Capital Wealth Planning, LLC
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# 6 Critical Social Security Facts Retirees Must Know

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## Introduction

Social Security provides an important source of guaranteed income for most Americans. Choosing the right claiming strategy is even more important under new Social Security regulations. 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 the importance of Social Security in their retirement 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.

We developed this special report to help investors learn more about Social Security benefits and how to maximize their lifetime income from Social Security.

### What Is Social Security?

In this context, 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.

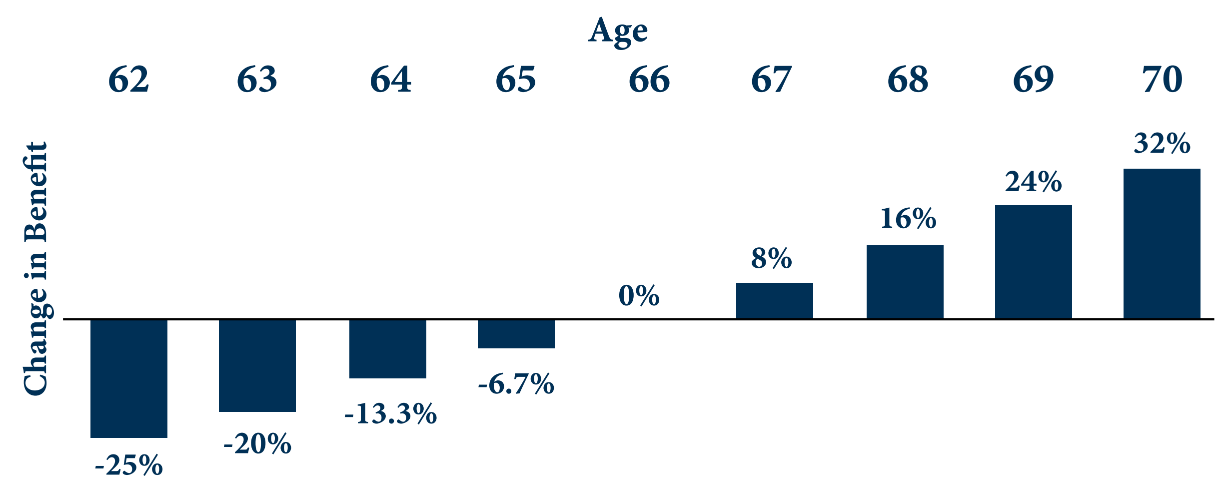
Source: Social Security Administration

We encourage you to read this report carefully and take note of any questions or thoughts about your personal situation so that you can discuss them with your qualified financial professional.

## 1. Your Age Affects the Benefit You Will Receive

The earliest age that you can file for Social Security retirement benefits is 62, but you won't be able to collect your full benefit then. Instead, the SSA reduces those benefits by either 25 percent if your full retirement age (FRA) is 66 or 30 percent if it's 67.

### Collecting Social Security Before and After Full Retirement Age




**Assumes Full Retirement Age is 66**

Source: SSA.gov. Does not include cost of living increases.

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 benefit at your full retirement age, 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 will increase by up to 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, by waiting until age 70 to take it. If you were born in 1943 or later, you'll 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 wrestle with the question, "When is the right time to file for benefits?" There is no perfect time to file for benefits, but choosing the right claiming strategy can radically affect how much you can collect over your lifetime. Many Americans are forced to claim early benefits for financial reasons, but, if you can afford it, delaying Social Security benefits could mean collecting significantly more over the course of your life.

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.

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.

Social Security Administration Benefits Planner

## How We Can Help You With Social Security:

Maximize your Social Security benefits under new rules

Claim your spousal or survivor benefits

Determine how divorce affects your Social Security benefits

Understand pensions and Social Security benefits

Claim disability benefits

Understand your Medicare benefits

## Are You Making These Critical Social Security Mistakes?

Ignoring spousal and survivor benefits

Claiming too early

Claiming too late

Forgetting about earnings limits

Ignoring the impact of taxes

Not getting professional advice

## According to the Social Security Administration…

A man reaching age 65 in 2015 can expect to live, on average, until 84.3 years of age.

A woman turning age 65 in 2015 can expect to live, on average, until 86.6 years of age.

About one out of every four 65-year-olds today will live past age 90, and one out of 10 will live past age 95.

Social Security Administration Life Expectancy Planner, 2015

| | NO TAXES ON SS BENEFITS | UP TO 50% OF SS BENEFITS ARE TAXED | UP TO 85% OF SS BENEFITS ARE TAXED |
|---|---|---|---|
| SINGLE | Income <$25,000 | $25,000–$34,000 | Income >$34,000 |
| MARRIED, FILING JOINTLY | Income <$32,000 | $32,000–$44,000 | Income >$44,000 |

Source: SSA Benefits Planner: Income Taxes and Your Social Security Benefits

Ultimately, your personal Social Security strategy will depend on many personal factors like taxes, marital status, age, health, 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. You Can Work and Collect Social Security, but It Might Affect Your Monthly Benefit

Many Americans are continuing to work well into their retirement years. While the government allows you to work and collect Social Security benefits, your benefits may be reduced if you are below your FRA.

Starting with the month you reach full retirement age, you will start receiving benefits with no reduction, even if you keep working. Once you reach your FRA, the SSA will recalculate your benefit and give you credit for any benefits that were withheld while you were working. Keep in mind that you must pay Social Security and Medicare taxes as long as you are earning income.[4] Benefit reduction calculations are complex and it's worth consulting a financial professional to determine whether special rules apply to your situation.

## 4. 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 income, or any source that you report 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 gets treated like ordinary income.

However, there are strategies that may help you maximize your income while reducing taxes. For example, one method is to take as much income as possible from sources that are excluded from the "combined income" that the IRS uses to calculate the taxation of your Social Security.[5]

# SOCIAL SECURITY IS A MAJOR SOURCE OF INCOME FOR MOST RETIREES.

According to IRS rules, income from the following sources may potentially be excluded from combined income calculations:[6]

- Qualified 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 facts. If you are concerned about the effect of taxes on your retirement income, we strongly recommend that you speak to a qualified financial professional.

## 5. Married? Don't Forget about Spousal and Survivor Benefits

Married couples need to think about how their Social Security claiming strategies will affect their spouse's benefits and income in retirement. This issue is especially important when one spouse is significantly older than the other or earned more during a career. If your spouse isn't eligible for a personal benefit, his or her benefits are based on your personal benefit, which means that the age at which you file for benefits will have a major impact on what he or she is eligible to collect.

For many couples, maximizing a survivor benefit for a younger spouse is a major consideration. Since a survivor who has reached FRA will be eligible for 100 percent of the primary worker's benefit, he or she will be able to take advantage of any delayed retirement credits and cost-of-living adjustments that the primary earner accumulates. Bottom line: the longer you wait to collect Social Security, the more your spouse will be able to claim as a widow or widower. Surviving spouses can usually choose between collecting a personal benefit or a survivor benefit, depending on which one is higher.[7]

## 6. Paying Attention to Social Security Is More Important Than Ever under New Rules

On November 2, 2015, President Obama signed into law a bipartisan budget deal that affected two strategies that helped retirees increase their lifetime benefits by claiming income now and claiming more income later: **file-and-suspend** and **restricted applications for benefits.**

The new regulations went into effect on April 30, 2016, and affected retirees can no longer take advantage of these advanced strategies. Under the new regulations:[8]

- Retirees who turn 62 on or after January 2, 2016 will no longer be able to choose between receiving a spousal benefit or receiving their own personal benefit. Instead, they will be "deemed" as filing for both and will receive the larger of the two benefits without accumulating additional credits. Retirees who turned 62 before the deadline may still be able to file restricted applications for benefits. It's vital to speak to a financial professional immediately to learn whether you are eligible to take advantage of the old rules.

- Retirees will not be able to file and then suspend a personal benefit while triggering benefits for a spouse or child. Instead, they will have to receive their own benefit to allow a family member to collect on the primary record. Retirees can still voluntarily suspend their benefit to accrue credits, but will also suspend any spousal benefits on that record. A retiree who has suspended his or her own benefit cannot receive a spousal benefit. Divorced spouses will not be affected by the rule change and can still collect a spousal benefit if the ex-spouse suspends his or her personal benefit.

- Retirees who suspend their benefit will no longer be able to receive their suspended benefits in a lump sum before age 70.

• Retirees who have already taken advantage of the old rules were grandfathered in and are not affected by the changes.

• The new rules only apply to retirement benefits, not survivor's or disability benefits. So, if you are a widow or widower or are entitled to disability benefits, you may claim those benefits independently of your personal worker's benefit if you restrict your application. If you have questions about your specific situation, contact a qualified Social Security expert.

Social Security is a foundational element of a retirement income strategy, and the new rules may affect your financial picture. If you had planned to use one of these disallowed Social Security benefit strategies to increase your income in retirement, then you will need to revisit your income assumptions to ensure that you have enough to live comfortably. **However, there are still ways to increase the amount of Social Security benefits you can claim.**

Married couples can (and should) coordinate claiming strategies to maximize total Social Security income. For example, a higher-earning spouse can delay his or her benefit to accrue additional credits while the other spouse claims his or her own personal benefit. You can potentially improve your retirement picture by:

• Claiming benefits late to earn additional retirement credits

• Minimizing taxes paid on your Social Security benefits

• Maximizing survivor benefits for yourself or your spouse

No strategy can be right for everyone, and it's important to consider your entire financial picture when making decisions about Social Security. As with many financial strategies, details matter, and things like age differences between you and your spouse, taxes, and life expectancy can all affect your overall outcome.

**Under the new Social Security rules, making informed decisions about when to file is critical to making the most of your benefits.**

## 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 optimize your Social Security benefits. For many retirees, Social Security benefits are the cornerstone of their income strategies and account for a significant percentage of their income. It's absolutely 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 advisor is that they keep track of changing retirement issues for you. They 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 how to maximize your Social Security benefits with a professional, please call Capital Wealth Planning at 239-593-2100, we would be happy to help.

Warm Regards,

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# FOOTNOTES, DISCLOSURES AND SOURCES:

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