

July 3, 2023 – Wealth Planning Commentary

When should wealthy individuals take Social Security?

Is there an ideal time for wealthy individuals to take social security benefits? The answer depends entirely on the person. Many individuals decide to take social security at their full retirement age and receive the full benefit. This is typically around age 67. Benefits may be taken as early as 62 years old; however, the amount is discounted. Delaying social security beyond age 67 increases the benefit by approximately 8% per year. Those who delay taking benefits until age 70 see their benefits increase by 124%. No further increases are available after age 70.

The benefit amount is important, but health and expected lifespan also factor into the decision about when to take benefits. Delaying benefits for a higher monthly amount is advantageous if the individual lives long enough. Those who start benefits at age 70 instead of 62 typically need to live beyond age 80 to break even. If someone is in poor health, it may be prudent to take benefits earlier at age 62.

Another factor to consider is the types of accounts that hold retirement savings. If one's savings are mostly in pre-tax vehicles like an IRA, delaying social security may not be beneficial for tax reasons. Deferring the income from social security may require withdrawing from an IRA to pay for expenses. Withdrawals from pre-tax retirement accounts are taxed at ordinary income rates. In comparison, only a portion of social security income is taxable and this portion is capped at 85%.

On the other hand, some individuals may choose to delay social security and withdraw from their IRA to reduce the size of required minimum distributions later. Reducing the IRA may be a beneficial strategy, but it depends on the taxpayer's situation. Each person's circumstance is unique and requires a rigorous evaluation.

Some are concerned that social security will disappear entirely. One view is that social security benefits will never run out. Instead, legislators will inevitably shore up the trust fund by raising taxes. Another view is that social security is in the process of disappearing or being reduced in an impactful way. Recently, legislators proposed raising the full retirement age from 67 to 70, cutting the average benefit by 2-3 years.

Our policy is to assume that current legislation will remain in place until there is a change enacted by Congress. For those who are concerned about the viability of social security, it can be useful to run their wealth plan against a 50% benefit scenario and a 100% reduction scenario. Sometimes this assuages fears, and other times, it spurs changes to the plan.

Please reach out to your Wealth Manager to discuss any questions about social security benefits.

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