

GETTING STRATEGIC WITH SOCIAL SECURITY

We explore the key variables that determine your benefit, when you should start receiving payments, and how it all fits into a comprehensive retirement plan.

On August 14th, 1935, President Roosevelt signed the Social Security Act. This act created the Social Security system that we know today and established one of the first general welfare systems in the United States.¹

Today, almost 90 years later, Social Security (SS) is a hot-button topic in American politics: Is it sustainable? What type of benefits should it provide? How much should Americans pay? And where does it fit - philosophically - into the American landscape?

These are all important questions... but questions that are outside the scope of this article. What we do want to discuss, however, are the considerations that come with Social Security planning so that you and your family can be strategic with this important source of retirement income.

THE 10,000 FOOT VIEW

You pay into the Social Security system through SS taxes. For the 2019 tax year, you will be required to pay SS taxes on the first \$132,900 of your income. The exact percentage that you are required to pay depends on if you are self-employed or if you work for someone else.²

If you work for someone else...		If you are self-employed...	
	Social Security tax		Social Security tax
You pay	7.65%	You pay	15.30%
Your employer pays	7.65%		

¹ [Social Security Administration, Historical Background And Development Of Social Security](#)

² [Social Security Administration, Understanding The Benefits](#)

The revenue from these taxes is used to fund SS payments that are being paid to retirees today. When you retire, people who are still in the workforce will be financing your monthly SS benefit.

HOW YOUR MONTHLY BENEFIT IS DETERMINED

The Social Security Administration (SSA) will use your 35 highest-earning years when calculating your retirement benefit. The more you paid in, the more you can expect to receive.

If, for example, you only paid SS taxes for 20 years, you would receive a “zero” for 15 years of the average - lowering your total. In this way, Social Security works to align incentives by paying a larger benefit to people that paid more into the system throughout their lifetime.

WHEN TO START TAKING PAYMENTS

The SSA uses a term called “full retirement age” in determining your monthly payout, and this age depends on your birth year. For someone born in 1956, their full retirement age is 66 and 4 months. This means that if this person waits until they are 66 and 4 months to start receiving SS benefits, they will receive 100% of their calculated benefit. The table below shows the full retirement age across all ages.³

Birth Year	Full Retirement Age
1943 - 1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and up	67

But you don’t have to wait until your full retirement age to start receiving benefits, and under current law you can start taking payments as young as age 62. To compensate for these early payments, the SSA reduces your total benefit by roughly 0.5% per month that you take SS early.

Just as important, you receive an 8% “bonus” for each year that you defer payments beyond your full retirement age (up to age 70).



In 2017, the average Social Security payment was \$1,523 per month.

While social security should be just a portion of your overall retirement strategy, it’s an important part to get right.

Social Security Administration,
Fast Facts & Figures About Social Security, 2019

³ [Social Security Administration, Understanding The Benefits](#)



DID YOU KNOW?

67.0 million people received benefits from programs administered by the Social Security Administration (SSA) in 2017.

5.5 million people were newly awarded Social Security benefits in 2017.

55% of adult Social Security beneficiaries in 2017 were women.

Social Security Administration,
Fast Facts & Figures About Social Security, 2018

Consider the example of someone who was born in 1960 and has a full retirement age of 67. If they decide to start getting SS payments at age 62, their monthly benefit is reduced by 30% (60 months x 0.5% per month). If they wait until they are 70 to start taking payments, their monthly benefit is enhanced by 24% (3 years x 8% per year).

Here lies the real question: which of the following three scenarios is the best for this person?

	monthly benefit (percent of total)
take SS at age 62	70%
take SS at age 67 (full retirement age)	100%
take SS at age 70	124%

The answer to this question involves the time value of money, the person's life expectancy, and the opportunity cost of deferring payments (what the money could be used for today - like investments, paying down debt, etc.). There are a lot of moving pieces to this decision, and for this reason, it can be helpful to consult a financial advisor for this step.

REMEMBER THAT SOCIAL SECURITY IS JUST PART OF YOUR PLAN

In 2017, the average monthly SS benefit was just \$1,523 - or roughly \$18,276 per year.⁴ This is a relatively small payment in the scheme of things, and for this reason, we always advise clients to view Social Security as just a component of their overall retirement plan.

With that said, it's an important part to get right.

If you need help maximizing Social Security, determining when to start taking payments, or fitting Social Security into your long-term financial plan, we invite you to reach out to our team.

4 [Social Security Administration, Fast Facts & Figures About Social Security, 2019](#)

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