

Understanding Social Security

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Over 65 million people in 2015 received some form of Social Security benefits. Approximately 61% of aged beneficiaries received at least half of their income from Social Security in 2014.

Social Security is more than just a retirement program. Its scope has expanded to include other benefits as well, such as disability, family, and survivor's benefits.

Social Security Eligibility

When you work and pay Social Security taxes, you earn credits that enable you to qualify for Social Security benefits. You can earn up to 4 credits per year, depending on the amount of income that you have. Most people must accumulate up 40 credits (10 years of work) to be eligible for Social Security retirement benefits, but need fewer credits to be eligible for disability benefits or for their family members to be eligible for survivor's benefits.

Your Retirement Benefits

Your Social Security retirement benefit is based on your average earnings over your working career. Your age at the time you start receiving Social Security retirement benefits also affects your benefit amount. If you were born between 1943 and 1954, your full retirement age is 66. Full retirement age increases in two-month increments for each year thereafter, until it reaches age 67 for anyone born in 1960 or later.

But you don't have to wait until full retirement age to begin receiving benefits. No matter what your full retirement age, you can begin receiving early retirement benefits at age 62. Doing so is sometimes advantageous: Although you'll receive a reduced benefit if you retire early, you'll receive benefits for a longer period than someone who retires at full retirement age.

You can also choose to delay receiving retirement benefits past full retirement age. If you delay retirement, the Social Security benefit that you eventually receive will be as much as 6% to 8% higher. That's because you'll receive a delayed retirement credit for each month that you delay receiving retirement benefits, up to age 70. The amount of this credit varies, depending on your year of birth.

Disability Benefits

If you become disabled, you may be eligible for Social Security disability benefits. The Social Security Administration defines disability as a physical or mental condition severe enough to prevent a person from performing substantial work of any kind for at least a year.

Family Benefits

If you begin receiving retirement or disability benefits, your family members might also be eligible to receive benefits based on your earnings record. Eligible family members may include:

- Your spouse age 62 or older, if married at least 1 year
- Your former spouse age 62 or older, if you were married at least 10 years

- Your spouse or former spouse at any age, if caring for your child who is under age 16 or disabled
- Your children under age 18, if unmarried
- Your children under age 19, if full-time students (through grade 12) or disabled
- Your children older than 18, if severely disabled

Spousal Benefits

Generally, after a worker files for benefits, the spouse can apply to receive a benefit equal to 50% of the amount the worker would be entitled to receive at full retirement age (whether the worker is receiving benefits before or after age 66), but the spousal benefits are reduced permanently if the spouse has not reached his or her full retirement age.

After a worker has died, the surviving spouse is entitled to surviving spousal benefits after reaching age 60.

- If the spouse elects to begin receiving survivor benefits before reaching his or her full retirement age, the survivor benefits are reduced (depending on how early the election is made).
- If the worker had not started collecting benefits, the widow or widower benefit (assuming it is not reduced because of electing to receive it before the survivor's full retirement age) is 100% of the worker's "primary insurance amount" that would have applied when the worker reached full retirement age.
- If the worker was receiving benefits at the time of his or her death, the widow or widower benefit will be equal to the amount the worker was actually receiving (unless reduced because the survivor elects to begin receiving benefits before his or her full retirement age). Thus, one of the advantages for a worker to defer applying for benefits until age 70 is to increase the "two-life annuity" available to the spouses from Social Security.
- The widow or widower will lose the survivor benefits if he or she remarries before age 60 unless the subsequent remarriage ends. Remarriage after age 60 does not impact the entitlement to survivor benefits.

The Bipartisan Budget Act of 2015 impacted the Social Security spousal options by removing several important alternatives for claiming Social Security benefits that were previously available to married couples.

- **File and Suspend Strategy.** Beginning in 2000, Social Security allowed a participant upon reaching his or her "full retirement age" (currently age 66, increasing to age 67 for individuals born after 1960) to file and claim benefits based on that person's earnings record, which allows his or her spouse to begin collecting spousal benefits. The participant could then suspend his or her own benefit until reaching age 70 (but the spouse would continue to receive the spousal benefits). This is important because the amount of monthly Social Security benefits grows by as much as 8% per year (to a maximum increase of 32% at age 70) if the participant delays receiving benefits. Benefits can be claimed as early as age 62, but the monthly benefit will be as much as 75% more if benefits are delayed from age 62 to age 70. This strategy was available for persons who elected to suspend benefits (after reaching full retirement age) on or before April 29, 2016. After that time, when a person suspends his or her own benefits, all benefits payable on his or her own earnings record to other individuals (such as spousal benefits) will also be suspended.
- **Restricted Spousal Benefits (File and Switch Strategy).** After an individual reaches the full retirement age (currently age 66), the individual could file a restricted application to receive just spousal benefits based on his or her spouse's earning record, but allow the individual's own retirement benefit to continue to grow (up to age 70, after which time no further increase in the retirement benefits arises). Persons who were age 62 or older by the end of 2015 may continue to use this strategy; otherwise, persons will no longer be able to restrict an application to spousal benefits only, but will have to claim all benefits when electing to receive benefits. Accordingly, the restricted spousal benefits election can still be a viable strategy if BOTH spouses have a Social Security earnings

record entitling them to retirement benefits and their spouses to receive spousal benefits and if at least one of the spouses had reached age 62 in 2015. Otherwise, this strategy is no longer available.

Divorced Spouses

Prior divorced spouses are also entitled to spousal benefits. Requirements are that the person was married to the worker for at least 10 years, the divorced spouse has not remarried, both are at least age 62, and they have been divorced at least 2 years. Payments made to a divorced spouse will not impact the amount of benefits payable to the worker or the worker's current spouse (or other divorced spouses of the worker who qualify for divorced spousal benefits).

A prior divorced spouse of a deceased worker is entitled to survivor benefits if the individual was married to the deceased ex-spouse for at least 10 years, if the individual is unmarried or married after age 60, and if the individual is at least age 60.

The spousal benefits and survivor benefits for divorced individuals do not appear on the "Earnings Record" and "Estimated Benefits" statement, and many divorced individuals are not aware of these benefits.

Survivor's Benefits

When you die, your family members may qualify for survivor's benefits based on your earnings record. These family members include:

- Your widow(er) or ex-spouse age 60 or older (or age 50 or older if disabled)
- Your widow(er) or ex-spouse at any age, if caring for your child who is under 16 or disabled
- Your children under 18, if unmarried
- Your children under age 19, if full-time students (through grade 12) or disabled
- Your children older than 18, if severely disabled
- Your parents, if they depended on you for at least half of their support

Your widow(er) or children may also receive a one-time \$255 death benefit immediately after you die.

Impact of Continuing to Work After Receiving Benefits

If the worker begins receiving benefits before the full retirement age, the worker can earn up to \$16,920/year in 2017 without any reduction in benefits. Earnings above that will reduce the benefits by \$1 for every \$2 earned above that limit.

In the year when the full retirement age is reached (but before actually reaching full retirement age), the worker can earn up to \$44,880/year without any reduction in benefits. Earnings above that will reduce the benefits by \$1 for every \$3 earned above that limit. Only earnings before the month the worker reaches full retirement age are counted for this purpose.

Starting with the month the worker reaches full retirement age, there is no reduction for earnings.

Applying for Social Security Benefits

You can apply for Social Security benefits in person at your local Social Security office. You can also begin the process by calling (800) 772-1213 or by filling out an on-line application on the Social Security website. The Social Security Administration suggests that you contact its representative the year before the year you plan to retire, to determine when you should apply and begin receiving benefits. If you are applying for disability or survivor's benefits, apply as soon as you are eligible.