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“Social Security: Don’t Make a \$200,000 Mistake”

By Craig Pulliam, CFP® and Michael Comstock, CFP®

It’s easy to bash our Social Security system. It’s underfunded and due to run out of reserves by 2033 (Government Accountability Office). It’s become politicized, yet neither party has the will to fix it. And when we ask groups how they feel about Social Security as a part of their retirement plan, those under 55 chuckle and tell us “I’m not counting on it.” While we don’t think it’s quite that bad, it could be very bad if our legislators do nothing. Thankfully, we expect them to eventually make the difficult choices . . . and they have plenty of time to do so.

Therefore, it’s likely that the Social Security System (SS from now on in this Commentary) will look very different as those who are in Generation X (born 1966-1976) and the Millennials (born 1977-1995) grow old enough to claim benefits. It has to. We’ll summarize some of the changes put forth, and will shed some light on just how important your decisions are when you claim benefits . . . a poor decision can cost you hundreds of thousands of dollars. More about that in a minute.

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As designed 80 years ago, SS was fine. It worked well when we had 42 workers per SS beneficiary as we did back in the 1940s, and life expectancy was about 64. But then the ratio of workers paying into the system to those who were receiving SS benefits declined . . . and quickly . . . to about 2.8 workers per retiree today (life expectancy close to 80). And it’s not going to get better, with an estimated 76 million baby boomers retiring through 2030 (U.S. Census Bureau). It needs a fix or two. The proposed changes (none up for a vote at this writing) come from the Government Accountability Office, Congressional leaders, and numerous commissions and panels (some bipartisan).

Almost all agree that the amount of a worker’s wages that are taxed should increase; and most agree on smaller cost of living increases for recipients (a reduction of about 0.3% annually). Most proposals include provisions to increase the eligibility age to claim SS; and there is a growing consensus that benefits should be reduced from current levels for those who have higher lifetime wages (maybe the top 25% of earners). Whatever happens, and some things *will* be changed, these are likely to affect only those who are under 50 years of age now. And

almost every proposal includes a very long phase-in period before the full change is in place.

So, our take is that this important retirement income linchpin for many Americans will be around for a long time, but it *will* have a makeover. While some may bash the SS system, we continue to factor it in when planning for our clients' futures. We think that's the prudent thing to do for a benefit that may easily pay well in excess of \$1 Million to a married couple over their retirement years.

But what very few people understand is that *how and when* you claim your rightful benefits can make a lifetime income difference of \$200,000 or more in many cases. The decision is not nearly as simple as, "Do I take the early retirement at age 62, or should I wait until age 66? Or maybe even 70?" Even that doesn't sound so simple does it? There are dozens and dozens of different permutations for claiming benefits, regardless of whether you're married, single, or divorced. And each scenario, each SS claiming decision, will have a different payout for you. That's money in your pocket we're talking about.

Are you familiar with "file and suspend" and "restricted application" strategies? Do you know what delayed retirement credits are, and how spousal benefits are calculated? You've probably heard that if you work while you're receiving SS benefits that you can only make a little over \$15,000 before you start to lose \$1 in current benefits for every two dollars you earn. True to a point, but did you know that you *don't permanently* lose those benefits . . . that they are added back in once you reach age 70? We know people who try not to make above \$15,000 because they think they will lose the SS income forever. They are mistakenly forgoing needed earned income because they think they will lose their SS income, and they're wrong.

We are making Social Security income analysis a bigger part of our practice these days. This is primarily because we've learned (through coursework and first hand case work) that as many as 75% of people entering retirement make SS claiming decisions that may cost them money, in some cases a lot of money.

Here's a real case: the husband is about 10 years older than his wife, and his projected Primary Insurance Amount (PIA, the monthly income you receive) at full retirement (age 66) is about 40% more than hers. By the wife claiming a "restricted spousal" benefit, later converting that to her own benefit, and then claiming a survivor benefit at his death (assuming he predeceases her) . . . they stand to receive \$230,000 more in SS income than with the strategy they were considering. We don't have the space to define all the definitions and details here.

There's another couple who are both 62, but where there is about a 35% difference in their PIA. We estimate that they will gain a \$150,000 advantage by using a "file and suspend" approach and a "restricted spousal" filing.

There are more cases, even some involving people who are divorced (generally, ex-spouses are eligible for survivor benefits if you were married at least 10 years, have been divorced for 2, and he/she is unmarried). You get the point already, though this is very complicated for many folks, far more than even we realized. Sure, you can get on www.ssa.gov and try to figure it out, or you can call the Social Security Administration. We've found them to be helpful and knowledgeable for the most part, but they can't advise you with the depth and understanding necessary . . . especially when \$1 Million or more in benefits may be on the line.

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Coming to grips with the strange terminology is hard, and understanding the implications of the strategies these terms describe is a huge challenge. Overlay those difficulties with considerations of varying life expectancy scenarios, age differences in spouses, different PIA projections, and . . . well . . . that's why we went to school on this and also purchased and trained on highly sophisticated software to help with the calculations. Your retirement is too important to leave these decisions to chance or ignorance.

You will rarely see us "pitch" anything to you in these Commentaries, but we think this is important enough that we've invested our time and money to become more proficient in helping people make critical decisions that are in their best interests.

If you are in your mid to late 50s or older, you ought to give us a call and check this out. Let us analyze it for you, and let your friends know about it, too. Don't keep us a secret. As we mentioned, we've been surprised at the complexity of the issues surrounding your Social Security income decisions. Likewise, we've been pleasantly surprised at the quality of advice we've been able to provide the clients we've helped. Finding a couple of hundred thousand dollars you might otherwise have missed sounds pretty good doesn't it?

Craig Pulliam and Michael Comstock are CERTIFIED FINANCIAL PLANNER™ professionals practicing at 112 Westwood Place, Suite 310, Brentwood, TN. They own Premier Asset Management and are registered representatives and investment adviser representatives with/and offer securities and advisory services through Commonwealth Financial Network: A Registered Investment Adviser, Member FINRA, SIPC. Fixed Insurance products and services offered by Premier Asset Management are separate and unrelated to Commonwealth.

We can be reached at 615-777-2125.

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