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Vanguard Research Insight

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

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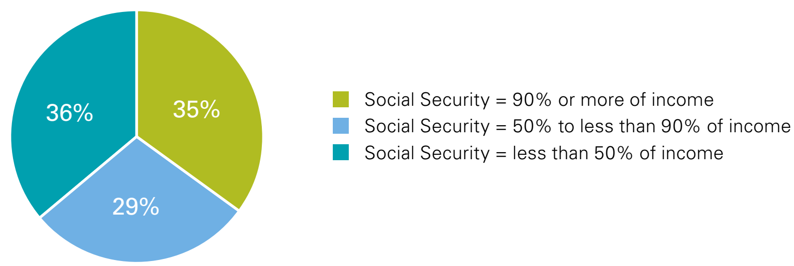
For most Americans, Social Security is a big part of their retirement income

An estimated 92% of Americans aged 65 or older receive Social Security benefits[1]—the average annual benefit for a retiree is $16,848.[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] Because 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



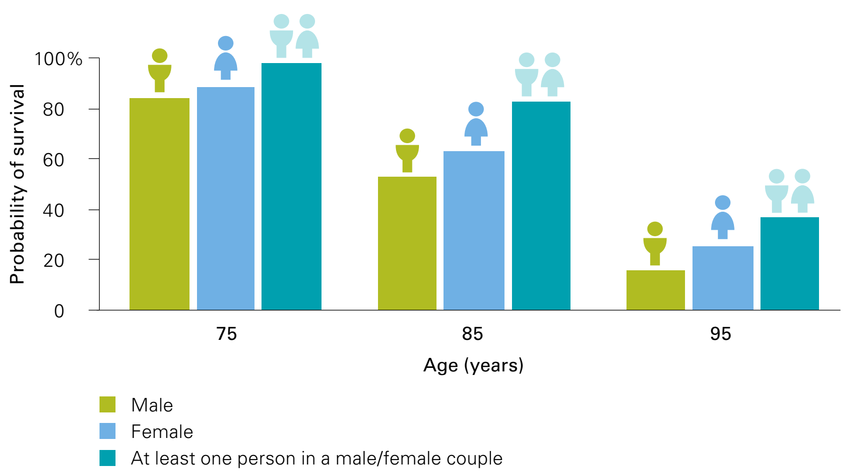
Source: Vanguard calculations, based on data from the U.S. Social Security Administration *Fast Facts & Figures About Social Security*, 2018.

By delaying Social Security, retirees can stretch their savings

In the past, the decision about 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. Once you start receiving it, it's paid for the rest of your life, no matter how long you live, and it is adjusted upward for inflation.

A big concern for most retirees is the risk of outliving their savings. For many who can afford to do so, deferring Social Security for a few years (even past "full retirement age"—defined by Social Security according to one's birth year—to the maximum annual benefit at age 70) greatly increases the lifetime monthly benefit. 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-2018 and a starting age of 65.

Source: Vanguard calculations, based on data from the Society of Actuaries *RP-2014 Mortality Tables Report* and *Mortality Improvement Scale MP-2018 Report*.

1 U.S. Census Bureau, Population Division, *Annual Estimates of the Resident Population for Selected Age Groups by Sex for the United States: July 1, 2017*, and U.S. Social Security Administration, *Fast Facts & Figures About Social Security, 2018*. Note: All Social Security benefit amounts shown are *before* any federal income tax.

2 U.S. Social Security Administration, *Fast Facts & Figures About Social Security, 2018*.

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

Social Security acts like an inflation-protected annuity

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 for both increasing guaranteed income and providing longevity protection. Also, in the case of a married couple, if one spouse delays claiming until age 70 (for maximum benefit), the surviving spouse receives the larger of the two Social Security benefits.

Delaying Social Security increases the benefit received

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

Claiming age	62	66½	70	Survivor
62/62	$34,800	$34,800	$34,800	$17,400
62/66½	$17,400	$41,400	$41,400	$24,000
66½/66½	$0	$48,000	$48,000	$24,000
62/70	$17,400	$17,400	$48,120	$30,720
66½/70	$0	$24,000	$54,720	$30,720
70/70	$0	$0	$61,440	$30,720

Note: The chart assumes beneficiaries are born in 1957, turn 62 in 2019 and thus reach "full retirement age" (FRA) at 66 and 6 months, and that each has a "primary insurance amount" (Social Security benefit at FRA) of $2,000 per month.

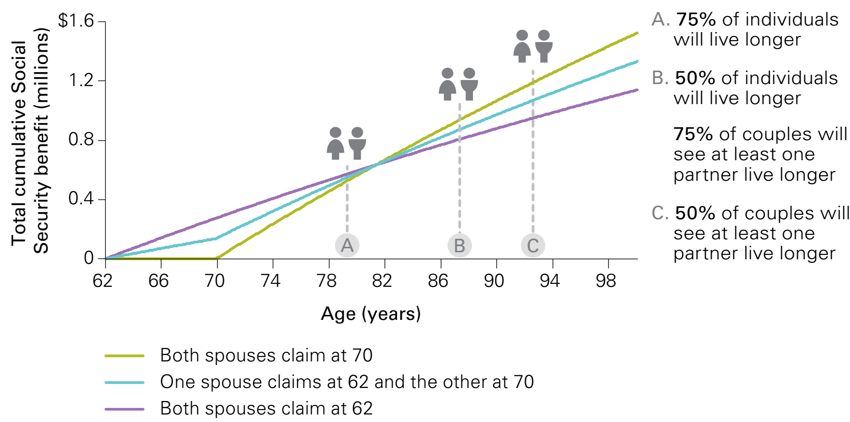
Source: Vanguard calculations, based on data from the U.S. Social Security Administration.

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



Notes: This chart assumes that beneficiaries are born between 1943 and 1954 and thus reach full retirement age at 66, and that each has a "primary insurance amount" (Social Security benefit at FRA) of $2,000. It assumes mortality rates from RP-2014 head-count-weighted tables projected with scale MP-2018 and, for purposes of our analysis, a start age of 65. Vertical lines represent average life expectancies across gender. Cumulative benefits at each age assume both members of the couple are still living. The assumed discount rate is 1%.

Source: Vanguard calculations, based on data from the Society of Actuaries *RP-2014 Mortality Tables Report* and *Mortality Improvement Scale MP-2018 Report*.

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