

Understanding Social Security

A Key Step in Retirement-Income Planning Benefits



Get Ready for Retirement

One of the most important steps you can take in planning for retirement is to understand your Social Security benefits. For the majority of people in the United States, Social Security remains a major source of retirement income. In fact, according to the Social Security Administration, Social Security is the major source of income for most of the elderly. As of December 31, 2022, nine out of 10 people age 65 and older receive benefits. Of those recipients, 37% of men and 42% of women receive 50% or more of their income from Social Security.

Source: Fact Sheet. Social Security Basic Facts. SSA.gov., accessed February 10, 2023.

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What Are Social Security Benefits?

Initially, Social Security benefits were designed to pay a single lump-sum payment. Then, in 1940, monthly payments were implemented. Ever since, Social Security benefits have been evolving.

In 2023, an average of almost 67 million Americans will receive a Social Security benefit, totaling over one trillion dollars—and not just retirement benefits.¹ In its current form, Social Security is a collection of programs that includes:

- Retirement benefits
- Disability benefits
- Survivors benefits
- A lump-sum death benefit

The first monthly check was issued to Ida Mae Fuller in 1940 for \$22.54. Over the course of two years, she had contributed only \$24.75 to the program.³

Average Monthly Benefit

The average monthly Social Security benefit received today depends on who's receiving it.

2023 Estimated Average Monthly Benefit ²	
All retired workers	\$1,827
Aged couple, both receiving Social Security benefits	\$2,972
Widowed mother and two children	\$3,520
Aged widow(er) alone	\$1,704
Disabled worker, spouse, and one or more children	\$2,616
All disabled workers	\$1,483



¹"Social Security Program Fact Sheet: Social Security Basic Facts." SSA.gov, accessed June 14, 2023.

²"Social Security Program Fact Sheet: 2023 Social Security Changes." *Social Security National Press Office*. SSA.gov, accessed June 14, 2023.

³SSA Historian's Office. "Research Note #3: Details of Ida Mae Fuller's Payroll Tax Contributions." *Agency History*. SSA.gov, July 1996. Accessed June 14, 2023.

Benefits

Worker Eligibility

Social Security retirement benefits are available to workers who have earned 40 credits during the course of their careers. A worker may earn only four credits each year and must meet minimum earning requirements.

For example, in 2022, a worker must earn \$1,640 in order to earn one Social Security credit. Earnings of \$6,560 (4 x \$1,640) would make the worker eligible for the maximum four credits. This means that most workers become eligible after 10 years of employment.

Survivor Eligibility

The number of credits you need in order for your survivors to qualify for benefits depends on your age when you die. The younger you are, the fewer credits you need—but no one needs more than 40 credits.

Eligible survivors include:

- Your widow/widower.
- Your children.
- Your parents.

However, the survivors must meet certain age and/or financial requirements. For specifics, see Publication 05-10084, “Survivors Benefits”, at [ssa.gov](https://www.ssa.gov).

Collecting Benefits as a Spouse

Beginning at age 62, a worker’s spouse may collect benefits based on the worker’s earnings record if the worker has filed for benefits. A spouse who has not worked or who has a low earnings record can be entitled to as much as one-half of the worker’s full benefit.

Disabled Worker Eligibility

Workers qualify for Social Security disability coverage if they cannot do their normal work (the type of work they did before becoming disabled) and cannot adjust to other work because of their medical condition(s). The disability also must or be expected to last for at least one year. A disability expected to result in death would also qualify.¹ Workers also must meet different earnings tests in order to qualify for Social Security disability benefits:

• Recent Work Test

This test determines how much recent work you need based on the age when disability began.

For example: On or before the calendar quarter you turn age 24, you must have worked 1.5 years during the three-year period ending the quarter you became disabled.

• Duration of Work Test

This test determines the number of years you have worked in order to receive benefits, and it will differ by the attained age.

For example: Before age 28, you must have accumulated 1.5 years of work.

¹“Disability Benefits.” Social Security Disability Benefits SSA Publication No. 05-10029. Social Security Administration, August 2022.

Receiving Benefits While Working

You can receive Social Security benefits while you work. However, if you are younger than your full retirement age (FRA) as defined by Social Security (see the chart below), your monthly benefits may be temporarily reduced. Once you reach your FRA, your benefits will be increased to make up for what was lost.

When You Can Start Receiving Benefits

Workers can begin receiving benefits at age 62. However, your monthly benefit payments will be greater if you wait until your FRA—and greater still if you delay beginning to take benefits until after your FRA (up to age 70). Your FRA depends on the year in which you were born, as shown in the following chart.

How Benefits Are Calculated

Social Security retirement benefits are calculated based on the amount of money that you earn over your lifetime. Specifically, Social Security adjusts your income to account for changes in average wages over the years you worked. Then, your average indexed monthly earnings are used to determine your primary insurance amount.

Your Full Retirement Age ¹	
Year of Birth ²	FRA
1943–1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 or later	67



Primary insurance amount (PIA) is the amount you receive each month if you start benefits at your full retirement age (FRA).

¹“Normal Retirement Age.” *Office of the Chief Actuary*. Social Security Administration, accessed February 10, 2023.

²If born on January 1 of any year, refer to the previous year.

The Advantages of Delaying Benefits¹

While you can start your Social Security retirement benefits as early as age 62, deferring can result in higher monthly payments. Your choices are:

Begin at age 62: Monthly payment = 70–75% of your PIA.

Begin at FRA: Monthly payment = 100% of your PIA.

Begin after FRA: After your FRA, there is an 8% credit each year you defer starting to take benefits, up until age 70. At age 70, monthly payment equals = up to 132% of your PIA.

Let's look at an example of how this could affect a couple's retirement income, assuming:

- FRA for both spouses = age 66.
- Husband's benefit at FRA = \$2,000/month.
- Wife's benefit at FRA = \$1,000/month.

We'll also consider an important retirement-planning fact: When a spouse dies, the surviving spouse inherits the larger of the two retirement benefits.

FRA = full retirement age

PIA = primary insurance amount

While delaying can increase your benefit, it's not for everyone. Your current need for income, family situation, and health should all be considered before making a decision to delay. Talk with your financial professional for guidance on this important issue.

Age	Action Taken	Benefit (per month)	
		Wife	Husband
62	Claim at age 62	\$750	\$1,500
66	Wait until FRA	\$1,000	\$2,000
70	Capture delayed retirement credit	\$1,320 or \$2,640 if husband dies and he delayed benefits until age 70	\$2,640

Total difference in combined benefits by delaying until age 70 instead of starting at age 62:

\$1,710/month or \$20,520/year.

¹"Early or Late Retirement." *Office of the Chief Actuary*. Social Security Administration, accessed February 10, 2023.

Ensuring Your Income Will Last

There are only three sources of retirement income that are designed to last your entire life:

- Social Security retirement benefits
- Defined-benefit pension plans
- Annuities

Whether or not you decide to delay taking Social Security benefits, you'll want to ensure you have enough income throughout your retirement years to cover essential expenses. Social Security benefits alone may not be enough—and few workers today have defined-benefit pension plans that guarantee lifetime income.

Another source of lifetime income you may want to consider is annuities, which can be purchased to supplement Social Security benefits. Depending on the type of annuity, these financial products can provide you with:

- **A lifetime payout option**
Providing guaranteed income you cannot outlive.
- **Protection from market volatility**
Supplying steady annuity income payments, which remain steady and unaffected by changes in the financial markets.
- **Tax advantages**
Including tax-deferred compounding of any earnings inside your annuity and, if purchased with after-tax dollars, a portion of your income will be nontaxable.
- **A guaranteed death benefit**
Ensuring your beneficiaries receive at least the amount you originally invested, minus an adjustment for any withdrawals.

All guarantees are subject to the claims-paying ability and financial strength of the issuing insurance company.

Applying for Social Security Benefits

Deciding when to start your Social Security benefits—and calculating whether you have enough lifetime income for your needs—are important steps in planning for a secure retirement. Talk with your financial professional about your personal situation and retirement goals. Then, when you're ready to apply for Social Security benefits, you can either:

- Visit www.ssa.gov.
- Call the Social Security Administration at (800) 772-1213.

To collect your benefit, apply three months before you wish to receive your first payment. For more information, take advantage of our retirement-planning resources at PacificLife.com.

Helpful Resources

External Third-Party Resources

- Social Security Administration (SSA)
(800) 772-1213
 - Social Security Website: ssa.gov
 - Online Benefits Application: ssa.gov/applyonline/
 - Find a Local Office: SocialSecurity.gov/locator
- AARP Website: aarp.org

Pacific Life Resources

Utilize the calculators below to help you plan for your Social Security needs by visiting PacificLife.com.

- Social Security Retirement Income Estimator
- Federal Income Tax Estimator
- How Much of My Social Security Benefit May Be Taxed?
- How Does Inflation Impact My Retirement Income Needs?

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- We have achieved ongoing recognition¹ for high-quality service standards.
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speak with your financial professional or visit our website.

PacificLife.com.

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Annuities are long-term investments/contracts designed for retirement.

Under current law, a nonqualified annuity that is owned by an individual is generally entitled to tax deferral. IRAs and qualified plans—such as 401(k)s and 403(b)s—are already tax-deferred. Therefore, a deferred annuity should be used only to fund an IRA or qualified plan to benefit from the annuity's features other than tax deferral. These include lifetime income, death benefit options, and the ability to transfer among investment options without sales or withdrawal charges.

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