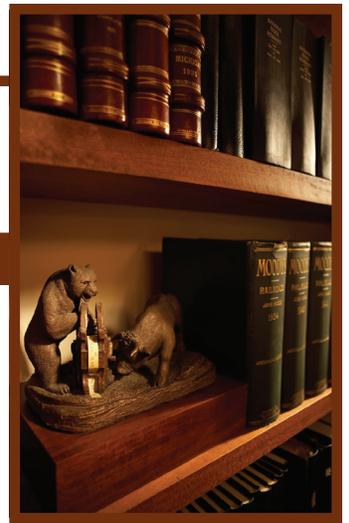


The INVESTMENT LETTER

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Social Security 101: Four Key Facts

If you were to visit five random Americans in a room on any given summer afternoon, one would likely be receiving Social Security benefits in some form. The other four would probably have questions about how Social Security works, how much they might receive someday, or when to start their benefits.

Since 1935, Social Security has been a type of public insurance, providing a financial safety net to retirees and others. Today's retirees count on Social Security benefits for

approximately one-third of their income and nearly 90% of Americans over 65 receive Social Security benefits.

So, when it comes to Social Security, what do you need to know?

1. As you grow older, your benefit amount increases.

Know your retirement age. Until 1983, the retirement age for everyone was 65. Now, your retirement age depends upon when you were born.

What is your full retirement age?

YEAR BORN	FULL RETIREMENT AGE
1943-1954	66
1955	66 + 2 months
1956	66 + 4 months
1957	66 + 6 months
1958	66 + 8 months
1959	66 + 10 months
1960 or later	67

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If, during your career, you worked at least 40 calendar quarters where your earnings were subject to Social Security tax, you will be eligible to receive benefits. You may file for benefits prior to reaching your retirement age, but your benefits will be reduced proportionally for each month remaining until your full retirement age. The earliest you can claim benefits is on your 62nd birthday. And you must file for benefits before you turn 70.

2. You can work *and* receive Social Security benefits.

Each year, you are required to provide the SSA with an estimate for what you expect to earn in the next 12 months. During the year, the SSA learns what you make in outside income via your tax filings. If you exceed your outside income limit, the SSA reduces your benefits proportionally.

3. The benefits you receive from the SSA are subject to income taxes.

Even though you may still have to pay taxes on your Social Security benefits, no one pays taxes on more than 85% of their benefits. Investment Counsel recommends that you obtain the advice of a qualified tax professional to develop a clear understanding of your tax responsibilities and strategies.

4. Married couples get spousal and survival benefits.

Whether you are married, divorced, or single does not matter to the SSA. There is no marriage penalty for those who receive Social Security benefits. As a married person, you receive benefits that reflect your work history. However, if you have the right to more than one benefit, you can receive the higher one. Spouses who have earned less than their partners can receive benefits calculated on their own work history, or on that of their spouses. In these cases, a lower-

paid spouse may receive anywhere between one-third and one-half of a partner's benefit. In addition, widows and widowers can receive survival benefits.

How is your Social Security benefit calculated?

Although seemingly counter intuitive, the SSA calculates your total benefit the same regardless of when you begin collecting. It is the benefit amount that you receive monthly that directly reflects your decision regarding when to start collecting. You can learn more about your projected benefits by visiting www.socialsecurity.gov/estimator.

Should I take benefits early or defer?

There's no one right answer for everyone. Some recent headlines have created panicked uncertainty by predicting that Social Security will drift toward insolvency, running out of money by the 2030s. This has driven speculation that existing benefit checks will be reduced, cost-of-living adjustments will be delayed, or that the retirement age may be increased again. However, as with any financial decision, deciding when to take your benefits should be driven by fact and not fear.

The fact is your monthly benefit certainly increases with time, until you reach the age of 70. So, the question really becomes – is it better to receive a smaller benefit amount earlier over more time or a larger one later over less time? By deferring, you are assuming that you will live long enough to collect the value of those payments you would have received in your 60s. If you are aware of health factors that may reduce your life expectancy, it may make sense to claim your benefit earlier.

If you are a married woman, statistics suggest that you will live longer than your husband, and may be able to assume his higher benefit someday, regardless of whether your own benefit

was reduced by claiming it before you reached full retirement age. Of course, this assumes that his benefit is the higher of the two.

Another case in which it may make sense to claim early is when those headlines cost you your sleep and well-being. In these situations, the higher benefit amount you collect later may not be worth the anxiety and sleepless nights you suffer while waiting for your monthly benefit to increase.

Will my Required Minimum Distribution (RMD) from an IRA impact SS income?

The simple, but not so direct response, is: 'it might.' Income you receive through an IRA can result in higher taxes on Social Security benefits. In calculating your tax bill, the IRS compares the sum of your taxable income and half of your Social Security benefits against pre-set limits. When that number exceeds the limit – and your RMD counts toward this amount – part of your Social Security benefits will be taxed.

However, while your RMD may result in higher taxes, those funds do not result in the direct forfeiture of your Social Security benefits. While earnings that exceed certain limits result

in a proportional loss in your benefit, IRA distributions are not counted toward those limits.

Conclusion

We hope that you have found this newsletter both helpful and informative. You can reach the Social Security Administration on weekdays between 7am and 7pm by calling 800-772-1213, or 800-325-0778 for the hearing impaired.

While we aim to answer all of your investment-related questions, we are not experts in the Social Security Program and encourage you to seek out and consider the information you receive from the Social Security Administration as we work together to help you build, check in on, or refine your retirement strategy and optimize the benefits you will receive from the SSA. We want to work with you to find solutions that best fit the lifestyle you hope to attain in retirement. Let us help you evaluate your financial situation and develop your retirement strategy.

The time you take today may help you reach your retirement goals, and help you rest easier right now. ■

INVESTMENT COUNSEL NEWS

Inside/Outside the Office

Last month Chris' daughter, Jessica celebrated her marriage to Scott.

The Daddy/Daughter dance went off without a breakdown by Dad!

