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Understanding Social Security retirement benefits

Deciding when to begin taking Social Security benefits is an important and multifaceted consideration that should be factored into each individual's broader retirement plan.

Popular wisdom suggests jumping at the opportunity to collect Social Security retirement benefits as soon as possible, which currently is age 62. While this strategy may have been prudent for millions of Americans in the past, longer life expectancies have changed the face of retirement planning. Waiting to collect Social Security benefits may well be a more advantageous option. There is no one-size-fits-all approach.

In the following pages, we review key details to consider in your Social Security decision-making. We encourage you to consult with your financial and tax professionals to ensure your Social Security strategy complements your overall retirement plan.

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Individual collection decision

Qualifying for benefits

When you work and pay taxes as mandated by the Federal Insurance Contributions Act (FICA), you earn "credits" toward Social Security retirement benefits. The credits are based on your annual earnings, with a maximum accrual of four credits per year. Once you have acquired 40 credits (approximately 10 years of employment), you are fully insured and eligible to receive retirement benefits. FICA tax (often displayed on pay statements as OASDI, for old-age, survivors and disability insurance, tax) is withheld from each paycheck until you have earned up to the taxable earnings base for the year.

2026 FICA amounts

$184,500
Taxable earnings base

$1,890
Earnings required for one credit

$7,560 ($1,890 x 4)
Earnings required for max (4) credits per year

Collecting benefits at full retirement age

Your primary insurance amount (PIA) is the monthly benefit for which you are eligible at your full retirement age (FRA). FRA varies based on year of birth. Originally age 65, the federal government has increased FRA for anyone born after 1937 in recognition of longer life expectancies.

Full retirement age

Year born	FRA
1937 or earlier	65
1938-1942	65 + 2 months for every year after 1937
1943-1954	66
1955-1959	66 + 2 months for every year after 1954
1960+	67

To determine your PIA, the Social Security Administration (SSA) uses your best 35 years of employment to arrive at your Average Indexed Monthly Earnings (AIME). If you have not worked for 35 years, some of the included earnings may be zero. For more information, please visit www.ssa.gov. If you continue working after reaching FRA, the SSA will automatically recalculate your benefits each year you continue to work. If your current income is greater than any of your previously calculated "best 35 years," your benefits will be adjusted upward. The increase generally will be made in October of the following year, but will be retroactive to January 1.

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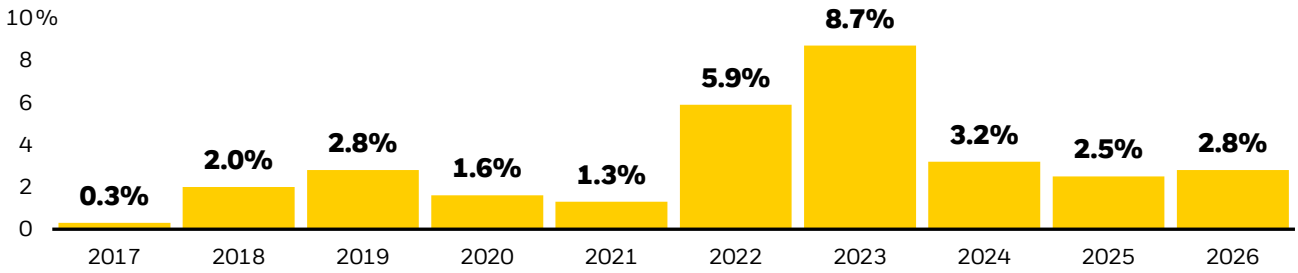
Social Security retirement benefits are automatically modified each year for Cost-Of-Living Adjustments (COLAs) starting when you reach age 62 regardless of whether or not you are collecting. COLAs, which are either positive or zero — never negative, are based on the Consumer Price Index and have averaged around 3% over the past 10 years.

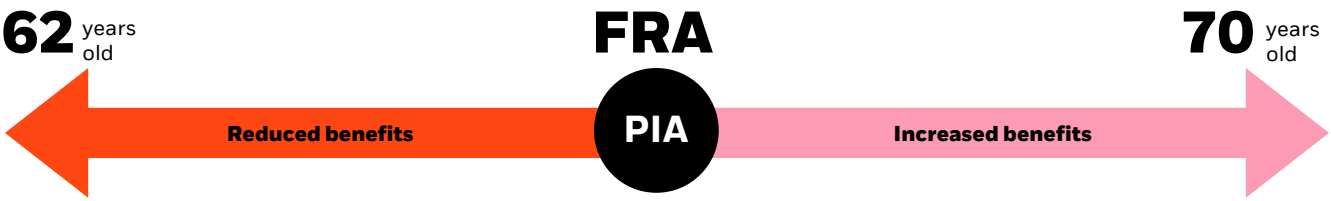
Historical COLAs



Collecting benefits earlier

While your PIA is payable at your FRA, you are entitled to collect benefits as early as age 62. However, if you choose to collect early, you will permanently reduce the size of your benefits. Your benefits will not be adjusted upward when you attain FRA. The amount of your reduction will depend on two factors — your FRA and the number of months before it that you start collecting. If you begin taking benefits on your 62nd birthday, you are subject to the maximum reduction. That reduction will be smaller for each month you delay benefits after age 62 but prior to reaching FRA.

Collection age impacts benefit amount



Working while collecting benefits prior to FRA

Since Social Security benefits are intended to be supplemental retirement income, there are consequences to collecting your benefits early if you are not retired and are still receiving wages. If you opt to collect benefits prior to FRA, you are subject to an earnings test every year until you reach FRA. If your earnings exceed certain thresholds, the SSA will withhold part or all of your benefits. The earnings test for individual and survivor benefits looks only at the salary or wages of the individual collecting early benefits. It does not consider any other type of income, nor does it consider the salary or wages of a spouse. However, the test on spousal benefits (see page 6) may take into account both spouses' wages if both are under FRA.

Withheld benefits

Benefits withheld by the SSA due to early collection will not be refunded. However, your benefits will be adjusted at FRA to account for the benefits that were withheld. For example, if your FRA was 67 and you began collecting benefits at age 62, the SSA would have reduced your benefit by 30%. Assuming you returned to work at age 65, the SSA may have withheld two years' worth of benefits by the time you reached FRA. The SSA would then lessen your 30% reduction to give you credit for the two years of lost benefits. Your new reduction would be as if you started collecting benefits at age 64 (20% reduction) rather than age 62 (30% reduction).

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2026 retirement earnings limit

Under FRA

- $1 of benefits withheld for every $2 in earnings above $24,480
- Earned $34,480 – $24,480 = $10,000 over x 1/2 = $5,000 withheld

Year individual reaches FRA

- $1 of benefits withheld for every $3 in earnings above $65,160 for months prior to attaining FRA
- Earned $75,160 – $65,160 = $10,000 over x 1/3 = $3,333 withheld

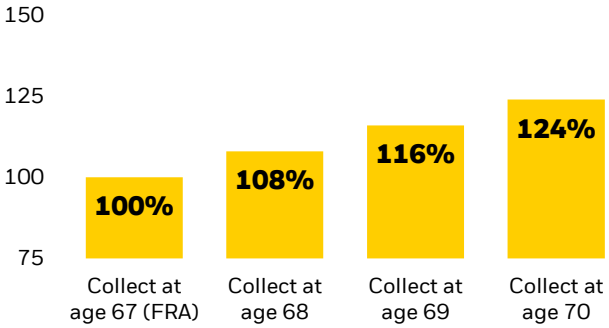
Month individual reaches FRA and beyond

Unlimited

Waiting to collect benefits

If you elect to defer collecting benefits beyond your FRA, the SSA will give you a Delayed Retirement Credit (DRC) for every month you defer between FRA and age 70, the age at which your benefits max out. This increase will be in addition to the annual COLA, if applicable. Your increase will amount to 8% annually.

Percent of PIA collectable by age



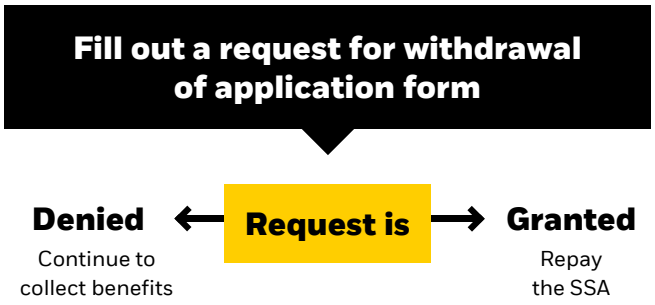
Note: If your FRA is age 66 and you wait until age 70 to collect, you would be eligible to collect 132% of your PIA.

Changing your mind

If you start collecting Social Security benefits and change your mind you can file a "Request for Withdrawal of Application" form with the SSA. Assuming your withdrawal request is granted, you must repay the SSA all of the payments you and anyone else collected based on your work history. There is no penalty or interest on the amount repaid and you may subsequently refile for your Social Security benefits. Importantly, withdrawal requests must occur within 12 months of commencing benefits and you are allowed only one withdrawal request in your lifetime.

If any of the benefits repaid were subject to federal income tax (see next section), you may be entitled to an itemized deduction on your tax return in the year of repayment. We encourage you to consult with your tax professional to ensure your deduction is appropriately applied.

Withdrawal of application

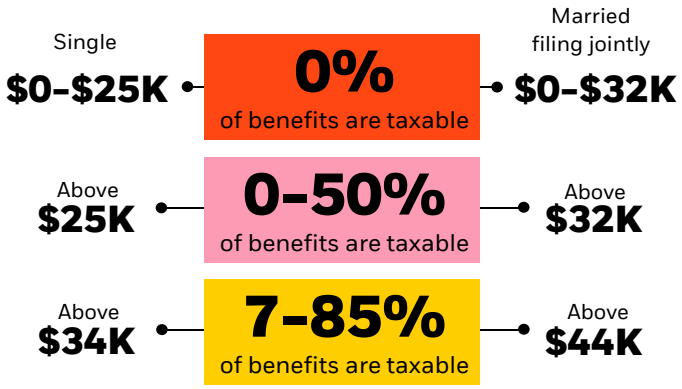


Taxation of benefits

About one-third of people who collect Social Security benefits are required to pay income taxes on them. Individuals with high total incomes must include up to 85% of their benefits as income for federal income tax purposes. Individuals age 65+ may be able to reduce the taxes owed on their SS benefits through a deduction introduced by the One, Big, Beautiful Bill. Step-rate "thresholds" on provisional income determine the amount which you may be taxed. The thresholds for taxation of your benefits are not currently indexed for inflation.

Taxation of Social Security benefits

Provisional income =
½ Social Security benefits + modified adjusted gross income



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Family collection decision

Beneficiaries entitled to collect off your benefits

Once you start collecting, certain other individuals may be entitled to collect benefits based on your work history. If you have been married for at least one year, your spouse may be entitled to collect spousal benefits. Under certain conditions, your children also may be entitled to benefits.

Maximum family benefits

The amount of benefits that members of a family may receive on the earnings record of one worker is limited. The limit varies between 150% and 188% of the worker's PIA. If the total benefits due to your spouse and children push your family's benefits above the limit, their benefits will be reduced proportionately to bring the total within the limit. Your benefits will not be affected. Any benefits payable to an ex-spouse (addressed later) are not included in the family maximum.

Collecting spousal benefits

If you are married to an individual who is collecting Social Security retirement benefits and you are at least age 62, you may be entitled to collect spousal benefits. If you are not yet age 62, you may still be eligible to collect if you are caring for your spouse's child who is under 16 or disabled before age 22. Spousal benefits will be equal to 50% of your spouse's PIA if you collect benefits at FRA or later. If you are entitled to your own benefits and your PIA is less than 50% of your spouse's PIA, spousal benefits will be paid in addition to your own. These combined benefits will equal 50% of your spouse's PIA, assuming you start collecting both benefits at FRA or later.

Collecting spousal benefits early

If you collect spousal benefits prior to your FRA, your adjusted spousal benefits (amounts in addition to your own benefits) will be reduced. Your spouse's collection age has no impact on your spousal benefits.

Waiting to collect spousal benefits

Unlike your own benefits, spousal benefits are not subject to guaranteed annual increases if you defer collecting them beyond FRA. Spousal benefits are at their maximum when you reach FRA, so there is no advantage to be gained by deferring collection.

Collecting survivor benefits

If you have been married for at least nine months and your spouse passes away, you may be entitled to survivor benefits. If you remarry before age 60, survivor benefits will not be paid unless the subsequent marriage ends. Remarriage after age 60 does not prevent or stop entitlement to benefits. The amount of your survivor

Combine spousal and individual benefits

	Alex | PIA $600		**Jordan** | PIA $2,200		
Age 62	own **$420** ▼ **-30%**	+	spousal **$325** ▼ **-35%**	=	**$745**
Age 67 (FRA)	own **$600**	+	spousal **$500**	=	**$1,100(MAX)**
Age 70	▲ **+24%** own **$744**	+	▲ **$1,100 Max** spousal **$356**	=	**$1,100(MAX)**

Jordan must file and collect in order for Alex to collect spousal.

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benefits depends on when your spouse began taking benefits. If the death occurs prior to your spouse collecting benefits, your survivor benefits will equal 100% of your spouse's PIA when you attain FRA. If your spouse was collecting benefits at the time of his or her death, your survivor benefits will equal his or her actual benefits, assuming you have attained FRA. The only exception is if he or she was collecting benefits that were reduced more than 17.5%. In that case, your survivor benefits will be 82.5% of your spouse's PIA. The survivor benefits, if higher, will replace your other benefits.

Collecting survivor benefits early

You can collect survivor benefits as young as age 60. If you collect at age 60, your survivor benefits will be reduced by up to 28.5%.

Collection decision affects survivor benefits

	Higher earner's monthly benefits	Lower earner's survivor benefits
70 years old	**$2,728**	**$2,728**
FRA	**$2,200**	**$2,200**
62 years old	**$1,540**	**$1,815**

Assumes higher earner has full retirement age of 67 and PIA of $2,200. Assumes lower earner has attained FRA prior to collecting survivor benefits.

Choosing between benefits

If you are entitled to both individual and survivor benefits, you can choose to begin collecting one and then switch to the other at a later date. It is possible to collect reduced survivor benefits at age 60, and then convert to your own unreduced benefits at FRA or later. You also have the option to collect individual benefits and then switch to survivor benefits.

Spousal and survivor benefits after divorce

If you are not married but previously had been married to the same individual for at least 10 years, you may be entitled to collect spousal and/or survivor benefits based on your ex-spouse's work history, as described earlier. To collect spousal benefits you and your ex-spouse must be at least 62. You are not required to wait until your ex-spouse files for benefits.

Getting started

Clearly, there are many considerations when it comes to claiming Social Security benefits. What works for others may not be your best strategy, and vice versa. Being informed is the first step toward good decision-making. Visit the Social Security Administration's website at www.ssa.gov to download your Social Security Statement.

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Sources: BlackRock; Social Security Administration; Internal Revenue Service. Please see the Social Security Administration's website at www.ssa.gov for more information, restrictions and limitations about Social Security benefits. This material should be regarded as informational on Social Security and is not intended to provide specific advice. If you have questions regarding your particular situation, you should contact the Social Security Administration and/or your legal or tax advisors.

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