

Before You Claim Social Security

A few things you may want to think about before filing for benefits.

Determining when to take Social Security benefits is a complicated financial decision. Here are a few things to think about and discuss with your financial professional.

How long do you think you will live? If you have a family history that suggests you might live into your 90s, you may want to consider claiming Social Security later. If you start receiving Social Security benefits at or after full retirement age (FRA, which varies from age 66 to 67 for those born in 1943 or later), your monthly benefit will be larger than if you had claimed at 62.¹

What fits best with your financial strategy – more lifetime payments that are smaller versus fewer lifetime payments that are larger? For the record, Social Security’s actuaries project that the average 65-year-old man will live to 84.0 years, and the average 65-year-old woman, 86.5 years.²

Will you keep working? If you want to keep working, you’ll need to be mindful of earning too much income, which may result in your Social Security benefits being taxed.

Keep in mind that this article is for informational purposes only. It’s not a replacement for real-life advice, so make certain to consult your tax or accounting professional before modifying your decision on whether to work in retirement.

Prior to full retirement age, your benefits may be lessened if your income tops certain limits. In 2020, if you are aged 62 to 65, receive Social Security, and have an income over \$18,240, \$1 of your benefits will be withheld for every \$2. If you receive Social Security and turn 66 later this year, then \$1 of your benefits will be withheld for every \$3 that you earn above \$48,600.³

Social Security income may also be taxed above the program’s “combined income” threshold. (“Combined income” = adjusted gross income + nontaxable interest + 50% of Social Security benefits.) Single filers who have combined incomes from \$25,000 to \$34,000 may have to pay federal income tax on up to 50% of their Social Security benefits, and that also applies to joint filers with combined incomes of \$32,000 to \$44,000. Single filers with combined incomes above \$34,000 and joint filers whose combined incomes surpass \$44,000 may have to pay federal income taxes on up to 85% of their Social Security benefits.³

When does your spouse want to file? Timing does matter, especially for two-income couples. If the lower-earning spouse collects Social Security benefits first, and then, the higher-earning spouse collects them later, that may result in greater lifetime benefits for the household.⁴

Finally, how much in benefits might be coming your way? Visit SSA.gov to find out, and keep in mind that Social Security calculates your monthly benefit using a formula based on your 35 highest-earning years. If you have worked for less than 35 years, Social Security fills in the “blank years” with zeros. If you have, say, just 33 years of work experience, working another couple years might translate to a slightly higher Social Security income.¹

When to start drawing Social Security benefits may be one of the most significant financial decisions of your life. Ideally, your choices should be evaluated years in advance – with insight from the financial professional who has helped you prepare for retirement. And if you feel behind on your decision, all the more reason to consider working with a financial professional who may be able to help you up the learning curve.

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Citations.

1. SSA.gov, 2020
2. SSA.gov, May 28, 2020
3. U.S. Social Security Administration, 2020
4. SSA.gov, February 11, 2020