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Reinvesting Social Security: A Poor Strategy with Disastrous Results

What rate of return would be adequate to forgo the guarantees inherent in Social Security? It's higher than you think

By **William Meyer**, co-author of *Social Security Strategies: How to Optimize Retirement Benefits.*

It's a sad fact. Too many Social Security recipients fall victim to the siren song of reinvesting their benefits. It goes something like this—begin claiming benefits as early as possible, even if (and often especially) they're not needed. Take the proceeds, minus the early withdrawal penalty, and reinvest them in the stock market for a higher real return than the paltry 3% (guaranteed mind you) that you receive from the government program.

The strategy is rife with danger.

Our research coincides with that of the Social Security Administration (SSA). Some recipients might beat Social Security's returns in some years by reinvesting benefits in the stock market. However, over a lifetime, Social Security's consistent, risk-free and inflation-adjusted returns would be very tough to beat.

Remember that Social Security benefits are not based on tax contributions, but based on the recipient's lifetime wage history and estimated longevity. Additionally Social Security is NOT an investment vehicle but rather like an annuity, and will pay a monthly benefit amount no matter how long the recipient lives. The peace-of-mind inherent in the program is therefore difficult to determine monetarily.

To understand why delaying Social Security benefits is like buying an inflation-linked lifetime annuity, consider a single individual with a full retirement age (FRA) of 66 who is considering delaying the start of benefits from age 62 to 63.

Let's assume her primary insurance amount (PIA, or the amount on which the SSA estimates her benefits) is $1,000. Her benefit levels, if started at ages 62 and 63 would be $750 and $800 per month due to the early withdrawal reductions. When viewed as an annuity, she could forego (and thus "pay") $750 per month for 12 months beginning at age 62 for an additional $50 of benefits each month for the rest of her life.

Similarly, she might consider delaying benefits from age 66 to 67. When viewed as an annuity, this delay would be the equivalent of paying $1,000 per month (her PIA) for 12 months beginning at age 66, in return for an additional $80 per month in lifetime benefits beginning at age 67.

Conversely, the decision to delay benefits for multiple years can also be viewed as an annuity. For example, her benefits—if begun at ages 62 or 66—would be $750 or $1,000 respectively. The decision to delay her benefits from 62 to 66 would be the equivalent of paying $750 per month for 48 months beginning at age 62 in return for an additional $250 per month in lifetime benefits beginning at age 66 (the 75% of full benefits beginning at age 62 versus age 66).

It would take quite an effort in either a private sector annuity or the (much riskier) stock market to account for the guaranteed lifetime annuitization inherent in Social Security. Bottom line—it pays to delay. If the recipient expects to have a long life span, Social Security provides for a great rate of return.

About William Meyer

Bill Meyer is founder and managing principal of Social Security Solutions, a leading Social Security software firm with patented technology that is dedicated to educating and assisting financial advisors and their clients in optimizing their Social Security claiming strategies. More information is available at www.SSAnalyzer.com.

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