Social Security Basics: 12 Things You Must Know About Claiming and Maximizing Your Social Security Benefits

Claiming Social Security benefits at the right time means more money in your pocket. Here's a guide to everything from knowing your full retirement age to taking Social Security spousal benefits -- and much more.

For many Americans, Social Security benefits are the bedrock of retirement income. Maximizing that stream of income is critical to funding your retirement dreams.

The rules for claiming Social Security benefits can be complex, but this guide will help you wade through the details. By educating yourself about Social Security, you can ensure that you claim the maximum amount to which you are entitled.

Here are 12 essential details you need to know.

Your Social Security ‘Full Retirement Age’ Plays a Big Role – Know It

First things first: **Determine your Social Security full retirement age**. For people born between 1943 and 1954, full retirement age is 66. It gradually climbs toward 67 if your birthday falls between 1955 and 1959. For those born in 1960 or later, full retirement age is 67.

You can claim your Social Security benefits a few years before or after your full retirement age, and your monthly benefit amount will vary as a result. More on that in a moment.

How Your Social Security Benefits Are Earned

To be eligible for Social Security benefits in retirement, you must earn at least 40 "credits" throughout your career. You can earn as many as four credits a year, so **it takes 10 years of work to qualify for Social Security**.

In 2021, you must earn $1,470 to get one Social Security work credit and $5,880 to get the maximum four credits for the year.

How Your Social Security Benefits Are Calculated

Your Social Security benefits are based on the 35 calendar years in which you earned the most money. If you have fewer than 35 years of earnings, each year with no earnings will be factored in at zero. You can increase your Social Security benefit at any time (even via part-time work in retirement) by replacing a zero or low-income year with a higher-income year.

There is a maximum Social Security benefit amount you can receive, though it depends on the age you retire. For someone at full retirement age in 2021, the maximum monthly benefit is $3,113. For someone filing at age 70, the maximum monthly amount is $3,895.

You can estimate your own benefit by using **Social Security's online Retirement Estimator**.

There's an Annual Social Security Cost-of-Living Adjustment (COLA)

One of the most attractive features of Social Security benefits is that every year the government adjusts the benefit for inflation. **Known as a cost-of-living adjustment, or COLA, this inflation protection can help you keep up with rising living expenses during retirement.** The Social Security COLA is quite valuable; it's the equivalent of buying inflation protection on a private annuity, which can cost a pretty penny.

Because the COLA is calculated based on changes in a federal consumer price index, the size of the COLA depends largely on broad inflation levels determined by the government. **In 2021, Social Security beneficiaries will see a 1.3% COLA in their monthly Social Security benefits**.

The Kiplinger Letter forecast in March that the **2022 COLA would be 3%**, which would be the largest increase since 2012 when Social Security benefits ticked up 3.6%.

Here's what COLAs have been in other recent years:

- 2009: 5.8%

- 2010: 0%
- 2011: 0%
- 2012: 3.6%
- 2013: 1.7%
- 2014: 1.5%
- 2015: 1.7%
- 2016: 0%
- 2017: 0.3%
- 2018: 2%
- 2019: 2.8%
- 2020: 1.6%
- 2021: 1.3%

Your Monthly Social Security Benefits Grow the Longer You Wait to Claim

You can collect Social Security benefits as soon as you turn 62, but taking benefits before your full retirement age results in a permanent benefits reduction — of as much as 25% to 30%, depending on your full retirement age.

If you wait until you hit full retirement age to claim Social Security benefits, you'll receive 100% of your earned benefits. Or you can keep waiting to claim your Social Security benefits – all the way to age 70. **There's a big bonus to delaying your claim -- your monthly Social Security benefit will grow by 8% a year until age 70**. Any cost-of-living adjustments will be included, too, so you don't forgo those by waiting.

Waiting to claim your Social Security benefits can benefit your heirs as well. By waiting to take his benefit, a high-earning husband, for example, can ensure that his low-earning wife will receive a much higher survivor benefit in the event he dies before her. (More on Social Security benefits for surviving spouses in a moment.) That extra income of up to 32% could make a big difference for a widow whose household is down to one Social Security benefit.

There’s a Social Security Spousal Benefit

Marriage brings couples an advantage when it comes to Social Security. Namely, **one spouse can take what's called a spousal benefit, worth up to 50% of the other spouse's Social Security benefit**. Put simply, if your monthly Social Security benefit is worth $2,000 but your spouse's own benefit is only worth $500, your spouse can collect a spousal benefit worth $1,000 -- bringing in $500 more in income per month. (Note: The higher-earning spouse must apply for his or her own Social Security benefit first.) Just as the benefit based on your own work history is reduced if you claim it early, the same is true for a spousal benefit. That 50% figure is the maximum amount that only a spouse who is at least full retirement age is eligible for. Taking the spousal benefit early at, say, age 62, reduces the amount to as little as 32.5% of the higher earner’s benefit. If you take your own benefit early and then later switch to a spousal benefit, your spousal benefit will still be reduced.

Another spousal-benefit tactic: In some cases, a spouse who is delaying his or her own benefit but still wants to bring some Social Security income into the household can restrict their application to a spousal benefit only. To use this strategy, the spouse restricting his or her application must be at full retirement age and he or she must have been born on or before January 1, 1954. So the lower-earning spouse, say the wife, applies for benefits on her own record. The husband then applies for a spousal benefit only, and he receives half of his wife's benefit while his own benefit continues to grow. When he's 70, he can switch to his own, higher benefit.

Children Can Collect Social Security Benefits, Too

Minor children of Social Security beneficiaries can be eligible for benefits. Children up to age 18 (or up to age 19 if they are full-time students who haven't graduated from high school) and disabled children older than 18 may be able to receive up to half of a parent's Social Security benefit. The disability must have occurred before the age of 22. As long as the disability prevents the person from working, the adult child can continue collecting the benefit even after the parent has died.

There Are Social Security Benefits for Surviving Spouses and Children

If your spouse dies before you, you can take a Social Security survivor benefit, but not in addition to your own benefit. You must choose one or the other. **If you are at full retirement age, that benefit is worth 100% of what your spouse was receiving at the time of his or her death** (or 100% of what your spouse would have been eligible to receive if he or she hadn't yet taken benefits).

A widow or widower can start taking a survivor benefit at age 60, but the benefit will be reduced because it's taken before full retirement age. If you remarry *before* age 60, you cannot get a survivor benefit. But if you remarry *after* age 60, you may be eligible to receive a survivor benefit based on your former spouse's earnings record.

Eligible children who are under age 18 (up to age 19 if attending high school full time) or were disabled before age 22 can also receive a Social Security survivor benefit, worth up to 75% of the deceased's benefit.

You Can Claim Social Security Benefits Earned by Your Ex-Spouse

Just because you're divorced doesn't mean you've lost the ability to get a Social Security benefit based on your former spouse's earnings record. You can receive a benefit based on his or her record instead of a benefit based on your own work record if you were married at least 10 years, you are 62 or older, and single.

Like a regular spousal benefit, you can get up to 50% of an ex-spouse's benefit -- less if you claim before full retirement age. And the beauty of it is that your ex never needs to know because you apply for the benefit directly through the Social Security Administration. Taking a benefit on your ex's record has no effect on his or her benefit or the benefit of your ex's new spouse. And unlike a regular spousal benefit, if your ex qualifies for benefits but has yet to apply, you can still take a benefit on the ex's record if you have been divorced for at least two years.

Note: Ex-spouses can also take a survivor benefit if their ex has died after the divorce, and, like any survivor benefit, it will be worth up to 100% of what the ex-spouse received. If you remarry after age 60, you are still eligible for the survivor benefit.

A claiming strategy if you're divorced: Exes at full retirement age who were born on January 1, 1954, or earlier can apply to *restrict their application* to a spousal benefit while letting their own benefit grow.

You Can Undo a Social Security Claiming Decision

There aren't many times in life you can take a mulligan. But Social Security offers you the chance for a do-over. Say you claimed your benefit, but soon thereafter wish you had waited to take it. **Within the first 12 months of claiming Social Security benefits, you can withdraw the application.** You will need to pay back all the benefits you received, including any spousal benefits based on your record. But you can later restart your Social Security benefits at the higher amount you'll earn by waiting.

Early claimers have another opportunity for a do-over: They can choose to suspend their Social Security benefit at full retirement age. Say you took your benefit at age 62. Once you turn full retirement age, you can suspend your benefit. You don't have to pay back what you have received, and your benefit will earn delayed retirement credits of 8% a year. Wait to restart your benefit at age 70, and your monthly payment will get up to a 32% boost -- which could erase much of the reduction from claiming early.

Your Social Security Benefits Will Be Taxed

Most people know that you pay tax into the Social Security Trust Fund throughout your career, but did you know that you may also have to pay tax on your Social Security benefits once you start receiving them? Benefits lost their tax-free status in 1984, and the income thresholds for triggering tax on benefits haven't been increased since then.

As a result, **it doesn't take a lot of income for your Social Security benefits to be pinched by Uncle Sam.** For example, a married couple with a combined income of more than $32,000 may have to pay income tax on up to 50% of their Social Security benefits. Higher earners may have to pay income tax on up to 85% of their benefits.

You may also have to pay *state* income taxes on your Social Security benefits. See our list of the **13 States That Tax Social Security Benefits**.

Beware the Social Security Earnings Test

Bringing in too much money in earned income can cost you if you continue to work after claiming Social Security benefits early. **With what is commonly known as the Social Security earnings test, you will forfeit $1 in benefits for every $2 you make over the earnings limit, which in 2021 is $18,960.** Once you are past full retirement age, the earnings test disappears, and you can make as much money as you want with no impact on benefits.

ny Social Security benefits forfeited to the earnings test are not lost forever. At your full retirement age, the Social Security Administration will recalculate your benefits to take into account benefits lost to the test. For example, if you claim benefits at 62 and over the next four years lose one full year's worth of benefits to the earnings test, at a full retirement age of 66 your benefits will be recomputed -- and increased -- as if you had taken benefits three years early, instead of four. That basically means the lifetime reduction in benefits would be 20% rather than 25%.