

# Making the Most of Social Security

What You Need to Know





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## **AssetMark Gold Forum**

**February 28, 2023**

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# Critical Pieces of Retirement Income Security

For most retirees, **Social Security** is a critical piece of the retirement income puzzle, but the rules are complicated.

**Medicare** benefits are also essential to retirement security, but high costs can catch some retirees by surprise.

Here's what you need to know to maximize Social Security benefits and minimize Medicare premiums.



# Social Security Provides Lifetime Income

- ❖ Social Security is the foundation for a secure retirement, but on average, replaces only about 40% of pre-retirement earnings and even less -- about 25% -- for higher-income workers.
- ❖ Social Security benefits increased 8.7% in 2023 and Medicare premiums, which are usually deducted directly from Social Security benefits, declined slightly resulting in a larger net Social Security benefit for most retirees this year.

# Social Security Benefits Rose 8.7% in 2023

	2022	2023
Maximum Taxable Earnings	\$147,000/year	\$160,200/year
Retirement Earnings Limit (under FRA full year)	\$19,560/year	\$21,240/year
Retirement Earnings Limit (in year reaches FRA)	\$51,960/year	\$56,520/year
Maximum Ret. Benefit	\$3,345/month	\$3,627/month
Avg. Retirement Benefit	\$1,682/month	\$1,827/month
Avg. Couple	\$2,734	\$2,972
Widow/Widower	\$1,567	\$1,704

# Learning Objectives

<b>Learn</b>	how claiming age, marital status, and earnings restrictions can affect Social Security benefit amounts.
<b>Discover</b>	how to apply Social Security claiming strategies to maximize benefits for some married couples and eligible divorced spouses.
<b>Understand</b>	that Social Security retirement and survivor benefits represent two different pots of money and may be claimed at different times.

# Eligibility for Benefits

**You must work at least 10 years to earn a minimum of 40 credits** needed to qualify for Social Security retirement benefits or be married to (or divorced from) someone who is eligible to claim Social Security.

**Benefits are based on the top 35 years of indexed earnings and your age at time of claim.** If you work fewer than 35 years, the calculation will include some zeroes and reduce future benefits.

- You can outlive your savings and investments, but you can never outlive your Social Security benefits. Social Security is the foundation for a secure retirement, but on average, you need 40% more retirement earnings and even less for higher income workers.
- To have a comfortable retirement, you will also need to have other sources of income such as savings in an employer-sponsored retirement plan.



# Your Age Matters

**You can collect Social Security retirement benefits as early as 62**, but they will be permanently reduced by 25% or more. SSA must pay you your own benefits first, topped off by a spousal amount if larger.

**If you wait until your full retirement age (FRA)**, which ranges from 66 to 67 depending on birth year, you can collect your full retirement benefit even if you continue to work. People who were born before 1954 may have additional claiming options.

**If you delay collecting retirement benefits beyond your FRA, you can increase the amount by 8% per year up to age 70.**

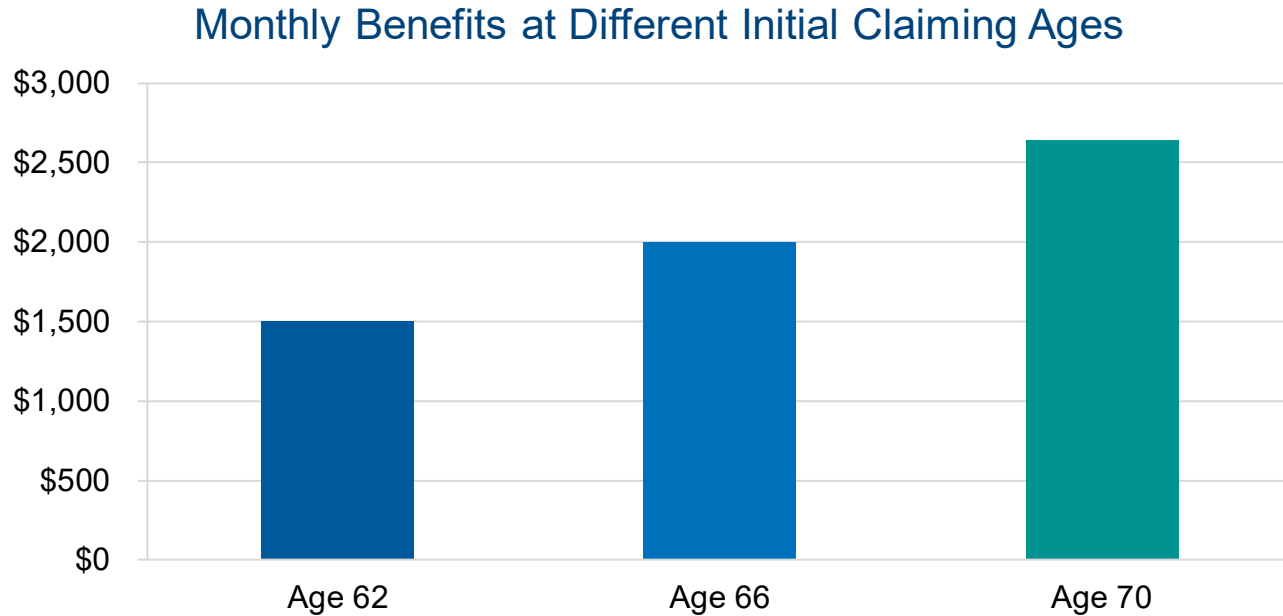


# Find Your Full Retirement Age\*

Birth Year	Full Retirement Age	Benefit Reduction at 62
1943 – 1954	66	25.00%
1955	66 and 2 months	25.83%
1956	66 and 4 months	26.67%
1957	66 and 6 months	27.50%
1958	66 and 8 months	28.33%
1959	66 and 10 months	29.17%
1960 and later	67	30.00%

\* Your FRA for survivor benefits may be different

# The Value of Waiting: 76% Increase in Monthly Benefits for Life



# Delayed Retirement Credits

**The 8%-per-year increase in benefits between FRA and 70 applies *only* to the worker's retirement benefit.** It does not apply to a spousal benefit. The maximum spousal benefit is worth 50% of the worker's full retirement age (FRA) benefit amount if the spouse claims at her FRA or later.

**But if one spouse (or ex-spouse) delays benefits until 70 and later dies, the surviving spouse or surviving ex-spouse is entitled to a survivor benefit worth 100% of the deceased worker's benefit**—including any delayed retirement credits. At that point, the smaller retirement benefit would end.

# Should You Delay Social Security?

## Pros

- Bigger benefit for each year you postpone claiming between 62 and 70
- Creates a larger base for future COLAs (Cost of Living Adjustments)
- Provides a potentially larger survivor benefit

## Cons

- Reduced cash flow now
- Higher breakeven age to make delaying worthwhile
- Could die before claiming

# Earnings Cap

**If you collect Social Security benefits before FRA and continue to work**, you lose \$1 in benefits for every \$2 earned over \$21,240 in 2023.

**Higher limits apply in the year you reach FRA**, losing \$1 in benefits for every \$3 earned over \$55,520 in 2023 in the months before FRA.

**The earnings cap disappears at FRA.**



# #1 Rule

**In most cases it makes no sense to claim Social Security benefits before FRA if you work.**

**All types of benefits**—retirement, spousal and survivor—are subject to income limits on earnings if collected before FRA.

**Benefits lost to excess earnings are not gone forever.** They will be restored in the form of higher monthly benefits after FRA.



# Reasons to Claim Benefits Early

- If you are in **poor health** and are unlikely to reach normal life expectancy. On average, a 65-year-old man is likely to live to 84; a woman to 87. But half of all Americans will live even longer.
- If you **need the money**. Many older workers lost their jobs due to COVID or are afraid to return to work for health reasons.
- If you **earn less than the annual earnings cap**.
- In some cases, **one spouse** may want to claim early .

# Strategies for Married Couples

**In most cases, it makes sense for the higher-earning spouse to delay benefits up to age 70** to lock in the maximum retirement benefit as well as the largest survivor benefit for the spouse left behind.

**The lower-earning spouse may want to claim reduced benefits early at 62**, assuming she or he is no longer working, or at FRA if still working (when earnings restrictions end). This split strategy increases household cashflow while the other spouse delays benefits.





# Spouse's Benefit Amount

**Based on your age at time of claim and comparison of your own benefit to spouse's benefit amount.**

- ❖ If your own benefit is larger than half of your spouse's FRA benefit, you will receive a retired worker's benefit on your own earnings record. You will not collect a spousal benefit.
- ❖ If your retirement benefit is smaller, your benefit will be topped off by excess spousal amount to bring the combined total up to half of your ex-spouse's FRA, assuming you are at least full retirement age; less if you claim Social Security before FRA. The worker must claim Social Security to trigger benefit for spouse.

# Some Spouses Must Wait to Claim

**Spouses with no Social Security benefits of their own must wait** for the working spouse to claim retirement (or disability) benefits before they can collect. Spousal benefits are worth up to 50% of worker's FRA amount.

**Different rules apply to eligible divorced spouses.**



# Disappearing Claiming Strategy

**Individuals who were born on or before 1/1/1954, have a special claiming option. This year, 2023, is the last year this option is available.**

- If you wait until FRA or later to claim Social Security, you can file a “restricted claim for spousal benefits” and collect half of your spouse’s or ex’s FRA amount while allowing your own retirement benefit to grow up to age 70. Then switch to your own maximum benefit. That assumes the other spouse has already claimed Social Security. (Different rules for ex-spouses.)
- People born after 1/1/1954 can not use this valuable claiming strategy. Whenever they claim Social Security, they will be “deemed” to file for all available benefits and be paid the highest benefit. They don’t get a choice.

# Goal: Maximize Survivor Benefits

**Spousal benefits = 50% of worker's FRA benefit.**

**Survivor benefits = 100% of worker's benefit,** including any delayed retirement credits, if surviving spouse is at least FRA; less if collected earlier.

**Even if one spouse claimed reduced retirement benefits early,** it will have no impact on her survivor benefits if she is at least FRA when she claims them.



# How Much are Survivor Benefits?

Start Age	% of Deceased Worker's Benefit
60	71.5
61	76.3
62	81.0
63	85.8
64	90.5
65	95.3
66	100.0



# Social Security Rules for Divorced Spouses

Must be **married at least 10 years** before divorcing.

**Currently unmarried to claim spousal benefits**  
(different rules for survivor benefits).

Both ex-spouses must be **at least 62 years old**.

**Plus, if divorced at least 2 years**, you may be able to claim benefits on your ex even if your former spouse has not yet filed for Social Security.



# Survivors Can Switch Benefits

**Widows, widowers and surviving ex-spouses can collect survivor benefits** as early as age 60 but are subject to benefit reductions if claimed before FRA and the earnings cap if they continue to work.

**They can collect survivor benefits initially—worth up to 100%** of the deceased spouse's benefit—and then switch to their own benefit that continues to grow at 8% per year until age 70. Or they could collect their own reduced retirement benefit first and switch to maximum survivor benefits at FRA.

**Survivor benefits and retirement benefits represent two different pots of money.** Eligible survivors who are also entitled to their own retirement benefit can switch benefits regardless of their birth date.

# Strategies for Singles

## For those who never married or who were divorced before 10 years of marriage:

- Benefits based on age at time of claim.
- Delaying claiming benefits until age 70 will result in a larger monthly payment but it may not be worth waiting that long since no one will collect a survivor benefit if you die before claiming Social Security.
- Consider claiming at FRA and banking the benefits if you don't need them.





# Don't Forget the Kids

**Children under age 18 or disabled adult children are eligible for dependent benefits** when a parent collects Social Security or survivor benefits after a parent dies.

**Dependent benefits are worth 50% of the parent's FRA amount.** Survivor benefits are worth 75% of deceased parent's benefit.

**A spouse of any age can qualify for spousal benefits** when caring for a child under age 16.

**There is a family maximum limit.**



# Public Employees Must Pay to Play

If you receive a pension from work in the public sector where you did not pay FICA payroll taxes, your Social Security benefits may be reduced or eliminated.

- ❖ The **Windfall Elimination Provision (WEP)** can reduce a worker's Social Security benefit by up to half of the amount of his or her pension, but the SS benefit cannot be reduced by more than \$557 per month in 2023.
- ❖ The **Government Pension Offset (GPO)** rule can reduce or eliminate Social Security spousal or survivor benefits. Social Security benefits are reduced by two-thirds of the amount of the non-covered pension with no dollar limit.

# Two Do-Over Strategies

**If you change your mind within 12 months of first claiming retirement benefits**, you can withdraw your application for benefits and repay the money you have already received and then restart your benefits later at a higher rate.

**Or, if you wait until FRA or later**, you can suspend your benefits—but not repay them—and earn 8% per year up to age 70. Be careful not to disenroll from Medicare when you suspend benefits.



# Lump Sum Option

Anyone who claims Social Security after their full retirement age (FRA) can request a lump sum payout of up to six months of retroactive benefits beginning no sooner than FRA.

For example, if your FRA is 67 and you claim benefits at 68, you can request six months of retroactive benefits payable in a lump sum. Going forward, your monthly benefit would be based on your claiming age of 67 ½.

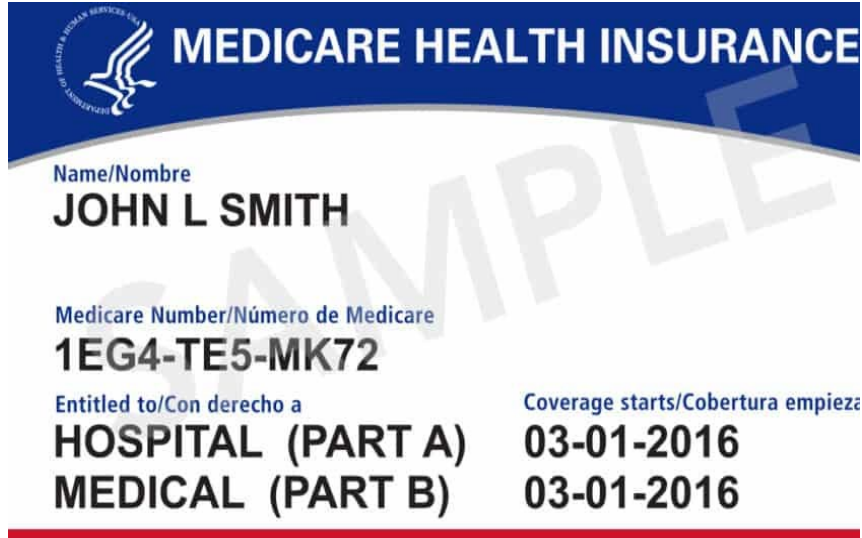
You cannot receive Delayed Retirement Credits for the same period that you received retroactive benefits. Social Security benefits are subject to federal income taxes and in some cases, state taxes.

# How Social Security Benefits Are Taxed

Combined Income = AGI + 50% of SS Benefits + Tax-Exempt Interest

Filing Status	Combined Income	Benefits Taxable Up To
Single	<\$25,000	0%
Single	\$25,000 - \$34,000	50%
Single	>\$34,000	85%
Married Filing Jointly	<\$32,000	0%
Married Filing Jointly	\$32,000 - \$44,000	50%
Married Filing Jointly	>\$44,000	85%

# Medicare



The image shows a Medicare Health Insurance card for John L. Smith. The card has a blue header with the Medicare logo and the text "MEDICARE HEALTH INSURANCE". Below the header, the cardholder's name is listed as "JOHN L SMITH". The Medicare Number is "1EG4-TE5-MK72". The card also lists the coverage start dates for Hospital (Part A) and Medical (Part B) as "03-01-2016". A large, light blue "SAMPLE" watermark is overlaid on the card.

Name/Nombre	
JOHN L SMITH	
Medicare Number/Número de Medicare	
1EG4-TE5-MK72	
Entitled to/Con derecho a	Coverage starts/Cobertura empieza
HOSPITAL (PART A)	03-01-2016
MEDICAL (PART B)	03-01-2016

- Medicare **Part A** hospital insurance is premium-free for most.
- Medicare **Part B**, which covers doctors' fees and outpatient services, charges a monthly premium deducted from Social Security benefits or billed directly if beneficiary is not yet collecting Social Security.

***Medicare covers 80% of allowable charges. How will you fill the 20% gap?***

# Medicare Enrollment Rules

You must sign up for Medicare during your initial seven-month enrollment period which begins 3 months before your 65<sup>th</sup> birthday and extends for 3 months beyond your birthday.

If you fail to enroll on time, you could face lifelong delayed enrollment penalties.

Exception: you can delay enrolling penalty-free if you have group health insurance through your *current* employer or through your spouse's *current* employer. Enroll in Medicare when that insurance ends.

# Initial Medicare Choices

## Original Medicare:

- Part A (hospital)
- Part B (doctors)
- Medigap Supplement
- Part D drug coverage

Accepted anywhere in the  
USA;

More costly when including  
optional medigap

## Medicare Advantage Plan

- Part A (network hospitals)
- Part B (network doctors)
- Usually includes drug coverage
- Often adds extra benefit such as vision, dental, hearing aids

May be cheaper but more  
restrictive



# Medicare Premiums Are Based On Income

- Premiums for Medicare Parts B and D are tied to income. The higher the income, the higher the monthly Medicare premiums.
- There are six income brackets that determine the surcharge known as Income Related Monthly Adjustment Amount (IRMAA). These are cliff brackets. If your income exceeds the upper limit by just \$1, you will pay the surcharge applicable to the next higher IRMAA bracket.
- Medicare premium surcharges as based on the latest available tax returns. IRMAA surcharges for 2023 are based on 2021 tax returns filed in 2022. MAGI includes AGI + tax-exempt interest.

# 2023 Medicare B IRMAA Rates

Premiums/Surcharges are per month per person ages 65 or older

<b>MAGI in 2021</b>	<b>MAGI in 2021</b>	<b>IRMAA Surcharge 2023</b>	<b>Total Monthly Cost 2023</b>
Individual Return	Joint Return		
<\$97,000	<\$194,000	\$0.00	\$164.90
\$97,001 - \$123,000	\$194,001 - \$246,000	\$65.90	\$230.80
\$123,001 - \$153,000	\$246,001 - \$306,000	\$164.80	\$329.70
\$153,001 - \$183,000	\$306,001 - \$366,000	\$263.70	\$428.60
\$183,001 - \$500,000	\$366,001 - \$750,000	\$362.60	\$527.50
>\$500,000	>\$750,000	\$395.60	\$560.50

# Reasons to Appeal IRMAA Notice

Respond to IRMAA notification letter immediately if your income has declined due to one of these “life changing events”. Appeal instructions included in notification letter:

- ❖ You married, divorced, became widowed
- ❖ You or your spouse retired or reduced your work hours
- ❖ You lost income-producing property in a disaster area
- ❖ You or your spouse’s pension was terminated

# Some IRMAA Surcharges Can't be Appealed

- ❖ Capital gains from sales of investments, business or second home.
- ❖ Withdrawals from traditional IRAs or 401(k) or similar employer retirement plans.
- ❖ Converting assets from a traditional IRA to a Roth IRA. Total amount of conversion is added to AGI and is taxable.
- ❖ One-time boost in income can lead to a one-time increase in Medicare surcharges. But if income later drops, Medicare surcharges may decline or disappear.

# Some Income Doesn't Count in MAGI

- Distributions from Roth IRAs/Roth 401(k)s
- Distributions from Health Savings Accounts used to pay medical expenses
- Loans/distributions from cash value life insurance
- Proceeds from a reverse mortgage
- Qualified Charitable Distributions of up to \$100,000 per year paid directly from IRA to a charity. Can be used to satisfy some or all of an IRA owner's RMD. Available starting at age 70 ½ (even though RMDs now start at 73).

# How to Reduce Future Medicare Surcharges

## Pre-Retirement:

- ❖ Contribute to a Roth IRA/Roth 401(k)
- ❖ Convert traditional IRA to a Roth IRA
- ❖ Fund Health Savings Account

## In Retirement

- ❖ Take advantage of tax-loss harvesting to reduce AGI
- ❖ Establish a donor-advised fund
- ❖ Make Qualified Charitable Distributions (QCD) from IRA

# Questions?

Mary Beth Franklin, CFP®  
InvestmentNews Contributing Editor

## MAXIMIZING SOCIAL SECURITY BENEFITS

Guidance on how future retirees can  
make the most of their retirement benefits

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2023!**  
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