The Signalert Scoop

Courtesy of Systems & Forecasts

October 26 2017

Should Single People Wait Until Age 70 to Collect Social Security Benefits?

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In an issue of *Systems and Forecasts* I presented a framework to help you decide whether you can expect to get more total lifetime benefits out of Social Security by waiting until age 70 to begin collecting, which will get you the highest possible monthly payment, or to claim earlier, garnering a smaller monthly payment over a larger number of months. There is a potentially large bonus for married couples when the higher-earning spouse waits until age 70, particularly if that spouse is also the older member of the couple.

However, single people may benefit from claiming Social Security earlier, even if they don't need the money right away using a strategy that we strategy, which we will call the "Claim and invest strategy":

"Claim and invest" strategy to optimize your Social Security benefits

1. Claim benefits starting at your full retirement age (see table at right)
2. Don't spend any of the benefits you receive before turning 70. Instead, invest them.
3. Starting at age 70, you can start spending your basic retirement benefit (which is the monthly amount you started receiving at your full retirement age).

Year of birth	Full retirement age for Social Security
1937 or before	65
1938-1942	Between 65 and 66
1943-1954	66
1955-1959	Between 66 and 67
1960 or later	67

4. In addition, starting at age 70 you take monthly withdrawals from the savings you accumulated between your full retirement age and age 70. The amount to withdraw should be the difference between the basic benefit you began to receive at your full retirement age and the benefit you would have been receiving had you waited until age 70 to start claiming Social Security benefits. As a result, starting at age 70 your disposable income will be the same as if you had waited until age 70 to start claiming Social Security.
5. You continue to withdraw from the investment account until it runs out.

Recall that delayed retirement credits[1] are calculated on the assumption that the Social Security recipient will live to age 80. However, life expectancy at age 67 is higher than that. A man born in 1960 can expect to live to age 81 (according to the Social Security Administration Life Expectancy Calculator). If that man makes it to his full retirement age of 67, he can expect to live until age 85. A 67 year old woman can expect to live even longer, to age 87. The implication is that without considering potential investment returns, a healthy single person can expect to collect more lifetime Social Security benefits by waiting until age 70 than by collecting at his or her full retirement age.

Annual Return Above Inflation	Breakeven Age
1%	84
2%	85
3%	87
4%	89

In order for the claim and invest strategy to be superior, the investment account must last beyond age 85 for men and age 87 for women. Whether that happens or not depends on the investment return. The table to the right displays the age at which the investment account will run out of money for a person born in 1960 or later who uses the claim and invest strategy. This is called the breakeven age because if someone lives longer, they would have been better waiting until age 70 to begin collecting benefits. On the other hand, someone destined to pass away before reaching the breakeven age would do better with the claim and invest strategy.

The data in the table suggest that a man must earn at least 2%/year on his investments after inflation (and taxes) in order to expect to be better off with the claim and invest strategy than waiting until age 70. A woman must earn at least 3%/year after inflation on her investments in order to expect to be better off with the claim and invest strategy.

The reason why the breakeven age depends on the return above inflation (also known as the real investment return) is that Social Security benefits are indexed for inflation, so the projected investment returns must also be.

[1] The delayed retirement credit is the amount your monthly Social Security benefit increases when you wait beyond your full retirement age to start collecting. For people born in 1960 or later, it is 8% per year (2/3% per month) that you delay benefits. For more details, see https://www.ssa.gov/planners/retire/delayret.html.

Impact of taxes

There are two situations where income taxes work against the claim and invest strategy.

If your income is above $44,000 (for a couple filing jointly) then a maximum of 85% of your Social Security benefits are subject to income tax. Note that tax-exempt bond interest is included in your income for the purposes of calculating your income tax liability on Social Security benefits. If your income is low enough so that less than 85% of your Social Security benefits are taxable then the claim and invest strategy may impose added tax costs to you because you will (one hopes) be accumulating investment returns in the years prior to reaching 70.

If you are in a high tax bracket then income taxes on your investment returns will impede your investment returns, making it hard to earn 3% or 4% above inflation, after taxes. Note that the claim and invest strategy draws on both investment earnings and principal, but taxes apply only to investment earnings.

When claim and invest is most likely to help you

One sweet spot for claim and invest is where your joint income is not far above the $44,000 level where taxes on your Social Security max out. Your income tax bracket at this income level is still relatively low, so after tax investment returns are more likely to exceed the 2% or 3% thresholds (for men and women, respectively) required for the claim and invest strategy to provide more expected lifetime income than waiting until age 70.

Another situation where the claim and invest strategy can be valuable is for those retirees who depend on distributions from retirement accounts beyond the required minimum in order to meet living expenses. Such people can use their Social Security benefits to provide cash flow that will reduce the amount they have to withdraw from their tax-deferred retirement accounts. In this situation, income taxes would not reduce the benefits of the claim and invest strategy.

If interest rates were higher then a municipal bond ladder would be a conservative way to implement the claim and invest strategy. This would work only when the real return on 10-year municipal bonds exceeds 2%, which is unlikely in the foreseeable future. As a result, implementing the claim and invest strategy requires making moderately aggressive investments—at least 50% in equities and 50% in high yield bonds[2]--in order to overcome the obstacles of inflation and taxes.

Bottom line: Moderately aggressive investors, or those who are concerned about their health, may benefit from claiming Social Security at their full retirement age and investing the benefits received until age 70. Otherwise, waiting until age 70 to maximize your monthly benefit is the better course of action.

[2] I project long term average returns of 8% for equities and 4% for high yield muni or corporate bond fund trading. These results are not guaranteed, of course.

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