Updated for 2016

Planning For Social Security Benefits

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Computing the "Average Indexed Monthly Earnings" (AIME) is the first step in determining the amount of monthly benefits to which a Social Security recipient is entitled. The AIME is based on the top 35 years of earnings out of a recipient's working life after earnings for each year are *indexed*. The base year for indexing is the 2nd preceding year before the year in which someone applies for retirement. For those retiring in 2016, the base year will be 2014.

The indexing rate or *factor* is determined by comparing the average full-time wages for all American workers for any given year to the average wages for the base year. See Table 1 for a list of average wages and indexing factors for the past 60 years. Remember that these are *Social Security wages* which differ from *taxable wages* (the amount reported on tax returns). Social Security wages, for instance, are not reduced for employee contributions to qualified retirement plans and 401K plans the way that taxable wages are.

To compute your AIME, apply the factors shown in Table 1 to your actual Social Security wages for each of the appropriate 35 years. For instance, if you earned $6,000 in 1970, your indexed wages would be $45,082.20 ($6,000 multiplied by 7.5137). Then add up the indexed wages for all 35 years and divide by the number of months to find your AIME.

Computing Your Primary Insurance Amount

The "Primary Insurance Amount" (PIA) is your starting monthly Social Security benefit before adjustments for early or delayed retirement (see below). Each year the SSA determines "bend points", a low one and a high one. For 2016 the low bend point is $856 and the high one is $5,157. A recipients PIA is determined by multiplying the portion of his AIME which is under the low bend point by 90%, then multiplying the portion of his AIME which is between the two bend points by 32% , then multiplying any portion of his AIME which is over the high bend point by 15%. A recipient who retires in 2016 with an AIME of $5,500, for instance, will have a PIA of $2,470.

Adjusting Your PIA for Early or Delayed Retirement

The PMI computed above applies only when a recipient retires in the same month that he reaches retirement age. To compute the effect of either an early or a delayed retirement, multiply the PMI by the factor shown in Table 2. The factors shown based on calendar years, but the monthly benefits received change for every month benefits are not claimed. Suppose someone decided to retire in January of 2016 at the age of 63 and 4 months. In that case the factor would be 82.22%. Multiplying the PMI computed above by that factor would determine the starting monthly benefit. You may notice by looking closely at Table 2 that the reward for working past retirement age has increased significantly over the past 50 years. Currently benefits are increased by 8% for each year of postponement up to the age of 70. The SSA, in its literature, calls this 8% increase per year "delayed retirement credits".

Cost of Living Adjustments

Each January monthly Social Security Benefits are increased by applying a Cost-of-Living Adjustment (COLA). Recipients are eligible to receive a COLA on the January following their first year of retirement. See Table 3 for a list of COLAs since 1975.

How Does Work Affect Your Monthly Benefits?

Generally speaking, social security recipients under the normal retirement age are subject to a reduction of \$1 in benefits for every \$2 earned over and above \$15,720 per year. There is a special rule for the year of retirement –no deduction is made for earnings before the retirement date, but after that date \$1 of benefits is deducted for every \$2 earned over \$1,310 per calendar month. There is also a special rule for the year in which a recipient reaches full retirement age – \$1 of benefits is deducted for every \$3 earned over \$41,880 during the year before reaching full retirement age.

For self-employed recipients, earnings are defined as “net self-employment income”, which is gross revenue less ordinary and necessary business expenses and depreciation. A deduction for one-half of self-employment taxes paid is allowed, but other deductions which may appear on a tax return, such as a deduction for retirement plan contributions or self-employed health care plans are not allowed.

Recipients who lose benefits because of earnings received prior to normal retirement may eventually recoup those lost benefits. Upon reaching normal retirement age, the SSA will adjust the monthly PIA upwards based on the amount of benefits previously lost.

Spousal Benefits

Spouses of recipients are entitled to receive 50% of the primary recipient’s monthly benefit at normal retirement age. Delayed retirement credits are not counted in computing spousal benefits, nor can spousal benefits be increased past the normal retirement age. Reductions in benefits for early retirement on the part of the primary recipient, however, are counted, and spousal benefits are also subject to the same reductions (see Table 2) if claimed before normal retirement age. Assume that a primary recipient and spouse both claim benefits on their 62nd birthday – the spousal benefit would be just 28.125% of the primary recipients PIA computed at normal retirement age. The penalty for early spousal benefit claims is pretty heavy.

Primary recipients must apply with SSA before spouse’s can receive benefits. However, if the primary recipient is of normal retirement age and not yet ready to receive benefits, the “file and suspend” procedure can be invoked. That way a spouse can receive benefits while the primary recipient waits to accumulate delayed retirement credits.

An ex-spouse may also qualify for spousal benefits under the same formula if the ex-spouse was married to the primary recipient for at least 10 years and has not remarried. It doesn’t matter whether the primary recipient has remarried. After 2 years of divorce, an ex-spouse may apply for spousal benefits even if the primary beneficiary has not applied with the SSA. This assumes that the primary beneficiary would be eligible to receive benefits if he or she did apply.

Those considering applying for spousal benefits should be aware of the SSA’s “deemed filing” policy. This policy says that early applications for primary benefits also constitute an early application for spousal benefits, and visa-versa. Suppose a primary recipient receives benefits early while waiting for a spouse to reach normal retirement age. If that spouse then applies for spousal benefits, those spousal benefits will be subject to a reduction based on the original filing date because of the “deemed filing” policy.

Like primary benefits, spousal benefits are also subject to reductions for work if the spouse earns more than \$15,720 per year and starts receiving benefits before the normal retirement age.

Survivor Benefits

Surviving spouses at their normal retirement age are entitled to receive 100% of their deceased spouse's benefits, including any accrued delayed retirement credits. Surviving spouses may elect to start receiving benefits at the age of 60 if they wish. See Table 4 for a list of reduction percentages for survivor benefits claimed before normal retirement age. Remarrying after the age of 60 does not affect the benefits that a surviving spouse can receive based on the work of their former deceased spouse.

Disabled surviving spouses are eligible to receive benefits at the age of 50 at the 28.5% reduction rate. Surviving spouses who are caring for a dependent child under the age of 16 may receive benefits at a 25% reduction.

Ex-spouses of deceased recipients also qualify for the same benefits as explained above provided that they were married for at least 10 years. The 10 year rule is waived for an ex-spouse who is caring for the child of the deceased recipient under the age of 16.

So When Should I Draw Social Security Benefits?

It's a hard question to answer because how long someone will live is the key to answering it, and that's something few people can know. About 40% of American workers take social security benefits early (somewhat down over the past decade). But generally speaking, if you do the arithmetic, it pays to wait as long as you can before collecting benefits, certainly until normal retirement age and, for many people, later than that. The *break-even age* for taking early benefits at age 62 instead of at the normal retirement age of 66 is "76". In other words, if you live past 76 years of age you'll collect more in benefits by waiting until age 66 to start collecting instead of taking early benefits. And this doesn't take into account the possibility that working past age 62 might raise you AIME, which would increase the benefits of waiting until normal retirement age even further.

When it comes to delaying benefits past the normal age of retirement, the break even age between taking benefits at 66 and taking them at 70 is "83". Considering that so many people now live into their late eighties and nineties, it makes a lot of sense to consider this, even if you're not going to work during that time. If you *are* going to work past 66, it's almost a no-brainer, assuming that you have enough income or other assets to live on while you wait.

It's a good idea for married couples to coordinate their Social Security planning. As mentioned previously, the "file and suspend" strategy is something to consider when spousal benefits are greater than benefits based on one's own work. There's another strategy to consider called "free spousal benefits". In this case one claims spousal benefits until reaching age 70, then claims one's own benefits which have increased because of delayed retirement credits. In order to do this one has to wait until normal retirement age in order to claim spousal benefits because of the "deemed filing" policy of the SSA. Couples should also realize that delaying retirement in order to increase benefits will also increase any potential survivor benefit for the spouse who survives the longest.

There's also income tax to consider. Generally speaking, when Social Security income is added together with substantial sources of other income, 85% of the Social Security is subject to income tax and the increase in total income might increase the marginal tax rates at which all income is taxed. This would apply when a single recipient earns wages while collected benefits, either before or after normal retirement age, or when one spouse in a married couple still works while the other is retirement.

In other words, it pays to plan ahead.

Table 1

2016 Social Security Wage Index

Year	Avg Wage	Index	Year	Avg Wage	Index
1954	3,155.64	14.7297	1986	17,321.82	2.6834
1955	3,301.44	14.0792	1987	18,426.51	2.5225
1956	3,532.36	13.1588	1988	19,334.04	2.4041
1957	3,641.72	12.7636	1989	20,099.55	2.3126
1958	3,673.80	12.6522	1990	21,027.98	2.2105
1959	3,855.80	12.0550	1991	21,811.60	2.1310
1960	4,007.12	11.5997	1992	22,935.42	2.0266
1961	4,086.76	11.3737	1993	23,132.67	2.0093
1962	4,291.40	10.8313	1994	23,753.53	1.9568
1963	4,396.64	10.5721	1995	24,705.66	1.8814
1964	4,576.32	10.1570	1996	25,913.90	1.7937
1965	4,658.72	9.9773	1997	27,426.00	1.6948
1966	4,938.36	9.4123	1998	28,861.44	1.6105
1967	5,213.44	8.9157	1999	30,469.84	1.5255
1968	5,571.76	8.3423	2000	32,154.82	1.4456
1969	5,893.76	7.8866	2001	32,921.92	1.4119
1970	6,186.24	7.5137	2002	33,252.09	1.3979
1971	6,497.08	7.1542	2003	34,064.95	1.3645
1972	7,133.80	6.5157	2004	35,648.55	1.3039
1973	7,580.16	6.1320	2005	36,952.94	1.2579
1974	8,030.76	5.7879	2006	38,651.41	1.2026
1975	8,630.92	5.3855	2007	40,405.48	1.1504
1976	9,226.48	5.0378	2008	41,334.97	1.1245
1977	9,779.44	4.7530	2009	40,711.61	1.1417
1978	10,556.03	4.4033	2010	41,673.83	1.1154
1979	11,479.46	4.0491	2011	42,979.61	1.0815
1980	12,513.46	3.7145	2012	44,321.67	1.0487
1981	13,773.10	3.3748	2013	44,888.16	1.0355
1982	14,531.34	3.1987	2014	46,481.52	1.0000
1983	15,239.24	3.0501	2015	N/A	1.0000
1984	16,135.07	2.8808	2016	N/A	1.0000
1985	16,822.51	2.7631			

Table 2

PIA Adjustments for Early or Delayed Retirement

Year of Birth	Normal Retirement Age	Age 62 at Retirement	Age 63 at Retirement	Age 64 at Retirement	Age 65 at Retirement	Age 62 at Retirement	Age 67 at Retirement	Age 68 at Retirement	Age 68 at Retirement	Age 70 or over at Retirement
1924	65	80.00%	86.67%	93.33%	100.00%	103.00%	106.00%	109%	112%	115%
1925-26	65	80.00%	86.67%	93.33%	100.00%	103.50%	107.00%	110.5%	114%	117.5%
1927-28	65	80.00%	86.67%	93.33%	100.00%	104.00%	108.00%	112%	116%	120%
1929-30	65	80.00%	86.67%	93.33%	100.00%	104.50%	109.00%	113.5%	118%	122.5%
1931-32	65	80.00%	86.67%	93.33%	100.00%	105.00%	110.00%	115%	120%	125%
1933-34	65	80.00%	86.67%	93.33%	100.00%	105.50%	111.00%	116.5%	122%	1127.5%
1935-36	65	80.00%	86.67%	93.33%	100.00%	106.00%	112.00%	118%	124%	130%
1937	65	80.00%	86.67%	93.33%	100.00%	106.50%	113.00%	119.5%	126%	132.5%
1938	65, 2 mo	70.17%	85.56%	92.22%	98.89%	105.42%	111.02%	117.52%	124.02%	130.52%
1939	65, 4 mo	78.33%	84.44%	91.11%	97.78%	104.67%	111.67%	118.67%	125.67%	132.67%
1940	65, 6 mo	77.50%	83.33%	90.00%	96.67%	103.50%	110.50%	117.5%	124.5%	131.5%
1941	65, 8 mo.	76.67%	82.22%	88.89%	95.56%	102.50%	110.00%	117.5%	125%	132.5%
1942	65, 10 mo	75.73%	81.11%	87.78%	84.44%	101.25%	108.75%	116.25%	123.75%	131.25%
1943-54	66	75.00%	80.00%	86.67%	93.33%	100.00%	108.00%	116%	124%	132%
1955	66, 2 mo	74.17%	79.17%	85.56%	92.22%	98.89%	106.67%	114.67%	122.67%	130.67%
1956	66, 4 mo	73.33%	78.33%	84.44%	91.11%	97.78%	105.33%	113.33%	121.33%	129.33%
1957	66, 6 mo	72.50%	77.50%	83.33%	90.00%	96.67%	104.00%	112%	120%	128%
1958	66, 8 mo	71.67%	76.67%	82.22%	88.89%	95.56%	102.67%	110.67%	118.67%	126.67%
1959	66, 10 mo	70.83%	75.83%	81.11%	87.78%	94.44%	101.33%	109.33%	117.33%	125.33%
1960 and later	67	70.00%	75.00%	80.00%	86.67%	93.33%	100.00%	108%	116%	124%

Table 3

Social Security Cost-of-Living Adjustments since 1975

July 1975 -- 8.0%
July 1976 -- 6.4%
July 1977 -- 5.9%
July 1978 -- 6.5%
July 1979 -- 9.9%
July 1980 -- 14.3%
July 1981 -- 11.2%
July 1982 -- 7.4%
January 1984 -- 3.5%
January 1985 -- 3.5%
January 1986 -- 3.1%
January 1987 -- 1.3%
January 1988 -- 4.2%
January 1989 -- 4.0%
January 1990 -- 4.7%
January 1991 -- 5.4%
January 1992 -- 3.7%
January 1993 -- 3.0%
January 1994 -- 2.6%
January 1995 -- 2.8%
January 1996 -- 2.6%
January 1997 -- 2.9%
January 1998 -- 2.1%
January 1999 -- 1.3%
January 2000 -- 2.5%
January 2001 -- 3.5%
January 2002 -- 2.6%
January 2003 -- 1.4%
January 2004 -- 2.1%
January 2005 -- 2.7%
January 2006 -- 4.1%
January 2007 -- 3.3%
January 2008 -- 2.3%
January 2009 -- 5.8%
January 2010 -- 0.0%
January 2011 -- 0.0%
January 2012 -- 3.6%
January 2013 -- 1.7%
January 2014 – 1.5%
January 2015 -- 1.7%

Table 4

Adjustments for Early Receipt of Survivor Benefits

Year of Birth	*Full (survivors) Retirement Age*	*At age 62 a $1000 survivors benefit would be reduced to*	*Months between age 60 and full retirement age*	*Monthly % reduction*
1939 or earlier	65	$829	60	.475
1940	65, 2mo	$825	62	.460
1941	65, 4 mo	$822	64	.445
1942	65, 6 mo	$819	66	.432
1943	65, 8 mo	$816	68	.419
1944	65, 10 mo	$813	70	.407
1945 - 1956	66	$810	72	.396
1957	66, 2 mo	$807	74	.385
1958	66, 4 mo	$805	76	.375
1959	66, 6 mo	$803	78	.365
1960	66, 8 mo	$801	80	.356
1961	66, 10 mo	$798	82	.348
1962 and later	67	$796	84	.339