

# Social Security Frequently Asked Questions

## What is Social Security?

Social Security is a government program, created in 1935, that provides retirement benefits to eligible individuals starting. Social Security also provides for survivor benefits to spouses and dependent children and disability benefits. This FAQ address specifically retirement benefits for eligible individuals.

## How do I know if I'm eligible for Social Security benefits?

To be eligible for Social Security benefits, you must have 10 years of service, or 40 Social Security credits. You can earn up to 4 credits per year and earn them by paying Social Security taxes.

## How is my Social Security benefit calculated?

Social Security calculates your benefit using "Average Indexed Monthly Earnings" over your highest 35 years. This means that Social Security takes your highest 35 years of earnings but then adjusts for the general rise in cost of living that has occurred since that time. For example, \$5,000 of earnings per month in 1980 will have a greater adjustment than \$5,000 of earnings per month in 2020.

## What is my Social Security benefit?

Your Social Security benefit will be based on the Primary Insurance Amount (or "PIA") – which is the benefit you receive if you elect to begin receiving your Social Security benefit at your Full Retirement Age. This amount is then reduced or increased depending on the age at which you claim.

## When can I claim Social Security benefits?

You can claim Social Security benefits as early as 62. However, doing so will come with a reduction to your PIA for every month you claim before your Full Retirement Age. This reduction is equal to 5/9 of 1% per month for the first 36 months and 5/12 of 1% thereafter. Conversely, you can opt to defer benefits until as late as age 70. Doing so comes with an increase in your PIA equal to 2/3 of 1% for each month beyond your Full Retirement Age.

For example:

If your Full Retirement Age is 67, your PIA is \$1,500, and you opt to claim benefits at 62, your benefit will be reduced by:

$$( 36 \times [ (5/9) \times 1\% ] ) + ( 24 \times [ (5/12) \times 1\% ] ) = 30\%$$

Therefore, your benefit will be:

$$\$1,500 \times 70\% = \$1,050$$

On the other hand, in the same example, if you opt to claim at 70, your benefit will be increased by:

$$36 \times [ (2/3) \times 1\% ] = 24\%$$

In which case your benefit will be:

$\$1,500 \times 124\% = \$1,860$

## When is my Full Retirement Age?

Your Full Retirement Age is based on the year of your birth. Currently:

Year of Birth	Full Retirement Age
1943-1954	66
1955	66 + 2 months
1956	66 + 4 months
1957	66 + 6 months
1958	66 + 8 months
1959	66 + 10 months
1960	67

## How do I claim Social Security benefits?

To claim Social Security, you can either:

- Go to [ssa.gov/apply](https://ssa.gov/apply) and follow the prompt or
- Call 1-800-772-1213 and let the representative know that you wish to set an appointment to apply. The representative will schedule you an appointment, either in person or over the phone, to begin the process.

## When should I claim Social Security?

This is a question that cannot be addressed in a simple FAQ. Your unique circumstances will determine what the optimal and most efficient age to claim is for you.

In general, there's a breakeven between the age you claim and your expected lifetime in which your annual benefits can be maximized. In general, if you have a shorter life expectancy, it may behoove you to claim sooner rather than later. If you expect an average or even greater life expectancy, it may be worthwhile to wait until your Full Retirement Age or defer.

Once more however, no decision should be made based on a single factor. Social Security, and when to draw, is likely just one factor among a myriad of considerations that must be taken into account. This is an analysis we are happy to run with and for our clients.

## What is a spousal benefit?

A spousal benefit is one that is payable to a spouse of an individual eligible for Social Security benefits where the spousal benefit is equal to 50% of the other spouse's PIA. It's important to note that to be eligible for this benefit, the spouse claiming the spousal benefit cannot file for Social Security until the other spouse has filed. Additionally, the spouse's benefit is further adjusted based on their Full Retirement Age (that is, it is only equal to 50% of their spouse's PIA at *their* Full Retirement Age. If they claim early, it will be reduced or if they defer claiming, it will be increased).

Once the spouse with the higher benefit passes away, the surviving spouse will see their benefit adjust to 100% of the deceased's benefit.

To clarify this, let's look at a hypothetical example of Susan and Valerie:

- Susan and Valerie are a married couple, both covered under Social Security
- Susan's PIA is \$2,000/month
- Valerie's PIA is \$500/month
- Both Susan and Valerie claim at Full Retirement Age which, for the purpose of this illustration, happens to be at the same time

In this case, Social Security will look at Valerie's PIA and her spousal benefit under Susan. Seeing that her spousal benefit under Susan is twice the benefit she would receive under her own record (\$1,000 vs \$500), she will be awarded the spousal benefit. Upon Susan's death, Valerie's benefit will increase to the amount Susan was receiving, \$2,000.

## What if I'm divorced?

A divorcee can claim a benefit from an ex-spouse if the following criteria are met:

1. The marriage lasted at least 10 years
2. The divorcee is not currently married (**or remarries after age 60**)
3. Both the divorcee and ex-spouse are at least 62
4. The divorce has been final for at least 2 years

If all the above are met, the divorcee is eligible for a benefit equal to 50% of the ex-spouse's PIA. As with a spousal benefit, this amount is then reduced should the divorcee claim before their Full Retirement Age.

## What if I'm widowed?

A widowed spouse is in a unique position from Social Security. It is the only benefit that will allow the spouse to claim benefits as early as 60, rather than 62. Additionally, the spouse can claim a widow's benefit under the deceased spouse and then defer their own benefit starting at 62 until 70.

Let's look at another example, this time of Edward and Caitlin:

1. Edward's PIA is \$2,000 but he passes away in an unfortunate accident before claiming benefits
2. Caitlin's PIA is also \$2,000 and she has yet to claim

In this case, Caitlin can claim a widow's benefit as early as 60 years old and let her benefit continue to accrue.

## What day does Social Security pay retirement benefits?

Social Security issues payments depending on the day of your birth. For example:

<b>If your birthday falls between...</b>	<b>Benefits are paid on the...</b>
<b>1<sup>st</sup> and 10<sup>th</sup> of the month</b>	Second Wednesday of the month
<b>11<sup>th</sup> and 20<sup>th</sup> of the month</b>	Third Wednesday of the month

<b>21<sup>st</sup> and 31<sup>st</sup> of the month</b>	Fourth Wednesday of the month
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## What happens if I continue to work while collecting Social Security?

If you continue to collect Social Security while working, your Social Security benefits may or may not be impacted – that will depend on your age.

Before the year in which you reach your Full Retirement Age:

- If you earn above an annual threshold (\$21,240 for 2023), \$1 in Social Security benefits will be withheld for every \$2 above the limit

During the year in which you reach your Full Retirement Age:

- If you earn above an annual threshold (\$56,520 for 2023), \$1 in Social Security benefits will be withheld for every \$3 above the limit

Once you attain Full Retirement Age:

- The earning limit no longer applies!

## How do I check my Social Security account?

You can create an account through [ssa.gov/myaccount/statement.html](https://ssa.gov/myaccount/statement.html) and clicking “Create your account”. You will be prompted to enter pertinent, identifying information to verify your identity. Once that has been created, you can log on at any time to view your estimated benefits.

## How much is the Cost of Living Adjustment (“COLA”)?

To ensure Social Security benefits can keep pace with rising inflation and cost of living for retirees, a Cost of Living Adjustment is calculated and applied each year. This formula is based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). Social Security calculates the average of CPI-W for the months of the July, August, and September of the current year and divides that by the average of CPI-W for the months of July, August, and September of the prior year.

It’s important to note that Social Security will not provide a negative COLA – the lowest it can go is 0% (no increase or decrease from your prior year’s benefit).

For example, the 2023 COLA adjustment was calculated as:

Month	CPI-W for 2022	CPI-W for 2021
July	292.219	267.789
August	291.629	268.387
September	291.854	269.086
<b>Third Quarter Total</b>	875.702	805.262
<b>Average</b>	291.901	268.421

For a resulting COLA of  $291.901 / 268.421 = 8.7\%$

## How is Social Security funded?

Social Security is funded, in large part, by payroll taxes. Employees pay 6.2%, employers pay an additional 6.2%, and self-employed individuals pay 12.4%. Under current law, this tax applies up to an annual maximum (\$160,200 in 2023). These funds are pooled into the Old Age and Survivors Insurance Trust Fund (which covers retirement and survivor benefits) and the Disability Insurance Trust Fund (which covers disability benefits).

The second source of funding for Social Security comes from investment interest and performance accrued in the Old Age and Survivors Insurance Trust Fund (known colloquially as the “Social Security Trust Fund”). This has been increasingly in the news as it is projected to become insolvent sometime in the 2030s. As mentioned, the majority of funding for Social Security benefits comes from annual payroll taxes – should no congressional or budgetary action take place to shore up the Social Security Trust Fund, Social Security retirement benefits are projected to be cut by 24%.

## Is Social Security taxable?

Social Security is indeed taxable – much to a new retiree’s disappointment. With that said, Social Security is not taxed like most sources of income in retirement – instead, it depends on your filing status and the total amount of benefits and income you receive:

If you’re single:

**and 50% of your Social Security benefits *plus* all other sources of taxable income (pensions, wages, etc.) is:**      **Then...**

<b>Less than \$25,000</b>	No tax is applied to your Social Security benefits
<b>Greater than \$25,000 but less than \$34,000</b>	Up to 50% of your Social Security benefits are taxable
<b>Greater than \$34,000</b>	Up to 85% of your Social Security benefits are taxable

If you’re married and filing jointly:

**and 50% of your Social Security benefits *plus* all other sources of taxable income (pensions, wages, etc.) is:**      **Then...**

<b>Less than \$32,000</b>	No tax is applied to your Social Security benefits
<b>Greater than \$32,000 but less than \$44,000</b>	Up to 50% of your Social Security benefits are taxable
<b>Greater than \$44,000</b>	Up to 85% of your Social Security benefits are taxable

## How do I get assistance with my Social Security benefits?

Always feel free to contact us at 206-973-4488. However, for information specific to your Social Security benefits, you can contact Social Security directly at 1-800-772-1213 to either speak with someone over the phone or to schedule an in-person appointment at a local office.

### Sources:

Social Security Administration. (n.d.). *Early or Late Retirement*. SSA.gov.

[https://www.ssa.gov/oact/quickcalc/early\\_late.html#:~:text=A%20worker%20can%20choose%20to,may%20result%20in%20larger%20benefits](https://www.ssa.gov/oact/quickcalc/early_late.html#:~:text=A%20worker%20can%20choose%20to,may%20result%20in%20larger%20benefits).

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<https://www.ssa.gov/pubs/EN-05-10035.pdf>

Social Security Administration. (n.d.). *If You Are the Survivor...*

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