



# Social Security and Your Retirement

KNOWING THE RULES OF THE ROAD

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Offered by  
Mid Oregon Wealth Management  
Retirement and Investment Planning  
located at  
Mid Oregon Credit Union

**CUNA MUTUAL GROUP**

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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

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

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**In 1956, disability benefits** were added

# Retirement Income Sources

Average monthly benefit for a retired worker in January 2022 was **\$1,657**<sup>2</sup>

**87% of workers and retirees** surveyed said they expected Social Security to be a source of retirement income.<sup>1</sup>

In fact, **Social Security is the top source of retirement income** for Americans.<sup>1</sup>

- Social Security - 92%
- Personal savings - 66%
- Defined benefit or pension plan - 58%
- IRA - 55%
- Defined contribution plan - 46%

# Questions

## About Social Security

*And most important of all...*

### 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?

**Will Social Security be  
enough to live on  
in retirement?**

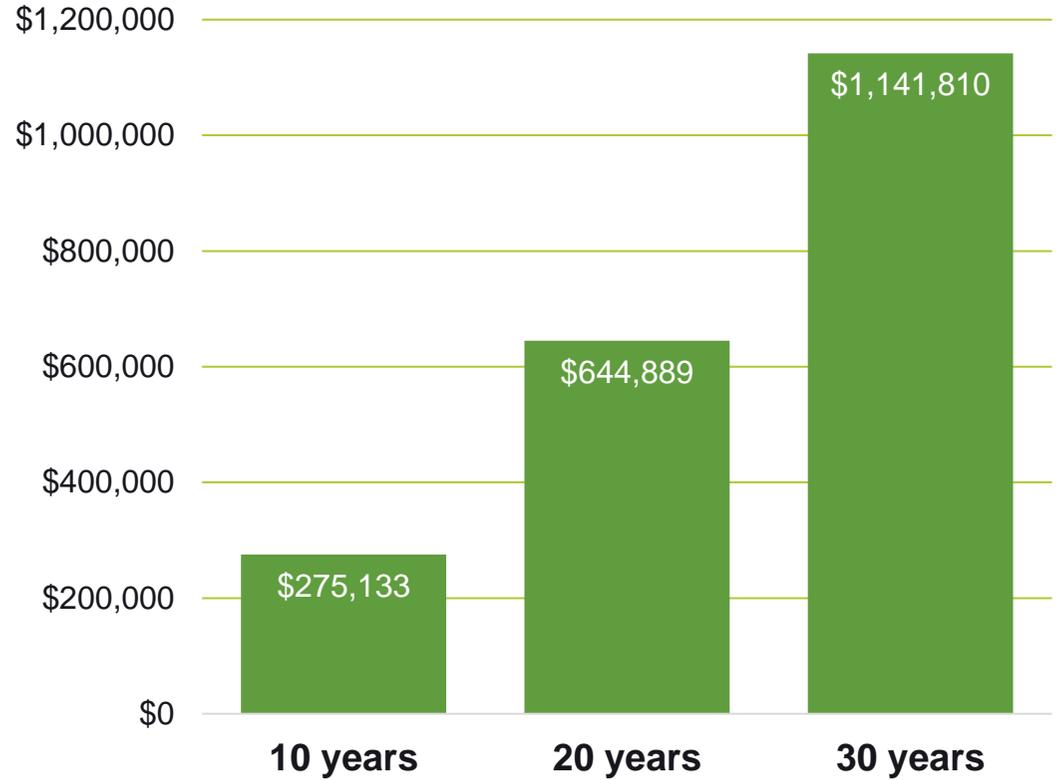
# Value

## of Social Security



# Income for Life

*Chart assumes \$2,000 monthly payment and 3% annual cost-of-living adjustment*



\* Hypothetical example for illustrative purposes only.

Hypothetical example for illustrative purposes only.

# 10 RULES OF THE ROAD



Eligibility



Survivor Benefits



Insurance Amount



Earnings Test



Full Retirement Age



Pension Income



Start Date



Taxation



Spousal Benefits



Inflation Adjustments



# Eligibility

Most people become eligible for Social Security benefits by working in a Social Security-covered job for a minimum of 10 years

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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 (\$6,040)

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In general, once you have 40 credits, you are eligible under Social Security

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



# Benefits Are Funded By YOU!

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

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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 taxes

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Taxes are paid on earnings up to the taxable wage base for 2022 of **\$147,000**



Eligibility



# Insurance Amount

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

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

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

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Then a **3-part formula** is applied to your AIME to determine your Primary Insurance Amount (PIA)



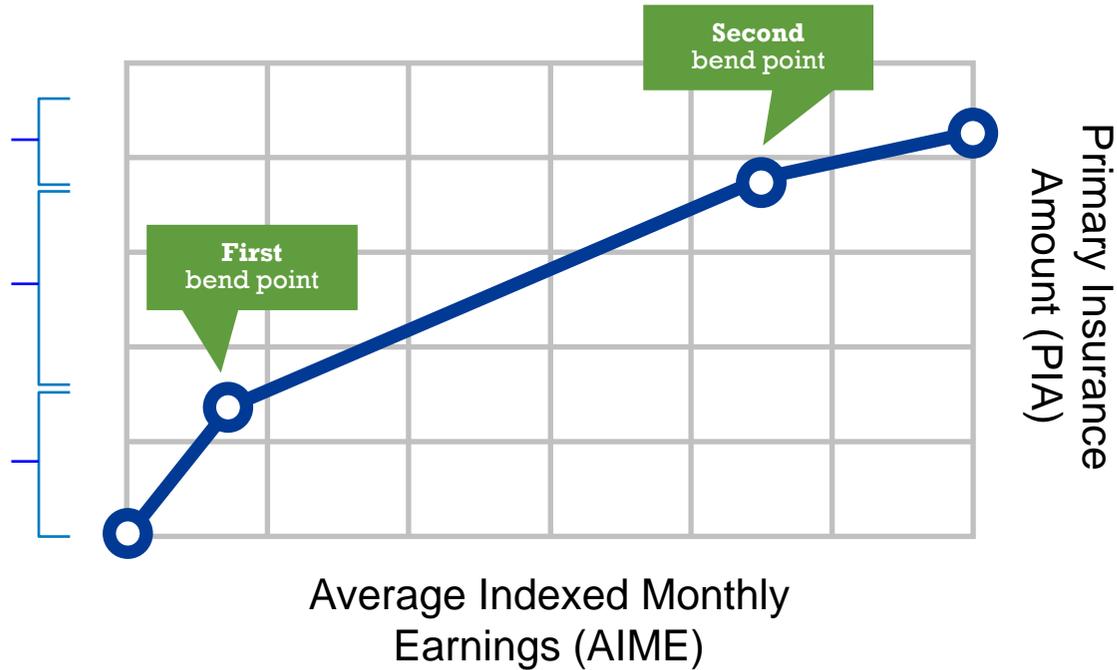
# 2022 Insurance Amount Calculation



Insurance Amount

## YOUR PRIMARY INSURANCE AMOUNT (PIA) INCLUDES 3 PARTS:

- 1 90% of the first \$1,024 of AIME
- 2 32% of AIME between \$1,024 and \$6,172
- 3 15% of AIME over \$6,172



# A Sample Benefit Calculation\*

John was born in 1952 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 3-part formula is applied to his \$7,000 AIME to calculate his Primary Insurance Amount (PIA):

①	\$1024 x 90%	= \$921.60
②	\$5,148 x 32%	= \$1,647.36
③	\$828 x 15%	= \$124.20
	<b>PIA Total</b>	<b>= \$2,693.16</b>

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.

SOURCES | <sup>1</sup>Social Security Administration, Benefit Calculation Examples for Workers Retiring in 2022, undated, <https://www.ssa.gov/oact/ProgData/retirebenefit1.html>

<sup>2</sup>Social Security Administration, Benefit Calculation Examples for Workers Retiring in 2022, undated, <https://www.ssa.gov/oact/progdata/retirebenefit2.html>

<sup>3</sup>Social Security Administration, Fact Sheet: 2022 Social Security Changes, undated. <https://www.ssa.gov/news/press/factsheets/colafacts2022.pdf>



Insurance  
Amount

The maximum Social Security retired worker benefit available in 2022 to someone who has maxed out the system and retires at Full Retirement Age (FRA) is \$3,345.<sup>3</sup>



# 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





# Start Date

Anyone can start receiving benefits as early as age 62

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But if you start before your full retirement age,  
your benefit will be reduced

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And that **reduction** will continue for life...your  
benefit won't go up once you reach full retirement age



# Early Retirement

For example, if you were **born in 1958**, your benefit would be reduced less the closer you get to your full retirement age of 66 and 8 months.<sup>1</sup>

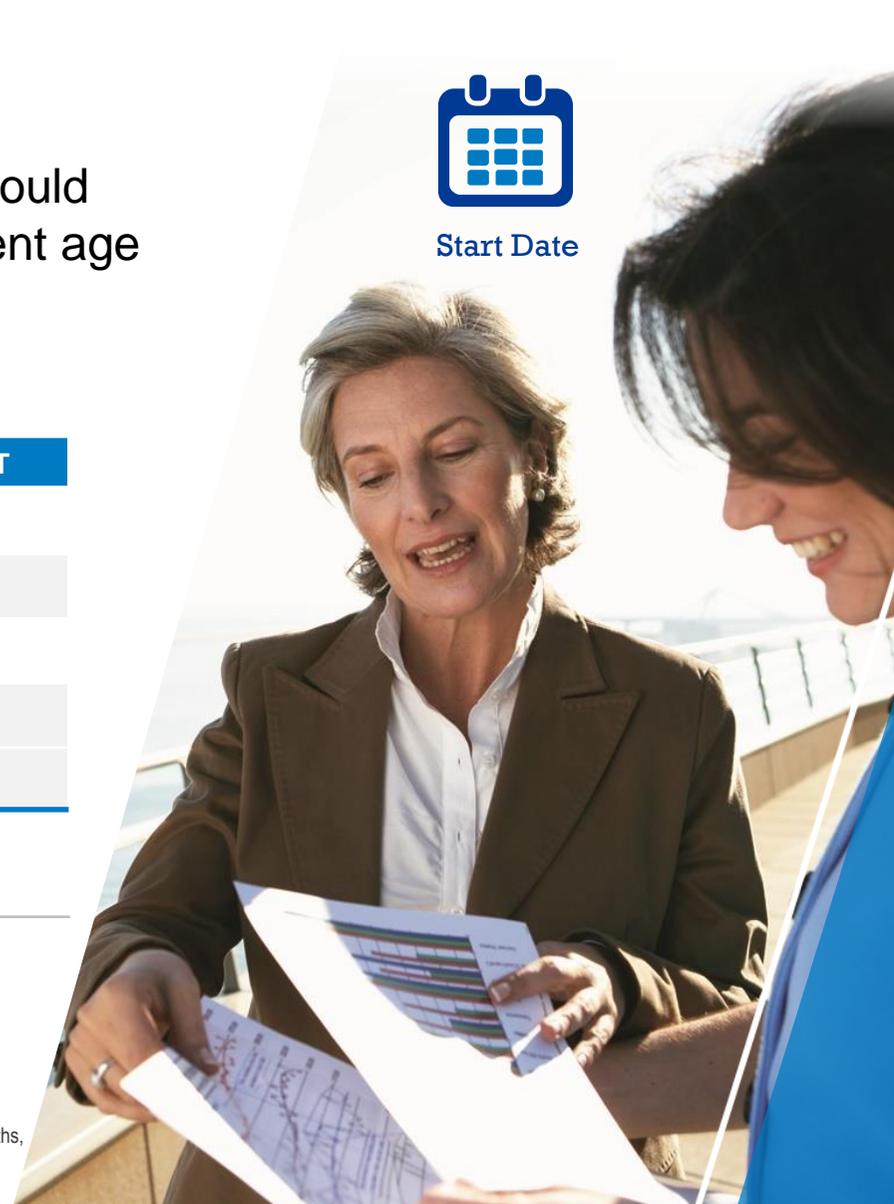


Start Date

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

START AGE	% APPLIED TO PIA	REDUCED LIFETIME BENEFIT
62	71.7%	\$1,434
63	76.7%	\$1,534
64	82.2%	\$1,644
65	88.9%	\$1,778
66	95.6%	\$1,912
66 and 8 months	100%	\$2,000

For those born in 1960 and turning 62 in 2022, 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.<sup>2</sup>



# Delaying Retirement

If you delay the onset of Social Security benefits past full retirement age, you earn **delayed credits**

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Delayed credits increase your benefit by **8% per year** for those born 1943 or later<sup>1</sup>

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You can earn delayed credits **up to age 70**<sup>1</sup>

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



Start Date



# Delayed Retirement Credits

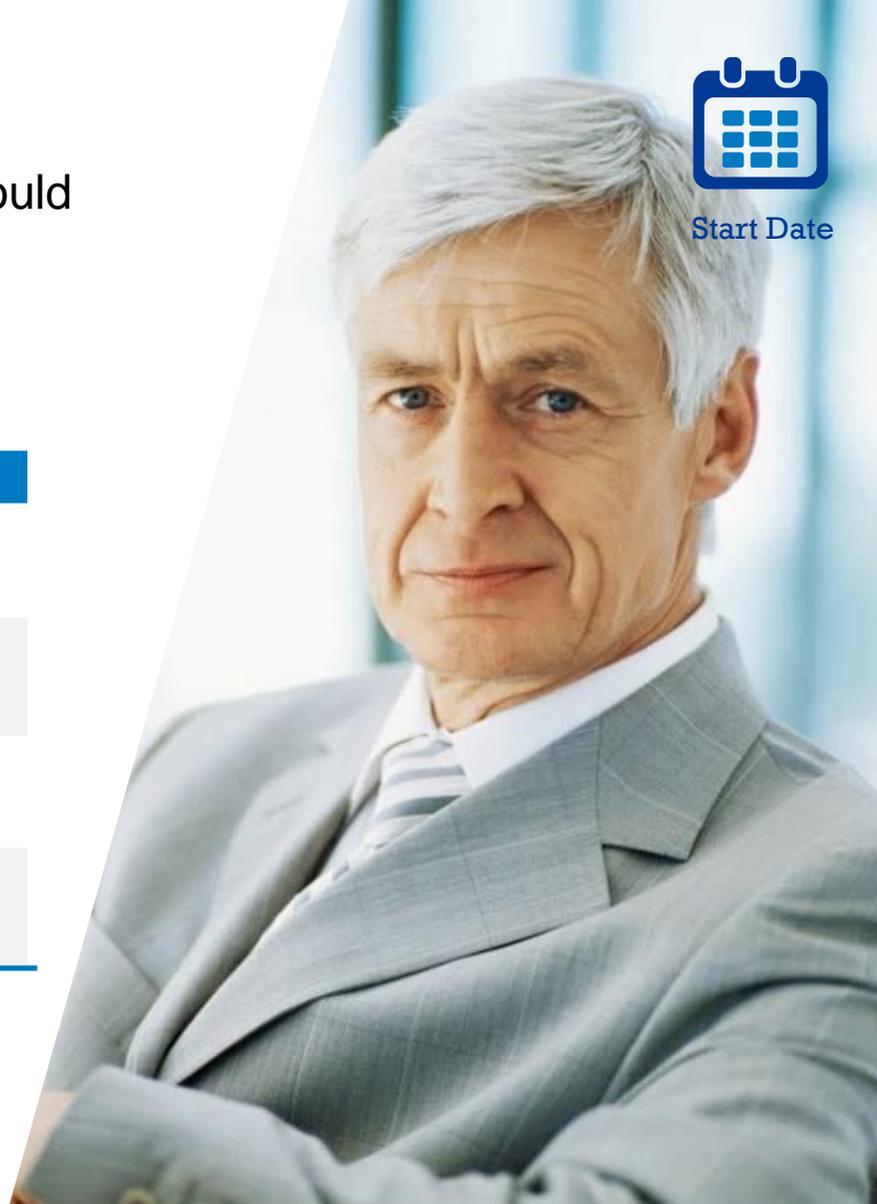
For example, if you were **born in 1958**, your benefit would be increased more for each year you delay the start of benefits after full retirement age.

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

START AGE	% APPLIED TO PIA	INCREASED LIFETIME BENEFIT
66 and 8 months	100%	\$2,000
67 and 8 months	108%	\$2,160
68 and 8 months	116%	\$2,320
69 and 8 months	124%	\$2,480
70	126.7%	\$2,534



Start Date

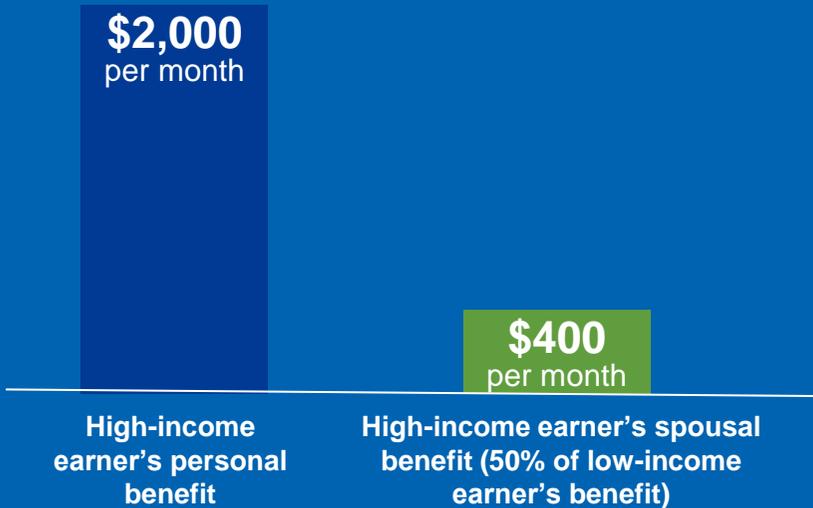




# Spousal Benefits

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



# Rules for Spousal Benefits



Spousal  
Benefits

Spouse receives higher of own benefit or spousal benefit

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

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

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No opportunity for delayed retirement credits on a spousal benefit

# Divorced Spouses



Spousal  
Benefits

## DIVORCED SPOUSES CAN ALSO CLAIM SPOUSAL BENEFITS AS LONG AS:

The marriage lasted **10 years** or more

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Person receiving divorced **spouse benefits** remains unmarried

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The ex-spouse is 62 or older

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



# 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 2 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



Spousal  
Benefits

# Rules for the Ex-Spouse 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.



Spousal  
Benefits



Worker benefit  
\$2,000



Ex-spouse benefit  
\$1,000



# Survivor Benefits

At death, survivor can switch and receive the benefit for the spouse who has passed, if it's higher than their own<sup>1</sup>

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

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

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Ex-spouse survivor benefits are also available if marriage lasted more than 10 years<sup>1</sup>

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Surviving spouse can get remarried after the age of 60



# 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.



Survivor  
Benefits



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

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# Earnings Test

If you receive benefits before full retirement age and continue working, some of your benefits may be withheld

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

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

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

## 2022 Earnings Limits<sup>1</sup>

### From 62 to FRA

Give up \$1 for every \$2 earned over \$19,560

### In the year you turn FRA

Give up \$1 for every \$3 earned over \$51,960

### After your FRA

No benefits withheld



# 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 job<sup>1</sup>

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Other income, like distributions from your IRAs and 401(k) plans, does not affect Social Security<sup>1</sup>

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But if you're receiving a pension from a job where you didn't contribute to Social Security (i.e., a civil service job), your benefits may be reduced under the Windfall Elimination Provision or the Government Pension Offset<sup>2</sup>



# % Taxation

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

## Single or head of household<sup>1</sup>

- 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 jointly<sup>1</sup>

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

This is not tax advice. Consult your tax advisor.

**Combined income** is defined as your adjusted gross income plus nontaxable interest plus 1/2 of your Social Security benefits<sup>1</sup>





# Inflation Adjustments

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

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

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# History of COLAs



Inflation  
Adjustments

Year	COLA	Year	COLA	Year	COLA	Year	COLA
1975	8.0%	1987	1.3%	1999	1.3%	2011	0.0%
1976	6.4%	1988	4.2%	2000	2.5%	2012	3.6%
1977	5.9%	1989	4.0%	2001	3.5%	2013	1.7%
1978	6.5%	1990	4.7%	2002	2.6%	2014	1.5%
1979	9.9%	1991	5.4%	2003	1.4%	2015	1.7%
1980	14.3%	1992	3.7%	2004	2.1%	2016	0.0%
1981	11.2%	1993	3.0%	2005	2.7%	2017	0.3%
1982	7.4%	1994	2.6%	2006	4.1%	2018	2.0%
1983	7.0%	1995	2.8%	2007	3.3%	2019	2.8%
1984	3.5%	1996	2.6%	2008	2.3%	2020	1.6%
1985	3.5%	1997	2.9%	2009	5.8%	2021	1.3%
1986	3.1%	1998	2.1%	2010	0.0%	2022	5.9%

The historical  
COLA average  
from 1975-2020 is

**3.75%**

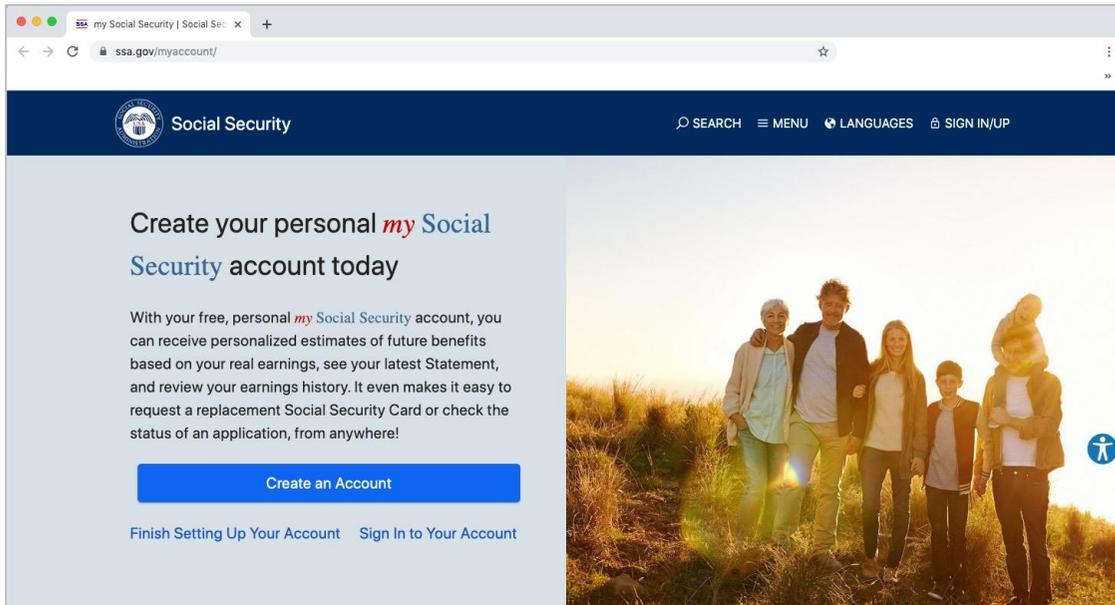
# Improve Your Earnings Record

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](https://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

# 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:

- \$1,434 if starting at 62
- \$2,000 if starting at 66 and 8 months
- \$2,534 if starting at 70

Comparing **62** to **66**, the breakeven age is 77

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

Comparing **66** to **70**, the breakeven age is 81

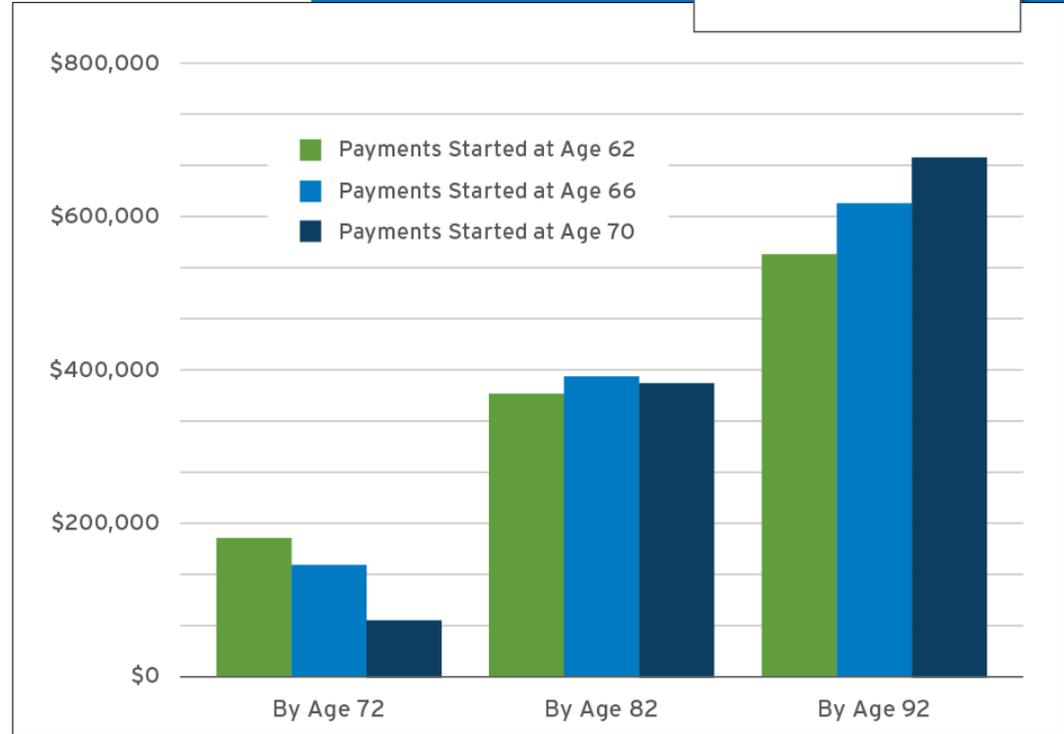
Example:

- Born in 1958
- Full retirement age of 66 and 8 months
- PIA of \$2,000 at full retirement age:

Retirement at age 62

Retirement at age 66

Retirement at age 70



Hypothetical example for illustration purposes only.

# 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

A woman turning age 65 today can expect to live, on average, until age 86.6

# Married Couple, Both Age 66 and 8 months

## IF BOTH CLAIM AT 66



High-income earning spouse claims full retirement age PIA of \$2,000 at 66 and 8 months



Low-income earning has PIA of \$800, but begins the higher \$1,000 spousal benefit at age 66 and 8 months based on spouse's benefit



At 66 and 8 months, the couple has a combined payment of \$3,000. At the end of retirement\*, **they will have received a total of \$840,000\*\***

# Married Couple, Both Age 66

## 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 age 66. 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\*\***

# 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

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**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, undated, <https://www.ssa.gov/planners/retire/withdrawal.html>

# 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.<sup>1</sup>**

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

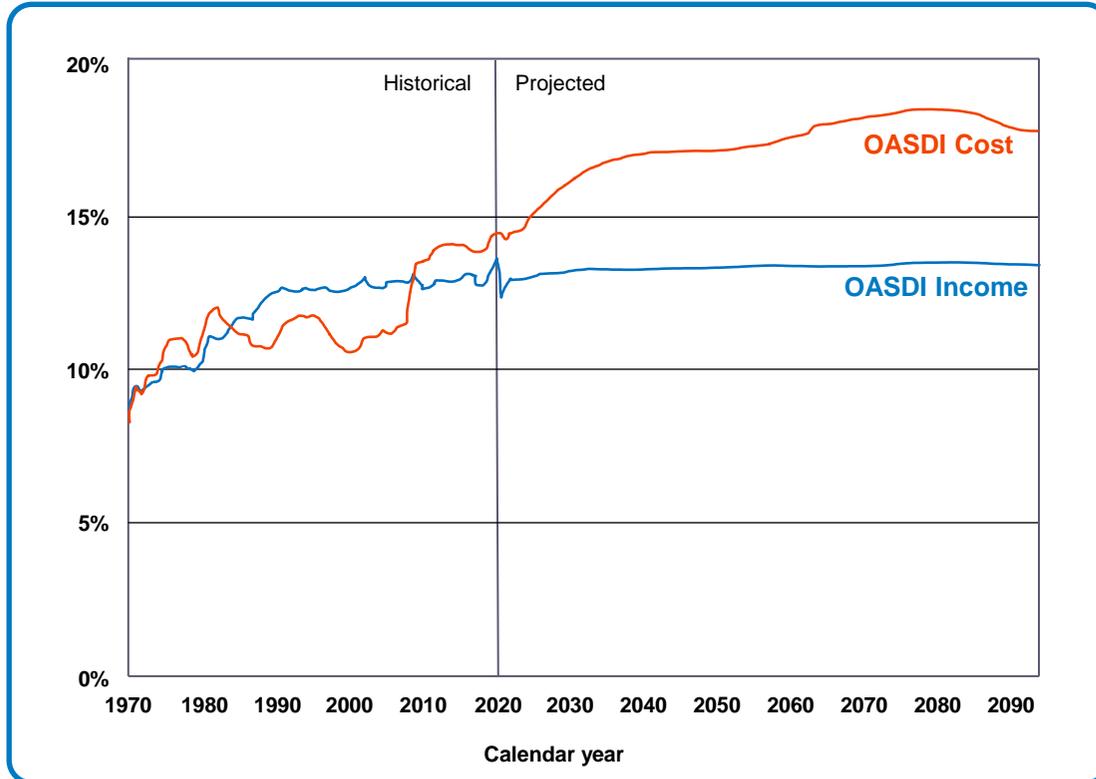
An example\*:

- Assume PIA would be \$2,000 at 66 and 8 months
- You start at 62, though, and begin receiving \$1,434
- Can suspend at 66 and 8 months (FRA) and receive a max rate of 8% delayed credit by waiting each of the next 4 years (26.8% increase)
  - $\$1,434 \times 126.8\% = \$1,818.32$
- Can then resume benefits at 70 at the increased amount

# Will Social Security Be Around?

## LONG RANGE SOCIAL SECURITY TRUST FUND

*Income, costs and expenditures as a percentage of taxable payroll*



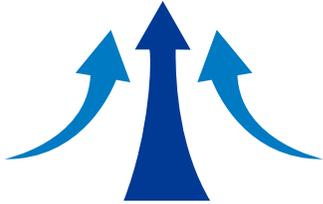
In the long-term, though, the picture becomes more complicated as more boomers retire

The fund can pay promised benefits until 2033 – after that, income will only cover 76% of benefits unless changes are made

# 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 Sources

- 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 3 sources



# How to Apply for Social Security



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

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2. Call by **phone** at 800.772.1213

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3. **Visit** your local Social Security office

**Thank You**