9 Things You Must Know About Social Security

1 Your Age Matters

Your age when you choose to collect Social Security has a big impact on the amount of money you ultimately get from the program. The key age is your Full Retirement Age. For people born between 1943 and 1954, full retirement age is 66. It gradually climbs toward 67 if your birthday falls between 1955 and 1959. For those born in 1960 or later, full retirement age is 67. You can collect Social Security as soon as you turn 62, but taking benefits before full retirement age usually results in a permanent reduction of as much as 25% of your benefit (for a person retiring at exactly 62 in 2019) or higher for those born in 1955 or later.

Age also comes into play with kids: Minor children of Social Security beneficiaries can be eligible for a benefit. Children up to age 18, or up to age 19 if they are full-time students who haven't graduated from high school, and disabled children older than 18 may be able to receive up to half of a parent's Social Security benefit.

2 How Benefits Are Factored

To be eligible for Social Security benefits, you must earn at least 40 “credits.” You can earn up to four credits a year, so it generally takes ten years of work to qualify for Social Security. In 2019, you earn one credit for each $1,360 in earnings – up to a maximum of four credits a year.

Your benefit is based on the 35 years in which you earned the most money. If you have fewer than 35 years of earnings, each year with no earnings will be factored in at zero. You can increase your benefit by replacing those zero years, say, by working longer, even if it's just part-time. But don’t worry, no low-earning year will replace a higher-earning year. The benefit isn't based on 35 consecutive years of work, but the highest-earning 35 years.

So if you decide to phase into retirement by going part-time, you won’t affect your benefit at all if you have 35 years of higher earnings. But if you make more money, your benefit will be adjusted upward, even if you are still working while taking your benefit. There is a maximum benefit amount you can receive, though it depends on the age you retire. For someone at full retirement age in 2019, the maximum monthly benefit is $2,861. You can estimate your own benefit by using Social Security’s online Retirement Estimator.

3 COLA Isn't Just a Soft Drink

One of the most attractive features of Social Security benefits is that almost every year the government adjusts the benefit for inflation. Known as a cost-of-living adjustment, or COLA, this inflation protection can help you keep up with rising living expenses during retirement.

Because the COLA is calculated based on changes in a federal consumer price index, the size of the COLA depends largely on broad inflation levels determined by the government – COLA increases trended lower in recent years (in 2015, there wasn’t a COLA increase and only a 0.3% increase in 2016) but have been at 2.0% or higher since 2017. For 2019, Social Security beneficiaries will receive a 2.8% COLA.

4 The Benefit of Being a Spouse

Marriage brings couples an advantage when it comes to Social Security. Namely, one spouse can take a spousal benefit, worth up to 50% of the other spouse’s benefit as calculated at full retirement age. The calculation changes, however, if benefits are claimed before full retirement age. If you claim your spousal benefit before your full retirement age, you won’t get the full 50%. If you take your own benefit early and then later switch to a spousal benefit, your spousal benefit will still be reduced. Note that you cannot apply for a spousal benefit until your spouse has applied for his or her own benefit.

If you were born on or before January 1, 1954, after you reached full retirement age you can choose to restrict your application, apply for your spousal benefit, and delay applying for your benefit until a further date. By delaying you may be eligible for a higher benefit at a later date based on your earnings and delayed retirement credits.

Due to new rules that went into effect in 2016, if you were born on or after January 2, 1954 you are no longer able to file and restrict your application to only receive a spousal benefit, because so-called “deemed” filing rules were extended. If you qualify for your own benefits and a spouse’s, you’re deemed to have filed for the other benefit, too, even if you don’t become eligible for it until later.

5 Income for Survivors

If your spouse dies before you, you can take a so-called survivor benefit. If you are at full retirement age, that benefit is worth 100% of what your spouse was receiving at the time of his or her death (or 100% of what your spouse would have been eligible to receive if he or she hadn’t yet taken benefits). A widow or widower can start taking a survivor benefit at age 60, but the benefit will be reduced because it’s taken before full retirement age.

If you remarry before age 60, you cannot get a survivor benefit. But if you remarry after age 60, you may be eligible to receive a survivor benefit based on your former spouse’s earnings record. Eligible children can also receive a survivor benefit, worth up to 75% of the deceased’s benefit.

6 Divorce a Spouse, Not the Benefit

What if you were married, but your spouse is now an ex-spouse? Just because you’re divorced doesn’t mean you’ve lost the ability to get a benefit based on your former spouse’s earnings record. You can still qualify to receive a benefit based on his or her record if you were married at least ten years and you are 62 or older.

Like a regular spousal benefit, you can get up to 50% of an ex-spouse's benefit—less if you claim before full retirement age. And the beauty of it is that your ex never needs to know because you apply for the benefit directly through the Social Security Administration. Taking a benefit on your ex's record has no effect on his or her benefit or the benefit of your ex's new spouse. And unlike a regular spousal benefit, if your ex qualifies for benefits but has yet to apply, you can still take a benefit on the ex's record if you have been divorced for at least two years.

Note: Ex-spouses can also take a survivor benefit if their ex has died first, and like any survivor benefit, it will be worth 100% of what the ex-spouse received. If you remarry after age 60, you will still be eligible for the survivor benefit.

7 It Can Pay to Delay

Once you hit full retirement age, you can choose to wait to take your benefit. There's a big bonus to delaying your claim — your benefit will gradually grow by up to 8% a year up until age 70. Any cost-of-living adjustments will be included, too, so you don't forgo those by waiting.

While a spousal benefit doesn't include delayed retirement credits, the survivor benefit does. By waiting to take a benefit, a higher-earning spouse, for example, can ensure that a lower-earning spouse will receive a much higher benefit in the event the higher-earner dies before the lower-earning spouse. That extra income could make a big difference for a widow(er) who has lost the other spouse's stream of Social Security income.

In addition, retirement may be longer than we think. About one out of every three 65-year-olds today will live until at least age 90, and one out of seven will live until at least age 95, the Social Security Administration notes. Social Security benefits last as long as you live, and can provide valuable protection against outliving savings and other sources of retirement income. So it's important to choose a retirement age based on your circumstances so you'll have enough Social Security benefits to complement other sources of retirement income.

8 Uncle Sam Wants His Take

Most people know that you pay tax into the Social Security Trust Fund, but did you know that you may also have to pay tax on your Social Security benefits once you start receiving them? Benefits lost their tax-free status under legislation enacted in 1983, and the income thresholds for triggering tax on benefits were again increased in 1993. It may take less income than you think for your benefits to be taxed by Uncle Sam. The Social Security Administration estimates that about 40% of people have to pay taxes on their benefits.

For example, a married couple with a combined income between $32,000 and $44,000 may have to pay taxes on 50% of their benefits. Up to 85% of Social Security benefits are subject to income tax for higher-earning couples filing a joint return with a combined income of more than $44,000. If you're married and file a separate return, you'll probably pay taxes on your benefits.

Single filers may have to pay taxes on up to 50% of their benefits if combined income is between $25,000 and $34,000, while up to 85% of combined income above $34,000 is subject to income tax. In the above example, the Social Security Administration considers combined income to be the sum of your adjusted gross income plus nontaxable interest plus half of your Social Security benefits. The calculation can get complicated and if you want to find out more, the Internal Revenue Service's Publication 915 has more information. Here is the link.

9 Passing the Earnings Test

Bringing in too much money can cost you if you take Social Security benefits early while you are still working. With what is commonly known as the earnings test, you will forfeit $1 in benefits for every $2 you make over the earnings limit, which in 2019 is $17,640. In the year you reach full retirement age, $1 is withheld from your benefits for every $3 you make over $46,920 (the earnings limit in 2019) until the month you reach full retirement age.

There is also a special rule for the first year you retire. That's because sometimes people who retire in mid-year may have already earned more than the annual earnings limit. Under this rule, you can get a full Social Security check for any whole month you're retired and have monthly earnings of $1,470 or less (for 2019) regardless of your yearly earnings.

Once you are past full retirement age, the earnings test disappears and you can make as much money as you want with no impact on benefits.

But the good news is that any benefits withheld because earnings exceed the limits are not lost forever. At full retirement age, the Social Security Administration will recalculate your benefit to credit you for months you didn't get a benefit because of your earnings. In addition, as long as you continue to work and receive benefits, the Social Security Administration will check your record every year to see whether the additional earnings will increase your monthly benefit. If there is an increase, you will receive a letter with the new benefit amount.

As you can see, there are many factors to consider when choosing the best age to start taking your Social Security benefits.

We have special software that can run thousands of scenarios using your unique details and show you how to increase your Social Security income.

SOURCES

https://www.ssa.gov/planners/retire/retirechart.html
https://www.ssa.gov/pubs/EN-05-10147.pdf
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