The Corporation for Social Security Claiming Strategies

Explore the Power of Social Security Planning

Preserve retirement assets with a Social Security optimization strategy

With 11,000 Baby Boomers reaching retirement age each day, America is entering an unprecedented era in modern retirement income planning.

A recent Google search of the term "Retirement Planning" provided 268 million results. This unprecedented complexity is undoubtedly a by-product of the post-pension age.

Prior to the introduction of the 401(k), retirement was simple and the solutions were effective — a monthly defined pension payment for life, plus a guaranteed monthly benefit from Social Security. When combined, these two sources provided secure, predictable retirement income.

Today, many retirees gain a false sense of security from their significant defined contribution plan (401(k), 403(b) etc.) balances. For many, their retirement plan represents the single largest asset they own. However, when we consider that the sum total of these assets is intended to replace the retirement income formerly provided by "traditional pension plans," their retirement may not be very secure. A 2013 study conducted by the non-profit National Institute on Retirement Security projected that 92 percent of American households were not on pace to meet their retirement savings targets.* Put another way, 92 percent of households are facing an underfunded retirement which may lead to a significant retirement income security crisis as the Boomer generation gets deeper into their retirement years.

This represents a particularly challenging situation for retirement income planning professionals given the vast majority of workers don't seek meaningful retirement planning advice until they are at, or very near retirement.

For most retirees, absent an unexpected windfall of capital at the age they intend to retire, there have historically been few, if any, traditional planning strategies capable of solving the retirement income insecurity problem — until now.

Consider a paradigm shifting approach

Our work at the Corporation for Social Security Claiming Strategis has led us to an interesting and surprising conclusion: while Americans have completely embraced the insurance model that provides cost effective protection from the unthinkable financial risk posed by the unexpected and sudden loss of assets such as their home, health, life or auto, when it comes to protecting their retirement income from the threat of sudden and catastrophic loss, most have chosen to self-insure. Stunning when one considers miriad risks retirement assets face everyday. They do so despite the fact that there are alternative Social Security filing strategies available that may profoundly impact the future of their retirement income security. Moreover they fail to recognize that choosing to collect benefits at a sub-optimal time may very well be the catalyst in the ultimate failure of their retirement income plan. Ironically, it is because most retirees file early and, as a result, unwittingly choose to self-fund/insure a disproportionate amount of their plans overal retirement income need that the National Institute on Retirement Security projects most will never meet their retirement savings goals.*

" The first step in solving a problem is recognizing there is one" — Will McAvoy

* "The Retirement Savings Crisis: Is It Worse Than We Think?" National Institute on Retirement Security, June 2013. https://www.nirsonline.org/wp-content/uploads/2017/06/retirementsavingscrisis_final.pdf

If, as the research indicates, 92 percent of Americans are not on pace to meet their retirement savings needs, then it stands to reason that those 92% will be forced to commit 100 percent of their retirement savings to the income portion of their retirement plan. This means there will be no additional resources available for unexpected financial hardships or legacy planning. Without any discretionary assets, retirees will be forced to invade and further destabilize their already underfunded retirement income plan every time they have an unexpected financial need. Once they retire, we believe this lack of adequate savings and flexibility is the single biggest issue facing retirees today.

Our research indicates one of the most effective ways to address this looming crisis is to shift the industry's planning from a product based focus to a methodical planning process whereby a prospective plan's capital requirements are first "stress tested" before settling on any specific Social Security filing strategy. The case study below demonstrates the value of a methodical planning approach. Using the same set of assumptions, this example analyzes how two different Social Security filing strategies impacts a plan's capital requirement and, in turn, it's long term probability of success.

Case Study Assumptions (Hypothetical examples)	
Spouse 1	**Spouse 2**
Age: 66	**Age:** 66
Primary Insurance Amount (PIA): $2,650 per month	**PIA:** $2,000 per month
Household Annual Income Goal: $85,000	
Household Retirement Assets: $800,000	

Scenario One: Taking Early

Let's asume, in both scenarios, there is an initial annual retirement income goal of $85,000 with an annual 2.5% adjustment per year to combat inflation. In addition, we'll target a 90% probability of success over a 30 year time horizon* and asume both spouses choose to retire at age 66 and immediately file for Social Security benefits. In spite of the fact they have not tested their strategy, this hypothetical couple is highly confident in their plan to take benefits early thanks to the $800,000 in household retirement assets they've worked hard to accumulate.

In order to perform a high level "stress test" of their plan, we would simply look to the abundance of safe withdrawal rate research readily available to any financial professional. In this scenario of taking early, we will assume an initial, net of fees, safe withdrawal rate (SWR) of 2.7 percent to determine if the capital they've accumulated will be sufficient.

Household Annual Income Goal:	$85,000
— Spouse 1 SS Benefit:	$31,800
— Spouse 2 SS Benefit:	$24,000
Annual plan income gap:	$29,200

Plans Capital Requirement:	Income Gap/SWR=	Required Capital	**Results of Stress Test:**	Capital Required: Capital Available:	$1,081,481 $800,000
	$29,200 / 0.027=	$1,081,481		Capital Shortfall:	$281,481

Scenario Two: Taking Later

Again, we will use the same assumptions for household income goal, time horizon, inflation, probability success and household retirement assets, as we used in Scenario 1. Both Spouse 1 and Spouse 2 will still elect to retire at age 66 but, in this case, decide to defer receiving Social Security benefits until 70. Between ages 66 and 70, they will completely self-fund their inflation adjusted annual retirement income need from their retirement savings.

As you can see, waiting until age 70 to file for and begin collecting benefits has had a profound impact on the plans overall capital requirement and corresponding probability of success.

Household Annual Income Goal:	$85,000
— Spouse 1 SS Benefit:	$41,976
— Spouse 2 SS Benefit:	$31,680
Annual plan income gap:	$12,522*

Plans Capital Requirement:	Income Gap/SWR=	Required Capital	**Results of Stress Test:**	Capital Available: Capital Required:	$800,000 $756,899
	$12,522/.031 = Bridge Capital =	$403,935 $352,964		Capital Shortfall:	+$43,101

Here, while these clients "retire" at the same age, they fund the years between retirement and age 70 (bridge years) wholly from their retirement savings. In so doing, their income from Social Security will grow by a mínimum of 32%.* Once the plan culminates at age 70, they will have permanently reduced the income gap by more than half, which the balance of their retirement savings can safely fund for the remainder of the time horizon.

*Assumes 2.5% COLA or Cost of Living Adjustment on gap income

There may be significant tax advantages when you wait to claim Social Security:

	The Earlys	The Laters
Target Pre-tax Annual Income Goal*	$93,824	$93,824
Annual Social Security Income	$61,593	$81,302 **Guaranteed Social Security Income is 32% MORE**
Income from Traditional Retirement Account	$32,231	$12,522
Amount of Taxable Social Security Income	$22,173	$13,797
Total Taxable Income ***(income from retirement account + taxable SS benefit)***	$54,404	$26,319 **Total Taxable Income is 52% LESS**

Waiting until 70 not only significantly increased the level of household guaranteed retirement income, increased the value of the survivor benefit by a mínimum of 32% and decreased the capital requirement by $324,582 it also delivered a substantial tax savings thanks to the favorable tax treatment afforded Social Security under Provisional Income.

Help clients optimize their retirement with a paradigm-changing approach for determining how and when one should go about filing for their Social Security retirement benefits.

The power of Social Security Optimization.

By introducing a different strategy, we've provided a vastly better result. The Later Plan is fully fortified against the otherwise ravaging effects of longevity, inflation and taxes. We've eliminated what would have been the inevitable likelihood this hypothetical couple would have a plan that fails and we've done so by embracing a different view of how to go about deciding when and how one should take benefits. The income this versión of the plan provides is fully guaranteed, inflation-adjusted and highly tax-efficient. This plan also provides enhanced flexibility, control and access in the form of $43,101 in excess retirement capital.

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* Target pre-tax income goal, Social Security benefits and IRA distributions have been adjusted to account for an annual COLA of 2.5%

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