Make the Most of Your Social Security Benefits

When to claim benefits based on your personal needs.

Deciding when and how to claim Social Security benefits is one of the most important decisions that retirees will ever make. Social Security benefits represent one of the few sources of guaranteed income that retirees can count on for the rest of their lives. In addition, Social Security benefits are adjusted annually (in most years) to keep pace with inflation. You can claim Social Security anytime between age 62 and 70, but the longer you wait, the bigger your monthly benefits for perpetuity.

Rethinking Social Security

While there has been a growing appreciation of the value of maximizing Social Security benefits by delaying benefits, changingwork patterns have prompted some to rethink their Social Security claiming strategy. Some individuals who lost their jobs during the pandemic or retired early due to health concerns may have claimed Social Security early to meet pressing income needs. Those who retired early may worry about the impact of inflation on their retirement budget and are considering reentering the workforce. This group may wonder how earnings will affect their Social Security benefits.

Others are considering claiming Social Security as soon as possible to counter possible benefit cuts if Social Security trust funds run dry before Congress can shore up the system's long-term finances. However, it is highly unlikely that lawmakers would cut benefits for near or current retirees. Claiming reduced benefits early out of fear is a bit like selling stocks in a down market: You are guaranteed to lock in a loss.

Your Age Matters

The dollar amount of your monthly Social Security benefit is based on your average lifetime earnings and the age you first claim benefits. The Social Security Administration (SSA) calculates your average indexed monthly earnings during your top 35 earning years and applies a formula to those earnings to arrive at your basic benefit or "primary insurance amount" (PIA). This is how much you would receive at your full retirement age (FRA), which varies from 66 to 67, depending on your birth year.

If you claim benefits before FRA, your benefit will be reduced. If your FRA is 66, delaying Social Security benefits until 70 will result in a whopping 32% increase in benefits. That means, if your FRA benefit is $2,000 per month at age 66 and you wait until 70 to collect, your benefits will grow by 8% per year for four years and be worth $2,640 per month at 70 ($2,000 x 1.32).

The actual payout will be even larger as annual cost-of-living adjustments (COLA) for each of the intervening years between the time you first become eligible for benefits at 62 and the age you claim will be added to your monthly benefit amount. Waiting to collect the biggest benefit at age 70 means future COLAs will be applied to a bigger base, resulting in larger monthly payments for the rest of your life.

How Work Affects Benefits

Anyone who collects Social Security benefits before FRA — including retired workers, their spouses, divorced spouses, and survivors — is subject to earnings restrictions if they continue work while receiving benefits. The earnings cap applies only to wages from a job or net self-employment income; not other sources of income such as investments, pensions or other government benefits.

In 2024, you lose $1 in benefits for every $2 earned over $22,320 if you are younger than FRA for the entire year. The earnings cap is indexed to inflation and increases in years when there is a COLA. A more generous earnings cap applies in the year you reach FRA. In the months before reaching your FRA — which is 67 2023[1] — you can earn up to $56,520 without sacrificing any Social Security benefits.[2] If you earn more than that, you'll forfeit $1 in benefits for every $3 earned over the limit. Once you reach FRA, the earnings cap disappears, meaning you can continue to work without reducing your Social Security benefits.

Benefits lost to the earnings cap are not gone forever; they are merely deferred. When you reach your full retirement age, SSA will recalculate your benefits, adding back any months you forfeited because of the earnings cap. For more information, see "How Work Affects Your Benefits".

Your Marital Status

It's not just your age and earnings history that can affect your Social Security benefits. Your marital status can also influence your lifetime benefits.

When an unmarried individual claims Social Security benefits, it's fairly simple. Their benefit is based on their average lifetime earnings and the age when they first claimed benefits.

In many situations, married couples should coordinate their claiming strategies to maximize benefits while both spouses are alive to create the largest possible survivor benefit for the remaining spouse. In general, it makes sense for the spouse with the larger Social Security benefit to delay claiming up until age 70 to maximize the household's retirement benefit. In the meantime, the spouse with the smaller benefit may want to claim reduced benefits early if he or she is not working or at full retirement age when earnings restrictions disappear. This coordinated claiming approach generates some income initially, helping to take some pressure off the couple's finances while the second spouse waits until 70 to claim a maximum benefit.

A married individual may be entitled to two Social Security retirement benefits: one on their own earnings record and one as a spouse, which is worth up to 50% of the worker's FRA benefit. Normally, Social Security pays the larger of the two benefits.

If one spouse has not worked long enough — at least 10 years to accrue the minimum of 40 credits needed to be eligible for benefits — the other party can still claim benefits as a spouse. But that individual must wait until their spouse claims their Social Security benefit. If the spouse with the bigger benefit dies first, the larger benefit, and the surviving spouse's smaller retirement benefit will disappear.

There is an additional claiming option for married couples when at least one spouse was born before 1954. Once one spouse files for Social Security, the other spouse, who was born before 1954 (meaning they would be at least 69 years old by the end of 2023), can file a "restricted claim for spousal benefits" and collect half of the other spouse's FRA amount while allowing his or her own retirement benefit to continue to grow up until age 70, and then switch to the bigger benefit.

Collect on Your Ex

Divorced spouses who were married at least 10 years and are currently unmarried may be able to collect benefits on an ex's earnings record. If an ex-spouse is eligible for retirement benefits on their own earnings record, as a former spouse, that individual would be paid the higher of the two amounts.

Like a married couple, an eligible divorced spouse could file a restricted claim for spousal benefits (if born on or before January 1, 1954) until age 70, when they would switch to their own maximum benefit.

When it comes to filing for Social Security, divorced spouses have an added advantage over married couples. A divorced spouse who was married at least 10 years, has been divorced at least two years, and is currently single can claim benefits on an ex's earnings record even if the ex has not yet claimed benefits (as long as each former spouse is at least 62 years old). This is known as being an "independently entitled ex-spouse."

Survivors

Widows, widowers and surviving ex-spouses have more flexibility than other Social Security beneficiaries because retirement benefits and survivor benefits represent two different pots of money. A surviving spouse or surviving ex-spouse can choose one benefit first and switch to the other benefit later if it results in a larger monthly benefit, regardless of birth year.

To be eligible for a Social Security survivor's benefit, a widow or widower must have been married to the deceased worker for at least nine months at the time of his or her death. An eligible surviving ex-spouse must have been married to the deceased worker for at least 10 years before the divorce.

Survivor benefits are available as early as age 60, but they would be worth just 71.5% of the deceased worker's benefit, compared to 100% if the survivor claimed benefits at his or her FRA. Survivor benefits are worth the maximum amount when collected at FRA. Unlike retirement benefits, survivor benefits do not increase by 8% per year for every year benefits are postponed beyond full retirement age, up to age 70.

A widow, widower or eligible surviving divorced spouse could choose to collect a reduced survivor benefit as early as age 60 and switch to a maximum retirement benefit as late as age 70. But if the survivor benefit is the larger benefit, it may make sense to collect reduced retirement benefits early (subject to earnings restrictions) and switch to maximum survivor benefits at FRA.

If a widow, widower or surviving ex-spouse waits until age 60 or later to remarry, they can collect a survivor benefit even if they are married to someone else.

Do-Over Options

Anyone has the right to change their mind about claiming Social Security by withdrawing their application (Form 521) within 12 months of first filing for benefits. But there's a catch. They must repay any benefits they have received as well as any benefit collected on their earnings record by a spouse, minor or child with disabilities.

That resets the clock as if they never claimed Social Security, so they will receive a larger benefit when they file at a later date. You can withdraw your application for benefits only once in a lifetime.

If you miss the 12-month window, you have another do-over option. You can suspend your benefits. You do not have to repay any benefits, but the monthly payments you have been receiving will stop, along with the benefits of anyone claiming on your earnings record. (va suspension would not affect the benefits of an ex-spouse). Your benefit will then earn delayed retirement credits of up to 8% per year until age 70.

BOTTOM LINE:

You have worked long and hard for your Social Security benefits. If you need money now and want to claim early, go ahead. It's your money. But if you are thinking about claiming benefits early just because you are concerned that the Social Security trust funds will run dry in the future, think again. If you can afford to wait, you will be rewarded for your patience, locking in a larger guaranteed monthly benefit for the rest of your life.

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[1] "Frequently Asked Questions: What is full retirement age?", January 3, 2023 (https://faq.ssa.gov/en-us/Topic/article/KA-01885#:~:text=The%20current%20full%20retirement%20age,Medicare%20eligibility%20remains%20at%2065.)

[2] ssa.gov, "Fact Sheet: 2023 Social Security Changes" (https://www.ssa.gov/news/press/factsheets/colafacts2023.pdf)