UNDERSTANDING AND MAXIMIZING YOUR SOCIAL SECURITY BENEFITS

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Understanding and Maximizing Social Security Benefits

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Before you retire, you should know what all your various sources of income will be, and how much you can expect to receive from each. Obviously, Social Security benefits will be one of those sources, but how much you can expect to receive depends on many factors. There are ways to help maximize your benefits and get the most you're entitled to, and there are strategies to help minimize your tax burden from Social Security. The most important thing to consider in working toward these goals, however, is whether your Social Security benefits are coordinated properly with your other assets and sources of retirement income. We'll address that shortly, but let's begin with some basic facts about Social Security.

Money You Can't Outlive

Social Security is one of the few sources of income you can pretty much depend on for life. Once you start taking your benefits, they continue to your death—and the longer you live, the more you will extract from the system. For example, if your benefit starts at $2,000 per month, and you live 10 more years, you will receive over $300,000 in lifetime benefits. If you live 30 more years, you'll receive over $1 million over your lifetime, assuming the annual cost-of-living adjustments (COLA) averaging 2.8%. That's good to know because retirees are living longer than ever. According to figures from the Society of Actuaries, there is a 35% chance that the average 65-year-old man will live to age 90 and the average 65-year-old woman has a 46% chance of living to age 90. For the average couple aged 65, there is a 50% chance that both spouses will live to age 81 and at least one spouse will live to age 92.[1]

The System is Solvent… for Now

As you probably know, many have expressed concerns in recent years about the solvency of Social Security. That concern stems partly from the fact that people are—as noted—living longer, which means the Social Security Administration is paying out benefits longer than they had to in the past. Another problem is that when Social Security started, approximately 40 people were working and paying into the system for every 1 retiree. According to the most recent data, there are now only 2.8 people working and paying into the system for every 1 person taking benefits.

Despite all this, estimates from OASDI (Old Age, Survivors, and Disability Insurance) indicate the current Social Security trust fund will not be depleted before the year 2033. If no changes are made to the system between now and then, however, a reduction of about 23% to everyone's Social Security benefit would be necessary after 2033. So, while the system is solvent for now, working Americans in their 40s and early 50s might want to keep pressure on their elected officials to address the important issue of Social Security reform sooner than later!

Your Benefit Depends on Two Primary Factors

When your Social Security benefit is calculated, it will be based primarily on two things: how much you earned over the course of your working career, and the age at which you apply for benefits.

Your earnings: Social Security looks at your lifetime annual earnings, indexes them for inflation, and picks the 35 highest years' earnings to include in the calculation formula. The earnings are totaled and divided by 35 to come up with an average. If you don't have 35 years of earnings, the missing years are considered zeroes, which has the effect of lowering benefits for women who've taken time out of the workforce to raise children. They may, however, be eligible for spousal benefits.

Your age: Most people know that you can take Social Security benefits anywhere between ages 62 and age 70. Depending on when you were born, the "normal retirement age," according to the Social Security Administration, falls somewhere between 66 and 67. That is the age at which you are eligible to receive full benefits, also known as the "primary insurance amount," or PIA. If you take your benefits earlier than the "normal retirement age," you will get a reduction, potentially as high as 30% of what you would have gotten by waiting. Conversely, every year that you delay taking Social Security, you get an 8% increase per year in the benefits, topping out at age 70.

Based on the factors above, you can do some calculating on your own and help determine approximately how much you can expect to receive from Social Security by taking advantage of a couple of different resources:

- Access your Social Security statement at www.ssa.gov/myaccount.
- Use the secure Retirement Estimator on this same website, which gives you your earnings history after you enter some personal data.
- Or you can use one of the three calculators available on the Social Security website at www.ssa.gov/planners/calculators.

Spousal Benefits

The spousal benefit is 50% of the worker's PIA if the spouse applies at full retirement age. For example, Bob's PIA is $2,000, and his wife Mary's is $800. If Mary applies for Social Security at her full retirement age, her benefit will be $1,000. That's half of Bob's benefit and $200 more than Mary's benefit based on her own work record. Non-working or lower-income spouses are also eligible for a spousal benefit that might be higher than their own, and a surviving spouse may also be eligible for a higher benefit. In some cases, both benefits can also be applied to divorced spouses.

Survivor Benefits

Survivor benefits can be complicated, but you should understand them because your current decisions will influence the amount of survivor benefits you may receive in the future. The two basic factors that influence the amount are the age at which the deceased spouse first claimed his own retirement benefit (i.e., if he applied before full retirement age, the benefit will be lower), and the age at which the widow claims the survivor benefit.

Maximizing Your Benefits

Below are five steps you can take before you apply for Social Security to help ensure you will maximize your benefits.

1. Improve your earnings record: Examine your earnings record from your latest Social Security statement online at www.ssa.gov/myaccount to determine if it's accurate, if there are any missing years, and if you can improve it by working longer.

2. Apply at the optimal time: The decision of when to apply for benefits is often complicated but it is critically important; it can make the difference of tens of thousands of dollars over your lifetime.

3. Coordinate spousal benefits: The goal is to help maximize income for both of you while you're both alive and to help maximize income for the survivor after one of you dies.

4. Minimize taxation on your benefits: There are several strategies for doing this, including the following:

    - Reduce other income with tax-advantaged investments.
    - Anticipate Required Minimum Distributions (RMDs) from your IRAs, which could put you in a higher tax bracket and subject your Social Security benefits to taxation.
    - If possible, convert a traditional IRA to a Roth IRA.
    - Delay Social Security, thereby reducing the number of years that your benefits are subject to tax.
    - Reduce your expenses and pay down debt and continue to manage your taxes through out retirement.

5. Coordinate Social Security with your overall retirement income plan: For most people, Social Security is not enough to live on in retirement; you need to supplement your benefits with other sources of income. Making sure those other income sources are allocated correctly and aligned properly with your benefits is the single most important factor for helping maximize Social Security.

Changes for 2024[2]

For anyone born in 1960 or later, full retirement benefits are payable at age 67. There are some other noteworthy changes to Social Security this year, including the following:

- The maximum Social Security benefit for a worker retiring at full retirement age will also increase in 2024, from $3,627 to $3,822.
- Annual COLA will increase by 3.2% in 2024.
- The maximum amount of earnings subject to the Social Security tax (taxable maximum) will increase to $168,600.

The earnings limit for workers who are younger than full retirement age will increase to $22,320. (Social Security deducts $1 from benefits for each $2 earned over $22,320.) For workers who will reach their full retirement age in 2024, the earnings limit is $59,520. (Social Security deducts $1 from benefits for each $3 earned over $59,520 until the month the worker turns full retirement age.) There is no limit on earnings for workers who are full retirement age or older for the entire year.

Don't Try This at Home!

Despite the availability of government resources to help you calculate your Social Security benefits on your own, the complexities of the system, and the number of variables involved in successfully maximizing your benefits, make this a job for a professional. Remember, the most important factor for trying to maximize your benefits is coordinating them with your other sources of retirement income and helping ensure your asset allocation is secure and properly aligned with your Social Security strategy. A qualified financial advisor (ideally one who specializes in retirement income) can work with you to make Social Security a significant and more dependable part of your retirement plan that it should be.

These same advisors may also have software that allows you to input your personal data and find out specifically how to squeeze the maximum amount that you're entitled to out of Social Security, based on your data and your personal situation. It's not uncommon that the difference between the number one best method and the number two best method for an individual amounts to more than $100,000 of cumulative benefit over the course of a lifetime. That's the kind of difference that a qualified professional with the right tools and training can make!

Source:

1 www.rate.com/research/news/retirement-expectancy

2 https://www.bankrate.com/retirement/social-security-benefits-changes-in-2024/

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