

# It's time we understand Social Security

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## *Comprehending the Basics of a Complex System*

Social Security is one of the primary sources of retirement income for millions of Americans. It is also the source that beneficiaries understand the least.

A recent survey<sup>1</sup> illustrates this deficiency. Approximately 1,500 Americans were presented with ten true/false questions regarding the basics of Social Security.

*A mere **28%** of those surveyed answered eight or more questions correctly.*

*Only **1 person out of the 1,500** surveyed answered all ten questions correctly.*

*A disheartening **92%** of respondents do not consider themselves to be very knowledgeable about the Social Security system.*

We've known the problem, now let's focus on the solution. It's time we understand Social Security.

## **Understanding Social Security**

Social Security is a complex system, but every beneficiary should have a basic understanding of how this vital piece fits into their overall retirement strategy.

### *When to Collect Social Security Benefits*

The earliest age at which a person can begin collecting his or her Social Security benefit is age 62, however the monthly benefit will be reduced in order to smooth the total benefit over a longer period. Benefits are no longer reduced at "full retirement age", or FRA, which is determined by year of birth. If benefits are deferred until after FRA, delayed retirement credits accrue which increase the future monthly benefit. Regardless, benefit collection must begin by age 70.

*To discover your Full Retirement Age, as well as benefit reduction information for early retirement, visit the [SSA website](#).*

There is a lot of speculation as to the best time to collect Social Security in order to maximize the benefit. Theoretically, the *total benefit* is the same regardless of whether payment begins at 62 or full retirement age, which explains why monthly benefit payments are reduced if collection begins before FRA.

Deciding when to begin collecting Social Security is a personal decision. Factors to consider in this decision include health & life expectancy, remaining working years, health insurance options, additional sources of income, and eligibility for benefits through a spouse.

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<sup>1</sup> Conducted by KRC Research on behalf of Mass Mutual.

### ***Working while Collecting Social Security***

It is possible to work and receive Social Security benefits, however all earned income will be subject to an annual earnings limit until the month when full retirement age (FRA) is reached. Benefits may be temporarily reduced during this time with the amount of the reduction added to future benefits. Limits for 2015 are shown in the table below. Beginning in the month when FRA is reached, outside income no longer affects monthly benefit amounts.

|                                | <b>2015 Annual Earnings Limit</b> | <b>Monthly Benefit</b>                              |
|--------------------------------|-----------------------------------|---|
| <i>Years prior to FRA</i>      | \$15,720                          | Reduced \$1 for every \$2 earned in excess of limit |
| <i>The year FRA is reached</i> | \$41,880                          | Reduced \$1 for every \$3 earned in excess of limit |

A special rule can be applied to one year in excess of the earnings limit, typically the first year of retirement. If a beneficiary retires mid-year but has already surpassed the annual earnings limit, he or she will receive unreduced monthly benefits.

### ***Additional Considerations***

Contrary to popular belief, non-U.S. citizens residing in the United States can collect Social Security payments if they meet certain criteria. Similarly, U.S. citizens residing in most other countries can still receive their benefit.

A discussion about Social Security would not be complete without noting another mainstream belief – its impending demise. To the contrary, Social Security is not going away. Benefits may be reduced in the future as the retiree population outgrows the population of workers, but Social Security will not cease to exist. While it is still a vital piece of the retirement equation, the uncertainty surrounding Social Security highlights the importance of other income sources. Our March 2015 article, "[How Secure is Social Security?](#)", features more information on the future of this benefit.

### ***Applying for Social Security***

Ready to Collect? The Social Security Application can be completed online no more than 4 months prior to the intended start of payments. The Social Security Administration has a helpful [checklist](#) of information to gather before starting the application.

*Do you still have unanswered questions about Social Security?  
Visit the [SSA Website](#).*