



## SOCIAL SECURITY LITERACY

The month of April is designated as both Financial Literacy Month and Social Security Month. We've combined the two topics and spotlight key points to consider when helping clients plan for retirement.

### How Does Financial Literacy Apply to Social Security Benefits?

Financial literacy is having the skills, knowledge, and experience to make financial decisions that can aid in meeting financial goals. The Financial Literacy and Education Commission notes that there are five key components of financial literacy: earn, spend, save/invest, borrow, and protect. We've focused on the save/invest component to help you have meaningful conversations about this topic with clients as it applies to financial planning and Social Security claiming strategies for retirement benefits.

### Social Security Refresher

First, let's understand some basics about Social Security benefits.

- According to the Social Security Administration (SSA), 90% of people ages 65 and older receive Social Security benefits.<sup>1</sup>
- Primary insurance amount (PIA) is the Social Security benefit amount a retiree receives if he/she applies for benefits at full retirement age (FRA).
- FRA will vary depending on date of birth. If the retiree was born in 1960 and later, FRA age is 67. For clients who are born in 1959 or earlier, refer to

SSA website for their FRA. In general, age 62 is the earliest one can claim Social Security benefits. Clients should contact the local SSA office to discuss exceptions/special circumstances of claiming earlier. Note that claiming benefits at age 62 is considered early and results in reducing the PIA. Permanent PIA reduction could be 25–30%.

- The delayed retirement credit (DRC) increases Social Security benefits by 8% simple interest each year up to age 70 (which means a 24% increase for those with FRA at age 67, and 32% increase for those with earlier FRA dates).
- Social Security retirement benefits will be included in taxable income at the following levels: 0%, 50%, or 85%.

### Client Action Plan

With all the moving parts, the sooner your clients consider their options, the better financially prepared they'll be for retirement. Here are a few questions to ask:

- **When?** One of the biggest questions regarding Social Security benefits is when to claim. Should they claim now? Should they wait until age 70? Like many financial-planning topics, the answer is—it depends. Here is a piece to help clients consider when to take their Social Security benefits.

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- **How to Delay?** If you and your client decide the strategy is to defer claiming Social Security benefits to maximize the benefit amount, how can the retiree use other assets to generate income? To bridge that gap, consider annuities.

- **Tax-Deferred Annuity:** Invest in a variable annuity with a guaranteed withdrawal benefit for an additional cost. This can generate income for the retiree from ages 62 through 70. Once the retiree claims Social Security benefits at age 70, the income from the annuity can be stopped. This reduces tax liability and leaves an asset that can now be used for legacy planning.
- **Immediate Annuity:** There are multiple payout options available for single-premium immediate annuities (SPIAs). For this strategy, a retiree can place assets into a Period Certain payout to bridge that income gap. Contact the provider for details of available payout options.

- **What?** In determining what asset to use for this strategy, retirees should think about tax-efficient or tax-free investments. Carving out a portion of a client's Roth IRA or nonqualified annuity would be preferred to reduce tax liability; however, qualified assets could also work.

### Next Steps

Financial literacy can be defined and used in a variety of ways: from budgeting to spending, understanding each component is important. It is key to evaluate the client's essential and discretionary expenses and guide him or her to plan early. Talk to your clients now to help them be literate about their Social Security benefit options so they can optimize their retirement income. Client education results in advanced planning, building trust, and happy clients who want friends and family to know about the value their financial professionals provide.

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## Additional Resources and Links

[The Importance of Financial Literacy](#)

[Which Bridge Might Work Before Claiming Social Security Benefits?](#)

[2022 Retirement Plan and Social Security Limits Overview](#)

For more information about retirement planning,  
please contact our Retirement Strategies Group at  
[RSG@PacificLife.com](mailto:RSG@PacificLife.com) or (800) 722-2333, ext. 3939.  
[PacificLife.com](https://www.PacificLife.com)

<sup>1</sup>Social Security Administration. "Snapshot of the Month: June 2021 Beneficiary Data." Social Security Basic Facts.

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3 of 3



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