2017 Social Security Benefit Guide

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Created during the Great Depression as a retirement safety net, Social Security now covers an estimated 96% of Americans. These days, a record high of about 167 million people are working and paying into the system that provides benefits for over 60 million people.

Social Security is such an extensive program that it can be complicated and confusing to navigate at times. Many people do not have a clear understanding of how it works, even though it plays such a significant role in their retirement. The majority of retirees receive more than half their income from Social Security, so no matter what else you have saved, it will more than likely make up a considerable portion of your retirement income.

Clearly, it is important to make wise choices regarding Social Security. When you choose to take your benefits and how you coordinate with your spouse are two of the most important social security decisions you will make. This guide is intended to answer some of the most common questions regarding Social Security and filing for benefits.

How Social Security Benefits are Determined

Social Security benefits are calculated based on lifetime earnings. First, you have to have worked at least 10 years to be eligible to receive Social Security benefits. If you have not worked at least 10 years, you will not have enough "credits." You are awarded one credit for each $1,300 you earn (the amount changes annually), with a maximum of 4 per year. Forty credits are required to receive Social Security benefits. You can request information from the Social Security Administration to determine how many credits you have earned.

The Social Security Administration uses 35 years of earnings to calculate your benefit. If you worked more than 35 years, they use the 35 years in which you earned the most. If you worked less than 35 years, it is still calculated based on 35 years, with zero earnings averaged in for the years in which you did not work. Your 35 years' worth of wages are adjusted, or indexed, to match today's wages, reflecting wage growth. Based on your adjusted wages, an Average Indexed Monthly Earnings (AIME) is calculated.

Finally, the Social Security benefit formula is applied to AIME to find your Primary Insurance Amount (PIA), which is the benefit payable to you at Full Retirement Age (FRA). Your PIA can be increased or reduced depending on when you choose to begin receiving benefits. Whether or not you want to start receiving benefits in the year you turn 62, this is when you are eligible for cost-of-living benefit increases. When you opt to receive your benefits does not affect the amount of your cost-of-living increase.

Spousal Benefits

The spouse of anyone eligible to claim Social Security benefits is also eligible to receive benefits of 50% of their spouse's benefit, regardless of whether they worked enough to earn their own benefits. To receive these benefits, the spouse must be at least 62, and the benefit earner must already have filed for benefits.

Some divorced people are also eligible to receive spousal benefits based on their ex-spouse's work history. In order to qualify, the marriage must have lasted at least 10 years, the spouses must have been divorced at least 2 years, the dependent spouse cannot have remarried, they must be at least 62 years of age, and they cannot qualify for a higher benefit based on their own earnings record. Unlike traditional spousal benefits, the benefit earner does not need to have filed to claim their benefit for their ex-spouse to be able to begin collecting spousal benefits.

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Year born	Full retirement age	Benefit at 62	Benefit at 65
1943-1954	66	75.0%	93.3%
1955	66 and 2 months	74.2%	92.2%
1956	66 and 4 months	73.3%	91.1%
1957	66 and 6 months	72.5%	90.0%
1958	66 and 8 months	71.1%	88.9%
1959	66 and 10 months	70.8%	87.8%
1960 or later	67	70.0%	86.7%

When Can You Claim Social Security Benefits?

Social Security benefits can be claimed anytime between ages 62 and 70. However, the timing of when you choose to collect these benefits will impact the amount of benefit you receive.

Early Retirement

If you choose or are forced into an early retirement, you can begin receiving Social Security benefits as early as age 62. However, if you file to receive benefits any time before reaching your full retirement age, you will receive a reduced benefit. Your basic benefit is reduced a fraction of a percent for each month you begin receiving benefits prior to full retirement age, up to 30%.

Full Retirement Age

Full retirement age (FRA) changes based on the year you were born. For those born in 1937 and earlier, FRA is 65. After 1937, two months is added each year until FRA becomes 66 for those born between 1943 and 1954. Starting in 1955, two months a year is added again until the FRA becomes 67 for those born in 1960 or later.

If you wait until you reach full retirement age to begin collecting your social security benefits, you will receive your full Primary Insurance Amount, which is the full benefit that you have earned.

Delayed Benefits

If you continue working past your FRA or you don't need your social security benefit to live on, you can delay receiving your benefits. For each year that you delay, your benefit will increase 8%, for a maximum possible increase of 32%. Your benefit is only increased until you begin receiving it or you turn 70, whichever happens first.

When is the Optimal Time to Begin Collecting Benefits?

Today, Social Security benefits make up an average of 40% of a typical retiree's income, so deciding when to claim them is a critical decision. By the time most retirees are making this decision, it is too late to change how much they pay into the system, so the only control they have over the amount of their benefit is how early or late they decide to file and claim it.

Social Security Statement

The first step in deciding when to begin collecting Social Security is to gather pertinent information. The Social Security Administration sends a statement to everyone that is paying into social security every five years, and every year once they turn 60. This is a paper statement mailed three months prior to the recipients' birthday. If you do not have a recent statement, you can view yours online by setting up an account at ssa.gov, or you can request a paper copy from the Social Security Administration.

Your social security statement includes estimates for your monthly benefit if taken at age 62, your full retirement age, or the maximum benefit at age 70. It also contains estimates of disability, family, and survivor benefits as well as Medicare information. The amounts listed are only estimates and are subject to change. They are calculated based on your date of birth and future estimated taxable earnings.

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On the third page of your statement, your earnings history is listed. It is important to review this for errors because this is what your benefit amount is based upon. This is especially important information for those who have spent some time out of the workforce, whether to raise a family, disability, or other reasons. As benefits are calculated based on the top 35 years' earnings, it may be worthwhile to work a few more years if you find yourself with just shy of 35 years' worth of wages.

Deciding When to Claim Benefits

Social Security benefits are calculated using complex actuarial equations based on life expectancy and estimated rates of return. They are not designed to encourage early or late retirement; based on the calculations the total amount you receive over your lifetime should be about the same whether you claim it at age 62 or 70. You either receive the money as a smaller monthly payment over a longer period of time or a larger monthly payment over a shorter period of time.

Deciding on the best time for you to claim your benefits depends upon how you compare to the averages. As of today, a man turning 65 is expected to live until age 84.3 and a woman of 65 until age 86.6. If based on your health and your family history of longevity, you believe you will live much longer than that, your overall lifetime benefit will be greater if you delay claiming your benefits to increase your benefit amount. If the opposite is true, and you see little chance of making it into your mid 80's, you would receive a greater lifetime benefit by taking it sooner, even though it is a lower monthly payment.

Aside from life expectancy, rates of return must also be taken into consideration. Social Security growth is calculated at the Treasury-bond rate. If you are able to invest your benefit instead of spending it, you may be better off claiming early and investing it in an effort to earn better rates of return. In this way, though you start with a smaller monthly payment, the growth from your investments may leave you with more money than if you had waited to receive the Social Security Administration's increased payment.

Several helpful calculators are available on the Social Security Administration website. With the Retirement Estimator at www.socialsecurity.gov/estimator, most people can receive an estimate of their benefit based on their actual earnings record and manipulate the numbers to reflect different strategies. They also have Social Security Benefits Calculators that can be used to calculate future retirement benefits.

Once you decide the best time to retire and begin collecting benefits, it is important to remember to complete your application for Social Security benefits three months before the month in which you want your retirement benefits to begin.

When to Start Benefits

The Longer You Wait – The Larger the Benefit

Social Security Benefit = $2,000 at Full Retirement Age 66

	Age at which benefits are claimed	% of Benefit if FRA = 66	Basic Benefit
	62	75%	$1,500
Age 62 (Lose 25%)	63	80%	1,600
	64	87%	1,740
	65	93%	1,860
	66	100%	2,000
8% per year (+32%)	67	108%	2,160
	68	116%	2,320
	69	124%	2,480
	70	132%	2,640

How Can Married Couples Maximize Benefits?

Because married people have the ability to receive their own benefit or a spousal benefit of 50% of their spouse's benefit, they have more to consider when filing for benefits. By coordinating properly, married couples can maximize total monthly benefits.

The Society of Actuaries recommends that the lower earning spouse begin collecting benefits early while the higher-earning spouse waits as long as possible. That way, you can make use of the lesser benefit while maximizing the greater benefit. In most situations, it is the husband with the greater benefit and the wife with the lower one. Women also tend to live longer than men. By following this strategy, you not only maximize the husband's retirement benefit for use while he is alive, but it also maximizes the wife's survivor benefit when he passes away.

Restricted Application

Legislation was passed and signed into law by President Obama in late 2015 that eliminated several of the claiming strategies that had been previously employed by married couples. One option, the Restricted Application, is still available for those who turned 62 before January 1, 2016.

Under prior law, anyone who reached their FRA could file to receive their spousal benefit while allowing their own personal benefit to continue growing until age 70. Their application was restricted so that they only receive the spousal benefit and not their own. This was a way for people to collect some benefit in the present while maximizing future benefits. The new legislation abolishes restrictions on applications. No longer can a worker choose which benefit they want to receive. No matter when you file, whether it is before or after you achieve FRA, you will be awarded the larger of either your personal or spousal benefit.

If you turned 62 on or before January 1, 2016, you are grandfathered in and still able to file a restricted application. The right to restrict your application no longer exists for those who turn 62 after January 1; they are subject to the new law. If you have been grandfathered in, though, a restricted application is not automatic. You still must wait until you are 66 to file and your spouse needs to have filed as well for you to be able to receive the spousal benefit.

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Any income you earn before the year in which you reach FRA reduces your Social Security benefit once it surpasses a set yearly earnings limit.

How to Calculate the Effect of Additional Income on Your Benefits

Once you reach full retirement age, having earned income will have no effect on your Social Security benefits. However, if you begin receiving benefits before FRA, your earnings will affect your benefits. Only earned income, such as wages and self-employment earnings, affect your social security benefits; not income from investments, pensions, and annuities.

Income Earned Prior to the Year You Reach FRA

Any income you earn before the year in which you reach FRA reduces your Social Security benefit once it surpasses a set yearly earnings limit. For 2017, the limit is $16,920. Once you begin earning more than the limit, your Social Security benefit will be reduced by $1 for every $2 you earn. For example, if you earn $19,920 in 2016 you have earned $3,000 more than the limit and will, therefore, receive $1,500 less from Social Security.

Income Earned the Year You Reach FRA

The income restrictions change in the year in which you reach FRA. That year there is a higher limit; $44,880 for 2017. Once your income supersedes that limit, your Social Security benefit will be reduced by $1 for every $3 you earn. For example, if, between January 1 and your birthday, you earn $47,880, you have earned $3,000 more than the limit. That $3,000 excess will reduce your Social Security payments by $1,000. As soon as you have your birthday and reach FRA, though, there are no more limits. You can earn as much as you want and it has no effect on your Social Security retirement benefits.

Continuing to work into retirement may be beneficial even if your current benefits are reduced. If your income is within the top 35 years of your earnings, you will increase your AIME, which is the average used to calculate your benefit. By continuing to pay into Social Security as a worker, you can increase your retirement benefit even after you have begun collecting it.

Work With an Experienced Professional

Deciding when and how to claim your Social Security benefits is a complicated and important decision. Because Social Security benefits are an important part of retirement income, it is wise to partner with a knowledgeable and experienced professional who can help you optimize your total lifetime benefit. At Breiter Capital Management, we are here to help you. There may still be time to file and suspend if you are eligible, reach out to us today at 941-778-1900 or by email at tom@breitercapital.com, and we can discuss what is best for your unique situation.

About Tom Breiter

Tom Breiter is the founder of Breiter Capital Management, a fee-only Registered Investment Advisory firm serving affluent investors planning for retirement in Anna Maria Island, Bradenton, Tampa, and Sarasota, Florida. Tom and his team provide personalized financial planning and unbiased wealth management. Tom only takes on new clients he believes he can help and enjoys meeting new people to understand their goals and challenges. To get a second opinion on your financial plan or to meet to discuss how the Breiter Capital Management team may be able to help your family, call (941) 778-1900

Get Your Personal Social Security Analysis

Get your own customized free Social Security analysis from Breiter Capital Management. We'll review any questions you may have about this report as well as your individual circumstances.

As part of your free Social Security analysis, we'll review:

1 How can I maximize my Social Security Benefits?

2 When should I file?

3 How should I file?

4 To what benefits are my family members entitled?

5 How much can I expect to receive under different scenarios?

To schedule your Social Security Analysis with the Breiter Capital Management team, call **(941) 778-1900**.

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