A Guide to Understanding Social Security Retirement Benefits

Social Security Eligibility Requirements

Workers who pay Social Security taxes on their wages earn credits toward Social Security benefits. A worker born in 1929 or later must obtain 40 credits to become fully insured and be entitled to receive retirement benefits under the Social Security program. For 2013, a worker receives one credit for every $1,160 received in earnings, and a maximum of 4 credits can be earned in any calendar year. If a person works for 10 years and earns the required wages to obtain their full 4 credits each year ($4,640 for 2013), that person will be considered fully insured and eligible for benefits. This is true even if the person never again holds eligible employment or is self-employed. If a worker is fully insured, the following individuals are eligible for Social Security benefits based on that person's earnings record:

- The insured worker age 62 or older.
- The spouse of an insured worker who:
  - is age 62 or older, or
  - cares for a child under the age of 16, or
  - cares for a child over the age of 16 who is disabled and who would be entitled to benefits based on the worker's Social Security earnings record.
- The divorced spouse of an insured worker who is age 62 or older, was married to the worker for at least 10 years and is not remarried at the time of filing for benefits.
- The divorced spouse of a fully insured worker who has not yet filed for benefits (i.e., is still working) if both are age 62 or older, ,were married for at least 10 years, and have been divorced for at least two continuous years.
- The dependent, unmarried child of a retired worked if the child is:
  - under the age of 18, or
  - under the age of 19 and a full-time elementary or secondary school student, or
  - age 18 or over and suffers from a disability which began before the age of 22.
- The surviving spouse (including a surviving divorced spouse) of an insured worker who is age 60 or older.
- The disabled surviving spouse (including a surviving divorced spouse, in some cases) of an insured worker who is age 50-59. The disabled surviving spouse must meet specific disability requirements to qualify.
- The surviving spouse (including a surviving divorced spouse) at any age who is caring for an entitled child under the age of 16, or a child who was disabled before the age of 22.
- The dependent parents of a deceased worker at age 62 or over.

Any individual who is covered under these requirements is eligible for not only retirement benefits, but also survivor and disability benefits.

Determining Your Benefit Amount

Social Security benefits are based on a worker's lifetime earnings, whether as an employee or while self-employed. However, not all earnings can impact a worker's benefits. Eligible earnings are subject to a maximum that is adjusted annually. For 2013, that amount is $113,700, and any earnings over that amount do not affect Social Security benefits. The actual earnings are adjusted to account for changes in average wages since the year the earnings were received. These adjusted earnings amounts are then compared, and the 35 years in which the worker's adjusted earnings were highest are used to calculate the Average Indexed Monthly Earnings (AIME). A formula is then applied to the AIME by the Social Security Administration to arrive at the worker's basic benefit, or Primary Insurance Amount (PIA). This is the amount to be received at Full Retirement Age (FRA).

When can a worker begin receiving benefits?

Once a worker reaches their FRA, they can begin receiving their full Social Security retirement benefit. FRA varies depending on your year of birth, and in general has been gradually increasing as life expectancies have increased. See the table below for Full Retirement Ages.

Year of Birth	Full Retirement Age
1937 or Earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and Later	67

A worker who is fully insured can begin receiving a reduced benefit as early as age 62. If benefits are taken early, the retiree's monthly payment is permanently reduced from the FRA amount. This reduction is equal to 5/9 of 1% per month for the first 36 months in which an early benefit is claimed, and 5/12 of 1% for each additional month beyond that. If a spouse begins receiving benefits before their FRA, the benefit reduction is 25/36 of 1% per month for the first 36 months and 5/12 of 1% for each additional month.

The following table shows the cumulative reduction in benefits by starting at various ages prior to Full Retirement Age (assuming FRA is 67). These reductions would be less for someone with an earlier FRA. The spousal benefit reduction also incorporates the 50% reduction in maximum benefits for a non-working spouse.

Worker Whose FRA is 67		Spouse Whose FRA is 67	
Age	**Approximate Reduction in Benefit**	**Age**	**Approximate Reduction in Benefit**
62	30%	**62**	67.5%
63	25%	**63**	65%
64	20%	**64**	62.5%
65	13.3%	**65**	58.3%
66	6.7%	**66**	54.2%
67	0%	**67**	50%

Retirement benefits can also be deferred until age 70. By delaying benefits beyond the FRA, the worker's annual benefit increases by 8% per year (2/3 of 1% per month) over the FRA amount. These increases are also known as delayed retirement credits.

Worker Whose FRA is 67	
Age	**Approximate Increase in Benefits**
68	8%
69	16%
70	24%

In addition to the reduction or increase in benefits due to accelerating or deferring the start date, benefits are also subject to an annual cost of living adjustment.

Maximum Family Benefits

The maximum family benefit is the largest amount that can be paid to a family (worker, spouse, eligible children, and dependent parents) based on one person's earnings record. Typically, a worker and their family are limited to receiving 150-180% of the benefit the worker is currently receiving. If the total benefit payments exceed the family maximum amount, the worker's benefit is not reduced—rather, the other beneficiaries receiving a benefit will have their benefit reduced, with the exception of benefits payable to a divorced spouse or surviving divorced spouse. Likewise, a benefit paid to a divorced spouse or surviving divorced spouse does not cause a reduction in other beneficiary's benefit payments.

Beneficiaries receiving payments that are to be aggregated when determining the family maximum will have their benefits proportionately reduced so that the total monthly payments fall within the applicable limits. Individual benefit reduction rates are determined according the following set of rules:

- •If the worker on whose earnings record the benefits are based is living, the worker's benefit is subtracted from the family maximum amount. The remaining amount is divided amongst the other individuals entitled to receive benefits based on the worker's earnings history.
- •If the worker is deceased and all benefits are paid on the same percentage of PIA, the family maximum is divided equally amongst all entitled beneficiaries.
- •If the worker is deceased and all benefits are paid on a different percentage of PIA, the family maximum is paid proportionately based on each beneficiary's original benefit rate.

If a member of the family ceases to be entitled to benefits, the remaining beneficiary's benefit will increase accordingly.

Leaving the United States

If a person receiving retirement benefits is a U.S. citizen, that person can travel or live in most foreign countries without affecting Social Security retirement benefits. There are several countries, however, where Social Security payments cannot be sent. If there is a concern as to whether or not payments can be received in a certain country, the Social Security Administration should be contacted to verify a particular country's status.

Others Who Can Benefit from a Retiree's Work History

Spousal benefits

An individual is entitled to benefits based on their own working history or that of their spouse (hereafter referred to as a "spousal benefit"). In general, a spousal benefit is equal to 50% of the worker's benefit. There are a few key points to consider with a spousal benefit:

- A spouse can begin receiving a spousal benefit as early as age 62. However, beginning the benefit prior to their Full Retirement Age (FRA) will result in a permanent reduction in benefits.
- A spousal benefit cannot begin until the working spouse has begun receiving their benefit. Therefore, even though the spouse has reached age 62, they may be limited to taking benefits on their own working history until the working spouse also begins receiving benefits.
- Once the working spouse begins receiving benefits, their spouse can switch from receiving their own benefit to a spousal benefit.
- When applying for spousal benefits, if the lesser earning spouse is eligible for benefits based on their own work history, those benefits will be paid first. If the spouse is also eligible for spousal benefits, those will be added on to the benefit paid based on their own work history. Once a person reaches full

retirement age, the choice can be made to take either the benefit based on that person's work history or the spousal benefit—even if one is lower than the other.

- An individual may decide that benefits based on their own working history will be larger than taking benefits based on their spouse's income. In that case, the individual would elect to receive their own benefit. However, a retiree cannot receive a benefit based on their own work history AND a spousal benefit at the same time. They can only receive the larger of the two.
- Spousal benefits do not receive delayed retirement credits (DRCs), which further increase a Social Security benefit for individuals that decide to defer receiving a benefit beyond FRA.

Divorced spouse's benefits

A divorced spouse is entitled to receive a spousal benefit based on their ex-spouse's earnings history if:

- the worker is entitled to receive retirement benefits (meaning they are age 62 and fully insured, but don't have to be receiving benefits yet),
- the divorced spouse was married to the worker for at least 10 years before the date the divorce became final ,
- the couple has been divorced for at least 2 years (If your ex-spouse has not applied for retirement benefits, but can qualify for them, you can receive benefits on his or her record if you have been divorced for at least two years),
- the divorced spouse has filed an application for divorced spouse's benefits,
- the divorced spouse is not entitled to a retirement benefit based on his or her earnings record that is greater than the ex-spouse's benefit
- the divorced spouse is age 62 or older, and
- the divorced spouse is not married.

If the worker spouse is actually receiving benefits prior to the divorce, the two-year waiting period (item 3 above) is waived.

If the divorced spouse has experienced multiple divorces over his or her lifetime, the divorced spouse can claim retirement benefits based on any one of the former spouse's earnings history, assuming the above requirements are met. However, one worker is limited to providing retirement benefits to four ex-spouses based on his or her earnings record.

A divorced spouse's benefit is paid independently of other family benefits and will not subject the divorced spouse or other family members of the former spouse to a reduction due to the family maximum limit.

Survivor's Benefits

The following benefits can be paid to the survivors of a deceased, fully insured worker:

- a monthly benefit for a widow(er) or a surviving divorced widow(er) who is at least 60 years of age (Widow(er)'s benefit)

- a monthly benefit for a disabled widow(er) between the ages of 50-60 (Disabled Widow(er)'s benefit)
- a monthly benefit for a widow(er), regardless of age, who is caring for at least one child, under age 16 or disabled before the age of 22, of the deceased worked (Mother's/Father's benefit)
- a monthly benefit for each child who is (1) under the age of 18, (2) over age 18 but disabled before reaching the age of 22, or (3) under the age of 19 and attending a full time elementary or secondary school (Child's benefit)
- a monthly benefit for a parent who is age 62 or older and who was dependent upon the deceased worker for support (Parent's benefit)
- a lump sum death payment of $255 can be paid to (in order of priority):

    1. the widow(er) of the deceased worker who was living in the same household as husband and wife;
    2. the widow(er) (excluding a divorced spouse) who is entitled to benefits based on the worker's earnings history for the month of death;
    3. children who are entitled to benefits based on the worker's earnings history for the month of death.
    4. If no surviving widow(er) or child survives, then no lump sum is paid.

Widow(er)'s Benefit

The surviving spouse is entitled to a widow(er)'s benefit based on the deceased worker's earnings if all the following apply:

- the surviving spouse is age 60 or older, or is between the ages of 50-59 and disabled,
- the deceased worker was fully insured,
- the surviving spouse is not entitled to a retirement benefit based on his or her earnings history that is larger than the deceased worker's,
- the surviving spouse has filed an application for benefits
- the surviving spouse is not married, except under special circumstances where the surviving spouse is caring for a child.

Once a widow(er) has attained the age of 60, he or she may apply for a reduced benefit at any time, or can wait until Full Retirement Age. If the widow(er) reaches FRA or older when benefits begin, he or she will receive a monthly benefit equal to 100% of the deceased worker's PIA plus any additional amount the deceased worker was entitled to because of a delay in receiving benefits past FRA. If the deceased worker was already receiving benefits that started before he or she reached FRA, the surviving spouse would receive an amount equal to that same reduced benefit the worker would have been receiving, if living (but not less than 82.5% of the PIA).

If the surviving spouse is paid a reduced widow(er)'s benefit, no benefit increase will be allowed upon reaching FRA. That reduced benefit is payable for as long as the surviving spouse remains entitled to the widow(er)'s benefits.

The monthly payment of a widow(er) or surviving divorced spouse who remarries after he or she attains age 60 is not reduced. A widow(er) who remarries before age 60 will stop receiving payment of survivor's benefits unless that subsequent marriage ends prior to the worker's death.

The widow(er) could receive a smaller monthly payment, if other family members are entitled to benefits, due to the family maximum limit.

Divorced Widow(er)'s Benefit

A widow(er) is entitled to receive surviving divorced spouse's benefits on the deceased's earnings record provided:

- they were married for at least 10 years,
- the surviving spouse is at least 60 years of age, or is between the ages of 50-59 and disabled,
- the deceased spouse was fully insured
- the surviving divorced spouse is not married
- the surviving divorced spouse is not entitled to a retirement benefit based on his or her earnings history that is larger than the deceased worker's, and
- an application for widow(er)'s benefits has been filed.

The surviving divorced spouse's benefit is the same monthly amount as the widow(er)'s benefit, and is paid independently of benefits for the family of the former spouse. This benefit is *not* subject to reduction based on the family maximum limit, nor does it affect the payments received by the former spouse's family.

Child's Benefit

If a worker dies either fully or currently insured, each child who meets the relationship requirements is entitled to a child's benefit worth 75% of the deceased worker's PIA. The following qualifications must be met for a child to receive this benefit:

- The child must meet the following age requirements:
  - Under the age of 18, or
  - Under the age of 19 and a full-time elementary or secondary school student, or
  - Age 18 or over and suffers from a disability which began before the age of 22.
- The child must be a dependent at the time of the deceased parent's death. The child is considered a dependent if the child has not been legally adopted by someone other than the worker, and
  - is the legitimate child of the worker,
  - an illegitimate child who would have the right to inherit intestate property from the worker as a child,
  - the child of a void or voidable marriage,

- the child of an invalid ceremonial marriage, or
- the legally adopted child of the worker.

If a child is employed and earns over $15,120 in 2013, his or her benefit will be reduced by $1 for every $2 of wages earned. Earnings of the surviving parent will not affect the child's benefit.

The child's benefit ends at:

- death,
- age 18 (or age 19 if attending a full-time elementary or secondary school),
- when disability ceases if benefits are being collected due to that disability, or
- when married, unless the child is over the age of 18 and collecting benefits based on a disability.

The Impact of Working While Receiving Benefits

- If the individual collecting retirement benefits is under Full Retirement Age: When the worker starts receiving Social Security payments, $1 in benefits will be deducted for each $2 he or she earns above an earnings limit ($15,120 for 2013). This limit is adjusted each year for inflation.
  - **Example**: Bill earns $60,000 per year as an employee. He will turn 64 in October 2013. He also is collecting Social Security retirement benefits. According to the Social Security rules, his FRA is 66. (This example assumes no increase in his annual earned income or in the annual earnings test threshold.) In 2013, when Bill is 64, his excess earnings will be $44,880 ($60,000 - $15,120). His reduction in benefits will be $22,440 ($1 reduction in benefits for every $2 over the $15,120 threshold).
- In the year the worker reaches Full Retirement Age: In this case, $1 in benefits will be deducted for each $3 he or she earns above the limit of $40,080, but only counting earnings before the month the worker reaches the FRA. This limit is adjusted each year for inflation.
  - **Example**: Mark turns 66 in October 2013. From January through September of that year, he earned $45,000 (9/12ths of $60,000). His excess earnings to that point would be $4,920 ($45,000 - $40,080). His reduction in benefits for those 9 months would be $1,640 ($1 reduction in benefits for every $3 over the $40,080 threshold).
- Starting with the month the worker reaches Full Retirement Age: There is NO limit on earnings after reaching FRA.
  - **Example**: As of October 2013, Paul reaches his FRA. He could continue to work and earn as much as he wanted without any reduction in retirement benefits.
- For purposes of these three prior rules, earned income only includes wages, bonuses, commissions, etc. It does not include investment income, capital gains, retirement plan distributions, pensions, alimony, worker's compensation, unemployment benefits, or other sources of unearned income. If you are self-employed, only your net earnings from self-employment are counted.
- If a worker is at full retirement age or younger and stops working mid-year, employment income prior to collecting benefits is not counted, and the earnings test is applied on a monthly basis ($1,260 per month in 2013) for the remainder of the first year.

- Spousal Benefits: A spouse can lose some or all of their monthly benefits if the worker is under Full Retirement Age and has earnings exceeding the thresholds discussed above. Also, if the spouse is under FRA and has earnings above the thresholds mentioned above, their monthly benefit will be reduced.
  - When both the worker and the spouse have earnings in excess of the earnings limitation, their total Family Maximum Benefit will also be reduced.
- Divorced spouse's benefits: If the worker has excess earnings above the previously discussed thresholds, this would ***not*** cause a reduction in the divorced spouse's benefit, assuming the divorced spouse has been divorced from the worker at least two years or whose former spouse was entitled to receive benefits before the divorce. However, if the divorced spouse has excess earnings, his or her benefit will be reduced accordingly.
- Survivor's benefits: the same earnings tests apply here as they do to standard retirement benefits. However, a person receiving dependent's or survivor's benefits and has excess earnings will not see his or her excess earnings charged against the benefits payable to other dependents or survivors. For example, a child's benefit will not be reduced if the mother has excess earnings.

If a Social Security benefit is lost due to employment income, the reduction is not applied ratably to each check received throughout the year. Instead, the worker would not receive checks at all in the early part of the year then, once the total benefit reduction has been reached, the worker would start receiving monthly checks for the full monthly benefit amount later in the year. Those months in which a check was not received will not count as months where Social Security was claimed. This means that, once you reach full retirement age, your amount will be recalculated as if you had not claimed Social Security during those months.

  - **Example**: Bob retired at 62 and started collecting a Social Security benefit of $1,500 per month. Bob works part-time and will earn $27,120 in 2013. This is $12,000 above the allowable earnings threshold, so Bob's Social Security benefit will be reduced this year. Bob will not receive a Social Security check for the first 8 months of the year (12000/1500), but will receive a check for $1,500 each of the last 4 months of the year. In addition, Bob's benefit will increase next year due to the 8 months where he did not receive a check this year. The Social Security Administration will consider Bob to have started collecting benefits at age 62 and 8 months, rather than at age 62 and 0 months.

Taxation of Benefits

The amount of Social Security benefits that are taxable varies based on the taxpayer's level of Modified Adjusted Gross Income (MAGI):

- For single taxpayers with MAGI below $25,000 (and $32,000 for married couples filing jointly), Social Security benefits are completely tax free.
- Up to 50% of Social Security retirement benefits may be taxable in years that MAGI is between $25,000 and $34,000 for a single taxpayer, and between $32,000 and $44,000 for a married couple filing jointly.

- Up to 85% of benefits may be taxable in years that MAGI is in excess of $34,000 for a single taxpayer and in excess of $44,000 for a married couple filing jointly.

For purposes of this rule, Modified Adjusted Gross Income is defined as (1) Adjusted Gross Income as it is calculated on a tax return (including all investment income, capital gains, retirement income, etc.) after adding back any deductions for student loan interest, tuition and fees plus (2) tax-exempt interest plus (3) half the Social Security benefits themselves.

IRS Instructions to Form 1040 contains a worksheet which will help a recipient of Social Security calculate his or her tax liability.

Windfall Elimination Provision (WEP) and Government Pension Offset (GPO)

Not all types of employment require employees to pay into the Social Security system. If a person worked for an employer that did not withhold Social Security taxes from their paycheck, such as a government agency or an employer in another country, and a pension was earned while working for one or more of these employers, that pension may reduce any Social Security benefits that worker may have earned from another employer. There are two provisions in the Social Security rules that can affect workers in this situation. The Windfall Elimination Provision (WEP) is a formula that recalculates, but does not eliminate, the benefits earned by the worker. The Government Pension Offset (GPO) applies to the benefits earned by a spouse, ex-spouse or surviving spouse, and can result in total elimination of the benefit.

When might benefits be affected by the WEP?

The Windfall Elimination Provision might apply if:

- The worker reached age 62 after 1985, and
- The worker first became eligible for a monthly pension from an employer that did not withhold Social Security taxes after 1985.

How is the worker affected?

An individual who receives a pension from non-Social Security-covered wages may also have wages that are covered by Social Security. In those cases, the worker's retirement benefit is calculated using a modified formula.

A worker's Social Security retirement benefit is based on his or her Average Indexed Monthly Earnings(AIME). The Social Security Administration will separate that person's AIME into three amounts and apply a different factor to each amount. Under the WEP modified formula, one of those factors is adjusted based on the number of years of covered employment. Those with fewer years of covered employment receive a lower factor, and therefore a lower retirement benefit.

For example, to calculate the normal retirement benefit for a someone who turns age 62 in 2012 and collects retirement benefits under the normal retirement benefit calculation, the first $791 of average monthly earnings is multiplied by 90%, the next $4,768 by 32%, and the remainder by 15%. The sum of the three amounts equals the total monthly retirement payment. The modified formula requires that the 90% factor is adjusted depending on the number of years of "substantial earnings" for the worker in question. For 2013, a worker must earn in excess of $21,075 to be considered "substantial". The following table shows how the 90% factor is adjusted, based on the number of years in which the worker had "substantial earnings".

Years of Substantial Earnings	Percentage Used in Calculation
30 or More	90%
29	85%
28	80%
27	75%
26	70%
25	65%
24	60%
23	55%
22	50%
21	45%
20 or Less	40%

The Windfall Elimination Provision reduces a worker's benefit in the first year of eligibility **before** the annual cost-of-living adjustment (COLA) is added to your benefit.

The maximum reduction amount that can be applied by the Windfall Elimination Provision is limited to one-half of a worker's pension from non-covered employment. The amount of the pension is determined by looking at the pension amount that is paid in the first month of concurrent entitlement to both Social Security and the pension from non-covered employment.

Exceptions to the Windfall Elimination Provision

The WEP will **not** be applied in the following situations:

- A worker receives Survivor's benefits based on someone else's work history.
- A worker has 30 or more years of substantial earnings under the previously discussed methodology.
- A worker's only pension is derived from railroad employment.
- A federal worker who was first hired after December 31, 1983.
- The worker was only employed in a job where he or she did not pay Social Security taxes occurred before 1957.
- A worker was employed on December 31, 1983 at a non-profit organization that did not withhold Social Security taxes at first, but began withholding Social Security from the worker's pay after that point.

When might benefits be affected by the GPO?

The GPO is very similar to the WEP in that it adjusts retirement benefits for those who are also receiving a pension from a federal, state or local government and who did not pay Social Security taxes. The difference is that the GPO rules apply to those receiving benefits on someone else's earnings history, such as spouse, divorced spouse or surviving spouse benefits.

What is the amount of the reduction?

The benefit received by the spouse, widow(er), or divorced spouse will be reduced by two-thirds of the government pension received. For example, if a spouse receives a monthly civil service pension of $1,000, two-thirds of that, or $667, must be deducted from that person's monthly Social Security benefit. If the spouse is scheduled to receive $800 per month in Social Security, that amount will be reduced to $133. This would be received in addition to the unreduced $1,000 monthly pension amount. Under the GPO, it is possible to have Social Security retirement benefits completely eliminated.

If a lump sum payment option is available, the Social Security Administration will still calculate the reduction as if you chose to get monthly benefit payments.

Exceptions to the Government Pension Offset

Generally, the GPO will not apply to Social Security benefits if:

- The recipient is receiving a government pension that is not based on his or her earnings.
- The recipient is a state or local employee whose government pension is based on a job where Social Security taxes were paid:
  - on the last day of employment and the worker's last day was before July 1, 2004, or
  - during the last five years of employment and the worker's last day was July 1, 2004 or later.
- The recipient is receiving a pension that is based wholly on service performed as a member of a uniformed service, whether on active or inactive duty.
- The recipient was a federal employee (including Civil Service Offset employees) who paid Social Security taxes on their earnings.
- The recipient was a federal employee who switched from the Civil Service Retirement System to the Federal Employees' Retirement System (FERS) on or before June 30, 1988. If the switch was made after June 30, 1988, five years under FERS is required to be exempt.
- The recipient received or was eligible to receive a government pension before December, 1982 **and** met all the requirements for Social Security spousal benefit in effect in January 1977, or
- The recipient received or was eligible to receive a federal, state, or local government pension before July 1, 1983 and was receiving ½ of their support from their spouse.

Social Security Planning Strategies

One of the biggest decisions a retiree and their family will face is when to start collecting Social Security retirement benefits. There are several basic issues that every worker should consider to help determine the appropriate age.

Continuing to Work While Receiving Benefits

While workers are eligible to begin benefits at age 62, many find that they are continuing to work well beyond that age. Until a worker reaches Full Retirement Age, income earned as an employee or while self-employed can greatly reduce, and even eliminate, retirement benefits. Once a worker reaches FRA, however, that person can have unlimited earnings and not see his or her Social Security benefit reduced. While the FRA varies based on your year of birth, it is generally between ages 65 and 67.

If a worker retires early, starting Social Security can be an easy way to replace a portion of that lost income stream. Immediate replacement of income should be weighed against the permanent reduction that takes place by taking a benefit before full retirement age.

If a worker decides to stop working yet defers benefits until a later age, the worker should also consider whether or not they have other income that can provide support until Social Security benefits are collected.

Health/Family History

The general rule of thumb on when to start receiving Social Security benefits is that the longer you expect to live, the better off you are deferring the start of your payments. If a worker or retired individual is in relatively poor health and expects his or her life expectancy will be shorter than average, it will likely be beneficial to start receiving Social Security benefits as soon as possible. On the other hand, individuals in relatively good health should consider delaying benefits as long as possible, as the likelihood of that person living the necessary number of years to collect more from the larger annual benefit is greater. Family health history also comes into play in this decision.

Other Retirement Income Sources

Having other sources of retirement income beyond Social Security can allow a retiree to defer the start of benefits, which can ultimately lead to a larger annual benefit. For example, personal investment accounts, an employer pension, or even part-time work during retirement can all help bridge the expense gap during the early years of retirement. When using investment accounts as an income source while deferring Social Security, there is an opportunity cost to consider. On the one hand, using personal savings in the early years of retirement allows you to take advantage of the delayed retirement credits you receive for deferring Social Security beyond your Full Retirement Age. On the other hand, perhaps that delayed retirement credit will be less than the investment return you could have earned on your personal savings

Unfortunately, there's no way to predict which option will provide you the best return. In addition, using personal savings sooner also eliminates liquidity that otherwise would be available for any unexpected expenses that may arise in the future.

Other Family Members May Be Entitled to a Benefit

A spouse, minor or disabled children, and dependent parents can all potentially be eligible to collect benefits based on one worker's earnings history. If that worker begins collecting a Social Security benefit, other family members may also be entitled to receive benefits, up to the family maximum. Taking benefits early and allowing other family members to receive benefits, even if for a relatively short time, could be more advantageous than deferring retirement and collecting a larger annual benefit later. It is important to consider the circumstances of each particular family's situation carefully before a decision can be made regarding when to begin benefits in this case.

Advanced Planning Strategies and Opportunities

The complexity of the Social Security retirement system can make determining when you receive a retirement benefit, and which benefit to take, seem overwhelming. The following planning ideas lay out some more advanced and lesser-known strategies that have been used successfully to help a worker and his or her family maximize their Social Security benefits over a lifetime.

The "File and Suspend" Strategy for Couples Who Have a Large Income or Age Discrepancy

One strategy to maximize Social Security retirement benefits for a married couple applies when one spouse has earned substantially higher income over their lifetime than the other spouse, or when there is a several year gap between the couple's ages. The Senior Citizens' Freedom to Work Act of 2000 allows a worker to "file and suspend" Social Security benefits once that person reaches his or her full retirement age. This allows the lesser earning spouse to collect spousal benefits early, and allows the higher earning spouse to continue working and defer benefits beyond full retirement age—enjoying an 8% delayed retirement credit to his or her benefit between full retirement and age 70. Once the higher earning spouse stops working, this higher benefit is then locked in for both of their lives. In addition, if the higher earning spouse predeceases the lesser earning spouse, the lesser earning spouse's smaller benefit steps-up to the deceased spouse's larger benefit.

A Strategy for Couples Who Have Similar Incomes

If a married couple has earned similar incomes over their lifetimes and their Social Security benefits would be comparable at the same age, a worker could file for only spousal benefits at full retirement age and delay the start of their own, higher benefit based on their earnings history. Later, they could switch to their own benefit based on their earnings history and would then be able to collect that higher benefit for their lifetime.

- **Example**: A husband and wife are both 66 years old and each is entitled to receive a monthly retirement benefit of $1,500 at that age. If she decides to retire and he wants to continue working, he can apply for

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spousal benefits based on her earnings history, which would be worth $750 per month in this example. He can then delay claiming a retirement benefit based on his earnings history until up to age 70. If he waited until age 70, his monthly benefit would be approximately $2,000. If he would predecease her, her survivor's benefit would also be $2,000, which she could continue receiving for the rest of her life.

It is important to note that if either a spousal benefit or a benefit based on a worker's own work history is taken before full retirement age, a permanent reduction is applied, even if they were to switch from one benefit to the other at some point in the future. The benefit can still increase, often times substantially, but a reduction for starting the benefit before full retirement age still applies.

Opportunity to Change your Social Security Retirement Date ("Do-Over" Option)

Because of the difficulty in picking the right start date for Social Security benefits, some retirees decide to begin their benefits as soon as they're eligible. After a period of time, they realize they would have been better off waiting to start. A little known provision in the Social Security rules allows retirees a "do over" when it comes to their decision on a start date.

Under this provision, you can file to suspend your benefits, pay back the total Social Security amount collected (without interest or penalties), claim a tax credit or deduction for any income taxes paid, and then re-file for the larger benefit amount that you would be entitled to at that later age.

New Rule

Effective December 8, 2010, a retiree will now be limited to one Social Security application withdrawal per lifetime, and this withdrawal must occur within 12 months of the first month of entitlement. In the eyes of the Social Security Administration, the change will still allow a retiree the flexibility to change benefits if their circumstances change after retirement, but close loopholes that other retirees were previously able to take advantage of.

The process for stopping your Social Security benefits and then starting them at a later date is described below:

- A retiree who is currently receiving Social Security benefits would submit the Request for Withdrawal of Application form (Form SSA-521) to the Social Security Administration. This would then stop all retroactive, current, and future benefits.
- The retiree would need to pay back all benefits collected up to that point. The amount that needs to be paid back is simply the total of all benefits received up until that point. No interest or penalties are required to be added to that amount.
  - Any income tax that was originally paid on the benefits could be recovered by either claiming a tax credit or an itemized deduction in future years.
- At a future date, the retiree would re-apply for retirement benefits. The benefit received would be based on the retiree's age at that time and also factor in any additional employment income that may have been earned over that time period.

Combining a Widow(er)'s Benefit with a Surviving Spouse's Own Retirement Benefit

A widow(er) has the ability to determine the best way to maximize their Social Security benefits by deciding when to take their own retirement benefit and when to take a surviving spouse's benefit. A widow(er) may decide to take the surviving spouse benefit for a period of time and then later apply for a full retirement benefit based on their own earnings history.

For example, a surviving spouse who has worked her whole life could claim the widow's benefit from age 60 through age 66, which is $500 per month based on her husband's prior work history. She could then re-file and replace the widow's benefit with a higher benefit of $1,300 per month based on her earnings history at her full retirement age of 67. This benefit would then last for the rest of her life.

It is also possible to do the opposite and take the retirement benefit for a period of time and switch to the surviving spouse benefit at a later age. This strategy works when a surviving spouse has an earnings history that would provide a smaller retirement benefit than what the widow's benefit would provide, could still meet their retirement income needs in the early years while taking the smaller benefit, and expects to live at least until their actuarial life expectancy.

Spousal Benefit vs. Widow(er)'s Benefit when Re-Marriage Occurs

There is an advantage to being able to receive a widow(er)'s benefit when compared to receiving a spousal benefit. Part or all of a spousal benefit could be lost if the divorced spouse's new spouse is under full retirement age and loses benefit by working and earning more than the Social Security limits. The widow(er)'s benefit, however, is unaffected by the new spouse's earnings.

Strategies for Minor Children when a Parent Begins Collecting Retirement Benefits

Older individuals who are widowers or divorced and later get remarried could marry into a family with younger children or start a second family. If the worker retires and begins receiving Social Security benefits, eligible dependent children will also receive a benefit worth up to 50% of the retired worker's PIA. This benefit can be reduced by the family maximum.

The proceeds received could be used to fund college savings accounts, such as a 529 plan. This could potentially stretch the Social Security benefit even further by offering tax free growth if the proceeds of the account are used for qualified education expenses.

Receiving a Lump Sum Payment After Voluntarily Suspending Benefits

If a worker voluntarily suspends their Social Security benefit after Full Retirement Age (FRA), the worker could request to receive all of the suspended benefits as a lump sum payment anytime between the ages of FRA and 70. However, the worker would *not* receive delayed retirement credits from age 66 through their current age. When their benefit resumes, the monthly amount would be reset to their benefit amount at age 66, rather than their current age.

- **Example:** Brad files for Social Security benefits and immediately suspends receipt of his monthly check at age 66. At age 69, Brad becomes ill and incurs a large, unforeseen medical expense. Because of his illness, Brad would now benefit more from receiving a lump sum cash payment than receiving a higher monthly Social Security benefit going forward. Brad chooses to reinstate his voluntarily suspended benefits. This results in Brad receiving a lump sum payment of all benefits he would have collected from age 66-69. Going forward, his monthly Social Security benefit will be based on the amount he would have received at age 66, adjusted for inflation. The cost of receiving the lump sum payment is that he will not receive the delayed retirement credits he would have earned by waiting until age 69 to start collecting benefits.

This option minimizes the risk of waiting to receive benefits. If a retiree chooses to delay claiming retirement benefits in order to earn delayed retirement credits, they run the risk of not living long enough beyond the delayed retirement age to receive enough of the larger payments to make up for missing out on the benefits they would have received at an earlier age. This option allows for a worker to delay receiving benefits in hopes of receiving a higher monthly payment later while also ensuring that a surviving spouse will receive the highest possible survivor benefit, yet still allows for them to change their mind and receive a lump sum payment if their circumstances should change before age 70.