FRANKLIN TEMPLETON INVESTMENTS

Social Security

Questions and Answers

Q: I hear that Social Security is in financial trouble. Shouldn't I start taking my benefit as soon as possible?

A: The demise of Social Security has been predicted ever since the program began. The fact is, however, that this is an extremely important social program that is currently paying benefits to more than 58 million Americans.

It's true that the latest annual report of the Social Security Trustees projects that, unless changes are made, benefits will have to be reduced by 23% by 2033. The key is that we have 19 years to fix this. According to the 2014 report of the Social Security Trustees, if employers and employees each contributed 1.4% more toward Social Security, the program would be fully funded for the next 75 years.

The last major steps to shore up Social Security's long-term financial outlook occurred in 1983. In the 30 years since then, there have been continued changes in our country's population and to Social Security itself. We are simply at another point in time where we need to make adjustments to the program.

Q: What is Full Retirement Age?

A: Full Retirement Age, or FRA, is the age at which you are eligible to receive:

- 100% of the retirement benefit you personally earned through working
- The maximum spousal benefit of 50%
- The maximum divorced spouse benefit of 50%
- 100% widow's benefit

When Social Security began the Full Retirement Age was 65. It was gradually raised to 66 and applies to anyone born from 1943–1954. For those born later, FRA is gradually increasing. It will hit 67 in 2027.

Knowing your FRA is important because if you begin any type of Social Security benefits prior to FRA, the amount you receive is generally a permanent reduction.

Age to Receive Full Social Security Benefits

(Called "Full Retirement Age" or "Normal Retirement Age.")

Year of Birth[1]	Full Retirement Age
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943–1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

1. If you were born on January 1st of any year, you should refer to the previous year. (If you were born on the 1st of the month, we figure your benefit (and your full retirement age) as if your birthday was in the previous month.)

Source: http://www.socialsecurity.gov/retire2/retirechart.htm/t_blank

Q: What is the best age to start Social Security?

A: The longer you can delay the start of benefits, the bigger your monthly check. But that doesn't mean everyone should wait until they are 70 years old. The "best" age to file is when you need the income. Because of retirement accounts and other income sources, some people can afford to delay claiming. On the other hand, those who don't have other potential sources of retirement income might need to file earlier.

Q: If a person has a short life expectancy, why shouldn't they begin taking Social Security as soon as possible?

A: If they are married, don't need the additional income and will receive the larger benefit, they should consider delaying claiming as long as possible, regardless of life expectancy. The later they claim, the larger the widow/widower's benefit their spouse will receive. This can make a significant difference in a surviving spouse's standard of living.

Q: What are "Delayed Retirement Credits" and how do they work?

A: You receive Delayed Retirement Credits (DRCs) when you postpone taking Social Security at your Full Retirement Age (FRA). The credit is determined on a monthly basis. If you were born in 1943 or later, your benefit will increase by ⅔ of 1% for each month beyond FRA that you delay the start of benefits. This works out to an increase of 8% for every 12 months. DRCs stop once you reach age 70, thus, there is no advantage to claiming later than this age.

Q: Are all benefits eligible for Delayed Retirement Credits?

A: No. You only receive Delayed Retirement Credits (DRCs) when you postpone receiving the benefit based upon your own work record. Spouse and Widow(er)'s benefits do not earn DRCs. In other words, you gain nothing by delaying the start of spousal or widow(er)'s benefits past Full Retirement Age.

Q: Can I stop receiving benefits and re-start them at a future date?

A: Yes. However, the requirements you have to meet and the steps to take depend upon your age. In addition, if you signed up for Medicare, you need to decide if you wish to continue this coverage and how it might be affected. It is important to recognize that stopping Social Security could also impact anyone else who is receiving a benefit based upon your work history, such as your spouse or children.

If you are under FRA, see question, "What do you have to do to stop receiving benefits, that is "withdraw" your application for Social Security?"

If you are FRA or older, see question, "What do you have to do to stop receiving benefits, that is "suspend" receipt of your monthly checks?"

Q: What do you have to do to stop receiving benefits, that is "withdraw" your application for Social Security?

A: This is the only way to stop receiving benefits if you are under Full Retirement Age. The key is that you can only do this if you have been receiving benefits for less than 12 months. In addition, you must be prepared to re-pay all of the benefits that you and anyone else received based upon your application. This includes money paid to you, your spouse, children and money you requested Social Security withhold from your monthly check and forward to the IRS or Medicare to cover taxes or monthly insurance premiums.

There is no interest charged, but once your application to withdraw is approved, you must send Social Security a check for the entire amount.

1. Fill out Form SSA-521, which can be found on the Social Security website, http://www.ssa.gov.
2. Anyone receiving a benefit tied to yours (e.g. a spouse) will lose theirs as well and consent to your request to withdraw.

If this process is done correctly, you can re-apply for Social Security at a later date when your benefit would be higher. However, you only have one opportunity to change your mind and start over.

Q: What do you have to do to stop receiving benefits, that is "suspend" receipt of your monthly checks?

A: The first requirement is that you must be at least Full Retirement Age (FRA).

At any point between FRA and age 70 you can request that Social Security stop sending you your monthly check. From that point on, your suspended benefit will earn Delayed Retirement Credits (DRCs).

1. There is no special form to fill out. You can notify Social Security in person, by phone or in writing.
2. Your benefit will earn DRCs as long as it is suspended.
3. Once you reach age 70, your benefits will automatically resume.

Q: How does "file-and-suspend" work?*

A: It's important to understand that, like "file-and-restrict," file-and-suspend is a combination of two separate options.

"File-and-suspend" allows a spouse to begin collecting a spousal benefit while simultaneously permitting the primary social security account holder to begin earning Delayed Retirement Credits (DRCs).

Provided you have earned 40 "credits" of Social Security, you can "file" to begin receiving benefits any time after reaching age 62. (If you are widowed and filing on your deceased spouse's record, you can file at age 60.) In addition, no matter what age you begin Social Security, you can "suspend" your benefit once you reach Full Retirement Age (FRA). In other words, if you start receiving Social Security "early" (before FRA), at FRA you can "suspend"—that is, temporarily turn off—your benefits. If you are at FRA when you submit your initial claim for benefits, you can take both actions at the same time.

Typically, the spouse with the larger benefit is the one who chooses to file-and-suspend. This strategy accomplishes two things: when you "suspend" receiving your own benefit, it begins to earn Delayed Retirement Credits (DRCs), which can significantly increase the size of your benefit (up until age 70). In addition, by "filing" (even though you are not receiving any money from Social Security), your wife/husband becomes entitled to a "spousal" benefit, which might be larger than the benefit they would receive based upon their own work history.

It is not possible for both spouses to file-and-suspend on each other.

* Due to the Bipartisan Budget Act of 2015, this strategy expires on April 30, 2016. Thereafter, suspending the primary's benefit stops payments to anyone receiving a Social Security benefit based upon that record (including a divorced spouse).

Q: How does "file-and-restrict" work?**

A: Like "file-and-suspend," file-and-restrict involves combining two separate options. It only applies to married couples.

The full name of this strategy is "file to restrict the scope of your benefit." It comes into play when a spouse is entitled to more than one type of benefit. For instance, if both husband and wife are at least age 62 and each earned the minimum 40 credits needed to receive Social Security, then each person is entitled to two types of benefits—a benefit based upon his/her own work history, and a "spousal" benefit based upon the fact that their partner also earned sufficient credits, is at least age 62 and has begun receiving benefits. Keep in mind that Social Security will never pay someone both benefits at the same time; instead, they will pay you whichever one is higher.

When you file-and-restrict, you are essentially telling Social Security, "Since I'm entitled to more than one type of benefit, I am choosing to restrict this to just my 50% spousal benefit at this time." Why would you want to do this? Because when you delay the onset of your own benefit, it will earn Delayed Retirement Credits (DRCs). At any time up to age 70, you can tell Social Security to turn off your spousal benefit and begin paying you the full benefit that you, yourself, earned. Depending upon how long you delay (but not beyond age 70), your own benefit can increase by a 32% or more.

The key is that while you can "file" for Social Security any time after reaching age 62 (60 if widowed), you cannot "restrict" the scope of your benefit until you are Full Retirement Age (FRA). Thus, in order to file-and-restrict at the same time, you must be at least at FRA.

** Due to the Bipartisan Budget Act of 2015 this strategy will only be available to someone who is at least age 62 by the end of 2015. This includes divorced spouses eligible to receive benefits based on their ex-spouses' record.

Q: How are Social Security benefits taxed?

A: Social Security benefits were tax-free up until 1983 when Congress passed a major overhaul of the program in an attempt to shore up Social Security's long-term financial outlook. Whether your benefits are subject to income tax depends upon two things: your filing status (e.g., single, married filing jointly, or married filing separately) and something called your "provisional income."[2] Provisional income is determined by adding:

Modified Adjusted Gross Income[3]
\+ ½ Social Security Benefit[4]

Provisional Income

If your provisional income exceeds one or more thresholds, then a portion of your Social Security benefits is taxable as ordinary income.

Filing Status	Provisional Income (Threshold #1) Up to 50% of benefits may be taxable	Provisional Income (Threshold #2) Up to 85% of benefits may be taxable
Single	$25,001–$34,000	More than $34,000
Married, Filing Joint[5]	$32,001–$44,000	More than $44,000

The instructions to IRS form 1040 include a worksheet that walks you through how to calculate how much of your Social Security income may be subject to income tax. You can get more details in IRS Publication 915, *Social Security and Equivalent Railroad Retirement Benefits*.

2. "Provisional income" is also referred to as your "combined income."
3. "Modified Adjusted Gross Income" is generally your income, including tax-exempt interest and certain U.S savings bonds, less most deductions in determining your adjusted gross income. Itemized deductions and personal exemptions are not taken into account.
4. If you file a joint return, include 50% of each spouse's total Social Security benefit for the year.
5. According to Social Security, if you are married and file a separate tax return, "you probably will pay taxes on your benefits." Source: www.socialsecurity.gov/planners/taxes.htm

Q: If you're divorced, are you eligible for a benefit based on your ex-spouse?

A: Yes, if you meet the criteria. The first requirement is that your marriage lasted 10 years or more. In addition, you must be at least 62 years old. Finally, the amount of your Divorced Spouse benefit must be more than what you would get based upon your own work history; you can't receive both benefits. If you meet these criteria and your former spouse has filed for Social Security benefits, you can apply for a "Divorced Spouse" benefit immediately. If they have not filed yet, then you must be divorced a minimum of two years before you can receive a benefit.

Q: Will Social Security notify my ex-spouse that I am filing for a benefit based upon his/her record?

A: Typically, no. Furthermore, it will not affect the benefit your ex-spouse is entitled to. If s/he has re-married, it will also have no impact on the benefit their new spouse will receive.

Q: I understand that I will lose some or all of my Social Security benefit if I go back to work. That doesn't seem fair.

A: If you are receiving Social Security and income from a job (investment income doesn't count), your Social Security benefit might be reduced. This is due to something called the "Earnings Limit," which is $15,480 in 2014. (This amount is adjusted annually for inflation.)

If you are not turning 66 this year:
For every $2 over $15,480 that you receive from your job, Social Security must withhold $1 in benefits. Thus, it is conceivable that if your earnings are fairly high, your entire Social Security benefit will be withheld. By law, if you know you are going to be working, you must notify Social Security before the year begins of how much you estimate you will earn. They will then adjust the payments they send to you. (If you over- or under-estimate your earnings, this can be corrected later.)

If you are turning 66 this year:
If you are turning age 66 (Full Retirement Age) in 2014, the "earnings limit" is $41,400. For every $3 over $41,400 that you earn from a job, Social Security will withhold $1 in benefits.

However, this stops in the month you reach age 66 because the earnings limit no longer applies once you are Full Retirement Age (FRA).

The important thing to understand is that you do not "lose" this money. If your income from a job exceeds the annual limit, any amount that Social Security withholds gets credited to your record. Once you reach full retirement age, your benefit will be increased to account for benefits withheld prior to FRA.

In fact, if your more recent earnings are higher than in years when you were younger, your benefit could increase even more.

Q: How will my Social Security benefit be affected if I was still working at my regular job and then retired part-way into the year? At that point, I will have easily earned more than the annual limit. Will I get any benefit at all? What if I get a job working part-time?

A: There is a special rule for this exact situation. It is only relevant if you are not turning FRA in the year you leave your primary job.

Provided your earnings from your new job do not exceed $1,290/month, you can choose to not have the annual earnings limit apply for this particular year. For Social Security purposes you will be considered "retired" and will receive 100% of your monthly benefit for any full months that you earn $1,290[6] or less. (If your earnings are higher than this amount, you will not get any Social Security benefit for that month.) The next year the annual earnings limit will apply.

Although you can choose when you want this one-time exception to apply, this option is usually most beneficial in the year that you retire from your primary job.

6. The annual earnings limit of $15,480 divided by 12 months in the year.

Q: What's the latest on Social Security benefits for same-sex couples?

A: Social Security continues to work with the Department of Justice to address the many rules and regulations that need to be revised in the wake of 2013's Windsor decision. In early 2014, Social Security has started to pay retirement, survivor and benefits to same-sex partners in certain cases.

If a partner in a same-sex marriage thinks they might be eligible for a spousal benefit, Social Security encourages them to file as soon as possible. That's because their filing date will be the starting point for retroactive benefits if it is determined that they are owed any.

For the latest updates on this issue, visit the Social Security website at http://www.ssa.gov.

Q: Why is Social Security so complicated?

A: Because life is complicated. People get married, divorced, they re-marry, they die, they have children, they adopt children, they get injured, they lose a job, find a new job, etc. Over the past 80 years Social Security has had to adapt in order to address the changing realities of American life. The most recent example is the extension of benefits to same-sex couples.

In addition, Congress has made a number of significant changes to Social Security—adding new benefits, such as "early" retirement at age 62 and expanding existing benefits, such as enlarging the definition of "disability" to include mental/emotional conditions which impede someone's ability to hold down a job.

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