Social Security fundamentals

Guidelines for making well-informed decisions

Wealth Management

Table of contents

Glossary of Social Security terms

Delayed retirement credit — An increase in Social Security benefits by a certain percentage based on your full retirement age and the point at which you actually choose to begin receiving benefits beyond full retirement age.

Deemed filing — Under current rules, when you file for either your Social Security benefits or your spouse's benefits, you are "deemed" to have filed for the other benefit as well.

Divorce benefits — You can claim spousal benefits based on the earnings record of a divorced spouse. This is allowed if your previous marriage lasted at least 10 years, you are still unmarried, both of you are age 62 or older and other conditions are met.

File and suspend — A rule that no longer applies that allowed one spouse to file for benefits, then suspend his or her own benefits, but enabled the other spouse to collect spousal benefits. Under the new law, a person can only collect a spousal benefit if the other spouse is also collecting benefits, unless you are eligible to file a Restricted Application (see below).

Full retirement age (FRA) — The age at which a person is first entitled to full or unreduced Social Security benefits. This is age 66 for those born between 1943 and 1954. For those born after 1954, it is gradually moving higher, up to age 67 for those born in 1960 or later.

Government pension offset — Those who receive a pension from a federal, state or local government based on work where no Social Security taxes were deducted could see spouses' or widows'/widowers' benefit reduced. This rule was repealed in 2025 (backdated to 1/1/2024) and will no longer apply going forward.

Maximum Social Security benefit — The largest benefit amount payable to an individual who earned the maximum taxable income for at least 35 working years.

Maximum taxable earnings — When you earn income that is covered by Social Security, you pay Social Security taxes (equal to 6.2% of income) up to a maximum income level. Any earnings beyond that point are not subject to Social Security tax.

Primary insurance amount (PIA) — The benefit you receive if you choose to start claiming Social Security at your full retirement age.

Quarters of coverage — A legal term used to describe three-month periods during your working years where you earned sufficient income to qualify for Social Security benefits. You need 40 quarters of coverage over your working life to qualify for Social Security.

Restricted application — A newly-expired rule that allows a person reaching full retirement age to retain the right to file and restrict their application to just a spousal benefit when they reach full retirement age, allowing their own benefit to grow up to age 70. This is now only available in survivor benefit situations.

Retirement earnings test — If you have yet to reach full retirement age but receive Social Security benefits, you may have benefits withheld if your income reaches a certain level.

Social Security statement — A printed statement mailed to those age 60 and older annually that provides an estimate of future Social Security benefits if you do not yet receive them. If you establish a "my Social Security" account online, statements are not mailed, but you can access the information online at any time.

Social Security Trust Fund — An account that holds accumulated assets from Social Security tax collections for future use. Trust fund assets are now being used to help pay current Social Security beneficiaries and are projected to be depleted by 2035.

Spousal benefits — Social Security benefits that a spouse can collect based on the other spouse's earnings. At full retirement age, the spousal benefit is 50% of their spouses FRA benefit.

Survivor benefits — Social Security benefits that can be collected by family members (spouse and child under age 18) of a person who dies. A surviving spouse will generally receive 100% of the deceased's benefit at FRA or older (reduced if taken earlier) OR benefits on their own record, but will not receive both.

Windfall Elimination Provision — A formula that reduces your Social Security benefit if you also qualify for a public pension for a job where you did not pay into the Social Security system. This rule was repealed in 2025 (backdated to 1/1/2024) and will no longer apply going forward.

As you think about the role Social Security plays in your retirement plan, your primary questions are likely to be:

1. How large will my Social Security benefit be?
2. At what age should I begin to collect benefits?

The simple answer to these questions is, "it depends." The benefit each person receives is relative to both his or her earnings history and the choice he or she makes about the age at which to begin receiving benefits. Throw in the fact that each person approaches Social Security with a different set of financial circumstances, tax issues and other considerations, and there's a lot to think about.

This makes your decisions about Social Security a complex and personal one. The benefit is that you have a lot of flexibility to determine a Social Security strategy that is best for you. If you understand some key concepts, you can make well-informed decisions to help you optimize both the amount and the timing of your benefit.

A good source of information about the Social Security benefit you personally may receive is the Social Security statement mailed to you or available online from the Social Security Administration each year for workers age 60 and older. This statement includes your earnings history, which you should check annually to make sure all of the information is correct. Note that if you've established a "my Social Security" account online, you won't receive a statement in the mail. You will have the ability to check on the status of your benefits at any time. We also recommend verifying your earnings history annually, as your retirement benefit will be based on this record.

There are approximately 2,800 rules governing the Social Security program. To make it easier, we have isolated 10 key concepts we feel are most important to understand. This white paper provides an overview of these key concepts to help you make well-informed decisions about Social Security. If you have any questions about this material or want more insights about how Social Security can fit your own retirement income strategy, talk to your financial advisor.

Key concept #1

Social Security is not going away

You may hear a lot of speculation about the future of Social Security. A common statement is that Social Security is about to go “bankrupt.” In fact, the Social Security program is primarily funded by ongoing contributions from current workers. The taxes they pay are used to provide benefits for current retirees.

What is running out of money is the Social Security Trust Fund. This is a pool of money that has been growing since the inception of the program in the 1930s. Through most of its history, there were more than enough tax receipts collected by Social Security to pay current benefits while a significant surplus was directed to the trust fund. Today, the ratio of workers to retirees has declined. Along with current taxes paying for current benefits, the trust fund is also being tapped to pay current benefits.

The impact on future payment of benefits

According to government estimates, unless changes are made, the Social Security Trust Fund will be exhausted by 2035. At that time, it is estimated that current workers will generate sufficient payroll tax income to pay for 83% of scheduled benefits *(as of May 2024 report)*.

Some solutions that have been proposed to help keep Social Security solvent:

- Raise the current payroll tax
- Raise the ceiling on wages currently subject to the payroll tax
- Raise the “full retirement age” (FRA) beyond age 67
- Reduce future benefits, especially for wealthy retirees
- Change the formula for calculating annual inflation adjustments to reduce the cost of annual benefit increases
- Allow individuals to invest some of their current Social Security taxes in “personal retirement accounts”
- Allow the Social Security program itself to invest in assets other than government bonds

Key takeaway — Depending on your age and when you plan to retire, you can expect to receive benefits. Whether it will match the current estimates listed on your Social Security statement is in question. Based on projections and assuming policymakers make no further changes, the worst-case scenario is currently predicted to be a cut in benefits of approximately 17% by 2035.

Key concept #2

Understand how benefits are calculated

Determining your benefit

Current Social Security law uses a specific formula to calculate benefits. It indexes your average earnings from the highest 35 years of your working life, so the value of each year's earnings is adjusted for inflation and changes in average wages to be expressed in current dollars. Then it uses your average indexed monthly earnings to determine your basic benefit, or "primary insurance "amount," based on the age at which you decide to begin benefits.

A number of factors go into determining your benefit. For a quick and easy estimate, look at your annual Social Security statement, either the hard copy or online at www.SSA.gov.

Funding your benefits

Reduced to its basics, Social Security is a trust administered by the federal government through which current workers and their employers fund benefits paid to current retirees. As explained earlier, the payroll taxes you contribute to Social Security today help fund the system's current requirements. That money is not set aside in an account waiting for you. The benefits you can expect to receive upon retirement are primarily funded by workers and employers paying into the trust after you stop working.

Key takeaway — Social Security is a "pay as you go" system.

Maximum taxable earnings and maximum Social Security benefits

Social Security law authorizes the federal government to tax workers 6.20% on earnings up to a maximum income of $176,100 for 2025. Earnings above $176,100 are not subject to Social Security tax. The maximum monthly Social Security benefit at full retirement age is $4,018 per month or $48,216 annually for 2025.

Key takeaway — There is an upper limit on both what you are expected to contribute and what you can expect to receive in benefits.

Qualifying for benefits

You must be insured under the Social Security program to receive benefits. Your insurance status is determined by the number of quarters of coverage (also called "credits") you have earned to meet the minimum work requirements defined by Social Security law. You may earn up to four credits per year, and you need to earn 40 credits (10 years) to qualify for retirement benefits.

Key takeaway — You need the equivalent of ten full years of a minimum level of employment as defined by Social Security law to qualify to receive benefits.

Key concept #3

Full retirement age (FRA) is not the same for everyone

Early retirement

You become eligible for Social Security benefits beginning at age 62. However, if you elect to begin claiming benefits then, your monthly benefit will be lower than if you had waited until your full retirement age (FRA), because the lifetime benefit is assumed to be spread over a longer period of your life. See the chart below to determine how much your monthly benefit is reduced if you elect to take early retirement.

Key takeaway — You can begin receiving benefits as early as when you reach age 62. The tradeoff is that your monthly benefit will be permanently lower than if you had waited. For example, if your monthly benefit at age 66 (assuming that is your FRA) is $2,000 and you decide to start collecting Social Security at age 62, your benefit would be reduced to $1,500.

Full retirement age (FRA)

The age at which you can begin receiving your "full" Social Security benefit ranges from 66 to 67, depending on the year you were born. See the chart below to determine the age at which you can begin receiving full Social Security benefits.

Key takeaway — Full retirement age, as defined by Social Security, depends on the year you were born.

Normal retirement ages and early retirement reductions

Year of birth[1]	Normal (full) retirement age	Early retirement reduction, months (age 62)	Monthly % reduction[2]	Total % reduction[2]
1954 and earlier	66	48	0.520%	25.00%
1955	66 and 2 months	50	0.516%	25.84%
1956	66 and 4 months	52	0.512%	26.66%
1957	66 and 6 months	54	0.509%	27.50%
1958	66 and 8 months	56	0.505%	28.33%
1959	66 and 10 months	58	0.502%	29.17%
1960 and later	67	60	0.500%	30.00%

1. If you were born on January 1, you should refer to the previous year.

2. Monthly and total percentage reductions are approximate due to rounding. The actual reductions for the worker are 0.555 or 5/9 of 1% per month the first 36 months and 0.416 or 5/12 of 1% for subsequent months.

Source: www.ssa.gov

Delayed retirement credit

You will receive an 8% credit for each year past full retirement age that claim benefits are delayed. Delayed retirement credits given for retirement after your full retirement age can increase your monthly benefit. There are no additional delayed retirement credits after reaching age 70.

Key takeaway— Waiting to collect benefits until after your full retirement age increases your benefit. For example, if your monthly benefit upon reaching full retirement age at 66 is $2,000, waiting until age 70 to claim would increase your monthly benefit to $2,640.

Key concept #4

Benefit estimates listed on your Social Security statement assumes you continue to work until you begin collecting

The estimates displayed on your annual Social Security statement do not reflect the benefits you would collect if you stop working today. Instead they show what happens in the future, assuming you keep working and earning a comparable income up to that date.

For example, if you stop working at age 62 and wait until FRA to collect, your benefit may be lower than the estimate shown on your current statement at full retirement age, depending on your work history.

Earning more or less in the future may result in an increase or decrease in your actual benefit at the time you begin receiving Social Security.

- It's important to get the most recent statement before estimating the amount you can expect to receive in Social Security each month.
- When comparing to a previous year's statement, note whether your income has changed (up or down). This may impact your estimated future benefit.
- The statement shows an updated benefit estimate that accounts for the most recent cost of living adjustments to Social Security.

Key takeaway — The Social Security Administration can't provide your actual benefit amount until you apply for benefits and the final benefit determination considers your complete earnings history. Be prepared for the possibility that the actual benefit you receive will vary from what is shown on your benefit estimate.

Key concept #5

Claiming benefits before FRA and continuing to work

Benefit reduction for earned income

If you begin collecting Social Security benefits before your full retirement age and receive earned income, Social Security applies a retirement earnings test. As a result, your benefit will be reduced by $1 for every $2 of earned income above $23,400 in 2025 (note that this number is typically adjusted annually).

For this calculation, earned income is defined as wages earned for work done for others and/or net earnings from self-employment. Income from other government benefits, investment earnings, interest, certain pensions, annuities and capital gains are not included in the calculation.

Furthermore, if you earn wages, you must count the income in the year it is earned. This includes income from accumulated sick or vacation pay, bonuses, etc., even if payment is not received until the following year. Deferred compensation is also included in the year it is earned, not in the year it is later received.

If you are self-employed, you typically count income in the year it is received. The exception for self-employed people is if the income was earned in a year prior to when you qualify to receive Social Security benefits, but payment did not occur until the year you qualify for benefits. In that case, you count the income in the year it was earned, not when it was received.

The retirement earnings test no longer applies once you achieve full retirement age.

While the earnings limit may temporarily reduce your Social Security income, you don't lose these benefits forever. They are merely deferred. The Social Security Administration will recalculate the benefits at FRA based on the equivalent months of forfeited benefits.

- For example: If you first claimed benefits at age 62 and forfeited the equivalent of 24 months of benefits due to earned income that exceeded the earnings limit, upon reaching FRA, your benefit would be recalculated as if you had waited until age 64 to claim benefits. So over time, you will recoup the benefits lost prior to your FRA.

Does not include pension, annuity, taxable interest or dividend income.

Key takeaway — If you claim benefits before your normal retirement age and receive earned income above $23,400 (in 2025), your benefit may be reduced until you reach full retirement age.

Key concept #6

Social security benefits are not tax-free

Income tax consequences

Your Social Security benefit may be taxable, depending on the amount of income you generate from other sources. Your combined income is determined by adding your adjusted gross income, your non-taxable interest and one-half of your Social Security benefit. See the following table to determine how much of your Social Security benefit may be subject to income tax.

Key takeaway — Depending on how you file and your combined income, 50% to 85% of your benefit may be subject to federal income tax at your marginal tax rate.

Amount of benefit subject to federal income tax

	50% of benefit subject to federal income tax *	85% of benefit subject to federal income tax *
Filing individually	Combined income of $25,000 to $34,000	Combined income more than $34,000
Filing jointly	Combined income of $32,000 to $44,000	Combined income more than $44,000

*At marginal tax rate
Combined Income = Adjusted Gross Income + Non-Taxable Interest + 50% of Social Security Benefits

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Key concept #7

Benefits are available to spouses, widow(er)s and ex-spouses

Spouse

Is eligible to receive the higher of either the benefits he/she may have earned on his/her own record or half (50%) of spouse's primary insurance amount, at full retirement age (FRA).

A spouse cannot collect on another beneficiary's record until the claimant files for benefits. Also, the spouse planning to collect spousal benefits must be at least age 62 to do so. Spousal benefits collected prior to the spouse's FRA will result in a reduction in monthly benefits.

Survivor

A surviving spouse will generally receive 100% of the deceased's benefit or benefits on their own record at FRA but will not receive both.

- Reduced benefits can begin as early as age 60, but would be reduced by 28.50%.

A surviving spouse can choose to take the survivor benefit first, then switch to their own benefit at a later date, allowing their own benefit to increase up to age 70.

- Depending on benefit amounts of each of the spouses, it could be better to claim their own benefit first and claim the survivor benefit at FRA **(does not increase past FRA).**
- **A surviving child(ren)** can receive up to 75% of the deceased parent's Social Security benefit, up to age 18 (can be longer in certain circumstances).
- Family maximum is 150% to 180% of the parent's full benefit amount.

Ex-spouse (divorce)

If divorced for two years or longer, but your marriage lasted at least 10 years, an ex-spouse can receive spousal Social Security benefits based on the ex-spouse's earnings record.

- Both ex-spouses must be 62 or older.
- If the ex-spouse collecting spousal benefits remarries, Social Security benefits are discontinued.
- A divorced spouse can receive benefits even if the other ex-spouse has not yet begun claiming Social Security. The spousal benefits received by the ex-spouse have no effect on either the primary earner or their current spouse.

Key takeaway — There are many ways and strategies you can claim benefits from a current or previous marriage.

Key concept #8

Claiming strategies that impact spousal benefits are now limited

Spouses who wanted to delay their own Social Security benefits had the ability to claim a spousal benefit for several years while earning delayed retirement credit on their own benefit. Likewise, a couple could allow one spouse to delay his or her own benefits while the other spouse collected spousal benefits. For those who turned 62 after January 1, 2016, this option is no longer available. The Bipartisan Budget Act of 2015 changed rules related to some creative claiming strategies.

For those who turned 62 on or before January 1, 2016:

You may continue to elect to file a restricted application for spousal benefits once you reach your full retirement age. This means you retain the right to collect only spousal benefits starting at full retirement age (66), but only if your spouse already began receiving Social Security benefits or used a "file and suspend" action. This allows delayed retirement credits to be applied to your own benefit. You can switch to your own Social Security benefit up to age 70.

For those who turn 62 after January 1, 2016:

You are no longer able to elect a restricted filing as a strategy. What now applies are the "deemed filing" rules, which extend to age 70 for your age group. If you are entitled to two Social Security benefits (on your own record and as a spouse) you are deemed to have filed for all benefits at once and will be able to collect only on the higher amount. You are not able to claim a spousal benefit first and then switch to your own retirement benefit at a later time.

Note that the spouse cannot begin claiming spousal benefits until the primary Social Security recipient actually begins collecting benefits. This is a major change in the law that limits the ability of couples to build a larger future benefit through delayed retirement credits while still receiving a spousal benefit.

The only exception is if you already filed and suspended prior to April 30, 2016. In that case, you may continue to operate under the "file and suspend" rules that existed prior to this act.

Divorce (ex-spouse) benefits

If you are divorced, suspension of benefits by an ex-spouse will not affect the ability to begin collecting spousal benefits. As is the case with a married spouse, an ex-spouse who turned 62 after Jan. 1, 2016, can no longer use the restricted application to collect spousal benefits in order to accumulate delayed retirement credits up to age 70 before claiming their own benefit.

Survivor benefits

Survivor benefits are not affected by the new laws. Filing a restricted application for survivor benefits continues to be an option for widow(er)s.

Summary of changes for married couples

	Strategy	File and suspend	Filing restricted application
Age 62 by January 1, 2016	Birthdates April 30, 1950 through January 1, 1954	No longer allowed	Still available at client's FRA, if eligible for Spousal Benefits
Under Age 62 by January 1, 2016	Birthdates January 2, 1954 and later		No longer allowed

Key concept #9

The "do-over" on the start of your Social Security benefits

If you claim Social Security benefits and decide within 12 months that you prefer to delay your initial claim:

- You can request to **withdraw your application within 12 months** of first claiming benefits.
- If doing so, you will be required to pay back the full amount of benefits you already received. This includes any spousal or children's benefits received in your household based on your application.

If you don't act within 12 months of first claiming benefits:

- You can voluntarily suspend your benefits at FRA or later.
- You can't pay back and reset your initial claiming date, but from that point, every year you delay collecting benefits, your monthly benefits grow by 8%.

If you wished you had begun claiming benefits earlier:

- You can only receive six months of retroactive benefits.
- For example, if your FRA is age 66 and you are now 67, you could request a lump sum payout of six months of retroactive benefits. This will move your starting date for claiming benefits back by six months.

Key concept #10

New changes passed in 2025

Special provisions for some government employees

Windfall Elimination Provision (WEP)

This is a provision that applies if you qualify for both Social Security and a public pension (non-covered pension) that did not withhold Social Security taxes from your income. Social Security's Windfall Elimination Provision online calculator is updated periodically and can be found at www.ssa.gov/benefits/retirement/planner.

Government Pension Offset (GPO)

A non-covered pension could reduce your ability to collect spousal or survivor benefits based on your spouse or ex-spouse's earnings record. If you receive a pension from a federal, state or local government based on work where Social Security payroll taxes were not deducted from your paycheck, your spouses' or widows'(ers') Social Security benefits may be reduced by two-thirds of your government pension amount. Depending on the size of your pension, it is possible that your spouse's Social Security benefits could be completely eliminated.

On 12/21/24, the Senate passed H.R.82 – Social Security Fairness Act of 2023. With passage in both the House and Senate and President Biden signing into law on 1/5/25, this act repeals both the Windfall Elimination Provision (WEP) and the Government Pension Offset (GPO) provision. This mostly impacts individuals whose Social Security benefits were reduced due to also receiving a non-covered government pension (commonly federal CSRS, some state police and firefighter pensions, and teacher pensions in some states). Repeal of these provisions has been brought up during every Congressional session since 2001, but this is the first time it has received a vote.

Text - H.R.82 - 118th Congress (2023-2024): Social Security Fairness Act of 2023 | Congress.gov | Library of Congress

What will happen to SS benefits of impacted clients?

Upon enactment, Social Security will be directed to begin the process of informing impacted individuals over the coming months and adjusting benefit amounts. The act also makes the repeal retroactive to January 2024; many impacted individuals will receive a lump sum back payment of up to 12 months.

How does this impact the Social Security trust and future solvency?

Government actuarial studies have shown it has a small impact (about 3%) on the 75-year funding projection for Social Security.

If an individual has already filed for benefits there will be an automatic adjustment as benefits are processed in the coming months (which could take some time). If they have not yet filed, they may want to file now depending on their current age and other benefit details (amounts).

In closing . . .

It's a critical decision. Professional assistance can help.

Making well-informed decisions about when to begin Social Security (and how much benefit you may receive) depends on a number of factors, including:

- Your estimated Social Security benefits
- Whether you are married or single
- Your current health/overall life expectancy
- Your other sources of income in retirement
- Your tax situation in retirement
- How it affects your overall plan

Ask your financial advisor how Social Security fits into your retirement income plan. He or she can help you explore your options, recommend strategies and, along with your tax professional, confirm the decisions you make about Social Security are appropriate for both your needs and your financial situation in retirement.

Sources:

Social Security Administration website: www.ssa.gov

The 2024 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds.

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