



Social Security and Your Retirement

Knowing the rules of the road

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Workshop objectives

1

Review the value of Social Security

2

Discuss the rules of the road for receiving Social Security benefits

3

Consider possible routes to potentially increase your benefits

4

Discuss the future of Social Security and the challenge of setting up a retirement income stream

5

Review next steps





What lies ahead?

Regardless of when you plan to retire, Social Security will likely be an important part of the road ahead

The beginning of Social Security



Established in 1935 to pay retirement benefits to the primary worker



A 1939 change added survivors' benefits and benefits for the retiree's spouse and children



In 1956, disability benefits were added

SOURCE | Social Security Administration, FAQs, undated, <https://www.ssa.gov/history/hfaq.html>

Retirement income sources

Nearly 9 out of 10 people age 65 and older were receiving Social Security benefits in 2022¹

Social Security benefits are a key source of retirement income:

- **About 30%** of the income of the elderly¹
- **Half or more** of the income of **37% of retired men** and **42% of retired women**, among beneficiaries¹
- **90% or more** of the income of **12% of elderly men** and **15% of elderly women**¹



Average monthly benefit for a retired worker in September 2022 was **\$1,673.88**²

SOURCES | ¹ Social Security Administration, [Fact Sheet](#), undated.

² Social Security Administration, [Monthly Statistical Snapshot](#), September 2022, released October 2022.

Questions about Social Security?

What questions do you have?

- What does Social Security really provide?
- How much can I expect to receive?
- When should I start my Social Security?
- How can I potentially increase my benefits?
- Can I still work while I draw Social Security?
- What about taxes and Social Security?
- Will Social Security be there in the future?



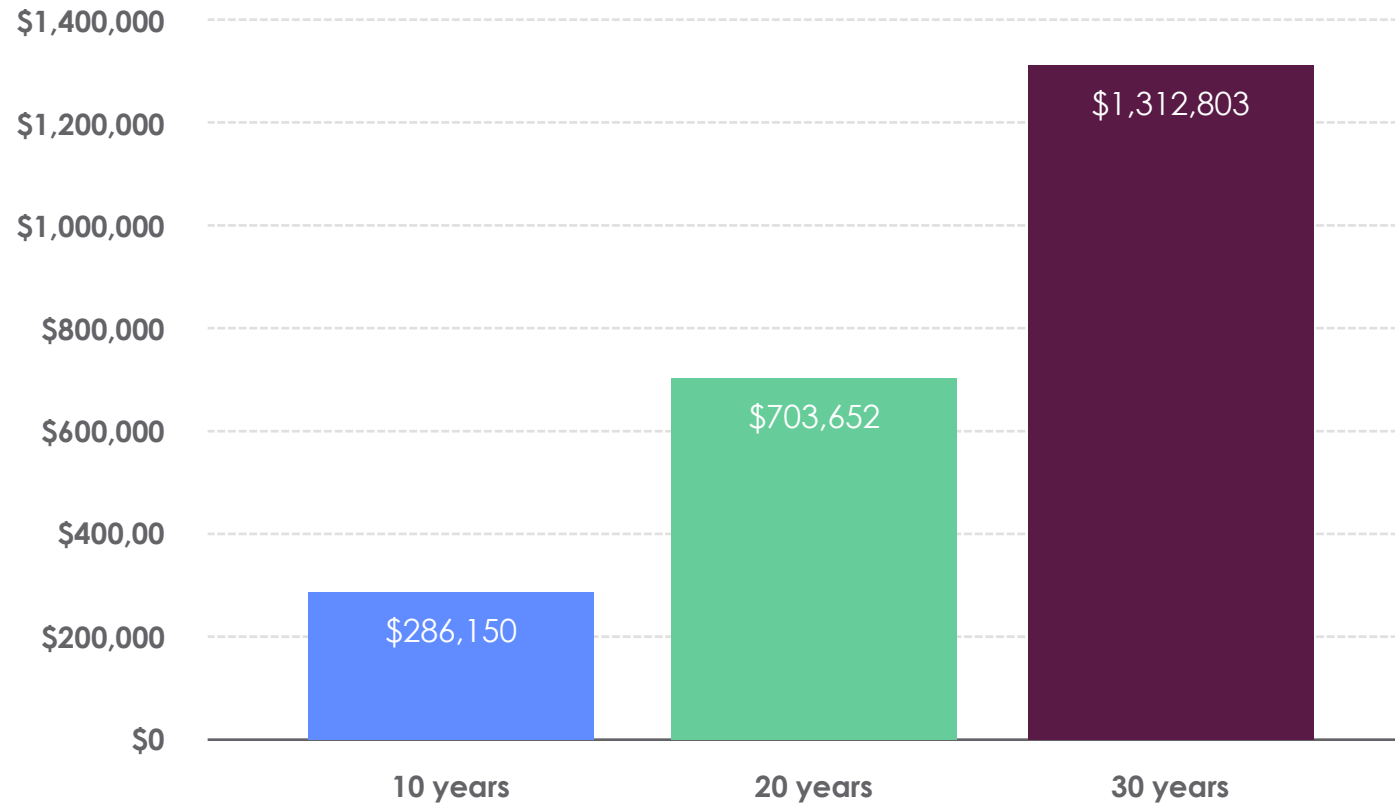
And most important of all...
Will Social Security be enough to live on in retirement?

Value of Social Security



Income for life

Chart assumes \$2,000 monthly payment and 3.85% annual cost-of-living adjustment



* Hypothetical example for illustrative purposes only.

10 Rules of the road



Eligibility



Insurance amount



Full retirement age



Start date



Spousal benefits



Survivor benefits



Earnings test



Pension income



Taxation



Inflation adjustments



Eligibility

In most cases, individuals become eligible for Social Security benefits by working or being married to someone who's worked in a Social Security covered job for 10 years.

The typical threshold is that you must have **40 credits** to be eligible — you accumulate 4 credits a year by earning a minimum dollar amount at your job (\$6,560).

Remember, your benefit amount is not based on credits, but on your earnings history.



SOURCE | Social Security Administration, [How You Become Eligible for Benefits](#), June 2022.



Eligibility

Benefits are funded by YOU!

Social Security benefits are funded by payroll taxes of **6.2%** paid each year by employees and employers

If you are self-employed, you pay the combined employee and employer amount of 12.4% but, there are two income tax deductions that may reduce your taxes¹

Taxes are paid on earnings up to the taxable wage base for 2023—that's **\$160,200, an increase of \$13,200 from 2022²**



The most someone can contribute in 2023 is **\$9,932.40**

SOURCES | ¹ Social Security Administration, [Understanding the Benefits](#), 2022.

² Social Security Administration, [Cost-of-Living Adjustment \(COLA\) Information](#), undated.



Insurance amount

Benefit formula first takes your 35 highest years (not necessarily consecutive) of earnings and fills in any missing years with **\$0**

It adjusts or “indexes” those earnings for inflation, and then divides by **the total number of months** to get an average

Next, it rounds down to next lower dollar amount. That result is your Average Indexed Monthly Earnings (AIME)

Then a **three-part formula** is applied to your AIME to determine your Primary Insurance Amount (PIA)

SOURCE | Social Security Administration, [Social Security Benefits Amounts](#), no date.



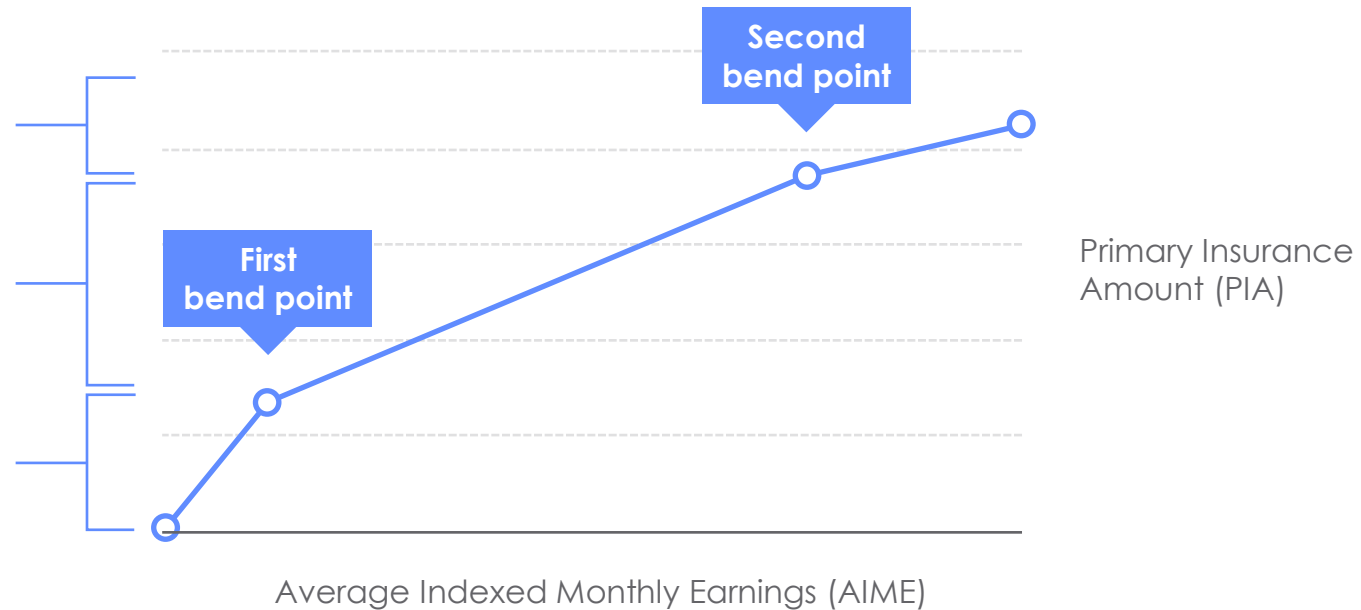


Insurance amount

2023 Insurance amount calculation

Your Primary Insurance Amount (PIA) includes three parts:

- ③ 15% of AIME over **\$6,721**
- ② 32% of AIME between **\$1,115** and **\$6,721**
- ① 90% of the first **\$1,115** of AIME



SOURCE | Social Security Administration, [Social Security Benefit Amounts](#), undated.



Insurance amount

A sample benefit calculation*

John was born in 1955 and worked since he graduated from college at age 22

His highest 35 years of earnings total \$2,940,000, which averages \$84,000 annually, with an AIME of \$7,000

The three-part formula is applied to his \$7,000 AIME to calculate his Primary Insurance Amount (PIA):

①	\$1,115 x 90%	= \$1,003.50
②	\$5,606 x 32%	= \$1,793.92
③	\$279 x 15%	= \$41.85
	PIA Total	= \$2,839.27

The maximum Social Security retired worker benefit available in 2023 to someone who has maxed out the system and retires at full retirement age (FRA) is **\$3,627**.¹

He'll be eligible to receive his monthly PIA benefit at his full retirement age

Keep in mind his PIA will change with inflation and changes in earnings until he retires

* Hypothetical example for illustrative purposes only.
SOURCE | ¹ Social Security Administration, [Fact Sheet: 2023 Social Security Changes](#), undated.



Full retirement age

If your birthday is on January 1, Social Security figures your benefit as if your birthday was in the previous year

Birth year	Full retirement age
1943-54	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 and later	67

SOURCE | Social Security Administration, [Starting Your Retirement Benefits Early](#), undated.





Start date

Just about anyone can start receiving benefits as early as age 62

Anyone starting benefits before their full retirement date (FRA) will receive a reduced benefit

While still eligible for the annual cost of living adjustments, a reduced benefit is permanent

SOURCE | Social Security Administration, [Starting Your Retirement Benefits Early](#), undated.





Start date

Early retirement

For example, if you were born in 1959, your benefit would be reduced less the closer you get to your Full Retirement Age of 66 and 10 months.¹

For those born in 1961 and turning 62 in 2023, Full Retirement Age is 67, so if you claim benefits right away in the month you turn 62, your reduction is 30%, leaving 70%, so your reduced lifetime benefit is \$1,400, assuming a PIA of \$2,000.²

Let's assume a PIA of \$2,000 at full retirement age:

Start age	% Applied to PIA	Reduced lifetime benefit
62	70.8%	\$1,416
63	75.8%	\$1,516
64	81.1%	\$1,516
65	87.8%	\$1,756
66	94.4%	\$1,888
66 and 10 months	100%	\$2,000

SOURCES | ¹ Social Security Administration, [Retirement Benefits: If you were born in 1959 your full retirement age is 66 and 10 18 months](#), undated.

² Social Security Administration, [If you were born between 1960 your full retirement age is 67](#), undated.



Start date

Delaying retirement

If you delay the onset of Social Security benefits past Full Retirement Age, you earn **delayed credits**

Delayed credits increase your benefit by **8% per year** for those born 1943 or later¹

You can earn delayed credits **up to age 70**¹

Delaying your Social Security benefits past your 70th birthday provides **no additional benefit**

SOURCE | ¹ Social Security Administration, [Retirement Benefits: Delayed Retirement Credits](#), undated.





Start date

Delayed retirement credits

For example, if you were born in 1959, your benefit would be increased more for each year you delay the start of benefits after full retirement age

Let's assume a PIA of \$2,000 at full retirement age:

Start age	% Applied to PIA	Benefit amount
66 and 10 months	100%	\$2,000
67 and 10 months	108%	\$2,160
68 and 10 months	116%	\$2,320
69 and 10 months	124%	\$2,480
70	125.3%	\$2,506

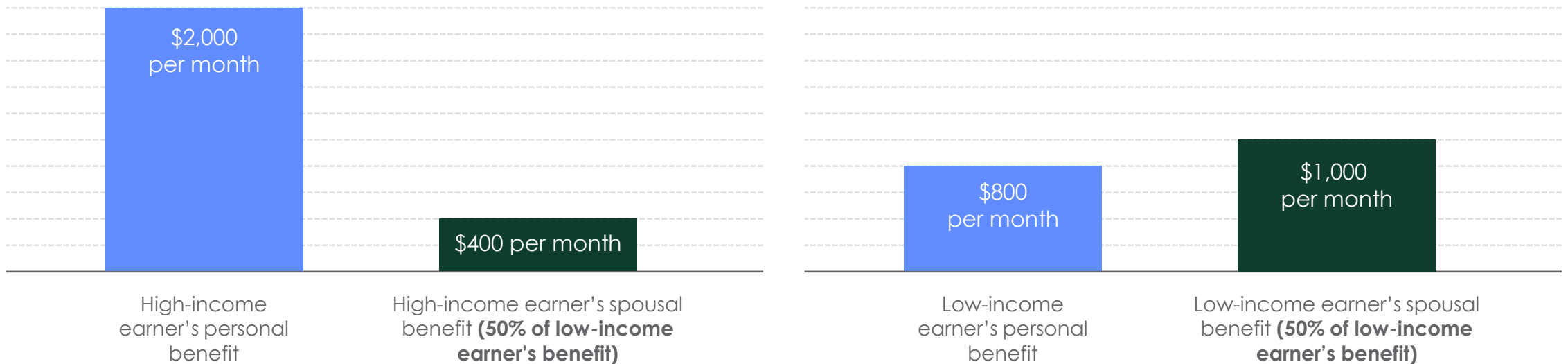
SOURCE | Social Security Administration, [Retirement Benefits: If you were born between 1959 your full retirement age is 66 and 10 months](#), undated.



Spousal benefits

Your spouse is entitled to receive up to 50% of your FRA benefit if age 62 or older (or if you have a qualifying child in your care)

Your spouse would still claim their own benefit if it is higher than their spousal benefit



SOURCE | Social Security Administration, [Benefits for Spouses](#), undated.



Spousal benefits

Rules for spousal benefits

Spouse receives higher of own benefit or spousal benefit

Primary worker must have applied for benefits before spouse can claim spousal benefits

Same age rules apply when receiving spousal benefits — spouse must be at least 62 for reduced benefits or full retirement age for full benefits

No opportunity for delayed retirement credits on a spousal benefit

SOURCE | Social Security Administration, Benefits for Your Family, undated.





Spousal benefits

Divorced spouses

Divorced spouses can also claim spousal benefits as long as:

The marriage lasted 10 years or more

Person receiving divorced spouse benefits remains unmarried

The ex-spouse is 62 or older

The benefit the ex-spouse would receive on their own record is less than the spousal benefit

SOURCE | Social Security Administration, [Benefits for Your Family](#), undated.





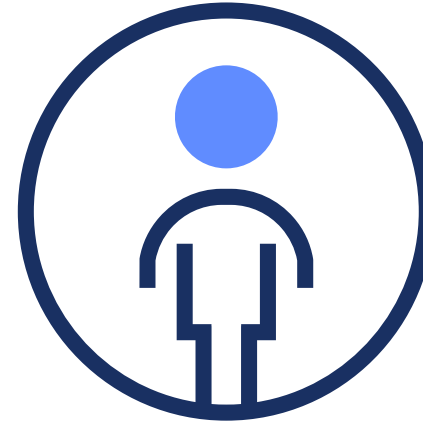
Spousal benefits

Rules for ex-spouses

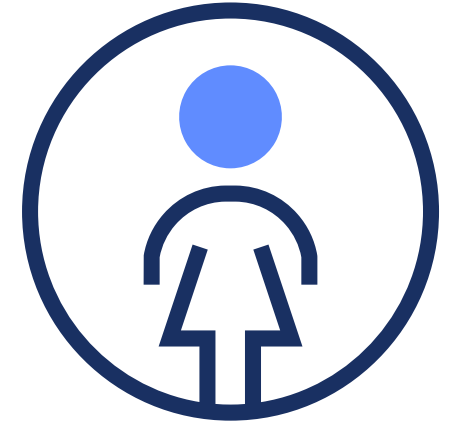
Same spousal benefit calculations apply when determining benefits for an ex-spouse.

(Note: worker isn't notified when an ex-spouse applies for benefits on their earnings record)

An ex-spouse can claim benefits if divorced more than two years, both worker and ex-spouse are 62+ (even if the worker hasn't retired), and the benefit based on the ex-spouse's work is less than the benefit he/she would receive based on the worker



Worker benefit
\$2,000



Ex-spouse benefit
\$1,000

SOURCE | Social Security Administration, [Benefits for Your Family](#), undated.

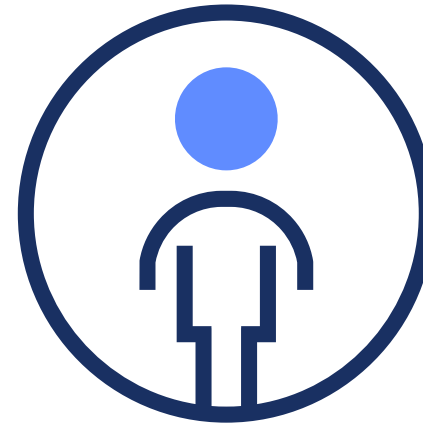


Spousal benefits

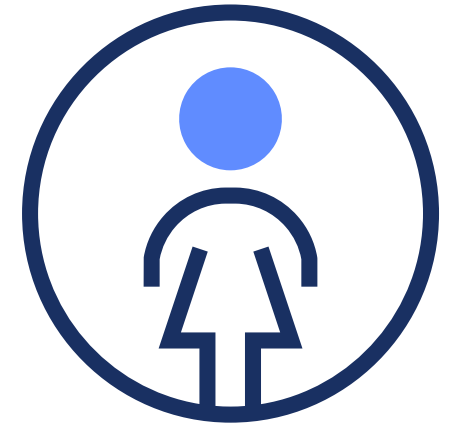
Rules for the ex-spouses of the worker

To qualify, you must be age **62 or older**, unmarried, your ex-spouse is eligible for Social Security retirement or disability benefits — and the benefit you would receive based on your ex-spouse's work is more than you are entitled to receive based on your own work

Note that the **benefits do not include any delayed retirement credits** your ex-spouse may receive



Worker benefit
\$2,000



~~Ex-spouse benefit
\$1,000~~

SOURCE | Social Security Administration, [Benefits for Your Family](#), undated.



Survivor benefits

At death, survivor can switch and receive the benefit for the spouse who has passed, if it's higher than their own¹

Survivor must be at least age 60 for reduced benefits (50 if disabled)¹

Couple must have been married for at least 9 months before survivor benefits will be paid, except in case of accident.²

Ex-spouse survivor benefits are also available if marriage lasted more than 10 years¹

Surviving spouse can get remarried after the age of 60

SOURCES | ¹ Social Security Administration, *If You Are the Survivor*, undated.

² Social Security Administration, *Social Security Handbook*, undated, https://www.ssa.gov/OP_Home/handbook/handbook.04/handbook-0404.html





Survivor benefits

How does it work? A hypothetical example



High-income earner
\$2,000



Low-income earner
\$1,200

The low-income earner's spouse was receiving a \$2,000 monthly benefit, and the low-income earner's benefit was \$1,200




Low-income earner
\$2,000 (if at FRA)

After the high-income earner passed away, the surviving spouse's benefit was automatically replaced with the deceased's higher \$2,000 benefit

If a person takes a survivor spouse benefit before reaching their own full retirement age (FRA), there's a reduction

SOURCE | Social Security Administration, [Benefits for Your Family](#), undated.



Claiming and retiring are not the same thing — you can **continue to work** while you receive Social Security benefits



Earnings test

If you receive benefits before normal retirement age (NRA) and continue working, some of your benefits may be withheld

Maximum amount you can earn before benefits are withheld is called the earnings test, and the amount is adjusted each year for inflation

Up until the year you turn full retirement age, for every \$2 you earn over the earnings test, Uncle Sam will withhold \$1

At full retirement age, your benefit is increased to account for the months when benefits were withheld

2023 earnings limits¹

From 62 to NRA

Give up \$1 for every \$2 earned over \$21,240

In the year you turn NRA

Give up \$1 for every \$3 earned over \$56,520

After your NRA

No benefits withheld

SOURCE | ¹ Social Security Administration, [Exempt Amounts Under the Earnings Test](#), undated.



Pension income

If you receive a pension from a former employer, your Social Security benefits are not affected as long as you contributed to Social Security while at that job¹

Other income, like distributions from your IRAs and 401(k) plans, does not affect Social Security¹

But if you're receiving a pension from a job where you didn't contribute to Social Security (e.g., a civil service job), your benefits may be reduced under the Windfall Elimination Provision or the Government Pension Offset²

SOURCES | ¹ Social Security Administration, [How Work Affects Your Benefits](#), April 2022.

² Social Security Administration, [Windfall Elimination Provision](#), January 2022.





Taxation

Your Social Security benefits may be taxable, depending on how much other income you earn

Single or head of household¹

- 50% taxable if you have between \$25,000 and \$34,000 combined income
- 85% taxable if you have more than \$34,000 combined income

Married, filing jointly¹

- 50% taxable if you have between \$32,000 and \$44,000 combined income
- 85% taxable if you have more than \$44,000 combined income

Combined income is defined as your adjusted gross income plus nontaxable interest plus 1/2 of your Social Security benefits¹

This is not tax advice. Consult your tax advisor.

SOURCE | ¹Social Security Administration, [Retirement Benefits: Income Taxes And Your Social Security Benefit](#), undated.



Inflation adjustments

The first cost-of-living adjustment (COLA) was determined in 1975

COLAs are announced each year in October for the following January, based on increase in the Consumer Price Index (CPI)

SOURCE | Social Security Administration, [Cost-Of-Living Adjustment \(COLA\)](#), undated.





History of COLAs

The historical COLA average from 1975-2022 is **3.85%**

Year	COLA
1975	8.0%
1976	6.4%
1977	5.9%
1978	6.5%
1979	9.9%
1980	14.3%
1981	11.2%
1982	7.4%
1983	7.0%
1984	3.5%
1985	3.5%
1986	3.1%

Year	COLA
1987	1.3%
1988	4.2%
1989	4.0%
1990	4.7%
1991	5.4%
1992	3.7%
1993	3.0%
1994	2.6%
1995	2.8%
1996	2.6%
1997	2.9%
1998	2.1%

Year	COLA
1999	1.3%
2000	2.5%
2001	3.5%
2002	2.6%
2003	1.4%
2004	2.1%
2005	2.7%
2006	4.1%
2007	3.3%
2008	2.3%
2009	5.8%
2010	0.0%

Year	COLA
2011	0.0%
2012	3.6%
2013	1.7%
2014	1.5%
2015	1.7%
2016	0.0%
2017	0.3%
2018	2.0%
2019	2.8%
2020	1.6%
2021	1.3%
2022	5.9%
2023	8.7%

SOURCE | Social Security Administration, [SSI Federal Payment Amounts](#), undated.

Improve your earnings record

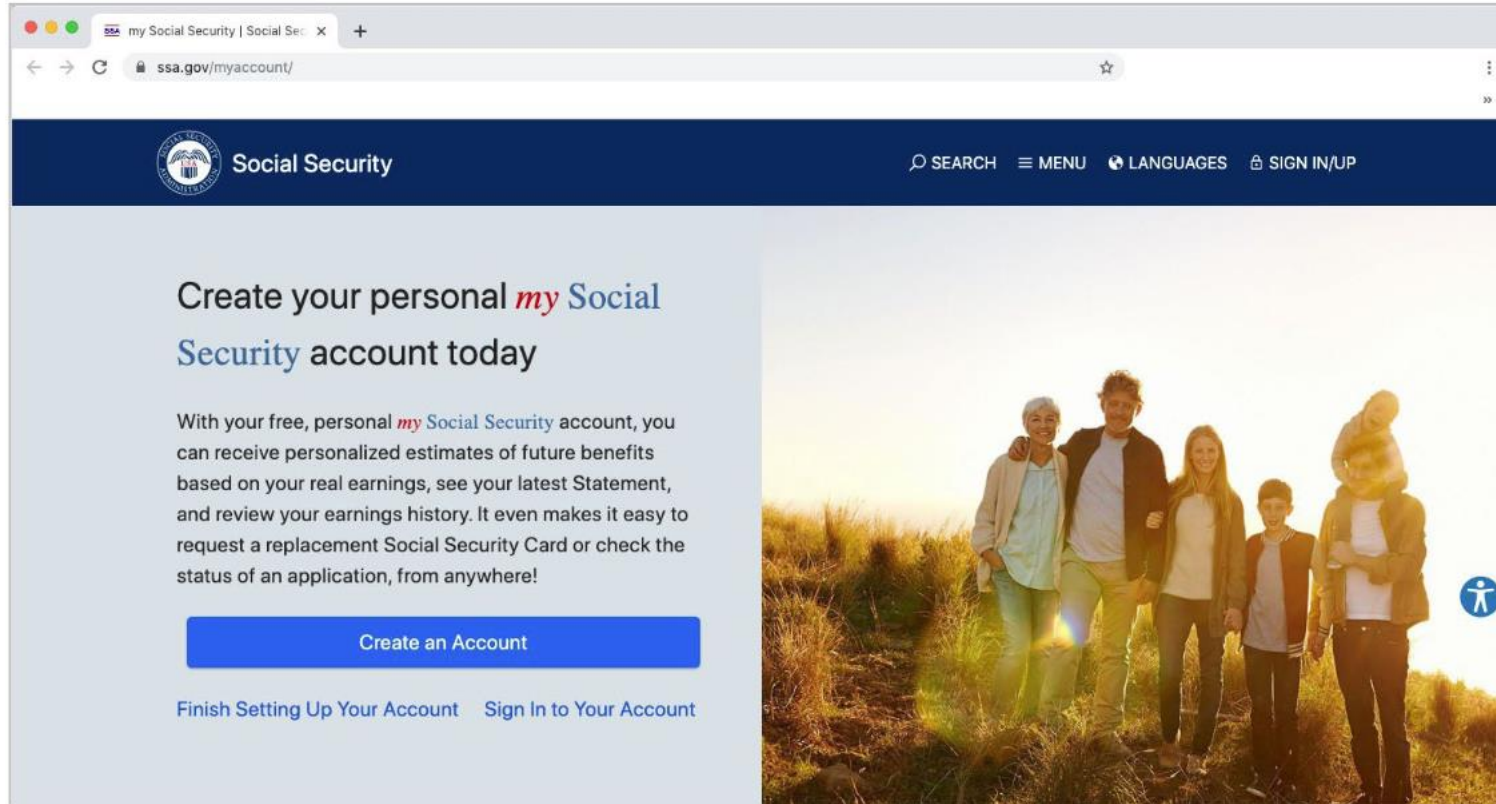
If you have the option, you may want to look at ways to **increase your earnings record** and, therefore, your Social Security benefit amount

If you **work longer**, you may be able to increase your AIME by filling in any missing zeros in your 35-year earnings history or raising average earnings

And always **check your statement** of Social Security benefits to ensure there are no discrepancies in your work record that might reduce your benefit



Tracking your benefit



Review your Social Security statement

Go to ssa.gov and set up your Social Security account.

All you need is a valid email address, a valid mailing address and your Social Security number.

SOURCE | Social Security Administration, [Create your personal my Social Security account today](#), undated.

Optimal time to start benefits

Applying for benefits at the optimal time can make a big difference, **but what is the “optimal time”?**

When should I start my benefits?

How long you work and when you claim have more impact on your retirement income than how much you've saved or how you've invested



Check your breakeven age

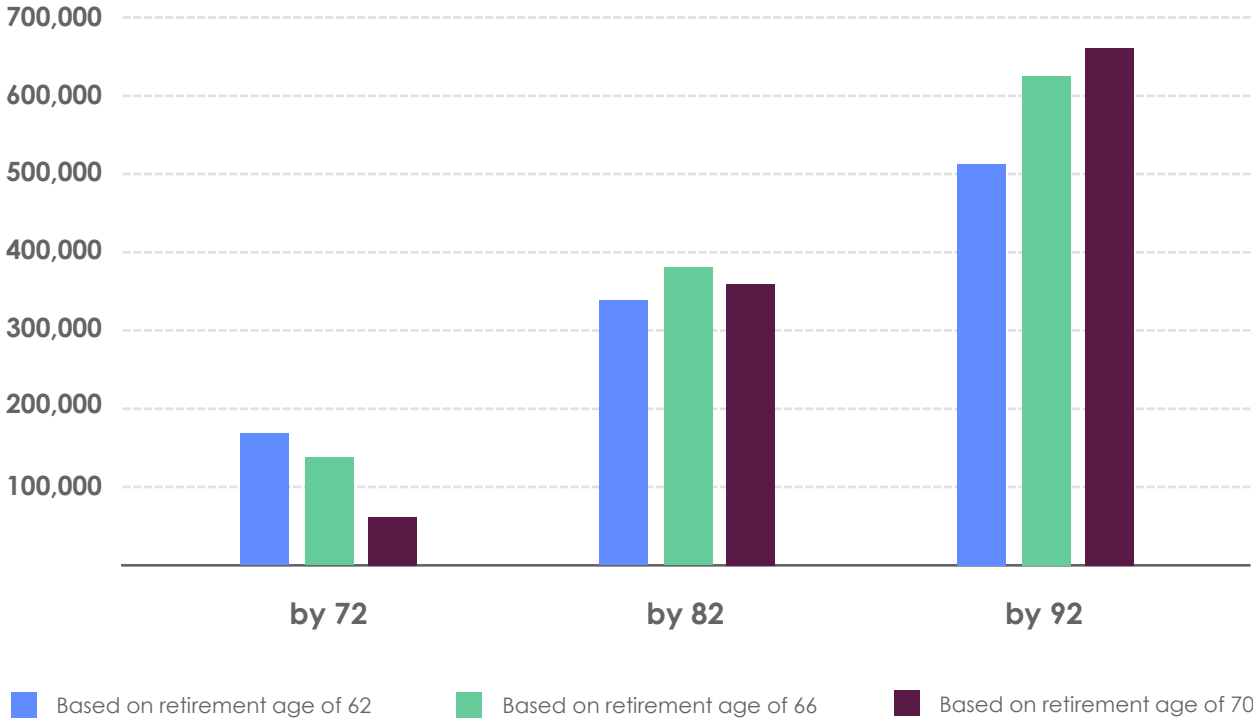
Assumes top wage earner turning 62 this year with monthly benefits of:

- \$1,416 if starting at 62
- \$2,000 if starting at 66 and 10 months
- \$2,506 if starting at 70

Comparing **62** to **66**, the breakeven age is 74

Comparing **62** to **70**, the breakeven age is 79

Comparing **66** to **70**, the breakeven age is 84



Hypothetical example for illustration purposes only. Assumes retiree was born in 1959 with PIA of \$2,000 at full retirement age.

Life expectancy

When you're deciding between two retirement ages, if you believe you're likely to live longer than the breakeven age, it might make sense to delay Social Security



A man reaching age 65 today can expect to live, on average, until age 84.1



A woman reaching age 65 today can expect to live, on average, until age 86.8

SOURCE | Social Security Administration, [Retirement & Survivors Benefits: Life Expectancy Calculator](#), Accessed November 14, 2022.

Married couple, both born in 1957

If both claim at FRA



High-income earning spouse claims full retirement age PIA of \$2,000 at 66 and 6 months



Low-income earning has PIA of \$800, but begins the higher \$1,000 spousal benefit at age 66 and 6 months based on spouse's benefit



At 66 and 6 months, the couple has a combined payment of \$3,000. At the end of retirement,* they will have received a total of \$840,000**

Hypothetical example for illustration purposes only.

*Assumes high-income earner lives to 85 and low-income earner lives to 90. **Assumes no cost-of-living adjustments (COLAs).

Married couple, both born in 1957

If the high-income earner waits until 70



Because the high-income earner waited until 70 to claim benefits, the earned delayed retirement credits increased the PIA to \$2,534



With the high-income earner waiting until 70, the low-income earner begins receiving a benefit of \$800 at FRA. At 70, the low-income earner will receive the higher spousal benefit of \$1,000



At 70, their combined payment is now \$3,534. At the end of retirement,* they will have received a total of \$895,680**

Hypothetical example for illustration purposes only.

*Assumes high-income earner lives to 85 and low-income earner lives to 90. **Assumes no cost-of-living adjustments (COLAs).

Slow down taxes

Consider ways to reduce taxes by reducing taxation on Social Security benefits, reducing overall income subject to taxation or delaying your benefits ... and therefore your taxes

1

Roth IRA distributions are non-taxable and not included in combined income for determining taxation of Social Security benefits (unlike non-taxable interest on municipal bonds)

2

Rolling income-generating assets into a Roth could also help lower your overall income and keep you out of a higher tax bracket

3

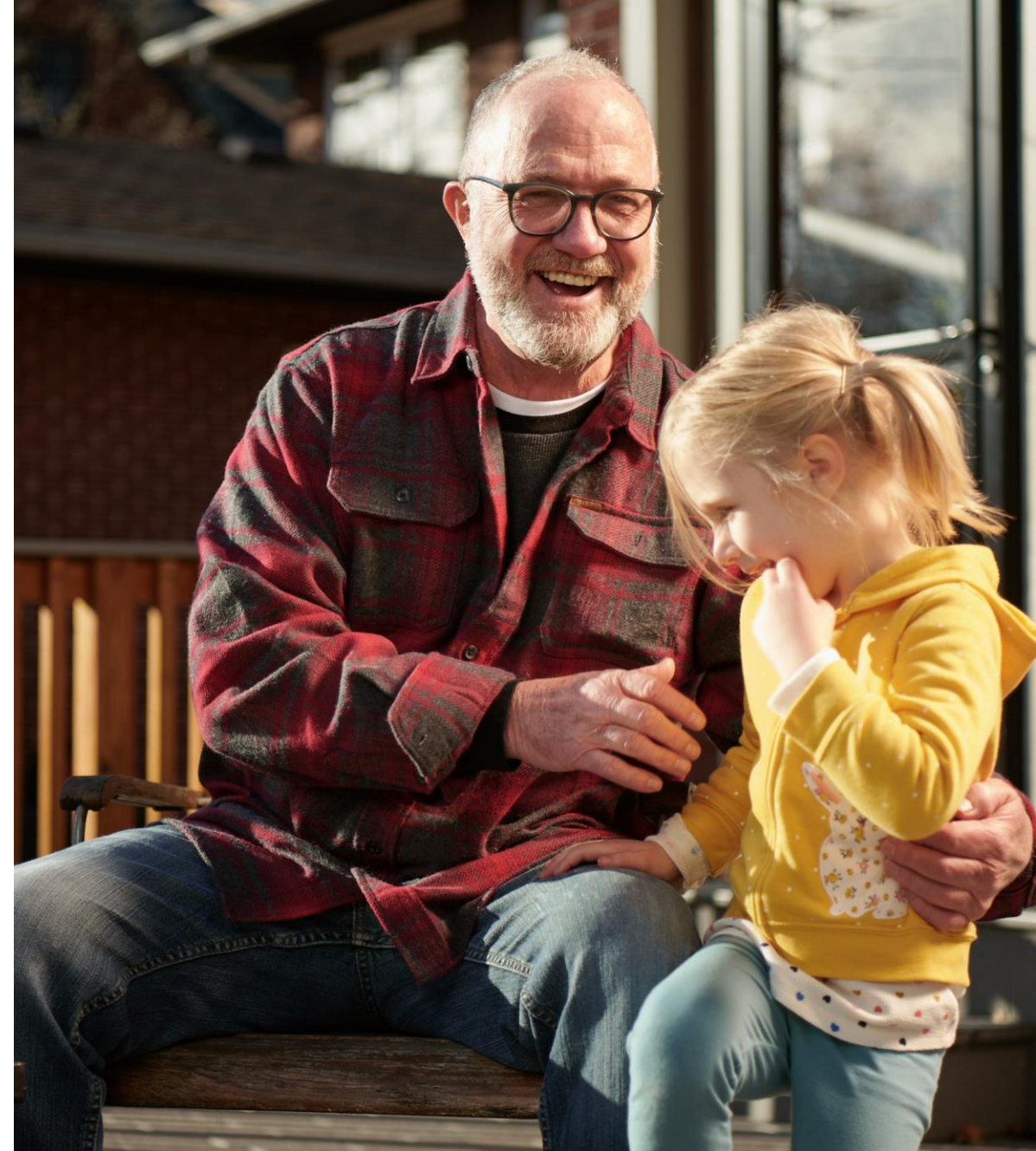
Generating income from other assets allows you to delay benefits – that gives benefits time to grow and delays potential taxes on those benefits

Social Security “U-turn”

Did you know that even if you begin receiving reduced benefits at age 62, you can change your mind **in the first year?** This allows you to make one “U-turn” if you decide to take a different route

You can pay back benefits received to date and then wait to start higher benefits down the road

SOURCE | Social Security Administration., [Retirement Benefits: Withdrawing Your Social Security Retirement Application](#) updated.



Start-stop-start strategy

If you started benefits early and are beyond 12 months, you can suspend benefits at FRA and earn delayed retirement credits on your current amount. Your benefit payments will automatically start again the month you reach age 70.¹

Gives another option for those beyond the 12-month “U-turn”

An example*:

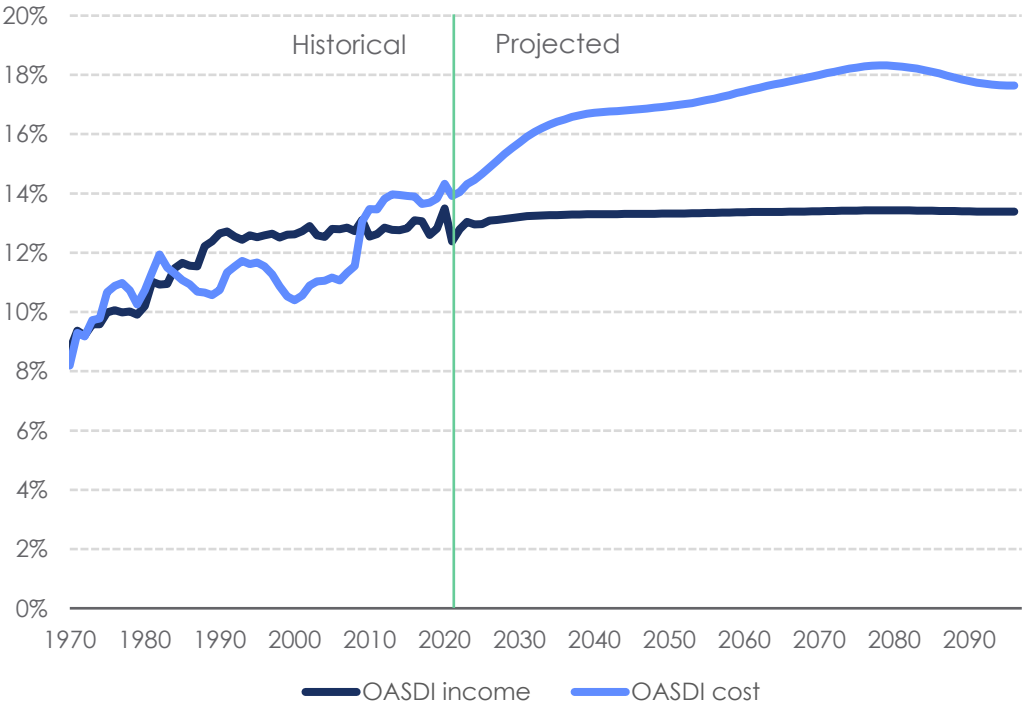
- Assume PIA would be \$2,000 at 66 and 6 months
- You start at 62, though, and begin receiving \$1,434
- Can suspend at 66 and 6 months (FRA) and receive a max rate of 8% delayed credit by waiting 3.5 years to age 70 (28% increase)
\$1,434 x 128% = \$1,835.52
- Can then resume benefits at 70 at the increased amount

*Hypothetical example for illustration purposes only.
SOURCE | ¹ Social Security Administration, [Suspending Your Retirement Benefits](#), undated.

Will social security be around

Long range Social Security trust fund¹

Income, costs and expenditures as a percentage of taxable payroll



In the long-term, though, the picture becomes more complicated as more boomers retire

The fund can pay promised benefits until 2034 – after that, income will only cover 77% of benefits unless changes are made

SOURCE | ¹ Social Security Administration, *A Summary of the 2022 Annual Reports*, undated.

Don't start early because you're worried

Slow down before you decide to start benefits early just because the Social Security trust fund has money problems

Most prominent proposals



Increase full retirement age



Freeze benefits



Cut benefits for high earners



Raise taxes

Proposals to fix Social Security often aim to protect those 55 and older

Your retirement income

1

Social Security payments from the government

2

Any pension or retirement savings from your employer

3

Income from your own personal savings

You need to determine what amounts to draw from all three sources



How to apply for Social Security



1. Apply online at [ssa.gov](https://www.ssa.gov)



2. Call by phone at 800.772.1213



3. Visit your local Social Security office

SOURCE | Social Security Administration, Retirement Benefits: Apply for Retirement Benefits, undated, <https://www.ssa.gov/benefits/retirement/apply.html>



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