



UNDERSTANDING SOCIAL SECURITY

A look at the big picture

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What is your picture of retirement?

When you think about your retirement, it's likely you have already pictured how it looks. It may involve spending more time with family, starting a new hobby, serving in your community or traveling. But when you look closer, and consider the details of how you'll pay for that retirement, the picture may begin to blur a little.

Retirement income plans often consist of a spectrum of income sources that need to be brought into focus to create your picture of retirement. However, getting a clear view of some of those sources — like Social Security — can sometimes be a challenge and raise a variety of questions. When should you file? How much will you get? Does your spouse qualify too?

Fortunately, your financial professional can help you answer these questions to not only bring Social Security into focus, but also your broader retirement income plan and all of the elements within that plan. With the complete picture in place you'll be better prepared to embrace the retirement you have imagined.

Look at the big picture

When you think about retirement, you often think of your 401(k), pensions, personal savings and other assets you've worked hard to build over the years. Social Security is the other asset you have been building through your working years that you may not be considering as part of the picture. The benefits you may be entitled to receive through Social Security could add up to a significant part of your retirement income, changing the picture you may already have in mind.

How much do you know about Social Security? How will its benefits work into your retirement income equation?

The Social Security program has been in the headlines for years, sometimes surrounded by confusion, conflict and uncertainty. In fact, you may not have even considered your potential benefits under the program when planning your retirement. But, benefits will be an important part of retirement income for today's retirees. Knowing how the benefits work and how your decisions and timing can affect the amount you will receive is critical to planning your retirement.

The bottom line:

You may not have planned on Social Security being a significant part of your retirement income but Social Security usually replaces about 40 percent of an average wage earner's income during retirement.



When it comes to Social Security, there is probably more to the program than you think and it could play a key role in supplementing your retirement income.

Q/A

The big picture: What income sources do you expect to have in retirement?

Social Security	<input type="radio"/> yes	<input type="radio"/> no	expected amount: _____
Employer pension	<input type="radio"/> yes	<input type="radio"/> no	expected amount: _____
401(k) plan	<input type="radio"/> yes	<input type="radio"/> no	expected amount: _____
IRA	<input type="radio"/> yes	<input type="radio"/> no	expected amount: _____
Roth IRA	<input type="radio"/> yes	<input type="radio"/> no	expected amount: _____
Annuities	<input type="radio"/> yes	<input type="radio"/> no	expected amount: _____
Personal savings	<input type="radio"/> yes	<input type="radio"/> no	expected amount: _____
Inheritance	<input type="radio"/> yes	<input type="radio"/> no	expected amount: _____
Other	<input type="radio"/> yes	<input type="radio"/> no	expected amount: _____



Just how much?

Social Security benefits are based on how long you worked and how much you paid into the system over time — it doesn't matter if you took breaks to raise a family or were ever in-between jobs; the credits are cumulative.

The maximum monthly retirement benefit in 2022 is \$3,345 or \$40,140 annually. High wage-earners who paid the maximum into Social Security each year can expect to receive benefits around that amount. For a double-income couple, with each spouse entitled to benefits under their own records, annual benefits could add up to a significant amount of income.

Better still, Social Security benefits adjust for inflation annually and they are guaranteed to last not only your lifetime but your spouse's too.

The average retired worker in 2022 will receive \$1,657 in monthly benefits, while the average couple will receive \$2,753.

You can quickly find out what your projected benefit will be in retirement by going online. Go to ssa.gov/myaccount to view your benefits statement. Your financial professional can walk you through your statement.

Who is Covered?

- **Social Security covers an estimated 96% of Americans**
- **Your benefit amount is based on your 35 highest earning years**
- **You have earned benefits if you have paid FICA taxes, withheld from your paycheck or by paying the "self-employment tax"**
- **In order to collect retirement benefits, you must have accumulated at least 40 qualifying credits (equivalent to about 10 years work)**

Q/A

Have you accessed your Social Security Statement online? _____

Go to ssa.gov/myaccount to view your annual benefits statement.



When do benefits begin?

The actual age at which you qualify for full retirement benefits, known as full retirement age, is somewhere between ages 65 and 67, depending on when you were born. Take a look at the chart below to determine your full retirement age.

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

Filing early: What happens to your benefits?

The earliest you can file for Social Security benefits is at age 61 years, 9 months; however, the earliest you can receive benefits is at age 62. While you can begin to take benefits at 62, it's important to know that doing so will reduce the amount you will receive. And, that reduction in benefits will last through your lifetime.

See how the Social Security benefit is reduced if taken earlier than full retirement age.

For those whose full retirement age is 66, taking benefits at 62 will result in a 25% reduction.

↓ 25%

When the full retirement age is 67, the reduction for taking benefits at age 62 rises to 30%.

↓ 30%

If you spend 30 years in retirement, this reduced income flow could be very costly — especially when you take inflation into account.

There are situations in which filing early makes sense. For example, if any of the following describes your situation, it may be advantageous to take benefits sooner rather than later:

- Do you have health concerns that may cause financial stress?
- Are you already retired?
- Do you earn less than your spouse?
- Do you have school-age children? (your children can also receive benefits)
- Are you thinking about making a career change?
- Do you have a single income family?

Just How Long?

Spending 30 years in retirement is not unlikely. Since you may be spending decades as a retiree, it's important to plan for that scenario when you're deciding when to begin taking Social Security benefits. Underestimating how long you will spend in retirement could be costly, since your benefit amount will be reduced if you decide to take benefits early.

- Average life expectancy of 65-year-old woman: 21.7 more years
- Average life expectancy of 65-year-old man: 19.4 more years

Filing for Benefits: Sooner or Later?



Q/A

What is your full retirement age? _____

How many years from now will you retire? _____

How many years will you be retired? (an estimate) _____

How do benefits work for married couples?

For married couples, a spouse is entitled to as much as one-half of the retired worker's full benefit, regardless of their own earning record.

Therefore, if an individual's benefit is less than 50% of their husband's or wife's benefits they will receive their benefit plus the difference between that benefit and the spouse's benefit.

When your spouse predeceases you, you have another choice to make if you have been receiving benefits on your own earnings record and your deceased spouse had a higher benefit: you can elect to upgrade to the higher benefit as the survivor. The implication is that if you or your spouse expects to be long-lived, you are probably going to want to make selections that will lock in the highest benefit stream possible from Social Security. After all, it will have a lasting impact throughout both of your lifetimes. For many, this may mean holding off on filing for benefits until at least reaching the full retirement age. Perhaps if you are still working and willing to continue to do so, it might make even more sense to let your benefits continue accruing until you reach age 70 — to earn the highest benefit possible.

Benefits for the divorced

Although a former spouse may no longer be part of your day-to-day life, their Social Security benefits may be able to support you throughout your retired life.

If you are a divorcee, you can answer the questions below to determine if you are eligible to receive spousal benefits through your ex-spouse. If you decide to file for spousal benefits, it will not affect the amount of your former spouse's benefit, nor will it affect his or her current spouse's ability to receive benefits.

Q/A

- | | | |
|---|---------------------------|--------------------------|
| Did your marriage last at least 10 years? | <input type="radio"/> yes | <input type="radio"/> no |
| Have you been divorced at least two years? | <input type="radio"/> yes | <input type="radio"/> no |
| Are you unmarried? | <input type="radio"/> yes | <input type="radio"/> no |
| Is your former spouse at least 62? | <input type="radio"/> yes | <input type="radio"/> no |
| Do you qualify for a higher benefit on your ex-spouse's record (50% of what they receive) than you can claim on your own earnings record? | <input type="radio"/> yes | <input type="radio"/> no |

If you can answer "yes" to each of these questions you may want to consider filing for benefits under your ex-spouse's record.

Can you work and still receive benefits?

For an increasing amount of retirees, the retirement picture shows days at the office. In recent years, the number of Americans over 65 who were still in the workforce was at a record high.*

If you file to receive Social Security benefits while you are still working, your benefits will be subject to an earnings limit as long as you are under your full retirement age.

Those who claim benefits prior to their full retirement age while still earning wages are subject to an earnings limit test. Benefits are reduced at a rate of \$1 for every \$2 earned above the limit. In 2023, the limit is \$21,240.

The reduction is less severe in the tax year in which you reach the full retirement age. For the portion of the year you were under the full retirement age, benefits are only reduced \$1 for every \$3 earned over the larger limit. In 2023, that limit is \$56,520. After your birthday that year, the limits no longer apply.

* United States Department of Labor, Bureau of Labor Statistics, Labor Force Statistics from the Monthly Labor Review, November 2022.



What about taxes?

The Social Security Administration reports over half of its recipients pay taxes on their retirement benefits. Social Security benefits are likely taxable for those recipients who have income from other sources, such as pensions, retirement accounts and personal savings.

The calculation to determine whether you will have to pay some taxes on your benefits will need to be determined each year when your tax return is being prepared. By adding up your provisional income — which includes any additional income like wages, investment income, pensions, plus half of your Social Security benefits — you can determine if you will be required to pay taxes.

Q/A

Income and Taxes — What is your anticipated provisional income?

_____ + All income from wages

_____ + Pensions

_____ + Investments

_____ + Non-reportable income

_____ + Other exclusions to income

_____ + Half of your Social Security benefits

_____ = Total provisional income

If Your Provisional Income is:

- \$32,000 or less for joint filers (\$25,000 for single filers), Social Security benefits are free of federal taxation, though state taxes may still apply.
- Between \$32,000 and \$44,000 for joint filers (\$25,000 and \$34,000 for single filers), up to 50% of Social Security benefits must be reported on Form 1040.
- Over \$44,000 for joint filers (\$34,000 for single filers), up to 85% of the benefits will be taxed as ordinary income.

Start at the beginning... with your financial professional

Seeing the big picture can be difficult when there seems to be a panorama of choices and decisions. As you draw closer to retirement, you should begin considering how Social Security will fit into the picture and what you want to do with your benefits. Will you retire early? Are you depending on a spouse's or ex-spouse's earning record? Do you have dependents who will still need your support? By answering some important questions with your financial professional, you can bring the picture into focus.

Receiving Social Security benefits isn't as simple as signing up to receive a check every month. Your financial professional can help with:

- Understanding the filing process
- How to coordinate your Social Security benefits with your other sources of retirement income to last through your lifetime



Contact your financial professional to discuss how to make the most of Social Security and your retirement.

Review your benefits

Here's what you'll need to help your financial professional conduct a review of your Social Security benefits:

- ✓ Your Social Security statement (available online)
- ✓ Last year's tax return
- ✓ Birthdates and ages of family members
- ✓ Expected income for the next five years
- ✓ Planned/known sources of income in retirement
- ✓ Value of retirement assets
- ✓ Value of invested assets
- ✓ Home equity amount
- ✓ Outstanding debt amounts and due dates





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