

An Overview of Social Security for Retirees

For many retirees, a major source of their retirement income will come from their Social Security benefits. However, for such an important facet of retirement, many people don't know the facts about their options – do you? The series of questions that follow can help you learn some of the basics about your benefits and can help you decide when you should begin taking them.

How Does Social Security Work?

Throughout your working life, Social Security contributions are paid by you and your employer. Your contributions are deducted from your paychecks from the time you begin working. Your employer contributes a matching amount each paycheck. These contributions are made to support the Social Security program which pays for retirement benefits, survivor's benefits, and disability insurance.

When am I eligible to receive Social Security benefits?

Generally, the earliest you will be eligible for Social Security is age 62. You won't be eligible for full benefits until you reach your full retirement age (FRA), and you may be able to receive increased benefits if you delay receiving them until after your FRA.

If you live to the average life expectancy for someone your age, you will generally receive about the same amount in lifetime benefits no matter whether you choose to start receiving benefits at age 62, FRA, age 70, or any age in between. However, monthly benefit amounts can differ substantially based on your retirement age. Basically, you can receive lower monthly payments for a longer period of time or higher monthly payments over a shorter period of time. The amount you receive when you first get benefits sets the base for the amount you will receive for the rest of your life, though you may receive annual cost-of-living adjustments.

Early Retirement

Absent death or disability, the earliest age at which you can begin getting Social Security retirement benefits is 62. If your full retirement age is older than 65 (that is, you were born after 1937), you can still choose to take your retirement benefits at age 62; however, the reduction in your benefit amount will be greater than it had been in the past. Here's how it works. If your full retirement age is 67, the reduction for starting your benefits at...

- ...age 62 is about 30 percent;
- ...age 63 is about 25 percent;
- ...age 64 is about 20 percent;
- ...age 65 is about 13 and 1/3 percent; and
- ...age 66 is about 6 and 2/3 percent.

It is possible that early retirement will give you about the same total Social Security benefits as full retirement over your lifetime, but those benefits will come in smaller amounts to take into account the longer period you will receive them.

Whether or not you should start collecting Social Security benefits early and receive a smaller monthly amount for a longer period of time depends greatly on your personal situation. Your income needs at the time, your marital status, and your health will all play into that decision. Either way, it is important to remember that the amount you receive when you start taking benefits sets the base for the amount you (and potentially your spouse) will receive for the rest of your life.

Important note on reduced benefits: You may also be entitled to payments based on your spouse's employment history. When you apply for reduced retirement benefits, the Social Security Administration will check to see if you are eligible for both your own retirement benefits and for benefits as a spouse. If you are eligible for both, they will always pay your own benefits first. If you are due additional benefits, you will get a combination of benefits equaling the higher spouse's benefit. If you are not eligible for both because your spouse is not yet entitled, but you are due a higher amount when he or she starts receiving Social Security benefits, then the higher spouse's benefit is payable to you when your spouse applies for retirement benefits. You cannot receive spouse's benefits until your spouse files for retirement.

Full Retirement Age

Your FRA is based on your date of birth. You can refer to the chart below to determine what your FRA is.

Year of Birth	Full Retirement Age
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

Note: If you were born on January 1st of any year you should refer to the previous year.

If you wait until your FRA to receive your Social Security benefits, you will receive your “normal” benefits.

Delayed Retirement

If you delay your retirement until after you reach your FRA, the Social Security Administration will automatically increase your annual benefit each year you delay taking benefits up to age 70. The increase can be substantial — approximately 7% to 8% per year, before inflation. When you choose to receive a delayed benefit, your monthly benefit will increase but you will not receive as many payments.

For example, if you were born in 1943 and chose to begin collecting Social Security at 68 instead of at your full retirement age of 66, your benefits would increase monthly up to a total annual rate of 8%. If you delayed your benefits for two years, a \$1,000 monthly payment at FRA would grow a total of 16% to \$1,160 per month.

When considering when to take your Social Security benefits, you will want to estimate how long you think you will live in retirement. This will help determine whether it is more beneficial for you to wait and get a higher payment, or to begin taking your benefits earlier, but over an extended period of time. The right answer is highly personal and depends on a number of factors, such as your current cash needs, your health and family longevity, whether you plan to work in retirement, whether you have other retirement income sources, your anticipated future financial needs and obligations, and, of course, the amount of your future Social Security benefit. You will want to weigh all the facts carefully and consider your own circumstances before making the important decision about when to begin receiving Social Security benefits.

How do I calculate what my benefits will be?

To estimate what your Social Security benefits will be, you can access the Social Security Administration's Benefits Planners online at www.socialsecurity.gov/planners. As an alternative, you can look at your individual Social Security Statement. This is a concise, easy-to-read personal record of the earnings on which you have paid Social Security taxes during your working years and a summary of the estimated benefits you (and your family) may receive as a result of those earnings.

Your statement should include three dollar amounts – the amount you would receive at age 62, at FRA, and at age 70. These figures are estimates in today’s dollars; by the time you actually begin taking your benefits they are likely to be higher due to annual adjustments made based on an inflation rate. The exact amount of your Social Security benefit will depend upon your earnings history. The amount you receive is based on your highest 35 years of income. If you work for less than 35 years, the amount included in the calculation for years you don’t work will be \$0.

Can I collect Social Security benefits and still work?

Just because you begin collecting Social Security benefits doesn’t mean you have to quit working. However, until you reach your FRA, your benefits will be reduced if your earned income (from wages or net self employment; not from pensions, dividends, interest or 401(k)/IRA distributions) exceeds certain limits. If you are younger than your FRA, \$1 will be deducted from your benefits for each \$2 in earnings you receive above the annual limit (\$15,720 in 2015). In the year you reach your FRA, your benefits will be reduced by \$1 for every \$3 you earn over the annual limit (\$41,880 in 2015) until the month before you reach FRA. Starting with the month you reach your FRA, though, you will receive your full Social Security benefits regardless of how much you earn.

Example: Tom was born in 1952. He is currently age 63, and his FRA is 66. Tom has 2015 earnings of \$30,000. He would receive an estimated reduction of benefits of \$7,140. Here’s how this was calculated:

$$\begin{array}{r} \$30,000 \text{ (earnings)} \\ - \$15,720 \text{ (earnings limit)} \\ \hline \$14,280 \text{ (amount subject to reduction)} \end{array}$$

\$14,280 (amount subject to reduction) / 2 (because \$1 is deducted for every \$2 over limit) = **\$7,140** (amount of Tom’s reduction)

Are Social Security benefits taxable?

Some people have to pay federal income taxes on their Social Security benefits. This usually happens only if you have other income (such as wages, self-employment, interest, dividends and other taxable income that must be reported on your tax return) above certain limits in addition to your benefits. No one pays federal income tax on more than 85 percent of his or her Social Security benefits based on Internal Revenue Service (IRS) rules. If you:

File a federal tax return as an “individual” and your combined income* for 2015 is between \$25,000 and \$34,000, you may have to pay income tax on up to 50% of your benefits. If your combined income for 2015 is over \$34,000, you may have to pay income tax on up to 85% of your benefits.

File a joint return and you and your spouse have a combined income* for 2015 that is between \$32,000 and \$44,000, you may have to pay income tax on up to 50% of your benefits. If your combined income for 2015 is over \$44,000, you may have to pay income tax on up to 85% of your benefits.

Are married and file a separate tax return, you probably will pay taxes on your benefits.

**Note: Your combined income is calculated using the formula below:*

$$\begin{array}{l} \text{Your adjusted gross income (AGI)} \\ + \text{Nontaxable interest} \\ + \text{1/2 of your Social Security benefits} \\ = \text{Your “combined income”} \end{array}$$

Each January you will receive your Social Security Benefit Statement (Form SSA-1099) showing the amount of benefits you received in the previous year. You can use this statement when you complete your federal tax return to find out if your benefits are subject to tax. For more information about taxation of benefits, see IRS Publication 915, Social Security and Equivalent Railroad Retirement Benefits.

Other strategies to consider

There are many different strategies you can employ to get the most out of your Social Security benefits. This is especially true for married individuals where both spouses qualify for benefits. Some additional strategies you may want to consider are:

- Have both spouses delay taking benefits past their FRAs – to age 70 if possible. Social Security benefits can be viewed as a form of longevity insurance. With that in mind, many will delay the start of their benefits so that they can receive the maximum amount in the event they live a longer-than-projected lifetime.
- Take benefits at full retirement age or earlier and invest them indefinitely in an after-tax retirement account. At age 70, begin spending any subsequent Social Security benefits received.
- Have one spouse receive reduced retirement benefits at age 62 under their own record and then have the spouse with the highest earnings record wait to take benefits until their FRA or older.
- If you're divorced after ten years of marriage and haven't remarried you can claim a benefit not only on your own work record but also on your spouse's. While you cannot collect those benefits simultaneously, in some instances, you can get them consecutively: you can file first to get a spousal benefit, and then later to get your own benefit after it has grown as big as possible.
- A note about the inevitable. For a married couple, when the first spouse dies, if the surviving spouse is between ages 62 and 70 and has not begun taking their own benefits, he or she can withdraw whatever percentage of the deceased spouse's benefit they are eligible to take and can delay taking their own benefits until age 70 when that amount may be higher than what they have been receiving.

Important Information and Additional Resources

It is important to note that this Q&A represents general facts regarding the Social Security benefits program. This is not an all-encompassing guide and does not assess each individual's personal situation. Professional advice can be a valuable aid in determining what you might be entitled to and whether it is worthwhile to pursue.

For more information on Social Security, to estimate benefit amounts and find more information to help you decide when to start receiving retirement benefits, look at the Social Security Administration's Benefits Planners online at www.socialsecurity.gov/planners. When you're ready to apply for benefits, you also can apply online at www.socialsecurity.gov/applyforbenefits. Many people can continue to work and still receive retirement benefits. If you want more information on how earnings affect your retirement benefits, call the Social Security Administration and ask for How Work Affects Your Benefits (Publication No. 05-10069), which has current annual and monthly earnings limits.

A wealth of other information – including copies of publications – is available on the Social Security Administration's website at www.ssa.gov.

Contact your Oppenheimer & Co. Inc. Financial Advisor today for more information regarding your retirement and how Social Security benefits can help you reach your goals!