

Money Matters: Social Security

Introduction

Supplemental Security Income (SSI) aka Social Security is the foundation of economic security for millions of Americans—retirees, disabled persons, and families of retired, disabled or deceased workers. About 169 million Americans pay Social Security taxes and 61 million collect monthly benefits. About one family in four receives income from Social Security.

Social Security is largely a pay-as-you-go program. This means that today’s workers pay Social Security taxes into the program and money flows back out as monthly income to beneficiaries. As a pay-as-you-go system, Social Security differs from company pensions, which are “pre-funded.” In pre-funded retirement programs, the money is accumulated in advance so that it will be available to be paid out to today’s workers when they retire.

There are three programs within Social Security:

- Retirement Benefits – For workers 62 and older who have earned at least 40 credits (worked 10 years).
- Survivor Benefits – For the family members of deceased workers who qualified for Social Security.
- [Disability Benefits](#) – For adults 18 or older who are unable to work due to a physical or mental disability that is expected to last at least 12 months or result in death.

We will be focusing on Retirement and Survivor Benefits in this discussion.

Deciding when to claim can be surprisingly complex. There are many factors that come into play when trying to determine the best course of action. In this discussion, we hope to cover many of the factors to consider when making this decision.

Disclaimers

- Financial information is by nature dynamic and ever changing, as a result you should assume any information presented here as dated and in need up update before any decisions should be made.
- Your situation is unique information provided here is general in nature tax many details may not be mentioned that may have impact on your financial situation. Make sure you investigate fully any topic that may be used to make a decision. Additionally, tax laws are complex and many times subject to vary based on the individuals income. Make sure you understand the implications for your situation.
- Discussions assume all tax rules are being followed. For example if you withdraw funds from a tax deferred account before retirement age there are penalties, and guidelines provided below will likely not apply.

Future of Social Security

The [2021 annual report](#) from the Social Security Trustees, released in August 2021, projects that the Social Security Trust Fund has enough resources to cover all promised benefits until **2034**. Then, absent a change from Congress, the trustees project that benefits would need to be cut for all current and future beneficiaries to about **78%** of scheduled benefits. The 2021 report includes the trustee's best estimates of the impact from the pandemic, which were not reported on last year.

Likely levers that may be adjusted in the future:

- Retirement Age
- Benefit amount
- Maximum Earning Limit (\$142,800 for 2021)
- Prorated based on need

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Qualifying for Social Security

The following criteria must be met to qualify for Social Security:

- **10 years** – You must earn at contribute to SS for at least 10 years (with a minimal income of \$5,800/year). Technically the worker must earn 40 points to qualify, but this turns out to be 10 years of gainful employment in almost all situations.
- **How Much** – Amount of SS received depends on a number factors including
 - **Top 35 Years** – Top earnings from 35 years of your contributions is used to calculate your benefit.
 - **When you collect** – You can start collecting as early as 62, and delay up to age 70 to gain the most benefit from SS. Values below represent the [peak amount](#) that a person who maxes out contributions over a 35 year period is entitled to according to todays rules, you will likely get less, refer to you SS statement for your exact numbers.
 - Early Retirement (62) = Maximum benefit **\$27,888**
 - [Full Retirement](#) (67*) = Maximum benefit **\$37,776**
 - Maximum Retirement (70) = Maximum benefit **\$46,740**
- **Spousal Benefits** - For married couples, the following benefits apply:
 - Non Qualified benefits - Even if you wouldn't normally qualify for Social Security, if your spouse qualifies your benefits could be up to one-half the amount your spouse is entitled to receive at full retirement age.
 - Divorced – If you are divorced and your marriage lasted at least 10 years, you may be able to get benefits on your former spouse's record.
 - Deceased Spouse – When one person in a marriage dies, SSA does not continue to pay for both persons benefits, but the remaining spouse is entitled to the greater amount of benefits between the couple.

When to Claim

There are a number of factors to consider when determining the best time claim Social Security. Remember, Claiming early decreases your benefits (up to 24% less if taken at 62). Delaying claiming to 70 increases your benefit (up to 30% if taken at age 70). These decreases or increases of amount based on when the person has made the claim remain in effect for the rest of the individual's life ([with one exception](#)). Each person's situation is unique, but the following factors should be considered when making this decision:

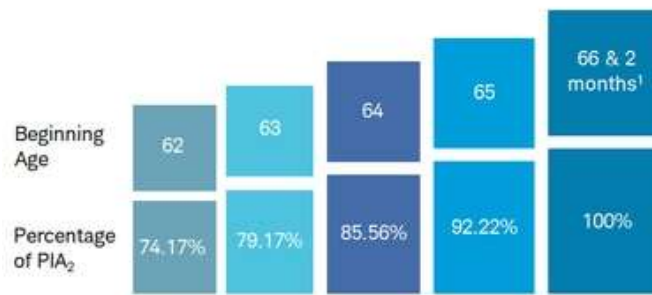
- **Need** - How badly the funds are needed. If you really need the funds, you may want to consider holding off on retirement.
- **Marriage status** – Since upon the death of one of the spouses, the surviving spouse is entitled to the greater of the two benefits, the person who qualifies for lower benefits at full retirement may want to claim earlier, while the higher earner may want to delay claiming social security until they reach the Maximum Retirement age. More on this later.
- **Health Coverage** – If you have a Health Savings Account that you would like to continue to contribute to, claiming Social Security benefits at Full Retirement age will enroll you in Medicare Part A, and you will no longer be able to contribute to a HSA.
- **Health Status and Longevity** – Since claiming early or late permanently impacts the amount received from Social Security, persons in poor health may want to claim early while people with long life expectations may want to wait until Maximum Retirement age.
- **Cost of Living Adjustments (COLA)** – Remember Social Security is one of the few pension/Annuity like plans that provides a Cost of Living Adjustment(COLA). Most other annuities and pensions loose value over time due

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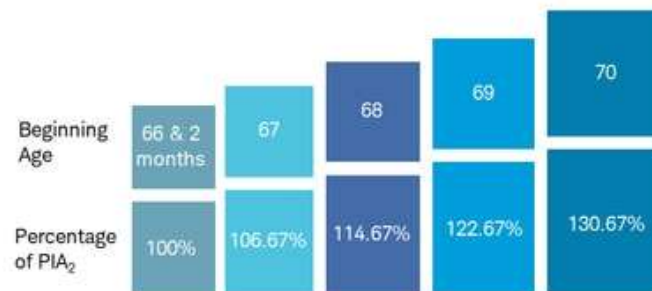
to inflation, while Social Security should roughly hold its value. For instance a \$50,000/year Social Security benefit will be roughly worth the same in today's dollars 20 years in the future. For other non-COLA adjusted benefit plans (Pensions, Annuities, etc.) the same \$50,000 benefit would be worth almost 1/2 of that (\$27,683) in today's dollars in 20 years assuming 3% inflation.

Break-even analysis – The age in your life when the total of the claimed SS benefits equal to the total benefits that you would have received if you had waited to take your benefits at Full Retirement Age or later. The Break-even analysis along with your life expectancy should weigh heavily in the decision as to what age to start claiming Social Security Benefits.

Effect of Early Retirement on Benefits (DOB Jan 2, 1955)¹



Effect of Late Retirement on Benefits (DOB Jan 2, 1955)¹



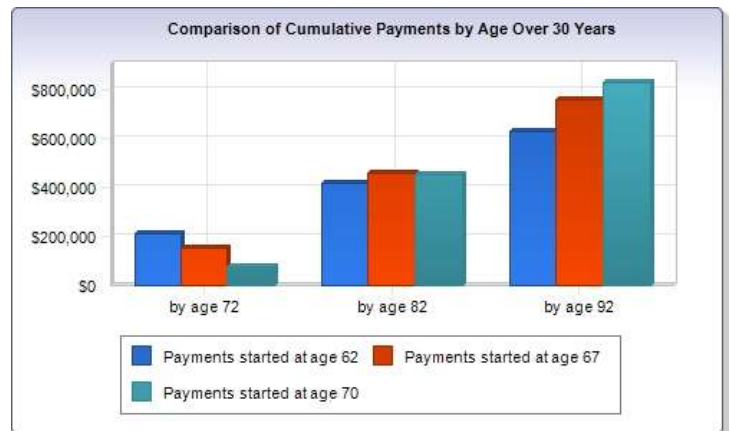
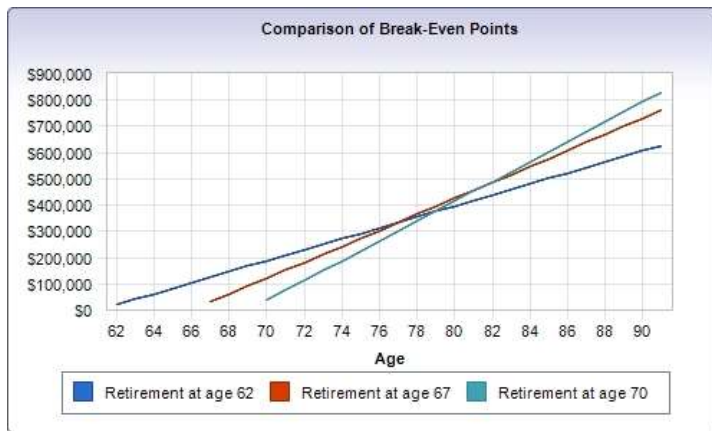
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Examples

The examples below utilize the following website references for calculations:

- Social Security: Estimate Your [Retirement Benefits](#)
- VyStar Investment Services: Social Security [Break-Even](#) Calculator
- John Hancock: See how your lifestyle impacts [Life Expectancy](#)
- Actuaries Longevity Illustrator [for Married Couples](#)
- **ShortTerm Stanley** – **Single**, Age 56 and in poor health and has determined the following information:
 - Retirement Benefits
 - Early Retirement (62): **\$1,745/month**
 - Full Retirement (67): **\$2,538/month**
 - Maximum Retirement (70): **\$3,147/month**
 - [Life Expectancy](#): **74 years**
 - [Breakeven](#):

Benefits Claimed	Breakeven Age with other retirement		
	Early (62)	Full (67)	Maximum (70)
Early (62)	N/A	77 Years Old	79 years old
Full (67)	77 Years Old	N/A	82 Years old
Maximum (70)	79 years old	82 Years old	N/A



Discussion

If Stanley really expects to kick the bucket early (age 74), he may want to consider claiming SS benefits early since he will have to live to 77 to breakeven if he waits to take SS at Full Retirement, and 79 to breakeven if he waits to claim the Maximum retirement. In this scenario, Stanley is betting that he will have an early demise, if he is wrong, he will have suffered economic loss. He may want to hedge his bets and wait until Full retirement age where if he happens to live just three years longer than his projected life expectancy, he will breakeven with claiming Early benefits. Waiting to claim benefits until he is 70 would probably not be to his benefit since he will have to live to be 82 years old to breakeven with claiming at Full retirement age.

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- **Jamie and Pat** – A married couple, Jamie(56), Pat (61) are both in excellent health.
 - Retirement Benefits – *Note: Pat is the higher earner here...*

Jamie (56)	Pat (61) – The Higher Earner
• Early Retirement (62): \$1,745/month	• Early Retirement (62): \$1,980/month
• Full Retirement (67): \$2,538/month	• Full Retirement (67): \$2,812/month
• Maximum Retirement (70): \$3,147/month	• Maximum Retirement (70): \$3,487/month

- Life Expectancy – Survivor benefits come into play here, so we are interested not only in the life expectancy of Jamie and Pat, but also the expectancy of at least one survivor. This is considerably longer than each individual. This is based on a 50% chance of survival; interestingly there is a 25% change of one of them living another 41 years making Jamie 97 and Pat 102.

Life Expectancy

Jamie (32 yrs)	Pat (30 yrs)	Either alive (37 yrs)	Both alive (25 yrs)
88	91	Jamie=93 Pat=98	Jamie=81 Pat=86

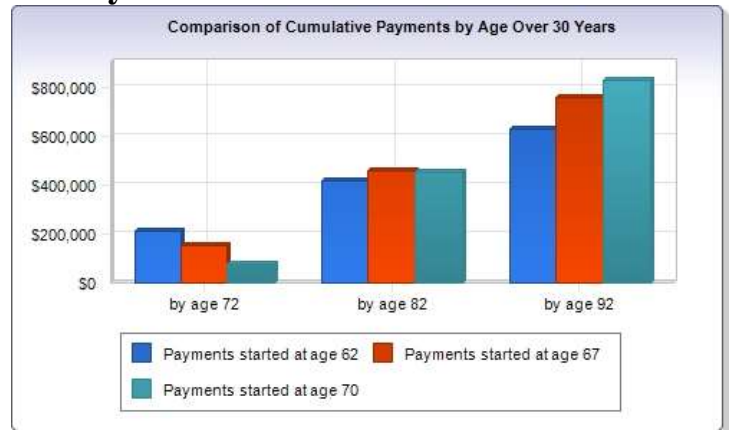
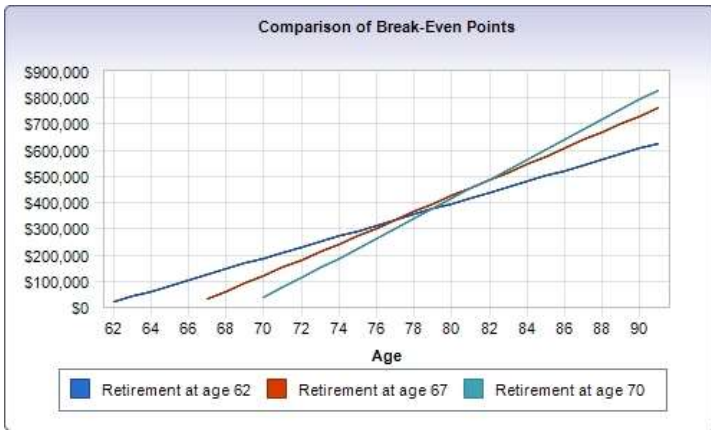
[Life Expectancy Probability table](#)

Years	Jamie	Pat	Either	Both
0	100%	100%	100%	100%
5	97%	97%	99%	95%
10	94%	94%	99%	89%
15	89%	89%	99%	80%
20	83%	81%	97%	67%
25	73%	68%	91%	49%
30	58%	49%	79%	28%
35	39%	27%	55%	11%
40	20%	11%	29%	2%
45	7%	3%	10%	1%
50	2%	1%	3%	1%

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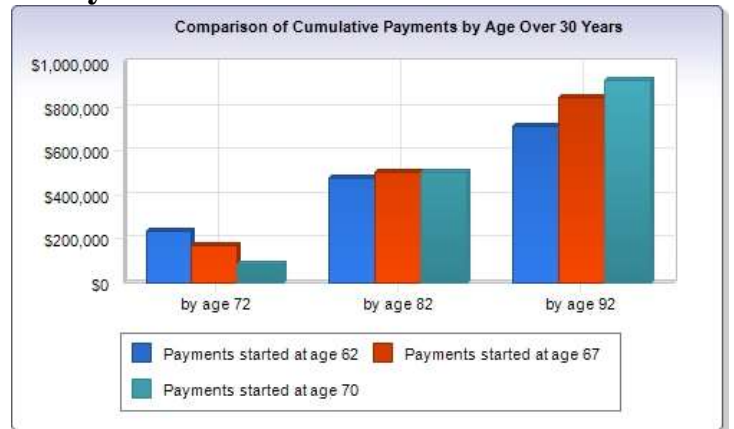
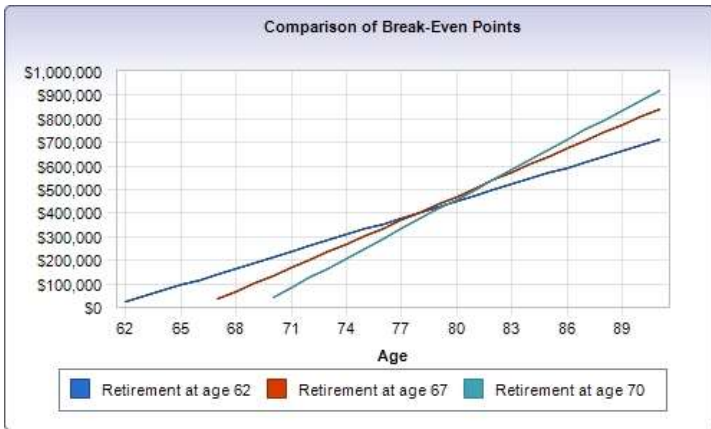
- [Breakeven](#) Data:

Jamie Summary



Jamie	Breakeven Age with other retirement		
Benefits Claimed	Early (62)	Full (67)	Maximum (70)
Early (62)	N/A	77 Years Old	79 years old
Full (67)	77 Years Old	N/A	82 Years old
Maximum (70)	79 years old	82 Years old	N/A

Pat Summary



Pat	Breakeven Age with other retirement		
Benefits Claimed	Early (62)	Full (67)	Maximum (70)
Early (62)	N/A	78 Years Old	80 years old
Full (67)	78 Years Old	N/A	82 Years old
Maximum (70)	80 years old	82 Years old	N/A

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Discussion

A popular approach for couples is to have the person who qualifies for the higher benefits (Pat) wait until age 70 to claim Maximum benefits. The reason for this is that if Pat were to die, Jamie's benefits will automatically be stepped up to what Pat's benefits were thus softening the decrease in income since Social Security will no longer pay benefits to the deceased person. The real question is should Jamie take Early, or wait five years later for Full Retirement? Data that may assist with this decision would be income:

Yearly Income from Social Security

Scenario (Claim Year)	--Year 1-- Jamie (62) Pat (67)	--Year 3-- Jamie (65) Pat (70)	--Year 5-- Jamie (67) Pat (72)	--Year 8-- Jamie (70) Pat (75)
Jamie (62) Pat (70)	\$20,940/yr	\$62,784/yr	\$62,784/yr	\$62,784/yr
Jamie (67) Pat (70)	\$0/yr	\$41,844/yr	\$72,300/yr	\$72,300/yr

IF Jamie files Early (62), they will accumulate an extra \$104,700 upfront (ie amount gained before reaching Full retirement age). On the other hand, if Jamie waits to Full Retirement (67) they will be pulling in \$9,516/year once they start collecting. The break even for waiting to file to claim in comparison of these two scenarios is about 11 years, Jamie will be 73 and Pat will be 78.

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Tax Considerations

Up to 85% of your Social Security Benefits may be taxable, dependent upon the taxpayers income and filing status.

Note: **Income** includes pensions, wages, interest, dividends, and capital gains, taxable IRA/401k, etc withdraws

$$TaxCheck = \left(\frac{1}{2}SS\right) + Income$$

Amount of SS that is tax

Percent SS that is Taxable	Filing Status	Tax Check (½ SS benefits) + Income	
None	Single	< \$25,000	No tax in SS income
None	MFJ	< \$32,000	No tax on SS income
50%	Single, HH, QW	\$25,000 - \$34,000	Must pay taxes on 50% of SS benefits
50%	MFJ	\$32,000 - \$44,000	Must pay taxes on 50% of SS benefits
85%	Single, HH, QW	> \$34,000	Must pay taxes on 85% of SS benefits
85%	MFJ	> \$44,000	Must pay taxes on 85% of SS benefits

Examples

- Poor Pete** – **Single** will receive **\$20,100 SS** benefits for the year and has **\$2,000 income** from interest, dividends and capital gains for the year. → **None** of his SS will be taxable.
 - Tax Check:** $\$20,100/2 + \$2,000 = \$12,050$
 - Taxable Income for the year** = SS + Taxable Income = $\$0 + \$2,000 = \$2,000$
 - Taxes Due for the year (0% Tax Bracket)** = **\$0, No Taxes Due**
- Jack & Jill** – **Married Filing Jointly (MFJ)** will receive **\$66,000 SS** combined benefits for the year and has **\$2,000 income** from interest, dividends and capital gains for the year. **%50 percent** of their SS will be taxable.
 - Tax Check:** $\$66,000/2 + \$2,000 = \$35,000$
 - Taxable Income for the year** = ½ SS + Taxable Income = $\$33,000 + \$2,000 = \$35,000$
 - Taxes Due for the year (12% Tax Bracket)** = **\$4,200 Taxes Due**
- Moneybags Martha** – **Head of Household (HH)** will receive **\$32,000 SS** benefits for the year. Martha has decided to purchase a new house this year and withdraws **\$80,000** from her tax differed IRA for part of a down payment on the house. Additionally, Martha has **\$8,000 income** from interest, dividends, and capital gains for the year. → **%85 percent** of his SS will be taxable.
 - Tax Check:** $\$32,000/2 + (\$80,000 + \$8,000) = \$104,000$
 - Taxable Income for the year** = 85% SS + Taxable Income = $0.85(32,000) + \$80,000 + \$8,000 = \$115,200$
 - Taxes Due for the year (24% Tax Bracket)** = **\$27,648 Taxes Due**
- Ricky Roth** – **Head of Household (HH)** will receive **\$32,000 SS** benefits for the year. Ricky has decided to purchase a new house this year and withdraws **\$80,000** from his **ROTH IRA** for part of a down payment on the house. Additionally, Ricky has **\$8,000 income** from interest, dividends, and capital gains for the year. → **None** of his SS will be taxable.
 - Tax Check:** $\$32,000/2 + \$8,000 = \$24,000$
 - Taxable Income for the year** = SS + Taxable Income = $0 + \$8,000 = \$8,000$
 - Taxes Due for the year (0% Tax Bracket)** = **\$0, No Taxes Due** (Using his ROTH, Ricky is paying \$27,648 less in taxes than Martha had to even though their finances are identical!)

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- **Downsize Doug** – Single, will receive **\$18,000 SS** benefits for the year. Doug has decided to sell his house and rent an apartment. Doug purchased his house for \$150,000 twenty years ago and has now sold it for \$550,000 for a capital gain of \$400,000. \$250,000 is not taxable according to current tax laws when selling a primary residence, so only **\$150,000** will count toward his income for the year, Additionally Doug received **\$15,000** from interest, and dividends, and his pension for the year. → **%85 percent** of his SS will be taxable.
 - **Tax Check:** $\$18,000/2 + (\$150,000 + \$15,000) = \mathbf{\$174,000}$
 - **Taxable Income for the year** =SS + Taxable Income = $0.85(18,000) + \$150,000 + 15,000 = \mathbf{\$180,300}$
 - **Taxes Due for the year (32% Tax Bracket) = \$57,696 Taxes Due**

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Medicare Premiums

More than likely Social Security income may be a large part of your income in retirement. As such, it may impact your Medicare Part B premium. Currently the Premium amount for Part B is based on the Modified Adjusted Gross Income (MAGI) and filing status (ie single married filing joint ect.). For 2020 the standard monthly rate is \$144.60/person. However, an additional amount is charged based on a **two year** look-back period for your MAGI, Social Security, being part of your MAGI. This additional assessment is known as Income-Related Monthly Adjustment Amount (IRMAA). Get the latest information at the [Medicare website](#) on the [Part B cost](#). Information below is from the Medicare Website.

It should be noted that these premiums can be rather large! One technique that could be employed to reduce these premiums would be to reduce your MAGI by converting retirement accounts (IRA, 401k, etc) to Roth accounts since money withdrawn from ROTH accounts currently are not included in MAGI calculations. This technique takes forethought and planning.

The standard Part B premium amount in 2021 is \$148.50. Most people pay the standard Part B premium amount. If your modified adjusted gross income as reported on your IRS tax return from 2 years ago is above a certain amount, you'll pay the standard premium amount and an Income Related Monthly Adjustment Amount (IRMAA). IRMAA is an extra charge added to your premium.

If your yearly income in 2019 (for what you pay in 2021) was			You pay each month (in 2021)
File individual tax return	File joint tax return	File married & separate tax return	
\$88,000 or less	\$176,000 or less	\$88,000 or less	\$148.50
above \$88,000 up to \$111,000	above \$176,000 up to \$222,000	Not applicable	\$207.90
above \$111,000 up to \$138,000	above \$222,000 up to \$276,000	Not applicable	\$297.00
above \$138,000 up to \$165,000	above \$276,000 up to \$330,000	Not applicable	\$386.10
above \$165,000 and less than \$500,000	above \$330,000 and less than \$750,000	above \$88,000 and less than \$412,000	\$475.20
\$500,000 or above	\$750,000 and above	\$412,000 and above	\$504.90

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References

- [Social Security Website](#)
 - [Retirement Benefits Calculator](#)
 - [Benefits Eligibility Screening Tool](#)
 - [Program Rules Resources](#)
 - [Online Social Security Handbook](#)
 - [Disability Assistance](#)
 - [Apply for Social Security Benefits](#)
 - [Don't forget, Social Security benefits may be taxable](#)
 - [Normal Retirement Age](#) – Calculator to give you your normal retirement age based on you DOB.
 - [Suspending Your Retirement Benefit Payments](#)
- [Medicare Website](#)
 - [Part B cost](#) – Shows how IRMAA is calculated based on your MAGI
- Calculators
 - Social Security Administration website calculators
 - [Normal Retirement Age](#) – Calculator to give you your normal retirement age based on you DOB.
 - [Retirement Benefits Calculator](#)
 - [Inflation Calculator](#)
 - [Social Security Breakeven Calculator](#)
 - Life Expectancy Calculators
 - [John Hancock Insurance](#)
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 - [Longevity Illustrator for Married couples](#)
- Investopedia
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- AARP
 - [How does Social Security Work?](#) (Video)
- Schwab
 - [When Should You Take Social Security?](#)
 - [How Can Couple Max Out Social Security Benefits?](#)
- Monevator: [Life expectancy for couples, Why it's surprisingly long and what you should do about it.](#)
- National Academy of Social Insurance
 - [What is Social Security?](#)
- [IRS: Don't Forget, Social Security benefits may be taxable \(06/25/2020\)](#)