10 Things to Know About Social Security

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1 YOUR AGE MATTERS

Your age when you choose to collect Social Security has a big impact on the amount of money you ultimately get from the program. The key age is your "full retirement age." For people born between 1943 and 1954, full retirement age is 66. It gradually climbs toward 67 if your birthday falls between 1955 and 1959. For those born in 1960 or later, full retirement age is 67. You can collect Social Security as soon as you turn 62, but according to the Social Security Administration, filing at age 62 will reduce your benefit by about 30% compared with waiting until your full retirement age of 67. And for each year you wait past your full retirement age, 8% is added to Social Security benefits, up to age 70.

2 HOW BENEFITS ARE FACTORED

To be eligible for Social Security benefits, you must earn at least 40 "credits." You can earn up to four credits a year, so it generally takes ten years of work to qualify for Social Security.

Your benefit is based on the 35 years in which you earned the most money. If you have fewer than 35 years of earnings, each year with no earnings will be factored in at zero. You can increase your benefit by replacing those zero years, say, by working longer, even if it's just part-time. But don't worry, no low-earning year will replace a higher-earning year. The benefit isn't based on 35 consecutive years of work, but the highest-earning 35 years.

Regardless of how much you earn during your career, there is a maximum benefit. In 2024, the maximum benefit for someone who begins receiving Social Security at their full retirement age is $3,822, but that amount could increase up to $4,873 by waiting until age 70 to file. You can estimate your own benefit by using Social Security's online Retirement Estimator.

3 COLA ISN'T JUST A SOFT DRINK

Social Security attempts to take inflation into consideration, although it may not actually cover all your future increased costs. Your monthly check may or may not rise each year with an annual cost-of-living adjustment, or COLA. The yearly COLA is calculated based on one of the federal government's consumer price indexes known as CPI-W—the Consumer Price Index for Urban Wage Earners and Clerical Workers. (Some critics say this index does not reflect older people's expenditures.) The Social Security Administration usually announces the next year's COLA in October. Social Security beneficiaries received an 8.7% COLA in 2023 due to high inflation.

4 WHAT TO KNOW IF YOU'RE MARRIED

Social Security provides a benefit to spouses that was originally designed for women who did not work outside the home. If your spouse is old enough to claim their Social Security, you could file to receive up to 50% of their benefit at your full retirement age. Similar to the standard Social Security benefit, however, the spousal benefit is reduced if you file before reaching your full retirement age.

For some married couples, there is a **potential problem** with Social Security that they may not have known or fully considered when planning their retirement. When there are two Social Security checks coming in, you need to know that **one** of those checks—the smaller one—**stops** if one spouse passes away before the other.

It's important to work with a financial advisor to make sure **both** spouses will have adequate income in the event of an unexpected death of one of them during retirement.

5 INCOME FOR SURVIVORS

If your spouse dies before you, you can file for what is called a survivor benefit. If you are at full retirement age, that benefit is worth 100% of what your spouse was receiving at the time of his or her death (or 100% of what your spouse would have been eligible to receive if he or she hadn't yet taken benefits).

A widow or widower can start taking a survivor benefit at age 60, but your benefit will be reduced because it's taken before full retirement age. If you remarry before age 60, you cannot get a survivor benefit. But if you remarry after age 60, you may still be eligible to receive a survivor benefit based on your former spouse's earnings record.

6 DIVORCE A SPOUSE, NOT THE BENEFIT

What if you were married, but your spouse is now an ex-spouse? Just because you're divorced doesn't mean you've lost the ability to get a benefit based on your former spouse's earnings record. You can still qualify to receive a benefit based on his or her record if you were married at least ten years and you are 62 or older.

Like a regular spousal benefit, you can get up to 50% of an ex-spouse's benefit—less if you claim before full retirement age. And the beauty of it is that your ex never needs to know because you apply for the benefit directly through the Social Security Administration. Taking a benefit on your

ex's record has no effect on his or her benefit or the benefit of your ex's new spouse. And unlike a regular spousal benefit, if your ex qualifies for benefits but has yet to apply, you can still take a benefit on the ex's record if you have been divorced for at least two years.

Note: Ex-spouses can also take a survivor benefit if their ex has died first, and like any survivor benefit, it will be worth 100% of what the ex-spouse received. If you remarry after age 60, you will still be eligible for the survivor benefit.

7 IT CAN PAY TO DELAY

Remember, retirement may be longer than we think. About one out of every three 65-year-olds today will live until at least age 90, and one out of seven will live until at least age 95, according to the Social Security Administration. Social Security benefits last as long as you live and can provide valuable protection against the possibility of outliving savings and other sources of retirement income. So, it's important to choose a retirement age based on your circumstances so you'll have enough Social Security benefits to complement other sources of retirement income.

8 UNCLE SAM WANTS HIS TAKE

Most people know that you pay taxes into the Social Security Trust Fund (taken directly out of your paycheck), but did you know that you may also have to pay taxes on your Social Security benefits once you start receiving them? Benefits lost their tax-free status under legislation enacted in 1983 under President Reagan, and the income thresholds for triggering tax on benefits were increased in 1993.

It may take less income than you think for your benefits to be taxed by the IRS based on your "combined income." The Social Security Administration considers combined income to be the sum of your adjusted gross income plus nontaxable interest plus half of your Social Security benefits. In fact, the Social Security Administration says that about 40% of people are paying taxes on the benefits they are receiving.

The combined income levels are pretty low to trigger taxes. For example, a married couple with a combined income between $32,000 and $44,000 may have to pay taxes on 50% of their benefits. Up to 85% of Social Security benefits are subject to income tax for couples with a combined income of more than $44,000. Single filers may have to pay taxes on up to 50% of their benefits if combined income is between $25,000 and $34,000, while up to 85% of combined income above $34,000 is subject to income tax.

9 PASSING THE EARNINGS TEST

Bringing in too much money can cost you at first if you take Social Security benefits early while you are still working. With what is commonly known as the earnings test, you will forfeit $1 in benefits for every $2 you make over the earnings limit, which in 2024 is $22,320. In the year you reach full retirement age, $1 is withheld from your benefits for every $3 you make over $59,520 (the earnings limit in 2024) until the month you reach full retirement age. (Once you are past full retirement age, the earnings test disappears and you can make as much money as you want with no impact on benefits.)

10 SOCIAL SECURITY HAS A SOLVENCY ISSUE

In the past, the amount paid in to Social Security exceeded the benefits paid out to retirees. But because so many baby boomers are retiring—10,000 per day up until 2030—the benefits paid to retirees are now expected to exceed the total brought in from current workers. By 2034, Social Security is expected to be able to pay only 78% of the full benefits owed. New legislation, policy changes, raising the cap, or payroll tax hikes could always happen, but it's best to retire with a long-term retirement plan in place.

Find Out More About Income In Retirement

There are many factors to consider when deciding when and how to file for Social Security based on your unique circumstances. A financial advisor who specializes in retirement planning can help you create a customized plan which takes into account all your sources of income, including Social Security, as well as your potential tax liability to help optimize your spendable income in retirement.

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