Everything You Need to Know About Social Security

Written By Financial Educators

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It has been 85 years since President Franklin Roosevelt signed the Social Security Act into law on August 14, 1935. As of June 2020, there are more than 64 million people, 1 in every 6 residents, collecting Social Security benefits. Everyone dreams of what they will do once they retire, whether enjoying the grandkids, moving to a different state, or international travel. The key to achieving those dreams is taking appropriate steps to reach your retirement goals. Keep reading to learn everything you need to know about Social Security.

Social Security Eligibility

The average person can begin collecting their retirement Social Security benefits at age 62. This is an early retirement benefit and by taking this option your monthly payment will be 30% less than if you wait until your full retirement age (FRA).

By waiting until you reach full retirement age, which varies based on year of birth, you will receive your full benefit amount.

- FRA is 65 if born before 1937
- FRA is 66 if born between 1943 to 1954
- FRA is 67 if born in 1960 or later

The monthly benefit amount continues to increase by 8% every year you wait until you reach your maximum benefit level at 70 years of age. Depending on your circumstances, you may wish to wait until then to begin collecting.

If you begin collecting early you will get a lesser amount per month, however, you will collect for more years of your life. If you wait until you are older, you'll receive a higher monthly income but collect for fewer years. There are many things to consider when making this decision. If you find the eligibility mind-boggling, you might want to contact a financial advisor to help you get started on planning for your retirement.

Nearly nine out of ten individuals age 65 and older receive Social Security benefits.

Claiming Benefits While Working

There are many scenarios in which delaying the collection of Social Security may be beneficial due to personal life circumstances. The one most logical is when you have reached the age where you can collect, but plan to continue working.

There is no double-dip benefit to earning a full-time income while on Social Security until after you reach your FRA. Social Security has yearly maximum earning amounts, which in 2020 is $18,240. This means if you earn more than the maximum amount, Social Security will penalize you $1 for every $2 of income you earn above that level.

This means if you are collecting Social Security at age 63 and have a yearly income of $40,000, then Social Security will deduct $20,000 from your benefit. Once you reach your full retirement age there are no penalties for earning a higher income.

Retired workers and their dependents account for 73.2% of total benefits paid.

If you are earning income during the year you reach your FRA, the penalty is only $1 for every $3 you earn over a different income maximum. The maximum in 2020 is $48,600, and the penalty only applies until the month of your full retirement age.

One tricky thing about benefit penalties is that they are not pro-rated over the course of the year. Social Security will withhold your benefit at the beginning of the year for however many months it takes for your penalty to be paid. If your penalty takes three months to pay off, then you will not receive benefits in January, February, and March of the next year.

Life Expectancy Considerations

The average life expectancy has increased drastically since the creation of Social Security. The average man born in 1960 will be turning 60 in 2020 and has a life expectancy of 83 years. The average female born in 1960 has a life expectancy of 86 years.

Women have a higher life expectancy than men. In a standard man/woman marriage, the likelihood of the woman living longer and having to be self-supporting needs to be given consideration.

55% of adult Social Security beneficiaries in 2019 were women.

Remember, if you delay taking benefits from age 62 to your full retirement age, there will be a substantial increase in your monthly income. As stated above, if you delay collecting from age 62 to age 70, your monthly benefit will increase by 8% each year you wait to file for benefits. When you consider inflation, that higher monthly income will be more valuable when you are in your 80s or 90s.

However, there is no way of predicting how long you will live. Your life expectancy is based on a number of factors, including heredity, health, and susceptibility to disease and illness.

When to collect can be a gamble on income vs life expectancy. You could begin collecting at 62 and never live to see your full retirement, or you could begin collecting at 62 and be collecting that lower amount into your upper 90s.

If You Are Married

When you are married the goal is to maximize the combined benefits you will receive as a couple. If one person earns considerably more than the other, you will want to look at the difference between each of you drawing off your own personal benefits or having the lower-earning spouse draw off the higher-earning spouse's benefits.

At 62 years of age, you can draw benefits on your own social security account, or you can take the option of drawing off your spouse's earnings.

When drawing a spousal benefit, you will collect up to 50% of what that spouse's FRA, but this also varies based on your age when filing. The earlier you file, the less you will receive in monthly benefits. To use this option, your spouse has to have already filed their request for benefits.

If you did not work or did not earn the credits required to receive Social Security benefits, you can receive benefits beginning at age 62 by using your spouse's record. The age your spouse begins receiving benefits and the age you begin taking benefits will determine how much you receive. The highest benefit you can receive is 50% of what your spouse receives at full retirement.

There is no spousal benefit option for couples who reside together but remain unmarried.

Among elderly Social Security beneficiaries, 21% of married couples and about 45% of unmarried persons rely on Social Security for 90% or more of their income.

Who Files First?

If you and your spouse are relatively close in age, you may want to play a numbers game on who takes their benefits early and who waits until their FRA. This is a way to maximize benefits you receive as a couple.

One popular method is sometimes referred to as the 62/70 split. What this means is the spouse with the lower income applies for Social Security at age 62 and the higher-earning spouse files at age 70. This allows the couple to collect some Social Security income at a reduced rate while waiting until later to maximize the higher earner's benefit.

Another way of maximizing income at an even greater level is for the lower-earning spouse to claim benefits at their FRA. The higher-earning spouse allows their monthly benefit to grow to the maximum by not filing until age 70. By not collecting between age 62 and FRA, the lower-earning spouse increases their monthly contribution to the couple's total retirement income.

Playing the numbers to maximize benefits can be confusing for married couples. If you are trying to figure out the best strategy for winning the game of maximum Social Security income, talk to a financial advisor who has the knowledge and resources to help you make an informed decision on the best way to maximize your retirement income.

Spousal benefits, don't require you to have any credits at all. All you need is a spouse who has accrued at least 40 credits, and you can qualify for spousal benefits.

Survivor's Benefits

When you become widowed, you are allowed to draw survivor's benefits at age 60. However, you will want to compare drawing your own benefits versus drawing off your spouse's benefits as you will only be able to collect on one account.

Just like applying for regular benefits, it is better to wait until you reach your FRA before filing. Monthly benefits increase the longer you wait to collect. This can be especially true between the ages of 60 and 62.

If you go into your social security office with your deceased spouse's death certificate, they will be able to run you a chart that shows what the benefit amount is that you will receive based on the age you begin collecting from age 60 through your 70's.

That chart assists you in comparing your own personal income, investments, life expectancy, when you should begin taking social security benefits, and whether to collect off your own account or that of your spouse.

Year of Birth [1.]	Full (survivors) Retirement Age [2.]	At age 62 a $1000 survivors benefit would be reduced to [3.]	Months between age 60 and full retirement age	Monthly % reduction [4.]
1939 or earlier	65	$829	60	.475
1940	65 and 2 months	$825	62	.460
1941	65 and 4 months	$822	64	.445
1942	65 and 6 months	$819	66	.432
1943	65 and 8 months	$816	68	.419
1944	65 and 10 months	$813	70	.407
1945 - 1956	66	$810	72	.396
1957	66 and 2 months	$807	74	.385
1958	66 and 4 months	$805	76	.375
1959	66 and 6 months	$803	78	.365
1960	66 and 8 months	$801	80	.356
1961	66 and 10 months	$798	82	.348
1962 and later	67	$796	84	.339

If you remarry after you reach age 60 (age 50 if disabled), the remarriage will not affect your eligibility for survivors benefits.

Collecting as a Divorcee

Older women who are divorced have income levels that are dramatically lower than other Social Security recipients. Almost 20% of divorced women over the age of 65 are living in poverty, and 22% of divorced women who are over 80 years of age are poor.

Divorced women have several options to select from when filing for Social Security benefits. They can receive retired-worker benefits, which are based on their own income. Alternatively, they can receive auxiliary benefits, which are benefits from a former spouse's earnings. The divorced spouse option is available provided you were married for a minimum of ten years prior to the divorce.

If you have multiple marriages that ended in divorce, Social Security will compute your auxiliary benefit from each of your former spouses to determine your best benefit option.

If none of your marriages ended in widowhood or in a marriage of more than 10 years prior to divorce, you are not eligible for auxiliary benefits and will only be able to collect on your own retired-worker benefits.

The quick takeaway when divorced and filing to collect on your ex-spouse's Social Security account:

The marriage must have lasted 10 years or more

You cannot be married at the time of filing

You can collect benefits if you have been divorced two or more years and your ex-spouse is at least 62 years old

If you remarry you are not eligible to collect benefits on your ex-spouse's record unless your subsequent marriage ends in annulment, divorce, or death

If you remarry and your second spouse dies, you have the option of collecting on your first spouse (if marriage over 10 years) or your second spouse (if married 9 months before they died)

The minimum age to collect is 62, unless:
a) if your ex-spouse has died, you can receive benefits at 60 under the surviving divorced spouse option
b) if your ex-spouse has died and you are disabled you may collect benefits at 50 years of age

Additional Information

Under the divorced spouse option, you will be paid 50% of your ex-spouse's benefit, and 100% if they die before you. Your ability to receive benefits is not impacted by your ex-spouse's remarriage, even if their new spouse is collecting benefits.

There are no papers that need to be filed at the time you divorce to receive this benefit option. Your ex-spouse will have no knowledge that you are collecting benefits against their record.

To apply for Social Security benefits against your ex-spouse you will need to know their social security number. If you do not have that information you will need to provide their date of birth, place of birth, and the name of their parents.

Tax Considerations

When you retire, up to 85% of your Social Security income may be subject to federal and sometimes state tax. This is dependent on your filing status and modified adjusted gross income (MAGI) level.

Your MAGI level includes other income you receive from required minimum distributions (RMD), investment income, pensions, or if you are still receiving income from employment. Income is not impacted by qualified distributions you receive from a Roth IRA or a Roth 401(k). Income from a Traditional IRA or 401(k) distribution does affect income tax levels.

It is important to give serious consideration to your income tax level before deciding to take an early Social Security benefit. You don't want to take a reduction in monthly benefit due to age only to have more than half of it eaten up in income taxes.

Before making any final decisions, you may want to sit down with your financial advisor and discuss your options when receiving your Social Security and the tax considerations involved.

Getting the Most in Retirement

Now that you understand the tips and tricks for when to apply for Social Security benefits, you will want to use that information when creating your retirement plan. The best way to maximize Social Security benefits is to talk to a financial advisor who can help you determine the best time to apply for benefits based on your work history, income, age, other retirement income you can draw from, and retirement lifestyle plans.

We can help you plan for your financial future so when the time comes your retirement dreams become reality. Contact us today for a free consultation.

Advisor Bio Goes Here

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