

CHAPTER 6

SOCIAL SECURITY

INTRODUCTION

It is important for workers and their families to understand how Social Security benefits fit into the overall plan for financing retirement years. Workers earn insured status for Social Security benefits by paying Federal Insurance Contributions Act (FICA) taxes on their earnings. The Social Security Administration (SSA) generally provides insured workers and their spouses certain basic retirement benefits, payable monthly for life. A worker's retirement benefit at full retirement age (FRA) is based on their average indexed wages over a work history of up to 35 years. Spousal benefits are calculated based on the worker's Social Security benefits. The following is an overview of the basic Social Security retirement benefit program.

A. TIMING RETIREMENT

1. Chart: When Workers Reach Full Retirement Age for Social Security.

YEAR OF BIRTH	FULL RETIREMENT AGE
1943–1954	66
1955	66 + 2 months
1956	66 + 4 months
1957	66 + 6 months
1958	66 + 8 months
1959	66 + 10 months
1960 and later	67

*If you were born on Jan. 1 of any year, you should refer to the previous year. If you were born on the first of the month, your full retirement age will be determined as of the immediate previous month. See "Plan for Retirement" here: <https://www.ssa.gov/prepare/plan-retirement>.

- a. Individuals do not have to wait until their FRA before they can begin taking retirement benefits. Instead, an individual may elect to begin taking Social Security retirement benefits as early as age 62, but that results in the monthly amount being permanently reduced to reflect the longer period over an individual's lifetime during which payments will be made.
 - b. Alternatively, an individual can delay receiving retirement benefits after reaching FRA, up to age 70. By delaying the start of payments, each monthly amount will be increased above the monthly amount otherwise payable at FRA to account for the shorter period of an individual's lifetime during which monthly payments will be made.
 - c. Delaying Social Security payments past age 70 will not further increase the monthly Social Security payment.
 - d. Social Security benefits are eligible for cost-of-living adjustments (COLA). The COLA for 2025 is a 2.5% increase from the previous year.
2. **Early Retirement:** An individual may begin collecting Social Security benefits before FRA, and as early as age 62, but the monthly payments are permanently reduced to account for the longer period of one's life that benefits will be paid. If an individual's health status is precarious, choosing early retirement benefits may be prudent if one is not expected to live to one's life expectancy. In addition, if an early retirement beneficiary continues working past age 62, the amount of Social Security early retirement benefit payments may be reduced further to account for that work (see D, How Working Affects Retirement Benefits).

3. **Full Retirement Age:** Once an individual reaches FRA (see chart on prior page), they may elect to begin receiving the primary insurance amount based on their highest average indexed earnings during a work history of up to 35 years. Working past FRA at lower wages will not result in a reduction of Social Security payments (see D, How Working Affects Benefits).
4. **Delayed Retirement:** Delaying benefit payments between FRA and age 70 increases monthly payment amounts to reflect the shorter period over which they will be paid. Benefit payments delayed to age 70 will not be reduced if the individual continues working past age 70 at lower pay.

Helpful Tip: Individuals are advised to contact the SSA for a personal calculation and not to rely on the general calculators. Merely requesting the information does not trigger the benefit.

B. FACTORS AFFECTING THE CALCULATIONS

1. Average earnings over a work history of up to 35 years based on Social Security records for FICA and Self-Employment Contributions Act (SECA) taxes paid by the individual are used to calculate the amount of the retirement benefit. That amount is called the primary insurance amount (PIA), and it is used as the basis for any retirement, dependents' or survivors' benefits paid on that person's record.
2. The calculation also pays a higher percentage benefit amount for replacement of pre-retirement earnings to individuals with lower lifetime earnings. Working past retirement age, whether or not an individual's Social Security payments have begun, can increase the 35-year average if those wages are significantly higher. Stopping working early may limit the 35-year average to a lower amount if one would have earned substantially higher wages after reaching the earliest retirement age at 62.
3. One-hundred percent of benefits earned are paid if retiring at FRA in 2025, which is age 66 and 10 months. This is the age at which benefits will not be reduced due to "early retirement." After the worker's primary insurance amount at FRA is determined, it is adjusted to reflect when an individual's payments actually begin. For example, if an individual born in 1963 elects to begin retirement benefits in 2025 at age 62, the monthly amount will be permanently reduced by 30% compared to what would have been paid if the individual had started receiving benefits at their FRA. If the individual waits until age 70 before starting benefits, the benefits will be increased by 8% for each full year of delay. For example, if an individual reaches FRA at 66 and 10 months in 2025, but waits until age 70 or later to begin payments, then the monthly amount will be about 25.33% higher than what the individual would have received had they applied at FRA.
4. An individual who begins receiving monthly Social Security payments at age 62 receives a higher lifetime benefit total than an individual who begins payments at age 66 only until a crossover point at about age 78. The person who delays payments to age 70 will reach the crossover point at approximately age 84. After the crossover point, the decision to delay will result in higher lifetime benefits than the person who begins Social Security payments at an earlier date. However, the crossover point also depends on an individual's particular situation, including working status, taxes and rate of inflation.
5. Many advisors suggest that the best guide is to wait until benefits are necessary to sustain the individual's, and their dependents' and survivors', lifetime needs rather than base the decision solely on expected total lifetime benefits by starting benefits at a particular age.

The calculation for early or late retirement benefits can be confusing, but the SSA has a nifty calculator on its website, https://www.ssa.gov/oact/ProgData/ar_drc.html.

C. TAXES AND OTHER FACTORS TO CONSIDER

1. A portion of Social Security benefits is taxable if a recipient's income is over certain thresholds. If an individual's combined income (adjusted gross income, nontaxable interest and half of their Social Security benefits) falls between \$25,000 and \$34,000 (or \$32,000 and \$44,000 if filing jointly), then half of the

Social Security benefits are subject to income tax. If an individual's combined income is above \$34,000 (or \$44,000 if filing jointly), then 85% of their Social Security benefits are subject to income tax.

2. Some financial planners recommend that individuals begin Social Security payments at age 62 if they believe that they can invest those payments and receive a higher rate of return than what would otherwise accrue by delaying payments. This strategy assumes that the individual does not need the Social Security payments, and that future investment returns, net of investment fees and income taxes, are greater than the increased monthly payments of delaying Social Security payments.
3. For each full year that Social Security is delayed after FRA up to age 70, there is an 8% increase in the amount of benefits paid. In 2025, FRA is age 66 and 10 months.
4. If an individual has limited savings and other retirement benefits, then beginning Social Security payments early may be financially necessary.
5. If an individual is in poor or precarious health, then beginning payments early will result in that individual's greater overall receipt of benefits if they do not live to an average life expectancy or until the crossover point.

D. HOW WORKING AFFECTS RETIREMENT BENEFITS

1. Social Security monthly retirement payments begun before FRA can be reduced if an individual is continuing to work. For every \$2 earned above the annual earnings limit, the individual's early Social Security payments will be reduced by \$1.
2. For 2025, the annual earnings limit is \$23,400 (\$1,950 per month). In the year in which an individual attains FRA, Social Security will deduct \$1 for every \$3 earned above a separate annual earnings limit until the month before the month in which FRA is reached. For 2025, that annual earnings limit is \$62,160 (\$5,180 per month).
3. For those who elect retirement benefits at or after FRA, working past FRA will not result in a reduction of the monthly retirement benefit amount otherwise payable. An individual working past FRA may be able to increase their Social Security benefit if the wages paid increase the individual's prior career average upon which benefits were otherwise calculated. See B, Factors Affecting the Calculations.

E. HOW WORKING AFFECTS DISABILITY BENEFITS

1. The Social Security Disability Insurance (SSDI) benefit, which arises due to a medical condition, is the same as the benefit at FRA. Once the disabled worker reaches FRA, the benefit switches to a retirement benefit instead of a disability benefit.
 - a. Disabled workers (and certain family members eligible for dependent benefits based on their disability SSDI on the wage record of a worker) who have been approved for SSDI benefits are eligible for Medicare benefits after 24 months of payments, even if they have not reached age 65. No separate application is required. The only exceptions to the 24-month waiting period for Medicare are those diagnosed with ALS or End-Stage Renal Disease.
 - b. Please refer to Chapter 7 for an excellent review of the Medicare program.

Social Security provides certain work incentives that allow Social Security disability beneficiaries to try work without immediate loss of their benefits due to work. These work incentives apply to SSDI widow/widower or benefits based on disability, and disabled adult child benefits.

- i. **Trial Work Period.** Every Social Security disability beneficiary is entitled to one set of nine months in which to test the ability to work with no effect on their benefits. A trial work month is used when the beneficiary works at a level defined as "services." In 2025, "services" is defined as \$1,160 or more a month in gross wages or 80 hours or more a month in self-employment. Use of the nine months does not have to be consecutive. Until the ninth trial work month has been used, the beneficiary is entitled to their disability benefit, no matter how much money

- they make, as long as they continue to meet Social Security's disability criteria.
- ii. **Extended Period of Eligibility (EPE).** The EPE is an additional period in which to test the ability to work without immediate termination of entitlement. The EPE starts the month after the ninth trial work month has been used. The EPE lasts at least 36-consecutive months. Eligibility for benefit payment during the EPE depends on whether the beneficiary works at the substantial gainful activity (SGA) level. The disability benefit payment is suspended for months when the beneficiary works at the SGA level and is overpaid if they receive payment in what should have been a suspended month. However, the beneficiary can return to benefit payment eligibility by verifying that they are no longer working at the SGA level. However, work at the SGA level after the 36th month of the EPE results in termination of entitlement to the disability benefit.
 - iii. **Substantial Gainful Activity (SGA).** SSA generally defines SGA by a dollar amount of monthly wages that is pegged to the annual COLA. In 2025, SSA presumes SGA when a person eligible for benefits based on disability has gross monthly wages at \$1,620 or more. For those eligible on the basis of statutory blindness, the presumed SGA level is \$2,700 gross or more in monthly wages. Certain deductions may apply to rebut the presumption of SGA: impairment-related work expenses; subsidy or special conditions; unsuccessful work attempt; or unincurred business expenses (for self-employment).
 - iv. **Expedited Reinstatement (EXR).** EXR can be a faster way back on disability benefits for those who lose entitlement to benefits solely due to performance of SGA after the 36th month of the EPE. Eligibility requires application within 60 months of entitlement termination and continuing to meet the disability criteria for the same or closely related conditions. SSA provides for up to six months of provisional benefits while it processes the EXR application.
 - v. **Continued Medicare.** Those who lose entitlement to disability benefits solely due to performance of SGA after the 36th month of the EPE are entitled to a potentially lengthy period of Continued Medicare.
 - vi. Check out Ticket to Work programs on the SSA website, www.ssa.gov/work, to learn more about the work incentives and supports the SSA provides for disability benefit recipients. See also SSA's Red Book on Work Incentives at <https://www.ssa.gov/pubs/EN-64-030.pdf>.

F. FAMILY BENEFITS: DEPENDENT AND SURVIVOR BENEFITS

Family benefits provide monthly payments to certain close family members of people who are eligible for Social Security retirement or disability benefits or who have died with insured status. See <https://www.ssa.gov/family/eligibility>.

1. **Spouse.** Social Security benefits provide some protection to a worker's family. For example, a spouse may be entitled to receive dependent's benefits on the wage record of their spouse who is entitled to Social Security retirement or disability benefits. Spousal benefit eligibility is based on being age 62 and older, caring for a child of the wage earner age 15 or younger, or caring for a child of any age who has a disability.
 - a. If the spouse begins receiving the spousal benefit at FRA, the maximum amount of that benefit is half the amount that the wage earner working spouse receives at FRA. If the spousal benefit begins when the wage earner spouse is between age 62 and FRA, however, it will be reduced to reflect the longer period of payment. If the spouse is working when receiving the spousal benefit, the spouse's dependent benefits may be reduced due to the annual earnings test. (See D, How Working Affects Benefits.)
 - b. The spousal benefit is not increased for delayed payment of Social Security benefits that the wage earner working spouse receives after FRA. If a spousal benefit applicant has worked and earned

insured status by paying FICA, they would generally receive an amount equal to the higher of their own Social Security benefit or the spousal benefit.

- c. A spousal benefit does not reduce the working spouse's Social Security payment. If the wage earner spouse's birthday is Jan. 2, 1954, or later, it is no longer possible to take only one spouse's benefit at FRA and delay the other. Rather, if the wage earner spouse files for a benefit, the application is automatically treated as filing for the spousal benefit at the same time.

2. **Divorced Spouse.**

- a. A divorced spouse of a marriage that lasted at least 10 years can collect a spousal benefit based on the other spouse's Social Security work history if that benefit is higher than what the divorced spouse could collect based on their own work history.
- b. To collect the spousal benefit, the divorced person must be at least age 62 or caring for a child of the wage earner age 15 or younger, and unmarried, and the wage earner working ex-spouse must be entitled to Social Security benefits. If the wage earner working spouse qualifies for, but has not applied for, Social Security benefits, the spouses must have been divorced at least two years before the other spouse qualifies for the divorced spouse benefit.
- c. The maximum spousal benefit for a divorced person is equal to half of the former spouse's Social Security retirement benefit at FRA and can be subject to reduction if the divorced spouse is working, due to the annual earnings test. (See D, How Working Affects Benefits.)

3. **Children.** The children or dependent grandchildren of a worker who qualifies for Social Security retirement benefits may also qualify for Social Security benefits based on the wage earner parent's record. To receive benefits, the child must be unmarried, unless married to a person receiving Social Security disability benefits, and:

- a. under age 18; or
- b. 18–19 years old and a full-time student (no higher than grade 12); or
- c. 18 or older and disabled since before age 22.
- d. Normally, benefits stop when a child reaches age 18 unless the child is disabled. However, if a child is still a full-time student at a secondary (or elementary) school at age 18, benefits will continue until the child graduates or until two months after the child becomes age 19, whichever happens first.

4. **Adult Disabled Child.**

- a. An adult disabled child may be eligible for Social Security dependent or survivor benefits based on the work history of a parent who has died with insured status, or who receives Social Security disability or retirement benefits.

For the effect of the disabled child's earnings on these benefits (see "E. How Working Affects Disability Benefits").

Note that work at the SGA level after age 22, and prior to qualifying for these benefits, prevents disabled children from qualifying for these benefits, unless the presumption of SGA can be rebutted.

5. **Widow or Widower.**

- a. The widow or widower of a worker may receive a survivor benefit based on the worker's Social Security earnings history. The survivor benefit can begin as early as age 60, at a reduced rate, or when the widow or widower reaches FRA or older, at a higher monthly amount.
- b. The reduction for taking benefits early is 19/40 of 1% for each month under FRA. For example, if a widow or widower begins receiving a survivor benefit at age 60, that benefit will equal 71.5% of the deceased spouse's primary insurance amount at FRA.
- c. If a widow or widower qualifies for higher retirement benefits on their own record, they can switch

to that benefit as early as age 62.

- d. If a widow or widower is disabled before the death of the worker, or within seven years thereafter, they can begin receiving survivor benefits as early as age 50. Remarriage of the surviving spouse does not reduce or eliminate the survivor benefit.

6. Dependent Parent.

- a. If a worker who was supporting a parent dies, the dependent parent, who is at least age 62, may be eligible to receive Social Security survivor benefits.
- b. To be eligible, the dependent parent must be unmarried, and must have been receiving at least half of their support from the working child. The dependent parent must not have a work history of their own that would yield a higher benefit.

7. Family Cap.

- a. Total family benefits payable under a worker's record are capped. The total cap varies but is equal to about 150% to 180% of what the worker would otherwise receive at FRA.

G. CONTACTING SOCIAL SECURITY AND REPRESENTATION BY A THIRD PARTY

1. It is uncertain whether in-person appointments, as in the past, will still be available. It is important to contact local offices, since in the past, an appointment could be made to speak with a representative at a local Social Security office, but many persons now apply for benefits through the Social Security website, www.SSA.gov. Known as "my Social Security," this online tool allows the participant to check their earnings record, apply for benefits, and estimate future earnings and benefits to help make decisions about when to retire. The individual is also able to add or change direct deposit instructions, obtain benefit verification letters, and notify Social Security of any changes.
2. Other than the eligible individual or the parent of a minor child making the contact, the SSA will not provide information to or take instructions from a third party. The SSA will not recognize the authority of a person under a power of attorney or a court-appointed guardian or conservator without the person being appointed as the individual's representative payee or being appointed a representative by completion of the proper SSA Form 1696, Claimant's Appointment of a Representative, signed by the individual. The SSA's appointment of an individual as a beneficiary's representative allows the representative to take any actions on behalf of the individual that the individual could take themselves.
3. A representative payee can be appointed by filing Form SSA-11, Request to Be Selected as a Payee, which allows a third party, typically a relative or care organization, to receive and manage an individual's Social Security payment, but which also allows the payee to take actions on behalf of the individual with the SSA.

H. COORDINATING SOCIAL SECURITY WITH PRIVATE RETIREMENT BENEFITS

1. In budgeting for retirement years and deciding when to begin taking Social Security payments, it is important to consider other retirement benefits besides Social Security. Many employees earn tax-qualified retirement benefits through their work — for example, under 401(k), profit sharing or defined benefit pension plans. An individual may also own an individual retirement account (IRA), with a balance sheltered from tax until distributed. The payment of retirement benefits from these sources should be considered in overall retirement planning.
2. Employees typically receive their retirement benefits from private plans when they leave employment or retire. By law, employers must generally begin paying an employee's qualified retirement benefits in the calendar year in which the employee reaches a certain age. Owners of IRAs who reach age 73 after Jan. 1, 2023, must begin taking a required minimum distribution (RMD) at age 73 whether or not they are still working (for individuals who reached age 72 before Jan. 1, 2023, such age was formerly 72, and prior to Jan. 1, 2020, such age was 70 ½). For employees reaching age 73 in 2025, the first RMD must be

taken by April 1, 2026. For all subsequent years, the RMD must be taken by Dec. 31 of that year. The minimum distribution age will increase to age 75 in 2033. Failure to take RMDs in a timely manner can subject an individual to a 25% penalty for the amount not withdrawn.

3. RMDs from private retirement plans are generally spread over the life expectancy of the individual (or the individual and a beneficiary) and are taxed to the individual recipient at ordinary rates. Failing to take RMDs in a timely manner can subject an individual to excise tax.
4. Individuals who got married or divorced before receiving retirement payments from an employer should be particularly careful to verify that all beneficiary designations for retirement benefits are properly updated. Employees who have been divorced should also take into account any applicable qualified domestic relations order (QDRO) requiring the private plan to pay some portion of a worker's retirement benefits to an ex-spouse. Anyone who was married to an individual who died before receiving retirement benefits from their employer should contact that employer for information regarding any death benefit that may be due to the surviving spouse.
5. Financial and/or tax advisors can often help an individual evaluate their retirement options, considering available Social Security benefits, private retirement benefits and an individual's needs to be able to "afford to retire."

I. SOCIAL SECURITY BENEFITS AND GOVERNMENT PENSIONS

The Social Security Fairness Act of 2023, H.R. 82, has eliminated Social Security benefit reductions due to receipt of pensions from work on which no FICA was paid. The effective date is as to Social Security benefits payable for months after December 2023.

1. Prior to Jan. 1, 2024, Social Security retirement, spousal, and widow's or widower's benefits could be reduced if a worker earned a pension from "noncovered" work that was not subject to Social Security withholding taxes (FICA).
 - a. The Windfall Elimination Provision (WEP) reduced the Social Security retirement benefits that a worker might otherwise receive because of noncovered work.
 - b. The Government Pension Offset (GPO) reduced the Social Security benefits of a spouse, widow or widower who worked for a federal, state or local government and earned a pension due to noncovered work.
 - c. For the WEP reduction calculations, please see the WEP Online Calculator or Detailed Calculator: <https://www.ssa.gov/benefits/retirement/planner/anyPiaWepjs04.html>.
 - d. A worker with 30 or more years of work where earnings were "substantial" (See Social Security Substantial Earnings Table at www.ssa.gov/planners/retire/wep-chart.html) and covered by FICA taxes was not subject to WEP reductions.

The WEP reduced Social Security retirement benefits of workers with fewer than 30 years of earnings at jobs subject to FICA. The reduction could not exceed 50% of the amount of the pension received from public sector employment. If the worker paid FICA at jobs for more than 20, but fewer than 30, years of work, the reduction was gradually eliminated.

- e. Social Security spousal and widow's or widower's benefits were reduced under the GPO by two-thirds of the amount of the individual's government pension. For example, if a government employee was entitled to a government pension of \$600 a month and a Social Security spouse's, widow's or widower's benefit of \$500 a month, the Social Security payment (\$500) was reduced by two-thirds of the governmental pension (\$400), and the spouse, widow or widower was entitled to \$100 of Social Security plus \$600 of the government pension.
- f. If two-thirds of the government pension was more than the individual's Social Security monthly amount, the Social Security benefit was reduced to zero.

- g. There were some very narrow exceptions to the offset. For example, if an individual's government pension was not based on earnings, the offset did not apply.
2. For Title II benefit payments for January 2024 and continuing, the WEP and GPO reductions no longer apply. As of this writing, Social Security had not issued implementing instructions.
- a. When SSA implements the WEP and GPO elimination provisions, those receiving Social Security benefits reduced by the WEP or GPO should receive increased ongoing benefits and retroactive benefits for any reduction back to January 2024.
 - b. Social Security advises those receiving benefits reduced by the WEP or GPO to make certain Social Security has their correct address to ensure they receive outreach information.
 - c. Those not in receipt of Social Security benefits due to the WEP or GPO should apply.
 - d. <https://www.ssa.gov/benefits/retirement/social-security-fairness-act.html>.



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