The Retirement Solution Hiding in Plain Sight:

How Much Retirees Would Gain By Improving Social Security Decisions

When I ask people why they took social security early, I get a variety of reasons. But most of those reasons result from two misconceptions:

1. There's a link between when you stop working and when you apply for social security; and
2. Wealth is more important that income.

Let's address the first misconception first. There is NO link between when you stop working and when you apply for social security. You can stop working any time you want. And you can apply for social security any time between the ages of 62 and 70.

For example, you can take social security at age 62 and work until age 70. It's a really bad idea. But people do it.

Or you can quit working at age 62 and take social security at age 70.

When I work with financial life planning clients who are getting close to retiring, we try to figure out how early the client can quit working and still wait until age 70 to collect social security. The trick is to have enough income to fill in the gap, which brings us to the second misconception.

Most people who can stop working years before they collect social security have substantial savings and little or no debt. Let's assume that Joan fits that picture and wants to stop working at age 66.

Too many people will look at their IRAs and assume that they should protect that wealth by collecting social security. WRONG! The IRA is wealth; social security is income. Income is more important than wealth in your later years.

As her financial life planner, I see my job as having to help Joan bridge the gap between 66 and 70. It will be hard for Joan to accept that we need to reduce her wealth in order to increase her income. For those four gap years, I will recommend that Joan draw down her savings. In other words, I will recommend that she reduce her wealth.

If you've got the picture, you can stop reading at this point. Now I'm going to offer some results from the study done by United Income that inspired this blog entitled:

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Some Excerpts:

"Retirees will collectively lose $3.4 trillion in potential income that they could spend during their retirement because they claimed social security at a financially sub-optimal time, or an average of $111,000 per household."

"Most retirees will lose wealth in their 60s and early 70s if they choose to optimize social security, but will be wealthier in their late 70s and through the rest of their lives."

"Since making the optimal decision means sacrificing wealth in the near term, we think it unlikely more people will make the right decision without a policy intervention." (I think that "policy intervention" means working with a long term comprehensive financial life planner.)

"Elderly poverty could be cut by nearly 50 percent if all retirees claimed social security at the financially optimal time."

"More than 50 percent of retirees that claimed sub-optimally would see their annual income in retirement increase by more than 25 percent in their 70s and 80s."

Retirees are "choosing to protect their financial savings, even if it means they will likely have lower social security benefits, and a lower chance of maintaining their lifestyle in retirement."

"Social security optimization is most impactful on the probability of having enough money in retirement for those that are on the edge between being able to afford or not afford retirement."

The study also referred to the conflict of interest that sales reps at banks and brokerage houses have. They will tell you to take social security early to protect your IRA assets if those assets are under their management and are generating fees for them. A true comprehensive financial planner will put his clients' interests first and strictly adhere to the fiduciary standard.

For more of my thoughts on social security and other retirement issues:

http://www.lotusfinancialsvcs.com/Blogs.4.htm