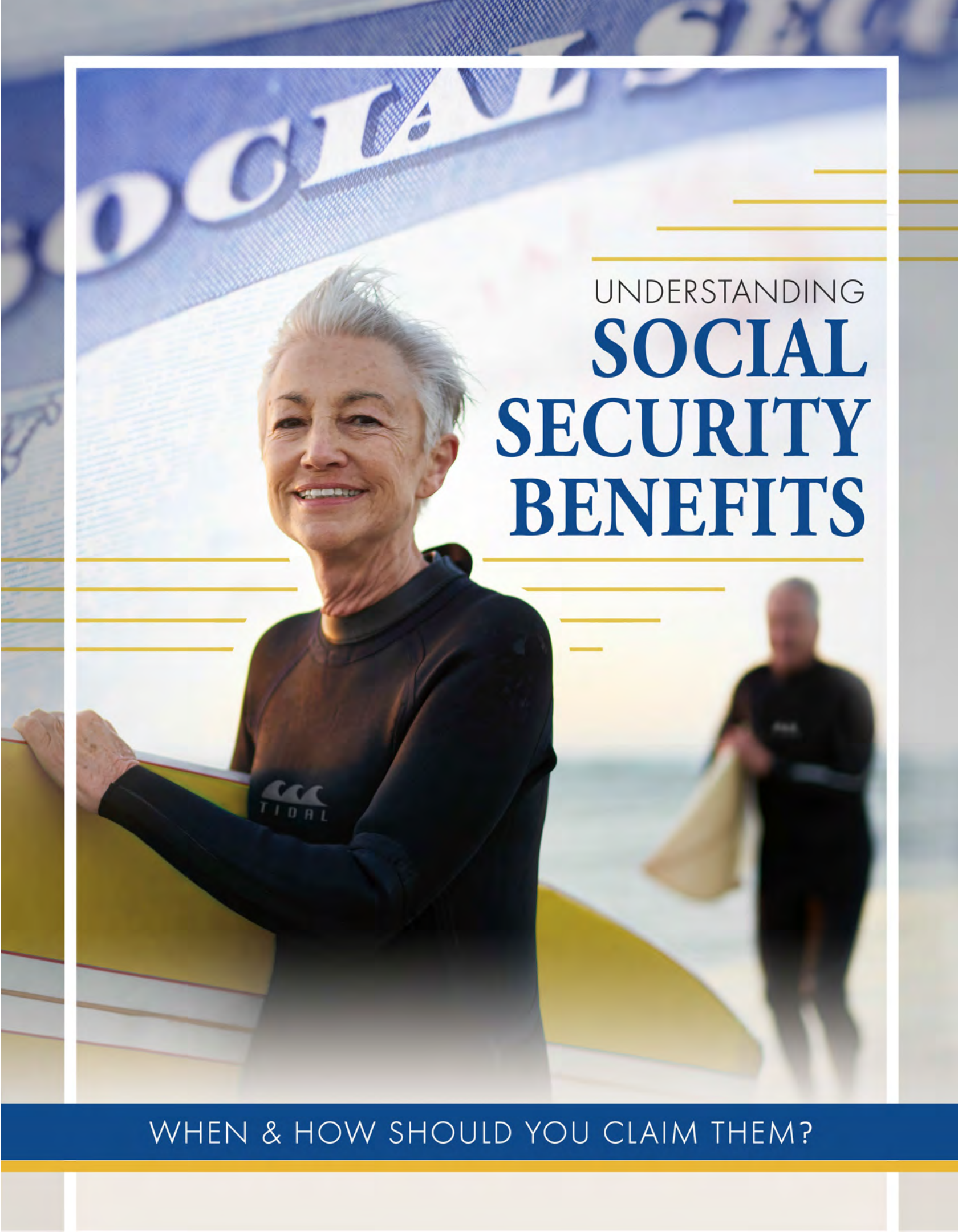


A woman with short, light-colored hair is smiling and holding a yellow and white surfboard. She is wearing a black wetsuit with a "TIDAL" logo. In the background, a large US dollar bill is visible, with the word "SOCIAL" clearly legible. Another person in a wetsuit is blurred in the background. The image is framed by a white border with yellow horizontal lines.

UNDERSTANDING **SOCIAL SECURITY BENEFITS**

WHEN & HOW SHOULD YOU CLAIM THEM?



**There are several factors that
may greatly impact your Social
Security claiming decision.**



How can you get the most out of Social Security?

Should you file for retirement benefits as soon as you turn 62? Or should you wait? Should you collect Social Security benefits and stay employed? How will that Social Security income affect your tax picture? These are all questions you should attempt to answer before you file your application.

There are **several factors** that may greatly impact your Social Security claiming decision:

- Your envisioned retirement age
- Your income needs
- Your health
- How much you intend to work in retirement
- Your income tax liability
- Your spouse's retirement plans

Pay careful attention to these factors, as you are making one of the most important retirement planning decisions of your life.

When do you think you will retire?

Will you leave your career or your business before age 62? You may end up doing so, either by choice or by chance. In its 2018 Retirement Confidence Survey, the Employee Benefit Research Institute found that 30% of American workers felt they could work until age 70 – but that perception does not match the reality of when most people retire. EBRI also interviewed retired Americans and discovered that 35% of them had retired before age 60. Sometimes this was due to downsizing; other times, it was due to their health (they physically were no longer able to perform their job duties).¹

You may need Social Security income earlier than you anticipate. While the pre-retirees EBRI interviewed had a median expected retirement age of 65, the actual median age reported by retirees surveyed was 62.¹

Do you envision retiring at 62? That is the earliest age at which you can collect Social Security benefits. Forty-two percent of men and 48% of women who turn 62 make that move, sometimes out of sheer necessity.²

Or do you think you will retire closer to 65 or 70? In a sense, it pays to wait: for every year you delay your receipt of Social Security benefits between age 62 and age 70, your monthly benefits rise by about 8%. Doing the math, someone who would currently get \$19,000 a year in Social Security income by retiring at age 62 could receive significantly greater annual Social Security benefits by claiming at 65 (about \$24,700), 67 (about \$26,600), or 70 (about \$31,160).³

Sources:

1 - forbes.com/sites/nextavenue/2018/04/24/retirement-confidence-is-up-but-theres-a-catch/ [4/24/18]

2 - money.usnews.com/money/retirement/social-security/articles/reasons-to-claim-social-security-at-age-70 [2/23/18]

3 - ssa.gov/planners/retire/delayret.html [5/14/18]



**You may need Social
Security income earlier
than you anticipate.**

Would you rather have less monthly Social Security income now or more monthly Social Security income later?

This is the basic choice Social Security gives you. The Social Security Administration calculates Social Security's payout of retirement benefits using life expectancy tables. It projects that today's average 65-year-old man will live to be 84.3 years old and that today's average 65-year-old woman will live to be 86.6 years old.⁴

If you claim later, your monthly Social Security checks will be larger. If you claim Social Security at age 62 and die at age 85, you will receive Social Security retirement benefits for 23 years of your life. If you claim Social Security at age 67 and pass away at age 85, Social Security will end up paying you only 18 years of retirement benefits. The message from the federal government is clear: if you work longer, you will enjoy greater monthly Social Security income as a reward.

In theory, it all balances out in the end. If you file for Social Security at 62 and die at 85, you are projected to receive the same amount of lifetime Social Security income as you will if you file at 70 and die at 85. The monthly payments will certainly be lower if you retire eight years earlier, but the lifetime payout will be the same.

So, a key question is: how long do you think you will live?



The message from the federal government is clear: if you work longer, you will enjoy greater monthly Social Security income as a reward.

How healthy are you?

If you are reasonably healthy, holding off on claiming benefits has merit. For every year you wait to claim, you have one less year of retirement to fund. For every year you wait to claim between age 62 and age 70, your monthly benefit grows larger.

You also might live longer than the “average” retiree. Social Security projects that about a quarter of today’s 65-year-olds will live past 90. Additionally, it forecasts that about 10% of today’s 65-year-olds will live past 95. If your parents and grandparents lived to ripe old ages, you may as well – and if so, you will collect greater total Social Security benefits than an “average” retiree.⁴

If you are single and have serious health issues, claiming Social Security at 62 might make sense. The same holds true if you have a hereditary health condition that could imply a reduced life expectancy. In that case, why wait to receive retirement money?

Why not just claim at 62 and enjoy the income, regardless of how healthy or unhealthy you are? Some people want to do just that, figuring that whether they claim at 62 or claim later, they are projected to receive the same total benefit either way. That projection, though, is based on an “average” lifespan, not necessarily yours.

If you think you will live longer than 85, delaying your claim date may lead to higher lifetime Social Security benefits. Your monthly checks will be bigger for every year you forgo claiming benefits, and if you live into your late eighties or nineties, you may end up with more lifetime Social Security income than the “average” retiree. Given the financial strain of medical and caregiving expenses later in life, you will no doubt want larger rather than smaller monthly Social Security payments at that time.

Claiming Social Security at 62 will also reduce your spouse’s survivor benefits. If you retire at Full Retirement Age, or FRA in Social Security jargon (which is age 66 for people born from 1943-1954, incrementally rising to age 67 for those born in 1960 or later), your spouse will get 100% of your monthly retirement benefit after you die. If you claim Social Security before your FRA, your spouse will receive less than that amount after your passing.^{5,6}

Source:

4 - ssa.gov/planners/lifeexpectancy.html [5/14/18]

5 - ssa.gov/planners/retire/retirechart.html [5/14/18]

6 - ssa.gov/planners/survivors/survivorchartred.html [5/14/18]



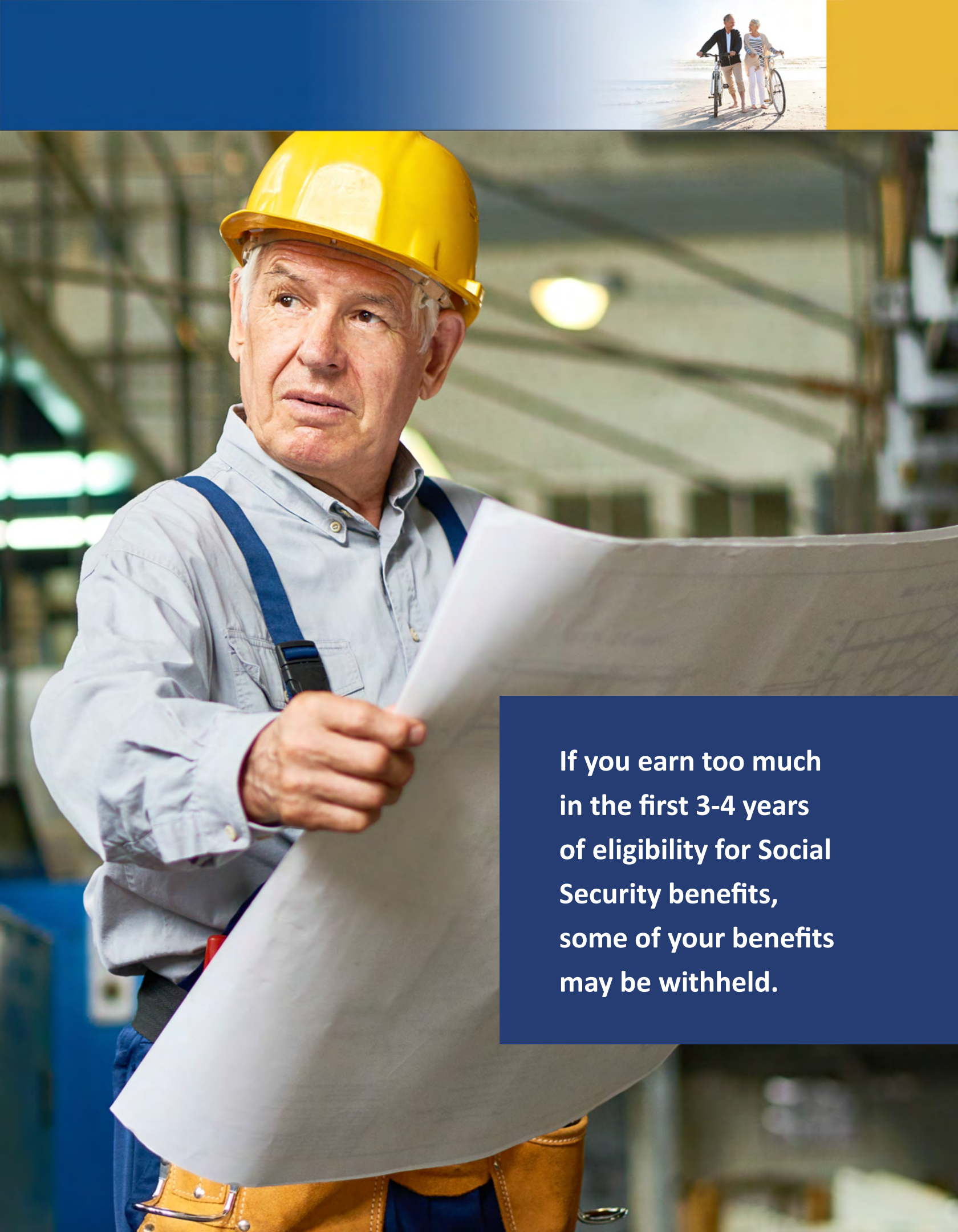
**If you think you
will live longer
than 85, delaying
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may lead to higher
lifetime Social
Security benefits.**

To what degree do you intend to work in retirement?

Social Security is strictly defined as a retirement benefit. Unsurprisingly, Social Security has rules to effectively penalize those who claim benefits before Full Retirement Age (FRA) while still working. If you earn too much in the first 3-4 years of eligibility for Social Security benefits, some of your benefits may be withheld.

Social Security has an “earnings test” to determine how much to withhold. If you receive benefits before your Full Retirement Age while earning more than \$17,040 (\$1,420 a month) in 2018, then \$1 of every \$2 of your Social Security income will be withheld. If you are still on the job in 2018 and you reach Normal Retirement Age, Social Security will deduct \$1 from your benefits for each \$3 of earned income above \$3,780 during the months before the month in which you reach FRA (the annual exempt amount for those attaining FRA in 2018 is \$45,360; divided by 12, that is \$3,780).⁷

Once you hit Full Retirement Age, the earnings test disappears. You can earn an unlimited amount of income at no injury to your Social Security benefits.



**If you earn too much
in the first 3-4 years
of eligibility for Social
Security benefits,
some of your benefits
may be withheld.**



Social Security wants you to work for at least 35 years.

Your Social Security payments are based on your 35 highest-earning years. If you spend less than 35 years in the workforce, the program effectively penalizes you for that choice or circumstance.⁸

Your monthly Social Security benefit is determined through a calculation that arrives at your averaged indexed monthly earnings (AIME). Social Security calculates your AIME by dividing the sum of your 35 highest-earning years by 420 (the number of months in 35 years).⁸

The bad news? If you have brought home paychecks for fewer than 35 years of your life, Social Security will use a zero in place of earned income for every year in which you did not “work.” (Being a stay-at-home parent or a caregiver certainly constitutes work, but those roles do not fit Social Security’s definition of what “work” is.) If you have only “worked” for 25 years of your life, Social Security will factor 10 zeros into the AIME calculation, and therefore, your monthly benefits will be reduced.⁸

Source:

8 - forbes.com/sites/davidrae/2018/04/18/maximize-social-security/#78795fa05918 [4/18/18]



Being a stay-at-home mom or dad or a caregiver certainly constitutes work, but those roles do not fit Social Security's definition of what "work" is.

Could collecting Social Security benefits increase your taxes?

It could, because Social Security benefits are occasionally taxable. This comes as a surprise to many retirees, but it happens in certain circumstances. The taxable amount depends on your “combined income,” which Social Security measures with the following formula:

$$\begin{array}{r} \text{Adjusted gross income} \\ + \\ \text{Non-taxable interest} \\ + \\ 50\% \text{ of Social Security benefits} \\ = \\ \text{Combined Income} \end{array}$$

If your combined income is between the following amounts, you may have to pay federal income tax on up to 50% of your benefits:

Single filers (“individuals”)	\$25,000-34,000
Joint filers	\$32,000-44,000

If it exceeds the following amounts, you may have to pay federal income tax on up to 85% of your benefits:

Single filers (“individuals”)	\$34,000
Joint filers	\$44,000



The taxable amount
depends on your
“combined income.”

Those who are married and file separately will “probably” have their Social Security benefits taxed, according to the program’s website. The above thresholds are never indexed for inflation; they never change.⁹

Most states do not tax Social Security income. Unless you live in such a state, the receipt of Social Security benefits will not risk putting you into a higher state tax bracket. Some of the states that tax Social Security benefits tax them according to the above federal income levels; others tax them using higher income thresholds.¹⁰

Could collecting Social Security send you into a higher tax bracket? Yes, if some of that Social Security income is taxable. But as federal tax rates are marginal, all of your income won’t be taxed at that higher rate, only the income that surpasses the lower threshold of that higher tax bracket.¹¹

Source:

9 - fool.com/retirement/2018/01/06/the-new-gop-tax-law-means-this-35-year-old-social.aspx [1/6/18]

10 - investopedia.com/retirement/how-avoid-social-security-tax-trap/ [3/13/18]

11 - bankrate.com/finance/taxes/tax-brackets.aspx [1/12/18]



Those who are married and file separately will “probably” have their Social Security benefits taxed, according to the program’s website.

How will your claiming decision affect your spouse?

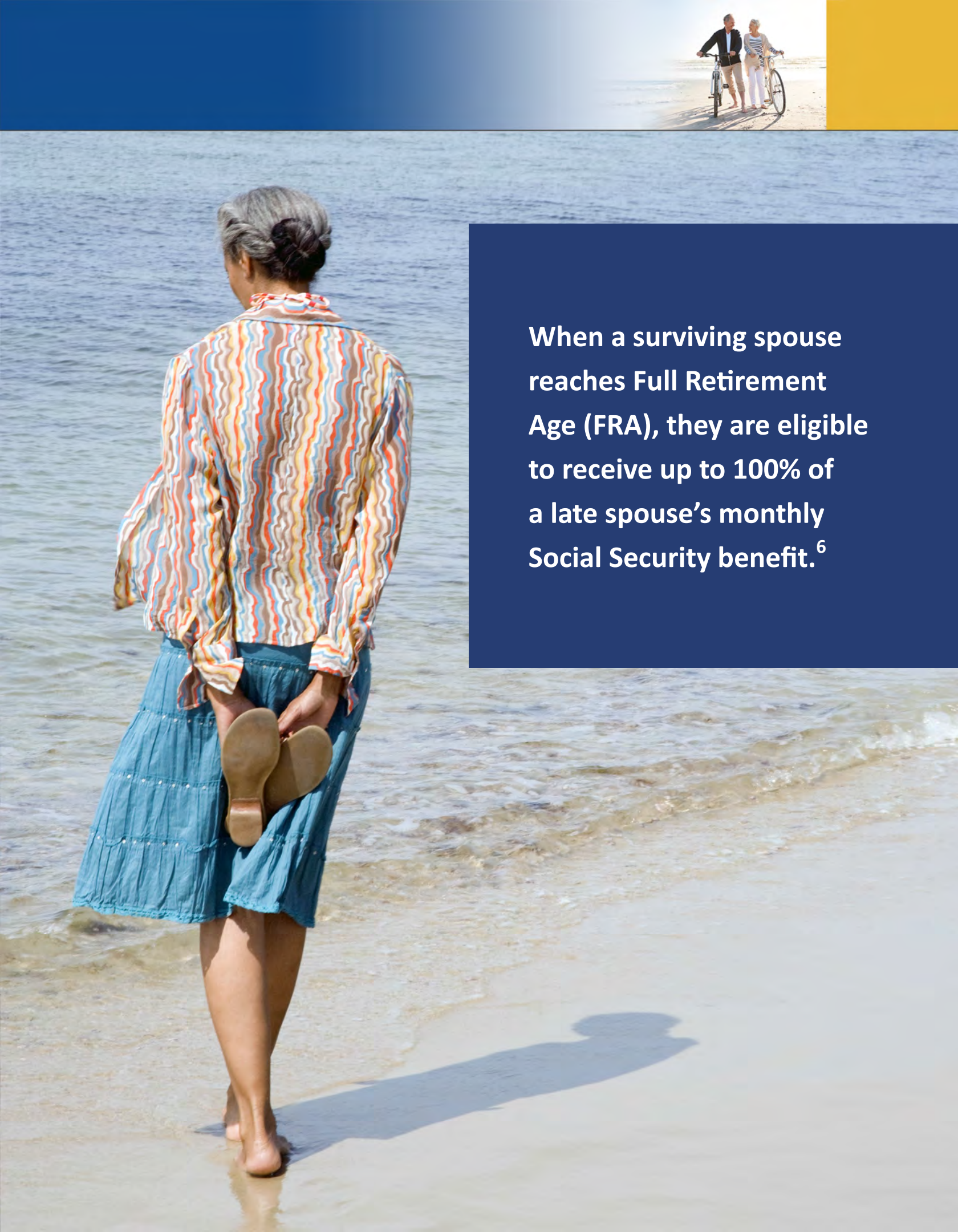
Do you earn more than your husband or wife does? If so, your claiming decision will have a huge influence on your spouse's future Social Security income. The survivor benefits that your spouse will be entitled to will be based not only on your work record, but also on how early or late you file for benefits. Your spouse's ability to claim spousal benefits while you are alive will also depend on when you decide to file.

Remember: when a surviving spouse reaches Full Retirement Age (FRA), they are eligible to receive up to 100% of a late spouse's monthly Social Security benefit.⁶

If you are the higher-earning spouse, holding off on claiming Social Security benefits until FRA can be a very wise decision. If you start getting benefits at age 62, your spouse could end up with a smaller monthly survivor's benefit than if you had postponed your claiming decision.

Spouses used to be able to exploit the “file and suspend” tactic. It could bring a couple tens of thousands of dollars more in lifetime Social Security benefits. One spouse would file for Social Security at Normal Retirement Age, but then immediately suspend their retirement benefits. As one spouse had officially filed for Social Security, the other spouse could then claim a spousal benefit while their deferred, individual Social Security benefit grew by about 8% a year. By doing this, a married couple could get some spousal benefits even as they suspended their own individual benefits. Today, this option is gone for Americans born after April 30, 1950.¹²

Practically speaking, only individuals can now elect to “file and suspend.” One version of this strategy involves suspending Social Security benefits at Normal Retirement Age, then either restarting them at some point between FRA and 70 or automatically receiving benefits when you turn 70. When the benefits do restart, they will be larger, as they will be based on the age at which they were reinstated.^{12,13}



When a surviving spouse reaches Full Retirement Age (FRA), they are eligible to receive up to 100% of a late spouse's monthly Social Security benefit.⁶

Doing this has some downsides, however. Medicare Part B premiums can't be deducted from suspended Social Security benefits, so if you suspend benefits in this way and you are enrolled in Medicare, you will be billed by the Centers for Medicare & Medicaid Services (CMMS) for Part B premiums. You will also become ineligible for Supplemental Security Income (SSI). Most notably, if others get Social Security benefits based on your record, they will not receive benefits during the suspension (an exception is made for divorced spouses).¹³

The other version of the individual "file and suspend" strategy amounts to taking a do-over. You apply for Social Security before Normal Retirement Age, then you withdraw your application (as opposed to suspending Social Security benefits you are already receiving at Normal Retirement Age). This withdrawal of your application must occur within 12 months of when you become entitled to retirement benefits. As an example, an individual can file for Social Security at age 62, then withdraw their application within a year (paying back any Social Security benefits already received), and then file a new application for benefits at age 64. Thereafter, that individual's monthly benefits will be calculated based on applying for Social Security at 64 rather than 62, resulting in a larger monthly benefit.¹⁴

Two other useful claiming strategies are still in play. They are the restricted application strategy (sometimes called filing-as-a-spouse-first, or FAASF) and the simple delayed claiming strategy.

The restricted application strategy is still available for someone who turned 62 on or before January 1, 2016, provided their spouse is already receiving Social Security benefits. In this strategy, you elect to receive only spousal benefits instead of your own individual benefit when you reach your Full Retirement Age (the monthly spousal benefit amounts to 50% of your spouse's monthly individual benefit). This tactic lets you receive spousal benefits for the interval between FRA and 70. Then, you refile and switch over to receiving your own, individual benefit at 70. Since you have "gotten by" on the spousal benefits and delayed receiving it for a few years, it has grown larger. The window on this strategy will effectively close soon.¹⁵



Practically speaking, only individuals can now elect to “file and suspend.”

The delayed claiming strategy needs two wage earners to work. It works as follows: the spouse who makes more money waits until age 70 to claim benefits, ending up with the largest monthly Social Security payment they can. The other spouse claims before they turn 70, enabling the household to receive some Social Security income until the primary wage earner turns 70. When the spouse who earned more and claimed later dies, the surviving spouse receives correspondingly larger survivor benefits as the higher-earning spouse waited until 70 to claim their own Social Security benefit. This strategy has real merit if the lower-earning spouse is considerably younger than the higher-earning spouse.¹⁶

How large are survivor benefits? They can be as large as 100% of the benefit the deceased spouse was receiving. A widow or widower can get a reduced survivor benefit as early as age 60 or even at 50 if disabled (provided the disability began before or within seven years of the death of the other spouse).¹⁷

A divorce is no barrier. Divorced widows and widowers may also claim survivor benefits, provided that the marriage to the deceased spouse lasted at least ten years.¹⁷

You may be able to get survivor benefits even if you remarry. If you have been widowed and marry again after age 60 (or age 50 if you are disabled), you will still qualify for Social Security survivor benefits. If you remarry prior to age 60, however, you can't receive survivor benefits while married.¹⁷

If you remarry and your new spouse gets Social Security, you have the option to apply for spousal benefits based on their Social Security record. If the amount of the spousal benefit would be greater than your survivor benefit, you will get a combination of benefits equal to the higher amount.¹⁷

Also, you can switch from collecting a survivor benefit to your own retirement benefit starting at age 62 (if you are eligible to collect Social Security at that time and your own benefit would be greater than the survivor benefit).¹⁷



**Divorced widows
and widowers may
also claim survivor
benefits.¹⁸**



Some widows and widowers aren't aware that these benefits exist – and given the financial help they can provide, that's a shame.

Even children and parents of deceased Social Security recipients may be in line for survivor benefits. If you are widowed and you care for a child who is age 15 or younger, you are eligible to collect a survivor benefit equaling 75% of your late spouse's monthly Social Security income. In fact, that child is also in line to receive a 75% survivor benefit if they are a) younger than 18, b) a K-12 student younger than 19, or c) disabled.¹⁷

If a deceased worker has parents who qualify as their dependents, those parents may receive survivor benefits if they are age 62 or older. If there is a single surviving parent, they can collect an 82.5% survivor benefit; if the late Social Security recipient was caring for two dependent parents, they can each collect a 75% survivor benefit.¹⁷

Source:

12 - money.usnews.com/investing/articles/2016-05-04/how-to-use-social-security-after-the-file-and-suspend-rule-ends [5/4/16]

13 - ssa.gov/planners/retire/suspend.html [5/14/18]

14 - ssa.gov/planners/retire/withdrawal.html [5/14/18]

15 - fool.com/retirement/2017/02/05/this-benefit-boosting-social-security-strategy-is.aspx [2/5/17]

16 - tucson.com/business/social-security-and-you-this-couple-has-a-couple-of/article_7f24c415-6413-5681-877e-21afb41347fb.html [4/25/18]

17 - ssa.gov/planners/survivors/ifyou.html [5/14/18]



If you are widowed and you care for a child who is age 15 or younger, you are eligible to collect a survivor benefit equaling 75% of your late spouse's monthly Social Security income.

How do you apply for Social Security?

Social Security lets you apply for benefits in three ways. You can apply over the phone (1-800-772-1213 or 1-800-325-0778 if you are hard of hearing or deaf), online (ssa.gov), or in person at local Social Security offices (Social Security requests that you call to make an appointment).¹⁸

You should file for benefits no more than four months before you want to receive your first monthly Social Security payment. You must be at least 61 years and 9 months old to apply. Your benefits will begin to be paid the month after your application is approved by Social Security. (If your application is approved in October, you will receive Social Security income beginning in November.)¹⁸

Social Security will ask for your essential, vital personal information as you file for benefits. It will want to see your Social Security card/number, your original birth certificate or other proof of birth, and proof of U.S. citizenship or lawful alien status; it may want to see a copy of your U.S. military service paper(s) if you were a service member prior to 1968, as well as a copy of your W-2 form(s) and/or self-employment tax return for the previous year. If you want your Social Security income directly deposited in a bank account, you must bring along your banking information.¹⁹

You must apply for survivor benefits in person. First, call 1-800-772-1213 (or 1-800-325-0778 if you are deaf or have trouble hearing) to make an appointment at your local Social Security office. (No one may apply for survivor benefits online.) At the office, you can file your survivor benefits application. The SSA says that the process will be faster if you complete its Adult Disability Report beforehand and bring it with you. You can download this form; you will find a link to it at ssa.gov/planners/survivors/ifyou.html.¹⁷

Source:

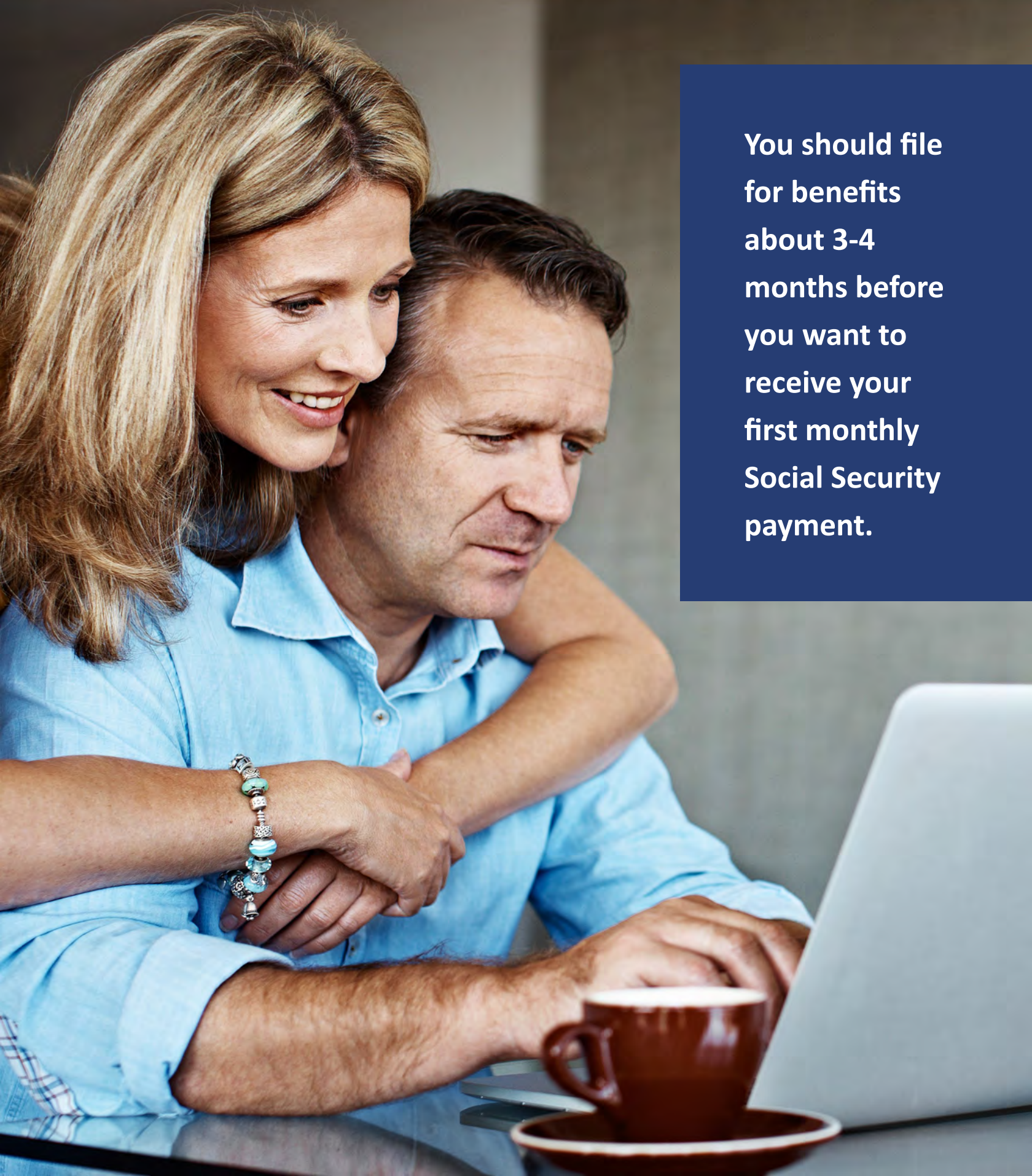
¹⁷ - ssa.gov/planners/survivors/ifyou.html [5/14/18]

¹⁸ - ssa.gov/planners/retire/applying8.html [5/14/18]

¹⁹ - ssa.gov/forms/ssa-1.html [5/14/18]



**You should file
for benefits
about 3-4
months before
you want to
receive your
first monthly
Social Security
payment.**



See Social Security as part of a retirement income strategy rather than an income strategy by itself.

Social Security cannot fully replace the income you have grown used to receiving while working. As an example, someone filing for Social Security benefits at Full or Normal Retirement Age in 2019 can receive a maximum monthly Social Security benefit of \$2,687 – nice, but probably not what you earned prior to retiring. As the first quarter of 2018 ended, the average monthly Social Security payment to a retired individual was \$1,410.²⁰

No one should retire without knowing how much monthly Social Security income they are eligible to receive.

The Social Security Administration offers paper and online statements projecting future Social Security benefits. If you create an online account at socialsecurity.gov/myaccount, you can see estimates of your Social Security income at a glance. You can also check your account to see that the SSA has accurately kept track of your yearly earnings and the Social Security taxes you have paid.

It may be wise to meet with a qualified financial professional before making a Social Security claiming decision or another decision related to Social Security that may impact your financial or retirement planning strategy.

Source:

20 - www.fool.com/retirement/2018/10/21/heres-the-maximum-social-security-benefit-in-2019.aspx [10/21/18]



See Social Security as part of a retirement income strategy rather than an income strategy by itself.

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