

Can Social Security Benefits Help with Longevity Risk?



How long will you live?

It's not a question anyone can answer with any certainty, and that creates a significant risk when planning for retirement. Hopefully, your retirement will last for a long time, and you will need to have enough income to live comfortably without running out of money.

In 2018, *Gallup* surveyed retirees about their retirement income. The top income sources for Americans were:¹

- 57% Social Security benefits
- 37% Employers' pension plans
- 27% 401(k), IRA, or other retirement plan savings
- 19% Home equity
- 17% Taxable savings and investment accounts
- 15% Stocks, bonds, and other investments

Clearly, Social Security is the cornerstone of retirement income for many Americans, and it delivers a steady stream of income for life.

How long have you been paying into the Social Security system?

Americans contribute to the Social Security system throughout their working years. Every pay period, money is deducted from our paychecks to fund Social Security and Medicare. This payroll tax is called FICA (Federal Insurance Contributions Act).²

During 2018, American workers pay 6.2% of their income, up to \$128,400 in earnings, into FICA. Employers also pay 6.2%. If you are self-employed, you pay the entire 12.4%.²

The money goes into the Old Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds, which pay Social Security benefits. These are two distinct funds, although, they are often referred to as a single entity: OASDI.^{3, 4}

An additional 1.45% is withheld for Medicare's Hospital Insurance program and matched by your employer. If you're self-employed, you pay the full 2.9%.^{5, 6}

The money paid to the OASI and DI Trust Funds is used to pay benefits to:⁵

- Current retirees – a group that may include your parents and grandparents
- People with disabilities – a group that may include friends and loved ones
- Survivors – a group that may include spouses or children
- Dependents – a group that may also include spouses and children

Social Security benefits can help minimize longevity risk

There are many different Social Security claiming strategies. The one you choose will depend on a variety of factors, including your current savings, your health (and the health of family members), your legacy goals, and other issues.⁷ If you're not familiar with claiming strategies, talk with your financial professional before registering for benefits.

Timing makes a difference, too. In general, you can take benefits early (if you're willing to accept up to a 30% lower benefit), take benefits at 'normal' retirement age, or delay your benefits and receive a higher payment.⁶ If you're married, the decision can affect how much income your spouse and dependents receive, as well.

If you can afford to delay taking benefits, you may be able to minimize the risk associated with increasing longevity because you'll receive more monthly income from Social Security once you start to take it.⁷

There is just one catch: The Social Security system may be at risk

You should receive Social Security benefits for life – as long as they're still available.

According to a recent *Gallup* survey, fewer Americans are concerned about the solvency of Social Security today than they have been in the past. It's a notable state of affairs because the system is at risk. Justin McCarthy reported on *Gallup.com*.⁸



“Americans’ level of worry about the Social Security system is on the low end of the nearly two-decade trend, but the financial solvency of the program's fate is in jeopardy, as it faces long-term sustainability challenges.”

2018 is a milestone year for the OASI Trust Fund. This is the first year since 1982 the cost of benefits paid is expected to exceed income. Unless changes are made, the OASI Trust Fund will be depleted by 2034. At that time, the income received will only be enough to pay about 77% of scheduled benefits.⁹

The *Center for Retirement Research at Boston College* concluded:¹⁰

“The 2018 Trustees Report confirms what has been evident for almost three decades – namely, Social Security is facing a long-term financing shortfall which equals 1% of GDP...stabilizing the system’s finances should be a high priority to restore confidence in our ability to manage our fiscal policy and to assure working Americans that they will receive the income they need in retirement. The long-run deficit can be eliminated only by putting more money into the system or by cutting benefits. There is no silver bullet.”

Before you claim Social Security benefits, talk with your financial professional to determine which strategy best suits your circumstances.

Sources:

¹ https://news.gallup.com/poll/234032/social-security-financial-bedrock-retirees.aspx?q_source=link_NEWSV9&q_medium=TOPIC&q_campaign=item_&q_content=Social%2520Security%2520Still%2520Financial%2520Bedrock%2520for%2520Retirees

² <https://www.ssa.gov/thirdparty/materials/pdfs/educators/What-is-FICA-Infographic-EN-05-10297.pdf>

³ <https://www.ssa.gov/oact/progdata/taxRates.html> (Click on OASDI to see the trusts as separate entities)

⁴ <https://www.ssa.gov/oact/progdata/oasdiRates.html>

⁵ <https://www.ssa.gov/pubs/EN-05-10024.pdf>

⁶ https://www.ssa.gov/oact/quickcalc/early_late.html

⁷ <https://www.nytimes.com/2017/02/18/your-money/retiring-longevity-planning-social-security.html>

⁸ https://news.gallup.com/poll/232172/adults-nearing-retirement-worry-social-security.aspx?q_source=link_NEWSV9&q_medium=TOPIC&q_campaign=item_&q_content=Adults%2520Nearing%2520Retirement%2520Worry%2520Most%2520About%2520Social%2520Security

⁹ https://www.ssa.gov/oact/tr/2018/II_A_highlights.html

¹⁰ http://crr.bc.edu/wp-content/uploads/2018/06/IB_18-11-1.pdf

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