

# Social Security Benefits

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## **Social Security Contact Information**

Finding answers to social security benefit questions based on individual circumstances may be difficult. However, many questions can be answered by contacting the Social Security Administration (SSA) in one of the following ways:

1. *Telephone.* The SSA can be contacted by calling toll-free (800) 772-1213.

Representatives are available to answer questions from 7 a.m. to 7 p.m. (in all time zones), Monday through Friday. Recorded information and services are available 24 hours a day.

Deaf or hearing-impaired individuals can call the SSA's toll-free TTY number, (800) 325-0778 between 7 a.m. and 7 p.m., Monday through Friday. Blind or visually impaired individuals can obtain information in Braille, in large print, on computer disk, or on cassette tape by calling SSA Braille Services at (410) 965-6414.

2. *Internet.* The SSA's website is [www.ssa.gov](http://www.ssa.gov).

3. *Email.* Queries can be submitted to the SSA via email from [www.ssa.gov/feedback](mailto:www.ssa.gov/feedback).

4. *Social Security Office.* The address of the nearest SSA office can be obtained (1) by calling (800) 772-1213; (2) via the Internet at [www.ssa.gov](http://www.ssa.gov); or (3) in the *U.S. Government* section of the phone book.

5. *Mail.* Correspondence can be mailed to the local SSA office (see item d. above), or to:

Social Security Administration  
Office of Public Inquiries  
Windsor Park Building  
6401 Security Blvd.  
Baltimore, MD 21235

## **The Benefit Eligibility Screening Tool**

The Benefit Eligibility Screening Tool (BEST) is a web-based application that allows users to determine their eligibility for benefits from any Social Security Administration program. These programs include:

- Medicare.
- Social Security Disability.
- Social Security Retirement.
- Social Security Survivors.
- Special Veterans.
- Supplemental Security Income (SSI).

BEST requires the following information:

- date of birth, date of marriage(s), and earnings information;
- the same information for your spouse; and
- personal financial information to determine eligibility for SSI or for assistance in paying the Medicare premium.

Note that BEST is not a means to apply for benefits. Neither will it give an estimate of benefit amounts. It does not know, or ask for, your name or social security number and does not access any personal social security records.

## **Determining Eligibility for Social Security Benefits**

Eligibility for various social security benefits depends on whether you are *fully insured* or *currently insured*. A fully insured individual is eligible for retirement, survivor, and disability benefits, and a \$255 (one time only) death benefit. One who is currently insured is eligible for certain survivor and disability benefits and the \$255 death benefit only.

### **Social Security Credits**

You obtain insured status under social security by earning *social security credits* (formerly known as *quarters of coverage*). These credits are used to establish your insured status only; they are not used to calculate the amount of benefits to which you are entitled.

In 2012, a social security credit consists of \$1,130 in wages or net earnings from self-employment. A maximum of four credits can be earned each year. Thus, an individual with

\$4,520 or more of earned income in 2011 earns four credits of coverage. Social security credits can be earned by individuals of any age, even those past full benefit retirement age.

### **Fully Insured Individual**

A fully insured individual is eligible for retirement, survivor, and disability benefits, and a \$255 (one-time only) death benefit. Generally, an individual born in 1929 or later must have earned 40 social security credits to be fully insured and is fully insured for life.

**Exception:** An individual who turned age 21 after 1950 may be fully insured without 40 credits. Such an individual is fully insured if he has as many credits as there are elapsed calendar years after the year in which he attained age 21, and prior to the year he reaches age 62, dies, or becomes disabled, whichever occurs first. (A year is not counted as an elapsed year if the individual was disabled for all or any part of that year.) A minimum of six credits is always required before an individual is fully insured, and no more than 40 credits are required regardless of the individual's age.

### **Currently Insured Individual**

A currently insured individual is eligible for certain survivor and disability benefits and a \$255 (one time only) death benefit. If a currently insured individual dies, certain survivor benefits are payable to a child or the parent of a child who is under age 16 or who is disabled. However, a currently insured individual does not qualify for benefits to a surviving spouse or a surviving dependent parent.

Individuals are currently insured if they have at least six social security credits during the full 13-quarter period ending with the calendar quarter in which they—

1. became entitled to retirement benefits,
2. most recently became entitled to disability benefits, or
3. died.

## **Estimating the Amount of Social Security Benefits**

### **Social Security Statements**

Formerly, the Social Security Administration (SSA) mailed a four-page earnings and benefit estimate statement each year to all workers age 25 and older who were not already receiving social security benefits. The statement provided estimates of the social security retirement, disability, and survivor benefits the worker was eligible to receive currently and estimates of future benefits. However, the SSA now only mails out these annual statements to workers age 60 and older who are not currently receiving benefits. Other workers can view their benefits online at [www.ssa.gov/mystatement](http://www.ssa.gov/mystatement).

### **Determining the Primary Insurance Amount**

Most social security benefits are calculated by reference to the *primary insurance amount* (PIA). Since the calculation is complicated and many of the factors change each year, the most practical way to estimate the PIA may be to have it done by the SSA. While an individual may verify the SSA's computation of the PIA, the source of most errors is not the computation process itself, but the failure of the SSA to base its calculation on a correct earnings record.

### **Benefits Are Based on the PIA**

Retirement, disability, and survivor benefits are based on the PIA, which represents the maximum monthly amount you can receive when benefits begin. For example, a worker who starts drawing social security retirement benefits at his full benefit retirement age receives a monthly benefit that is equal to the PIA. (Later payments may increase because of cost-of-living adjustments or because the individual continued to earn income after retiring.)

### **Earnings after Retirement Are Used in Benefit Calculation**

Wage and self-employment income earned after social security retirement benefits begin are used in computing the social security benefits. The benefits are recomputed each year. If current earnings are greater than the lowest year in the calculation period (normally 35 years), the current year's earnings will replace the lowest year's earnings. If the current earnings are less than the lowest year in the calculation period, there is no change in the calculation. Thus, earnings after retirement can increase, but not decrease, the retiree's benefits.

### Full Benefit Retirement Age

You are entitled to receive 100% of the PIA monthly if you retire at the *full benefit retirement age*. The full benefit retirement age is gradually increasing until it reaches age 67 in 2027. This change affects workers and spouses born after 1937 and surviving spouses born after 1939 [because a surviving spouse can draw benefits on the decedent's PIA at age 60].

Even though the full benefit retirement age is increasing, individuals will continue to be eligible for early retirement at age 62. However, the benefit reduction for a worker who retires at age 62 will gradually increase to 30% for workers born in 1960 and thereafter.

### Full Benefit Retirement Age

<b>Birth Date</b>	<b>Workers and Spouses</b>	<b>Birth Date</b>	<b>Widow(er)s</b>
1/1/38 or earlier	65 years	1/1/40 or earlier	65 years
1/2/38-1/1/39	65 years and 2 months	1/2/40-1/1/41	65 years and 2 months
1/2/39-1/1/40	65 years and 4 months	1/2/41-1/1/42	65 years and 4 months
1/2/40-1/1/41	65 years and 6 months	1/2/42-1/1/43	65 years and 6 months
1/2/41-1/1/42	65 years and 8 months	1/2/43-1/1/44	65 years and 8 months
1/2/42-1/1/43	65 years and 10 months	1/2/44-1/1/45	65 years and 10 months
1/2/43-1/1/55	66 years	1/2/45-1/1/57	66 years
1/2/55-1/1/56	66 years and 2 months	1/2/57-1/1/58	66 years and 2 months
1/2/56-1/1/57	66 years and 4 months	1/2/58-1/1/59	66 years and 4 months
1/2/57-1/1/58	66 years and 6 months	1/2/59-1/1/60	66 years and 6 months
1/2/58-1/1/59	66 years and 8 months	1/2/60-1/1/61	66 years and 8 months
1/2/59-1/1/60	66 years and 10 months	1/2/61-1/1/62	66 years and 10 months
1/2/60 and later	67 years	1/2/62 and later	67 years

### **Obtaining an Estimate of Social Security Benefits**

The amount of social security benefits a client can expect to receive in the future can only be estimated because the SSA issues a new set of indexing figures each year. An estimate of benefits can be obtained from a local social security office.

Social security benefits can also be estimated using the calculators on the SSA website. They can be used to determine the effect, if any, that increased earnings will have on social security benefits. The most current version is available free at [www.ssa.gov/planners/calculators.htm](http://www.ssa.gov/planners/calculators.htm). The program also includes information on disability and survivors benefits and factors that can affect them.

### **Receiving Social Security Retirement Benefits**

You are entitled to monthly social security retirement benefits (sometimes called old-age insurance benefits) if you are at least age 62 and fully insured. Retirement benefits may also be payable to a spouse, divorced spouse, or dependent child.

Your benefits will be permanently reduced if social security retirement benefits begin before you reach the full benefit retirement age. On the other hand, social security retirement benefits increase if you delay receiving benefits until after reaching the full benefit retirement age.

### **Applying for Retirement Benefits**

You must apply for social security retirement benefits. The SSA suggests that you contact a social security office two or three months before turning age 62. The social security office will provide you with information regarding taking reduced benefits, and if you decide to begin receiving benefits at age 62, you will submit an application at that time. If you decide to wait to receive benefits, the SSA recommends that you contact a social security office again during the year *before* the year you intend to retire, but no later than two or three months before retirement. In any event, you should contact social security two or three months before your 65th birthday to sign up for Medicare, even if you intend to continue working.

### **When Social Security Retirement Benefits Begin**

If you apply for retirement benefits and retire at age 62, your benefits begin the month you are at least age 62 throughout the entire month. However, payment of such benefits do not begin until the month following your 62nd birthday.

For these purposes, a person's birthday is considered to occur on the day before the date of birth. Under this rule, a worker who turns age 62 on the first or second day of the month can draw benefits for that month. However, payment of such benefits does not begin until the first month after the month the worker reaches age 62.

### **When Social Security Benefits Are Paid**

Payment of social security benefits for a given month is made in the following month (e.g., benefits for January are paid to the beneficiary in February).

If both husband and wife are receiving social security, the benefits will normally be combined. However, the spouses can receive separate payments if requested. If more than one child in a household is receiving social security, children's benefits will normally be combined.

Social security payments for beneficiaries who received benefits before May 1997 are mailed (or direct deposited) on the third day of the month. If a beneficiary first receives benefits after April 1997, the birthday of the *individual on whose record the benefits are paid* determines the day the benefits are mailed or deposited.

<b><u>Birthday</u></b>	<b><u>Payment Sent on</u></b>
1st-10th day of month	2nd Wednesday
11th-20th day of month	3rd Wednesday
21st-31st day of month	4th Wednesday

### **Withholding on Benefits**

You can elect to have federal taxes withheld from your social security benefits. You can use Form W-4V (Voluntary Withholding Request) to request either 7%, 10%, 15%, or 25% withholding. Only these percentages can be used; specific dollar amounts are not allowed. The

completed Form W-4V should be sent to the local social security office. (The form is available at [www.irs.gov](http://www.irs.gov).)

### **Spousal Retirement Benefits**

Your spouse is entitled to spousal social security retirement benefits based on the social security record if—

1. you are drawing retirement or disability benefits, **and**
2. the spouse is either:
  - a. age 62 or over, or
  - b. caring for a child who is under age 16 or disabled.

Your spouse generally must either—

3. have been married to you for at least one year immediately prior to filing the application for benefits, or
4. be the natural mother or father of your child.

If your spouse (who is not caring for a child under age 16 or disabled) starts collecting spousal benefits at the full benefit retirement age, the spouse will receive 50% of your PIA. If, however, the spouse begins receiving spousal benefits between ages 62 and the full benefit retirement age, the benefits will be further reduced.

**Other Reductions in Spousal Retirement Benefits.** The spousal benefit may also be reduced if the maximum family benefit applies, or if the worker or spouse continues to work and earns more than the exempt amount before reaching the full benefit retirement age.

**Receiving Spousal Benefits When Both Spouses Are Fully Insured.** Spouses who are eligible for their own social security retirement benefits receive the benefit based on their own PIA or 50% of the spouse's PIA, whichever is greater. Thus, a retiree who is entitled to his own social security retirement benefits receives benefits based on his own PIA if it equals or exceeds 50% of the spouse's PIA. However, if the retiree's benefit is less than 50% of the spouse's PIA, the retiree receives his own benefit plus a spousal benefit of the difference between the retiree's benefit and 50% of the spouse's PIA. In effect, the retiree receives monthly benefits based on the *greater* of his own benefits or 50% of the spouse's benefit. For a spouse to receive retirement

benefits based on the other spouse's earnings, the other spouse must be receiving his own retirement or disability benefits.

**When Spousal Benefits End.** Spousal benefits end if one of the following events occurs:

1. The spouse who is receiving benefits dies.
2. The worker dies. (However, the spouse may be entitled to survivor benefits.)
3. The worker's disability entitlement ends and the retirement benefit has not yet begun.
4. The spouse is under age 62 and is no longer caring for a child of the worker who is under age 16 or disabled.
5. The spouse and the worker are divorced, unless—
  - a. the spouse had attained age 62 when the divorce was final, and
  - b. the couple had been married 10 years before the divorce became final.

A spouse is not entitled to spousal benefits for the month in which any one of these events occurs.

### **Divorced Spouse's Retirement Benefits**

A divorced spouse is entitled to benefits based on the PIA of an ex-spouse (worker) if—

1. both the divorced spouse and the worker are age 62 or over,
2. the divorced spouse is not married, and
3. the divorced spouse and the worker had been married for at least 10 years.

More than one divorced spouse can receive benefits based on one worker's PIA.

If the divorced spouse meets these criteria and if the couple has been divorced for at least two years, the divorced spouse can receive retirement benefits even if the worker has not retired. The two-year waiting period does not apply if the worker was receiving social security benefits before the divorce.

The spouse's retirement benefit is generally 50% of the worker's PIA. However, the benefits are permanently reduced if a divorced spouse retires after reaching age 62, but before the full benefit retirement age. Payments to a divorced spouse do not count against the maximum family benefit and do not affect the benefits payable to anyone based on the same worker's earnings record.

A divorced spouse who is entitled to his own social security retirement benefits cannot receive retirement benefits based on the worker's PIA if the divorced spouse's benefits equal or exceed 50% of the worker's PIA. However, if the retiree's benefit is less than 50% of the worker's PIA, the divorced spouse receives benefits based on the greater of his own PIA or 50% of the worker's PIA.

A divorced spouse is not entitled to retirement benefits based on the worker's PIA prior to reaching age 62 even if the divorced spouse cares for a child under age 16.

**When Divorced Spouse's Benefits End.** A divorced spouse's benefits end when one of the following occurs:

1. The divorced spouse (who is receiving benefits) dies.
2. The worker dies. (However, the divorced spouse may be entitled to survivor benefits.)
3. The divorced spouse marries someone other than the worker.

A divorced spouse is not entitled to spouse's benefits for the month in which any one of the above occurs. The divorced spouse's benefits are not affected if the worker remarries. In addition, if a divorced spouse's retirement benefits stop because he or she marries someone other than the worker, the divorced spouse becomes reentitled to benefits based on the worker's earnings if the subsequent marriage ends.

### **Survivor Benefits**

When you die, your spouse may be entitled to monthly benefits based on your primary insurance amount (PIA). The survivor benefits can begin with the month of your death. Survivor benefits may also be payable to a surviving divorced spouse, surviving dependent child, or dependent parents.

### **Surviving Spouse's Benefits If Not Caring for a Child**

A surviving spouse is entitled to survivor benefits [sometimes known as widow(er)'s benefits] if the worker died fully insured and the surviving spouse is age 60 or over (or is at least age 50 and is disabled under the social security laws); and either—

1. was married to the worker for at least the nine months before the worker died, or
2. is the parent of the worker's natural or adopted child.

The nine-month requirement is waived if death was accidental or occurred in the line of duty while the decedent was serving in the military.

**Survivor Benefits May Be Based on the Decedent's PIA.** The surviving spouse will receive benefits based on 100% of the deceased worker's PIA, or the surviving spouse's PIA, whichever is greater.

The full surviving spouse's benefit (payable if the surviving spouse is at least the full benefit retirement age) is 100% of the deceased spouse's PIA. However, the surviving spouse can choose to receive reduced benefits beginning as early as age 60 (50, if disabled).

If you had been drawing retirement benefits at the time of your death, your spouse will receive the same benefit as you were receiving (but not less than 82.5% of your PIA).

**Other Reductions in Surviving Spouse's Benefits.** The surviving spouse's benefits may also be reduced if the maximum family benefit applies, or if the surviving spouse continues to work and earns more than the exempt amount.

**Effect of Remarriage on Surviving Spouse's Benefits.** Survivor benefits generally are not payable to a surviving spouse who remarries before reaching age 60 (50, if disabled). However, if the subsequent marriage ends, the surviving spouse becomes reentitled to benefits based on the deceased spouse's earnings. A surviving spouse remains eligible for survivor benefits if remarriage occurs after the surviving spouse is at least age 60 (50, if disabled).

#### **Surviving Spouse's Benefits If Caring for a Child**

A surviving spouse of any age is entitled to survivor benefits of 75% of the deceased spouse's PIA, if the worker died fully or currently insured and the surviving spouse is—

1. not married,
2. not entitled to surviving spouse's benefits because the person is younger than age 60, and
3. caring for the worker's natural or adopted child who is entitled to child's benefits, and the child is under age 16 or disabled.

**When Benefits End.** If the surviving spouse remarries, the benefits will stop. However, if the subsequent marriage ends, the surviving spouse may again become entitled to benefits. Benefits end when the child becomes age 16, unless the child is disabled.

**Reductions in Survivor Benefits.** The survivor's benefit is equal to 75% of the deceased worker's PIA. The actual benefit payable may be less if a reduction is necessary because the family maximum applies or if the surviving spouse earns more than the exempt amount.

### **Surviving Child's Benefits**

A child is entitled to surviving child's benefits of 75% of a fully or currently insured deceased worker's PIA if—

1. the child was dependent upon the worker,
2. the child is unmarried, **and**
3. the child is—
  - a. under age 18,
  - b. up to age 19 if a full-time secondary school student, or
  - c. any age and under a disability that began before age 22.

In addition, the rules regarding a child's benefit when the worker retires also apply to a surviving child's benefits.

### **Surviving Parent's Benefits**

The widowed or divorced parent of a decedent is entitled to survivor benefits if 50% or more of the parent's support was furnished by the decedent and the decedent was fully insured for social security purposes at the time of death. The parent must be at least age 62 to qualify for the benefits and must not have remarried after the worker's death

The parent's benefit is 82.5% of the deceased worker's PIA. If two parents are entitled to benefits on the same earnings record, each parent receives 75% (i.e., 150% total) of the deceased worker's PIA. The benefits may be reduced if the maximum family benefit applies or if the parent earns more than the exempt amount.

## **Receiving Benefits before Reaching the Full Benefit Retirement Age**

### **Worker's Retirement Benefits**

If you are fully insured, you can start receiving social security retirement benefits at age 62. However, the full benefit will be permanently reduced for each month before you reach the full benefit retirement age. Thus, the monthly benefits at age 62 will be less than the benefits would have been at the full benefit retirement age.

The reduction in benefits is permanent. If you receive a reduced benefit for a period before reaching the full benefit retirement age, you are not entitled to the full benefit amount upon reaching this age.

### **Spouse's Retirement Benefits**

The full retirement benefit for your spouse generally is 50% of your PIA. However, a retiree spouse who qualifies for social security benefits based on his own earnings record is entitled to receive his own retirement benefits, if greater. If your spouse receives benefits before reaching the full benefit retirement age, the amount of your spouse's benefit is reduced based on the spouse's birthdate.

The reduction in benefits is permanent unless Form SSA-521 is filed and all early benefits are repaid. However, if only one spouse is retired and drawing benefits based on his earnings, the benefits may be increased when the other spouse retires.

**Dependent Child.** Your spouse's retirement benefit is not reduced for retirement between the ages of 62 and the full benefit retirement age if your spouse is caring for your child who is under age 16 or disabled.

### **Surviving Spouse's Benefits**

The full surviving spouse's benefit (payable if the surviving spouse or surviving divorced spouse is at least the full benefit retirement age) is 100% of the deceased spouse's PIA. However, the surviving spouse can choose to receive reduced benefits beginning as early as age 60 (50, if disabled).

### **Delaying Benefits until after Reaching the Full Benefit Retirement Age**

If you choose to work past the full benefit retirement age and choose to delay receiving benefits while working, the benefits paid later will be higher because of three considerations: (a) the additional years of earnings, (b) increases in the indexing amounts used to calculate the primary insurance amount (PIA), and (c) the delayed retirement credit.

Workers who reach their full benefit retirement age but choose to delay receiving their benefits earn a credit each year until age 70. The credit earned increases their retirement benefits by a certain percentage based on their year of birth.

The increase in benefits caused by the delayed retirement credit does not increase the PIA and does not affect benefits paid to family members other than the worker and, eventually, the surviving spouse.

#### **Delayed Retirement Credit**

<u>Year of Birth</u>	<u>Monthly Percentage</u>	<u>Yearly Percentage</u>
1935-1936	.500%	6.0%
1937-1938	.542%	6.5%
1939-1940	.583%	7.0%
1941-1942	.625%	7.5%
1943 or later	.667%	8.0%

### **Effect of Earned Income on Benefits**

**Benefits May Be Reduced by Earnings in Excess of the Annual Exempt Amount.** Social security benefits you receive while under the full benefit retirement age may be reduced if you continue to work. An earnings test is applied to determine whether benefits are reduced. (If your benefits are reduced under this provision, the amount of benefits paid to other family members may also be reduced.)

**Years Prior to Reaching the Full Benefit Retirement Age.** Social security beneficiaries who are under the full benefit retirement age are subject to a \$1 reduction in benefits for each \$2

earned over the annual exempt amount for each year before reaching the full benefit retirement age.

**The Year the Full Benefit Retirement Age Is Reached.** In the year the beneficiary reaches the full benefit retirement age, earnings in excess of a different annual exempt amount are subject to a \$1 reduction in benefits for each \$3 earned over that exempt amount. However, only earnings received in months prior to reaching the full benefit retirement age are subject to this annual exempt amount. Social security benefits are not affected by earned income beginning with the month you reach the full benefit retirement age.

The annual exempt amounts for 2009-2012 are:

<u>Annual Exempt Amounts</u>		
Year	For years before the beneficiary reaches the full benefit retirement age	For the year the beneficiary reaches the full benefit retirement age
2009- 2011	\$14,160	\$37,680
2012	14,640	38,880

You should use the first column exempt amount from the year you reach age 62 through the year *before* the year you reach the full benefit retirement age. The second column exempt amount is used in the year you reach the full benefit retirement age. However, social security benefits are not affected by earned income beginning with the month you reach the full benefit retirement age.

**Effect of Excess Earnings on Dependents' Benefits.** Your excess earnings can jeopardize the benefits received by all family members based on your earnings record. Since excess earnings will reduce your benefit base, the amount payable to family members will also decrease. If a family member (other than the worker) has excess earnings, however, only that member's benefits will be reduced.

#### **Types of Income Included in the Earnings Test**

Any payments for work performed and net self-employment (SE) earnings are considered earned income for purposes of the excess earnings test, regardless of whether the income is subject to

social security tax. Note that conservation reserve payments to farmers are considered SE income.

### **Types of Income Not Included in the Earnings Test**

Certain income is *not* considered in the earnings test, including:

1. Interest and dividends (unless received by a securities dealer in the ordinary course of business).
2. Rentals from real estate (unless the income is subject to SE tax, such as hotel or motel income).
3. Royalties (unless the income is subject to FICA or SE tax, such as royalties received by an author).
4. Pensions and retirement pay.
5. Sick pay, if paid more than six months after the month the employee last worked.
6. Capital gains.
7. Workers' compensation and unemployment benefits.
8. Prize winnings from contests (unless the person enters contests as a trade or business).
9. Employer payments for travel or moving expenses (unless the payments are counted as wages for social security purposes).
10. Gifts and inheritances.
11. Social security benefits.
12. Veterans' and other government benefits.

### **The Advantages of Taking Reduced Benefits at Age 62**

Even if you have sufficient funds to live on without considering social security, you may want to begin receiving benefits as soon as possible. For 2012, the benefits at age 62 are reduced by 25% of what they would be at age 66 (i.e., the full benefit retirement age), but you will receive more social security checks if benefits are drawn early. In addition, drawing early social security benefits may allow you to leave tax-deferred retirement accounts untouched and growing for longer periods.

Another reason you may want to receive benefits early is if you have dependents under age 18. Such dependents may be eligible for benefits if you are also receiving social security benefits.

Furthermore, if you wait until the full benefit retirement age to draw benefits (and the primary insurance amount remains the same), it will take around 12 years to reach the break-even point to make up for the years of payments that were not received. If the earlier retirement checks are invested and their earnings are considered, the break-even point is even further away.

Your life expectancy should be considered when determining the starting date for social security benefits. If you do not expect to live until age 77, you will receive more benefits by taking the reduced monthly payment.

If the present value of future social security benefits is considered, it would normally be more favorable to start the benefits as soon as possible (if the money was going to be invested). However, if you are simply using early social security benefits to replace a similar amount of earned income, your short-term position will not be improved and your long-term outlook will suffer.

### **The Advantages of Waiting until Full Benefit Retirement Age**

Those who reach age 62 and desperately need retirement income may not have the option of waiting until their full benefit retirement age before they begin receiving benefits. And those with a shorter life expectancy might be wise to start receiving benefits as soon as they can because they may not receive them for very long.

However, other retirees might carefully consider the long-lasting advantages of waiting until their full benefit retirement age. Factors to consider include:

- Life expectancy.
- Shortening the retirement period.
- The earnings test.
- Replacing earlier lower-wage years with later higher-wage years.
- The compounding of inflation adjustments on a higher base.
- Effect on the spouse.

**Life Expectancy.** Your life expectancy may be the biggest factor in deciding whether to receive social security benefits early. While tables and averages are available, you should have a good handle on your own life expectancy. Your current health and the longevity of your parents should

be clearly established. In general, 80 years might be a good cutoff point. If you reasonably expect to reach that age, waiting until the full benefit retirement age may be a wise choice.

**Shortening the Retirement Period.** A significant factor in retirement planning projections is the length of the retirement period. This is determined by subtracting the age at retirement from the life expectancy. For example, if you want to retire at age 62 and have a life expectancy of 85, you have a 23-year retirement period to fund. By working past age 62, you are shortening your retirement period and decreasing the resources needed to fund your retirement regardless of your longevity.

**The Earnings Test.** If you are considering receiving social security retirement benefits before reaching your full benefit retirement age but you also intend to keep working, you must consider the earnings test. For 2012, the exempt amount is \$14,640 (for years before reaching your full benefit retirement age). This means that social security benefits are reduced \$1 for every \$2 in earnings above that exempt amount. If you are already facing a reduced benefit amount because of your early retirement, you would have your benefits reduced even further by failing the earned income test.

**Replacing Lower-wage Years.** Your social security benefits are based on your primary insurance amount (PIA). The PIA is calculated from your highest earnings during a 35-year calculation period. If you can replace lower-wage years early in your career with higher-wage years after age 62, you can increase your PIA. This can lead to a dramatically higher retirement benefit when you retire. A higher PIA will also increase disability and survivor's benefits.

**Inflation Adjustments.** Social security benefits receive an annual inflation adjustment. By taking early benefits, you will be receiving a smaller annual dollar increase and will miss out on the compounding effect of that increase than if you had waited until your full benefit retirement age. For example, if your PIA was \$1,000, but you retired early and received only \$750, each year you would miss out on the compounded inflation adjustment of that \$250 in lost benefits. In other words, the gap between your early retirement benefit and the amount you would have received by waiting will get bigger and bigger.

**The Effect on the Spouse.** Your decision to start receiving social security benefits before reaching the full benefit retirement age may also affect your spouse's benefits. Unless your

spouse has his or her own earnings record and is fully insured, he or she will be dependent on your PIA for retirement benefits. If your spouse waits until his or her full benefit retirement age, he or she is eligible to receive 50% of your retirement benefit. However, if you retire early, you may have a lower PIA than if you had waited until your full benefit retirement age. Therefore, your spouse's benefit would be based on that lower PIA.

### **Taxation of Social Security Benefits**

According to the Social Security Administration, about one-third of people who receive social security retirement, survivorship, or disability payments must pay taxes on their benefits. This provision affects only people who have substantial income in addition to their social security.

#### Income Thresholds for Determining Taxability of Social Security Benefits

<b>Filing Status</b>	<b>Single/HOH/QW</b>	<b>MFJ</b>	<b>MFS (living apart entire year)</b>	<b>MFS (lived with spouse at some point during year)</b>
Percentage of social security benefits potentially included in income when combined income is:				
\$1-\$24,999	0%	0%	0%	85%
\$25,000-\$31,999	50%	0%	50%	85%
\$32,000-\$33,999	50%	50%	50%	85%
\$34,000-\$43,999	85%	50%	85%	85%
\$44,000 and over	85%	85%	85%	85%

*Combined* income equals adjusted gross income (as reported on Form 1040) plus nontaxable interest plus half of your social security benefits.

For individuals with very low or very high incomes, planning to reduce or avoid the tax on social security benefits is either unnecessary or unrealistic. Either none or 85% of benefits will be includable in gross income. However, there is a middle tier group for whom no more than 50% of benefits is includable. Planning is most beneficial for those in the middle group. The key to planning is income deferral, not necessarily income avoidance. Popular methods for creating deferred income include the purchase of Series EE bonds (on which the interest income need be reported only when the bonds are redeemed), single-premium annuities (on which tax is avoided until withdrawals begin), and certain securities (which produce taxable gain when sold).

## **Deciding When to Start Receiving Social Security Benefits**

You may be at the point in life when you need to consider when to start receiving social security retirement benefits. Of course, for some people, their financial situation demands that they receive benefits as soon as possible. Many other people, however, have the privilege of evaluating the alternatives and making the decision that is best for them.

Keep in mind that you may start receiving social security benefits:

- early (between age 62 and your full benefit retirement age),
- at your full benefit retirement age, or
- after your full benefit retirement age (as late as age 70).

Before you make this critical decision, please consider the following issues:

1. If you retire at age 62 (or any time before your full benefit retirement age), your retirement benefits (and perhaps those of your surviving spouse) will be permanently reduced.
2. If you retire any time after your full benefit retirement age (up to age 70), your benefit will include a delayed retirement credit that will boost your benefits for the rest of your life.
3. If you retire before age 65 (when you become eligible for Medicare), you must consider the availability of health insurance benefits.
4. The longer your life expectancy (and perhaps the life expectancy of your spouse), the more you may benefit from delaying social security retirement benefits.
5. If you can replace some lower-earning years in your work history with higher earning years by continuing to work, you may be eligible for higher benefits when you do decide to retire.
6. A cash flow analysis should be done to compare the effect of continuing to earn a salary versus retiring and receiving social security benefits.
7. If you have dependent children, they may be eligible to receive benefits when you start receiving benefits.
8. Receiving social security retirement benefits may impact your other retirement plans.
9. The emotional and psychological benefits of working versus retiring should not be ignored.
10. The impact of receiving social security benefits on your federal income tax situation should always be considered.