Timing Your Social Security [Ep. 5]

Transcript

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We live in a world of probabilities. It is not probable that the next 10 years are going to do anywhere near as good as the best decade in history. Do I want to give up this guarantee off of what I hope I could get? If I'm a healthy individual, I don't need it. I'm going to take the guarantee knowing that I just got out of the best decade in stock market history. (Upbeat Music)

(...)

(Upbeat Music)

(...)

Thank you for joining us today. We're going to talk about social security. Always an exciting topic.(...) Extremely exciting. It is. Robert, so talk to us. Social security is a one size fits all.

What are a couple of things that people need to keep in mind when doing social security? It's definitely not one size fits all.

(...)

There's so many key factors that go into how a person should or when they should take social security.(...) You kinda have to do the math and look at your personal situation.

(...)

A lot of times people look at breakeven age, want to see how long do I expect to live to take social security? Some people think that I want to take it at 62.(...) Well, what if they're not planning to retire at 65 so they're making income?(...) Why would it make sense to take social security at 62? That could be hurting your Medicare, which we can talk about in a little bit. Life expectancy, how long do you plan to live? How long did your parents live? I know it's a morbid topic that people don't want to talk about. You know that unfortunately I lost my father last year, about 14 months ago unexpectedly at 73, sorry, thank you.(...) And he was the healthiest one out of his brothers and sisters.(...) He was actually preparing to bury his older brother, my uncle who was unhealthy, but unexpectedly passed away.(...) Given his health, given his numbers, given his situation, the probability made sense for him to wait till 70, right? Cause his breakeven, most people think it's like 85 or late 80s, his breakeven was 78, it wasn't that long. So if he would have started at age 70, his breakeven would have been 78 for him to take it. But the one thing we don't know is when we're going to pass away. What about FRA? What is FRA? And some people say that that's when you should start social security. FRA is full retirement age. And for most people, depending on when they're born, it's 67. If you were born before like 1960-ish, it can be before 67, maybe 66 in some months. But here's the thing, if you, full retirement age is the age where you get 100% of your social security. If you take it earlier, let's play a scenario out. You were going to take it at age,(...) if you could take it at age 67, but you decide to take it at age 62, what's the discount that we use discount loosely or the penalty that you would accept taking it? It's around 30%.

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So you would lose 30% of your social security forever. That's a fixed number, it's going to stay that way. You're going to lose 30% forever taking it earlier than if you did it at 67. However,(...) for every year you hold it past the age of 67 up to 70, because that's when you have to take it, then you get 8% guaranteed increase each year plus COLA. What's COLA? Cost of living adjustment.

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How much is that? It depends on the year, because it's adjusting with the cost of living. Two years ago,(...) 8% guaranteed plus COLA, it was north of 10, 11% for people. So that was a huge jump in their social security. So it made a big impact. In 85% of Americans right now, see social security is a huge part of their retirement.

(...)

So if I'm trying to do the math and figure out, do I start social security, if somebody's listening to this, hey, I'm 62 or I'm 65 or I'm FRA full retirement age,(...) what are a couple of factors that could influence when it would make the most sense for their pocketbook to take social security? Well, you said a couple of things. If they're 62, if they're 65, if they're 67, give me a scenario.

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64. Okay. They are still working. Okay, how much did they make? They're making 150 grand. Okay, that makes a difference.

(...)

So making 150 grand still working, they're a couple 63,(...) go.(...) 63 or 64?(...) 64. Okay, okay. How to make sure we're right. So 64, so they're close to full retirement age, right? And their retirement age is going to be 67. So they're close to full retirement age, they're still working. Now here's the thing, you picked a very tricky age, which is interesting because what happens at 65?

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You're talking about IRMAA? Medicare,(...) well Medicare and IRMAA, they go hand in hand, right? So Medicare starts at 65. And there's something called IRMAA to your point, that it's where Medicare does a two year look back, so it can go to 63. So in this scenario right here, if both husband and wife that are making $140,000 a year decide to take Social Security, and that bumps them above IRMAA, which right now is 206,000, and that's just the first level, they could be doubling their Medicare premium without even knowing about it. The interesting thing about IRMAA is most people find out about it when it's too late. They've already been hit with it. And it's going to last for two years as long as that income, or two years following, because it could last for more than two years, two years following the year that you,

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let's say you made above that 206K, and eventually you made less, even though you made less one year, it's still going to last for two years, right? So it's a tricky thing to play with. Let me give you a different age. I say I'm 62,(...) and I'm still working. I don't need the money, but why not start Social Security at 62, and I'll just give it to you as my advisor to invest it for me. Is that going to make sense? I'm going to make it 150K, but I'm not retired. I don't need the money. I'm living within my means. You don't need the money. So why would you want to take it? Because I want to invest in the stock market, and put it on Bitcoin and Nvidia and everything going up, right?(...) Okay, so you want to invest in a bunch of speculative stocks that could go up. Hypothetically, this scenario, yep. Okay, and give away an 8% guaranteed, right? You can't use that word often. Guaranteed increase in Social Security plus cost of living adjustment each year? But Bitcoin Robert is up 7X in the last few years. Okay, so let's play this out. Over the past decade, we just had the best decade in stock market history. And you know me, I'm very bullish on the market, but we live in a world of probabilities. It is not probable that the next 10 years are going to do anywhere near as good as the best decade in history. So let's say the next decade is a standard decade. Do I really want to give up what I hope to get versus what I can be guaranteed of 8% plus with cola being the cost of living adjustment being thrown in? Do I want to give up this guarantee off of what I hope I could get?

(...)

So it goes back to doing the math. You have to know your situation. And if I were 62 and still working, there would have to be a mass, there would have to be something wrong with my health for me to go ahead and start that clock. But if I'm a healthy individual, I don't need it. I'm going to take the guarantee knowing that I just got out of the best decade in stock market history. Okay, if I'm somebody who,

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I don't want to start Social Security because I'm worried, hey, I need to be alive until I'm 85 until I recoup all of those gains. Meaning, in other words, when's the break-even? At what point, how long do I need to be alive if I do start Social Security at a certain age you pick? I can appreciate you set 85 because it's probably one of the most common ages we hear from people. And the funny thing is, is when you do the math and a little plug for us at GDS is, I've seen a dozen financial planning softwares over the years and only a handful of those have the program or sophisticated enough to have a Social Security calculation in it that shows a person every age they could take Social Security and what age they should take it that gives them the best bang for their pocketbook, not the adviser, which we could talk about that. Right, now, what I love about ours is it has the break-even built into it. And you threw out the age 85. Many people think it's 85 that they got to live that long and they tell us, well, my parents didn't live until their 80s, so I'm not going to. They're shocked sometimes to realize that the true break-even age is somewhere around 78, 79. It can be 77 depending on the situation, but 78 to 80 is pretty much the average. That's the norm. So if I start Social Security at 70, you're telling me I'm probably going to be breaking even if I just live to be 78 versus had I started at 62? In most cases, yes. And that's one of the things I love showing clients is that page because it's an unbiased approach, unbiased calculation to say, look, here's every age you could take it. Here's how much you would get each year and here's how long you need to live to make it make sense for you to wait. What are a couple pitfalls or mistakes that people could do or they should avoid when thinking about when to do Social Security?

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Not doing the math, not doing their homework, understanding their personal situation, listening to the news. I don't care what news station you listen to, whether it's Fox, whether it's CNN, everybody's pushing an agenda. And the thing is, is it doesn't matter what side, this person says Social Security is gone, this person says Social Security is gone. The truth is when we're calculating Social Security and how and when to take it, you just have to do the math. And a lot of pitfalls where people don't understand it. They listen to their buddy at the barber shop, or they listen to a person at the grocery store or a friend that's not even in the financial world, and they just decide to take it. Now, our job as fiduciaries is to present the numbers. Sometimes we do have people come up to us and go, "Hey, look, I get that it says I should take it at 70, but I don't trust the government, I still want to take it at 62." That's fine, our feelings aren't hurt. At the end of the day, we're the CFO, our clients are the CEO. So it's our job to present the numbers, but the common mistakes would be not understanding the numbers, the gains, and their own financial situation. Okay, so let me ask you a question. If we have a couple,(...) one person qualifies for social security, they've made enough earnings, or were those 40 quarters to qualify? The other spouse has not.(...) They don't have enough earnings, they're into 40 years. Do they both get social security? How's that work?(...) Now, there's a part of me that wants to make fun of you on this one and pick on you on this one, but I'm going to stay away from that, because I love your family. So let me pick on my family, and my wife can beat me up later. So let's use our situation, my wife and I talk about it, because I tell her,(...) I wouldn't mind being the stay at home person. Right now, I'm the breadwinner, but I ask her sometimes, would you like to switch roles? And I've told her, you have me staying at home all the time, and you go be the breadwinner. Not only will you come home to a three-course meal every night, but I'm going to be shredded, because I just work out all the time, making sure that my honey's taken care of. But in this scenario, let's say my wife is the breadwinner. I'll pick on myself, because I love my wife. Let's say my wife is the breadwinner, and I'm a shredded stay at home dad, right? You're going to have to be staying home a long time. I might have to work out six hours a day and eat really healthy, but let's say I'm a shredded stay at home dad. Do I qualify for Social Security? Let's say I worked, but I haven't qualified for the 40 quarters. I don't think shredded helps you get Social Security. It doesn't, but I... So let's just say I haven't done the 40 quarters, so I haven't worked for 10 years, but do I qualify for Social Security?(...) You tell me.(...) I wouldn't qualify for my own, because I haven't paid enough into it. But what most people don't know, especially as they get closer to retirement, and it's shocking, probably more than 50% of the time, that's my number,(...) more than 50% of the time, do I talk to somebody while constructing the draft of their financial plan, and we get to the Social Security part, and they don't realize, and I'll look at it, and I'll say one person qualifies for Social Security, the other one doesn't. And I ask them, I go, "Well, why didn't you put your spouse as qualified?" They go, "Well, they didn't work," or, "They didn't earn enough quarters." And I go, "Don't you know that they qualify for either theirs, if they do qualify for it, or half of yours, whichever is greater?"

(...)

And they don't know. And that's a true value add, because you just increased their income in retirement and showed your knowledge of what's truly going on in the Social Security world, because it's so confusing for people.

And so if I'm looking at Social Security, I'm looking at my qualified accounts, my IRA, my SEP, my pension, everything. What are some factors that I need to look into when I'm trying to figure out, do I start Social Security now? At what age? How do I want to look at this? Again, the most morbid one is just life expectancy, but to answer your question, you're talking about investments and different streams of income. You want to look at your IRAs, how much your income need is. So you got IRAs, you got a brokerage account, you may have traditional IRAs, Roth IRAs, which could make a difference. Let's say you also have in this scenario, rental properties, or maybe you're one of those lucky individuals that has a pension. So now we've got multiple income sources that are all going to be taxed differently. Well, what are those income sources? And does taking Social Security bump you into a new tax bracket? Not only that, does it bump you above IRMAA?

(...)

So we can do the math and say, well, let's calculate holding off on Social Security, avoiding IRMAA, even if it's for two or three years, it's a huge difference, because that's five years total calculation. So we have to look at all of those different factors, how they're taxed, how they add up, and how it's going to affect your income to see how it affects your Social

Security. So my takeaway, I think, from this discussion, if I'm out there considering Social Security, I think, like you said, you've repeated a couple times, you want to do the math, so you want to look at how old am I? If I'm retired and I need extra income, yeah, then it might make sense to start Social Security. If I'm still working and I don't need Social Security, it's probably not going to make sense. Let that continue to compound at 8% plus COLA, Cost of Living Adjustment, not pay taxes on that until in the future, until I need it. And if I'm married and your spouse doesn't have enough qualified quarters that they can potentially be entitled to 50% of what you're going to get. So thank you so much. Am I missing anything in there, Robert? The only thing I would add is, and it comes back to the spousal part, is depending on the age difference in this scenario, you could pause your Social Security to 70 and your spouse can go ahead and take it earlier because that won't change. So you might as well go ahead and take it. Maybe not, it wouldn't make sense for your spouse to wait till 70, even if the income is off. Makes sense, thanks so much. Absolutely, perfect. All right, let's do the mailbag. Robert from Jordan from Portland, Oregon is asking us, "How are you going to track my investment performance? Will you help create a strategy, track progress, report regularly?" Basically, I think they're asking your service model. Yeah, so, and this is something, we always try to do the homework before the relationship ever starts. Have the tough conversations before the relationship starts. The number one reason a financial adviser loses a client is not being on the same page. So part of our service model is we have those tough discussions. We have our first meeting where we discover who the person is and what their needs are, what their wants are, what's important to them. In between that first and second meeting, we build a comprehensive financial plan, which I know we've talked about in previous podcasts, and we're going to continue to bring it up because of the importance of it, because that's how we measure our success. We don't just build financial plans, throw them in a drawer and never look at them again. We attach them to the accounts, and we have our clients judge our success by how well we're staying focused on their goals. So when it comes to that second meeting,(...) we've got the financial plan built. We know the investment model, the financial plan that incorporates all the things they've told us is important to them. We got the investment model that we know is appropriate for them because there's no one size fits all, and then we go into it and we show them. If you work with us, here's what you can expect in a worst case scenario.(...) Once they like that, sign up. Now we go into how we measure that. Well, our service model, just for us, I know this is pretty shocking for most advisors, because industry standard is you talk to your client once a year.(...) We, as you know, talk to our clients a minimum of once a quarter as we reach out to them, touch bases with them, let them know what's going on in the accounts, update them on moves we've made, and then we sit down with them a minimum of twice a year, whether it's Zoom or face-to-face, a minimum of twice a year, go over performance, pull up the financial plan, and show how the performance numbers correlate with every goal they've told us that is meaningful to them. So we monitor our success by how well we're staying focused on their goals, which is huge to us. Awesome, thank you so much. No, our pleasure. (Upbeat Music)