
Building a Bridge to Social Security

By Kerry Pechter Thu, Jan 7, 2021

Middle-class people who retire before age 70 should spend 401(k) assets first and delay taking Social Security, says a leading retirement income expert. In a new research paper, she crunches the numbers to prove her point.



Hey, I know where there's a bridge for sale. It's not in Brooklyn, and it doesn't span the San Francisco bay. It starts when your clients retire and ends when they claim Social Security—maybe three, four, five, or even eight years later.

This is the "Social Security bridge" strategy. The idea is for people who retire in their early or mid-60s to delay claiming Social Security until age 70, thereby maximizing their monthly benefit. In the years before claiming, if they're not working, they can dip into savings to pay their bills.

The strategy doesn't necessarily work for everyone, and it works to different degrees under different circumstances. That's why Alicia Munnell, who directs the Center for Retirement Research at Boston College, has crunched the numbers to show who, and under what conditions, should consider the bridge strategy.

Munnell speaks from experience. She was a Treasury Department official and member of the Council of Economic Advisers. She also has a passion for defending Social Security. She's a consistent voice for the view that the Social Security program faces no financing crisis that a few marginal benefit cuts and/or tax increases can't solve.

In a new research brief, "How Best to Annuitize Defined Contribution Assets," Munnell compares the potential benefits of using a bridge strategy, financed with withdrawals from 401(k) savings, with several other common retirement income-generating strategies.

Her data suggests that middle-class people, who are at risk of running out of money before they die, should use the bridge strategy. In practice, they would spend as much from savings each year as they would have received. Hypothetically, they would offset the money spend as much from savings each year between the retirement date and age 70 as they would have received from Social Security benefits, had they claimed when they retired (as most people do).

Munnell reaches that conclusion by contrasting these income strategies, all based on a hypothetical 65-year-old man with \$100,000 in savings:

- *Invest \$100,000 at 3% interest and spend \$6,340 per year. (The money would run out by age 85.)*
- *Spend down that \$100,000 at the rate of \$4,450 a year. (The money would last a lifetime but income would be low.)*
- *Spend \$100,000 on an immediate income annuity paying \$6,340 per year for life.*
- *Spend \$16,000 on a deferred income annuity paying \$6,340 per year for life starting at age 85 and spend the remaining \$84,000 between ages 65 and 85.*
- *Use the Social Security bridge strategy and spend enough from savings each month to match the foregone Social Security benefits. (The average Social Security benefit at age 62 is \$1,130.)*
- *Withdraw only enough from qualified savings each year to satisfy the IRS's required minimum distribution (RMD) rules, starting at age 72 (under current law).*

If you want to read the details of the study, you can find them [here](#). The big takeaway is that the bridge strategy works best for people (in her intentionally simplified example, she refers to a single person) in the 50th to 75th wealth percentile, with savings of up to roughly \$250,000. This may not describe the typical advised client, but it does describe people who need help with retirement income planning if they want to avoid living on rice, dry beans, and spaghetti in their old age.

The finding that the bridge strategy works better than buying a retail SPIA or DIA relies mainly on the fact that Social Security, as an annuity, offers more generous benefits than any life insurer could offer to pay. So it makes sense to “buy” more Social Security than to buy a retail annuity.

Most Americans claim Social Security when they retire, which makes a certain amount of sense. First, they suddenly need to replace earned income, and the government is offering what appears to be free money. Second, they will have a natural “liquidity preference” that makes them conserve their own invested savings. Third, they suffer from what economists call the “survival pessimism.” They underestimate how long they’ll live, which makes them underestimate the value of an annuity.

All of those foibles lead Munnell, when she’s wearing her public policy hat, to suggest that 401(k) participants be defaulted (with the option to opt-out if they wish) into using systematic withdrawals from qualified savings to postpone Social Security claiming.

There are computer programs that allow retirees to see how long they would have to live

before a specific Social Security deferral strategy “breaks even.” But the decision about when to retire and when to claim benefits is very personal, and not necessarily easy. It’s all the more difficult when a person can’t control the factors involved.

In my own case, I remember trying to estimate when the vector of my essential household expenses (which were declining as I paid off house and cars) would cross the vector of my household’s Social Security benefits (which would rise as I deferred claiming). To retire before those vectors intersected, I would have to mobilize savings. Then I had to ask myself, How much savings could I afford to mobilize without jeopardizing my “legacy goals” and need for an emergency buffer? Quite a bit of work was involved.

I take a general lesson from the paper. It heightened my awareness of middle-class workers’ most important milestones: the date they stop earning a paycheck, the date they’re free from debt (mortgage, auto, student, home equity or revolving debt), and the date they tap into Social Security. Those government benefits will be a lot less painful to postpone if you’re still working and/or debt-free.

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