Human-Centric Investing Podcast

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Episode 17, Social Security: The "What" vs. The "When"

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John Diehl: Hello, financial advisors. This is John Diehl, Senior Vice-President of Strategic Markets at Hartford Funds. Welcome to Episode 17 of the Human-centric Investing Podcast. Joining me today is our own Mike Lynch, Managing Director of Strategic Markets here at Hartford Funds.

Welcome, Mike. It's nice to have you here.

Michael Lynch: Hey, John. Thanks very much for the time this morning.

John Diehl: You know, Mike, there's a lot of noise surrounding Social Security these days, and given the public's concern about the program's future, the volume has been turned up even higher than before. But these conversations might be overlooking a more urgent matter.

Many pre-retirees will depend on a system that they know very little about for their livelihood. Eighty-eight percent of pre-retirees don't even know the factors that determine their maximum benefits.[1] It'll really be tough for them to make grounded decisions about filing without the right information. And so with that, let's get started.

Mike, you spend a lot of time in the field talking to advisors and clients, what are you hearing specifically in the area of Social Security?

Michael Lynch: Yes, John. Again, thanks. I think the noise level to some extent or the concern level has really ramped up in the last few years. I think partly because honestly—I think the Social Security Administration has done a good job being out in front saying, "Hey, if something doesn't change by 2037 or 2040, you know, [there's] a potential of $0.75 on the dollar for benefits."

So I think a lot of folks are very concerned about it, but I don't know if they necessarily have sat down and really kind of thought about the process and thought about what is it I'm actually entitled to.

So one of the things we try and stress in seminars with clients is first step, go out to ssa.gov, the Social Security website. One, they've done a phenomenal job with articles and information explaining probably any question that you have... there's probably information out there. Two, more importantly, the calculator, the tools, and resources that are available. We encourage folks to set up an account to the extent they're comfortable, set up an account on ssa.gov and then run an illustration, and get an up-to-date piece of information.

It is a hypothetical but at least it gives you some information to say, "Okay, here's where I'm at. If I'm married, here's where my spouse is at." And it's almost that level set and now, you know, we kind of take the next steps to discuss, you know, where we're going to be down the road—what are we thinking about? And ideally, it just puts you in a better position starting off that way.

John Diehl: Yes. Well, you know, I mentioned in our opening that 88% of pre-retirees don't even know the factor that determines their maximum benefits. Does that surprise you at all?

Michael Lynch: I don't think it does. No, I think, you know, when you sit down and think about gosh—you know, it's looking at 40 years and then your top 35 years of income, and then you input that information into a factor which Social Security doesn't really disclose. It probably adds to that concern.

So I think, you know, when you think about the program was around since 1935, I don't think it's going to go away in the future but I do think it's going to change. It's changed over the prior years. It probably will continue to change. I think it's too important a social program—I can't imagine anybody at a podium saying, "On my watch, my claim to fame is Social Security ended."

But, again, I do think it's going to change and I think that's the one thing folks need to be comfortable with is that, "What I know today may fluctuate down the road a little bit." So I need to start preparing for that and think about all those other sources I think I might have as well.

John Diehl: Yes. And, Mike, you know, a few years ago, I know we—you—talked about Social Security kind of got in front of a lot of the changes. But actually some of the planning opportunities with Social Security went away, which made things easier even though you can argue that some of the planning opportunities went away as well.

But with that, you know, thinking about some of those prior planning opportunities that were available, do you think advisors, financial advisors, are concerned about their clients' understanding of Social Security? And I'll ask a second part of that. Are advisors comfortable talking about Social Security with their clients?

Michael Lynch: Yes. I think the first question—I think they're very concerned of the level of knowledge of their clients. I think if you go out on the internet, there's almost as much information as misinformation. You know, one thing we try and caution clients about is it's great to use the internet to your advantage and research information. The problem with internet is there's no expiration date. So you may get all excited and get off on a tangent and get concerned about things and then come to find out, the article was written in the '90s or early 2000s.

I think the second part of that—I think advisors are getting a better grasp about some of the Social Security changes and Social Security in general. And I think they're developing new ways to communicate.

And one of the things we encourage advisors to do is, you know, poll some of your current clients that maybe are receiving Social Security. You know, why did you take it when you've taken it? If you had to do it over again, would you do the same? What's the most common question do you have? You know, where's the best office to go?

Having all that information being that educator to generations that are starting to, you know, think about Social Security, I think puts you in a better position, that's, you know, one is trying to figure it out on your own. Two is leverage the people that you work with today and kind of build that skill set. And, you know, there's no right and wrong. And that's, I think, the biggest challenge of Social Security. There's no magic age, there's no right number. It really depends on your situation and maybe your spouse's situation.

But I think if you can poll some of your existing clients, that way, if I start working for you and I'm closer to my 60s and I say, "Hey, John, you know, what do you think?" You could say, "Well, you know, Mike, a lot of people that I work with have done this or have done that. It's not right or wrong but they seem to be a little more comfortable in your similar situation. Here's what they've chosen." And then be more comfortable with it.

John Diehl: You know, Mike, I found the stat that said only 13% of advisors discuss Social Security with clients, and a whopping 72% of those surveyed said they'd switch advisors for one who knows how to help them maximize their benefits.[1] Why do you think more advisors aren't doing this?

Michael Lynch: I think it's the, it's the unknown. I think it's the complexity of the questions. I think that's where we at Hartford Funds have a leg up to some extent because traveling the country as we do, talking to clients, we've developed this presentation that focuses on the three common questions that clients have.

And generally, what I find is, probably 90-95% of their questions are answered through this three-question format. So I think it's probably just that they're not really sure. Sometimes I think we try and overcomplicate Social Security as well where, you know, if we can sit down and—and one of the things we try and do, and probably the biggest question we have from folks, is "When should I take, when should I take my benefit?" is probably the leading question. You could see it in their eyes. It's the thing they want answered.

And I think if advisors can switch that and say, you know, rather than talking about when, let's talk about *what*. And the "what" is, "What income do you really need? Have you sat down and thought about what income you're going to receive from maybe a pension, from your personal savings? What's your ultimate target? What's your ultimate number?"

If we haven't thought about what that number is in retirement, that's the first step. And then let's back up and say, "Okay, what are our sources of income including Social Security?" So if you say, "Should I file at 62 or 63?," you know, it's kind of a conversation. But if you say to me, "Listen, I really need about $750 a month from Social Security," we can go through and look at it and say, "Well, according to your information, it means you have to wait until 64. And now, that may not be good news, it may be great news." You know, or we can have the flexibility of waiting a little bit longer but I think sitting down and really saying, you know, "I know you want to answer the word *when*, and I think the way we'd get there is asking the question *what*. What income do you really need?" And then based on that, we can kind of back in the age.

John Diehl: Yes. Well, you know, Mike, it's funny because I know just in my travels obviously, the infamous Social Security seminar is one that, you know, we've been asked to do many, many times. And certainly, it's something we can do, but I think I would just caution people.

First of all, when you think about the seminar itself, it's one that's been around forever. So if you're trying to do something to stand out, sometimes offering a Social Security seminar is not the best thing. It will fill a room and I think you'll agree with this, Mike, it'll fill a room but sometimes, the people who fill it may not be the type of potential clients you're really looking to build a practice on.

And the other thing I've observed is, I think these Social Security questions are best handled on a one-on-one basis, right, where you can understand the client's individual situation. And if, as an advisor, I get in to an area that I'm not really comfortable with, I feel a lot better directing them to their local Social Security office and maybe help them frame the questions that they want to take with them when they're there, because at some point even the financial advisor probably isn't the best source of information on some of these topics that can be very important when you think about the lifetime income of a given investor, wouldn't you agree?

Michael Lynch: Yes, I would totally agree. I think, you know, sometimes the challenge is, you go somewhere and somebody says they're a Social Security expert, you know, I generally say, you should pack your bags and leave because there's no such thing. And I think having those individual conversations, you know, one of the jokes we have in the seminars is, gosh, it was so much easier years ago because we would say people on the left, you file at 62; people on the right, you wait till 65. You know, just a joke, but it was much easier years ago.

Now, it really depends on you as an individual, your spouse. Many times, you know, your friends, your neighbors, relatives are choosing a different option than you may choose. But you may come in saying, "Well, you know, Fred next door chose this and my brother-in-law chose that."

Well, that's great but you are an individual. Your spouse is individually situated. You know, as a partnership, you really want to think about what income are we looking for from this? So I think you're exactly right.

I think it's better served as an individual conversation and then making an appointment with the local office. You know, knowing the number, knowing the location. Setting up an appointment, maybe scheduling an appointment via the phone and having a conference call.

I like them to include their tax person in the conversation as well. If we're thinking about filing early, how does this affect some other income? If we wait till maybe 70, what does do? How does that affect my overall portfolio? But I think you're exactly right. Having an individual conversation is so important.

John Diehl: So, Mike, given all that and you just mentioned some of the—what do you think is the most commonly asked question that you get from clients?

Michael Lynch: I think the common question, John, is, "When should I file?" Honestly, that's probably by far as, you know, one is, "Is Social Security going away?," which, you know, we don't have a magic ball but again we think, you know, based on all the information we've seen that it's probably not going to. But, you know, it's best to prepare and say, "Well, there may be changes so let's go ahead and prepare for those."

But what income do I, you know, "When should I file?" and, again, I think the key is what income you're looking for. And to your point, I think Social Security was never designed, since the mid '30s, it was never designed to be a sole source of income but rather a source of income. And somewhere along the way it translated into this larger percentage of our overall income where, you know, the pressure's being put on the government to reduce Social Security, corporations have already pulled back with pensions.

We need to do everything we can to make sure we have a successful retirement, which is we should focus on Social Security but then all the other things that we're doing. Are we contributing to our IRA or 401(k)? Do we know our options that are available? From a tax efficient standpoint, do we know what buckets of money to take things from?

And overall, trying to develop a budget. What is my ultimate goal in retirement? Do I have a target number? Even if it's, you know, kind of a range. I mean life gets in the way, numbers may change but do we have an approximate number we're looking for in retirement that we can kind of backfill?

John Diehl: And I think as you think about that question, "When should I file?" A lot of times it's kind of born out of fear, isn't it? People really want to sure that they get their fair due from Social Security, which often means, you know, the one thing we don't know is exactly how long we're going to live and therefore how long we'll collect.

And so I think the bias oftentimes is to file early because at least then I have something I know. But, Mike, what's the consequence of filing too soon? And can someone who's filed too soon do anything about it?

Michael Lynch: Yes, I think it kind of gets that—I think the early stuff is kind of that fear factor age. We find a lot of folks run to the office at 62 saying, "Gosh, the program's going away. I want to get on the master list, I want to start getting my check."

There's certainly no merit to that theory. I mean if it, you know, calms them down, it helps them sleep at night, that's one thing. But I think for many folks when they start filing at 62 and they're in their 70s or 80s realizing, *Gosh, I've got the same check, maybe cost of living adjustment, but I've got the same check for the rest of my life.*

So, you know, I always like to think of it as like three stages. The early stage, that's 62 to 66 or so. That full retirement age 66 to 67. And then that delayed range which is generally full retirement age up until the age of 70.

And for many folks if you really don't necessarily need this, it may make sense to wait as long as possible, especially if you're concerned about your spouse as well. You know, for some folks, they say, "Gosh, I don't want to wait till 70 because what if I pass away at 69?"

Well, if we didn't need this, maybe it makes sense because your spouse may get a larger death benefit for the rest of her life. So I think the key is really sitting down and thinking about those ranges but you can—you certainly can if you're say 62 and you file. You certainly can change your mind. You have within the first 12 months.

Years ago, that was kind of an unlimited timeframe. You could file at 62 and then pay yourself back; refile at 65 and get a bigger check, or 66, 67. Those days of that prolonged deferral have gone away. So if I file today at 62, I have within the first 12 months to change my mind. Pay the Social Security Administration back, maybe wait a later period of time and refile.

The concern I have is how quick does 12 months go. You know, we're already looking at the summertime. It seems like the older we get, that's the one current, you know, common comment that we hear is, you know, life goes by very quickly.

My concern is folks may forget about it 18, 20 months later and contact their advisor and say, "You know, come to find out, I actually don't need the Social Security check, do I have any options?" And it's too late. You're left with that check.

Now, that may not be a bad thing but if the goal was to get a little bit more to try and maximize, filing early may pin you in a box that you're no longer comfortable with. And, you know, maybe it's the opportunity where my spouse files at 62 and I wait.

You know, one drawback of Social Security, it's not like a faucet. You can't turn it out, or shower, turn it out and kind of ease your way in, maybe turn it up, turn it down. Social Security, you turn it on or you turn it off, but maybe dipping your toe in the water with a spouse maybe with a lower amount. You start that strategy and you say, "Okay, maybe we turn on one and see if that makes sense."

Is that enough income for us? If not, we can turn on the other one. You know, so you have that flexibility. But I just, I think there's a ton of people right now running to Social Security as soon as 62 thinking, *Gosh, this program is going to go away. I better get my check.*

I mean that maybe, that may prove to be right down the road. We just don't know. But, you know, I'm willing to maybe think about at least talking about it and have the conversation and say, "Does this make sense for it? Because you may be locked into this amount for the next 15, 20, 30 years potentially."

John Diehl: Especially, Mike, I think about someone filing too soon, you know, at age 62 whose intent is to keep working for a number of years.

Michael Lynch: Right, right.

John Diehl: They still ...

Michael Lynch: Exactly.

John Diehl: ...have that fear and what they find is that, you know, maybe by enrolling they are actually working against themselves because, you know, not to get into the particulars, but Social Security has some limits on how much money you can make prior to, you know, certain ages without impacting the overall amount of your benefit.

Your benefit may be reduced by the amount of income you're bringing in. So, you know, one of the tell-tale signs for one of those individual conversations that you just oftentimes won't get unless you talk to someone is, "So, are you intending to continue to working? If so, what are your thoughts around taking your benefit at age 62?" But Mike, that's just one possible scenario.

I guess the question I have for you though is, you know, we've all met those clients that, you know, come in to the office and ask a question. "Should I just, shouldn't I just enroll as early as possible in case I pass away?" How do you respond when somebody asks that?

Michael Lynch: Yes, I mean that's, you know, it depends on the situation, right? So, you know, for all I know, they could be in great health and their goal is to take that money and use it as extra income to fund a life insurance policy or a 529 their grandkids.

So I think that's really where the value of the advisor really comes into play. To say, "All right, let's look at your situation." You know, we may meet people for 15 seconds right at a seminar. We don't know their last name, their situation, whether the advisor knows.

You've got this other pool of income. You've got some Roths, you've got some 401(k)s... would it make sense? So I think folks kind of have to think about that and say all right, is there a breakeven, is there really a timeframe that it makes sense?

And, again, I think especially if there's a big difference between a male and female as far as the benefit amount. Say, for example, my wife and I, and I'm entitled to $2,000 a month, say, if she's entitles to $200 a month. If we don't necessarily need the $2,000 a month from mine, does it make sense for me to maybe wait? Even if something happens to me down the road, my wife Kim will get the greater death benefit amount, so—especially when you get into that delay section where the benefits credit every year.

So I think that's where the advisor really needs to sit down and say, "Here's what we're possibly entitled to today, here's where—if we wait till full retirement age, here's where we wait until that kind of delay stage." And then let's figure out, does this make sense? Again, maybe for one of the two. But, again, John, you know, it's an individual conversation. It really depends on them and their situation as they say, "Gosh, here's my thought. I'm going to turn it on early, use that money to fund something, to fund something outside" or, "Hey, that's great information, but I still need it to live on, you know... " We'll certainly have that opportunity.

John Diehl: Yes, I think that's important, Mike. I think at the end of the day, the advisors job is not to make the decision for the client, right? It's to inform them about the different scenarios and you brought up an interesting point there, Mike, that I think a lot of times people don't think about.

So for a married couple, it's oftentimes, you know, one or the other is looking at those benefits and they're thinking about it for themselves. But they need to understand that the decisions they make today may actually impact the greater of their life or their spouse's life. So, again, that individual conversation may bring in, you know, spousal benefits for someone that's married...

Michael Lynch: Right.

John Diehl: ... to say, "Look, here's the impact of making that decision..." But I think for advisors at the end of the day, you never want to get in the position of having to answer the question having created a situation where the client says, "But you told me to do this."

You know, you really want to get into the situation to say, here are a couple of your options. And then even after exploring those options, you probably want to send that client to the Social Security office to confirm that that understanding jives with what Social Security would tell them. Wouldn't you agree?

Michael Lynch: Yes, totally agree. I mean, you know, we're acting on the information that we know. Social Security has got the latest access. You know, we're taking the memory of the client, too, and the client says "Well, last time I read the illustration, here's what I'm entitled to."

If they don't have that in front of them, you know, we all mix up numbers as we get a little bit older sometimes or we thought it said something that it didn't. I think the best source is either getting on ssa.gov and setting up an account, running an illustration, or, you know, to your point, I think the ultimate confirmation, if you will, is just confirming this stuff with the Social Security Administration. It puts everybody in a better position.

John Diehl: Yes. So, you know, Mike, our time together on the podcast is winding down. But before we close, we always like to end on one thing that advisors can do today to get started. So if that were my question to you, what is one thing that you'd recommend advisors do today to get started around this Social Security idea?

Michael Lynch: I think the key, John, is just changing the language. You know, we've had this kind of campaign to change this, the conversation, from "when" to "what." And I do—when I sit down and talk to advisors, you can see them get a little more comfortable and say, "Okay, now I kind of get this. Now I'm a little more comfortable sharing this information with my clients."

So I think if you can break clients away from saying, you know, when, when, when. Everybody wants to file 62 or what's the magic age. There is no magic age. But if you can tell me how much money you need, we can make this process hopefully a little bit easier.

Again, I'm not telling you right or wrong or one way versus the other. But if you can sit down and say, "This is how much I need," it sounds like you're in a better position. And then we can plug in the age and I think it's just—it makes it easier for everybody.

John Diehl: Mike, is there anything that Hartford Funds makes available in terms of, you know, worksheets, materials, papers, anything like that that can help a client begin to get their thoughts organized?

Michael Lynch: Yes. We've got a "Seven Questions" client white paper or one-pager that I think is great. It generally handles the majority of clients' questions. You know, it does a terrific job of making the advisor probably a little more comfortable as well. And then the presentation, which as I mentioned, is focused around the questions we most commonly hear from clients as we travel the country. You know, "When should I take it? If I take, can I continue to work?," as you mentioned earlier. And then last but not the least is "From a tax perspective, will my Social Security benefit be taxable?"

And then more importantly, we try and talk about things that have changed, things that haven't changed and kind of leaving, leaving the seminar, what are the steps that you need to, you know, begin the process? Again, there's no right or wrong answer, but hopefully give them a little bit more education and point them in the right direction to some other tools and resources that can help them.

John Diehl: And those resources can be found at hartfordfunds.com/ss for Social Security. So hartfordfunds.com/ss. Well, Mike, thanks. I appreciated having you on today.

Michael Lynch: Thanks for the time, John. I appreciate it.

John Diehl: And from all of us at Hartford Funds, thank you. We'll talk to you again soon on our next episode of the Human-centric Investing Podcast.

Michael Lynch: Thanks, J.D. I appreciate it.

John Diehl: And from all of us at Hartford Funds, thank you. We'll talk to you again soon on our next episode of the Human-centric Investing Podcast.

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[1] Refers to those 50+ who plan to retire within the next 10 years. Social Security 5th Annual Consumer Survey, April 2018, nationwidefinancial.com