

# HOW ARE YOUR SOCIAL SECURITY RETIREMENT BENEFITS CALCULATED?



Your Social Security benefits are a function of three primary factors discussed below.

## How Many Years Have You Worked?

The Social Security Administration uses 35 years of earning history

- ▶ If you worked more than 35 years – it uses the highest 35 years of salary
- ▶ If you worked less than 35 years – it still uses 35 years of salary (the years you didn't work count as \$0)

This rule impacts far more women than men. **Why?** Many women took significant time away from work to raise one or more of their children.

## How Much Have You Earned in Each Year?

Earnings only help boost your future Social Security benefits up to a certain point.

In 2017, the maximum amount of earnings that is subject to Social Security taxes is \$127,200.

SSA will apply an indexing factor once you turn age 62 in order to account for inflation to each of those years.

If you work beyond age 62, earnings in those years

will be counted at their nominal, non-inflation-adjusted amounts.

Your highest 35 years of inflation-adjusted earnings are averaged and divided by 12 to get your average indexed monthly earnings (AIME). The highest possible AIME for 2017 is \$9,784.

After AIME calculation, certain bend points are applied to determine your ultimate primary insurance amount (PIA)—the amount you are entitled to at your full retirement age (FRA).

## When Do You Claim Benefits?

Your PIA is a starting point, telling you what you would get if you began receiving benefits at FRA – age 66 if you were born between 1943 and 1954.

If you choose to receive your Social Security benefit at age 62, it will be reduced for life equal to 5/9 of 1% per month (6.67% per year) for the first 36 months claimed prior to FRA and 5/12 of 1% (5% per year) for each additional month.

For each month you delay benefits beyond your RFA, your benefit will increase by 8/12 of 1%, or at a rate of 8% per year. These are known as delayed credits.