

How Does Social Security Fit into Retirement?

Here's something to think about: You could spend two, or even three, decades in retirement. To meet your income needs for all those years, you'll generally need a sizable amount of retirement assets. How will Social Security fit into the picture?

For most people, Social Security won't be enough to cover the cost of living in retirement. Nonetheless, Social Security benefits are still valuable, so you'll want to do whatever you can to maximize them.

Your first move is to determine when you should start taking Social Security. You can begin collecting benefits when you reach 62 – but should you? If you were to turn 62 this year, your payments would only be about 71% of what you'd get if you waited until your full retirement age, which is 66 years and 10 months. ("Full retirement age" varies, depending on when you were born, but for most people today, it will be between 66 and 67.) Every month you wait between now and your full retirement age, your benefits will increase. If you still want to delay taking benefits beyond your full retirement age, your payments will increase by 8% each year, until you're 70, when they "max out." Regardless of when you file, you'll also receive an annual cost-of-living adjustment.

So, when should you start claiming your benefits? There's no one "right" answer for everyone. If you turn 62 and you need the money, your choice might be made for you. But if you have sufficient income from other sources, you're in good health and you have longevity in your family, or you're still working, it might be worthwhile to wait until your full retirement age, or perhaps even longer, to start collecting.

Another key consideration is spousal benefits. If your own full retirement benefit is less than 50% of your spouse's full

retirement benefit, you would generally be eligible to claim spousal benefits, provided you're at least 62 and your spouse has filed for Social Security benefits.

Survivor benefits are another important consideration. When you pass away, your spouse would be able to receive up to 100% of your benefit or his/her own retirement benefit, whichever is higher. Thus, delaying Social Security could not only increase your own benefit, but also the benefit for your surviving spouse.

An additional issue to think about, when planning for how Social Security fits into your retirement, is your earned income. If you're younger than full retirement age, your benefit will be reduced by \$1 for each \$2 you earn above a certain amount, which, in 2021, is \$18,960. During the year you reach full retirement age, your benefit will be reduced by \$1 for each \$3 you earn above a set amount (\$50,520 in 2021). But once you hit the month at which you attain full retirement age, and from that point on, you can keep all of your benefits, no matter how much you earn (although your benefits could still be taxed).

One final point to keep in mind: The more you accumulate in your other retirement accounts, such as your IRA and 401(k) or similar employer-sponsored plan, the more flexibility you'll have in managing your Social Security benefits. So, throughout your working years, try to contribute as much as you can afford to these plans.

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