NXT Phase
Financial Services

4 Critical Social Security Facts Retirees Must Know

More than 70 million Americans (21% of the U.S. population) receive some form of Social Security. This public insurance has helped lay the economic foundation for Americans for more than 80 years, providing support to retirees and others.[1,2,3]

Since the nation's founding, its leaders have struggled with finding humane and sound economic approaches to helping the elderly, widows and orphans, and the less fortunate. It wasn't until President Roosevelt signed the Social Security Act into law on August 14, 1935, that Americans witnessed a turning point in the government's role in providing support for its aging population.[4]

Developed on the cusp of the Great Depression (1929–1935), the Social Security Act promised relief to millions of elderly and retired Americans. Social Security provides benefits for retirement, aid to dependent children, and insurance for the disabled and the unemployed.[5]

Today, Social Security benefits represent, on average, a third of retirees' income. Nearly 90% of Americans 65 and older receive some type of Social Security benefits.[6]

Here are three important changes to Social Security implemented in 2022:[7]

1. Social Security recipients received a 5.9% increase in payments in 2022. The Social Security Administration (SSA) attempts to match benefits to inflation.

2. The maximum taxable earnings limit rose to $147,000 (from $142,800 in 2021). Earnings above this limit are not taxed. Workers' Social Security tax remains at 6.2%.

3. Earning limits increased. Social Security recipients who work will find their benefits temporarily reduced.

As the SSA makes annual changes to the program, it's important to stay updated on these changes. We'll discuss many of these items in greater detail later in this report.

Here are four important facts you should know about your Social Security benefits:

Fact #1: Your benefit amount depends on your retirement age.

Your benefit amount varies depending on when you apply for benefits. You may file to claim benefits before your full retirement age. The earliest you can claim is at 62, and you will not receive any additional benefits delaying past the age of 70. If you claim prior to reaching your full retirement age, the SSA reduces your benefit amount by a percentage for each month prior to your full retirement age. For example, if you were born in 1960 and retire at 62, you'll get 70% of your monthly benefits. If you retire at 65, you'll get 86.7%.[8]

Full retirement age varies. For those born in 1955, the full retirement age is 66 years and 2 months. The age gradually increases to 67 for people born in 1960 and later. If retirees take benefits prior to their full retirement age, their benefits will be permanently reduced. The full retirement age is when recipients will be able to receive their full benefits (or 100% of their calculated benefits).[9]

Following legislative changes in 1983, the full retirement age, which was 65, began increasing by two months, starting for people born in 1938. However, benefits will increase by 8% per year for those who decide to delay collecting Social Security beyond their full retirement age. Recipients who wait until they're 70 to collect benefits will receive 24% higher payments.[10,11]

Both choices (retiring early at 62 or delaying until the age of 70) have advantages and disadvantages.[12]

FACT #2: You may work and collect Social Security benefits.

The SSA acquires information from you, such as bank accounts and routing numbers, during the initial application process. You're required to provide the SSA with outside earnings estimates for the upcoming year.

The SSA obtains your outside earnings from the W-2 forms your employer files or your self-employment income on tax returns to verify your income and gauge your benefit amounts. Social Security benefits are based on the projected income levels you report at the beginning of the year. The SSA will inform you if your benefits will have to be adjusted based on outside earnings. The SSA sets outside earning limits for recipients who receive benefits. When you exceed those limits, the SSA reduces your Social Security benefits. The limit on outside earnings for 2022 is $19,560.[13]

The SSA deducts $1 in benefits for every $2 above the outside income limit if you're working and collecting Social Security prior to your full retirement age. In the year you reach full retirement age, the SSA subtracts $1 in benefits for every $3 you earn above $51,960. However, that deduction only applies in the months of that year prior to the month you reach full retirement age.[14]

In the month you reach your full retirement age, the SSA no longer restricts your outside earnings. This year's $51,960 outside income limit is an increase from 2021's $50,520.[15]



Here are some examples:

Mr. Jones turns 67 (his full retirement age) in July 2022. Mr. Jones has been making $50,000 a year from his job. He reported his estimated earnings for 2022 at the beginning of 2022. The SSA will verify his earnings estimates with his W-2 forms at the end of the year.

Mr. Jones has been collecting Social Security benefits since he turned 62. Under the current income limits, the SSA would make deductions from his benefits on $30,440, the difference between $50,000 and $19,560. Since the SSA deducts only $1 for every $2 above the outside income limit, the deductions to his Social Security benefits are half of that amount: $15,220 a year or $1,268 a month. If the SSA determined that Mr. Jones would receive $1,657 per month from Social Security, the national average, his adjusted check would be $389, the difference between $1,657 and $1,268.[16]

Once Mr. Jones reaches the year of his full retirement age (2022), the SSA will no longer make deductions to his benefits in that year (prior to his birthday) because his income will be below the higher outside earnings limit of $51,960. The upper limit applies to recipients who earn outside income and who have reached the year of their full retirement.

Mrs. Smith is another story. Her projected annual income for 2022 was $60,000 within the year she turned 67 (her full retirement year) and before her August birthday. As her income is above the higher limit of $51,960 ($8,040), her Social Security benefits are reduced at the 3-1 rate: a $1 deduction for every $3 over that limit. That's $2,680 of annual benefit reduction, or $223 of benefit reduction a month. If the SSA determined that Mrs. Smith would receive $1,657 per month from Social Security, her adjusted check would be $1,434, the difference between $1,657 and $223.[17]

In August, the month she turns 67, and afterward, the SSA will no longer reduce her benefits. She no longer has income limits.

If Mrs. Smith claimed Social Security benefits at 62 and was making $60,000 a year in outside income, her benefit amount would've been reduced under the lower limit: $19,560. The difference is $40,440. The SSA would've deducted half of that from her checks: $20,220 a year or $1,685 a month. If her Social Security payments were calculated at $1,657 a month, for example, she would've been receiving $28 a month in benefits prior to her reaching the year of her full retirement age.

Both Mr. Smith and Mrs. Jones are hypothetical examples used for illustrative purposes only. They do not show or represent any specific Social Security strategies or any specific Social Security payments.

Here's why you should wait:[18]

- You expect to continue working, and you expect to earn more than the Social Security's $19,560 income limit.
- You have little savings; you're single and healthy. Waiting to collect benefits will increase payments.
- Your spouse is working. A higher combined income means that a larger portion of your Social Security benefits may be taxed. By waiting to collect Social Security, you'll be able to keep more of your benefits.
- You expect to have a long life. The average life expectancy of an American reaching 65 today is about 87 for women and 84 for men.[19]
- Your spouse's benefit is smaller, or your spouse is considerably younger. Your combined life expectancy is longer.

THE EARLIEST YOU CAN CLAIM IS AT 62, AND YOU WILL NOT RECEIVE ANY ADDITIONAL BENEFITS DELAYING PAST THE AGE OF 70.[8]



HERE'S WHY YOU SHOULD NOT WAIT:[20]

- You don't expect to earn income above the annual $19,560 limit for 2022.
- You have health problems or have below-average life expectancy.
- Your spouse's benefit is larger than yours.
- You lack other income sources and have no opportunity to earn money.
- Although Social Security checks will be smaller, you'll have collected eight more years of checks (96 months) than if you had waited until you had reached 70.
- Nearly 40% of women and 35% of men start collecting benefits at age 62.[21]

Social Security benefits represent, on average, a third of retirees' income.[6]

Fact #3: Your Social Security benefits are subject to income taxes.

You may still have to pay taxes on your Social Security benefits. However, taxes are capped at 85% of benefits.[22]

The SSA requires recipients to pay taxes if they file returns as individuals and their combined income is more than $25,000. Joint filers (who are married) are required to pay taxes if their combined income is more than $32,000. Married Social Security recipients who file separate returns may still have to pay taxes on their benefits.[23]

If you file a return as an individual, and your combined income is $25,000-$34,000, you may have to pay income tax on up to 50% of your Social Security benefits. You calculate your combined income by adding together your adjusted gross income, nontaxable interest, and half of your Social Security benefits.[24]

Up to 85% of your benefits are taxable if you file as an individual and your combined income exceeds $34,000.

For joint filers who are married, up to 50% of their benefits are taxed if their combined income is $32,000-$44,000, or 85% of their benefits if their combined income is more than $44,000.

Fact #4: Married couples get spousal and survivor benefits.

Social Security benefits for married couples work differently. Here are five important facts:[25,26,27]

1. Your current marital status doesn't affect your eligibility for Social Security benefits. If you've worked at least 10 years and earned at least 40 work credits, you can receive benefits.
2. The SSA doesn't penalize married couples or restrict benefits. Spouses receive benefits based on their own work histories.
3. If you're eligible to receive one of two benefits, you receive the higher one. Lower-paid spouses are eligible for benefits either on their own work histories or the spousal benefit on their partner's record. Lower-paid spouses are eligible to receive up to half of the benefits of their partners.
4. Divorced spouses who were married for at least 10 years are eligible for higher benefits based on the records of their partners. Divorce decrees relinquishing rights to partners' benefits are not binding.
5. Widowed Social Security recipients are eligible for widow benefits. Widows may receive between 71.5% and 100% of their spouses' benefits, depending on their specific circumstances.

How is your Social Security calculated?[28]

The SSA calculates your benefits based on your lifetime earnings. If you're not retired and haven't set up a Social Security account, you may go to the SSA's website to learn more about your projected benefits or to set up an account.

The SSA calculates your Social Security benefits by indexing your average monthly earnings during the 35 years you earned the most. The administration generates your basic benefit, or "primary insurance amount," which is what you'll receive at your full retirement age. The average monthly benefit is $1,657.[29]

You may contact the SSA at 800-772-1213. The SSA's TTY number for the deaf or hard of hearing is 800-325-0778. You may speak to a Social Security representative by calling those numbers from 8:00 a.m.–7:00 p.m., Monday to Friday.

Conclusion

We hope that you found this report educational and informative. We also hope that some of the principles and statistics outlined in the report may help you make the most of your Social Security benefits.

Developing a strategy with an understanding of how to optimize your Social Security may put you in a better position when you start to draw your benefits.

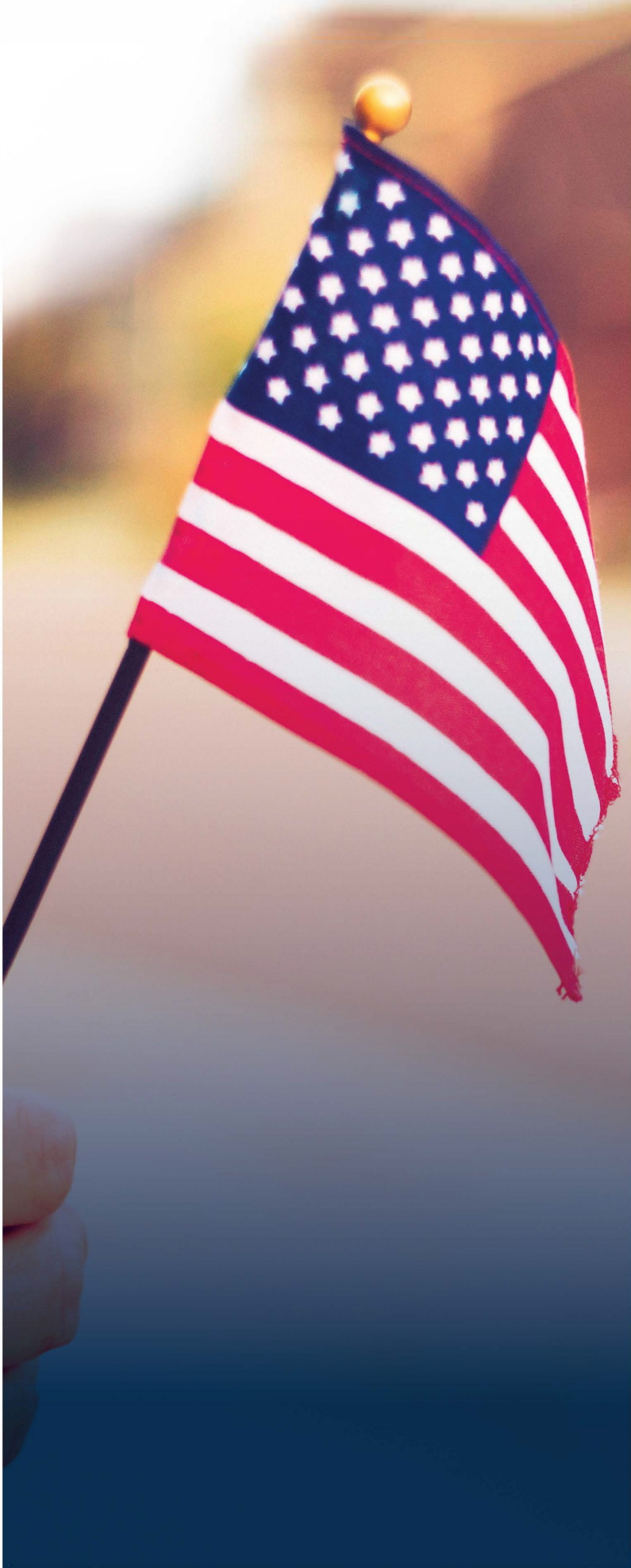
Working with a financial professional may help equip you to find the solutions that are designed to fit your retirement lifestyle.

We can help you analyze your financial situation and develop a strategy for pursuing your retirement vision.

If you or anyone close to you would like to discuss how to maximize your Social Security benefits with a professional, please give our office a call to schedule a complimentary consultation at 516-719-0145 .

Warm regards,

John Carbonara



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