

14.41 Social Security Details

Friday, October 21 2005

How are benefits calculated?

Step 1: calculate your annual earnings for every year before age 60.

Step 2: Inflate the earnings of each year by the “average wage index” – the amount by which average wages have grown from that year until now.

Step 3: take the average of the highest 35 wage-index-inflated years and divide by 12. This is the **AIME**: *average indexed monthly earnings*

Step 4: Multiply the first \$612 of the AIME by .9. Multiply the next \$3,077 by .32. Multiply anything left by .15. Add these all together to get the **PIA**: *primary insurance amount*. The maximum that the PIA can be is \$1,866. If you retire at your full retirement age, and don't have a spouse (and never did), then this is the monthly amount you would get.

Step 5: Adjust for early or late retirement, or spousal benefits.

Spousal benefits:

- if you are married and your spouse is receiving benefits, then you are entitled to your own benefit or half of your spouse's – whichever is higher
- if you were married for at least 10 years, but your spouse is deceased, then you are entitled to your own benefit or 100% of your spouse's – whichever is higher.
- If you are divorced and currently unmarried, but you were married for at least 10 years in a previous marriage, you are entitled to spousal benefits (50%) under your ex-spouse's earnings history; and if the spouse dies, you're entitled to 100% of his or hers benefits

Early or delayed retirement:

- if you retire before the *full retirement age (FRA)* but after the *early retirement age (ERA)*, you may begin receiving benefits. However, your monthly benefits will be permanently reduced by some fraction (around 6.67%)
- if you decide to delay retirement and not receive benefits, then your future monthly benefits will be increased by some fraction (around 6%). This is called the *delayed retirement credit (DRC)*.
- if you decide to keep working past 62, but you want to receive benefits, you may still receive benefits. You can receive your full monthly benefits if your annual income (excluding social security benefits) is below \$11,640. If your income is above that level, your monthly social security benefits are reduced by \$.50 for every \$1 you earn – but your benefits will be *increased* by some fraction once you retire.

Note: each year, your benefits inflation-indexed, using CPI growth from the previous year

Family benefits:

- If children (<18 years old) are cared for by the social security recipient, then they are entitled to monthly benefits equal to 50% of the primary earner's benefit amount. However, no household can receive total monthly benefits exceeding 185% of the primary earner's monthly benefit amount.
- If a social security recipient is a parent to children under 18 and dies, each child can receive 75% of the deceased parent's social security benefits until they are 18 years old.
- If one spouse dies, and the other is caring for children <16 years old, the surviving spouse can receive 100% of the deceased spouse's benefit, until the children are 16 years old.

Taxes:

- If your income (social security benefits + other income) is low enough (between \$20,000 and \$30,000 annually), your benefits aren't taxed. Otherwise, a fraction of your social security income is taxable (up to 85% of ss earnings are taxable – this percentage is progressive, based on income)

“Minimum benefits”:

- if your earnings history is poor, but you have at least 10 years (40 quarters) of earnings – and hence are eligible for social security benefits, the *minimum* that you can receive in monthly benefits is \$31.90