WHY YOU SHOULD DELAY SOCIAL SECURITY TO AGE 70

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People in their 60s wonder about when to take Social Security. In most circumstances, you can begin benefits anywhere between ages 62 and 70. (In the middle of those years is what the Social Security Administration calls “full retirement age”: currently between 66 and 67, depending on your birth year.)

Many people look at the options and say, “It seems to all work out about the same. If I take Social Security early, I’ll have less each check but for more years. If I take it late, I’ll have more each check but for less years. I may as well take it now.”

That can be a costly mistake. I recommend delaying Social Security till age 70, for five reasons.

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*First reason*: *8% increase per year*

Let’s assume that, if you took Social Security at 66 (we’ll assume that’s your full retirement age), you would get an average Social Security check. The average check is $1,827 a month (as of January 2023).

Take Social Security now, and you’ll get $21,924 a year.

Every year that Social Security is delayed, benefits increase by 8%. If a 66 year old holds off till 70, benefits will increase by 32% (8% × 4 years). Monthly checks will be $2211.

Take Social Security at age 70, and you’ll get $26,532 a year.

That extra $4,608 a year, from age 70 until you die, may add an important margin of comfort to your later years.

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*Second reason*: *better returns from Social Security than retirement savings*

Most people in retirement have two sources of income, retirement savings and Social Security. (Some people also have a pension.) Might it not be better to take Social Security now and preserve your retirement savings?

Even if you’re an aggressive investor and have all of your retirement savings in the stock market, the best you can hope for is a 10% annual return on average. (The stock market has averaged a 10% annual return since 1926.)

But 10% on average is optimal. Your stock returns might be less. In fact, pundits now suggest that returns for the next twenty years will likely be below average. We could even see another plunge like 1929-1932, when the market fell 89%.

Most financial advisors encourage those in retirement to invest more conservatively than 100% stocks by holding some bonds too. But bonds have averaged around 5% since 1926. Add them to your portfolio, and you’ll definitely get less than 10%.

Nothing in retirement savings is guaranteed. But by holding off on Social Security, you’ll be getting a *guaranteed* 8% annual return. That’s a better return than retirement savings because it’s *certain*.

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*Third reason*: *COLAs*

And there is icing on the cake. Social Security is indexed to inflation: every year it has a COLA (cost-of-living adjustment).

Inflation has averaged 3% annually over the past 100 years, so let’s assume your COLAs will be 3% a year.

Start at age 65 ($21,924), and your annual COLAs will be $658, $678, $698, etc.

Start at age 70 ($26,532), and your annual COLAs will be $796, $820, $844, etc.

Over the 20 years from age 70 to age 90, that’s a difference of $20,700.

Moreover, cost-of-living increases may be larger than usual for a while: high inflation may be with us for the next a few years.

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*Fourth reason*: *Social Security is here to stay*

But isn’t Social Security going to run out of money? Perhaps you’ve seen estimates that it will run out around 2035. Shouldn’t you take Social Security now, to preserve your retirement savings and let them grow between now and Social Security’s demise?

But the death of Social Security is greatly exaggerated.

Social Security has two sources of funding: FICA and a trust fund.

FICA (which stands for the Federal Insurance Contributions Act of 1935) is a payroll tax, taken out of monthly paychecks. Currently it combines two taxes: one for Social Security (6.2% of your annual gross pay), one for Medicare (1.45%). But the taxes don’t go into savings accounts for each contributor’s old age. No: current payroll taxes support those currently retired.

Social Security also has a trust fund. (Two trust funds, technically: one for the elderly and one for the disabled. But they’re called “the Trust Fund.”) (Medicare also has a trust fund, scheduled to run out of money in 2028.) In years when FICA had surpluses, the extra went into the Trust Fund. The Fund invests in special Treasury bonds that earn a guaranteed return.

When Social Security was instituted in 1935, about 10 workers supported each retiree. (They chose 65 because of the lifespan back then.) But changes in demographics mean that each retiree is now supported by only 2 workers; plus, we’re living longer. So the Trust Fund has been running a deficit for many years and will run out completely by about 2035.

What will happen when the Trust Fund runs out? Benefits will drop to 77% of present levels. Why not to 0%? Because only 23% of Social Security funding comes from the Trust Fund; 77% is provided by FICA (current workers’ payroll taxes). And FICA will continue to fund Social Security at about three-fourths its current level after the Trust Fund runs dry.

Besides which: who’s got power in America? The wealthy. And who are the wealthy? The old. I don’t think Congress will let Social Security drop to and stay at 77%. The political pressure to maintain something like current levels is going to be massive. (In 2018, the elderly were 16% of the US population. By 2060, they’ll be almost double that.)

One solution to Social Security’s funding problem is to kill everyone over 65 and start over. As someone over 65, my preferred solution is to increase the FICA tax by 1-2%. Problem solved. (That will also reduce inflation: people will have less to spend, easing demand.)

Bottom line: Social Security ain’t goin’ nowhere. Sit back and enjoy it. (Once you’re 70, that is.)

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*Fifth reason*: *taxes*

Another good reason to wait till 70 is that taxes on Social Security will be less than taxes on withdrawn retirement savings.

The taxation of Social Security benefits is two-tiered: taxes on 50% and taxes on 85%. Here’s how it works:

Single taxpayers:

If half of single taxpayers’ Social Security benefits, plus other income, put them in the $25,000-$32,000 range of annual income, they pay taxes on 50% of their Social Security benefits.

If half of their Social Security benefits, plus other income, put them over $32,000, they pay taxes on 85% of their Social Security benefits.

(The dollar amounts go up every year. Check online each year.)

Marrieds filing jointly:

If half of marrieds-filing-jointly’s Social Security benefits, plus other income, put them in the $32,000-$44,000 range, they pay taxes on 50% of their Social Security benefits.

If half of their Social Security benefits, plus other income, put them over $44,000, they pay taxes on 85% of their Social Security benefits.

Take me, for example. I’m a single taxpayer (widowed) whose only annual income is $34,088 in Social Security benefits. (I’ve got plenty of retirement savings but don’t need to touch them.) So half of my Social Security benefits ($17,044) plus zero other income leaves me well below the $25,000-$34,000 range.

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For these five reasons, then, I hope you delay your Social Security benefits. Some day, you can sit in your rocking chair and be glad you did.