

Receiving Social Security Benefits before Full Retirement Age

Social security retirement benefits are reduced when drawn before an individual reaches full benefit retirement age. As background, most social security retirement benefits are based on a worker's primary insurance amount (PIA). The PIA is based on an individual's taxable earnings averaged over the worker's lifetime to yield a monthly benefit that is designed to partially replace the earnings benefit lost because of retirement, disability, or death.

A fully insured individual can start receiving social security retirement benefits as early as age 62. However, the full benefit will be permanently reduced for each month before the individual reaches his or her full benefit retirement age (66 in 2012). Thus, the monthly benefits at age 62 will be significantly less than the benefits would have been at the full benefit retirement age.

Example: Drawing benefits before reaching the full benefit retirement age.

John reached age 62 in January and wants to retire. His PIA, based on his earnings history, is \$1,100 per month, and his full benefit retirement age is 66. If he retires at age 62, his monthly benefit will be reduced by 25% to \$825 per month ($.75 \times \$1,100$). If he waits until his full benefit retirement age, he will receive \$1,100 per month (adjusted for inflation).

The full retirement benefit for a spouse (or divorced spouse) is generally 50% of the retired worker's PIA. However, a retiree spouse who qualifies for social security benefits based on his or her own earnings record is entitled to receive his or her own retirement benefits, if greater. If the spouse receives benefits before reaching the full benefit retirement age, the spouse's benefit is reduced based on his or her birth date. The reduction in benefits is permanent. However, if only one spouse is retired and drawing benefits based on his or her earnings, the benefits may be increased when the other spouse retires.

Example: Increasing retired spouse's benefits when the other spouse retires.

John and Joan are married and are entitled to social security benefits based on their individual earnings. Both John and Joan turn age 62 this year. Joan decides to retire and her PIA is \$500, so that amount will be reduced by 25% and she will receive monthly benefits of \$375. Four years later, John retires at his full benefit retirement age, and he receives a monthly benefit equal to his PIA of \$1,100. Joan's monthly benefit will increase to \$550 based on 50% of John's benefit (the greater of Joan's \$375 PIA or 50% of John's \$1,100 PIA).

The full surviving spouse's benefit (payable if the surviving spouse or surviving divorced spouse is at least the full benefit retirement age) is 100% of the deceased spouse's PIA. However, the surviving spouse can elect to receive reduced benefits beginning as early as age 60 (50, if disabled). The reduction factor is based on the surviving spouse receiving 71.5% (a reduction of 28.5%) of the deceased worker's PIA if the surviving spouse begins drawing at age 60. The benefits are decreased for each month between the month benefits begin and the month the surviving spouse would reach full benefit retirement age. If the surviving spouse is disabled, however, the maximum reduction is still 28.5%, even if the disabled spouse begins receiving benefits at age 50.