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SOCIAL SECURITY

2023 Optimaztion Guide

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Tips & Tricks on how to get the most out of social security

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Three Key Questions to Answer
Before Taking Social Security

Social Security is a critical component of the retirement financial strategy for many Americans, so before you begin taking it, you should consider three important questions. The answers may affect whether you make the most of this retirement income source.

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1. When to Start?

You have the choice of 1) starting benefits at age 62, 2) claiming them at your full retirement age, or 3) delaying payments until age 70. If you claim early, you can expect to receive a monthly benefit that will be lower than what you would have earned at full retirement. If you wait until age 70, you can expect to receive an even higher monthly benefit than you would have received if you had begun taking payments at your full retirement age. The decision of when to begin taking benefits may hinge on whether you need the income now or can wait, and whether you think your lifespan will be shorter or longer than the average American.

2. Should I Continue to Work?

Work provides income, personal satisfaction, and may increase your Social Security benefits. However, if you begin taking benefits prior to your full retirement age and continue to work, your benefits will be reduced by $1 for every $2 in earnings above the prevailing annual limit ($17,040 in 2018).[1] If you work during the year in which you attain full retirement age, your benefits will be reduced by $1 for every $3 in earnings over a different annual limit ($45,360 in 2018) until the month you reach full retirement age. After you attain your full retirement age, earned income no longer reduces benefit payments.[2]

3. How Can I Maximize My Benefit?

The easiest way to maximize your monthly Social Security benefit is to simply wait until you turn age 70 before receiving payments.

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1. Social Security Administration, 2018
2. Social Security Administration, 2018

Maximizing Benefits

Most understand that waiting to claim Social Security benefits can result in higher monthly payments. However, many don't know that there are other ways to maximize their benefits, some of which depend on their marital status.

Understanding the strategies for maximizing your Social Security retirement income benefits should be prefaced with a review of the three basic forms of retirement benefits:

1. **The Worker Benefit:** This is the benefit you receive based on your own personal earnings history, and for which you become eligible after 40 quarters of work.
2. **The Spousal Benefit:** This is the benefit paid to your spouse. For non-working spouses, this is 50% of the working spouse's benefit. For working spouses, it is the greater of the benefit earned from his or her earnings or 50% of the worker's benefit.
3. **The Survivor Benefit:** This is the benefit paid to the surviving spouse, which is paid at a rate equal to the greater of his or her own current benefit, or the deceased spouse's current benefit.

The first and most obvious strategy for maximizing your Social Security benefit is to simply wait to reach age 70 before beginning to take benefits. By waiting until age 70 to receive benefits, your monthly payments may increase by 32%, not including any cost of living increases that may be added to this amount.

Benefit Maximization Strategies for Widows and Widowers

Remember, there is no spousal benefit for a widow/widower, but he or she does qualify for a survivor benefit that is equal to 100% of the deceased spouse's benefit (versus the 50% spousal benefit if the working spouse is still alive). This survivor benefit is available at age 60.1

If you are widowed and also have worked for 40 quarters, you will have a worker benefit and a survivor benefit. This presents you with several choices. One choice is to file for the benefit that provides you the greatest monthly benefit amount.

Another choice may be to start your worker benefit at age 62 and then switch to the survivor benefit once you reach full retirement age. This option is advantageous in instances where the widowed spouse did not accumulate the same level of benefits as the deceased spouse. Choosing this option allows the surviving spouse to take the higher survivor benefit amount. Because there are no delayed retirement credits earned on survivor benefits, there is no advantage to waiting past full retirement age to apply for survivor benefits.

A final choice is to consider starting the survivor benefit at age 60 and then switching to your own worker benefit at age 70. This strategy allows you to begin receiving income based on the survivor benefit as early as possible and provides you time to build up the maximum worker benefit.

As you can see, there are ways you can potentially raise your Social Security benefits. These strategies can help you maximize your benefits beyond what is available to those who simply delay retirement to age 70.

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1. Social Security Administration, September 2017

How Much Will I Receive?

Next to "When should I claim Social Security benefits?", one of the more common questions people have is "How much will I receive?"

Calculating your potential Social Security benefit is a three-step process:

1. Calculate Your Average Indexed Monthly Earnings (AIME):

The highest 35 years of indexed earnings is added together. It is then divided by the number of months in 35 years to arrive at your AIME. ("Indexed earnings" is an adjustment made to historical earnings so that they reflect a current standard of living.)

2. Determine Your Primary Insurance Amount (PIA):

AIME is subjected to a formula based on the year of first eligibility (age 62).

3. Application Age:

The final calculation will be based on the age you apply for Social Security retirement benefits. For instance, if you apply at full retirement age, you will receive 100% of your PIA. If you apply for early benefits, your benefit will be less, and if you wait until after full retirement age, your retirement benefit will exceed your PIA.

If this all sounds complicated, that's because it is. However, the Social Security Administration allows you to calculate your personal benefits without you having to do any of the math.

Social Security is a complex retirement decision that requires careful planning in order to maximize its value to you and your spouse in retirement. You should consider working with your financial professional as well as accessing the information resources at the Social Security Administration, to help you make the decisions that are most appropriate to your needs.

The $64,000 Question

One of the most common questions people ask about Social Security is when they should start taking benefits.

This is the $64,000 question. Making the right decision for you can have a meaningful impact on your financial income in retirement.

Before considering how personal circumstances and objectives may play into your decision, it may be helpful to preface that discussion with an illustration of how benefits may differ based upon the age at which you commence taking Social Security. As the accompanying chart reflects, the amount you receive will be based upon the age at which you begin taking benefits.

Monthly Benefit Amounts

Based on the Age that Benefits Begin[1]

Age	Benefit Amount
62	$953
63	$1,018
64	$1,097
65	$1,184
66 and 4 months	$1,300
67	$1,369
68	$1,473
69	$1,577
70	$1,681

*This example assumes a benefit amount of $1,300 at the full retirement age of 66 and 4 months.

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At first blush, the decision may seem a bit clear-cut: Simply calculate the lifetime value of the early benefit amount versus the lifetime value of the higher benefit, based on some assumed life expectancy.

The calculus is a bit more complicated than that because of the more favorable tax treatment of Social Security income versus IRA withdrawals, spousal benefit coordination opportunities, the consideration of the surviving spouse, and Social Security's lifetime income guarantee that exists under current law.[2]

Here are three ideas to think about when making your decision:

1. Do You Need the Money?

Retiring before full retirement age may be a personal choice or one that is thrust upon you because of circumstances, such as declining health or job loss. If you need the income that Social Security is scheduled to provide, however reduced, then taking benefits early may be the only choice for you.

2. Consider the Needs of Your Spouse

If your spouse expects to depend on your Social Security income, the survivor benefits he or she receives after your death may be reduced substantially if you begin taking benefits early. It's important to remember that, based on current life expectancy tables, women are likely to live longer than men.

3. Are You Healthy?

The primary risk in retirement is running out of money. The odds of living a long life in retirement calls for waiting until you reach full retirement age, so that you receive a full benefit for as long as you live. However, if your current health is poor, then starting earlier may make sense for you.

There are several elements you should evaluate before you start claiming Social Security. By determining your priorities and other income opportunities, you may be able to better decide at what age benefits make the most sense.

1. Social Security Administration, 2018
2. Withdrawals from traditional IRAs are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty. Generally, once you reach age 70½, you must begin taking required minimum distributions.

5 Facts You Need to Know

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Social Security can be complicated, and as a result many individuals don't have a full understanding of the choices they may have. Here are five facts about Social Security that are important to keep in mind.

1. Social Security Is a Critical Source of Retirement Income

Some have the perception that Social Security is of secondary or even tertiary importance in retirement. But according to a recent report, Social Security represents a major source of income for 64% of retirees.1

Keep in mind that Social Security makes annual cost-of-living adjustments (COLAs) based on the Consumer Price Index, and under current laws, pays income for life and the life of your spouse.2

2. You Can Choose When You Take Social Security

You have considerable flexibility for when you can begin receiving your benefits.

As the accompanying illustration shows, the age at which full retirement benefits are payable (also known as "full retirement age"), is determined by your birth year.3

Monthly Age for Receiving Full Social Security Retirement Benefit

Year of Birth	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

(Important note: though full retirement age varies, you also may want to consider applying for Medicare benefits three months before your 65th birthday; if you wait longer, your Medicare medical insurance and prescription drug coverage could cost you more.)
You may begin receiving benefits as early as age 62; though, your benefits will be reduced at a rate of about one-half of 1% for each month you begin taking Social Security before your full retirement age.4
You may choose to delay receiving benefits until after reaching your full retirement age; in which case, your benefits are scheduled to increase by 8% annually. This increase under current law will be automatically added each month from the moment you reach full retirement age until you start taking benefits or reach age 70 – the age at which these delayed retirement credits stop accruing. Plus, your benefit also will increase by any cost-of-living adjustments applied to benefit payment levels during that time.4
If you plan on continuing to work, you may still receive the full benefit for which you are eligible. Indeed, working beyond full retirement age can increase your benefits. However, your benefits will be reduced if your earnings exceed certain limits. If you work and start receiving benefits before full retirement age, your benefits will be reduced by $1 for every $2 in earnings above the prevailing annual limit ($18,440 in 2020).5
If you continue to work during the year in which you attain full retirement age, your benefits will be reduced by $1 for every $3 in earnings over a different annual limit ($48,600 in 2020) until the month you reach full retirement age.5
Once you have attained full retirement age, you can keep working, and your benefits under current law will not be reduced regardless of how much you earn.5
As you can see, the decision of when to begin taking Social Security is a critical one.

3. Social Security May Be Taxable

Depending on your income level, your Social Security benefit may be subject to taxation. The chart below illustrates how your combined income (adjusted gross income + your nontaxable interest + one-half of your Social Security benefit) can impact whether your Social Security retirement benefit is subject to taxation.6

Will Your Social Security Benefits Be Subject to Federal Income Taxes?

	50% of Benefits Subject to Taxation	**85% of Benefit Subject to Taxation**
Individual Filers	Combined Income of $25,000 to $34,000	Combined Income Greater Than $34,000
Joint Filers	Combined Income of $32,000 to $44,000	Combined Income Greater Than $44,000

This potential income tax exposure may have substantial implications for whether you choose to work during retirement, how your assets are invested, and the timing of withdrawals from other retirement accounts.7,8

For instance, a withdrawal from a traditional IRA may lift your income beyond the thresholds described above, subjecting a higher proportion of your Social Security to income tax.7,8

The same is true of investment earnings in non-retirement savings. Retirees who have investment earnings in excess of their current spending needs may be subjecting their Social Security income to taxation. Shifting a portion of those assets to a tax-deferred instrument, such as a fixed annuity, may be one way to manage taxation on your Social Security benefit.9

4. Social Security Can Be a Family Benefit

When you start receiving Social Security, other family members may also be eligible for payments. A spouse (even if they did not have earned income) qualifies for benefits if they are age 62 or older – or at any age if they are caring for your child. (The child must be younger than 16 or disabled.)

Benefits may also be paid to your unmarried children if they are younger than 18, between 18 and 19 and enrolled in a secondary school as a full-time student, or age 18 or older and severely disabled.

Each family member may be eligible for a monthly benefit that is up to half of your retirement (or disability) benefit amount. There is a family limit, which varies, but is generally between 150% to 180% of your retirement (or disability) benefit.10

Should you die, your family may be eligible for benefits, based on your work record.10

Family members who qualify for benefits include:

- A widow or widower
  - age 60 or older;
  - age 50 and older if disabled; or
  - any age if they are caring for your child who is younger than 16 or disabled and entitled to Social Security benefits on your record.
- Unmarried children can receive benefits if they are:
  - under 18 years of age;
  - between 18 and 19 and are full-time students in a secondary school; or
  - age 18 or older and severely disabled (the disability must have started before age 22).

Your survivors receive a percentage of your basic Social Security benefit – usually in the range of 75% to 100% for each member – though, the limit paid to each family is about 150% to 180% of your benefit rate.10

5. A Divorced Spouse May Be Eligible for Benefits

If you are divorced, you may qualify for Social Security benefits based on your ex-spouse's work record. To be eligible for benefits, your ex-spouse must have reached the age at which they are eligible to begin receiving benefits (though, they do not necessarily need to be receiving them).10

To qualify, you need to:

- have been married to your ex-spouse for at least 10 years;
- have been divorced two years or longer;
- be at least 62 years old;
- be unmarried; and
- not be entitled to a higher Social Security benefit based on your own work history.

If your former spouse is deceased, you may still receive benefits as a surviving divorced spouse (irrespective of the age they died), assuming that your ex-spouse was entitled to Social Security benefits, your marriage was at least 10 years, you are at least 60 years old, and you are not entitled to a higher benefit amount based on your own work history. If you remarry before the age of 60, you will lose the ability to receive a survivor benefit from your deceased ex-spouse.10

If your former spouse is living, the maximum amount that you are eligible to receive is 50% of what your former spouse is due at full retirement age. To receive the maximum benefit, you will need to wait until you have reached your own full retirement age.10

Your benefits are unaffected should your former spouse elect to take Social Security before reaching full retirement age or if your ex-spouse starts a new family.10

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1. Employee Benefits Research Institute, April 23, 2020
2. Social Security Administration, 2020
3. Social Security Administration, 2020
4. Social Security Administration, 2020
5. Social Security Administration, 2020
6. Social Security Administration, 2020
7. Under the SECURE Act, in most circumstances, once you reach age 72, you must begin taking required minimum distributions from a Traditional Individual Retirement Account (IRA). You may continue to make tax-deductible contributions to a Traditional IRA past age 70½ under the SECURE Act as long as you meet the earned-income requirement.
8. Distributions from traditional IRAs are taxed as ordinary income, and if taken before age 59½, may be subject to a 10% federal income tax penalty; however, during the year 2020, the CARES Act allows eligible participants to take an early distribution of up to $100,000 without paying the 10% penalty.
9. The guarantees of an annuity contract depend on the issuing company's claims-paying ability. Annuities have contract limitations, fees, and charges, including account and administrative fees, underlying investment management fees, mortality and expense fees, and charges for optional benefits. Most annuities have surrender fees that are usually highest if you take out the money in the initial years of the annuity contact. Withdrawals and income payments are taxed as ordinary income. If a withdrawal is made prior to age 59½, a 10% federal income tax penalty may apply (unless an exception applies).
10. Social Security Administration, 2020

The Elephant in the Room

For most Americans, Social Security has represented nothing more than some unavoidable payroll deduction with the positively cryptic initials of “FICA” and “OASDI” (Federal Insurance Contributions Act and Old Age, Survivors and Disability Insurance). It hinted at a future that seemed both intangible and faraway.

Yet, many Americans now sit on the cusp of drawing on the promise that was made with those payments.

As the growing wave of citizens approach retirement, questions and concerns abound. Is Social Security financially healthy? How much will my income benefit be? How do I maximize my benefits for me and my spouse? When should I begin taking Social Security

Questions & Elephants

Answering these questions may help you derive the most from your Social Security benefit, and potentially enhance your financial security in retirement. Before you can answer these questions, you have to acknowledge the elephant in the room.

The Social Security system has undergone periodic scares over the years that has inevitably led many people to wonder if Social Security will remain financially sound enough to pay the benefits they are owed.

Reasonable Concern

Social Security was created in 1935 during Franklin D. Roosevelt's first term. It was designed to provide income to older Americans who had little to no means of support. The country was mired in an economic downturn and the need for such support was acute.1 Since its creation, there have been three basic developments that have led to the financial challenges Social Security faces today.

1. The number of workers paying into the system (which supports current benefit payments) has fallen from just over 8 workers for every retiree in 1955 to 3.3 in 2005. That ratio is expected to fall to 2.1 to 1 by 2040.2
2. A program that began as a dedicated retirement benefit later morphed into income support for disabled workers and surviving family members. These added obligations were not always matched with the necessary payroll deduction levels to financially support these additional objectives.
3. Retirees are living longer. As might be expected, the march of medical technology and our understanding of healthy behaviors have led to a longer retirement span, potentially placing a greater strain on resources.

Beginning in 2010, tax and other noninterest income no longer fully covered the program's cost. According to the Social Security Trustees 2014 annual report, this pattern is expected to continue for the next 75 years; the report projects that the trust fund may be exhausted by 2040, absent any changes.3

Social Security's financial crisis is real, but the prospect of its failure seems remote. There are a number of ways to stabilize the Social Security system, including, but not limited to:

- Increase Payroll Taxes: An increase in payroll taxes, depending on the size, could add years of life to the trust fund.4
- Raise the Retirement Age: This has already been done in past reforms and would save money by paying benefits to future recipients at a later age.
- Tax Benefits of Higher Earners: By taxing Social Security income for retirees in higher tax brackets, the tax revenue could be used to lengthen the life of the trust fund.
- Modify Inflation Adjustments: Rather than raise benefits in line with the Consumer Price Index (CPI), policymakers might elect to tie future benefit increases to the "chained CPI," which assumes that individuals move to cheaper alternatives in the face of rising costs. Using the "chained CPI" may make cost of living adjustments less expensive.

Reform is expected to be difficult since it may involve tough choices—something from which many policymakers often retreat. However, history has shown that political leaders tend to act when the consequences of inaction exceed those taking action.

1. Social Security Administration, 2020
2. Social Security Administration, 2020
3. Social Security Administration, 2020
4. Social Security Administration, 2020

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COLA Increase Announced

How well do you remember 1981? Harrison Ford had his first bow as Indiana Jones in Raiders of the Lost Ark. Frogger and Donkey Kong were all the rage at video arcades. Bob Ross left the Air Force and took up painting. On top of that, we had the largest Social Security cost-of-living adjustment (COLA) on record: 11.2%.

This year's COLA increase won't reach that high, but the Senior Citizens League anticipated it to be as much as 8.7%. As it turns out, they were right on the nose. This tops last year's 5.9% increase.[1]

What this increase means for those collecting Social Security benefits is additional help battling inflation. The average Social Security retiree benefit will increase $146 per month, to $1,827 in 2023, from $1,681 in 2022.[1]

Why is it happening now? Congress has COLA increases pegged to rising inflation. While there's been a great deal of talk about inflation this year, the increase depends on the much-anticipated official numbers: the third quarter's Consumer Price Index (CPI) is measured against the CPI of the previous year, and the COLA is calculated from that. While this increase has been widely anticipated, you may still have questions about this and other economic factors. I'm happy to discuss how this might affect your financial strategy.

1. CNBC.com, October 13, 2022

What's Next?

Now that you’ve reviewed some basics of Social Security benefits, here are other factors to consider with the help of a financial professional, your tax advisor and the Social Security Administration office

- Qualification for retirement benefits
- How to figure your retirement benefit amount
- When to begin retirement benefits
- Longevity, health, and other factors affecting start dates
- Federal and state income taxes on benefits
- Impact of inflation on benefits
- Special rules for self-employed
- Delayed retirement credits
- Working while receiving benefits and law changes
- Benefit option strategies (including any deadline for using a particular strategy)
- Family benefit options
- Disability benefits
- Medicare benefits
- And more

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