

Social Security Retirement Benefits

One of the original motivations for the Social Security system was the need to provide income for retired workers. Today, the retirement benefits available through Social Security provide income not only to retired workers, but to qualifying dependents as well.

Qualifying For Retirement Benefits

To qualify for Social Security retirement benefits, a worker must meet two primary requirements:

- **Fully insured:** To be “fully” insured, a worker must have earned 40 Social Security “credits,” generally by working 10 years in “covered” employment.¹ In 2018, an individual must earn \$1,320 in covered earnings to receive one credit and \$5,280 to earn the maximum of four credits for the year.²
- **Age:** Be at least age 62.²

Primary Insurance Amount

In general, Social Security benefit amounts are based on the worker’s lifetime earnings record. Using this earnings record, the Social Security Administration (SSA) calculates a number known as the “Primary Insurance Amount,” or PIA. The PIA is the basic value used to determine the dollar amount of benefits payable.

When to Take Social Security Retirement Benefits?

Once retirement payments begin, the benefit amount generally does not change, except for annual “cost-of-living” adjustments. Thus, the decision as to when to begin to take Social Security retirement benefits is a key one. Full Social Security retirement benefits are paid at “full retirement age” (FRA). A worker who elects to receive Social Security retirement benefits at his or her FRA can expect to receive 100% of the PIA. For those born in 1937 or earlier, FRA is age 65. For those born after 1937, FRA gradually increases until it reaches age 67 for those born in 1960 and later.

- **Early retirement (less):** Reduced retirement benefits may begin as early as age 62. For each month (up to 36 months) that a worker is under FRA, benefits are reduced by 5/9 of 1% of the PIA. For each month in excess of 36 months, benefits are reduced an additional 5/12 of 1% of the PIA.
- **Delayed retirement (more):** A worker who delays receiving retirement benefits beyond FRA can receive a larger benefit. For each year of delay up to age 70, the benefit is increased by a specific percentage of the PIA. The amount of extra credit for each year of delay will vary depending on the year of birth. No additional credit is given for delaying receipt of benefits past age 70.

¹Wages or self-employment income where the earnings are subject to Social Security tax (OASDI) and the Medicare (HI) tax. For those working less than 10 years, an alternative test to determine fully-insured status may apply. Source: Social Security Administration.

²Source: Social Security Administration

Retirement Benefits for Family Members

Other individuals may receive retirement benefits based on a worker's account:

- **Spouse's benefit:** Beginning at age 62 (or younger, if caring for a child described below), a spouse is eligible for a retirement benefit based on the worker's earnings record. The spouse's benefit is generally equal to 50% of the worker's PIA, at the spouse's FRA. Unless the spouse is caring for a child, the benefit amount is reduced if the spouse begins receiving benefits before FRA. If the spouse is entitled to a larger benefit based on his or her own work record, the larger benefit is paid.
- **Child:** A monthly retirement benefit is available to a dependent child. For this purpose, a child must be under age 18, or age 18 or 19 and a full-time elementary or high school student, or 18 or over and disabled before age 22, and unmarried. The benefit is equal to 50% of the worker's PIA.
- **Divorced spouse:** If a prior marriage lasted at least 10 years, at age 62 a divorced spouse may be entitled to retirement benefits based on the worker's record. Generally, the retirement benefit amount is 50% of the worker's PIA. The divorced spouse must not be married and benefits are reduced for early retirement.

Maximum Family Benefit

If the total benefits payable based on a retired worker's Social Security account exceed certain limits (which change each year) the individual dollar amounts for a spouse and any dependent children are proportionately reduced to bring the total within the family maximum limit.³ Neither the worker's benefit amount nor any benefit payable to a divorced spouse is reduced because of the family maximum limit.

Federal Income Taxation of Social Security Benefits

Under federal income tax law, Social Security benefits may be subject to income tax. If one-half of Social Security benefits plus "modified adjusted gross income" (often the same as adjusted gross income) exceed a specified threshold, then a portion (up to 85%) of social security benefits is taxable. For married couples filing jointly this threshold is \$32,000; for most others it is \$25,000.⁴ State or local income tax treatment of Social Security benefits can vary.

Reduced Benefits Because of Excess Earnings

If an individual begins receiving retirement benefits before reaching FRA, and also works, the retirement benefit will be temporarily reduced if earnings exceed certain limits. For this purpose, "earnings" generally include wages received as an employee or the net income received from self-employment. The reduction amount is calculated on a monthly basis and varies depending on the individual's current age in relation to his or her FRA.

- **Under FRA:** One dollar of benefits is lost for every two dollars earned over an annual total of \$17,040 (\$1,420 monthly).⁵
- **The year FRA is reached:** One dollar of benefits is lost for every three dollars earned over \$45,360 (\$3,780 monthly).⁵
- **At FRA:** Once FRA is reached, there is no reduction in an individual's benefit, regardless of how much is earned. Any benefits that were withheld earlier because of excess earnings are credited to the individual's account, resulting in a larger retirement benefit beginning at FRA.
- **Special rule for the first year of retirement:** A special rule applies to the first year of retirement, to benefit an individual who, before just retiring, earns more than the annual limit. Under this rule, unreduced Social Security benefits are paid for any month after benefits begin that an individual does not earn more than the monthly exempt wage amount.

³The family maximum benefit is based on a formula and ranges from 150% to 180% of the worker's benefit.

⁴The threshold is \$0 for those who are married filing separately and who lived with their spouse any time during the year.

⁵2018 values. These "exempt" amounts are subject to adjustment for inflation each calendar year.

Verifying Social Security Records

Because Social Security benefits are based on a worker's lifetime earnings history, it is important to insure that all covered earnings are accurately listed on SSA records. There are several ways to do this:

- **Paper statements:** Workers age 60 or older and who are not receiving Social Security benefits automatically receive a paper Social Security Statement each year, listing the worker's earnings as well as providing estimated retirement, disability, and survivors benefits. A paper earnings statement may also be requested by completing Form SSA- 7004, *Request for Social Security Statement*, and mailing it to the address on the form. The statement will arrive by mail in four to six weeks.
- **Online statements:** The same information previously provided on the paper statements is now available on an electronic statement. These electronic statements include a summary of a worker's earnings, as well as providing estimated retirement, disability, and survivor's benefits. To obtain a statement, an individual will need to create an account on the Social Security website at <http://www.ssa.gov/myaccount>. Each person who wishes to sign up must be at least age 18 and have a valid Social security number, e-mail address, and United States mailing address.
- **Telephone:** Earnings information may also be verified by calling the SSA directly at (800) 772-1213; TTY (800) 325-0778, Monday through Friday, from 7:00AM to 7:00PM.

Estimating Social Security Retirement Benefits

The Social Security administration, on its website, offers a calculator which allows an individual to estimate his or her retirement benefits, using the individual's own earnings history, taken directly from Social Security records. This calculator can be reached at: <http://www.ssa.gov/planners/>

Seek Professional Guidance

For many Americans, the retirement benefits provided by Social Security form an important part of their retirement income. A qualified financial professional can answer many Social Security questions. Social Security questions can also be answered by directly contacting the SSA.

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