SOCIAL SECURITY

PERSPECTIVES & AWARENESS

Social Security maximization has long been a topic of discussion regarding its role within a comprehensive, long-term retirement plan. Because Social Security involves so many varying rules and regulations, implementing the appropriate strategy depends heavily on each individual's unique circumstances. There is no one-size-fits-all approach. Below, we'll take a brief look at some of the key factors involved and what they mean for your personal decision-making process.

Established in 1935, the Social Security program was created to provide a financial safety net for retirees, individuals with disabilities, and survivors of deceased workers. Its core purpose remains the same today, to offer a baseline level of income security and reduce poverty among older Americans and vulnerable populations. Funded primarily through payroll taxes, Social Security has evolved over time to adapt to demographic shifts, inflation, and changes in the labor force. While it is not intended to replace all of a worker's income, it continues to serve as a foundational component of long-term financial planning.

Understanding the Elements

As Social Security is an important component of retirement planning, it is important to recognize that its rules can be quite complex. Below is a high-level overview of key topics, including Primary Insurance Amount (PIA), Full Retirement Age (FRA), disability benefits, working while receiving benefits, and spousal and survivor benefits.

Primary Insurance Amount (PIA)

Your Primary Insurance Amount (PIA) is the monthly benefit you're entitled to at your Full Retirement Age (FRA). It's calculated using your highest 35 years of inflation-adjusted earnings. Missing years count as zeros, which can lower your benefit, making additional working years potentially valuable.

SSA applies a progressive formula using three bend points to convert your Average Indexed Monthly Earnings (AIME) into your PIA, replacing a higher percentage of income for lower-earning workers. Specifically, the first portion of your earnings is replaced at 90%, the next portion at 32%, and earnings above the second bend point at 15%. This structure makes benefits progressive so that lower- and moderate-income workers receive a larger percentage of their AIME in benefits, while higher earners receive proportionally less.

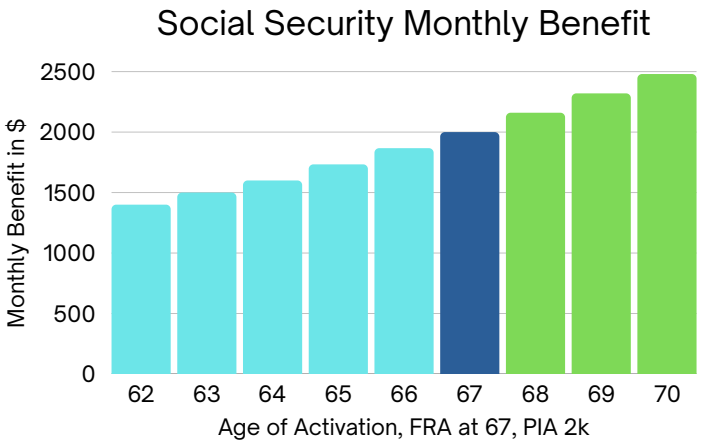
If you don't have the full 40 work credits (40 quarters of work) required for a standard Social Security retirement benefit, you may still qualify for a reduced benefit. Individuals with fewer than 40 credits cannot receive their own retirement benefit but may still be eligible for spousal or survivor benefits based on a spouse's record. In some cases, continuing to work, even part-time, can help you accumulate additional credits and eventually qualify for full eligibility.

Full Retirement Age (FRA)

Your FRA is the age at which you receive 100% of your PIA. FRA depends on birth year:

- 1943–1954: Age 66
- 1955–1959: Increases 2 months per year (66 + 2 months to 66 + 10 months)
- 1960 or later: Age 67

Claiming benefits before FRA permanently reduces your benefit (up to 30% at age 62). Delaying benefits after FRA, up to age 70 increases them by about 8% per year via Delayed Retirement Credits.



Disability Benefits

Social Security Disability Insurance (SSDI) provides income support to individuals who are unable to work due to a severe medical condition that is expected to last at least one year or result in death. Eligibility is based on having sufficient reduced SSDI work credits and meeting the SSA's strict medical criteria. Once approved, beneficiaries may receive monthly payments and in some cases, qualify for Medicare after a waiting period. SSDI benefits automatically convert to standard Social Security retirement benefits at Full Retirement Age (FRA), with no reduction in benefit amount.

Working While Collecting Benefits

Many retiree's continue to work partially during retirement, but if you start collecting benefits before your full retirement age (FRA) while continuing to work, your benefits may be temporarily reduced if your earnings exceed the annual limit, currently $24,480. These reductions aren't lost, they are credited back and will slightly increase your benefits once you reach FRA. Many find these reductions surprising and potentially costly if they're unaware of the rule. However, once you reach FRA, your earnings no longer affect your monthly benefit, and no reductions will apply regardless of income.

Survivor & Spousal Benefits

Survivor benefits provide ongoing income to eligible spouses, former spouses, and dependents after a worker's death. A surviving spouse can begin receiving reduced survivor benefits as early as age 60 (or age 50 if disabled), and may receive up to 100% of the deceased worker's benefit if claimed at Full Retirement Age (FRA). Survivors may also coordinate between their own retirement benefit and a survivor benefit often claiming one first and switching later to help maximize lifetime income. In regards to Spousal Benefits, while both spouses are living, the higher-earning spouse's benefit potenitally plays a key role in determining the lower earning spouse's future income benefits. Because the lower earning spouse typically receives the larger of the two benefit options (their own benefit *or* 50% of the living spouse's PIA, whichever is higher), decisions around when the spouse files can significantly affect long-term household income. The table below illustrates how these options may impact benefits.

Spouse PIA	Your Age	% of Spouse's PIA	Benefit Amount
$2,000	62	32.50%	$650
$2,000	63	35.00%	$700
$2,000	64	37.50%	$750
$2,000	65	41.66%	$833
$2,000	66	45.83%	$917
$2,000	67 or >	50.00%	$1,000

What percentage of my living spouse's benefit will I receive? (2k PIA Example)

To conclude, as these examples illustrate, Social Security decisions can be complex, and making choices without careful planning may have lasting and potentially adverse effects on your long-term retirement income. Whether you are many years from retirement, approaching it soon, or are already retired, evaluating your Social Security strategy can be an important step toward reinforcing and optimizing your overall retirement plan. Please feel free to inquire anytime with questions or for discussion.

Ajay Khatri, CRPC™
Principal / Investment Advisor
Alternity Investment Advisors
akhatri@alternityadvisors.com