

Human-Centric Investing Podcast

Episode 56 – Social Security, Work...or Both?

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- Intro This is the Human-centric Investing Podcast with John Diehl, where we look at the world of investing through the eyes of our clients. Over to you, John.
- John Diehl: Hello, financial professionals. This is John Diehl, Senior Vice President of the Applied Insights team at Hartford Funds. Welcome to episode 56 of the Human-Centric Investing podcast. Joining me today is Mike Lynch, Managing Director of the Applied Insights team here at Hartford Funds. Mike, welcome to the podcast.
- Mike Lynch: Thanks, John. Appreciate it.
- John Diehl: For those of you who may not have met Mike from his years and years of traveling out in the field, I think Mike and I have worked together for at least 20, 25 years now in all aspects of financial planning, but more to the purpose of today's call. Mike has always been the guy I go to for education around topics regarding Social Security. Now as we say this, we want to make sure that all the financial professionals know that look, we're not the Social Security Administration and neither should you be to your clients. But in terms of talking general education, there's probably no topic that has greater appeal to a greater number of people than talking about how to possibly maximize my Social Security benefits. And that's what if we can send an educated client to the Social Security Administration with an idea of the right questions to ask, or at least some concepts that might help them along the way, we found that often those clients are very, very grateful.
- So, today Mike's going to talk with us about Social Security, but more specifically, the topic that's been coming up more and more as America continues to grow in longevity, the topic of Social Security when someone is currently working. It may sound the odd, because traditionally we talk about collecting Social Security when the person has retired, but today we're going to look again at this topic that's coming up more and more frequently about what if I intend to work past my normal Social Security retirement age, if you will, and what are the ramifications? So, Mike, if you don't mind, let's jump in.
- Mike Lynch: Sounds great, John. Appreciate it.
- John Diehl: Yeah, I guess the first thing I would ask you, you and I both know from our years of working with our partners at the MIT Age Lab, as well as with working with advisors and clients in the field, that quitting work cold turkey and not looking back is not necessarily the norm anymore. I wonder if you could share a little bit from your insights about how attitudes about work have changed among today's workers.
- Mike Lynch: Sure. I think it was gradually changing and I think the amount of events we've done and been blessed to work with financial professionals and meet clients in the field—we started to hear that more and more; that we would talk about ending their career or stop working, and you'd kind of get that chuckle where people would say, "I'm going to work as long as possible." And I think years ago, it was kind of like the norm that you just said that, but knowing that at some point in time, probably 65, 67. But I think the pandemic has kind of sped that up or people were saying, gosh, if I can work from home, if I could work part-time, maybe take a sabbatical...I think one of the keys is really flexibility. If my company offers me flexibility, why wouldn't I continue to do something I've done for 20 or 30 years; enjoyed, loved. Why wouldn't I do that for another X number of years if I can? Maybe it's finishing up a project, maybe it's taking on new project. Maybe it's mentoring some new employees in the company. So, I think the role of work is going to continue to evolve, continue to change. And I think just like we phased into jobs, and kind of grown our career, I think we're probably going to phase out of our career. We're slowly but surely we're going to hang up our hammer to some extent at some point.

But I think the days of the hard and fast 65, 67 finish line, I think those are going to be pushed back. And honestly, I think a lot of companies are going to really relish that, because they can't afford to have the best and brightest retire in the numbers that it looks like they're going to retire. So, I think we're going to start to see that and I think that's going to change a lot of things. And I think Social Security is certainly going to be one of those things that's maybe not necessarily going to change, but it's something we need to think about.

John Diehl: Yeah, I think you're right, Mike. I think—I can't put my finger on the exact statistic, but just about every time I read an article about worker expectations—it seems like more than 50% say that they intend on working past normal retirement age. And many times it's not just about the money. It's about their social network. And I think, Mike, you would share from the folks that we've talked to oftentimes work gives a sense of mission and purpose, right?

Mike Lynch: Yeah. It really does. It fills that role. It's kind of who I am. It's what I do. It's what I enjoy. It's probably one of my top passions. If it's something that you do have a passion about, but I think many of us that had been working in roles for a number of years, it really is important to us. And again, it gives us that sense of purpose. And I think maybe winding down, but it may be my social network too. It may be the people I interact with every day and I don't want to lose that aspect of it.

So, just thinking about that and thinking about that latter phase. And I think a lot of the conversations on Social Security talk about, well, what if I work and collect prior to full retirement age where I think we really have a segment and an opportunity to educate folks, what if I continue to work and file after full retirement age, again, maybe don't necessarily want or need the Social Security benefit, but what does that mean? What does that look like? And I think there will be more and more people like that as we go forward.

John Diehl: So, Mike, for today's podcast, we're going to focus on that decision about when to actually take Social Security benefits. And I guess to start that part of the conversation, again, hearkening back to some of the things that Dr. Joe Coughlin at the MIT Age Lab has shared with us over time is that the stories that we've been told in our past, throughout our lives, often have more influence than we think about the decisions that we make current day. So, one of those stories I remember is I was growing up and coming through the early years of my working career was that by the time you get into your 60s, you want to make sure and take Social Security as early as you can. Because the thought of having paid into that system and then dying before you got your fair share out, seemed really untenable to people. But I guess the question, Mike, with everybody working longer is, does staying in the workforce longer mean that people are starting to wait more to file for Social Security benefits?

Mike Lynch: I think we're probably going to start to see that. I think you're always going to have a population that's going to have concerns. Just those stories are going to kind of build up and they're going to collect as soon as possible. But I think for those that don't necessarily want or need the Social Security benefit, I think that whole new group is really going to start to flourish where we've always kind of practiced, instead of thinking of a, when, as far as an age, think of what. What income do you really need from Social Security? And then based on that, that kind of, if you can say I need a 1,000 or I need 2,000, whatever that dollar amount is, we can kind of put the when in place.

So, I think for some folks that are saying, gosh I continue to work, I'm doing well. I don't need Social Security. I don't want it to push me up into a higher tax bracket if I start to collect it. So, why not wait? And if, gosh, if my intention is to wait till I retire, maybe it's 70, well, maybe I'll wait till 70, but gosh, if life gets in the way as we all know it does. And you say to me, Hey, Mike, you know what? You got to start to scale back at 69 or 68. Well, I can always file, but if I choose to wait and every year you wait, which I think is that kind of added sweetener, if you will, between full retirement age and the age of 70, there's a terrific incentive now not to take your Social Security benefit. In fact, it's increased by 8% backed by the US government.

So, I think for those folks that, years ago you were taught to take it, because you filed at 62, you stopped working at 65 and unfortunately maybe you passed at 70. Well, it probably made sense to take it at 62. Where now, if you're going to take it at 62 and you're going to live to 92, I don't know if it makes sense. And again, I think one of the big aspects and really one of the things we really want to think about is am I going to continue to work because I enjoy it?

I still remember my grandfather pop Romans. He worked up until the day he died. So, he was one of those folks that was working, paying into Social Security, collecting Social Security. And he was probably the exception back then. But I do think we'll have folks that'll be in the norm. So, it'll be interesting to see too, does my benefit increase down the road, because I'm 72, I'm working, I enjoy what I'm doing, making a nice living. And I've started collecting my Social Security at say, 70, does that change down the road? So, I think that's kind of another evolution of that whole Social Security process.

John Diehl: So, Mike, I think one mistake, sometimes financial professionals may make is thinking that no matter what the circumstances, clients should never file early, because we just talked about, there's certainly some benefits to deferring. But I think you'd agree that in some cases, filing early or even at full retirement age might be necessary for clients. And sometimes even if there's not a good reason, clients just seem really anxious or afraid to wait. Why do you think that is? And secondly, for the financial professional, do you think this is something they ought to push back strongly on? Or is it more a situation of really our obligation should be to educate the client on both sides of the issue? How would you approach it from a financial professional standpoint?

Mike Lynch: Yeah, I will tell you, John, I did a call last night on it, and then I think the key is education. So, I don't think you want to give a right or wrong, because there really is no right or wrong. Years ago you might've been a little safer saying, well you fit into this category, so you should file earlier. You fit into this category. So, you should wait until full retirement age. Where now, if we have spouses and both are entitled to Social Security, we really have to come up with a strategy that makes sense for both spouses. So, I think just educating folks and saying, you have the option of taking it at this time, you can wait until this point. And in fact, you can wait even further till age 70.

Now, let's have a conversation. Tell me a little bit about what you plan on doing during that time frame. Do you plan on scaling back at 65 or are you going to move to Italy at 62? Are you going to continue to work to 70 and transition the business to your kids? So, I think having that conversation kind of like the quality of life. Trying to really envision what the puzzle looks like, what your retirement or the next phase of longevity really looks like. And then based on that, have a conversation. And let's go through some of the pros and cons. I mean, we want to make sure clients can sleep at night. So, there's no right or wrong, but let's go through some of the pros and cons, especially if you file early. Because many times you have restrictions that you don't have in place if you wait until full retirement age, at least if not waiting until later.

So, I think the role is really just education and laying out the options, maybe giving some comparisons or some examples, as you mentioned, stories. I think financial professionals may be the best source to being able to share stories of clients and their existing book that maybe took it early. And here's what happened with them. Some clients may be similar to the person you're speaking with who waited until full retirement age, or in fact waited until 70 or even longer after that. So, having that kind of knowledge, and again, you're not disclosing anything, but just saying here's some pros and cons to Mr. and Mrs. Smith who are similar to you. Or just making up names. But in your book of business that you know have gone through the experience, they enjoyed it. They were apprehensive. If they had to do it over again, they would have changed it. And I think being able to share some of those stories really does kind of put things in place and allow me to just get more knowledge and get more information about Social Security.

John Diehl: So, I think that importantly it's as well as we may think we know the client's plan, we don't have a crystal ball and we can't predict into the future. So, you wouldn't want somebody to come back later to say, "Hey, you told us to defer. And yet I lost my husband or I lost my wife after just three years of retirement. And it seems to me like we lost all those benefits." We just don't know. I think it's important for financial professionals to really come up again with a general pros and cons of each kind of strategy. But given that, Mike, if we were talking about, I think we know what the pros and cons are of taking our benefits early. We start with a cash flow, we're guaranteed of getting more, at least in the early years. Where, if we defer, we're going to defer that cash flow, but what are the advantages of deferring Social Security income that clients generally don't know about?

Mike Lynch: Sure. So, I think one is, if you wait until full retirement age or later you can retire, you can go back to work, you can continue to work and your benefit is not reduced. So, if you work and you file early, there's a small cap about \$18,960, I think right now is what the earned income is for 2021.1 If you

weren't above that, your check literally starts getting drawn down. So, for every \$2 above it, they withdraw a dollar. So, quick rule of thumb is if you're making 30, 40, \$50,000 a year, you're not going to receive the Social Security check you thought you were going to because you're above that cap. Now, if you wait till after full retirement age that never comes into play. So, if I'm entitled to a thousand dollars a month I get a dream job or I write a book and it's a bestseller at 68 years of age, does not affect my Social Security.

Now, it may from a tax perspective, if I'm lucky enough to sell a bestseller, but it's not going to impact my Social Security benefit as far as reduction. So, the way I always think about it, it's really two different categories prior to full retirement age—not that it's right or wrong—but sometimes there's restrictions in place. And there's caps in place. After full retirement age you have a tremendous amount of flexibility. And further that the other benefit, I think, which is a tremendous benefit, as I mentioned, is that increase in your benefit amount from full retirement age, up until the age of 70. So if, for example, my full retirement age is 67 and I choose not to file, continue to work 68, 69, 70 every year that I defer my benefit goes up by 8%. So, I'm looking at a tremendous Social Security benefit at the age of 70.

Now, the cap and that increase goes away at age 70 and it doesn't continue to grow. It doesn't mean I have to file at 70, but, again, most people probably do, but I could continue to work and that increase will continue to happen. So, I think that's really kind of an added sweetener if you will. But again, it really comes down to what's best for our situation, our family situation. And having, especially if you have a spouse, maybe coming up with a strategy where maybe the spouse who has the lower benefit, if there is a lower amount, they turn their Social Security benefit on early and the other one waits. And you see if that makes sense.

And again, the beauty about Social Security is you can turn it on at any point in time. So, I sit down and I say to my wife, we're going to wait until 70. And then life gets in the way. Something happens to 68 or 69. I want to go on a dream vacation. There's a health concern, whatever it is. An addition to the family, a grandchild, I can always take that benefit. But I think sometimes after you take the benefit, you start to realize that, gosh, if I had waited a little bit, possibly, I could have got a little bit more over time.

John Diehl: So, Mike, just two clarifying questions. You mentioned age 70 and I heard you just stay there, I just want to confirm this, that's the age at which your benefit would stop growing for deferral, correct?

Mike Lynch: Correct. Yep.

John Diehl: But my further question is, do clients have to take Social Security income at a specified age? Or could they defer past that? Not that someone would, because the benefit stops growing, but is there a mandated age that you have to take Social Security income?

Mike Lynch: No, there's no mandated age. I mean, in fact Social Security would probably love you if you didn't take it. Or they may contact and say you've probably forgot about it, but I think most people, because that incentive is there up until age 70, if they're going to defer, probably 70 would be the max. But gosh, again, it really depends on your situation and, what if you're wrapping up something? You're building a new building or you're wrapping up your career at age 70, and you don't want to take the Social Security. Because if you take the Social Security, it'll push you into a higher tax bracket. So, some people may wait till 71, even if they continue to work, but maybe it scales down a little bit or lowers you from a tax obligation.

So, that's where I think we're big fans of not only financial professionals in the conversation, but also your tax professional in the conversation. If I do take my benefit at 62, wait until for retirement age at age 70, what's the tax implication? Is this the best and most efficient way to take this benefit from a tax perspective? And I think the two together having a financial professional and the tax professional in the conversation, hopefully you can come up with the best strategy that makes sense for the client.

John Diehl: And Mike, one more point of clarification. You said that if a client is above normal retirement age that they could be paying in and collecting Social Security at the same time. If that's the case, would their benefit continue to grow?

Mike Lynch: Yeah, it's really interesting. I don't think Social Security has really looked at it that hard, because again, it's probably not the norm. Like my grandfather, again, was the exception that I knew at the time. But it

could potentially, because Social Security is calculated based on your highest 35 years. So, if I continue to work into my 70s and I'm making some good money in my 70s, well, it may drop off some of those lower amounts that I earned when I was in my 20s and 30s, potentially. Because again, we're looking at 35 years, and your highest 35.

So, when I entered the workforce at 20-plus, and I was only making X amount of money and contributing a little bit less to Social Security versus at age 71 or 72, maybe fully funding Social Security, that's going to replace some of those lower values. So, I think what will happen is it certainly won't go down, because once you meet your cap, you're in good shape and you'll get your full benefit. But I do think there is the potential that, that benefit could increase over time, again, because you're continuing to fund it. So, you should get rewarded for that additional funding.

John Diehl: Mike, what about the clients who are worried about the Social Security program going away? Is there anything that financial professionals should say to them?

Mike Lynch: Yeah, I think we don't, as you say, we wish we had that crystal ball. I think if we try to remind folks it's been around since 1935. It's an amazing, amazing thing. Part of the new deal with FDR. We think it's a very important social program. So, I don't think it's going to go away all together, because of the fact that if there are changes that need to be made, and I think we can all agree and Social Security quite honestly, has been very open and honest about the fact that changes need to happen for it to continue to thrive and be successful. But there are things in place where maybe they put in some salary caps or they may put in some benefit caps or they may have benefit reduction.

So, I think to go to zero is probably not in the cards, but there are going to be changes, I think, going forward. Now, we just don't know if those changes are major changes and happen all at one time, kind of sweeping reform or if they're drips and drabs, like we've seen. Full retirement age was a good example where they went from 65 to 67. Maybe some additional changes that are like that. Where I think the role of the financial professional is staying on top of this and staying educated, working with partners, working with resources available to stay in front of this. And if there are any changes, making sure that you're the one that communicate those changes.

If I hear from a financial professional, "Mike, we're going to wait, but it sounds like next year, there may be some changes that impact you." That might be the opportunity to start taking the Social Security benefits. So, I think the role is we're going to be one of education, but then two, more importantly kind of keeping their eyes and ears open, checking with their firms and the resources they have available. And if there are some changes down the road, making sure they communicate those as quickly as possible.

John Diehl: So, Mike, as we wrap up this episode of the podcast, I guess maybe we could summarize for you, what are some of the main questions that a financial advisor should kind of emphasize that clients ask themselves as they're deciding whether or not to turn on their Social Security benefits?

Mike Lynch: Sure. I think a few, when do I plan on ending my career? Do I plan on scaling back? Am I going to continue to work as long as possible? Knowing that obviously things change, but what's my target date. Do I have a target date in mind that I'm going to continue to work in my 70s? I'm going to work as long as I possibly can? Or gosh, as soon as they give me some kind of package I'm out of here day one. So, maybe it's 62 or 65. I think knowing that, knowing where this income fits in. Is this income that we need to rely on, that we need to live on, or is this extra income? And it'd be great if it was extra income or maybe one of the Social Security benefits is extra income. I think they want to educate, think about from a tax perspective. Will I have to pay taxes on this?

If I work and I continue to work and I file early, will my benefit be reduced? So, I think those kind of come into play. And then last but not least, I think it's the hardest one to answer honestly, is how long will they live? But I do think we, as a generation, we still compare our life expectancy to our parents and grandparents, where it's really ours and future generations. We're living a lot healthier than prior generations, a lot more active, which means we're going to be spending a lot more time and more money in retirement. So, we really need to plan for not passing away probably at 72, probably living to 82 if not 92 or longer. And really seeing where Social Security comes into play with that longer life or

hopefully longer life expectancy.

John Diehl: Well, Mike Lynch from Hartford Applied Insights team. Thanks again for joining us on another episode of the podcast.

Mike Lynch: Thanks, John. Appreciate it.

John Diehl: And for those of you listening, if you'd want more information on Social Security and some of the helpful pieces that Hartford Funds has published for supporting your efforts and educating your clients, I would point you towards our Social Security web landing page, which does have client-facing material. And you can find that material at hartfordfunds.com/ss, as in Social Security. Again, that's hartfordfunds.com/ss. And thanks again for your attention to the podcast. And we look forward to meeting with you all again on the next episode of the Human-Centric Investing podcast. Thanks, everyone.

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¹ Retirement Benefits: Receiving Benefits While Working, ssa.gov, 2/2021

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