

Social Security Considerations

WORTH KNOWING®

Social Security

The Social Security system encompasses multiple parts. The retirement component is designed to provide retirement income for qualified workers in the United States. There is also support for people with disabilities through the Social Security Disability Insurance (SSDI) program and the Supplemental Security Income (SSI) program. Our focus will be on the retirement component of Social Security.

Social Security is an important retirement resource for many people. For some, it could be the primary source of their retirement income. Therefore, understanding how the program works, including the filing options and benefit options, is vital. We will examine some of the main elements of the Social Security program along with additional items people may want to keep in mind as they plan for their retirement.

Overview

To qualify for retirement benefits, workers must accrue Social Security credits. A credit is equivalent to \$1,510 of earned income in 2022, but a maximum of four credits can be earned in a year. Workers currently need 40 credits, equal to 10 years of work, to be eligible for retirement benefits. The credits do not need to be accrued consecutively, which means taking a break from the workforce would not hinder someone from building up the required number of credits. Workers who amass more than 40 credits do not earn a larger benefit.

The retirement benefit from Social Security is based on workers' lifetime earnings, so the more they make, the larger their benefit will be. The 35 years of highest earnings are used in a formula to determine an individual's benefit, which is also known as the primary insurance amount. To learn more about how benefits are calculated, you can visit the Social Security website

(<https://www.ssa.gov/oact/cola/piaformula.html>) or read the publication about benefits (<https://www.ssa.gov/pubs/EN-05-10070.pdf>).

Social Security is collected by taxing workers' wages, but earnings are taxed only up to a maximum amount. In 2022, the amount is \$147,000. The tax is used to pay current Social Security recipients, with any additional money going into the Social Security trust fund to make future benefit payments. The system does not create an individual account with funds in it for each worker who contributes to Social Security, but anyone can create a login to check on their earnings report and estimated future benefit (www.ssa.gov/myaccount).

Filing for Benefits

Determining when to file for Social Security benefits is a key decision for any qualified worker preparing for retirement. Full retirement age (FRA) refers to the age at which workers are eligible to receive their full Social Security benefit. The FRA varies by the year of a worker's birth (<https://www.ssa.gov/benefits/retirement/planner/agereduction.html>). However, anyone who has earned 40 credits is eligible to take early retirement at age 62. Filing for Social Security benefits early results in a permanent reduction of benefits, though, which can be as high as a 30% reduction.

Workers can also file at any point after reaching age 62. If they wait until their FRA to file their benefits claim, they will receive their full benefit. Workers can also delay filing until after they have reached their FRA, which earns them a delayed retirement credit. This credit for increased benefits can only be accrued between FRA and age 70, so the maximum age at which anyone should begin filing for Social Security is age 70. The Social Security administration provides a

[MORE >>](#)

calculator to show how retiring early or late will affect workers' benefits (https://www.ssa.gov/oact/quickcalc/early_late.html#:~:text=In%20the%20case%20of%20early,of%20one%20percent%20per%20month).

Some workers file for their Social Security benefits and continue working. If they do this and have not reached their FRA, a portion of their benefits will be withheld based on the earnings test. There are two withholding thresholds. In 2022, \$1 will be withheld from benefits for every \$2 earned over \$19,560. If the worker reaches FRA in 2022, \$1 will be withheld from benefits for every \$3 earned over \$51,960 of earnings. For workers who plan on staying employed past age 62, it is advised that they wait until FRA, at the earliest, to take Social Security benefits in order to avoid benefits being withheld.

The Social Security website provides more information about the earnings test (<https://www.ssa.gov/OACT/COLA/rtea.html>) and a calculator that can be informative for workers considering filing for benefits while they are working (<https://www.ssa.gov/OACT/COLA/REffect.html>).

Benefit Types

Social Security includes multiple benefit types based on different qualifications. The main one is the personal benefit based on workers' earnings histories. As mentioned above, workers can decide at what age to file for benefits, thereby reducing or increasing the amount they receive.

Spousal benefits are also available. This option is for people who did not earn enough credits to qualify for Social Security benefits based on their work history or whose personal benefit is small. Spouses need to be at least age 62 to file for benefits, and the qualified worker they are married to must already be receiving benefits. Spouses do not receive additional benefits accrued with delayed retirement credits. The spousal benefit also has a maximum benefit of one-half of the full retirement benefit of the higher-earning spouse.

Ex-spouses can qualify for Social Security benefits, as well, if the marriage lasted at least 10 years and

the ex-spouse is unmarried, is at least 62 years old, and is eligible for a lower personal benefit than the ex-spouse benefit. If an ex-spouse makes a claim for Social Security benefits, the benefits of anyone else who is claiming based on the same earnings history are not affected. For example, spouse A and spouse B divorce after 12 years of marriage. Spouse A remarries spouse C, and spouse B remains unmarried. Assuming spouse A earns enough credits to qualify for Social Security and files for benefits, spouse C can file for benefits under the spousal benefit rules, and spouse B can file for benefits under the ex-spouse rules.

There are also survivor benefits for family members of deceased workers; widows and widowers can begin receiving these benefits at age 60. Survivors can be eligible regardless of whether the deceased worker had accrued the 40 credits that would typically be required, and the younger the worker was at the time of death, the fewer credits are needed for the survivors to be able to receive benefits. Additional information about survivor benefits is available on the Social Security website (<https://www.ssa.gov/benefits/survivors/ifyou.html>).

Children also can qualify for Social Security benefits if their parents are eligible to receive benefits. The child must be under 18 and unmarried to be eligible. In some circumstances, older children can receive a benefit if they are disabled. Benefits paid for a child do not decrease the benefits for the parents.

The Social Security website provides additional information about retirement benefits and the nuances around qualifying for each type (<https://www.ssa.gov/benefits/retirement/planner/applying7.html>).

Summary

This paper is intended to provide general information about the Social Security program's retirement benefits. None of the information contained herein is intended to be advice for filing for Social Security benefits. We encourage you to visit the Social Security website (<https://www.ssa.gov/>) for further information or to file a claim for benefits.