STIFEL

Social Security:

Claim Early and Invest Versus Delaying Receipt for Increased Benefits

One of Stifel's most popular reports – the Social Security optimization analysis – can help you optimize how you claim your Social Security. It can also show you other potential claiming strategies, such as claiming as early as possible or waiting until full retirement age (FRA). Cash flows and the cumulative lifetime totals of these cash flows are also listed in the report for quick and easy comparison of breakeven points of one strategy versus another.

As your Stifel Financial Advisors, we are occasionally asked to provide an analysis of the potential results of claiming Social Security early and investing the proceeds versus delaying receipt for increased benefits, which can be claimed as late as age 70. However, with your best interests in mind, the following are the reasons we do not provide an analysis showing Social Security being claimed early and invested:

Delayed Retirement Credits – An individual receives 76% more Social Security at age 70 than at age 62. Most people realize they can receive 100% of Social Security at their FRA, but they might not realize that their benefit goes up by 8% annually when they wait beyond their FRA to claim benefits, until they reach age 70. So, someone at an FRA of 66 will receive 132% of that amount when they turn 70. This is low-risk, inflation-adjusted, lifetime income stream backed by the "Full Faith and Credit Clause" of the U.S. government. Keep in mind, delayed retirement credits were built into Social Security during an era when life expectancy was lower and interest rates were higher. Plus, depending on your age, there may still be an opportunity to leverage spousal benefits through a creative claiming strategy.

Risk – Social Security is a low-risk proposition unaffected by market risk, interest rate risk, inflation risk, or longevity risk. Mortality risk, which is the risk of passing away before claiming benefits, is associated with Social Security. Mortality risk is not as prevalent for the breadwinner in a relationship, as that individual's Social Security benefit will be paid out over two lifetimes – theirs and their spouses. Unfortunately, mortality risk is what most people associate with Social Security when what they should be most concerned with is longevity risk. Social Security certainly addresses longevity risk as a lifetime, inflation-adjusted, and government-backed income source.

Comparable Investments – When the benefits associated with Social Security are compared to other similar low-risk investment opportunities, like the 10-year Treasury or 10-year Treasury Inflation Protected Securities (TIPS), Social Security is generally a much better deal. Comparing Social Security to equity-based investments, like large cap stocks, is not a fair comparison, since the risks associated with each are vastly different. It is possible that if you take your Social Security early and invest the proceeds in equities, you could raise the breakeven point if the market has positive returns. However, it is also possible that if market returns over the time frame are not positive, you could regret the decision.

Once you reach a certain age, delaying benefits does pay off, and its value continues to rise for many. Even when a reasonable rate of return is used for comparison purposes, the breakeven point comes before the individual's IRS life expectancy.

Stifel does not provide legal or tax advice. You should consult with your legal and tax advisors regarding your particular situation.

One Financial Plaza | 501 North Broadway | St. Louis, Missouri 63102
Stifel, Nicolaus & Company, Incorporated | Member SIPC & NYSE | www.stifel.com
1219.2340348.2