



Social Security: The Basics

In this Social Security resource guide, we'll explain some basic concepts to help you get started.

Social Security Basics

Social Security is an important part of the retirement plans we create for our clients. It is one of the only guaranteed sources of income available to most retirees.

Financial success in retirement is dependent upon generating the income necessary to maintain one's standard of living, and Social Security helps create a "floor" for income that most retirees rely upon.

Social Security is a complicated system with lots of moving parts. While most people do not require a deep knowledge of how the program works, it is worthwhile to understand how it operates from a big-picture perspective.

Key Highlights

To qualify for Social Security benefits, an individual must obtain [40 quarters of credit](#). One quarter of credit is earned for every calendar quarter that an individual works (with minimum earnings of \$1,300 per quarter).

Thus, if an individual works for 10 full years and meets the minimum income requirements, they should qualify for Social Security retirement benefits. The quarters are cumulative, not consecutive, so a person may have gaps in employment and still meet the qualifying requirements.

The way benefits are calculated is complex. In general, the Social Security Administration gathers up to 35 years of an individual's income history. These wages are indexed to current values to come up with an amount called the "[Average Indexed Monthly Earnings](#)" (AIME).

They then take the AIME amount and apply it toward set formulas known as "bend points" to calculate the [Primary Insurance Amount](#) (PIA). The PIA is the amount an



individual would expect to receive if they begin collecting Social Security retirement benefits at their Full Retirement Age.

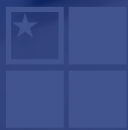
How much a person actually receives depends upon when they decide to receive their retirement benefits. For most people today, [Full Retirement Age](#) (FRA) is age 66 or 67. Upon reaching FRA, an individual would receive 100% of their PIA amount. Benefits may begin as early as age 62, but filing before FRA will result in a permanent reduction.

For every year an individual starts their retirement benefit early, the amount is reduced by 7%-8%. Thus, retirement benefits at age 62 would equal approximately 70%-75% of one's full benefit amount. Again, this decision is permanent and must be made carefully.

On the other hand, an individual can earn "[Delayed Retirement Credits](#)" if they suspend their benefits beyond Full Retirement Age. For every year a person waits past FRA, their Social Security retirement benefit is increased by 8%. Thus, overall benefits may increase by 24%-32% if one waits until age 70 to start collecting.

It's important to understand how to qualify for Social Security, how benefits are

calculated, and when they may begin. It's equally important to know the impact that timing can have on those benefits. In my next ebook, I'll discuss the benefits available for spouses and families, along with disability and survivor benefits.



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