



CAMBRIA
WEALTH MANAGEMENT

Financial Planning and Investments

4 CRITICAL SOCIAL SECURITY

FACTS RETIREES MUST KNOW

More than 70 million Americans (21 percent of the U.S. population) receive some form of Social Security. This public insurance has helped lay the economic foundation for Americans for more than 80 years, providing support to retirees and others.^{1,2,3}

Since the nation's founding, its leaders have struggled with finding humane and sound economic approaches to helping the elderly, widows, orphans, and the less fortunate. It wasn't until President Roosevelt signed the Social Security Act into law on August 14, 1935, that Americans witnessed a turning point in the government's role in providing support for its aging population.⁴

Developed on the cusp of the Great Depression (1929–1935), the Social Security Act promised relief to millions of elderly and retired Americans. Social Security provides benefits for retirement, aid for dependent children, and insurance for the disabled and the unemployed.⁴

Today, Social Security benefits represent, on average, almost a third of retirees' income. Nearly 90 percent of Americans aged 65 or older receive some type of Social Security benefits.⁵

HERE ARE THREE IMPORTANT CHANGES TO SOCIAL SECURITY IMPLEMENTED IN 2024:⁶

1. Social Security recipients received a 3.2 percent increase in payments for 2024. The Social Security Administration (SSA) attempts to match benefits to inflation.
2. The maximum taxable earnings limit rose to \$168,600 (from \$160,200 in 2023). Earnings above this limit are not taxed. Workers' Social Security tax remains at 6.2 percent.
3. Earning limits increased. Social Security recipients who work will find their benefits temporarily reduced.

As the SSA makes annual changes to the program, it's important to stay updated on these changes. We'll discuss many of these items in greater detail later in this report.

Here are four important facts you should know about your Social Security benefits:

FACT #1: YOUR BENEFIT AMOUNT DEPENDS ON YOUR RETIREMENT AGE.

Your benefit amount varies depending on when you apply for benefits. You may file to claim benefits before your full retirement age. The earliest you can claim is at 62, and you will not receive any additional benefits for delaying past the age of 70. If you claim prior to reaching your full retirement age, the SSA will reduce your benefit amount by a certain percentage for each month prior to your full retirement age. For example, if you were born in 1960 and retire at 62, you'll get 70 percent of your monthly benefits. If you retire at 65, you'll get 86.7 percent.⁷

Full retirement age varies. For those born in 1955, the full retirement age is 66 years and 2 months. The full retirement age gradually increases to 67 for people born in 1960 or later. If a retiree claims benefits prior to their full retirement age, their benefits will be permanently reduced. The full retirement age is the age at which recipients can receive their full benefits (or 100 percent of their calculated benefits).⁸

Following legislative changes in 1983, the full retirement age (which was 65) began to increase by two months, starting with people born in 1938. However, benefits will increase by 8 percent per year for those who decide to delay collecting Social Security beyond their full retirement age. Recipients who wait until they're 70 to collect benefits will receive 24 percent higher payments.^{9,10}

Both choices (retiring early at 62 or delaying until the age of 70) have advantages and disadvantages.¹¹

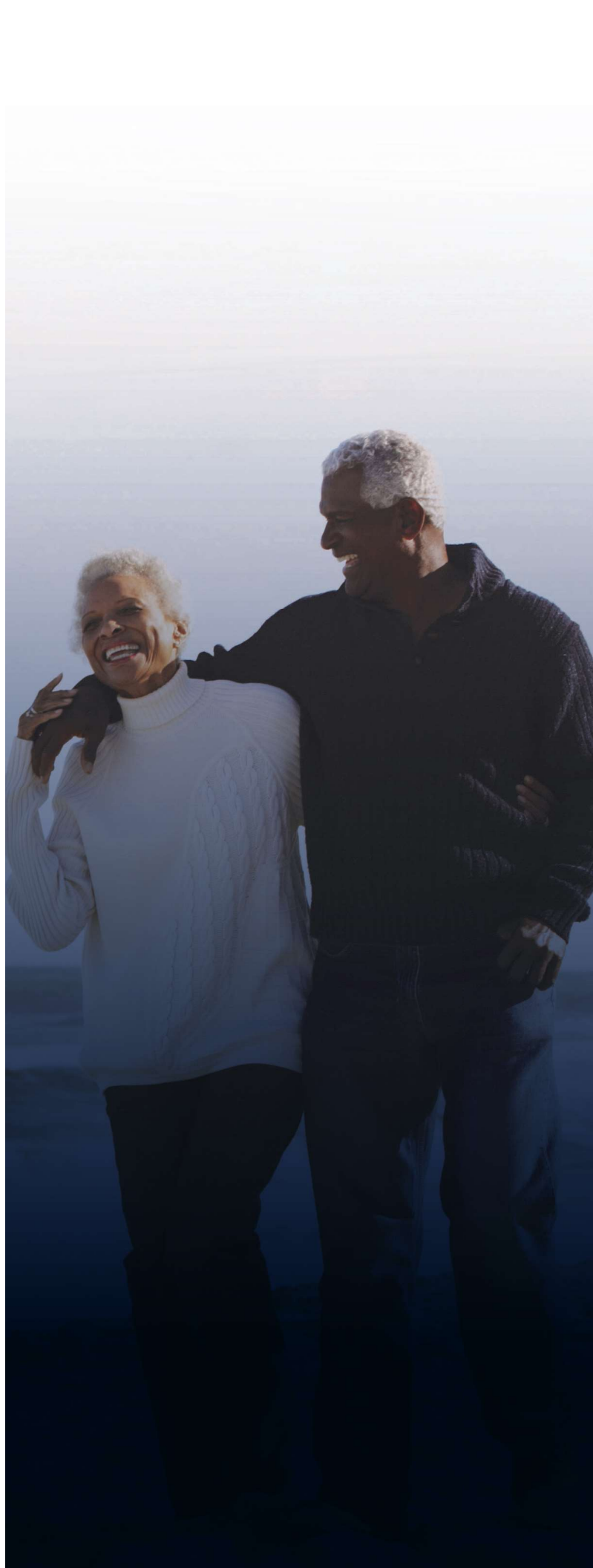
FACT #2: YOU MAY WORK AND COLLECT SOCIAL SECURITY BENEFITS.

The SSA acquires information from you, such as bank account and routing numbers, during the initial application process. You're required to provide the SSA with outside earnings estimates for the upcoming year.

The SSA obtains your outside earnings from the W-2 forms your employer files or your self-employment income on tax returns to verify your income and gauge your benefit amounts. Social Security benefits are based on the projected income levels you report at the beginning of the year. The SSA will inform you if your benefits must be adjusted based on outside earnings. The SSA sets outside earning limits for recipients who receive benefits. If you exceed these limits, the SSA will reduce your Social Security benefits. The limit on outside earnings for 2024 is \$22,320.⁶

The SSA will deduct \$1 in benefits for every \$2 you earn above the outside income limit if you're working and collecting Social Security prior to your full retirement age. In the year you reach full retirement age, the SSA will subtract \$1 in benefits for every \$3 you earn above \$59,520. However, this deduction will apply only in the months of the year prior to the month you reach full retirement age.⁶

Beginning in the month you reach full retirement age, the SSA will no longer restrict your outside earnings. This year's outside income limit of \$59,520 represents an increase from 2023's limit of \$56,520.⁶



HERE ARE SOME EXAMPLES:

Mr. Jones will turn 67 (his full retirement age) in July 2024. Mr. Jones has been making \$50,000 a year from his job. He reported his estimated earnings for 2024 at the beginning of 2024. The SSA will verify his earnings estimates with his W-2 forms at the end of the year.

Mr. Jones has been collecting Social Security benefits since he turned 62. Under the current income limits, the SSA would make deductions from his benefits on \$27,680, the difference between \$50,000 and \$22,320. Since the SSA deducts only \$1 for every \$2 above the outside income limit, the deductions to his Social Security benefits would be half of that amount: \$13,840 a year or \$1,153 a month. If the SSA determined that Mr. Jones would receive \$1,657 per month from Social Security (the national average) his adjusted check would be \$504, the difference between \$1,657 and \$1,153.⁶

Once Mr. Jones reaches the year of his full retirement age (2024), the SSA will no longer make deductions to his benefits in that year (prior to his birthday) because his income will be below the higher outside earnings limit of \$59,520. This upper limit applies to recipients who earn outside income and have reached the year of their full retirement.

Mrs. Smith is another story. Her projected annual income for 2024 was \$65,000 within the year she turned 67 (her full retirement year) and before her August birthday. As her income is above the higher limit of \$59,520 by \$5,480, her Social Security benefits are reduced at the 3-1 rate: a \$1 deduction for every \$3 over the limit. That's a benefit reduction of \$1,827 a year or \$152 a month. If the SSA determined that Mrs. Smith would receive \$1,657 per month from Social Security, her adjusted check would be \$1,505, the difference between \$1,657 and \$152.⁶

In August (the month she turns 67) and onward, the SSA will no longer reduce her benefits. She will no longer have an income limit.

If Mrs. Smith claimed Social Security benefits at 62 and was making \$65,000 a year in outside income, her benefit amount would be reduced under the lower limit of \$22,320. The difference would be \$42,680. The SSA would deduct half of this difference (\$21,340 a year or \$1,778 a month) from her checks. If her Social Security payments were calculated at \$1,657 a month, for example, she would receive \$121 a month in benefits prior to reaching the year of her full retirement age.

Both Mr. Smith and Mrs. Jones are hypothetical examples used for illustrative purposes only. They do not show or represent any specific Social Security strategies or any specific Social Security payments.

HERE'S WHY YOU SHOULD WAIT:¹¹

- You expect to continue working, and you expect to earn more than Social Security's \$22,320 income limit.
- You have little savings, and you're single and healthy. Waiting to collect benefits will increase your payments.
- Your spouse is working. A higher combined income means that a larger portion of your Social Security benefits may be taxed. By waiting to collect Social Security, you'll be able to keep more of your benefits.
- You expect to have a long life. The average life expectancy of an American reaching 65 today is about 87 for women and 84 for men.¹²
- Your spouse's benefit is smaller, or your spouse is considerably younger. Your combined life expectancy is longer.

THE EARLIEST YOU CAN CLAIM IS AT 62, AND YOU WILL NOT RECEIVE ANY ADDITIONAL BENEFITS BY DELAYING PAST THE AGE OF 70.⁷

HERE'S WHY YOU SHOULD NOT WAIT:¹¹

- You don't expect to earn income above the annual limit of \$22,320 for 2024.
- You have health problems or a below-average life expectancy.
- Your spouse's benefit is greater than yours.
- You lack other income sources and have no opportunities to earn money.
- Although your Social Security checks will be smaller, you'll have collected eight more years (96 months) of checks than if you had waited until you reached 70.
- 31 percent of recipients start collecting benefits at the age of 62.⁶



SOCIAL SECURITY BENEFITS REPRESENT, ON AVERAGE, ALMOST A THIRD OF RETIREES' INCOME.⁵

FACT #3: YOUR SOCIAL SECURITY BENEFITS ARE SUBJECT TO INCOME TAXES.

You may still have to pay taxes on your Social Security benefits. However, taxes are capped at 85 percent of benefits.¹³

The SSA requires a recipient to pay taxes if they file returns as an individual and their combined income is more than \$25,000. Joint filers (who are married) are required to pay taxes if their combined income is more than \$32,000. Married Social Security recipients who file separate returns may still have to pay taxes on their benefits.¹³

If you file a return as an individual and your combined income is \$25,000–\$34,000, you may have to pay income tax on up to 50 percent of your Social Security benefits. You can calculate your combined income by adding together your adjusted gross income, your nontaxable interest, and half of your Social Security benefits.¹³

Up to 85 percent of your benefits are taxable if you file as an individual and your combined income exceeds \$34,000.

For joint filers, up to 50 percent of their benefits are taxable if their combined income is \$32,000–\$44,000, or 85 percent of their benefits are taxable if their combined income is more than \$44,000.

FACT #4: MARRIED COUPLES GET SPOUSAL AND SURVIVOR BENEFITS.

Social Security benefits for married couples work differently. Here are five important facts:^{14,15,16}

1. Your current marital status doesn't affect your eligibility for Social Security benefits. If you've worked for at least 10 years and earned at least 40 work credits, you can receive benefits.

2. The SSA doesn't penalize married couples or restrict benefits. Spouses receive benefits based on their own work histories. Social Security benefits represent, on average, almost a third of retirees' income.⁵
3. If you're eligible to receive one of two benefits, you will receive the higher one. Lower-paid spouses are eligible for either benefits based on their own work histories or spousal benefits based on their partners' records. Lower-paid spouses are eligible to receive up to half of the benefits of their partners.
4. Divorced spouses who were married for at least 10 years are eligible for higher benefits based on the records of their partners. Divorce decrees relinquishing rights to partners' benefits are not binding.
5. Widowed Social Security recipients are eligible for widow benefits. Widows may receive between 71.5 and 100 percent of their spouses' benefits, depending on their specific circumstances.

HOW IS YOUR SOCIAL SECURITY CALCULATED?¹⁷

The SSA calculates your benefits based on your lifetime earnings. If you're not retired and haven't set up a Social Security account, you may go to the SSA's website to learn more about your projected benefits or to set up an account.

The SSA calculates your Social Security benefits by indexing your average monthly earnings during the 35 years you earned the most. The administration generates your basic benefit, or "primary insurance amount," which is what you'll receive at your full retirement age. The average monthly benefit is \$1,657.⁶

You may contact the SSA at 800-772-1213. The SSA's TTY number for the deaf or hard of hearing is 800-325-0778. You may speak to a Social Security representative by calling these numbers from 8:00 a.m. to 7:00 p.m., Monday to Friday.

CONCLUSION

We hope that you found this report educational and informative. We also hope that some of the principles and statistics outlined in this report may help you make the most of your Social Security benefits.

Developing a strategy with an understanding of how to optimize your Social Security may put you in a better position when you start to draw your benefits.

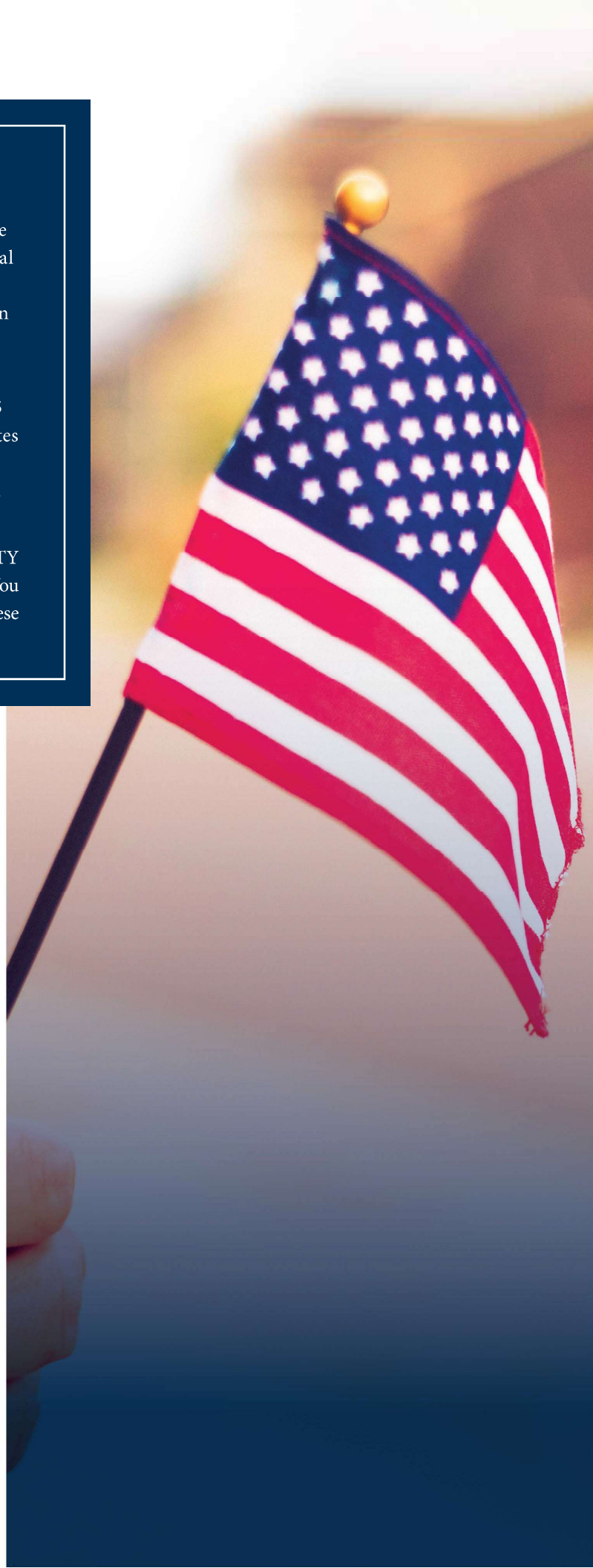
Working with a financial professional may equip you to find solutions designed to fit your retirement lifestyle.

We can help you analyze your financial situation and develop a strategy for pursuing your retirement vision.

If you or anyone close to you would like to discuss how to maximize your Social Security benefits with a professional, please give our office a call to schedule a complimentary consultation at 941-444-1120.

Warm regards,

Justin Rees, CFP[®]
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¹SSA.gov, 2023

²Census.gov, 2023

³SSA.gov, 2023

⁴SSA.gov, 2023

⁵SSA.gov, 2023

⁶SSA.gov, 2023

⁷SSA.gov, 2023

⁸SSA.gov, 2023

⁹Investopedia.com, April 26, 2023

¹⁰SSA.gov, 2023

¹¹SSA.gov, 2023

¹²SSA.gov, 2023

¹³SSA.gov, 2023

¹⁴SSA.gov, 2023

¹⁵SSA.gov, 2023

¹⁶SSA.gov, 2023

¹⁷SSA.gov, 2023

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