



# Understanding Social Security

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For specific professional assistance, the services of an appropriate professional should be sought.

# Agenda

01

Social Security Overview

02

Social Security Retirement Benefits

03

Social Security Claiming Strategies

# Social Security Provides Various Benefits



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**Guaranteed  
Income**



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**Survivor**



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**Spousal**



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**Disability**

# Disability Benefits



If disabled, individuals may qualify for disability benefits even before reaching full retirement age (FRA).



Disability benefits do not reduce a worker's benefit, but they cannot be claimed at the same time.

Qualification for disability benefits can be difficult.

# Survivor Benefits



## **To be eligible to receive Social Security survivor benefits, a child generally must be:**

- A person who is neither married (as determined by Social Security) nor head of a household and:
  - is under age 18; or
  - is under age 22 and is a student regularly attending school (as determined by Social Security)

# Social Security – A Key Retirement Plan Component

- Personal savings
- Retirement accounts such as 401(k) or IRA
- Pensions
- Deferred and immediate annuities
- Cash value life insurance

# Filing Questions to Ask



Do I need income right away?

Will I continue to work?

Is my spouse provided for adequately?

Do I have longevity in my family?

Do I have other income sources?



Almost 10,000 baby boomers turn 65 each day. By 2031, the U.S. population over the age of 65 will number 75 million.

# The Future of Social Security

What does the future hold for Social Security Retirement Benefit?



## Full benefits payable

to 2033, through the Old-Age and Survivors Insurance (OASI) Trust Fund



Assuming no legislative changes,  
**77% of benefits after 2033**

# Social Security Solvency

## Increase Payroll Taxes

Currently 12.4% evenly split between employers and employees

## Raise Wage Cap

Currently \$160,200 wage base (2023)  
\$250,000 wage cap

## Increase FRA

Workers born after 1960  
Extend Full Retirement Age (FRA) to age 68

## Investment Changes

Current government bonds  
Bond and equity mix

# Social Security Credits

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**10 years or  
40 “credits”  
are required to  
be eligible for  
retirement  
benefits**

1 credit per  
\$1,640



4 credits per  
year maximum



At least 10 years  
of employment

# Primary Insurance Amount (PIA)



- Monthly amount received starting at full retirement age (FRA)
- Based on lifetime Social Security inflation-adjusted earnings
- Average indexed monthly earnings (AIME) over highest 35 years of earnings
- Benefit reflects a percentage of average monthly earnings
- Maximum PIA for a person at FRA in 2023 is \$3,627

# Social Security – Full Retirement Age



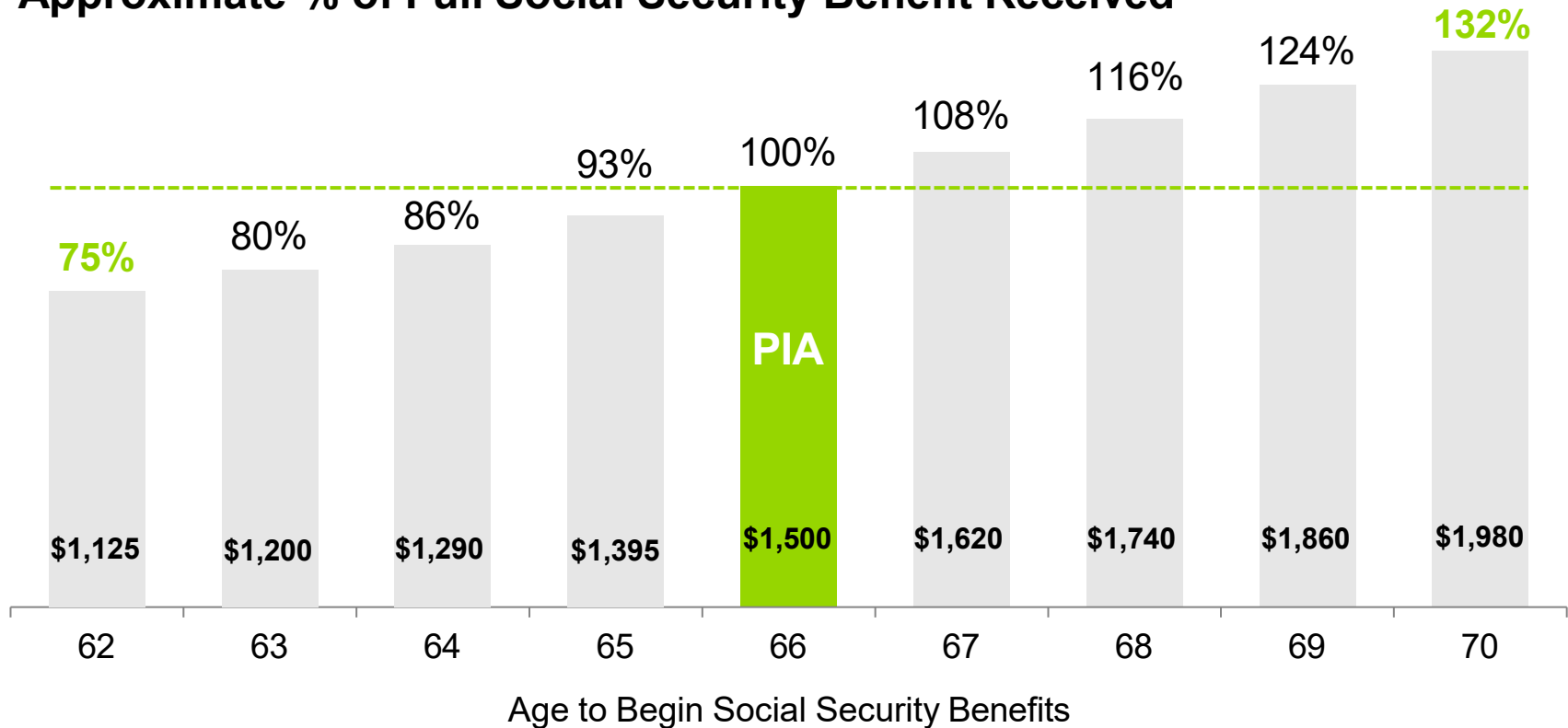
Full retirement age (FRA) is the age at which you are entitled to 100% of your primary insurance amount (PIA)

Early				FRA		Delay Credits		
62	63	64	65	66	67	68	69	70
Year of Birth						FRA		
1943-1954						66		
1955						66 + 2 mos		
1956						66 + 4 mos		
1957						66 + 6 mos		
1958						66 + 8 mos		
1959						66 + 10 mos		
1960 and after						67		

[Normal Retirement Age](#). Social Security Administration, as of May 2021.

# The Cost of Collecting Early and Benefit of Delayed Credits, Age 66 FRA

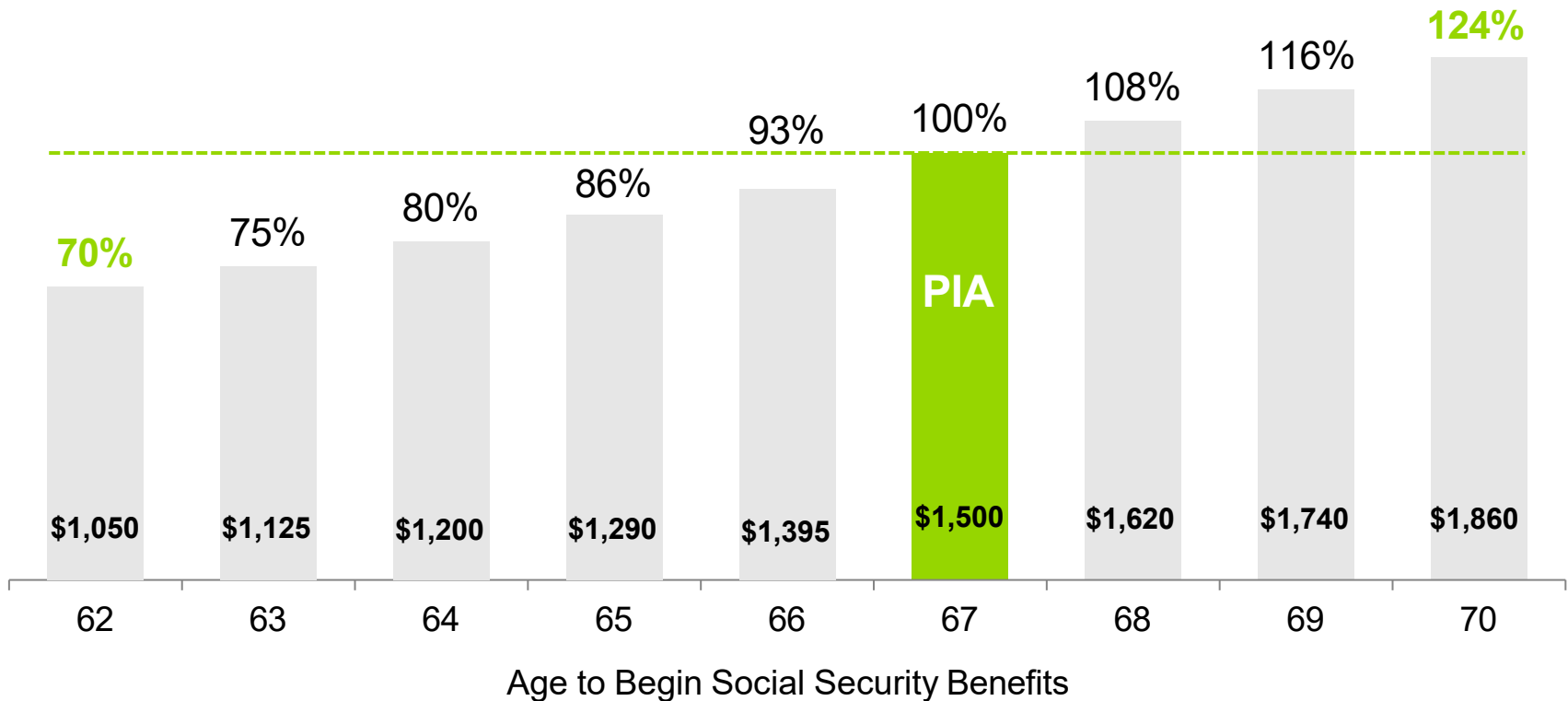
## Approximate % of Full Social Security Benefit Received



In the given example, individual was born between 1943-1954; full retirement age of 66, assumed PIA \$1500, excludes COLA. (Source): If you were born between 1943 and 1954 your FRA is 66. Social Security Administration, as of May 2021.

# The Cost of Collecting Early and Benefit of Delayed Credits, Age 67 FRA

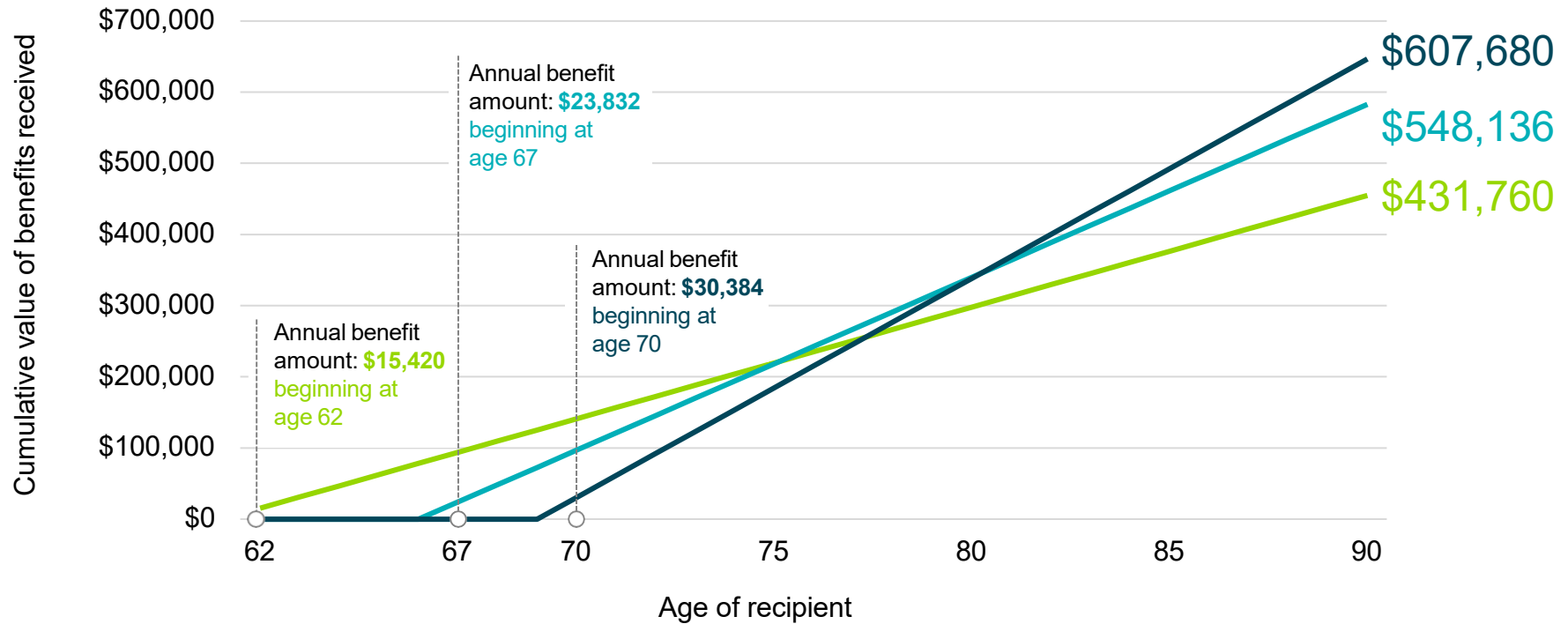
## Approximate % of Full Social Security Benefit Received



[In the given example, individual was born 1960 or later; full retirement age of 67, assumed PIA \\$1500, excludes COLA. \(Source\): If you were born in 1960 your full retirement age is 67. Social Security Administration, as of May 2021.](#)



# Life Expectancy and Break-Even Age



Figures shown in today's dollars based on scenario. SSA's Quick Calculator as of 3/18/2020. Individual born 2/1/1958 with \$70,000 earned income. Individual reaches FRA in 2024.

# Reasons Some People File at 62



- Early retirement
- The primary source of retirement income – need it as soon as possible
- Layoff or company closure
- Unaware of the benefits of waiting
- No plan to coordinate other retirement income options
- Concerns about the uncertainty surrounding Social Security

# 1 in 3 Americans

claim Social Security benefits starting at age 62, receiving only  $\frac{2}{3}$  of their full benefit projected at FRA

Nearly

$\frac{3}{4}$

of retired people receive  
**reduced Social Security  
benefits** because  
they take them prior to  
FRA

In 8 out of 10 cases,  
couples are likely to have long lives  
and could maximize Social Security  
benefits by delaying claims

# Longevity Risk



## Male:

At birth, has a life expectancy of

**74**  
years

and at age 65 has a life expectancy of

**17**  
more years  
(age 82)



## Couple:

At birth, both have a life expectancy of

**77**  
years

and at age 65 have a life expectancy of

**19**  
more years  
(age 84)



## Female:

At birth, has a life expectancy of

**80**  
years

and at age 65 has a life expectancy of

**20**  
more years  
(age 86)

# Health Care Risk

**54%**

**of current retirees** lack confidence about paying for medical expenses and long-term care during retirement

**\$295,000**

**Health care costs** for a married couple age 65 during retirement

**\$84,855**

**Long-term care** projected expenses during retirement

**Medical costs are outpacing inflation**

Health care costs are increasing 5.6% annually for 2023

Social Security COLA was 8.7% in 2023

Sources: [IRI Retirement Fact Book 2020](#), Insured Retirement Institute, 2020; [Medical Plan Costs Expected to See Bigger Rise in 2023](#). SHRM, August 16, 2022; [Latest Cost-Of-Living Adjustment](#), Social Security Administration, January 2023.

# Benefit Strategies

Spouses





# Dual-Income Couples – Similar Benefits

Born prior to January 1, 1954

**Hypothetical example for illustrative purposes only.**

Susan, age 66: SS benefit at FRA = \$2,100 monthly

Valerie, age 66: SS benefit at FRA = \$2,000 monthly



**Susan**



**Valerie**

**Goal: Maximize Valerie's own benefit and survivor benefit**

**(File restricted option not available; filing this way allows someone to collect a spousal benefit while delaying benefits on his or her own earnings record; the person applying the restricted application for a spousal benefit cannot have already begun their own benefits.)**

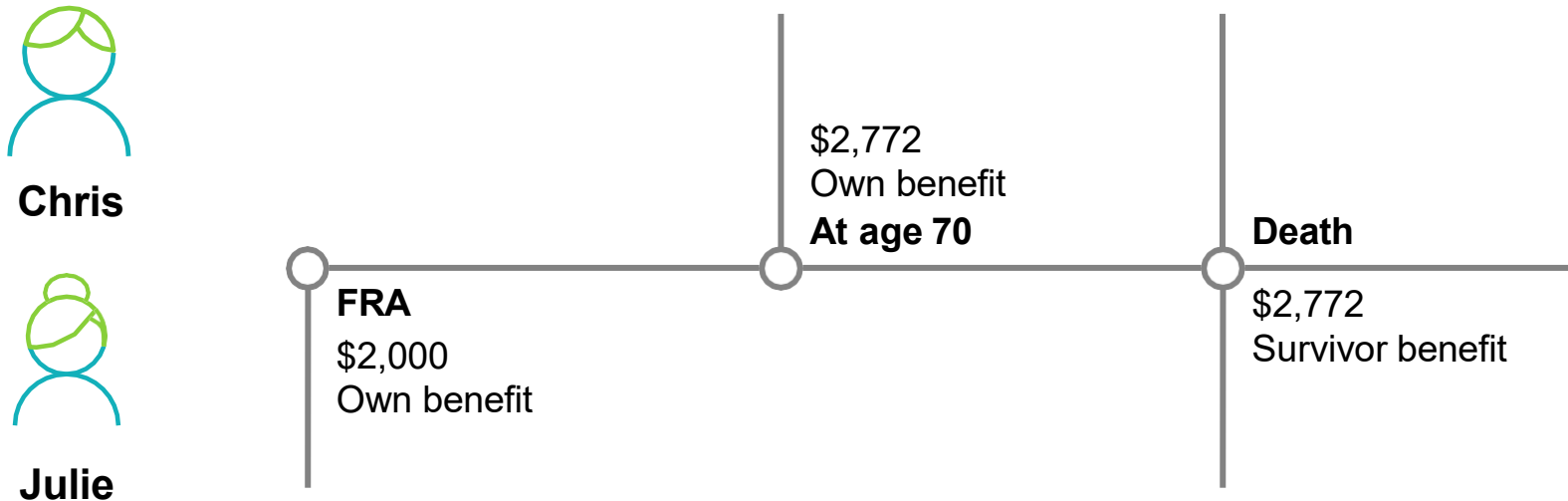
# Dual Income Couples – Similar Benefits

Born on or after January 2, 1954

Hypothetical example for illustrative purposes only.

Chris, age 66: SS benefit at FRA = \$2,100 monthly

Julie, age 62: SS benefit at FRA = \$2,000 monthly



**Goal: Maximize Julie's survivor benefit with delayed credits**

[Retirement Benefits: Filing Rules for Retirement and Spouses Benefits](#). Social Security Administration, as of May 2021.

# Married Couples – Single Income

Hypothetical example for illustrative purposes only.

Tom, age 62: SS benefit at FRA = \$1,800 monthly

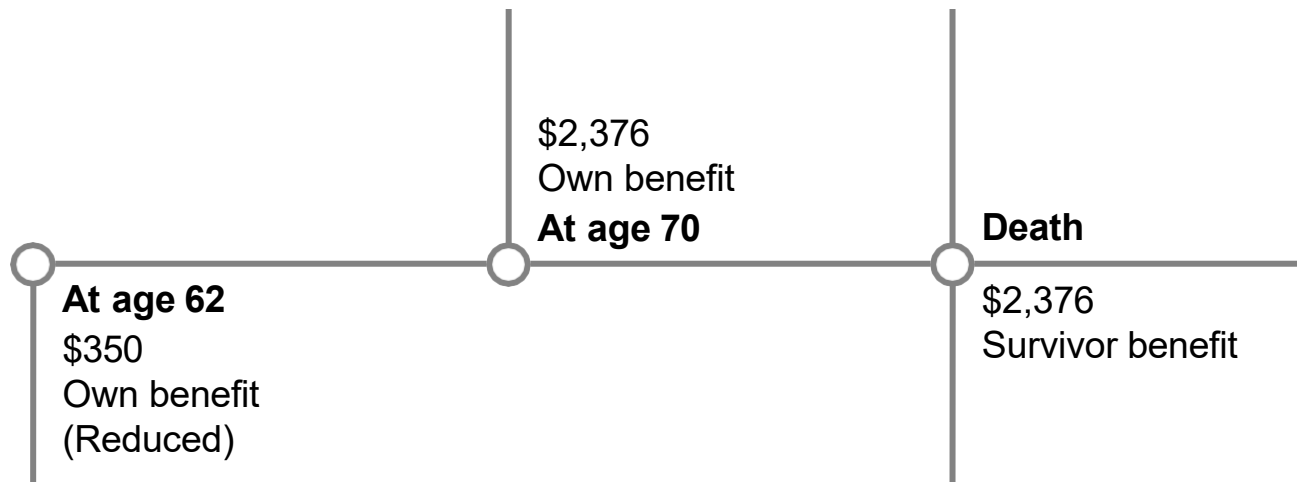
Karen, age 60: SS benefit at FRA = \$500 monthly



Tom



Karen



**Goal: Karen wants to claim at 62 and Tom wants to maximize Karen's survivor benefit**

# Benefit Strategies

Divorcee



# Divorcee Benefits



A divorcee can claim a benefit from an ex-spouse if:<sup>1</sup>

- The marriage lasted at least 10 years
- Divorcee is not currently married
- Both are at least 62
- Divorce has been final for at least 2 years
- Benefit = 50% of ex-spouse's PIA if divorcee files at FRA

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[Benefits Planner: Benefits For Your Divorced Spouse](#). Social Security Administration, as of May 2021.

<sup>1</sup> Individuals should speak to a legal professional and contact the Social Security Administration for assistance to determine their options for taking benefits.

# Divorcee Benefits

Hypothetical example for illustrative purposes only.

Dale, age 67: SS benefit at FRA = \$2,100 monthly

Angela, age 65: SS benefit at FRA = \$1,500 monthly



Dale



Angela



**Goal: Angela's retirement at 66, maximize her own benefit and survivor benefit**

[Benefits Planner: Benefits For Your Divorced Spouse](#). Social Security Administration, as of May 2021.

<sup>1</sup> Individuals should speak to a legal professional and contact the Social Security Administration for assistance to determine their options for taking benefits.

# Benefit Strategies

Widow/Widower



# Benefits for Widows/Widowers



A widow or widower can claim a survivor benefit if:<sup>1</sup>

- Marriage lasted at least 9 months
- Surviving spouse is age 60
- Currently widowed or remarried after age 60
- Benefit = 100% of deceased spouse's PIA if files at survivor's FRA

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[Benefits Planner: If You Are The Survivor](#). Social Security Administration, as of May 2021.

<sup>1</sup> Individuals should speak to a legal professional and contact the Social Security Administration for assistance to determine their options for taking benefits.



# Benefits for Widows/Widowers

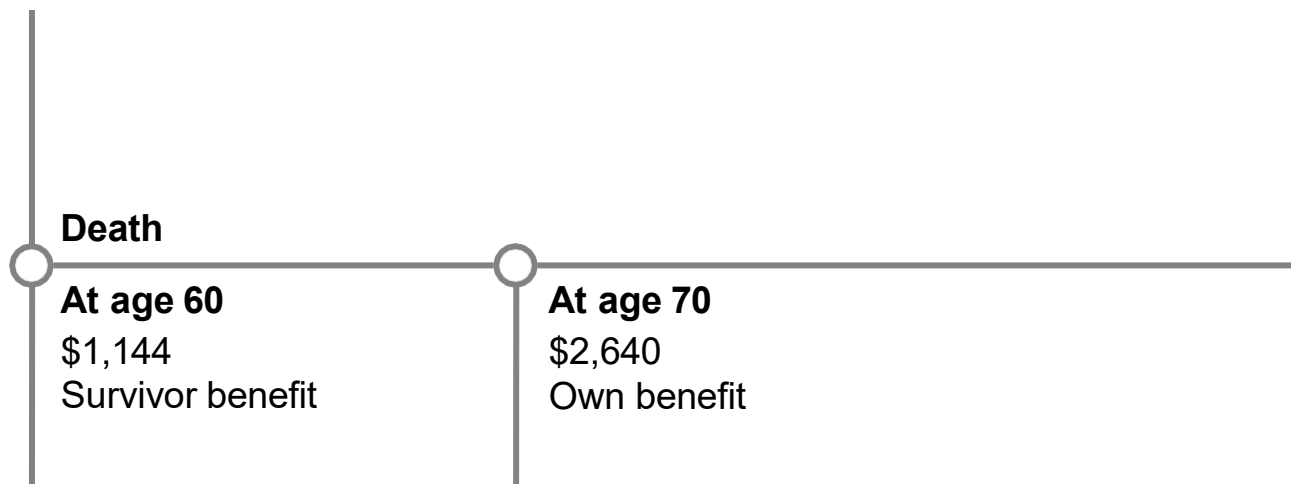
Hypothetical example for illustrative purposes only.

James passed away at age 62: SS benefit at FRA = \$1,600 monthly

Evelyn, age 58: SS benefit at FRA = \$2,000 monthly



**James**



**Evelyn**

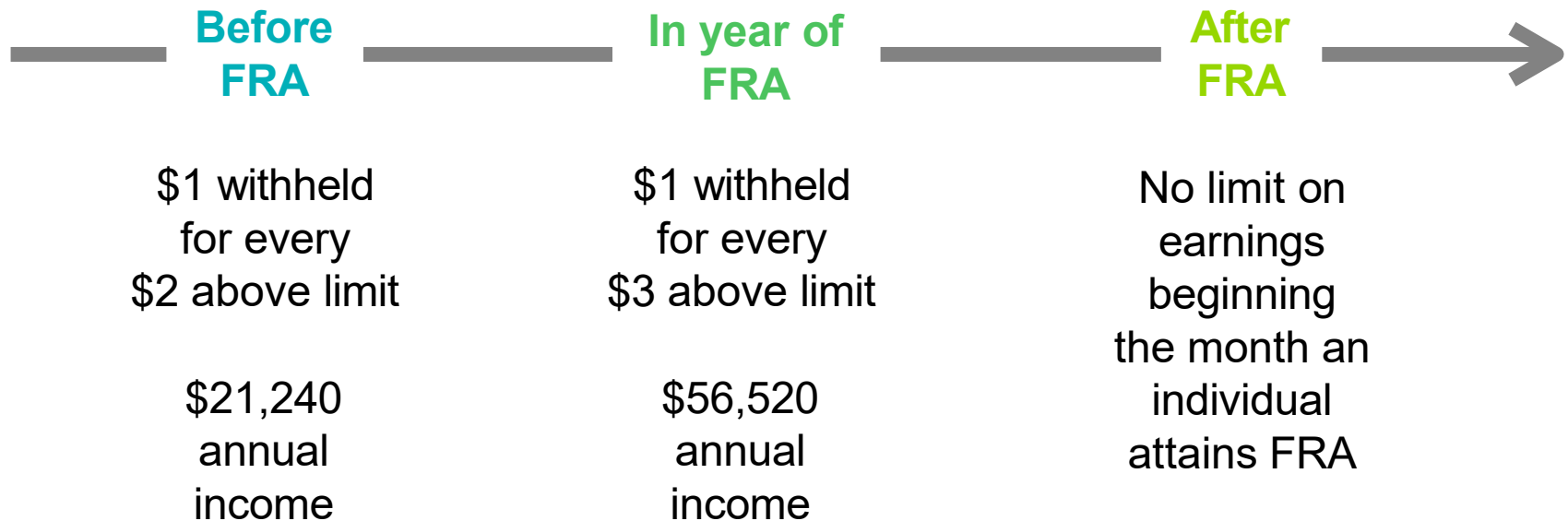
**Goal: Evelyn continues to work while her benefit grows**

[Social Security Benefits](#). National Park Service, as of May 2021.

Women represent more than **50%** of Social Security beneficiaries in their 60s, and 7 in 10 beneficiaries in their 90s.

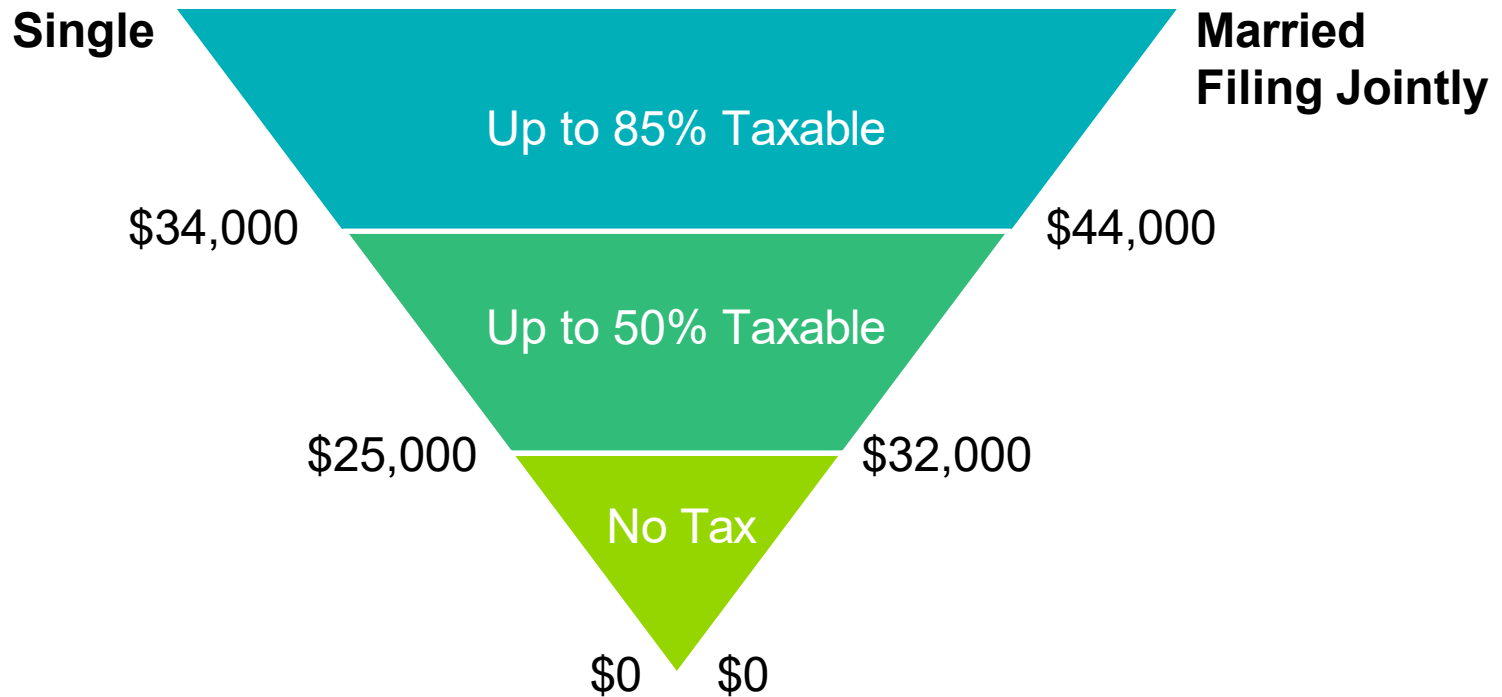
# Working Impacts Social Security

For 2023:



[Your Options: Working, Applying for Retirement Benefits or Both?](#) Social Security Administration, as of 2023.

# Social Security Taxation



[Benefits Planner: Income Taxes And Your Social Security Benefit](#). Social Security Administration, as of 2023.

# Tax Control Categories

## Taxable<sup>1</sup>

Pension

Pre-tax retirement  
accounts (401(k), IRA)

Interest and  
dividends

## Partially Taxable<sup>2</sup>

Social Security –  
up to 85%

Immediate  
annuity

Cash-value  
life insurance

## Tax-Free<sup>3</sup>

Roth IRA/401(k)

Municipal bond interest

Life insurance  
policy loans

Health Savings  
Accounts

<sup>1</sup> Traditional IRA contributions may be deducted if certain criteria are met.

<sup>2</sup> Immediate annuities can also provide tax diversification as they are taxed using "exclusion ratio" treatment. Each annuity payment received is treated as part gain in the annuity, interest earnings, and return of principal. Consequently, the gain in the annuity can be spread out over the life expectancy of the annuitant. Cash value life insurance can be a flexible asset in a client's overall financial portfolio. There are no limits to contributions based on income, though the owner should be careful that premiums paid don't cause the policy to become a Modified Endowment Contract (MEC). New tax testing may apply if there is a "reduction in benefits." Financial professionals should take note of this possible retesting and potential adverse consequences to the policyholder.

<sup>3</sup> This is assuming that the Roth IRA funds have been held in the account for at least five years and the owner has reached age 59 1/2 at the time withdrawals are taken. Distributions from a life insurance policy through withdrawals of certain policy values (up to cost basis) and loans are generally not taxed as income, provided you follow certain premium limits that prevent your policy from becoming an MEC. Distributions taken during the first 15 years may be subject to tax. Loans and withdrawals will generally reduce the cash value available and the death benefit payable. If policy loans are taken, there may be income tax consequences if you permit the policy to lapse or if the policy is surrendered or exchanged. Municipal bond interest is generally tax-free for regular federal income tax purposes.

## Next Steps

- Check Social Security wage history
- Plan for early or delayed claiming strategies
- Analyze retirement income gaps
- Coordinate spousal benefits
- Determine break-even points

**Thank you for attending  
and please call us if you  
have questions about  
strategies for your  
Social Security!**

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Taxable distributions from life insurance and annuity contracts are subject to ordinary income tax. Withdrawals from annuity contracts made before age 59½ may also be subject to a 10% federal income tax penalty. Distributions of taxable amounts from a non-qualified annuity may also be subject to the 3.8% Net Investment Income Tax that is generally imposed on interest, dividends, and annuity income if the modified adjusted gross income exceeds the applicable threshold amount. Withdrawals will reduce the death benefit and account value from life insurance and annuity contracts. Withdrawals may be subject to withdrawal charges.

Any discussion of taxes is for general informational purposes only, does not purport to be complete or cover every situation, and should not be construed as legal, tax, or accounting advice. Clients should confer with their qualified legal, tax, and accounting professionals as appropriate.

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