

Understanding Social Security Retirement Benefits Factors

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Social Security retirement benefits are an important income stream for many Americans.

However, several studies have noted that many individuals do not understand the Social Security retirement benefits calculation or fail to fully examine all the unique human factors that impact the decision of when to begin receiving benefits.

Rarely is there a 100 percent wrong choice of when to start receiving Social Security retirement benefits, but understanding the inputs and options available can often improve the benefit amount or provide a better understanding of the long-term implications of this decision.

Retirement Benefit Calculation

The Social Security retirement benefit calculation is based upon an income replacement formula similar to a pension. The Social Security retirement benefit calculation averages an individual's highest 35 years of earnings, which are indexed for inflation, to determine a person's Average Index Monthly Earnings (AIME). Next, the AIME is split into three tiers and predetermined percentages are applied to each

tier. Finally, the resulting three values are added together to determine the Primary Insurance Amount or PIA. The PIA is the amount of retirement dollars available to a retiree at their full retirement age. The full retirement age for Social Security benefits ranges from age 66 to age 67, for individuals born after 1943.

Early or Delayed Benefits

Individuals electing retirement benefits before their respective full retirement age will have their retirement benefit amount or PIA reduced by approximately

6.7 percent, for each year of early benefits. The earliest a worker can receive retirement benefits is at age 62 and, in terms of reduced dollars, this equates to a 25 percent to 30 percent reduction in benefit payment.

If retirement is postponed past a person's full retirement age, an increase in benefit is provided for each year of the delayed retirement, until the age of 70. The increase in the delayed retirement benefit amount is approximately 7.5 percent to 8.0 percent per year. For a worker with a full retirement age of 66, a delay in the commencement of retirement benefits until the age of 70 will increase the retirement benefits amount by approximately 32 percent. Delaying retirement benefits past the age of 70 will not provide any additional benefits.

Spousal Retirement Benefits

Spouses and divorced spouses (subject to special rules) are eligible for spousal retirement benefits. A spouse can claim Social Security retirement benefits based on their own earnings record or they can collect a spousal benefit of up to 50 percent of the working spouse's Social Security retirement benefits. Upon the death of the working spouse, the non-working spouse or spouse with a lower PIA amount will receive the greater of their own retirement benefit amount or the retirement benefit amount of the deceased spouse.

Working Retirees

If an individual has earned income, or wages, while also receiving Social Security retirement benefits before their full retirement age, they may be subject to a reduction in their Social Security retirement benefits. For individuals under the full retirement age, the reduction is \$1 in the benefit amount for every \$2 earned over the annual limit, which is \$17,640 in 2019. In the year an individual attains their full retirement age, and up to the month before their birthday, the reduction is \$1 for every \$3 earned above \$46,920 in 2019. Retirement benefit amounts are not reduced after an individual reaches their full retirement age.

Evaluating the Personal Factors

Once the retirement benefit options are known, each individual should evaluate their financial needs and personal circumstances. Typical questions to consider include:

- Are the Social Security retirement funds needed now?
- What is my, and spouse's, life expectancy?
- What other investment assets are available to my family?
- Will I be working and receiving Social Security retirement benefits before I attain my full retirement age?

If financial need is a critical factor for an individual, then retirement benefits should likely begin early. It is important to carefully consider the benefit of receiving early retirement benefits against the potential advantage of delaying benefits by a few additional years to receive a higher benefit amount.

Longevity is another important factor that should be carefully considered. If an individual is likely to have a reduced life expectancy, due to a history of health issues in the family or is in poor health, then receiving retirement benefits early could be the best option.

Receiving benefits at full retirement age might be an option for individuals unable to weigh the risk of longevity against the benefit of the increased amount of delayed retirement. Generally, delaying benefits is a good option for individuals that expect to exceed normal life expectancy and that have sufficient investment assets.

Please contact your advisor if you would like to review your financial planning strategy, including your Social Security retirement options.

Your Full Retirement Age (FRA)

Year of Birth	FRA
1943 - 1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 or later	67



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