

What You Need to Know About Social Security Benefits

Nearly 96 percent of American workers will receive benefits from the Social Security retirement plan. The Social Security Act of 1935 was enacted to help retired workers live independently after retirement. While virtually all of us are eligible to receive benefits, few understand when, how or under what circumstances those benefits will be available to us. If you've ever wondered about Social Security, the following will give you a good overview.

Qualifications for Receiving Social Security Retirement Benefits

Social Security benefits are based on income earned during a person's earning life. When a person works and pays Social Security taxes, they earn "credits" toward Social Security benefits. The number of credits one needs to receive retirement benefits depends on the date of birth. Most workers today will need 40 credits from ten years of covered employment (a job in which the employee and the employer pay social security taxes or a self-employed person pays self-employment taxes). The Social Security Administration (SSA) keeps a record of earnings over employees' working life and pays benefits that are based on the average amount earned, provided a minimum number of work credits have been accumulated. Spouses, former spouses and even children of eligible Social Security recipients could be eligible for Social Security themselves under certain circumstances. These various situations can get complicated and we are happy to discuss your specific circumstances to see if you qualify for benefits.

Taxability of Social Security Retirement Benefits

About two-thirds of Social Security benefit recipients don't have to pay federal income taxes on their Social Security benefits. The third that do, typically have other income (such as wages, taxable pension/IRA distributions, dividends, capital gains and other taxable income) in addition to their benefits. If you:

- **File a federal tax return as an "individual"** and the combined taxable income is:
 - between \$25,000 and \$34,000, the taxpayer may have to pay income tax on up to 50 percent of your benefits.
 - more than \$34,000, up to 85 percent of benefits may be taxable.
- **File a joint return**, and taxpayer and spouse have a combined income that is:
 - between \$32,000 and \$44,000, the taxpayer may have to pay income tax on up to 50 percent of benefits
 - more than \$44,000, up to 85 percent of benefits may be taxable.
- **Married and file a separate tax return**, probably will pay taxes on your benefits.

Deferring Social Security Retirement Benefits

As stated above, the higher your lifetime earnings, the higher your benefits will be. If there were some years you didn't work or had low earnings, your benefit amount may be lower than if you had worked steadily. The age at which a person decides to retire also affect benefits. A retiree may start receiving benefits as early as age 62 or as late as age 70. If they retire at age 62, the earliest possible Social



Security retirement age, the benefit will be less than if they wait until full retirement age which is age 65 to 67, depending on their date of birth. Under current law, benefits will increase automatically by 8% from the time they reach full retirement age until they start receiving benefits or until they reach age 70. The benefit increase no longer applies when a person reaches age 70, even if they continue to delay taking benefits. In today's low interest environment, an 8% return on an investment is pretty good and presents one compelling reason to delay receiving benefits until age 70 if the funds are not otherwise needed or wanted.

One word about Medicare if you do decide to delay receiving Social Security benefits until age 70: it is recommended that you still sign up for Medicare three months before reaching age 65 in order to ensure coverage.

Working while Receiving Social Security Retirement Benefits

Anyone can receive Social Security retirement benefits and work at the same time. But, if they are younger than full retirement age (65 to 67 years old, depending on date of birth), and earn more than certain amounts, their benefits will be reduced. The reduced benefits are not completely lost, however. Benefits will be increased at full retirement age to account for benefits withheld due to earlier earnings. If a person works, and is full retirement age or older, they may keep all of their benefits, no matter how much they earn. If they are younger than full retirement age, the SSA will deduct \$1 from their benefits for each \$2 they earn above \$15,720 in 2016. For those who turn 66 in 2016, the SSA will deduct \$1 for each \$3 earned above \$41,880 until the month they turn 66.

Planning for Your Social Security Benefit

Social Security benefits are an important part of a responsible and comprehensive retirement plan. If you need help gaining a better understanding of the benefits, the strategies for when to claim them and the possible tax impacts, contact the tax and estate planning experts at Williams Benator & Libby, LLP.

About Williams Benator & Libby, LLP

For more than 30 years, WBL has provided audit, accounting, advisory, transaction, family office and tax services to domestic and international middle-market companies, nonprofit organizations and high net-worth individuals. The firm is a member of Russell Bedford International (RBI), a global network of independent accounting firms.