Social Security Basics

When to sign up and maximize payout hinges on your own situation.

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One of the most frequent questions our clients ask is when to claim Social Security retirement benefits. We wish we could tell you there's one ideal age at which to start receiving Social Security, but it really depends on your circumstances.

But to help you make the decision that is right for you, we will review the rules for taking Social Security, discuss how the timing can make a big difference and cover a few special situations for those who have divorced or lost a spouse.

Social Security: Full retirement age by birth year

Birth year	Full retirement age
1943-1954	66
1955	66 and two months
1956	66 and four months
1957	66 and six months
1958	66 and eight months
1959	66 and 10 months
1960 and later	67

WHEN CAN I START RECEIVING SOCIAL SECURITY?

Your full retirement age (FRA) is the age at which you can receive unreduced benefits. For those born after 1943 but before 1955 , your FRA is age 66. For those born between 1955 and 1960, the FRA starts at 66 years and two months, and increases by two months each birth year to 1960. For those born in 1960 or later, full retirement age is 67 (*see chart at right).*

You have the option of claiming retirement benefits as early as age 62, but your benefits will be reduced for each month under full retirement age and the reduction can be as high as 30%. For example, a person eligible to receive $1,000 per month at age 67, would receive only $700 per month if benefits began at age 62.

If you're married, your spouse is eligible for a spousal benefit of 50% of your benefit. If your spouse's own benefit would be higher, then your spouse will automatically receive his/her own benefit instead (with one exception, which we cover at the end of this article). Here again, you can receive spousal benefits as early as age 62, but the payment will be reduced from the full spousal benefit available at full retirement age.

To review your estimated benefits, full retirement age and earnings each year, you must set up an account with the Social Security Administration and access the report online at **www.ssa.gov/myaccount**.

WHAT FACTORS SHOULD I CONSIDER IN DECIDING WHEN TO RECEIVE SOCIAL SECURITY?

Based on average life expectancies, a lower benefit paid for a longer time will add up to the same as a higher amount paid over a shorter period. So why not take benefits as soon as possible?

Most people don't die at the average life expectancy, so you have to consider your expected longevity based on your family history and your own health. You may end up receiving Social Security income for a lot longer than you think.

Once you know the amounts that would be paid to you at 62, your full retirement age and age 70, you can compute your break-even point to determine how long you'd have to live for delaying benefits to make sense.

This is the point at which the cumulative amount of benefits you receive if you delay benefits equals the cumulative amount paid to you if you started receiving them earlier.

It's important to know that when you claim early benefits, they're permanently reduced. There's no increase when you reach your full retirement age. But if you need the income at 62, you may not have the luxury of opting to wait for the higher benefits.

If you took benefits early, but then want to change your mind, you can do so within the first 12 months. This would then allow you to avoid the reduction to your benefit from claiming early and claim your full benefit at FRA. In order to make the change, you must submit a form (SSA-521) and repay any benefits you have received to date.

IS THERE A REDUCTION IN SOCIAL SECURITY INCOME IF YOU'RE STILL WORKING?

If you're still working at age 62, your benefits will be further reduced if you earn over a certain amount each year. If you continue to work between the ages of 62 and your full retirement age, you forfeit $1 of Social Security benefits for each $2 your earnings exceed $21,240 in 2023.

This figure is indexed annually for inflation and is different in the year you reach FRA.

For example, let's say Anna retires from her full-time job at age 65 and is eligible for $1,200 per month from Social Security. She then picks up a part-time consulting gig and expects to earn $23,640 in 2023. If she were to claim Social Security benefits, they'd be reduced by $156 per month:

$25,000 – $21,240 = $3,760 in excess earnings divided by 2 = $1,880, or $156.67 per month

Note that once you reach your FRA, there's no reduction in benefits if you continue working.

WHAT'S THE BENEFIT TO ME IF I WAIT PAST FRA TO COLLECT SOCIAL SECURITY INCOME?

Another piece of the Social Security puzzle is the delayed-retirement credit. If you wait until after your full retirement age to apply for benefits, you'll receive a credit that boosts your income. The credit is applied for every month you delay past FRA at the non-compounded rate of two-thirds of 1% per month, or 8% per year.

There's no incentive to delay benefits past age 70, since the delayed-retirement credit won't apply after you've reached that date. So we've narrowed down the Social Security decision to somewhere between ages 62 and 70. That's still a wide range, but based on how long you expect to live, your need for additional income or your plans to continue working after age 62, you may already be starting to get an idea of what makes sense for you.

Your full Social Security retirement age is the age at which you can receive unreduced benefits.

Spousal benefits are not eligible for delayed credits in the same manner. Spousal benefits are limited to 50% of the other spouse's income at full retirement age.

DELAYED CREDITS — AN EXAMPLE

Let's assume we have a married couple named Ted and Lisa, who are set to retire at age 67, when they have reached full retirement age. Ted is eligible for a Social Security benefit of $2,000 per month, or $24,000 per year, based on his career earnings. Lisa is also eligible for a benefit of $24,000 per year, based on her career earnings.

If both began their benefits this year, they would receive a total of $48,000 per year. If both wait until age 70, they would each be eligible for an increased benefit of at least $29,760 per year, or $59,520 total. However, they would have given up the $48,000 per year between age 67½ and 70, a total of $144,000.

In order to make up the for the nearly four years of income they skipped between age 67 and 70, they would each need to live past age 82½. This is their break-even point beyond which they will receive more total dollars from Social Security by waiting and earning delayed credits. If one or both should die before age 82½, they would have been better off taking benefits at age 67. In addition to the 8% each year increase, the benefits may also increase due to inflation.

READY TO FILE? You may claim Social Security benefits as young as age 62, but your checks will be smaller.

As you can see, there is some guesswork involved in choosing the best strategy, as none of us know how long we'll live!

DIVORCE AND DEATH

If you have experienced divorce or the death of a spouse, there are special provisions in place that allow you to draw on your former spouse's record.

If you and your spouse are divorced, you may still be eligible for the 50% spousal benefit on your ex's earnings record, subject to several requirements.

The marriage must have lasted at least 10 years and you must not be currently remarried. In addition, you and your ex-spouse must each be at least 62 years old.

If you meet those conditions, you are eligible to receive 50% of your ex-spouse's benefit at full retirement age. Filing for this benefit has no direct effect on your ex — it does not affect his benefit in any way, he does not need to claim his own benefit at the time you file and he is not notified that you've filed based on his record.

In the case of a deceased spouse, survivors are eligible for a survivor's benefit beginning at age 60, provided you were married for at least nine months. If the survivor files at full retirement age, they are eligible for 100% of the deceased spouse's benefit. If you file before FRA, your benefit may be reduced by up to 30%, similar to the early filing reductions mentioned above.

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remaining years and almost half receive some type of paid care in their lifetimes.

Long-term care insurance can fill in the gaps and provide a risk transfer opportunity in case you are ever unable to perform two of the six basic daily living activities. *(See Websites of Interest.)* Some life insurance and annuity riders (policy-add ons) may also provide similar benefits to a long-term care policy.

■ Income-Related Risk Management

While most people may not consider themselves an asset, our ability to earn income is our greatest asset. Maintaining disability income insurance can act as a hedge against lost income in the case of a short- or long-term period in which you aren't able to work. Insurance policies can replace up to 60% of your income in most cases, while premiums will cost you around 1% to 3% of your annual salary. You can use proceeds from the policy to maintain your family's standard of living until you are able to work again.

Despite the perceived benefit of disability income insurance, a LIMRA study found that only a mere 14% of the population holds coverage. Half said they would face financial hardship within six months of a disability.

In closing, understanding risk management is a key aspect of building a strong investment portfolio that works for you.

Websites of Interest

"Activities of daily living: What are they and how are they used?," Robyn Correll, Care.com; Feb. 16, 2023
www.care.com/c/activities-of-daily-living/

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For surviving spouses, there is an exception that provides a key planning opportunity. Unlike other situations, in the
case of a deceased spouse you may file what is called a "restricted claim" for spousal benefits.

In this instance, you receive your deceased spouse's benefits, while deferring your own. Deferring your benefit past FRA allows you to earn the 8% annual increase on your benefit, while receiving your spouse's for delaying each year past full retirement age. Then at age 70, if your benefit is higher, you switch over to your benefit.

THE FUTURE OF SOCIAL SECURITY

A report released in 2021 stated that the Social Security trust fund is expected to be depleted in 2034. We expect changes will be made so that the funds won't run out, although they may not happen soon. The proposed solutions include increasing the FICA (Federal Insurance Contributions Act) taxes workers' pay, increasing the amount of benefits subject to taxation, reducing the cost-of-living increases and increasing the retirement age.

Similar changes were made when we faced this predicament in 1983. Congress and President Reagan reached a bipartisan agreement to increase the retirement age and amount that was taxed.

We think that Social Security will continue to play a significant role in your retirement planning. As we mentioned at the beginning of this article, everyone's circumstances are unique, and once you have made a choice it is difficult if not impossible to reverse, so it is crucial that you work with a financial planner to figure out what is best for your situation.

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