Social Security and You

A Retiree's Guide to Social Security

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Benefits of Social Security

We can never insure one hundred percent of the population against one hundred percent of the hazards and vicissitudes of life, but we have tried to frame a law which will give some measure of protection to the average citizen and to his family against the loss of a job and against poverty-ridden old age.

- **President Roosevelt upon signing the Social Security Act**

Social Security was created in the midst of the 1930s Great Depression. A self-financing program that collects payroll taxes from workers to payout benefits to retirees. This national pension plan offers a few key provisions that provides a base for retirees to plan their retirement years around.

1. A set amount of income – Near the end of your working career, your social security amount is fairly determined. Making retirement income planning a bit easier.
2. Steady income – Once you claim your Social Security benefit, the amount of income you will receive is set. While stories float around in the news about benefits being cut, it is highly unlikely that benefits will be cut for current retirees.
3. Lifetime income – Social Security will pay your benefit for your entire lifespan. The first recipient of Social Security continued to receive her check until her death at age 100.
4. Inflation Adjusted Income – Your benefits are adjusted annually using the previous year's Consumer Price Index. Historically this has been around 2.5%.
5. Survivor Benefits – Benefits are paid to surviving spouses and dependents.

Eligibility for Benefits

For 60 years, Social Security has meant more than an ID number on a tax form; more than a monthly check in the mail. It reflects our deepest values – our respect for our parents and our belief that all Americans deserve to retire with dignity.

- **President Clinton**

Upon starting your first job, whether it was scooping ice cream at the local Dairy Queen, or hanging drywall during the summer, you started to pay into the Social Security system.

You become eligible for benefits when you have 10 years at a Social Security covered job. More precisely you need 40 credits. You can earn up to 4 credits in a calendar year by earning a certain dollar amount. If you earn 4 credits a year for 10 years you have your 40 credits and are eligible for basic benefits under the Social Security system. These same credits also apply to Medicare eligibility.

You are first eligible to claim benefits at age 62. You also have a Full Retirement Age (FRA) between 66 and 67 depending on your birth year. In 1983 a law was passed increasing the age from 65 for those born before 1938 to 67 for those born in 1960 or after. You can find your FRA in the chart to the right. This will come in later when discussing when to claim your benefit.

Birth Year	Full Retirement Age
1955	66 + 2 months
1956	66 + 4 months
1957	66 + 6 months
1958	66 + 8 months
1959	66 + 10 months
1960	67

Fig. 1

Benefit Calculation

It does not do to leave a live dragon out of your calculations, if you live near him.

- J.R.R. Tolkien

While this section will detail how to calculate your benefit, you do NOT have to do this yourself, there are numerous online calculators and Social Security will provide you with your benefit amounts as well. However, some people like peeking behind the curtain to see the wizard of OZ.

The exact amount of your Social Security benefit is not calculated until you turn 62. At that time, Social Security takes your annual income for the years you worked and indexes it for inflation. Social Security then takes the 35 highest years and tallies them together. This total is divided by 420 (35 years x 12 months) to arrive at your average indexed monthly earnings (AIME).

Year	Maximum earnings subject to Social Security Tax	Year	Maximum earnings subject to Social Security Tax
1978	17,700	2001	80,400
1979	22,900	2002	84,900
1980	25,900	2003	87,000
1981	29,700	2004	87,900
1982	32,400	2005	90,000
1983	35,700	2006	94,200
1984	37,800	2007	97,500
1985	39,600	2008	102,000
1986	42,000	2009	106,800
1987	43,800	2010	106,800
1988	45,000	2011	106,800
1989	48,000	2012	110,100
1990	51,300	2013	113,700
1991	53,400	2014	117,000
1992	55,500	2015	118,500
1993	57,600	2016	118,500
1994	60,600	2017	127,200
1995	61,200	2018	128,400
1996	62,700	2019	132,900
1997	65,400	2020	137,700
1998	68,400	2021	142,800
1999	72,600	2022	147,000
2000	76,200	2023	160,200

For an example we will use Mark Senior. Mark was born in 1959 and has earned the Social Security maximum throughout his career. The maximum wages that are taxed by Social Security is adjusted each year. When his earnings are indexed and applied to the AIME formula he has a AIME of $11,098.

This AIME amount is then applied to a Primary Insurance Amount (PIA) formula. This formula uses 3 bend points to arrive at your Primary Insurance amount, or what your Social Security benefit would be at your Full Retirement Age (FRA).

AIME = 11,098
The first $996 of the AIME is multiplied by 90%

- 996 x .90 = $896.40 (A)

The amount between $996 and $6,002 ($5,006) is multiplied by 32%

- 5,006 x .32 = 1,601.92 (B)

Any remaining amount of the AIME over $6,002 is then multiplied by 15%

- 5,096 x .15 = 764.40 (C)

Adding A,B and C together would give us a PIA of 3,262.72. This is the amount Mark would receive if he waits until his Full Retirement Age of 66 and 10 months.

Applying for Benefits

A bird in the hand is worth two in the bush.

- **Miguel de Cervantes**

While your PIA is at your FRA, you can claim Social Security benefits as early as 62. However, doing so, would lower the benefit you receive and your benefit amount would stay lower for the remainder of your life vs. taking it at your FRA. You can find your reduction percentage by referencing the chart on the next page.

Year of Birth	FRA	% of Full Benefit if claiming at Age 62	A $2000 benefit at FRA would be
1943-1954	66	75%	$1,500
1955	66 + 2 months	74.17%	$1,483.40
1956	66 + 4 months	73.33%	$1,466.60
1957	66 + 6 months	72.50%	$1,450.00
1958	66 + 8 months	71.67%	$1,433.40
1959	66 + 10 months	70.83%	$1,416.60
1960	67	70%	$1,400

Fig. 3

If we look at Mark Senior's reduction amount if he claimed at age 62, taking his PIA of $3,262 multiplied by 70.83%, he would receive $2,310 for the rest of his life. The only way to increase this amount is through COLA's or possibly working longer to increase his AIME.

A question that many retirees have is "What is the breakeven point in claiming my Social Security benefit at 62 vs. FRA?" Without factoring in COLA's we can compare both Mark Senior's FRA Amount and the amount he would receive at 62. Claiming at age 62 is <u>58</u> months before his full retirement age. We take his reduced amount of $2,310 and multiply by the number of months before his FRA (58) to get a total of $133,980. Then we need to take the difference between Mark at 62's reduced amount and Marks full FRA amount. (3,262 – 2,310 = 952) We then divide the accumulated total of Mark (62) (133,980) by the difference between monthly benefits (952) to get (133,980 / 952 = 140 months or nearly 12 years). Thus, the breakeven point would be around age 79 (67+12).

If you plan on working past your FRA or do not plan on taking Social Security until later, the Social Security Administration grants you an 8% per year (pro rated monthly) increase on your PIA benefit regardless if you are working or not. If Mark would wait until age 70 he would have an increase of 25.34% or a benefit of $4,088.

Spousal, Divorcee and Widow Benefits

If you marry a monkey for his wealth, the money goes, but the monkey remains as is.

- **Egyptian Proverb**

When Social Security was first established many women did not work outside the household. To provide for their wellbeing in retirement, Social Security allows spouses to claim 50% of their spouse's benefit.

If Mark is married to Cindy, who stayed at home raising the children and has little to no Social Security earnings, she could claim 50% of Mark's benefit when she reaches her FRA. So claiming at FRA, Mark would receive his full amount of $3,262 and Cindy would receive $1,631. If Cindy applies at age 62, much like Mark, she would receive a reduced benefit of only 33% of Mark's PIA or only $1,076.50. Social Security does not give any delayed credits to Spousal Benefits for waiting after your FRA, although Cindy would receive 50% of Mark's benefit if he waited until 70 to apply, thus increasing both benefits.

There are some claiming strategies available to some retirees surrounding Spousal Benefits. Many of them were phased out with the Bipartisan Budget Act of 2015. To use these older strategies a retiree had to be Age 62 prior to January 2nd 2016.

Now, if Mark was previously married to another person (Linda for example) she would also be eligible to claim a benefit off Mark's work record. There are some rules surrounding this however. The previous marriage had to last at least 10 years. The primary worker (Mark) has to be at least 62 years old. If the divorce was longer than 2 years ago, Mark does not have to be claiming his benefits for Linda to start hers. Linda also has to be unmarried currently. If she remarries in the future she would lose access to Mark's benefit. Linda does not need to know where Mark currently lives or his earning history. She only needs to provide proof of the marriage and divorce to Social Security so they can look him up and give Linda what her benefit would be. The divorcee benefit is the same as a spousal benefit, in that Linda would receive 50% of Mark's PIA if she claims at her FRA.

There are some claiming strategies still available for divorcees. An Ex-spouse can take the Ex-Spouse benefit and delay claiming their own, a useful strategy if a divorcee wants their benefit to gain from the delayed credits up to the age of 70.

When a spouse passes, the surviving spouse can switch their benefit to a survivor benefit. The survivor benefit will equal 100% of the deceased spouses benefit. When a spouse claims the survivor benefit their own benefit ends. Looking at Mark and Cindy will illustrate this. Mark claims his benefit at his FRA age and receives $3,262 a month. Cindy also claims her spousal benefit for $1,631 at her FRA age. Mark passes away. Cindy then can claim a survivor benefit of $3,262, but loses her benefit of $1,631.

The survivor spouse will receive the current benefit that the deceased was earning. So if Mark claimed later and had a larger benefit thanks to the delayed credits, Cindy would receive this larger amount when she switched to the survivor benefit.

Working and Social Security

Working 9 to 5. What a way to make a living!

- **Dolly Parton**

Social Security applies an Earnings Test Limit to people who want to claim Social Security benefits prior to their FRA and continue to work. This earnings test limit can eliminate your entire Social Security check if you earn enough over the limit.

In 2024 if you are below your FRA the earnings limit is $22,320. For every 2 dollars you earn above that amount Social Security will withhold $1 in benefits. In 2024 if a person has a $2,000 a month Social Security Benefit or 24,000 a year and earns $70,320 at their place of employment, Social Security will withhold their entire check and they will not receive their monthly benefit. This is because the $70,320 is $48,000 more than the earnings limit of $22,3200 and is double the $24,000 they would make from Social Security.

In the year you turn your FRA this earnings limit increases to $59,520. It also increases the withholding rate from $1 for every $2 over to a more generous $1 for every $3 over. Once a person turns their FRA they can earn has much as they wish without any earnings test being applied. This earnings test is only applied for people who are working and claiming Social Security benefits.

Pensions and Social Security

I'd make a pretty good president, and they have a great pension plan.

- **Pat Paulsen**

If you worked for an employer who did not deduct Social Security taxes while you worked there and instead invested in a Pension plan, your Social Security benefits may be slashed. Under the Windfall Elimination Program Provision passed by Congress in 1983, retirees who are eligible for both Social Security and a Pension from a job where you did not contribute to the Social Security system, you may not be able to receive your full benefit.

This is a common occurrence when someone works a career in teaching or another government related position and took an early retirement and then worked for another company who did pay into the Social Security system. Your benefit from Social Security would be effected by the Pension from the former job.

This pension offset can also affect Spousal benefits under the Government Pension offset program. More information about both the Windfall Elimination Program and the Government Pension offset program can be found on the Social Security website.

Taxes and Social Security

I am proud to be paying taxes in the United States. The only thing is I could be just as proud for half the money.

- **Arthur Godfrey**

Social Security benefits are eligible for taxation, depending on how much other income you have. This income is from all sources, not just earned income, such as IRA withdrawals, Pension benefits, and even tax-free income such as municipal bonds. If your modified adjusted gross income plus one-half of your social security benefits, plus any tax-exempt interest you receive falls between $25,000 and $34,000 for an individual filer or $32,000 to $44,000 for those filing a joint return, up to 50% of your Social Security benefit is eligible to be taxed at your current tax rate. If your income is over $34,000 for an individual or $44,000 for a joint filers, up to 85% of your Social Security income is taxable.

These amounts were set in 1983 and have not been adjusted. As incomes have risen and Social Security benefits increased over the years, more and more retirees have to pay taxes on their Social Security benefits. About one-third of Social Security recipients are currently paying taxes. It is advised that you speak with a tax accountant when planning on taxes and Social Security.

Social Security is a key cornerstone in anyone's retirement. Seniormark provides detailed reports and guidelines in helping retirees in deciding how Social Security will fit into their retirement plans. We provide this service free to retirees. Please give us a call or send us an email to schedule an appointment today.

- 937-492-8800 or admin@seniormark.com

Appendix

AIME	Average Income Monthly Earnings – A figure used by Social Security to determine your Primary Insurance Amount (PIA). It comes from your highest 35 working years divided by 420.
COLA	Cost of Living Adjustment – A percentage used by Social Security to increase retirees benefits each year.
FRA	Full Retirement Age – The age when you are eligible for your full Social Security amount with no reductions. Ranges from 66-67.
PIA	Primary Insurance Amount – The Social Security Benefit you will receive at your Full Retirement Age.
WEP	Windfall Elimination Program – Effects the workers Social Security Benefit when they worked at a job that did not pay into Social Security.
GPO	Government Pension Offset – Effects the spousal and survivor benefits when the spouse worked at a job that did not pay into Social Security.