Maximizing
SOCIAL SECURITY

What You Need to Know to Help Get the Most Out of Your Benefit

Maximizing
SOCIAL SECURITY

You’re Entitled to Your Maximum Benefit

Over the course of your work life, from minimum wage paying jobs to a higher-earning career, a portion of your income has been allocated to Social Security. At the time, it may have felt like your hard-earned money is helping other’s subsidize their incomes, but now it’s finally time for you to benefit from the system that you contributed to. More importantly, it’s time for you to determine how to get the maximum benefit you are entitled to.

In 2022, approximately **66 million Americans** received over one trillion dollars in Social Security benefits.[1] Some of these individuals are retirees, and others qualified based on disability and survivorship contingencies. This report is designed to help you understand the fundamentals of Social Security and the strategies that you can employ to help you get the most out of your benefit.

> “Social Security is about as complicated a fiscal system as is humanly possible to design.”[2]
>
> — Laurence Kotlikoff,
> *Boston University Professor of Economics*

- The planning challenges and complexities of the system
- The potential cost of planning mistakes
- Key changes that could affect your benefit decisions
- The importance of benefit maximization
- When to consider claiming benefits
- Important spousal considerations
- How inflation and taxes can impact your benefit
- Strategies to help maximize your benefit

Planning Challenges and Complexities of the System

Social Security benefits are based on your lifetime earnings. To calculate your basic benefit, or Primary Insurance Amount (PIA), the Social Security Administration adjusts your earnings to account for average wages and your monthly earnings during the 35 years in which you earned the most. This is the benefit amount that you would receive at your Full Retirement Age (FRA).[3]

While this seems relatively straightforward, the reality is that there are thousands of planning combinations that can affect the amount you receive. In fact, it is estimated that a couple can face up to 9,000 possible claiming combinations.[4]

To make things even more complex, the Social Security Administration is prohibited from giving advice to consumers and professionals, and it cannot coordinate with outside assets. Couple that with yearly changes to the rules and laws (there were several key changes made for 2023), and it can quickly become an overwhelming system to navigate.[5]

The Potential Cost of Planning Mistakes

If the amount of planning combinations, rule changes, and lack of guidance from the Social Security Administration isn't enough to cause concern about making sound claiming choices, then the reality of what could be left on the table might.

According to a recent study conducted by United Income (data provided by the Social Security Administration), it is estimated that **retirees will collectively lose $3.4 trillion, or an average $110,000 per household**, in potential income that they could spend during their retirement because they claimed Social Security at a financially sub-optimal time.[6]

When considering the median balance of 55- to 64-year-olds' 401(k) or IRA is $120,000, missing out on $110,000 of potential income could mean lifestyle reductions to afford the things needed in retirement.[7]

Key Changes

If you have recently made —or are looking to make— decisions about your Social Security benefit, there are some important changes that were made in recent years that you should understand to avoid making a potentially costly claiming mistake.

One Year Remains for Restricted Application

Individuals born before January 2,1954 can collect 50% of their spouse's or ex-spouse's benefit while allowing their benefit to grow through 2023.[8]

COLA Experienced a Significant Increase

As of January 2023, Social Security beneficiaries will receive an 8.7% cost-of-living adjustment (COLA).[9]

Increase of Wage-Base Tax

The maximum amount of earnings subject to Social Security tax will rise 9% in 2023 to $160,200. This means higher taxes for about 6% of workers.[9]

Social Security Earnings Limits Climb

Beneficiaries who continue to work will be able to earn $1,680 more in 2023 before part of their benefit is temporarily withheld.[9]

Full Retirement Age

The age at which a person may first become entitled to full or unreduced retirement benefits.[10]

65	66	67
Persons Born in 1937 or Earlier	Persons Born From 1943-1959	Persons Born in 1960 or Later

The Importance of Benefit Maximization

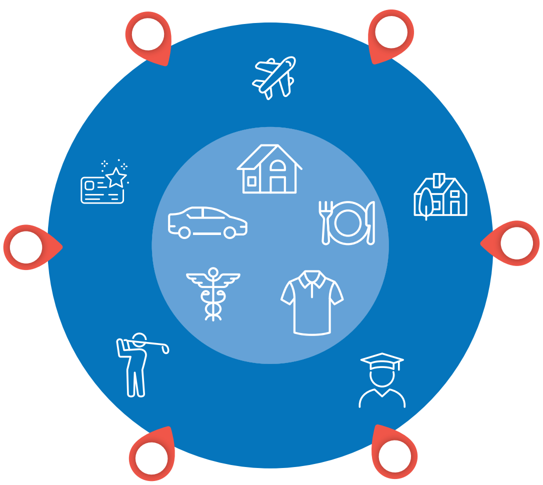
For many retirees, Social Security represents a significant portion of their monthly retirement income. In fact, the Social Security Administration estimates that on average, these benefits account for approximately 30 percent of a retiree's income.[11] The other portion of their income typically comes from one or more sources like a pension, 401(k), IRA, investment portfolio, annuity, and/or real estate.

Those retirement funds that have accumulated over the years will be used to help you afford the things that you need in retirement such as food, shelter, healthcare, and transportation. Those funds will also be responsible for fueling the activities and items that you *want* in retirement like traveling, buying a vacation home, joining a country club, paying for your grandchildren's education and so on.

Fundamental Financial Planning Considerations

The challenge that many fail to realize is that when you are in retirement, your income sources face fundamental financial planning considerations that can deplete your assets if they are unaccounted for in your plan. Therefore, it's important to perform a retirement income analysis with a qualified financial professional so that you have the necessary information to make sound decisions for your retirement future.

Figure 1.0 | Retirement Income Analysis



- Income for What You **NEED**
- Income for What You **WANT**
- **RISKS** to Retirement Income

Longevity – Outliving financial assets as the result of a longer life

Market – Unexpected reduction in the value of financial assets at the time of withdrawal

Liquidity – Limited access to assets to meet life's unexpected financial needs

Mortality – Loss of financial assets as the result of a partner's or spouse's death

Inflation – Reduction in real purchasing power as the result of increasing cost of living

Taxes – Decreased income and assets and/or the impairment of legacy assets from increasing taxes

When you are retired, you are living on a fixed income and more than likely cannot afford to leave money on the table or risk your income, which is why it's so important to maximize your income sources, especially those that represent a significant portion of your retirement funds.

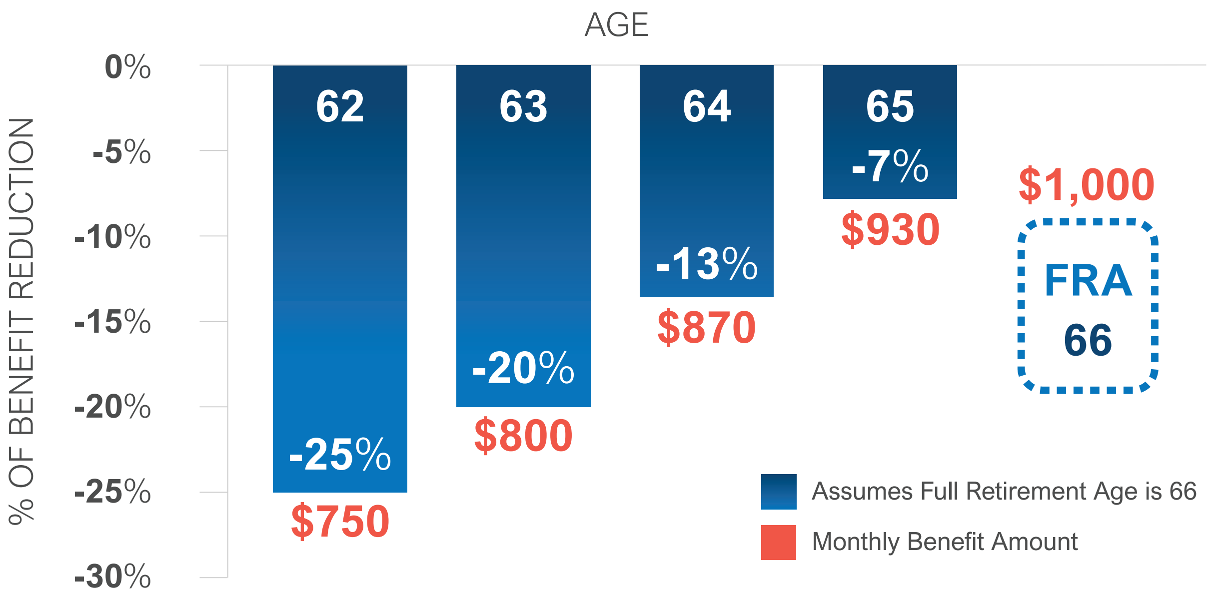
When to Consider Claiming Your Benefits

One of the major Social Security benefit-claiming decisions that retirees face is *when* to claim. The Social Security Administration allows you to claim your benefit as early as 60 years of age and as late as age 70. When making the decision about when to claim your benefit, there are several factors that should be considered.

Claiming Benefits Earlier

The decision to claim benefits earlier provides you with income sooner and possibly for a longer time period, however, this decision comes at a cost. In Figure 2.0, you will notice the correlation of the claiming benefits age and the greater reduction of those monthly benefits the earlier you claim. For example, if your FRA is 66 and you decide to claim benefits at age 62, your Provisional Income of $1,000 is reduced by 25%, leaving you with a monthly benefit of $750. This reduction decreases the closer you get to your FRA.

Figure 2.0 | The Financial Impact of Claiming Benefits Earlier



These examples are hypothetical and for illustrative purposes only. Rates of return are not guaranteed and are for illustrative purposes only.

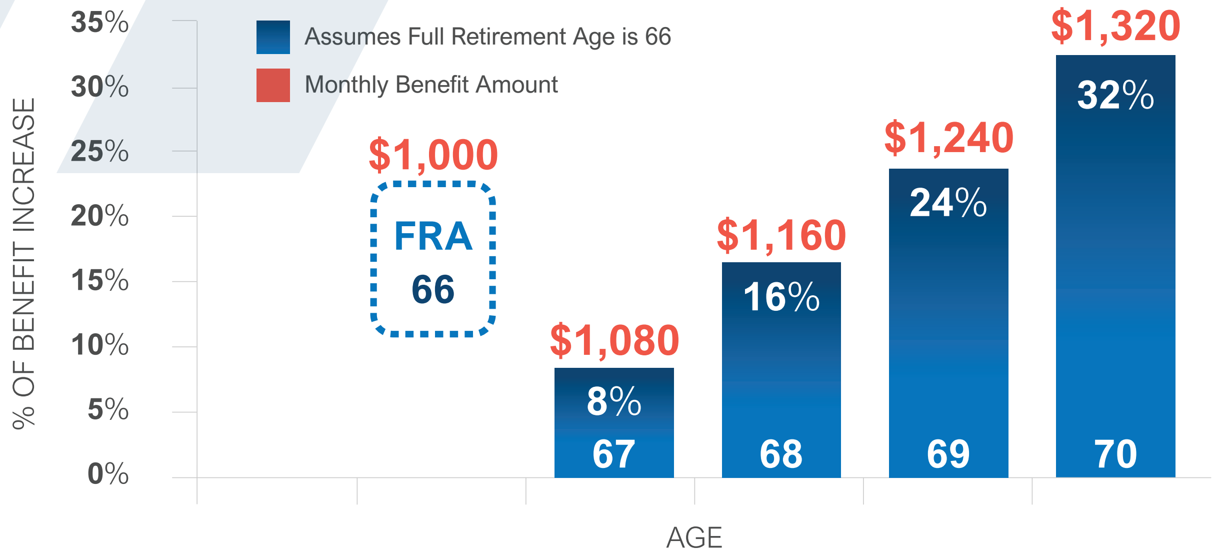
Source: Social Security Administration[12]

Delaying Benefits

In contrast, the decision to delay benefits until the maximum age of 70 comes with a bonus. In Figure 3.0, you will notice the correlation between the claiming benefits age and the increase of those monthly benefits. For example, if your FRA is 66 with Provisional Income of $1,000, and you decide to postpone claiming your benefits to age 70, your benefit increases each year by 8%, giving you a 32% total increase at age 70 with a benefit amount of $1,320. When you compare this to taking your benefit at age 62, that's a 76% difference in benefits, or in this example, $570 more in your pocket each month if you delay.

But the reality is, delaying puts even more money in your pocket than the 8% yearly increase, as you will also receive increases for cost-of-living adjustments (COLA); a larger benefit base means larger COLAs each year once the benefit begins.

Figure 3.0 | The Financial Impact of Delaying Benefits



These examples are hypothetical and for illustrative purposes only. Rates of return are not guaranteed and are for illustrative purposes only.

Source: Social Security Administration[13]

Spousal Considerations

Spousal Benefits

Another factor to consider when making Social Security benefit claiming decisions is the status of your spouse. A nonworking spouse is entitled to 50% of their spouse's FRA benefit if they apply at FRA. A spouse can elect to retire early, however, their benefit could be reduced by as much as 32.5%, depending on their FRA. As for delaying benefits, spousal benefits are unable to earn delayed credits.[14]

MAXIMIZATION STRATEGY

In dual-income households, it typically makes sense for the higher-earning spouse to delay benefits up to age 70 to lock in the maximum benefit.

Divorced Spousal Benefits

If you are divorced, you can claim benefits on your ex-spouse's record if you were married for ten years or more, you are at least 62 years of age, your ex-spouse's benefit is larger than your benefit, and your spouse is currently claiming benefits.

If your spouse isn't currently claiming his or her benefit, you can still receive benefits based on your ex-spouse's work record, but you need to have been divorced for at least two years.

If you are eligible for retirement benefits on your own record, the Social Security Administration will pay that amount first, and then will pay an additional amount on your record. This means that the combination of benefits equals the higher amount of what you would receive through your ex-spouse's work record.[15]

Restricted Application

Restricted Application is a Social Security maximization strategy that will only be around for a limited time. A Restricted Application claim allows you to collect 50% of your spouse's or ex-spouse's benefit while allowing your benefit to grow.

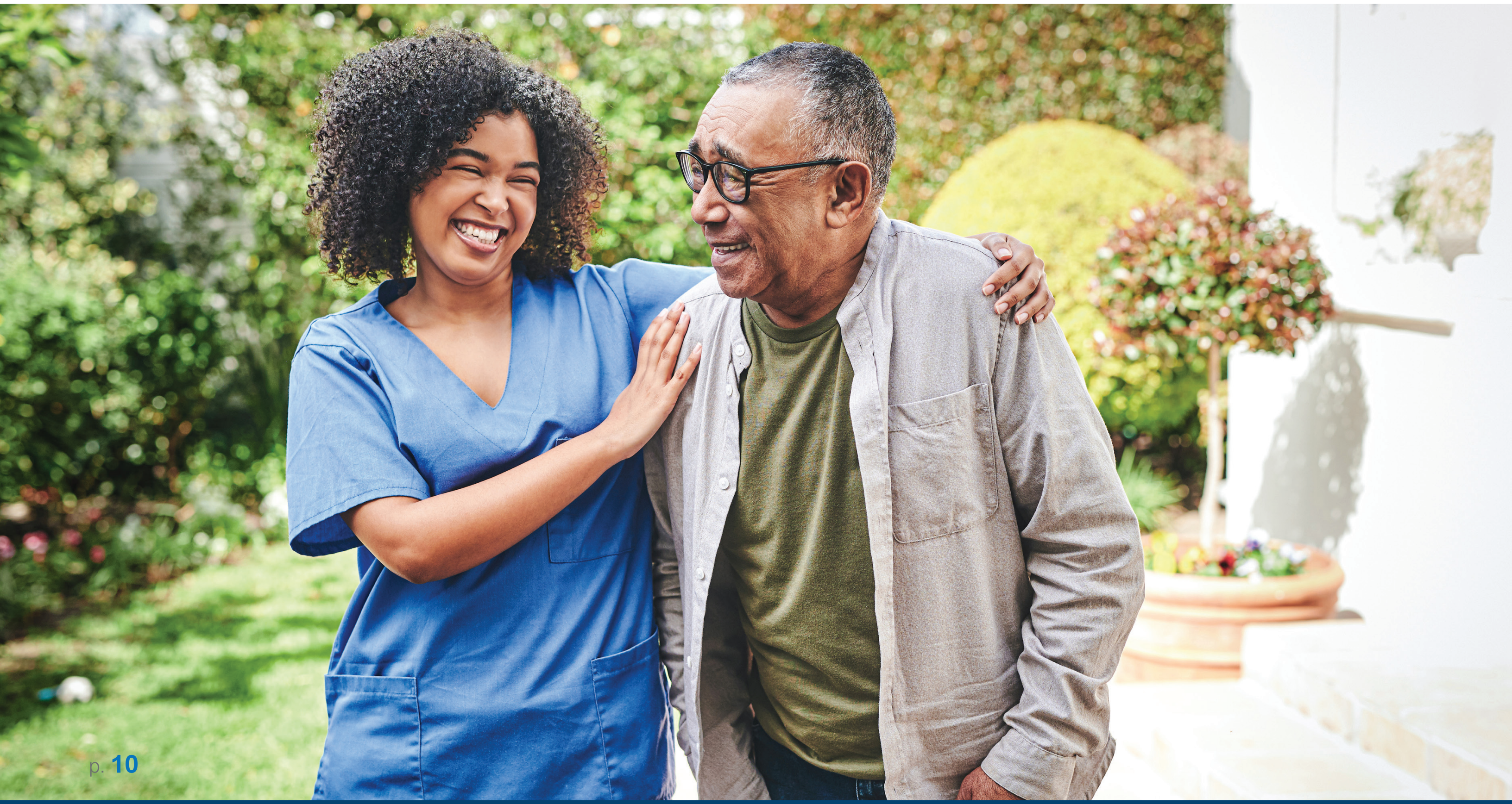
If you are married, the spouse filing the restricted application must be at FRA and born before January 2, 1954. However, if you are divorced, the ex-spouse filing the restricted application must be at FRA and born before January 2, 1954, formerly married for at least 10 years, and divorced for 2 consecutive years and not remarried. Divorced spouses can file for restricted application regardless of the other ex-spouse's claiming status. The reason for this is that the Social Security Administration wanted to help low-income earning spouses avoid financial hardship after a divorce.[16]

MAXIMIZATION STRATEGY

A survivor at FRA is entitled to 100% of a deceased worker's benefit—including any delayed retirement credits.

Surviving Spousal Benefits

If your spouse passes away, your survivor benefit will be based on the higher-earning spouse's benefit, including any delayed credits. The deceased spouse need not have already applied for their benefits for the surviving spouse to receive the higher benefit. The surviving spouse may claim reduced benefits as early as age 60, or age 50 if they are disabled, and if not remarried prior to age 60. If your ex-spouse is the one who passed away, and you were married at least ten years, you may be entitled to the survivor benefit of your ex-spouse.[17]



Inflation, Taxes, and Your Social Security Income

To truly understand Social Security maximization strategies, it's important to understand how this income source is affected by inflation and taxes and what you can do to help protect this income source from these considerations.

COLAs to Combat Inflation

In 2001, the inflation rate was 2.85%. Fast forward to 2022 and we are experiencing rates as high as 8.00%, meaning, in ten years' time, we have experienced a cumulative price increase of 65.25%.[18]

Price increases when you're in retirement and living on fixed income, could result in foregoing things that you want in life because you are trying to afford the things you need in life. The good news is that the Social Security Administration has structured benefits to keep up with inflation by increasing benefits paid based on the cost of living. This is also known as Cost-Of-Living Adjustment (COLA). The COLA is tied to the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) and is published by the Bureau of Labor and Statistics every month to show the increase in wages in certain broad sectors of the work force. Social Security views the CPI-W from the fourth quarter of one year through the third quarter of the following year and makes the necessary adjustments based on that data. Due to the large spike in inflation in 2022, the COLA for 2023 Social Security benefits is 8.7%, boosting the average monthly benefit from **$1,681** to **$1,827** for retired workers.[19]

MAXIMIZATION STRATEGY

If you are concerned that COLAs may not provide you with enough income to combat inflation, consider acquiring other income sources that can provide you with protection of principal and offer growth opportunities.

Benefits Could be Taxed as Ordinary Income

Social Security benefits are subject to federal income taxes if your income rises above a certain threshold. Approximately 40% of Social Security recipients pay federal income taxes on a portion of their benefits.[19] Congress created a special category of income tax relating to Social Security benefits called Provisional Income (PI). The PI calculation is used to determine whether you will pay taxes on your Social Security benefits.

Adjusted Gross Income

Adjusted Gross Income is your gross income (wages, dividends, capital gains, business income, retirement distributions, and any other income), less adjustments.

Municipal Interest Income

Municipal Interest Income can also be viewed as tax-exempt interest, or any interest income that is not subject to taxation at the federal level. This includes things like municipal bonds or income-producing assets inside of Roth retirement accounts.

Provisional Income (PI) Calculation

Adjusted Gross Income (Before SS Benefits)

+ Municipal Interest Income*

Modified Adjusted Gross Income (MAGI)

+ Half of Social Security Benefit

Provisional Income (PI)[20]

**And additional add backs*

Figure 4.0 | Provisional Income Tax Table for 2023

How Social Security Benefits are Taxed		
Filing Status	**Provisional Income**	**Taxable Up To**
Single	<$25,000	0%
Single	$25,000 - $34,000	50%
Single	>$34,000	85%
Married Filing Jointly	<$32,000	0%
Married Filing Jointly	$32,000 - $44,000	50%
Married Filing Jointly	>$44,000	85%

Source: Social Security Administration[21]

With up to 85% of Social Security benefits being subject to income tax, it's important to work with a qualified financial professional who can help you optimize your income sources in a way that protects against inflation and minimizes your tax obligations.

Strategies to Help Maximize Your Benefit

Social Security can be a complex system to navigate. Like other sources of retirement income, it faces potential risks, making it critically important to start planning today to help ensure that you receive the maximum benefit that you are entitled to in the future. Before making a claim, be certain that you can answer the following questions and know exactly how Social Security lines up with your retirement income needs and wants:

1. **What are my estimated benefits?**
2. **When do I need to claim my benefits?**
3. **What are my spousal considerations?**
4. **What maximization strategies do I qualify for?**

To access your Social Security Statement, visit www.socialsecurity.gov/myaccount. Select ***Create an Account*** and follow the prompts.

Did You Make a Mistake with Your Claim?

If you've already claimed your benefit and think that you may have made a mistake, consult a qualified financial professional who can help review your claim and see if there is room for improvement and a possible withdrawal or suspension solution.

For more information about Social Security maximization strategies and to schedule a complimentary, no-obligation Strategy Session, please contact:

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