

WHEN TO CLAIM SOCIAL SECURITY - PART FOUR

In our previous newsletters we've discussed [the basics of Social Security](#), how the credits received from delaying benefits create [a breakeven age](#), and how [spousal benefits](#) both complicate the decision process while providing for planning opportunities for married couples. In this article, we'll conclude our four-part series on Social Security by analyzing the optimal age at which to claim Social Security based on a variety of factors discussed above.

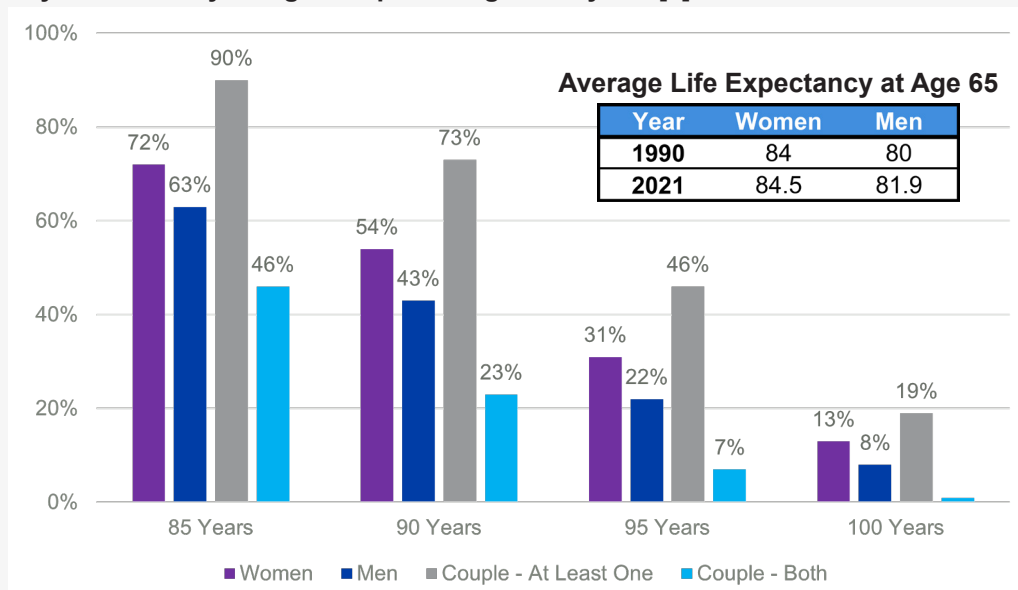
REVIEWING IMPORTANT SOCIAL SECURITY FACTORS

There are a few key factors that impact the decision to claim Social Security benefits. Although these have been discussed in previous articles, these factors will form the foundation of our analysis in the following pages.

1. Life Expectancy

Ultimately, the most important factor in determining lifetime benefits is life expectancy. Because Social Security is guaranteed for life, longer life expectancy means increased benefits, all other things equal. In situations where known individual life expectancy may be different than the average population (i.e., family history of longevity, terminal illness, specific health factors), an accurate estimate of individual life expectancy will have a major impact on the decision to claim Social Security. For married couples, a difference in life expectancy between the primary earner and the dependent spouse can lead to significant risks and opportunity in Social Security planning.

Probability of a 65-year-old today living to a specific age or beyond [1]



BECAUSE SOCIAL SECURITY IS GUARANTEED FOR LIFE, life expectancy is the most important factor in determining lifetime benefits.

2. Spousal Retirement Benefit Availability and Amount

As seen in our third article, the addition of a spousal benefit complicates the calculation. However, this complication also provides a number of planning opportunities. For couples in which one spouse does not qualify for benefits on their own record, the availability of a spousal benefit becomes a critical factor. For married couples in which both spouses do qualify for benefits on their own working records, the difference in their respective benefit amounts is an important planning factor.

3. Spousal ages

In addition to the availability and amount of a retirement benefit available between spouses, the age difference between spouses also impacts the decision to claim Social Security. The reason age matters is due to the requirement for the primary earner to be drawing benefits on their own record before their spouse can claim spousal benefits. For example, if a primary earner who is 7 years younger than their spouse chooses to delay their retirement benefit until age 70, their spouse won't be eligible to claim spousal benefits until their respective age 77. For a married couple with a large age gap between spouses it's important to review spousal benefit rules in detail before claiming. [2]

4. Inflation

Although inflation can wreak havoc on a retiree's financial plan, Social Security benefits increase annually based on the Cost-of-Living Adjustment from the Social Security Administration. Ever since the first automatic Cost-of-Living Adjustment to Social Security in 1975, the average increase has been 3.8% per year. For the last 20 years the average has been 2.6%, including an 8.7% increase in 2023. For our purposes, we will continue to use an average inflation rate of 2.25% in our analysis. [3]

5. Real Return Rate (aka "Discount Rate")

For retirees with assets outside of Social Security, including those in IRA, 401(k), and other investment accounts, claiming Social Security presents a tradeoff. By claiming early, retirees can preserve assets in their outside accounts for future appreciation. However, as seen in our second article on breakeven ages, the "cost" of drawing Social Security early is missing out on a larger future benefit amount. To appropriately evaluate Social Security claiming strategies, we believe it's prudent to consider an expected return on assets based on a historical rate of return.

A retiree must have outside assets in order for this assumption to be correct. For retirees relying entirely on Social Security for retirement income, the potential to earn a market return on assets outside of Social Security does not exist and therefore a rate of return should not be assumed.

It should be noted that any projection of return includes risk, including sequence of return risk. Given that Social Security claiming occurs during a short investment timeframe (8 years from age 62 to 70), the real return actually achieved during that timeframe can have an outsized impact on retirement outcomes.

Since 2003,
the average Cost
of Living Adjustment
HAS BEEN 2.6%
with an 8.7% increase
in 2023

SUMMARY OF RELEVANT SOCIAL SECURITY FACTORS

As you can see, the decision on when to claim Social Security is not easy! There are a variety of factors that impact the decision, and the number of unknown variables means that it is truly impossible to know the "right" decision. Still, we at JVL wanted to complete an analysis on a number of these variables to determine if there is a solution that is favorable in most situations, and, to determine which potential scenarios would be better served with an alternate claiming strategy.

GIVEN THE VARIETY OF FACTORS AND THE NUMBER OF UNKNOWN VARIABLES THAT IMPACT SOCIAL SECURITY, IT'S TRULY IMPOSSIBLE TO KNOW THE "RIGHT" DECISION

JVL ANALYSIS – PUTTING IT ALL TOGETHER [4]

To evaluate the optimal time to begin drawing Social Security benefits, we conducted an analysis of 36 potential client scenarios (based on combinations of the factors above) across 4 different potential claiming strategies as listed below. In the analysis we calculated the total cumulative value received from Social Security, as defined by the total number of dollars received through the surviving spouse's age 100. We also introduced a discount rate in certain scenarios which is useful for comparing the value of Social Security benefits with a given rate of return earned on assets outside of Social Security.

Draw Strategies Considered	
Both Draw Early	Both spouses file at their respective age 62, the earliest possible age
Both Draw at FRA	Both spouses file at their respective Full Retirement Ages (FRA) assumed to be 67 in all scenarios
Both Delay	Both spouses delay filing until their respective age 70
70/67	The primary earner delays their retirement benefit until age 70. Meanwhile, the Spouse claims their benefit at FRA (67) and switches to spousal benefits when the primary earner files for their retirement benefits.

As seen in the table below, the results from our analysis suggest that delaying benefits for the primary earner achieves the highest cumulative value through age 100 for a married couple in the majority of cases considered (31 of the 36 scenarios evaluated, or 86%). However, there are a few specific circumstances in which alternate strategy might be optimal [5].

Optimal Strategy	# of Scenarios	Percent of Scenarios	Notes
70/67	21	58%	In most circumstances, the primary earner delaying benefits until age 70 is optimal
Both Delay	10	28%	
Both Draw Early	3	8%	These three scenarios all occur when the spouse is older than the primary earner and the spouse has little / no retirement benefit
Both Draw at FRA	2	6%	These two scenarios only occur when the spouse has \$0 retirement benefit based on their own record
	36	100%	

Furthermore, by analyzing the results based on the factors reviewed above, we can see that there are 3 key indicators to signal that a primary earner may want to claim benefits earlier than age 70. Those three key indicators include: 1) a primary earner being many years younger than their spouse, 2) a spouse who is not eligible for retirement benefits based on their own work history, and/or, 3) a primary earner with a significantly shorter life expectancy than their dependent spouse. If any of these 3 indicators exists, there may be a reason not to delay benefits for the primary earner past full retirement age.

One additional note – For the five scenarios in which drawing Social Security benefits prior to age 70 was optimal, a key requirement is the assumption of a real rate of return on outside assets. This implies that the retiree has other invested assets (such as those held in IRA, 401(k), and taxable brokerage accounts) earning a consistent rate of return from which they'll withdraw to fund their lifestyle while delaying Social Security. Although this is true for many of our clients, any projection of return includes risk, including sequence of return risk, and the assumption of a rate of return on outside assets may not be valid for retirees for whom Social Security represents a large portion of their retirement income.

A DEEPER DIVE ON BREAKEVEN AGES

In addition to evaluating the specific Social Security claiming strategies based on their ending cumulative value, we also completed an analysis into the breakeven ages for the 36 specific scenarios evaluated. For situations in which delaying benefits is optimal, the breakeven age for most of the analyzed scenarios is between age 79 and age 90 (relative to the alternate strategy of both spouses drawing benefits at full retirement age). This means that if both spouses live to age 90, the decision for the primary earner to delay past full retirement age “pays off” as the cumulative value of benefits received after delaying is higher than if they had drawn at full retirement age. Given that there is a 46% chance that a married 65-year-old couple both live to age 85 (and a 23% chance they both live to age 90) prudent planning again suggests that in most cases it is optimal for the primary earner to delay their benefits to age 70. [6]

There are some specific scenarios in which the breakeven age is past age 90 but still before 100. This means that through age 90 the couple would have been better off drawing benefits at full retirement age, but delaying still “catches up” should both spouses live to age 100. Again, the same indicators noted above (such as a large age difference between spouses) would signal that further analysis is needed. In these cases, the analysis become much more complex and should be evaluated with greater context.

SURVIVOR BENEFITS REVISITED

For married couples, survivor benefits are another important factor to consider. As discussed in our third article, when one spouse dies, the surviving spouse has the option to “step up” into the higher of their benefit or their deceased spouse’s benefit. This often becomes another reason for the primary earner to delay their benefit as long as possible, as it ensures that their surviving spouse will have the option of receiving a higher survivor benefit [7].

SUMMARY

Social Security claiming strategies are highly complex with no “right” answer. Although our analysis suggests that delaying the primary earner’s benefit until age 70 is optimal in most cases, the factors analyzed are highly variable and require making assumptions that cannot be fully known (such as life expectancy and future expected returns). Additionally, although our analysis was highly detailed, it’s important to recognize that the general findings of this report should not replace a comprehensive evaluation of your specific Social Security claiming options within the context of a broader financial plan. Each situation is unique, and even slight changes to key assumptions can drastically alter the preferred strategy. If you have specific questions about how Social Security might affect your financial plan, please let us know.



REFERENCES

- [1] Sourced from JPMorgan Guide to Retirement, accessed via <https://am.jpmorgan.com/us/en/asset-management/institutional/insights/retirement-insights/guide-to-retirement/>
- [2] Spousal Benefit information sourced from Social Security Administration via <https://www.ssa.gov/benefits/retirement/planner/applying7.html#h2>
- [3] Social Security Cost-Of-Living Adjustment data accessed via www.ssa.gov/oact/cola/colaseries.html
- [4] Information gathered from SS Analyzer powered by Social Security Solutions
- [5] 36 scenarios included the following variations of aforementioned factors: spousal age difference (defined as primary earner age minus spouse age) of 0, +4, or -4 years; life expectancy for primary earner of 100 or 80; life expectancy for spouse of 100; primary earner primary insurance amount of \$2,000; spousal primary insurance amount of \$1,000, \$500, or \$0; and discount rate of 0% or 6.25%. In all scenarios, inflation was assumed to be 2.25%.
- [6] Sourced from JPMorgan Guide to Retirement, accessed via <https://am.jpmorgan.com/us/en/asset-management/institutional/insights/retirement-insights/guide-to-retirement/>
- [7] Survivor benefit information sourced from Social Security Administration via <https://www.ssa.gov/benefits/survivors/>