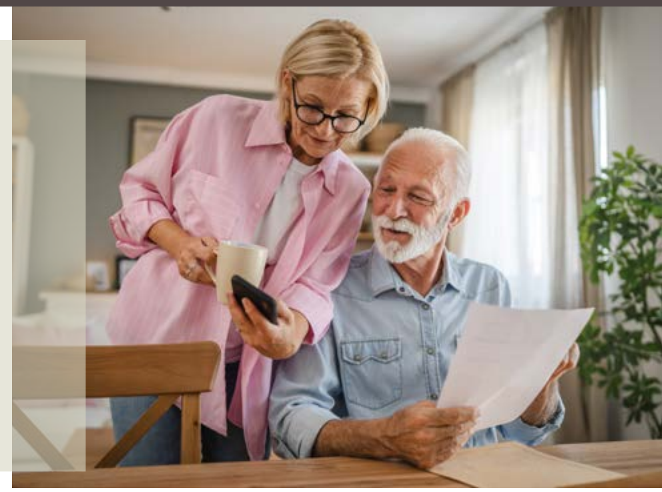
Make the Most of Your Social Security Benefits

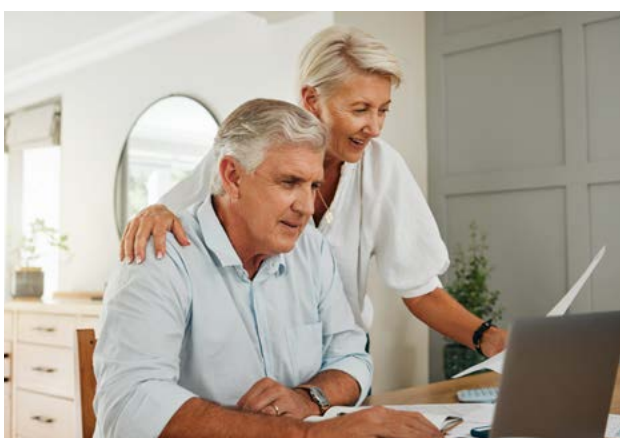
When to claim benefits based on your personal needs.



Deciding when and how to claim Social Security benefits is one of the most important decisions that retirees will ever make. Social Security benefits represent one of the few sources of guaranteed income that retirees can count on for the rest of their lives. In addition, Social Security benefits are adjusted annually (in most years) to keep pace with inflation. You can claim Social Security anytime between age 62 and 70, but the longer you wait to start benefits, the bigger your monthly benefits will be for the rest of your life.

RETHINKING SOCIAL SECURITY

While there has been a growing appreciation in recent years of the value of maximizing Social Security benefits by delaying benefits, the COVID-19 pandemic and its disruptive impact on work patterns prompted some people to rethink their Social Security claiming strategy. Some people lost their jobs during the pandemic or retired early due to health concerns and decided to claim Social Security early to meet current income needs.



In our current environment, some people are considering claiming Social Security as soon as possible to counter the possibility of funds running out. In May 2024, the Social Security Administration's annual Trustees Report projected that the trust fund reserves used to pay beneficiaries will be insolvent in 2035. If Congress does not take action, retirees will only receive 83% of their full benefits after this period. To resolve this, they would have to trim the benefits of future Americans who will be claiming Social Security, or they will have to increase the Social Security payroll tax.

Another concern for those looking to claim Social Security benefits is inflation. While inflation has cooled, some who may want to retire early could be concerned about how inflation and proposed tariffs incoming Trump Administration has promised will impact the cost of living and ultimately, their retirement budget.

Deciding on when and how to take Social Security benefits can be complicated because by claiming early you could lose out on money. Below we detail some considerations for Social Security claiming.

YOUR AGE MATTERS

The dollar amount of your monthly Social Security benefit is based on your average lifetime earnings and your age when you first claim benefits. The Social Security Administration (SSA) calculates your average indexed monthly earnings during your top 35 earning years and applies a formula to those earnings to arrive at your basic benefit or "primary insurance amount" (PIA). This is how much you would receive at your full retirement age (FRA), which varies from 66 to 67, depending on birth year.

If you claim benefits before FRA, your benefit will be reduced. If you are willing to delay claiming your benefits, up to age 70, the monthly payments will be larger for the rest of your life. For every month you wait to collect Social Security beyond your FRA you earn delayed retirement credits worth 0.66% per month for a total of 8% per year, up to age 70.

If your FRA is 66, delaying Social Security benefits until 70 will result in a whopping 32% increase in benefits. That means if your FRA benefit is $2,000 per month at age 66 and you wait until you reach 70 to collect, your benefits will grow by 8% per year for four years and be worth $2,640 per month at 70 ($2,000 x 1.32).

The actual payout will be even larger as annual cost-of-living adjustments (COLA) for each of the intervening years between the time you first become eligible for benefits at 62 and the age you claim will be added to your monthly benefit amount. Waiting to collect the biggest benefit at age 70 means future COLAs will be applied to a bigger base, resulting in larger monthly payments for the rest of your life. Delayed retirement credits end when you turn 70, so it makes no sense to postpone claiming Social Security beyond that age.

HOW WORK AFFECTS BENEFITS

Anyone who collects Social Security benefits before FRA—including retired workers, their spouses, divorced spouses, and survivors — is subject to earnings restrictions if they continue work while receiving benefits. The earnings cap applies only to wages from a job or net self-employment income, not other sources of income such as investments, pensions, or other government benefits.

In 2024, you lose $1 in benefits for every $2 earned over $22,320 if you are younger than FRA for the entire year. In 2025, you will lose $1 in benefits for every $2 earned over $23,400. The earnings cap is indexed to inflation and increases in years when there is a COLA.[1]

A more generous earnings cap applies in the year you reach FRA. In the months before reaching your FRA — which is 66 and six months in 2024 for those born in 1957, you can earn up to $59,520 without sacrificing any Social Security benefits. This will increase to $62,160 in 2025. If you earn more than that, you'll forfeit $1 in benefits for every $3 earned over the limit.

Once you reach FRA, the earnings cap disappears, meaning you can continue to work without reducing your Social Security benefits. The gradual increase of two months per year will continue until FRA reaches 67 in 2027 for those born in 1960 and later.

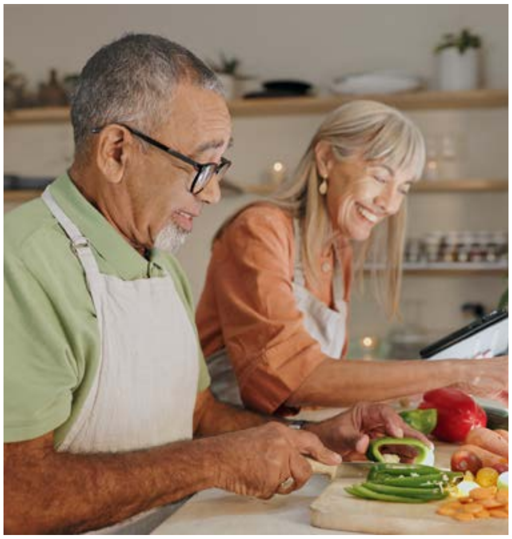
Benefits lost to the earnings cap are not gone forever, they are merely deferred. For example, say you claimed retirement benefits at 62 and continue to work. And assume over the next four years, you forfeited 24 months of Social Security benefits due to excess earnings. When you reach your full retirement age, SSA will recalculate your benefits, adding back any months you forfeited because of the earnings cap. For more information, see "How Work Affects Your Benefits" (https://www.socialsecurity.gov/pubs/EN-05-10069.pdf).

YOUR MARITAL STATUS

It's not just your age and earnings history that can affect your Social Security benefits. Your marital status can also influence your lifetime benefits.

When an unmarried individual claims Social Security benefits, it's fairly simple. Their benefit is based on their average lifetime earnings and the age when they first claimed benefits. Some married couples have an additional claiming option, as do some eligible divorced spouses, depending on their birth date.

Married couples should coordinate their claiming strategies to maximize benefits while both spouses are alive and to create the largest possible survivor benefit for the remaining spouse after the first one dies.



In general, it makes sense for the spouse with the larger Social Security benefit to delay claiming up until age 70 to maximize the household's retirement benefit. In the meantime, the spouse with the smaller benefit may want to claim reduced benefits early if he or she is not working or at full retirement age when earnings restrictions disappear. This coordinated claiming approach generates some income initially, helping to take some pressure off the couple's finances while the second spouse waits until 70 to claim a maximum benefit.

A married individual may be entitled to two Social Security retirement benefits: one on their own earnings record and one as a spouse, which is worth up to 50% of the worker's FRA benefit. Normally, Social Security pays the larger of the two benefits.

For example, let's assume a husband's FRA benefit at 66 is $2,400 per month. A spousal benefit would be worth half of that amount — $1,200 per month — if the wife claimed benefits at her FRA and less if she claimed earlier. Let's assume she has also earned her own retirement benefit of $1,000 per month.

Assuming the husband and wife each claim Social Security at their FRA, the wife would receive the higher of the two amounts — $1,200 in this case. Her benefit would actually be comprised of two components: her own benefit of $1,000 per month plus the excess spousal benefit amount of $200 per month.

If one spouse has not worked long enough — at least 10 years to accrue the minimum of 40 credits needed to be eligible for benefits — she can still claim benefits as a spouse. But she must wait until her husband claims his Social Security benefit before she can claim a spousal benefit based on his earnings record.

If the spouse with the bigger benefit dies first, the larger benefit — the husband's $2,400 per month in this example — will continue as the survivor benefit, and the wife's smaller retirement benefit of $1,200 per month will disappear. The major goal of most couples' claiming strategy should be based on creating the largest possible survivor benefit.

There is an additional claiming option for married couples where at least one spouse was born before 1954. Once one spouse files for Social Security, the other spouse, who was born before 1954 can file a "restricted claim for spousal benefits" and collect half of the other spouse's FRA amount while allowing his or her own retirement benefit to continue to grow up until age 70, and then switch to the bigger benefit.

COLLECT ON YOUR EX

Divorced spouses who were married for at least 10 years and who are currently unmarried may be able to collect benefits on an ex's earnings record. Like the married couple in the previous example, if an ex-spouse is eligible for retirement benefits on her own earnings record and as a former spouse, she would be paid the higher of the two amounts.

Also, like the married couple above, an eligible divorced spouse could file a restricted claim for spousal benefits on her ex-husband's earnings record if she were born on or before January 1, 1954. That would allow her to collect half of her ex-husband's FRA amount while her own retirement benefit would continue to grow up until age 70 when she would switch to her own maximum benefit. Social Security benefits are gender-neutral. Likewise, an ex-husband born on or before January 1, 1954, could file a restricted claim for spousal benefits on his ex-wife's earnings record.

When it comes to filing for Social Security, divorced spouses have an added advantage over married couples. A divorced spouse who was married for at least 10 years, has been divorced for at least two years, and who is currently single can claim benefits on an ex's earnings record even if the ex has not yet claimed benefits (as long as the couple has been divorced at least two years and each former spouse is at least 62 years old). This is known as being an "independently entitled ex-spouse."

SURVIVORS

Widows, widowers, and surviving ex-spouses have more flexibility than other Social Security beneficiaries because retirement benefits and survivor benefits represent two different pots of money. A surviving spouse or surviving ex-spouse can choose one benefit first and switch to the other benefit later if it results in a larger monthly benefit, regardless of the year of birth.

To be eligible for a Social Security survivor's benefit, a widow or widower must have been married to the deceased worker for at least nine months at the time of his or her death. An eligible surviving ex-spouse must have been married to the deceased worker for at least 10 years before the divorce.

Survivor benefits are available as early as age 60, but they would be worth just 71.5% of the deceased worker's benefit, compared to 100% if the survivor claimed benefits at his or her FRA. Survivor benefits are worth the maximum amount when collected at FRA. Unlike retirement benefits, survivor benefits do not increase by 8% per year for every year benefits are postponed beyond full retirement age, up to age 70.

A widow, widower, or eligible surviving divorced spouse could choose to collect a reduced survivor benefit as early as age 60 and switch to a maximum retirement benefit as late as age 70. But if the survivor benefit is the larger benefit, it may make sense to collect reduced retirement benefits early (subject to earnings restrictions) and switch to maximum survivor benefits at FRA.

If a widow, widower, or surviving ex-spouse waits until age 60 or later to remarry, they can collect a survivor benefit even if they are married to someone else.

DO-OVER OPTIONS

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BOTTOM LINE

You have worked long and hard for Social Security benefits. If you are thinking about claiming benefits early just because you are concerned that the Social Security trust funds will run dry in the future, reconsider. If you can afford to wait, you will be rewarded for your patience, locking in a larger guaranteed monthly benefit for the rest of your life.

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FOOTNOTES

[1] Benefits Planner: Retirement | Receiving benefits while working | SSA. (n.d.). Retrieved November 19, 2024, from https://www.ssa.gov/benefits/retirement/planner/whileworking.html

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