

Your *Trust* Matters

October 2024 Newsletter



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Timing Social Security Retirement Benefits

One of the most common questions we receive when speaking with our clients is “When should I start receiving Social Security retirement benefits?” The answer to this question is best solved by working with a MidWestOne Bank Private Wealth advisor to develop a comprehensive financial plan that incorporates this income stream to best fulfill your unique spending needs and retirement goals. In the absence of this, we’ll provide you with some factors to consider when making your decision, but first, let’s cover some basics.

Understanding Social Security

Social Security benefits are designed to provide income to retirees based on their earnings history. To qualify, you must have earned at least 40 credits through your work history, which typically takes about 10 years. The amount you receive depends on your average indexed monthly earnings, calculated over your highest-earning 35 years. The key ages for benefits are as follows:

- **Early Retirement Age (62):** You can begin collecting benefits as early as age 62. However, this option comes with a reduction in your monthly benefits. If you take benefits early, your payments may be reduced by up to 30% compared to what you would receive at your Full Retirement Age (FRA).
- **Full Retirement Age (FRA):** Your FRA is between 66 and 67, depending on your birth year. If you wait until this age to start collecting, you will receive your full benefit amount.
- **Delayed Retirement:** You can delay benefits beyond your FRA up to age 70. For each year you wait after your FRA, your benefit increases by approximately 8% until age 70. This can significantly enhance your monthly income during retirement.

Factors to Consider

Financial Needs: Evaluate your financial situation. If you need immediate income to cover living expenses, you might opt for early benefits. If you can afford to wait, delaying can yield higher monthly payments that may be beneficial later in life.

Life Expectancy: Your personal and family health history can play a crucial role in determining when to take benefits. If you expect to live longer than average, delaying benefits could result in higher lifetime earnings. Conversely, if you have health concerns or a shorter life expectancy, it might make sense to start benefits early.

Continuing to Work: If you plan to work part-time or full-time while collecting benefits before your FRA, be aware of the earnings limit. For 2024, if you earn over \$21,240, your benefits will be reduced by \$1 for every \$2 you earn above this threshold. After reaching FRA, you can work and earn any amount without affecting your benefits.

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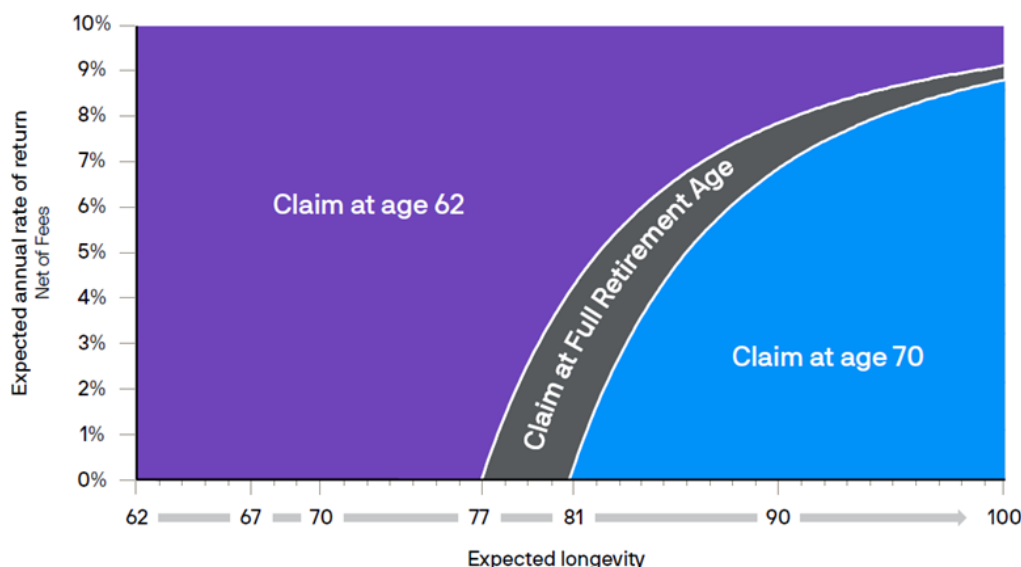
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Spousal Benefits: If you're married, consider the implications of your decision on spousal benefits. A lower-earning spouse may rely on the higher earner's benefits, which can be particularly beneficial if the higher earner delays benefits. However, if you're eligible because of a spouse's work, the amount is at its highest at your FRA. It doesn't increase if you wait and apply after that time.¹

Tax Implications: Social Security benefits may be subject to federal income tax, depending on your combined income. If you start benefits early and continue to earn income, this could increase your tax liability. Planning for taxes can influence your decision on when to start.

Maximizing Total Wealth (That's a fun headline.)

If you're less concerned about retirement cash flow and just want to maximize your total wealth, the best decision will be based on your life expectancy and expected annual rate of return on your investments. Refer to the following diagram published by J.P. Morgan:



Source: [J.P. Morgan Guide to Retirement](#)

MidWestOne Bank Private Wealth Can Help

Ultimately, there's no one-size-fits-all answer to when you should start collecting Social Security benefits. It's a unique personal decision that should be based on your financial situation, health, and retirement goals. Please contact your MidWestOne Bank Private Wealth advisor to discuss our retirement planning process and how to get started.

¹[Social Security Administration: Prepare for Social Security Benefits](#)

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