

RETIREMENT INCOME PLANNING: WHEN SHOULD YOU START TAKING SOCIAL SECURITY?

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When should we start thinking of retirement income planning? Given the change to the definition of retirement over time, the answer to that is very individualized. Our parents' definition of retirement may have been different from what we are experiencing now. A growing number of people decide to retire from a primary career but are worried that they will be bored, so they take up another job/career. However, some still hold to the pure definition of retirement and postpone activities and hobbies to enjoy when they have time capacity to pursue them.

Regardless of your definition, whether you live it now or are postponing to the future, we need to fund it somehow. For some, continued work provides a portion of their cost of living. Hopefully, their diligent savings over many years has been managed smartly to provide income to their chosen way of life. Maybe there are pensions, annuities, or other forms of income that will support them. As you can see, this is a very robust area; each option or potential funding source comes with its choices and the need to make decisions.

So let us start with one piece of the income puzzle that continues to raise questions; Social Security. When should we claim our retirement benefits and how should we consider Social Security as a part of our retirement income plan? The answer to these questions are as individualized as our retirement plans themselves, but let's look at some universal considerations that perhaps people have thought about already.

WHAT WE KNOW:

- The math says to wait as long as possible to claim your benefits. This is because each year you wait past 62 (the earliest claiming age) you will see an 8% average annual increase in your benefit, up to age 70. That is a nice rate of return!

- If you expect to live past your late 70's, the math works out that you will have benefited by waiting to claim at age 70 versus age 62.

- If you expect to work past age 62 and expect to claim social security at the earliest age, the maximum you can earn (in 2022) is \$19,560 before your benefits are reduced.

- If you have a spouse whose benefit is lower, waiting until age 70 to claim will maximize their survivor benefit if you die first.

Now let's look at other considerations that many overlook about social security planning inside the bigger discussion of retirement income planning.

SOME ALTERNATIVE THOUGHTS:

1. No one else will benefit from your Social Security upon your death other than a spouse. They will only benefit if your benefits are higher than theirs are. Your accumulated savings can be left to more than just your spouse. You can leave it to children, other family, friends, charities, etc. Also, there is flexibility of when you give it away.

2. Claiming sooner can help insulate your accumulated savings. Social Security benefits can offset the need to take untimely withdrawals from your portfolio. Leaving your portfolio intact longer means it is there for more flexible and/or lumpy spending like cars, trips, house expenditures and more.

3. Leaving your portfolio intact also gives you the opportunity to earn more than not claiming your retirement benefit. We know your Social Security benefit will grow by 8%, maybe your portfolio can do better, but it could also do worse.

4. Most states do not tax social security and it is not 100% taxed by the IRS. It may be more tax beneficial than your other choices for retirement income.

5. Maybe you have health issues and don't expect to live long enough to hit the crossover point of your late 70's. Also, just because you decide to delay taking benefits at age 62 doesn't mean you have to wait until your full retirement age to claim them. You can change your mind the next day if you would like.

Many of the unique planning and claiming strategies have been eliminated from Social Security over the years, but that does not mean the approach to claiming Social Security has gotten any easier. As we often tell our clients and those that are exploring our services, we are going to challenge the standard thinking and bring as many considerations to the conversation as possible. This ultimately leads to a more robust and individualized solution.