

Social Security Factoids

Factoids

- In 2015, 72% of retired workers who were receiving benefits had retired early.
- Almost 65 million individuals benefit from social security or Federal SSI benefits.
- Social Security benefits were paid to approximately 90% of the American population that were 65 and older.
- In 2015, the maximum monthly benefit for an individual retiring at full retirement age (FRA) is \$2,663. (*Based on work histories that have maximum taxable earnings for at least 35 years during a career*). This number is anticipated to decrease by \$24 in 2016.
 - However, most workers don't earn the maximum monthly benefit. The average monthly benefit at FRA is approx. \$1,331. In 2016, the average benefit is expected to be approximately \$1,341.
- Obviously, dependence on social security benefits is greater as one ages.
 - Approximately 40% of those between age 65-69 depend on social security for 50%+ of their retirement income.
 - Of this amount, 22% of people in this age bracket depend on social security for approximately 80% of their retirement income.
 - Approximately 55% of those between age 70-74 depend on social security for 50%+ of their retirement income.
 - Of this amount, approximately 35% of people in this age bracket depend on social security for 80% of their retirement income
 - Approximately 70% of people 80 and beyond depend on social security for 50%+ of their retirement income.
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Benefit Calculations

- The Averaged Indexed Monthly Earnings (AIME) is dependent on numerous factors, length of service, annual income, inflation, age in which you begin receiving benefits, etc.
 - For example: The maximum AIME for someone turning age 62 in 2015 was approximately \$9,066; assuming 35 years of indexed earnings from age 22 to age 62. The AIME is then indexed for years when you were age 62 or older by increases in average national wages.
- Anyone claiming benefits prior to Full Retirement Age (FRA) has the benefit reduced by 6.25 % for each year prior to FRA. One can begin to claim benefits at 62, but their benefits will be reduced by 25% ($6.25 \times 4 = 25$). Age 66 is the FRA and determining factor for a reduction in benefits when claimed prior FRA.
- Individuals who elect to delay social security benefits after FRA will receive an increase in benefits up to 8% each year they wait until age 70.
- Spouses can receive benefits that are up to one-half of the benefit the other eligible, working spouse can receive. Reductions to benefits apply if social security claimed before FRA. Additionally, increased benefits after FRA up to age 70 do not apply to spousal benefits.
- What about divorces? Divorced spouses may have a claim to one's benefit too. Spousal benefits may be paid in the case of a divorce if they the marriage lasted for 10 years. Generally, spousal benefits to a former spouse are excluded once someone remarries. However, there are events that may end a relationship with a current spouse (such as death) that can make a prior, former spouse eligible to receive spousal benefits. Individual qualification standards still apply. Filing requirements must be fulfilled if the divorce was finalized more than two years prior.

- Survivor benefits are payable to certain spouses and dependents. Generally, a widow or widower age 60 or older, or a widow or widower of any age who cared for the deceased child (under age 16). Unmarried children under age 18 (19 if enrolled full time in elementary or secondary school) are eligible for benefits. There are special rules if the child is disabled prior to age 22.

Strategies for Claiming

- Say no more to the file and suspend (with limited exception). Prior to the Bipartisan Budget Act of 2015, a common strategy for couples was for one spouse to file for benefits at FRA and then suspend taking benefits to allow for the benefits to be deferred and thus increase at the 8% level. All the while, spousal benefits were still being paid.
- Post May 1, 2016 – spousal payments will only be made if the primary spouse is also receiving his/her benefit. Therefore, the benefits of any one spouse will not be allowed the benefit of increased accruals until age 70.
- Except for individuals attaining age 62 prior to January 1, 2016, the ability to choose the spousal benefit, and allow the personal benefit to grow, is lost. If both are eligible for benefits, both will be paid at the same time at the higher amounts. Hopefully, the Administration will offer further guidance on this topic in the first quarter of 2016.
- Plan for the taxes!! Social security income may be subject to taxes based on modified adjusted gross income (MAGI).

	Income (MAGI)	% of Social Security Taxable
Single, Head of Household, Qualifying Widower	<\$25,000	All social security likely is tax free
	\$25-34,000	Up to 50% of social security income may be taxable
	>\$34,000	Up to 85% of social security may be taxable
Married, Filing Jointly	<\$32,000	All social security likely is tax free
	\$32-44,000	Up to 50% of social security income may be taxable
	>\$44,000	Up to 85% of social security may be taxable

***Please consult a qualified tax professional to determine what your overall tax consequences will be, if any.*

When to File for Benefits

- Age 62; Age 65; Age 70? This definitely is a personal decision that should only be determined after evaluating numerous factors, such as your income prior to FRA, other current income, future income, personal health, marital status, etc... Your financial advisor and qualified tax advisor can help you arrive at informed choices from which to decide.
- Do remember this –
 - Benefits received from social security if you begin when you're eligible (age 62) will be reduced by 25%. However, this may mean more payments of a reduced amount will be received as opposed to waiting until FRA or even when you are 70 years old. You will actually receive 48 smaller benefit payments by waiting to FRA (66) or 96 by waiting it out until 70. We're not suggesting you do this because there are many factors that come into play, such as working past 62. Nonetheless, do consider it in your planning.

Potential Changes to Social Security

- Social security going bust? Gen Xers and Millennials take notice! According to the the Social Security Trustees in July 2015, the basic disability fund will be gone by 2016; followed by the Social Security trust fund being drained by 2035.
- Ways to potentially slow down the end? Options include (1) raising future retirement age, (2) raise wage base, (3) change cost of living formula, (4) increase payroll taxes, and (5) change benefit formula to reduce benefits for higher income workers.
- Guidance on the File and Suspend: Stay tuned to SSA.gov updates for more guidance on this topic.

Sources:

Information from the Social Security website: <http://www.ssa.gov> including the 2015 Annual Report of the Trustees and other specific content listed below.

<https://www.ssa.gov/news/cola/>

<https://www.ssa.gov/news/press/factsheets/colafacts2016.html>

<http://www.fool.com/retirement/general/2014/11/29/social-security-in-2015-6-numbers-everyone-should.aspx>

<http://money.usnews.com/money/blogs/planning-to-retire/2015/10/15/7-ways-social-security-will-change-in-2016>

<http://moneyover55.about.com/od/socialsecuritybenefits/fl/How-to-Calculate-Social-Security-Benefits-A-Step-by-Step-Guide.htm>

<https://www.ssa.gov/planners/retire/applying2.html>

<https://www.ssa.gov/policy/docs/ssb/v74n4/v74n4p21.html>

<https://www.ssa.gov/planners/retire/divspouse.html>

<http://www.investopedia.com/articles/pf/08/social-security-tax.asp>

<http://www.fool.com/retirement/general/2015/01/30/3-reasons-its-smart-to-take-social-security-benefi.aspx>

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