

USING RETIREMENT FUNDS TO “MIND THE GAP” FOR SOCIAL SECURITY BENEFITS

The average Social Security benefit in 2022 is \$1,657 per month. Delaying the claim until age 70 could raise that benefit by 29.3%¹ or to \$2,142 per month. The challenge for most is how to cover the gap in income from retirement until age 70.

Would your client benefit from having a Social Security benefit that is up to 30% greater than the benefit he or she would receive at full retirement age (FRA)? For many clients, yes. Especially if that benefit has a cost-of-living adjustment (COLA) that can help address inflation risk. However, to achieve that, the client would need to replace Social Security benefit payments with another form of protected income. One option is to use a variable annuity with an optional guaranteed minimum withdrawal benefit (GMWB) for an additional cost that allows 7% withdrawals starting at age 65.

Replacing the average Social Security benefit of \$1,657 per month with a variable annuity with a GMWB that provides a 7% income benefit at ages 65—69 may require much less capital than other replacement methods. At age 70, a client would make a delayed claim for Social Security benefits and either continue, reduce, or stop altogether the guaranteed withdrawal benefit.

Why might this be a good strategy? It can secure a higher guaranteed income floor with a COLA. Social Security benefits are the only source of inflation-adjusted guaranteed income for most retirees. By delaying the claim, a client, or his/her surviving spouse, has a higher level of income with COLA protection—which in 2022 is 5.9%!

Additionally, this may offer a tax benefit on two fronts: Social Security benefits are relatively tax-efficient with a maximum of 85% included in taxable income. Deriving more income from more of one's income from this source could have a positive tax effect. This strategy also may help a client better manage required minimum distributions (RMDs) from any qualified accounts. This supports tax-bracket management.

With the COLA for Social Security retirement benefits at 5.9% in 2022, that increase in income would be a definite help in this inflationary environment. This is an excellent time to reach out to clients with longevity risk concerns and be their guide for a strategy to “mind the gap.”

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Additional Resources and Links

[Deciding When to Claim Social Security Benefits](#)

[Social Security FAQs](#)

For more information about retirement planning, please contact our Retirement Strategies Group at RSG@PacificLife.com or (800) 722-2333, ext. 3939. Annuities.PacificLife.com

¹Social Security Administration. "Retirement Benefits: If you were born in 1956 your full retirement age is 66 and 4 months." Last accessed 4/18/2022.

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