



## Overview

Did you know that 84% of Americans age 65 and older receive Social Security payments?<sup>1</sup> As ubiquitous as it is, Social Security is also ferociously complex, with 12 benefits dictated by over 2,278 primary rules and tens of thousands of secondary rules.<sup>2</sup> However, understanding some relatively simple key concepts and ideas can guide you toward making decisions that will help you maximize your long-term retirement benefit. In particular, if you expect to live longer than the average life expectancy, as many college-educated, white-collar workers do, then you are better off delaying claiming Social Security until the latest possible age and collecting a higher retirement benefit for the rest of your life.

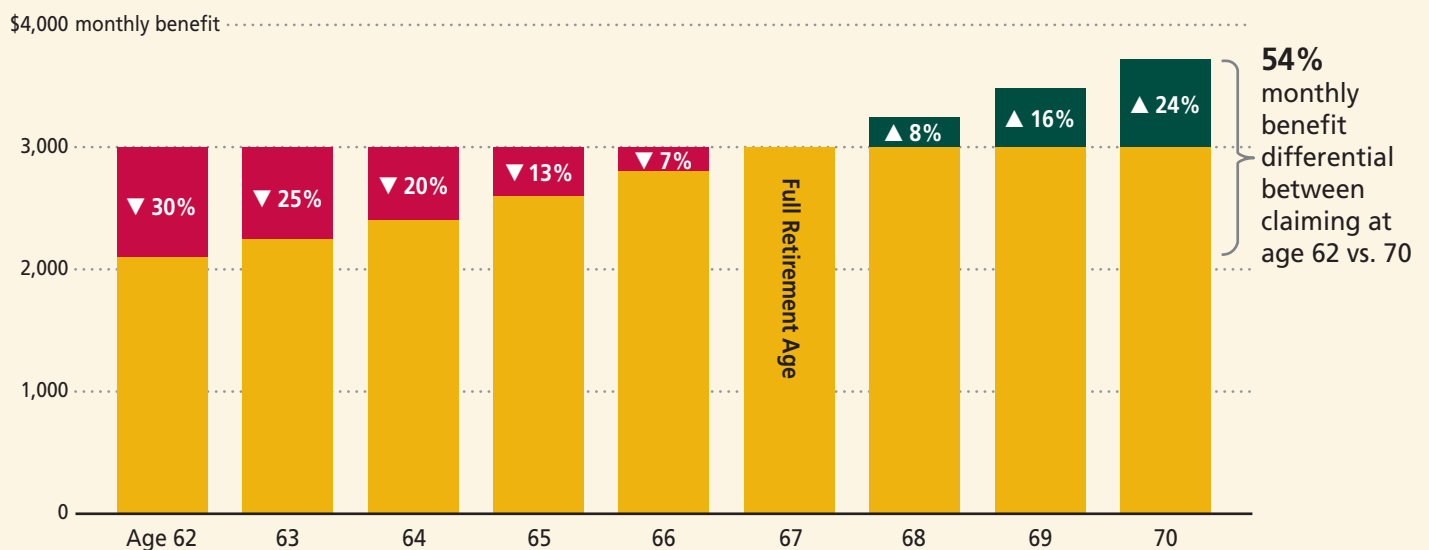
In this briefing, we provide a high-level overview of how Social Security works and how to maximize your benefits. Nevertheless, it's essential to consult with a qualified Social Security expert to create a plan tailored to your specific circumstances. Reading this guide should equip you to have an informed conversation with your financial adviser, who can develop a plan best suited to your needs.

## How Social Security works

Over the course of your working life, your gross wages up to a specified cap are taxed a fixed percentage each year to fund the Social Security program. For 2020, the rate is 6.2% and the cap is \$137,700.<sup>3</sup> If you have accumulated a total of 40 quarterly credits over the course of your career (equal to 10 years of taxable earnings, which do not have to be continuous), then you are eligible to collect Social Security benefits when you retire.

### Social Security Benefit Amount Based on Claiming Age

Your benefit is permanently determined by your age at the time of initial claiming



Source: Social Security Administration

<sup>1</sup> Glenn Ruffenach, "Where to Check Up on the Health of Your Pension Plan," *Wall Street Journal*, June 4, 2020.

<sup>2</sup> The Editorial Board. "Unrigging the Poverty Trap." *Wall Street Journal*, June 3, 2020.

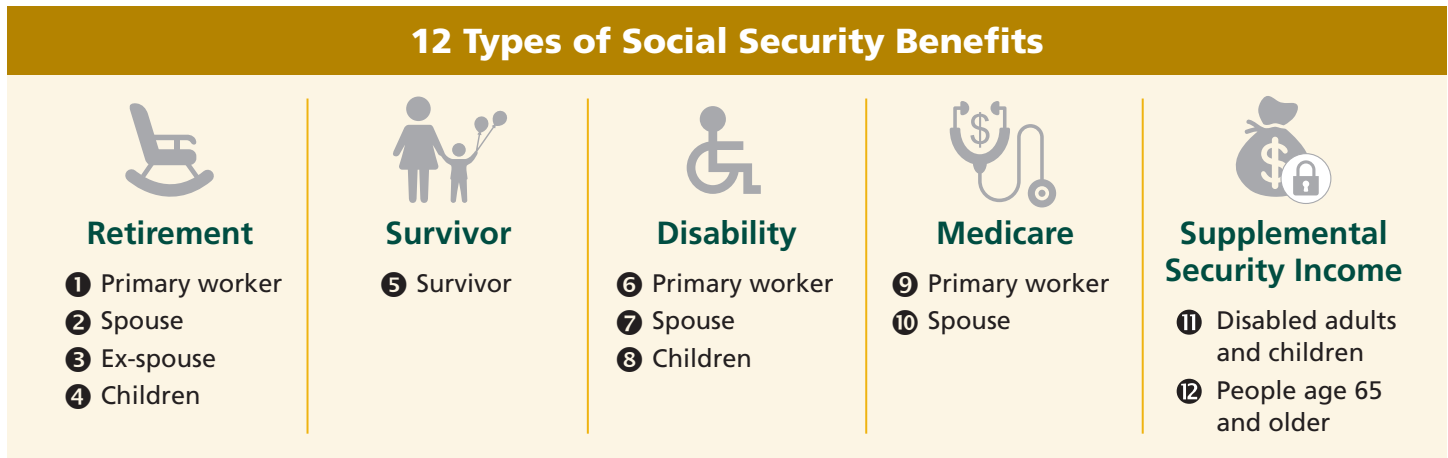
<sup>3</sup> "Topic No. 751 Social Security and Medicare Withholding Rates," *Tax Topics (Internal Revenue Service, February 14, 2020)*.



## Types of benefits

The primary worker who has been paying into Social Security through the tax on his or her wages is always entitled to benefits, but so are a number of secondary beneficiaries, as we will discuss in more detail below.

The following chart organizes the 12 basic types of benefits that Social Security provides into five categories.



## Social Security for married couples

To explore some of the basic concepts of Social Security, let's look at the case of a typical married couple with one higher-earning spouse and one spouse with lower or no earnings.

If both spouses are eligible for Social Security retirement benefits, the higher-earning spouse should delay collecting those benefits, if at all possible, until age 70. There are two reasons for this approach: First, it maximizes the couple's total income over the course of retirement, and second, it maximizes the survivor benefit for the other spouse.

A survivor benefit is worth up to 100% of what the deceased worker was receiving or was entitled to receive at the time of death, as long as the surviving spouse waits to collect until his or her own full retirement age. Holding out for the highest possible survivor benefit ensures that the surviving spouse will be taken care of long after the worker's death.

If the higher-earning spouse delays collecting benefits until the last possible moment, the lower-earning spouse may wish to begin collecting early to bring in some additional income for the household in the meantime.

## Secondary beneficiaries

In addition to collecting your own Social Security retirement benefits, you are entitled to benefits for secondary beneficiaries, including a spouse, former spouse, and children.

*Spousal benefits* are worth up to 50% of the primary worker's benefit at full retirement age. However, the non-earning spouse cannot collect spousal benefits until the earning spouse begins collecting Social Security. A lower-earning spouse who is entitled to individual benefits can "top off" a lower personal benefit with a spousal benefit when the higher-earning spouse begins collecting.

For example, say one spouse is entitled to \$800 per month in personal benefits and the other is entitled to \$2,400 per month. The lower-earning spouse can start collecting benefits as early as age 62, and can then receive up to an additional \$400 per month when the higher-earning spouse begins collecting Social Security.

Divorced spouses are also entitled to benefits, as long as all three of the following criteria are met:

- ❶ The marriage lasted at least 10 years.
- ❷ Both spouses are at least 62 years old.
- ❸ The ex-spouse seeking the benefit did not remarry before age 60.

If the couple has been divorced at least two years, the ex-spouse seeking benefits does not even have to wait until the eligible worker files for primary Social Security.

Finally, older parents can capitalize on Social Security benefits for their children under age 18 (and up to age 19 for children who are still in high school). Each child is entitled to 50% of the parent's full-retirement-age benefit, regardless of when the parent claims benefits.

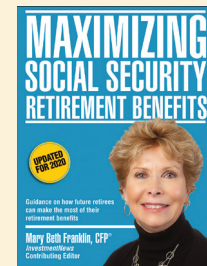
There is a cap on total family benefits. This cap is based on a complex formula, but works out to 150% to 188% of the worker's full-retirement-age benefit.<sup>6</sup> If the combination of worker, spousal, and child benefits exceeds that cap, all secondary benefits are proportionally reduced. Nevertheless, the payment of child benefits may be a good reason to collect early. If you do so, you can suspend your primary benefits once your youngest child turns 18, so your own benefits can continue to grow until you turn 70.

## Earnings cap

One final element of Social Security to consider—and another incentive to delay collecting benefits—is the earnings cap. If you are still working before full retirement age, you are restricted in the amount of benefits you can collect every year. Basically, if you begin claiming early and are still working, much of your Social Security benefit will be deferred anyway.

The earnings cap goes away at full retirement age. At that point, you can earn any amount without reducing your benefits.

## Further Reading



It is impossible to cover such a complex and nuanced a topic in only a few pages. If you are interested in more detailed information, we highly recommend Mary Beth Franklin's 40-page eBook, *Maximizing Social Security Retirement Benefits*, a comprehensive resource that explains the ins and outs of claiming strategies for many different circumstances.



<sup>6</sup> "Can My Children Get Benefits on My Social Security When I Retire?" AARP, March 25, 2020.



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