Social Security

As you approach Social Security, it is important to answer these top three questions: 1. For which benefits am I eligible? 2. How much money will I get? 3. When should I apply?

Retiree Benefits

The average Social Security retiree benefit being paid is approximately $1,500 per month. The average spousal benefit is about half of that figure. For many of you, Social Security may produce half of your income per year. Failing to maximize your benefit is a mistake you cannot afford. You need to ensure you optimize your Social Security filing strategy.

After working 40 quarters (10 years), you are eligible for a monthly paycheck in retirement. This benefit increases most years with cost-of-living adjustments. Your benefit is calculated using the top 35 years of earnings throughout your career. Do not worry about low-income years from decades ago, those past years are adjusted for inflation before the benefit calculation is complete.

Your benefit is adjusted down or up based on when you choose to begin your monthly payments. Here are some acronyms to help you understand the lingo:

- FRA = Full Retirement Age
- PIA = Primary Insurance Amount. Do not think “insurance”, your PIA is just your Social Security benefit at your Full Retirement Age (FRA).

Your monthly income is adjusted down if you begin taking benefits prior to FRA or adjusted up for waiting beyond FRA until age 70.

Spousal Benefits

If a worker qualifies for Social Security, the worker's spouse may be eligible to receive a Social Security benefit. The spousal benefit is 50% of the primary worker's PIA. Just like personal benefits, the spousal benefit is adjusted down for filing early or up for delaying. If one spouse dies, the spousal benefit is typically discontinued because the survivor has the ability to receive the larger of the two benefits. Keep in mind that for married couples, Social Security is a team sport.

Certain couples have been able to use unique strategies call "restricted spousal applications" and "file & suspend". These strategies are being phased out for younger retirees.

Divorce and Death

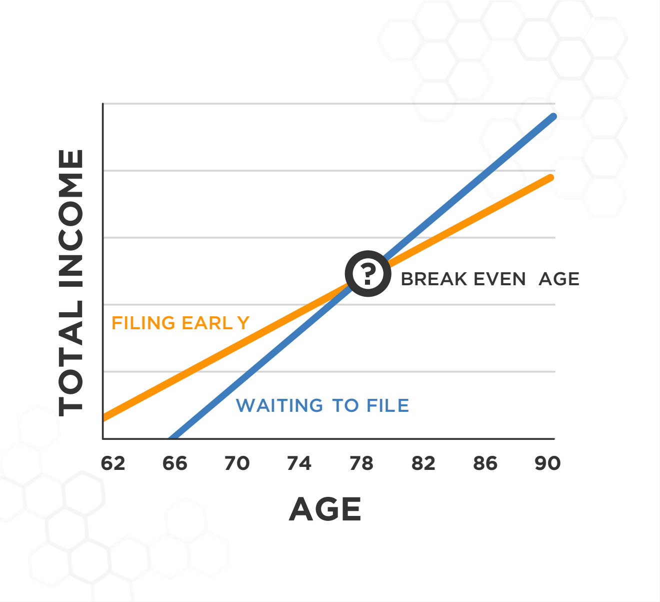
Divorce and death introduce additional filing strategies. We have suggested delaying marriages for a few months to save $2,000 per month for the rest of a retiree's life due to technicalities in the rules for survivor benefits. We even have a couple considering getting divorced temporarily and then remarrying to potentially unlock over $600,000 of lifetime Social Security benefits. If divorce and death are part of your situation, it makes sense to have a free consultation with us to ensure you aren't missing opportunities for more money.

Taxes

As you receive your Social Security payments in retirement, your income is likely to be partially taxed. Some low-income individuals get all their Social Security back tax free. High income individuals get 15% back tax free. In other words, you will be taxed on some percentage between 0% and 85% of your Social Security. The scale is gradual and depends on the composition of your income. Most individuals and wealth advisors misunderstand the calculation method and assume you will be taxed on 0%, 50%, or 85%, which is not accurate. There is a range of income called the Social Security tax trap or the Social Security tax torpedo. This means that if you add any more regular income like 401(k), Pension, IRA withdrawals, you will also have to include more Social Security to your taxable income. For example, a $10,000 withdrawal can increase your taxable income by $20,000. Capita has the tools to evaluate your taxable portion and avoid the tax torpedo. We would be happy to provide you with your details.

When You Should Apply

At a certain age, a retiree is better off for having waited to receive a larger monthly income. This is called your break-even age and everyone's may be different. There are many ways to try and assess the value of waiting to take Social Security, However, most methods miss three key variables.



These three calculation missteps are:

1. Failing to consider both spouses' benefits.
2. Not factoring in cost-of-living adjustments.
3. Forgetting about the investment gain missed in the strategy which required you to wait.

This third calculation misstep can add somewhere between 2 and 35 additional years to your break-even age. The exact number of extra years depends on how much investment gain is missed as you withdraw from your investments. We call this a "break-even with growth". This means your risk tolerance also plays a role in your break-even age.

Summary

You have many choices with Social Security. Capita Financial Network wealth advisors are ready to build your top 3 filing strategies, your break-even ages, and your Social Security taxation. Let us know how we can help you on your path to retirement.

https://www.ssa.gov/policy/docs/statcomps/supplement/2020/5a.pdf