SPOTLIGHT

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SOCIAL SECURITY

Social Security serves as a helpful income stream during retirement. However, the process of deciding when and how to claim your benefits is anything but simple. To optimize your benefits, you must carefully weigh various factors, including your health, current resources, employment status, and life expectancy. Your claiming decision holds long-lasting implications for the total benefits received over your lifetime. What follows are some helpful guidelines and key information related to Social Security. For a more personal assessment, please contact your portfolio manager; our wealth management team can evaluate your options and assist you in deciding an appropriate strategy.

Eligibility for Retirement Benefits

To qualify for Social Security retirement benefits, you must be age 62 or older, and you should have accumulated a minimum of 40 Social Security credits during your career. These credits can be earned either through employment where you pay Social Security taxes through withholdings, or through self-employment income and payment of related self-employment income taxes. You can earn a maximum of four credits each year, which means that accumulating 40 credits requires working for at least 10 years. For 2026, you receive one credit for every $1,890 in covered income you earn during the year.

Calculation of Retirement Benefits

Over the course of your career, you build an earnings history that forms the basis for your retirement benefit calculation. First, the Social Security Administration will look at your highest 35 years of earnings to calculate your average indexed monthly earnings (AIME). In this calculation, the Social Security Administration only counts income up to the maximum taxable earnings on which Social Security taxes are assessed. For 2026, the maximum taxable earnings are $184,500.

Next, a specialized formula is applied to the AIME to determine your primary insurance amount (PIA). This PIA represents the monthly benefit you can expect from Social Security if you were to claim it at your full retirement age. The full retirement age starts at 66 for those born between 1943 and 1954. It gradually increases for those born between 1955 and 1960 until it reaches 67. Individuals born in 1960 or later become eligible for full retirement benefits at the age of 67.

Birth Year	Full Retirement Age (FRA)
1943-1954	66
1955	66 and two months
1956	66 and four months
1957	66 and six months
1958	66 and eight months
1959	66 and ten months
1960 and later	67

Source: Social Security Administration

Impact of Age on Retirement Benefits

You can claim Social Security retirement benefits as early as age 62. However, if you decide to file for retirement benefits before reaching your full retirement age, it's important to note that your benefit amount will be less than your primary insurance amount (PIA). Specifically, your benefit is reduced by 5/9 of one percent for each month before full retirement age, up to 36 months, which translates to 6.67% per year. If the number of months exceeds 36, then the benefit is further reduced by 5/12 of one percent per month, which translates to 5% per year. This reduction is permanent. Depending on your full retirement age and how early you claim, this reduction could be a loss in benefits of up to 30% for the rest of your life.

On the other hand, if you opt to file for retirement benefits after reaching your full retirement age, you will receive more than your primary insurance amount (PIA). In this scenario, for each month you delay beyond your full retirement age (up to the age of 70), you will accrue delayed retirement credits. These credits are equivalent to 2/3 of 1% of your PIA for each month of delay, which translates to an increase of 8% per year.

As you can see, the timing of when you file for retirement benefits can significantly impact the amount you receive, so it's essential to carefully consider your options based on your own circumstances.

Factors to Consider

Generally, delaying a claim until age 70 will result in greater total benefits received over a lifetime. However, personal circumstances may make it more appropriate to claim early or at full retirement age. The following are some factors to consider.

Income Sources: If you are fortunate enough to have multiple income streams, such as pensions, rental properties, or investments, you will enjoy greater flexibility in choosing when to initiate your Social Security benefits. However, if your Social Security benefits are essential for covering your day-to-day living expenses, you might find yourself compelled to claim them earlier. In such circumstances, it is worth considering the option of delaying your own retirement or working part-time until you reach your full retirement age, maximizing your benefits in the process.

Life Expectancy: When deciding the time to file for benefits, it is crucial to factor in your life expectancy. Filing for benefits early results in a reduced monthly benefit amount, but you will receive payments over a longer period. Conversely, filing for benefits later means you will receive fewer, but larger, payments throughout your lifetime. If you anticipate a longer-than-average life span, holding out for a larger monthly check is usually the wiser choice. However, if you are in poor health and you do not expect to outlive the average life expectancy, filing early may provide higher lifetime benefits by increasing the number of years to receive payments.

Marital Status: Marital status plays a significant role in determining the optimal timing for claiming Social Security benefits. For married couples, coordinating the timing of benefits can maximize lifetime income with strategies like claiming spousal benefits or delaying benefits for the higher earner to increase the survivor benefit. Divorced individuals may be eligible for benefits based on an ex-spouse's work record, provided the marriage lasted at least 10 years, and other criteria are met. Widows and widowers have the flexibility to switch from survivor benefits to their own benefits (or vice versa) at different times to optimize their total benefits. Thus, marital status can significantly influence the optimal claiming strategy.

Roth Conversions: Roth conversions are a tax management strategy where you move funds from your traditional IRA to a Roth IRA, intending to pay taxes on the converted amount in lower tax brackets. Consequently, this strategy tends to be advantageous when you find yourself in a lower tax bracket, typically in the years after retirement but before taking Social Security and required minimum distributions (RMDs) from retirement accounts. If you anticipate benefiting from Roth conversions, it may be prudent to postpone filing for your Social Security benefits to allow more years for conversions to occur.

Taxation of Retirement Benefits

Social Security benefits may be subject to federal income tax, contingent upon your provisional income, which is calculated as half of your Social Security benefits combined with all other income sources, including tax-exempt interest. If your provisional income exceeds $32,000 for a married couple filing jointly (or $25,000 for individuals), you will pay federal income tax on a portion of your Social Security benefits. On the other hand, if your provisional income is below these thresholds, your benefits are tax-free.

The portion of your benefits subject to taxation varies in accordance with provisional income levels. Provisional income amounts between $32,000 and $44,000 for a married couple filing jointly (or between $25,000 and $34,000 for individuals) will cause up to 50% of the benefits to be taxed. Meanwhile, amounts over $44,000 for a married couple filing jointly (or $34,000 for individuals) will cause up to 85% of the benefits to be taxed.

Most states do not tax Social Security benefits. Although, as of 2026, Colorado, Connecticut, Minnesota, Montana, New Mexico, Rhode Island, Utah, and Vermont tax Social Security benefits. The rates vary by state, as do the exclusions and income limits that apply.

Working While Collecting Social Security

While you can work and receive Social Security benefits simultaneously, there are earned income limits that can affect your benefits. Earnings in excess of the limits may offset your benefits.

For example, if you are under full retirement age for the entire year, the SSA reduction is $1 from your benefit payments for every $2 you earn above the yearly limit. For the year 2026, this limit is set at $24,480.

In the year you reach full retirement age, a different set of rules applies. In 2026, the limit on your earnings is $65,160. For any income you earn above this limit, the SSA will deduct $1 in benefits for every $3 you earn. It's important to note that they only consider your earnings up to the month before you reach your full retirement age, not your earnings for the entire year.

Once you reach full retirement age, your earnings will no longer lead to a reduction in your Social Security benefits, regardless of how much you earn. Additionally, the SSA will recalculate your benefit amount to credit you for the months they previously reduced or withheld benefits due to your excess earnings. This ensures that you receive the full benefits you are entitled to during your retirement.

Conclusion

Every situation is unique, but delaying claiming benefits will usually result in a greater amount received over your lifetime and a larger payment amount in the later years of retirement. Your portfolio manager and wealth planning team can help you evaluate your individual circumstances and claiming strategies available to you.

Married, Filing Jointly	Single, Head of Household or Qualified Widower	Precentage of Benefits are Taxable
Below $32,000	Below $25,000	0%
$32,000 - $44,000	$25,000 - $34,000	Up to 50%
More than $44,000	More than $34,000	Up to 85%