Financial You
Personal Finance Education from LPL

THE BASICS OF SOCIAL SECURITY

LPL Financial

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When you think about Social Security, what comes to mind? Do you worry if it will still be around for you when you retire? Do you wonder how much you can expect to receive each month? Are you aware of when you can start taking your benefit, or what you can do to maximize it?

If you feel confused or unsure about Social Security, you're not alone. According to Nationwide Retirement Institute's "2019 Annual Consumer Survey on Social Security":

- Less than 25% of people know what their full retirement age is
- 70% think they are eligible for full benefits before they actually are
- Workers within 10 years of retirement overestimate their monthly retirement benefit by almost 30%

Knowledge is Power

While reading this brochure is a good way to learn the basics, at some point you'll want to check out the Social Security Benefits Planner (www.ssa.gov/planners) for more comprehensive information. The website has numerous links to helpful pages within the site, including calculators, publications, and life expectancy estimates.

To get warmed up, let's check your basic knowledge of Social Security benefits by taking this quick quiz. Answers can be found at the end of this brochure, along with additional resources to gain more knowledge.

1. **On average, what percentage of income does Social Security currently replace?**

   a) 100%
   b) 70%
   c) 40%

2. **In 2019, the average monthly Social Security benefit was:**

   a) $1,461
   b) $1,865
   c) $2,223
   d) $2,517

3. **If you were born after 1959, at what age are you scheduled to receive your full Social Security benefit?**

   a) 62
   b) 65
   c) 67

4. **Are Social Security benefits taxed?**

   a) Yes, all benefits are subject to taxation.
   b) Maybe, taxation depends on your income.
   c) No, Social Security is exempt from taxation.

See page 6 for answers

On average, future retirees believe they're eligible for full benefits at age 63, at least three years before they actually are.

Source: Nationwide Retirement Institute's 2019 Annual Consumer Survey on Social Security

Will Social Security Still Be There for You When You Retire?

There are many pessimistic news stories out there about Social Security's future. "Going bankrupt" and "running out of money" are common headlines. And, according to a 2019 Gallup Poll[1], 67% of Americans say they worry about Social Security either "a great deal" or "a fair amount."

Here's what's happening

Social Security benefits are considered a "pay as you go" system. This means that Social Security taxes collected from today's workers goes to pay today's retirees. For many years, more workers paid in taxes than the system needed to pay out to retirees at the same time. More money came in than went out, and the excess started to accumulate in a trust fund that reached $2.9 trillion at the end of 2018[2].

But now, due mostly to the large number of Baby Boomers who will continue to retire over the next several years, the worker to retiree ratio has started to shift. Soon, we'll reach a point where there is not enough money coming into the system to pay out to all the people claiming benefits. To make up this shortfall, the Social Security Administration will begin pulling money from the trust fund.

The Social Security Administration projects that the current trust fund balance will only last until 2035. Once it's depleted, benefits can only be paid directly from Social Security taxes collected from the current workforce. The projections show that will only generate about 75% of what's needed to pay all benefits[2].

The Social Security Board of Trustees believes the most likely adjustments will come in the form of a reduction in benefits or an increase in taxes (or some combination of both). But Social Security will not go away.

When can you claim benefits?

When it comes time to begin receiving Social Security benefits, you have a range of options. You can begin receiving benefits anytime between ages 62 and 70. Your full retirement age is the age at which you can begin receiving 100% of your primary insurance amount (PIA), also known as your full retirement age benefit. Your full retirement age depends on your year of birth. For example, for those born in 1960 or later, the full retirement age is 67.

Birth Year	Full Retirement Age
1955	66 + 2 months
1956	66 + 4 months
1957	66 + 6 months
1958	66 + 8 months
1959	66 + 10 months
1960 and later	67

Social Security should not be considered as your primary source of retirement income. It's important to save as early and as much as you can in a 401(k) or IRA account to help meet all your retirement income needs.

[1] As reported by Motley Fool, September 19, 2019.
[2] 2019 Social Security Trustees Report.

What Are the Trade-Offs If You File Earlier Versus Later?

If you file at an age other than your full retirement age, your benefit amount will be reduced or increased. Filing earlier gives you a reduced benefit. Filing later gives you an increased benefit. For someone with a full retirement age of 67, here is what you can expect, based on the age you actually file for benefits:

Social Security Benefit by Filing Age	
62	70%
63	75%
64	80%
65	86%
66	93%
67	100%
68	108%
69	116%
70	124%

Source: Social Security Administration

Should you take benefits earlier or later?

Everyone's situation is unique, so it's important to look closely at the trade-offs before making your decision. Here are some reasons you might want to claim benefits earlier:

- You simply need the money to help pay living expenses
- You cannot work longer due to health reasons
- You have caregiving responsibilities for a family member
- You have been laid off or lost your job through downsizing or other action

Here are some reasons you might want to claim benefits later:

- You don't need the money right now, or have income from other sources to tide you over (such as a pension or 401(k) plan)
- You believe you have a longer life expectancy, during which higher payments would be helpful
- You plan to work at some level during retirement
- You simply like the idea of getting higher benefits over the long term

Money you can count on

According to the Social Security Administration, the average retired family receives 38% of their income from Social Security benefits. The amount of benefit income you receive may be higher or lower than average, but it's likely that it will be your only income stream that:

- Adjusts most years for inflation; in 2020, retiree benefits were increased 1.6%, known as a cost of living adjustment (COLA)
- Is backed by the United States of America
- Will pay you for as long as you live

Moving Forward with Your Social Security Planning

When it comes to planning ahead for Social Security, there's a lot to know and understand. And many details are bound to change over time. Here are some tips to help you stay on top of Social Security and prepare yourself to make the best decisions for your financial future.

Continue to increase your knowledge

Be sure to check out these valuable resources you can access to help increase your knowledge about Social Security:

- AARP's Social Security Resource Center (www.aarp.org/retirement/social-security)
- Social Security Planner (www.ssa.gov/planners)
- "Social Security Basics: 9 Essentials that Everyone Should Know", by Devin Carroll (available via Amazon or other online book sellers)
- "Social Security Made Simple", by Mike Piper, CPA (available via Amazon or other online book sellers)

Keep a big picture perspective

According to the Social Security Administration, Social Security benefits will replace about 40% of an average employee's pre-retirement income after retirement. This replacement percentage will be lower for people in upper income brackets and higher for people in lower income brackets. In addition, most financial advisers say that a typical person will need about 75-80% of their pre-retirement earnings to comfortably maintain their pre-retirement standard of living. That means that Social Security will provide about half of what the average person will need. How can you make up the difference?

- Make sure you are saving as much as you can in any 401(k) or other employer-sponsored retirement plan available to you. Aim to save at least enough to receive the maximum employer matching contribution (if available).
- If you are self-employed, save as much as you can in an IRA account.

Consider working with a financial professional

You may want to consider working with a financial professional to help you prepare to make the best decisions when it comes to Social Security. Your LPL Financial Professional can be a valuable resource for this and other financial planning issues. Here's how they can help you:

- Work with you to develop financial goals based on your needs and desires
- Develop an investment strategy to help you fund your goals
- Help you better understand what's happening in the market and how it can affect your investment strategy
- Meet with you on a regular basis to track progress and make adjustments as necessary

The financial professional edge

According to Nationwide Retirement Institute's "2019 Annual Consumer Survey on Social Security," retirees working with a financial professional report receiving 17% more in monthly benefits than those who do not ($1,551 vs. $1,324). In addition, they report being much more able to do the things they want in retirement (90% vs. 56%).

Knowledge is Power

How did you do on the quiz at the beginning of this brochure? Whether or not you are surprised by any or all of the answers, your LPL Investor Focused Solutions financial professional (www.investorfocusedsolutions.com/our-team) can help.

Don't hesitate to contact them for guidance on planning for retirement and taking Social Security benefits!

QUIZ ANSWERS

1. c. 40 percent
Social Security is only intended to provide a portion of your retirement income. Most experts suggest you will need to replace 70 to 90 percent of your income to live comfortably in retirement. Careful retirement planning is necessary to fill in the gap not covered by Social Security.

2. a. $1,461
Social Security benefits are calculated based on your date of birth, the type of benefit you apply for, and most importantly your lifetime earnings. In addition, benefits receive a cost-of-living increase in most years, to allow for inflation. In 2019, the maximum benefit received by a worker retiring at full retirement age was $2,861.

3. c. 67
Your full retirement age is when you are eligible to receive your full Social Security benefit. The year you were born determines your full retirement age. You can start taking it as early as age 62 (although your benefit will be significantly reduced) or you can delay it and wait until, say, age 70 — and get a significantly higher benefit.

4. b. Maybe
Whether or not you are taxed on your Social Security benefit depends on your income from other sources. Up to 85% of your benefit is subject to taxation, but the actual percentage taxed will vary according to your total income.

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*Based on total revenues, *Financial Planning* magazine June 1996-2019.

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