

What Everyone Should Know About Social Security



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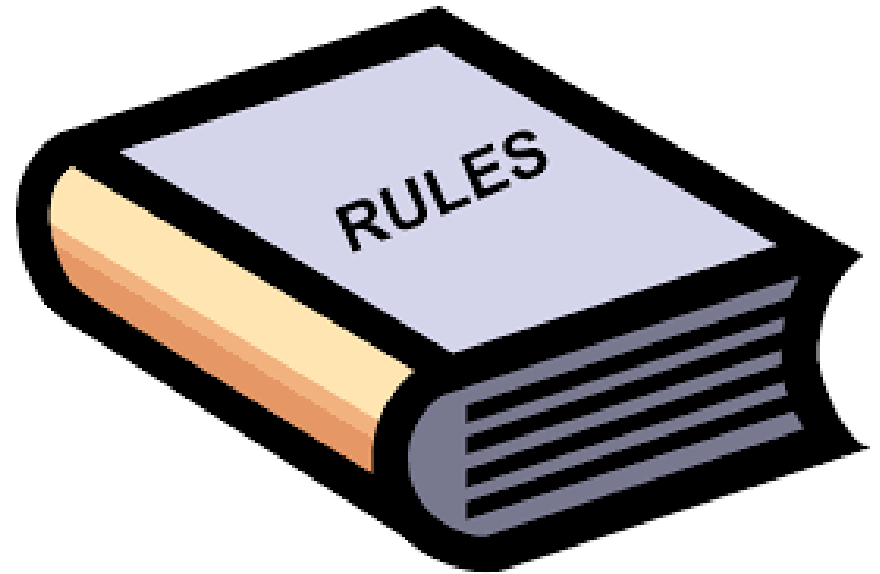
In 2023, almost 67M people (more than 1 of every 6 U.S. residents) receive social security benefits every month



Social Security accounts for 40% of average retiree's income and among elderly beneficiaries, 12% of men and 15% of women rely on Social Security for more than 90% of their income.

Source: Social Security Administration, April 2018

A brief
review of
the
rules



Social Security Retirement Benefits Formula

$$B(a) = PIA(a) \times (1 - e(n)) \times (1 + d(n)) \times Z(a) + \max((.5 \times PIA^*(a) - PIA(a) \times (1 + d(n))) \times E(a), 0) \times (1 - u(a, q, n, m)) \times D(a)$$

Eligibility And Primary Insurance Amount

Eligibility



Primary Insurance Amount (PIA)



Retiree's 3 Choices:

1. Early Retirement

- Age 62 until FRA
- Permanent reduction in benefits

2. Full Retirement Age (FRA)

- Primary Insurance Amount (PIA)

3. Delaying to age 70

- Delayed Retirement Credits (DRCs)



Year of Birth	Full Ret. Age	Months Early if 62	Reduced \$1000 Benefit	Reduction
1943-1954	66	48	\$750	25.00%
1955	66 and 2 months	50	\$741	25.83%
1956	66 and 4 months	52	\$733	26.67%
1957	66 and 6 months	54	\$725	27.50%
1958	66 and 8 months	56	\$716	28.33%
1959	66 and 10 months	58	\$708	29.17%
1960 and later	67	60	\$700	30.00%

The Future of Social Security and Medicare



By the Numbers: 2023 Trustees Report

MEDICARE

2031 -- Hospital Insurance Trust Fund reserves will be Exhausted.

- Medicare will still be able to pay 89% of scheduled benefits.

SOCIAL SECURITY

- 2033 – The surplus in the trust funds will be depleted.
- Social Security will still be able to pay about 77% of the benefits to which retired and disabled workers are entitled.

But did you know...
Social Security has been nearly broke
twice before.

1977

-Changed benefit structure and increased withholding

1983

FRA was increased from age 65 to current staggered ages; taxation of Social Security benefits.

Sources:

Social Security Amendments of 1977: Legislative History and Summary of Provisions (Social Security Bulletin, March 1978)

Social Security Amendments of 1983: Legislative History and Summary of Provisions (Social Security Bulletin, July 1983)

Spousal Benefits

- Must have been married to worker for at least 1 year
- Benefits can begin as early as age **62**
 - Any age if caring for the worker's child who is under 16 or disabled
- Primary worker **MUST HAVE** applied for their own benefit before spouse can receive spousal benefit





Spousal Benefit Amount

Spouse at FRA receives
50% of worker's PIA

- Benefit is calculated on the full payment, not on what the worker is actually receiving

If spouse collects prior to
FRA, benefits are reduced

- Earnings limit applies

A spousal benefit NEVER
EARNs DRCs

Former Spouse Benefits

- Can begin as early as age 62
- Must be currently unmarried
- Must have been married for at least 10 years
 - If 62, can begin receiving benefits on the worker's record as soon as the worker reaches 62





Former Spouse Benefit Amount

Former spouse at FRA
receives 50% of worker's
PIA

- Benefit is calculated on the full payment, not on what the worker is actually receiving

If former spouse collects
prior to FRA, benefits are
reduced

- Earnings limit applies

Survivor Benefits



- Must have been married to worker for at least 9 months
- Survivor can begin to collect benefits at 60
 - Any age if caring for the worker's child who is under 16 or disabled
- Survivor benefits based on insured worker's PIA on date of death
- A divorced spouse may also be entitled to survivor's benefits.

Survivor Benefit Amount

A widow(er) at FRA will receive 100% of deceased worker's full benefit

- Benefit reduced if taken prior to survivor's FRA
- Be aware of slightly different FRA table for survivor benefits

A survivor benefit DOES NOT EARN DRCs

- Can receive them, but never earns them

A divorced spouse may also be entitled to survivor's benefits.

Earnings Limit



- Only applies to wages or salary earned **prior to full retirement age**
- Applies to ALL benefits-retirement, spousal, former spouse, survivor, child
- In 2024, benefit reduced by \$1 for every \$2 over \$22,320. Benefit reduced by \$1 for every \$3 over \$59,520 (2024) in the year you reach full retirement age (FRA).

Taxation of Social Security Benefits

- You will pay tax on only 85 percent of your Social Security benefits, based on Internal Revenue Service (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 percent of your benefits.
 - more than \$34,000, up to 85 percent 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 percent of your benefits.
 - more than \$44,000, up to 85 percent of your benefits may be taxable.
- *Combined Income = Your adjusted gross income + your taxable income + $\frac{1}{2}$ of your Social Security benefits



The Strategies – What's Left?



Clever Strategy #1: FILE AND SUSPEND



Clever Strategy #2: Claim Now; Claim More Later



Clever Strategy #3: The Merry Widow(er)



Survivor Benefit: Case Example



- Sue is 60 yrs old. Her husband recently passed away unexpectedly.
- Her retirement benefit at her FRA (66 + 6 months) is \$1,030/month and at age 70 it would be \$1,325/month.
- The survivor benefit at age 60 is \$1,423/month and is \$1,991/month at her FRA.
- **Recommendation:**
 - Sue plans to continue to work and use life insurance proceeds of \$100,000 to supplement income until age 62
 - Begin taking her reduced retirement benefit of \$735/month at age 62
 - At her FRA, switch to full survivor benefit of \$1,991/month

Clever Strategy #4: The Old Guy and the Baby



Child Benefit While Delaying Retirement Benefit



John



Jackie



Amanda

- John is 62, wife Jackie is 60 and daughter Amanda is 12
- John's retirement benefit is \$1,465/month at 62 and \$1,991/month at FRA

Recommendation:

- John claim's retirement benefit of \$1,465/month making daughter eligible for benefit of \$995/month
- Upon daughter turning age 18, John will stop retirement benefit and begin receiving Delayed Retirement Credits of 8%/year
 - John will have received \$105,480 of benefits and his daughter will have received \$71,640 of benefits
- At age 70, he will begin receiving benefit of \$1,699/month and his wife will receive \$995/month

Do-Over Strategy

- Individual can withdraw application within 12 months of first claiming benefits.
 - ✓ Repay all benefits received, including spouse and children
 - ✓ No interest due



Another Do-Over Strategy

- Claim benefits at 62 and then change mind
- Example:
 - Eligible for \$2,000/month at full retirement age
 - Starts benefit at 62, receiving \$1,500/month
 - At full retirement age (66), suspends benefits, but cannot repay (>12 months)
 - Receives delayed retirement credits of 8%/year from 66 – 70
 - At age 70, begins receiving benefit of \$1,980 (75% x 1.32%)



Thank you!

