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CHAPTER 13

WHAT YOU NEED TO KNOW ABOUT SOCIAL SECURITY

INTRODUCTION

It is important for workers and their families to understand how Social Security benefits fit into the overall plan for financing retirement years. The Social Security Administration (SSA) generally provides workers and their spouses certain basic retirement benefits, payable monthly for life. A worker's retirement benefit at full retirement age is based on their average indexed wages over a work history of up to 35 years. Spousal benefits are calculated based on the worker's Social Security benefits. The following is an overview of the basic Social Security retirement program.

A. Timing Retirement

The chart below outlines when workers reach full retirement age under Social Security.

Year of Birth	Full Retirement Age
1943–1954	66
1955	66 + 2 months
1956	66 + 4 months
1957	66 + 6 months
1958	66 + 8 months
1959	66 + 10 months
1960 and later	67

*If you were born on Jan. 1 of any year, you should refer to the previous year. If you were born on the first of the month, your full retirement age will be determined as of the immediate previous month.[1]

Individuals do not have to wait until their full Social Security retirement age before they can begin taking benefits. Instead, an individual may elect to begin taking Social Security benefits as early as age 62, but the monthly amount will be reduced to reflect the longer period over an individual's lifetime during which payments will be made. Alternatively, an individual can delay receiving retirement benefits until after reaching the Social Security retirement age, up to age 70. By delaying the start of payments, each monthly amount will be increased above the monthly amount otherwise due at early or full retirement age to account for the shorter period of an individual's lifetime during which monthly payments will be made. Delaying Social Security payments past age 70 will not further increase the monthly Social Security payment.

Social Security benefits are eligible for cost-of-living (COLA) adjustments.[2] The COLA adjustment for 2022 is a 5.9% increase from the previous year.

There are three different windows for beginning monthly retirement payments:

- **Early Retirement:** An individual may begin collecting Social Security benefits before full retirement age, and as early as age 62, but the monthly payments are reduced to account for the longer period of one's life that benefits will be paid. If an individual's health status is precarious, choosing early retirement benefits may be prudent if one is not expected to live to one's life expectancy.[3] If an individual continues working past age 62, the amount of Social Security payments may be reduced further to account for that work *(see D, How Working Affects Benefits).*
- **Full Retirement:** Once an individual reaches full retirement age *(see chart on this page)*, they may elect to begin receiving the primary insurance amount based on their highest average indexed earnings during a work history of up to 35 years. Working past full retirement age at lower wages will not result in a reduction of Social Security payments *(see D, How Working Affects Benefits).*
- **Delayed Retirement:** Between full retirement age and age 70, monthly payment amounts will be increased to reflect the shorter period over which they will be paid. Benefit payments delayed to age 70 will not be reduced if the individual continues working past age 70 at lower pay.

Helpful Tip: Individuals are advised to contact the SSA for a personal calculation and not to rely on the general calculators. Merely requesting the information does not trigger the benefit.

B. Factors Affecting the Calculations

Average earnings over a work history of up to 35 years based on Social Security records for Federal Insurance Contributions Act (FICA) and Self-Employment Contributions Act (SECA) taxes paid by the individual are used to calculate the amount of the retirement benefit.[4] That amount is called the primary insurance amount (PIA), and it is used as the basis for any retirement, dependents' or survivors' benefits paid on that person's record. The calculation also pays a higher percentage benefit amount for replacement of pre-retirement earnings to individuals with lower lifetime earnings.[5] Working past retirement age, whether or not an individual's Social Security payments have begun, can increase the 35-year average if those wages are significantly higher. Stopping working early may limit the 35-year average to a lower amount if one would have earned substantially higher wages after reaching the earliest retirement age at 62.

One hundred percent of benefits are paid if retiring at full retirement age in 2022, which is age 66 and four months. This is the age at which benefits will not be reduced due to "early retirement." After the worker's primary insurance amount at full retirement age is determined, it is adjusted to reflect when an individual's payments actually begin before or after full retirement age. For example, if an individual elects to begin retirement benefits in 2022 at age 62, the monthly amount will be reduced by 30% compared to what would have been paid if the individual had started receiving benefits at FRA.[6] If the individual waits until age 70 before starting benefits, the benefits will be increased by 8% for each full year of delay. For example, if an individual reaches full retirement age at 66 and four months in 2022, but waits until age 70 or later to begin payments, then the monthly amount will be about 28%–29% higher than what the individual would have received at full retirement age.[7]

An individual who begins receiving monthly Social Security payments at age 62 receives a higher lifetime benefit total than an individual who begins payments at age 70 only until a crossover point at about age 75. After the crossover point, the person who delays payments to age 70 will collect more lifetime benefits than the person who begins Social Security payments at age 62. However, the crossover point also depends on an individual's particular situation, including working status, taxes, and rate of inflation. Many advisers suggest that the best guide is to wait until benefits are necessary to sustain the individual's, dependents' and survivors' lifetime needs rather than base the decision solely on expected total lifetime benefits by starting benefits at a particular age.

The calculation for early or late retirement benefits can be confusing, but the SSA has a nifty calculator on its website, www.ssa.gov/oact/quickcalc/early_late.html.

C. Taxes and Other Factors to Consider

A portion of Social Security benefits is taxable if a recipient's income is over certain thresholds. If an individual's combined income (adjusted gross income, nontaxable interest and half of their Social Security benefits) falls between $25,000 and $34,000 (or $32,000 and $44,000 if filing jointly), then half of the Social Security benefits are subject to income tax. If an individual's combined income is above $34,000 (or $44,000 if filing jointly), then 85% of their Social Security benefits are subject to income tax.[8]

Some financial planners recommend beginning Social Security payments at age 62 if they believe that they can invest those payments and receive a higher rate of return than what would otherwise accrue by delaying payments. This strategy assumes that the individual does not need the Social Security payments, and that future investment returns, net of investment fees and income taxes, are greater than the increased monthly payments of delaying Social Security payments. For each year that Social Security is delayed after full retirement age to age 70, there is an 8% increase in the amount of benefits paid.

If an individual has limited savings and other retirement benefits, then beginning Social Security payments early may be financially necessary.

If an individual is in poor or precarious health, then beginning payments early will result in that individual's greater overall receipt of benefits if they do not live to an average life expectancy.

D. How Working Affects Benefits

Social Security monthly payments begun before full retirement age can be reduced if an individual is continuing to work. For every $2 earned above the annual limit, the individual's early Social Security payments will be reduced by $1. For 2022, the annual limit is $19,560 ($1,630 per month).[9] In the year in which an individual attains full retirement age, Social Security will deduct $1 for every $3 earned above a separate limit until the month before the month in which full retirement age is reached. For 2022, that annual limit is $51,960 ($4,330 per month).[10]

Working past full retirement age will not result in a reduction of the monthly amount otherwise payable. An individual working past full retirement age may be able to increase their Social Security benefit if the wages paid increase the individual's prior career average upon which benefits were otherwise calculated. *See B, Factors Affecting the Calculations.*

E. How Disability Affects Benefits

The Social Security Disability Insurance (SSDI) benefit, which arises due to a medical condition, is the same as the full retirement benefit. Once the disabled worker reaches full retirement age, the benefit switches to a retirement benefit instead of a disability benefit. SSDI recipients who are still able and willing to work can earn up to $1,350 per month (2022) without being found to be not disabled and losing the benefit, but in practice, this amount is more of a guide rather than a set limit. Benefits are not reduced by earnings, but if the recipient works, the continuing disability analysis by the SSA is made on total work capacity and verifiable medical condition rather than actual earnings exceeding this limit. The SSA offers support and incentives for disabled workers to return to the workforce in the form of "trial periods," job training for new careers, and continuation of benefits for an extended period of time. Check out Ticket to Work programs on the SSA website, www.ssa.gov/work, to learn how the SSA is supporting the disabled worker.

Disabled workers (and certain family members eligible for SSDI on the record of a worker) who have been approved for SSDI benefits are eligible to apply for Medicare benefits after 24 months of payments, even if they have not reached age 65. There are exceptions for waivers of the waiting period for certain catastrophic illnesses. Please refer to Chapter 5 for an excellent review of the Medicare program.

F. Family Benefits

Spouse. Social Security benefits provide some protection to a worker's family. For example, a spouse with a limited or no work history is entitled to receive Social Security retirement benefits based on the working spouse's record. If the spouse begins receiving the spousal benefit at full retirement age, the maximum amount of that benefit is half the amount that the working spouse receives at full retirement age. If the spousal benefit begins when the spouse is between age 62 and full retirement age, however, it will be reduced to reflect the longer period of payment. If the spouse is working when receiving the benefit, the spouse's Social Security benefits may be reduced. *(See D, How Working Affects Benefits.)* The spousal benefit is not increased for delayed payment of Social Security benefits that the working spouse receives after full retirement age. If a spouse has worked, they would generally receive an amount equal to the higher of their own Social Security benefit or the spousal benefit. A spousal benefit does not reduce the working spouse's Social Security payment. If the working spouse's birthday is Jan. 2, 1954, or later, it is no longer possible to take only one spouse's benefit at full retirement age and delay the other. Rather, if the working spouse files for a benefit, it is automatically treated as filing for the spousal benefit at the same time.[11]

Divorced Spouse. A divorced spouse of a marriage that lasted at least 10 years can collect a spousal benefit based on the other spouse's work history if that benefit is higher than what the divorced spouse could collect based on their own work history. To collect the spousal benefit, the divorced person must be at least age 62 and unmarried, and the working ex-spouse must be entitled to Social Security benefits. If the working spouse qualifies for, but has not applied for, Social Security benefits, the spouses must have been divorced at least two years before the other spouse qualifies for the divorced spouse benefit. The maximum spousal benefit for a divorced person is equal to half of the former spouse's Social Security retirement benefit at full retirement age, and can be subject to reduction if the divorced spouse is working. *See D, How Working Affects Benefits.*[12]

Children. The children or dependent grandchildren of a worker who qualifies for Social Security retirement benefits may also qualify for Social Security benefits based on the worker's record. To receive benefits, the child must be unmarried and:

- under age 18; or
- 18–19 years old and a full-time student (no higher than grade 12); or
- 18 or older and disabled since before age 22.

Normally, benefits stop when a child reaches age 18 unless the child is disabled. If a child is still a full-time student at a secondary (or elementary) school at age 18, however, benefits will continue until the child graduates or until two months after the child becomes age 19, whichever is first.[13]

Adult Disabled Child. The adult disabled child of an individual collecting Social Security retirement benefits is eligible for Social Security benefits based on the worker's (or retiree's) work history.

If the child is working when receiving the benefit, their Social Security benefits may be reduced. *See D, How Working Affects Benefits.*

Widow or Widower. The widow or widower of a worker may receive a survivor benefit based on the worker's earnings history. The survivor benefit can begin as early as age 60, at a reduced rate, or when the widow or widower reaches full retirement age or older, at a higher monthly amount. The reduction for taking benefits early is 19/40 of 1% for each month under full retirement age. For example, if a widow or widower begins receiving a survivor benefit at age 60, that benefit will equal 71.5% of the deceased spouse's primary insurance amount at full retirement age. If a widow or widower qualifies for higher retirement benefits on their own record, they can switch to that benefit as early as age 62. If a widow or widower is disabled before the death of the worker, or within seven years thereafter, they can begin receiving survivor benefits as early as age 50. Remarriage of the surviving spouse does not reduce or eliminate the survivor benefit.[14]

Dependent Parent. If a worker who was supporting a parent dies, the dependent parent, who is at least age 62, may be eligible to receive Social Security survivor benefits. To be eligible, the dependent parent must be unmarried, and must have been receiving at least half of their support from the working child. The dependent parent must not have a work history of their own that would yield a higher benefit.[15]

Family Cap. Total family benefits payable under a worker's record are capped. The total cap varies but is equal to about 150% to 180% of what the worker would otherwise receive at full retirement age.[16]

G. Contacting Social Security and Representation by a Third Party

An appointment can be made to speak with a representative at a local Social Security office, but many persons now apply for benefits through the Social Security website, www.SSA.gov. Known as "my Social Security," this online tool allows the participant to check their earnings record, apply for benefits, and estimate future earnings and benefits to help make decisions about when to retire. The individual is also able to add or change direct deposit instructions, obtain benefit verification letters, and notify Social Security of any changes.

Other than the eligible individual or the parent of a minor child making the contact, the SSA will not provide information to or take instructions from a third party. The SSA will not recognize the authority of a person under a power of attorney or a court-appointed guardian or conservator without the person being appointed as the individual's representative payee or being appointed a representative by completion of the proper SSA form signed by the individual. A representative can be appointed on Form SSA 1696, Claimant's Appointment of a Representative, which allows the representative to take any actions on behalf of the individual that the individual could take themselves. A representative payee can be appointed by filing Form SSA-11, Request to Be Selected as a Payee, which allows a third party, typically a relative or care organization, to receive and manage an individual's Social Security payment, but which also allows the payee to take actions on behalf of the individual with the SSA.

H. Coordinating Social Security with Private Retirement Benefits

In budgeting for retirement years and deciding when to begin taking Social Security payments, it is important to consider other retirement benefits besides Social Security. Many employees earn tax-qualified retirement benefits through their work — for example, under 401(k), profit sharing or defined benefit pension plans. An individual may also own an individual retirement account (IRA), with a balance sheltered from tax until distributed. The payment of retirement benefits from these sources should be considered in overall retirement planning.

Employees typically receive their retirement benefits from private plans when they leave employment or retire. By law, employers must generally begin paying an employee's qualified retirement benefits in the calendar year in which the employee reaches a certain age. Owners of IRAs who reach age 72 after Jan. 1, 2020, must begin taking a minimum distribution at age 72 whether or not they are still working (for individuals who reached age 70½ before Jan. 1, 2020, such age was formerly 70 ½). For employees reaching age 72 in 2021, the first required minimum distribution (RMD) must be taken by April 1 of the year after reaching the age of 72. For all subsequent years, the RMD must be taken by Dec. 31 of that year. Failure to take RMDs in a timely manner can subject an individual to a 50% penalty for the amount not withdrawn.

RMDs from private retirement plans are generally spread over the life expectancy of the individual (or the individual and a beneficiary) and are taxed to the individual recipient at ordinary rates. Failing to take RMDs in a timely manner can subject an individual to excise tax.

Individuals who got married or divorced before receiving retirement payments from an employer should be particularly careful to verify that all beneficiary designations for retirement benefits are properly updated. Employees who have been divorced should also take into account any applicable qualified domestic relations order (QDRO) requiring the private plan to pay some portion of a worker's retirement benefits to an ex-spouse. Anyone who was married to an individual who died before receiving retirement benefits from their employer should contact that employer for information regarding any death benefit that may be due to the surviving spouse.

Financial and/or tax advisers can often be helpful in helping an individual evaluate their retirement options, considering available Social Security benefits, private retirement benefits and an individual's needs to be able to "afford to retire."

I. Social Security Benefits and Government Pensions

Social Security retirement, spousal, and widow's or widower's benefits can be reduced if a worker earned a pension from "noncovered" work that was not subject to Social Security withholding taxes (Federal Insurance Contributions Act or "FICA"). The Windfall Elimination Provision (WEP) reduces the Social Security retirement benefits that a worker might otherwise receive because of noncovered work.[17] The Government Pension Offset (GPO) reduces the Social Security benefits of a spouse, widow or widower who worked for a federal, state or local government and earned a pension.[18]

The WEP reduces Social Security retirement benefits of workers with fewer than 30 years of earnings at jobs subject to FICA. The reduction cannot exceed 50% of the amount of the pension received from public sector employment.[19] If the worker paid FICA at jobs for more than 20, but fewer than 30 years of work, the reduction will gradually be eliminated. To calculate WEP reductions, please see the WEP Online Calculator or Detailed Calculator.[20] A worker with 30 or more years of work where earnings were "substantial" *(See Social Security Substantial Earnings Table at www.ssa.gov/planners/retire/wep-chart.html)*[21] and covered by FICA taxes is not subject to WEP reductions.

Social Security spousal and widow's or widower's benefits are reduced under the GPO by two-thirds of the amount of the individual's government pension. For example, if a government employee is entitled to a government pension of $600 a month and a Social Security spouse's, widow's or widower's benefit of $500 a month, the Social Security payment ($500) will be reduced by two-thirds of the governmental pension ($400), and the spouse, widow or widower will be entitled to $100 of Social Security plus $600 of the government pension. If two-thirds of the government pension is more than the individual's Social Security monthly amount, the Social Security benefit is reduced to zero.

There are some very narrow exceptions to the offset. For example, if an individual's government pension is not based on earnings, the offset does not apply.

For more information on any of the material presented in this chapter, please go to the Social Security website, www.ssa.gov, or call the SSA at (800) 772-1213 for specific information about your own benefit calculation.

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1. www.ssa.gov/planners/retire/retirechart.html.
2. https://www.ssa.gov/oact/cola/latestCOLA.html.
3. www.ssa.gov/oact/STATS/table4c6.html.
4. www.ssa.gov/oact/cola/Benefits.html.
5. www.ssa.gov/oact/cola/piaformula.html.
6. www.ssa.gov/oact/quickcalc/early_late.html. The reduction formula is 5/9 of 1% for each month before normal retirement age, up to 36 months, and if the number of months exceeds 36, then an additional reduction of 5/12 of 1% per month. For example, if the number of reduction months is 60 (the maximum number for retirement at 62 when normal retirement age is 67), then the benefit is reduced by 30%.
7. www.ssa.gov/planners/retire/1943-delay.html.
8. www.ssa.gov/planners/taxes.html. This tax requirement has applied since 1993.
9. www.ssa.gov/planners/retire/whileworking.html.
10. *Id.*
11. www.ssa.gov/planners/retire/applying6.html.
12. www.ssa.gov/planners/retire/divspouse.html.
13. www.ssa.gov/planners/retire/applying7.html.
14. www.ssa.gov/planners/survivors/onyourown.html#h1.
15. www.ssa.gov/planners/survivors/ifyou.html#h2.
16. www.ssa.gov/pubs/EN-05-10085.pdf.
17. www.ssa.gov/pubs/EN-05-10045.pdf.
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