Gen X thinks about Social Security

I often get questions from people who were born in 1960 or later about whether it would make sense for them to delay claiming Social Security benefits beyond their full retirement age of 67. My usual answer is I don't know. Much of that decision will be tied to the interest rates prevailing at that time.

MARY BETH FRANKLIN

ONRETIREMENT

Delaying benefits has been a very valuable decision for many retirees. They were able to accrue delayed retirement credits worth 8% per year for every year they postponed collecting their benefits beyond their full retirement age, up until age 70.

Someone entitled to a full retirement age benefit of $2,000 a month at 66 could increase their benefit by 32% over four years, to $2,640 per month, if they waited until 70 to claim the benefit.

In reality, their future benefit would be even larger because all the intervening cost-of-living adjustments from the time they became eligible for Social Security at age 62 until they actually collected them would be added to their base benefit amount. And many married couples and eligible divorced spouses were able to claim benefits on their spouse's or ex-spouse's earnings record between ages 66 and 70 while their own retirement benefits continued to grow.

SMOKING-HOT DEAL

But the big reason delaying benefits until age 70 proved to be such a smoking-hot deal was that the 8%-per-year delayed retirement credit far outperformed all other risk-free investments in the near-zero interest-rate environment that has existed over much of the past decade.

The Federal Reserve's targeted interest rate slid to a record low of 0.25% in December 2008 and remained near that level through 2015. Although the Fed began tightening monetary policy in 2016, real interest rates remain near zero, with the latest fed funds target of

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2.25% to 2.5% about the same as the current rate of inflation.

But that was not always the case. Interest rates climbed to a record high of 20% in 1980. Three years later, the Bipartisan Commission on Social Security Reform recommended that delayed retirement credits, which had been 3% per year, gradually be increased to encourage Americans to wait to claim larger Social Security benefits in an era of increasing longevity.

KEY POINTS

- Much of the decision to delay benefits depends on interest rates.
- A volatile market and low interest rates make delayed benefits attractive.

The first year that the 8%-per-year delayed retirement credit took effect was 2009. A volatile stock market and record low interest rates made the 8% per year credit appear even more attractive, particularly as many baby boomers decided to remain in the workforce after watching their 401(k) accounts plummet.

Will delaying Social Security benefits always make sense? Maybe

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not. Between 1971 and today, interest rates averaged 5.69%, according to Fed data. If rates reach that level again, it may make more sense to claim benefits at full retirement age, even if you don't need the money, and bank the benefits, rather than risk dying before claiming them.

TWO REASONS TO DELAY

Meanwhile, future retirees ponder future claiming strategies in a low-interest-rate environment.

"I was born in 1960, was the higher wage earner and I am waiting until 70 to max out my SS benefit," a reader from Florida wrote.

"My wife was born in 1962 and has her own Social Security benefit that is greater than the spousal amount. When should she begin taking her benefit?" he asked. "Should she wait until 70?"

"There are two reasons to delay claiming Social Security until 70: to maximize a retirement benefit and to provide the largest possible survivor benefit," I responded. "I generally think it makes sense for one spouse — particularly the one with the higher benefit — to delay claiming until 70. However, the other spouse may want to claim at full retirement age or earlier to bring some money into the household while the other spouse delays. If nothing else, it will pay for your Medicare premiums."

(Questions about Social Security? Find the answers in my ebook at InvestmentNews.com/MBFebook.)

Mary Beth Franklin, a certified financial planner, is a contributing editor for InvestmentNews.
mbfranklin@investmentnews.com
Twitter: @mbfretirepro