



Social Security Explorer

Calculations Guide

INPUT REQUIRED

Only a few input items are needed to provide a reasonable estimate of Social Security benefits: current age; start age for receiving benefits; estimated benefit at Full Retirement Age (FRA); estimated Cost of Living Inflation Rate; and assumed age of death. Some calculators in SSE use additional assumptions that include an investment rate for future value accumulated benefits, other income and income tax rates, and special strategies to optimize total benefits received.

Social Security Explorer benefit calculations are based on user input of the estimated Social Security benefit amount at Full Retirement Age as found on a Social Security Benefit statement. If the starting age for benefits is not equal to FRA, the benefit amount is adjusted by formula for the years and months prior to or after FRA. Information on getting a Social Security Benefit Statement is found on the Social Security website at <http://www.socialsecurity.gov/mystatement/>.

Social Security Basics

Since birthdates are not collected, SSE estimates the year of birth using the input age of the individual and adjusts the benefit amounts based on formulas published by the Social Security Administration. For more details, see <http://www.socialsecurity.gov/retire2/agereduction.htm>.

All benefit estimates assume benefits start on the first of the month the person attains the indicated start age. Full Retirement Age is 66 for persons whose estimated year of birth is 1954 and earlier and 67 for those estimated as 1960 and later.

If the start age is FRA or later, benefits will include delay credits of approximately 8% per year beyond FRA. (See <http://www.socialsecurity.gov/retire2/delayret.htm>.)

In SSE, if the person's estimated birth year falls into the range 1955 to 1959, SSE uses a FRA of 66 plus the number of months indicated by the table on the following page. For these individuals, a start age of 66

BIRTH YEAR	FULL RETIREMENT AGE FOR RETIREMENT BENEFITS
1955	66 YEARS + 2 MONTHS
1956	66 YEARS + 4 MONTHS
1957	66 YEARS + 6 MONTHS
1958	66 YEARS + 8 MONTHS
1959	66 YEARS + 10 MONTHS

indicates a desire to use FRA. For example, based on the input age, if a person's estimated birth year is 1956 and the start age for benefits is 62, the reduction is calculated for four years and four months or 26.67%. Delay credits are similarly adjusted for the number of months past FRA. For the person born in 1956, delay credits at age 70 would produce payments equal to 129.33% of the benefit at FRA.

Cost of Living Increases

Cost of Living for benefits Increases (COLA) use the input Inflation Rate, applied annually to each year's benefit amounts. The first increase is considered to occur at the start of year 2 and continue through the years calculated.

Evaluation of Total Benefits

The future value of the benefit income stream is calculated using the input Investment Rate. The balance is initialized to 0 and each year annual compound interest is applied to the balance. Next, the total Social Security benefits are added to the balance to determine the future value at the end of a calculation year.

The future value of the benefits as invested in the last year illustrated may be used to compare one set of calculations to another. The highest future value is considered the "best" age or strategy. If the Investment Rate is 0%, the future value of benefits is equal to the total benefits received over the years.

Other Assumptions

There are many other factors that may affect the amount of benefits you and your family receive. SSE does not consider these adjustments to benefits, such as: additional dependent benefits, reductions due to earnings limitations, credits for military service, increases for work record after FRA, and adjustments for participation in certain retirement plans.

Effects of Marital Status and Strategy on Social Security Benefits

MARRIED (SPOUSE IS LIVING)

A married person's Social Security benefit is the greater of his or her own benefit or up to one-half of spouse's benefit at spouse's FRA. The additional amount is called the spousal benefit. The spousal benefit is the difference between the person's own benefit at FRA and 50% of spouse's benefit at FRA. If taken prior to FRA, the spousal benefit is reduced. The difference is then added to his or her own benefit if own benefit is smaller than one-half spouse's benefit. The person's own benefit is also reduced when receiving benefits prior to FRA.

(See <http://www.socialsecurity.gov/retire2/agereduction.htm>.)

Several strategies are available:

- **NO SPECIAL FILING:**

The individual files for benefits and begins receiving payments at the indicated start age.

File assumes or "deemed" you to have applied for all benefits, such as spousal benefits, for which you are eligible. Payments continue until "lives to" age.

- **FILE AND SUSPEND**

The individual files for benefits at the later of current age or FRA, and immediately suspends payments. No benefits are paid until the indicated start age. Benefits then start, with delay credits for full years beyond FRA. Beginning in May 2016, any benefits based on this individual's earnings such as spousal benefits and dependents' benefits also will be 'deemed' to have been suspended. This filing strategy has no benefit to anyone born May 1950 or later.

Previously, an individual that had suspended benefits at FRA could retroactively collect a lump sum for suspended benefits back to FRA. This option is no longer allowed.

RESTRICTED APPLICATION

The individual files only for spousal benefits at the later of indicated start age or FRA. Spousal benefits continue until age 70, at which time Social Security will pay the greater of his or her benefit with delay credits or the spousal benefit. If the spouse has not filed for benefits, spousal benefit pays nothing. The individual's own benefit is increased 8% for each year after FRA until benefits start. This claiming strategy is only available to individuals who were at least age 62 by the end of 2015. Only one person in the marriage can receive a Spousal benefit.

SINGLE

Filing early or filing late are the only things which change benefits. Benefits will be adjusted by formula for early or delayed retirement.

WIDOWED OR SURVIVOR BENEFITS

The widowed person or surviving spouse will get the greater of his or her benefit OR the amount the deceased spouse was receiving when death occurred. The survivor benefit is the deceased's full benefit amount, not one-half the deceased spouse's benefit. If the spouse died before starting benefits prior to FRA, survivor gets the full FRA benefit as a survivor benefit. If death occurs before starting benefits and after FRA, delay credits are applied.

Once the benefit amount is determined, reductions apply if surviving spouse files for benefits prior to FRA. Survivor benefits are available at age 60 or older, or for a parent with children under age 16. Reductions apply prior to FRA. (See <http://ssa.gov/survivorplan/survivorchartred.htm>.)

The Full Retirement Age for survivor benefits differs slightly from retirement FRA. It is age 66 for those born prior to 1957 increasing to 67 for those born in 1962 or later. Those born in 1957 through 1961 have a FRA as shown on the right.

BIRTH YEAR	FULL RETIREMENT AGE FOR SURVIVOR BENEFITS
1957	66 YEARS + 2 MONTHS
1958	66 YEARS + 4 MONTHS
1959	66 YEARS + 6 MONTHS
1960	66 YEARS + 8 MONTHS
1961	66 YEARS + 10 MONTHS

The widow or widower who has not yet applied for Social Security benefits may file a Restricted Application to potentially maximize benefits by taking survivor benefits and starting his or her own benefits with delay credits at age 70. Another option is to start your own retirement benefits early and then switch to survivor benefits at FRA.

DIVORCED

(Married 10 years or more to former spouse and not currently married)

A divorced person may collect benefits on an ex-spouse’s record as if they were still married EXCEPT it doesn’t matter if or when ex-spouse starts benefits if they have been divorced more than 2 years. Benefits based on former spouse’s Social Security can start if ex-spouse has reached age 62. The spousal is calculated as if the couple were married, essentially one-half ex-spouse’s FRA benefit, and it is not reduced even if ex-spouse is younger than FRA. However, it is reduced if the divorced person starts spousal benefits prior to his or her own FRA. There are no delay credits available for divorced spousal benefits post-FRA.

If divorced less than 2 years, then benefits are not available to start until ex-spouse files for benefits. If ex-spouse is 60 years old or less, it will be 2+ years before ex-spouse can start benefits; if ex-spouse is already 62, spousal benefits are available to the divorced person.

A divorced person who was at least age 62 by the end of 2015 and has not yet applied for Social Security benefits may file a Restricted Application to potentially maximize benefits by taking spousal benefits starting at FRA and starting his or her own benefits with delay credits at age 70.

A divorced person who born after 1954 will be 'deemed' to have applied for any ex-spousal benefit when he or she applies for their own benefit. File and Suspend makes no sense, it has the same effect as waiting to file. If a divorced person has more than one ex-spouse, the divorced person can use either one as long as the ex-spouse chosen meets the above requirements.

If divorced, married 10 years or more, and the prior spouse is deceased, select Widowed to estimate benefits. If married less than 10 years before divorce, there are no spousal or survivor benefits. Select Single to estimate benefits.

For further information on benefits for divorced spouses, see <http://ssa.gov/retire2/yourdivspouse.htm> and <http://ssa.gov/retire2/divspouse.htm>.

Calculators

BEST STRATEGY BY AGE (GRAPH)

Best Strategy by Age is a graph showing the best strategies from all the available calculations. Each age combination, potentially nine for the client and nine for the spouse, are considered; there are eighty-one possible age combinations. All seven strategies are calculated for each age combination. The strategy with the highest cumulative future value of benefits is selected for each age combination. Each strategy is assigned a color so that the best strategy for any age can quickly be seen.

Social Security Explorer puts a star in the cell with the age combination that provides the highest future value of the 81 cells displayed. If several cells tie for the highest, the earliest age combination receives the star.

STRATEGIES TO MAXIMIZE BENEFITS (GRAPH)

Strategies to Maximize Benefits is a graph showing the relative future value of Social Security benefits based on start ages for a single strategy. Each age combination, potentially nine for the client and nine for the spouse, are considered; there are eighty-one possible age combinations.

The selected strategy is calculated for each age combination. The age combination with the highest cumulative future value of benefits is shown in the lightest color. Other cells are assigned a shade that represents the percentage of the highest cumulative future value: 99% of highest, 97-98%, 95-96%, 90-94% and less than 90%. As percentage of highest decreases, the shade of green becomes darker.

Social Security Explorer puts a star in the cell with the age combination that provides the highest future value of the 81 cells displayed. If several cells tie for the highest, the earliest age combination receives the star.

BASIC BENEFIT CALCULATION (LEDGER)

Basic Benefit Calculation demonstrates Social Security benefits in ledger form. Annual benefits are shown by year for the person and spouse, if applicable. If married, an additional column shows Total Annual Benefit. The Cumulative Total is the sum of benefits through the year illustrated. Investment Rate is not considered in the Cumulative Total. No special filing strategy is assumed.

COMPARISON: EARLY VS. LATE (LEDGER)

Comparison: Early vs. Late demonstrates Social Security benefits in ledger form for an individual. Annual Benefits and Future Value of Benefits are shown for age 62, Full Retirement Age and age 70. Future Values consider the Investment Rate entered.

If the individual is older than 62 or FRA, benefits are calculated as if age 62 or FRA occurred today. However, no Cost of Living Adjustment is applied for years prior to first values in the ledger. No special filing strategy is assumed.

TAXATION OF BENEFITS (LEDGER)

Social Security benefits may be subject to income tax if income exceeds certain threshold levels. Additional input for Marginal Income Tax Rate and Modified Adjusted Gross Income allow a simple demonstration of how Social Security benefits may be taxed. Annual benefits and, if married, Spouse and Total Benefits are shown. Income tax is based on combined income, including Modified Adjusted Gross Income, exceeding \$25,000, if single, and \$34,000, if married. The formula is complex, and from 50-85% of the Social Security benefits each year may be subject to income taxes.

The amount subject to taxes is multiplied by the Marginal Income Tax Rate to produce the Income Tax Column. The Total After Tax column is equal to Total minus Income Tax. No special filing strategy is assumed. (For further information on taxation of benefits, see <http://ssa.gov/planners/taxes.htm>.)

OPTIONAL STRATEGIES (LEDGER)

The Optional Strategies screen illustrates ledger values similar to the Basic Benefits calculator, but allows one of the seven strategies to be illustrated. The Future Value of Benefits reflects the entered Investment Rate. The values for the last year in Future Value of Benefits column is equal to the Cumulative Lifetime Benefits total on the graphs. This ledger can be used to view the values behind the Best Strategy by Age and Strategies to Maximize Benefits graphs:

Best Strategy by Age: for any age combination on the graph, set the start ages equal to the selected ages. Set the Strategy based on the color of the chosen cell. The resulting ledger shows the annual calculations that determine the Cumulative Lifetime Benefits for this age combination.

Strategies to Maximize Benefits: for any age combination on the graph, set the start ages equal to the selected ages. Set strategy to same choice used in the graph. The resulting ledger shows the annual calculations that determine the Cumulative Lifetime Benefits for this age combination.