

UNDERSTANDING YOUR  
Social Security Strategy



For John and Jane Smith



**SOCIAL SECURITY PRIMER**  
WHEN IS YOUR PRIME TIME TAKE SOCIAL SECURITY?



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# Important Notes

This report of your Social Security benefits is based on the information you provided. Its purpose is to help you frame your thoughts and become better informed before filing. It shows strategies and age combinations that you might not have considered. This report is not intended to provide an exact analysis, but it will help you determine the filing method and age you want to start your benefits. This report reflects the provisions and restrictions included in the Bipartisan Budget Act of 2015.

This report assumes that you stop work when you start your Social Security benefits. Prior to full retirement age, your earnings from continuing to work may result in your benefits being reduced or withheld. When you reach full retirement age, an adjustment is made to restore any reduced or withheld benefits. After full retirement age, there is no benefit reduction for wages or self-employment earnings.

A portion of your Social Security benefits may be taxable. Since other sources of retirement income can affect taxation of your benefits, proper income tax planning can only be done as part of a comprehensive retirement income plan. The actual income taxation of Social Security benefits will depend on the facts and circumstances at the time the benefits are received. Any illustration of the potential income taxation of Social Security benefits is an estimate.

If you have questions not covered in this report, your Social Security Administration office and its website ([www.ssa.gov](http://www.ssa.gov)) are excellent sources of additional information.

**IMPORTANT:** The projections or other information generated in this report regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results.

This tool and support materials are designed to provide general information on the subjects covered. It is not intended to provide specific legal or tax advice. You should discuss all strategies with your legal, tax, and financial advisors.

# Planning for Social Security Retirement Benefits

For some people, choosing the right time to file for Social Security retirement benefits appears to be straightforward. Some choose to take benefits at age 62, as soon as they become available. Some choose to take benefits at the same time they stop working. While others delay claiming benefits just to get a higher benefit payment. Unfortunately, it might not be that simple. Indeed, for many, the decision is more complicated.

Most people should ask, and get answers to, the following questions:

- At what age should I file for benefits?
- At what age should my spouse file for benefits?
- When does it make sense to claim a spousal benefit?
- How do I make sure my spouse gets the largest survivor benefit?
- How do we know which of the common filing methods might be right for us?
- If one of us lives a long life, how does that affect our decision?

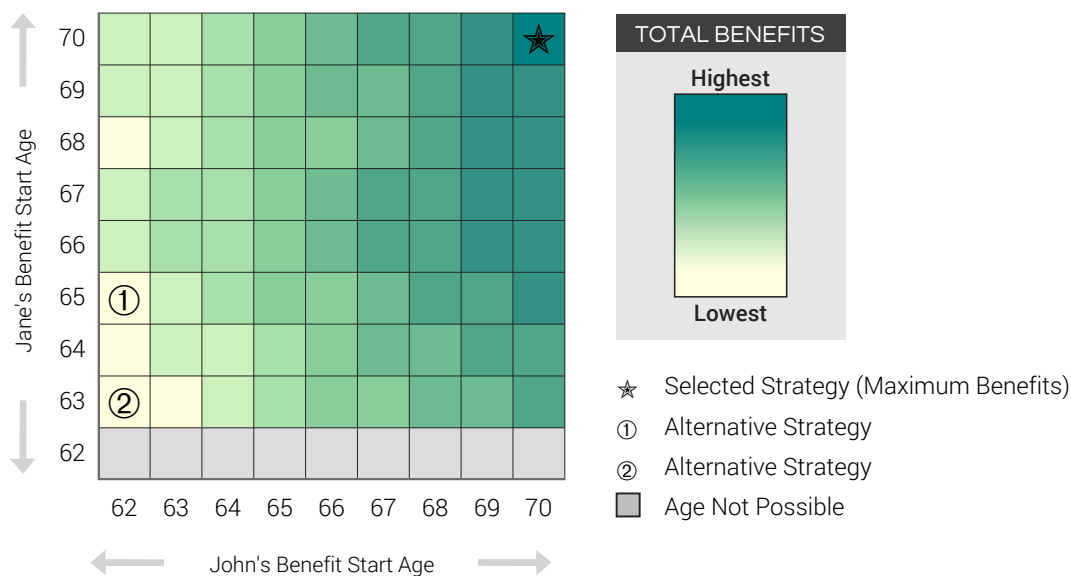
Clearly there can be a lot involved.

This report illustrates one or more Social Security retirement income planning strategies (start ages and filing method) that may help you reach your retirement income goals. Your Social Security benefits are shown before taxes in future dollars, assuming annual cost of living adjustments from today. The report is based on the information you provided below.

	JOHN	JANE
Date of Birth	1/2/1960	1/12/1957
Full Retirement Age (FRA)	67	66 and 6 months
Monthly benefit at FRA <sup>1</sup>	\$2,500	\$1,100
If benefits start at 66		FRA
Assume live to	86	88
Rate of return for cumulative value of benefits		0%
Social Security cost of living adjustment		2.5%
Effective income tax rate		25%
Modified Adjusted Gross Income		\$0

<sup>1</sup> This report assumes that you stop work when you start your Social Security benefits. Prior to full retirement age, your earnings from continuing to work may result in your benefits being reduced or withheld. When you reach full retirement age, an adjustment is made to restore any reduced or withheld benefits. After full retirement age, there is no benefit reduction for wages or self-employment earnings.

# Social Security Strategy



## What Does This Mean?

The above grid represents the filing age combinations for starting Social Security benefits. Total benefits are calculated for each available age combination. The darker the square, the higher the total value for a given age combination. The star represents the age combination with the highest overall total. If more than one combination results in the same total, the earliest possible age combination is shown. The check shows an alternative start age combination.

The strategy selected and emphasized in this report starts benefits for John at age 70 and Jane at age 70 (the start ages that will provide maximum benefits over the projected lifetimes). The difference shown below is how much less benefit would be received if an alternative start age combination is selected.

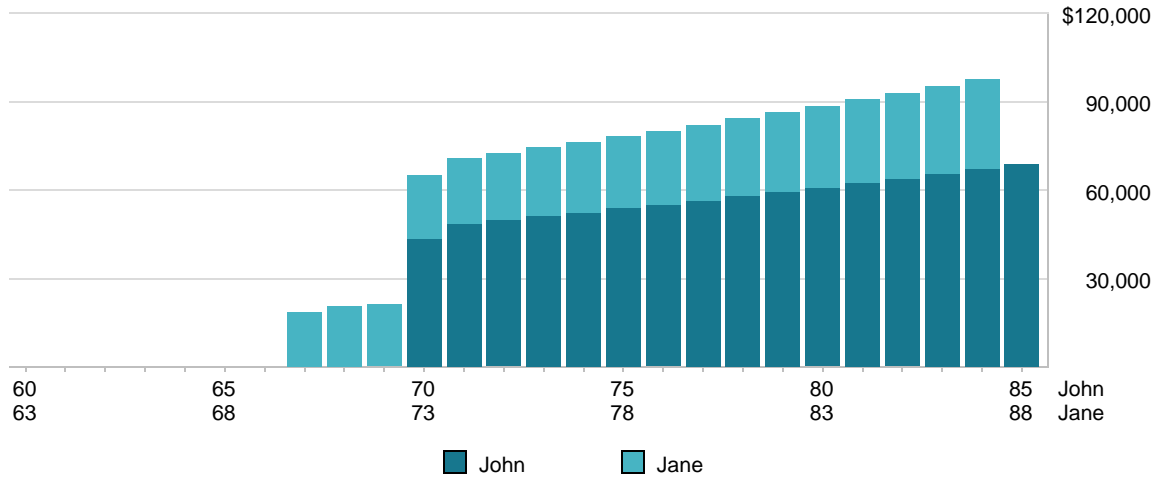
SELECTED START AGES	CUMULATIVE VALUE <sup>1</sup>	
☆ John at 70, Jane at 70	\$1,366,822	
ALTERNATIVE START AGES	CUMULATIVE VALUE <sup>1</sup>	DIFFERENCE FROM SELECTED
① John at 62, Jane at 65	\$1,143,055	\$223,767 less
② John at 62, Jane at 63	\$1,110,109	\$256,713 less

<sup>1</sup> Cumulative value calculated through 2045.

# ★ Selected Strategy (Maximum Benefits)

	JOHN	JANE	CUMULATIVE VALUE OF BENEFITS
Current Age (at year end)	60	63	<h2 style="margin: 0;">\$1,366,822</h2> <p style="margin: 0;">File for Benefits</p>
Monthly benefit at FRA <sup>1</sup>	\$2,500	\$1,100	
Assume live to	86	88	
Start benefits at age	<b>70</b>	<b>70</b>	

**ANNUAL BENEFITS BY YEAR**  
Assumes 2.5% Cost of Living Adjustments



DATE	AGE <sup>2</sup>	CHANGE FOR	NEW MONTHLY BENEFITS			REASON
			JOHN	JANE	TOTAL	
Feb 2027	70	Jane	\$0	\$1,674	\$1,674	Start own retirement benefits
Feb 2030	70	John	\$3,968	\$1,802	\$5,770	Start own retirement benefits

<sup>1</sup> This report assumes that you stop work when you start your Social Security benefits. Prior to full retirement age, your earnings from continuing to work may result in your benefits being reduced or withheld. When you reach full retirement age, an adjustment is made to restore any reduced or withheld benefits. After full retirement age, there is no benefit reduction for wages or self-employment earnings.

<sup>2</sup> Age at end of year illustrated.

# Annual Social Security Benefits

Assumes 2.5% Cost of Living Adjustment

Year	JOHN				JANE			TOTAL	
	Age <sup>1</sup>	Retirement	Spousal	Survivor	Age <sup>1</sup>	Retirement	Spousal	Annual Total	Cumulative
2020	60	0	0	0	63	0	0	0	0
2021	61	0	0	0	64	0	0	0	0
2022	62	0	0	0	65	0	0	0	0
2023	63	0	0	0	66	0	0	0	0
2024	64	0	0	0	67	0	0	0	0
2025	65	0	0	0	68	0	0	0	0
2026	66	0	0	0	69	0	0	0	0
2027	67	0	0	0	70	18,414	0	18,414	18,414
2028	68	0	0	0	71	20,592	0	20,592	39,006
2029	69	0	0	0	72	21,096	0	21,096	60,102
2030	70	43,648	0	0	73	21,624	0	65,272	125,374
2031	71	48,804	0	0	74	22,164	0	70,968	196,342
2032	72	50,028	0	0	75	22,728	0	72,756	269,098
2033	73	51,276	0	0	76	23,292	0	74,568	343,666
2034	74	52,560	0	0	77	23,868	0	76,428	420,094
2035	75	53,880	0	0	78	24,468	0	78,348	498,442
2036	76	55,224	0	0	79	25,080	0	80,304	578,746
2037	77	56,604	0	0	80	25,704	0	82,308	661,054
2038	78	58,020	0	0	81	26,352	0	84,372	745,426
2039	79	59,472	0	0	82	27,012	0	86,484	831,910
2040	80	60,960	0	0	83	27,684	0	88,644	920,554
2041	81	62,484	0	0	84	28,380	0	90,864	1,011,418
2042	82	64,044	0	0	85	29,088	0	93,132	1,104,550
2043	83	65,640	0	0	86	29,820	0	95,460	1,200,010
2044	84	67,284	0	0	87	30,564	0	97,848	1,297,858
2045	85	68,964	0	0				68,964	1,366,822

<sup>1</sup> Age at end of year illustrated.

## Hypothetical Income Taxation

This illustration of the potential income taxation of Social Security benefits is an estimate. Social Security benefits are only one source of retirement income. Since other sources of retirement income can affect taxation of these benefits, proper income tax planning can only be done as part of a comprehensive retirement income plan. The actual income taxation of Social Security benefits will depend on the facts and circumstances at the time the benefits are received. Up to 85% of your Social Security benefits may be taxed.<sup>1</sup>

Be sure to consider your retirement plan distributions. All distributions from IRAs and employer plans will be included in MAGI. Roth IRA distributions will not be included.

Assumes an effective income tax rate of 25%.

## Hypothetical Income Taxes by Modified Adjusted Gross Income (MAGI)

YEAR	ANNUAL BENEFITS	MAGI \$0		MAGI \$25,000		MAGI \$50,000	
		INCOME TAX ON BENEFITS	AFTER-TAX BENEFITS	INCOME TAX ON BENEFITS	AFTER-TAX BENEFITS	INCOME TAX ON BENEFITS	AFTER-TAX BENEFITS
2027	\$18,414	\$0	\$18,414	\$276	\$18,138	\$3,913	\$14,501
2030	\$65,272	\$80	\$65,192	\$4,398	\$60,874	\$9,710	\$55,562
2035	\$78,348	\$897	\$77,451	\$5,787	\$72,561	\$11,099	\$67,249
2040	\$88,644	\$1,568	\$87,076	\$6,881	\$81,763	\$12,193	\$76,451
2045	\$68,964	\$310	\$68,654	\$4,790	\$64,174	\$10,102	\$58,862

<sup>1</sup> ssa.gov Retirement Benefits booklet January 2019. This percentage can be changed by Congress.

## Action Plan

For John starting benefits at age 70 and Jane starting benefits at age 70

✓	WHEN	WHO	ACTION	NOTES
<input type="checkbox"/>	October 2026	Jane	File for benefits.	Apply 3 months prior to date benefits would start. Application may be made any time during this month.
<input type="checkbox"/>	October 2029	John	File for benefits.	Apply 3 months prior to date benefits would start. Application may be made any time during this month.  Jane may apply for spousal benefits since John has filed for benefits.
<input type="checkbox"/>	At death of a spouse		When a spouse dies, the surviving spouse should notify the Social Security Administration of spouse's death.	Social Security provides a one-time payment of \$255 plus potential monthly survivors' benefits.

This schedule was prepared on February 13, 2020.

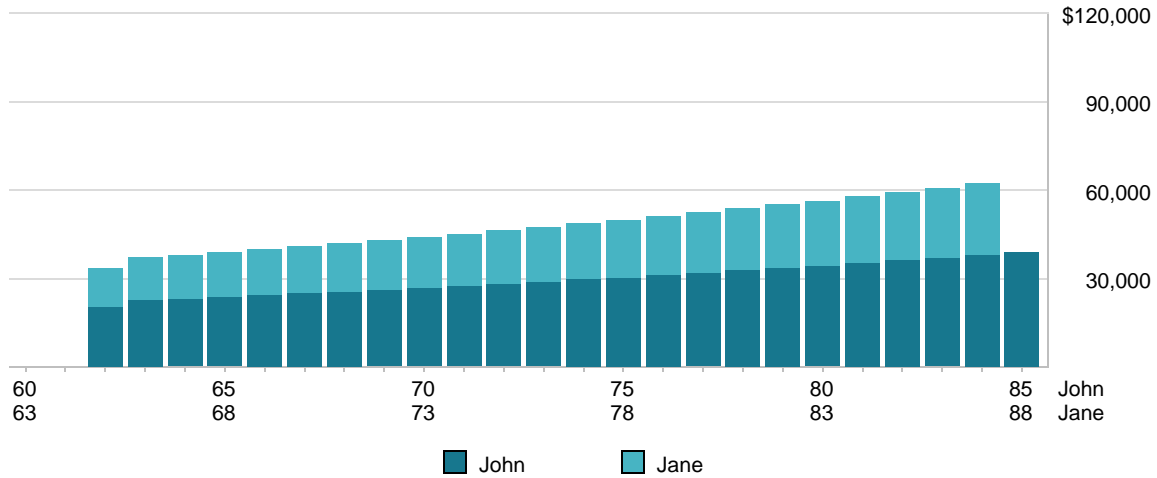
All items should be reviewed regularly and adjusted for any changes in Social Security rules, tax laws, or major life events of either John or Jane. A review with your financial advisors annually is recommended.



# ① Alternative Strategy

	JOHN	JANE	CUMULATIVE VALUE OF BENEFITS
Current Age (at year end)	60	63	<h2 style="margin: 0;">\$1,143,055</h2> <p style="margin: 0;">File for Benefits</p>
Monthly benefit at FRA <sup>1</sup>	\$2,500	\$1,100	
Assume live to	86	88	
Start benefits at age	<b>62</b>	<b>65</b>	

ANNUAL BENEFITS BY YEAR  
Assumes 2.5% Cost of Living Adjustments



DATE	AGE <sup>2</sup>	CHANGE FOR	NEW MONTHLY BENEFITS			REASON
			JOHN	JANE	TOTAL	
Feb 2022	62	John	\$1,839	\$1,178	\$3,017	Start own retirement benefits
Feb 2022	65	Jane	\$1,839	\$1,178	\$3,017	Start own retirement benefits

<sup>1</sup> This report assumes that you stop work when you start your Social Security benefits. Prior to full retirement age, your earnings from continuing to work may result in your benefits being reduced or withheld. When you reach full retirement age, an adjustment is made to restore any reduced or withheld benefits. After full retirement age, there is no benefit reduction for wages or self-employment earnings.

<sup>2</sup> Age at end of year illustrated.

# Annual Social Security Benefits

Assumes 2.5% Cost of Living Adjustment

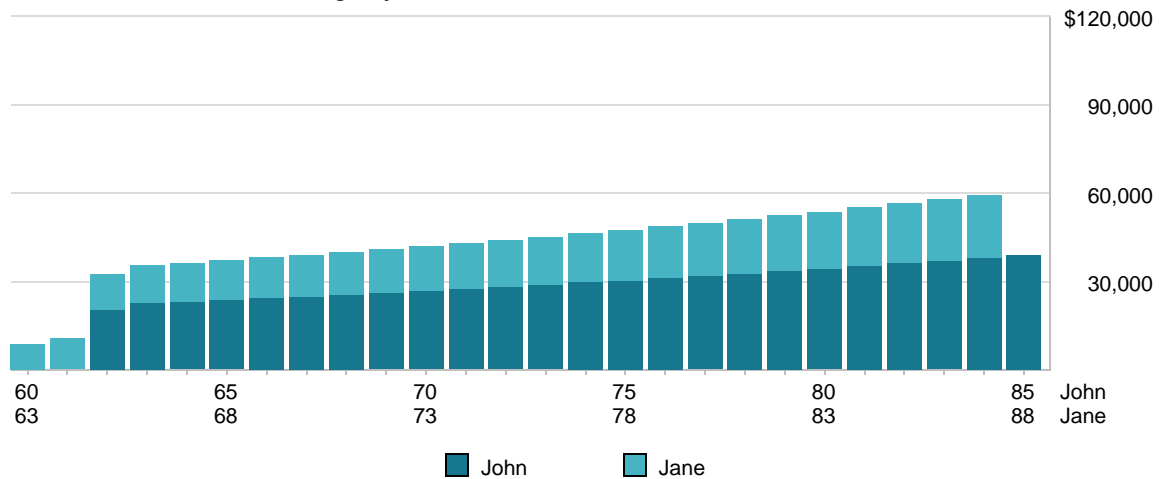
Year	JOHN				JANE			TOTAL	
	Age <sup>1</sup>	Retirement	Spousal	Survivor	Age <sup>1</sup>	Retirement	Spousal	Annual Total	Cumulative
2020	60	0	0	0	63	0	0	0	0
2021	61	0	0	0	64	0	0	0	0
2022	62	20,229	0	0	65	11,440	1,518	33,187	33,187
2023	63	22,620	0	0	66	12,792	1,692	37,104	70,291
2024	64	23,184	0	0	67	13,116	1,740	38,040	108,331
2025	65	23,760	0	0	68	13,440	1,776	38,988	147,319
2026	66	24,348	0	0	69	13,776	1,824	39,948	187,267
2027	67	24,960	0	0	70	14,124	1,872	40,956	228,223
2028	68	25,584	0	0	71	14,472	1,920	41,976	270,199
2029	69	26,232	0	0	72	14,832	1,968	43,032	313,231
2030	70	26,880	0	0	73	15,204	2,016	44,100	357,331
2031	71	27,552	0	0	74	15,588	2,064	45,204	402,535
2032	72	28,248	0	0	75	15,972	2,124	46,344	448,879
2033	73	28,944	0	0	76	16,380	2,172	47,496	496,375
2034	74	29,676	0	0	77	16,788	2,220	48,684	545,059
2035	75	30,420	0	0	78	17,208	2,280	49,908	594,967
2036	76	31,176	0	0	79	17,640	2,340	51,156	646,123
2037	77	31,956	0	0	80	18,072	2,400	52,428	698,551
2038	78	32,748	0	0	81	18,528	2,460	53,736	752,287
2039	79	33,576	0	0	82	18,996	2,520	55,080	807,367
2040	80	34,416	0	0	83	19,464	2,580	56,460	863,827
2041	81	35,268	0	0	84	19,956	2,640	57,864	921,691
2042	82	36,156	0	0	85	20,448	2,712	59,316	981,007
2043	83	37,056	0	0	86	20,964	2,784	60,804	1,041,811
2044	84	37,980	0	0	87	21,492	2,844	62,316	1,104,127
2045	85	38,928	0	0				38,928	1,143,055

<sup>1</sup> Age at end of year illustrated.

## ② Alternative Strategy

	JOHN	JANE	CUMULATIVE VALUE OF BENEFITS
Current Age (at year end)	60	63	<h1>\$1,110,109</h1> <p>File for Benefits</p>
Monthly benefit at FRA <sup>1</sup>	\$2,500	\$1,100	
Assume live to	86	88	
Start benefits at age	<b>62</b>	<b>63</b>	

ANNUAL BENEFITS BY YEAR  
Assumes 2.5% Cost of Living Adjustments



DATE	AGE <sup>2</sup>	CHANGE FOR	NEW MONTHLY BENEFITS			REASON
			JOHN	JANE	TOTAL	
Mar 2020	63	Jane	\$0	\$853	\$853	Start own retirement benefits
Feb 2022	62	John	\$1,839	\$1,034	\$2,873	Start own retirement benefits
Feb 2022	65	Jane	\$1,839	\$1,034	\$2,873	Spousal benefits start

<sup>1</sup> This report assumes that you stop work when you start your Social Security benefits. Prior to full retirement age, your earnings from continuing to work may result in your benefits being reduced or withheld. When you reach full retirement age, an adjustment is made to restore any reduced or withheld benefits. After full retirement age, there is no benefit reduction for wages or self-employment earnings.

<sup>2</sup> Age at end of year illustrated.

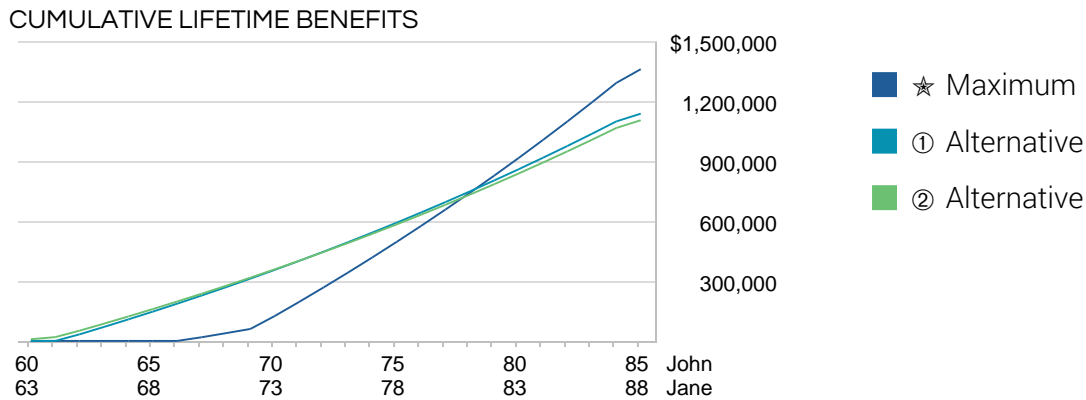
# Annual Social Security Benefits

Assumes 2.5% Cost of Living Adjustment

Year	JOHN				JANE			TOTAL	
	Age <sup>1</sup>	Retirement	Spousal	Survivor	Age <sup>1</sup>	Retirement	Spousal	Annual Total	Cumulative
2020	60	0	0	0	63	8,530	0	8,530	8,530
2021	61	0	0	0	64	10,488	0	10,488	19,018
2022	62	20,229	0	0	65	10,752	1,518	32,499	51,517
2023	63	22,620	0	0	66	11,016	1,692	35,328	86,845
2024	64	23,184	0	0	67	11,292	1,740	36,216	123,061
2025	65	23,760	0	0	68	11,580	1,776	37,116	160,177
2026	66	24,348	0	0	69	11,868	1,824	38,040	198,217
2027	67	24,960	0	0	70	12,156	1,872	38,988	237,205
2028	68	25,584	0	0	71	12,468	1,920	39,972	277,177
2029	69	26,232	0	0	72	12,780	1,968	40,980	318,157
2030	70	26,880	0	0	73	13,092	2,016	41,988	360,145
2031	71	27,552	0	0	74	13,428	2,064	43,044	403,189
2032	72	28,248	0	0	75	13,764	2,124	44,124	447,313
2033	73	28,944	0	0	76	14,100	2,172	45,216	492,529
2034	74	29,676	0	0	77	14,460	2,220	46,356	538,885
2035	75	30,420	0	0	78	14,820	2,280	47,520	586,405
2036	76	31,176	0	0	79	15,192	2,340	48,696	635,101
2037	77	31,956	0	0	80	15,564	2,400	49,920	685,021
2038	78	32,748	0	0	81	15,960	2,460	51,156	736,177
2039	79	33,576	0	0	82	16,356	2,520	52,452	788,629
2040	80	34,416	0	0	83	16,764	2,580	53,760	842,389
2041	81	35,268	0	0	84	17,184	2,640	55,092	897,481
2042	82	36,156	0	0	85	17,616	2,712	56,484	953,965
2043	83	37,056	0	0	86	18,048	2,784	57,888	1,011,853
2044	84	37,980	0	0	87	18,504	2,844	59,328	1,071,181
2045	85	38,928	0	0				38,928	1,110,109

<sup>1</sup> Age at end of year illustrated.

# Comparison of Strategies



Year	Ages	ANNUAL BENEFIT			CUMULATIVE VALUE <sup>1</sup>		
		★ Maximum	① Alternative	② Alternative	★ Maximum	① Alternative	② Alternative
2020	60/63	0	0	8,530	0	0	8,530
2021	61/64	0	0	10,488	0	0	19,018
2022	62/65	0	33,187	32,499	0	33,187	51,517
2023	63/66	0	37,104	35,328	0	70,291	86,845
2024	64/67	0	38,040	36,216	0	108,331	123,061
2025	65/68	0	38,988	37,116	0	147,319	160,177
2026	66/69	0	39,948	38,040	0	187,267	198,217
2027	67/70	18,414	40,956	38,988	18,414	228,223	237,205
2028	68/71	20,592	41,976	39,972	39,006	270,199	277,177
2029	69/72	21,096	43,032	40,980	60,102	313,231	318,157
2030	70/73	65,272	44,100	41,988	125,374	357,331	360,145
2031	71/74	70,968	45,204	43,044	196,342	402,535	403,189
2032	72/75	72,756	46,344	44,124	269,098	448,879	447,313
2033	73/76	74,568	47,496	45,216	343,666	496,375	492,529
2034	74/77	76,428	48,684	46,356	420,094	545,059	538,885
2035	75/78	78,348	49,908	47,520	498,442	594,967	586,405
2036	76/79	80,304	51,156	48,696	578,746	646,123	635,101
2037	77/80	82,308	52,428	49,920	661,054	698,551	685,021
2038	78/81	84,372	53,736	51,156	745,426	752,287	736,177
2039	79/82	86,484	55,080	52,452	831,910	807,367	788,629
2040	80/83	88,644	56,460	53,760	920,554	863,827	842,389
2041	81/84	90,864	57,864	55,092	1,011,418	921,691	897,481
2042	82/85	93,132	59,316	56,484	1,104,550	981,007	953,965
2043	83/86	95,460	60,804	57,888	1,200,010	1,041,811	1,011,853
2044	84/87	97,848	62,316	59,328	1,297,858	1,104,127	1,071,181
2045	85	68,964	38,928	38,928	1,366,822	1,143,055	1,110,109

<sup>1</sup> Cumulative value calculated through 2045.

## Summary

SELECTED START AGES	CUMULATIVE VALUE <sup>1</sup>	
★ John at 70, Jane at 70	\$1,366,822	
ALTERNATIVE START AGES	CUMULATIVE VALUE <sup>1</sup>	DIFFERENCE FROM SELECTED
① John at 62, Jane at 65	\$1,143,055	\$223,767 less
② John at 62, Jane at 63	\$1,110,109	\$256,713 less

<sup>1</sup> Cumulative value calculated through 2045.

## Definitions and Additional Information

### Full retirement age

Full retirement age (FRA) is the age at which a person may first become entitled to full or unreduced Social Security benefits. If your birthday is on January 1, the previous year's FRA will determine your full retirement age.

YEAR OF BIRTH	FULL RETIREMENT AGE
1943 through 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 later	67

### Reductions for retirement before full retirement age

You may start Social Security retirement benefits as early as age 62; however, each month prior to FRA will result in a reduction in your benefits. This reduction ranges from 25% for those with a FRA of 66 to 30% for FRA of 67. The formula is 5/9 of 1% per month up to 36 months, plus 5/12 of 1% per month exceeding 36.

### Delayed retirement credits for retirement after full retirement age

If you choose to delay starting Social Security benefits, you will receive an increase in your benefit amount of 8% per year up to age 70. After age 70 there are no further credits for delaying benefits. The credit is 2/3 of 1% for each month beyond FRA.

### Monthly benefit at full retirement age

You can find your monthly benefit at full retirement age on your annual Social Security statement or from the on-line statement. The amount used in this report is the monthly value in today's dollars. This report automatically applies cost of living adjustments for you. This monthly benefit amount is also known as Primary Insurance Amount or PIA.

## Spousal and family benefits

If you are receiving Social Security retirement benefits, your spouse and children may also qualify to receive benefits on your record. Your spouse or child may receive a monthly payment of up to one-half of your full retirement benefit amount, subject to a family maximum of approximately 150-180% of your full retirement payment. These payments will not reduce your retirement benefit. If there is more than one beneficiary, the payments are prorated among your family members eligible for benefits. However, if you suspend your benefits, all benefits based on your earnings will also be suspended. Individuals age 62 or younger in 2016 do not have this option.

## Survivor benefits

Social Security provides survivor benefits for your family. If you die and your children are under 18, they are eligible for survivor benefits. In addition, your spouse qualifies for survivor benefits if age 60 or greater or caring for your children under age 16. Your spouse's survivor benefits when not caring for children under 16 will be reduced if benefits start prior to your spouse's full retirement age.

## Family benefits

This report does not consider Social Security survivor or retirement payments available for children, which may increase the total benefits your family may receive.

## Disability benefits

This report does not consider disability payments that you or your family may be eligible to receive.

## Pensions based on earnings not covered by Social Security

If you receive a pension for work not covered by Social Security, your monthly retirement or survivors' benefit may be reduced.



## Government Pension Offset (GPO)

This provision affects only individuals who have earned a pension from work not covered by Social Security. Two-thirds of the monthly non-covered pension amount may reduce any spousal benefits you are otherwise entitled. GPO does not reduce any benefits based on your work record covered by Social Security.

## Windfall Elimination Provision (WEP)

Your Social Security benefits may be reduced if you are entitled to a monthly pension from work not covered by Social Security and also qualify for Social Security retirement benefits. The years and earnings covered by Social Security determine the reduction, if any.

Each year worked up to starting retirement may affect benefits. The Social Security Administration does not include this reduction on your annual statement. It is calculated when you file for benefits. For 2020, this reduction is limited to the lesser of \$480 or one-half of your non-covered monthly pension.<sup>1</sup>

## Marital status

**Married:** Currently married under federal definition of marriage. Applicable spousal benefits and survivor benefits have been included.

**Widowed:** Currently not married under federal definition of marriage. Survivor benefits have been considered throughout the tool.

**Divorced:** If you were married for at least 10 years before divorce. You may receive spousal benefits based on an ex-spouse's benefit. It does not have to be the most recent ex-spouse, but your marriage must have lasted ten years. Claiming this benefit will in no way affect your ex-spouses benefits. Anyone born after January 1, 1954 will be deemed to file for both their benefits and any spousal benefits at the same time and receive the higher of the two amounts. They will no longer be able to claim spousal benefits only.

**Single:** Currently not married under federal definition of marriage (or were married for less than 10 years before divorce). Benefits will only consider your earning record.

<sup>1</sup> Source: <https://www.ssa.gov/planners/retire/wep-chart.html>

## File for benefits

You file for all eligible benefits. You must file for all benefits to which you may be eligible, including your own benefit as well as any spousal benefit if one exists. Benefits will be reduced for each month prior to FRA.

## File and suspend

Once you have reached FRA, you file your application for benefits and immediately suspend payments until a later date. This allows you to delay benefits up to age 70 to earn delayed retirement credits to increase monthly payments. If you suspend after April 29, 2016, any benefits based on your earnings will also be suspended.

## File a restricted application

For individuals born on or before January 1, 1954, once you have reached FRA, you file a restricted application for spousal benefits. This allows you to begin spousal benefits while earning delayed retirement credits. Your spouse must have filed for benefits for you to receive spousal benefits. You apply for your own benefits at a later date and receive increased monthly payments.

## Options to change your selection

Within 12 months of starting benefits if you change your mind, you may withdraw your claim and reapply. If approved, you must repay all benefits paid. This is only allowed once.

If you are already receiving benefits, you may suspend current or future payments up to age 70. The suspended payments will automatically resume at age 70, unless you request them sooner.

## Voluntary Reinstatement of Benefits

Due to the 2015 Budget Bill Act, retroactive (lump sum) benefits are no longer payable. Reinstating a suspended benefit will only pay an adjusted monthly benefit (including delayed retirement credits).

## Precaution if benefits are suspended

If you are enrolled in Medicare Part B, premiums cannot be deducted from suspended payments. You will need to pay them directly or have them automatically paid by your bank.

## Cost of living adjustment

Historically prices have risen over time. Social Security Administration reviews the cost of living each year and adjusts benefits accordingly. The 30-year average annual adjustment is 2.5%.

Social Security Administration determines if a cost of living adjustment is made, and if so, how much. Typically, benefits have increased by 2.5% to 3.0% in the past. Using 0% will show basic benefits without any adjustments for inflation. More information can be found at [www.socialsecurity.gov/cola](http://www.socialsecurity.gov/cola).

## Break-even

Break-even is the age when total Social Security income from two different filing strategies is the same. Break-even analysis is one way to decide which of two strategies maybe be the best choice for an individual or a couple. In addition, rate of return, income tax rates and cost of living increases may affect the break-even age.

## What if you work during retirement?

You may work while receiving Social Security benefits and working may mean higher future benefits. However, while working your benefits may be reduced until you reach full retirement age. After full retirement age, the Social Security Administration will recalculate your benefits considering months when benefits were reduced or withheld due to excess earnings. In any year when earnings are higher than a prior year in your earnings record, the higher year will be used to recalculate your PIA and your payment amount.

The excess earnings limit in 2020 is \$18,240. A formula determines the amount benefits will be reduced based on your age. If you are under full retirement age for the entire year, benefits will be reduced \$1 for every \$2 earned above the limit. In the year you attain full retirement age, the deduction will be \$1 for every \$3 over \$48,600 (2020). Starting with the month you reach full retirement age, there is no longer a reduction in benefits or a limit to the amount you may earn.

If Social Security Administration is notified in advance of your anticipated monthly earnings, they will adjust your payments accordingly. If Social Security Administration learns of the excess earnings later, they withhold all future payments until excess benefits are recovered.

## Modified Adjusted Gross Income (MAGI)

MAGI is generally defined as all of your taxable income, plus certain net foreign income, minus allowed deductions. MAGI may include income such as taxable pensions, wages, interest, dividends, and other taxable income plus tax-exempt interest income (such as interest on municipal bonds) and any exclusion from income, such as interest from US savings bonds. See Internal Revenue Code Section 86b(2) or Internal Revenue Service Publication 915 for more information.

Be sure to consider your retirement plan distributions. Generally, all distributions from IRAs and employer plans will be included in MAGI. Roth IRA distributions will not be included.

## Effective tax rate

The effective income tax rate is the average rate at which income is taxed. It takes into account the deductions and credits used to compute income taxes. It is total income taxes divided by total income, and is less than the "tax bracket" or marginal rate.

## How are Social Security benefits taxed?

About one out of three people who get Social Security have to pay income taxes on their benefits. Combined income is the sum of your MAGI plus nontaxable interest plus half of your Social Security benefits.

- If you are married and file a joint return, up to 50% of your benefits may be taxable if you and your spouse have a combined income that is between \$32,000 and \$44,000. If your combined income is more than \$44,000, up to 85% of your Social Security benefits is subject to income tax.
- If you are married and file a separate return, you may pay taxes on your benefits.
- If you are single and your combined income is between \$25,000 and \$34,000, you may have to pay taxes on up to 50% of your Social Security benefits. If your combined income is more than \$34,000, up to 85% of your Social Security benefits is subject to income tax.
- No more than 85% of your total benefits is taxable.<sup>1</sup>

## For more information

Your Social Security Administration office is an excellent source for questions about your benefits. The website ([www.ssa.gov](http://www.ssa.gov)) is extremely helpful. This report should help you frame your thoughts before filing. It shows strategies that you may not have considered. It helps reduce guessing or rules-of-thumb by calculating almost all possible combinations and illustrating the largest benefit.

<sup>1</sup> [ssa.gov](http://ssa.gov) Retirement Benefits booklet January 2019

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