

## **Social Security: Coverage and Common Questions**

Beginning with the first of the baby boomers who turned 65 in 2010, more than 76 million Americans will transition into retirement by 2030, an event that's been dubbed the "Silver Tsunami" by popular media.

Although there have been claims that Social Security is going bankrupt, reserves are projected to pay full benefits through 2034. According to the Social Security and Medicare Boards of Trustees 2020 Annual Report, income from payroll taxes and taxes on benefits should be enough to pay 79% of projected benefits through 2035, declining to 73% to 2094, the last year looked at.<sup>1</sup>

Going forward, there may be changes to the system to increase revenue and/or adjust benefits. Options being considered include implementing a higher payroll tax rate or raising the cap on earnings to boost revenue. Benefit changes could include increasing the Full Retirement Age (FRA), reducing the rate of benefit increase, or changing the cost-of-living adjustment.

The good news is that research shows that most people receive benefits exceeding the amount they paid into the program, regardless of their income bracket.<sup>2</sup>

### **When Should I File for Benefits?**

The answer is different for everyone.

- You can receive reduced benefits as early as the first month you reach 62, allowing you to receive monthly income earlier but lower monthly payments for the rest of your retirement.
- You can receive full, unreduced benefits at FRA, 66 or 67 depending on your birth date.
- You can receive higher amounts, an 8% increase each year, if you delay benefits beyond FRA, up to age 70.

### **Can I Still Work and Receive Social Security?**

You can work and still receive Social Security, but there are limits to how much you can earn before your benefits will be reduced if you take them before FRA.

In 2020, you're permitted to earn \$18,240 in addition to your Social Security benefit. For every \$2 in earnings over this limit, \$1 will be withheld from your distribution. In the year in which you reach FRA, you may earn up to \$48,600 (in 2020), but Social Security will deduct \$1 for every \$3 you make over the limit. However, once you reach the month in which you reach FRA, you can keep all your Social Security benefits no matter how much you earn.<sup>3</sup>

You can get an estimate of what your monthly Social Security retirement benefit will be in the future by visiting the Social Security website and using the retirement estimator tool for viewing your personalized [Social Security statement online](#).

### **How Do Spousal Benefits Work?**

Typically, you need 40 credits to receive Social Security. If you haven't worked long enough to qualify for Social Security on your own, you may qualify for spousal benefits based on your spouse's work record. A spousal benefit claimed at your FRA is generally equal to 50% of the primary earner's benefit. If you're divorced and at least 62, you can file for spousal benefits even if your ex-spouse has not yet claimed benefits and receive half of what your ex-spouse would receive. If you are widowed and are age 60 or older, you can collect a survivor's benefit.

### **What About Taxes?**

If you make more than \$25,000 per year, including Social Security benefits, income from investments held in retirement accounts (e.g., 401(k), 403(b), IRA) and/or a part-time or full-time job, your Social Security income will also be taxed. Regardless of how much you make in a year, though, the maximum taxable portion of your Social Security benefits will not exceed 85%. Learn more about [Income Taxes And Your Social Security Benefit](#).<sup>4</sup>

### **Here are three strategies to consider to reduce your tax liability:**

#### **1. Convert a traditional 401(k)/IRA to a Roth 401(k)/IRA account**

Since you received a tax advantage for participating in a tax-deferred retirement program, your withdrawals from a traditional 401(k)/IRA will be taxed as income. However, withdrawals from a Roth account won't count toward combined income that will affect taxes on your Social Security benefits. With a conversion, you'll pay income tax on the amount in your account, but after that distributions will be tax free and won't be counted in your overall income calculation. You must have a Roth account open for five years and be 59 1/2 before you can withdraw funds tax free. Once you convert a traditional account to a Roth account, you can't change your mind because of a provision in the 2017 Tax Cut and Jobs Act.

#### **2. Shift investments into nontaxable income.**

Many investments are taxable, including interest income from many bonds and savings accounts. Interest income on municipal bonds is typically exempt from federal and state income taxes, but any capital gains received may still be taxable. By moving taxable investments to nontaxable options, you can reduce your tax liability. Visit with a financial professional to learn more.

#### **3. Delay taking Social Security.**

If you have enough income to meet your needs through investments, you can delay taking Social Security and continue to accrue an additional 8% each year until you turn 70. But that time, if you've drawn other assets taxed at a higher rate, you may have fewer of those assets subject to taxation, potentially lowering the amount that would be taxed on your Social Security benefits too. Before making any decisions, consider meeting with your financial professional.

### **2020 Social Security Changes<sup>5</sup>**

Cost of Living Adjustment: Social Security recipients received a 1.6 % cost of living adjustment. The average benefit is expected to increase by an estimated \$39 for individuals and \$67 for married couples where both spouses receive benefits. [Cost of living adjustments are available online](#) (PDF).

Higher Social Security Tax Cap: The maximum amount of earnings subject to Social Security tax will increase to \$137,700.

### **Social Security by the Numbers<sup>6</sup>**

## “Social Security 82 Years Later”

**1935:** President Franklin D. Roosevelt signed the Social Security Act to pay monthly retirement benefits to workers (\$10 minimum/\$85 maximum).

**17 cents:** A lump-sum payment was made to Ernest Ackerman, a retired Cleveland motorman, who retired just one day after the Social Security program was enacted.

**055-09-0001:** The first Social Security number was assigned to John David Sweeney, who died of a heart attack in 1974 at age 61.

**1954:** President Dwight D. Eisenhower signed the Social Security Amendment of 1954 to establish disability benefits.

**38%:** Average percentage of income Social Security is supposed to replace for retirees.

**1972:** Year in which cost of living adjustments were first initiated.

**61.5 Million:** Approximate number of U.S. residents collecting Social Security benefits.

**4 Million:** Approximate number of children under 18 who receive benefits as the offspring of deceased, disabled, or retired workers.

**978-05-1120:** Social Security number of Hilda Schrader Whitcher, an E.H. Ferree employee, whose number was used for sample cards in a line of wallets and was subsequently claimed by 40,000 people in the 1930s and 1940s. She eventually received a new number after being questioned by the FBI.

**\$22.54:** Monthly amount collected by Ida May Fuller, a legal secretary and the first Social Security beneficiary, in January 1940.

**\$22,889:** Total amount Fuller received until her death at age 100 in 1975.

**454 Million:** Approximate number of Social Security numbers issued.

## Important Social Security Terms

**Average Indexed Monthly Earnings (AIME):** Dollar amount used to calculate benefit based on your actual earnings for 35 years.

**Cost of Living Adjustment:** The annual adjustment intended to keep Social Security benefits in pace with inflation.

**Delayed Retirement Credits:** Increased Social Security benefits for delaying taking retirement benefits beyond Full

**Retirement Age:** (e.g., each year you wait you can receive an 8% increase in payments, with the increase ceasing at age 70).

**Full Retirement Age:** The age when you are eligible for full, unreduced retirement benefits based on your date of birth.

**Primary Insurance Amount:** The Social Security Administration’s calculation of individual benefits, based on income earned during your 35 highest-earning years of work.

**Old Age, Survivors, and Disability Insurance:** The payroll tax used to fund the Social Security program.

**Social Security Credits:** Units that count toward eligibility for future Social Security benefits (most people need 40 credits to qualify for benefits).

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<sup>1</sup> [Projections of Future Financial Status](#)

<sup>2</sup> [Medicare and Social Security: What you paid compared with what you get](#)

<sup>3</sup> [SSA.gov](#)

<sup>4</sup> [Income Taxes And Your Social Security Benefit](#)

<sup>5</sup> [SSA.gov](#)

<sup>6</sup> [AARP.org](#), 08/14/2017; Historical Background and Development of Social Security, [SSA.gov](#).

## Related Resources

- [Life Stage Investing](#)
- [Women and Money](#)
- [Women and Retirement](#)
- [Tax Center](#)