Making Decisions About Social Security *by Steve Waas*

In the Spring edition of the Pension Press, we introduced you to Steve Waas, HMEPS' Financial Counselor. Steve is also a Certified Financial Planner. Steve is available for individual meetings, but he also will be discussing financial topics in our newsletters to help participants better understand these important issues. This time the topic is Social Security.

Steve Waas
Financial Counselor

Suppose someone offers you an investment opportunity that requires you to give up a lot of your hard-earned money over a very long period of time. In return, you get a payout that is determined by a long list of formulas and rules – over 2,500 of them. Some apply to you, some don't.

So what do you think of this investment opportunity? It seems so complex that you may be reluctant to participate in it.

But the fact is, you probably are participating in it – it's called Social Security.

In all likelihood, nobody ever asked you if you wanted to be a part of this "investment opportunity." The law requires that most people pay into the system through payroll taxes. But you do have choices about how you take money out of the system, and these choices can make a big difference during your retirement.

Take Harry and his wife Wynona. Harry is 62 and Wynona is 57. Harry is retiring, and he files for Social Security retirement benefits. Many people do it simply because they can. A check every month, what's not to like?

However, Harry and Wynona are more careful. They go to the Social Security office where they learn that if he waits a while before starting his benefit, the amount will be more. In his case, he will get $1,373 a month if he starts now, but $1,820 monthly (plus inflation adjustments) if he waits until age 66.

But is it worth missing four years of $1,373 a month in exchange for a higher monthly amount? Harry and Wynona figure this depends on how long Harry lives. If he lives to be 100, then the $1,820 a month for 34 years will add up to a lot more than the $1,373 a month for 38 years. But if he lives only a few years longer, then the extra four years of the smaller amount makes that choice the best one.

Exactly how long does Harry have to live to make the bigger check worthwhile? They do the math and find that once Harry gets to month 196 (over 16 years from now), the delayed payment looks like the better choice. Harry decides he may not live to be 78 and "doesn't want to take a chance of leaving some money on the table." Harry turns out to be right about that calculation – he dies at 75.

But did the couple make the right decision?

When Harry dies, Wynona discovers she gets a "survivor" benefit based on Harry's work record, to replace her own lower retirement benefit. Her own retirement benefit is relatively low because she was out of the full-time workforce for many years while she raised a family. But with the survivor benefit she gets the same amount Harry was getting: $1,373 monthly, adjusted for inflation. And she gets this for the rest of her life, no matter how long she lives.

It dawns on Wynona that perhaps she and Harry made a mistake. When deciding whether Harry should start benefits at 62, they only considered the question of how long he would live. But what also matters is how long either of them will live. If Harry had delayed until age 66, Wynona would be receiving over 30 percent more inflation adjusted, tax advantaged income from Social Security, income that could continue for many years. In fact, if he had delayed until age 70, that income would be 75 percent higher. Numbers this big can have a significant impact on one's standard of living.

Of course, in order to delay taking Social Security benefits, a couple will need to use funds from elsewhere during the period they wait for the Social Security payment to grow. Options include deferred compensation plans, DROP accounts, and other savings. How to best use these assets, along with Social Security, is a complex decision and requires some careful analysis. What makes sense for one couple may not work for another. You may want to seek help when making this and other important financial decisions about retirement.

Financial counseling is available at the HMEPS office. Call 713-595-0100 to make an appointment. You can also email Steve Waas at swaas@hmeps.org to set up an appointment. Steve also responds to participant's questions in the newsletter - see "Member Question to HMEPS Financial Counselor" on page 5.