Overview of Social Security & Retirement Benefits

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What is Social Security?

The Social Security program was launched in 1935 by President Franklin Delano Roosevelt and is overseen by the Social Security Administration (SSA), an agency operated by the United States Federal Government. The program has undergone many changes over the course of the past eighty years, and now includes or interacts with other national benefit programs such as Supplemental Security Income (SSI), Supplemental Security Disability Income (SSDI), Medicare, and Medicaid, among others. While there are now many different programs under the Social Security Administration, the core benefit most Americans are concerned with are the Social Security Benefits and Income, i.e. retirement benefits.

The purpose of this guide is to provide you with a basic understanding of Social Security retirement benefits. Because the Social Security program as a whole encompasses a wide variety of benefit programs, you may need to consult with or request additional materials from your financial planner for areas not covered in this guide.

How does Social Security work?

Nearly everyone in the United States who is employed or self-employed can receive Social Security retirement benefits. Workers contribute to their Social Security funds through payroll tax—either FICA (Federal Insurance Contributions Act) or SECA (Self-Employed Contributions Act) tax—depending on the individual's employment situation. The difference between the two is this: FICA taxes are paid equally by the employee and their employer. Typically, FICA taxes are deducted from each paycheck. Individuals who are self-employed, because they are considered both employee and employer, are required to pay the full amount of the SECA tax based on their net earnings through self-employment.

The SSA requires most workers to have 40 quarters (10 years) of coverage at retirement in order to be considered "fully insured" and qualify for retirement benefits. You may have also heard this described using the "credits system," where a worker earns credits based on their earnings. As the program exists today, a worker receives one credit per $1,320 of earnings, with a maximum of four credits per year (or one per quarter). Once you have earned $5,280 in wages or self-employment income, you have earned your four credits for the year. Because an individual needs 40 credits to receive benefits, eligibility typically requires 10 years of FICA or SECA contributions.

Retirement Benefit

The monthly benefits you receive during retirement are based on your taxable earnings averaged over the number of years you worked. In 2018, the average monthly benefits for all retired workers is approximately $1,404. The maximum monthly benefits a worker retiring at full retirement age can receive is currently set at $2,788. In order to receive the full amount of monthly benefits that you are eligible for (based on your lifetime income), you must wait until reaching "full" or "normal" retirement age before filing to claim your benefits.

Use the table below to determine your full retirement age.
*** Note – Those born on January 1 of any year should refer to the previous year to determine their full retirement age. ***

Year of Birth	***Full Retirement Age***
1937 or earlier	65
1938	65 & 2 months
1939	65 & 4 months
1940	65 & 6 months
1941	65 & 8 months
1942	65 & 10 months
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

*** Note—While you can apply for benefits before reaching full retirement age, doing so will see your monthly benefits reduced based on how early you file. More details can be found on Page X ***

Family Benefits

Within the Social Security retirement benefits program, there are provisions that allow certain members of your family to qualify for benefits on your record.

Those eligible for benefits include:

- ***Your spouse***
- ***Your divorced spouse***
- ***Children (biological, adopted, or step-child)***
- ***Dependent grandchildren***

Payments for qualifying family members are limited to a maximum of half of your monthly benefit amount and are subject to further prorated reductions if you retire early. These payments will not affect your monthly benefits.

Because the SSA set maximum limits on the benefits your family can receive on your record, the value of their benefits depends on a few different factors, primarily your benefit amount and the number of qualifying family members. Family benefits can be a vital factor in determining what, if any, advantages, there are to early retirement.

Spousal Benefits:
Your spouse is eligible to receive Social Security retirement benefits on your record regardless of whether they have paid into the system via FICA/SECA taxes or not. For your spouse to qualify for spousal benefits, **they** must be at least 62 years old and **you** must be eligible and have already filed for retirement benefits. The age requirement is waived if your spouse is caring for your child who is under 16 years or old, or any age if the child is disabled prior to turning 22 years old.

Additionally, if your spouse does qualify for benefits based on their own work history, they can still claim spousal benefits on your record. If you are the higher earner, they will be paid their own benefits plus an additional amount from your record to make up the difference.

Spousal benefits can be an effective way for married couples to maximize their Social Security retirement income. There are several different ways to leverage spousal benefits to your advantage but finding the strategy that best fits your unique situation can be tricky. This, along with the different variables involved, is why we recommend you consult with your financial planner before making any decisions regarding spousal and/or family benefits.

Early Retirement

The SSA does allow workers to claim retirement benefits before reaching full retirement age. Early retirement benefits can be taken anytime between the age of 62 and full retirement age. However, if you claim early retirement, the amount of your monthly benefits will be permanently reduced. The reduction is in place to account for the difference between your full retirement age and the age you are if/when claiming early retirement benefits. If you claim early retirement benefits, the prorated reduction in benefits is about 1.5% for each month before full retirement age. That reduction is also applied to the amount your spouse can receive (after the automatic 50% reduction). There are no age-based reductions if spouse is caring for your eligible child.

The following table illustrates the early retirement reductions applied for an individual who claims benefits at age 62. Because this guide is designed for retirement planning purposes, the table assumes the retiree was born slightly before, in, or after 1954.

Year of Birth	*Full Retirement Age*	*Your Reduction*	*Spousal Reduction*
1943 – 1954	66	25%	30%
1955	66 & 2 months	25.83%	30.83%
1956	66 & 4 months	26.67%	31.67%
1957	66 & 6 months	27.50%	32.50%
1958	66 & 8 months	28.33%	33.33%
1959	66 & 10 months	29.17%	34.17%
1960 and later	67	30%	35%

Looking at the chart above, you can see that someone who is currently 62 years and decides to claim benefits today—if they would receive $1,000 a month in benefits at full retirement age—the reduction would leave them with $741 a month. Their spouse would get $341 a month.

One important thing to note is that the Social Security Administration is gradually increasing the age at which workers born after 1954 are eligible for full retirement benefits. With the current age set at 67 for workers born in 1960 or later, the youngest of those people would be around 58 years old. For them, if they decide to claim for early retirement benefits, the reduction, along with the reduction for their spouse, would be:

Age	*Your Reduction*	*Spouse's Reduction*
62	30%	67.5%
63	25%	65%
64	20%	62.5%
65	13.3%	58.3%
66	6.7%	54.2%
67	Full benefits	50% (max spousal benefits)

Note that even if you reach full retirement age before claiming for benefits, your spouse will only receive 50% of the normal benefits you would be eligible for.

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