



# Purcell Investor Report

Second Quarter 2010

## Social Security Benefits and You

Knowing when to start taking Social Security benefits is one of the hardest questions facing new retirees. There are some potential drawbacks to taking benefits early, especially for married couples who are trying to factor in both worker and spousal benefits. It's very important to be aware of these nuances in planning for retirement income.

Workers who elect to receive benefits prior to their full retirement age (FRA), (66 for individuals born in the years 1943-1954 and gradually increasing to 67 for those born in 1960 or later) will experience a permanent reduction in their benefits. The reduced benefit formula works out to a 6.67% reduction per year for benefits taken up to three years early. For benefits taken more than three years early, each additional year represents a 5% reduction. So, a retiree with an full retirement age of 66 who elects to take benefits at age 62 would see a 25% reduction in benefits.  $((6.67 \times 3) + 5 = 25)$  It's fairly straightforward to this point, however, the calculations are more complicated when spouses are involved.

### Early Claims and Spousal Rates

When a married individual applies for retirement benefits, the Social Security Administration (SSA) checks eligibility both for the worker's own retirement benefit and for a spousal benefit. If the individual is eligible for both benefits, the SSA will pay an amount equaling the higher benefit. If a worker's own benefit is higher, the SSA will pay only that benefit. If the spousal benefit is higher, the SSA will still pay the individual worker's benefit, but it will top off the payment with an additional amount so the full payment equals the higher spousal benefit.

The above scenario occurs when individuals apply for benefits prior to their FRA and their spouses have also applied for their benefit. If a wife applies for benefits at age 62, but her husband has not yet applied for his benefits, she would only be able to receive her own benefit at that time (assuming she has her own earnings record). If she elects to receive her own benefit at age 62, she is not entitled to a full spousal benefit upon reaching her FRA. Electing to receive her own benefit early permanently reduces her benefit, as well as the spousal benefit rate.

### Claiming at the Full Retirement Age or Beyond

The SSA offers married couples a critical planning opportunity when either spouse waits to receive benefits at his or her FRA. When married individuals apply for benefits at their FRA, they are no longer automatically paid the higher of their own benefit or the spousal benefit. They can instead choose which benefit – worker or spousal – they want to receive.

Let's assume we have a married couple and the husband is four years older than his wife. If she decides to claim benefits early at age 62, he would be 66 at that time. Since the husband has reached his FRA, he could claim benefits now and elect to receive only a spousal benefit. The husband could then delay receiving his own benefit and accumulate delayed retirement credits. If he waits until age 70, he will maximize the benefit available based on his own record.

### Delaying Benefits

The system provides a strong incentive to delay benefits. After full retirement age, for each year workers delay receiving their own benefit, the payment increases by about 8%. Someone who would receive \$1,000 per month at age 66 would receive \$1,320 if he or she began benefits at age 70.

The strategy detailed above has an additional planning benefit. If the husband in our example is expected to predecease his wife, she would be entitled to 100% of his benefit upon his death. By delaying benefits in order to receive a higher payout, he has left his spouse with a higher survivor benefit to step up to upon his death – nullifying the effect of her reduced benefit since she started at 62.

### Many Options to Consider

Maximizing Social Security benefits is more critical now

Please contact us to request our latest ADV disclosure form.

If your objectives or financial goals have changed,

Please contact your financial advisor or

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[www.purcelladvisory.com](http://www.purcelladvisory.com)

Phone (253) 627-8101 Toll-free (800) 730-6867 Fax (253) 627-8102

than ever with the majority of post-retirement risk on the individual with the move away from traditional pension plans. There are many nuances to the Social Security system. Be sure to visit the Social Security Administration's website at [www.ssa.gov](http://www.ssa.gov) and consult your financial advisor for more information.

## Precious Metals Outlook

### Paul Schatz, Precious Metals Signal Provider

Although the second quarter of 2010 was not kind to the equity markets, the 'forces that be' rewarded precious metals investors, along with their cousins in the gold and silver mining stock sector. Gold tacked on another \$100 plus as fears over a European sovereign debt default saw Euro currency investors run for the exits under the cover of gold and the U.S. dollar. But wait... gold and the dollar rallying together? Don't they always trade inversely like the rest of the commodity space? They usually do during "normal" times, but these times are far from anything "normal".

Gold, the dollar and treasuries have been some of the few safe havens this year in the financial markets. What's different now from 2008 is that during the deflationary, panic-driven collapse that hit after Lehman's bankruptcy, all assets except for the Japanese Yen and U.S. treasuries were deci-

mated, including precious metals. This year, and specifically since the April peak in the equity market, the metals complex was added to the "protected" list.

Although our posture on gold often swings from very positive to very negative (and everywhere in between), we've been bullish over the intermediate-term since February. At the same time, and over the past three years, we've remained very negative on inflation, meaning that we do not expect any meaningful rise for the foreseeable future. While that may run counter to your intuitive thinking, gold and the Consumer Price Index (CPI) do not have a very strong historic correlation, which says that gold is not the perfect hedge against inflation.

Since its major bottom in October 2008, gold has rallied roughly 85% without any sign of inflation. At the same time, the dollar is essentially unchanged. We believe that gold's shine during the attempted, but failed, reflation, as well as its performance during the current mild deflation, continues to indicate a solid bid (underlying strength) beneath the market as global investors seek refuge from paper currencies. Until that sentiment changes with another tsunami of powerful, deflationary deleveraging, precious metals can continue to be used in normal, routine and healthy bull markets corrections.

### PURCELL BOOK OF THE QUARTER

*The Story of Stuff: How Our Obsession With Stuff Is Trashing The Planet, Our Communities And Our Health – And A Vision For Change*

Ah, to read an interesting book in the hammock on a summer's day, that's the life; the warm sun, the light breeze, the languor of it all. Let's skip the greedy banker stories and the ones that talk about the inept rating agencies that have brought us to the edge of disaster; let's read about ..... STUFF. That's right, STUFF, as in Annie Leonard's convincing *The Story of Stuff: How Our Obsession With Stuff Is Trashing The Planet, Our Communities And Our Health – And A Vision For Change*. There's nothing to say that by reading a book in the summer one shouldn't learn something new or be provided with a different way of looking at our environmental and economic crises. Summer fluff it is not, but Ms. Leonard's hard facts, diligent analysis and highly readable book made her a Time magazine *Hero of the Environment*. Her Internet film sensation, also called *The Story of Stuff*, has been viewed by more than 10 million people!

With a following like that, we thought it worth our while to find out what was so compelling about her ideas. Our long-time Purcell Book of the Quarter readers will remember *Travels of a T-Shirt in a Global Economy* by Pietra Rivoli that was a big favorite in 2007. (We have readers comment about the insights in that book to this day!) In *The Story of Stuff*, Leonard again tracks the life of t-shirts but also laptops and aluminum cans, along with other 'stuff'. Her message is clear: we have too much (toxic) STUFF. Not that she is cranky or preachy about it, but that she is forceful and intelligent, weaving together engaging personal stories and encyclopedic knowledge.

She outlines five stages of our consumption-driven economy, from extraction through production, distribution, consumption and disposal, finding repercussions at each stage. She also finds out why it is cheaper to replace a broken TV than to fix it and why we are encouraged to toss out everything from shoes to cellphones by the promotion of 'perceived obsolescence'.

Leonard's journey to discovery was started more than 20 years ago by internalizing the Quaker principal of bearing witness – the idea that seeing wrong-doing with our own eyes creates a moral responsibility to inform others and take action. It also led her to become the acclaimed systems thinker that she is today. Certainly our economy functions as a system, which is why a domino effect inside it can be so devastating, as we have recently seen.

Leonard's book is illuminating and dead serious but written with a sense of humor that will engage you, get you thinking and maybe even get you up and out of the hammock to take one small step for a better planet. If you like a challenging read, ask for your complimentary copy of *The Story of Stuff*, you won't soon forget it. 1-800-730-6867 or email [PAS1@purcellas.com](mailto:PAS1@purcellas.com).