Social Security: Don't Make These Three Mistakes

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Social Security has been around for decades and it's not about to disappear. Why? Social Security is not an "entitlement" (gift) – it's a forced savings scheme that Americans pay into in their working years in order to secure a pension for life. Ideally, Social Security shouldn't be your sole source of income in retirement but even comfortable retirees know Social Security is an important asset. Planning when and how to start Social Security benefits *may* seem deceptively easy but there are hundreds of options – especially if you're divorced or widowed. Most importantly, Social Security planning should be done within the context of your overall financial plan. Here are 3 social security mistakes people routinely make.

Mistake 1: Thinking Social Security is Similar To Pension or Annuity Income. Social Security brings something special to the table since benefits are adjusted annually to match the rising cost of living as defined by the US government. By comparison, most pensions do NOT inflate once you begin receiving them. Inflation has a corrosive effect on cash flow – each $1 you have in hand buys less and less each year that you live. A $3,000/month pension in 2018 is worth one-third less 20 years later in purchasing power if inflation grows at a mere 2% per year (a $3,000/month pension would need to inflate to $4,458/month in 20 years to maintain purchasing power).

Mistake 2: Taking Social Security Too Soon. Unless you are living hand to mouth – or you're terminally ill – it pays to start benefits at age 70. At 70, your monthly benefit is 76% higher than it would be at age 62. True, you receive no benefits from age 62-70 but your meaty monthly benefits take an increasingly important role in your cash flow if you live past your late 70's – *when you need inflating income most.* If a married couple consist of a high income earner and a low income earner, it sometimes makes sense for the higher income earner to delay benefits to age 68-69 (not 70). The right decision depends upon each client's financial circumstances.

Despite the wisdom of waiting, only 2% of men and 4% of women wait to start benefits at age 70. Nearly half (48%) of all American women and 42% of American men start benefits at age 62.

In the example here, I've created an example of a single person's strategies to show the beneficial impact of waiting to collect Social Security. Marilyn is entitled to $2,500 Social Security benefits if she takes them at "Full Retirement Age" (age 66 – she was born in 1952). However, Marilyn is nervous about waiting and she starts her benefits at age 62. Instead of $2,500/month to start, she collects $1,875/month. If Marilyn waits to collect her benefits at age 70, she receives $3,300. Assuming Marilyn lives to age 87, she comes out *far ahead i*n terms of the present value of all her future payment streams. With 2% benefit increase assumptions, June will have received 566K total if she lives to 87 vs. 439K (127K less) if she starts benefits at age 62.

Mistake 3: Failing to Consult a Professional. Like pension streams, retirement accounts and savings, Social Security is an important income in retirement. A broker or advisor who sells products has little incentive or ability to advise regarding Social Security strategies – he or she is motivated to sell you annuities or mutual funds that generate commissions. Booking an appointment with your local Social Security office is a good start (but we advisors hear the service can be spotty – it can be hit or miss locating an informed Social Security agent). Getting advice by phone also can be hit-or-miss. Social Security is not mandated with helping clients "strategize" to obtain the highest benefits.

Given the complexity of Social Security strategies, you may be walking away with less.

So where should one turn for advice? Fee-Only advisors have a number of tools in our tool kits to evaluate the best Social Security strategy *within the context of your entire financial plan.* After all, *your financial plan is designed to maximize your future estate and to avoid outliving your money.* An advisor who sells products or manages your investments alone can't tell you what the best Social Security strategy is.

Like so many financial decisions, the onus in this country falls on individuals to make smart choices about their money – including when to take Social Security. Financial life is increasingly complex, and the stakes couldn't be higher. For some retirees, there is no "Plan B" – leaning on relatives for financial support later in life isn't an appealing or viable option.