



Social Security: Dispelling Common Myths with Essential Truths

SMT2/26/F1



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The Myths – The Insolvency Dilemma



“Social Security won’t be there for me”

“Once the trust funds run out of money, that’s it. No benefits for me!”

“I’m better off claiming as soon as I can so that I will be protected from benefit cuts”



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Defining the Scope of the Problem

▪ Ratio of Covered Workers to Beneficiaries:

Year	Covered Workers (in thousands)	Beneficiaries (in thousands)	Ratio
1940	35,390	222	159.4
1950	48,280	2,930	16.5
1960	72,530	14,262	5.1
1970	93,090	25,186	3.7
1980	113,656	35,118	3.2
1990	133,672	39,470	3.4
2000	155,295	45,166	3.4
2010	156,725	53,398	2.9

- In 2023 – 68 million beneficiaries and only 2.7 workers for each beneficiary
- By 2035 – Projected to be 2.3 workers for each beneficiary

ssa.gov Social Security History: Ratio of Covered Workers to Beneficiaries
<https://www.ssa.gov/news/press/factsheets/basicfact-alt.pdf>



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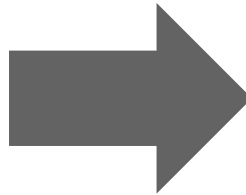




Then and Now

Then:

- Average life expectancy in 1930s was 58 for men, 62 for women (at birth)
- Many would never live long enough to collect Social Security
- Designed to supplement income



Now:

- Average life expectancy 78–81 at birth
- Life expectancy continues to increase
- 61 million Americans over 65 today
- In 2035, projected to be 77 million
- 30% average income replacement

ssa.gov Social Security History: Life Expectancy for Social Security (archival document)
<https://www.ssa.gov/news/press/factsheets/basicfact-alt.pdf>



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The Current Status of the OASDI Trust Funds

- About **1 in 6** U.S. residents collect Social Security
- Trust funds grew through 2018
- 2019 – Began running at a deficit
- 2024 report: OASDI Trust Fund projected to run dry by 2035 (one year later than 2023 report)
- Absent legislation, only **83%** of promised benefits will be paid (up from 80%)
- Recent passage of the Social Security Fairness Act of 2023 accelerates insolvency by six months
- Report warns that the longer no action is taken, the less time the public has to adequately prepare



ssa.gov Status of the Social Security and Medicare Programs: A Summary of the 2024 Annual Reports, October 2024
<https://www.ssa.gov/OACT/TRSUM/index.html>

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Proposals to Bring Back Solvency

- Variations of increase to 6.2% FICA tax
- Reinstatement of the 6.2% Social Security tax on income above \$400K
 - 2025 taxable maximum is \$176,100
- Replace CPI-W (Consumer Price Index for Urban Wage Earners and Clerical Workers) with CPI-E (Consumer Price Index for the Elderly)
 - Projected to increase COLA by roughly 2% annually
 - December 2024 COLA effective with January 2025 income benefits is 2.5% (based on CPI-W)
- Gradually increase the full retirement age
- Change the benefit computation formula
- Means-testing benefits
 - The PIA formula is already means-tested through its progressive nature

<https://www.ssa.gov/OACT/solvency/provisions/summary.pdf>
<https://www.ssa.gov/news/press/factsheets/colafacts2025.pdf>
taxpolicycenter.org/taxvox/close-look-joe-bidens-social-security-proposals ssa.gov/OACT/solvency/



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The Insolvency Dilemma The Essential Truths

- Social Security has been on the brink of insolvency before and made changes to avoid cutbacks
 - 1983 amendments to the Social Security Act that added taxation of benefits and increased FRA to age 67
- Insolvency does not mean “no benefits”
 - There is only enough collected from payroll taxes and income taxes on collected benefits to pay 83% of promised benefits
 - Likely that any changes to bring back solvency will affect younger workers and not those already collecting benefits
 - If benefit cuts do occur, no one is grandfathered into protection
- Get your clients off the panic bus by encouraging them to save more and spend less
- Analyze and plan for multiple “what if?” scenarios
- Encourage careful planning rather than fear as a catalyst for the claiming decision
- Familiarize yourself with proposals:
<https://www.ssa.gov/oact/solvency/provisions/summary.pdf>

<https://www.ssa.gov/history/taxationofbenefits.html>



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The Myths – Calculating the Benefit



“I only need 10 years of work to maximize my retirement benefit”

“My benefit is calculated using only the years that I report earnings”

“I’m better off just collecting a spousal benefit rather than working”



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How Is My Benefit Calculated?

- The lingo:

- Quarters of Coverage or Credits (QOCs)

- 40 credits needed for retirement benefit eligibility
 - 10 years of work, on average
 - 1 QOC = 1,810 (2025) of FICA earnings or \$7,240 (2025) in a year; max of 4 credits may be earned per year

- Primary Insurance Amount (PIA)

- The benefit a claimant receives at FRA, which is 100% of PIA

- Full Retirement Age (FRA)

- Based upon year of birth. Anyone born on January 1st, refer to the prior year to determine FRA.

- Average Indexed Monthly Earnings (AIME)

- To calculate PIA, SSA first indexes the worker’s earnings in the year they reach age 60 to reflect general wage levels that occurred over the worker’s earnings years

ssa.gov/oact/cola/Benefits.html



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How Is My Benefit Calculated?

Step 1:

Adjust all Social Security earnings for inflation

- (Earnings from age 60+ are not indexed)

ssa.gov/oact/cola/piaformula.html

Step 2:

Identify the highest 35 years of indexed earnings

- If less than 35 years, substitute **zeros** to get to 35 years of earnings

Step 3:

Add highest 35 years of earnings and divide by 420 (# of months in 35 years)

- This is your average indexed monthly earnings (AIME)



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How Is My Benefit Calculated?

Step 4:

Apply AIME to a 3-tier bend point formula

*Use the formula for the year the worker turns 62

2025 Bend Points

90% of the first \$1,226 of AIME, plus

32% of AIME over \$1,226 to \$7,391, plus

15% of AIME over \$7,391

**\$1,174 and \$7,078 1st and 2nd tier bend points in 2024

ssa.gov/oact/cola/piaformula.html

Example: AIME of \$2,052 (2025)

90% of \$1,226 = \$1,103.40, plus

32% of \$826 = \$264.32

PIA = \$1367.72 rounded down to \$1,368
(replaces 67% of pre-retirement earnings)

Example: AIME of \$10,250 (2025)

90% of \$1,226 = \$1,103.40, plus

32% of \$6,165 = \$1,972.80, plus

15% of \$2,859 = 428.85

PIA = \$3,505.05 rounded down to \$3,505
(replaces 34% of pre-retirement earnings)



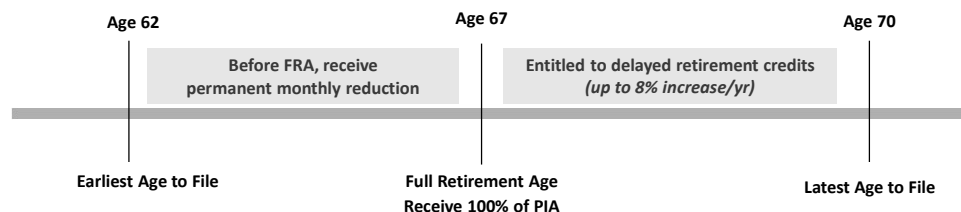
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How Is My Benefit Calculated?

Timing Matters



- Reduction is *generally* permanent (isn't there an exception to every rule?)
- Increase is permanent too and is inherited by the surviving spouse!
- Maximum of 24% increase for someone turning 62 this year who files at age 70 (born in 1960)

https://www.ssa.gov/oact/quickcalc/early_late.html



How Is My Benefit Calculated?

Timing Matters

Notables:

- COLA increases apply beginning at age 62, whether the worker has filed for benefits
- 12 months of delayed filing (beyond FRA) are worth 8% plus the COLA!
- Filing before FRA:
 - **Retirement Benefit Reduction Formula:**
 - Reduction factor for up to 36 months early: 5/9 of 1%
 - For each month greater than 36, 5/12 of 1%
- Filing at FRA = 100% of PIA
- Filing after FRA:
 - **Retirement Benefit Increase Formula Beyond FRA:**
 - 2/3 of 1% for **each month** beyond FRA
 - Every 12 months of delay are worth 8% plus the COLA, if declared

https://www.ssa.gov/oact/quickcalc/early_late.html



Calculating the Benefit

The Essential Truths

- Workers with less than 35 years of earnings will have **zeros** in their PIA calculations
- Closing the 35-year wage gap is the best way to increase the benefit
- Relying on a spousal benefit rather than building a retirement benefit of your own is **not** only not a “plan,” it’s a bad one! Encourage Social Security autonomy.
- PIA is recalculated each year there are reported earnings, even if benefits are already being collected!
- Future projected benefits assume the same level of earnings as most recent year (or two) of recorded earnings
- The progressive PIA formula is designed to replace a higher percentage of pre-retirement earnings for lower earners than higher earners
- Business owners generally report low wages and then wonder why their PIA is low!
- **Plan for Retirement** tool within online SSA account is perfect for engaging in “what if?” scenarios



The Myths – Claiming Benefits From a Spouse/Ex-Spouse



“I can claim a spousal benefit before claiming my own benefit”

“I can no longer claim spousal benefits after the Bipartisan Budget Act”

“If I get to the benefit first, my ex’s new spouse won’t be able to collect a benefit!”



Can I Claim Spousal Benefits?

Spousal Benefit Eligibility:

- Age 62 or older, or
- At any age if caring for the worker's child (under age 16) or disabled adult child
- Married for at **least 1 year**
- Spouse has filed for retirement or disability benefits (file and suspend gone as of 4/29/16)
 - File and suspend before the Bipartisan Budget Act permitted the worker to file and immediately suspend the benefit so the no- or low-earning spouse could collect a benefit. Repealed for this purpose.
- Spousal benefit is greater than the filer's benefit

<https://www.ssa.gov/oact/quickcalc/spouse.html>



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Can I Claim Ex-Spousal Benefits?

Entitled Ex-Spouse:

- Age 62 or older
- Married for 10+ years
- Currently unmarried
- **Former spouse is collecting** a retirement or disability benefit
- Benefit is greater than his/her own retirement benefit (deemed filer)

Independently Entitled Ex-Spouse:

- Age 62 or older
- Married for 10+ years
- Currently unmarried
- **Divorced at least 2 years** at time of claim
- Former spouse is at least age 62
- Former spouse **does not have to be collecting benefits**

<https://www.ssa.gov/oact/quickcalc/spouse.html>



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Can I Claim Spousal Benefits?

What is Deemed Filing?

- Applies to individuals born after January 1, 1954
- A claim for one benefit is a claim for all benefits, even if not simultaneously entitled
- Only applies to someone who is entitled to a retirement benefit and a spousal (or ex-spousal) benefit, but not to survivor benefits

Hypothetical Example – Margaret:

Margaret is 62 and is entitled to both her own retirement benefit and a spousal benefit (dually entitled). Margaret's retirement benefit at age 62 is \$1,625. The spousal benefit at age 62 is \$1,350. Margaret will forfeit the spousal benefit and collect her own retirement benefit.

Suppose Margaret's retirement benefit at age 62 is \$1,400 per month, and the spousal benefit is \$1,625 at the same age. Suzy will collect her retirement benefit of \$1,400 plus \$225 (**spousal boost**) so that her combined benefit is \$1,625.

Notables:

- Retirement benefit is always paid first
- Spousal (or ex) benefit (or boost) only paid if it results in a higher benefit
- May not choose to take one benefit before the other

ssa.gov/benefits/retirement/planner/claiming.html



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How Much Can I Claim as a Spouse (or Ex)?

- Maximum of 50% of the worker's PIA
- Reduced if **the spouse (or ex-spouse)** claims it early, **not** the worker
- If the worker claims early or late, the spouse still receives **up to** 50% of PIA
- Remember, the spousal benefit is only paid if it is higher than the spouse's own retirement benefit if he/she has earned one
- Cannot collect the sum of both benefit amounts
- Up to a 35% reduction if taken at 62, with an FRA of 67
- **Spousal Benefit Reduction Formula:**
 - Each month up to 36 months early, reduce 25/36 of 1% per month
 - Months over 36, reduce by 5/12 of 1% per month

<https://www.ssa.gov/oact/quickcalc/spouse.html>



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How Much Can I Claim as a Spouse?



Hypothetical Example – Sam and Teresa:

Sam's PIA is \$3,010 | Teresa's PIA is \$1,600

- Sam claimed at age 68 and is receiving \$3,491
- Max spousal benefit: \$1,505 (50% of Sam's PIA – not 50% of what he is collecting)
- Teresa forfeits the spousal benefit and collects her own of \$1,600

- Same facts as above except that Teresa's PIA is \$900
- If she files at FRA, Teresa will receive \$900 plus \$605 (spousal boost) for a total of \$1,505

<https://www.ssa.gov/oact/quickcalc/spouse.html>



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Claiming Benefits From a Spouse/Ex-Spouse

The Essential Truths

- Retirement benefits are always payable **before** a benefit under a spouse/ex-spouse's record
- For currently married spouses, the higher earner must claim a benefit before dependent spouse benefits are payable
- For former spouses, the higher-earning ex must either be receiving benefits or, if not, be entitled (age 62+) and the divorce final for at least 2 years
- Currently married spouses – 1 year marriage requirement
- Former spouses – 10 years or more and currently unmarried (the one who wants to grab the benefit from the higher-earning ex)
- Living spouse/ex benefits are always capped at 50% of the higher earner's PIA
- Whether the higher earner files early or later than FRA is irrelevant
- Any reduction is based upon when the **dependent spouse** claims the benefit!
- It may be wishful thinking to think otherwise if you are the ex, but both an eligible ex-spouse and a current spouse can collect benefits from the same worker!

<https://www.ssa.gov/oact/quickcalc/spouse.html>



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The Myths – The Breakeven Question



“I should base my claiming age decision solely on how long I think I’ll live”

“If I’m married, I only need to think about how long I will live to make my claiming age decision”

“Regardless of when I file, I’ll collect the same amount if I live to average life expectancy”



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What Is My Breakeven?

How long will I live?



What if I don't live long enough?



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What Is My Breakeven?



65-year-old man today can expect to live, on average, to age 84.2

65-year-old woman today can expect to live, on average, to age 87

Practical implications:

- Typically, individuals, even when married, only consider their own life expectancy
- They don't generally think about the cumulative lifetime benefits of the couple or the impact on the survivor
- Survivor income may be compromised if both lives aren't considered
- Particularly impactful with a disparity of income benefits

What Is My Breakeven?



	Hypothetical Male	Hypothetical Female	Age	Hypothetical Male	Hypothetical Female
Date of Birth	1/1/1960	1/1/1960	65	100%	100%
Nearest Age	65	65	70	94%	96%
Retirement Age	65	65	75	85%	90%
Gender	Male	Female	80	71%	80%
Do You Smoke?	No	No	85	53%	64%
General Health	Average	Average	90	32%	44%
			95	14%	22%
			100	4%	8%

www.longevityillustrator.org



The Breakeven Question

The Essential Truths

- Studies show that people tend to underestimate how long they will live and/or spend in retirement
- Women tend to suffer financially after their spouse dies and rely more heavily on Social Security for income
- The **average age of widowhood is 59** according to the U.S. Census Bureau
- The higher wage earner's claiming age decision is the gift that can keep on giving... or not
- Retirees rarely understand what happens with income benefits when the first spouse dies
- SSA hasn't updated life expectancy assumptions since the 80s. Filing at 62 vs. FRA vs. 70 does not all result in equitable benefits for those who live to "average" life expectancy.
- **Consider this:** Encourage the higher wage earner to file as late as possible and suggest that the lower-earning spouse file first
- Particularly important with a wide income benefit disparity
- Not so much if both spouses have decent income benefits. In that case, consider one spouse wait to age 70 and the other spouse file at FRA.
- **What about a wide age disparity?**
 - Younger spouse has lower benefit – File as early as possible
 - Younger spouse has the higher benefit – File as late as possible

<https://rethinking65.com/2022/09/07/widows-are-younger-than-you-think/#>



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The Myths – Working and Claiming a Benefit

“I can earn as much as I want and claim an early benefit”

“Once I claim my benefit, any future earnings are no longer subject to Social Security taxes”

“If my benefits are withheld because I earn too much, that won't affect my dependent spouse's benefit”



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Can I Claim My Benefit and Work, Too?



- Working and collecting a benefit prior to FRA may cause a reduction (or elimination) of benefits under the “**Annual Earnings Test (AET)**”

Age in 2025:	Impact of earnings on benefits
Between age 62 and full retirement age	The benefit is reduced by \$1 for every \$2 over \$23,400
In the year of FRA up to the month before FRA	The benefit is reduced by \$1 for every \$3 over \$62,160
FRA and older	No limit on earnings

ssa.gov Publication EN-05-10069 How Work Affects Your Benefits 2023



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Can I Claim My Benefit and Work, Too?



What is considered earned income?

- Social Security covered and non-Social Security covered wages (Box 3 on W-2)
- Self-Employment Income = Net Income (Schedule SE)

What is not considered earned income?

- Income from rental properties
- Dividends
- IRA/pension income
- Deferred compensation
- A spouse's earned income
- Unemployment compensation
- Alimony

Income received after retirement

- Early-outs, severance pay, bonuses, and vacation payouts received after you retire are normally NOT wages. Stock option income is also not counted.

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What If I Exceed the Earnings Cap?



Work Suspension – A temporary withholding of current year benefits based on estimated earnings for the year

- Excess earnings are also charged against auxiliary benefits being paid under the same work record until the excess is recovered

Example of Work Suspension:

- James, who will be 63 in February 2025, files for benefits to begin but informs the SSA that he expects to earn \$35,000
- His monthly benefit is \$2,000. His excess income of \$11,600 (\$35,000 - \$23,400) causes his benefits to be reduced by 50% of the excess. $\$11,600/2 = \$5,800$. $\$5,800/\$2,000 = 2.9$ rounded to 3 months.

- ✓ James will not collect his monthly benefit of \$2,000 until June 2025
- ✓ Can James go four months until he receives his first check?

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What If I Exceed the Earnings Cap?



Work Deduction – Nonpayment of benefits for a closed year based on actual earnings for that year

- Excess earnings are charged against auxiliary benefits being paid under the same work record until the excess is recovered

Example of Work Deduction:

- 63-year-old Lily filed for benefits in 2023 when she retired from her full-time job. In 2024, she accepted a consulting position and earned \$45,000. She should have informed the SSA of the change.
- Her monthly benefit is \$1,950. Her excess income is \$22,680. \$11,340 of her benefits in 2024, or six months of benefits, should not have been paid.
- Before March 2024, SSA would have requested she repay the benefits in full or would have begun withholding benefits if she failed to appeal or contact SSA within 60 days. New procedures permit repaying at 10% of the current monthly payment until the benefits have been repaid. Lily will pay \$195.00 until the excess has been recovered.

ssa.gov Publication EN-05-10069 How Work Affects Your Benefits 2024
[https://secure.ssa.gov/apps10/reference.nsf/links/03262024103100AM/\\$file/EM-24011+SEN+-+Change+in+Title+I+Overpayment+Default+Rate+of+Benefit+Withholding_Redacted.pdf](https://secure.ssa.gov/apps10/reference.nsf/links/03262024103100AM/$file/EM-24011+SEN+-+Change+in+Title+I+Overpayment+Default+Rate+of+Benefit+Withholding_Redacted.pdf)



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What If I Retire Mid-Year and Want To File?

Applying the Monthly Earnings Test

- If an individual retires mid-year and has exceeded the earnings limit, they can apply the **special “first year of retirement” rule** (disregard income prior to claim, provided they earn no more than the monthly equivalent for the rest of the year). SSA calls this a “grace year.”
- **Example:** 65-year-old Sam plans to retire on October 31, 2025. He will have earned \$125,000. Sam can apply for benefits to begin November 1st without regard to his earnings prior to that date, but he must earn less than \$1,950 in both November and December to collect full benefits ($\$23,400/12$).

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Working and Claiming Benefits The Essential Truths

- SSA will reduce a beneficiary's monthly benefits by the amount of his/her excess earnings if the beneficiary is under or in the year of FRA
- The earnings test applies to retirement, spousal, ex-spousal, survivor, and child in care benefits that are claimed prior to FRA. It does not apply to disability benefits.
- The AET no longer applies once a beneficiary reaches their FRA month
- A spouse's earnings do not count against the early filer
- Excess income could cause auxiliary benefits payable under the worker's record to be suspended
- Excess income by the worker does not cause benefits payable to a former spouse to be affected
- If benefits are withheld due to excess earnings, they will be restored at FRA in the form of a higher monthly benefit

Hypothetical Example: Lisa

- Lisa filed at age 62 for a monthly benefit of \$1,125, but her excess income **caused 24 months of benefits to be withheld** over the next 4 years. At her FRA of 66, her monthly benefit was recalculated as if she had filed at age 64, not age 62. Her new monthly benefit at 66 was \$1,300 (an increase of 11.667%).

ssa.gov Publication EN-05-10069 How Work Affects Your Benefits 2023



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Working and Claiming Benefits

The Essential Truths

- A worker, even one who is collecting a retirement benefit, is not exempt from paying employment taxes on wages or self-employment income
- The longer one works, the less of a strain placed on other assets earmarked for retirement
- Each year that earnings are recorded, the worker's PIA is recalculated, potentially creating an increase in his/her PIA
- Even if the earnings cap isn't exceeded or if the spouse is the one working, could there be an alternative income source to avoid filing early?
 - Reduction in the benefit
 - Potential for taxes to erode some of the benefits received



The Myths – Taxation of Social Security Benefits

“I paid Social Security taxes while working. I don’t have to pay taxes on benefits I receive.”

“Once I reach FRA, I no longer need to worry about paying taxes on my benefits”

“Tax-exempt interest is not considered when figuring the taxable portion of my benefits”



I Have To Pay Taxes on a Portion of My Benefits?

Step 1: Determine Provisional Income (PI)

$$\begin{array}{ccccccc} \text{Modified Adjusted} & & & & \frac{1}{2} \text{ of Annual} & & \text{Combined} \\ \text{Gross Income} & + & \text{Nontaxable} & + & \text{Social Security} & = & \text{Income or} \\ & & \text{Interest} & & \text{Benefits} & & \text{Provisional} \\ & & & & & & \text{Income (PI)} \end{array}$$

Step 2: Compare PI to Filing Status and Income Thresholds

Provisional Income Amounts for:		Then
Married Filing Jointly*	Other Taxpayers	
\$32,000 or less	\$25,000	Social Security income is tax-free
\$32,001 to \$44,000	\$25,001 to \$34,000	Up to 50% of Social Security income is taxable
More than \$44,000	More than \$34,000	Up to 85% of Social Security income is taxable

*Married filing separately taxpayers who do not live apart from their spouse the entire taxable year will start at a base amount of zero

ssa.gov Publication EN 05-10035 Retirement Benefits: Your Benefits May be Taxable 2023



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Taxation of Social Security Benefits

The Essential Truths

- According to SSA, roughly 56% of income beneficiaries pay income taxes on their benefits, and that percentage is expected to rise
- Individual states differ in their policies on taxation of benefits
- The earnings of a spouse and other sources of income are considered, unlike for the annual earnings test
- The potential for taxes to apply to a benefit **does not disappear** at Full Retirement Age
- Even if the earnings threshold isn't exceeded for pre-FRA filers who work, taxes will likely take a bite out of the benefit
- Planning early to mitigate the potential impact of federal income taxes on benefits is important to overall retirement income planning
- Sources of income that **do not increase** provisional income:
 - Qualified Roth distributions
 - Health savings account withdrawals for qualified medical expenses
 - Loans from cash value life insurance policies
 - Qualified charitable distributions from IRAs
 - Income received through a reverse mortgage

ssa.gov Publication EN 05-10035 Retirement Benefits: Your Benefits May be Taxable 2024



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The Myths – Survivor Benefits



“I can claim survivor benefits regardless of my income”

“If I remarry, I cannot claim widow’s benefits”

“When my spouse dies, I can collect both benefits”



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Can I Claim Benefits as a Survivor?

Survivor Benefits: Eligibility

Aged Widow(er) Benefits:

- Age 60 or older
- 50, if disabled within 7 years of the death of the spouse
- Married for **at least 9 months** – Exceptions for accidental death or death in the line of duty
- **Ex-spouse survivor** – Married for at least 10 years, or at any age (no length of marriage requirement) if caring for the deceased’s child under age 16 or disabled)
- **Remarriage at age 60 or later (50 if disabled)** does not disqualify surviving spouse or eligible ex-spouse from claiming the benefit!

Child in Care Benefits:

- Any age if caring for a dependent child of the deceased worker (under age 16 or at any age if disabled before age 22)
 - Benefits will cease once youngest child reaches age 16, so may need to bridge income until age 60
 - No length of marriage requirement for caregiver benefits to be payable to former spouse

Children’s Benefits:

- Dependent of the deceased under age 18, or 19 if enrolled full-time in elementary or secondary school
 - Age 18 or older if dependent child was disabled prior to the age of 22
 - Stepchildren and legally adopted children also eligible

ssa.gov Publication EN-0510084 Survivor Benefits 2023



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Can I Claim Benefits as a Survivor?

Survivor Benefits: Amount

Aged Widow(er) Benefits:

- Maximum of 100% of what the deceased was collecting or entitled to collect at the time of death
- Reduced if taken before the survivor's FRA (to as low as 71.5% of the survivor benefit)
- Widow's Limit: The aged widow/widower is paid the greater of the deceased spouse's benefit at the time of death or 82.5% of the deceased's PIA
 - **Example:** Tony filed for his retirement benefit at 62, collecting \$1,650 monthly. His PIA is \$2,200. His surviving spouse, Marge, will be entitled to \$1,815 rather than \$1,650 since the higher amount represents 82.5% of his PIA.

Child in Care Benefits:

- 75% of Primary Insurance Amount
 - Subject to the annual earnings test
 - Subject to family maximum rules
 - Benefits payable to a former spouse are not included for FM purposes

Children's Benefits:

- 75% of deceased PIA
 - Subject to family maximum rules

ssa.gov Publication EN-0510084 Survivor Benefits 2023



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Can I Claim Benefits as a Survivor?

Unique Coordination Opportunity



If an individual is entitled to both a retirement benefit and a survivor benefit, he/she may file first for the lower benefit and switch later to the higher benefit, regardless of age

Hypothetical Example – Susan

- Susan turned 66 in February 2024; her husband, Randy, passed recently
- Randy was collecting \$2,000 at the time of his death
- Susan has not yet filed. Her estimated benefit at her FRA is \$1,800.
- Survivor FRA is age 66 and 4 months; Retirement FRA is 66 and 8 months (born in 1958)

What are Susan's options?

Option 1: File now and collect the higher benefit of \$2,000 (\$1,800 + \$200)

Option 2: Restrict her filing to survivor benefits now and later switch to her own. She would collect \$2,000 now and switch to her benefit at age 70 of \$2,280 (\$1,800 + 40 months of DRCs)

*Survivor FRA and retirement/spousal FRA may differ

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Can I Claim Benefits as a Survivor?



Unique Coordination Opportunity

If an individual is entitled to both a retirement benefit and a survivor benefit, he/she may file first for the lower benefit and switch later to the higher benefit, regardless of age

Let's look at another example: Meet Edward

- Edward, age 62, recently filed for his \$1,800 retirement benefit
- Margaret, 5 years his senior, and a physician, was collecting \$3,200 at the time of her death

What are Edward's options?

Option 1: File now and collect the higher benefit of \$2,560 (\$1,800 + \$760)

Option 2: Wait until he reaches his FRA of 67 so that he can collect 100% of the survivor benefit of \$3,200 for the rest of his life and bridge income with another source for the next 4+ years

The point is that there are OPTIONS that typically are not offered by the SSA representative taking the claim!

*Survivor FRA and Retirement/Spousal FRA may differ

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Survivor Benefits

The Essential Truths

- Survivor benefits are subject to the annual earnings test if claimed prior to FRA
- Remarriage at age 60 or later does not disqualify the survivor from benefits!
- If the survivor benefit is collected before the survivor's FRA, it will be reduced based on the number of months prior to FRA it is claimed
- \$255 lump sum death benefit paid to the surviving spouse (File SSA-8 to claim)
- If no surviving spouse, paid to minor or disabled children receiving dependent benefits at the time of the parent's death
- May not file for survivor benefits online. Make a phone appointment or visit in person.
- Only a dependent widow or widower will automatically switch to higher survivor benefit without filing a claim
- Gather relevant documents before appointment (death certificate, marriage and divorce papers, birth certificates for minor or disabled children, etc.)
- The month of death benefit is not payable to the deceased. It will likely be taken back out of the bank account the month following the death.
- Compare the survivor benefit at the survivor's FRA to the individual's retirement benefit at age 70 to determine which one to apply for first. The smaller of the two should be applied for first.

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The Myths – WEP, GPO, and the SSFA of 2023

“The Social Security Fairness Act increases benefits to all beneficiaries”

“If I’m a public sector worker, my benefits will automatically be increased!”

“The Social Security Fairness Act will reduce the benefits of non-public servant beneficiaries”



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What Is the Social Security Fairness Act of 2023 (SSFA)?

- H.R. 82 – Bipartisan bill signed into law by former President Biden on January 5, 2025
- The Act is retroactive to benefits payable after December 2023
- Repealed two long-standing provisions that reduced or eliminated Social Security benefits for some public sector employees or retirees with pensions from employers who did not pay Social Security taxes on their earnings
- “Non-covered” earnings = non-FICA earnings
- “Covered” earnings = FICA earnings
- The two provisions repealed are:
 - Government Pension Offset (GPO)
 - Windfall Elimination Provision (WEP)

<https://www.congress.gov/bills/118th-congress/house-bill/82>



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The Social Security Fairness Act of 2023 in Dollars and Cents

- WEP and GPO impacted the benefits of roughly 4% of all Social Security/Railroad Retirement Board (RRB) beneficiaries
- 2.1 million beneficiaries will receive refunds due to WEP
 - According to the CBO, the average monthly increase without WEP will be \$360 by December 2025
- 749,000 beneficiaries will receive refunds due to GPO
 - According to the CBO, spousal benefits will increase on average by \$700 per month without GPO
 - Widows and widowers will increase by \$1,190 monthly (December 2025)
- Only Tier I RRB benefits are reduced by WEP/GPO if the RRB annuitant also receives a non-covered pension. Tier II is not impacted.

Important:

WEP and GPO did not reduce the benefits payable under the non-covered pension. They only reduced or eliminated SS/RRB benefits.

<https://rrb.gov/Newsroom/NewsReleases/NoncoveredServicePensions>
Congressional Budget Office <https://www.cbo.gov/system/files/2024-09/hr82.pdf>



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Who Is Impacted by SSFA?

▪ A Public Employee/Retiree who is:

Entitled (now or in the future) to a pension based on earnings not subject to Social Security taxes (“non-covered” earnings)

AND

Entitled (or eligible later) for Social Security/RRB retirement, disability, spousal/ex-spousal, or survivor benefits

<https://www.socialsecurityintelligence.com/teachers-retirement-and-social-security>

Examples of non-covered public employees:

- Federal Government:
 - Civil Service Retirement System (CSRS) employees and annuitants (pre-1984 hires)
- State and Local Government:
 - Teachers in certain states and counties (TX, OH, CA, LA, IL, MA, GA)
 - Community college and K-12 district employees
 - University employees in some states
 - Firefighters and police officers covered under independent retirement systems
 - Employees of certain state agencies and municipalities who opted out of Social Security under Section 218
 - Certain individuals with foreign pensions whose Social Security benefits have been reduced by WEP



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Who Isn't Impacted by SSFA?

- Workers who pay Social Security taxes on their earnings
- Those whose only pension is from Railroad Retirement
- Federal Employee Retirement System (FERS) employees and annuitants. In 1984, federal employees began paying Social Security taxes.
- Public employees whose earnings are subject to FICA taxes
 - Not sure? Check their Social Security earnings statement.
 - Non-covered earnings years would appear as "0" under the Social Security column
- They have 30 or more years of substantial Social Security earnings and, therefore, were exempt from WEP

ssa.gov Publication EN-05-10045 Windfall Elimination Provision 2025



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Who Can Expect a Refund and/or an Income Boost?

Situations that could boost a client's benefit:

- They had a "hybrid" career of public non-FICA and FICA earnings
- They receive a non-covered pension and don't qualify for Social Security benefits. However, they are eligible for Social Security spouse, ex-spouse, or widow(er) benefits.
- They are a non-covered widow(er) who was denied spousal benefits under GPO and haven't claimed since their spouse passed or they were denied widow(er) benefits
- They are the dependent spouse of a non-covered pensioner impacted by WEP (innocent bystander effect)
- **Word to the Wise:** A non-covered employee who took a lump sum instead of a pension/annuity may still be affected by WEP or GPO and be due an increase

<https://www.ssa.gov/benefits/retirement/social-security-fairness-act.html>
<https://rrb.gov/Newsroom/NewsReleases/SSFA>

When can my clients expect refunds of underpaid benefits?

SSA/RRB expects refunds and benefit modifications to take all of 2025 and into 2026 to fully implement due to staffing shortages.

If your client(s) previously filed and benefits were reduced or denied, they should not file again. SSA/RRB has a record of their prior application.



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SSFA – Repeal of the Government Pension Offset (GPO)

GPO reduced Social Security and RRB spousal or widow(er) benefits by 2/3 of the non-covered pension

- GPO was enacted in 1977 to mirror SSA's dual entitlement rule:
 - A worker is entitled to collect the higher of their own retirement benefit or the spousal/survivor benefit but not both
- Initially, GPO was adopted as a dollar-for-dollar reduction just like SSA's dual entitlement rule
- In 1983, the rule was modified to reduce the offset to 2/3 of the pension
- For someone with a healthy non-covered pension, GPO would often reduce or even eliminate the auxiliary Social Security or RRB Tier I benefit
- **Example:** Susan, a retired Texas teacher, collects a \$3,500 TRS of Texas pension. She is entitled to a spousal benefit of \$1,500. However, GPO required that 2/3 of her non-covered pension, or \$2,333, be subtracted from the spousal benefit, leaving no benefit for her to collect.
- **Result:** With the repeal of GPO, Susan is now entitled to both her TRS pension and the full \$1,500 spousal benefit. If she claimed spousal benefits and was previously denied them due to GPO, she will also be entitled to a refund of benefits back to the date she claimed or January 2024, whichever is later.

<https://www.ssa.gov/policy/docs/program-explainers/government-pension-offset.html>



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SSFA – Repeal of the Windfall Elimination Provision (WEP)

WEP reduced the Social Security, Railroad Board retirement, or disability benefits of a public sector worker receiving a pension based on earnings not subject to Social Security taxes

- Enacted as part of the 1983 Social Security Amendments
- Designed to adjust the progressive benefit formula to prevent non-covered workers from appearing to be long-time low-wage earners since some years would appear as zeros
- Reduced a person's benefit by the lesser of 50% of the non-covered pension or a maximum dollar amount (\$587 in 2024) but never reduced the benefit to zero
- Individuals with 30 or more years of substantial Social Security taxed earnings were exempt from WEP
- **The Act** eliminates any effect of WEP for dually entitled individuals (those with both covered and non-covered earnings)
- **Example:** John, now 68, spent most of his career as a police officer before retiring at 50. He collects a non-covered pension of \$3,500 per month. John worked as a security guard and collected a WEP-adjusted Social Security benefit of \$900 since 2023. His benefit, without WEP, is \$500 more, at \$1,400 per month (at his full retirement age). John is entitled to his full Social Security monthly benefit of \$1,400 plus a refund of \$500 back to January 2024.

<https://www.ssa.gov/policy/docs/program-explainers/windfall-elimination-provision.html>



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SSFA – Case Study – Meet John and Betty

Non-Covered Earner: CSRS Retiree

- John, 75, a CSRS annuitant, collects a monthly non-covered pension of \$6,000
- Betty, 72, claimed Social Security benefits at 70. Her PIA is \$3,000. Her current monthly benefit = \$4,059.
- Before the SSFA, GPO would have reduced John's Social Security spousal benefit by 2/3 of his non-covered pension
 - 50% of \$3,000 = \$1,500 (max spousal benefit)
 - 2/3 of \$6,000 = \$4,000 (no spousal benefit payable)

Income boost results:

- Without GPO, John is entitled to \$1,500 monthly back to January 2024
- If Betty dies before John, he will be entitled to her survivor benefit of \$4,059 plus his CSRS pension
- John's monthly pension income will increase from \$6,000 to an additional \$1,500 per month from Social Security. If Betty dies before him, John will collect \$6,000 plus her \$4,059 widower benefit.
- If John dies before Betty, she will continue to collect her \$4,059 benefit and whatever survivor benefit John chose for his CSRS pension



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The Social Security Fairness Act of 2023

The Essential Truths

- The SSFA only impacts Social Security or RRB Tier I beneficiaries who also receive pensions based on non-covered earnings
- WEP and GPO were repealed, effective with benefits payable after December 2023
- Not all public sector employees are affected. If their earnings are subject to Social Security taxes, this change will not impact them.
- If uncertain, review the Social Security earnings statement
- Refunds and increases to existing income benefits for WEP and GPO could take through 2025 and into 2026
- Remember that benefit estimates do not factor in the effect of WEP or GPO
- Encourage clients to check the SSA's SSFA update page for current updates



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The Myths – DISPELLED



The Myths – The Insolvency Dilemma



“Social Security won’t be there for me”

*“Once the trust funds run out of money, that’s it. No
benefits for me!”*

*“I’m better off claiming as soon as I can so that I will be
protected from benefit cuts”*



The Myths DISPELLED – Calculating the Benefit



“I only need 10 years of work to maximize my retirement benefit”

“My benefit is calculated using only the years that I report earnings”

“I’m better off just collecting a spousal benefit rather than working”



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The Myths DISPELLED – Claiming Benefits From a Spouse/Ex-Spouse



“I can claim a spousal benefit before claiming my own benefit”

“I can no longer claim spousal benefits after the Bipartisan Budget Act”

“If I get to the benefit first, my ex’s new spouse won’t be able to collect a benefit!”



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The Myths DISPELLED – Working and Claiming a Benefit



“I can earn as much as I want and claim an early benefit”

“Once I claim my benefit, any future earnings are no longer subject to Social Security taxes”

“If my benefits are withheld because I earn too much, that won’t affect my dependent spouse’s benefit”



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The Myths DISPELLED – Taxation of Social Security Benefits



“I paid Social Security taxes while working. I don’t have to pay taxes on benefits I receive.”

“Once I reach FRA, I no longer need to worry about paying taxes on my benefits”

“Tax-exempt interest is not considered when figuring the taxable portion of my benefits”



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The Myths DISPELLED – Survivor Benefits



“I can claim survivor benefits regardless of my income”

“If I remarry, I cannot claim widow’s benefits”

“When my spouse dies, I can collect both benefits”



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Putting the Pieces Together

- You can never ask too many questions
- When do you plan to file for benefits?
- When do you plan to retire?
- What other sources of assets do you have earmarked for retirement?
- What are you most concerned about?
 - Running out of money
 - The impact of taxes on retirement income
 - My surviving spouse
 - Unexpected expenses in retirement (long-term care, for example)
- Encourage careful planning, opportunities to save, and realistic expectations on how much time will likely be spent in retirement
- Empower your clients by dispelling common **MYTHS** with these **ESSENTIAL TRUTHS!**



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Thank You!



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