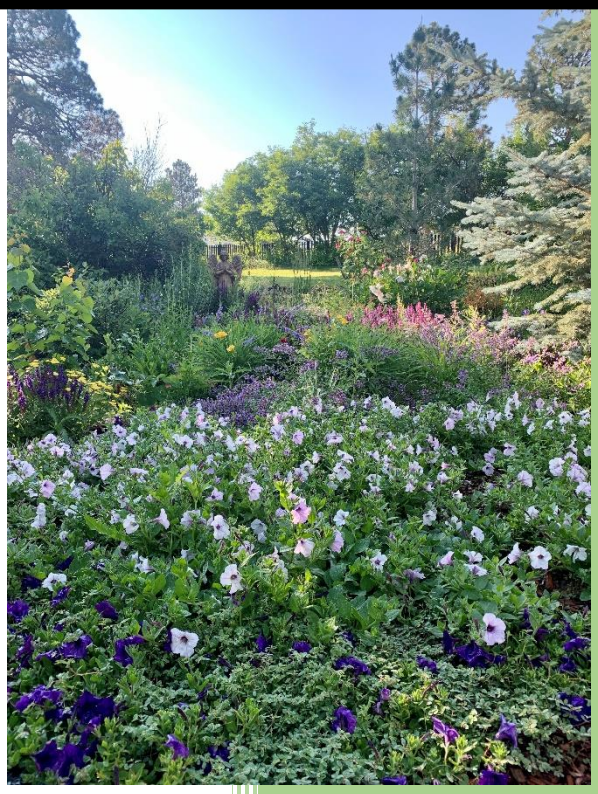
2022

Social Security Guide



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Since beginning in the financial advice business nearly thirty years ago, one consistent question has stumped our clients.

What is the right way to elect social security benefits?

If retirement is on your horizon, you may be wondering whether you should start claiming your benefits now. In this guide, we will take you through key factors to consider in making that decision.

We have broken down the most discussed topics as follows:

1. NINE IMPORTANT CONSIDERATIONS

2. SIX RELEVANT CHANGES FOR 2022

3. NINE STRATEGIES THAT MAY BE USED TO INCREASE BENEFITS

4. 4 FACTORS THAT CAN ADVERSELY AFFECT YOUR CHECK

5. SIX STEPS TO INCREASE THE SIZE OF YOUR CHECK

6. SIX WAYS TO GET THE MOST OUT OF YOUR RETIREMENT BENEFITS

IMPORTANT CONSIDERATIONS

CONSIDERATION 1. WHEN CAN I START COLLECTING?

The minimum age to claim benefits is 62. If you are turning 62 and need the income from Social Security to support yourself, then you can start claiming your benefits now. However, if you have enough other income to keep you going until you are older, you may want to delay increasing the size of your monthly benefit.

CONSIDERATION 2. WHAT IS THE FULL RETIREMENT AGE FOR ME?

The size of your monthly Social Security benefit depends on a few factors, including how much you earned over the years, the year you were born, and the age when you start claiming.

You'll receive your full monthly benefit if you start claiming when you reach what Social Security considers your Full Retirement Age (FRA), sometimes also referred to as "normal retirement age." FRA was 65 when Social Security began, but it has been raised to 67 for anyone born in 1960 or later.

Here is a chart to help you determine your full (normal) retirement age.

Determine Your Full Retirement Age	
Year you were born	**Full Retirement Age (normal)**
1937 or earlier	65
1938	65 and 2mos.
1939	65 and 4mos
1940	65 and 6mos
1941	65 and 8 mos
1942	65 and 10mos
1943-1954	66
1955	66 and 2 mos.
1956	66 and 4 mos.
1957	66 and 6 mos.
1958	66 and 8 mos
1959	66 and 10mos
1960 and later	67

CONSIDERATION 3. HOW TO CALCULATE BENEFITS

Let's use an example of a prospective retiree who is 67 years old. If they were to start collecting benefits at their full retirement age of 67 and their monthly benefit was $2,000, then they would receive $2,000 per month.

However, If they chose to claim benefits at age 62, which is 60 months early, then the benefit they receive would be reduced to 75% of the full monthly benefit. Though they would receive the payments five years earlier, their monthly check would be $1,500 instead of $2000.

We have had clients ask if the reduced benefit will increase once they reach their full retirement age (in this case, age 67). The answer is no. The amount that they choose will stick with them for the remainder of their days.

The benefit amount may go up over time due to cost of living adjustments, but since the election is permanent, It is important to plan ahead and make the right decision.

Although the cost-of-living adjustments announced each year are usually only slight increases, Social Security benefits will increase by 5.9% in 2022, marking the largest since 1982.

CONSIDERATION 4. WHAT HAPPENS IF YOU CLAIM AFTER YOUR FULL RETIREMENT AGE?

If you wait until your age 70 to start claiming benefits, then you'll get an extra 8% per year—or, in total, 132% of the benefit you would receive at age 62. You receive this benefit for the rest of your life. Claiming after you turn 70 doesn't increase your benefits further, so there's no reason to wait past age 70 to claim your benefits.

The longer you wait after age 62, the larger your monthly benefit will be. On the other hand, postponing benefits doesn't necessarily mean that you'll come out better off. You have to consider other factors as well. These factors include:

- Your health
- Genetic longevity considerations
- Whether you or your spouse will file for spousal benefits
- The opportunity cost of investing
- Tax factors
- Whether there may be an impact to health coverage.

CONSIDERATION 5. HOW LONG WILL YOU LIVE?

Maximizing Social Security retirement benefits depends on how long we'll live. Since this information is unavailable to us, we will have to take an educated guess.

Casting aside the possibility of accident or unprecedented illness, How long do you think you'll live? How are your blood pressure, cholesterol, weight, and other health markers? How long have your parents and other relatives lived?

If you have answers that are above average, you may come out ahead by waiting to claim benefits. If not, then you may want to claim your benefits as soon as you're eligible.

To make an educated guess about when to claim your benefits, try doing a breakeven analysis.

Such an analysis can help create a level of comfort regarding the total benefits you would receive by waiting will begin versus what you would receive by taking benefits earlier.

CONSIDERATION 6. SHOULD I CLAIM SPOUSAL BENEFITS?

Because of the program's spousal benefits, being married can further complicate the decision of when to take Social Security. Some divorced spouses are also entitled to benefits based on their ex-spouse's work record.

These Spouses Don't Qualify for Their Own Social Security

Spouses who didn't work at a paid job or didn't earn enough credits to qualify for Social Security on their own are eligible to receive benefits starting at age 62 based on their spouse's earning record. As with claiming benefits on your own record, your spousal benefit will be reduced if you take it before reaching your Full Retirement Age. The most that a spouse can receive is one-half of the benefit that your spouse is entitled to at their Full Retirement Age.

While spouses get a lower benefit if they claim before reaching their own FRA, they will not get a larger spousal benefit by waiting to claim after their FRA.

So, with a spousal claim, there is no benefit to claiming beyond the FRA date.

It is possible that a nonworking or lower-earning spouse could get a larger spousal benefit. The instance where that might be possible is if the working spouse has some high earning years at the end of their career that increase their benefit.

When a Spouse Dies

When one spouse dies, the surviving spouse is entitled to receive the higher of their own benefit or their deceased spouse's benefit. For this reason, we often advise the higher-earning spouse to delay claiming. If the higher-earning spouse dies first, then the surviving, lower-earning spouse will receive a larger Social Security check for life.

When the surviving spouse hasn't reached their FRA, they will be entitled to prorated amounts starting at age 60. Once at their FRA, the surviving spouse is entitled to 100% of the deceased spouse's benefit or their own benefit, whichever is higher.

No More "File and Suspend"

Note that the claiming strategy called "file and suspend," which allowed married couples who have reached their FRA to receive spousal benefits and delayed retirement credits at the same time, ended as of May 1, 2016. However, spouses born before Jan. 2, 1954, who have attained their FRA may still be able to file a restricted application. It allows them to claim spousal benefits while delaying their own benefits up to age 70.

CONSIDERATION 7. TAXES ON YOUR BENEFITS

Your Social Security benefits may be partially taxable if your combined income exceeds certain thresholds. Regardless of how much you make, the first 15% of your benefits are not taxed.

The SSA defines combined income using this formula:

- Your adjusted gross income + nontaxable interest (for example, municipal bond interest) + half of your Social Security benefits = your combined income

If you file your federal tax return as an individual and your combined income is $25,000 to $34,000, then you may have to pay income tax on up to 50% of your benefits. If your combined income is more than $34,000, you may have to pay tax on up to 85% of your benefits.[14]

If you're married, filing a joint return, and your combined income is $32,000 to $44,000, then you may have to pay income tax on up to 50% of your benefits. If your combined income is more than $44,000, you may have to pay tax on up to 85% of your benefits.

An Example of Taxed Benefits

Let's say you receive the maximum Social Security benefit for a person retiring at FRA in 2021: $3,148 per month. Your spouse receives half as much, or $1,574 a month.

Together, you receive $4,722 a month, or $56,664 per year. Half of that, or $28,332, counts toward your combined income for determining whether you have to pay tax on part of your Social Security benefits.

Let's further assume that you don't have any nontaxable interest, wages, or other income except for your required minimum distribution (RMD) of $10,000 for the year.

Your combined income would be $38,332—half of your Social Security income, plus your IRA distribution—which would make up to 50% of your Social Security benefits taxable because you've exceeded the $32,000 threshold.

You may be thinking, 50% of $56,664 is $28,332, and I'm in the 12% tax bracket, so the tax on my Social Security benefits will be $3,399.84.

Fortunately, the calculation takes other factors into account, and your tax would only be $225.

You can read all about the taxation of Social Security benefits in the Internal Revenue Service (IRS) Publication 915.

Tax Considerations for Social Security Benefits

How do these tax considerations affect when you should apply for Social Security benefits? At today's marginal tax rates, they may not have much of an impact on most people. Still, tax rates and income thresholds can change, so it's worth remembering that you will lose less of your Social Security to taxes if you are in a lower marginal tax bracket when you begin to collect. Working with and advisor and/or tax professional can be very helpful in limiting the taxes you will owe.

If you decide to return to work and aren't yet at your FRA, your Social Security benefits may be temporarily reduced. The reduction is $1 for every $2 of earned income over $19,560 (in 2022). During the year when you reach your FRA, your benefits will be reduced by $1 for every $3 in income over $51,960 (in 2022) until the month when you become fully eligible. That money isn't lost, however. It will be credited to your record when you reach your FRA, likely resulting in a higher benefit.

CONSIDERATION 8. SHOULD I DRAW EARLY AND INVEST?

Are you a disciplined, savvy investor who thinks you could earn more by claiming early and investing your benefits than by claiming later and receiving Social Security's guaranteed higher benefits? Then you may want to claim early instead of waiting until age 70.

If you claim early, invest in the stock market, and average an 8% annual return then you will likely come out ahead compared with claiming late. However, if your returns are lower, if you

receive reduced Social Security benefits because you continue working past age 62, if you have to pay taxes on your Social Security income, or if you have a spouse who would benefit from claiming Social Security benefits based on your record, then all bets are off.

CONSIDERATION 9. HEALTH COVERAGE

Your health insurance coverage can also play a role in deciding when to claim Social Security benefits. Do you have a health savings account (HSA) to which you would like to keep contributing? If so, note that if you're age 65 or older, then receiving Social Security benefits requires you to sign up for Medicare Part A, and once you sign up for Medicare Part A, you'll no longer be allowed to add funds to your HSA.

The SSA also cautions that even if you delay receiving Social Security benefits until after age 65, you might still need to apply for Medicare benefits within three months of turning 65 to avoid paying higher premiums for life for Medicare Part B and Part D.

In 2022, the average monthly premium for Part D is $33 per month. If you enroll in a Medicare Advantage plan, the average monthly premium is $19 per month. However, if you are still receiving health insurance from your or your spouse's employer, you might not yet have to enroll in Medicare.

SUMMARY

You don't have to take Social Security just because you're retired. If you can live without the income until age 70, then you will ensure the maximum payment for yourself and lock in the maximum spousal benefit. Just be sure that you have enough other income to keep you going and that your health is good enough that you are likely to benefit from the wait. When you're ready, you can apply for benefits online, by phone, or at your local Social Security office.

SIX RELEVANT CHANGES FOR 2022

Below is our summary of the Social Security changes that took effect Jan. 1, 2022:

CHANGE 1. RECIPIENTS RECEIVED A BIG INCREASE

2022's 5.9% increase is much higher than most years. In 2021 the COLA increase was just 1.3%. The average monthly benefit for all retired workers increased by $92 in 2022, to $1,657.

CHANGE 2. INCOME CAP INCREASED TO $147,000

In 2021, employees were required to pay a 6.2% Social Security tax (with their employer matching that payment) on income of up to $142,800. Any earnings above that amount were not subject to the tax. In 2022, the tax rate remained the same at 6.2% (12.4% for the self-employed), but the income cap increased to $147,000.

It is important to note that as the taxable maximum income increases, so does the maximum amount of earnings used by the SSA to calculate retirement benefits. In 2021, the maximum monthly Social Security benefit for a worker retiring at full retirement age was $3,148. In 2022, the maximum benefit increased by $197 per month to $3,345.

CHANGE 3. FULL RETIREMENT AGE INCREASED

As we discussed earlier in this guidebook, the earliest that you can start claiming Social Security retirement benefits is age 62. However, claiming before your full (or normal) retirement age will result in a permanently reduced payout.

Under current law, the retirement age for Social Security purposes is set to increase by two months each year until it hits 67. If you turned 62 in 2021, then your full retirement age is 66 and 10 months. Anyone born in 1960 or later will not reach full retirement age until they are 67.

CHANGE 4. EARNING LIMITS INCREASED

If you work while collecting Social Security benefits, then all or part of your benefits may be temporarily withheld, depending on how much you earn. However, those income limits have increased slightly for 2022.

Prior to reaching full retirement age, you will be able to earn up to $19,560 in 2022. After that, $1 will be deducted from your payment for every $2 that exceeds the limit. The 2022 annual limit represents a $600 increase over the 2021 limit of $18,960.

If you reach full retirement age in 2022, then you will be able to earn $51,960, up $1,440 from the 2021 annual limit of $50,520. For every $3 you earn over the limit, your Social Security benefits will be reduced by $1, but that will only apply to money earned in the months prior to hitting full retirement age. Once you reach full retirement age, no benefits will be withheld if you continue working.

CHANGE 5. SOCIAL SECURITY DISABILITY BENEFITS INCREASED

Social Security Disability Insurance (SSDI) is an insurance program in which workers can earn coverage for benefits by paying Social Security taxes through their paycheck. The program provides income for those who can no longer work due to a disability, to help replace some of their lost income. Most years payments increase only increase slightly, however, the 9.6 million Americans who receive Social Security disability benefits will be glad to receive 2022's 5.9% increase.

Disabled workers will receive on average $1,358 per month in 2022, up from $1,282 in 2021. However, for a disabled worker, spouse, and one or more children, they'll be paid on average $2,383 per month, an increase of $133 thanks to the 5.9% COLA.

CHANGE 6. THE CREDIT EARNING THRESHOLD INCREASED

If you were born in 1929 or later, then you must earn at least 40 credits (maximum of four per year) over your working life to qualify for Social Security benefits. The amount it takes to earn a single credit goes up slightly each year. For 2022, it takes $1,510 in earnings per credit, up $40 from 2021. The number of credits needed for disability depends on your age when you become disabled.

9 STRATEGIES THAT MAY BE USED TO INCREASE BENEFITS

There are steps that you can take that will go a long way toward helping you maximize your Social Security retirement benefits. You can use a combination of some of the following strategies, if you are eligible.

- Work for 35 years
- Wait until at least full retirement age to start collecting
- Collect spousal benefits
- Receive dependent benefits
- Keep track of your earnings
- Watch out for tax-bracket creep if you're still working
- Apply for survivor benefits
- Check Social Security statement for mistakes
- Stop collecting benefits temporarily

Please note that the Social Security Administration periodically increases Social Security benefits called a cost-of-living adjustment (COLA), which adjusts for inflation. In 2022, Social Security and Supplemental Security Income (SSI) beneficiaries will receive a 5.9% COLA. On average, a retired worker who earns $1,565 per month before the COLA will earn $1,657 monthly in 2022 after the COLA.

Below are the nine ways to help boost Social Security benefits.

STRATEGY 1. WORK FOR 35 YEARS

You can be eligible for Social Security benefits after working for as little as 10 years, and you can begin receiving benefits as early as age 62 or as late as age 70. Your benefit amount is based on the average of your 35 highest-earning years. If you work for fewer years, those zeros are averaged in.

As your benefit is based on your highest-earning years, the more you earn, the higher your benefit. There are limits, though. The maximum benefits for 2022 are $2,364 for those retiring at age 62, $3,240 for those retiring at the full retirement age of 66, and $4,194 for those retiring at age 70.

STRATEGY 2. WAIT UNTIL AT LEAST THE FULL RETIREMENT AGE

As you can see from the maximum levels above, you can retire as young as 62 and collect Social Security, but your benefits will be reduced by 25% to 30%. For everyone born after

1942, the full retirement age is 66, with two months added for each year after 1954. For those born in 1960 and after, it is age 67.

It’s wise to wait until the full retirement age to start collecting to get the highest amount you’re eligible to receive. Even better, you can wait even longer and become eligible for delayed retirement credits that increase your monthly payment.

If you wait until you're 70 instead of 62 to collect benefits, you'll get an extra 8% a year. When you reach 70, the increases stop.

STRATEGY 3. SIGN UP FOR SPOUSAL BENEFITS

If you are married and have little earned income, you may be entitled to spousal benefits of up to 50% of your partner’s eligible amount. If you’re at least 62 years old and have a child in your care, you may be eligible to receive benefits through your spouse. The spousal benefit can be as much as 50% of the partner’s benefit, depending on when the partner retires.

Even divorcees are eligible. In fact, both parties in a divorce can claim spousal benefits based on the other spouse’s Social Security earnings. However, if you have remarried, you cannot collect your ex-spouse’s benefits.

STRATEGY 4. SEE IF YOU QUALIFY FOR A DEPENDENT BENEFIT

If you are retired but still have dependents under age 19, they are entitled to up to 50% of your benefit. This dependent benefit doesn’t decrease the amount of Social Security benefits that a parent can receive. They are added to what the family receives.

STRATEGY 5. MONITOR EARNINGS

If you continue to work after your Social Security payments begin, keep track of your earnings to ensure they don’t exceed the allowed limit. For 2022, the limit on earned income is $19,560 for recipients below full retirement age and $51,960 in the year when you reach full retirement age.

Your benefit payment is reduced for the year if you exceed these limits. After that, however, there is no penalty for earned income at any level.

STRATEGY 6. MONITOR YOUR TAX BRACKET STATUS

If you're still working while receiving benefits, you also have to watch out for tax-bracket creep. Your earnings plus Social Security could put you up a notch in the tax table.

STRATEGY 7. APPLY FOR SPOUSAL BENEFITS

If your deceased spouse (or ex-spouse) was eligible for a higher Social Security payment than you are, you might be eligible for that higher survivor benefit. You might qualify for the higher benefit even if your spouse died before applying for benefits.[11]

If you begin to collect Social Security benefits before you reach normal retirement age, not only will you receive a reduced benefit, but after your death, your surviving spouse will, too.

STRATEGY 8. CHECK FOR MISTAKES

You get a Social Security statement every year. Do not assume it is accurate. Check the numbers and report any errors to the Social Security Administration. Remember, your benefits are based on the average of your 35 highest-earning years. A miscalculation for even one or two of those years could impact your benefit for the rest of your life.

STRATEGY 9. CHANGE YOUR MIND

You may have the right to suspend your benefit, pay back the money you've already received, and start collecting benefits again later. You can do this as long as you've been receiving benefits for less than a full year.[13]

This could happen if you get a job after you retire or inherit money and decide you can afford to delay filing to get a higher benefit check. You do this by filing Social Security Administration Form 521, Request for Withdrawal of Application.[14] When you file again later, your benefit should be substantially higher.

4 FACTORS THAT CAN ADVERSELY AFFECT YOUR CHECK

Even if you've saved funds in a 401(k), an individual retirement account, or another qualified retirement plan, if you're banking on Social Security to supplement that, then you may be in for a shock once your first payment arrives. If you recently started receiving Social Security benefits, there are three common reasons why you may be getting less than you expected:

- an offset due to outstanding debts
- taking benefits early
- high income

FACTOR 1. OFFSETS

One potential scenario that may result in lower Social Security benefits is an offset. That's when someone to whom you owe money makes a claim against your benefits. Examples of debts that could result in an offset include:

- Defaulted student loans
- Unpaid alimony or child support obligations
- Back taxes

SSA regulations protect the first $750 in benefits you receive. However, if it's determined that a debt does indeed belong to you, then the SSA will reduce your benefits each month by a certain amount until what you owe is repaid. Once an offset for debt is satisfied, you'll receive your full benefit amount.

Also, you may be subject to an offset if you receive Social Security benefits before you reach full retirement age and continue to work. As discussed, once you reach full retirement age, your earnings will no longer reduce your benefit, no matter how much you earn.

FACTOR 2. EARLY BENEFITS

For most people retiring now, the full retirement age for Social Security purposes is either 66 or 67, depending on the year when you were born. But it is possible to begin taking your Social Security retirement benefits as early as age 62. While that can give you some financial relief if you're strapped for cash, there is a tradeoff. The size of your benefits automatically—and permanently—go down.

A 2020 survey of 1,727 adults in the U.S. ages 24 and older by the Nationwide Retirement Institute (NRI), a subsidiary of the Nationwide Mutual Insurance Company, found that 73% of baby boomers, 90% of gen Xers and 97% of millennials incorrectly identify the age at which they are eligible for full retirement benefits. In that same study, future retirees over age 50 expect to receive a higher payment than what long-term retirees actually receive.

How much can taking benefits early really cost you? Let's say your normal retirement age is 67, but you decide to apply for Social Security when you turn 62. Because you're taking benefits for an extra 60 months, your Social Security check would be reduced by 30%.

As discussed, If you wait until you're age 70 to take Social Security benefits, you'll get an extra 8% for each year starting with your full retirement age. But claiming after age 70 doesn't increase your benefits further, so there's no reason to wait any longer.

FACTOR 3. MEDICARE

You are eligible to enroll in Medicare the year when you turn 65. If you sign up for Medicare Part B, your premiums are deducted from your Social Security benefits. The standard monthly premium for Medicare Part B enrollees is $170.10 for 2022, an increase of $21.60 from $148.50 in 2021.[9] However, it's entirely possible that you could end up paying more if you fall into a higher tax bracket.

If you file an individual return and your income was higher than $88,000 but less than $111,000, then you paid $207.90 in 2021. If your income ranged from $111,000 to $138,000, then you paid $297. And if it's more than $500,000, then the premium came to $504.90.[10]

And in 2022, single filers with income greater than $91,000 and less than or equal to $114,000 pay $238.10 monthly. If their income is greater than $114,000 and less than or equal to $142,000, they pay $340.20. If it's between $142,000 and $170,000, the premium is $442.30. For income between $170,000 and $500,000, the premium rises to $544.30. And if it's more than $500,000, then the premium comes to $578.30.[9]

For certain high-income earners, Medicare premiums are equivalent to 35%, 50%, 65%, 80%, or even 85% of the total cost of coverage.

OTHER FACTORS TO CONSIDER

If you retire before full retirement age and your income goes up instead of down for any reason, let's say you sell off a high-value asset, you start a profitable business, or you earn a lot as a consultant or freelancer, then that could substantially impact what you get from Social Security, at least until you reach full retirement age.

Your benefits could also dwindle if you have Medicare Parts A and B and are also paying a separate premium for a supplemental Medigap policy.

AN UPDATE ON CURRENT RESERVES

Even though the Social Security fund is replenished each month with payroll taxes from all income earners, the fund's resources are not infinite, meaning the fund could run out of money.

According to a 2021 report by the SSA, retirement benefits will be fully paid on schedule until 2033. In other words, the trust fund's reserves are expected to be exhausted after 2033, and at that point, only 76% of the scheduled benefits will be able to be paid from continuing tax income. Congress will need to make changes to replenish the fund so that retirees can continue to be paid the full coverage.

The 2021 financial projections from the Social Security Administration include their best estimates as to the impact of the COVID-19 pandemic. However, the 2021 report noted that the fund has been significantly affected by the pandemic and the 2020 recession.

According to the most recent (2021) Social Security and Medicare Boards of Trustees annual report, both trust funds face depletion in the decades ahead. If the predictions hold, it means that beginning in 2033, retirees who receive money from the Old-Age and Survivors Insurance (OASI) Trust Fund benefits, will receive about three-quarters (76%) of their scheduled benefit; those who receive payouts from the Disability Insurance (DI) Trust Fund will receive 91% of their benefit, starting in 2057. The report concludes by urging lawmakers to address these financial shortfalls, "taking action sooner rather than later."

THE BREAKDOWN

Solely relying on Social Security to take care of your retirement needs is not advisable.

- Clear up any outstanding debts
- Weigh the cost of taking benefits early
- Look at how your income stands to affect your benefits

You don't want surprises that are irreversible.

Social Security was never intended to be a primary income source that could support people in retirement. The purpose was to provide a safety net for people who were unable to accumulate sufficient retirement savings.

Social Security planning is now a vital element in securing income sufficiency in retirement and there are strategies to maximize your benefits.

SIX STEPS TO INCREASE THE SIZE OF YOUR CHECK

Although there are many planning options for maximizing Social Security benefits, they can be complex and only apply in certain circumstances. Everyone should know the following 5 tips in order to increase the size of their Social Security checks.

STEP 1. WORK AT LEAST 35 YEARS

The Social Security Administration calculates your benefit amount based on your lifetime earnings. The SSA adjusts your earnings, indexing them in order to take into account changes in average wages since the years you received those earnings. Then the SSA totals your earnings from your 35 highest-earning years and uses an average indexed monthly earnings formula to come up with the benefit you will receive at your full retirement age.

If you entered the workforce late or had periods of unemployment, those years will count as zeroes, which will be included in the formula, bringing down the average. Once you have worked 35 years, each additional year of earnings will replace an earlier year of lower earnings, which will increase the average and your benefit.

STEP 2. MAXIMIZE EARNINGS THROUGH AT LEAST FULL RETIREMENT AGE.

The SSA calculates your benefit amount based on your earnings, so the more you earn, the higher your benefit amount will be. Some pre-retirees look for ways to increase their income, such as taking on part-time work or generating business income. Others, however, unaware of the impact on benefits, may scale back on their work or semi-retire, which can lower their Social Security income.

Money earned after age 60 isn't indexed, which means that income-earning in your 60s can replace a year in which there was a zero or a year in which you had lower earnings.

Earnings above the annual cap ($147,000 in 2022) and indexed to inflation each year, are left out of the calculation. Your goal should be to maximize your peak earning years, striving to earn at or above the cap.

STEP 3. CONSIDER DELAYING BENEFITS

We have found that few people know that if they delay their Social Security benefits until after they reach FRA, they can effectively earn an 8% annual return on their available benefits. The benefit amount increases by 8% each year that it is delayed until age 70.

This doesn't account for cost-of-living adjustments.

STEP 4. CLAIM SPOUSAL BENEFITS AND DELAY YOUR OWN

If you and your spouse were born before Jan. 2, 1954, and have both reached full retirement age, you can claim spousal benefits and let your own benefits keep growing. Then, when you reach age 70, you can switch to your higher benefit.[2]

One caution: You can't have claimed your own benefit if you want to make use of this "restricted application," as it's called.

In order to claim a spousal benefit, your spouse must have filed for their own Social Security benefits (but ex-spouses are exempt from this rule).

STEP 5. AVOID SOCIAL SECURITY TAX

If you are planning on supplementing your retirement income by working after you start receiving Social Security benefits, you need to be aware of the tax consequences of increasing your income. Anywhere from 50% to 85% of your benefit payment can be subject to federal taxes.

To determine how much of your benefits will be taxed, the IRS will add your nontaxable interest and half of your Social Security income to your adjusted gross income. If that total amounts to $25,000 to $34,000 for single filers, or $32,000 to $44,000 for joint filers, up to 50% of your Social Security income is subject to tax. When that amount exceeds $34,000 for a single filer or $44,000 for joint filers, up to 85% of your benefits are subject to taxes.

You may be able to avoid paying taxes on Social Security income by considering ways to spread out your income from various sources so as to prevent any increases that could trigger a higher tax.

Many investors have a good opportunity between retirement and age 72. Oftentimes, they have no earned income and are not required to withdraw from their IRAs yet. If they have a

nonqualified account, they can withdraw tax-free principal. In this situation, it is quite possible that Social Security benefits will be tax-free.

STEP 6. REVIEW THE SECURE ACT RETIREMENT ACCOUNT CHANGES

Changes were made to the rules regarding retirement accounts with the passage of the SECURE Act in 2019 by the U.S. Congress. A few of those changes include the following:

- Eliminated the Stretch Provision

The SECURE Act removed the stretch provision, which previously allowed non-spousal beneficiaries to withdraw the required minimum distributions from an inherited IRA until the account was depleted.

Now, non-spousal beneficiaries must withdraw all of the funds in 10 years following the death of the original account holder, a requirement put in place on Jan. 1, 2020.

- Removed Age Limit for IRA Contributions

The SECURE Act removed the age limitation for IRA contributions, meaning that investors of any age can now add money to an IRA account.

- Raised the Age for Required Minimum Distributions

The age for required minimum distributions was raised to age 72 from the previous 70½.

THE SIX STEPS

These six steps will go a long way toward helping you get the most out of your Social Security benefit and provide more financial security during your retirement.

It's a good idea to review any changes with a financial professional.

If you're approaching retirement, now's a good time to learn how to maximize your Social Security benefits. Some little-known strategies could boost your household’s benefits, whether you live alone or still have minor children at home.

SIX WAYS TO GET THE MOST OUT OF YOUR RETIREMENT BENEFITS

WAY 1. BE WARY OF TAKING SSA'S ADVICE AT FACE VALUE

Going straight to the source seems like a great way to get accurate information about the best time to file for Social Security. But it isn't always the case.

The Social Security Administration representative you talk to might have good intentions when they offer advice about your specific circumstances. However, because this person is likely overworked and undertrained, they may give you incorrect information. And following standard advice could cost you tens of thousands of dollars throughout your retirement.

In addition to asking the SSA for advice, you'd be wise to consult with at least one financial advisor who specializes in retirement planning to get a complete picture of your options before you decide.

If you discover the mistake later, you might not be able to correct it, even if it stems from faulty advice from the SSA. That's the SSA's own rule. And many claiming decisions are irreversible.

WAY 2. WITHDRAW YOUR SOCIAL SECURITY APPLICATION

Here's one opportunity to reverse a claiming decision you regret. If you're within the first 12 months of claiming and you have enough cash available, you can withdraw your application and repay all the benefits you've received so far.

If you do, then it is as if you never claimed in the first place.

After repaying what you received, you can claim a tax refund or credit for any taxes you paid on those benefits.[3]

WAY 3. SUSPEND YOUR SOCIAL SECURITY BENEFITS

When you reach full retirement age, you can voluntarily suspend your Social Security benefits. Doing so will boost your future benefits and you don't need to repay the benefits you've already received. Here's an example that illustrates why you might want to voluntarily suspend your benefits after full retirement age.

Client A started receiving Social Security benefits at age 63. Their full retirement age is 66, and their full monthly benefit is $1,000. Because they began receiving benefits 36 months early, their monthly benefit was reduced to $800. At age 65 (the FRA), Client A decides it was a mistake to have started their benefits early. But more than 12 months have elapsed since starting benefits, so they can't withdraw their application.

All is not lost. Client A can file to voluntarily suspend their benefits at age 66. For each month of suspension, Chaman will earn delayed retirement credits worth two-thirds of 1% per month, or 8% per year.

If they wait until age 70 to resume their Social Security benefits, the strategy will increase their monthly benefit by two-thirds of 1% for 48 months, or 32%. Their former monthly benefit of $800 would increase to $1,056.

WAY 4. MAXIMIZE HOUSEHOLD BENEFITS

If you have a spouse or minor children, you should consider how your claiming strategy affects them. This might mean using a different benefit strategy than the one you'd use to maximize your own benefit payment.

How else might you maximize your household's Social Security benefits? The standard advice is to postpone claiming until age 70 if you can afford to. But that may not be the best option if you're in your 60s and still have minor children at home, not uncommon especially in blended families. In this scenario, you might receive more benefits in the long run by claiming at a younger age so you can receive dependent benefits.

The dependent child benefit is equal to half of the claiming parent's full retirement benefit, even if the parent claims early. The younger spouse may also be eligible for a spousal benefit. These additional benefits may offset the lower benefit you receive by filing early.

Factors that affect this decision include:

- The number of children who are in the household
- How long it will be until they turn 18 (or 19, if they're full-time students)
- The amount of your spouse's benefit
- The age gap between the spouses (survivor benefits are permanently reduced if you claim early)

Your claiming decision affects family members. If you voluntarily suspend your own benefits, no one else can receive Social Security benefits based on your earnings record.

WAY 5. KNOW EVERYBENEFIT TO WHICH YOU ARE ENTITLED

The Social Security Administration doesn't just pay retirement benefits directly to the worker who earned them. It also pays survivor benefits, divorced survivor benefits, spousal benefits, divorced spousal benefits, child benefits, and a few other types of benefits.[56] But because Social Security doesn't inform individuals when they become eligible for these benefits, you could miss out on benefits if you aren't proactive.

The surviving spousal benefit and the worker's benefit are treated as two separate benefits. A person who lost their spouse before retirement may have the opportunity to receive a survivor benefit first, then switch to their own retirement benefit later, or vice versa.

It is important to remember that for all non-standard approaches to boosting Social Security benefits, significant restrictions or exceptions may apply. Anyone thinking about taking advantage of these approaches should always ask themselves:

- Do I understand which restrictions apply?
- Do I fulfill all the requirements to take advantage of this approach?
- Could there be unintended consequences with this approach?

WAY 6. USE A GOOD CALCULATOR OR THE RIGHT ADVISOR

A good calculator can help you crunch the numbers and find the strategy that works best for your situation. Social Security has plenty of helpful calculators, ranging from simple to sophisticated. Consulting a financial advisor is another great option, as they can incorporate your entire retirement picture into the decision making process.

FINAL WORD

Social Security benefits are an essential part of any retirement plan. You're entitled to them if you or your spouse have earned 40 credits by paying into the system for at least 10 years. You should absolutely try to max out your payback within the law's parameters.

Unfortunately, your options for maxing out your benefits are often poorly publicized by the Social Security Administration. And even asking an agency representative to assist you personally may result in subpar advice and potentially lost benefits. After all, the agents are paid to explain the system, not teach us what questions to ask.

It is essential to educate yourself about the available benefits and filing strategies. Run through various scenarios with a financial planner and an advanced Social Security calculator before filing. By following these steps, you'll be able to claim your benefits in a way that's most likely to provide the maximum return for you and your family.

Data procured from Social Security Administration, Internal Revenue Service and IRC.