

# Money Matters

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## Skloff Financial Group Question of the Month: Social Security Basics By Aaron Skloff, AIF, CFA, MBA

**Q: Can you provide us a basic understanding of Social Security retirement benefits? What do we need to know?**

### **A: The Problem — Understanding Basic Federal Programs are Not Always Basic**

Think of Social Security retirement benefits like a vineyard – harvest it at the wrong time, and you may not enjoy the results. To yield the most benefits and avoid unnecessary surprises, read below to gain a better understanding of Social Security retirement benefits.

### **The Solution — Social Security Retirement Income Basics**

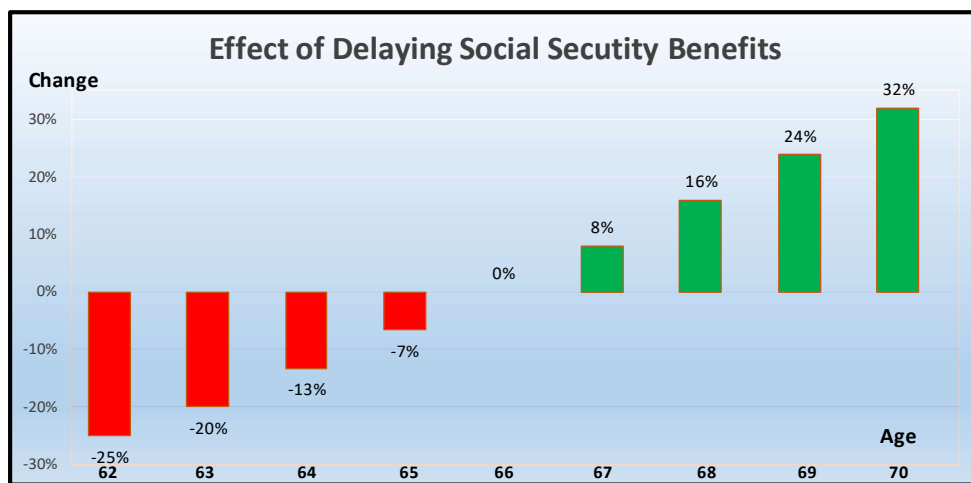
Social Security replaces a percentage of a worker's pre-retirement income based on your lifetime earnings. The amount varies based on your earnings and when you start benefits. Even if you have never worked, you may be able to get 50% of your spouse's retirement benefits if you are at least 62 years of age and your spouse is receiving benefits. If you are divorced, you may still be able to get benefits on your ex-spouse's record. You can determine your benefits with Social Security's Retirement Estimator at [www.ssa.gov/benefits/retirement/estimator.html](http://www.ssa.gov/benefits/retirement/estimator.html).

You can continue to work and still receive retirement benefits. Your earnings in (or after) the month you reach full retirement age (FRA) won't reduce your Social Security benefits – instead, working beyond FRA can increase your benefits. If you work but start receiving benefits before FRA your benefits are reduced \$1 for each \$2 in earnings you have above \$17,040 (in 2018). If you work but start receiving benefits the year you reach FRA your benefits are reduced \$1 for every \$3 in earnings above \$45,360 (in 2018) until the month you reach full retirement age. If you work but start receiving benefits at FRA, your benefits are not reduced.

**Full Retirement Age.** If you were born in 1929 or later, you need 10 years of work (40 credits) to be eligible for retirement benefits. If you were born before 1929, you need fewer years of work. Full retirement age is the age at which you may first become entitled to full or unreduced retirement benefits. If you were born between 1943 and 1954 your full retirement age is 66. For each year from 1955 to 1959, you just add two months to age 66 to determine your FRA. If you were born in 1960 or later your FRA is 67. You can start benefits as early as age 62. But the closer you are to age 70 before starting benefits, the higher your monthly benefit.

### **When to Take Social Security**

**Retirement Benefits.** If you know how long you are going to live, you can easily determine when to start your benefits. Since you do not know how long you will live, you need to determine how much of a penalty you would take by starting before your FRA. The following table shows the effect on monthly benefits based on a FRA of 66. For example, beginning benefits at age 62 generates a 25% penalty.



### **The Break-even Age When Delaying**

**Benefits.** Before delaying benefits to receive a higher monthly benefit, determine how long you would have to live to break-even. The following table shows key break-even ages based on an age 62 monthly benefit of \$2,102.

Delaying Social Security Benefits Break-even Analysis		
Monthly Benefit	Retirement Age	Break-even Age
\$2,102	62 vs 66	Between 77 and 78
\$2,806	62 vs 70	Between 80 and 81
\$3,721	66 vs 70	Between 82 and 83

### **Action Steps**

Like harvesting a vineyard at just the right time, determine and harvest your Social Security retirement benefits at your right time. Your right time should be based on your need for the income and your comfort level with your break-even age if you delay benefits.

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