



Social Security and Retirement: Viewing Your Decision through a LENS

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One of the biggest retirement-related decisions you'll make is when to start taking Social Security. This isn't a choice to take lightly – Social Security is one of the most valuable retirement assets you have.

In fact, using the estimated 2021 average individual benefit of \$1,543 per month, finding a similar investment paying the same amount for as long as you live – with inflation adjustments and survivor benefits for your spouse – would cost over \$500,000.¹

Social Security addresses two key risks during retirement – inflation and living longer than you expect – because it's a lifetime benefit that could increase for inflation. Also, since Social Security benefits are not affected by market movements, they can serve a significant role by providing a base for your retirement income. So it's important to understand your options and how your choices may affect your retirement.

Your Retirement LENS

Your Social Security and retirement decisions typically go hand in hand. For example, taking Social Security later often makes more sense if you can retire later. Ultimately, this is a personal and complex decision, which we recommend viewing through a LENS:

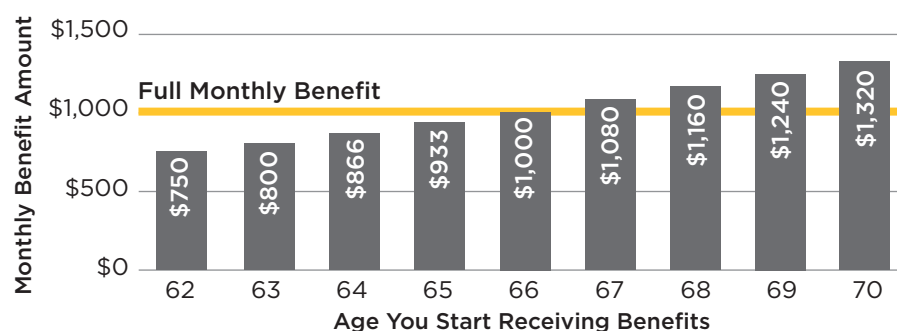


Social Security Basics

While a detailed discussion of the types of benefits is beyond the scope of this report, let's first review some basics.² Your Social Security retirement benefit is based on your highest 35 years of earnings, as well as the age you begin taking Social Security. Your benefits are reduced by up to 25% if you claim before your Full Retirement Age (based on a Full Retirement Age [FRA] of age 66) but are increased by up to 32% if you delay claiming past your Full Retirement Age (up to age 70).

Monthly Benefit Amounts Differ Based on Age You Start Receiving Benefits

(Assumes \$1,000 Monthly Benefit at Full Retirement Age of 66)



Source: Social Security Administration. Example does not include any potential cost-of-living adjustments (COLAs).

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Life Expectancy

Since benefits change based on what age you begin taking Social Security, this decision is in some respects a question of receiving a smaller amount for a longer period of time or a larger amount for a shorter time. Therefore, how long you (and your spouse) expect to live plays an important role.

The following hypothetical example shows annual and total Social Security benefits based on taking Social Security either early, at Full Retirement Age or at age 70, and incorporates cost-of-living adjustments (COLAs). In this example, if the person waited until age 66 to take Social Security, he or she not only would receive larger annual benefits (\$26,988 versus \$20,258 if benefits are taken at age 62) but by age 75 would have received

more total benefits (\$309,355 versus \$307,508). This “break-even” age would rise to 78 if he or she delayed taking Social Security until age 70. Notably, there is about a 60% chance that at least one spouse will live past age 90,³ so you may live longer than you expect.

The better your health and the longer you and your spouse expect to live, the more it may make sense to take Social Security later. This assumes you don’t need your benefit now and aren’t putting undue strain on your investments to make up the difference, because the “life expectancy” of your portfolio can be affected by your decision. (See more about the life expectancy of your portfolio on Page 3.)

Social Security Break-even Hypothetical						
	Benefits Started Early (Age 62)		Benefits Started at Full Retirement Age (66)		Benefits Delayed until Age 70	
Age	Annual Benefit	Total Benefits Received	Annual Benefit	Total Benefits Received	Annual Benefit	Total Benefits Received
62	\$18,000	\$18,000	\$0	\$0	\$0	\$0
66	\$20,258	\$95,562	\$26,988	\$26,988	\$0	\$0
70	\$22,798	\$182,849	\$30,372	\$143,275	\$40,092	\$40,092
75	\$26,426	\$307,508	\$35,207	\$309,355	\$46,474	\$259,320
78	\$28,875	\$391,635	\$38,470	\$421,438	\$50,783	\$407,275
80	\$30,633	\$452,009	\$40,812	\$501,874	\$53,875	\$513,456
85	\$35,509	\$619,512	\$47,309	\$725,043	\$62,454	\$808,060
90	\$41,163	\$813,686	\$54,841	\$983,739	\$72,398	\$1,149,574

Age 62 vs. 66

Age 62 vs. 70

Age 66 vs. 70

Source: Edward Jones. Hypothetical illustration based on reduced benefit of \$1,500/month at age 62. All benefits are adjusted for a 3% cost-of-living increase per year. Full Retirement Age and delayed benefits also incorporate this COLA for years prior to benefits being taken.

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Employment

Many people don’t plan on slowing down when they retire and plan to continue working. However, if you take Social Security early, your benefits are lowered by \$1 for every \$2 in earned income above a certain amount (\$18,960 in 2021). This changes to \$1 for every \$3 in earned income the year you reach your Full Retirement Age for earnings over \$50,520. This is only earned income and doesn’t include income from investments, pensions or Social Security itself. If you plan to continue working (and have meaningful earned income), it may not make sense to take Social Security early. After you reach Full Retirement Age, there is no adjustment in benefits based on how much you earn.⁴

Taxes and Your Benefits

Taxes shouldn’t be the key consideration when deciding when to start taking your benefit. However, it’s important to understand how your benefits could be taxed when determining your after-tax income in retirement and to discuss this with your qualified tax professional. Regardless of when you take benefits, if your combined income⁵ is at a certain level (\$25,000 to \$34,000 if single; \$32,000 to \$44,000 if married), up to 50% of your Social Security benefits will be taxed at your income tax rate. If combined income is above \$34,000 if single (\$44,000 if married), up to 85% of your benefits will be taxed at your income tax rate.



Need

If you are ready to retire, it's important to determine Social Security's potential role in providing for your income needs and analyze whether your investment portfolio can accommodate them should you delay Social Security. Depending on your situation, it may not make sense to delay taking Social Security if your assets cannot support your needs in the interim. So work with your financial advisor to analyze and discuss these trade-offs.

However, if you have control over when you retire, analyze what it would cost to lead your desired lifestyle. Then, consider your outside income, Social Security and investment resources available to provide for this lifestyle, and determine whether these sources will provide for your spending goals. Ultimately, you may determine that your income, including Social Security and portfolio withdrawals, may not be enough, and it may make sense to delay retirement. This could increase your potential income in retirement by providing higher Social Security benefits, and an opportunity to continue to save and for your investments to grow. This could also reduce your reliance on your portfolio for income once you do retire, better positioning your portfolio to provide for your needs over the long term.



Spouse

There are two types of benefits for spouses: **spousal** and **survivor**. With a **spousal benefit**, your spouse can receive up to 50% of your full retirement benefit. This spousal benefit would be reduced by his or her own retirement benefit, and also be reduced if he or she claimed Social Security before Full Retirement Age.

Your decision about when to take Social Security affects your spouse's other benefit: **the survivor benefit**. A surviving spouse can receive his or her own benefit or 100% of the deceased spouse's FRA benefit, whichever is larger. If you take benefits early and receive a permanent reduction, the survivor benefit for your spouse also will be permanently reduced, which could have a major effect on your spouse's income after you pass away.

Consequently, claiming Social Security later could be one way you provide for your spouse. If you are the higher wage earner (with the higher Social Security benefit) and either are older than your spouse or expect your spouse to live longer than you, it may make sense to delay taking Social Security to maximize the survivor benefit if you pass away prematurely.

Monthly Benefits Example				
Age Claiming Social Security	Husband	Wife	Wife's Total Benefit (Including Spousal Benefit)	Wife's Survivor Benefits
62	\$1,500	\$562	\$737 ¹	\$1,620 ²
66 (FRA)	\$2,000	\$750	\$1,000	\$2,000
70	\$2,640	\$990	\$1,000 ³	\$2,640

Source: Social Security Administration and Edward Jones estimates. Hypothetical example for illustrative purposes only. Example does not include any potential COLAs.

1 Spousal benefit is less than 50% of husband's benefit because wife claimed prior to her FRA.

2 Survivor benefit is reduced from the full amount of husband's FRA benefit, since husband and wife claimed benefits prior to FRA.

3 Spousal benefit is based on the husband's benefit at FRA and does not increase past FRA.

The "Life Expectancy" of Your Portfolio

Deciding when to take Social Security also can affect your investment portfolio by influencing two key variables:

Withdrawal Rate – How much you withdraw from your portfolio is the biggest factor in determining how long your portfolio will last. We generally recommend an initial withdrawal rate of about 4% for investors retiring in their mid-60s, which incorporates annual increases in withdrawals for inflation. If your expected withdrawals are high, delaying Social Security could provide you with a higher retirement benefit, which could reduce the withdrawals you need from your portfolio.

However, if delaying Social Security causes you to withdraw too much from your portfolio early on to make up the difference, this could put undue strain on your portfolio in the early years. It's important to analyze different scenarios with your financial advisor to ensure this short-term strain doesn't cause any permanent effects to your strategy.

Reliance Rate – The reliance rate is how much you're relying on your portfolio to meet your total income needs.

The more income coming from outside sources, such as Social Security, the less you'll be relying on your investments. A lower reliance rate may help you better handle inevitable short-term market fluctuations and prevent them from derailing your long-term strategy.

Spousal Claiming Strategies – No Longer Available for Most Individuals

Congress eliminated several spousal claiming strategies as part of the November 2015 budget. Because of the popularity of these strategies, we'll briefly touch on them here.

File and Suspend – On April 29, 2016, a widely used spousal claiming strategy, File and Suspend, became unavailable for future filers. The way File and Suspend worked was, once you reached Full Retirement Age, you could apply for retirement benefits and then request to have your payments suspended. This would allow your spousal benefit to be available for your spouse but also allow your own benefit to continue to grow.

Restricted Application for Spousal Benefits – As it currently stands, this strategy may be available if the following criteria are met:

- You were born earlier than Jan. 2, 1954.
- You and your spouse have a working record.
- You restrict your application to the spousal benefit when you reach age 66 and then switch back to your own benefit at a later date. This assumes that you do not file for benefits before FRA, and your spouse has filed for benefits (making the spousal benefit available).

Essentially, the restricted application means you are filing for a spousal benefit at Full Retirement Age based on your spouse's record instead of filing for your own retirement benefit. You could then switch to your own retirement benefit at a later date. This would allow your benefit to grow while you received a spousal benefit in the interim. Notably, this strategy could also work if you are divorced and you are not remarried, assuming your ex-spouse is eligible for benefits and you meet the criteria above.

Social Security Sustainability

With the U.S. debt at record highs and baby boomers approaching retirement, there are concerns about the sustainability of Social Security. In fact, while benefits would continue to be paid, by 2034 the Trust Fund would need to reduce benefits, paying out about 76 cents for each dollar of projected benefits if no changes are made.⁴

Proposals such as raising the age of eligibility (currently 62) or the Full Retirement Age, increasing the payroll tax, adjusting how benefits are increased for inflation, or even doing "means testing" for high-income retirees could keep the program on solid footing over the long term. While we cannot predict what, if any, changes may be made, we do believe the program can remain a viable part of a retiree's income by implementing some of the above changes.

That said, Social Security was never intended to provide for everything – on average, it makes up about 30% of income in retirement. You will be responsible for the rest to help ensure your retirement security.

Securing Your Retirement

Viewing your decision through this LENS can help you understand your options and make a more informed decision about one of your most valuable retirement benefits. Still, these examples are not meant to be exhaustive, so it is important to work with the Social Security Administration for a full discussion of your available benefits and options. These strategies can get complex. Before making any decision, consult with your qualified tax advisor. Your Edward Jones financial advisor can work with you to position your investments to help provide for your income needs throughout retirement.

¹ Edward Jones estimates based on CANNEX Immediate Annuity Quote System – 11/2/2020. Example assumes a joint life annuity, 66-year-old person, 3% inflation rate and the 2020 average benefit level from the Social Security Administration.

² There are many other types of Social Security benefits (divorced, dependent, minor or disabled adult children, permanently disabled and pre-retirement survivor benefits) that can vary based on the type of benefit and the age these benefits are claimed. For the purposes of this report, we are focusing on retirement benefits. For more information on the other types of benefits, please refer to the Social Security Administration website at ssa.gov.

³ Society of Actuaries RP-2006 Mortality Table Projected to 2020 using Society of Actuaries Mortality Improvement Scale MP-2019.

⁴ Source: Congressional Budget Office, Social Security Administration. For more information, see the Social Security Administration publication "How Work Affects Your Benefits" and IRS Publication 915: "Social Security and Equivalent Railroad Retirement Benefits."

⁵ Generally, your combined income is the sum of your adjusted gross income plus tax-exempt interest plus one-half of your Social Security benefits.

This information is believed to be reliable, but investors should rely on information from the Social Security Administration before making a decision on when to take Social Security benefits. It is general information and not meant to cover all scenarios. Your situation may be different, so be sure to discuss this with the Social Security Administration prior to taking benefits.

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