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Crossing the Finish Line: How Social Security Claiming Decisions Affect a Retirement Portfolio

Delaying the start of Social Security benefits is far from a detriment in retirement planning, and proper coordination with the overall portfolio can add years of additional income. Here's how

By **William Meyer**, co-author of *Social Security Strategies: How to Optimize Retirement Benefits.*

In sports, a lack of coordination will get you benched (if you even make the team). In retirement, it's far worse, and can devastate even the best laid plans. Failing to achieve a varsity letter is one thing; failing to fully fund retirement is quite another.

It's one reason the proper coordination of Social Security with the overall portfolio is critical to ensuring the money lasts.

Our research, originally published in the Journal of Financial Planning, estimates the additional income that can be taken from a financial portfolio if a retiree delays the date age at which they begin taking Social Security.

Financial professionals currently deem a 4 percent withdrawal rate (meaning 4% of the portfolio's assets are withdrawn each year) as an appropriate spending benchmark, something known as the "4 percent rule." Yet the 4 percent rule does not take the duel impact of Social Security and taxes into account. In order to get a more accurate picture of a retiree's income potential, we include both in our calculations. We also argue that retirees should consider two criteria when selecting a Social Security claiming strategy:

1) What claiming strategy would maximize lifetime benefits if the individual lives to his or her life expectancy or each partner in a couple lives to his or her life expectancy?
2) What claiming strategy would minimize longevity risk (or the risk of outliving one's assets) in the financial portfolio?

The best strategy for a specific individual or couple depends on the trade-off they place on these two points. However, in order to understand and asses this trade-off, it's important for retirees to know how their starting date for Social Security benefits would likely impact their portfolio.

Some retirees may believe they'll live a short life, in which case they may not be concerned with ensuring the income

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Table 1. Sustainable Spending Levels and Longevity Extensions by Wealth Level, PIA = $1,500, 30-Year Planning Horizon

Wealth	Spending target SS at 62	Begin SS at 64	Begin SS at 66	Begin SS at 68	Begin SS at 70	Spending target SS at 70	Increase in spending	Increased spending at 62 per $100
$200,000	$21,700	4+	>10,$37,000	>10,$187,000	>10,$296,000	$23,650	$1,950	
$250,000	$23,650	3+	8+	>10,$127,000	>10, $231,000	$25,550	$1,900	$3.90
$300,000	$25,250	3;-	8+	>10,$118,000	>10, $217,000	$27,450	$2,200	$3.20
$400,000	$28,350	3	7+	>10, $87,000	>10,$185,000	$31,100	$2,750	$3.10
$500,000	.$31,000	2+	6+	>10, $55,000	>10,$163,000	$34,300	$3,300	$2.65
$600,000	$33,550	2+	5+	9+	>10,.$121,000	$37,150	$3,600	$2.55
$700,000	$36,150	1+	4+	7+	>10, $37,000	$39,750	$3,600	$2.60
$800,000	$38!850	1+	3+	6+	8+	$42,200	$3,350	$2.70
-$900,000	$41,700	1+	2+	4+	6+	$44,650	$2,950	$2.85
$1,000,000	$44,500	0+	2+	3+	5+	$47,100	$2,600	$2.80
$1,100,000	$47,100	0+	1+	3+	4+	$49,350	$2,250	$2.60
$1,200,000	$49,600	0+	1+	2+	3+	$51,700	$2,100	$2.50
$1,300,000	$52,100	0+	1+	2+.	3	$54,200	$2,100	$2.50
$1,400,000	$54,650	0+	1+	2+	2+	$56,750	$2,100	$2.55
$1,500,000	$57,150	0+	1+	2	2+	$59,250	$2,100	$2.50

Note: We assume a 3.75 percent annual return including 2.5 percent inflation rate. Allwealth is held in a 401 (k). In the "Begin SS at" columns, 4+ denotes the portfolio's longevity lasts four full years plus part of a fifth year longer than if Social Security began at age 62. The notation ">10, $37,000" denotes that the portfolio lasts another 10 year and there-is $37,000 (rounded to the nearest $1,000) remaining in the portfolio at the beginning of the next year. If the retiree lives to 92, the real cumulative lifetime benefit is $117,720 higher if Social Security begins at 70 instead of 62.

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from their portfolio lasts. But for many retirees, the possibility of outliving their assets—and therefore income—is a major concern, something that's known as longevity risk. As such, delaying Social Security benefits would affect the longevity of an individual's portfolio. Simply put, if a retiree selects a Social Security claiming strategy that provides more benefits over their lifetime, his or her financial portfolio will therefore last longer.

Let's put numbers to it.

Assume a retiree has an estimated monthly benefit amount (something known as a primary insurance amount in industry jargon) of $1,500, a 30-year planning timeline and earns an annual return of 1.22 percent, which is a return that is consistent with the 4 percent rule. Delaying the beginning of Social Security benefits from ages 62 to 64, 66, 68, and 70 would affect how long the retiree's portfolio lasts in the following ways:

In Table 1, we assume the retiree's primary insurance amount is $1,500, his full retirement age (the age in which he can collect his full primary insurance amount) is 66, and the planning timeline is 30 years. His Social Security monthly benefits will be $1,125 if he begins benefits at age 62, $1,300 at 64, $1,500 at 66, $1,740 at 68 or $1,980 at 70.

Less-wealthy clients who are concerned with the risk of outliving their assets should be especially interested in delaying Social Security benefits.

To understand this table, consider a single retiree with $700,000 in a 401(k) or other tax-deferred account. If he begins Social Security benefits at age 62 in January of 2011 then, based on the 2011 tax code, he could spend $36,150 in 2011, an inflation-adjusted equivalent amount each year thereafter and his financial portfolio would barely last 30 years. How much longer would his portfolio last if he maintains the same spending target but delays the start of benefits until ages 64, 66, 68, and 70?

The "Begin SS at 64" column indicates that if he retires at age 62 but begins Social Security benefits at age 64, his portfolio will last 1+ additional years (one more year plus some funds for a second year).

If he begins Social Security benefits at ages 66 or 68, his portfolio will last 4+ or 7+ additional years compared with a strategy of beginning benefits at 62. If he begins Social Security benefits at age 70, his portfolio will last 10+ additional years.

At that time, he will be 102 years old. Instead of calculating the additional years beyond age 102 that the portfolio would last, we indicate that the size of his financial portfolio would be $37,000 (rounded to the nearest thousand) at the beginning of that year.

This means that in some cases, delaying benefits can add more than 10 years of longevity to the portfolio.

Furthermore, the additional longevity from delaying Social Security decreases as the wealth level increases. So, less-wealthy clients who are concerned with the risk of outliving their assets should be especially interested in delaying Social Security benefits.

Lastly, by delaying the start of Social Security benefits, the single retiree can increase his or her spending level and still have the portfolio last 30 years. It therefore pays to delay in certain circumstances, all which should be fully vetted before any Social Security claiming strategy is chosen.

About William Meyer

Bill Meyer is founder and managing principal of Social Security Solutions, a leading Social Security software firm with patented technology that is dedicated to educating and assisting financial advisors and their clients in optimizing their Social Security claiming strategies. More information is available at www.SSAnalyzer.com.

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