5 Things Retirees Should Know about Social Security Benefits

PINEYWOODS FINANCIAL

Updated as of November 6, 2015

What Is Social Security?

In the context of this article, Social Security is a federal government-sponsored retirement benefit designed to replace some of your income in retirement. If you or your spouse have worked for at least 40 quarters and paid taxes on the income, you may be eligible to collect benefits in retirement.

Social Security Administration

For most Americans, Social Security will provide a significant portion of their income in retirement. According to Social Security Administration (SSA) statistics, Social Security benefits account for about 34 percent of retirement income for the average American.[1] One of the biggest mistakes today's retirees can make is to underestimate how important Social Security is to their retirement income strategies. In an era of vanishing pensions and volatile markets, Social Security offers government-guaranteed income that isn't vulnerable to market risk, can't be outlived, and can provide for your loved ones after your death.

The Social Security landscape changed dramatically in 2015 when Congress abolished several advanced claiming strategies that helped retirees increase lifetime income. The new rules make it more important than ever to make informed decisions when incorporating Social Security into your overall financial strategies.

In this article, we will learn more about your benefits and how to help maximize your household's lifetime income from Social Security. Take note of any thoughts or questions you may have as you read so that you can discuss your personal situation with a qualified financial professional.

1 Your Age Affects the Benefit You Will Receive

The earliest age at which you can file for Social Security (unless you qualify for disability) is 62, but you won't be able to collect your full benefit then. Instead, the SSA reduces your benefits by 25 percent if your full retirement age (FRA) is 66 or by 30 percent if it's 67. So, if your full monthly benefit at age 66 were $1,000, you'd only receive $750 each month if you started collecting at age 62. That reduction in benefits will be permanent.

You will be eligible to collect 100 percent of your personal benefit at your FRA, which is age 66 for anyone born between 1943 and 1954, 66 plus a two-month delay per birth year for those born between 1955 and 1960, and age 67 for anyone born after 1960. For example, if you were born in 1951, your FRA is 66. If you were born in 1956, your FRA would be 66 years and four months.[2]

Many Americans are forced to file for benefits early for financial reasons, which can cost them dearly in lost income. If you can afford to wait until your FRA, you'll be eligible for 100 percent of your Social Security benefit. If you can afford to wait even longer, your benefit would increase by 8 percent every year until age 70, permanently. So, if your basic benefit were $1,000 at your FRA of age 66, it would increase to $1,320 per month, or 132 percent of your benefit, at age 70. If you were born after 1942, you qualify for the 8 percent credit each year.[3]

2 Even under the New Social Security System, It May Make Financial Sense for at Least One Member of a Couple to Delay Claiming Benefits Until Age 70

Many retirees struggle with the question, "When is the right time to file for benefits?" Unfortunately, there's no simple answer because the details of your personal situation matter a great deal. While there is no perfect time to file for benefits, choosing the right claiming strategy can drastically affect how much you are able to collect over your lifetime. If either you or your spouse expect to live past the age of 80, you're generally better off waiting to claim as long as possible to receive a larger benefit. However, if your health isn't good or you need the income, you might want to consider claiming Social Security benefits early.

Ultimately, your personal Social Security strategy will depend on factors like taxes, marital status, age, and other sources of income. It's a good idea to discuss your situation with a financial professional who can analyze your situation and offer personalized advice.

3 Remember: Social Security Benefits Are Taxable!

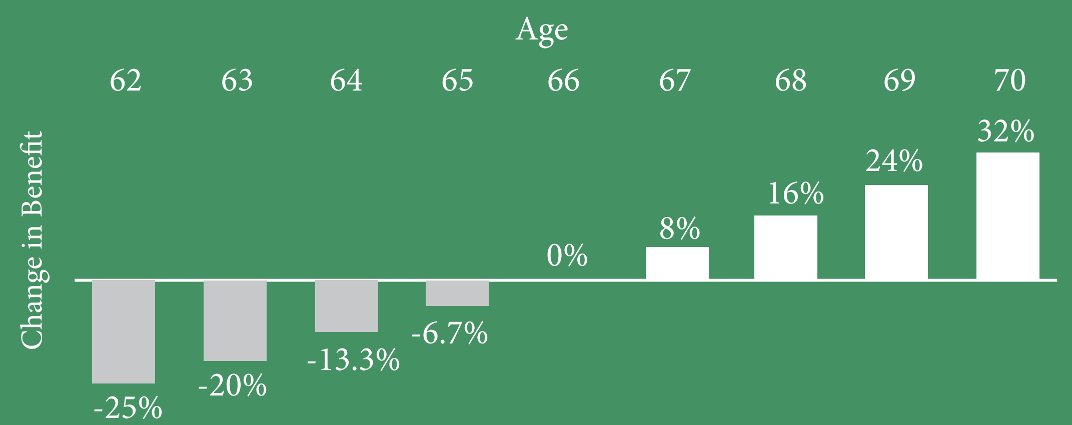
Unfortunately, retirement doesn't mean retiring your worries about taxes. If you collect substantial income from sources like wages, investment income, rental properties, or any source that is reported on your tax return, you will very likely owe taxes on your Social Security benefits. The tax rate you'll pay depends entirely on your overall income bracket since Social Security benefits are treated like ordinary income.

However, there are strategies that may help you maximize your income while reducing what you owe in taxes. For example, one method is to take as much income as possible from sources that are excluded from the "provisional income" that the IRS uses to calculate the taxation of your Social Security.[4] What's excluded from provisional income? According to IRS rules, income from the following sources may potentially be excluded from provisional income calculations:[5]

- Roth IRA distributions
- Non-taxable pensions and annuities
- Inheritances and gifts

Please keep in mind that taxes are just one piece of your overall financial picture and it's important not to let them overshadow other critical factors. If you are concerned about the effect of taxes on your retirement income, we strongly recommend that you speak to a qualified financial professional.

It Pays to Wait: Collecting Social Security before and after Full Retirement Age



Assumes Full Retirement Age is Age 66

Source: SSA.gov (does not include cost-of-living increases)

Conclusions

We hope that you've found this special report educational and informative and that you have come away with some ideas for how to help optimize your Social Security benefits. For most retirees, Social Security benefits are the cornerstone of their income strategies and account for a significant percentage of their income. It's critical to plan ahead now so that you can make the most of this invaluable resource. Every strategy will not work for every retiree, which is why it's so important to take the time to analyze your needs and test possible scenarios.

The new regulatory environment means that it's more important than ever to understand your Social Security options. The moral of the tale is this: **you cannot depend on a single financial or retirement strategy to build a comfortable retirement.** One of the benefits of working with a financial professional is that we keep track of changing retirement issues. We can help you analyze your financial situation and develop personalized recommendations designed to help you best leverage Social Security in light of your overall financial goals.

If you or anyone close to you would like to discuss your Social Security benefits with a professional, please give our office a call at 936-559-1123 to schedule a complimentary review.

Footnotes, disclosures, and sources:

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