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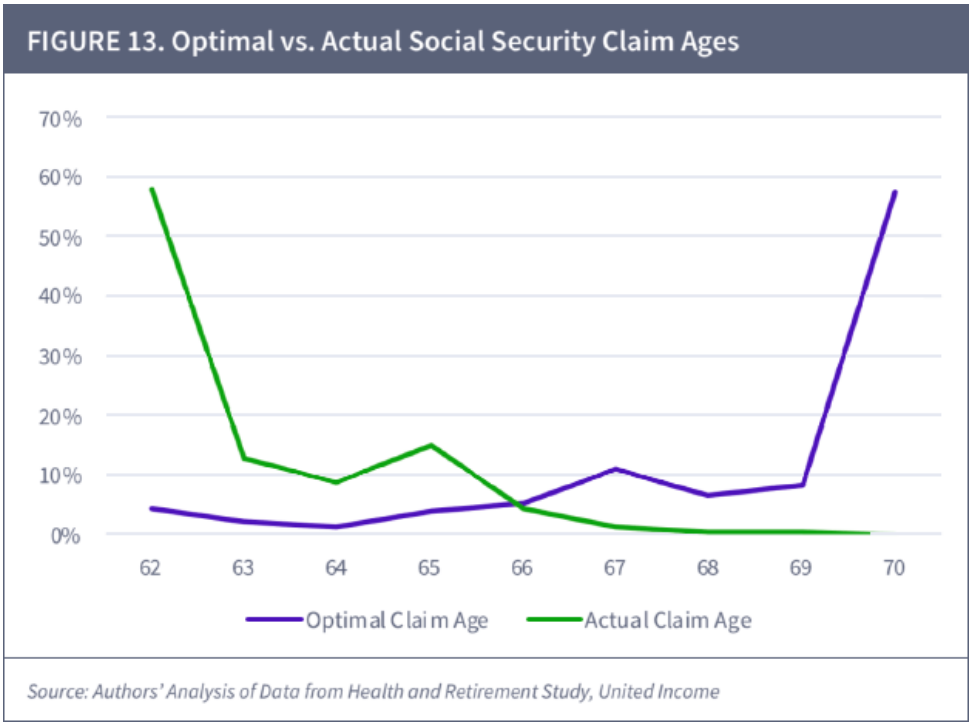
Americans lose trillions claiming Social Security at the wrong time

The graph below says it all. The age at which most people claim Social Security (green line) is opposite to the age at which they SHOULD claim Social Security (purple line). According to The Retirement Solution Hiding in Plain Sight: How Much Retirees Would Gain by Improving Social Security Decisions, "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."



This comprehensive study observed 2,024 households, considering each household's outside resources, spending, health, and longevity to determine how much income and wealth they would have if they had taken Social Security at the various ages of eligibility. Although later claiming typically caused wealth to drop during a person's 60s as they drew down their personal retirement accounts, this wealth drop was more than made up for by the late 70s when Social Security income was higher. In order to isolate the effect of claiming age, the study did not consider the effect of working longer, but in real life, a person who decides to maximize benefits by claiming at 70 might choose to work a few years longer, and this would mitigate some or all of the wealth drop in their 60s. This appears to be the first study of its kind to consider the impact of claiming age on not just the Social Security income, but other assets and income as well, as optimal Social Security claiming can lead to higher account balances, which in turn generate more income.

Only 4% of retirees make the optimal claiming decision. The study found that a claiming age of 62–64 is optimal for only about 8% of adults (primarily those with short life expectancies or low-earning spouses)—yet about 79% of eligible adults in the sample claimed at those ages. A claiming age of 70 is optimal for 71% of primary wage earners—yet only 4% of the adults in the sample claimed at that age.

Among those at the highest wealth levels, 99% make suboptimal claiming decisions. Yes, you read that right. Ninety-nine percent of higher-wealth households make suboptimal claiming decisions. While it's true that wealthy individuals can afford to leave Social Security benefits on the table, what's troubling is that they are not getting good advice from their financial advisors. The study notes that very few wealth managers advise on Social Security claiming decisions and those who do have a disincentive to advocate for later claiming because it would mean removing assets earlier than clients otherwise would. The report says that wealth managers are being short-sighted about this because later claiming eventually increases the amount of assets for them to manage. Savvy Advisors take note: prospects whose current advisors are either not providing Social Security claiming advice or advising them to take early benefits (so the advisor can keep more of their assets) are ripe for the picking. Show them calculator reports revealing their personalized optimal claiming strategies and it will be clear that you are providing greater value and acting in their best interests (not yours).

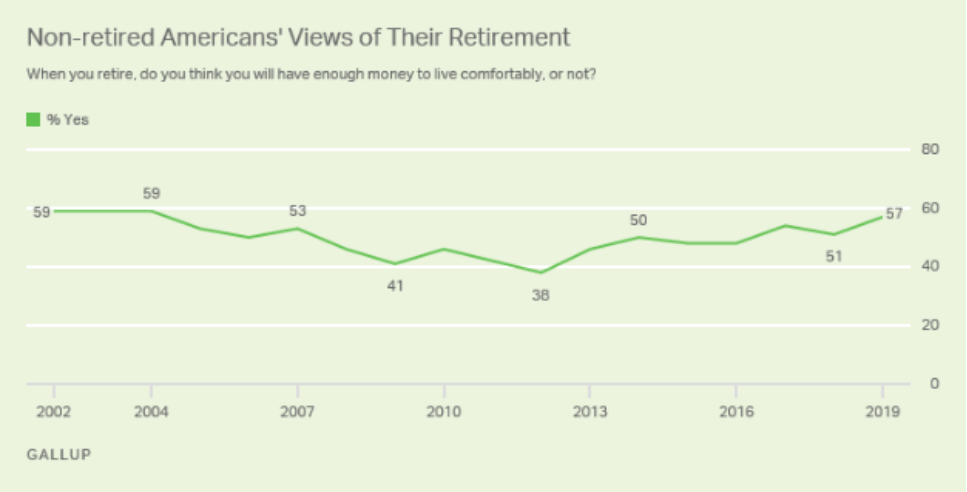
For retirees, financially suboptimal decisions add up to a loss of $2.1 trillion in wealth and a loss of $3.4 trillion in income. In its conclusion the report mentions a few ways to deal with this, including: 1) make early claiming an exception, reserved for those who have a demonstrable need to claim benefits before full retirement age; 2) change the way we refer to early or delayed

claiming, labeling a claiming age of 62 as the "minimum benefit age" and 70 as the "maximum benefit age;" 3) remove the disincentives wealth management firms have for delivering optimal claiming advice (i.e., the near-term drop in assets) by providing "cover" for executives to make the right financial decision for their clients and the right long-term decision for their shareholders; and 4) provide SSA with more resources, perhaps in partnership with third-party fiduciaries, to help households determine their optimal claiming age. "That limited investment could help recapture some of the $5.5 trillion lost in wealth and income to retirees and the U.S. economy because of the struggles retirees currently face making the right decision."

This study validates everything we are doing and provides aggregated data to support the personalized Savvy Social Security analyses you do for your clients. With your help and advice, your clients have a shot at being one of the 4% who end up making optimal Social Security claiming decisions. Not only will this increase their Social Security income, it may lead to higher income and wealth from other sources as well.

More nonretired Americans expect comfortable retirement

Meanwhile, a recent Gallup poll found that 57% of nonretired Americans now expect that they will live comfortably in retirement, a six-point increase in positivity since last year and the highest reading since 2004.



Only 33% of non-retirees see Social Security as a major source of income in retirement (compared to 57% of retirees). Eighteen percent of non-retirees aren't counting on it at all. Instead, non-retirees tend to focus on 401(k), IRAs and other retirement savings accounts as being a major source of income. They also are planning on having multiple sources of income in retirement, including part-time work, home equity, and rent and royalties. I believe this is as it should be. While I do believe the system will be reformed and that Social Security benefits will turn out to be a more important source of income than current non-retirees think, they will be better off financially in retirement if they work on getting their other sources of retirement income together. I would venture to guess that a large portion of the 57% of current retirees who see Social Security as a major source of income didn't feel that way when they were working. But circumstances—the financial crisis of 2008, forced early retirement, lack of savings, disappearing pensions—have turned it into a lifeline for them.

Question of the week

Q: *I've counseled a client age 67 to file a restricted app when his wife turns 62 in September. The SS worker said this program ended in 2016 and is no longer available. What language should we use so the SS worker doesn't get this confused with the File & Suspend that did end in 2016? This happens often.*

A: Number one: don't talk to SSA workers about restricted application; they're confused. Number two: file online. See this newsletter.

Answering your questions

When posting a question, please include first names, ages, and PIAs of your clients, along with any other relevant information. This will help me target my answer to your client's situation.

Retirement news

Financial Effects of S. 1950, "Strengthen Social Security by Taxing Dynastic Wealth Act of 2019"

"The draft bill would make the following changes: 1) Reduce the lifetime estate tax exemption limit to $3.5 million for deaths in 2020 or later, with the tax rate on amounts above the limit ranging from 18 percent to 45 percent. The $3.5 million limit would be unchanged for future years. 2) Establish a lifetime exemption limit for gifts of $1 million, with any unused amount from a decedent transferrable to the surviving spouse for gifts during their lifetime. 3) All monies from tax on excess gifts and transfers made, and tax on estates of deaths in 2020 or later, would be directed to the OASDI Trust Fund. Enactment of this provision alone would improve the long-range OASDI actuarial balance by an estimated 0.58 percent of taxable payroll, and would improve the OASDI annual balance by 0.78 percent of payroll for the 75th projection year (2093)." *(SSA Office of the Chief Actuary)*

Tips for Encouraging Better Retirement Savings Behavior

"Stress what could be gained or lost … Point out what others are doing right … Use testimonials versus eye-popping statistics … Encourage individuals to picture their retirement … Leverage competition … Use opt-out versus opt-in features … Limit investment choices … Structure the menu of investment choice … Use a stretch match … Provide access to a financial advisor." *(TRA)*

The 2019 Long-Term Budget Outlook

"If lawmakers changed current laws to maintain certain major policies now in place—most significantly, if they prevented a cut in discretionary spending in 2020 and an increase in individual income taxes in 2026—then debt held by the public would increase even more, reaching 219 percent of GDP by 2049. By contrast, if Social Security benefits were limited to the amounts payable from revenues received by the Social Security trust funds, debt in 2049 would reach 106 percent of GDP, still well above its current level… Mainly owing to the aging of the population, spending for Social Security and the major health care programs (primarily Medicare) is projected to rise as a percentage of GDP over the coming decades. The growth of spending for Medicare and the other major health care programs is also driven by rising health care costs per person." *(Congressional Budget Office)*

Here's Where the Presidential Candidates Stand on Social Security

"If you've been paying attention to the 2020 presidential race, you've likely heard where many candidates stand on Medicare. Yet another topic—Social Security—has been thus far been largely absent from the debate. Here is what we know so far about where the key presidential candidates stand on this issue. The Democrats listed were drawn from those who ranked highest in a Quinnipiac University National Poll released on July 2…" *(CNBC)*

Are Social Security's Early and Late Retirement Factors Fair?

"But that's all based on the assumption that the adjustment factors used for early and late retirement are 'actuarially equivalent,' that is, fair for everyone based on life expectancies. That might not be true. After all, these factors were first set in 1961 (early retirement) and 1983 (late retirement), as described in the comprehensive book Social Security by the longtime Social Security Chief Actuary Robert J. Myers. As detailed in further articles, these factors were initially set using mortality tables from the middle of last century, although adding in some conservatism by using 'individual annuity' mortality rates which assume greater longevity (because individuals seeking out annuities have greater life expectancy than the average population). What happens when you use modern mortality tables? In 2027, when the full retirement age hits 67, a worker retiring at age 64 will have an adjustment factor of 80% applied to his benefit, so for simplicity's sake, I've used this calculation. When adjusted for

modern mortality tables, the adjustment should be 82%… Similarly, a worker retiring at age 62 will have an adjustment of 70%. The actuarially fair adjustment would be 73%." *(Forbes)*

Social Security Statements Could be Coming Back to Your Mailbox

"Since 2012, the Social Security Administration has scaled back the mailing of paper statements after it established a website, My Social Security, that offered access to that information online. The agency also was able to save on the costs of mailing paper records. [But] the Beneficiary Education Tools, Telehealth, and Extenders Reauthorization Act of 2019, or BETTER Act, includes a provision that would reinstate mailed Social Security statements. Advocates for the provision argue that many people are not accessing their online statements. A report from the Social Security Office of the Inspector General released in February found that 43% of registered users accessed their online statements in 2018, down from 48% in 2017 and 53% in 2016." *(CNBC)*

If You Don't Save Enough, Perhaps You Have 'Exponential Growth Bias'

"Say you have a dollar that doubles in value every day. How much money will you have after a month? For most people, the answer is rather shocking: You will have more than $1 billion after 31 days of doubling. Although the math is just basic arithmetic, many of us assume the final number will be far smaller, a blind spot known as exponential-growth bias. Simply put, exponential-growth bias is the tendency to neglect the effects of compound interest, which is what happens when earned interest is reinvested. Research shows that this bias matters: Households with a stronger bias tend to save less and borrow more. They have portfolios that include more short-term assets and an overall lower net worth. In recent years, behavioral economists have come up with tests to measure an individual's level of exponential-growth bias…" *(The Wall Street Journal)*

Alternative Realities: The Impact of Extreme Changes in Defined Contribution Plans on Retirement Income Adequacy in America

"In recent years there have been a number of policy proposals that call into question the value of existing defined contribution plans. However, the suggested alternatives do not provide a detailed analysis of the impact of terminating defined contribution plans on retirement income adequacy for American households… In contrast, this Issue Brief provides a comprehensive exploration of the impact on retirement income adequacy for various cohorts of American households if defined contribution retirement plans were completely eliminated. As expected, the results are significantly greater for younger cohorts, since they would lose potential access to defined contribution plans for a longer period. The youngest age cohort (those currently ages 35—39) would suffer the most, with average retirement deficits increasing 23 percent from $49,182 to $60,253… The Issue Brief then analyzes the opposite end of the defined contribution access spectrum by exploring the impact of a universal defined contribution scenario where every employer (with the exception of those that already sponsor a defined benefit plan) is assumed to sponsor a defined contribution plan." *(EBRI)*

As always, post your questions or write to me at socialsecurity@horsesmouth.com.

Elaine Floyd, CFP®
Director, Retirement and Life Planning
Horsesmouth, LLC