Build a Strong Foundation of Retirement Income

9 Tips to Help Navigate Your Social Security Decision

For most people, Social Security is the foundation on which a retiree's retirement income is built. Is it yours?

Estimates indicate that 50% of retirees will rely on Social Security for more than half of their income in retirement.[1] Coupled with the fact that life expectancy continues to rise, many retirees are faced with the challenge of making other sources of retirement savings stretch over a longer period of time.

Having a full understanding of strategies to enhance Social Security benefits before making a claiming decision is one way to ease the drain on other retirement assets. Another way is to fully appreciate the importance of making your decision within the framework of your entire retirement income landscape. Here are nine tips designed to help you make an informed choice, based on your unique goals and circumstances.

1. Work 35 years, if possible

Social Security benefits are calculated based on your highest 35 years of earnings. Your Primary Insurance Amount (PIA) is the amount you can expect to receive at your full retirement age based on your earnings history. If you have less than 35 years of earnings, the other years will be counted as zero earnings years, resulting in a lower benefit.[2] Working longer not only replaces no or low earnings years with higher earnings and increases your benefit, it may also require less of a strain on your retirement savings. Continuing to work even once payments are received could potentially increase your benefit amount if the most recent year of income replaces a lower earnings year in the calculation of your PIA.

2. Know your Full Retirement Age (FRA)

You must know your full retirement age to understand how the age when you file for benefits will affect the benefit you receive. If you collect benefits at your full retirement age, you can expect to receive 100% of your PIA. Your FRA is based upon your year of birth, as indicated in the chart below.

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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 after	67

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

If you claim at age 62 (the earliest age you're entitled to a retirement benefit) you can expect to receive a permanently reduced benefit, based on the number of months prior to your FRA you claim. For example, an individual whose full retirement age is 66 can expect to receive 75% of his PIA, while an individual whose FRA is age 67 can expect to collect 70% of his PIA[3] at age 62.

Conversely, for each month beyond your FRA month you delay claiming your benefit, you will earn two-thirds of 1% on your benefit, for a maximum of up to 8% in a 12-month period. This is called a delayed retirement credit.[4]

Hypothetical example:

Let's assume that Jack has an estimated Primary Insurance Amount of $2,680 at his full retirement age of 66 and 8 months. If he collects his benefit at age 62, he will receive a reduced benefit of $1,921 ($2,680 x 71.67%) because it is assumed that he will collect it longer. However, if Jack waits until age 70 to file for his benefit, he can expect to collect $3,430 for the rest of his life ($2,680 x 42 months at two-thirds of 1%, or 8% for every 12 months).

3. Be mindful of your spouse in a break-even analysis

No one has a crystal ball to determine exactly how long they will live. If you expect to live less than the average person, then it may make sense to file for benefits early. Conversely, if longevity exists within your family, waiting to file later might make more sense. However, do not discount the effect of the claiming age decision on your spouse. A breakeven analysis that only considers the lifetime of one spouse can be problematic. Often, married couples are unaware of the potential effect of the higher benefit earner's claiming age decision on the surviving spouse's income. When one spouse dies, only the amount of the higher earner's benefit remains. For example, if the higher earning spouse files at age 62 for a reduced benefit, the surviving spouse will collect this reduced benefit upon the death of the first spouse. Conversely, if the higher earning spouse waits until later to file, the surviving spouse also benefits from this decision as the survivor. According to a recent report by the Social Security Administration, married couples at age 65 today have a 50/50 chance of at least one spouse living to beyond age 90. Therefore, it is important to keep this in mind when planning for the income of the surviving spouse.[5]

Hypothetical example:

Let's go back to Jack for a moment. Suppose Jack is married to Jane, who worked sporadically and has an estimated benefit at FRA of $600. If Jack claims at age 62, because he thinks that he won't live beyond 75, Jane will be left with his reduced benefit of $1,921 and her lower benefit will disappear. Conversely, if Jack had waited to age 70, Jane would be entitled to the delayed retirement credits he earned while he was alive, collecting $3,430 for the rest of her life.

Therefore, married couples should be aware of how the claiming age decisions they make can

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impact the income of the survivor, particularly when there is a disparity in income benefits between the two spouses.

4. Be aware of the one-time do-over to increase future benefits

If you file for benefits and later change your mind within 12 months of filing your initial claim, you may withdraw your application and re-apply at a future date. You may only withdraw and re-apply once. You must also pay back all the benefits that you collected, as well as any benefit collected by others on your record, and any Medicare premiums. By withdrawing your application, you may re-apply in the future for a larger benefit payment. Contact the Social Security Administration (SSA) to determine the exact amount that you must repay. If you do not have the money to pay back the benefits, or if 12 months has passed since you filed, there is an option to suspend your payments, but only if you have reached your FRA. You may then continue to earn delayed retirement credits during the period of suspension up to your age 70. However, any benefits that are being paid to others on your record will also be suspended until you re-apply for benefits later.[6]

5. Think twice before collecting benefits while working

If you claim benefits while you work, and you have not yet reached your full retirement age, your benefits may be withheld due to an annual earnings limit. If you are under your FRA for the entire year and earn more than $18,240 in 2020, $1 for every $2 over the annual earnings limit will be withheld from your benefits. In the year that you reach full retirement age, $1 for every $3 over the annual earnings limit of $48,600 (2020) will be withheld from your benefits. This reduction is in addition to the reduction for collecting your benefit prior to your FRA. Once you reach your full retirement age, the annual earnings limit no longer applies and any benefits previously withheld will be restored in the form of higher monthly benefit payments to account for the previously withheld amounts.[7] However, if SSA is not made aware of your plan to continuing working while under FRA at the time you file, you may be faced with a request to pay back the benefits received based on your income over the annual limit. You may also be subject to taxes on a portion of your benefits due to your earnings, which is discussed next.

6. Don't discount the impact of taxes on your benefit

If you have other sources of income in retirement, a portion of your Social Security benefits may be subject to income taxes. Whether you pay taxes depends upon your "combined income" and your tax filing status.[8]

To determine combined income:

Adjusted Gross Income
+ Nontaxable Interest
+ 1/2 of Your Social Security Benefits

= Combined Income

If you are single and your combined income is:	
< $25,000	none of your benefit is taxable
$25,000 - $34,000	as much as 50% is taxable
> $34,000	as much as 85% is taxable

If you are married and your combined income is:	
< $32,000	none of your benefit is taxable
$32,000 - $44,000	as much as 50% is taxable
> $44,000	as much as 85% is taxable

Combined income is calculated using household income, not just the income of the person collecting a benefit. Other sources of income, such as pension payments, continued work by one or both spouses, required minimum distributions, and municipal bond interest may create an unanticipated tax liability on

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your benefits for which you are unprepared. Proper planning, ideally ahead of time, is important to minimize the impact of taxes on your benefit.

7. Don’t forget about other benefits to which you may be entitled

Did you know that, even if you are not entitled to your own Social Security benefit, you may be entitled to benefits based on the record of someone else? Spousal, ex-spousal, caregiver, dependent children, and survivor benefits, even for ex-spouses, are benefits that are often overlooked. Knowing your options is the first step to ensuring that you are optimizing the income to which you are entitled. If you are entitled to your own retirement benefit and are entitled to another benefit, such as a spousal benefit, you will typically collect the higher benefit of the two, but not both. Therefore, it is very important that you take steps to ensure that the Social Security Administration has record of your eligibility for more than one type of benefit.

Special opportunity for individuals born prior to January 2, 1954:

If you are entitled to both your own retirement benefit and a spousal or ex-spousal benefit, you have another option. At your full retirement age of 66 or later, you may file a restricted application for the spousal or ex-spousal benefit and delay claiming your own benefit until later. By doing so, your retirement benefit will earn delayed retirement credits up to the month in which you file or age 70, whichever is earlier, while you are collecting the other benefit. For more information, visit www.ssa.gov and enter “deemed filing FAQs” in the search box.[9]

8. Review your Social Security statement at least annually for accuracy

You should make it a habit to review your Social Security statement once per year, much like you would your credit report. Your Primary Insurance Amount is calculated based upon the earnings reflected on your statement. You can also gather helpful information about your benefit estimates, benefits for your family, and information about Medicare eligibility, along with what to do if you find an error in the information on your statement. Gain instant access to your most recent Social Security statement by visiting www.ssa.gov and signing up for *my Social Security* from the homepage.

9. Be prepared when filing for benefits

Understanding your options when filing your claim is important to ensure that you make the most out of the benefits that you receive. If you have questions, write them down prior to making an appointment. Understand that the SSA representative is not permitted to provide guidance to you as to what claiming strategy is best, given your circumstances.

Finally, consider your entire picture. There are a variety of factors to consider when making an informed Social Security claiming decision. Examples include: your health, how your sources of retirement income may impact your benefit, survivor protection if you are married, and benefits for family members. Working with a knowledgeable financial and tax professional who can help guide you by reviewing your unique situation can help you be more equipped to make an informed decision regarding your retirement income strategy. Visit www.ssa.gov for more useful information.

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