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Social Security

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Social Security: making choices, maximizing benefits

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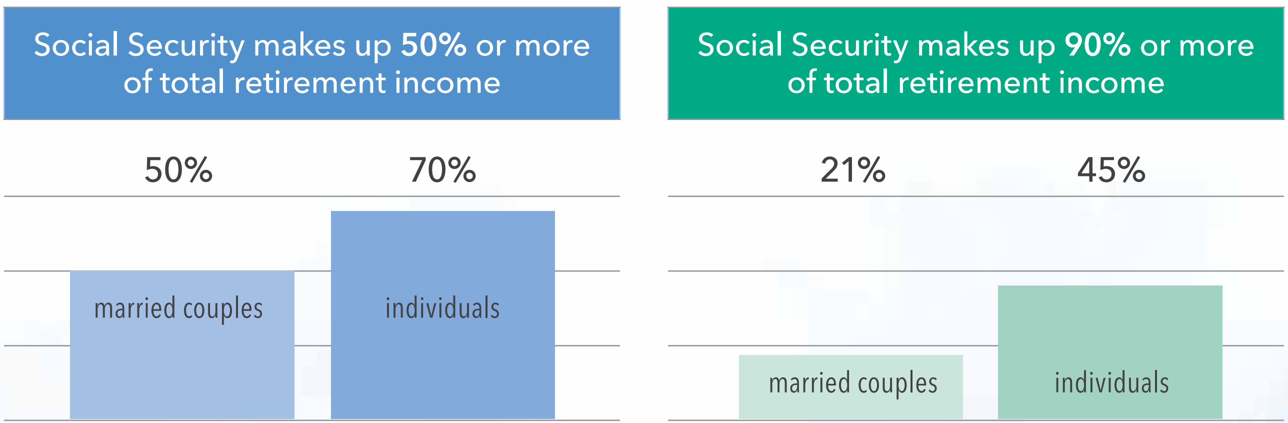
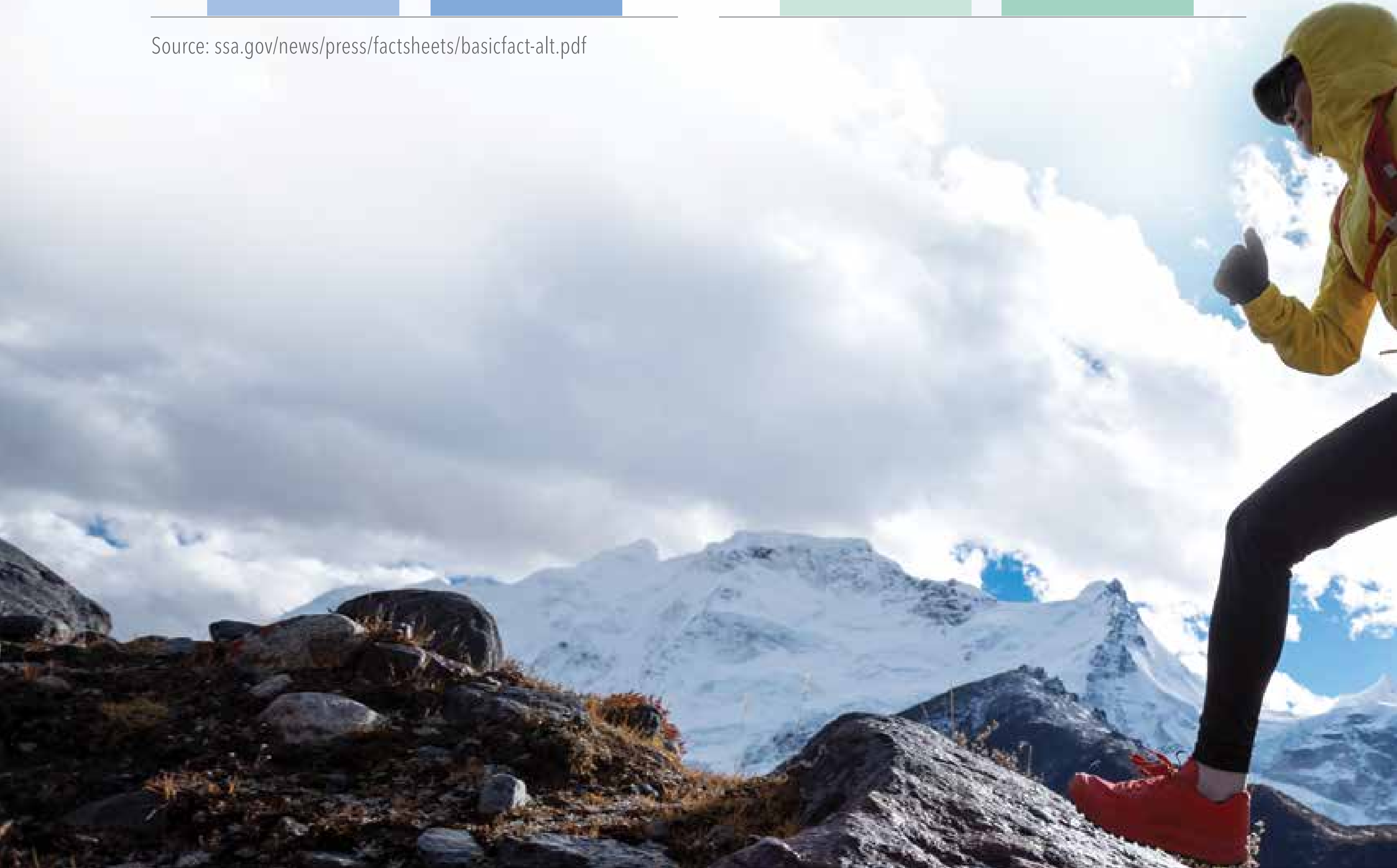
Understanding your Social Security options

Social Security was never intended to replace the full amount of a retiree's previous income. But it does provide a significant portion, and for many, it is their only source of guaranteed income in retirement. Do you know what your expected benefit will be, when you should file for benefits, or what choices you can make to maximize what you will receive?

Importance of Social Security income for couples and individuals 65 and over:



Source: ssa.gov/news/press/factsheets/basicfact-alt.pdf



Deciding when and how to claim Social Security benefits is one of the most important decisions that retirees will ever make. To make the most of Social Security, consider taking the following steps:

- Choose the best time to file
- Decide how long to work
- Know your options
- Consider the big picture
- Contact your financial professional

Choose the best time to file

If you want to maximize your Social Security benefit, deciding on the right time to claim benefits is critical. You have three options:

File early. You can claim benefits as early as age 62, but you will receive a permanently reduced benefit – up to 30 percent less than if you waited until your full retirement age, depending on how early you file. However, you will receive these smaller benefits over a longer period of time.

File at full retirement age (FRA). Depending on your birth year, your full retirement age could be anywhere between 66 and 67. This is the age at which you are eligible for your full benefit amount. The Social Security Administration refers to this amount as your primary insurance amount (PIA).

File later than FRA. For each year you wait past your FRA, your benefit will increase by 8 percent. The benefit stops increasing at age 70, so there is no incentive to delay filing beyond that point. By waiting, you lock in a permanently higher benefit amount, although you will receive it over fewer years.

Birth Year	Full Retirement Age
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 or later	67

A financial professional can help you examine your personal situation and review your options as you determine the timing that will work best for you.

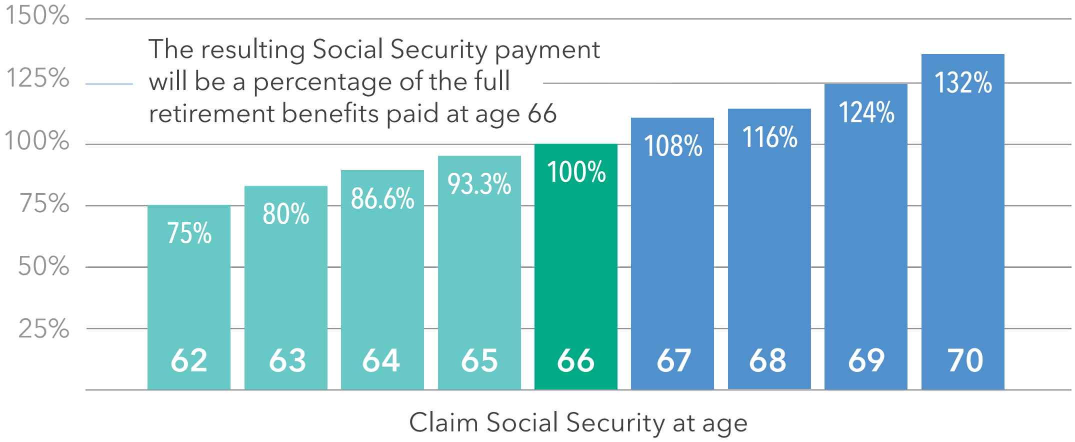
Eligibility and the Primary Insurance Amount (PIA)

You become eligible for Social Security retirement benefits by working and paying Social Security taxes. You can earn up to four credits per year, and you must earn 40 credits over 10 years to qualify for benefits. In 2023, you earn one credit for each $1,640 of earnings.

When calculating your PIA (your retirement benefit if you claim at full retirement age), the Social Security Administration (SSA) uses a complex formula that factors in your earnings during your 35 highest-earning years.

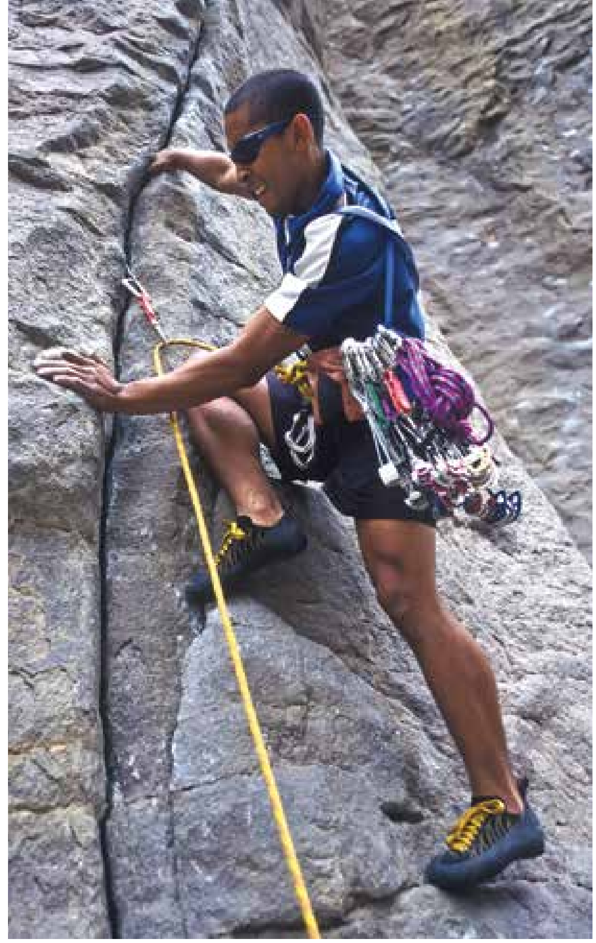
The impact of waiting

If you can afford to wait, you can secure the highest benefit by filing after your full retirement age, with the maximum benefit amount at age 70. The chart shows the clear progression for a person with an FRA of 66, from starting benefits at 62 to waiting until 70. The difference is substantial.



However, this is not the only consideration. A financial professional can help you analyze your personal situation to see what makes the most sense for you. Here are a few reasons why you might consider filing for benefits early rather than waiting:

- To live comfortably without your Social Security benefit, you would either have to keep working longer or take more money out of tax-advantaged retirement savings.
- Your spouse earns more and is still working. (We will cover this situation in more detail later on.)
- You have health issues that create greater medical expenses and/or possibly a shorter life expectancy.



An (almost) irreversible decision

Choosing when to file for benefits is one of the most important decisions you'll ever make. For most people, this decision is one that lasts the rest of their lives. However, there are two limited options available that allow you to change your filing choice.

Request a do-over. If you file early and then change your mind, you have one opportunity, within 12 months of filing, to cancel or withdraw your filing application. You then have to repay all benefits received in one lump sum (including any benefits paid out to a spouse or children and any money withheld from Social Security checks to pay for Medicare premiums, voluntary tax withholding or garnishments). Then, you can reapply later.

Suspend your benefits. If you have reached full retirement age (but are not yet 70), you can choose to suspend benefits to increase your benefit amount. Benefits will automatically begin again at age 70 if you don't notify the SSA to start them earlier. This might make sense if, for example, your spouse retired later than you did and now has Social Security checks coming in (based on their own earnings history) that provide sufficient income.

Be aware that exercising these options will affect anyone else who receives benefits based on your earnings history and may also affect how you pay Medicare premiums.

Decide how long to work

You may not be planning to retire when you reach retirement age. A growing number of people are continuing to work, whether by staying in the same job or starting something new, shifting to part-time work or starting their own business. Whatever you decide to do, you need to be aware of how earned income will affect your Social Security benefits if you file before you stop working.

Under FRA. If you claim benefits early and continue to work, there is an annual earnings limit of $21,240 in 2023. For every $2 you earn over that limit, your Social Security benefits will be reduced by $1.

At FRA. In the year you reach your full retirement age, the earnings limit is higher. In 2023, it is $56,520. During that year, for every $3 you earn over the limit, your benefits will be reduced by $1. This reduction applies to income earned up to the month before your birthday, not for the entire year.

Over FRA. Once you reach your full retirement age, your earnings will no longer reduce your benefits. In addition, any benefits withheld due to earnings before your FRA are not lost – the SSA will recalculate your benefit to give credit for amounts previously withheld.

Earned income

Only earned income affects a potential reduction of benefits before full retirement age. This includes wages, bonuses, commissions and vacation pay. It does not include pensions, annuities, investment income, interest, or any government, veterans or military retirement benefits.

Medicare

Social Security and Medicare are loosely related, so it's worth taking a moment to see how they connect.

If you stop working and file for Social Security benefits before age 65, you will be automatically enrolled in Medicare (Parts A and B) at age 65. Your Part B premium will be automatically deducted from your Social Security benefit checks.

If you have not filed for Social Security by age 65, you must apply separately for Medicare three months before you turn 65. You can choose not to sign up for Part B, but if you don't sign up when you're first eligible and then choose to do so later on, you may have to pay a late enrollment penalty for as long as you continue to be covered under Medicare. Until you start receiving Social Security, your Part B premiums will be billed to you directly.

If you or your spouse are still working at age 65 and covered by an employer-sponsored health plan, you may be eligible for a special enrollment period to sign up for Part B after you stop working without a late enrollment penalty.

For more information on Medicare, visit medicare.gov.

How do you decide?

Whether you keep working or not is a personal decision that will depend on your lifestyle, financial situation and retirement goals. Here are some factors that you might consider:

It may be beneficial to continue working. Remember, the benefit formula uses the highest 35 years of earnings. If you don't have 35 years of earnings, or if you're earning more at normal retirement age than ever before, those earnings will serve to increase your benefit amount. If you're already receiving benefits, the SSA will automatically recalculate your benefit amount and pay you any increase that is due.

If you claim benefits early and continue working, your benefits will be reduced by certain amounts of earned income, but only temporarily – you will reclaim any benefits withheld once you reach full retirement age.

If continuing to work allows you to delay filing for benefits, that will boost your permanent benefit amount.

Taxation of benefits

If Social Security is your only source of income, you will not owe any tax on the benefits you receive. However, most people have other sources of income, and the amount of that income will determine the taxation of benefits.

To estimate anticipated tax, calculate your total retirement income (wages, pension, withdrawals from retirement accounts and investment income, including tax-exempt interest on municipal bonds) and add half of your benefit amount.

If the total is greater than:	Amount that is taxable:
$32,000 (joint) or $25,000 (single)	up to 50% of the benefits
$44,000 (joint) or $34,000 (single)	up to 85% of the benefits

This applies to the federal income tax. Some states also tax Social Security benefits to varying degrees.

Know your options

Your decision on how and when to file for Social Security may also be affected by your marital status.

Single

If you are single, you can make the filing decision that works best for you without having to consider how your decision might affect someone else. Waiting to file gives you an advantage – a higher benefit amount for life. However, it is important to talk with a financial professional about your personal situation, as in some cases it might make sense to file early.

If you are single and divorced, make sure to read the section on ex-spouses for additional options.

Spouses

If you are married, you will generally receive the higher of your own earned benefit or the spousal benefit – up to 50 percent of your spouse's PIA (the benefit at full retirement age). Even if your spouse delays filing past full retirement age to increase benefits, the spousal benefit is always based on the PIA.

You cannot collect a spousal benefit until your spouse actually files for benefits. If you take a spousal benefit before your own full retirement age, that benefit will be permanently reduced to as little as 32.5 percent of your spouse's PIA (based on your filing age).

Spousal benefit possibilities

Luis and Sofia have both reached full retirement age. Luis' benefit amount is $2,200 per month.

What if Sophia's benefit is higher? Let's say Sofia's benefit is $2,400. She would not need to use the spousal benefit, she can simply claim her own. Or, since neither will be using a spousal benefit, one or both of them could easily wait to file if they wanted to increase their benefit amount.

What if Sophia's benefit is lower? Let's say Sofia's benefit is $900. She would receive the higher of her own benefit or the spousal benefit. In this case, she would receive the spousal benefit of $1,100 – but only if Luis has already filed. If Sofia claims first, she would receive her own $900 benefit. Perhaps during this time Luis delays filing and increases his benefit amount to $2,400. When he finally files, Sofia will begin receiving the higher spousal benefit – but that benefit will still be $1,100 (half of Luis' PIA of $2,200).

What if Sofia did not qualify for benefits at all? Let's say Sofia worked a few years, then stayed home with the kids, volunteered, and served as her aging father's caregiver. She never earned enough credits to be covered. In this case, Sofia would be reliant on the spousal benefit. She will receive the spousal benefit of $1,100, but she needs to wait until Luis files in order to claim it.

A note about the family maximum

The SSA limits the amount paid out to people within the same family based on one person's earned credits. While the maximum amount varies, it is generally between 150 percent and 180 percent of the worker's full retirement benefit. This typically comes into play when the worker retires and takes benefits, the spouse takes the spousal benefit, and one or more eligible children also take benefits. An ex-spouse's claim on that person's benefits will have no effect on the family maximum.

Survivors

Social Security pays benefits to eligible surviving spouses and dependents. Surviving spouses can receive up to 100 percent of the deceased spouse's benefit if the marriage lasted at least nine months (the nine-month requirement does not apply in the case of an accidental death).

- **If a surviving spouse is already receiving spousal retirement benefits,** the SSA will automatically adjust the monthly benefit amount after receiving the report of death.
- **If a surviving spouse is receiving retirement benefits on his or her own record,** the spouse will need to apply for survivor benefits, and will then receive the higher of the personal benefit or the survivor benefit.
- **If a surviving spouse is not yet receiving benefits,** he or she should apply for survivor benefits. In some cases, these benefits are not retroactive, so applying promptly is important.

Survivor benefit example

Sofia and Luis enjoyed 10 wonderful years in retirement before Luis passed away. Luis had been receiving a benefit of $2,200 and Sofia had been receiving a spousal benefit of $1,100. After Luis died, the SSA increased Sofia's benefit to his full PIA of $2,200 per month. She will continue to collect this amount for the rest of her life.

Ex-spouses

If you are divorced, you may be able to claim benefits on an ex-spouse's earnings when:

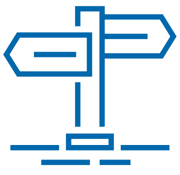
- The marriage lasted at least 10 years.
- You are at least 62 and unmarried. (It doesn't matter if your ex is married, or if you remarried, as long as you are unmarried at the time of filing.)
- Your ex is entitled to a higher benefit than you are.
- Your ex is eligible for retirement benefits. (Note that as long as the divorce has been final for at least two years, your ex does not have to actually file for benefits, which is different from the spousal benefit rules.)

Divorce example

Sue is 66 years old. She and Tim married young and stayed together for 12 years before they divorced. Tim remarried, but Sue remained single. She has been working for the last 32 years and is ready to retire. She claims a benefit on Tim's record. The SSA will send her the higher of her own benefit or the divorced spouse benefit. In her case, the divorced spouse benefit based on Tim's earnings record is higher. The amount she receives has no effect on the amount that Tim or his current wife receive, and Tim is not even notified about her filing. Sue can even claim survivor benefits if Tim dies. However, if she remarries, she will no longer be able to collect based on Tim's earnings record.

Consider the big picture

It is impossible to properly plan for Social Security without considering how it fits into your overall retirement plan. If you haven't taken any of these five retirement planning steps yet, or if a year or more has passed and you need to revisit your plan, now is the time!



Define your goals. The more specific you can be, the more realistically you can estimate your future expenses. For example, it's fine if you say you want to travel, but even better if you can say whether you'll be hiking in national parks or visiting the Louvre in Paris.

Estimate your spending. In addition to fulfilling any personal goals, you'll need to factor in daily living expenses, debt (mortgage, car loans, credit card debt), utilities, rent, insurance, health care costs and, of course, taxes. You also may want to make gifts to children or grandchildren or to a favorite charity. Considering the impact of inflation will help you arrive at a more accurate estimate.

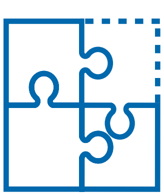
Examine your income sources. In particular, look at the following categories:

- **Guaranteed income.** This includes a pension (if you're lucky enough to have one), Social Security (not intended to be a retiree's sole source of income) and annuities (which can deliver a steady stream of income you can't outlive).

- **Savings and investments.** If you're like most people today, you have retirement savings in a qualified retirement plan or IRA. These savings vehicles can hold various types of investments, including annuities. Beginning at age 73, you are generally required to withdraw a minimum amount each year. You may also have other savings and investments – stocks, bonds, mutual funds, real estate, a business interest and so on. Unlike guaranteed income, savings and investments may be subject to market risk, may fluctuate in value and may be accompanied by tax considerations.

- **Life insurance.** A policy with a cash value offers tax-free loans and withdrawals, which can be particularly useful in an emergency, if utilized properly. Of course, loans or withdrawals reduce the death benefit.

- **Earned income.** If you choose to continue working in any capacity, consider your salary. However, there is no guarantee how long you may be able to continue working. Heath issues, caregiving demands or even layoffs can bring the working years to an abrupt end.



Assess the gap, if any. In many cases, people find there is a gap between the income they'll have available in retirement and their estimated expenses. If this is true for you, now is the time to discuss ways to increase retirement income and fill that gap.

Consider additional guaranteed income. Whether or not you are filling a gap in retirement income, you may want to consider additional sources of guaranteed income. Many people today do not have a pension and have not purchased an annuity, making Social Security their only form of guaranteed income in retirement. Consider your comfort level with your asset mix. In many cases, increasing the level of guaranteed income provides portfolio balance. There are two ways to accomplish this:

- **Purchase an annuity.** Whether the annuity is immediate or deferred, this can be an important way to convert some of your savings and investments into a guaranteed income stream that will last throughout retirement.
- **Maximize your Social Security benefits.** This often-overlooked option can make a substantial difference in your overall retirement income.

Reviewing your earnings history

If you haven't already, sign up for a "my Social Security" account on the Social Security website. Not only can you take care of basic tasks such as updating your address if you move, but you can and should review your earnings history on a regular basis. Remember that the SSA uses your earnings history to determine your benefit amount. If you discover a mistake in your reported earnings, you have a little over three years to make a correction before these earnings become a permanent part of your record.

Contact your financial professional

No matter where you are in your retirement planning, your financial professional can help review your situation and address concerns.

Review your goals and overall retirement plan.

Assess sources of retirement income, identify any gaps and determine how to fill those gaps.

Examine your level of guaranteed retirement income and, if appropriate, explore ways to create or increase guaranteed income streams, including the use of annuities.

Discuss important Social Security decisions (particularly when to file for benefits) based on your unique situation and develop a strategy for how Social Security fits in your overall retirement plan.

Provide the peace of mind that comes with knowing your options and being comfortable with your plan.

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