Maximize My Social Security
What's Under Our Hood?

What we ask, what we tell you, why we tell you that, and how we do it.

October 16, 2014

What follows

… is a detailed review the input information we request, the output we deliver, the Social Security strategies that guide our recommendations, and the complex calculations we perform in order to generate our highly accurate results.

In addition to seeing their personalized Social Security recommendations that maximize their lifetime benefits, Maximize My Social Security customers are also able to compare our optimal solution to their preferenc es regarding what benefits they want to receive when. Customers can enter any number of what-if scenarios and choice combinations in order to game out unlimited options and potential circumstances, comparing their what-if choices with our maximized results.

The sections below outline how the information we request, the calculations we run, and our understanding of the complexities of Social Security allow us to exactingly tailor our strategy recommendations for each household.

Working together, these factors ensure that Maximize My Social Security customers will know how to claim their maximum lifetime benefits.

Table of Contents

Inputs

This is the information we need in order to correctly account for the complexities a system like Social Security necessarily entails. Without these inputs, our calculations would lack accuracy and we would not be able to tailor our recommendations specifically for you.

Screen 1 - Adults

We start by asking for your names, full birthdates, and marital status. After marital status and birthdates are saved, they cannot be reset. If you need to enter different information for these options, you will have to delete and reenter all your data.

1. **Marital Status**

   Your current and former marital status plays a huge role in what benefits you become eligible for and, to a lesser degree, when you become eligible for them. We cannot correctly determine your potential eligibility for spouse's (Calculations #28) and widow(er)'s (Calculations #31) benefits without knowing this. You can enter *Single*, (prompts **Former marital status**, #6 this section), *Married*, or *Partnered*. Partners are treated as two *Single* individuals, however, clicking this option allows each partners' information to be entered and run through our calculations in a single dual session.

2. **First name and last name**

   This can be your actual last name, a different name, or even blank. If married or partnered, we will also ask for the first and last names of spouses and partners.

3. **Birthdates**

   You must enter the actual year, month, and day you were born for our calculations and recommendations to be accurate. See #1 and #5 in Calculations for a full explanation of why your exact birthdate is so crucial for any Social Security benefits calculator to properly tailor recommendations for your life rather than dumping you into a bucket that roughly approximates your circumstances. You will also need to enter the exact birthdates of current spouses, partners, and divorced or deceased spouses.

4. **Former marital status** if *Single*

    We need this information to determine whether you are eligible for spousal benefits on your ex-spouse's (Calculations #28) record or widow(er)'s benefits (Calculations #31 and #32).

5. **Year your former spouse died** if *Single* and *Widowed, married for at least 9 months*

    We use this information along with the birthdates to find if and when you are or will be eligible for widow(er)'s benefits as well the benefit amount (Calculations #32).

6. **Former spouse's last work year** if *Single* and *Divorced, married 10 or more years*

    As with #5, we use this information along with the birthdates to find if and when you are or will be eligible for spouse's benefits as well as the benefit amount (Calculations #28).

Screen 2 – Children

Enter information about minor children or children still in high school so we can determine eligibility for child benefits (Calculations #33-5).

7. **Child name**

    You can enter anything here or leave it blank.

8. **Year of child's birth**

    We use this to calculate when to end child benefits. Soon, we will request the birthdate for all children as well as the year and month of his or her high school graduation in order to increase the accuracy of our results.

Screen 3 – Non-Covered Pensions

You do not need to enter anything on this screen if all of your pensions are from employment covered by Social Security. If you have a non-covered pension, your benefits may be reduced due to the Windfall Elimination Provision (WEP) (Calculations #20-2) and spousal benefits might be reduced due to the Government Pension Offset (GPO) (Calculations #39).

9. Client 1's Non-Covered Pensions

If you qualify for a pension based on earnings from employment not covered by Social Security, we need the **Year** you began or will begin receiving that pension. The dollar amount you enter can be in real or nominal dollars. Enter the **Annual amount** or the **Lump sum** amount if you took or will take a single payment. We also need the percentage of **Inflation indexing**.

The percentage of inflation indexing equals the Maximum COLA percentage that your pension will be increased by divided by your Inflation rate. For example, if your pension is increased at the rate of inflation, but not to exceed 2% per year, and your inflation rate is 3%, then your pension is 67% inflation indexed. If your pension is fully indexed, enter 100%. If it is 50 percent indexed, enter 50%, etc.

We use the information you enter on this page to determine if you are subject to the WEP and, if so, how it will affect your retirement benefits. We also determine how your non-covered pension will affect spousal or survivor benefits you can claim on your spouse's records through the GPO.

10. Spouse 1's and Spouse 2's Non-Covered Pensions if *Married*

If you are married, in order to correctly calculate all benefits, we need to know if your spouse is or will be eligible for a pension due to employment not covered by Social Security. If so, we use the information described in 9 above to determine how your benefits might be affected.

11. Partner 1's and Partner 2's Non-Covered Pensions if *Partnered*

If you are partnered, in order to correctly calculate each partner's benefits, we need to know if you are or will be eligible for a pension due to employment not covered by Social Security. If so, we use the information described in 9 above to determine how your benefits might be affected.

Screen 4 – What-If Dates

On this screen, you can select the dates you want to begin receiving benefits. Social Security always pays one month in arrears, so you will receive your first check one month after you become entitled to the benefit, which means that you are both eligible for the benefit and you also actually file to claim it. We will confirm whether or not you can become entitled in time to begin receipt at the what-if dates you select (Calculations #5-8 and #25-7).

12. Who will file and suspend at Full Retirement Age if *Married*

If you are married and one spouse plans to file and suspend benefits so the other can become eligible for spousal benefits, we ask who will do so. See File and Suspend (#3) in Strategies below for more discussion of the option.

Many calculators ignore your option to file for retirement benefits at your Full Retirement Age (FRA) (Calculations #7) and suspend receipt. If, for example, a higher earning spouse does so, then the lower earner can claim spousal benefits on the higher earner's record while both earn increases in his or her own future retirement benefits.

13. Are you currently receiving a Social Security Retirement Benefit?

We need to know if you are currently receiving a Social Security retirement benefits in order to determine all possible options for you.

We check if the start/stop/restart option—suspending receipt of retirement benefits, earning delayed retirement credits, and later reinstating receipt of your now increased retirement benefits—is best for you (Strategies #4). This is particularly important when married couples with a significant age difference and young children when one spouse files for retirement benefits early to start child's benefits and child in care spousal benefits.

14. Current monthly benefit

We need to know the amount of any Social Security benefit(s) you currently receive. We use the greater of either your entry here or the amount we calculate based on your past earning for your retirement benefit.

In some cases, we are able to use this amount to estimate past covered earnings if there are no current covered earnings and if there will be no future covered earnings (#16, this section).

15. Benefit receipt dates (as desired)

We use the dates you would like to receive benefits in order to compare lifetime benefits with these what-if dates to the lifetime benefits with the maximized dates we calculate for you. We need what-if receipt dates for **Retirement**, **Spousal**, and **Survivor** benefits for you and your spouse or partner as appropriate. Using your and your spouse's or partner's birthdates, we determine the earliest date you can receive reduced early benefits, when you can receive full retirement benefit amount, and the latest date it makes sense to begin receiving retirement benefits. You cannot enter what-if receipt dates beyond these parameters and you can check the dates before saving your data with the *Apply Receipt Dates* button.

We account for the spousal benefit eligibility rule and the deeming provision. The spousal benefit eligibility rule stipulates that no matter his or her age, a spouse is not eligible for spouse's benefits until the spouse whose earnings the claim is based on files for his or her retirement benefits. If you are eligible for both reduced retirement and reduced spouse's benefits and you file for either, you will be deemed by law to have applied for both.

Screen 5 – Past Covered Earnings

Knowing your past covered earnings allows us to calculate Social Security's Recomputation of Benefits (Calculations #40), determining if any future earnings might replace lower past earnings for workers who worked after they claimed retirement benefits. We also need your covered earnings history, along with future covered earnings, to calculate if and how the WEP (Calculations #20-2) and GPO (Calculations #39) will affect your benefit amounts. Calculators that do not request your entire covered earnings history cannot properly account for these factors when they recommend that you follow certain strategies.

16. Your past covered earnings

You can enter these manually, import them from the Social Security website, or, **if you are not currently working in employment covered by Social Security and will not do so in the future**, you can infer them by entering your gross benefit amount before any taxes or other deductions if you're currently collecting or your estimated retirement benefit at FRA as provided by Social Security.

If you choose to enter past covered earnings manually, you can enter your earnings year by year in nominal dollars. Alternatively, you can grow subsequent earnings by a specified rate from a selected year.

If you choose to infer past covered earnings using Social Security's estimate, we account for the fact that Social Security purposefully lowballs benefit estimates by unrealistically assuming zero future wage growth and zero future inflation, counter to all our post-war history. This seems designed to encourage people so save more and not rely too much on Social Security, but astonishingly, some calculators use this deliberate underestimate without adjustment as their primary input.

17. Spouse's (current, divorced, widowed) and partner's past covered earnings

Inferring the past covered earnings of divorced or deceased spouses can be particularly useful when you do not have access to his or her past covered earnings records. If you are divorced and were married for at least 10 years, there are three potential ways to infer your ex-spouse's past covered earnings. If your ex-spouse is currently collecting retirement benefits and you know the amount of the monthly benefit he or she is collecting, you can simply enter that benefit amount and the date that he or she received his or her benefit check. If your ex-spouse is not currently collecting but you know the amount of Social Security's estimate of his or her retirement benefit amount at FRA and last reported earnings, then you can use Social Security's estimate. If you do not have the above information but you have Social Security's estimate of your spousal benefit at FRA, you can enter that estimate.

If your spouse is deceased, there are two options for inferring your spouse's past covered earnings. If your spouse was collecting Social Security retirement benefits at the time of his or her death and you know the amount of that retirement benefit, you can enter that amount and the date that he or she received his or her first benefit check. If your spouse was not collecting Social Security retirement benefits at the time of his or her death or you do not know the amount he or she was collecting, you can enter Social Security's estimate of your widow(er)'s benefit at FRA.

Screen 6 – Future Covered Earnings

We also need to know any future covered earnings. As noted above in the discussion of Screen 5, we use this to calculate Social Security's Recomputation of Benefits (Calculations #40) and determine if future earnings replace lower past earnings in your 35 years of highest past earnings. With your past and future covered earnings, we can also calculate if and how the WEP may be phased out with additional years or substantial earnings, (Calculations #20-2) and how the GPO (Calculations #39) will affect your benefit amounts. We also use your future covered earnings history to apply the earnings test (Calculations #38) if you claimed retirement benefits before your FRA.

18. End earnings by

We need to know when you plan to stop earnings from covered employment in order to calculate your future income, which we need to accurately calculate your PIA at your FRA. You can enter any year; the default is age 70.

19. Real growth rate starting at selected row

You can automatically grow the real value of your future earnings after entering a base year from which we'll apply the real growth rate you select.

20. Future covered earnings

You can manually enter future covered earnings in real dollars by individual year. This will also fill out the nominal column by applying your inflation rate.

Pressing "Grow" populates future real and nominal earnings by using the rate of real growth you enter and the rate of inflation you will select on Screen 7.

Screen 7 – Economic Assumptions

We ask for you projected inflation rate and the nominal rate of return. We use these to determine the real rate of return, which we then use to express the present value of your future benefits in today's dollars. The real rate of return is the nominal rate of return adjusted for inflation.

Our default values of a 5% nominal rate of return and a 3% inflation rate produce a real rate of return of slightly below 2%, which is roughly what Treasury inflation indexed bonds are currently yielding.

We recommend making conservative assumptions if you change the rate of return. Unrealistically high assumptions about the rate of return will skew the results and tell you to take benefits early so you can invest the money at a rate of return you are unlikely to actually see or be able to safely maintain.

21. Current inflation rate

To get a true picture of the value of your money in the future, you must account for rising prices. You can enter any rate between -10% and 20%. The default is 3%. We use this to determine the nominal value of future earnings, inflation indexing on covered pensions, and Social Security Cost of Living Adjustments (COLAs) (Calculations #23).

22. Nominal rate of return

It's also necessary to have a realistic idea of the nominal rate of return in order to fully understand the present value of future benefits. The default is 5%. We use the nominal rate of return and your inflation rate to calculate the discount rate that we apply in order to express the present value of your lifetime benefits in today's dollars.

Screen 8 – Demographic Assumptions

Actuarial life expectancies are great for insurance companies with thousands and thousands of customers. But do you really expect to die on time? What will you do if you live longer than actuarially scheduled?

23. Maximum age

We recommend the default of 100 but you can select earlier ages. You can run the calculations multiple times with different maximum ages.

Screen 9 – Benefit Cut Assumptions

If you expect that benefits will be *reduced* in the future, make sure to choose a *positive* reduction rate here; if you expect that benefits will be *increased* in the future, make sure to choose a *negative* reduction rate here.

24. Will benefits change in the future?

If you believe benefits will either go up or go down in the future, we can factor the increase or decrease into our calculations. We adjust our calculations to account for possible changes in in benefit amounts.

25. Year when benefits change

You can tell us when to begin applying the changes to our calculations.

26. Percentage benefit reduction

You can select the percentage by which you predict benefits will change. You can enter any percentage between -100% and 100%.

Once again, since this is the *rate of reduction*, choose a *positive* reduction rate to factor in future benefit reductions or a *negative* reduction rate to factor in future benefit increases.

Outputs

This is the information we deliver to you. We present year-by-year breakdowns in a series of tables so you can compare how different options play out through time.

1. **Achieving the Maximum Benefit**

   Maximize My Social Security (MMSS) determines your maximum lifetime Social Security benefits. We use your marital status, birthdates, and earnings record to calculate retirement, spouse's and widow(er)'s benefits. We consider all possible combinations of filing dates along with your assumptions of inflation, nominal rate of return, and maximum life while also taking into account minor children, disabled children, non-covered pensions, and your assumptions of future benefit changes. **We put all this together in order to determine the filing strategy that maximizes the present value of your lifetime benefits**.

   The number of scenarios we consider for married couples primarily depends on relative ages, marital status, whether there are children, and each spouse's maximum age. **It typically runs in the thousands to tens of thousands**, although in some cases there may be only a few hundred and in others it can top a hundred thousand.

   We also run the numbers using your selected what-if dates and compare the lifetime benefits you would receive under your selected what-if scenario to the optimal solution of the maximized dates. **We present highly accurate estimates of all household benefits on a year-by-year basis using your selected what-if dates and your maximized dates**.

   We use your inputs for the inflation rate and the nominal rate of return to calculate the real rate of return, **which we use to express the present value of future benefits in today's dollars** so you can make apples-to-apples comparisons of filing strategies. Discounting expresses the value in the present (the present value) of your future benefits. Your lifetime benefits are the sum total of the present values of each future year's benefits. All annual benefit amounts are adjusted for inflation, i.e., they are presented in today's dollars. But a dollar of purchasing power that you'll receive in 20 years is not the same as having that dollar of purchasing power today. The reason is that if you had a dollar of purchasing power today, you could invest it for 20 years, earn a real return each year, and expect to have more than $1 of purchasing power 20 years from now. So $1 of purchasing power received in 20 years is not the same as having $1 of purchasing power today. In discounting your inflation-adjusted future benefits, we are taking into account this time value of money. Failing to discount and simply adding up annual benefit amounts is the same as assuming no future real return on investments. **Doing so can greatly overstate the value of your lifetime Social Security benefits and lead to highly inappropriate Social Security benefit collection advice.**

Filing Recommendations
We recommend exactly what actions and strategies you should follow and exactly when you should do so. We do the same for spouses and partners if married or partnered.

On your Social Security application, be sure to use your entitlement month, which is the month you start earning Social Security benefits. MMSS recommendations are your benefit receipt months, the month that you will receive your first check. Since Social Security pays one month in arrears, your benefit receipt month is one month after your entitlement month. If MMSS recommends that you start receiving benefits in January 2015, then you should use your entitlement month of December 2014 when you file with Social Security.

Social Security also encourages you to apply 3 to 4 months before your entitlement date. In the above example, if you apply in September 2014, be sure to establish your entitlement month as December 2014. **The most important advice is to access the Social Security website and get their most current official guidance on how to apply.**

2. Benefit Date Tables

This is where your patience in entering all the data we ask for pays off. Using your specific data, we are able to precisely tailor our recommendations to your particular circumstances. We also account for the effect of your birthdate on how Social Security determines your exact age as well as the fact that Social Security always pays one month in arrears (Calculations #1 and #5).

Maximized and Selected Benefit Dates Tables
We provide tables summarizing the dates we recommend you begin receipt of retirement, spouse's, and widow(er)'s benefits in order to maximize lifetime benefits along with your resulting lifetime benefits and tables summarizing the what-if dates you selected to begin receipt and the lifetime benefits that would result from those choices.

3. Benefit Detail Tables

Here we provide more detailed tables of our recommendations and the resulting benefits. We provide these year-by-year breakdowns using your selected what-if dates and your maximized dates. We include columns for your age(s), the benefits you are or will be eligible for, and the net total of these for each year. As the years progress down the rows, you can see just how much you, and your spouse or partner if married or partnered, will receive from year to year, both under your what-if dates and your maximized dates.

For married and partnered couples, the tables showing the Household Benefit Details is quite useful. This is effectively equivalent to the tables detailing the results of selected what-if and maximized dates under Your Benefits for singles. The household tables allow couples to neatly compare their combined year-by-year breakdowns under each scenario.

What's more, **both singles and couples can run any number of what-if scenarios**. With each scenario considering a range of options that typically number at least in the thousands, if not the tens of thousands or more in some cases, **we offer unmatched ability to consider an extremely large number of different what-if options**.

Strategies

These are the general strategies that underlie our specific recommendations.

1. **Delayed retirement to earn increased benefits**

   The Full Retirement Age (FRA) is 65 for people born on or before January 1, 1938 and gradually rises for people born between then and January 2, 1960, when the FRA levels off at 67. Although you can choose to receive permanently reduced early benefits at 62, you can also delay receipt past your FRA and gain permanent increases in your retirement benefit amount. You only earn these benefits by delaying collection till age 70, so further delay does not make sense.

   However, simply delaying all or part of the way to 70 is not always the optimal choice. Married couples can often see significant increases in lifetime benefits by delaying receipt of some benefits but not others. Very often, one of the strategies described below will provide higher lifetime benefits.

   If you are single and never married, delaying as long as possible might make the most sense. If you are single and divorced or widowed, we recommend how best to sequence receipt of your retirement benefits and any spousal or widow(er)'s benefits you might be eligible for. For example, if you are a single parent, it may be advantageous to take reduced retirement benefits early to enable child benefits sooner and then suspend receipt if your benefits until age 70 (Strategies #4).

   You pay for your future increased benefits by foregoing receipt for a number of years. Under our assumptions of a relatively high maximum age of life rather than an actuarial mean life expectancy, delaying frequently makes sense. However, if you are approaching your maximum age of life, delaying receipt would probably make little sense (Calculations #1, #5-7).

2. **Sequencing and timing of retirement and spousal benefits**

   We take great care to ensure that our recommended filing strategy only includes benefit receipt dates that are allowable within Social Security's rules. The two major rules that affect married couples are the spousal benefit eligibility rule and the deeming provision (Calculations #28). A spouse is not eligible for spousal benefits until his or her spouse, the worker off of whose record the spousal benefits will be based, files for his or her retirement benefit.

The deeming provision states that if you are eligible for both reduced retirement and reduced spouse's benefits, then you cannot restrict your application to just one of these types of benefits. By filing for either benefit, you are deemed by law to have filed for both types of benefits.

The deeming provision only applies at the time of initial application. Hence, if you apply for an early retirement benefit and want to wait to full retirement age to take your spousal benefit, you can do so if your spouse is not collecting a retirement benefit at the time you apply for your retirement benefit. If your spouse starts collecting his or her retirement benefit before you reach full retirement age, you will not be deemed to be applying for a spousal benefit.

3. File and suspend strategies for married couples

We determine whether the file and suspend at FRA option might be the optimal strategy. It may make sense for the higher earner to file at his or her FRA and then immediately suspend receipt of benefits until age 70 (Calculations #8) in order to earn maximum benefits. This allows the lower earning spouse to claim unreduced spousal benefits (Calculations #28) on the higher earner's record while also simultaneously allowing the lower earning spouse to accrue increases in his or her future retirement benefits, which can significantly increase lifetime household benefits

Though it is typically better for the higher earning spouse to file and suspend while the lower earner collects spousal benefits while earning increases by delaying receipt of retirement benefits, this is not always the case. If the higher earning spouse is younger, it may be better for the higher earning spouse to collect a spousal benefit because he or she will likely be collecting for more years.

It might also be optimal for one spouse to collect retirement benefits as early as age 62 and then wait till his or her FRA to collect unreduced spousal benefits from then on. It is feasible to do so and avoid the deeming provision if the other spouse waits to file and suspend (or collect) his or her retirement benefits until the month after the first spouse files for his or her early retirement benefits so that he or she is not deemed by law to be entitled to reduced spousal benefits when applying for early retirement benefits.

4. **Start/stop/restart strategy**

We consider this strategy both for people already receiving benefits and for those who have not yet filed. Once you start collecting your retirement benefit, you can stop receipt provided you have attained your FRA. You can then restart receipt of retirement benefits at a later date, having earned permanent increases in your retirement amount by delaying receipt up to age 70.

If you are enrolled in Medicare Part B and you start and then stop receipt of your retirement benefit, you will be billed by the Center for Medicare & Medicaid Services (CMS) for future Part B premiums since these premiums should not be deducted from your suspended retirement benefits. If you do have your Medicare Part B premiums deducted from your Social Security, then you will not earn delayed retirement credits.

Not paying the premiums in a timely manner may cause you to lose your Medicare Part B coverage. *Exception*: if you also receive benefits as a spouse or ex-spouse, Social Security can deduct your Part B premium from that benefit amount. **Make sure you send a check each month to CMS for your Medicare Part B premium if you are enrolled in Medicare Part B and the exception does not apply to you.**

If you already started receiving retirement benefits before your FRA, it might be beneficial to suspend them at FRA so you can earn increases up to age 70. The longer you can suspend after FRA, the more your benefit increases, recovering reductions due to early retirement. Retiring early at 62 reduces your retirement benefit to 75% of what it would be at your FRA. Suspending at FRA earns an 8% increase each year, up to 32% through age 70. 132% times 75% = 99% of what your unreduced benefit would have been if you had waited till FRA to begin receipt.

5. **Early retirement to enable child's benefits and child in care spousal benefits**

You must file for retirement benefits in order to enable child's benefits and child in care spousal benefits on your record. In some cases, it will be beneficial to claim early reduced retirement benefits in order to enable these benefits. Then, once you reach your FRA in these cases, you would suspend receipt of your retirement benefits and begin recouping part of, and in some cases potentially nearly all, the early retirement reduction by continuing to suspend receipt till up to age 70. If you are already receiving retirement benefits we tell you if this strategy will result in increased lifetime benefits based on the data you provide.

6. Early widow(er) start date when deceased took retirement benefits early

We consider whether it's advantageous for a widow(er) to begin receiving widow(er)'s benefit before reaching FRA if the deceased spouse was ever entitled to reduced retirement benefits.

Your widow(er)'s benefit is limited if your deceased spouse was ever entitled to reduced retirement benefits. The benefit you can claim as a widow(er) on his or her record is limited to the higher of either 82.5% of your deceased spouse's retirement benefit at his or her FRA, or the amount your deceased spouse was collecting at the time of death. In cases such as this, since your widow(er)'s benefit is limited, it will be advantageous to take a reduced widow(er)'s benefit before your FRA.

Calculations

These are the highly developed calculations we perform and factors we consider when generating our recommendations. In addition to jumping to topics of interest, we recommend reading through the list in sequence in order to gain a thorough understanding of all the factors our calculations take into account.

1. **Age**

   Though it may at first seem picky compared to some other calculators, we ask for your exact birthdate, not just your birth year with or without your birth month. This is because Social Security uses your exact birthdate to determine, among other things, when you become eligible and when you can begin actual receipt of your benefits (see #5-8, this section for more). Calculators that do not ask for you exact birthdate must either use an approximate default estimate for everyone or simply decline to give the type of information we are able to correctly calculate using your date of birth.

2. **Earnings needed for a quarter of coverage**

   For earnings *before* January 1, 1978, if you earned $50 in a specific quarter, you receive 1 credit *for that quarter*, up to 4 credits for covered quarters per year. For earnings *after* December 31, 1977, you receive from 0 to 4 credits based on your total income for the year. In short, before 1978 income had to be in a particular calendar quarter to count as a covered quarter and after the end of 1977, yearly earnings are divided by changing amounts specified by Social Security to determine how many credits for covered quarters—from 0 to 4—are assigned to a worker's record *for that year*.

   In addition to the past earnings thresholds, we estimate future thresholds using the estimates you give us for future inflation along with the Intermediate assumptions of future real wage growth from the Social Security Trustee's Report. Social Security does not adjust the earnings per credit thresholds for future wage growth when they calculate benefits on your Social Security statement. Workers born on January 2, 1929 and later must have at least 40 credits for covered quarters to qualify for retirement benefits. For those born before January 2, 1929, the number steadily declines in accordance with earlier and earlier birthdates.

3. **Covered quarters**

   In addition to using your past covered earnings history, we use your future covered earnings to calculate your total credits for covered quarters. In order to properly calculate all this, we use your exact birthdate, your covered earnings history, any future estimated earnings, and predictions for future inflation and future real wage growth.

4. Insured status

In order to receive retirement benefits, you must have achieved fully insured status. You have fully insured status if you have at least one Social Security credit, covered quarter, for each year after 1950 or, if you turned 21 after 1950, you have at least one credit for each year after age 21 and before age 62 or, if earlier, the year of becoming disabled or death. For most people, this means you need to have credits for 40 quarters of covered earnings.

5. Effect of exact birthdate on entitlement and receipt dates

Birthdate affects exactly when you can first become entitled to benefits and when you attain your Full Retirement Age (FRA). Social Security follows common law in that a person attains an age on the day before the anniversary of his or her date of birth. A person born on November 1, 2011 will attain age 1 on October 31, 2012. People born on the 1st or 2nd of the month are considered to be 62 for their entire birth month. People born on the 3rd and later are not considered to have been 62 for their entire birth month and therefore become eligible for early benefits in the month after their birth month.

You also become eligible for full retirement benefits on the day before you attain your FRA. However, you do not have to be your FRA for the entire month to be eligible. For instance, if you were born on August 1, 1945, FRA was attained on July 31, 2011 and you became entitled to unreduced benefits beginning in July 2011.

Because Social Security pays one month in arrears, you will not receive your first benefit check until the following month. This means, for those born on the 3rd of the month or later and who claim earliest benefits, you will not receive your first check until 2 months after the month that you attain age 62.

6. Earliest receipt date

Based on your birthdate, we determine the earliest date you can receive benefits and will not allow you to input earlier dates. If you enter an earlier date, we replace it with the earliest date you are eligible to receive benefits.

7. FRA receipt date

We determine when you are first eligible to receive full retirement benefits. For workers and spouses born in 1938 or later, and widow(er)s born in 1940 or later, the retirement age increases gradually from age 65 until it reaches age 67 in the year 2022. You are eligible for retirement benefits the month that you reach your FRA, which is the month before your FRA month if your birthdate is on the first of the month. This is because you are eligible to receive unreduced benefits for the *entire* month in which you attain FRA, regardless of the day of the month FRA is attained.

8. Latest receipt date

We also calculate how much your benefits will increase if you delay retirement past your FRA. Your permanent retirement benefit amount will increase by 8% per year for each year after your FRA until age 70. The same increases applied to retirement benefits on a worker's account also apply to widow(er)'s claims filed on that record.

9. Maximum taxable earnings

We estimate future taxable earnings limits using the estimates you give us for future inflation along with the Intermediate assumptions of future real wage growth from the Social Security Trustee's Report. Social Security does not adjust the maximum taxable earnings for future wage growth when they calculate benefits on your Social Security Statement.

Working from your covered earnings history, along with future covered earnings estimates and estimates of both future inflation and future real wage growth, we use the maximum taxable earnings for each year to determine your Primary Insurance Amount (PIA), which is used to calculate other benefits and any reductions or credits that may be applicable.

10. National Average Wage Index

We estimate the future National Average Wage Index (NAWI) including real growth estimates from the Social Security Trustees' intermediate assumptions and your estimate of inflation. Social Security does not adjust the NAWI for future wage growth when they calculate benefits on your Social Security Statement.

11. Index year

We calculate the year Social Security uses to index your previous yearly income. This is the second year before you turn 62 or the year of becoming disabled or death. For instance, if you retire in 2020 at 65, your base year for indexing will be 2015.

12. Indexed earnings

All previous yearly income amounts are indexed by the same proportion that the national average wages for the base year of indexing increased, or decreased, compared to each previous year. Put simply, all wages earned before retirement benefit eligibility are expressed as a proportion of your wages in your index year.

13. Base years

Base years are all the years you are alive after age 16 and after 1950. They are the years you can *potentially* earn credits for covered quarters, including the years after you first become eligible for retirement benefits at 62.

14. Elapsed years

Elapsed years can be thought of as what Social Security considers a full lifetime career of earnings in covered employment. Elapsed years are the calendar years after you turn 21 or 1950, whichever is later, up to and including the year before age 62, death, or disability, whichever is earlier.

15. Number of Computation years

The number of computation years for retirement benefits is five less than the number of elapsed years on your record. For most people now, 40 elapsed years are reduced to 35 computation years.

16. Number of years of highest indexed earnings (generally 35)

After indexing your past earnings history, we determine the correct number of highest earnings (selected from all base years, not just elapsed years). For most people near retirement age, this is the 35 years of highest earnings, your computation years, which Social Security uses to calculate your benefits.

17. AIME

Average Indexed Monthly Earnings are calculated by dividing the total indexed earnings in the computation years by the total number of months in those years. These are the earnings in the years before you become eligible for early retirement expressed in proportion to your earnings in your index year.

18. Bend points

Bend points divide your AIME into the portions that contribute varying percentages to your PIA. We estimate future bend points from the Intermediate assumptions of future real wage growth from the Social Security Trustee's Report and your estimate of inflation. Social Security does not adjust the bend point for future wage growth when they calculate benefits on your Social Security Statement.

19. PIA at eligibility

For most people nearing retirement, we use bend points to determine your PIA by adding 90% of the lowest portion under the first bend point, 32% of the middle portion between the bend points, and 15% of the amount above the second bend point.

Our estimate of your PIA is different from the PIA estimate generated by Social Security, generally larger. This is because Social Security does not factor future inflation and future real wage growth into their estimates, producing a lower estimated PIA. Social Security seems to do this in order to discourage potential overreliance on Social Security retirement benefits.

20. Substantial earnings

You will be subject to the Windfall Elimination Provision (WEP) if you earned a pension in any job not covered by Social Security and you also have enough Social Security credits for covered quarters due to other employment and are therefore eligible for Social Security retirement benefits. If you have 20 or fewer years of substantial earnings the WEP reduces the factor that the segment of your earnings below the first bend point is multiplied by from 90% to 40%. However, the WEP reductions to your Social Security retirement insurance benefit will be lowered or eliminated if you have 21 to 30 years of substantial earnings in employment covered by Social Security.

21. Number of years of substantial earnings

Using your covered earnings history as well as any future estimated earnings, we determine if your covered earnings qualify as substantial. The minimum amount that qualifies for substantial earnings rises gradually from $1050 for the years 1955-58 to $21,750 for 2014.

We estimate future substantial earnings from the Intermediate assumptions of future real wage growth from the Social Security Trustee's Report and your estimate of inflation. Social Security does not adjust the substantial earnings for future wage growth when they calculate benefits on your Social Security Statement. Without your actual covered earnings history along with future estimated earnings, it is not possible to determine how the effect of the WEP might be reduced or even eliminated.

22. PIA after WEP

If you have 30 or more years of substantial earnings covered by Social Security, the WEP is not applied to your Social Security retirement benefit at all. If you have between 21 and 29 years of substantial earnings covered by Social Security, the 90% factor is reduced to between 45% and 85%. We calculate this when you first become entitled to Social Security retirement insurance benefits and recalculate it for each additional year in which you have substantial earnings.

23. COLAs

Cost of Living Allowances are applied to years after you become eligible in order to maintain the purchasing power of retirement benefits. They become effective in December and are applied when the Consumer Price Index (CPI) rises.

24. PIA at your benefit date

We determine your PIA at your benefit date by first determining your PIA at eligibility with the WEP if applicable, and then applying the appropriate COLAs, with future COLAs based on your estimated inflation. Social Security does not apply future COLAs after the current year when calculating your PIA at your benefit date. You become entitled to benefits when you are eligible and you file to receive benefits.

25. Early reduction factor before FRA

Reductions are applied to any benefits you become entitled to before your FRA. The reductions are determined by first calculating your PIA at FRA, and then reducing this amount by a specified percentage for each month you are entitled before your FRA.

26. Delayed retirement credit after FRA

We calculate how much your PIA is increased if you delay claiming retirement benefits until after your FRA, up to age 70. For people born after 1 Jan 1943, each year of delay will increase your benefits by 8%. The retirement benefits claimed at age 70 for people whose FRA is 66 will be 76% greater than they would have been if claimed at age 62.

27. Retirement insurance benefit

We apply the appropriate early retirement reductions or delayed retirement credits to your PIA at your benefit date in order to arrive at your retirement insurance benefit (RIB) at your benefit date.

28. Spouse's insurance benefit

At FRA, a spouse is eligible for the larger of his or her retirement benefit based on his or her own record or ½ of the retirement benefit his or her spouse will be eligible for at his or her FRA based on that spouse's record.

If the retirement benefit a spouse would receive based on his or her own record is *less than half* of the retirement benefit his or her spouse would receive at his or her FRA based on that spouse's record, the excess spouse's insurance benefit at FRA is the difference between the retirement benefit a spouse is entitled to and ½ of the benefit his or her spouse would receive at FRA.

We apply the appropriate early reduction factors to your spouse's benefit if you claim them before your FRA. The spousal benefit eligibility rule stipulates that no matter his or her age, a spouse is not eligible for spouse's benefits until the spouse whose earnings the claim is based on files for his or her retirement benefits. If you are eligible for both reduced retirement and reduced spouse's benefits and you file for either, you will be deemed by law to have applied for both.

29. Divorced spouse's insurance benefit

You can claim divorced spouse's insurance benefits if your ex-spouse is currently entitled to retirement or disability insurance benefits. You must be single and 62 or over and you must have been married to your ex-spouse for at least 10 years. Also, you cannot claim this benefit if your PIA exceeds or equals one half of your ex-spouse's PIA and you are currently entitled to retirement or disability insurance.

If your ex-spouse is not currently entitled to retirement or disability insurance benefits, but he or she has attained age 62 and is fully insured, you can become independently entitled to benefits on your ex-spouse's record if you meet all of the other requirements in the preceding paragraph and have been divorced for at least two continuous years.

30. Child in care spouse's insurance benefit

Having a child in care may allow you to claim spouse's benefits if you have not yet reached 62 and may also make you eligible for mother's and father's insurance. You have a child in care if you have parental control, as defined by Social Security, or a child who is under 16 or who is 16 or older and is disabled.

31. Widow(er)'s insurance benefits

If you were married to your deceased spouse at least 9 months and you are 60 or above, or if you are at least age 50 but under 60 and you meet the disability requirements as defined by Social Security, you may be eligible for widow(er)'s benefits. You also must not have remarried before age 60, your deceased spouse must have achieved fully insured status (#4, this section), and you must not be entitled to a retirement insurance benefit that equals or exceeds your deceased spouse's PIA.

Your unreduced widow(er)'s benefit is equal to your deceased spouse's PIA at FRA plus any increases to his or her retirement insurance benefit he or she earned by delaying receipt of retirement benefits past his or her FRA.

If your spouse died before age 62, we calculate your widow(er)'s benefit as the maximum of the benefit under the standard method and your benefit under the WINDEX method.

Your widow(er)'s benefit is limited if your deceased spouse was ever entitled to reduced retirement benefits. The benefit you can claim as a widow(er) on his or her record is limited to the higher of either 82.5% of your deceased spouse's retirement benefit at his or her FRA, or the amount your deceased spouse was collecting at the time of death. In cases such as this, since your widow(er)'s benefit is limited, it will be advantageous to take a reduced widow(er)'s benefit before your FRA.

32. Divorced widow(er)'s insurance benefit

You may be eligible for divorced widow(er)'s insurance benefits if you were married to your deceased ex-spouse for at least 10 years. You must also be age 60 or over or at least age 50 but under 60 and you meet the disability requirements as defined by Social Security. Your deceased ex-spouse must also have been fully insured; you must be single or you must have remarried after age 60; and you must not be entitled to a retirement insurance benefit equaling or exceeding your deceased ex-spouse's PIA. The same limitations as above apply to divorced widow(er)'s benefits if your deceased ex-spouse was ever entitled to reduced retirement benefits.

33. Child insurance benefit

A child can claim child insurance benefits on a parent's record if the child is dependent on that parent as defined by Social Security and if the child is not married. The child also must either be under 18, or be 18-19 and a full time elementary or secondary school student.

Further, the parent on whose record the claim is based must be entitled to disability or retirement insurance.

The child insurance benefit is equal to 50% of the insured parent's PIA if the insured parent is currently entitled to a retirement benefit.

34. Disabled child insurance benefit

A child can claim disabled child insurance benefits on a parent's record if the child meets all of the conditions in #33 of this section and if he or she is 18 or older and under a disability as defined by Social Security, which must also have begun before the child reached age 22.

The disabled child insurance benefit is equal to 50% of the insured parent's PIA if the insured parent is currently entitled to a retirement benefit. The benefit amount might be reduced by the Family Maximum (#37, this section). The benefit amount also might be reduced if a disabled child is entitled to a disability or retirement insurance benefit based on his or her own record, in which case, only the amount by which the child's monthly benefit rate exceeds the his or her retirement or disability insurance amount is paid as the disabled child insurance benefit.

35. Surviving child insurance benefit

A child is eligible for a surviving child insurance on a deceased parent's record if all the conditions in #33 of this section are met and the child was also dependent on the deceased parent and the deceased parent was either fully or currently insured at the time of death.

The surviving child insurance benefit is equal to 75% of the deceased parent's PIA at the time of death.

36. Father’s and mother’s insurance benefit

If you are a widow(er), you can claim father’s or mother’s insurance benefits if your deceased spouse was either fully or currently insured when he or she died and you are not eligible for retirement insurance benefits equaling or exceeding the amount of your deceased spouse’s insurance benefit. You must also have in care a child of your deceased spouse who is under 16 or who is entitled to disabled child insurance benefits. Further, you must not be married, must not be entitled to widow(er)’s insurance benefits, and must have been married to your deceased spouse at least 9 months.

Your father’s or mother’s insurance benefit is equal to 75% of your deceased spouse’s PIA at the time of death. It might also be reduced if you are also entitled to a smaller retirement or disability insurance benefit, in which case an amount equal to the difference between the father’s or mother’s insurance benefit amount and the other benefit is paid as the father’s or mother’s benefit in addition to the other benefit.

37. Family maximum

There is a maximum limit on the total amount of benefits that can be paid to members of one family based on an individual Social Security record. With a few exceptions, no more than the maximum can be paid to a family regardless of the number of entitled beneficiaries.

Adjustments must be made to benefit amounts when the monthly maximum benefits that can be paid on that record are exceeded. All benefits—except retirement and disability insurance benefits as well as divorced spouse’s and divorced widow(er)’s benefits—are reduced in accordance with the family maximum.

38. Earnings test

Since Social Security retirement benefits partly replace earnings lost due to retirement, your benefit amount depends on whether you are partially or fully retired. The earnings test determines your level of retirement, how much—if any—should be deducted from your benefit amount, and also the work activity of others entitled to benefits on your record along with the benefits they are eligible for.

You are not subject to the earnings test if you are at your FRA or you are entitled to disability benefits. It also does not apply to you if you are living outside the US and your work is not covered by Social Security or if you are collecting spouse’s benefits and your ex-spouse became entitled to benefits before the month of your divorce.

39. Adjustment of the reduction factor

The Adjustment of the Reduction Factor (ARF) prevents your benefits after FRA from being reduced because of early benefits you did not actually receive due to the earnings test. It cannot lower, and will only increase, your benefits if it is applied. The ARF is applied upon attainment of FRA for beneficiaries who began receipt of retirement, spouse's, or widow(er)'s benefits early and had earnings in excess of the exempt amount.

We calculate the ARF if you began early receipt of retirement benefits, spouse’s benefits, or widow(er)’s benefits and your benefits were reduced due to the earnings test (#38, this section). The adjusted benefit reduction factor is recalculated after excluding months of work deductions (including partial deductions) from the months used to determine the original benefit reduction factor.

40. Government Pension Offset (GPO)

If you receive a pension based on your employment by the US federal government, state governments, or other political subdivisions not covered by Social Security, then any spouse’s, divorced spouse’s, widow(er)’s, divorced widow(er)’s, or deemed spouse’s benefits may be reduced if you receive periodic payments based on that employment.

For everyone who began or will begin receipt of his or her government pension in December 1984 or later, the GPO reduces your Social Security benefit by two-thirds of the amount of your government pension.

41. Recomputation of benefits

Your PIA might be increased, but will never be decreased, due to recomputation. Your PIA will be automatically recomputed if you have earnings in any year during which you are entitled to retirement or disability insurance benefits.

If your earnings in an added base year subsequent to such entitlement are higher than earnings in the lowest computation year used in a previous computation of benefits, then your PIA will be increased. This is the case for all years you have substantial earnings (see #20-2, this section) after disability or retirement insurance benefit entitlement.

The recomputation becomes effective in January of the year after the earnings were generated: an increased benefit due to a recomputation based on 2015 earnings will first be applied to the payment for January 2016.