I WANT MY SOCIAL SECURITY NOW!!!

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Let's get right to the point. There are only two reasons to apply for social security benefits before age 70:

1. You are in really bad health with not much of a life expectancy; or
2. You really need it.

All too often I start a tax return for a client in her early or mid 60's who includes a 1099-SA among her documents for the first time. Often this client (or her spouse) is still working full time and/or has plenty of other resources to draw on. So to me and other financial life planners (but not to the client) taking social security early makes no sense.

I've asked a few clients why they have taken social security early when they clearly didn't need to. I get responses like this:

"It's my money and I want it now."

"If I wait, it won't be there. The social security trust fund is broke." (Actually, it has $2.7 trillion.)

"I've reached my full retirement age. Isn't that when I'm supposed to take it?"

"I crunched the numbers. I get more money if I apply for benefits now."

"My father died at age 65 and my brother at age 55. I'll be dead before I turn 70!"

"I want the money now while I am young and healthy enough to do fun things with it."

"I'm tired of working and need the money so I don't have to work anymore!"

"I want to take the money and invest it for a higher return."

"My sales rep at the bank told me that taking social security early would preserve my assets under his management."

Some of these reasons are more valid than others. But all them view social security benefits as a cash flow to be maximized currently.

I would like to offer a different view. Social security is not a cash flow to be maximized currently.

Rather,

SOCIAL SECURITY IS LONGEVITY INSURANCE

But first, a little background on social security. The current differential that results in higher benefits for those who wait was implemented in the 1980s in a period of high inflation. As a result, social security benefits increase by about 8% each year that a person waits. A person who would get $20,000 per year by starting at age 62 would get about $40,000 per year if she waited until age 70.

Let's talk about Gillian, who is the inspiration for this blog. Gillian is 65 and casually mentioned to me one day that she had applied for social security benefits. Gillian's husband is in his late 50s and they have about a million dollars in investments in taxable brokerage accounts (not retirement accounts). I mentioned to Gillian that she should wait. If she needed money, she should draw down her investments.

Gillian then sent me a spreadsheet proving that taking benefits early resulted in greater cash flow. I rejected the conclusions on her spreadsheet for several reasons:

1. I don't view social security in terms of current cash flow;
2. Every analysis that I have done for clients concludes that waiting until age 70 is always the best strategy;
3. She assumed a constant growth rate on her investments, ignoring volatility and risk; and
4. She didn't consider the impact her choice would have on her younger spouse.

Let's stay with Gillian on this. Suppose Gillian dies at age 75. If she had taken social security early, she would have won. Except that she'd be dead and, therefore, wouldn't care that she had won. And her spouse would have lost because he could not claim what would have been her higher benefits.

But suppose that she had died at age 100, having waited until 70 to claim her benefits. It's quite likely that during her time in the old folks' home her social security checks were bigger than anyone else's. Or maybe she was still in her own home and using those big social security checks for some in-home care.

My point is this: Should Gillian take social security now so that she has some extra spending money? Or should she wait so that she has more when she actually needs it?

Let's go back to where I mentioned that Gillian and her husband had about a million dollars in investments. These investments are primarily stocks, bonds, and real estate. All are subject to market forces, inflation, and high fees.

Social security benefits are not subject to the stock market, are indexed for inflation, and have no fees. But best of all, benefits never run out. Granted, the investments might provide higher returns than social security over time. But what if they don't? As I write this in 2018, many economists are predicting a recession in the next 2-3 years. Social security is recession-proof; stocks and real estate are not.

There are only two financial outcomes in life:

1. Your money outlives you; or
2. You outlive your money.

The second outcome is all too common these days. Employer pensions are becoming increasingly rare. Too few people contribute enough to their 401Ks, or don't have any employer retirement plan at all. The cost increases for medical care show no sign of abating. As people live longer, the high cost of long term care smashes more and more next eggs. As baby boomers age, more and more of them will end their days with social security benefits being their only income.

Let's summarize the possible scenarios:

1. Gillian takes social security early (age 65) and dies at age 75. She made the right choice (in hindsight), but she won't be there to pat herself on the back for having been so wise in predicting the future.
2. Gillian takes social security at 70 and dies at age 75. Do you think that on her deathbed she is thinking, "Dang! My greatest regret in life is not having taken social security earlier!" (After the grieving period, her younger husband will realize that he will benefit from her having waited.)
3. Gillian takes social security early and lives to be 100. In this case, having taken social security early will be a big and real regret.

4. Gillian takes social security at 70 and lives to be 100. She will have plenty of time in her 90s to congratulate herself on the wise decision that her younger self made many years before.

To me, a financial life planner, this is a very disappointing statistic:

97% of Americans take social security early (before age 70).

That's right. Only 3% of American wait until age 70. Only 3% of Americans view social security as longevity insurance.

Why? The subject of a future blog.