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WEALTH MANAGEMENT USA

The Social Security Playbook

There's a misunderstanding in the marketplace that Social Security is a relatively simple program. Indeed, for many Americans, Social Security is the cornerstone of their retirement income plan. What they don't realize is, depending on their average earnings, the gap between what they'll receive and what they'll need might be bigger than they think.

To be eligible for Social Security benefits, an individual must have worked at least 40 quarters. The individual's average annual earnings—or primary insurance amount (PIA)—is calculated on the salary he/she earned, for their top 35 years of employment. The higher an individual's PIA, the higher the monthly benefit will be. On the other hand, the higher the PIA, the larger the gap can be between an individual's current income and what he/she expects to receive from Social Security.

For instance, Jennifer earned an average of $40,000 a year while working. She will reach full retirement age (FRA) this year and her benefits are an estimated $1,717 per month. This covers over 50% of her income as she transitions to retirement. Vanessa, who is also FRA, has an average income of $100,000. Her benefits are estimated to be $2,658 per month, only covering 32% of her current income. Vanessa has a larger income spread to cover in retirement.

This income gap is a real concern for individuals approaching retirement. Luckily, there are a few strategies that can boost your income and get you closer to your retirement goals. These strategies, accompanied by an income vehicle such as fixed or indexed annuities, can help you close that retirement income gap.

- **Spousal split:** A spouse can receive up to 50% of his/her spouse's Social Security benefits. If one spouse has earned significantly more than the other, it may be beneficial for the lower earner to file for a spousal benefit early while the higher earner allows benefits to accumulate.

- **Plan for longevity:** The survivor of a married couple will continue to collect the higher of the two Social Security checks, which should be accounted for when deciding to file for benefits. For example, if one spouse has a higher PIA but may not be in the best of health, it may still benefit them to wait to collect at age 70, even though they may not recoup their contributions because of their health. While the covered individual may not benefit from those Social Security checks as long, their surviving spouse will collect the higher benefit check for the rest of their life. This could make a significant di!erence in income and also relieve pressure on the rest of their portfolio.

- **Divorce:** If you were married for 10 years or more to your ex-spouse, it may be more beneficial to claim divorce benefits. To file for this benefit, you must be 62 years old and unmarried. The ex-spouse does not need to file if you have been divorced for at least two years.

- **Widow/Widowers:** A widow or widower may claim Social Security on their deceased spouse's earnings, as early as age 60. If the surviving spouse would qualify for Social Security on their own earnings, they can switch as early as age 62 and as late as age 70 to maximize their benefits. They may consider using an annuity to supplement the survivor's benefit while maximizing their own Social Security benefit that will be collected later.

- **Maximizing your earnings period:** A small gap in employment can reduce your PIA. Working past FRA will increase your earning years to reach your highest possible 35-year employment period. This can also be a great move if you earn substantially more now than at the beginning of your career as it can increase the amount you receive monthly.

- **Claim delay:** In 2018, 34.3%[1] of the individuals who filed for Social Security benefits were 62—in their first year of eligibility. It's a common choice to file as soon as possible, but it may not always be the best decision. Benefits can increase up to 8%[2] per year that filing is delayed. Be sure to discuss filing timelines with your financial advisor to optimize your Social Security benefit, and to coordinate with your spouse's benefits as well.

- **Watch for the (Government Pension) Offset:** If one spouse is covered by a state or local government pension, the Government Pension Offset (GPO) may apply to their situation. This provision reduces the spousal or widower's benefit by two-thirds of the monthly pension amount and can even reduce an individual's spousal or widower benefit to $0. In short, if you collect a government pension, you may find Social Security benefits reduced or eliminated if you qualify for spousal benefits. If this applies to you, talk to your advisor about using an annuity or life insurance to make up the income shortfall.

- **Who doesn't want a windfall?**: Similar to how the GPO can curtail benefits that would otherwise be qualified for under spousal or widow rules, the Windfall Elimination Provision (WEP) may also apply. The WEP provision applies where an individual would qualify for both a government pension and a Social Security benefit. This provision reduces the Social Security benefit for this individual based upon a complicated formula. Taking this type of provisions into consideration is essential to any Social Security strategy. Speak with an advisor to see if this applies to you.

How do you know which approach is the best for your retirement plan? You can start by checking your estimated benefits at ssa.gov and then talk with your financial advisor to determine how best to optimize your Social Security benefit and also the most appropriate solution to closing any retirement income gaps.

1 "What's the most popular age to take Social Security? A Foolish Take", George Petras, USA Today, June 19, 2018.

2 ssa.gov

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