WHITE PAPER

Maximizing SOCIAL SECURITY

What You Need to Know to Help Get the Most Out of Your Benefit

ADULT FINANCIAL EDUCATION SERVICES

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ADULT FINANCIAL
EDUCATION SERVICES

Adult Financial Education Services (AFES) is a national not-for-profit organization that is dedicated to improving financial literacy for those nearing and in retirement. AFES has educated thousands of individuals and families from coast-to-coast on topics including Social Security, taxes, and retirement planning strategies. AFES instructors are active professionals in the financial services industry and have the appropriate training and licensing to discuss the topics presented in each course. AFES courses are strictly educational and are designed to provide participants with objective information that will aid them in making sound financial decisions for their financial futures. For more information about AFES, please visit www.afes.org.

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You're Entitled to Your Maximum Benefit

Throughout your work life, from minimum wage paying jobs to a higher-earning career, a portion of your income has been allocated to Social Security. As you approach and enter retirement, it is finally time for you to rightfully benefit from the same system you diligently paid into for years. More importantly, you have the power to educate yourself and determine how to maximize the Social Security benefits you deserve and are entitled to by law for your years of effort.

In 2024, approximately **68 million Americans** received over **$1.5 trillion in Social Security benefits.**[1] Some individuals are retirees, and others are qualified based on disability and survivorship contingencies. This report will help you understand the fundamentals of Social Security and guide you through the strategies you can employ to help you get the most out of your benefit including:

- The planning challenges and complexities of the system
- The potential cost of planning mistakes
- Key changes that could affect your benefit decisions
- The importance of benefit maximization
- When to consider claiming benefits
- Important spousal considerations
- How inflation and taxes could impact your benefit
- Strategies to help maximize your benefit

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Planning Challenges and Complexities of the System

Social Security benefits are based on your lifetime earnings. To calculate your basic benefit, or Primary Insurance Amount (PIA), the Social Security Administration adjusts your earnings to account for average wages and your monthly earnings during the 35 years you earned the most. You would receive this benefit at your Full Retirement Age (FRA).[2]

While this seems relatively straightforward, the reality is that thousands of planning combinations can affect the amount you receive. In fact, **a couple can face approximately 9,000 possible claiming combinations**.[3]

> "Social Security is about as complicated a fiscal system as is humanly possible to design."[5]
>
> — Laurence Kotlikoff,
> *Boston University Professor of Economics*

To make things even more complex, the Social Security Administration is prohibited from advising consumers and professionals, and it cannot coordinate with outside assets. Couple that with yearly changes to the rules and laws (there were several key changes made for 2025), and it can quickly become an overwhelming system to navigate.[4]

Full Retirement Age

The age at which a person may first become entitled to full or unreduced retirement benefits.[2]

65 → **66** → **67**

65	66	67
Persons Born in 1937 or Earlier[6]	Persons Born From 1943-1954[6]	Persons Born in 1960 or Later[6]

The Potential Cost of Planning Mistakes

The complex rules, changes, and lack of guidance from the Social Security Administration can make it difficult to make sound claiming choices. A recent study highlighted that **the average individual will lose $182,000 in potential income** due to claiming Social Security at a financially suboptimal time.[7] When considering the average balance of 55 to 64-year-olds' 401(k) is $244,750, missing out on $182,000 of potential income could mean lifestyle reductions to afford the things needed in retirement.[8]

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Key Changes

If you have recently made - or are looking to make - decisions about your Social Security benefit, you should understand some significant changes made in recent years to avoid making a potentially costly claiming mistake.

COLA Experienced a Significant Increase

As of January 2025, Social Security beneficiaries will receive an 2.5% cost-of-living adjustment (COLA).[9]

Maximum Taxable Earnings Increase

The maximum amount of earnings subject to Social Security tax will increase to $176,100 in 2025. The increase of this maximum taxable wage amount means that more income will be subject to tax for workers paying into the system.[9]

Maximum Social Security Benefit to Increase

The maximum Social Security benefit for a worker retiring at FRA will increase from $3,822 to $4,018 in 2025. This applies to those retiring at FRA which is 67 for anyone born in 1960 or later.[9]

Benefits for Surviving Spouses Increase

On average, aged widows and widowers living alone will see their benefits increase from $1,778 to $1,832.[9]

Earnings Test Exempt Amounts Adjusted

For those workers who claimed retirement benefits before reaching FRA, Social Security will withhold some benefits above a certain income level. In 2025, an individual can earn up to $23,400 per year before benefits are withheld at the rate of $1 in benefits for every $2 above the limit. Alternatively, in the year the individual reaches FRA, the individual can earn up to $62,160 per year before benefits are withheld at the rate of $1 in benefits for every $3 earned above the limit.[9] It is important to note that withheld benefits are added to the monthly benefit once the individual reaches FRA.[10]

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The Importance of Benefit Maximization

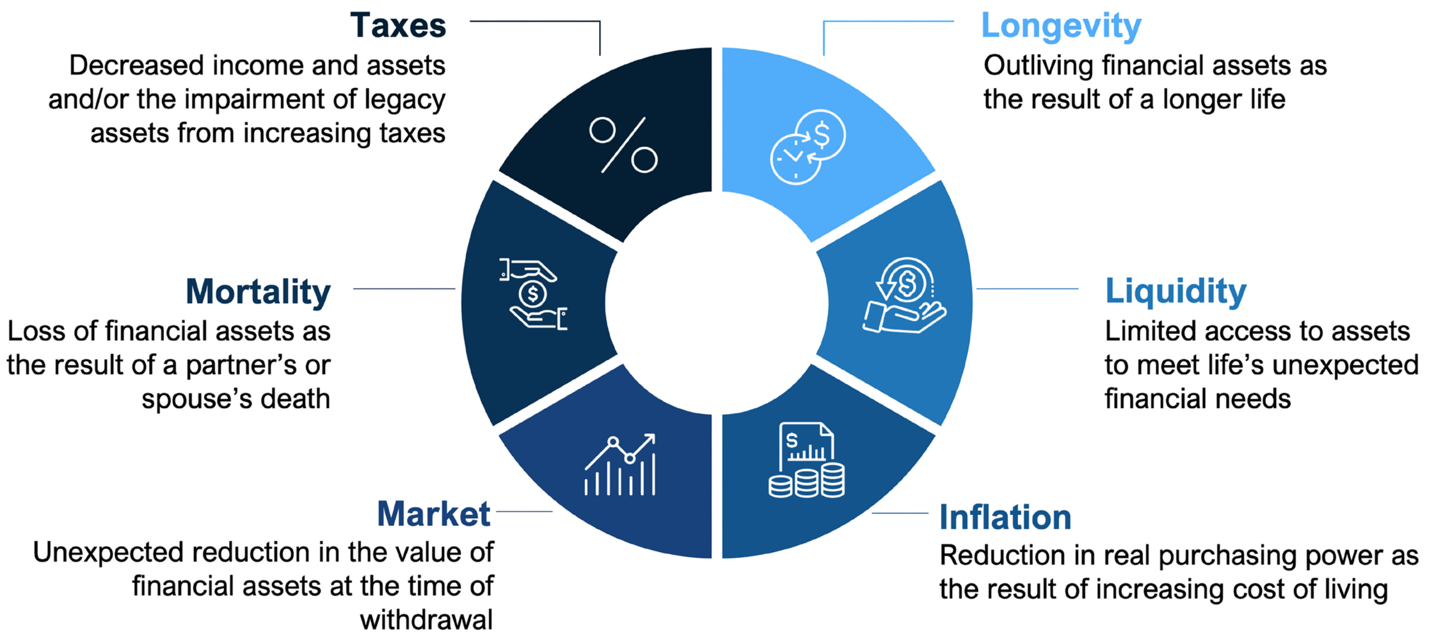
For many retirees, Social Security represents a significant portion of their monthly retirement income. According to the Social Security Administration, these benefits account for **approximately 30 percent of a retiree's income on average**.[11] The remaining income typically comes from sources such as pensions, 401(k)s, IRAs, investment portfolios, annuities, and real estate.

These retirement funds, accumulated over years of hard work, will support two critical aspects of your retirement: essential needs and desired lifestyle. They will help you afford necessities like food, shelter, healthcare, and transportation, while also enabling you to pursue aspirational goals such as traveling, purchasing a vacation home, joining a country club, or funding your grandchildren's education.

Fundamental Financial Planning Considerations

Many fail to recognize that retirement income faces six universal risks that can potentially deplete your assets if left unaddressed in your financial plan. Therefore, performing a comprehensive retirement income analysis with a qualified financial professional is critical to making informed decisions about your financial future.

Figure 1.0 | Retirement Income Analysis



In retirement, you depend on a fixed income. You most likely cannot afford to leave money on the table or risk your income, which is why it's so important to maximize your income sources, especially those that represent a significant portion of your retirement funds.

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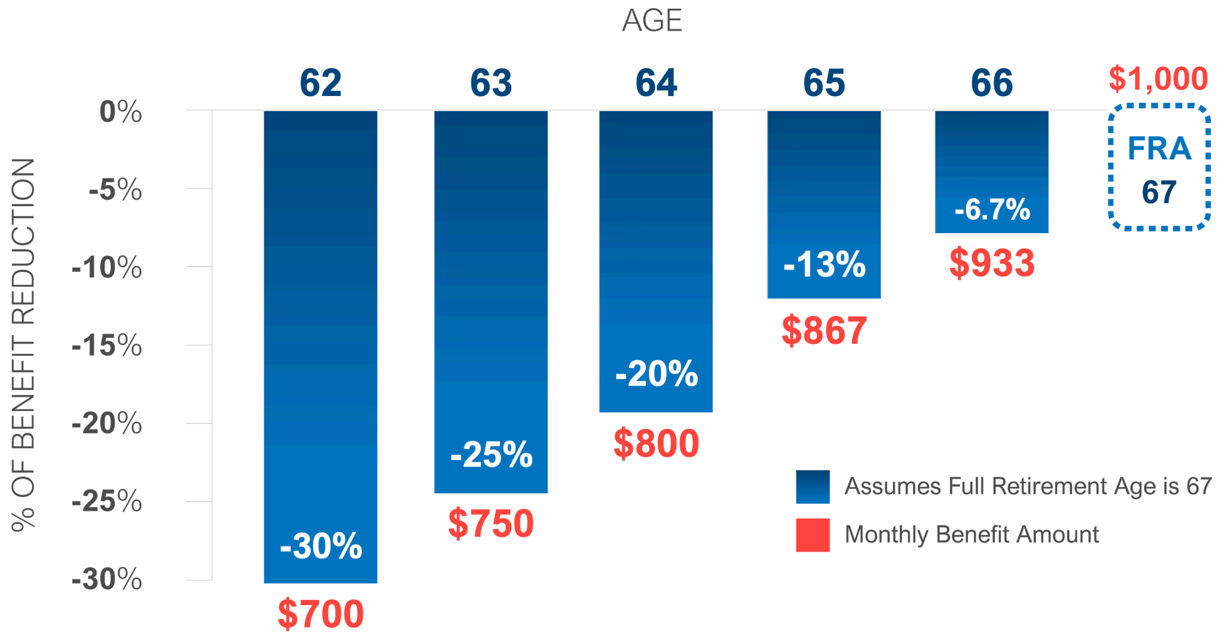
When to Consider Claiming Your Benefits

A major Social Security benefit-claiming decision retirees face is *when* to claim. The Social Security Administration allows you to claim your benefit as early as 60 and as late as 70. When deciding when to claim benefits, you should consider several factors.

Claiming Benefits Earlier

Claiming benefits early provides you with income sooner and possibly for an extended period; however, this decision comes at a cost. Figure 2.0 reveals the correlation between lower benefit-claiming ages and the significant reduction of monthly benefits. For example, if your FRA is 67 and you decide to claim benefits at age 62, your Provisional Income of $1,000 is reduced by 30%, leaving you with a monthly benefit of $700. This reduction decreases the closer you get to your FRA.

Figure 2.0 | The Financial Impact of Claiming Benefits Earlier



These examples are hypothetical and for illustrative purposes only. Rates of return are not guaranteed and are for illustrative purposes only.

Source: Social Security Administration[12]

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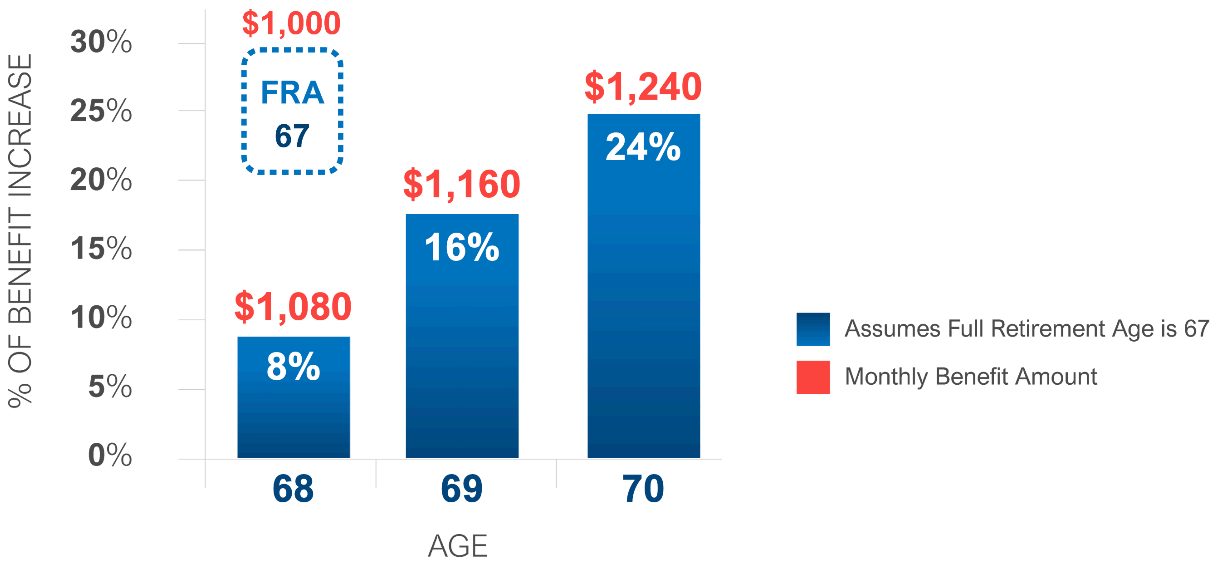
Delaying Benefits

In contrast, delaying benefits until the maximum age of 70 comes with a bonus. Figure 3.0 highlights the correlation between delayed benefits age and increasing monthly benefits. For instance, if your FRA is 67 with a Provisional Income of $1,000, and you postpone claiming your benefits to age 70, your benefit would increase 8% annually, giving you a 24% total increase at age 70 with an elevated benefit amount of $1,240. Compared to starting benefits at 62, that's a 77% difference in benefits, or in this example, an additional $570 monthly if you delay.

Delaying could provide additional income beyond the 8% yearly increase when considering cost-of-living adjustments (COLA). With a higher benefit base, COLAs will also become higher annually once the benefit begins.

Figure 3.0 | The Financial Impact of Delaying Benefits



These examples are hypothetical and for illustrative purposes only. Rates of return are not guaranteed and are for illustrative purposes only.

Source: Social Security Administration[13]

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Spousal Considerations

Spousal Benefits

Your spouse's status is another factor to consider when making Social Security benefit claiming decisions. A non-working spouse is entitled to 50% of their spouse's FRA benefit if they apply at FRA. While a spouse can elect to retire early, their benefit could be reduced by as much as 32.5%, depending on their FRA. As for delaying benefits, spousal benefits are unable to earn delayed credits.[14]

MAXIMIZATION STRATEGY

In dual-income households, it typically makes sense for the higher-earning spouse to delay benefits up to age 70 to lock in the maximum benefit.

Divorced Spousal Benefits

If you are divorced and your ex-spouse is claiming their benefits, you can claim your benefits on your ex-spouse's record under the following conditions: your marriage lasted 10 or more years, you are at least 62 years of age, and your ex-spouse's benefit is larger than your benefit.

If your ex-spouse is not currently claiming their benefit, you are still eligible to receive benefits based on your ex-spouse's work record if the marriage lasted 10 or more years, you've been divorced for 2 or more years, and your ex-spouse is eligible to file for their own benefit by being at least 62 years old.

If you are eligible for retirement benefits on your own record, the Social Security Administration will pay that amount first and then an additional amount on your record. This means that the combination of benefits equals the higher amount of what you would receive through your ex-spouse's work record.[15]

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Surviving Spousal Benefits

If your spouse passes away, your survivor benefit will be based on the high-earning spouse's benefit, including any delayed credits. Even if the deceased spouse has not already applied for their benefits, the surviving spouse is still entitled to the higher benefit. The surviving spouse may claim reduced benefits as early as age 60, or age 50 if they are disabled, and if not remarried prior to age 60. If your ex-spouse passes, and you were married at least ten years, you may be entitled to the survivor benefit of your ex-spouse.[16]

MAXIMIZATION STRATEGY

A survivor at FRA is entitled to 100% of a deceased worker's benefit—including any delayed retirement credits.

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Inflation, Taxes, and Your Social Security Income

To truly understand Social Security maximization strategies, it's vital to understand how this income source is affected by inflation and taxes, and what you can do to help protect this income source from these considerations.

COLAs to Combat Inflation

Consumers have especially felt the effects of inflation over the last few years with the rising cost of goods and services. The average annual inflation rate was 2.60%, a seemingly nominal yearly increase. However, the purchasing power of $100 in 2004 is equivalent to as $167.11 in 2024, representing a total inflation increase of 67.11% in twenty years.[17] Inflation can significantly undermine the stability of a retirement plan when depending on a fixed income. Instead of enjoying the next ten, twenty, or even thirty years pursuing life goals and checking off bucket list items, you may find yourself sacrificing many of your desires to afford the increasingly expensive everyday essentials.

Luckily, the Social Security Administration structures benefits to keep up with inflation by increasing benefits based on the cost of living, also known as a Cost-Of-Living Adjustment (COLA). The COLA is tied to the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) and published monthly by the Bureau of Labor and Statistics to show the increase in wages in broad workforce sectors. Social Security views the CPI-W from the fourth quarter of one year through the third quarter of the following year and makes the necessary adjustments based on that data. The COLA for 2025 Social Security benefits is 2.5%, boosting the average monthly benefit for retired workers from $1,927 in 2024 to $1,976 in 2025.[18]

Benefits Could be Taxed as Ordinary Income

Social Security benefits are subject to federal income taxes if your income rises above a certain threshold. Approximately 50% of Social Security recipients pay federal income taxes on a portion of their benefits.[19] Congress created a special income tax category for Social Security benefits called Provisional Income (PI), and the PI calculation determines whether you will pay taxes on your Social Security benefits.

MAXIMIZATION STRATEGY

If you are concerned that COLAs may not provide enough income to combat inflation, consider acquiring other income sources that can provide principal protection and offer growth opportunities.

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Provisional Income (PI) Calculation

Adjusted Gross Income (Before SS Benefits)

+ Municipal Interest Income*

Modified Adjusted Gross Income (MAGI)

+ Half of Social Security Benefit

Provisional Income (PI)[20]

**And additional add backs*

Adjusted Gross Income

Adjusted Gross Income is your gross income (wages, dividends, capital gains, business income, retirement distributions, and any other income), less adjustments.

Municipal Interest Income

Municipal Interest Income can also be viewed as tax-exempt interest, or any interest income that is not subject to taxation at the federal level. This includes things like municipal bonds or income-producing assets inside of Roth retirement accounts.

How Social Security Benefits are Taxed

Filing Status	Provisional Income	Taxable Up To
Single	<$25,000	0%
Single	$25,000 - $34,000	50%
Single	>$34,000	85%
Married Filing Jointly	<$32,000	0%
Married Filing Jointly	$32,000 - $44,000	50%
Married Filing Jointly	>$44,000	85%

Source: Social Security Administration[20]

With up to 85% of Social Security benefits being subject to income tax, it's important to work with a qualified financial professional who can help you optimize your income sources, protect against inflation, and minimize your tax obligations.

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Did You Make a Mistake with Your Claim?

If you've already claimed your benefit and think you may have made a mistake, you may qualify for a withdrawal or suspension solution.

Application Withdrawal

You can withdraw your application for benefits only once in a lifetime, and it must be within 12 months of first claiming benefits. You must file Form SSA-521 and repay any benefits you have received, including any benefits that a spouse has collected on your earnings record.[21]

Benefit Suspension

There is an option allowing those who have reached FRA to voluntarily suspend — but not repay — the Social Security benefits they received.[22]

Be sure to consult a qualified financial professional who can review your claim and determine improvement opportunities.

Strategies to Help Maximize Your Benefit

Social Security can be a complex system to navigate. Like other sources of retirement income, it faces potential risks, making it critical to start planning today to help ensure you receive the maximum benefit you are entitled to in the future. Before making a claim, you should be able to confidently answer the following questions and know exactly how Social Security aligns with your retirement income needs and wants:

1. **What are my estimated benefits?**
2. **When do I need to claim my benefits?**
3. **What are my spousal considerations?**
4. **What maximization strategies do I qualify for?**

To understand your specific benefit eligibility and to apply, visit www.ssa.gov.

For questions pertaining to your specific financial situation and how to maximize your Social Security benefit, please call Sherry Hu, PhD, CFP®, AFES Instructor, at 925-558-2712.

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