FirstPoint Financial

Top Ten Social Security Questions

It's important to understand all potential streams of income during retirement as you plan for the future. As your wealth planning partner, we answer common Social Security questions in an effort to provide clarity around this often misunderstood benefit.

1. When am I eligible to receive benefits?

Based on when you were born, retirement benefits may begin as early as age 62 (partial benefits) and as late as age 70.

- If you were born prior to 1938, your full eligibility date is age 65.
- If you were born after 1960, your full eligibility date is age 67.
- People born in between 1938 and 1942 are eligible on a graduating scale that increases by two months per year.
- People born between 1943 and 1954 are eligible for full benefits at age 66.

Those born between 1955 and 1960 are eligible based on a graduating scale that increases by two months per year, culminating in an eligibility age of 67 for those born in 1960 or later.

2. How is eligibility determined?

Social Security eligibility is based on credits earned during your working years. Most people need to earn 40 credits in order to qualify. As of 2013, one credit is given for every $1,160 in earned income up to a maximum of four credits per year.

3. Can I receive Social Security if I am still employed?

Upon reaching full retirement age, you may continue to work without negatively impacting your Social Security benefits payments. If you opt to receive Social Security prior to your full retirement age, you are permitted to earn up to $15,120 for 2013. For every $2 in earnings over the limit, $1 is withheld from the benefits. If you reach full retirement age in 2013, you may earn up to $40,080. For every $3 in earnings over the limit, $1 is withheld from the benefits until the month you reach your full retirement age

4. What is the maximum monthly benefit I can receive?

In 2013, for a worker retiring at full retirement age of 66, the highest monthly benefit amount is $2,533. In December 2012, the average monthly Social Security benefit for a retired worker was about $1,230 (source: AARP).

5. How are my Social Security benefits taxed?

Individuals must sometimes pay federal income taxes on Social Security benefits. This typically happens if you have other forms of income in addition to your benefits. Other forms of income may include wages, self-employment, interest, dividends and other taxable income that one would have to report on their personal income tax return.

According to the Social Security Administration website (www.ssa.gov), no individual pays more than 85% of his or her Social Security benefits based on IRS rules. If you:

File a federal tax return as an individual and your combined income is:

- between $25,000 and $34,000, you may have to pay income tax on up to 50% of your benefits
- more than $34,000, up to 85% of your benefits may be taxable

File a joint return and you and your spouse have a combined income that is:

- between $32,000 and $44,000, you may have to pay income tax on up to 50% of your benefits
- more than $44,000, up to 85% of your benefits may be taxable

Are married and file a separate tax return, you probably will pay taxes on your benefits.

6. How do I get a copy of my Social Security statement?

As of 2008, the Social Security Administration stopped sending people their periodic statements through the mail. Starting in 2012, paper statements resumed being mailed, but only for people age 60 and older who were not already receiving benefits. For all other individuals, statements now have to be accessed online at the www.ssa.gov. The process for accessing these statements is fairly simple and requires establishing an account by providing some personal identification information. One step of the process that may catch people by surprise is a series of credit questions that are generated by a "soft inquiry" by Experian. The soft inquiry does not show up on a credit report or affect the credit report in any way. An example of a possible question could be "you may have opened a credit card account with US Bank." You will then be given series of years to select from if this information is correct, or the option to indicate the statement is incorrect.

7. What happens to our benefits if my spouse dies?

If the surviving spouse has reached his or her full retirement age, the spouse is entitled to 100% of the deceased worker's basic benefit amount. Prorated amounts are paid to surviving spouses who have not yet reached retirement age. If the surviving spouse was receiving Social Security benefits and the deceased's benefits were greater, the survivor will receive the higher benefit amount.

8. How can I maximize the amount of my benefit?

What's important to remember about maximizing Social Security benefits is that it pays to wait. Starting at age 62, an individual's benefits amount increases 4% to 8% for each year he or she delays taking benefits up to age 70. For a married couple, in general, it makes sense for the higher earning spouse to delay benefits until age 70. And if the other spouse's spousal benefit would be higher than his or her own, a "file and suspend" strategy may make the most sense. With this strategy, a higher earning spouse files for benefits at age 66 but delays taking payments to allow the benefit to continue earning credits until age 70. If the other spouse files at full retirement age, 66, he or she can receive full spousal benefits. When the higher earning spouse begins taking payments, the benefit earning potential will be effectively maximized.

9. How do my spouse and I coordinate when to take our benefits?

Coordinating spousal benefits can be a complicated matter, as so many factors need to be considered before filing. Everything from each spouse's age, health status, work history, current financial situation and retirement goals should be considered when deciding when to file for benefits. What is important to remember is that there are many options. For example, a spouse may start taking his or her own benefits at 62, switch over to the spousal benefit at 66 and end up taking survival benefits at age 70. At each stage, it's critical to understand the ramifications for taking benefits and what they may mean for your options later in life.

10. Is the Social Security Trust Fund close to running out?

According to the 2013 Social Security Board of Trustees annual report, the Old-Age and Survivors Insurance, and Disability Insurance (OASDI) Trust Funds will be insolvent in 2033, which is a similar projection as the 2012 report. While much is made about the solvency of Social Security, individuals in retirement or nearing retirement should not have any fears about Social Security benefits being disrupted. For Social Security to continue to provide benefits as it does today, subtle adjustments will need to be made over time if federal deficits and medical costs continue to rise at their current pace. These changes might include raising the age at which people qualify for benefits, increasing payroll taxes, or possibly reducing the annual cost of living adjustments for benefits.

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