HoyleCohen
WEALTH MANAGEMENT

SOCIAL SECURITY & YOU

a three-part series

Robert Carnegie, CFP® / Senior Wealth Advisor
April Schultz / Financial Planner

Social Security, much like Medicare, is a program that most Americans will access at some point in their lives and, unfortunately, can be terribly confusing. To clarify some of the main ideas and questions about Social Security we have outlined this three-part series which will cover these topics:

1. **Making sense of Social Security & your statement**
2. **Common questions about individual social security benefits**
3. **Key questions surrounding spousal/survivor benefits & optimization strategies for couples**

Plan Well. Live Fully.

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PART 1

Making sense of Social Security & your statement

- How/why was Social Security started?
- How do I set up an account?
- What is the application process?
- Can I withdraw my application?
- How is Social Security Taxed?
- Key terms & figures
- Looking at your Social Security Statement

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How and why did Social Security begin?

The Social Security Act was signed by FDR in 1935 in response to the dire circumstances of the Great Depression to provide better economic security for aging Americans. Initially, it was purely a retirement program and only paid benefits to the primary worker; however, in 1939 spousal and survivor benefits were added. In 1983, significant changes were passed to increase its solvency, including a gradual increase in the full retirement age from 65 to 67. This was the last time significant modifications occurred; though, minor adjustments have been made along the way, the most recent of which being a simpler, two-page annual statement.

What is the future of Social Security?

Despite concerns over the longevity of the Social Security program, depletion, at least in the immediate future for retirees and soon-to-be retirees, seems unlikely. For one, it is a "pay as you go" system, meaning workers fund the program via taxes on wages, and those funds are immediately used to pay out benefits. Therefore, as long as the U.S. has an economy with a robust labor force, there should be reliable inflows into the program. Furthermore, legislative adjustments could be pursued to bolster Social Security, i.e., delaying full retirement age, raising the cap on the amount of earnings subject to tax, or increasing taxation on funds paid out. **We view the maintenance and solvency of Social Security as, though perhaps a difficult political challenge, a solvable math problem.**

What is the process for applying for Social Security?

1. Create a "my Social Security account" on **ssa.gov**. We recommend everyone do this, even those not close to retirement.
2. Before applying, review your statement for accuracy, **paying close attention to your earnings history** as it directly and significantly impacts your benefit amount. If you find an error, contact the Social Security office promptly.
3. Applying online is the easiest method, but an application can also be completed at a local Social Security office, or over the phone (1-800-772-1213). Gather all necessary documents and information beforehand (list available on the website).
4. The application typically takes 6 weeks to process, and the response is mailed. Benefits should begin the following month.

Can I withdraw my application or apply retroactively?

If you choose to withdraw your application, you may do so only **ONCE**, and it must be within 12 months. Any benefits received must be paid back, including those of others who may have benefited (i.e. spouse). On the other hand, **you may retroactively apply for benefits for the prior six months,** providing a window of opportunity to make a delayed decision if you failed to apply on-time or circumstances change as such that you would have preferred to start benefits earlier.

How is Social Security Taxed?

The taxation of Social Security is based off an individual's filing status and their "provisional income". Provisional income is the sum of Adjusted Gross Income (found on Form 1040), tax-exempt income, and half of the social security benefits. This provisional income is then compared to income bands of $25,000-$34,000 for single filers and $32,000-$44,000 if married filing jointly. If the taxpayer's provisional income is below the first threshold, 0% of their benefit will be taxable. If it is between the two thresholds, up to 50% will be taxable, and if it is above the higher threshold, up to 85% is taxable.

Note: if a taxpayer is between the two thresholds, each additional dollar of income is not only taxed at their marginal tax rate, but it increases the percentage of Social Security benefits subject to taxation. **This is an important danger zone to be aware of for those with more modest incomes.** We recommend you consult your financial and tax advisors if your provisional income falls within that range.

KEY TERMS & FIGURES

Average Indexed Monthly Earnings (AIME)

AIME is not directly labeled on the actual SS Statement. **It is the average of an individual's highest 35 years of inflation-adjusted earnings.** AIME is used to determine benefit amounts, and thus it is extremely important that the earnings history be accurate. Look at your statement!

Full Retirement Age (FRA)

The age an individual is eligible for 100% of their benefit (see PIA below), and it **ranges between 66-67 based on birth date**. One can claim as early as 62 or as late at 70, and the benefit would either be reduced or enhanced, respectively.

Primary Insurance Amount (PIA)

An individual's full benefit at FRA, and it is determined by using their AIME and applying it to "bend points". This is a slightly complex formula that results in greater income replacement for lower-income workers, starting at 90% income replacement for the first $12k of earnings, and less so for higher wage thresholds – 32% on next $60k in earnings and only 15% on next $70k.

How should I view Social Security?

Social Security can be thought of as **high-quality longevity insurance** due to the lifetime guaranteed income stream. Moreover, it can be thought of as a strong portfolio diversifier as the income stream is inflation-adjusted, not correlated with the stock and bond markets, and can prove even more beneficial in conditions that typically prove challenging for a traditional investment portfolio, i.e., high inflation, lower returns, and long life expectancies.

****The following two pages show the most recent Social Security statement, color coded with important notes and the location of key figures.

SOCIAL SECURITY - PART 1

Making sense of social security and your statement

Your Social Security Statement

WANDA WORKER

January 3, 2022

In the calculation of benefits, the same level of earning is assumed to continue until FRA. If there are no earnings from the prior year, income from two years ago is used. If there are no earnings from the past two years, no further earnings are assumed.

Benefits amounts below are not inflation adjusted.

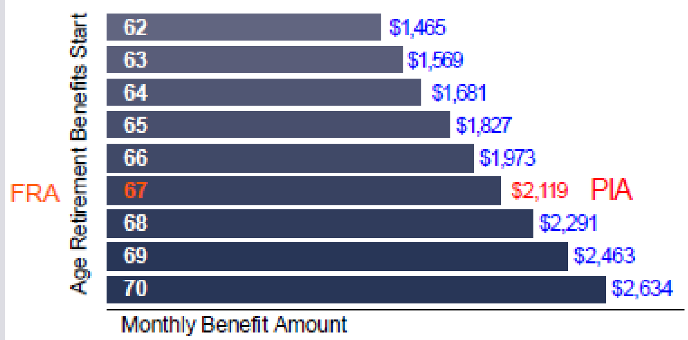
Retirement Benefits

You have earned enough credits to qualify for retirement benefits. To qualify for benefits, you earn "credits" through your work — up to four each year. Your full retirement age is 67, based on your date of birth: April 5, 1962. As shown in the chart, you can start your benefits at any time between ages 62 and 70. **For each month you wait to start your benefits, your monthly benefit will be higher—for the rest of your life.**

These personalized estimates are based on your earnings to date and assume you continue to earn $54,489 per year until you start your benefits.

To learn more about retirement benefits, visit ssa.gov/benefits/retirement/learn.html.

Personalized Monthly Retirement Benefit Estimates (Depending on the Age You Start)



Disability Benefits

You have earned enough credits to qualify for disability benefits. If you became disabled right now, your monthly payment would be about **$2,083 a month**.

Survivors Benefits

You have earned enough credits for your eligible family members to receive survivors benefits. If you die this year, members of your family who may qualify for monthly benefits include:

Minor child:	**$1,562**
Spouse, if caring for a disabled child or child younger than age 16:	**$1,562**
Spouse, if benefits start at full retirement age:	**$2,083**
Total family benefits cannot be more than:	**$3,802**

Your spouse or minor child may be eligible for an additional one-time death benefit of $255.

Medicare

You have enough credits to qualify for Medicare at age 65. Medicare is the federal health insurance program for:

- people age 65 and older,
- under 65 with certain disabilities, and
- people of any age with End-Stage Renal Disease (ESRD) (permanent kidney failure requiring dialysis or a kidney transplant).

Even if you do not retire at age 65, you may need to sign up for Medicare within 3 months of your 65th birthday to **avoid a lifetime late enrollment penalty**. Special rules may apply if you are covered by certain group health plans through work.

For more information about Medicare, visit medicare.gov or ssa.gov/medicare or call **1-800-MEDICARE** (**1-800-633-4227**) (TTY **1-877-486-2048**).

We base benefit estimates on current law, which Congress has revised before and may revise again to address needed changes. Learn more about Social Security's future at ssa.gov/ThereForMe.

SOCIAL SECURITY - PART 1

Making sense of social security and your statement

Earnings Record

Review your earnings history below to ensure it is accurate. This is important because we base your future benefits on our record of your earnings. There's a limit to the amount of earnings you pay Social Security taxes on each year. Earnings above the limit do not appear on your earnings record. We have combined your earlier years of earnings, but you can view them online with *my* Social Security. **If you find an error** view your full earnings record online and call **1-800-772-1213.**

Work Year	Earnings Taxed for Social Security	Earnings Taxed for Medicare (began 1966)
1971-1980	$ 2,142	$ 2,142
1981-1990	87,102	87,102
1991-2000	246,069	246,069
2001	34,147	34,147
2002	34,846	34,846
2003	36,021	36,021
2004	38,032	38,032
2005	39,711	39,711
2006	41,829	41,829
2007	43,971	43,971
2008	45,170	45,170
2009	44,603	44,603
2010	45,666	45,847
2011	47,093	47,093
2012	48,560	48,560
2013	49,095	49,095
2014	50,605	50,605
2015	51,996	51,996
2016	52,108	52,108
2017	53,251	53,251
2018	53,966	53,966
2019	54,559	54,559
2020	54,489	54,489
2021	Not yet recorded	

Full earnings history (by year) can be found on ssa.gov.
Verify earnings to ensure correct benefit amount.

Taxes Paid

Total estimated Social Security and Medicare taxes paid over your working career based on your Earnings Record:

Social Security taxes
You paid: $75,568
Employer(s): $77,498

Medicare taxes
You paid: $18,158
Employer(s): $18,158

Earnings Not Covered by Social Security

You may also have earnings from work not covered by Social Security. This work may have been for federal, state, or local government or in a foreign country.

If you participate in a retirement plan or receive a pension based on work for which you did not pay Social Security tax, it could lower your benefits. To find out more, visit ssa.gov/gpo-wep.

Important Things to Know about Your Social Security Benefits

- Social Security benefits are not intended to be your only source of retirement income. You may need other savings, investments, pensions, or retirement accounts to make sure you have enough money when you retire.
- You need at least 10 years of work (40 credits) to qualify for retirement benefits. Your benefit amount is based on your highest 35 years of earnings. If you have fewer than 35 years of earnings, years without work count as 0 and may reduce your benefit amount.
- We use cost of living adjustments so your benefits will keep up with inflation.
- The age you claim benefits will affect the benefit amount for your surviving spouse.
- If you get retirement or disability benefits, your spouse and children also may qualify for benefits.
- If you are divorced and were married for 10 years, you may be able to claim benefits on your ex-spouse's record. If your divorced spouse receives benefits on your record, that does not affect your or your current spouse's benefit amounts.
- When you apply for either retirement or spousal benefits, you may be required to apply for the other benefit as well.
- For more information about benefits for you and your family, visit ssa.gov/benefits/retirement/planner/applying7.html.
- When you are ready to apply, visit us at ssa.gov/benefits/retirement/apply.html.
- The *Statement* is updated annually. It is available upon request, either online or by mail.

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PART 2

Individual Benefits

- When should I claim SS benefits?
- What are the trade-offs for claiming early?
- When does it make sense to delay?
- How can I increase my benefit amount?
- Can I claim SS if I am still working?
- How does my decision to claim benefits affect others?

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When should I claim my benefit?

Bypassing the "Will social security even still be around?" question since we addressed it in part one, we will focus on the differences between claiming Social Security at your full retirement age (FRA), before FRA, or after FRA. You are entitled to 100% of your benefit at FRA, which based on your birth date will be between ages 66 and 67. However, **if you decide to claim before your FRA or after, formulas are applied to calculate either a reduction in benefit or enhancement.**

Should you decide to claim benefits prior to reaching FRA (as early as age 62), your benefit would decrease by approximately 6.7% for every year you claim early, up to first three years, and then 5% for every additional year. On the contrary, for every year you delay beyond your FRA (as late as age 70), your benefit would increase by approximately 8% per year.

To clarify the above, we provide a quick example. Please note that for simplicity the illustration ignores other things that could affect your benefit amount such as additional years of earnings or inflation adjustments.

Age	62	63	64	65	66	67 (FRA)	68	69	70
% Change	-5%	-5%	-6.7%	-6.7%	-6.7%	-	+8%	+8%	+8%
% Cumulative Change	-30%	-25%	-20%	-13.4%	-6.7%	-	+8%	+16%	+24%
Estimated Benefit	$2,100	$2,250	$2,400	$2,600	$2,800	$3,000	$3,240	$3,480	$ 3,720

Note: Estimates on your statement will not match this formula exactly due to your birth date and other built-in assumptions.

As you can see, the cumulative decrease and/or increase can be substantial. Hence, without factoring in how your decision may impact others (i.e. spouse, survivors, etc.), which we will address shortly, it is often wise to delay collecting Social Security:

- If you can afford to, meaning you have other income to make it comfortably to age 70 without Social Security.
- If you have reasonable expectations of living beyond your average life expectancy.

Sacrificing an earlier income stream in favor of higher payments at age 70 typically works out in your favor, meaning you accumulate more benefits overall, if you live beyond your early 80s. Every personal family history and health situation is different, but statistics, modern medicine, and perhaps some positive thinking give each of us a fairly good chance of living that long. Furthermore, for every year you should survive beyond that "breakeven" point, typically between ages 81-82, the choice to delay becomes even more valuable.

When does it make sense to delay?

Generally, **delaying Social Security works best when life expectancies are long, inflation is high, and expected returns on other assets are low.** People are generally living longer lives, inflation is the highest we have seen in decades, and financial markets had a rough go of it in 2022. Thus, though this decision depends much more on personal circumstances, the current environment favors delaying Social Security benefits.

When in doubt, however, you may want to wait six months. You have a bit of a grace period since you can retroactively claim benefits for up to six months prior, and while you could withdraw a benefit election within 12 months of doing so, it requires repayment of all benefits received, including spousal benefits, which can be a painful process (see pt. 1).

How can I increase my benefit amount?

Other than delaying benefits, your benefit can increase if you work longer, **replacing early lower-income years with higher-income years,** and it will likely increase on an annual basis via COLAs (cost-of-living-adjustments, aka inflation adjustments).

If I'm still working, can I still claim Social Security?

Yes, however, when claiming prior to FRA, an earnings test is applied that could reduce benefits. **If you are still earning income prior to FRA, it often makes sense to wait** until your FRA to claim benefits to avoid a reduction based on other income.

How does my decision to claim benefits early or late impact others?

While the timing of your own claim does not impact spousal benefit **amounts**, it does impact **when** your spouse can claim and also how much survivors (spouse and minor children) would receive upon your death. We will demystify those rules in Part 3 and talk about how to weigh the tradeoffs and make the best decisions for you and your family.

Understanding an individual's options around when to claim Social Security is relatively straightforward:

- Do you need the income and/or are you unconcerned about an above average life expectancy (claim early or at FRA)
- Do you desire the strongest longevity insurance (delay)

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PART 3

Spousal & Survivor Benefits

- What is my benefit as a spouse & how can I claim it?
- Can I claim spousal benefits while delaying my own benefits?
- Can I claim my own benefits and switch to spousal benefits later?
- What are the benefits available to survivors?
- What are the best options for married couples?

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What is my benefit as a spouse and when can I claim it?

A spouse is typically eligible for **up to 50%** of the working-spouse's Primary Insurance Amount (PIA). The rules are that you must be married for at least one year and you must be at least age 62. Two very key points regarding spousal benefit amounts and timing:

- The **benefit amount** is **NOT** contingent upon when the working spouse claims their own benefit.
- However, the **timing** of a spousal benefit **IS** contingent upon when the working spouse claims their own benefit.

A spousal benefit cannot be claimed until the working spouse has claimed their own benefit.

The maximum spousal benefit amount becomes available when you, as the spouse, reach your personal FRA. Much like an individual's benefit, you can choose to take a reduced benefit early (as early as age 62) or wait until your FRA for the full benefit. However, unlike an individual's benefit, <u>delaying beyond FRA provides no additional value</u> (no +8% credits – see part 2).

(One note: Caring for a qualifying child under age 16 or disabled dependent may allow you to collect full benefits earlier.)

Can I claim spousal benefits while delaying my own benefits?

Generally, no. Congress changed the rules in 2015 to incorporate "deemed filing". Simply put, **whenever you file for Social Security, you file for all benefits available to you - your own and spousal.** This effectively disallowed the strategy of claiming spousal benefits while delaying / increasing your own benefit to switch to later. The only exception is if you were born before January 2, 1954, and your spouse is already collecting Social Security. If part of that small group, you still have this option via what is called a Restricted Application.

Can I claim my own benefits and switch to spousal benefits later?

Yes! This strategy could work in your favor. **If you cannot claim spousal benefits yet because your spouse has not yet claimed their own benefits, you can indeed begin collecting your benefits and switch to spousal benefits later if the amount is higher.** One caveat, however, is that an early claim on your own benefits can reduce spousal benefits as well, even if claimed at a later time, so tread carefully.

What are the benefits available to survivors?

Surviving spouses can receive **up to 100%** of the deceased spouse's benefit, and the amount depends on A) If the deceased spouse had claimed their own benefit already and B) If the deceased spouse filed an early or delayed claim. The major points to consider with survivor benefits that differ from spousal benefits are as follows:

- Survivor benefit amounts **ARE** affected by the decedent's decision to claim early (reduced) or late (enhanced).
    - **If you wish to better insure your spouse's longevity in addition to your own, there is a stronger case for delaying.**
- There are no deemed filing rules, and you can claim as early as 60 as opposed to 62.
    - If you have strong benefits coming to you based on your own work record, it might be advantageous to delay your own benefits while collecting survivor benefits.

What are the best options for married couples?

- **Both spouses claim early or at FRA.** Typically, this only makes sense if both are in poor health and neither is likely to live beyond average life expectancy. Statistically, this is unlikely but obviously possible.
- **Both spouses delay until 70.** For two higher-income earners in good health, this could be the highest-value option.
- **One spouse delays while the other claims prior to age 70.**
    - In this case, the best strategy would be to delay the higher-income earner's benefit until age 70 and claim the other benefit earlier.
    - **As long as one spouse lives beyond their early 80s (see part 2), this strategy often provides the highest value and best longevity insurance.**
    - <u>**Note it does not matter which spouse**</u> as the surviving spouse would continue to receive the higher benefit, either continuing to collect their own benefits as the high-income earner or by claiming survivor benefits.