5 Questions to Answer Before Filing for Social Security

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Table of Contents

If you're like most Americans, Social Security benefits will make up a big chunk of the income you have to live off during retirement. The federal program has a lot of tricky details, so it's important to understand how the Social Security Administration (SSA) determines the amount of your benefits -- particularly because certain decisions you make will permanently impact your benefits.

Unfortunately, far too many retirees simply claim Social Security ASAP without fully understanding the implications of this choice. Before you decide when to claim your benefits, you need to secure the answers to these 5 questions so you can make a strategic choice that gives you the best chance of getting the retirement income you need.

1) How is Your Benefit Determined?

The amount of Social Security benefits you receive is based on your work history, both years and earnings.

The SSA considers your wages over the 35 years during which you earned the most money, up to the annual payroll tax cap. There's a tax cap because there's also a limit on how much you can receive in benefits.

Your wages over your 35 most profitable years are adjusted for inflation, added together and then divided by 420 months (the number of months in 35 years). This calculation gives you a figure called average indexed monthly earnings, or AIME. Then, the SSA uses a formula to determine your primary insurance amount, based on your AIME. For 2019, your primary insurance amount equals 90% of the first $926 of AIME, plus 32% of AIME above $926 and below $5,583, plus 15% of your AIME above $5,583.

The income threshold at which you get a smaller percentage of AIME is called the "bend point." Bend points change annually, but the bend points that determine your benefits are those in effect when you turn 62, regardless of how old you are when you retire.

Understanding this formula is important for one big reason: The SSA considers the most profitable 35 years of your life, based on your earnings. So, if you worked fewer than 35 years, the SSA will still look at 35 years worth of work history -- and factor in $0 annual earnings for the years you didn't work. These zeroes can significantly reduce your AIME, which in turn substantially drags down your benefit amount.

For this reason, you might consider working a few more years if you don't have 35 work years on your record. Or, if you're earning much more now than you were at the start of your career, you may decide to stay on an for a few extra years so your early lower earning years are replaced your later high-earning years, when you were in the prime of your career.

Sample Questions

Question#1

I understand that my benefit continues to grow by 8% every year if I wait until age 70. But if I file at my full retirement age, would my benefit still grow if my earnings after I file are part of my 35 highest years? Or are those 35 years locked in once you file?

As long as you keep working and paying into Social Security your earnings record will be updated. If a new year of higher earnings replaces an older year of lower earnings, your PIA will be updated. This continues as long as you work, even after you have claimed benefits at 70

Question #2

If I work part-time for two years before I take my Social Security, how much will that reduce my monthly Social Security check when I do start getting it?

Benefit not based on most recent working years

- Based on highest 35 years
- Working can only increase benefit – never lower it
- If working part time replaces a zero or low wage year, benefit goes up
- If it falls below the 35 top earning years, no harm done

2) How does Your Age Affect Your Social Security Benefits?

The SSA's benefits formula is used to determine how much income you'll receive if you retire at full retirement age (FRA). FRA varies depending when you were born. If you were born after 1960, FRA is 67.

If you start claiming benefits before reaching your FRA, you'll see your benefits reduced by 5/9 of 1% for each of the first 36 months before FRA. If you take benefits even earlier, they will be reduced by an additional 5/12 of 1% for each prior month.

But if you delay claiming your benefits until after your FRA, you can earn delayed retirement credits until you reach 70 years of age, where this bonus maxes out.For each month you delay until 70, you'll earn a benefits increase of 2/3 of 1%.

This reduction means claiming early can lead to a pretty substantial drop in benefits. Conversely, claiming later will dramatically increase your benefits. This chart shows what will happen to your benefits based on when you retire, assuming your FRA is 67.

Age	Change in Benefits Compared to FRA
62	30% reduction
63	25% reduction
64	20% reduction
65	13.3% reduction
66	6.7% reduction

67	No change
68	8% increase
69	16% increase
70	24% increase

Losing up to 30% of your potential monthly income by claiming benefits before age 67 could mean a big reduction in your standard of living -- especially because the reduction in benefits is permanent and any future Social Security raises are based off this lower starting benefit amount.

Sample Questions

Question #1

I'm 61. Why should I delay claiming my Social Security if the average person will get the same take from Social Security regardless of when they claim?"

Most people won't live out an "average" life. If you're 61 today, you have an "average" life expectancy of 17 more years if you're a man. A woman, statistically, has about 21 years left to live. But that includes everybody. If you don't smoke, if you keep your weight under control, if you don't jump out of airplanes and if you exercise regularly, you may likely live longer than the so-called average. There's an 8 year window in which you can claim your Social Security monthly benefit, from age 62 to 70. If you stop working at age 62, but you wait until age 70 to claim your Social Security benefit**,** you'll receive 76% more in your check each month than you would if you'd started your income at 62, but you'll miss out on the 8 years of monthly benefits from Social Security had you started collecting at 62. So… which is better? Well, we believe that all things being equal, delayed, or what we call bonus, claiming is generally the better bet. If you delay taking your Social Security check you will lock in a permanently increased benefit for the remainder of your life. So while it's true you will receive fewer years of checks, on the good side you will have more income in advanced ages when you are more likely to need the money. I think of it as “longevity insurance,” or insurance against growing poor in old age.

Question #2

If I take my benefit early, at age 62, can’t I just jack it up to the full benefit when I turn 66?

No, Social Security doesn’t work that way. If it did, everybody would claim their Social Security at 62, then boost it up at their Full Retirement Age of 66 or 67. How it works is that if you claim at a time below your full retirement age (and your full retirement age is the age at which you can claim your full benefit), you will be penalized, maybe as much as 30%, and that penalty will last for the rest of your life. For example, if your full retirement age is 67 and your Full benefit, what Social Security calls Primary Insurance Amount, is $2,000, your penalty for claiming at 62 will be 30%, or $600. That means you’ll only get $1,400 a month… for the rest of your life. And not only that! Social Security pays cost of living raises each year to their recipients to keep up with inflation. If you take your benefit at 62, COLA’s are based on the lower, age 62 amount you’re getting. So if you were to get a, say, 2% raise that first year, instead of getting $40 on the $2,000 age 67 benefit, your raise would only be $28 on the lower, $1,400 age 62 amount. Now that may not be much that one year alone, but compounding over many years the COLA’s alone can make a huge difference.

Question #3

I filed for Social Security at age 62. Can I repay my total Social Security benefits received to date and then re-file to obtain higher payout later? It’s my understanding I can do that.

If it’s been less than 12 months since you filed, you can withdraw your application, repay the benefits you’ve received so far, and re-file at a later time. Just file Form SSA- 521. If it has been over 12 months, you can suspend further payments, but you can’t pay it back to age 62.

3) How do Spousal Benefits Work?

The final thing to know before deciding when you'll claim Social Security benefits is that the SSA has special rules for spouses. In particular, spouses can claim benefits on each other's work records and may also be entitled to survivors benefits once one spouse passes away. Because of these rules, the decisions you make on Social Security could affect your spouse, too.

If you claim your benefits early when you have more earnings than your spouse, you could end up permanently reducing the amount your spouse is entitled to in survivors benefits, if you pass away first. On the other hand, if you're the lower-earning spouse, you could potentially get a higher benefit by claiming on your spouse's work record rather than your own.

The rules for spousal benefits are complicated. Make sure you understand the rules before you claim, and don't assume the Social Security Administration will help you maximize your benefits. A report from the inspector general found SSA staff ended up causing widows and widowers to lose out on as much as $132 million in potential benefits by giving them bad advice when it came to claiming survivor's benefits.

Social Security is critical to the financial security of millions of retirees, but it's not just retired workers who receive Social Security benefits. Spouses of retired workers may also qualify for benefits that significantly increase household income in retirement, and widows and widowers can qualify for survivor's benefits.

The rules for spousal benefits are complex. For example, retired workers can increase their Social Security income by waiting until they're 70 years old to claim benefits, but that's not the case for spousal benefits. The amount of money a spouse collects in spousal benefits depends on the retired worker's earnings record and if the partner claims spousal benefits early. Here's how these benefits work so you can make the most of them.

The basics of Social Security
Social Security is a financial safety net meant to replace roughly 40% of the average retiree's preretirement income. After about 10 years of working at a job requiring the payment of Federal Insurance Contributions Act (FICA) taxes, most Americans qualify for at least some Social Security benefits. As of November 2018, Social Security was paying $62 billion in monthly benefits to more than 43 million retired workers.

The specific monthly benefit doled out to each retiree is based upon the average income during their 35 highest-earning years, adjusted for inflation. This average is called a person's average indexed monthly earnings or AIME. Once AIME is calculated, it's then reduced at certain income thresholds called bend points.

These bend points give retirees credit for a larger percentage of AIME at lower levels than at higher levels, so lower-income recipients wind up having more of their preretirement income replaced by Social Security than higher-income recipients. The percentages associated with Social Security's bend points are fixed, but the dollar amount used for each threshold can change annually because of inflation. The bend point thresholds for 2019 are shown in the following table.

As you can see, retirees get credit for 90% of their inflation-adjusted monthly income over their 35 highest-earning years of work up to $926, 32% of their income between $926 to $5,583, and only 15% for income above $5,583 in 2019. The average retired worker in 2019 collects $1,461 per month in retirement benefits because of this formula.

What are spousal benefits?

Spousal benefits have been a part of the Social Security program since 1939, and as of November 2018, Social Security was paying $1.8 billion in monthly benefits to over 2.4 million spouses of retired workers. The average monthly benefit paid to spouses by Social Security was $741.46 in November 2018.

Qualification for spousal benefits is determined by past and present marital status. Generally, the person claiming spousal benefits must be currently married to the primary recipient; former spouses can receive benefits if their marriage lasted 10 years or longer, but there are some restrictions (more on that later).

The amount a spouse receives in spousal benefits is determined by the benefit they're entitled to, based on their own work record, the work record of their spouse, and the age at which the spouse begins collecting spousal benefits.

Although the percentage of people getting married has decreased and marriages aren't lasting as long as they did in 1939, most Americans still qualify for spousal benefits because of their marriage history, even if they don't qualify for benefits on their own because of a limited or nonexistent work history.

Rules for nonworker spouses

If your spouse has already claimed their benefits and you don't have a work history that qualifies you for benefits under your own work record, you can receive spousal benefits based on your spouse's record once you reach age 62, or earlier if you're raising your spouse's child and that child is younger than 16, or disabled.

The amount of money you can receive in spousal benefits is based upon your spouse's work history and the amount *they're* entitled to at *their* full retirement age (FRA), which is the age at which they can receive 100% of their monthly Social Security benefit. For people born after 1954, full retirement age is somewhere between ages 66 and 67.

Once a spouse attains their own FRA, they're entitled to 50% of their working spouse's full retirement age benefit. If the worker's spouse begins receiving spousal benefits prior to their FRA, they'll see their benefit amount reduced by a percentage that's based on the number of months claimed early. Specifically, the spousal benefit is reduced by 25/36 of 1 percent for each month claimed prior to full retirement age up to 36 months, and by 5/12 of 1 percent if the number of months claimed early exceeds 36.

For instance, let's assume the FRA for both spouses is 66, but only one has a work history that qualifies for Social Security benefits. If the worker's monthly Social Security benefit at age 66 is $1,000, then their spouse could collect $500 per month once they turn 66, too. However, if the spouse decides to claim spousal benefits at age 62, the $500 would be reduced by 30%, resulting in a monthly benefit of $350.

The rules for spouses with dependent children under 16
Many couples are delaying having children, and divorce rates are resulting in more second marriages, so it's possible to have dependent children who qualify for benefits on your Social Security record. If those children are under age 16, it's also possible for your spouse to qualify for spousal benefits, even if they're younger than age 62. The rules in this scenario, however, are a bit different.

A spouse younger than age 62 who claims spousal benefits while caring for a child under 16 won't be subject to a reduction in spousal benefits for as long as that child is younger than 16.

However, the amount of the spousal benefit will be subject to maximum family benefit rules, which cap payments to family members on a worker's Social Security record to no more than between 150% to 180% of their FRA benefit amount. For instance, the family maximum for a person with a $1,000 full retirement benefit is between $1,500 and $1,800 per month.

Whether the maximum is 150% or 180% depends on a complex formula involving how much the former worker's FRA benefit is. For instance, the family maximum is 150% up to a monthly full retirement benefit of $1,184 in 2019, and it increases from there. Social Security does this calculation for you, but if you're interested, here's the multipliers it uses for a workers' full retirement age benefit at specific bend points:

- 150% of the first $1,184 of the worker's full retirement age benefit, plus
- 272% of the worker's full retirement age benefit over $1,184 through $1,708, plus
- 134% of the worker's full retirement age benefit over $1,708 through $2,228, plus
- 175% of the worker's full retirement age benefits over $2,228.

If a spouse's benefits plus benefits to dependents exceed this family limit, the benefit amounts paid to them will be reduced equally among them. Like nonworker spouses, dependents and spouses can receive benefits only if the former working spouse has also claimed their benefit.

Rules for retired worker spouses

In addition to the rules for nonworker spouses regarding how spousal benefits are calculated, you should know that if you have a work history that qualifies you for Social Security on your own work record, you can't receive both your benefit and a spousal benefit. You can receive only the higher of the two amounts.

For example, if I qualify for a $2,000 full retirement age benefit on my own record and a $500 spousal benefit, I'd get only the $2,000 from my own work history, not $2,500. Alternatively, if I qualified for only $500 on my own record and $1,000 in spousal benefits, then I'd get $1,000, not $1,500.

Rules for ex-spouses

It's now easier than before for ex-spouses to qualify for benefits on their former spouse's work record, thanks to new rules. As long as the person claiming spousal benefits is unmarried and at least 62, they can qualify for 50% of their ex-spouse's FRA benefit. This will not impact the ex-spouse's benefit amount, or any amounts paid to a current spouse or dependents, and it also doesn't apply to the family maximum calculation.

To collect spousal benefits based on your ex-spouse's record, the spousal benefit must exceed the benefit you'd receive based on your own work history. Unlike these other scenarios, as long as the couple has been divorced for at least two years, the spouse whose work record is being claimed on doesn't need to be receiving Social Security for the other spouse to start collecting spousal benefits.

If you're remarried, you generally won't qualify for benefits on your ex-spouse's record, but if you become single again because of annulment or divorce or your spouse passes away, you may receive spousal benefits.

Rules for widows and widowers and survivors benefits
Spousal benefits can be combined with a retired worker's benefit to increase household Social Security income, but a widow or widower can't collect both benefits after the worker spouse passes away. Since survivors benefits amount to 100% of the benefit paid to a retired worker prior to their death, most nonworker spouses will stop receiving spousal benefits to instead receive survivor’s benefits.

One exception: The surviving spouse isn't yet at full retirement age. Surviving spouses who claim survivor’s benefits before turning their FRA will have their benefit reduced for each month they claim early, so in order to receive 100% of the survivors benefit, a young, surviving spouse might be better off delaying survivors benefits until they've reached full retirement age.

What is the Social Security earnings test?
One of the most important things you need to know about spousal benefits is that if you claim them prior to reaching your FRA, you'll be subject to Social Security's earnings test. Social Security only allows recipients under FRA to earn up to a certain amount every year, and if your earnings exceed that limit, Social Security withholds some or all of your benefit.

In the years before you reach your full retirement age, it will hold back $1 for every $2 above the limit, and for the year in which you turn your FRA, the SSA holds back $1 for every $3 earned above the limit in the months leading up to your birthday. In 2019, the earnings limit for years prior to the year you attain full retirement age is $17,640, and the limit in the months leading up to your birthday in the year you turn full retirement age is $46,920. Once a recipient reaches their FRA, the earnings test no longer applies.

Spousal benefits may also be subject to income taxes. The IRS can tax up to 50% of your Social Security income if your combined income is over $25,000 (if single) or $32,000 (if married filing jointly) and up to 85% of your Social Security income if your earnings exceed $34,000 (if single) or $44,000 (if married filing jointly). (Note: Combined income = Adjusted gross income + nontaxable interest + 1/2 of your Social Security benefits.)

It's also important to know that pension income from work that wasn't subject to FICA taxes, such as a government job, could negatively affect your spousal benefit.

To ensure spouses don't double dip by collecting a government pension and Social Security spousal benefits designed for those with limited work histories, there's the Government Pension Offset rule. This rule reduces spousal benefits by two-thirds of the public pension amount, and because the reduction isn't limited, a big enough pension could eliminate a spousal benefit altogether.

Overall, spousal benefits provide a welcome boost for many retirees, so it's important to understand the rules associated with them before retiring to make sure you're pocketing as much money in benefits as possible.

Sample Questions

Question #1

I am confused on a calculation. My husband is 66 with his full retirement age amount of $1,544. I am 63 but my FRA amount is $1,215. Will he get 50% of my FRA amount, $608, even though I am applying early for a reduced benefit?

Yes. Spousal benefits are based on the worker spouse's PIA, not that spouse's actual benefit.

Question #2

My spouse's benefit is larger than my own benefit. So, if I start my benefit at age 70, can I switch to my spousal benefit once my wife starts his retirement benefit.

Yes, but she wouldn't switch. She would add on the spousal portion, which is equal to the difference between her PIA and one-half of his PIA. This would be added to her existing benefit

Question #3

This question is from Jill. She states, I'm 64 and my husband is 60. My earnings record is minimal. Would I be able to claim my benefit now and then, when my husband turns FRA and files, switch to claiming half of his benefit? My benefit is less than half of his.

If she files now, she will be paid about 87% of her PIA. When she adds on the spousal benefit she will be paid the difference between her PIA and 50% of his PIA; this will be added to her existing benefit. The total will not be the full 50% of his PIA. If she wants to receive the full 50% of his PIA as her spousal benefit, she would need to wait until her FRA to file for her own benefit.

Question #4

Is the divorced-spouse benefit always based on former husband's full-retirement age amount regardless of his current age? For example, Jim is 62, and his ex wife is at her full retirement age. Would she receive a divorced-spouse benefit based on his age 66 amount even though he is just 62?

Spousal benefits are based on the worker's Full Benefit at their Full Retirement Age. If he is 62 and she is 66, she will receive 50% of his Full Benefit, even though he has not yet reached his Full Retirement Age.

Question #5

If I take my retirement benefit before my full retirement age, would that reduce my eventual survivor benefit?

No. Not if she is at her full retirement age when she begins to take her survivor benefit. When Jill switches to her survivor benefit, and she is 67, which is her full retirement age, she will start receiving the amount her husband was receiving and her own (or spousal) lower benefit will go away. This is why one of the most important aspects of coordinating spousal benefits is to ensure the highest survivor benefit. The way to do this is to have the higher earner delay benefits to age 70 and get the bonus of 24 to 32% more in their Social Security check.

4) Are your Savings Healthy?

Social Security should, ideally, make up only a portion of your total retirement income. But if you don't have much in the way of savings, it could end up constituting the bulk of it. If so, then claiming benefits at full retirement age may not make sense. Rather, you should think about delaying benefits past FRA. For each year you hold off, you'll accrue credits that boost your benefits by 8% a year, up until age 70, at which point this incentive runs out. Therefore, be sure to assess your savings before filing for Social Security. If your nest egg isn't all that substantial, delaying and growing your benefits could be your best shot at salvaging your retirement.

5) Would you like to Continue Working?

One nice feature of Social Security is that you're allowed to work and collect benefits simultaneously. You might need those benefits to supplement your earnings later in life, especially if you're forced to cut back on your working hours due to health issues. Or, you might simply *want* those benefits to enjoy life while you're a bit younger.

That said, if you file for benefits ahead of FRA, you'll risk having a portion of them withheld if your earnings exceed a certain threshold. That limit changes from year to year, but in 2019, you'll have $1 in benefits withheld for each $2 you earn above $17,640. The only exception is if you'll be reaching FRA later this year, in which case you can earn up to $46,920 without affecting your benefits. From there, you'll have $1 in Social Security withheld for every $3 you earn.

Notice that these benefits are withheld, and not lost. The Social Security Administration will add them back into your monthly payments once you reach FRA. But the reduction in benefits you'll face by filing early *will* be money you'll lose forever, so if you plan to continue working and expect to earn a decent living, it might pay to hold off on claiming benefits until you reach FRA. At that point, you can earn as much as you'd like and still collect your benefits in full.

Sample Questions

Question #1

I started taking my Social Security benefits several years ago at 63 and I only found out about the earnings test after. Do I have to contact SSA about the withholding? I make over $100,000 a year so all of my Social Security would be subject to the earnings test. Can I go back and delay my benefits until my full retirement age?

If you earn enough that all of your benefits will be withheld for the earnings test, you don't need to do anything to suspend. However, you do need to notify SSA of your expected earnings. They like to withhold benefits as the wages are being earned—not pay them and have to collect an overpayment later.

Question #2

So, after full retirement age, my benefit will no longer be subject to reduction due to other income, correct? But my benefits will forever be subject to taxation?

That is correct. Clients are frequently confused by the withholding of benefits due to working and the taxation of benefits due to excess income. The withholding of benefits occurs only before FRA and is based only on earned income, while taxation of benefits can occur at any age and is based on all income that goes into the adjusted gross income (AGI).

Question #3

Why does the government take $1 for every $2 earned over max earned income before someone's full retirement age?

The rationale behind the earnings test is that people who earn a high income and aren't really "retired" don't need as much Social Security income. To discourage them from claiming early benefits, part of their benefits are withheld if they earn more than the earnings test amount. The earnings test used to apply to everyone under age 70 (with a higher amount after FRA) but in response to complaints that it discouraged older people from working, the Senior Citizens' Freedom to Work Act in 2000 eliminated the earnings test for anyone over FRA.

Sources

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