CANBY Financial Advisors

Destination: Retirement

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Questions?

Contact

Chris Borden, CRPS®

Financial Advisor

508.598.1082

cborden@canbyfinancial.com

Social Security: What Retirement Savers Need to Know

In the big picture of funding retirement, most Americans (55 percent of adults ages 50 and older, according to the Nationwide Retirement Institute) expect Social Security to be a significant source of their income.

Yet, Social Security will account for about only 36 percent of a retiree's total income during retirement. With that type of gap to fill, relying on Social Security benefits alone is risky. That's why it's critical to save as much for retirement as possible.

Let's look at a few basic considerations retirement savers should be aware of when factoring Social Security into their retirement picture.

Don't think of Social Security as a retirement savings account

Your Social Security benefit will be based on how much money you earned over your working life—not how much you paid into the system. Your contributions actually fund the benefits for current retirees. When you retire, those still working will fund your benefits. So, instead of thinking of Social Security as a retirement savings account, consider it an earned benefit that the government pledges to pay you in retirement.

Who can claim Social Security benefits?

To be eligible to claim Social Security benefits, you must meet three requirements:

- You must have earned 40 retirement credits (in 2021, one credit is earned for every $1,470 in earnings); a maximum of 4 retirement credits can be earned per year.
- You must have paid into Social Security for at least 10 years.
- You must be at least 62 years old.

How are Social Security benefits calculated?

It depends. As mentioned, Social Security benefits are based on your lifetime earnings. Your actual earnings are adjusted, or indexed, to account for changes in average wages since the year the earnings were

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received. Then, the Social Security Administration calculates your average indexed monthly earnings for the 35 years in which you earned the most. A formula is then applied to those earnings to arrive at your basic benefit, called the primary insurance amount (PIA). This is how much you would receive at your full retirement age (FRA). Your FRA is the age you begin receiving 100 percent of your PIA, and it varies depending on the year you were born. For most Americans it's sometime between age 66 and 67. You can use this calculator[1] to estimate your benefits based on personal factors such as earnings and FRA.

It pays to wait

Although you can begin to receive Social Security benefits at age 62 (provided you meet the two other requirements previously described), it pays to wait if you can afford to. Of course, your decision of when to file depends on many personal factors, including necessity, health challenges, and employment changes. That said, here are two compelling reasons to consider delaying Social Security benefits, if you can:

- When you file early (before your FRA), you will receive less than 100 percent of your PIA.
- Every year you delay filing increases your annual benefit. If you wait until age 70, your monthly benefit could be around 77% more than if you filed at age 62.

The following example[2] illustrates the significant benefit of delaying filing. Jodi turns 62 in 2022. Her FRA is 66 years, 10 months, and her monthly benefit starting at FRA would be $1,000. If she starts receiving benefits at age 62, Social Security will reduce her monthly benefit to $708. This decrease is usually permanent. But, if Jodi chooses to delay getting her benefits until age 70, her monthly benefit will be $1,253. That would earn her an additional $545 each month in retirement!

As you can see, the various factors that weigh into your Social Security decisions can be confusing. An important first step is to understand where Social Security fits into your retirement savings picture. If you're uncertain how your different sources of retirement income fit together, considering consulting with a financial advisor or your company's retirement plan advisor.

[1]https://www.ssa.gov/myaccount/retire-calc.html
[2]https://www.ssa.gov/pubs/EN-05-10147.pdf

Five Tips for Managing Credit Card Debt

Credit cards can help you build credit history and, if managed properly, improve your credit score. Here are five score-boosting tips that you can put into action today:

1. **Pay on time.** By paying on time, you not only avoid late fees but may also avoid an automatic increase in interest rates. In addition, paying on time can maintain or improve your credit score, which can qualify you for lower rates.
2. **Keep your balance at no more than 10 percent of your credit limit.** Lower credit utilization can improve your credit score. But keep in mind that even if you pay your full balance monthly, you can still have a high utilization rate. If you're trying to improve your credit score, consider using cash for new purchases to give yourself time to add points to your score.
3. **Be aware of pending changes.** The flyers that come with your monthly bill often give you notice of changes in interest rates. For example, did you know your rate can be increased because of a change in your credit rating? By law, you must be notified, and your credit card company must review your account every six months to determine whether you qualify for a decrease in rates.
4. **Reduce credit card balances as fast as possible.** In many cases, minimum payments barely cover your interest charges, let alone chip away at outstanding balances. But you can take control. Credit card statements now disclose how much you would have to pay each month to retire outstanding debt in three years. Make it your goal to at least meet the three-year payoff estimate.
5. **Pay off outstanding debt over time using automatic payments.** Use the online bill payment feature of your banking account to set up automatic monthly payments to your credit card company from your checking account. That way you'll instill discipline into your debt payoff process and never miss a payment.

CANBY
Financial Advisors

161 Worcester Road, Suite 408
Framingham, MA 01701
508.598.1082
canbyfinancial.com