

Advisors Still Don't Know Enough About Social Security

By: Dave Lindorff

Over the last few years, financial advisors have begun to recognize the importance of Social Security benefits to their clients – even to clients with significant financial assets.

But there is still a major lack of understanding on the workings of the program, says Stephen Williams, Vice President, Financial Planning Strategy at BMO Private Bank in Chicago.

For example, he notes that most advisors know about the important “file and suspend” feature, which allows a higher-earning spouse who wants to maximize the lifetime benefits for him/herself and a spouse is able to file for benefits at age 66 and then suspend receiving them until age 70. This allows a spouse of 66 to collect half the benefits available at filing, until the spouse also reaches 70 and is then able to collect the maximum on her/his own account.

But few know that even *after* age 70, there can be an advantage to continuing to work.

While the boost in benefits a person gets for waiting tops out at 70, if a client continues to earn a significant income into his or her 70s, while collecting a Social Security check, their benefit check will keep getting larger. This is because the monthly benefit is based on the highest earning 35 years of work history. Even past age 70, every year can replace a lower-earning year in that base, increasing that calculation. Imagine, for example, a university professor who earns the highest salary of her career at 71. That year would replace a year of work she did in her 30s as an assistant professor or teaching assistant. Or imagine a 75-year-old plant manager having a year of work replace a year in his thirties spent as a line production worker.

Williams says advisors need to be fully conversant about Social Security benefits because they represent a major asset for clients. An average couple who both retires at 66 receiving \$2,000 per month in Social Security benefits this year would receive over \$900,000 from the program if they both lived to 85, he notes. A dual-earner professional couple each receiving \$3,000 a month in benefits starting at 70, who both lived to 85, would receive over \$1 million. And that's not counting Social Security's annual inflation adjustment, which is compounded and has ranged as high as 14.3% in one year (back in 1980.)

In view of such numbers, Williams says that advisors “should really treat Social Security benefits as an income-generating bond asset class, which could allow the client to be more aggressive with their other assets.”

The need for advisors to become knowledgeable about Social Security's many features (and pitfalls--like the one-year time limit on paying back a mistaken decision to claim benefits too early) is particularly important because ignorance about Social Security is the norm among most clients.

SURPRISING REASONS FOR COMMON MISTAKES

Williams notes that nearly half of Americans start collecting their Social Security benefits at age 62. He also notes that 64% of those who file for Social Security do it “unthinkingly as a matter of course” when they retire from work, without considering the advantages of waiting to file.

Of course, many people start collecting at 62 simply because they have to. Either they've lost a job or had to quit because it became too hard, and they need the money. Others may be seriously ill and afraid they won't live much longer. But Williams says many others are retiring early simply because they don't have good advice.

“We conducted a survey of 1,000 people recently and we discovered that 61% of people didn't discuss Social Security with anyone when they made the decision to retire and start collecting their benefit checks,” says Williams, sounding astonished. “And among those who did discuss their decision beforehand with someone,

for 75% of them it was with a spouse....it's certainly good to talk about something like this with your spouse, but you're probably not getting expert advice."

Compounding this scarcity of sound advice is the fact that 50% of people don't know much, or anything, about spousal benefits. That is, a spouse can receive half of a retiree's check on top of the check that the retiree receives, and that a widow receives the higher of her/his own Social Security benefit amount or the deceased spouse's benefit amount. In other words, the decision about when to start collecting is important for both the retiree in question, and the spouse. To make matters worse, Williams says that "only a handful of people know about file-and-suspend strategies for maximizing a couple's benefits."

The survey also found that only 25% of people queried said they had turned to an advisor for help in strategizing on Social Security. This suggests that, particularly for bank-based advisors who are looking for ways to attract new clients, marketing advice or running workshops on how to maximize Social Security benefits could be a winning strategy.

In an age when up to 50% of first marriages end in divorce in America and when multiple divorces are not uncommon, Williams says it's also remarkable how few people know that an ex who was married for more than 10 years, and who has not remarried, is entitled to collect a benefit of up to half of a former spouse's Social Security benefit once the former spouse reaches 66, if that half benefit would be more than the ex's own full benefit. That ex-spousal benefit is available to the ex regardless of whether the former spouse has already filed for benefits or is waiting until 70 to file.

Williams recalls that a few years ago, he attended a conference and saw that someone was offering a session on Social Security. "I thought to myself, 'Who's going to be attending that?'" but I found that the room was full of advisors," he says. Today, some advisors have improved their understanding of the program, but many should still be attending such sessions.