The Basics of Social Security

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One of the most common questions we hear from clients nearing retirement is, "When should I file for Social Security?" While there is no 'one size fits all' answer to this, understanding the basics can help you make an informed decision.

Social Security has many intricacies that render it difficult to fully understand. While most individuals know whether they qualify for benefits, and know approximately when they become eligible to file, they may not understand how to determine the optimal filing strategy for their personal situation. In addition, eligibility for spousal or survivor's benefits can create another layer of confusion.

SOCIAL SECURITY RETIREMENT BENEFITS

The Social Security Administration ("SSA") determines benefit eligibility based on an individual's work record and age. To be eligible, an individual must have worked at least 40 quarters (or 10 years) over the course of their lives. Benefit amounts are calculated using a complex formula that considers earnings history and year of birth and assumes a person will continue working until his or her full retirement age. This is the age at which an individual is expected to retire and is used as the baseline for calculating benefits.

Full retirement age ("FRA") is determined by the SSA and varies based on year of birth. For anyone born after 1960 FRA is age 67. The benefit amount that the SSA calculates as of a person's FRA is called the primary insurance amount ("PIA").

An individual who is eligible can file for Social Security retirement benefits on their own record beginning as early as age 62. While this is the earliest age at which an individual can file, doing so at any point before reaching FRA will result in a permanently reduced benefit amount. To receive his or her full PIA, an individual will need to wait to file until s/he has reached full retirement age. For those who can wait past their FRA to file, benefits will increase at 8% per year from FRA up until age 70, making the highest possible benefit amount available to those who wait to file until age 70.

It is important to note that retiring before reaching full retirement age may affect an individual's benefit amount.

SPOUSAL BENEFITS

Spousal benefits are available to anyone who is currently married or was previously married and meets certain conditions. An individual may be eligible for 50% of his or her spouse's or ex-spouse's PIA if that benefit would be greater than the individual's own benefit. For married couples, the spouse will automatically be paid the highest possible benefit if the other spouse has already filed for his or her own benefits.

A divorced person may file for benefits on his or her ex-spouse's record provided they were married for at least 10 years, have been divorced for at least two years, and have not remarried. The individual filing for spousal benefits must also be eligible for his or her own retirement benefits and the spousal benefit must be a larger amount. This filing strategy will not affect the ex-spouse's benefits in any way and are available even if the ex-spouse has remarried; it is only the person filing for spousal benefits who cannot be remarried.

Individuals filing for spousal benefits may do so as early as age 62, although doing so before reaching FRA will result in a permanently reduced benefit. Spousal benefits do not qualify for the delayed retirement credits one can earn on his or her own benefit between FRA and age 70.

SURVIVOR'S BENEFITS

Survivor's benefits are paid to the surviving spouse of a deceased individual who was eligible for his or her own benefits. If both spouses are currently receiving benefits and one spouse passes away, the surviving spouse's benefit will automatically be converted to the deceased spouse's benefit amount, provided it was higher than the surviving spouse's own benefit. If the surviving spouse is eligible for his or her own benefit but has not yet filed, s/he may choose to file for either his or her own benefit or the survivor benefit, then can switch to the higher amount later. For example, a 67-year-old widow who has not yet filed for benefits may choose to receive only survivor's benefits until age 70, at which point she may switch to her own benefit. This strategy allows the widow's own benefit to continue to grow between ages 67 and 70, while still receiving some income from her deceased spouse's record.

A surviving spouse may file for survivor's benefits as early as age 60 (or age 50 if disabled). As with other filing options, however, taking survivor's benefits prior to reaching one's own FRA will result in a permanently reduced benefit. Remarriage after age 60 (or age 50 if disabled) will not affect eligibility for survivor benefits. A surviving spouse who is not a U.S. citizen may still be eligible to receive survivor's benefits but must meet some additional requirements.

CONCLUSION

Deciding when is the best time to file for Social Security benefits can be difficult and confusing for many. Your Freestone Client Advisor can help you analyze your choices and determine the optimal strategy for your unique situation.

ONLINE RESOURCES

- SSA.gov
- www.aarp.org/retirement/social-security/