



## SOCIAL SECURITY GUIDEBOOK

The *Financial Principles Guidebook* is a comprehensive collection of our planners' insights to help you along your pursuit of financial independence.

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Social Security is a program that helps older Americans, workers who become disabled, and families in which a spouse or parent dies. There are approximately 173 million people working and paying Social Security taxes supporting the more than 62 million people who are receiving a monthly benefit. On average, Social Security replaces 40% of a wage earner's income, and will be a key part of your retirement income. Therefore, it is important that the benefits, and available collection strategies, be understood and carefully considered. We have prepared this Guidebook to help educate you on the Social Security program and the collection options and strategies that may be available. ***We hope that you find this information valuable. Should you have any questions, please do not hesitate to contact our office. If you have a friend, family member, colleague, or client who may benefit from this Guidebook, please do not hesitate to share it with them.***

### FOCUSED ON YOUR FINANCIAL INDEPENDENCE



## WHO IS ENTITLED TO SOCIAL SECURITY AND HOW IS IT FUNDED?

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Social Security is a program that is funded primarily through payroll taxes and it pays benefits to:

- People who have already retired
- People who are disabled
- Survivors of workers who have died
- Dependents of beneficiaries

Not all workers pay into the Social Security Trust Fund and are eligible to collect benefits. There are many (but not all) public workers who are covered by a government pension plan who do not contribute to Social Security.

### HOW MUCH TAX DO WORKERS PAY INTO THE SOCIAL SECURITY TRUST FUND?

Your Social Security tax, like most taxes, is determined as a percentage of income. A total of 12.4% of your pay (up to a cap) is a tax that is sent to the Social Security Trust Fund. Of this amount, half (6.2%) is deducted from your pay, and half (6.2%) is contributed by your employer. If you are self-employed, you pay the full 12.4%. In 2020, Social Security tax is capped at \$137,700 of earnings. Therefore, after you earn \$137,700, no further Social Security tax is deducted from your pay.

### HOW DO I QUALIFY FOR SOCIAL SECURITY?

To qualify for Social Security benefits, you need to accrue 40 credits. A credit is defined as an amount of earnings that has Social Security tax deducted. In 2020, a credit is defined as \$1,410 in earnings. You can earn up to 4 credits per year. If you earn \$5,640 in 2020, you will accrue 4 credits. Essentially, 40 credits equates to 10 years of work.

### WHEN CAN I COLLECT BENEFITS?

If you have 40 credits, you can begin collecting reduced benefits as early as age 62. You can collect your full benefit at your “Full Retirement Age.” You can also delay your benefits up until age 70.

### WHAT IS MY FULL RETIREMENT AGE?

Your Full Retirement Age depends on the year in which you were born.

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



## IF I CAN COLLECT MY BENEFIT AT 62, WHY WOULD I WAIT?

AT YOUR FULL RETIREMENT AGE, YOU WILL BE ELIGIBLE TO RECEIVE YOUR “PRIMARY INSURANCE AMOUNT,” OR PIA. IF YOU COLLECT YOUR BENEFITS PRIOR TO YOUR FULL RETIREMENT AGE, YOU WILL RECEIVE A REDUCED BENEFIT.

If you collect your benefits prior to your Full Retirement Age, your benefit will be reduced by 5/9<sup>th</sup> of 1% per month for the first 36 months and 5/12<sup>th</sup> of 1% for all months greater than 36 months before your Full Retirement Age.

### IF YOU DELAY YOUR BENEFITS PAST YOUR FULL RETIREMENT AGE, YOU WILL RECEIVE A RAISE!

If you delay collecting your benefits, you will receive an 8% raise in your benefit for every year that you wait beyond your Full Retirement Age. You can receive these increases up until age 70. These increases are prorated and credited to your benefit every month.

Age Benefit Begins	Monthly Benefit	Percentage of Full Retirement Age Benefit	Percentage of Full Retirement Age Benefit for Spouse
62	\$1,400	70.0%	32.5%
63	\$1,500	75.0%	35.0%
64	\$1,600	80.0%	37.5%
65	\$1,734	86.7%	41.7%
66	\$1,866	93.3%	45.8%
<b>67</b>	<b>\$2,000</b>	<b>100.0%</b>	<b>50.0%</b>
68	\$2,160	108.0%	50.0%
69	\$2,320	116.0%	50.0%
70	\$2,480	124.0%	50.0%

\*Above assumes a Full Retirement Age of 67

## WHEN DO PEOPLE GENERALLY FILE FOR BENEFITS?

57%

DESPITE THE PROSPECTS OF GETTING LARGER PAYMENTS FROM SOCIAL SECURITY, APPROXIMATELY 57% OF PEOPLE COLLECT THEIR BENEFITS BEFORE THEIR FULL RETIREMENT AGE

34.3% OF PEOPLE COLLECT THEIR BENEFIT WHEN FIRST ELIGIBLE AT AGE 62

34.3%





## HOW IS MY PRIMARY INSURANCE AMOUNT CALCULATED?

Your benefit is based on your **Average Indexed Monthly Earnings (AIME)**. Your AIME is calculated using your 35 highest earning years over your working history. If you have worked for more than 35 years, the Social Security Administration uses your highest 35 years of earnings. If you have worked for less than 35 years, Social Security will factor \$0 into their formula for non-working years. Your AIME is then applied to the **PIA Formula** to determine your PIA.

## THE PIA FORMULA

If you are interested in the formula that is used to determine your Primary Insurance Amount, your highest 35 years of earnings are averaged, and the monthly amount is then applied to the **PIA Formula**. The PIA Formula for 2020 applies 90% of your first \$960 in AIME, 32% of your AIME over \$960 and to \$5,785, and 15% of anything over \$5,785. The result is then rounded down to the closest \$0.10.

## WHY ARE THERE THREE DIFFERENT “BEND POINTS” IN THE PIA FORMULA?

The Social Security Administration applies “bend points” to your AIME. The Administration does this so that lower wage earners receive a higher percentage of their pre-retirement income in Social Security benefits.



- If your AIME was within the first bend point, you will receive 90% of your pre-retirement income in Social Security benefits.

- If your AIME was within the second bend point, you will receive between 90% and 41% of your pre-retirement income in Social Security benefits.
- If your AIME was above the second bend point, you will receive between 41% and 29% of your pre-retirement income in Social Security benefits.

## REVIEW YOUR SOCIAL SECURITY BENEFITS STATEMENT TO CONFIRM YOUR EARNINGS HISTORY IS CORRECT

You can find your Primary Insurance Amount (as well as your reduced age 62 and delayed age 70 benefits) on your Social Security Benefits statement (pictured below). The Social Security Administration has stopped mailing statements to pre-retirees. If you are age 60 or older you can request one be mailed to you. Otherwise, you can find your benefit statement and earnings history online at [www.ssa.gov/mystatement](http://www.ssa.gov/mystatement)

You should review your benefits statement to confirm your earnings history. If there are mistakes in your earnings history, your benefits will be affected and may be lower than what you are entitled to.

### Your Estimated Benefits

<b>*Retirement</b>	You have earned enough credits to qualify for benefits. At your current earnings rate, if you continue working until: your full retirement age (67 years), your payment would be about <span style="border: 1px solid red; border-radius: 50%; padding: 2px;">1,619 a month</span> age 70, your payment would be about \$ 2,023 a month age 62, your payment would be about \$ 1,113 a month
<b>*Disability</b>	You have earned enough credits to qualify for benefits. If you became disabled right now, your payment would be about \$ 1,441 a month
<b>*Family</b>	If you get retirement or disability benefits, your spouse and children also may qualify for benefits.
<b>*Survivors</b>	You have earned enough credits for your family to receive survivors' benefits. If you die this year, certain members of your family may qualify for the following benefits: Your child \$ 1,131 a month Your spouse who is caring for your child \$ 1,131 a month Your spouse, if benefits start at full retirement age \$ 1,508 a month Total family benefits cannot be more than \$ 2,778 a month Your spouse or minor child may be eligible for a special one-time death benefit of \$255.
<b>Medicare</b>	You have enough credits to qualify for Medicare at age 65. Even if you do not retire at age 65, be sure to contact Social Security three months before your 65th birthday to enroll in Medicare.
* Your estimated benefits are based on current law. Congress has made changes to the law in the past and can do so at any time. The law governing benefit amounts may change because, by 2033, the payroll taxes collected will be enough to pay only about 77 percent of scheduled benefits.	
We based your benefit estimates on these facts: Your date of birth (please verify your name on page 1 and this date of birth) April 5, 1973 Your estimated taxable earnings per year after 2013 \$44,833 Your Social Security number (only the last four digits are shown to help prevent identity theft) XXXX-XX-1234	



## YOU MAY BE ELIGIBLE FOR BENEFITS OTHER THAN JUST ON YOUR OWN EARNINGS RECORD

There are other types of benefits that you may be entitled to besides your own Social Security benefit:

- Spousal Benefits
- Divorced-Spouse Benefits
- Survivor Benefits

### SPOUSAL BENEFITS

You may be entitled to a spousal benefit of up to 50% of your spouse's benefit as calculated at their Full Retirement Age. To collect a spousal benefit, the primary worker must have filed for benefits and the spouse must be at least 62 (for a reduced benefit). There are no delayed credits on spousal benefits after Full Retirement Age.

### DIVORCED-SPOUSE BENEFITS

An ex-spouse can receive the same benefits as a spouse if:

- the marriage lasted at least ten years
- person receiving divorced-spouse benefit is currently unmarried (if you marry after beginning benefits, they will stop)
- the ex-spouse is at least age 62

If the divorce was more than two years ago, the ex-spouse does not need to have filed for benefits in order for you to qualify for a divorced-spouse benefit. More than one ex-spouse can receive benefits on the same worker's record and benefits paid to one ex-spouse does not affect those paid to the worker, their current spouse, or any other ex-spouses.

If you have more than one ex-spouse (of at least ten years of marriage) you can collect the higher of the two divorced-spouse benefits.

### SURVIVOR BENEFITS

Survivor benefits depend on:

- The age the deceased spouse originally claimed their benefit ("Original Benefit")
- If before Full Retirement Age, survivor benefit will be limited to the higher of deceased spouse's benefit or 82.5% of their PIA
- If they claimed after their Full Retirement Age, the survivor benefit will include any delayed credits

- The age at which the widow(er) claims the survivor benefit ("Actual Benefit")
- If they claim before their Full Retirement Age, the survivor benefit will be a fraction of the original benefit
- If they claim at, or after, their Full Retirement Age, the survivor benefit will be 100% of the original benefit

If a spouse dies while both are receiving benefits, the widow(er) will receive the higher of their or their deceased spouse's benefit.

A widow(er) can receive a reduced survivor benefit as early as age 60 (age 50 if disabled). If the widow(er) is taking care of the deceased's child who is disabled or age 16 or younger, they can receive survivor benefits regardless of their age. Survivor benefits are available to ex-spouses, as well, so long as they did not remarry before age 60, unless that marriage ends.

Survivor benefits for spouses are contingent on the couple having been married for 9 months, except in the case of accidental deaths. For divorced ex-spouses, the marriage must have lasted for ten years.

Unmarried surviving children younger than age 18 (or 19 if attending school full time), or disabled before age 22, can also receive benefits. Under certain circumstances, survivor benefits can extend to stepchildren, grandchildren, step grandchildren, adopted children, and dependent parents.



## I WAS TAXED IN ORDER TO QUALIFY FOR BENEFITS, WILL I BE TAXED AGAIN ON MY BENEFITS?

Odds are, your Social Security Benefits will be taxed. Refer to the below chart regarding the amount of your Social Security benefits that may be taxable.

Filing Status	Provisional Income*	Amount of Benefit Subject to Tax
Married Filing Jointly	Under \$32,000	0%
	\$32,000 - \$44,000	Up to 50%
	Over \$44,000	Up to 85%
Single, head of household, qualifying widow(er), married filing separately and living apart from spouse	Under \$25,000	0%
	\$25,000 - \$34,000	Up to 50%
	Over \$34,000	Up to 85%
Married filing separately and living with spouse	Over \$0	85%

\*Provisional Income is your Adjusted Gross Income + one-half your Social Security Benefit + your tax-exempt interest

## I AM NOT RETIRED. CAN I COLLECT BENEFITS AND CONTINUE TO WORK ?

You can continue to work and still receive retirement benefits. If you collect your benefits before your Full Retirement Age, your benefits may be reduced by your wages. Your earnings in (or after) the month you reach your Full Retirement Age will not reduce your benefits. If you collect benefits before your Full Retirement Age:

- \$1 in benefits will be deducted for each \$2 in earnings you have above the annual limit. In 2020, the limit is \$18,240.
- In the year you reach your Full Retirement Age, your benefits are reduced \$1 for every \$3 you earn over a limit of \$48,600 in 2020 until the month you reach your Full Retirement Age.
- Once you reach your Full Retirement Age, you can keep working and your Social Security benefits will not be reduced (no matter how much money you earn from employment).

Benefit Reduction Example Jane is 62 and earns \$25,000 per year	
Jane's Earnings	\$25,000
- Earnings Limit	\$18,240
Amount over limit	\$6,760
Divided by two (\$1 for every \$2 over the earnings limit)	\$3,380
Amount Social Security will withhold from Jane's benefits	\$3,380 of her benefit

## IF I CONTINUE TO WORK AFTER COLLECTING, WILL I STILL PAY SOCIAL SECURITY TAX ON THOSE EARNINGS?

Yes. As long as you continue to work (regardless of your age), you will continue to pay Social Security taxes on those earnings. However, for every year that you continue to work, Social Security will recalculate your Average Indexed Monthly Earnings and apply it to the PIA Formula. Therefore, you may receive annual benefit increases that are greater than Social Security's inflation adjustment factor.

## SPECIAL CONSIDERATIONS

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### WHAT IF YOU WERE A GOVERNMENT WORKER AND ALSO HAD PART-TIME WORK OR SELF-EMPLOYMENT FROM WHICH YOU PAID SOCIAL SECURITY TAX?

If you were a government worker who did not participate in Social Security and also had part-time work or self-employment income and you paid Social Security tax, you may have qualified for a Social Security benefit. That benefit can be reduced by the **Windfall Elimination Provision (WEP)**. The WEP applies to:

- Workers who have reached age 62 after 1985, or
- Became disabled after 1985, or
- First became eligible for a monthly pension based upon work not covered by Social Security after 1985

Some exceptions to the WEP:

- Federal workers hired after 1983
- Those who were employed on 12/31/1983 by a non-profit that did not withhold Social Security tax (but later did)
- If your only pension is for railroad work
- If the only work you performed that did not have Social Security tax withheld was before 1953
- If you have 30 or more years of "substantial earnings" under Social Security

### I WAS A GOVERNMENT WORKER, CAN I COLLECT SPOUSAL BENEFITS?

If you were a government worker who did not have Social Security tax deducted from your pay, you may have realized that you could collect a spousal benefit. The government is, unfortunately, one step ahead of you. To stop spouses and widow(er)s from collecting spousal and survivor benefits in addition to their pension, the government instituted a **Government Pension Offset (GPO)**. Any benefit that you may be entitled to will be reduced by two-thirds of your government pension (and it can be reduced all the way to \$0). For example, if you are entitled to a \$1,200 per month spousal benefit and receive a \$2,400 per month pension, your spousal benefit will be reduced by \$1,600 (2/3rds of \$2,400) to \$0.

## MAXIMIZING BENEFITS

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### IMPROVE YOUR EARNINGS RECORD

The more you earn, the more your benefits (subject to the maximum benefit, of course)! If you can, work longer.

You should also examine your earnings record on your Benefits Statement to confirm it is accurate and there are no missing years.



### DELAY COLLECTING BENEFITS

You should consider your income needs both now and in the future. If you can delay collecting benefits, do it!

### COORDINATE SPOUSAL BENEFITS

The Bipartisan Budget Act of 2015 introduced the most sweeping changes to Social Security since 1983. The legislation severely limited the coordination of spousal benefit options available to married couples. However, there are still strategies that are available for married couples. In fact, there are over 8,000 different ways a couple can claim benefits. Contact our office for assistance evaluating how Social Security benefits and various collection strategies fit into your financial plan.



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Feel free to forward our Guidebook to anyone you feel would benefit from this information. We would be happy to speak with them and answer any questions that they may have.



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Data Sources: SSA.gov-- Survivor Benefits, March 2018, If You are Self Employed, Understanding the Benefits., How Work Affects Your Benefits, Your Retirement Benefit: How It Is Figured, How to Earn Credits, What You Need To Know When You Get Retirement or Survivors Benefits, Retirement, Windfall Elimination Provision, Government Pension Offset, January 2018