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 collecting 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 2023 average individual benefit of $1,827 per month, finding a similar benefit paying the same amount for as long as you live — with inflation adjustments and survivor benefits for your spouse — would cost about $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 provide a significant 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:

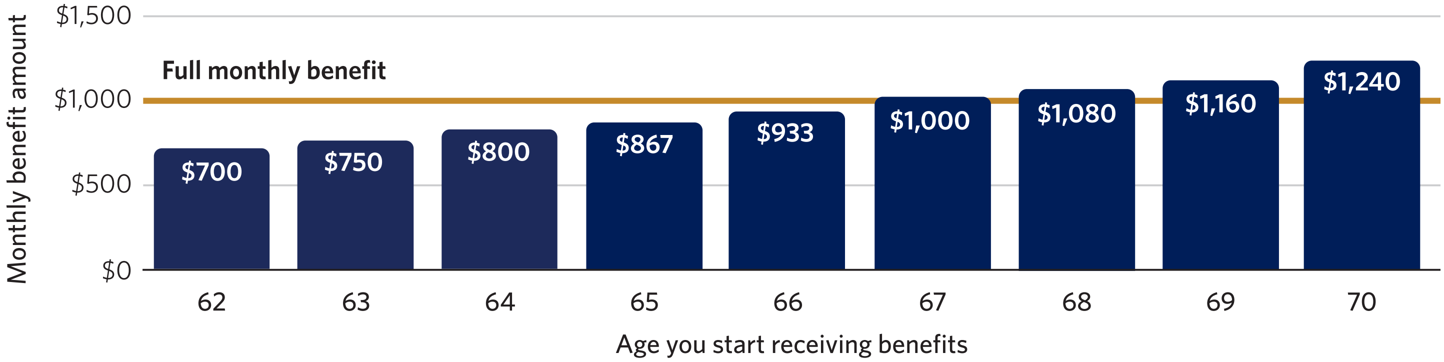
L	Life expectancy
E	Employment
N	Need
S	Spouse

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. With a full retirement age (FRA) of 67, benefits are reduced by up to 30% for claiming early but increased by up to 24% for delaying.

Monthly benefit amounts differ based on the age you start receiving benefits

(Assumes $1,000 monthly benefit at FRA of 67)



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

L 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 hypothetical example on Page 3 shows annual and total Social Security benefits based on taking Social Security early, at FRA of 67 or at age 70, and incorporates cost-of-living adjustments (COLAs). If the person waited until age 67 to take Social Security, they not only would receive larger annual benefits ($30,000 versus $21,000 if benefits are taken at age 62) but by age 76 would have received more total benefits ($341,000 versus $334,000). This "break-even" age would rise to 78 if they delayed taking Social Security until age 70.

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. 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. However, the ability to delay taking Social Security assumes you don't need your benefit now and aren't putting undue strain on your investments to make up the difference. The life expectancy of your portfolio can be affected by your decision to delay, as explained on Page 5.

Social Security break-even hypothetical

Age 62 vs. 67 | Age 62 vs. 70 | Age 67 vs. 70

Age	Benefits started early (age 62)		Benefits started at Full Retirement Age (67)		Benefits delayed until age 70	
	Annual benefit	Total benefits received	Annual benefit	Total benefits received	Annual benefit	Total benefits received
62	$18,000	$0	$0	$0	$0	$0
67	$21,000	$116,000	$30,000	$30,000	$0	$0
70	$23,000	$183,000	$33,000	$125,000	$40,000	$40,000
76	$27,000	$334,000	$39,000	$341,000	$48,000	$309,000
78	$29,000	$391,000	$41,000	$422,000	$51,000	$409,000
80	$31,000	$451,000	$44,000	$508,000	$54,000	$516,000
85	$35,000	$618,000	$51,000	$747,000	$63,000	$812,000
90	$41,000	$811,000	$59,000	$1,023,000	$73,000	$1,155,000

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 and rounded to the nearest $1,000. FRA and delayed benefits also incorporate this COLA for years prior to benefits being taken.

E Employment

Many people plan to continue working after retirement. Keep in mind, if you take Social Security early, your benefits are temporarily lowered by $1 for every $2 in earned income above a certain amount ($21,240 in 2023). This changes to $1 for every $3 in earned income the year you reach your FRA for earnings over $56,520 in 2023. This is only earned income and doesn't include income from investments, pensions or Social Security itself. As a result, if you plan to continue working (and have meaningful earned income), it may not make sense to take Social Security early. After you reach FRA, there is no adjustment in benefits based on how much you earn. Also, your benefit will be permanently increased to account for any benefits withheld while working.[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 and discuss this with your qualified tax professional. Regardless of when you take benefits, if your combined income[5] 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.

N Need

If it's time to retire, analyze whether your investment portfolio can accommodate your income needs should you delay Social Security. It may not make sense to delay taking Social Security if your assets cannot support your needs in the interim.

If you have flexibility over when you retire, analyze what it would cost to lead your desired lifestyle. Then, consider whether your outside income, Social Security and investment resources can provide for this lifestyle. For example, 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 grow your investments. This could also reduce your reliance on your portfolio for income once you do retire.

It's important to determine Social Security's potential role in providing for your income needs. Work with your financial advisor to analyze and discuss these trade-offs.

S 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 the amount of their own retirement benefit and if they claimed Social Security before FRA. While the spousal benefit is affected by when your spouse decides to claim their benefit, when you start receiving benefits does not impact this benefit.

Your decision about when to take Social Security affects your spouse's other benefit: **the survivor benefit**. A surviving spouse can receive their own benefit or 100% of the deceased spouse's benefit, whichever is larger. Then, if you take benefits early and receive a permanent reduction, the survivor benefit for your spouse might also 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 (and have the higher Social Security benefit) and expect your spouse could 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	$1,400	$525	$687[1]	$1,593[2]
67 (FRA)	$2,000	$750	$1,000	$2,000
70	$2,480	$930	$1,000[3]	$2,480

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 annually. We generally recommend a withdrawal rate of about 4% for investors retiring in their mid-60s, which incorporates annual increases for inflation. Delaying Social Security could reduce your portfolio withdrawals later on by increasing retirement benefits. However, it could also cause you to withdraw too much from your investments early, putting undue strain on your portfolio. It's important to analyze these trade-offs with your financial advisor.

Reliance rate — How much you're relying on your portfolio to meet your total income needs. The more income from outside sources, such as Social Security, the less you'll be relying on your investments. This can help you better handle short-term 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 FRA, 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. Now, if you suspend your benefit, any other benefit tied to it (such as a spousal benefit) would also be suspended. This essentially eliminates the file and suspend strategy.

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 FRA 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. This strategy could also work if you are divorced and not remarried, assuming your ex-spouse is eligible for benefits. But unless you meet the criteria above, this strategy is no longer available.

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. If no changes are made, by 2033 Social Security would need to reduce benefits, paying out about 77 cents for each dollar of projected benefits, according to the 2023 Board of Trustees Report issued by the Social Security and Medicare trust funds.

Proposals such as raising the age of eligibility (currently 62) or the FRA (currently 67), 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 — it is likely to make up about 30% (or even less) of your income in retirement.[6] 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.

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[1] Source: Edward Jones estimates based on CANNEX Immediate Annuity Quote System — 4/3/2023. Example assumes a joint life annuity, 67-year-old male and female, 3% inflation rate and the 2023 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] Source: Society of Actuaries RP-2006 Mortality Table Projected to 2021 using Society of Actuaries Mortality Improvement Scale MP-2021.

[4] Source: "How Work Affects Your Benefits," Social Security Administration.

[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.

[6] Social Security estimates originally suggested that, on average, Social Security provides about 30% of income in retirement. But new government research suggests that this share might be lower and, as a result, Social Security is currently reviewing these figures. Source: Social Security Administration.

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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