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ARTICLE REVIEW

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BY MATT FELLOWES, JASON J. FICHTNER, LINCOLN PLEWS, AND KEVIN WHITMAN

Reviewed by Dorothy Bossung, CIMA®, CPWA®, RMA®, CFP®

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Thirteen percent of people older than age 70 are expected to live in poverty at some point and they face myriad problems associated with lack of wealth. This can be attributed to negative cash flow associated with limited income streams resulting in the very real possibility of outliving their retirement savings. To address this problem, Fellowes et al. (2019) have examined the effect of the timing (recipient age) of enrollment for Social Security income. The authors' goals for the paper were to determine the extent to which an optimized decision about the age of election for Social Security enrollment increased or decreased total lifetime Social Security income and wealth at time of death.

Fellowes et al. (2019) used data from a University of Michigan Health and Retirement Study funded by the National Institute on Aging and the Social Security Administration. This study is a biannual survey of approximately 20,000 Americans and follows them from age fifty through the end of their lives. From this pool of individuals, the authors analyzed the actual Social Security decisions and wealth of approximately 2,000 households that took part in three different panel surveys between 1992 and 2014. The survey data included information about household health, longevity, educational backgrounds, gender, spending, investment accounts, and other relevant data.

In order to calculate income and wealth, the authors needed to make certain assumptions for their statistical calculations, such as: (1) federal and state taxes, (2) spending estimates, (3) longevity estimates, (4) required minimum distributions, (5) investment allocations, (6) account withdrawal sequencing, and (7) market returns. The authors describe running thousands of algorithmic-based simulations. The authors' test validation was comparison of their algorithmic returns versus reported household returns.

Inasmuch as approximately one-third of U.S. retirees derive all their income from Social Security, this is an interesting and timely paper as regards lifetime total Social Security income and accumulated wealth at death.

Per the authors' analysis, only about 4 percent of retirees elect to enroll for Social Security benefits at the optimal age. Approximately 70 percent of retirees enroll between age sixty-two and sixty-four, but this may be optimal for only 6.5 percent of early enrollees. In contrast, about 4 percent of retirees wait until the maximum age of seventy for enrollment, which actually may be optimal for 57 percent of all U.S. retirees. Per the authors' calculations, the effect of suboptimal (too early) enrollment will result in a total loss of $2.1 trillion of retirement income or an average of $68,000 per household.

On average, the majority of retirees, regardless of wealth, health, gender, or retirement account size would see an increase in wealth if they optimize their age for Social Security enrollment. The authors do state that approximately 39 percent of optimizers would see their wealth unchanged and a small fraction might see a slight decrease in wealth. Obviously, it is the role of the wealth advisor to identify clients who could be helped by optimization knowing that only a very small percent might see a decrease in wealth because of optimization.

Bottom line, this paper provides a solid body of work supporting the generally held belief that a majority of clients could benefit by increasing wealth through delaying Social Security enrollment until age seventy. Fellowes et al. (2019) propose a simple solution for optimizing enrollment: Change the wording or description of the timing for enrollment. "Instead of portraying age 62 as the 'early eligibility age,' age 62 could simply be labeled the 'minimum benefit age' while age 70 could be labeled the 'maximum benefit age.'" Could this simple change in wording help direct retirees to the more optimal decision? Perhaps, and it certainly seems worth trying.

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Fellowes, Matt, Jason J. Fichtner, Lincoln Plews, and Kevin Whitman. 2019. The Retirement Solution Hiding in Plain Sight: How Much Retirees Would Gain by Improving Social Security Decisions (June 28). United Income. https://unitedincome.com/library/the-retirement-solution-hiding-in-plain-sight/.

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