

# YOUR GUIDE TO RETIREMENT BENEFITS

**SOCIAL SECURITY**



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## Franklin D. Roosevelt

*In 1935, President Franklin Delano Roosevelt signed the Social Security Act. It was created out of necessity as the United States was coming out of the Great Depression and numerous aging Americans were struggling. Financing would come from workers and employers and be distributed to retirees. After years of paying into Social Security, it is approaching the time that the largest generation ever will start reaping their benefits.<sup>1</sup>*



## John F. Kennedy

*"A nation's strength lies in the well-being of its people. The Social Security program plays an important part in providing for families, children and older persons in time of stress, but it cannot remain static. Changes in our population, in our working habits, and in our standard of living require constant revision."<sup>2</sup>*

## HOW SOCIAL SECURITY WORKS

- When you receive a paycheck from your employer, you pay in to Social Security
- 6.2% of your salary is paid by you and 6.2% is paid by your employer<sup>2</sup>
- Forty credits are needed to be eligible to receive benefits<sup>3</sup>
- One credit for every \$1,320 made annually<sup>3</sup>
- Maximum four credits per year<sup>3</sup>
- Highest 35 years of earnings are used to determine your Social Security benefit<sup>4</sup>
- If you work less than 35 years, the missing years are counted as zero<sup>5</sup>
- 2018 average Social Security benefit is \$1,404<sup>6</sup>
- Maximum benefit for 2018 is \$2,788<sup>6</sup>
- Maximum taxable income is \$128,400<sup>6</sup>

<sup>1</sup> <https://www.ssa.gov/policy/docs/ssb/v66n1/v66n1p1.html>

<sup>2</sup> <https://www.ssa.gov/pubs/EN-05-10003.pdf>

<sup>3</sup> <https://www.ssa.gov/pubs/EN-05-10072.pdf>

<sup>4</sup> <https://www.ssa.gov/pubs/EN-05-10070.pdf>

<sup>5</sup> <https://www.ssa.gov/planners/retire/stopwork.html>

<sup>6</sup> <https://www.ssa.gov/news/press/factsheets/colafacts2018.pdf>

<sup>7</sup> <https://www.ssa.gov/planners/maxtax.html>

## The Evolution of Social Security's Taxable Maximum<sup>7</sup>

YEAR	\$
1985	39,600
1986	42,000
1987	43,800
1988	45,000
1989	48,000
1990	51,300
1991	53,400
1992	55,500
1993	57,600
1994	60,600
1995	61,200
1996	62,700
1997	65,400
1998	68,400
1999	72,600
2000	76,200
2001	80,400
2002	84,900
2003	87,000
2004	87,900
2005	90,000
2006	94,200
2007	97,500
2008	102,000
2009	106,800
2010	106,800
2011	106,800
2012	110,100
2013	113,700
2014	117,000
2015	118,500
2016	118,500
2017	127,200
2018	128,400

## Determining Your Primary Insurance Amount

In 2011, the Social Security Administration (SSA) stopped sending paper statements to Americans, which saved an estimated \$70 million. In 2012, the SSA resumed sending statements to those age 60 and over. However, it can still be challenging to determine the amount you will receive when you begin taking payments.

You can find this information by either calling the SSA or visiting its website ([www.ssa.gov](http://www.ssa.gov)). You may also work with a financial services professional to help you get the answers you need to make an informed decision.

## When Can You Start Receiving Your Social Security Benefit?<sup>8</sup>

You may begin to receive early benefits from Social Security at age 62. However, if you start before your full retirement age (FRA), your benefit will be reduced. At age 62, your benefit will only be 75 percent of your primary insurance amount (PIA). Depending on your lifespan, this can drastically reduce the amount of Social Security you receive over your lifetime.

Each year you delay receiving your Social Security benefit, your payment will increase. Once you reach your FRA, you can begin receiving your unreduced, full PIA. You can continue to delay receiving benefits until age 70. Your benefit will increase by 8 percent each year from your FRA until age 70. By delaying payments from FRA to age 70, you can receive a 32 percent increase in benefits.\*

<sup>8</sup> <https://www.ssa.gov/planners/retire/applying2.html>

<sup>9</sup> <https://www.ssa.gov/planners/retire/agereduction.html>

<sup>10</sup> [https://www.ssa.gov/OACT/ProgData/ar\\_drc.html](https://www.ssa.gov/OACT/ProgData/ar_drc.html)

\*Assuming FRA is age 66

## What is Your Full Retirement Age?<sup>9</sup>

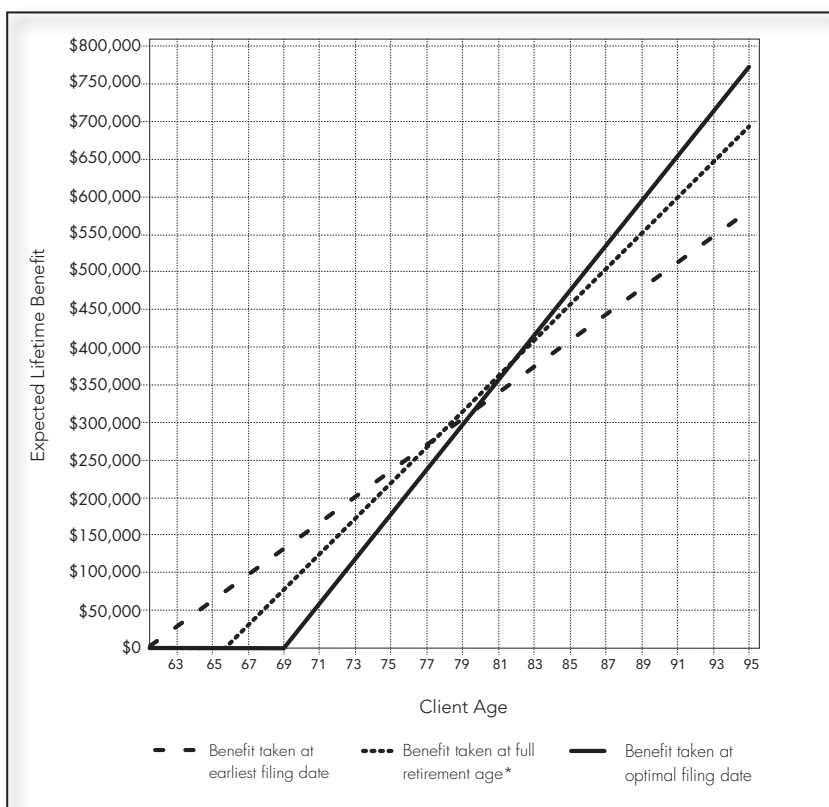
Year of Birth	Full Retirement Age
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and after	67

## Discount or Premium of Primary Insurance Amount<sup>10</sup>

Apply at Age	Benefit is X Percent of PIA	Example if PIA is \$1000
62	75.0%	\$750
63	80.0%	\$800
64	86.7%	\$867
65	93.3%	\$933
66	100.0%	\$1,000
67	108.0%	\$1,080
68	116.0%	\$1,160
69	124.0%	\$1,240
70	132.0%	\$1,320

This chart is for illustrative purposes only.  
Assuming FRA is age 66

## Break-Even Analysis | Cumulative Balance



This illustration represents a hypothetical situation and is for informational purposes only. Comparison uses the specified age of death at 95. This chart does not illustrate COLA. \*Full retirement age varies by date of birth.

## When Should I Apply for Social Security?

One of the most challenging questions to answer is when to start receiving your Social Security benefit. There are pros and cons to delaying your benefit as well as to receiving it as soon as you become eligible.

Two primary factors may help you make your decision. First, do you need the money? If you need the income to cover expenses in retirement, your decision is made. If you do not need the money, it might make sense to delay receiving your benefit and let your future payments continue to increase. The second factor is your health and life expectancy. Individuals in poor health may want to

begin receiving their benefits earlier rather than later. If you are in good health and have a history of longevity in your family, it may behoove you to wait. No matter what you decide, there is an element of risk in your decision because your finances and health can change throughout retirement.

There are calculators to help you determine your available benefit at various ages. By determining your break-even age and your projected life expectancy, you can make an informed decision about when to apply for your Social Security benefit.

## Cost-of-Living % Adjustments<sup>11</sup>

Year	COLA %	Year	COLA %
1981	14.3	2000	2.5
1982	11.2	2001	3.5
1983	7.4	2002	2.6
1984	3.5	2003	1.4
1985	3.5	2004	2.1
1986	3.1	2005	2.7
1987	1.3	2006	4.1
1988	4.2	2007	3.3
1989	4.0	2008	2.3
1990	4.7	2009	5.8
1991	5.4	2010	0.0
1992	3.7	2011	0.0
1993	3.0	2012	3.6
1994	2.6	2013	1.7
1995	2.8	2014	1.5
1996	2.6	2015	1.7
1997	2.9	2016	0.0
1998	2.1	2017	0.3
1999	1.3	2018	2.0

COLA is for applied year.

## Can My Social Security Benefit Increase?

Each October, the SSA announces the amount in which monthly benefits will increase. Cost-of-living adjustments (COLA) are applied to individuals who are already receiving benefits and to those who have not filed yet. COLA is based off the consumer price index from the third quarter of one year to the third quarter of the next. There is no guarantee of COLA annually, which can make it more challenging to plan your retirement income. As illustrated in the above table, there was no COLA increase in 2010, 2011 and 2016.

<sup>11</sup> <https://www.ssa.gov/OACT/COLA/colaseries.html>

## How Spousal Benefits Work<sup>12</sup>

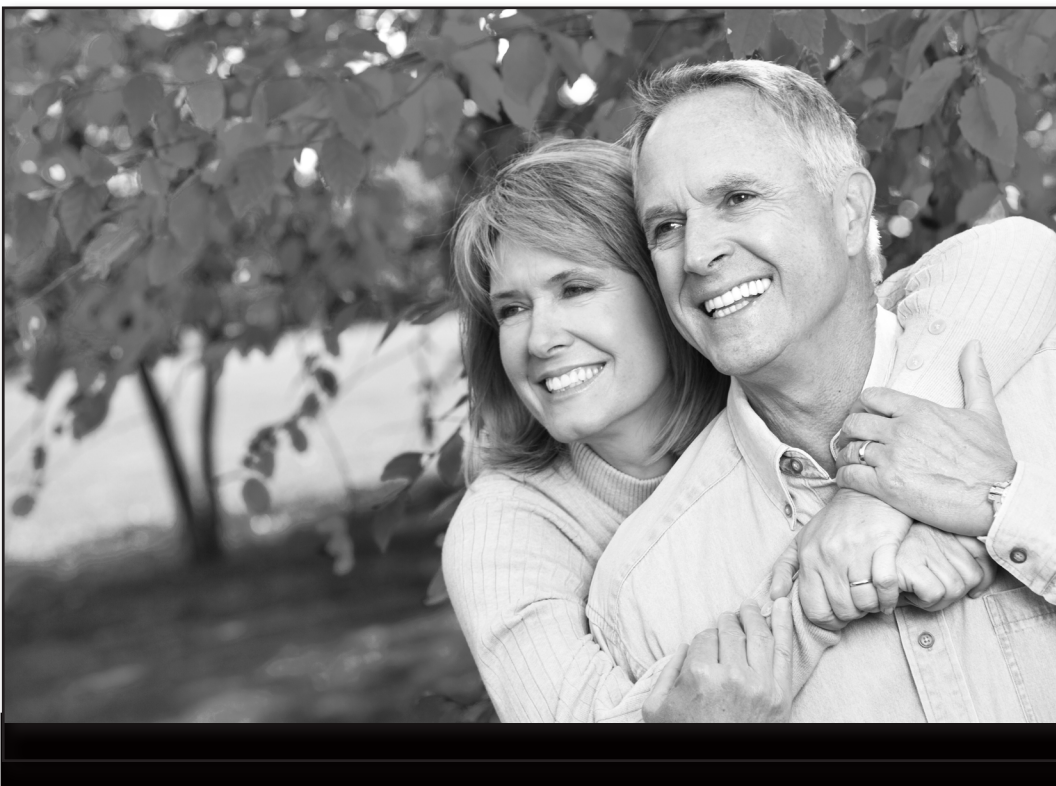
If you are a married individual who had little to no earnings throughout your working years, Social Security can be received through spousal benefits. Once your working spouse files and collects his or her benefit, you may also be eligible to file and start receiving half of your working spouse's full retirement age amount. As the non-working spouse, you may file for benefits before FRA; however, you will receive a reduced spousal benefit.

## Divorced or Widowed<sup>13,14,15</sup>

If you were married for at least 10 years, have not remarried, and the benefit you would receive on your own work record is less than the benefit you would receive based on your ex-spouse's, you may be eligible to receive spousal benefits based on your ex-spouse's work history. Again, you may apply as early as age 62, but you will have a reduced payment. If your ex-spouse has not applied for retirement benefits but could qualify, you may be eligible to receive benefits on his or her record if you have been divorced for at least two years. You will need to produce information to verify you were married and for the SSA to locate appropriate records. With that information, they will be able to calculate your benefits.

If you are widowed, you may be eligible to receive survivor benefits. You can apply as early as age 60, but if you apply before your FRA, you will receive reduced benefits. If you are over your FRA, your benefit will equal 100 percent of your deceased spouse's benefit.

**Important:** Your survivor benefit will be 100 percent of your deceased spouse's actual benefit. If your deceased spouse took benefits early, it will be 100 percent of the reduced amount received. If benefits were delayed to age 70, it will be 100 percent of his or her maximum amount. If you were both receiving Social Security at the time of a passing,



you will receive either 100 percent of your spouse's benefit or continue receiving your benefit, whichever is greater. Lastly, if you remarry, your survivor benefit will stop unless you are age 60 or over when you remarry.

## Working in Retirement<sup>16</sup>

Because of the recent economy, more people are choosing to work in retirement. Between age 62 and your FRA, you may have some of your Social Security benefit withheld if you earn too much income. If you are receiving your benefit and earning over \$17,040 during your low threshold years (age 62 to your FRA), your benefit may be reduced. One dollar of your Social Security benefit will be withheld for every \$2 you make over the threshold. During your high threshold year (the year you reach your FRA), there is another threshold income amount that is triggered. In the months leading up to your FRA, your benefit is reduced by \$1

for every \$3 you earn over \$45,360. The amount of Social Security withheld while you were earning income and receiving benefits will be used to recalculate your PIA; however, the recalculation will usually still work out to be lower than if you would have waited until your FRA to receive benefits. Once you reach your FRA, there is no limit to the amount of income you can earn. You can maximize your earnings without fear of reduced Social Security benefits.

## Taxation of Social Security Benefits<sup>17</sup>

Depending on how much income you earn in retirement, your Social Security benefit may be taxable. Income that counts toward your limits include: pensions, dividends and interest, and even tax-free interest from municipal bonds. To determine your threshold income, take your modified adjusted gross income and add half of your combined Social Security benefits plus your nontaxable interest.

<sup>12</sup> <https://www.ssa.gov/planners/retire/yourspouse.html>

<sup>13</sup> <https://www.ssa.gov/planners/retire/yourdivspouse.html>

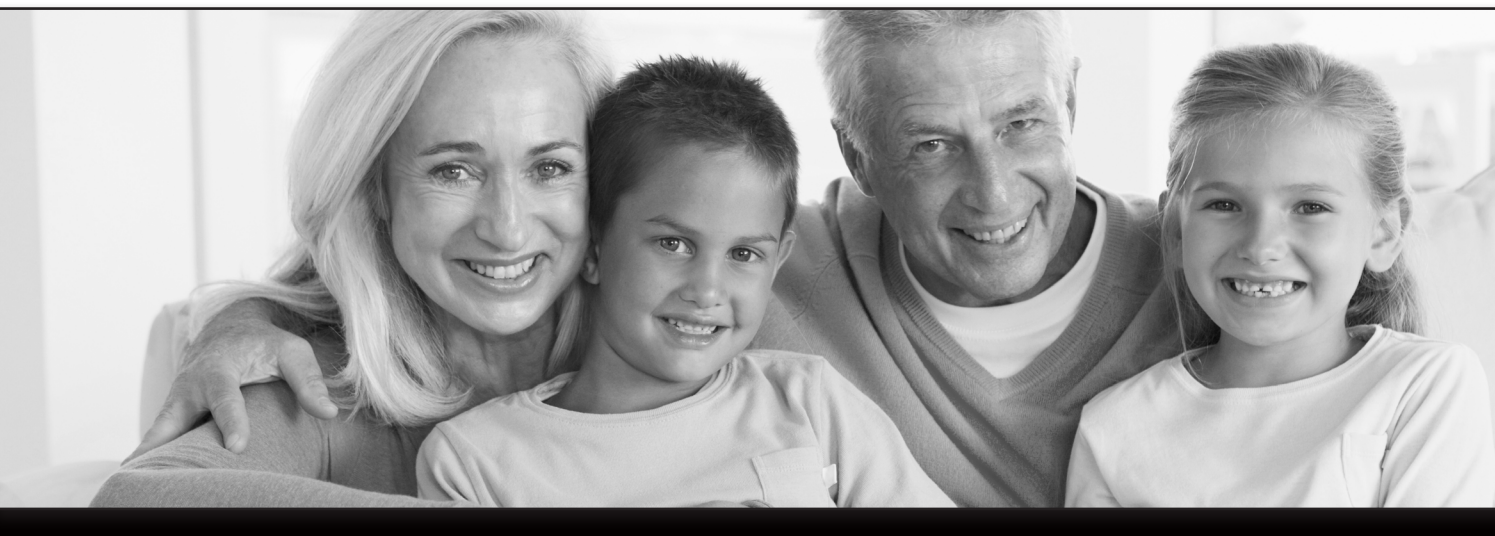
<sup>14</sup> <https://www.ssa.gov/planners/survivors/ifyou2.html>

<sup>15</sup> <https://www.ssa.gov/planners/survivors/ifyou5.html>

<sup>16</sup> <https://www.ssa.gov/pubs/EN-05-10069.pdf>

<sup>17</sup> <https://www.ssa.gov/planners/taxes.html>





The chart to the right illustrates how much of your Social Security will be taxed.

There are generally two ways to reduce the amount of tax you pay on your Social Security. One, reduce the amount of other income you are receiving. Two, change the type of assets you have that are increasing your taxable income. There is a planning opportunity that will allow you to receive a portion of your already taxed money and minimal interest. This option can help you continue receiving the income you need and potentially reduce the amount of money that counts toward your threshold income.

### Social Security Reform<sup>18</sup>

Because of the current debt situation in the United States, many pre- and post-retirees have become concerned about their Social Security benefits. Current projections suggest that, in 2037, only a portion of promised benefits will be able to be paid. The government has proposed many options for reforming Social Security benefits, including raising the retirement age, raising taxes and revising benefits. Any revision will likely be phased in over a period of time thus minimally affecting the baby boomer generation.

<sup>18</sup> <https://www.ssa.gov/policy/docs/ssb/v70n3/v70n3p111.html>

<sup>19</sup> <https://www.ssa.gov/planners/taxes.html>

## Social Security Taxation

### **Retired Married Couple<sup>19</sup> (Joint Federal Return)**

Combined income less than \$32,000

- 0% - Social Security tax exempt

Combined income between \$32,000 and \$44,000

- 50% - Up to 50% of your Social Security may be taxable

Combined income over \$44,000

- 85% - Up to 85% of your Social Security may be taxable

### **Retired Single Worker<sup>19</sup> (Individual Federal Return)**

Combined income less than \$25,000

- 0% - Social Security tax exempt

Combined income between \$25,000 and \$34,000

- 50% - Up to 50% of your Social Security may be taxable

Combined income over \$34,000

- 85% - Up to 85% of your Social Security may be taxable

On the 1040 tax return, your "combined income" is the sum of your adjusted gross income plus nontaxable interest plus half of your Social Security benefits.

- What percentage of Americans age 65 and older receive Social Security benefits?  
**Answer: 90%**<sup>20</sup>
- Social Security represents what percentage of income for elderly Americans?  
**Answer: 33%**<sup>20</sup>
- Claiming Social Security benefits at the wrong time can reduce your monthly benefit by how much?  
**Answer: 30%\***<sup>21</sup>
- How long is this reduction applied to your monthly benefit?  
**Answer: For life**<sup>22</sup>
- What percentage of retirees receive reduced Social Security benefits?  
**Answer: 71%**<sup>23</sup>
- Approximately what percentage of women and men file for and begin receiving reduced benefits before their FRA?  
**Answer: 74% of women and 69% of men**<sup>23</sup>

<sup>20</sup> <http://www.socialsecurity.gov/news/press/basicfact.html>

<sup>21</sup> <https://www.ssa.gov/oact/quickcalc/earlyretire.html>

<sup>22</sup> <https://www.ssa.gov/pubs/EN-05-10024.pdf>

<sup>23</sup> <https://www.ssa.gov/policy/docs/statcomps/supplement/2016/supplement16.pdf>

<sup>24</sup> <https://www.ssa.gov/policy/docs/ssb/v66n1/v66n1p1.html>

<sup>25</sup> <https://www.ssa.gov/history/imf.html>

<sup>26</sup> <https://www.ssa.gov/history/1950amend.html>

<sup>27</sup> <http://www.ssa.gov/history/1960.html>

<sup>28</sup> <http://www.ssa.gov/history/1980.html>

<sup>29</sup> <http://www.ssa.gov/history/1990.html>

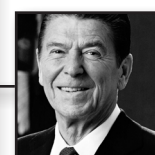
<sup>30</sup> <http://www.ssa.gov/history/2000.html>

<sup>31</sup> <https://www.ssa.gov/history/2010.html>

<sup>32</sup> <http://docs.house.gov/meetings/ru/ru00/cprt-114-ru00-d001.pdf>

\* Assuming FRA is age 66

- **1935:** Social Security is enacted.<sup>24</sup>
- **1940:** Ida Mae Fuller is issued the first monthly benefit from Social Security. Her check is for \$22.54.<sup>25</sup>
- **1950:** President Truman signed the 1950 Social Security Amendments, extending coverage and liberalizing the benefits.<sup>26</sup>
- **1961:** The Social Security Amendments of 1961 are signed by President Kennedy, permitting all male workers to elect early retirement at age 62.<sup>27</sup>
- **1972:** Automatic cost-of-living adjustments are enacted.<sup>24</sup>
- **1983:** President Reagan signed the Social Security Amendments of 1983.<sup>28</sup>
- **1995:** The Social Security Administration became an independent agency.<sup>29</sup>
- **2000:** President Clinton signed a bill eliminating the retirement earnings test (RET) for beneficiaries at or above the FRA.<sup>30</sup>
- **2012:** The Social Security Statement became available online via SSA's website by visiting: [www.ssa.gov/mystatement](http://www.ssa.gov/mystatement)<sup>31</sup>
- **2015:** The Bipartisan Budget Act of 2015 eliminated some advanced filing strategies.<sup>32</sup>





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