Maximizing Your Social Security Benefits

The Complete Guide

Choosing when to start your Social Security benefits will likely be one of the most important decisions you'll make as a retiree.

INTRODUCTION

For many, Social Security monthly payments will serve as a primary income source in retirement (along with savings and perhaps a workplace pension). Which means understanding how Social Security works, how much you're eligible to receive and what you can do to maximize those benefits, can be crucial to funding a long and successful retirement.

If you've already done some research, you know the regulations used to determine your benefit amount can be pretty complex. Age is, of course, a critical factor. But there are other considerations to keep in mind as you ponder when to file, such as:

- **How your decision might impact your spouse and, in some situations, your children;**
- **The effect your Social Security income can have on your overall finances (especially your taxes); and**
- **Which claiming strategies might put the most money into your bank account every month—and help you hold onto it once it's there.**

Ultimately, you and your spouse will have to decide which of the many claiming options are the best fit for your needs and goals. The aim of this guide is to help you feel better prepared to evaluate your choices.

If you have questions beyond the basics covered here or you're wondering about next steps, your Octavia wealth advisor can offer more information and discuss specifics. You may also want to check out the tools available on the Social Security Administration official website, www.ssa.gov.

What is Social Security?

Social Security is the term used for the federal government's Old-Age, Survivors, and Disability Insurance (OASDI) program, which is administered by the Social Security Administration (SSA). The original Social Security Act was signed into law in 1935, and though it's best known for retirement benefits, the program also provides survivors benefits and disability income.

Eligible retirees began receiving the first recurring monthly payments in 1940—and since then there have been many changes to the program and the claiming process. Here are some basics that can be helpful to know.

Does Everyone Qualify for Benefits?

No. To be eligible for Social Security retirement benefits, you must earn at least 40 credits by working and paying Social Security taxes.

Credits are based on earnings—but the amount you need to earn to get a credit isn't as intimidating as you might think. In 2024, for example, you'll need to earn just $1,730 to get one Social Security credit, and $6,920 to get four credits, which is the maximum number of credits a person is allowed to acquire in one year.

If you consistently earn four credits each year, it will take only 10 years to qualify for benefits. On the other hand, if there are years when you earn fewer credits, or even have zero credits (because you were temporarily out of work, for example, or you spent time as a stay-at-home parent), it will take longer. You may be eligible to collect benefits based on your spouse's record.

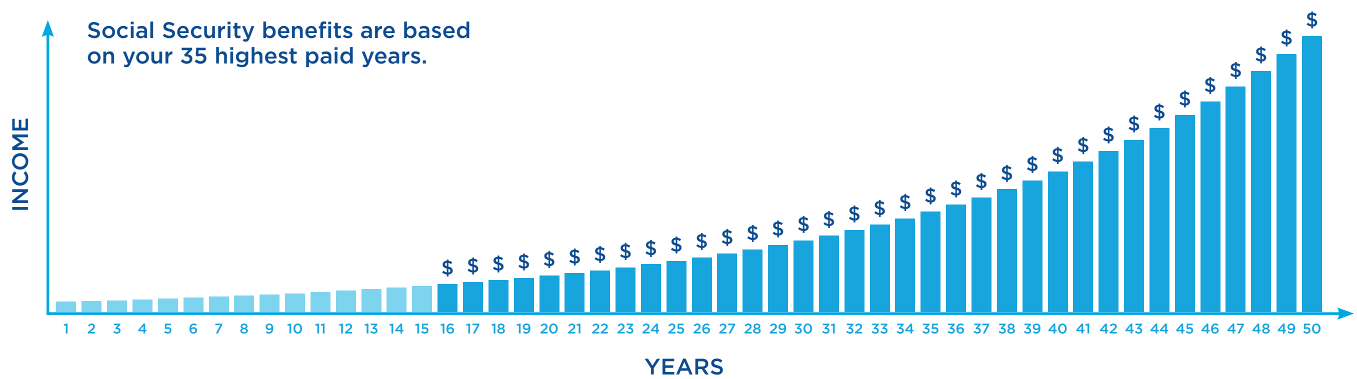
How Are Payments Calculated?

The number of Social Security credits you earn will determine your eligibility for retirement benefits, but it won't affect your benefit amount. For that calculation, the SSA will take all your historical earnings and index them for inflation. Then it will base your benefits on the 35 calendar years in which you earned the highest income.

Here's an example: Let's say you worked 50 years over your lifetime—five years making minimum wage part-time in high school and college, 10 years working your way up in your field earning a moderate wage, and 35 years as a successful and highly-paid executive, attorney, physician, etc. Your benefits would be based only on your 35 highest-paid years; the years when you were earning less wouldn't be factored in.

If you have fewer than 35 years of earnings, any year without earnings will be factored in as a zero. But you can grow your benefit amount at any time (even after you claim your benefits) by replacing a zero, or a lower-income year, with a higher-income year.

You can view and verify your earnings history by signing up for a "my Social Security" account at www.ssa.gov/myaccount.



When Can You Start Benefit Payments?

If you've earned enough credits to qualify for Social Security retirement benefits, you can start receiving payments as early as age 62. But to be eligible for 100% of your earned benefits, you must be what the SSA refers to as your "normal" or full retirement age (FRA). This can range from 66 to 67, depending on your birth year.

If you choose to claim at 62—and many people do, for various reasons—you can expect a 25% to 30% permanent reduction in your annual benefits. (The exact percentage will depend on your FRA.)

The longer you wait to start collecting your benefits, and the closer you get to your FRA, the more you'll receive each month. If you wait until you've passed your FRA before claiming, you'll receive a delayed retirement credit of about 8% every year until you turn 70. Delayed credits end at age 70, so if you delay claiming past your 70th birthday, your benefit amount won't increase.

If you're curious about how much your payment might be at different claiming ages, you can get an estimate by signing up for a my Social Security account at www.ssa.gov/myaccount. Or you can run the numbers using calculators provided at www.ssa.gov/planners/calculators/, www.aarp.org/tools/ and other websites.

Social Security benefits are designed to be "actuarially neutral," which means if you live to the average life expectancy, you can expect to get approximately the same amount no matter what age you file. If you file early, you'll get a smaller check but for a longer time. If you file later, you'll receive a larger check for a shorter time.

Is There a Maximum Benefit Amount?

The maximum benefit amount a person can receive will depend on the age he or she retires. For example, if you file in 2024 at your FRA, the maximum benefit you could receive would be $3,822. If you retire at age 62 in 2024, your maximum benefit would be $2,710. If you retire at age 70 in 2024, the maximum benefit would be $4,873. (The maximum benefit usually rises every year to account for inflation. In 2023, it was $4,555; in 2022, it was $4,194.)

How Can Your Marital Status Affect Your Benefits?

Deciding when to claim your Social Security benefits becomes even more complicated if you are or have been married.

The choices you and your spouse make about when to file will determine the amount of your payments now, as a couple, and later when one of you is widowed. To maximize the benefits you've earned, it's important that you carefully coordinate your claiming dates. Understanding the basics of the program's spousal and survivors benefits can help.

What Is the Spousal Benefit?

If you've been married for at least a year (or if you're divorced but were married for more than 10 years and haven't remarried), you may be eligible for Social Security's "spousal benefit."

This means you can claim a Social Security retirement benefit based on your own earnings record, and/or you may receive a spousal benefit worth as much as 50% of your spouse's benefit based on his or her FRA. Here's how it works:

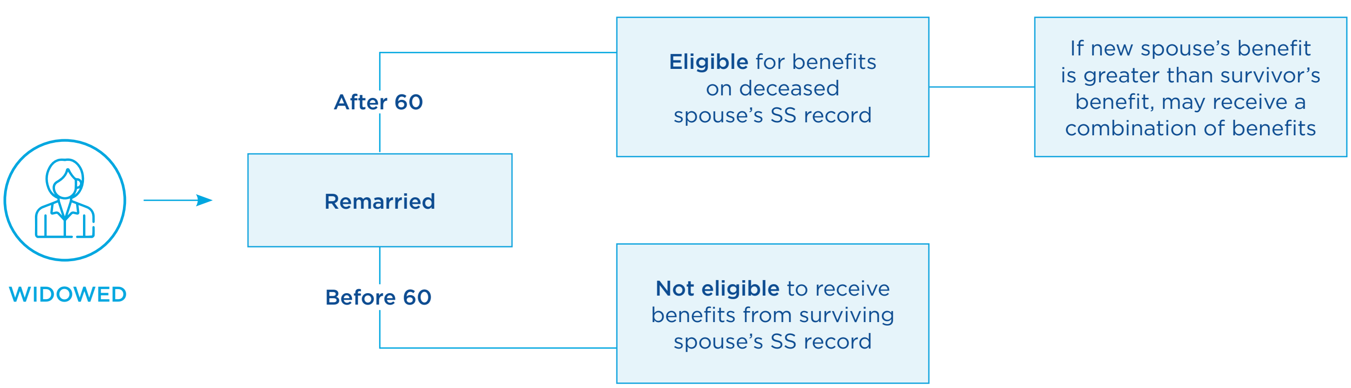
- If you've worked and paid Social Security taxes for 10 years or more, you'll get a monthly benefit based on your earnings history. Then, the SSA will determine if you're eligible for additional money based on your current or former spouse's work record.
- If you're married and haven't earned enough credits to qualify for benefits on your own, the SSA will determine if you're eligible for a monthly benefit based on your spouse's record.
- If you're divorced and haven't remarried, you may be eligible for a spousal benefit based on your ex's record. If you've been married and divorced more than once, your spousal benefit will be based on your highest-earning former spouse's record—if you were married for at least 10 years. (It's up to you if you want to tell your ex—the SSA doesn't provide that information to former spouses.)
- When you file for benefits, the application form will ask about your current and past marriages, so you can receive the largest monthly benefit for which you are eligible.
- Current spouses must wait until the higher-earning spouse files for his or her own benefit before the other can file for the spousal benefit. Ex-spouses don't have to wait, but the ex whose record you're filing on must be at least 62.

- Taking the spousal benefit doesn't affect the amount your current or former spouse receives. However, if you claim early, your spousal benefit may be reduced, just as the benefit based on your own work history would be.

How Do Survivors Benefits Work?

When one spouse dies, the other spouse may be able to collect a survivor benefit based on the other's eligibility and earnings record. Here are some ways your age, your spouse's benefit and your own benefit might affect your payments as a widow or widower.

- If you and your spouse both already claimed your benefits and you were receiving monthly payments, you won't get both amounts when you're widowed. You'll either continue to receive your benefit or you'll be switched over to your spouse's benefit, whichever amount is higher. (This is another reason why it can make sense for a household's higher earner to delay filing and maximize his or her benefit.)
- If you're 62 or older and eligible for your own benefits, but you haven't yet filed, you can apply for your own benefit or the survivors benefit now, continue to grow the other benefit, and then switch to the higher benefit later. (But no later than age 70.)
- If you're the surviving spouse of a person who was eligible to collect Social Security, you can apply for a survivors benefit as early as age 60 (and as early as 50 if you're disabled), even if your spouse wasn't yet receiving benefits. But the benefit amount you get may be reduced if you haven't yet reached your own FRA.
- You may be entitled to receive a survivor benefit at any age if you have a child under your care who is younger than 16 or who became disabled before age 22.
- If you're widowed and remarry before you turn 60 (or 50 if disabled), you won't be able to receive benefits as a surviving spouse. If you remarry after you turn 60 (or 50 if disabled), you can continue to qualify for benefits on your deceased spouse's Social Security record. If your new spouse is receiving Social Security payments, however, you may want to look into applying for the spousal benefit on his or her record instead. If your new spouse's benefit is more than your survivors benefit, you may receive a combination of benefits that results in a higher amount.
- If you're divorced and your ex-spouse dies, you may be eligible for the same survivors benefit any current spouse would receive—if you were married for at least 10 years or you are caring for a qualifying child.



Here are some other things surviving spouses should know:

- If your spouse was collecting benefits, it's up to you to be sure the SSA is notified as soon as possible after he or she dies. If you provide the deceased's Social Security number, many funeral homes will report a death to the SSA as part of their services. You can also report the death yourself, by calling the SSA at 800-772-1213 or by visiting your local SSA office. (You can find your nearest office at www.ssa.gov/locator.)
- You can't apply for survivors benefits online. You must contact the SSA at 800-772-1213 or go in to your local SSA office.
- Social Security regulations require a person to live an entire month to receive benefits for that month. This means that if you receive a payment for the month of your spouse's death, or any later month, you must return it. Keep in mind, though, that benefit payments are sent out the month after they're due. If, for example, your spouse dies in January and you receive a payment in January, that is actually the December payment, and it's your money to keep. But if your spouse died in January and you receive a payment in February, you must return the money.

What Factors Besides Age Might Affect When You File?

According to the most recent data from the SSA, in 2022, 24.5% of women and 22.9% of men chose to file for their retirement benefits as early as they could, making 62 the most popular claiming age. Despite financial incentives to delay filing, 62 has held that top spot—by a pretty wide margin—for decades.

To truly maximize your Social Security benefits, you should base your claiming decision on what you think will have the best results for you, your spouse and your family. Here are a few things to consider:

- **Your Health and Family History.** If your health is failing or you have a family history of heart disease, cancer or some other serious illness, you may decide it makes sense to file early, or at your FRA, rather than delaying until you turn 70. That way, even though your benefit amount will be smaller, you'll get the most payments possible. On the other hand, if you come from a family whose members live longer than the average American, you may wish to grow your benefit for as long as possible, so you'll have a higher monthly payment to depend on in your later years. Many retirees now live two or more decades in retirement.

FACTORS THAT AFFECT WHEN YOU FILE

- YOUR HEALTH AND FAMILY HISTORY
- YOUR OTHER INCOME STREAMS
- YOUR LEGACY
- YOUR TAXES
- WORRIES ABOUT SOCIAL SECURITY SOLVENCY

- **Your Other Income Streams.** Some people don't have much of a choice when it comes to deciding when to file for Social Security. Many claim their benefits because they've lost their job, or they can't handle the stress or physical demands their job requires as they age. Others need to care for a loved one who is ill, or they're in failing health themselves. These people may need their Social Security income just to get by. But if you have one or more reliable income streams available—a job you like and can still manage, an employer pension and/or substantial retirement savings, for example—you may decide to use that money to live on so you can delay filing and grow your benefit.

- **Your Legacy.** Your claiming decision could affect the loved ones in your life other than your spouse. If you have children who are younger than 18 (or up to 19 if they're still attending high school full-time) or who were disabled before turning 22, they may qualify for a survivors benefit worth up to 75% of your Social Security benefit after you die. (One more reason you may want to delay claiming and grow your benefit if you can.) There are also strategies that could allow you to leave behind something for other, non-eligible, loved ones, if that's a priority for you. You might, for example, choose to use your Social Security benefits for income so you can leave more money in your IRA for your adult children to inherit.

- **Your Taxes.** Many soon-to-be retirees are not aware that Social Security benefits aren't completely exempt from taxes. The IRS will look at your "provisional" or combined income to determine if you must pay taxes on a percentage of your benefits. Provisional income is calculated by adding your adjusted gross income for the year, any tax-free interest you received, and 50% of your Social Security benefits. If you're filing as an individual and your provisional income is between $25,000 and $34,000, or if you're filing a joint return and have provisional income between $32,000 and $44,000, you may have to pay federal income taxes on up 50% of your benefits. You may have to pay income taxes on up to 85% of your benefits if your provisional

Provisional Tax = Adjusted gross income + Tax-free Interest + 50% of Social Security Benefits

FILING STATUS	YOUR PROVISIONAL TAX	TAX ON SS BENEFITS
INDIVIDUAL	$25,000 - $34,000	Up to $50%
JOINT	$32,000 - $44,000	Up to $50%
JOINT/INDIVIDUAL	$44,000 +	Up to $85%

income is higher than those amounts. Some states also tax Social Security benefits using varying formulas. If, like many retirees, you plan to withdraw money from a tax-deferred retirement plan while you're also collecting Social Security, you could end up with a higher tax bill than you planned. (This is why income and tax planning is so imperative as you prepare to retire.)

- **Worries About Social Security's Solvency.** You may have seen reports that unless Congress finds a remedy soon, Social Security will face a funding shortfall in about a decade—and if that happens, retirement and other benefits might be reduced. But that doesn't necessarily mean you should file sooner than planned to ensure that you get your money. (Indeed, it might make more sense to grow the largest benefit possible in case there is a reduction in the future.) If news—and rumors—about Social Security have made you anxious, talk to your Octavia wealth advisor. He or she can address your current concerns and help you put together a plan that aims to weather any changes in the years ahead.

Can You Keep Working After You Claim Retirement Benefits?

Yes, you can keep working—full-time or part-time—after you file for your Social Security benefits. But, depending on your age, you may be subject to an annual earnings test that could affect your benefit amount. Here's how it works:

- If you take your benefits before you reach your FRA, the SSA will deduct $1 from your payments for every $2 you earn about the designated earnings threshold. In 2024, you can earn up to $22,320 without having any benefits withheld.
- The earnings threshold increases in the year you reach your FRA. So, if you will reach your FRA in 2024, you can earn up to $59,520 without impacting your benefits. After that amount, though, you'll have $1 in Social Security withheld for every $3 in earnings.
- There is no limit on how much you can earn once you reach your FRA.

It's important to note that any benefits that were withheld because you exceeded the earnings limit will eventually be added back into your monthly payment. Your benefit amount will be recalculated when you reach your FRA, and you should receive a larger monthly amount that reflects the credit.

Are Social Security Benefits Adjusted for Inflation?

Yes. Each year, the SSA decides whether the next year's benefit will include a cost-of-living adjustment (COLA) and, if so, how much it will be.

The SSA tracks inflation using the government's measure of consumer prices for a variety of household goods and services. If there is a measurable increase (at least 0.1%) from one year to the next, payment amounts go up. For example, the cost-of-living increase for 2024 was 3.2%. According to the SSA, this equates to a $50 per month increase or greater for the average monthly Social Security benefit, although the exact amount will vary among different beneficiary groups.

During years when the index sees only a nominal increase or it goes down, there is no adjustment.

When Will You Receive Your First Payment?

When you're deciding when you want your payments to start, remember that the SSA pays benefits a month behind. So, for example, if you say when you apply that you want your benefit to start in March 2024, that March payment won't actually arrive until April 2024.

Your birthday generally determines the day of the week on which you'll receive payments.

- For birthdays between the first and the 10th day of the month, benefit payments come on the second Wednesday of each month.
- For birthdays between the 11th and the 20th, payments arrive on the third Wednesday of the month.
- For birthdays between the 21st and the end of the month, payments come on the fourth Wednesday of the month.
- If you are collecting spousal or survivors benefits on another person's earnings record, your payment date will be based on his or her birthday.

Keep in mind that benefit applications can take up to three months to process. If you know when you want or need your benefits to start, be sure to give yourself plenty of time to apply and for the SSA to notify you that you've been approved. The SSA will allow you to apply up to four months in advance.

You can apply online by creating or logging in to my Social Security account (www.ssa.gov/myaccount). You also can apply by phone (8 a.m. to 5:30 p.m. Monday through Friday at 800-772-1213) or make an appointment and go to your local Social Security office (www.ssa.gov/locator). No matter which method you choose, you should be prepared to provide certain documents, such as your birth certificate, proof of U.S. citizenship, and information about marriages and divorces.

Do Retirement Benefits Start Automatically at Age 70?

No. You must apply to receive your benefits, even if you wait until you're 70.

Can You Change Your Mind Once You File?

You can't turn your retirement payments on and off any time you like. But if you realize you don't want to receive your Social Security benefits after you've filed—perhaps because you decided to go back to work or if some other plan has changed—you have one year to withdraw your claim.

If you choose to undo your claim, you'll have to repay all the money you received to that point, as well as any payments your spouse and/or children received based on your earnings record. They will also have to consent in writing to your application withdrawal.

After that, you can ask the SSA to restart your payments at any time. (If you don't ask, your payments will automatically resume at 70.)

This is a one-time-only do-over, and if you miss the one-year deadline, you can no longer withdraw. But there is a back-up option. When you reach your FRA, you can ask the SSA to suspend your benefits. With this choice, you won't have to repay the benefits you've received so far, and you can still earn some delayed retirement credits and grow your benefits for the future.

It's important to note, though, that you won't be eligible to receive benefits on someone else's record during the suspension period. And anyone receiving payments based on your record (except an ex-spouse) will have their benefits suspended as well.

LOOKING FOR MORE INFORMATION?

Even if you don't plan to retire until after your FRA, it's a good idea to begin familiarizing yourself with Social Security's claiming options years in advance. That way you can be sure you won't miss out on any opportunity to make the most of this significant income source (or make any mistakes you'll regret).

You can find additional information about benefits on the SSA website (www.ssa.gov), or by making an appointment to speak to someone at your nearest SSA location (www.ssa.gov/locator).

If you have any questions or concerns, don't hesitate to ask for help. You can count on the team at Octavia Wealth Advisors to assist you in understanding how specific claiming strategies might apply to you and your family, your goals and the success of your overall retirement plan. Contact us at (513) 762-7701 or visit www.octaviawa.com.

Contact Us

Octavia Wealth Advisors
(513) 762-7701
or visit www.octaviawa.com

KEY TAKEAWAYS

- You can begin collecting Social Security when you turn 62, but your benefits will be permanently reduced if you file at any time before your full retirement age (between 66 and 67). If you wait until your FRA, you'll be eligible for 100% of your benefits. Or you can delay claiming until after your FRA and boost your benefit amount with a delayed retirement credit of about 8% every year until you turn 70.
- Doing a "break-even" analysis can help you determine what might be a good age to claim Social Security, so you can maximize the amount of money you receive over the length of your retirement. But it can be a good idea to consider factors besides age before you settle on when to file, including your marital status, whether you plan to keep working, and how your Social Security income might affect your taxes.
- If you're married, or if you were married for at least 10 years before divorcing and you haven't remarried, you may be eligible for Social Security's "spousal benefit." If so, you can claim a benefit based on your own earnings record and/or a percentage of your spouse's benefit based on your age when you file and your spouse's FRA.
- Widows and widowers also have options that apply specifically to them and could determine the age at which they can receive benefits, as well as how much they'll receive.
- Many retirees are surprised to learn they may have to pay taxes on their Social Security payments. Depending on your income, up to 85% of your benefits could be taxable.
- You can continue to work after you claim Social Security. However, depending on your age, there may be a limit on how much you can earn annually while drawing Social Security. If you go over the earnings threshold, your benefit may be temporarily reduced.
- Once you apply for Social Security it may take up to three months to process your application. You can apply—online, by phone or in person—up to four months before you want your benefits to start.
- If you file for your benefits and then change your mind, you may be able to undo your decision. But you must do so within the first 12 months, and you and family members who have filed on your record will have to pay back the Social Security benefits you received to that point.

Sources: SSA.gov, U.S. News, AARP, Yahoo Finance. All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such.

OCTAVIA
WEALTH ADVISORS

9999 Carver Road
Suite 130
Cincinnati, OH 45242
513.762.7701

octaviawa.com