

SOCIAL SECURITY HIGHLIGHTS



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What's the best investment you can make for your retirement? A September 2020 article published by *ThinkAdvisor* reaches a startling conclusion. Here's a hint: it's not about your 401(k), or your risk tolerance, or the mix of your portfolio.

To quote the author, David Blanchett, "The best 'investment' today for retirees isn't even an investment at all; it's delaying Social Security retirement benefits."

The fact is, the present value of the Social Security payout is a large asset that is regularly overlooked. Blanchett, the head of retirement research for Morningstar, goes into a great deal of detail about how he reached this conclusion. And after crunching the numbers, he feels that it still makes sense to delay, *even if benefits are cut in the future.*



A Good Reason to Wait: Timing Your Social Security Benefit

Remember that the Social Security Administration (SSA) maintains the Social Security Trust Fund, which serves as a cushion to protect future benefits. The fund currently has almost \$3 trillion invested in government-backed securities. In addition to the Trust Fund, the SSA collects withholding taxes on virtually every American's salary, most of which ends up getting used to pay current benefits.

Depletion of the SSA Trust Fund

Since about 2010, the benefits paid out by the SSA have been greater than the amount they collect in new tax withholding. Yet up until this year, the balance of the Trust Fund has continued to increase. The reason for this is that the interest earned by the fund is greater than the difference between the amount collected and the amount paid out. But that is expected to change this year, and the SSA is expected to dip into the Trust Fund to fund the difference for the foreseeable future.

The SSA projects that the Trust Fund will run out of money in the year 2034. In fact, if you look at your Social Security statement, you will find something like this:

"Your estimated benefits are based on current law. Congress has made changes to the law in the past and can do so at any time. The law governing benefit amounts may change because, by 2034, the payroll taxes collected will be enough to pay only about 79 percent of scheduled benefits."

But in early September, the Congressional Budget Office indicated that the Trust fund may, in fact, run out of money three years earlier, in 2031 rather than 2034. The main culprit is COVID-19, which of course caused widespread unemployment. If people aren't working, then the government is not collecting as much withholding tax as it had expected.

It remains to be seen whether the depletion of the Trust Fund will be "fixed" prior to 2031, but some legislative action seems to be in order sometime in the next decade.

You're Still Better Off Waiting

Getting back to Blanchett's analysis, the numbers indicate that even assuming a worst-case scenario—a 25 percent benefit cut—you're still better off waiting as long as you can to collect.

Deciding when to collect, in theory, should be a fairly straightforward decision. When assessing your Social Security options, you can collect as early as age 62, or as late as age 70. Surprisingly, the actual amount of the benefit is not the key consideration. It doesn't matter whether you're going to receive \$300 a month or \$3,000 a month, the factors are still the same. The longer you wait, the more money you'll get each month.

The benefit is based on what's referred to as the "Primary Insurance Amount" or PIA. The PIA is the amount on your Social Security statement that shows you what your benefit would be if you collected at your Full Retirement Age. For people born 1960 or later, Full Retirement Age is 67.

Like virtually everything attached to Social Security, there are numerous factors that tend to complicate the decision. If you decide to collect at age 62, your benefit would be 70 percent of your PIA. This is the most popular claiming option. Once you get beyond Full Retirement Age, the benefit goes up by 8 percent per year until you reach 70. So at age 70, you get 124 percent of your PIA. That's a 77 percent increase between 62 and 70.

Of course, you can collect at any age in between. The benefit reduction/increase is recalculated monthly. So waiting even one extra month will result in a slightly higher benefit.

More Reasons to Wait

One key element here is low interest rates. They've been at historic lows for a long time now, and some experts believe that they will continue that way into the foreseeable future. Thus an 8 percent guaranteed annual increase carries a lot more value. With today's historically low bond yields, you simply can't buy that return anywhere else.

There are other reasons that favor waiting to collect Social Security. For one thing, the benefit you receive is never 100 percent taxable. The federal maximum is 85 percent. And some states, New York and New Jersey included, do not tax Social Security benefits at the state level.

In addition, Social Security benefits are, to some extent, adjusted for inflation. As we've discussed in a previous article, Social Security COLAs may be less than they initially appear, but they do go up over time.

Not surprisingly, life expectancy is another key element. The longer you live, the better off you are waiting.

As always, there are caveats. Most notably, no discussion of Social Security benefits can be complete with an examination of spousal and survivor benefits. Either one of those could potentially change the outcome significantly.

There is also a counter argument. No matter what you do, with Social Security the best you can do is maximize the benefit for you and/or your spouse. Social Security rarely provides any benefit to your children. So by itself, Social Security can't do much to help you create a lasting benefit for your children if that's what you're trying to do.

For the right person there is another option, and perhaps a good reason to collect earlier. If you don't need the money to fund everyday expenses, you may be able to "leverage up" your Social Security benefit into a significant family legacy. A previous article ([0014965 "Using Social Security to Enhance Your Family Legacy"](#)) covered this concept in detail.

To learn about your Social Security options, contact your Security Mutual Life insurance agent. Using the Security Mutual Life Social Security Evaluator, your agent can provide you with an easy-to-understand illustration showing your various options, and then help you evaluate those options based on your personal financial needs and goals.



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