



Retirement Income

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How Social Security Benefits Are Calculated

Social Security retirement benefits are based on the following:

- Lifetime earnings.
- Age at time of retirement.

Lifetime Earnings

Higher lifetime earnings result in higher benefits. The highest 35 years are used to calculate average monthly earnings. Each year is indexed for inflation to approximate what earnings for that year would be in today's dollars. Earnings for each year are also capped by the Social Security maximum earnings subject to Social Security tax for that year. After calculating the average indexed monthly earnings, a formula is used to determine the primary insurance amount (PIA).

Full Retirement Age—Social Security

Workers and spouses reach full retirement age as follows:

Born prior to 1938	Age 65
Born in 1938	Age 65 and 2 months
Born in 1939	Age 65 and 4 months
Born in 1940	Age 65 and 6 months
Born in 1941	Age 65 and 8 months
Born in 1942	Age 65 and 10 months
Born in 1943 through 1954	Age 66
Born in 1955	Age 66 and 2 months
Born in 1956	Age 66 and 4 months
Born in 1957	Age 66 and 6 months
Born in 1958	Age 66 and 8 months
Born in 1959	Age 66 and 10 months
Born after 1959	Age 67

Birthday on January 1. Individuals born on January 1 of any year should refer to the previous year in this chart.

Age at Time of Retirement

The amount of benefits also depends on the age when you decide to start collecting Social Security. Full retirement age is the age at which retirement benefits equal 100% of PIA. If benefits begin prior to full retirement age, benefits are permanently reduced. If benefits begin after full retirement age, benefits are permanently increased. By delaying the age at which you begin to receive Social Security, benefits may increase. It is not beneficial to wait past age 70.

Early Retirement Reduced Benefits

The earliest age a person can begin receiving Social Security benefits is age 62. The following table illustrates the effect on a primary beneficiary's benefit, and a spouse's benefit who normally would receive 50% of the primary beneficiary's primary insurance amount (PIA) when Social Security benefits begin at age 62:

Year of Birth	Primary's Reduction Percentage	Spouse's Reduction Percentage
1943–1954	25.00%	30.00%
1955	25.83%	30.83%
1956	26.67%	31.67%
1957	27.50%	32.50%
1958	28.33%	33.33%
1959	29.17%	34.17%
After 1959	30.00%	35.00%

Taxable Social Security Benefits

A portion of your Social Security benefits may be taxable. Ask your tax preparer for more information.