

SUMMARY

It truly is becoming a “do-it-yourself” retirement world with fewer and fewer people entering into retirement with pensions provided through their former employer's defined benefit plans. As such, developing and implementing a strategy to maximize your and, if married, your spouse's Social Security benefits becomes an increasing critical component to generating retirement income throughout the duration of your lives. Social Security was never intended to cover all of your retirement needs. But it can certainly play an important role in your retirement income, and it's to your benefit to understand the rules.

GENERAL

- **Social Security Benefit Types:** Social Security offers three distinct types of benefits for retired workers and/or their spouses:
 - 1) the *retirement worker benefit*, which is determined by how long an individual works and how much he earns;
 - 2) a *spousal benefit*, which provides a worker's spouse with a benefit once the worker has claimed his own benefit; and
 - 3) a *survivor benefit*, which provides a surviving spouse with a benefit after a worker's death.
- **Determination of Retirement Worker Benefit:** Your Social Security Retirement Worker Benefit is determined based upon two primary factors:
 - 1) the average of the highest 35 years of earnings on which you've paid Social Security payroll tax, and
 - 2) the age at which you decide to claim and collect benefits
- **Retiree Claiming Options:** Currently, retirees can choose between three options when claiming social security benefits. They can claim:
 - at the Full Retirement Age (FRA) and receiving full benefits,
 - as early as age 62 but receiving **permanently** reduced benefits, or
 - as late as age 70 and collecting higher monthly benefits. For every year you wait up until age 70, your benefits will go up by roughly 8% a year, and that's on top of an annual cost-of-living adjustment that will also be made to your expected benefit.
 - The reductions and the delayed retirement credits are approximately actuarially fair for the person with *average life expectancy*. Stated differently, someone living to the average life expectancy age will **receive the same lifetime benefits regardless of when they claim between the ages of 62 and 70.**
- **Full Retirement Age (FRA):** FRA is the age at which you receive full benefits. Your Full Retirement Age (FRA) is dependent upon the year in which you were born.

Age to Receive Full Social Security Benefits		The Impact of When You Start Taking Benefits								
		Percentage of Full Benefits (%)								
Birth Year	Full Retirement Age	Age 62	Age 63	Age 64	Age 65	Age 66	Age 67	Age 68	Age 69	Age 70
1937 or earlier	65	80	87	93	100	106-107	111-113	117-120	122-126	128-133
1938	65 and 2 months	79	86	92	99	105	112	118	125	131
1939	65 and 4 months	78	84	91	98	105	112	119	126	133
1940	65 and 6 months	78	83	90	97	104	111	118	125	132
1941	65 and 8 months	77	82	89	96	103	110	118	125	133
1942	65 and 10 months	76	81	88	94	101	109	116	124	131
1943—1954	66	75	80	87	93	100	108	116	124	132
1955	66 and 2 months	74	79	86	92	99	107	115	123	131
1956	66 and 4 months	73	78	84	91	98	105	113	121	129
1957	66 and 6 months	73	78	83	90	97	104	112	120	128
1958	66 and 8 months	72	77	82	89	96	103	111	119	127
1959	66 and 10 months	71	76	81	88	94	101	109	117	125
1960 or later	67	70	75	80	87	93	100	108	116	124

Source: www.ssa.gov

- **Cost of Living Adjustments (COLA):** Social Security benefits **contain** cost of living adjustments (COLA), unlike many pension plans. Assuming a 3% annual interest rate, an income stream without a COLA will lose ~50% of its purchasing power over 20 years.
- **Taxation of Social Security:** **50%** of your Social Security benefits are taxed as ordinary income once you've earned more than \$25,000 in a year (\$32,000 for couples). That earnings calculation includes: taxable

pensions, wages, interest, dividends, tax-exempt interest income, and half of your Social Security benefits. Once your income exceeds \$34,000 (\$44,000 for couples), **85%** of your Social Security benefits will be subject to income taxes. Refer to IRS Publication 915 for more on how to calculate the tax on your benefits.

- **Collecting Social Security while Working:** Social Security is designed to replace your earnings when you no longer work. So if you start to collect benefits and continue to work **before** you reach your Full Retirement Age, some of your benefits might be withheld, as detailed in the table below.

If you collect benefits...	And earn more than... *	You'll forgo...
Before you reach full retirement age	\$14,160 in 2010	\$1 in benefits for each \$2 above the limit
In the year you reach full retirement age	\$37,680 in the months before you reach full retirement age, in 2010	\$1 in benefits for each \$3 above the limit
In the month you reach full retirement age	No limit	None

* Earnings include wages, self-employment, commissions, and bonuses. They do not include investment earnings, pensions, and distributions from retirement plans. Dollar amounts are indexed annually.

SPOUSAL BENEFITS

NOTE: Your current spouse cannot receive spouse's benefits until you file for retirement benefits.

- A spouse who has not worked or who has low earnings can be entitled to as much as one-half of the retired worker's full benefit.
- Spouses of retired workers can claim a spousal benefit, if that exceeds their own retired worker benefit, provided they have turned 62 and their retired worker spouse has already claimed their benefit.
- As with retirement worker benefits, if spouses want to receive Social Security retirement benefits before they reach full retirement age, the amount of the benefit is reduced **permanently** and the amount of reduction depends on when the person reaches full retirement age.
 - Unlike with retirement worker benefits, the spousal benefit does **not** increase if claiming is delayed beyond the Full Retirement Age.
- At the spouse's Full Retirement Age, they are entitled to a benefit of one half of their retired worker spouse's Primary Insurance Amount (PIA), (the benefit the retired worker spouse could receive if they claim at their Full Retirement Age).

SURVIVOR BENEFITS

- Spouses of retired workers also qualify for survivor benefit. This generally equals 100% of the retired worker's benefits, so an individual who delays claiming their retired worker benefit also increases their spouse's survivor benefit.
- As the amount of the survivor benefit is based on the husband's claim age, not the wife's, a married woman who delays claiming can expect to receive an increased retired worker or spousal benefit not for her lifetime, but for the shorter period ending on her husband's death.
- This reduces the advantage of delay and means that it is often optimal for married women to claim benefits at younger ages than otherwise identical single women. But a spousal benefit can only be claimed once the husband has claimed his retired worker benefit. Although early claiming of the retired worker benefit will often facilitate early claiming of the spousal benefit, thereby increasing its present value, it will also, for the reasons explained in the previous paragraph, reduce the value of the wife's survivor benefit.

OTHER FACTORS TO CONSIDER

Your decision is an individual one; there is no "right" answer. Several considerations may influence you, including:

- Likely most important for consideration is your and your spouse's life expectancy - including your current health and family's longevity history
- Plans for you and/or your spouse to continue working while collecting benefits
- Your spouse's earnings history and age (in relation to benefit eligibility and to your age)
- Your other income sources
- Increased Social Security benefits vs. Purchasing an Annuity - Increased SS benefits: 1) 8% annual return up to age 70, 2) COLA, 3) in most cases it will create a greater survivor's benefit