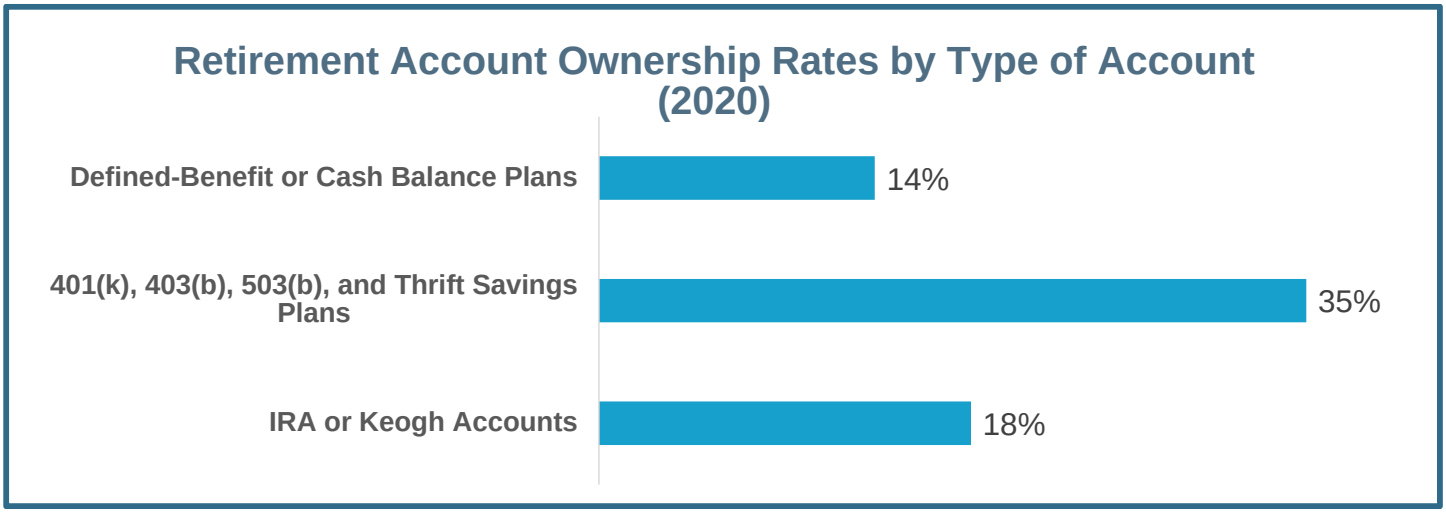
When a person sits down and thinks about what their income sources in retirement might be, they might think of a three-legged barstool where each leg is a source of income in retirement. Those three legs generally are (1) pension income, (2) Social Security income, and (3) retirement accounts. Let's examine each of these three legs and see how 'on track' the average American is for retirement. According to the National Institute on Retirement Security (NIRS), only 6.8% of American retirees in 2020 were receiving income from pensions, Social Security, and retirement accounts. That means that 93.2% of Americans are sitting on a two-legged barstool and do not have a pension. Unfortunately, we can take this analogy further with only 13.5% of Americans having a defined benefit or cash balance plan (aka pension) and 52.8% of Americans having some kind of retirement account according to 2020 U.S. Census Bureau data.



Note: Working-age individuals born between 1956 and 2005.
Source: U.S. Census Bureau, 2021 Survey of Income and Program Participation.

According to NIRS data, 40% of Americans in 2020 relied solely on Social Security. This leaves us with the scenario of a one-legged barstool being a reality for many Americans. Unfortunately, this means most people have to take retirement savings into their own hands and Social Security planning becomes even more important. Since Social Security payments are more reliable than periodic withdrawals from retirement accounts with market risk, we should do everything we can to make sure that we help you answer the question, "At what age should I file for social security?" correctly. With this backdrop, it's no wonder that many people could sympathize with, but do not condone the actions of, the main characters of the 2017 movie "Going in Style", a comedy about three retirees (played by Morgan Freeman, Michael Caine, and Alan Arkin) who lose their pensions and decide to rob a bank so that they can afford to make it through retirement. Here is the movie poster for reference:

Of course, we do not recommend that you rob a bank or engage in any illicit activities. However, we do want you to be confident in your retirement plan and be able to "Go" walk into your local Social Security office and file for social security "In Style". The most common ages that we see clients filing for Social Security are (1) age 62, (2) Full Retirement Age (FRA), which is typically between age 66

and 67, and (3) age 70. Let's walk through a sample client to illustrate how different a Social Security filing recommendation can differ depending on the person's financial plan.

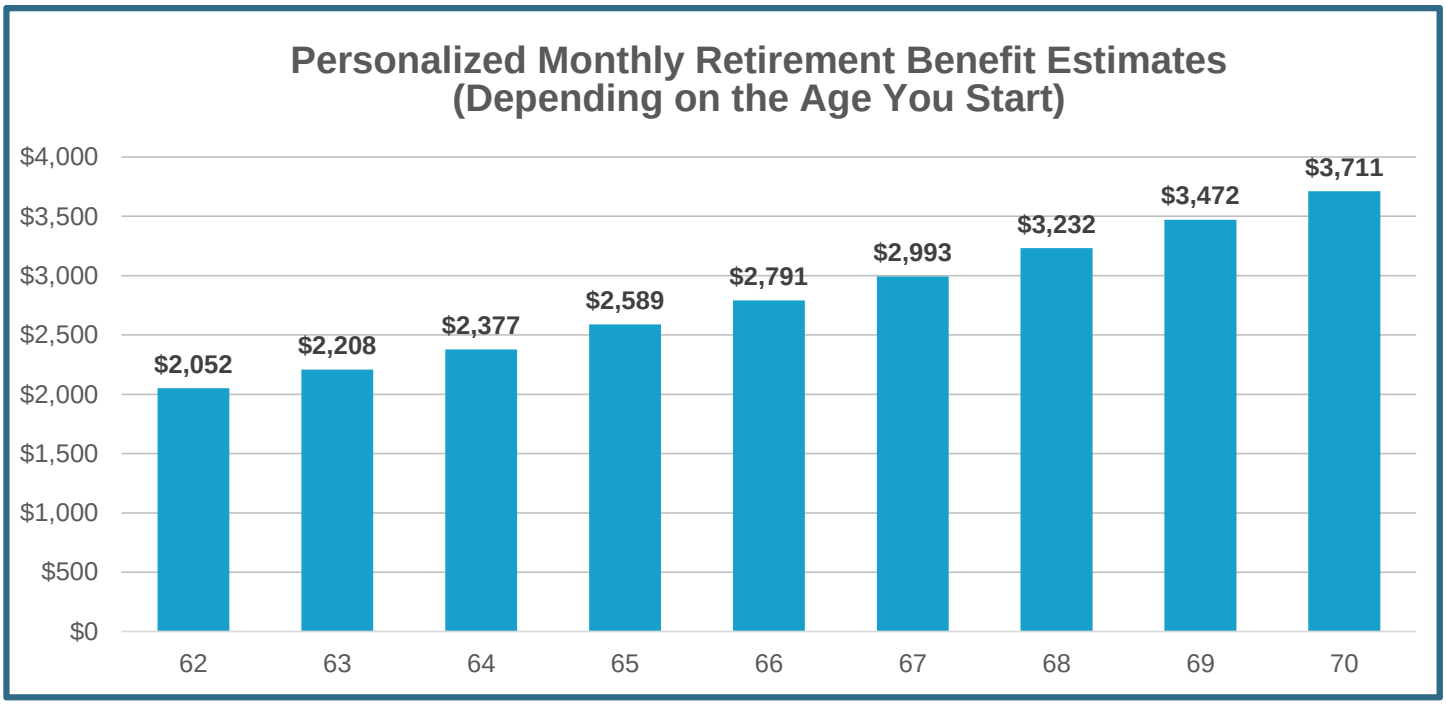
Example (John and Jane Smith)

John and Jane Smith are both 61 years old and are both planning to retire at age 62. They live in Texas, they both each make $100,000 per year, and have the following assets:

- A joint checking account currently with $50,000 and is assumed to grow at 1% per year.
- Jane's 401(k) is currently worth $100,000 and is assumed to grow at 3% per year.
- John's 401(k) is currently worth $100,000 and is assumed to grow at 3% per year.
- Their home is currently worth $500,000. They have a 30-year mortgage with 10 years remaining at a 6% interest rate for a total monthly payment of $2,398 ($28,776 per year)
- Jane has a pension that will pay $50,000 per year that starts when she is 65 and is guaranteed throughout the rest of both John's and Jane's lives. Jane says that there is no cost-of-living adjustment (COLA), so the $50,000 will not increase throughout the rest of their lives.
- Jane has a term life insurance policy for $625,000 with 10 years remaining. John is the beneficiary.
- John has a term life insurance policy for $625,000 with 10 years remaining. Jane is the beneficiary.

John and Jane both need $48,000 per year (in addition to their mortgage payments) to fund their retirement. Both sets of their parents passed away at age 95, so they want to assume that their retirement plan lasts until age 100.

They each receive the following identical Social Security statement (since they have the exact same work history)



John and Jane are thinking that they should file for Social Security at age 62 because they are planning to retire at 62. We assume that this is their “current situation” and deduce that John will receive $2,052 per month ($24,624 per year) and Jane will also receive $2,052 per month ($24,624 per year) when they turn 62. If they both were to wait and file until their FRA (in their case, age 67), they would instead receive $2,993 per month ($35,916 per year). If they both were to wait and file until they were age 70, they would instead receive $3,711 per month ($44,532 per year). We assume that Social Security payments will increase by 1.5% per year, starting in the year they begin collecting Social Security.

With those assumptions, when should John and Jane file for Social Security? Don’t worry if you don’t know the answer (and kudos to you if you already do). Jane and John don’t know the answer, so they decide to meet with our team of Certified Financial Planner™ professionals at BFSG to help guide them. *The answer is they should file at age 62.* I’ll use our financial planning software to illustrate why.

Filing At 62

GOALPLANNER

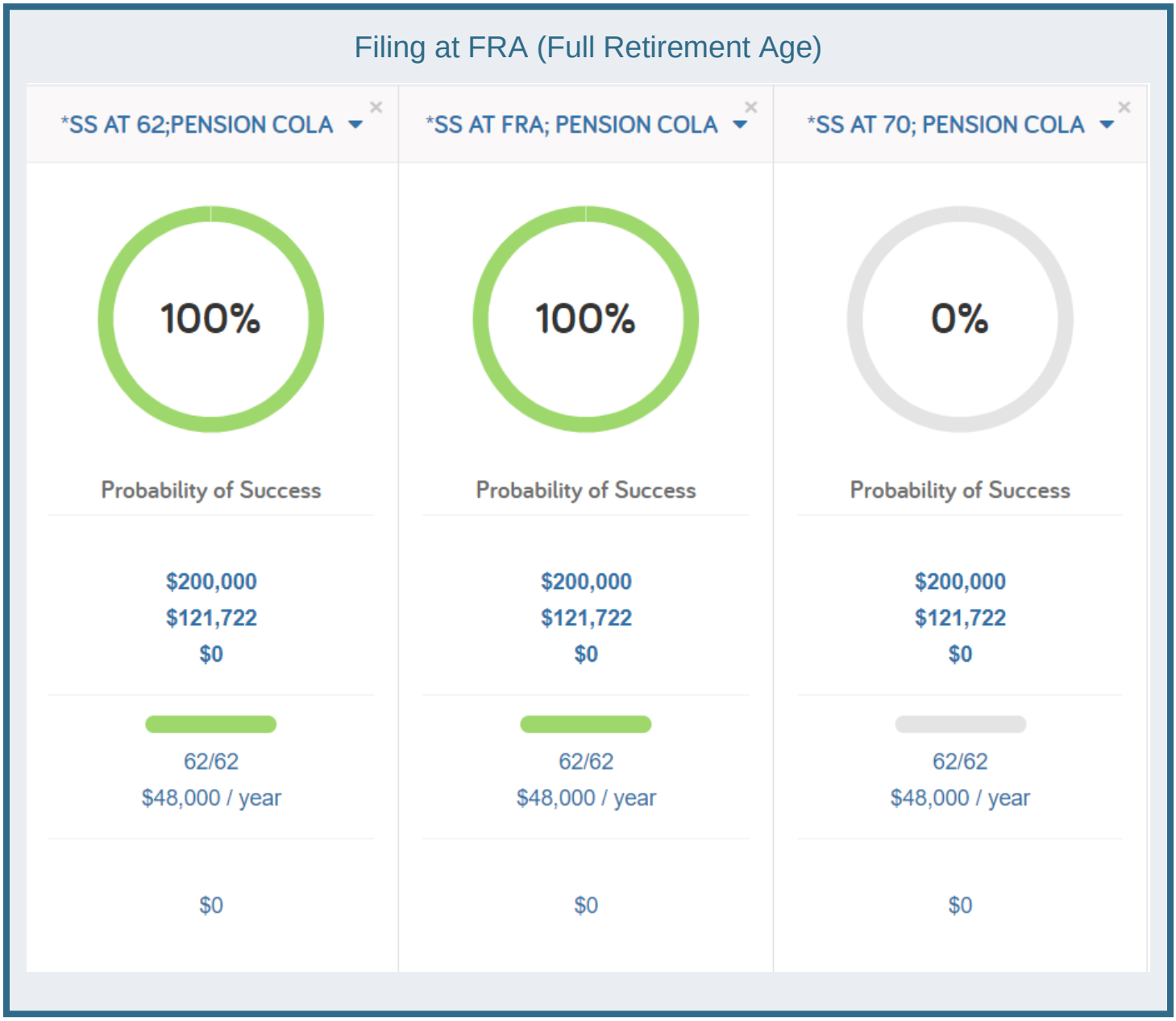
Probability of Success
- 90% - 100%
- 75% - 89%
- 0% - 74%

This analysis illustrates the potential results of your financial plan using 1000 randomly generated market returns and volatility called trial runs.

	CURRENT SITUATION	*SOCIAL SECURITY AT FRA	*SOCIAL SECURITY AT 70
	100%	0%	0%
	Probability of Success	Probability of Success	Probability of Success
LIFESTYLE			
Income	$200,000	$200,000	$200,000
Expenses	$121,722	$121,722	$121,722
Savings	$0	$0	$0
RETIREMENT			
Retirement Ages	62/62	62/62	62/62
Living Expenses	$48,000 / year	$48,000 / year	$48,000 / year
LEAVE TO HEIRS			
Amount	$0	$0	$0

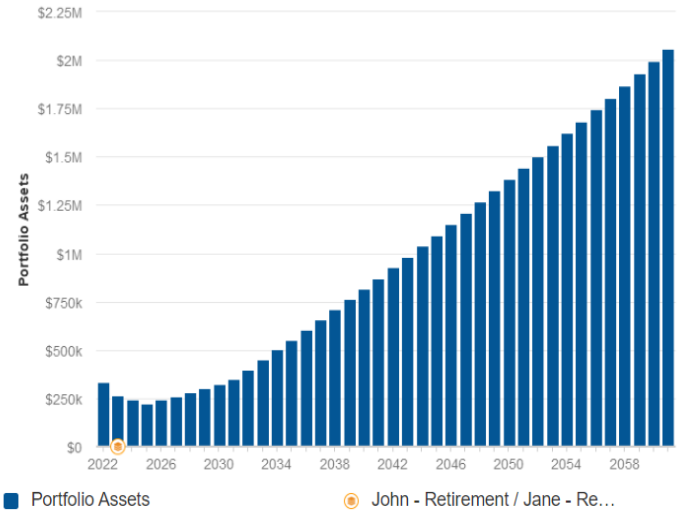
The above chart is a Monte Carlo simulation of 1,000 randomly generated trial runs (market returns and volatility) that depict a probability of success for each of our scenarios (File at age 62, File at FRA, File at 70). Frankly, we don't need to dig too deep into the weeds here since the above graphic shows that there would be a high probability of running out of money if they didn't file at age 62. This is because filing at age 70 or even at Full Retirement Age (FRA) means that they would have waited too long until after retirement to file for Social Security. This sounds good to John and Jane, and they are glad they had the right assumption to file at age 62.

A week after meeting with BFSG, Jane receives an email from her HR manager and the HR manager apologizes for misleading Jane about the terms of her pension. It turns out that Jane does get a cost-of-living adjustment (COLA) of 2.5% per year. Jane is confused why the HR manager is apologizing since this is good news for Jane. Instead of getting $50,000 per year for the rest of her life with no growth, that $50,000 will be guaranteed to grow by 2.5% per year starting now and will continue for the rest of her life. Jane is unsure if she and John should still file for Social Security at age 62 and decides to meet her team at BFSG to help clear this up. It turns out that her hunch to maybe change when she and John file for Social Security was correct and our financial planning software will detail why.

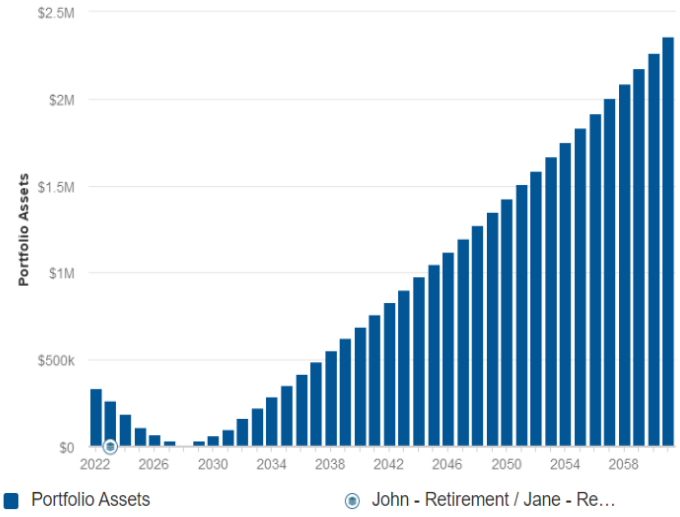


The above chart shows why filing at age 70 still isn't the answer here because they would be waiting too long to file for Social Security. Even though both of the scenarios for filing at age 62 and at FRA lead to a 100% success rate, it isn't inherently obvious which age is the best age for John and Jane to file. To get a better picture, we'll need to review the cash flow summary as reflected below:

Portfolio Assets - Last Year (2061) *SS at 62;Pension COLA



Portfolio Assets - Last Year (2061) *SS at FRA; Pension COLA



Age Assets Last Until 2061 (age 100/100)

Cash Flow Summary - 2061 (100/100)

Account	Value
Income Flows	$205,377
Investment Income	$0
Planned Distributions	$12,036
Other Inflows	$0
Total Inflows	**$217,413**
Total Expenses	$143,591
Planned Savings / Investment	$0
Total Outflows	**$143,591**
Net Cash Flow	**$73,822**
Total Portfolio Assets	**$2,057,791**

Age Assets Last Until 2061 (age 100/100)

Cash Flow Summary - 2061 (100/100)

Account	Value
Income Flows	$236,073
Investment Income	$0
Planned Distributions	$51
Other Inflows	$0
Total Inflows	**$236,124**
Total Expenses	$145,707
Planned Savings / Investment	$0
Total Outflows	**$145,707**
Net Cash Flow	**$90,417**
Total Portfolio Assets	**$2,357,430**

The ending portfolio value for the scenario on the right (File for Social Security at FRA) gives John and Jane $2,357,430 versus if John and Jane file at age 62, they would end their financial plan with $2,057,791. We recommend that they wait to file Social Security until their FRA since even if John or Jane pass away prematurely within the first 10 years, they both have life insurance policies that would pay a $625,000 death benefit to the surviving spouse.

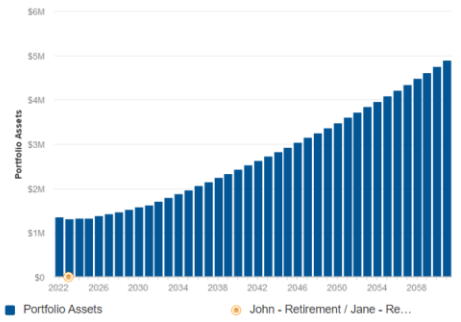
John and Jane take this as great news and decide to go on a vacation for a week to celebrate. After they get back from their vacation John and Jane get a call from John's second cousin, Adam. Adam informs John that John's eccentric billionaire uncle, Preston Blake, has died while summiting Mt. Everest and has left John a $1 million dollar inheritance. John is saddened by this news, but glad to receive an inheritance. John and Jane decide to invest the proceeds from the inheritance in an investment account earning 3% per year for the rest of their lives. John and Jane then pick up the phone and call BFSG to schedule a meeting to ask how this news changes their decision on when they should file for Social Security. The team at BFSG recommends that they now should file at age 70. Let's review the reason why:

Filing At 70

*SS AT 62;PENSION COLA;$1...	*SS AT FRA; PENSION COLA;...	*SS AT 70; PENSION COLA;$...
100%	100%	100%
Probability of Success	Probability of Success	Probability of Success
$200,000	$200,000	$200,000
$128,851	$128,851	$128,851
$0	$0	$0
62/62	62/62	62/62
$48,000 / year	$48,000 / year	$48,000 / year
$0	$0	$0

That $1m inheritance helps the plan so much so that the file at age 70 option is now on the table and all options lead to a 100% success rate for the financial plan. Now the question isn't which Social Security filing age leads to the highest success rate for their financial plan, but rather which Social Security filing age gets John and Jane the most amount of money over their lifetimes. The following cash flow summary graph shows why age 70 would be the optimal age for John and Jane.

Portfolio Assets - Last Year (2061) *SS at 62;Pension COLA;$1m inh

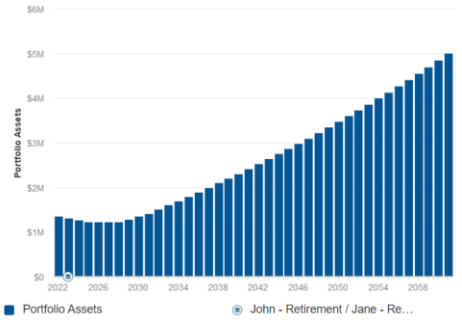


Age Assets Last Until 2061 (age 100/100)

Cash Flow Summary - 2061 (100/100)

Account	Value
Income Flows	$205,377
Investment Income	$0
Planned Distributions	$12,208
Other Inflows	$0
Total Inflows	**$217,585**
Total Expenses	$160,764
Planned Savings / Investment	$0
Total Outflows	**$160,764**
Net Cash Flow	**$56,821**
Total Portfolio Assets	**$4,894,546**

Portfolio Assets - Last Year (2061) *SS at FRA; Pension COLA;$1m inh

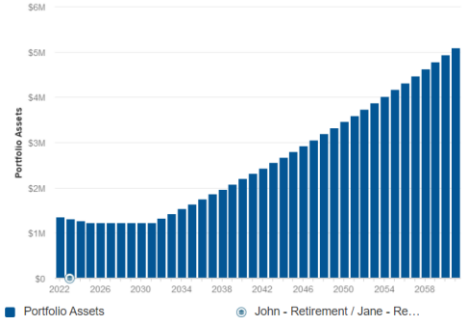


Age Assets Last Until 2061 (age 100/100)

Cash Flow Summary - 2061 (100/100)

Account	Value
Income Flows	$236,073
Investment Income	$0
Planned Distributions	$12,208
Other Inflows	$0
Total Inflows	**$248,281**
Total Expenses	$163,259
Planned Savings / Investment	$0
Total Outflows	**$163,259**
Net Cash Flow	**$85,022**
Total Portfolio Assets	**$5,003,616**

Portfolio Assets - Last Year (2061) *SS at 70; Pension COLA;$1m inh



Age Assets Last Until 2061 (age 100/100)

Cash Flow Summary - 2061 (100/100)

Account	Value
Income Flows	$257,871
Investment Income	$0
Planned Distributions	$12,208
Other Inflows	$0
Total Inflows	**$270,079**
Total Expenses	$166,170
Planned Savings / Investment	$0
Total Outflows	**$166,170**
Net Cash Flow	**$103,909**
Total Portfolio Assets	**$5,099,170**

The graphs show:

- Filing at age 62 would leave them with $4,894,546 at the end of the plan
- Filing at FRA would leave them with $5,003,616 at the end of the plan
- Filing at age 70 would leave them with $5,099,170 at the end of the plan

Therefore, John and Jane should file for Social Security at age 70.

Conclusion

Not every Social Security planning scenario ends up with straightforward solutions like our example client in this article. For example, one client we worked with has the following success rates for different filing ages for Social Security:

Probability of Success
- 90% - 100%
- 75% - 89%
- 0% - 74%

This analysis illustrates the potential results of your financial plan using 1000 randomly generated market returns and volatility called trial runs.

	CURRENT SITUATION	*SOCIAL SECURITY AT AGE 62	*SOCIAL SECURITY AT AGE 65	*SOCIAL SECURITY AT AGE 70
Probability of Success	97%	96%	97%	94%
LIFESTYLE				
Income	$40,800	$48,750	$40,800	$40,800
Expenses	$40,537	$40,724	$40,537	$40,537
Savings	$9,600	$9,600	$9,600	$9,600
RETIREMENT				
Retirement Ages	60/65	60/65	60/65	60/65
Living Expenses	$36,828 / year	$36,828 / year	$36,828 / year	$36,828 / year
NEW CAR EVERY 10 YEAR...				
Years	2030 - 2050	2030 - 2050	2030 - 2050	2030 - 2050
Annual Cost	$30,000 / year	$30,000 / year	$30,000 / year	$30,000 / year
HEALTHCARE EXPENSE				
Years	2025 - 2029	2025 - 2029	2025 - 2029	2025 - 2029
Annual Cost	$12,000 / year	$12,000 / year	$12,000 / year	$12,000 / year
LEAVE TO HEIRS				
Amount	$0	$0	$0	$0

Filing at age 65 or age 67 leads to the same success rate but filing too early (age 62) or too late (age 70) would actually hurt their financial plan relative to their “Current Situation”. In summary, it all comes down to your unique financial situation and our group of Certified Financial Planner™ professionals at BFSG can examine that information for you, so that you’re ready to go ‘File’ for Social Security ‘In Style’. In closing, we’ve made a few adjustments to that movie poster from earlier in the article (see below).

FILE IN STYLE

YOU'RE NEVER TOO OLD TO GET EVEN WITH THE SSA.

OUR NEXT MEETING

BFS 2040 Main Street, Suite 720, Irvine CA 92614 I (877) 726-9378 I www.bfsg.com

Sources

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2. https://www.ssa.gov/policy/docs/ssb/v69n3/v69n3p1.html
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