

Bridging the Age Gap: Maximizing Social Security Income

As private sector pensions have disappeared, the “three-legged retirement stool” (Social Security, pension income, and personal savings) has come to more closely resemble a pair of stilts. Social Security will be the only source of guaranteed lifetime income for most boomers and the generations that follow.

The most effective way to increase retirement income is to delay Social Security.¹ By delaying the age at which you begin collecting Social Security from 62 to 70, you can increase your monthly payment by more than 75%. Despite this government-backed income boost, the plurality of people begins collecting at age 62. According to the Social Security Administration, more people begin collecting Social Security at 62 (34.3%) than any other age. Only 3.7% wait until when benefits top out at age 70.

The reason, of course, is that the overwhelming majority of people that retire before 70 cannot afford to satisfy all of their income needs by drawing down their retirement savings. A Social Security Bridge^{®2} that pays the equivalent of a retiree’s age 62 Social Security benefit until age 70, would allow them to delay collecting Social Security until age 70, at which time they would receive a benefit more than 75% greater than if they began collecting Social Security at age 62.

Case Study: Stella

Stella is 62 and single, and has decided to retire so that she can travel, pursue her love of photography and spend time with her many nieces and nephews. Stella has saved \$1 million for retirement, invested in a conservative mix of blue-chip stocks and high-quality bonds. She estimates that her monthly expenses in retirement will be about \$5,000 per month. Stella is considering 2 options:

1. Collect Social Security now and receive \$1,970 month and draw down on her \$1 million portfolio to meet the \$3,030 in monthly expenses in excess of her Social Security income.
2. Purchase a Social Security Bridge[®] for \$172,000. The Bridge will pay Stella \$1,970 per month until age 70 and she will draw down on her remaining \$828,000 portfolio to meet the \$3,030 in monthly expenses in excess of her Bridge income. At age 70, the Bridge will stop paying, and Stella will begin collecting a Social Security benefit of \$3,480 per month.

¹ While the general rule for most healthy people is “later is better”, retirees must also consider other factors including investment risk appetite, and the health, income, and Social Security eligibility of a spouse, when deciding when to collect Social Security.

² The Social Security Bridge[®] is simply a fixed annuity that pays out between retirement and age 70 to allow retirees to delay collecting Social Security. People love bridges; they are the subjects of innumerable photos and countless engagements. By contrast, no one ever Instagrammed a picture of their annuity contract.

Results

Figure 1 illustrates the risk of running out of money under each strategy. The Bridge reduces the likelihood of running out of money by between 83% at age 90 and 61% at age 100.

Strategy	Risk of running out of money at...		
	Age 90	Age 95	Age 100
Without Bridge	4.2%	11.1%	19.2%
With Bridge	0.7%	3.8%	7.4%

Figure 1

Strategy	Median inheritance value at...		
	Age 90	Age 95	Age 100
Without Bridge	\$1,400,000	\$1,500,000	\$1,400,000
With Bridge	\$1,400,000	\$1,600,000	\$1,800,000

Figure 2

Figure 2 illustrates the inheritance values assuming median returns*. If Stella lives to 90, either strategy will leave her heirs with essentially the same inheritance. After age 90, the Bridge strategy results in larger asset to bequeath, growing to nearly 29% greater by age 100.

Strategy	Inheritance value at 25 th percentile at...		
	Age 90	Age 95	Age 100
Without Bridge	\$750,000	\$540,000	\$210,000
With Bridge	\$900,000	\$840,000	\$770,000

Figure 3

Figure 3 illustrates the inheritance values if returns come in at the 25th percentile. Stella's heirs would receive 17% more by age 90, 55% more by age 95, more than 3.5 times as much by age 100.

*See "Assumptions" on page 3

Final Thoughts

I have written in the past about how immediate annuities and other mortality-contingent products can reduce the risk of outliving one's assets, while at the same time preserving bequeath motives. Discussions of *specific* mortality-contingent products can be difficult because they are often conflated with *all* annuity products. Annuities are much maligned for being too expensive and complex, and while most of the reputational damage is self-inflicted, it is stifling innovation and ultimately it is investors that suffer. Because the Social Security Bridge[®] is a simple, 8-year product, these concerns are largely obviated. At the same time, it illustrates the value of mortality credits through the most popular mortality-contingent product of all time; Social Security.

About the author

Jay DeVivo has been enamored with the mortality credit since reading [Moshe Milevsky's paper](#) on the Advanced Life Delayed Annuity. He is the Founder of CoFunder where he is evaluating opportunities in InsurTech and consulting with startups. Jay also leads the Risk Management function for a large reinsurer of variable annuities. Previously he ran a consulting business, working primarily with venture-backed startups helping clients refine their go-to-market strategy, negotiate partnerships, and manage early stage product development. Prior to that, Jay worked in early-stage venture.

Assumptions

- Market returns were run using a stochastic model of 1,000 monthly scenarios over 50 years using an average annual return and volatility of 6% and 8%, respectively.
- Social Security COLA was assumed to be the 10-year average of 1.36%.
- Inflation was modeled at 2% per year.
- Social Security Bridge fixed annuity amounts were modeled using data from www.immediateannuities.com.

Important information

This material is intended for insurance and financial professionals only and is not intended to be used by or with individual investors. This material is provided for general and illustrative purposes only, and is not intended to provide legal, tax, or investment advice. This material is for informational purposes only and is not intended to be investment advice or a recommendation to take any particular investment action.

All investments involve risk and no investment product, including those of the nature described herein, are appropriate for all investors. The products illustrated are hypothetical products and may differ materially from those commercially available. All tables and model results are shown for illustrative purposes only. There is no representation with respect to accuracy of model, the reported results, or the conclusions drawn herein.

©2019 Jay DeVivo and CoFunder, LLC. All rights reserved
