Wealth & Investment Management

# Advice Knowledge Express: Navigating Social Security – Retirement Benefits Video Transcript

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Rayyan Anees: Hello, and welcome to the Navigating Social Security video series. I'm your host, Rayyan Anees of Advice and Planning. Today, I'm joined with my friend and colleague Bob McKinney, who is a CFP® and will guide us through the basics of Social Security retirement benefits.

Hello, Bob.

Bob McKinney: Hi, Rayyan. Great to be here today.

Rayyan Anees: It's really nice to see you. So, one of the questions that we get really often from our clients is what are my options when trying to claim Social Security benefits?

Bob McKinney: That is a very common question that we hear from clients and basically they're just trying to understand their options and what they need to know to be able to make the best decision for themselves based on their situation and the information that they have available to them.

Rayyan Anees: Right.

Bob McKinney: Social Security can be very confusing. There's a lot of misinformation out there. And so that, you know, causes a lot of issues. People just trying to understand. There are no rules of thumb or best practices we can apply because everybody's situation is different. They have different marital status', different benefits. You know, they have different goals with their money.

So those are all things that need to be considered.

Rayyan Anees: True on the misinformation and everything else that you just mentioned there. So where do we start to understand our own retirement benefits?

Bob McKinney: Well, the two key requirements that you need to be eligible for Social Security retirement benefits Rayyan.

The first key is that you need to earn 40 credits or quarters of coverage over your working life. You can earn a maximum of four credits per year. So that means ten years of working over your lifetime.

Your earnings are taxed at 12.4%, up to an annual maximum earnings limit known as the taxable wage base. Employees pay half or 6.2%, while employers pay the remaining 6.2%.

One overlooked planning item regarding contributions is if you're a higher income earner, you will reach the taxable wage base limit before year end, and the deduction from your paycheck will stop. You can redirect that amount that you were paying in Social Security tax to savings or investment or debt reduction or anything else you like without affecting your net pay.

*Sources:*

*www.ssa.gov/pubs/EN-05-10035.pdf*

*www.irs.gov/taxtopics/tc751*

Rayyan Anees: That's a great point, Bob. I'm sure many people overlook that. So, what can you tell us about the second key requirement?

Bob McKinney: The second key requirement is age. So, you qualify for retirement benefits at your full retirement age, which in this example is age 67.

Rayyan Anees: Right.

Bob McKinney: The benefit amount at full retirement age is known as the primary insurance amount or PIA and it's calculated by applying the formula to the highest 35 years of inflation indexed earnings.

The earliest you can collect your retirement benefit is age 62. But claiming benefits before full retirement age is subject to a reduction based on your age. When you claim it. At age 62, your benefit would be only 70% of your full retirement age amount.

Alternatively, you may delay your benefits until age 70 and earn an 8% delayed retirement credit for each year between 67 and 70. That means you can increase your benefit by up to 24% by delaying until age 70.

*Source: Social Security Administration. For illustrative purposes only. Assumes the individual claiming benefits has a full retirement age of 67 (anyone born 1960 or later)*

Rayyan Anees: Interesting. So, to summarize, by claiming benefits early, you're getting a small benefit for a longer period of time. Whereas, by delaying benefits, you're maximizing getting a higher benefit, but for a shorter period of time.

Bob McKinney: That's correct, Ryan.

Rayyan Anees: That's very interesting. Thank you, Bob. So, you've shown us some examples of basic claiming options. How do you decide when to claim benefits?

Bob McKinney: So, the best practice is to do a Social Security benefit analysis so that you can illustrate various scenarios and see what the impact of those scenarios are.

For married couples, you need to analyze both strategies over their lifetimes and life expectancy is going to be the biggest driver of the results.

Rayyan Anees: And you would do that because you're considered one economic unit.

Bob McKinney: That's correct. The next step from there would be to determine what is the goal for your Social Security income? Is it that you want to get the highest lifetime benefit? Or are you trying to maximize benefits for a surviving spouse? Or do you just want to take the benefits as early as possible.

Rayyan Anees: Because everyone has a unique situation?

Bob McKinney: That's correct. And so, once you come up with a claiming strategy, the next step is to go in and enter that information into your planning software and look at the results on your overall plan and see if there's a significant result. And that might make you or might lead you to another decision.

Rayyan Anees: And you would do that because that would give you a view of your holistic picture.

Bob McKinney: That's correct.

Rayyan Anees: Why is that important?

Bob McKinney: You can't look at Social Security in a vacuum. It's all part of your overall plan. And you need to be able to see how different things, different pieces affect the outcome.

Rayyan Anees: That was very insightful, Bob. I think what we've learned today is Social Security is not just a money decision, and there are tradeoffs to each strategy. So, you should consider all of your options before making a decision and maybe even get help from an expert. Thank you for sharing your insights today, Bob.

Bob McKinney: Thank you. Glad to. Glad to help.

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