PACIFIC LIFE insights

RETIREMENT STRATEGIES GROUP

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HEDGING STRATEGIES TO HELP WITH LONGEVITY RISK FOR PRE-RETIREES (PART 1)

Do Social Security claiming strategies for retirement benefits still matter? After 2015, it is easy to think that there are no longer many strategic claiming advantages. But is this true?

This is the first of a three-part series in which we will address the significant concerns of three different hypothetical sets of pre-retirees, and we'll consider why the "claiming decision" is still strategically important.

Let's consider Steve and Sandy, a couple who planned to retire in 2020 when they reach age 62. They have saved. They didn't panic and sell during volatile markets. They plan to delay taking Social Security retirement benefits, so those funds can act as a longevity hedge.

But they have a concern. While Social Security benefits are an attractive, cost of living (COLA)-adjusted, longevity-risk hedge, they are concerned it might be less efficient than in the past. If they both "underperform their life expectancies," any funds they use while waiting to claim will not go to their children.

Not wanting to increase the possibility of outliving their money, they are concerned that their only solution is for Sandy to keep working, even if only part time.

Can Steve and Sandy retire at age 62 as they originally planned and still have a reasonable longevity-risk hedge?

Social Security retirement benefits may still be an attractive, COLA-adjusted, longevity-risk hedge. It also may carry more risk than they desire. Their choices for claiming Social Security benefits are simple. Let's look at three different claiming strategies they might consider and some potential issues with each strategy.

1. One Claims, One Waits

Steve claims at age 62, creating cash flow to help support their retirement. Sandy waits until age 70 to claim, gathering delayed retirement credits (DRCs). Her benefit creates a higher lifetime payment with a COLA.

Potential Issue: *They will need to make up the lower cash flow from ages 62 to 70 with their other assets.*

2. One Claims Now, the Other at Full Retirement Age (FRA)

This strategy allows Steve and Sandy to retire as planned. If they still want a longevity-risk hedge, they will need to use their assets to create COLA-adjusted future income.

Potential Issue: *They will likely need a longevity-risk hedge to produce later-life income.*

3. Both Claim Now

If they both claim now, they will both have a reduced benefit. With both Social Security payments, their initial cash flow will be higher. However, as time passes, they will likely need more from their assets to help keep their purchasing power stable.

Potential Issue: *Permanently reduced income likely means a greater need for later-life income and a longevity-risk hedge.*

Consider an Alternate Strategy

One possible longevity-risk hedge is a deferred income annuity (DIA) (see form number MUP1240-0719 or form number 50075-15A). Steve and Sandy could purchase a DIA with a portion of their nonqualified assets. By selecting a mid-range payment start date of age 80, they can create flexible access to additional lifetime cash flow. They chose Joint Life with Cash Refund as a payout option, allowing any premiums not distributed to go to their children as the beneficiaries.

Steve will claim his Social Security retirement benefits at FRA. The DIA will provide a longevity-risk hedge. If they don't use the money, it will go to their beneficiaries.

In the second edition of our three-part series, we will meet Tom and Tammy, and we'll discuss how planning before age 60 can provide additional flexibility.

Additional Information and Links

Social Security Strategies: Restricted Application (VLC1312-0319)

Social Security Strategies: Deciding When to Take Your Benefits (VLC1314-0319)

Social Securities Strategies: Deferring Social Security Benefits (VLC1309-0319)

For additional information about hedging strategies, please contact the Retirement Strategies Group at (800) 722-2333, ext. 3939, or email RSG@PacificLife.com.

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