

# Understanding SOCIAL SECURITY



The First Step in  
Retirement Income Planning



**PACIFIC LIFE**

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**No bank guarantee • Not a deposit • May lose value**

**Not FDIC/NCUA insured**

**Not insured by any federal government agency**

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# 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, for approximately 61% of Americans, Social Security provided at least half of their total income during their retirement years in 2014.<sup>1</sup>



<sup>1</sup>“Facts & Figures.” Fast Facts & Figures About Social Security, 2016 SSA Publication No. 13-11785. August 2016.

# WHAT IS SOCIAL SECURITY?

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

In 2016, nearly 61 million Americans received \$918 billion in annual Social Security benefits—and not just retirement benefits.<sup>1</sup> In its current form, Social Security is a collection of programs that include:

- 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.

<sup>1</sup>“Social Security Basic Facts.” Press Office. Social Security Administration, October 2016.

# AVERAGE MONTHLY BENEFIT

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

## 2017 Estimated Average Monthly Benefit<sup>1</sup>

All retired workers	\$1,360
Aged couple, both receiving Social Security	\$2,260
Widowed mother and two children	\$2,695
Aged widow(er) alone	\$1,300
Disabled worker, spouse, and one or more children	\$1,996
All disabled workers	\$1,171



<sup>1</sup>Estimated amounts include cost-of-living adjustments (COLAs).  
“2017 Social Security Changes.” Fact Sheet. Social Security Administration, October 2016.

# BENEFITS

## Worker Eligibility

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

For example, in 2017, a worker must have earned \$1,300 in order to earn one Social Security credit. Earnings of \$5,200 (4 x \$1,300) 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 [www.ssa.gov](http://www.ssa.gov).

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## 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<sup>1</sup> 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 must last or be expected to last for at least one year. A disability expected to result in death would also qualify. Workers must also 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.

<sup>1</sup>"Disability Benefits." Social Security Disability Benefits SSA Publication No. 05-10029. Disability Benefits. Social Security Administration, May 2015.

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## 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 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.

### Your Full Retirement Age<sup>1</sup>

Year of Birth <sup>2</sup>	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

<sup>1</sup>“Normal Retirement Age.” *Office of the Chief Actuary*. Social Security Administration, October 2016.

<sup>2</sup>If born on January 1 of any year, refer to the previous year.



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## How Benefits Are Calculated

Social Security retirement benefits are calculated based on the amount of money what 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.

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



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## The Advantages of Delaying Benefits<sup>1</sup>

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

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

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

**Begin after FRA:** After your FRA, there is an 8% credit each year you defer starting, up until age 70. At age 70, monthly checks = 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

<sup>1</sup>"Early or Late Retirement." Office of the Chief Actuary. Social Security Administration, October 2016.

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 advisor 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.

# ENSURING YOUR INCOME WILL LAST

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

- Social Security
- 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.

# APPLYING FOR SOCIAL SECURITY

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 advisor 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](http://www.ssa.gov).
- Call the Social Security Administration at (800) 772-1213.

To collect your full benefit, make sure you apply three months before you wish to receive your first payment. For more information, take advantage of our retirement planning resources at [www.PacificLife.com](http://www.PacificLife.com).

## Helpful Resources

### External Third-Party Resources

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

### Pacific Life Resources

Utilize the calculators below to help you plan for your Social Security needs by visiting [www.PacificLife.com](http://www.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

# WHY PACIFIC LIFE

It's essential for you to choose a strong and stable company that can help you achieve your future income needs. Since 1868, individuals and their families have relied on the strength of Pacific Life to help protect their financial security.

- Pacific Life Insurance Company is organized under a mutual holding company structure and operates for the benefit of its policyholders and contract owners.
- We have achieved ongoing recognition<sup>1</sup> for high-quality service standards.
- We offer products that address market environments during all stages of your life.
- We maintain strong financial strength ratings from major independent rating agencies.

Ratings may change and do not apply to the safety or performance of the underlying variable investment options. For more information and current financial strength ratings, please visit our website at [www.PacificLife.com](http://www.PacificLife.com).

While ratings can be objective indicators of an insurance company's financial strength and can provide a relative measure to help select among insurance companies, they are not guarantees of the future financial strength and/or claims-paying ability of a company. The independent third party from which this annuity is purchased, including the broker/dealer, the insurance agency from which this annuity is purchased, and any affiliates of those entities make no representations regarding the quality of the analysis conducted by the rating agencies.

<sup>1</sup>Recipient of multiple DALBAR Service Awards since 1997. Refer to [www.DALBAR.com](http://www.DALBAR.com) for more information regarding awards, certification, and rankings.

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Pacific Life has more than 145 years of experience, and we remain committed to providing quality products, service, and stability to meet your needs today and throughout your lifetime.

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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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