

Understanding Your Social Security Retirement Benefits

Adam B. Rude, CFP[®], CIMA[®]

Principal

Clarity Wealth & Planning



Common Questions

- Will Social Security be there for me?
- How much can I expect to receive?
- When should I apply for benefits?
- How can I maximize my benefits?
- Will Social Security be enough to live on in retirement?

Will Social Security Be There For Me?



OASDI Trust Fund Still Growing

Trust fund balance on 12/31/19: **\$2.897** trillion

2020 results:

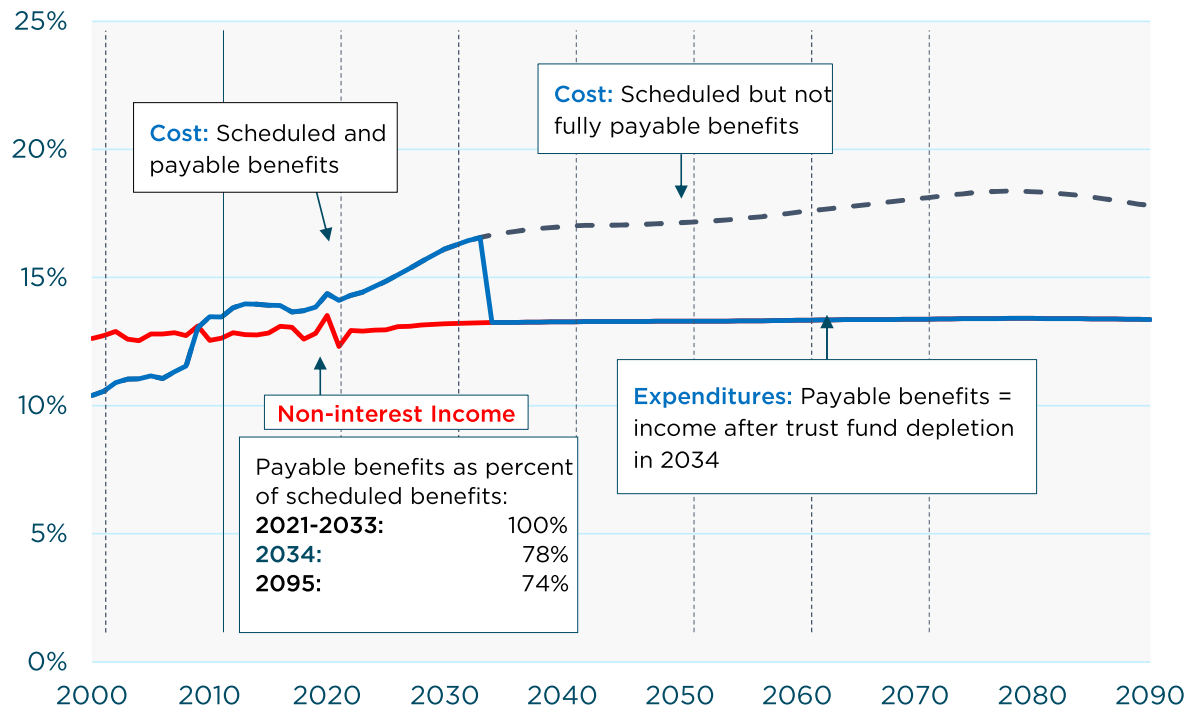
- Total income: \$1.118 trillion
- Total expenditures: \$1.107 trillion
- Net increase in assets: \$11 billion

Trust fund balance on 12/31/20: **\$2.908** trillion

Source: Social Security Administration, Office of the Chief Actuary

Long-Term Projections: Without reform, benefits fall to 78% in 2034

OASDI Income, Cost and Expenditures as Percentages of Taxable Payroll (under intermediate assumptions)



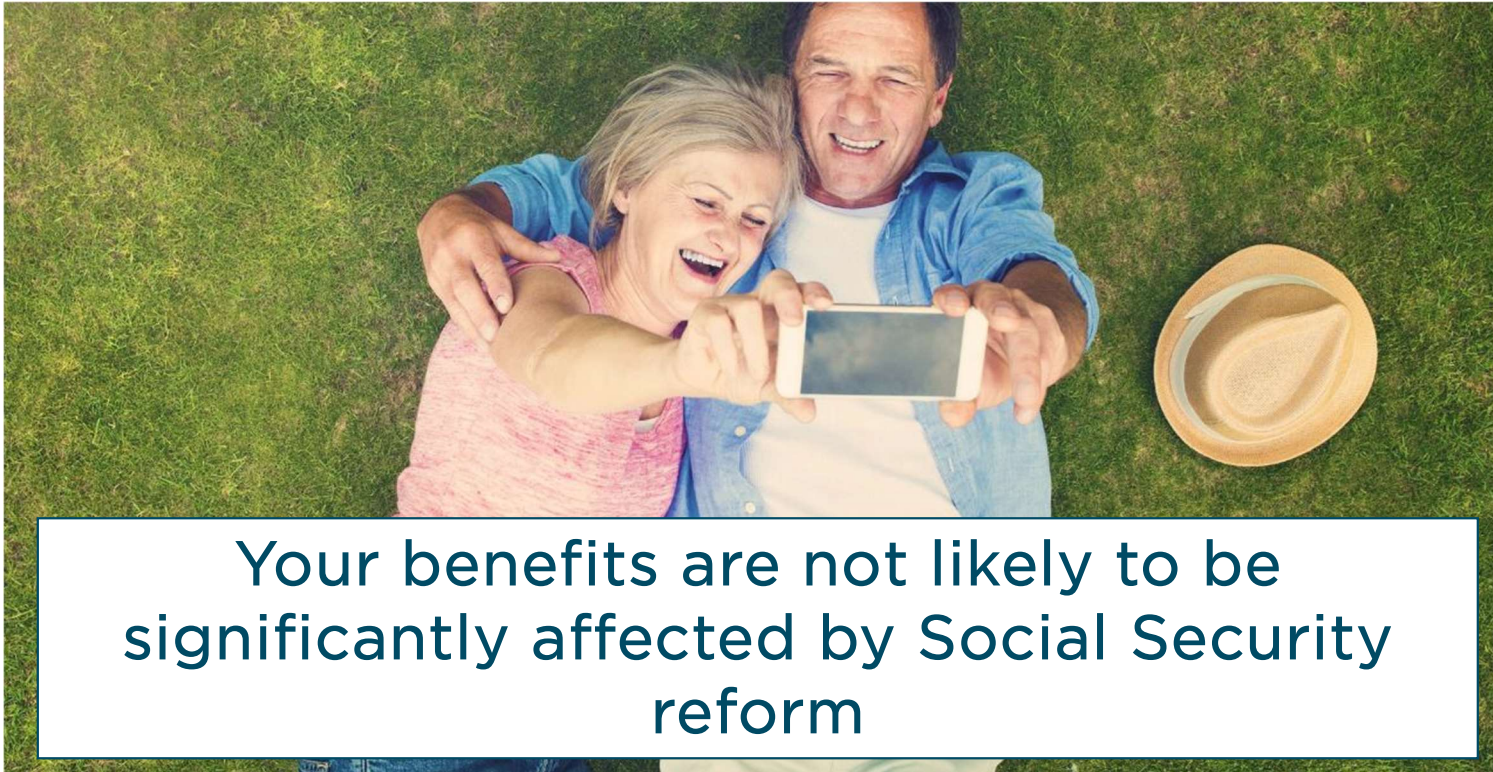
Source: 2021 OASDI Trustees Report

Can the System be Fixed?

Reform Proposals:

- Increase maximum earnings subject to Social Security tax.
 - \$147K in 2022. It was \$142.8K in 2021, 137.7K in 2020. It was \$110.1K in 2012.
- Raise the normal retirement age
 - Currently 66 for individuals born between 1943 and 1954; 67 for people born in 1960 or later.
- Lower benefits for future retirees
 - Change the benefit formula for future increases
- Reduce cost-of-living adjustments (COLAs)

Outlook for Baby Boomers



Your benefits are not likely to be significantly affected by Social Security reform

Understanding the Value of Social Security



Social Security Offers Income You Can't Outlive

If your monthly benefit is \$2,000 today and you live:

10 more years	You'll receive a total of	\$276,032	in lifetime benefits
20 more years		\$602,780	
30 more years		\$1,001,096	

Assumes 2% annual cost-of living adjustments

Social Security Offers Annual Inflation Adjustments

If your monthly benefit is \$2,000 and annual cost-of-living adjustments are 2%:

In 10 years	Your monthly benefit will be	\$2,438
In 20 years		\$2,972
In 30 years		\$3,623

Assumes 2% annual cost-of-living adjustments

Your Benefit Will Depend On*:

1

How much you earned
over your working
career

2

The age at which you
apply for benefits

* Information is subject to change. Other factors can influence the amount of your retirement benefit.

How Social Security Benefits are Calculated

- At age 62, each year's earnings are tallied up and indexed for inflation
- Highest 35 years of earnings are averaged (AIME)
- AIME is divided by three "bend points" to determine your primary insurance amount (PIA). This is the amount you'll receive at full retirement age.
- Benefit is increased each year by cost-of-living adjustments (COLAs)

Example of Benefit Formula

- Baby Boomer born in 1960 – turns 62 in 2022
- Maximum Social Security earnings every year since age 22
- AIME = \$11,430

PIA Formula:

- $\$1,024 \times 0.90 = \$ 921.60$
- $\$5,148 \times 0.32 = \$ 1,647.36$ ($\$6,172 - \$1,024 = \$5,148$)
- $\$5,258 \times 0.15 = \underline{\$ 788.70}$ ($\$11,430 - \$6,172 = \$5,258$)
- **Total =** $\$3,357.66$

PIA = \$3,357.60

Amount worker will receive at full retirement age

Full Retirement Age (FRA)

Year of Birth	Full Retirement Age
1943-54	66
1955	66 and 2 mos.
1956	66 and 4 mos.
1957	66 and 6 mos.
1958	66 and 8 mos.
1959	66 and 10 mos.
1960 and later	67

What if You Apply for Early Benefits?

You will receive a percentage of your PIA

Apply at age	If FRA=66	If FRA = 67
62	75%	70%
63	80%	75%
64	86.7%	80%
65	93.3%	86.7%
66	100%	93.3%
67		100%

What if You Apply After FRA?

You will earn 8% annual delayed retirement credits (DRCs):

Apply at age	Benefit as a % of PIA if FRA = 66	Benefit as a % of PIA if FRA = 67
66	100%	93.3%
67	108%	100%
68	116%	108%
69	124%	116%
70	132%	124%

How to Estimate your Social Security Benefits

- Obtain your annual Social Security statement at www.socialsecurity.gov/myaccount
- Go to www.socialsecurity.gov, click on “Retirement Estimator”
- Use one of the calculators on the SSA website at www.ssa.gov/planners/benefitcalculators.htm

Factors to Consider When Considering When to Apply



1

Health Status



2

Life Expectancy



3

Need for Income



4

Whether or not you plan to work



5

Survivor Needs

When to Apply for Social Security

- If you apply early, your benefit starts lower and stays lower for life.
- COLAs magnify the impact of early or delayed claiming. The longer you live, the more beneficial it is to delay benefits.
- Your benefit may be taxed and reduced to cover your Medicare premiums.
- Don't let the earnings test discourage you from working.
- Delaying benefits may give surviving spouse more income.

Strategies for Maximizing Benefits

#1: Improve Your Earnings Record

Examine your earnings record from your latest Social Security statement, available online at www.socialsecurity.gov/myaccount

- Is it accurate?
- Any missing years?
- Can you improve it by working longer?

Strategies for Maximizing Benefits

#2: Apply for Social Security at the Optimal Time

Consider:

- Your income needs, both now and in the future
- Your life expectancy
- Your spouse's life expectancy

Keep Working: Understand the Annual Earnings Test

If you apply for Social Security before full retirement age and you work:

- \$1 in benefits will be withheld for every \$2 you earn over \$19,560 in 2022
- Your benefit will be adjusted at full retirement age

Don't let the annual earnings test discourage you from working

To avoid the earnings test, wait until full retirement age or later before applying for benefits.

Strategies for Maximizing Benefits

#3: Coordinate Spousal Benefits

- A spousal benefit is equal to $\frac{1}{2}$ of the primary worker's PIA if started at full retirement age.
 - ▶ Primary worker must have filed for benefits
 - ▶ Spouse must be at least 62 for reduced benefit or FRA for full benefit
 - ▶ No delayed credits on spousal benefits after FRA
- Maximization strategy (Both spouses delay claiming until age 70)
- Hybrid strategy (Lower-earning spouse claims early, higher earner claims at 70).

Strategies for Maximizing Benefits

#4: Minimize Taxation of Benefits

- Reduce other income with tax-advantaged investments (but not municipal bonds!)
- Anticipate IRA RMDs, which may put you in a higher tax bracket; consider drawing down IRAs before 72
- Convert traditional IRA to Roth
- Delay Social Security: reduces number of years benefits are subject to tax
- Reduce expenses: pay down debt, adopt simpler lifestyle
- Continue to manage taxes throughout retirement

Strategies for Maximizing Benefits

#5: Coordinate Social Security with Your Overall Retirement Income Plan

Consider Social Security in the context of:

- Pensions
- IRAs and 401(k)s
- Required Minimum Distributions at age 72
- Investment Portfolio
- Work

You Have Questions. We Can Help.

- When should I apply for Social Security?
- What if I want to keep working?
- Can I change my mind if I've already applied?
- How much will my benefit be?
- How can I coordinate spousal benefits?
- What's the best long-term strategy for my situation?
- What do I do next?

Thank You!

www.claricitywealth.com

adam.rude@claricitywealth.com

(914)428-6440



Addendum: Changing Your Mind

- **Withdrawing Your Social Security Retirement Application**

- If you change your mind about starting your benefits, you can cancel your application for up to 12 months after you became entitled to retirement benefits. This process is called a withdrawal. You can reapply later.

You are limited to one withdrawal per lifetime.

- If you cannot withdraw your application and you have reached full retirement age but are not yet 70, you can ask to suspend benefit payments.* By doing this, you will earn DRCs for each month your benefits are suspended.

* If you are collecting survivor benefits, your FRA may be different.

Addendum: Factors affecting Survivor Benefits

1

- Age at which the deceased spouse originally claimed his benefit (the “original” benefit”)
 - If claimed before FRA, the survivor benefit will be limited to the higher of the deceased spouse’s benefit or 82.5% of decedant’s PIA.
 - If claimed after FRA, survivor benefit will include DRCs

TAKEAWAY: Maximize by having higher earning spouse claim benefits at 70 (or as late as possible after reaching FRA).

Addendum: Factors affecting Survivor Benefits

2

- Age at which the surviving spouse claims survivor benefit (the “actual” benefit”)
 - If claimed before survivor’s FRA, benefit will be a fraction of the original benefit (e.g., 71.5% of PIA if claimed at age 60).
 - If claimed at survivor’s FRA or later, survivor benefit will equal 100% of the original benefit.

Addendum: Rules for Survivor Benefits

- Couple must have been married at least 9 months at date of death (except in case of accident)
- Survivor must be at least 60 for reduced benefit (50 if disabled) or FRA for full benefit
- Survivor benefit not available if widow(er) remarries before age 60 (50 if disabled), unless that marriage ends
- Divorced-spouse survivor benefit available if the marriage last at least 10 years.

Addendum: Survivor Benefits Summary

	If Benefit Claimed Before Full Retirement Age	If Benefit Claimed At or After Full Retirement Age	
Original (Decedent)	Benefit Reduced	Full PIA + Applicable Delayed Retirement Credits (DRCs)	
Survivor	Will receive <u>higher of</u> original benefit or 82.5% of PIA	<i>Before FRA:</i> Will receive 71.5% to 99% of PIA	<i>At or after FRA:</i> Will receive 100% of original benefit - including DRCs

Addendum: Divorced-Spouse Benefits

- Same as spousal benefits if:
 - Marriage lasted 10 years or more
 - Person receiving divorced-spouse benefit is currently unmarried
 - The ex-spouse is at least age 62
 - If divorce was more than two years ago, ex-spouse does not need to have filed for benefits

Addendum: Divorced Spouse Benefits

- More than one ex-spouse can receive benefits on the same worker's record
- Benefits paid to one ex-spouse do not affect those paid to the worker, worker's current spouse or other ex-spouses
- To apply, must show divorce decree
- Divorced-spouse benefits stop upon remarriage of spouse collecting benefits (not upon remarriage of primary worker spouse).

Disclaimers

FINRA reference FR2019-0625-0316/E

Securities offered through LPL Financial, Member FINRA/SIPC. Investment advice offered through Stratos Wealth Partners, Ltd., a registered investment advisor. Clarity Wealth & Planning and Stratos Wealth Partners are separate entities from LPL Financial.

