# A Guide to Social Security:

## Know your options, maximize your benefits

Content provided by Nuveen. Nuveen, LLC, formerly known as TIAA Global Asset Management, delivers the expertise of TIAA Investments and its independent investment affiliates.

# Contents

# Introduction

Social Security is one of the largest government programs in the world. The Social Security Administration estimates that it will distribute approximately one trillion dollars to beneficiaries in 2017.[1] This program affects virtually every individual that has ever been employed for any period of time in the United States and provides benefits to approximately 1 in 6 Americans,[2] yet the program's features and benefits are frequently overlooked and misunderstood. A limited comprehension of Social Security may prevent many Americans from collecting their maximum benefits. However, learning how to effectively incorporate Social Security into your retirement planning can be extremely advantageous to you, your spouse and your dependents. This paper will provide the reader with important Social Security basics, a comprehensive outline of the Social Security strategies and a guide to maximize Social Security benefits using hypothetical examples.

# Background

The Social Security Administration was established in 1935 by President Franklin D. Roosevelt as a means of providing support for financially stressed elders as well as pulling the struggling economy out of the Great Depression. Known as the Social Security Board, the first recipients collected benefits in 1940; at that time there were fewer than 222,500 recipients.[3] As of November 2016, there were approximately 66 million people collecting some form of Social Security Benefits.[4] A recent survey found that almost 62% of retired American residents reported Social Security as a major source of income.[5]

The United States Government administers a number of social insurance programs, including the following:

- **Social Insurance Programs:** Old-Age, Survivors and Disability Insurance (OASDI), Unemployment Insurance, Workers' Compensation, and Temporary Disability Insurance
- **Health Insurance and Health Services:** Medicare and Medicaid
- **Programs for Specific Groups:** Veterans Benefits, Government Employee Retirement Systems, Railroad Workers' Retirement
- **Assistance Programs:** Supplement Security Income, Temporary Assistance for Needy Families, Food and Nutrition Assistance, Housing Assistance, Low-Income Home Energy Assistance, General Assistance, Earned Income Tax Credit

# Qualifications for collecting benefits

Social Security benefits are primarily funded by the wages of current workers. As of January of 2017, the Social Security tax on wages is 6.2% on the employee's first $127,000 of earned income (wage earners' portion of tax totals 7.65% in 2017, which includes the Social Security tax of 6.2% plus the 1.45% Medicare hospital insurance tax).

To be eligible to collect your own Social Security retirement benefits, there are several qualifications the potential recipient must meet:

- Must have a minimum of 10 years of covered employment or 40 credits (can earn a maximum of 4 credits per year, 1 credit = $1,300 of earned income in 2017)
- Must be at least 62 years of age

Additionally, the Social Security recipient's family may be able to qualify for dependent benefits under certain circumstances (in all of the following scenarios, it is assumed the primary beneficiary meets the above qualifications). The primary beneficiary's dependents are eligible to collect Social Security benefits if the recipient has:

- Unmarried children under the age of 18, or up to 19 if attending high school
- Unmarried disabled children under the age of 22 years old
- A spouse that is at least 62 years old, or as early as 60 if collecting survivor benefits
- A spouse that is caring for a disabled child
- An ex-spouse that is not remarried, is at least 62 years old (or as early as 60 for survivor benefits), the marriage lasted 10 years or more, and you have been divorced for at least two years

The maximum benefit for the spouse is 50% of the benefit the worker would receive at full retirement age.

It is important to note that the primary recipient's benefits are never affected by their dependents collecting on their Social Security file.

# Calculating benefits and strategies for maximizing benefits

Currently, the maximum individual monthly benefit at full retirement age is $2,687 and the maximum monthly benefit at age 70 is $3,538. However, as of 2017, the estimated average beneficiary payment is only $1,360 per month. It is not just lifetime earnings, but also the timing of the claiming that can have an impact on benefits.

## Early retirement and full retirement age

Retirement options:

- Early retirement at age 62
- Full retirement age (66-67 depending on year of birth)
- Defer until age 70

When a worker chooses to retire and collect Social Security benefits at age 62, they face an early retirement penalty that will permanently be reflected in their monthly benefits. According to the data from the Social Security Administration, 72% of retired workers are receiving reduced benefits due to filing before reaching their full retirement age, suggesting the need for more effective retirement planning.[6]

To qualify for full retirement benefits, you must satisfy the age requirement (as well as the other qualifications outlined in the previous section). If you were born before 1954, the full retirement age (FRA) is 66. This age increases to 67 for those born in 1960 or later. See the table below for more details.

### Full retirement and age 62 benefit by year of birth

| | | At age 62 | |
|---|---|---|---|
| Year of birth | Full Retirement Age (FRA) | The retirement benefit is reduced by | The spouse's benefit is reduced by |
| 1943-1954 | 66 | 25% | 30% |
| 1955 | 66 and 2 months | 25.83% | 30.83% |
| 1956 | 66 and 4 months | 26.67% | 31.67% |
| 1957 | 66 and 6 months | 27.50% | 32.50% |
| 1958 | 66 and 8 months | 28.33% | 33.33% |
| 1959 | 66 and 10 months | 29.17% | 34.17% |
| 1960 or later | 67 | 30% | 35% |

Source: Social Security Administration

## Earned Income Benefit Reduction

If a recipient collects Social Security prior to his or her full retirement age, and they earn over $16,920 annually or $1,410 per month in 2017, their benefits will be reduced. Surpassing these thresholds will result in $1 of benefits withheld for every $2 in earnings over this limit.

The rules for calculating the work penalty are different for the year in which an individual attains full retirement age: $1 of benefits is withheld for every $3 in earnings in excess of $44,880 annually or $3,740 per month in 2017.

The Earned Income Benefit Reduction combined with reduced benefits for claiming Social Security early can significantly diminish a recipient's monthly benefits. However, once a beneficiary that has been impacted by the Earned Income Benefit Reduction reaches full retirement age, the Social Security Administration will recalculate their benefits. While recalculating these benefits may result in a higher income stream, benefits are still subject to any reduction in place due to claiming prior to FRA.

## Delayed retirement

Employees that choose to delay collecting benefits once they reach full retirement age will experience increases in their monthly benefits for every month they delay, up to age 70:

### Delayed retirement

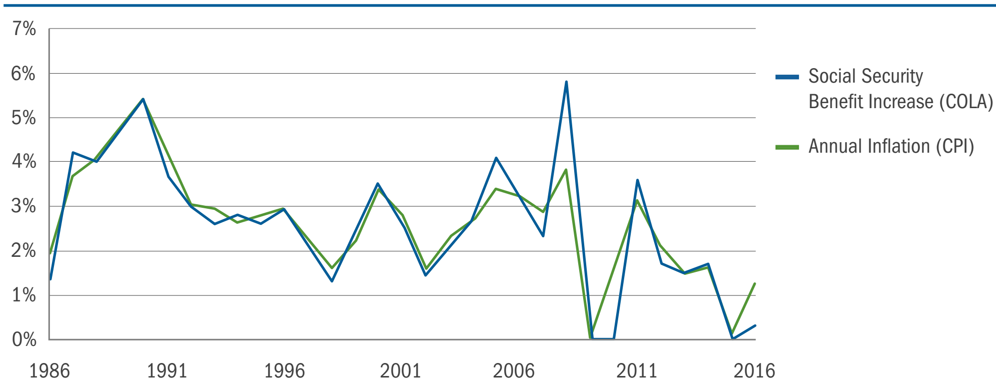
| Year of birth | Yearly rate of increase | Monthly rate of increase |
|---|---|---|
| 1933-1934 | 5.5% | 11/24 of 1% |
| 1935-1936 | 6% | 12/24 of 1% |
| 1937-1938 | 6.5% | 13/24 of 1% |
| 1939-1940 | 7% | 7/12 of 1% |
| 1941-1942 | 7.5% | 5/8 of 1% |
| 1943 or later | 8% | 2/3 of 1% |

Source: Social Security Administration

## Cost of Living Adjustments

Monthly benefits are also adjusted for inflation on an annual basis by using *Cost-of-Living-Adjustments* (COLA), in order to help offset the impact of inflation on a beneficiary's purchasing power. The Social Security COLA is based on the percentage increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). The COLA applicable to 2017 benefits is 0.3%. The chart below illustrates the historical COLA rates compared to average annual inflation rates.

### Social Security COLA versus Inflation (CPI) 1986-2016




Source: Social Security Administration, Bureau of Labor Statistics

# Bipartisan Budget Act of 2015

The Bipartisan Budget Act of 2015 ("the Act") made some significant changes to Social Security benefit provisions. Most notably, the Act impacted two commonly used benefit-claiming strategies that potentially affect the retirement income planning process for millions of American retirees, specifically: "File and Suspend" and "Restricted Application." Changes to these benefit-claiming strategies became effective in 2016 but continue to impact 2017 planning. The following is an overview of the implemented changes.

## File and Suspend

This strategy, for married couples, involved one spouse reaching full retirement age, filing for Social Security benefits, and immediately suspending the claim. This enabled the other spouse (at least 62) to begin collecting spousal benefits. At age 70, the "suspended" spouse began receiving benefits at an increased rate due to delayed credits. This is no longer possible, since the Social Security Administration no longer allows a spouse to receive spousal benefits while the other spouse has suspended his or her retirement benefits.

Under the Act, the "File and Suspend" strategy was completely phased out on May 1, 2016.

## Restricted Application

When one spouse reaches full retirement age, he or she can file for spousal benefits only (restrict the application). This allows his or her own benefits to grow through delayed credits while receiving spousal benefits. Upon reaching age 70, he or she switches from the spousal benefit to his or her own larger primary benefit. It is important to note that one of the spouses must have already filed for benefits in order for the other spouse to make a spousal benefit claim if they are married. If the couple is divorced, to make a spousal benefit claim, the other individual must be eligible for benefits, but does not have to file. Pursuant to the Bipartisan Budget Act of 2015, restricted application will not be allowed for those who reach age 62 on or after January 2, 2016. Any person not meeting this age requirement who is entitled to both spousal benefits and his or her own social security retirement benefit (based on his or her own work record) will be deemed to have filed for both benefits and will receive whichever benefit is larger (note these restrictions do not apply to divorced spouses claiming spousal benefits).

Please note that this strategy is no longer available for those who reach age 62 on or after January 2, 2016.

# Hypothetical examples

To illustrate the effects of the different strategies, consider the following hypothetical examples:

## John and Sally:

- Married couple; the same age

**Scenario 1:** Both spouses work. John's monthly benefits are $2,000/month, Sally receives $1,500/month (both at FRA).

**Scenario 2:** John works, Sally does not have an earned benefit. John's monthly benefits are $2,000/month (at FRA).

### Total monthly benefits: Scenarios 1 and 2

| Retirement strategy | Total monthly benefits | |
|---|---|---|
| | Both earned benefits | John works, Sally does not |
| Early retirement | J: $1,500<br>S: $1,125<br>**Total: $2,625** | J: $1,508<br>S: $704<br>**Total: $2,212** |
| Full retirement age | J: $2,000<br>S: $1,500<br>**Total: $3,500** | J: $2,000<br>S: $1,000<br>**Total: $3,000** |
| Delayed retirement | J: $2,640<br>S: $1,980<br>**Total: $4,620** | J: $2,640<br>S: $1,000<br>**Total: $3,640** |

Hypothetical example for educational and illustrative purposes only. Calculations from **ssincomeplanner.com**.

**Scenario 3:** John and Sally

- John is deceased. John's monthly benefits were $2,000/month, Sally receives $1,500/month.
- Assume the couple was married for 35 years.

### Total monthly benefits: Scenario 3

| Retirement strategies | Total monthly benefits |
|---|---|
| Early survivor, early retirement<br>60/62 | Survivor (age 60-61): **$1,430**<br>Own (age 62+): **$1,131** |
| Early survivor, full retirement age<br>60/66 | Survivor (age 60-65): **$1,430**<br>Own (age 66+): **$1,500** |
| Early retirement, full survivor<br>62/66 | Survivor (age 66+): **$2,640**<br>Own (age 62-65): **$1,131** |
| Early survivor, delayed retirement<br>62/66 | Survivor (age 60-69): **$1,430**<br>Own (age 70+): **$1,980** |

Hypothetical example for educational and illustrative purposes only. Calculations from **ssincomeplanner.com**.

# Provisions that can reduce your benefits

## Windfall Elimination Provision (worker)

The Windfall Elimination Provision (WEP) applies to workers who are eligible to receive government pensions based on employment in the past where the employer was not obligated to withhold Social Security taxes and who also qualify for Social Security retirement (or disability) benefits based on other employers who were required to pay Social Security taxes on behalf of the employee. This usually impacts people who were employed by a government agency and also by an employer in the private sector. The net effect is a reduction in benefits depending upon the number of years in the workforce. For affected retirees, Social Security benefits are reduced on a sliding scale based on years of Social Security-covered work, as shown in the table below. As of 2017, the maximum monthly reduction is the lesser of $442.50 or 50% of a retiree's uncovered pension benefit.

### 2017 eligibility year reduction chart*

| <20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30+ |
|---|---|---|---|---|---|---|---|---|---|---|
| $442.50 | $398.25 | $354 | $309.75 | $265.50 | $221.25 | $177 | $132.75 | $88.50 | $44.25 | 0 |

Years of earnings covered by social security tax. Source: Social Security Administration

## Windfall Elimination Provision example:

- An individual will receive a monthly $900 pension and is eligible for a $700 monthly Social Security benefit beginning in 2017
- Has worked less than 20 years in jobs that were covered by Social Security
- WEP Reduced Monthly Social Security benefit = $257.50 ($700-$442.50=$257.50)

## Government Pension Offset (spouse/survivor)

The Government Pension Offset (GPO) is similar to the Windfall Elimination Provision except it specifically applies to those receiving Social Security spousal or widow/widower benefits who also receive a pension from a federal, state or local government. Social Security benefits are reduced by 2/3 of the government pension amount received. This provision applies only to pension amounts from work that is not covered by Social Security, i.e. for which Social Security tax was not required to be paid.

GPO example:

- An individual will receive a $900 monthly pension and is eligible for $700 per month in Social Security spousal benefits
- Two thirds of the individual's pension = $600
- GPO Reduced Monthly Social Security benefit = $100, or approximately 86% reduction

# Taxation of benefits

Refer to IRS publication 915 for the full calculation worksheet.

Individuals that have other substantial sources of income in addition to benefits during retirement will have to pay federal income taxes on their Social Security benefits. Taxation of benefits on Social Security benefits is determined by Provisional Income, which is calculated by:

Provisional Income = Modified Adjusted Gross Income (MAGI) + ½ Social Security Benefits + Tax Exempt Interest

The taxable benefit is the lesser of:

- 85% of benefits received
- 50% of benefits + 85% of any excess over the higher threshold
- 50% of excess over lower threshold + 35% of excess over the higher threshold

The following chart outlines the Social Security tax schedule:

Social Security taxes 2017

| Filing status | Provisional income | Amount of social security subject to tax |
|---|---|---|
| Married filing jointly | Under $32,000<br>$32,000-$44,000<br>**Over $44,000** | 0<br>Up to 50%<br>**Up to 85%** |
| Single, head of household, qualifying widow(er), married filing separately and living apart from spouse | Under $25,000<br>$25,000 -$34,000<br>**Over $34,000** | 0<br>Up to 50%<br>**Up to 85%** |
| Married filing separately and living with spouse | Over $0 | Up to 85% |

Source: Social Security Administration

# Conclusion

Understanding Social Security and becoming familiar with various maximization strategies can help to improve your stream of income and, in turn, your quality of life during retirement. Although there is no perfect answer to retirement income planning, many individuals overlook or underestimate the value of careful Social Security benefit planning. That oversight can mean thousands in lost income during retirement. It is never too early or too late to start planning for your retirement.

## Next steps

1. Going to **SSA.gov** and register for an online account
2. Spending the time to prepare a detailed social security benefit analysis
3. Integrating *detailed* Social Security planning into retirement income conversations
4. Reviewing your Social Security file for accuracy, particularly the earnings record
5. Consider bringing a trusted advisor with you when you meet with Social Security to file for benefits

1. Social Security Administration, "SSA's FY 2017 Congressional Justification," 2016. Includes benefits to Old Age & Survivors Insurance, Disability Insurance, and Supplemental Security programs.
2. Center on Budget and Policy Priorities, "Policy Basics: Top Ten Facts About Social Security," August 2016.
3. Social Security Office of Retirement and Disability Policy, "Annual Statistical Supplement," 2016.
4. Social Security Administration, "Monthly Statistical Snapshot," November 2016.
5. Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., "The 2016 Retirement Confidence Survey: Worker Confidence Stable, Retiree Confidence Continues to Increase," March 2016, No. 422.
6. Social Security Administration, "Annual Statistical Update, Highlights and Trends," 2015.

* These amounts are estimated based on the 2016 calculations but may vary once the numbers are officially published by the Social Security Administration.

This paper is published for informational and educational purposes only. The statements contained herein are based solely upon the opinions of Nuveen Wealth Management Services. All opinions and views constitute our judgments as of the date of writing and are subject to change at any time without notice. Hypothetical examples are shown for illustrative and educational purposes only. Clients should consult their professional advisors before making any tax or investment decisions. Certain information was obtained from third party sources, which we believe to be reliable but not guaranteed. This information contains no investment recommendations and should not be construed as specific tax, legal, financial planning or investment advice. Clients should consult their professional advisors before making any tax or investment decisions.

The TIAA group of companies does not provide tax or legal advice. Please consult with your own tax or legal advisor.

This material is for informational or educational purposes only and does not constitute a recommendation or investment advice in connection with a distribution, transfer or rollover, a purchase or sale of securities or other investment property, or the management of securities or other investments, including the development of an investment strategy or retention of an investment manager or advisor. This material does not take into account any specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made in consultation with an investor's personal advisor based on the investor's own objectives and circumstances.

TIAA-CREF Individual & Institutional Services, LLC, Teachers Personal Investors Services, Inc., and Nuveen Securities, LLC, Members FINRA and SIPC, distribute securities products.

©2017 Teachers Insurance and Annuity Association of America-College Retirement Equities Fund, 730 Third Avenue, New York, NY 10017

©2017 Nuveen, LLC.

BUILT TO PERFORM.
CREATED TO SERVE.

123895
141024545

A40138 (09/17)