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YOUR MONEY

A Contrarian on Retirement Says Wait

By **DAMON DARLIN**

Come retirement, it will finally be time to get back the money that has been extracted from your paycheck your entire working life.

Indeed, requesting your Social Security benefits might seem like the first order of business as soon as the going-away party is over. But you might be a lot better off waiting a bit longer, until age 66 or even 70 before tapping into the government retirement fund. Relying at first on other savings like individual retirement accounts or the 401(k) from work could raise your living standard in retirement as much as 10 percent, according to calculations made by Laurence J. Kotlikoff, an economics professor at Boston University.

This is unconventional advice as Mr. Kotlikoff is the first to acknowledge. But Mr. Kotlikoff, 56, who has been studying savings his entire career, thinks that much of what passes for financial advice is merely conventional wisdom.

As noted here, he has annoyed the financial planning industry with his research that suggests that the calculators used to forecast retirement needs overstate the amount that must be saved.

He also says that the elderly should be investing more heavily in equities rather than bonds, as most planners advise. "There is almost nothing that you can tell me about conventional financial advice that makes any sense," he said.

There are many skeptics.

Margaret H. Smith, an assistant economics professor at Pomona College in Claremont, Calif., and a financial planner, thinks that a decision about when to take Social Security should not be coupled with other retirement funds. "It all depends on how long you live," she said. As with many planners, she thinks tax-advantaged accounts, like 401(k)s or Roth I.R.A.s should be left to accumulate as long as possible.

"If they can afford to take it at a later date because they have other sources of income, that's

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good, but the lion's share of people need every penny they can get," said Chad Terry, the director for retirement solutions at the Principal Financial Group, a financial services company based in Des Moines.

But there are some compelling financial reasons to at least hear Mr. Kotlikoff out. The average retirement age is now 62, not 65. Indeed, only 27 percent of Americans retire at age 65 or later, according to the Employee Benefit Research Institute.

The early retirement might be a direct result of the early availability of the payments. But delaying retirement can make a big difference financially. The Fidelity Research Institute did a study (www.fidelityresearchinstitute.com/pdf/Beyond_Conventional_Wisdom.pdf) last year showing how advantageous a delayed retirement is. It used an example of a 55-year-old making \$75,000. Upon retirement at 62, he would get \$15,888 in Social Security. If retirement was postponed until 66, the amount would rise to \$21,768. A further delay to age 70 would yield an annual benefit of \$29,436.

There is a similar effect for those who choose to stop working at 62, but don't tap Social Security until later. Instead of payments of \$15,888, the retiree who waits until 66 receives \$21,181 a year in benefits and one who delays until 70 receives a \$28,821 annual stipend, or 81 percent more, the Fidelity Research Institute said. There is no additional financial benefit to delaying past 70.

So why don't more people delay taking their Social Security? Some may not know how benefits accrue. It is also possible that they figure they will die in only a few years. If that is the case, grabbing benefits early makes sense, but study after study shows Americans tend to underestimate their longevity — one reason financial planners urge people to save more.

A foreboding that Social Security will not be around may be another reason Americans act early. Research by Hugo A. Benítez-Silva, Debra Sabatini Dwyer and Warren C. Sanderson at the State University of New York at Stony Brook found that the fear among Americans that future benefits might not be there drives many retirees to take benefits as soon as they are available. Researchers at the RAND Corporation are studying this issue to find ways to encourage Americans to consider delaying retirement or deferring benefit payments.

Mr. Kotlikoff points out that because Social Security accounts increase at the rate of 7 percent a year from age 62 to 66 and then at 8 percent a year until age 70, retirees get a better return there than they might get on the bonds inside their I.R.A.s. "That's a safe real return of 7 percent or 8 percent," he said. "You can't get anything close to that in the market."

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The tax implications of raiding Social Security first does not matter much for the wealthy, but for everyone else it might. Social Security income is tax-free for an individual with a total income of less than \$25,000 (\$32,000 for a couple filing jointly). As income rises, the share of benefits subject to tax rises to 50 percent and then 85 percent.

Here is the troublesome part and it will sound familiar to anyone who has been hit with the federal alternative minimum tax on their income: the tax on Social Security benefits is not indexed for inflation. As with the alternative tax, an increasing number of people will be subject to the benefits tax and pay more to the government than they need to. "There are a lot of taxes on Social Security benefits, if you don't do this correctly," Mr. Kotlikoff said.

His advice does not mean that everyone should start delaying their Social Security payments. It may very well make sense for many to take them immediately, depending on what other assets they are counting on to tide them over in retirement. An adviser can help.

Mr. Kotlikoff relies on financial planning software he has been developing called ESPlanner. It has been used by a number of economists and academics who are studying retirement savings. Mr. Kotlikoff used it recently to reach the startling conclusion that over a lifetime a plumber has a higher standard of living than a physician with a general practice because the doctor starts earning later, pays higher taxes and high malpractice insurance premiums.

Ms. Smith, the financial planner-economics professor, is a bit wary of the software for financial planning. It comes back to death. "His software assumes an end date," she said. It misses "income uncertainty and life expectancy uncertainties, two very large unknowns in the planning process," she said.

Mr. Kotlikoff has taken some other unusual stances for fixing three of the most intractable problems Congress faces: health care, taxes and Social Security.

He proposes an annual health care voucher from the government, with the amount to be determined by the health of the citizen. He sees it as helping the poor, because they tend to have more health problems than the rich.

His plan for tax reform is to substitute a federal sales tax for the corporate and individual income tax and payroll taxes like Social Security and Medicare. The government would rebate a portion of the tax to the poor.

His third proposal tackles Social Security. It would set up individual accounts financed with whatever has been accrued as of the date of reform. Individuals would be forced to put 8

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percent of their income into the account each year and the government would match the contributions of the poor. It would be invested in a weighted global index fund, he said, to “keep Wall Street’s hands off of it.”

From age 57 to 67, a person’s accounts would be gradually converted into inflation-protected government bonds. If a person dies before 67, a portion of the proceeds can be bequeathed to others, a move, he said, that would help blacks and Hispanics who tend to die younger than whites and Asians.

Mr. Kotlikoff’s ideas are way out there, but he attracted the attention of one presidential candidate. He is serving as an economic adviser to Mike Gravel, the former Alaska senator who garnered much attention in the Democratic debate in South Carolina last month with his outspokenness.

Mr. Gravel’s popularity, it should also be noted, remains an asterisk in most polls.

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