

**Financial Planning Association Hearing Statement:
What Workers Need to Know About as They Plan for Their Retirement
House Ways and Means Committee on Social Security
Tuesday, July 29, 2014 at 11:00 a.m.**

Financial Planning Association

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FINANCIAL PLANNING ASSOCIATION STATEMENT:

Thank you for asking us to testify about this very important subject.

As Financial Planners, we advise almost every client who is considering retirement about the essential role that Social Security will play in providing a stable and reliable source of retirement income. Social Security is the cornerstone of retirement income planning, regardless of whether it represents 20% or 80% of your retirement income. Many seniors do not understand that the timing of claiming their Social Security benefits can make a significant difference to the success or failure of their retirement income plan. Providing seniors with the information and the tools needed to evaluate this decision is critical.

Planning for retirement is difficult. Prospective retirees must decide when to retire, where they will live, and how they will fund living expenses. They must also deal with enormous uncertainty about how their health will develop, how long they will live, and for those with investments, how their investments will perform. As a lifetime inflation-protected income annuity, the Social Security retirement benefit is a reliable base upon which to build a retirement plan, and helps retirees manage the risk of outliving their assets.

Despite its importance, the complexity of Social Security Retirement Benefits means that many prospective retirees are uncertain and often confused about which approach to claiming benefits will be most beneficial to them. In particular, we advise our clients about when to file, when to claim benefits, and which earnings record to rely on. Decisions in each of these areas can have a significant impact on the timing and size of their lifetime benefit.

Before they can even begin the process of deciding when to take their benefits, seniors want to have unambiguous answers to some basic questions, including:

- Is Social Security going to be there for me, and is it more likely to be there if I take my benefit early?
- If means testing is adopted, will I be better off taking my benefit early?
- What are the considerations for taking my benefit at 62 vs. 66 or 70?

- What is a spousal benefit and do I qualify for that benefit?
- What is a survivor's benefit and do I qualify for that benefit?
- How do my filing decisions affect my spouse and how do his/her filing decisions affect me?
- What is meant by "longevity insurance?"
- Where can I find unbiased information on when to file for Social Security?

For many prospective retirees, when to claim their benefit is the most important Social Security decision they must make. Many people underestimate how long they may live, and do not fully appreciate that their life expectancy is just an average. In fact, longevity risk is one of the largest risks that retirees will face. Approximately half of retirees will live longer than their life expectancy. As Social Security is income they cannot outlive, these retirees will have many years to celebrate or to rue their timing decision. Social Security is a better annuity than anything available on the commercial market and provides excellent "longevity insurance."

Under any circumstances, people find it difficult to make good decisions about events that will occur far in the future, especially when uncertainty is involved.¹ To compound the problem, the Social Security claiming decision is very complex. The benefit increases if a retiree is willing to wait to claim. Taxes on benefits vary with age and income. A couple must consider the values of both Retirement and Survivor benefits. Retirees who have certain kinds of pensions, or whose spouses do, face additional complexity, as do those who are widowed and divorced.

The question of when to claim Social Security benefits can only be answered definitively after evaluating the relative ages and relative benefits (for a couple), life expectancies and circumstances of the worker. In general, we recommend that individuals wait as long as they can before filing for benefits. The only good reasons for a retiree to file for benefits early are (1) they need the cash flow or (2) they are single and have good reason to believe they will not live to their life expectancy.

Financial planners have found it necessary to build analytical tools to help us advise our clients (one of us, Sharon Lacy, has developed such a tool – an optimizing calculator). We can begin with Social Security Administration (SSA) tools and statements, but they are usually insufficient by themselves. Using an optimization calculator provides a worker with the universe of available filing strategies. We can then fine-tune the strategy for their specific circumstances. Prospective retirees may be considering employment alternatives that the statements do not allow for. SSA online tools can be cumbersome to use, requiring considerable time for data entry, and may not support a straightforward comparison of the alternatives retirees are considering.

Retirees without financial planning support may find it difficult to make the claiming decision that is best for them. The best decision must account for a combination of many factors and preferences unique to each retiree or retiree couple. As a result, the advice readily available from television or radio commentators or from books or websites is unlikely to produce the best result for all or even most retirees who may use them. At worst, financial advisors who are motivated to keep clients from withdrawing managed assets may recommend early claiming, which is unlikely to be best.

Other retirees may seek advice from their local Social Security office. Unfortunately, SSA office staffers do not have the financial planning training necessary to provide good benefit claiming advice. They also lack the time and tools they would need to analyze prospective retirees' situations, and retirees usually

¹ See Daniel Kahneman, **Thinking Fast and Slow**.

do not bring with them sufficient information about their circumstances to support the appropriate analysis in any event. We are concerned that neither SSA staffers nor the retirees who may seek their advice fully appreciate these issues, and that some retirees end up with claiming decisions that are not in their best interest.

Access to “file and suspend” and “restricted application” have the primary benefit of encouraging workers to delay their benefit past their full retirement age by providing an incentive (in the form of current income) to delay. Whether or not these strategies are eventually eliminated, we, as fiduciaries, are responsible for making our clients aware that they are currently available. Any advantage to those with financial planners accrues because their financial planners make them aware of these strategies which are little known to the general public. Publicizing these strategies would redress this imbalance, and also likely have the salutary effect of encouraging more retirees to delay claiming their retirement benefits. More broadly, providing more accurate and useful Social Security planning to the average worker would “level the playing field” and help more people make better claiming decisions and have access to better retirements.

Despite all of its complexity and the difficulties involved in making good claiming decisions, Social Security is an enormously important component of almost every retiree’s retirement income plan. The most important possible improvement to the system is to credibly address the solvency issue. Many of our clients approaching retirement are uncertain about how large their benefits will be, and how long they will last. These clients are motivated to claim early to “get what they can.” Many of our younger clients do not believe that they will receive any Social Security benefits at all.

Everyone knows that some sort of change to the system is coming. The public sees the shortfall in the Disability Income fund as a harbinger of future problems. However, no one knows what the change(s) will be. As financial planners, we believe that the best Social Security system is predictable and dependable. Transparency is important, too, as it goes to the credibility of the system. Finally, it is important that most people perceive the system as fair – the system will not be able to adapt and adjust well to future demographic and economic changes without broad and deep political support.