

Social Security Foundations and Retirement Benefit Timing

Understanding Social Security starts with knowing what it is, how benefits are calculated, and when to start collecting. This course covers the program's foundational concepts, including the Primary Insurance Amount benchmark used to determine payouts, and walks through the key factors that influence retirement benefit timing decisions. CPAs and financial advisors helping clients plan for retirement will gain practical insight into how claiming age affects long-term income and why Social Security becomes an increasingly critical asset as clients age.

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LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Recognize what Social Security is all about.
- Identify specifics about Social Security benefits.
- Identify the best age to collect benefits.

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TABLE OF CONTENTS

CHAPTER

01

What Social Security Is And Why You Need It..... 6

1.01	Understanding What Social Security Means For You	6
1.02	Appraising The Value Of Social Security	10
1.03	Understanding How You Pay For Social Security	13
1.04	Getting The Most Out Of Your Social Security Benefits.....	16
1.05	Getting In Touch With The Social Security Administration.....	17
	Test Your Knowledge.....	19

CHAPTER

02

A Breakdown Of Benefits..... 22

2.01	Bringing Security To Old Age: Retirement Benefits	22
2.02	Surviving The Loss Of A Breadwinner	31
2.03	Paying Your Bills When You Can'T Work: Disability Benefits.....	39
2.04	When The Need Is Great: Supplemental Security Income	41
	Test Your Knowledge.....	43

CHAPTER

03

Deciding When To Start Collecting Retirement Benefits 47

3.01	Paying Attention To Your Full Retirement Age	47
3.02	Looking At Life Expectancy When You Claim Benefits.....	50
3.03	Considering Your Spouse When You Claim Social Security.....	58
3.04	Recognizing The Potential Payoff Of Working Later In Life.....	60

3.05	Putting It All Together: The Right Time To Begin Collecting Benefits	62
-------------	---	-----------

	Test Your Knowledge.....	65
--	--------------------------	----

Final Exam Copy	85
------------------------------	-----------

Glossary	67
-----------------------	-----------

Index	
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Chapter 1: WHAT SOCIAL SECURITY IS AND WHY YOU NEED IT

Chapter Objective

After completing this chapter, you should be able to:

- Recognize what Social Security is all about.

Social Security is the foundation of long-term financial support for almost every American. If you're like most people, you'll depend on Social Security to help you survive in your later years (if not sooner). In fact, its protections are becoming even more important as an answer to growing insecurity in old age.

Look around you. If you're in the workforce, you know that good jobs are hard to come by. If you're an older worker who loses a job, you may also know it can take a long time to get a new one. Have you been able to set aside money for the future? Saving is essential, but many Americans save little, if anything. Maybe you contribute to a 401(k) at work, if your employer offers one, but who knows how much your investments will be worth next week or next month, let alone many years in the future?

Some of the people who read this course will live to be 100. Maybe you're one of them. Many people will make it into their 80s and even their 90s. Those years cost money. In a future of risks and unknowns, Social Security is one thing you can count on. Your benefit is guaranteed by law and protected against inflation. But that doesn't mean that it takes care of itself or that you should be a passive participant in Social Security. You have decisions to make, and you can make them better if you have some working knowledge of the benefits you've earned. You may also have actions to perform, such as informing the Social Security Administration (SSA) about things that can affect your benefits.

This chapter provides an overview of Social Security and a broad-brush description of benefits. Here, I explain why Social Security was created and why those reasons are highly relevant to Americans today.

UNDERSTANDING WHAT SOCIAL SECURITY MEANS FOR YOU

So, what is this U.S. institution that — sooner or later — plays a role in virtually all our lives?

You can think of Social Security as a set of protections against things that threaten your ability to survive financially — things like getting older and retiring, or having a serious accident or illness

that leaves you unable to work. When such things happen, family members who depend on you may not be able to pay for the basic necessities of life.

That's why Social Security offers a range of benefits. These protections can provide crucial financial security for workers, their immediate family members, and even divorced spouses. For example, Social Security benefits may go to:

- People who retire and their dependents, typically spouses, but potentially children and grandchildren
- People who are disabled and the immediate family members who depend on them
- Spouses, children, and even the parents of breadwinners who die

Remember

Social Security's guaranteed monthly payments, set by legal formulas, stand out in a world of vanishing pensions, risky financial markets, rising healthcare costs, and increasing longevity. Although the program faces a potential financial shortfall in the future, its most fundamental features enjoy broad public support.

In the following sections, I look at specific groups of people who benefit from Social Security.

Benefits for retirees

More than 51 million retirees and their spouses get retirement benefits every month. These benefits help millions of people stand on their own two feet instead of relying on their kids or charity or scrambling every month to pay the bills. Social Security provides at least half the income for 40 percent of those 65 and older. But even for people who don't rely so heavily on Social Security, it provides a solid floor of income in later life.

Although Social Security benefits are generally modest, they help keep 15.4 million seniors above the poverty line, including many hardworking, middle-class Americans who otherwise would have little to fall back on.

Remember

Social Security isn't intended to be your sole source of income. Instead, it gives you a foundation to build on with personal savings and other income.

If you're already retired (and not rich), you understand the role these payments play in your monthly budget. If you're still in the workforce but thinking about that next phase of life, here are a few things to reflect on:

- **Social Security is reliable.** Its payments don't rise and fall with the markets on Wall Street or depend on how your company is faring or how well you selected investments. Social Security income lasts a lifetime.
- **Social Security is accessible.** Almost all workers are covered. To put this in perspective, about half of workers are covered by an employer retirement plan, and many of these workers do not even participate.
- **Social Security is protected against inflation, a crucial safeguard.** Rising prices can slash the value of fixed income over time, driving down your standard of living in retirement.
- **Social Security is especially important for older women.** Women tend to live longer than men do, and they have less income to draw on in old age. Elderly widows are exceptionally vulnerable to poverty.
- **Social Security gives a boost to the least affluent.** That's because the benefit is progressive. Poorer individuals get back a larger share of earnings than their higher-paid peers. Social Security benefits replace about 37 percent of the earnings of an average worker.

The Roots of Social Security

You may think of Social Security as part of life in the United States, but it wasn't always this way. Social Security was a foreign idea — literally. Americans by and large never expected their national government to rescue them in hard times. This was a country shaped by pioneer culture, a society that expected people to pull themselves up by their own bootstraps. Back on the farm, extended families took care of their own and struggled together. But as more Americans migrated to cities for work, traditional supports of family and close-knit communities began to unravel.

The Great Depression of the 1930s transformed attitudes. Unemployment rocketed to 25 percent. People's life savings vanished in a tsunami of bank failures. More than half of older Americans were poor. In desperation, people turned to Washington for help, and Washington looked overseas for ideas. President Franklin D. Roosevelt and his advisors, including Labor Secretary Frances Perkins, considered an idea known as *social insurance*, which had gained popularity in Europe. The idea was that governments can adapt insurance principles to protect their populations from economic risks. Unlike private insurance arrangements, which are supposed to protect individuals, social insurance programs are supposed to help *all* of society.

In 1889, German Chancellor Otto von Bismarck pioneered the idea with a system of old-age insurance that required contributions from workers and employers. By the time of the Great Depression, dozens of nations had launched some sort of social insurance effort. U.S. leaders, eager to ease the economic pain engulfing the nation, took a more serious look at social insurance from Europe. Others viewed social insurance as radical and un-American.

The Roots of Social Security (continued)

After a lengthy debate, Congress passed the Social Security Act, and President Roosevelt signed it into law on August 14, 1935. The law provided unemployment insurance as well as help for seniors and needy children. Title II of the act, “Federal Old-Age Benefits,” created the retirement benefits that many people now see as the essence of Social Security.

“We can never insure 100 percent of the population against 100 percent of the hazards and vicissitudes of life,” Roosevelt said at the bill signing, “but we have tried to frame a law which will give some measure of protection to the average citizen and to his family against the loss of a job and against poverty-ridden old age.”

Benefits for children

Social Security pays more benefits to children than any other government program. Some 3.8 million children qualify for their own benefits, as dependents of workers who have retired, died, or become disabled. More than 6 million children live in households where someone gets Social Security.

The program’s definition of *eligible children* may include stepchildren and, in some cases, grandchildren and step-grandchildren. Typically, children who qualify may be covered until age 18 — or 19, if they haven’t yet graduated from high school and aren’t married.

Benefits for survivors

The death of a family breadwinner hits everyone under the same roof. That’s why Social Security provides benefits for dependent survivors. Not to overwhelm you with statistics, but this is a significant program with 5.8 million beneficiaries, including children, widows, and widowers. These dependents qualify for benefits if the deceased worker or retiree met certain basic requirements of Social Security. In Chapter 2, I cover the rules, including technicalities that affect widows and widowers.

Benefits for the disabled and their dependents

Eight and a half million Americans get Social Security’s disability benefits, a protection that extends to 1.1 million dependent family members. Social Security’s disability program is complicated, and it can be difficult to meet the standards required for benefits. I devote Chapter 1 of course 81855C to examining the program, as well as Supplemental Security Income (SSI) benefits for beneficiaries with the least income.

Many applicants for Social Security disability benefits are turned down, but these decisions may be reversed in the appeals process. In Chapter 2 of course 81853C, I go over your options if Social Security makes a decision you disagree with.

You may not like to think about the risks you take walking out the door, but they may be higher than you realize. Almost four in ten men entering the labor force will become disabled or die before reaching retirement age; the same fate awaits more than three out of ten women.

Table 1-1 provides probabilities of death or disability for young workers (people born in 1999, in this example).

TABLE 1-1 PROBABILITIES OF DEATH OR DISABILITY

Probability of...	Male	Female	Combined
Death or disability before retirement	35%	31%	33%
Death before retirement (excluding disability)	9%	5%	7%
Disability before retirement (excluding death)	26%	26%	26%

Source: Social Security Administration/Public Domain

APPRAISING THE VALUE OF SOCIAL SECURITY

The amount you get in Social Security retirement benefits is based on your earnings history and when you start to collect, factors I examine closely in Chapter 2, Chapter 3. The average retirement benefit for 2024 was about \$21,924 per year (\$23,712 for 2025 and \$24,852 for 2026)¹, and the maximum benefit in 2024 was more than \$43,524 if you claim benefits at full retirement age (\$48,216 for 2025 and \$49,824 as of January 2, 2026)². You can increase your benefits by taking them after your full retirement age, up to 70, and you reduce them by taking them earlier (typically, as early as 62).

The survivor's benefit of Social Security is really a life-insurance policy that has been valued at \$612,000 for a 30-year-old worker who's married with two children and has a median salary. The long-term disability protections are valued at \$580,000 in coverage for that same family.

Social Security combines other distinctive features that you usually don't find all in one place. These traits are worth keeping in mind when you're trying to get a handle on what the program is worth to you:

- **Benefits are earned.** After you meet the requirements for eligibility — generally ten years of earnings for retirement, but less than that for certain protections such as disability —