you-go system (the aforementioned 85 cents). We're not borrowing to fund these payments. So, when today's young workers reach retirement age and are ready to collect benefits, their kids and grandkids—the workers of tomorrow—will fund their Social Security benefits.

But this pay-as-you-go system also raises fears because of demographics. Beneficiaries may become too numerous for workers to support—particularly as the broad generation known as the "Baby Boomers" (a person born between 1946 and 1964) moves further into retirement. However, rarely discussed, the Boomers aren't the largest generation in the US—the Millennial Generation, or Gen Y (a person born between 1981 and 1997), is more populous by almost 15 million. So, combining Generations X (a person born between 1965 and 1980) and Y, many more workers will contribute payroll taxes to support Baby Boomers' benefits. Then too, don't forget the impact of immigration into the country.

**Source: Social Security Administration, June 2015 (www.ssa.gov/pubs/EN-05-10024.pdf).*

Can You Count On Social Security?

Many investors fear Social Security will be bankrupt before they start receiving benefits. The fear Social Security will run out of money is frequently cited in the media, particularly during political campaigns or debates about public spending. While there's no way to know what will happen in the future, Social Security is not faced with an immediate funding crisis. That said, Social Security is a legislated entitlement and can change—or go away—with a vote of politicians.

That is likely a ways off and it does no good to make projections on things ultimately decided by politicians in the future.

If you're younger and particularly worried you won't collect, the solution is straightforward—don't count on it. Know you must make up for the income another way and start planning now. If you do end up collecting, consider it a bonus. Social Security is not a replacement for investing for retirement. For those about to start their benefits, let's take a look at when you should start to collect.

WHEN SHOULD YOU START RECEIVING BENEFITS?

There are three potential times you can begin receiving Social Security benefits, assuming you are eligible. The main differentiators are your employment status and whether you have reached full retirement age. The longer you wait to begin receiving Social Security, the greater your benefit payments could be. For each year you wait up to age 70, your benefits will grow.

Under Full Retirement Age and Working

Assuming you're earning enough income to support yourself, it's a disadvantage to begin taking benefits at this point. More often than not, the extra money from Social Security isn't needed and if you take your benefits now, they'll be permanently reduced, subject to the earnings limit and more likely to be taxed. In theory, this could also reduce payments to your spouse, should he or she outlive you. Of course there are also potential tax considerations.

Under Full Retirement Age and Retired

If you retire before you reach the full retirement age, ideally it's because you're financially secure and don't need Social Security benefits. If you start taking Social Security now, your benefits will be reduced but partially tax-free. This could provide cash flow until you turn 59.5 and can access your retirement accounts penalty-free. Of course, this depends on your specific situation.

At Full Retirement Age or Later

If you're able to delay taking payments until you reach full retirement age, you'll receive greater benefits. What's more, these benefits will be adjusted for cost-of-living increases as time goes on. There is also no earnings limit for beneficiaries who continue to work, but still collect their eligible benefits based on your Social Security earnings (see pages 2 and 9).

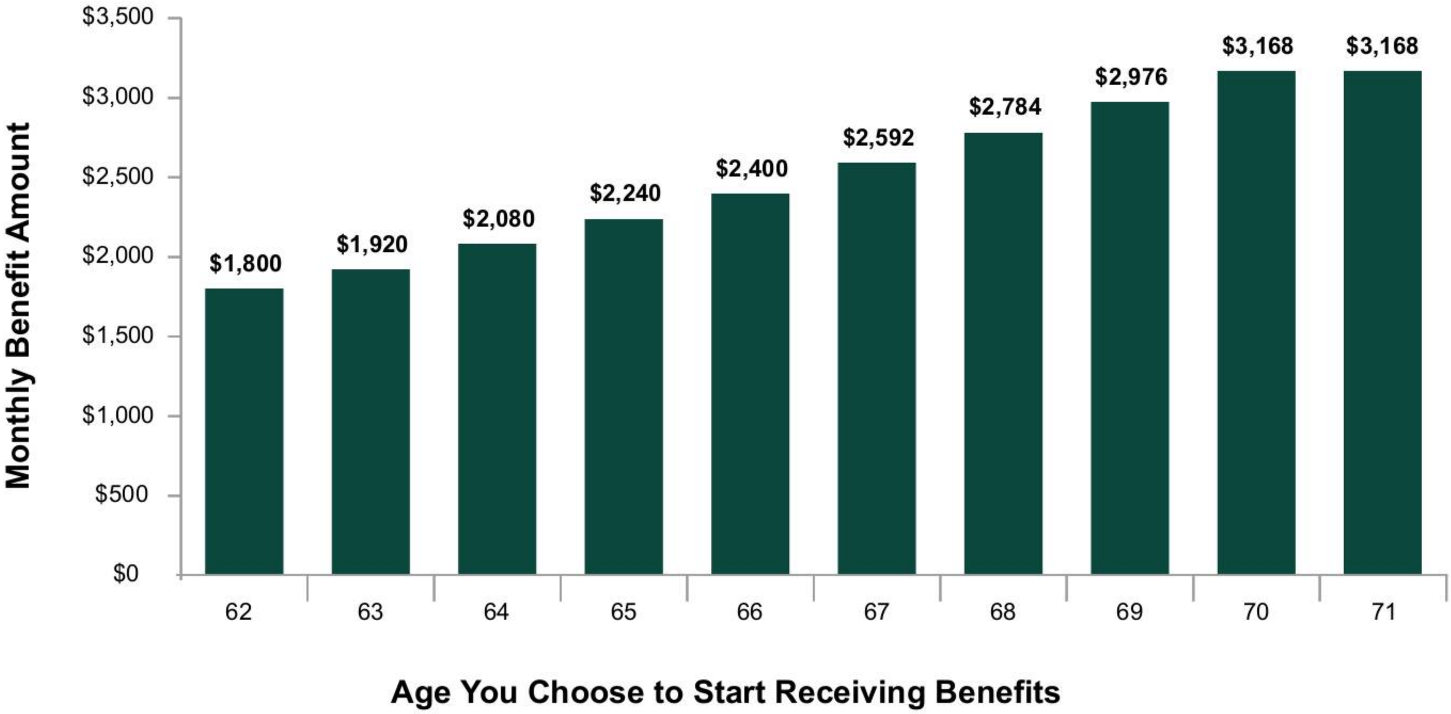
The Impact of Early Benefits

Social Security benefits increase if you delay your retirement beyond full retirement age. The benefits will continue to increase until you reach age 70. As shown in the charts below, a hypothetical 62-year-old born in 1953 who begins receiving Social Security would be eligible to receive a $1,800 monthly benefit. If he waited to receive benefits until his full retirement age of 66, he would see his monthly benefits increase by $600 to $2,400. If he waits four years beyond that to receive Social Security, he'll be eligible for an additional $768 monthly benefit for a total of $3,168—76% more than if he begins drawing his benefits at 62. Timing the start of your benefits may mean the difference between having enough and requiring cash flow from your investment portfolio to maintain your lifestyle.

Hypothetical Monthly Benefit Amounts*

Social Security Strategy	Hypothetical Investor
Start at Age 62	$1,800
Start at Full Retirement Age (66)	$2,400
Start at Age 70	$3,168

Age You Start Receiving Benefits and Monthly Benefit Amount**



**Monthly benefit, in current dollars, estimated on full retirement age benefits and calculated utilizing current Social Security Administration tables.*
***Data from the Social Security Administration, as of 12/31/2014.*

WILL YOU CONTINUE TO WORK?

As noted, delaying Social Security benefits as long as possible can be financially prudent. Of course, this has to be weighed against your other goals and priorities. If you're financially secure, Social Security can be a nice bonus—but by no means necessary. If so, you should consider retiring when you're ready. But, if Social Security is a vital part of your retirement investing strategy, you'll want to make an effort to delay starting benefits as long as possible—preferably until you're 70. This could require a longer working career.

ARE YOUR BENEFITS ENOUGH TO MEET YOUR INCOME NEEDS?

The starting point for knowing how much income you'll need in retirement is to understand your expenses. If you don't know what your expenses are or will be, you can't know if the cash flow Social Security provides will be sufficient.

Many retirees are busier after they retire. They join clubs. They have hobbies. They travel. They spoil their grandkids. Your retirement will be unique and based on your interests, so it's key to understand your personal financial needs. You don't want to discover a few years into retirement you need much more but didn't plan for it.

Non-Discretionary Spending

This is the spending you don't have a lot of control over. There may be wiggle room, but for the most part you can't avoid these costs.

1. Living Expenses: Day-to-day, how much does it cost to maintain your lifestyle? You'll want to consider everything from groceries to gas to the heating bill. If you aren't planning on relocating in retirement, you likely have a good idea of what these expenses look like already.

2. Debt: This can be credit card debt, your mortgage or car loans. Anything you owe needs to be accounted for when mapping out your expenses because you'll have to continue to pay down the principal and make periodic interest payments.

3. Taxes: While taxes are often lower for retirees as they shift from salaried income to capital-gains rates, the government certainly still wants its cut. You'll want to keep money set aside to settle your tax bill at the end of the year.

4. Insurance and Health Care: Health-care costs have historically risen faster than inflation and, for many investors, have become a larger share of their budget in retirement. You'll need to account for insurance payments and any emergencies that might require sizable payments on short notice.

Discretionary Spending

Your basic living expenses are fairly non-negotiable. Most retirees have worked hard to achieve a certain lifestyle and aren't eager to scale back. Once you get past basic living expenses, you have to account for discretionary spending.

Discretionary spending is subject to your personal situation. You may view cable TV as discretionary, but golf as a required, non-discretionary expense. This is just an example, but the takeaway is, if you have a hobby or other expense you can't imagine living without, you'll need to include it in your non-discretionary expenses.

1. Travel: Many people look forward to traveling in retirement. This could include visiting the grandkids or more elaborate trips overseas. If you've been thinking about a dream trip for years, now could be an ideal time to budget for one.

2. Hobbies: Retirement is a great time to rekindle old hobbies or pick up new ones. Ready to finally get your fly casting down or finish researching your family history? Hobbies almost always incur some costs, even if many are small.

3. Luxuries: This is somewhat subject to your own budget and definition of luxury. But whether you enjoy fine wines or simply having coffee out every morning, you'll need to factor non-essential purchases into your expenses.

4. Children and Grandchildren: For many, this last category includes aspects of all the others. Your family could require travel, luxury purchases and be your favorite hobby all at once. If you need a generous budget to make children and grandchildren a focus in your retirement, you'll need to think about how much cash flow you'll need to support it.

Inflation

Another important portfolio factor to consider is inflation. Inflation is insidious. It decreases purchasing power over time and erodes real savings and investment returns. Many investors fail to realize how much impact inflation can have. Since 1925, inflation has averaged 3% a year.* If that average inflation rate continues in the future, a person who currently requires $50,000 to cover annual living expenses would need approximately $90,000 in 20 years and about $120,000 in 30 years just to maintain the same purchasing power.

Putting It All Together

Now that you've determined how much your expenses are likely to be and how much Social Security income to expect (if you tried one of the online calculators), it's time to put it all together and see where you stand. If Social Security won't cover your needs or allow you to meet your goals, the difference will have to be made up by investment income generated by your portfolio.

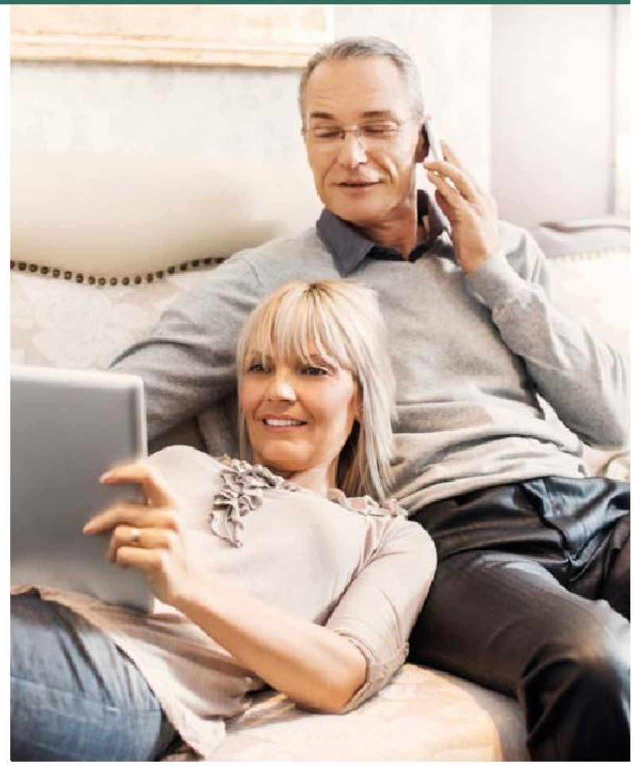
**Source: FactSet, as of 01/28/2015. Based on US BLS Consumer Price Index from 1925-2014.*

The worksheet in this section can help you put all your figures together and come up with succinct takeaways. If you're already generating income from your portfolio, include it as well.

INCOME		% of Total
Non-Investment Income		
Salary	$	%
Pension	$	%
Social Security	$	%
Business Income	$	%
Other	$	%
Total Non-Investment Income:	$	%
Investment Income		
Cash Flow (From portfolio A)	$	%
Cash Flow (From portfolio B)	$	%
Real Estate	$	%
Annuities	$	%
Other	$	%
Total Investment Income:	$	%
TOTAL INCOME:	$	%

EXPENSES		% of Total
Basic Living	$	%
Mortgage	$	%
Credit Card Debt	$	%
Taxes	$	%
Vacations/Hobbies	$	%
Insurance	$	%
Health Care	$	%
Other	$	%
TOTAL EXPENSES:	$	%
NET SAVINGS	$	%

WHAT ABOUT YOUR SPOUSE?



Even if your spouse has never paid into Social Security, he or she may qualify for benefits based on your benefits if you have been married at least a year, or have an eligible child together. A spouse becomes eligible for benefits at full retirement age and may receive benefits of up to 50% of your benefits. At age 62, a spouse can start to receive permanently reduced benefits. For a 62-year-old spouse born in 1953, he or she could receive up to 35% of your current eligible benefits. As the full retirement age increases over time, the amount of your benefits a spouse under the full retirement age could receive will drop to 32.5%.

If your spouse has his or her own benefits, they may receive their benefit plus a portion of your benefit until the amount is equal to 50% of your Primary Insurance Amount (PIA). This top-up approach is reduced if your spouse started receiving benefits before full retirement age. Your spouse is only entitled to his or her own retirement benefit if the amount exceeds 50% of your PIA. All of this is calculated automatically by the Social Security Administration.

Social Security "Full Retirement Age"

Year of Birth*	Full Retirement Age
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

**If you were born on January 1st of any year you should refer to the previous year. (If you were born on the 1st of the month, you should figure your benefits [and your full retirement age] as if your birthday was in the previous month.)*
Source: Social Security Administration (www.ssa.gov/planners/retire/retirechart.html).

YOUR INVESTMENT TIME HORIZON

Another important factor to consider is how long you will need your portfolio to last. Your investment time horizon could be your life expectancy, the life expectancy of a younger spouse or a longer or shorter period based on your investment objectives.

The table in this section shows total life expectancies for Americans, based on current age. We believe these projections likely underestimate how long people will actually live, given ongoing medical advancements. And don't forget: These are projections of average life expectancy—planning for the average is not sufficient since about half the people in each bracket are expected to live even longer. Factors such as current health and heredity can also cause individual life expectancies to vary widely.

The bottom line? Your investment time horizon may be much longer than you realize. Prepare to live a long time and make sure you have enough money to maintain your lifestyle.

Average Life Expectancy*

Current Age	Life Expectancy
51	81
52	82
53	82
54	82
55	82
56	82
57	82
58	83
59	83
60	83

Current Age	Life Expectancy
61	83
62	83
63	84
64	84
65	84
66	84
67	85
68	85
69	85
70	86

Current Age	Life Expectancy
71	86
72	86
73	86
74	87
75	87
76	88
77	88
78	88
79	89
80	89

Current Age	Life Expectancy
81	90
82	90
83	91
84	91
85	92
86	92
87	93
88	93
89	94
90	95

**Source: 2009 US Total Population Life Table (revised as of 01/06/2014), National Vital Statistics Reports, Volume 62, Number 7. Life expectancy rounded to nearest year.*

IN SUMMARY

As mentioned, some of the factors that should influence how and when you take Social Security include your investment time horizon, your cash-flow needs, your tax situation, inflation expectations, when you and your spouse stop working and when you and your spouse reach full retirement age. It's important to also consider your other income sources and investments—their size, how they are allocated among account types and asset classes and any potential restrictions.

While these factors should primarily drive your decision about when and how to take Social Security, sometimes unexpected events can occur that require a change of plans. One important option to be aware of is the ability to "start over." If you've already started receiving your Social Security benefits and for whatever reason want to withdraw your claim, it is a possibility so long as you do it within 12 months of receiving your first benefit. You are limited to one "start over" withdrawal during your lifetime. The Social Security Administration will tell you how much you and any family members who have benefitted are required to pay back. After you pay back the money, you can reapply for benefits at a future date. The advantage is, your future benefits will be based on your older age and you don't have to pay interest or fees on the original amount when you repay it. Whether it makes sense to take advantage of this option depends on factors such as your time horizon, tax situation, age and the availability of the repayment money.

Remember, however you decide to incorporate Social Security into your investment and retirement strategy, the right choice is dependent on your unique circumstances and should fit into your retirement investing strategy.

Now that you have a sense of how much money you can expect, how much you need and your options for taking Social Security benefits, it's time to consider next steps.

FISHER INVESTMENTS CAN HELP YOU

When to take Social Security benefits is only one part of your retirement investing strategy. There are so many more questions to consider. A second set of eyes on your financial future is always a good idea, even if you aren't considering a change in money managers right now.

We can create a strategy based on your unique needs and goals. Your strategy should guide your every investment decision. The market isn't intuitive—in fact, many times what feels right is wrong, and what feels wrong is right. This is why you need an investment strategy. A successful investment strategy incorporates several factors, including your investment objectives (goals), time horizon and cash-flow needs.

Stick to the Strategy

Fisher Investments offers a level of client service we believe is rarely seen in money management. Our objective is to help you reach your goals and keep you comfortable with the management of your portfolio along the way. A big part of this is making sure you understand your strategy and stick to it. Investing involves emotions, and we seek to keep our clients disciplined at all times, whether the market is up or down.

Every client has a dedicated point of contact, called an Investment Counselor. They have three main responsibilities:

- **Help you understand what's going on in your account and why**
- **Review your investment goals and objectives regularly**
- **Handle your day-to-day needs quickly and smoothly**

If you have income needs in retirement, we can help. Give us a call today at 800-568-5082 and we would be happy to arrange for one of our investment professionals to discuss your situation with you—completely complimentary.* Start the conversation today.

**For qualified investors with $500,000 or more in investable assets.*

We Believe Fisher Investments Can Help You Build a More Secure Financial Future.

A second set of eyes on your financial future is always a good idea, even if you aren't considering a change in money managers right now. If you want an experienced financial professional to walk through your portfolio with you, absolutely free of charge, then we urge you to call us at **800-568-5082** for your complimentary portfolio evaluation.*

We look forward to hearing from you.

M.01.432-Q3150721

**For qualified investors with $500,000 or more in investable assets.*

Notes:

Facts About Fisher Investments to Compare With Your Current Adviser

Fisher Investments	Your Investment Adviser
☑ Your portfolio is constructed according to your specific needs, taking into account your investment objectives, time horizon for the assets, cash flow needs and other factors specific to you.	?
☑ You get proactive service from your own Investment Counselor, who will keep you up-to-date on your portfolio.	?
☑ You have the opportunity to meet the actual people making investment decisions through in-person events in various formats.	?
☑ Your portfolio is managed by a team with over 100 years of combined industry experience.	?
☑ Your firm's CEO has written for *Forbes* magazine for 30 years and has written 11 books on investing and wealth creation, including four *New York Times* bestsellers.	?
☑ You get a disciplined approach to your investment strategy that goes beyond just stock picking.	?
☑ You can take advantage of global investing opportunities with our significant experience investing domestically and overseas.	?
☑ You won't be limited to a single style of investing (like "growth" or "value") as we can shift our strategy based on our forward-looking view of market conditions. If we forecast an upcoming bear market, we might adjust your portfolio allocation to be more market neutral with fewer stocks and more bonds, cash or other securities.	?
☑ You'll have competitive, transparent fees that align our interests with yours. If your portfolio does better, we both do better.	?

FISHER INVESTMENTS®
5525 NW Fisher Creek Dr., Camas, WA 98607
800-568-5082
www.fisherinvestments.com

M.01.432-Q3150721