WELLS FARGO Advisors

Not sure when to start Social Security?

Answering three critical questions can help you decide

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The truth is, there are a lot of options for how and when to take Social Security benefits, and navigating among them can be complicated. But making the effort to do so may pay off significantly for many people and/or their dependents. Social Security decisions that might seem relatively inconsequential at the time may be worth thousands of dollars over time.

Taking time to think through your own situation and outlook for the future gives you the opportunity to avoid making Social Security claiming mistakes that result in less income over time than other choices would have generated.

> *Social Security can be a valuable source of retirement income—especially when it's used to the best advantage for each person's own situation.*

Why is your Social Security claiming decision so important?

- **There isn't just one way to claim your Social Security benefit—there are dozens**. Picking the best one ***for your situation*** may make a huge difference financially.
- ***Social Security replaces 40%, on average, of recipients' preretirement income***.[1] This percentage can vary significantly depending on individual situations and claiming decisions made.
- ***You've been paying into Social Security your entire working life***. You owe it to yourself to make the best use of this benefit.

40% Social Security replaces 40%, on average, of recipients' preretirement income.

We've identified three of the most important questions people often neglect to think through when making their Social Security benefit elections—and mention points to consider to help you make the best Social Security decisions for your household.

1. U.S. Social Security Administration, ssa.gov

1. What's your ultimate goal?

Your Social Security planning should be framed around what you want this benefit to help you achieve.

Is it to:

- Maximize your individual income during your lifetime?
- Maximize your spouse's income in the event of your death?
- Maximize your collective household income?
- Ensure you leave assets for others after you're gone?

Social Security delivers a lifetime income stream for you (and your spouse, if applicable), and it's indexed to inflation. So, deciding ahead of time what you're **specifically aiming to achieve** with this income can play a major role in whether you reach that goal—or not.

Goal example: Maximizing spouse's income

Their situation:

The spouses have a 10-year age difference, and based on their respective Social Security earnings records, the older spouse's Social Security benefits will be much higher. Their primary focus currently is on the older spouse's Social Security decision given the amount of income it will provide and the difference in their ages. They believe the younger spouse will live longer, so their goal is to maximize the younger spouse's income should their expectation come to pass. In the event it does, the younger spouse will receive a survivors benefit of up to 100% of the older spouse's benefit amount.

Their plan:

They decide that the older spouse—currently 62 years old—will delay starting Social Security benefits until age 70 in order to maximize the amount of that income. (When you postpone starting Social Security, your benefit amount increases significantly from age 62 until age 70; more on that in the next section.) Over time, their plan may provide the younger spouse with thousands of dollars more in income than would've been the case if the older spouse were to claim Social Security at an earlier age.

2. Is it in your household's best interest to start Social Security benefits at age 62 or wait?

People who anticipate a statistically normal lifespan might not realize how significantly their monthly and total benefits could increase by waiting to take Social Security later.

The table below illustrates the potential impact. In this example, the individual would receive an initial $9,000 more in annual income by waiting until full retirement age (FRA) to claim Social Security instead of claiming Social Security early at age 62.

Example of Social Security estimated retirement benefit amounts beginning at age 62 vs. FRA
For an individual born June 15, 1960, earning $80,000/year in 2020

Monthly/annual benefit by waiting until FRA (age 67)	$2,200 monthly/$26,400 annually
Monthly/annual benefit if claiming early (age 62)	$1,444 monthly/$17,328 annually
Difference in initial monthly benefit by claiming at age 67 instead of age 62	**$756 higher initial monthly benefit**
Difference in initial annual benefit by claiming at age 67 instead of age 62	**$9,072 higher initial annual benefit**

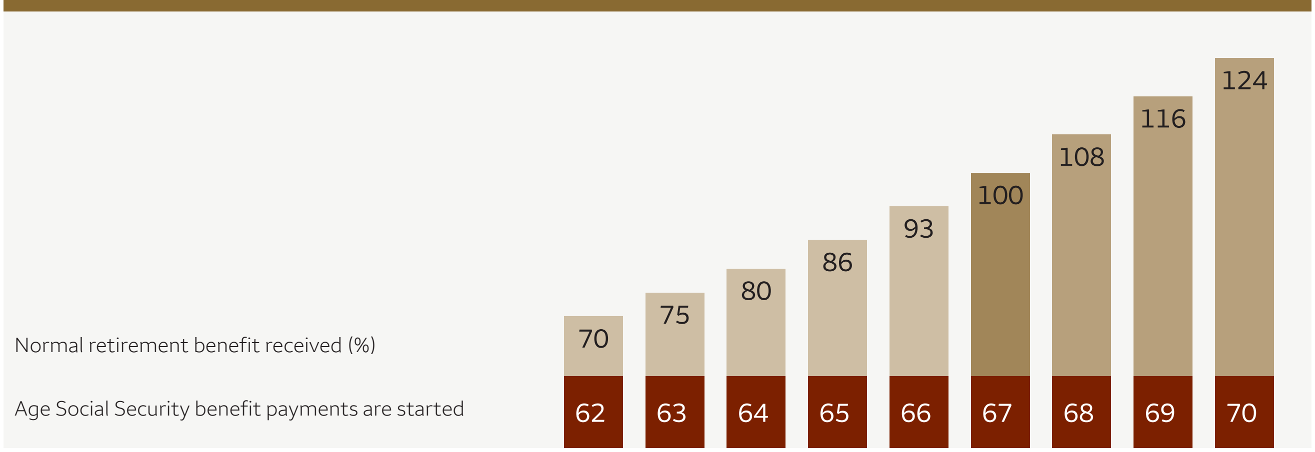
NOTE: This is a hypothetical example calculated in August 2020 in today's dollars using the Social Security Administration's Quick Calculator at ssa.gov/OACT/quickcalc. This calculator assumes no future increases in prices or earnings. To view online benefits calculators that use your own official earnings record in calculations, visit ssa.gov/benefits/calculators.

It's true that by waiting to start Social Security, you forgo the income you would've received if you'd claimed Social Security earlier. It's also true, however, that when you claim early, your benefit is permanently reduced. The amount of the reduction—which can be up to 30%—varies based on the year you were born and how early you claim. Your financial professional is a good resource to help you explore the financial impact of waiting to claim versus claiming early.

If you're able to wait beyond your FRA to start your Social Security benefit, your monthly benefit will rise even higher.

> *"Delaying Social Security benefits boosts the monthly payment amount by roughly 8% every year, up until you reach age 70.*

Delaying Social Security can increase your benefit payments



Assumption: The person's full Social Security retirement benefit starts at age 67.
Source: Social Security Administration

BUT: Postponing your Social Security start date to maximize your retirement benefit doesn't mean you can't retire early. Maybe you can, if you plan ahead.

One way to do this—and still maintain adequate retirement income before Social Security kicks in—is by using a retirement bridge strategy. In this approach, people retire but delay taking Social Security until a later date, using existing assets for income to "bridge the gap" until their preferred Social Security start date.

Using existing assets to bridge the gap

The concept behind this strategy is simple: Spend down some existing assets to finance retirement for a while in order to significantly increase your Social Security benefits by postponing your start date.

What may feel daunting, though, is deciding which assets should be spent. The types of assets many people commonly have available include:

- Cash/cash equivalents
- IRA
- Roth IRA
- 401(k)
- Roth 401(k)
- Pensions
- Annuities

Which assets to use—and in which order—depends on your personal financial situation. Your financial and tax professionals can help you build a spend-down strategy that makes the most sense for you.

An outdated approach: Claiming early to pursue higher returns

Some people believe the best way to maximize their total Social Security retirement income over time is to start early. In extreme interest rate environments—like in the 1980s—starting Social Security at 62 might have been advantageous in certain situations for people who adhered to a disciplined strategy.

But interest rates today are much, much lower than in the 1980s. So from an interest rate perspective alone, adopting this strategy would be unproductive. For this approach to work as desired would require an ongoing environment of extremely high inflation and interest rates.

1980s strategy for taking Social Security early: interesting idea, so-so results

Runaway inflation in the 1980s led to record-high, double-digit interest rates, and certificate of deposit (CD) yields soared. In early May 1981, the average annual percentage rate (APR) on three-month CDs was about 18.3%.[2] By comparison, June 1981's annual Social Security cost-of-living adjustment (COLA) also was double digits, but "only" 11.2%.[3] In that extreme environment, many people turning 62 chose to claim Social Security early, aiming to get a better guaranteed return on that money by investing it in high-rate CDs.

But, for this strategy to work:

1. **Returns earned on invested Social Security income must greatly outpace future Social Security benefit increases (plus COLAs) that are forfeited.** The guaranteed returns have to be high enough to surpass the Social Security income "lost" due to claiming Social Security before FRA. This income reduction is permanent, and it can be up to 30%.[3] As long as low CD rates persist, claiming early and investing the income in CDs would be an unprofitable strategy.

2. **The Social Security income must be invested.** It's much easier to believe that money coming in will be consistently invested than it is to actually do so. The temptation to spend instead of save can be difficult to overcome.

> *With runaway inflation in the 1980s, interest rates reached double digits: In early May 1981, the average APR on a three-month CD was about 18.3%.*

2. St. Louis Federal Reserve data
3. U.S. Social Security Administration, ssa.gov

3. What earned income and tax implications should you be aware of before deciding when to claim Social Security?

Working while claiming Social Security early may reduce your benefit payments

When considering whether to start Social Security early, you should first decide whether you'll work while receiving early benefit payments. Your answer to this question is important because the Social Security Administration has rules concerning earned income while receiving Social Security income before FRA. If you're under FRA and earn more than the yearly earnings limit, your benefit amount may be reduced.

According to the Social Security Administration:

- If you're under FRA for the full year, $1 will be deducted from your benefit payments for every $2 you earn above the annual limit: $18,240 for 2020.
- In the year you reach FRA, $1 in benefits is deducted for every $3 earned above a different limit: $48,600 for 2020. (Note: For this year, the Social Security Administration only counts your earnings up to the month before you reach FRA, not your earnings for the entire year.)

Beginning with the month you reach FRA, your earnings will no longer reduce your benefits—no matter how much you earn. The Social Security Administration will recalculate your benefit amount to give you credit for the months it reduced or withheld benefits due to your excess earnings.

> *"You can learn more about how these general limits may apply to your own situation on the Social Security Administration's website—ssa.gov—as well as by consulting your financial professional.*

Federal income taxes may affect your benefit

Individuals and married couples have income thresholds that must be reached before their Social Security benefits are subject to income taxes. The thresholds are low, and they aren't adjusted for inflation every year. However, no matter how much income you make, at least 15% of your Social Security benefits each year will not be taxed (under current law).[4]

> *Your tax professional can recommend options for providing the retirement income you need while also managing your potential tax liability.*

Federal taxation of Social Security benefits

Percent of Social Security benefits subject to federal tax	If you file a federal tax return as an "individual" and your combined income is:	If you file a joint federal return and you and your spouse's combined income is:
Up to 50%	$25,000–$34,000	$32,000–$44,000
Up to 85%	Above $34,000	Above $44,000

Source: 2020 Retirement Benefits, ssa.gov
Combined income = adjusted gross income + nontaxable interest + one-half of Social Security benefits

If you've enjoyed a comfortable income during your working years and plan to maintain a similar lifestyle in retirement, it's a good idea to plan for the potential impact of taxes on your Social Security income, just as you've planned for income taxes throughout your career. But, "don't let the tail wag the dog"—the financial benefits of Social Security far outweigh the impact of taxes.

4. U.S. Social Security Administration, ssa.gov

Making your Social Security claiming decision

First and foremost: There's no need to feel anxious or rushed to choose the "best age" out of three options. Your choices aren't just age 62, your full retirement age, or age 70—you can pick any month between ages 62 and 70 as your starting point. And while you've ideally been planning financially for your retirement throughout your career, you have the flexibility to make this important Social Security decision whenever you're ready to—even after you retire.

Second: Take time to review at least annually your financial situation and other factors that could affect the timing of your Social Security start date.

For example, have there been unanticipated changes in:

- Your health, budget, or retirement assets?
- Overall market conditions?
- Laws pertaining to Social Security retirement benefits?

Everyone's circumstances tend to change over time, and an annual checkup will help you determine whether the timing you had in mind remains opportune or needs adjustment.

Third: You don't have to make this critical decision in a vacuum. As you explore different strategies for taking your Social Security retirement benefits, we encourage you to consult with your tax professional as well as your Wells Fargo Advisors Financial Advisor. Your financial advisor can evaluate your personal situation with you annually—and help you move forward toward the Social Security decision that you feel best meets your needs.

We also suggest that you visit the Social Security Administration's website at **ssa.gov**. It provides a wealth of information and resources that can help you learn about the Social Security program and calculate your estimated Social Security monthly income starting at different ages.

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