EDUCATIONAL COMMENTARY

For consumers

HOW TO GET MORE FROM SOCIAL SECURITY

When it comes to creating a custom retirement income plan, maximizing your Social Security benefit is a key step. Why? Social Security offers inflation-adjusted income that continues for life.

HOW FAR WILL YOUR SOCIAL SECURITY CHECK GO?

Social Security is the foundation for most Americans' retirement income plans, but it only goes so far towards replacing pre-retirement income, often leaving a gap. Social Security covers about 40% of the average worker's pre-retirement income, according to the National Academy of Social Insurance: In 2020, a retiree claiming at full retirement age who had average annual earnings of $51,795 would get $20,538 per year ($1,711 per month).

Someone with lower average earnings would get smaller checks but their benefits would replace a higher percentage of their pre-retirement income. Say your average earnings were $23,308. You'd get $12,541 per year ($1,045 per month)—replacing 53% of your pre-retirement income.

And someone with higher average earnings would get bigger checks but their benefits would replace a smaller percentage of their pre-retirement income. Say your average earnings were $127,061 (the maximum). You'd get $33,134 per year ($2,761 per month), replacing just 26% of your pre-retirement income.

That means there could be a gap between what Social Security provides compared to your retirement income needs. You can check your estimated benefits based on your actual earnings record by opening an online account at www.ssa.gov/myaccount/ Fortunately, there are ways to maximize your Social Security benefit. A financial professional can help you take full advantage of this reliable income source and identify ways to fill in the gap.

THE WORK LONGER STRATEGY

You can boost your Social Security benefit by working longer and earning more. The Social Security Administration takes each year's earnings that have been reported by your employer (plus any net Schedule C self-employment income you report) and uses that information to calculate your benefit. Your monthly benefit is based on your average earnings in your 35 highest-earning years. If you're out of work for any year, that year counts as a zero, bringing down your average earnings and your monthly benefit. So, consider working longer and retiring later, especially if you're short of that magic 35 years.

The more you earn also plays into the benefit formula, boosting your average wages and your monthly Social Security check. That's a reason to ask for a raise, switch jobs, or start a side gig. You can use these strategies—working longer and earning more—even if you're already receiving benefits. As long as you're working and paying into Social Security, your earnings record will be updated.

DELAY CLAIMING

You can start collecting Social Security benefits at age 62, but that doesn't mean you should. When you check your online Social Security earnings record, you'll see estimates for the monthly benefits you'll receive if you claim benefits at age 62, at full retirement age (age 66

EDUCATIONAL COMMENTARY

For consumers

to 67, depending on the year you were born), or at the maximum deferral age of 70. For most retirees, depending on their personal situation, it makes sense to wait until at least full retirement age to start collecting. If you start benefits before full retirement age, your monthly checks will be lower. Many retirees may want to consider delaying benefits beyond full retirement age. By delaying, your monthly benefit will continue to increase until you reach age 70 at the rate of 8% a year. Also, note that if you're married, and delay your benefit, you're also potentially helping your spouse if he or she outlives you and collects a survivor benefit.

SPOUSAL BENEFITS

It's hard enough to calculate the best Social Security claiming strategy if you're single. It's even trickier if you're eligible for spousal benefits too. You need to be married—or have been married—to someone who qualifies for Social Security to get spousal benefits. You either claim on your own earnings record or you take a spousal benefit based on your spouse's earnings record. The spousal benefit is up to 50 percent of the earner's benefit. If there's a big income difference or a big age difference between spouses, it likely will pay for one spouse to claim early and the other spouse to delay claiming until full retirement age or later.

DIVORCE

This comes as a surprise to many: If you're divorced, you may be able to collect benefits based on your ex-spouse's earnings record. Like spousal benefits, you'd get up to 50% of the earner's benefit. You have to have been married for at least 10 years, be unmarried and at least 62 years old.

SURVIVOR BENEFITS

Survivor benefits are available to widows and widowers. Often both spouses will have started receiving benefits when one passes away, and that spouse's monthly benefit will stop. The surviving spouse can step into the deceased spouse's benefit as the survivor benefit—or continue with his or her own monthly benefit, whichever is higher. If your spouse passes away before you've started collecting benefits, you can take the survivor benefit, let your benefit grow, then switch to collect your benefit later. There are survivor benefits for ex-spouses too. If your ex-spouse dies, you're 60 or older, and you were married for at least 10 years, you can collect the same benefit as a widow or widower.

EDUCATIONAL COMMENTARY

For consumers

NEXT STEPS: CREATING A RETIREMENT INCOME PLAN

Delaying your benefits might not be best for everyone. But understanding Social Security's role in income planning is key to a solid retirement income plan and a secure retirement. A misstep can cost you or your heirs tens of thousands of dollars in benefits. A financial professional can help you maximize your Social Security benefit, calculate how far it will take you towards your retirement income goal, and suggest ways to fill in the gap with protected income. Your plan might include annuities, which also offer protected lifetime income. By boosting the amount of retirement income supplied by Social Security, and making protected income part of your retirement plan, you can ease the pressure to draw down your other assets.

Annuities are long-term investments designed for retirement purposes. The value of variable annuities is subject to market risk and will fluctuate. Product guarantees are subject to the claims-paying ability of the issuing insurance company. Earnings, when withdrawn, are subject to federal and/or state income tax, including a 10% tax penalty for withdrawals before age 59½. Some income guarantees offered with annuities take the form of optional riders and carry charges in addition to the fees and charges associated with annuity products.

There is no guarantee that any investment will achieve its objectives, generate positive returns, or avoid losses. Investments in annuity contracts may not be suitable for all investors.

Northern Lights Distributors, LLC, a FINRA/SIPC member, has been retained to facilitate FINRA review of the material in order to meet certain requirements of its business partners. Northern lights Distributors, LLC is not affiliated with The Alliance for Lifetime Income.