TEN STEPS

TO MAKING AN INFORMED SOCIAL SECURITY CLAIMING DECISION

INDEX

INTRODUCTION

According to the Social Security Administration, approximately 68 million Americans will collect monthly benefits in 2024. In 2023, 77.8% of these benefits were paid to American retirees and their dependents.[1] Despite most retirees over 65 relying on Social Security as a significant source of cash flow, studies reveal an alarming gap in knowledge yet a strong desire to understand this critical income source better.

A recent AARP survey of 3,383 Americans aged 25-66, reaffirmed that Americans lack the basic knowledge to make informed Social Security claims despite their eagerness to learn more about the benefits. Key findings include[2]:

- 59% of respondents reported not knowing how benefits are determined.
- 49% believe Social Security will no longer pay benefits once the Trust Funds are exhausted.
- Nearly all respondents want to maximize spousal and survivor benefits, yet only 23% knew the best age to do so.
- Fewer than half (44%) knew that working could further reduce Social Security benefits claimed early.

Social Security represents 30-40% of retirement income for the average retiree. Understanding the crucial elements of Social Security is an integral part of navigating your retirement income planning journey. While, for most, it lays the foundation, Social Security should be only one element of a carefully crafted income strategy designed with your needs and goals at the forefront. Use our Ten-Step guide to begin your journey to a more informed Social Security claiming decision.

STEP #1
UNDERSTAND THE TRUE MEANING OF "INSOLVENCY"

Each year, the Social Security and Medicare Board of Trustees releases a report on these programs' current and projected financial status. This year's report, released on May 6th, echoes the sentiments of the past twelve reports: insolvency is on the horizon, and lawmakers need to act promptly to give workers and beneficiaries time to adjust to the necessary changes. The most recent report indicates that the combined Old-Age and Survivors Insurance and Disability Insurance Trust Funds (OASDI) will be able to pay 100% of scheduled benefits until 2035. After that, trust fund reserves will be depleted, and trust fund income will only cover 83% of scheduled benefits.[3]

Trust fund insolvency does not mean Social Security is going "broke," a common misconception among many Americans. It means that trust fund reserves will be depleted, at which time ongoing benefits will be paid from incoming revenue to the trust funds. At the end of 2023, a deficit of $41.4 billion decreased the asset reserves of the combined OASDI trust funds to $2.788 billion. And this trend will continue – program costs exceeding income through the 75-year projection period. The largest source of revenue comes from payroll taxes from workers and employers, followed by income taxes collected on benefits and interest on reserve assets.

Will benefit cuts happen in 2035? It's possible but unlikely. In its almost 90-year history, the Social Security program has always paid full promised benefits. According to the SSA, Congress made substantive changes to the program in 1977 and 1983 to avoid insolvency.[4]

What does this mean for you? Change is on the horizon. Lawmakers, having failed to act in the past decade, have a decade to take necessary steps to avoid benefit cutbacks. Likely fixes include an increase to the Social Security portion of FICA taxes (currently 12.4% split equally between the employee and employer while a self-employed worker pays both portions) or the earnings subject to those FICA taxes (currently capped at $168,600), an increase in the full retirement age, or changes to how benefits are calculated. The Committee for a Responsible Federal Budget designed an interactive tool to reflect various changes that could fix the insolvency issue. Access this tool here https://www.crfb.org/socialsecurityreformer.

Benefit cuts to America's seniors, many of whom are already struggling to keep pace with rising costs, are less likely. Even so, if benefit cuts were to occur, no one would be grandfathered into protection. Therefore, filing early to "protect yourself" is a bad idea.

For example, if your full retirement age is 67 (for those born on January 2, 1960, or later) and your benefit amount is $2,000, filing at 62 reduces your benefit by 30% to $1,400. In 2035, your benefit would be further reduced to $1,162, a 58% decrease from your full retirement age benefit.

If you are younger, start saving more now to prepare for potential changes to Social Security benefits, taxes, or the age at which full benefits become payable. Seeking guidance from a knowledgeable financial professional is a good initial step.

STEP #2
APPRECIATE THE POWER OF 35

While you need roughly ten years of Social Security taxable earnings, or 40 credits, to be fully insured for retirement benefits, it's beneficial not to stop there. Your benefit is calculated using your highest 35 years of lifetime earnings, indexed to account for changes in average wages since those earnings were received. If you have fewer than 35 years of earnings, zeros are substituted for the missing years. Therefore, replacing years with no earnings with even part-time work can increase your future monthly income benefit. For more information on calculating benefits, visit **https://www.ssa.gov/myaccount/assets/materials/EN-05-10703.pdf**.

Practical Tip:

Log in or create a my Social Security account **here**. You can verify your earnings history and add hypothetical earnings scenarios in the ***Plan for Retirement*** calculator to view the impact on future benefits. Your future benefit estimates are calculated using the most recent year of recorded earnings as the basis assumed continued rate of earnings for the estimated benefits at 62, FRA, and 70. The calculator allows you to override those assumptions by entering lower, higher, or no earnings and downloading the updated benefit projections.

STEP #3

RECOGNIZE THAT YOUR FRA IS NOT YOUR NEIGHBOR'S FRA

During your Social Security journey, you will encounter several acronyms, such as FRA. Full Retirement Age (FRA) is a crucial milestone as it signifies when you become eligible to receive 100% of your retirement benefits. If you file for benefits before or after reaching your FRA, your benefits will be lower or higher (more details in Step #4). If you file before FRA and continue to work, there are also earnings limits to consider (more details in Step #5). Therefore, it's important to know your FRA, which is determined based on your date of birth, as shown in the chart to the right. If you were born on January 1st, refer to the prior year for your FRA.[5]

Birth Year	Full Retirement Age (FRA) 100% Benefit
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 or later	67

STEP #4
KNOWING THE IMPORTANCE OF TIMING

Determining the perfect time to claim Social Security benefits involves considering many factors, including your life expectancy, retirement date, other sources of retirement income, and perhaps some influence from the timing choices of friends, family, or colleagues. Weighing your Social Security options carefully and understanding the impact of your claim timing is one of the most important decisions you'll make, as this income source will support you through a retirement that could last 20 to 30 years or even longer.

Reasons you might consider filing early

Filing for Social Security benefits as early as age 62 allows you to start collecting sooner, but at a reduced rate—up to 30% less if your Full Retirement Age (FRA) is 67. This reduction is generally permanent. This option may be suitable if you are in poor health, single, retired, a lower-wage married earner, or need the income to cover basic living expenses.

Reasons for might consider filing at FRA

On the other hand, waiting until FRA to file is generally a good goal as it promises 100% of your benefit amount, and you can work without concern for exceeding earnings limits (discussed next). Also, as life expectancy continues to increase, you may spend 20-30 years or more in retirement, making it beneficial to maximize your benefits. Additionally, waiting until your full retirement age can help cover more of your basic cash flow needs with Social Security.

Reasons you might consider filing as late as age 70

Delaying Social Security benefits beyond your Full Retirement Age (FRA), even by a few months, up to age 70, can increase your monthly income by 24-32%, plus cost-of-living adjustments. For instance, if your FRA is 67, waiting until age 70 boosts your benefit by 24%, and delaying from age 62 to 70 can increase your benefit by 77%. Waiting until as long as 70 to file would be best suited for those who anticipate an average to above-average life expectancy with other resources to fill income gaps for earlier years, a higher-wage earner who is concerned about securing the highest guaranteed income for a lower-earning survivor spouse, or someone who plans to employ tax-mitigating strategies to lower the risk of tax exposure in retirement on Social Security, Medicare premiums, and other sources of retirement income.

Practical Matters:

Don't forget that your Social Security benefits are adjusted annually to reflect any increase in the cost of living to help ensure that the purchasing power of your income isn't eroded by inflation.[6] While no annual increase is guaranteed, the timing of your claim will impact the amount of that adjustment. Filing earlier means that a 2% cost-of-living adjustment (COLA) will result in smaller increases over time than waiting and filing later, yielding larger benefits.

STEP #5

BE AWARE OF RULES FOR SUPPLEMENTING EARNINGS WITH AN EARLY CLAIM

If you file for Social Security benefits before reaching your full retirement age (FRA), your monthly payments could be reduced by up to 30% for the rest of your life. For instance, if your FRA is 67 and you file at 62, you will receive 70% of your benefit amount, lifelong. Moreover, if you work while receiving early benefits, SSA imposes limitations on how much you can earn, while collecting full monthly benefits. In 2024, if you earn over $22,320, $1 will be withheld from your benefits for every $2 earned above the limit. In the year you reach FRA, the limit increases to $59,520, with $1 withheld for every $3 earned over the limit until the month you reach FRA. Once you reach FRA, there are no limits on how much you can earn.[7]

Please keep in mind the following information about Social Security income:

- Only earned income, such as wages, tips, and net income from self-employment, is considered for the earnings test. Other sources of income, such as a spouse's earnings, IRA or pension income, dividends, rental income, or capital gains, are not counted for the earnings test.
- If your income exceeds the earnings limit, your monthly benefits will be withheld until the excess is resolved. This might pose challenges if you rely on Social Security income to supplement your earnings.

- For instance, let's say you are 63 years old in 2024 and earn $35,000. Your $2,200 monthly benefit was set to start in April. However, your income surpasses the earnings threshold by $12,680 ($35,000 - $22,320). As a result, 50% of the excess income, which is $6,340 ($12,680/2), or approximately three months of benefits, will be withheld before your benefits begin. The Social Security Administration (SSA) will inform you that you can expect to receive your first monthly benefit in August 2024 for July.
- It's crucial to promptly report any changes in your income to the SSA to avoid overpayment of benefits that must later be repaid.

If your benefits are withheld due to excess earnings, they will be repaid once you reach your full retirement age. The Social Security Administration (SSA) will recalculate your monthly benefit amount, increasing it to account for the months when benefits were withheld.

STEP #6
UNDERSTAND THE POTENTIAL IMPACT OF FEDERAL INCOME TAXES ON YOUR BENEFITS

According to the SSA, Social Security represents 90% or more of the income for an estimated 12% of men and 15% of women over 65.[8]

If you rely heavily on Social Security for your income, you may not pay federal income taxes on your benefits. However, it's important to note that part of your benefits could be subject to federal income taxes if you have other sources of income to supplement Social Security. To determine if a portion of your benefits are taxable, you must determine your combined income. ***Combined income*** is the total of your adjusted gross income, nontaxable interest, and half of your Social Security benefits.[9]

For individual filers:

- If your combined income is less than $25,000, none of your benefits are taxable.
- If your combined income is between $25,000 and $34,000, up to 50% of your benefits may be taxable.
- If your combined income exceeds $34,000, up to 85% of your benefits may be taxable.

For joint filers:

- If your combined income is less than $32,000, none of your Social Security benefits are taxable.
- If your combined income is between $32,000 and $44,000, up to 50% of your benefits may be taxable.
- If your combined income exceeds $44,000, up to 85% of your benefits may be taxable.

When designing your retirement income drawdown strategy, which typically begins with the timing of your Social Security claim, it's crucial to consider the impact of taxes on your overall plan. Sources of retirement income such as pensions, 401(k) s, Traditional IRAs, dividends, rental income, and tax-exempt interest can cause up to 85% of your Social Security benefits to be subject to federal income taxes.

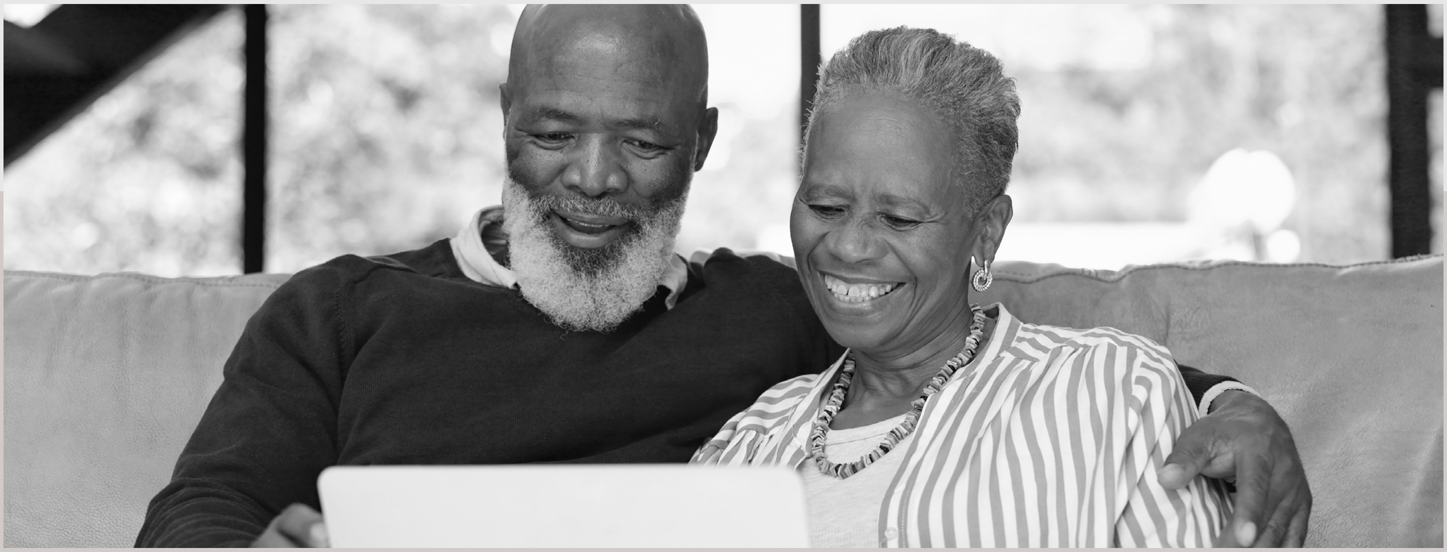
Few income sources are exempt from combined income and do not expose your Social Security benefits to federal taxes. Examples include qualified Roth IRA distributions, health savings account (HSA) withdrawals for qualifying medical expenses, certain loans from cash value life insurance policies, and proceeds from home equity conversion mortgages (HECMs).

Strategic pre-retirement planning can help mitigate the erosion of your retirement income, including Social Security benefits, due to federal income taxes. Consult a knowledgeable tax professional to develop a tax-efficient retirement income strategy tailored to your needs.

Practical Matters:

Keep in mind that most states exempt Social Security from taxation; however, a few do tax Social Security benefits. To understand how your state treats Social Security income, consult a local tax advisor.

STEP #7
UNDERSTAND SPOUSAL BENEFIT ELIGIBILITY



If you haven't earned enough credits to qualify for benefits on your record, you may be eligible for benefits based on your spouse's record. Generally, you must be married for at least one year, age 62 or older, and your spouse must be collecting retirement or disability benefits. The maximum spousal benefit is 50% of your spouse's full retirement age benefit, but it will be reduced if you claim before reaching your full retirement age. If you qualify for retirement benefits based on your work record, a spousal benefit is only payable if it is higher than the benefit you are entitled to receive on your own.[10]

Timing is crucial: If there is a significant disparity between your and your spouse's income benefits, consider carefully the timing of the higher earner's claim. The longer the higher earner waits, the more Social Security will contribute to cash flow during both lifetimes. A higher benefit amount will also pass to the surviving spouse, providing greater financial security.

Practical Matters:

If you are short of 40 credits to qualify for benefits, you might want to consider working part-time to earn the credits you need. In 2024, you can earn one credit for every $1,730 Social Security covered earnings. This means earning $6,930 in 2024 can earn a maximum of 4 credits for the year. By doing so, you are no longer tied to your spouse's claim to be entitled to a benefit. This allows for a broader strategy that includes protecting and growing lifetime and survivor cash flow by allowing the higher-earning spouse to delay their claim.

STEP #8
DON'T MISS BENEFITS AVAILABLE AFTER DIVORCE

You may be eligible for benefits under your former spouse's record if:[11]

- you were married for at least ten years
- you are 62 or older
- you are currently unmarried
- you are not entitled to a higher benefit based on your work record; and
- your former spouse is receiving disability or retirement benefits; or
- your former spouse must be at least 62 years old, and your divorce must have occurred at least two years before your claim for benefits.

The same 50% maximum benefit for eligibility for spousal benefits applies to ex-spousal benefits. This benefit will be reduced if you file before your full retirement age (FRA). If you remarry, benefits under your ex-spouse's record will stop.

STEP #9
REPORT NON-COVERED PENSIONS TO SSA

The Windfall Elimination Provision (WEP) can impact how Social Security calculates your retirement or disability benefits. If you work for an employer that does not withhold Social Security taxes from your earnings, any retirement or disability pension you receive from that job may reduce your Social Security retirement benefits under a provision known as the Windfall Elimination Provision. This type of employer may be a government agency or an employer in another country. You are responsible for reporting any non-covered employment and entitlement to pension or lump-sum benefits so that any applicable reductions to your Social Security benefits can be made. If you have earned a Social Security retirement benefit, WEP can reduce but never eliminate your Social Security retirement benefit. You can read more about WEP here **https://www.ssa.gov/pubs/EN-05-10045.pdf**.

Another provision, the Government Pension Offset (GPO), can also reduce or eliminate Social Security benefits payable to you under someone else's record, such as your spouse, ex-spouse, or a late spouse due to receipt of your non-covered pension from a governmental agency. Foreign pensions will not cause GPO to apply. If GPO applies to you, it reduces your monthly auxiliary Social Security monthly benefit by 2/3 of your monthly government pension. Unlike WEP, GPO can reduce an auxiliary spousal or survivor benefit to zero. You can read more about GPO here **https://www.ssa.gov/pubs/EN-05-10007.pdf**.

Practical Matters:

Your Social Security benefit estimates are provided without applicable WEP or GPO reductions. You must contact SSA to determine the impact of your government benefits on your Social Security benefits. If you are subject to one or both provisions, opting for a lump-sum payment instead of a monthly pension from the non-covered employer will not exempt you from the offsets. To avoid being overpaid, contact SSA right away when you claim Social Security benefits to discuss your situation.

STEP #10

NAVIGATE SURVIVOR BENEFITS CAREFULLY

AARP's survey revealed that, among married respondents, 95% wanted to maximize cash flow during retirement, and 88% expressed a desire to maximize Social Security income after their death. Yet only 49% of those surveyed knew that the age at which their spouse claims benefits can impact what the survivor receives. These results are not surprising, given the complexity of the rules surrounding this critical income source. In step #7, we outlined the importance of leveraging the higher-income earner's benefit by delaying the claim to full retirement age or longer. Doing so will satisfy a higher portion of cash flow with a guaranteed income source and secure a higher income for the surviving spouse.

To qualify for survivor benefits, you must have been married to your spouse for at least nine months immediately preceding your spouse's death (or married ten years in the case of an ex-spouse). If you're caring for a dependent child of the deceased who is under 16 or disabled, you may be eligible for survivor benefits regardless of the length of your marriage.

In most cases, survivor benefits are based on the amount the deceased received from Social Security at the time of death (or was entitled to receive if he or she died before filing for benefits).

Aged Widow (Widower) benefits are payable as early as age 60 (50, if you are disabled or become disabled within seven years of your deceased spouse's death). The amount you receive depends on how old you are when you claim the benefit; filing as early as age 60 (50, if disabled) will reduce the benefit to 71.5%, while waiting until you reach FRA will promise 100% of the survivor benefit.[12]

If you are caring for a child of your deceased spouse who is under 16 or disabled, there is no minimum age, and the survivor benefit is 75% of the deceased worker's Primary Insurance Amount.

Practical Matters:

- If you remarry before age 60, you will not be eligible to claim widow or widower benefits unless that marriage later ends. This is also true in the case of making a survivor claim on a former deceased spouse.
- If you are entitled to both a widow(er)'s and your retirement benefit, you may apply for a survivor benefit first, generally as early as age 60, and apply for your retirement benefit later if the latter is higher. The opposite is also true.
- Suppose your retirement benefit is less than the amount you can collect as a widow or widower. In that case, you can elect to file first for your reduced retirement benefit, as early as age 62, and wait to switch to the widow(er)'s benefit at your survivor full retirement age so that you can collect 100% of that benefit for the rest of your life.

SUMMARY

Seek the Help of Knowledgable Professionals

These Ten Steps are designed to start your retirement journey on solid footing. Understanding your Social Security options is critical to building your retirement income strategy. You should continue exploring, reading, and researching before deciding what makes sense for you. Work with a team of knowledgeable financial and tax professionals specializing in retirement income and Social Security planning. Ask questions, many of them, until you are satisfied that you understand the answers. For more information on various topics related to Social Security, visit SSA's Publication page here **https://www.ssa.gov/pubs**. Good luck on your road to retirement!

1 https://www.ssa.gov/news/press/factsheets/basicfact-alt.pdf
2 https://www.aarp.org/content/dam/aarp/research/topics/work-finances-retirement/social-security/social-security-claiming-age.doi.10.26419-2Fres.00764.001.pdf | Page 3
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