Episode #239: Why a Social Security Review is so Important

Video Transcription

Hello, and welcome to another edition of "Money Script Monday." My name is Sean Brady, and today's topic is why a Social Security review is so important.

Most individuals who are contributing to Social Security will rely on Social Security as their retirement income foundation. And it's sad because many individuals just don't take the time to really understand Social Security benefits, and they don't take the time to really understand how they can enhance their benefits.

That's why today I'm going to cover three key topics about Social Security benefits. First, we're going to talk about benefit basics, just a high-level overview about Social Security. Second, we're going to talk about how to qualify and how to calculate your benefits. And third, we're going to talk about when you should start your benefits.

So, benefit basics, number one. We know from data from 2021 that roughly 65 million Americans were estimated to be paid over $1 trillion in Social Security benefits. Seventy-six percent of those benefits went to retired workers and their dependents. Fifteen percent of those went to disabled workers and their dependents, and 9% went to survivors of deceased workers.

Now, many people have concerns about Social Security. I know I'm one of them. That's because of the gap between actual benefits and promised payments to Social Security people, that gap continues to grow. The question comes to mind will Social Security benefits be around when I retire?

That is a common question among many individuals. And by 2034, the Social Security Administration has said that the trust fund will be depleted. However, it appears that projected tax revenues show that there will be an adequate amount to pay them out 78% of those promised benefits in the depletion year of 2034.

Now, some changes are going to have to be made. Congress is either going to have to reduce future benefits or increase taxes, or a combination of the two. And that's pretty much Social Security in a nutshell, as it stands right now. So, that's benefit basics, number one.

Number two, how to qualify and how to calculate. First, how to qualify. You have to be fully insured, that's how you qualify. And what that means is you have to have the required amount of Social Security credits to qualify.

If you're an average worker, you need about 40 retirement credits or Social Security credits. And that equates to roughly 10 years of full-time work. So, you can qualify for Social Security by working full time, 10 years. So that's how you qualify. How do you calculate? When you calculate your Social Security benefits, you're going to get your primary insurance amounts.

Now, your primary insurance amount is the monthly benefit that you receive at your full retirement age. You get your full retirement age based on your year of birth, which I'll cover briefly on this chart here next.

They're going to calculate your Social Security benefit on your average indexed monthly earnings. That's how they're going to give you a primary insurance amount. And they do that by calculating your highest 35 years of your earnings history. That's how they're going to calculate their benefit.

Now, the actual benefit that you receive in your primary insurance amounts may be different. And that's because if you start early, you'll see a reduced benefit. If you just start after your full retirement age, you'll see an increase in benefits. So, that's how you qualify and that's how you calculate. Let's move on to the final point here when to start your Social Security.

You could start your Social Security as early as age 62. But just keep in mind, if you do that, then you'll see a reduction, you'll see a reduction between 25% and 30%. And that all depends upon your birth year. And that's your full retirement age is dependent upon your birth year.

So, if you were born from 1943 to 1954, your full retirement age would be age 66. But if you chose not to wait until age 66, and you'd like to just start as early as possible at age 62, you would see a reduction in benefits of 25%. So, using that example, if you were expecting $1,000 a month at age 66 and you chose to start at age 62, you would have received $750 a month instead.

This full retirement age and reduction in benefits has only increased as time has gone on. And we've gotten to the point now where if you were born in 1960 and later, your full retirement age is currently at age 67. And if you chose to start your benefit at age 62 and early as possible, you would receive a reduction of 30% in your benefit amount.

Now, there is benefits to delaying past your full retirement age, and that comes in the form of delayed retirement credits. And it's an 8% increase each year that you delay based on your primary insurance amount, and you can delay up until age 70. Now, choosing when to start your benefits and when to retire it's really difficult, and you have to really look at your health, you have to look at your life expectancy, you also have to look at how much money you have in your retirement accounts.

Now, let's take a look and examine what it would look like if you were to start benefits at various ages and live to various ages. And for this chart, we use an individual that was born in 1960 or later, so their full retirement age would be age 67. And just for simplicity purposes, their primary insurance amount was $2,000 a month, we use no cost-of-living adjustment and no discounting, just for illustration purposes.

If we take a look at the accumulated value under age 70, these are the accumulated benefits at various ages. So, if someone elected to start their benefit at age 62 and live to age 70, they would have collected $134,000 of Social Security benefits.

Conversely, if you chose to delay past your full retirement age, and you started at age 68, and you passed away at age 70, you will have only collected $51,000.

That's a really important reason why you should consider not only your health but also your life expectancy. You know, for this individual at age 62 if they were ill health, it made a lot of sense to start your Social Security at age 62.

These individuals, had they lived to age 70 or 75, would have maximized their Social Security benefits. But if you're someone that is in good health, you may opt to delay your Social Security benefit. And the reason is a significant payoff.

So, if you're that individual who feels you've got a good family history of health, you feel like you're in good health or are in good health, it will make a lot of sense to delay your Social Security benefit. And that example is shown here.

Say you're at age 68 and you live to age 80, 85, or 90, you'll have collected a cumulative amount of $570,000 in Social Security benefits, as opposed to someone that was started at age 62, who would have collected $470,000. Now, that's a difference of $100,000 in cumulative benefits by just delaying a couple of years.

Now, it's really important to note that Social Security alone will likely be an insufficient amount of money for you to retire comfortably on. And that's why it's really important for you to speak with a financial professional. I urge you to talk to someone because they're the ones who are going to be able to select an appropriate strategy for you.

Selecting things like an annuity can really help your overall retirement strategy in your overall retirement portfolio because you don't want to rely solely and exclusively on Social Security for your retirement income foundation. Things like annuities can offer another layer of protection, another layer of guaranteed income.

Now, that concludes today's presentation. I hope you found it of value.

Thank you, and we'll see you again next time on "Money Script Monday."