Morgan Stanley

Creating Your Retirement Income Strategy:

A Guide to Social Security

Social Security and Retirement

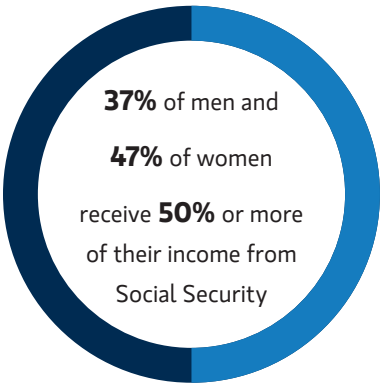
Identifying income sources for your future spending needs can be a helpful exercise when planning for retirement. For many, Social Security can play an important role and contribute to building a comprehensive retirement income strategy.

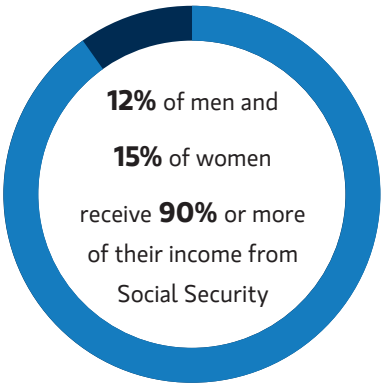
Social Security Overview

What Is Social Security?
The Social Security act was signed into law by President Roosevelt in 1935. This Act created a social insurance program designed to pay retired workers continued income after retirement. Benefits are funded by Social Security taxes from your paycheck.

With nearly every paycheck, you and your employer pay into the Social Security system for future benefits. For many Americans, it is a critical source of retirement income.

Social Security Beneficiary Trends Among the Elderly





Source: "Social Security Factsheet, 2022" Social Security Administration. Updated May 31, 2024.
https://www.cbpp.org/research/social-security/policy-basics-top-ten-facts-about-social-security

Qualifying for Social Security Retirement Benefits

By working and paying Social Security taxes, you are earning credits toward your Social Security benefit.

Monthly benefits are based on your top 35 years of earnings.

To qualify, you must accumulate a minimum of 40 credits, or 10 years of work in the private sector (paying Social Security taxes), if you were born in 1929 or later.

The limit on the maximum amount of earnings used to calculate benefits is $168,600 for 2024.[1]

How Are Social Security Benefits Calculated?

Your benefits calculation is a formula that considers your highest 35 years of earnings that were subject to Social Security taxes, and the age at which you claim benefits. You can learn more about the benefit calculation formula and access your personal Social Security benefits estimate online by visiting http://www.ssa.gov.

Applying for Social Security

You don't automatically begin receiving benefits once you retire. You must apply online, by calling 1-800-772-1213 or by visiting a Social Security Office. For more information on how to submit an application and the materials you will need to provide, visit the Social Security Administration website.

You have the option to choose when to start collecting your benefits. If you decide to take early retirement, your benefits will be permanently reduced. If you delay retirement, you earn delayed-retirement credits that increase your benefits.

Social Security Claiming Options

EARLY RETIREMENT

You may begin receiving benefits at age 62, but those benefits will be permanently reduced by 25-35% depending on your birth year.

FULL RETIREMENT AGE (FRA)

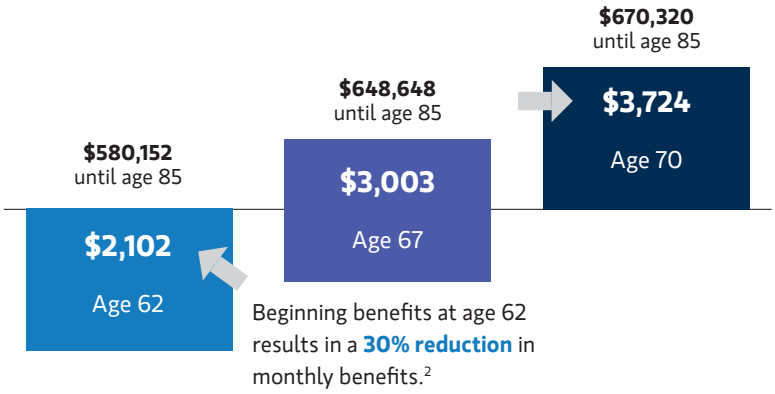
This is the point at which you are entitled to full retirement benefits, which could be between ages 65 and 67, depending on your birth year.

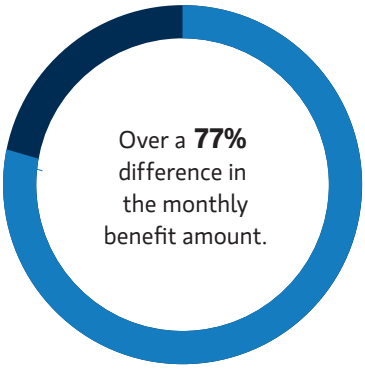
DELAYED RETIREMENT

For those born in 1943 or after, an additional 8% is credited to your permanent benefit each year until you reach age 70.

Delaying benefits to age 70 results in a 77% higher monthly benefit than filing at age 62, and a 24% higher monthly benefit than starting at age 67.[2]

When You Claim Social Security Benefits Can Make a Big Difference in Your Benefit Payment





Source: Social Security Administration, Benefits Planner: Retirement | Retirement Age and Benefit Reduction | SSA

Deciding When To Receive Benefits

Deciding when to claim Social Security benefits can be complex. These are big decisions that can have a tremendous impact on your household's retirement income and, ultimately, your lifestyle.

So, what is the best age to initiate your Social Security benefit payments? A good place to start is to weigh the tradeoffs: claiming Social Security benefits earlier may mean you receive ongoing payments sooner, and overtime those benefits can add up and may help provide more security, especially if other income sources and savings vehicles are limited. But claiming later means that monthly payments may be higher, and those higher payments can add up quickly.

What Is the Break-Even Age When Total Social Security (SS) Benefit Payments are Equal?

Collecting SS benefits at 62:

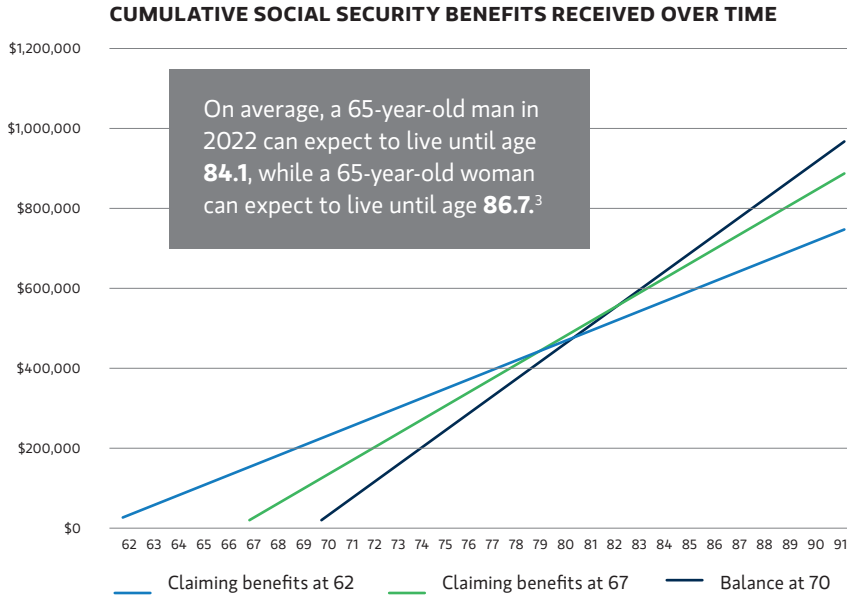
- Break even with filing at 67 at age 79
- Break even with filing at 70 at age 80

Collecting SS benefits at 67:

- Break even with filing at 62 at age 79
- Break even with filing at 70 at age 82

Collecting SS benefits at 70:

- Break even with filing at 62 at age 80
- Break even with filing at 67 at age 82



On average, a 65-year-old man in 2022 can expect to live until age **84.1**, while a 65-year-old woman can expect to live until age **86.7.**[3]

Projections: https://www.broadridgeadvisor.com/webresourcesview/ContentView.aspx?iplf=ur&iptc=240394&wcKey=C882C59E0C13BF9C3B8DBF168DBC8C36875C33BD38DEF468EBBA3C6D7F1EFAA5580D7C2C2B5C58B98AD24A24AA07997C

When comparing the total benefit amounts and claiming at an earlier or later age, the missing variable in the decision is how long you will live. Without knowing the future, there's no best answer to the question: Do you wish to start getting benefits early with a smaller monthly amount for more years or wait for a larger monthly payment in a shorter time frame?

Your answer to when to claim Social Security may depend on many factors. You may want to consider:

1. **HEALTH AND LONGEVITY EXPECTATIONS:**
   If a concern, you may want to consider filing early.

2. **MARITAL STATUS:**
   Married claimants may want to consider delaying filing to increase eligible survivor benefits upon the death of a spouse.

3. **OTHER RETIREMENT INCOME SOURCES:**
   Your ability to replace the funding that Social Security would have provided during delaying years, and the taxation of those withdrawals.

4. **WORKING WHILE COLLECTING SOCIAL SECURITY, BEFORE FRA:**
   The Social Security Administration may temporarily withhold and delay a portion of your benefit amount if you earn above certain thresholds.

Additional Benefits and Eligibility

In addition to retirement benefits for qualified workers, Social Security also offers spousal (and potentially previous-spousal) benefits. In case of a worker's death, Social Security may provide survivor's benefits for a widow or widower who was married for more than a year to the eligible worker, along with their qualified dependents, as well as, divorced spouses who were married to the worker for 10 years or more. In addition, Social Security offers disability benefits for qualified workers, potentially making their covered dependents eligible for Supplemental Security Income (SSI) benefits.

Start Planning Now

Even if retirement is in your distant future, you should start thinking about your strategy now. You may want to consider setting up your Social Security account, and periodically comparing your attributed Social Security earnings to your W-2 earnings, to ensure your annual income is being recorded accurately. Create an account at www.ssa.gov to access your Social Security statement at any time. Your Financial Advisor, along with your tax and legal advisors, can help you explore your options to reach your overall retirement income goals.

[1] "What You Need to Know About 2023 Social Security Changes Beyond the COLA," by Andrew Rosen, Kiplinger, November 18, 2022. Available at https://www.kiplinger.com/retirement/2023-social-security-changes-beyond-the-cola.

[2] Monthly benefit amounts based on age when retirement benefits begin and continue for 25 years for an individual born in 1960 or later. The reduction varies for those with years of birth 1959 and 1943 - between 29.17% and 25%.

[3] https://www.cnbc.com/select/why-people-end-up-collecting-social-security-benefits-too-early/

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