

# Social Security Basics



Deciding when to begin receiving Social Security is one of several important decisions you need to make when planning your retirement. Many retirees mistakenly believe they can rely on Social Security alone to meet their retirement income needs or consider it a major source of retirement income. With the average annual Social Security retirement benefit for 2024 totaling \$22,884 for individuals and \$36,396 for a married couple, it is easy to see why Social Security alone may not be able to cover your basic living expenses for things such as housing, food, and health care.

Before making a decision on when to begin receiving Social Security retirement benefits, it's important to understand some basic Social Security concepts.

## Full Retirement Age (FRA)

The earliest you can collect retirement benefits is at age 62. If you elect to collect Social Security early

(before full retirement age), the amount you receive is permanently reduced by as much as 30%. When you begin receiving Social Security at your full retirement age or FRA, these early reduction penalties no longer apply. Your FRA is based on the year you were born.

- Individuals born between 1943 and 1954 have a FRA of 66.
- Those born in 1960 or later years have a FRA of 67.
- Those born in between 1954 and 1960 have a FRA that adds two months to age 66 for each year past 1954. For example, someone born in 1955 has a FRA of 66 and 2 months and someone born in 1956 has a FRA of 66 and 4 months.

## Primary Insurance Amount (PIA)

Your primary insurance amount or PIA is the Social Security monthly benefit amount you are entitled to receive at your FRA. During your working years you earn “credits”, and you and your employer contribute a portion to Social Security (6.2% each) until your income exceeds the Taxable Wage Base (\$168,600 in 2024). You must have 40 credits of covered work to qualify for retirement benefits, which generally can be satisfied by working for 10 years. Your PIA is determined by looking at your 35 highest earning years. If you are eligible for Social Security, other family members may also receive benefits based on your PIA. Certain public-sector employees working for the government, railroad, and public schools do not pay into Social Security and will not earn credits. Special rules apply if you will receive a public pension based on work not covered by Social Security.

---

<sup>1</sup> “[Fact Sheet: 2021 Social Security Changes](https://www.ssa.gov/news/press/factsheets/colafacts2021.pdf)”, *Social Security Administration*, [www.ssa.gov/news/press/factsheets/colafacts2021.pdf](https://www.ssa.gov/news/press/factsheets/colafacts2021.pdf) (Accessed December 2, 2020).

## Retirement Planning

---

If you file for benefits before your FRA, your PIA is reduced by a percentage that varies based on how many months prior to your FRA you begin receiving benefits. The early reduction penalty is permanent. Your monthly benefit will not “pop up” to the PIA when you reach FRA. If you file for your retirement benefits after your FRA, your PIA is increased by an 8% a year delayed retirement credit between FRA and age 70.

### Earnings Limit

If you elect to receive Social Security while you are still working but you have not reached FRA, your benefit amount can be reduced or eliminated depending on how much you earn above a stated income amount. For 2024, one dollar in Social Security benefits will be withheld for every two dollars that you earn in excess of \$22,320 unless you will reach your FRA later in the year, in which case one dollar in Social Security benefits will be withheld for every three dollars you earn in excess of \$59,520 (both amounts are subject to annual cost of living adjustments). The earnings limit applies to your own retirement benefits, spousal retirement benefits and survivor benefits.

Here’s an example of how the earnings limit works:

- If you are age 62 this year and you earn \$32,320, your income is \$10,000 more than the earnings limit. That means Social Security will withhold one dollar in benefits for every two dollars of excess earnings, or \$5,000 ( $\$10,000/2 = \$5,000$ ).

- If your PIA is \$1,000 a month at FRA (67) and you begin payments at age 62, Social Security will first reduce your monthly payment to \$700 because you elected to receive Social Security at the earliest age possible.
- On top of that reduction, because you are still working and earning \$10,000 more than the earnings limit, Social Security will withhold the first \$5,000 of payments that would otherwise be made to you if you were not working or if you were earning less than the earnings limit.
- Social Security does not pro-rate and pay you a portion of your Social Security payment each month. They withhold it. Therefore, Social Security benefits would not be paid to you for the first eight months (until \$5,000 has been withheld).
- Social Security payments that are withheld under the earnings limit are not lost forever. Benefit amounts will be adjusted at FRA for amounts previously withheld.

When you begin Social Security after FRA, your benefit amount is no longer reduced, the earnings limit no longer applies if you are still working, and other claiming strategies become available for certain spousal benefits.

Benjamin F. Edwards can help you navigate through the sometimes complex and confusing Social Security rules. If you would like additional information about Social Security or need assistance analyzing the claiming strategies you are entitled to, contact your Financial Advisor. ■

**IMPORTANT DISCLOSURES** This piece is intended to provide accurate information regarding the subject matter discussed. It is made available with the understanding that Benjamin F. Edwards is not engaged in rendering legal, accounting or tax preparation services. Specific questions on taxes or legal matters as they relate to your individual situation should be directed to your tax or legal professional.