

WHAT TO KNOW ABOUT SOCIAL SECURITY

Unlike a traditional annuity you purchase from an insurance company or a pension, Social Security provides a government-backed, inflation-adjusted stream of income you can't outlive. It is effectively the ultimate annuity, offering lifelong benefits without the high fees or loss of control that often come with commercial annuity products. That is why we view Social Security not in isolation but as an integral part of your overall wealth plan.

When and how to claim benefits can impact not just the monthly checks, but also the overall efficiency of a retirement income strategy, particularly when taxes and longevity are factored in. At Crawford, we are focused on integrating Social Security income wisely into our clients' investment and planning framework. Below we outline some key considerations.

Requirements and COLA: To qualify for Social Security retirement benefits, you generally need 40 quarters of work, or roughly 10 years. Your monthly benefit is based on your highest 35 years of earnings, with an inflation COLA (Cost of Living Adjustment). While the formula is progressive, meaning lower earners get a higher replacement rate, high earners still see meaningful benefits, especially when those benefits are compounded over a long retirement.

Eligibility and FRA: You become eligible to receive your full Social Security benefit at your Full Retirement Age (FRA). For most people retiring today, the FRA falls between 66 and 67, depending on your birth year. You can choose to begin benefits as early as age 62, but doing so results in a permanent reduction, up to 30% less than your full benefit. On the other hand, if you delay past FRA, your benefit grows by approximately 8% per year (plus COLA) until age 70. Deciding when to claim is not just about maximizing your monthly check, it is about aligning Social Security with your broader financial needs, tax profile, and expected longevity.

When To Take It: A factor in the decision on when to take Social Security is the so-called "break-even point," the age at which the total value of higher payments from delayed claiming surpasses the earlier but smaller checks from starting sooner. For someone with average life expectancy, delaying benefits until age 70 often produces a higher cumulative payout. But this is not just a math problem. Health, longevity expectations, survivor needs, and liquidity should all influence the decision.

One often-overlooked aspect of delaying is the compounding effect of COLA. A 2.5% increase on a delayed benefit of \$3,900 is more impactful than the same increase on a benefit of \$1,900. These adjustments can apply even before you begin claiming, meaning your future benefits grow in both real and nominal terms.

For married couples, delaying the higher earner's benefit can also protect the surviving spouse by ensuring they inherit the larger benefit. Survivor benefits can be claimed independently of retirement benefits, which introduces valuable flexibility. For example, a widow(er) might claim survivor benefits at age 60, then switch to his/her own (larger) benefit at age 70. Since survivor benefits max out at Full Retirement Age (FRA), there is no benefit to delaying the survivor benefit beyond that point.

For those who claim benefits but later reconsider, there is an option to suspend payments and earn delayed retirement credits. This flexibility, available only after reaching FRA, allows you to pause

benefits and increase your future payments by approximately 8% per year (plus inflation) until age 70. In some cases it makes sense to do this, but it is important to note that suspending your benefit may also pause any spousal benefits tied to your record, so coordination is key.

Taxation: Taxation is another major consideration. Social Security benefits are subject to tax once your provisional income, defined as adjusted gross income plus half your Social Security plus any tax-exempt interest, exceeds certain thresholds. For married couples filing jointly, if that amount exceeds \$44,000, up to 85% of your benefits can be taxable. This impacts broader tax planning. Adding Social Security income may increase Medicare premiums or reduce your ability to execute Roth conversions efficiently. For this reason, many clients delay benefits while they convert IRA assets to Roth accounts during lower-income years.

Ultimately, Social Security should never be viewed in isolation. We believe the most effective claiming strategy is one carefully coordinated alongside a high-quality, income-focused investment program. At Crawford, we help clients integrate Social Security with the rising income and long-term appreciation generated by their investment portfolios. Viewed together, the result is a more stable, tax-efficient, and resilient retirement income strategy, supporting your lifestyle today while safeguarding your financial security for the future.

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