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# Social Security

Navigating the complexities of Social Security is a key aspect of financial planning, especially for women, often faced with unique challenges and considerations. For those of us not familiar with Social Security, it can often seem like a daunting topic. The article below contains answers to some frequently asked questions with the goal of empowering women to make informed decisions about their financial future. For personalized advice, it is important to consult with a financial advisor.

### I'm just starting out in my career, nowhere close to retirement, do I need to be thinking about Social Security already?

Yes. While most tend to think about Social Security in the context of retirees receiving their monthly benefit payments, many of us know that when you enter the workforce, either as an employee or a self-employed individual, you begin paying into the system through payroll withholdings. As you work and pay Social Security taxes, you earn credits based on your earnings record that accrue throughout your lifetime and as an individual, you'll generally need to work for at least 10 years to accrue the 40 credits necessary to become eligible to receive benefits in retirement.

### I'm nearing retirement, when can I start collecting my Social Security benefits?

The straightforward answer is age 62, but as we know, most things aren't straightforward, including Social Security. While you can sign up to receive benefits as early as age 62, your monthly benefit will be reduced. The reduction is based on the number of months between your start date and your full retirement age (FRA). Your FRA is the age at which you can receive your full retirement benefits with no reductions. FRA is based on your birth date but is typically between the ages of 66 and 67. After reaching your FRA, you also have the option to continue to delay your benefits. For every month between your FRA and age 70, you would receive a delay credit for waiting to start your benefits. Age 70 is the cutoff – after this point, you no longer receive credit for delaying your enrollment.

## I want to maximize my benefits. How do I decide when to start collecting?

This is the magic question – and it is very difficult to answer.

Financial advisors can look at your recent benefit statements and run an analysis to maximize the benefits received, but in doing so, advisors must make assumptions regarding your longevity, cash flow, tax circumstances, etc. For example, the break even point between claiming benefits at your FRA versus age 70 is typically around the early to mid-80s. This means that if you delay claiming until age 70, you would need to live into your mid-80s to make the delay credit worthwhile.

In general, the advice for maximizing benefits received is to wait until at least your FRA, if not to age 70. This may not be the case for every individual, with Social Security benefits being just one piece of your financial picture in retirement. When making the decision, you should consider other sources of retirement income, such as pensions or annuities.

Another timing consideration relates to the overall makeup of your investment portfolio and other sources of income in retirement. In retirement, the living expenses that were once funded by your salary will need to be funded with alternate sources of income. Some individuals retire with a monthly pension to supplement these expenses; for those without a pension, they look to their investment portfolio for additional cash flow. The composition of the overall investment portfolio could impact the decision of when to begin receiving Social Security benefits.

## What else should I be thinking about when making this decision?

While an advisor can run the numbers for you, we can't predict your health, longevity, or lifestyle. It's not just a financial decision – it's a psychological one as well! While you will receive a credit for delaying your benefits past FRA, your early retirement years may look different than your later retirement years. For example, you may want to claim your benefits at FRA and use the supplemental cash flow to travel, have new experiences, begin family gifting, expand your charitable work, and more. There may also be other considerations to factor into the decision, such as your own health, family history, etc.

## Are there tax planning opportunities with Social Security?

Almost everything ties back to taxes, so yes, there are some tax considerations involved in the decision. Between your retirement year and the start of your Social Security benefits, you may find yourself in a lower tax bracket than prior years. These lower tax years could provide for some tax planning opportunities for realizing capital gains or completing Roth conversions. Depending on your circumstances, this could be a reason to delay claiming Social Security benefits.

As mentioned, you should also consider the composition of the assets in your investment portfolio and their related tax implications. For example, drawing from retirement accounts such as a 401(k) or IRA will typically result in taxable income. These accounts generally have annual distribution requirements (RMDs) that typically start at age 73 or 75 depending on your birth date. In the years between retirement, your Social Security start date, and your RMD age, there may be strategic opportunities to generate income in lower tax brackets.

## What if I'm eligible for benefits, but I'm still working?

In recent history, we've seen the average retirement age increase. If you're working into your 60s you should be mindful of the SSA's income limit for claiming benefits prior to your FRA. In 2023, if you're under FRA, the annual earnings limit is $21,240. Your Social Security benefits would be reduced by $1 for every $2 you earned in excess of the limit. Once you reach FRA, the earnings limit is no longer applicable.

## What if I've left the workforce to start a family or raise my children?

Women face many unique challenges in the workforce such as interruptions due to care-giving responsibilities or transitioning from full-time to part-time employment. Social Security benefits are calculated based on an individual's highest 35 years of earnings, which can be beneficial for women who have gaps in their earning history or lower income years.

## What if I don't have 35 years of earnings on my record?

For a married individual, understanding the interplay between individual and spousal benefits is key. Generally, spousal benefits can be up to 50% of your spouse's benefit. There are some timing considerations to be mindful of, so it is important to consult with a financial advisor to review options available for maximizing potential benefits between both parties.

If you're married, divorced, or widowed, you may qualify for benefits based on your spouse's or ex-spouse's earnings. These provisions can be particularly beneficial for women who may have lower lifetime earnings than their spouse's due to time spent working in the home versus in the workforce.

For a divorced individual, if certain requirements are met, you may still be eligible for benefits based on your ex-spouse's earnings. The requirements relate to the length of the marriage, current marital status, and timing of the Social Security claim.

For a widowed individual, you and your dependent children may be eligible for survivor benefits that can provide a valuable source of income.

## As a woman, what else should I be thinking about as it regards Social Security?

When thinking about financial planning through retirement, it is important to remember that women typically live longer than men. Thinking about your health, family longevity, and potential healthcare costs can help to guide financial decisions, especially Social Security timing.

At any stage in your financial planning journey, we encourage you to empower yourself with information, ask questions, and actively engage in your planning. Claiming Social Security benefits is a significant milestone in retirement and understanding some of the nuances of the system and making informed decisions can have a significant impact on your retirement years.

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Maggie is a Wealth Advisor at The Colony Group. As a Wealth Advisor, she counsels clients on a wide range of wealth management and investment advisory services. She also supports a team of financial counselors to provide financial planning, investment management, and tax planning services to high-net-worth clients, families, and corporate executives.