AHWATUKEE FOOTHILLS NEWS

Knowing Social Security Rules is Important Start

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Many decades ago, future retirement income was based on "The 3-Legged Stool": Social Security, pensions, and whatever you saved. In 2021, virtually no one in the private sector has an old-fashioned pension that pays you a guaranteed lifetime income. Today, only government employees (with rare exceptions) get a pension today.

In 2020, the average annual Social Security (SS) benefit was $18,024 for an individual and $30,372 for a married couple. About 40.2% of Americans age 60 and up rely solely on Social Security for retirement income. According to Secure Retirement Institute research, SS makes up 37% of retirees' total income.

SS retirement income is based on only two factors: the highest 35 years of wages (or net profits from one's own business) that you paid into SS, inflation adjusted; and when you take your SS. The easiest way to increase your SS income is to wait until age 70 when you get the maximum possible. However, Motley Fool finds that about 60% of retired workers take their SS prior to reaching age 65 and only about 10% begin taking SS between the ages of 67-70. Only 3% wait until age 70 and many take it at age 62, the earliest one is eligible.

Taking SS at age 70 instead of 62 could be a $1 million decision:

From 2017-2019, I gave two seminars each year for federal employees on "How to Understand Your Federal Retirement Benefits". I did a composite of 3 single women: a nurse, nurse practitioner, and pharmacist. If they took SS at age 62, it would be $22,344 per year; vs $43,680 at age 70. The difference is $21,336.

For most of the last 12 years, one could only earn about 2% in a 10-year US Treasury bond. One would need to save $1,066,800 times 2% to equal $21,336 of annual income. What's easier: waiting 8 years to take SS; OR saving an extra $1,066,800 from age 62 to 70?

In retirement, folks live on monthly cash flow, which is usually more important than the total one's saved. Example: if you deposit $3 million in a bank that pays 0.1% interest, one would only have $3,000 of annual interest income.

Case study of single female federal employee, who will turn age 66 in 1 month:

She earned $60,000 annually and had worked for the federal government for 36 years. She had talked to the local SS Administration office, who stressed that she should take SS when she turned 66. She would get about $24,000 annually. I advised her to wait until age 70 and she would get 32% more or $31,680. This is $7,680 more annually.

If she retired from federal employment at 66, the Federal Employee Retirement System (FERS) annuity would give her 36 years (1.1% of every year of service) times $60,000 salary = $23,760. Her total annual retirement income would be $23,760 federal retirement + $24,000 SS = $47,760.

However, she thinks she has a good chance of getting a big promotion to $100,000/year. If she works 4 more years, now her FERS benefit is 40 years (1.1%) times $100,000 = $44,000. Her retirement income is drastically increased to $44,000 + $31,680 SS = $75,680, vs $47,760 without following my advice. That's $27,920 more annual retirement income!

Conclusion: knowing the rules of SS and your employer pension can yield much more retirement income for your bucket list dreams.

Free Information on Retirement Planning, Solar Business Investments, and Tax Savings can be found at www.drharoldwong.com or www.solarbusinessinvestments.com.

To schedule your Free Consultation Contact Dr. Harold Wong at (480) 706-0177 or harold_wong@hotmail.com to RSVP.

Dr. Harold Wong earned his Ph.D. in Economics at the University of California/Berkeley and has appeared on over 400 TV/Radio programs.