

## Social Security: understand your break-even point

### Reggie and Sasha Williams

#### Age 60

*Married couple concerned about when to claim Social Security benefits. Reggie thinks that taking benefits at 62 and continuing to work will meet their needs better than waiting to claim at age 70. Even though the benefit amount will be higher at 70, Reggie's calculation indicates he'll need ten years to break even.*

## Case Study

"I paid my fair share into Social Security and I want to get all I can back out of it. Why wait when I've already waited long enough?"

Reggie and Sasha were high school sweethearts who married in their third year of college. While there were some lean years, they pulled together and built a successful life together.

Sasha was a volunteer coordinator at the local food bank for many years and worked occasional odd jobs to add to the family's income. Reggie worked in logistics for a large trucking company for 12 years before striking out to build his own independent freight management business.

Through it all, they raised two daughters, who with their spouses made Reggie and Sasha proud grandparents of three boys and a girl. Now they're getting serious about retirement and their Social Security benefits.

Reggie is considering taking benefits as soon as possible, at 62. He believes this will keep him from giving up anything between 62 and 70 – especially if he were to pass away. His plan includes continuing to work until 70 and saving his Social Security payments to offset the increase in benefits he would receive if he waited.

Realizing that the equation is complex, Reggie and Sasha decide to visit Veleta Lucas, their financial professional.

Social Security

**IQ**



# A Social Security strategy

A simplistic breakeven analysis may not consider issues such as the earnings test or taxation. To more fairly determine a strategy that works for each of them, several factors need to be considered.

## The earnings test

Veleta explains how the Social Security earnings test impacts Reggie's plan to claim early while continuing to work. Claiming Social Security before full retirement age (FRA) permanently reduces the benefit amount. For those who continue to work, the benefit may be further reduced based on earnings. This reduction is temporary. Upon reaching FRA, the benefit amount will be recalculated, providing credit for amounts withheld due to earnings.

If Reggie claims Social Security before his FRA, his benefits will be reduced by \$1 for every \$2 earned over an annual threshold (\$18,960 for 2021 and adjusted each year). In the year that Reggie reaches FRA, benefits are reduced by \$1 for every \$3 over a higher annual limit, but only until the month before his birthday. There is no reduction after FRA, and he'll receive credit for amounts previously withheld.

## Taxation

Veleta also explains that, depending on annual income, a portion of benefits may be subject to federal income tax (and sometimes state tax as well). Working makes it more likely that Reggie will fall into this category.

As they talk more about the possibility of claiming early and saving payments, Veleta explains how much those savings would need to grow to offset

the higher payment received by waiting. For someone with an FRA of 66, current formulas provide a minimum of 76 percent more income at 70 than what they would have received at 62. Offsetting that 76 percent increase would require saving 100 percent of benefits (pre-tax and without the earnings test) and earning a return on those savings of nearly 30 percent between age 62 and 70.

## Spousal benefits

Veleta also explains the importance of considering how Reggie's claiming decision could impact Sasha. If Sasha would be the one claiming a survivor benefit, the higher benefit Reggie would receive by waiting would help her get the highest possible benefit. While Sasha worked for 12 years as a principal and superintendent, she did not contribute to Social Security during her 25 years in the classroom. Her overall earnings history will reflect this.

### THE MORAL OF THE STORY

**Determining a break-even point for Social Security consists of several complicated factors, including the earnings test, taxation and how a spouse may be affected. As one of the more important financial decisions a retiree makes, working through different scenarios with a financial professional or Social Security expert can help ensure a decision reflects what may be best for that situation.**

This material is provided by Athene Annuity and Life Company (61689) headquartered in West Des Moines, Iowa, which issues annuities in 49 states (excluding NY) and in D.C., and Athene Annuity & Life Assurance Company of New York (68039) headquartered in Pearl River, New York, which issues annuities in New York.

This material contains educational information regarding the availability and details surrounding the Social Security program and is not intended to promote any product or service offered by Athene. The information represents a general understanding of the Social Security Program and should not be considered personalized advice regarding Social Security, tax, or legal advice. Details of the Social Security Program are subject to change. A tax or legal advisor should be consulted prior to making any decision. Visit [www.ssa.gov](http://www.ssa.gov) for additional details.

Not affiliated with or endorsed by the Social Security Administration or any governmental agency.

Not for use in ID or OR.  
23022

(08/10/21)