The Powerful Positive Financial Impact Of Delaying Retirement

By Eve Kaplan, CFP® Practitioner

New data show the powerful positive financial impact of delaying retirement by even just a few months. Postponing retirement even by a month – for some – can equal or exceed the positive impact of saving more each year *for 10 years* while working. This is great news especially for people approaching retirement who are worried about insufficient savings and who might be thinking that it's "too late" to shore up their retirement.

As an advisor, I'm always looking for ways for clients to improve their retirement prospects. We'll all living longer lives and the prospect of outliving one's assets is frightening and sobering. If you feel you're relatively unprepared for retirement because you haven't saved enough, you still have options. If you're still employed, delaying retirement by even a few months COMBINED WITH delaying taking Social Security can provide a strong one-two boost to retirement strength overall.

Journalist Mary Beth Franklin CFP® covers Social Security and other work-related issues for InvestmentNews. Her recent article "Working longer makes huge impact" (InvestmentNews, Nov 12, 2018) elaborates on key National Bureau of Economic Research findings to show the powerful interplay of postponing retirement by months or more, and postponing Social Security:

1. The older the employee, the bigger the positive impact of delaying retirement by even a few months. At that point, increasing savings and/or lower investment portfolio costs have a minimal impact on one's future

retirement. *But older employees who delay retirement by just one month can have the same impact as increasing retirement savings by 1% (e.g. from 6% of income to 7% of income per year)* *<u>over a 10 year period.</u>*

2. Working additional months (or years) allow employees to contribute more to retirement accounts (401k, 403b, etc). Each month worked postpones the day when retirees begin to draw on their savings in retirement.
3. Delaying retirement by a year has a strong positive impact on Social Security benefits. Social Security bases benefits on the top 35 years of earned income. Any missing gaps in a 35 year wage history are assigned a "zero" value, which lowers benefits. Adding just one more year to your employment history, and taking Social Security as late as possible (ideally at age 70) – boost Social Security lifetime payments.
4. Franklin points out that a 66 year old worker who works one additional year (to age 67) and claims Social Security one year later (e.g. at age 67 instead of age 66) will see a 7.8% increase in his/her overall inflation-adjusted retirement income. Most (83%) of this hypothetical person's retirement income comes from receiving higher future Social Security benefits.
5. The impact of postponing retirement AND Social Security have a great impact of lower income earners due to the outsized impact of higher Social Security benefits on those individuals when they retire.
6. Even more comfortable or affluent individuals shouldn't dismiss the value of Social Security benefits over time. A couple age 65 who take benefits at age 70 can realize a total stream of income valued at $1.5 million or more. Remember, Social Security increases with inflation while most pensions (for the few who still have them) do NOT.

It's very clear that we face a retirement funding crisis in this country as more and more Boomers exit work. Many people have insufficient savings to cover all of their retirement needs. If you’re still working and contemplating retirement, try to postpone retirement as long as possible in order to capture a higher Social Security benefit down the road. Retiring even a few months later can have a powerful positive impact, especially if you delay Social Security. If you’re already retired but you haven’t yet begun Social Security, consult with an advisor to see if it makes sense to postpone taking Social Security until you turn 70. The one opinion I often hear that makes absolutely no sense goes something like this: “I should take Social Security sooner because it might disappear.” Social Security will evolve over time to address funding shortfalls, but taking a much lower benefit now “to avoid losing Social Security later” is both wrong and foolish. Taking too little too early is a strategy many retirees will come to regret as they age into their 80s and beyond.

A final point regards women. Women outlive men by several years in this country, yet typically they have less saved for retirement than men. It’s especially important that women – married or single – are well-informed about retirement to mitigate the risk of outliving ones assets.