Episode 111_ RWS LIVE (not really) Answering Your Security Questions Part 4

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SPEAKERS
Wade Pfau, Alex Murguia, Bob French

Bob French 00:00
The purpose of retire with style is to help you discover the retirement income plan that is right for you. The first step is to discover your retirement income personality. Start by going to risaprofile.com/style and sign up to take the industry's first financial personality tool for retirement planning. You know, it's fun to talk about the intricacies of social security regulations. And you know, who's excited to talk about them? It's Alex and Wade. Hey,

Alex Murguia 00:50
everyone, welcome to retire with style. I'm Alex. And I'm here with Wade Pfau sorry, we didn't give you a moment. Continue. Good, sir. That's alright, man. A few words, at least for now, but we'll get him answering questions. We're gonna continue this. I guess it's an arc kind of a q&a arc. We did a YouTube Live and we're just inundated with questions. And we want to get to them all. Because, you know, if somebody's thinking of it, were thinking 10 Other people are asking the same thing. So we will continue this. And today, we're gonna start tackling some social security questions. A fan favorite, wouldn't you say? Wade?

Wade Pfau 01:38
That's right. Yeah. So in some of the past episodes, it was a grab bag of questions. But we decided to group into topic areas. And so we, we did have a number of questions on social security. So it's a good thing for an episode.

Alex Murguia 01:50
And that's about the amount of all the organization that we can handle. But yeah, no worries. And we'll get to them. Any reactions from the previous episodes way that you got questions or anything like that? Are we good?

Wade Pfau 02:11
Oh, that's a good point. There may have been some I think people are adding additional questions more so than responding to specific questions we had addressed. Okay, I think

Alex Murguia 02:24

the only thing I would add is, sometimes we get asked, like, Hey, I heard about you doing Q and A's, and we got a couple of emails that are very detailed. And to some extent, there's only so much we can answer right? On these kinds of podcasts at a certain point, there is a line where the answer is either read books or go see an advisor, because I don't know, it's just tough to do it online or to, to dedicate a whole episode on a very specific topic, if you will, that has to do with somebody's personal details and the like, what are your thoughts around that way?

Wade Pfau 03:03
Yeah, I mean, I get a lot of messages like that where people give me their entire financial history unsolicited. Okay. I can't just, we are regulated as financial advisors, so that we can't just answer questions that really require a detailed financial analysis. Yeah.

Alex Murguia 03:21
So then, yeah, like, in the end to be even more blunt. Or to be even more, you know, sometimes, it doesn't have to be us. And this is not a solicitation at all. But sometimes, you know, you get what you pay for, right? And you just gotta bite the bullet and ask a professional and pay them for it. I mean, it there's only so much we can do. So just take that with a grain of salt, if you will, we really appreciate the the respect and the the amount of responsibility that You bestow upon us, you know, and because of that, sometimes it's just a different kind of relationship than when you're just answering questions like, like how we're doing now, these are meant more for guiding posts than specific advice. Sometimes. You just have to open up a wallet, I guess, and find a resource to help you. I mean, if it's an important topic, you should I mean, let me just leave it at that. Wade, what do you think?

Wade Pfau 04:22
Yeah, yeah, absolutely. It's, I mean, if you need a detailed financial plan, you, you really have to put in the effort to do that not not expect us to be able to give you a full financial plan as I answer as part of a q&a on the podcast.

Alex Murguia 04:41
There it is. Yeah. And we're not doing that to be the Grinch. We're doing that because, look, the answer needs to be commensurate with the level of responsibility that we want to undertake with it. And so sometimes, it's just, we can't get to everything. But let's begin in Social Security grab bag. Question number.

Wade Pfau 05:03
Okay, question number one, what do you read the first question you're gonna take first? Okay, so the first question, is there a tool to run hypotheticals and show the math for claiming Social Security now versus waiting until say, age 70? A tool that would show investing the equivalent monthly difference in what you would receive and what you would get?

Alex Murguia 05:27
What I would say is, the quick answer is not in that it's not to that extent, there's no that I know of, there's no tool online like that. The best I could do for free, would be open social security.com. And there, you'd get more information in terms of optimal claiming strategies, versus what would happen if I invest this and take a little bit of claiming and what you know, and my expected return to search for the standard deviation, you know, things like that. So you can plug in what ifs. I don't know about that other than professional planning tools. Because that's

what we use, and we're advisors and that's how we use them. But I don't think there's anything off the shelf. Now what I would say is episode, let me look at the episode list. 5150 5151, episode 51. Wade had Wade Wade didn't invite me for that episode, and it was him and Bob. And there, you get into it right way. You want to add some color behind that?

Wade Pfau 06:33
Yeah, yeah. So you mentioned Open Social security.com. That's a free online calculator that Mike Piper developed for Social Security claiming strategies. It's an excellent tool. It doesn't do what this question specifically asking, because what this question is asking about is overlaying in an investment portfolio as well. So it's not just what if I claim it 62 versus 70. But what if I claim it claim early and invest the difference versus claim later and have to spend down the investments in the meantime, now, you could create that sort of analysis with any sort of Monte Carlo based financial planning tool where you just run two different financial plans, one where you layer in the income starting at 62. And then when we're you layer in a much higher income 66, I'm sorry, 76, or 77%, higher, starting at age 70. And that, we so I wrote an article on that sort of topic, it was called with, with Steve Parrish as a co author, which Social Security claiming strategy generates the highest legacy value. And we tested that in the historical data. And that was the article that Bob and I discussed in Episode 51. So if you would like to listen to a deeper dive, please go back to Episode 51. And also, there's a link to the article through that episode. And that's sort of the answer with historical data is, it's not obvious that you're going to be better off by quote, unquote, investing the difference by claiming early and then not having to take as big a distributions from your investment portfolio. If you invest aggressively enough, you do have the opportunity for the upside, you might have a bigger legacy at the end. But it's not at all clearly obvious. And you do have to have a pretty aggressive asset allocation, because delaying Social Security works so much better than bonds, that it is tough to have any opportunity to benefit from claiming early unless you're investing really aggressively. I

Alex Murguia 08:32
agree, I would also add to this. I think it's very easy to think, Okay, I'm not gonna I'm gonna claim now and let my investments run because I can gain, I can gain so much more from it than the extra money that it's going to kick out later. I know it, I can feel it in my bones, that my return is going to be greater. I think that's an easy kind of thing to kind of convince yourself of, in reality, not likely. If you're speaking to an advisor who just does AUM pricing, you can make the case, they may be incented, to say that as well, like, well, you know, just claim now and we'll be investing your money, you know, so you don't have to take income from it for eight years, and we're gonna have this great return and look at this Ibbotson chart. I'm speaking they're a little bit too cute by half. So there's many of us that don't do that. I don't mean that in that sense, but you just have to consider the source when that's coming out. And the other piece is, it's very hard by just leaving by just delaying Social Security. The government is giving you an embedded rough and rough terms right. 8% return every year, that

Wade Pfau 09:49
well, an increase

Alex Murguia 09:50
or decrease in benefits, find any benefit from the income that you can make from it. I think that's harder. I don't know I think It's not,

Wade Pfau 10:03
it implies a real rate of return that's hard to beat, you know,

Alex Murguia 10:06
and that's like, bucket kind of thing not like maybe, you know, etc. I, that's the bed I would make. Wade.

Wade Pfau 10:18
Yeah, I think that covers the question pretty well, I guess we could also talk about it from the reset perspective that if you are thinking in terms of let's claim Social Security at 62, so that I can focus more on investing, that is probably more of a total return probability based optionality oriented viewpoint. Whereas if your income protection, you'll probably lean much more into it is okay to spend some of those other assets down until I get to 70. Because at that point, my Social Security will be so much larger, that as long as I make it to somewhere around AJB, I'm going to be much better off from a lifetime perspective by delaying Social Security. No,

Alex Murguia 10:56
but I just think that chances are not. Yeah, let's say that your first three years in the markets go down a combined 10%. Let's just assume, you know, your portfolio of stocks is around that. It's, you're kind of screwed. In terms of the breakeven, you know, relative,

Wade Pfau 11:16
you're talking about, if you Yeah, kind of, you do need a Social Security delay bridge, because you would increase sequence risk if you're just taking a bigger distribution from your investments for those eight years. But you can either carve out and create a bond ladder or use some sort of fixed annuity for those eight years or even draw from a reverse mortgage. That's one of the reverse mortgage strategies build a Social Security delay bridge by spending from the Home Equity Conversion Mortgage for eight years with a term payment. There are different approaches to take so that you're not just more vulnerable, the market volatility if you're delaying Social Security.

Alex Murguia 11:52
All right. Next question. Let me read it to you Wade, when applying for Social Security, one has the option of getting up to six months of back payment in a lump sum. future payments are lowered to the six month ago a huge amount, can you apply for Social Security at 70 and a half and get six months of premiums back to age 70. If one turned 70, past July 1 in a calendar year, then they are foregoing the tax on the Social Security payments into the next year, dot dot dot, thus allowing them to fill up their tax bracket with more Roth conversions than they would have if they had just taken on if they had just taken Social Security on time at age 70. Did you catch that again

Wade Pfau 12:40
of mine wrote I'm sorry. Did you catch

Alex Murguia 12:41
that? I almost have to read that again. Or you want to make summarize

Wade Pfau 12:46

like we've raised the question. So usually the the ideas, there's no reason to wait past age 70 To claim because you're not going to get any more delay credits after age 70 are Prunier actually, he's a friend of the US. He wrote about this, he published an article on it last year in the Journal of financial service professionals, Mary Beth Franklin, another friend of the podcast, wrote an article about his work in that area, that he actually said, hey, everyone always says don't wait until AF, or there's no reason to wait beyond age 70. But I'm going to wait until four months past age 70. Before I claim, and it was for this sort of reason that you can retroactively get up to six months, six months of benefits. And this would be a way to keep your Social Security benefits out of a current tax here. So if your birthday is in the second half of the year, what you can do is say say you turn 70 In July, you can wait until December to file and then in January, you'll get the past six months worth of benefits all in January. So that in the following year, you'll have 18 months worth of benefits paid to you. In the current year, you won't have anything versus if you filed at 70 You'd I guess I said your birthday was in July. I guess you'd have like five months of benefits this year, I would have to figure out exactly how many months but it's a way to keep taxable Social Security benefits out of your current tax here, because you can get up to six months retroactively paid. So yeah, it can be useful in certain scenarios. If it's part of a tax planning strategy

Alex Murguia 14:21
benefit, assuming your tax bracket will be more or less in the same range. The benefit is you're delaying a tax liability for six months on the first batch of what considering if your birthday was in July, whatever, you're delaying the tax liability another year on that amount.

Wade Pfau 14:38
You might do Roth conversions in the year where you don't have any social security might help keep you out of that having to pay the arrma the Medicare premium surcharges, you will have more taxable income in the following year because you'll have 18 or however many months of Social Security benefits. So it's less taxable income from Social Security this year, more of the following year. But if you have have a strategy to take advantage of that. That's where you can see some potential benefits. All right.

Alex Murguia 15:06
Next question. My ex husband is two years younger than me. We were married for 14 years, and his salary is easily twice mine. When can I claim half of his social security? I let me begin and then Wade, you can like tie a bow on it. From my understanding, as long as you're not married. And he's, you know, over 62 You should be in good shape. If the divorce has been finalized. If you've been divorced at least two years. And he's 62. I think it's, you should be fine. The other flipside is you'll be claiming for yourself as well. So you have to be security claiming he just you can't be like 58. And he happens to be 62 and try to get half of his social security. Wade,

Wade Pfau 15:58
yeah, you have to be at least 62, your ex spouse has to be at least 62 You do have to be married at least 10 years, which and that's a very strict cut off. If your divorce is finalized nine years. And 64 days later, you're not entitled to anything.

Alex Murguia 16:15
Not saying hey, we're, we're creeping up on Valentine's Day, so for her,

Wade Pfau 16:23
but that threshold was met with the 14 year marriage. So you can't be married to get an ex spouse. spousal benefit. But the issue is then also, if it's been less than two years, since the divorce is finalized, the ex spouse has to file just like with married spousal benefits. If it's been more than two years since the divorce was finalized, then that ex spouse has to be at least 62. They don't have to actually claim for you to be able to get that ex spouse benefit. But and this is where the question I don't know if this nuance was understood by the person you are deemed as having filed for your own benefit. That was something there are ways to get around that up until the rule changes initiated in 2015. Today, you do have to claim your own benefit to be entitled to any ex spouse benefit. So if you're thinking to claim as soon as possible to get that ex spouse benefit, just be aware that you're gonna have benefit reductions if you're under your full retirement age, and you are claiming your own benefit at the same time. Are

Bob French 17:28
you getting close to or are you in retirement? Well, investing during retirement is a little bit different than during your working years. Your investments are there to help you pay for retirement. And now is when they need to earn their keep to make sure you're on the right track. Download retirement researchers eight tips to becoming a retirement income investor by heading over to retirement researcher.com/eight tips again, get retirement researchers eight tips becoming a retirement income investor by going to retirement researcher.com/eight tips. That's the number eight tips.

Alex Murguia 18:07
Okey dokey. All right. Rolling through these way.

Wade Pfau 18:12
Yeah, we're on fire. The next two are thinking

Alex Murguia 18:15
about you're gonna have to read that last one because I'm going to mess that one up. I'll read the next one. I'll give you the last one. That's like a lot. I don't think anything of my my term papers are that long. My wife worked for 11 years, then quit so she should be eligible for Social Security based on time. She is the minor income earner I plan to work full time until 68. And take Social Security at 70. Yes, I read. I read Wade's book and listen to your podcast. Thank you and sorry, at the same time.

Wade Pfau 18:48
That 2024 edition for the retirement plan.

Alex Murguia 18:51
Let's get to the meat of this new edition is out. Question What if my wife takes Social Security at 62? For working? What percentage less would that be than waiting and taking the spousal amount at full retirement age of 67? I realize this may not be that simple. Question. Number two, in general, I realized specifics are needed. But it would be more financially advantageous in parentheses breakeven to take my Social Security at 69 and spousal amount at 67 Or wait till I'm 70. And she is 68.

Wade Pfau 19:30
Okay, yeah, Social Security gets complicated when there's two working individuals because I think the social security rules are designed. They didn't have spousal benefits back when it was initiated in 1935. But they came early in the history before. There was clearly this idea that two spouses would be working. That makes more things more complicated. It notes that the wife in this scenario worked for 11 years to you have to have at least those 40 quarters of credits or 10 years. Some work. So the wife's probably with 11 years of work. And with 35 years being used in the calculations, there's gonna be a lot of zeros, it's going to be a pretty small benefit. But the idea is what happens if the wife claims early, and then the is not yet getting the spousal benefit, like we were talking about with the last question, because the the higher earner in this couple is not going to be claiming yet. How does this all play out? When you claim, you get your own benefit. And then if 50% of your spouse's benefit is larger than your benefit, you'll get a spousal tapa. So that if you claim at full retirement age, you'll get 50% of, in this case, the husband's benefit, it may help to just provide some numbers to this just because it's otherwise so abstract, let's say the, the higher earner in this couple is going to have is eligible that their primary insurance amount is $2,500. And the low earner, let's say their primary insurance amount is $900. So at full retirement age, that individual, they get 900 of their own benefit. And then overall, they're entitled to 12 150, her half of the 2500. So a $350 spousal top off. Now, if this person claims this low earner claims at 62, she'll get 70% of her own benefit at that time, or 70% of the 900 680. Then if she doesn't start getting any spousal benefit, until she's at least her full retirement age, she'll get the full spousal top off on top of that. So that was $350 In this scenario, so she get 680. That's 70% of the 900 per month, she claimed at 62. And then eventually her the high earner claims when she's already at least full retirement age, she'll get a $350 top off on top of that, and that there's no delay credits on that spousal top off, so what your sacrifice the question is getting into, should I claim at 69 so that my wife can get another year the spousal top off, or should I wait until 70. And then my wife's not getting a year of spousal top off and is not getting any delay credits on the spousal top off, is really what the question boils down to? And the general answer is because the high earners benefit is in this scenario, so much larger and will become the survivor benefit. If they're really similar in age, and this is going to be a theme in the next question. This question doesn't mention their age difference, what that age differences, but probably unless the the low earner wife is much older. Unless that's the case, you're probably going to be really looking at maximizing the survivor benefit to her, which would have the the high earner wait until 70? Is that super clear? Yes.

Alex Murguia 23:05
Puzzled top off?

Wade Pfau 23:10
Yeah, it's this the way when both spouses work, it's just it becomes super complicated. I

Alex Murguia 23:16
got you, I'll try.

Wade Pfau 23:20
This, that'd be a good example of this is where you could go to Open Social Security, enter this information and for your case, and actually see how this plays out with the benefits you're eligible to at different ages, it will account for the reduction in primary benefit the spousal top off

available and so forth. And you can play around with that. That's, that would be a great use case of Open Social security.com. Excellent.

Alex Murguia 23:45
Next question. I'll read it that way. Because it's, you're gonna have to think through it while I'm speaking. Because, you know, you're a man of many talents, but to read it out loud, and then also formulate answers. I'd rather leave that responsibility to you and I'll read. All right, here we go. Hi, Wade, and Alex. I am a regular listener to your show, and appreciate the insight that the RISA has provided me and my spouse. What do you think Wade? No, that's not the question. Thank you. So my question is related is relating to social security timing. I am 60. And my husband is 68. So, so we're getting to 60 and 70 and 68. He has claimed Social Security at full retirement and his benefit is 2500 per month. My benefit at full retirement is projected to be 2700. I am no longer working. My question centers on our age difference and relatively similar benefits. We realize that typically it makes sense to turn a larger benefit on at 70 to maximize survivor benefits. I give you a second Wade as I see your writing. At that time, I turned 70 My husband will be 78 I would suspect our benefits or benefit amounts to be similar at that time, given the increases with inflation that he is receiving. What I don't know, since I'm no longer contributing to Social Security, will my benefit be growing with inflation as well. Currently, we're drawing approximately 6000 per month living expenses from our portfolio of just over 2 million in stocks, bonds, cash and brokerage account. Our plan includes some Roth conversions until I turned 60. So for the next two years, we're pulling a little extra to cover those taxes as well. Boom, that just that, my feeling is it may not make a very significant difference as a survivor benefit, if we were to wait until my age 70 benefit. Could you talk about how our age difference slash life expectancy might impact our climbing strategy in this sorry our claiming strategy in this situation? We're both in very good health, very active, and both set of parents reach their late 80s, early 90s. Thank you. PS, we are planning to discuss this with our CFP as a near 62. But with your recent replay of Social Security timing, I thought this might be relevant.

Wade Pfau 26:19
Yeah, very relevant. So a couple of issues going on here. We do have the age difference, the 60 and 68. Their benefits at full retirement age are somewhat similar mentioning the 68 year old is 2500 a month, the 60 year old 2700 a month. Now, double check with your Social Security statement, it may be assuming that you're going to continue to work for the next seven years, so your full retirement age. So it will show somewhere on there, what your assumed future earnings are. If those earning if it shows a past salary there. You're not going to have the seven years of earnings, you may not have that full $2,700 at that point. But also, one of the questions was, will my benefit be growing with inflation as well? Yes, you don't have to claim to get the cost of living adjustments. The Social Security statement assumes there is no inflation in the future, you will get those cost of living adjustments. So your benefit will grow with inflation just like your older spouse who's already claimed. Just whether or not this benefit statement is assuming another seven years of work, we need to double check that point. Now, that being said, the other part of the question was really around this issue of survivor benefits. If you have the higher benefit, and there's not that much difference, so at the end of the day, it's not going to be that big a deal. But you're the one who will get your own benefit as a survivor benefit, it's, it's less likely that the spouse will get your benefit as a survivor benefit. But you might still be looking to delay until 70, especially with the longevity that you mentioned, because your own benefit will be your survivor benefit as the small difference but relative high earner in that

couple. It's more for your own benefit necessarily than the your spouse's benefit, since the spouse is eight years older.

Alex Murguia 28:24
You have this podcast, the answer has to be longer than the question.

Wade Pfau 28:31
The answer is no, no, no, brevity is full of wit.

Alex Murguia 28:33
If you're reading Shakespeare, if you're unretire with style, you got to draw this out.

Wade Pfau 28:41
Right 27 minutes.

Alex Murguia 28:42
This is fine. This is a good handful of social security questions. And there were at there, there we are at if you folks have any others, please feel free to hit us up, you know community at Risa profile.com. send in questions. We're more than happy to do this, we kind of we kind of dig this q&a Because it relieves us a little bit of responsibility from finding a topic and you know, doing an Archon. And, you know, we can knock these out, you know, nice and they're relevant to what you folks are thinking about. So I enjoy him right way. That'd be a bit about you.

Wade Pfau 29:19
Yeah, no, it's great. It's great to know what people are thinking about and asking and where we might be better with our explanations with we may have not been thinking none of the same way, blink some time. So to make sure we get Okay, that's that's how you're thinking about. All right, so let's get on. Now. We

Alex Murguia 29:36
got the questions out of the way, just more behind the scenes. So episode officially over, I suppose a small talk at the front. There could be small talk at the back, and I have to ask we put them on the spot. That's why I'm doing this. We batch these, you know, we did a whole bunch of Q and A's and we sort of published them and so we're getting ready for the next set. So we didn't I haven't spoken in two weeks, you know To the to our listening public. And when we left it, we're we're gonna pull ups. Right? Wade, Wade, I have one, etc, etc. We're gonna kind of baseline it and then double up and see how we can maintain it. What do you got? Wade, what do you got for me?

Wade Pfau 30:20
Yeah, my kids are doing and I'm when I walked by I'm trying to get two or three in I did for one dice all in a row. The idea was to be at six by the end of February.

Alex Murguia 30:33
You'll get six by the end of February.

Wade Pfau 30:37
I know another training I had

Alex Murguia 30:39
a year on you. So I was able to get nine on my baseline. But again, yes, it's an excuse. So guilty, right? But I would do something with my kid with barbells. And I think I'd give myself really bad tennis elbow. I know it's getting better now. But I haven't done much since then. Simply because I'm gonna give it another week and then I'll hit

Wade Pfau 30:59
it hard again. Now Yeah, that's see you have a shot. Yeah, it's killing me. What's

Alex Murguia 31:04
helping me is I think the cold plunges in some weird sort of way. Just icing the hell out of it. But I should be back next week and kick it out. And let's see if I can get to 18. By by the end of the month. Are you doing chin ups? Well, we're just pull ups.

Wade Pfau 31:20
Yeah, I find that chin ups easier. Actually. I've never really Yeah,

Alex Murguia 31:23
chin ups is easier. In fact, I think of the chin ups. I did nine and the pull ups was like seven something like that. And what about hanging? Do you just hang their head?

Wade Pfau 31:33
No, I don't really do the hang because we don't have any door that I can bend my knee and bend your knees.

Alex Murguia 31:45
No, that's this stuff can be harder than you think. And I honestly I don't think if you work on hanging it out. It'll help but I think one of the I think this is not me like being Huberman or tea or one of those guys, right? But if you can hang like grip strength is one of these like markers for longevity. So it's one of those things like the and they measure that by you're hanging like a dead man hang or dead, whatever you call it, kind of thing. So follow me for more advice on Instagram.

Wade Pfau 32:19
And those YouTube commercials now about jogging doesn't do anything or diet doesn't do anything. I never stay on long enough to figure out what to

Alex Murguia 32:27
do. Yeah. So we're playing around with that too. But I could barely I did like did hang the best I could do is like a minute. 10 seconds. And I literally a minute 10 seconds. My hand my forearms were burning. I couldn't hold it anymore. It's tough. It's it's tougher than you think. Wade? At least for me? No,

Wade Pfau 32:47
I don't know.

Alex Murguia 32:50

Alright guys, and ladies. Thanks for listening in. We'll catch you on next week's edition where we will be handling all things reverse mortgages. Riveting.

Wade Pfau 33:01
Yeah, yeah, we've got a collection on reverse mortgage.

Alex Murguia 33:05
So we'll catch you next week everyone. Thanks for listening. Bye.

Wade Pfau 33:08
Thanks.

Bob French 33:10
Wade and Alex are both principals in McLean Asset Management and retirement researcher. Both are SEC registered investment advisors located in Tyson's Virginia. The opinions expressed in this program are for general informational and educational purposes only and are not intended to provide specific advice or recommendations for any individual or on any specific securities. To determine which investments may be appropriate for you. consult your financial advisor. All investing comes with risk including risk of loss. Past performance does not guarantee future results.

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