# How to Optimize Social Security & Other Retirement Income: Part 2

9/26/2014 AZ Republic by Dr. Harold Wong

The previous article, "How to Optimize Social Security & Other Retirement Income", was published 9/12/2014 in The AZ Republic and can be accessed on www.DrWongInvestorGuide.com. We will avoid using cost-of-living increases in SS benefits to simplify the article.

**Case Study 1:** Joe and Mary are both age 66, which is the Full Retirement Age (FRA) for Social Security (SS). Joe's Primary Insurance Amount (PIA) is $2,500 per month of SS benefits and Mary's is $1,000 per month. They both will retire at age 66. Let's look at their financial assets and other sources of income. Suppose Joe had $500,000 in his 401k and all was in high growth stocks that paid no dividends. He also had $200,000 in a stock mutual fund and he received $4,000 of annual dividends. Mary had $100,000 of savings in a 457 tax-deferred plan at her state hospital and earned 1 percent in the conservative option, or $1,000 of annual income. Their total annual investment income is $5,000.

Their total gross annual income would be $42,000 of SS plus $5,000 of investment income, or $47,000 of total income. Assume that their annual federal and state income tax is $2,000 and so they have $45,000 of after-tax income. Also assume that this equals what they spend at age 66.

**Now let's look at the effect of a 4 percent annual inflation**, which most retired couples don't factor in. In 20 years, it will require $98,600 paper dollars to buy what $45,000 buys today. Their SS income would still be $3,500 per month (again, ignoring any cost-of-living increases in their SS benefits to simplify the analysis). Because their total after-tax income will be $45,000 and their shortfall is $53,600.

**Options based on 9/5/2014 rates and $500,000 Investment:** When looking up Phoenix, AZ CD rates in www.bankrate.com, the 3 giant national banks pay 0.15% to 0.35% on a 5-year CD. Joe could get $750 to $1,750 annual interest. If Joe loans to the U.S. Federal government, a 10-year Treasury Note pays 2.46% and a 30-year Treasury bond pays 3.24%. Joe could earn either $12,300 or $16,200 of annual interest. Joe next looks at the Bloomberg US Corporate Bond Index, and the effective yield is 2.95%, or $14,750 of interest. However, if interest rates rise sharply, he would lose much of his principal if he had to sell the Treasuries or corporate bonds before maturity. A 2012 Forbes article said that 3.26% was the average dividend yield for about 6 decades leading up to 2013 for stocks in the S&P 500 index. That would be $16,300 of annual dividends. However, Joe does not want to risk much of his life savings in the stock market, having experienced 2 crashes in the last 14 years. None of these options solves the $53,600 shortfall.

**Private Pension Option:** Joe, at age 66, deposited $500,000 in a private pension plan and waited until age 75 to take his lifetime income. He decides to use the joint income option and $53,317 of annual income will be paid as long as at least one of the two spouses is alive. Now, they have covered almost the entire projected $53,600 annual deficit at age 86 and don't worry about running out of money. Assuming there is not a stock market crash, they still have Joe's $200,000 in a stock mutual fund and Mary's $100,000 in her 457 plan. They are comfortable that $300,000 of liquid financial assets will cover any future expenses, such as buying a new car every 10 years.

**Free "How to Maximize Your Social Security & Other Retirement Income Seminar":** Sat. 9/27/14, 10-12 noon followed by light lunch 12-1 P.M. at Keller Williams University, 2077 E. Warner Road, Tempe, AZ 85284. Please RSVP at (800) 955-1408 or haroldwong1@yahoo.com.

Contact Dr. Harold Wong at (480) 706-0177, haroldwong1@yahoo.com, or www.drharoldwong.com. For his archived research, click on www.DrWongInvestorGuide.com.