THE CLIENT LETTER
FREE
MONTHLY NEWSLETTER

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Social (In)security

(When to take it may surprise you)

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Social Security is perhaps one of the most common issues with which we help clients. This is for two reasons: 1). It affects virtually everyone and 2). It is NOT a small amount of money. First, a brief primer. Social Security retirement benefits can be claimed by anyone who has accumulated 40 quarters of paying into the system through gainful employment. In addition, a nonworking spouse is entitled to 1/2 the benefit of the wage-earning spouse as long as they have been married for 10 years. Also, as most are aware, Social Security can be claimed at various ages and deferring to a later age results in a higher monthly benefit.

Conventional wisdom (and many financial advisors) suggest that most people defer their benefit to age 70 in order to claim the highest possible amount. Generally, one can claim a smaller early benefit at age 62, or they can defer to “full retirement age” around 66-67 (depending on the persons age) and claim that higher amount. Otherwise, they can defer to age 70 and collect an even higher monthly amount - their maximum possible benefit. Many automatically assume that waiting until age 70 is the most attractive option because it results in the highest monthly income.

However, most people fail to account for the ***time value of money*** in their analysis. That is, receiving an amount of money today is more valuable that receiving the same amount of money in the future - as it must be assumed that today’s dollar could be invested over that time period. Simply put, if I offer you a choice of getting $10,000 today or $12,000 five years from now, which would you choose?...The fact that you have to think about that for a second illustrates the notion of "time value of money".

For those who are not asleep from reading this yet, I decided to put a pencil to it using my own Social Security benefit amounts. For this comparison I am going to simply look at the choice of taking my benefits at age 65 vs. deferring until age 70.

Age 65 benefit: $3,354
Age 70 benefit: $4,811
Difference: $1,457

Instead of waiting to age 70, let’s assume I start collecting at age 65, ***but choose to invest this money over the next five years***. And while we all understand there is no way to know what future returns

will be, let's just assume a reasonable 5% rate of return estimate on the investments during this time. Under this hypothetical assumption, this investment would be worth $228,092 at the end of five years. This means, in this scenario, I would have accumulated an investment asset of $228,092 that I ***would not have*** if I simply deferred Social Security to age 70.

But in order to do this, I have now given up the higher benefit amount of $4,811 starting at age 70. Now, here comes the fun part (and by fun part, I mean me getting real nerdy). At age 70, I could simply begin withdrawing $1,457 from that $228,092 investment to ***supplement*** my current Social Security amount in order to equal the $4,811 age 70 benefit. In effect, I am basically creating my higher age 70 benefit from the investment I was able to accumulate the previous five years.

Assuming the same 5% rate of return over my lifetime (again, actual investment results could be higher ***or*** lower, but 5% seems a reasonable estimate for this exercise), this scenario could last 21 years, or my age 91. At that point, I would have exhausted the $228,000 and would then only have my previous age 65 Social Security amount of $3,354.

Folks, in my opinion, age 91 is a very long break-even point. In addition, if I pass away before age 91, I would still have any of the remaining investment that could be left to my heirs.

To be clear, there are certainly other nuances and considerations - things such as surviving spouse benefits, tax implications, as well as employment income prior to full retirement age. But the bottom line is, while it makes sense for some clients to defer to age 70, that conventional wisdom may not always be the best option for others. If you have questions about this or would like for us to run the numbers and determine your specific breakeven point, feel free to contact our office.

Cole's Take

They say if you put 10 economists in a room together, you will get exactly 11 different opinions. In this case, it's just Brick and I so I will take the other side of the argument and give a couple of scenarios where it might make sense to defer Social Security to age 70.

Surviving Spouse: At the first death, a surviving spouse receives either their own SS benefit or that of the deceased spouse – ***whichever is higher***. By deferring to age 70, that person is assuring their surviving spouse of the ***highest possible SS benefit***. In Brick's example above, by deferring to age 70, he would be assuring his wife, Victoria $4,811 monthly benefit rather than $3,354.

Investment risk: And while Brick indeed used a reasonable 5% rate of return assumption in his analysis, the fact is, future investment returns are not known. Thus, a risk-averse client might prefer the guaranteed nature of a higher benefit at age 70 rather than the variability of investment returns.

This is why Social Security is personal and everyone's situation/claiming strategy may be different. We are always available to answer questions on this or any other topic.

As always, we thank you for your business, your friendship and the trust you place in us. Feel free to share this letter with anyone you feel may benefit – we appreciate the many referrals we have received over the years and encourage the introduction to others. Edie, Cole and I are happy to answer any questions you may have. Until then, wishing you health and happiness.

Regards,

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"2019, 2020, 2021, 2022, 2023 RJFS Leaders Council Member"
"2019 Bank Investment Consultant Top 100 Bank Advisors"
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Top 100 Bank Advisors (2019)
To compile the list, multiple variables were combined into one composite score. The six categories used are: (1) assets under management; (2) trailing-12 month production; (3) percentage increase in AUM from the previous year; (4) percentage increase in T-12 production; (5) amount of fee business; and (6) the ratio of production-per-AUM. (Note: 2018 AUM was defined as the amount an advisor had as of Aug. 31, 2018. Likewise, for T-12 production, the 12-month period ending Aug. 31, 2018, was used.) The nominees were ranked by each of the six categories and then six different scores were calculated based on where they ranked. Those six scores were used to compile the final list. The ranking may not be representative of any one client's experience, is not an endorsement, and is not indicative of an advisor's future performance. Neither Raymond James nor any of its Financial Advisors pay a fee in exchange for this award/rating. BIC is not affiliated with Raymond James.

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