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# Social Security Simplified

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BY MARTHA SHEDDEN

CSA Society of Certified Senior Advisors®

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## History of Social Security

The Social Security Act was signed into law on August 14, 1935. The Social Security Administration (SSA) is a federally mandated *social insurance program* funded through payroll taxes paid by employees, employers, and self-employed individuals. Life expectancy at birth in the early 1930s was less than sixty-five years old. When Social Security started, there were about 40 workers paying into the system for every beneficiary. In 2023, there were an estimated 2.7 covered workers for every beneficiary. As baby boomers retire, this number is decreasing.

## Social Security Benefit Basics

The Social Security program includes benefits for retirees, spouses, survivors, children, disabled individuals, and other dependents of the worker who has met the minimum eligibility work earnings requirements to collect benefits. Workers must earn a certain number of "credits" to qualify for benefits. The number of credits does not affect the amount beneficiaries receive, only their eligibility status.

When working and paying Social Security payroll taxes into the Social Security Administration (SSA) trust funds, credits are earned toward eligibility for Social Security benefits. To qualify, workers need 40 credits or approximately 10 years of work. One credit in 2025 is $1,810, so four credits would be given once $7,240 is earned.

Individuals become eligible for their own retirement benefits in this way, but if married (or divorced in certain cases), individuals may be eligible to receive a benefit based on their spouse's (or former spouse's) work record.

## Survivor Benefits

Even individuals who never worked under Social Security may be eligible to receive up to a 50% benefit based on their spouse's Social Security retirement benefits. To collect a spousal benefit, the individual must be at least sixty-two years of age and their spouse must be collecting Social Security retirement or disability benefits. Retirees are eligible to receive a spousal benefit of up to 50% of the benefit based on their spouse's work record. However, if they are also entitled to their own retirement benefit, they cannot receive both the benefits. They will receive the higher amount of the two.

Similar rules apply to survivor benefits, however a widow(er) benefit can be up to 100% of the amount the deceased was collecting depending on the survivorship rules. Young children, a spouse caring for minor children, and disabled adult children may all be entitled to a benefit based on a retiree's or deceased worker's earnings record.

## FRA and PIA

The amount of Social Security benefits is based on two important numbers: *full retirement age (FRA)*, and *primary insurance amount (PIA)*.[1] Full retirement age is based on the year a person was born as shown in Figure 1.

PIA is a calculated number, which we will explain below, and is the benefit amount a person will receive if they begin collecting on the exact month and year of their full retirement age. In other words, retirees receive 100% of their PIA at their FRA. Retirement benefit amounts collected at all other ages are amounts lower or higher than the PIA. If benefits are collected early, before FRA, the amount is *reduced* a fraction of a percent each month down to age sixty-two. This reduction is permanent and is collected for a longer time period, given an estimated life expectancy. If benefits are collected after FRA, the amount is *increased* a fraction of a percent each month up to age seventy. This increase is also permanent and benefits are collected for a shorter period of time given the same estimated life expectancy.

The earliest age that Social Security retirement and spousal benefits may be collected is sixty-two. Survivor benefits may be collected as early as age sixty, or fifty if disabled.

**FIGURE 1**

| Birth Year | Full Retirement Age |
|---|---|
| 1943-54 | 66 |
| 1955 | 66, 2 months |
| 1956 | 66, 4 months |
| 1957 | 66, 6 months |
| 1958 | 66, 8 months |
| 1959 | 66, 10 months |
| 1960+ | 67 |

## Determining PIA and the Amount of Benefits

Several formulas and calculations are used to determine the amount of each individual's PIA.

First, the SSA applies an *inflation index factor* to adjust, or index, all past year's earnings up to the value of income in today's dollars for the year in which an individual turns sixty. This is done by comparing the National Average Wage Index, NAWI, when they are age sixty, to the NAWI for all prior years of work. The earnings are indexed to today's dollars, so earnings from 20, 30, or more years ago are increased to reflect today's value. All earnings from age sixty on are used at face value.

The SSA then uses the highest 35 years of that individual's indexed earnings to determine the first part of the calculation called the *Average Indexed Monthly Earnings (AIME)*. The total of the highest 35 years of earnings divided by 420–the number of months in 35 years–is the individual's AIME.

After determining the AIME, a three-part formula is used to calculate the *Primary Insurance Amount* (see Figure 2).

PIA bend points are the two numbers used to segment AIME as shown in the graph below. The 2025

**FIGURE 2**


[1]*Primary Insurance Amount* is in reference to the official name of Social Security, FICA, the Federal Insurance Contributions Act. Employee and employer payroll taxes on earnings are contributions into the Social Security and Medicare trust funds.

bend point amounts in this graph are $1,226 and $7,391. The PIA bend points are adjusted each year. PIA is calculated by segmenting parts of a worker's AIME, separated by the bend points, and multiplying each segment by the corresponding percentages of 90%, 32%, and 15% as shown in Figure 3. The sum of these three different calculations equals that worker's PIA, which is the monthly benefit amount they will receive if they file at full retirement age.

Figure 4 shows the total annual reductions and increases from PIA, based on the age when retirement benefits are collected, and the corresponding amounts for each year.

The closer you are to retirement age, the more precise your PIA becomes. Understanding how the calculation of benefits is structured helps clarify exactly how a benefit may increase with continued earnings.

## Applying For Social Security Benefits

### MAKING THE MOST OF YOUR BENEFITS

When deciding the best time to file for Social Security benefits, there are many factors to consider prior to filling out the application. The SSA Program Operations Manual System (POMS), contains details on over 2,700 rules pertaining to benefits. The SSA is prohibited by law from providing personal claiming advice. There are few reliable resources for individuals to obtain the information they need related to the rules that apply to their circumstances. Below are the categories of information to consider prior to applying for benefits. You may also want to consider Social Security analysis software.

### LIFE EXPECTANCY

Birthdates are required to determine FRA and therefore the date when the PIA is received. Life expectancy is

**FIGURE 3**

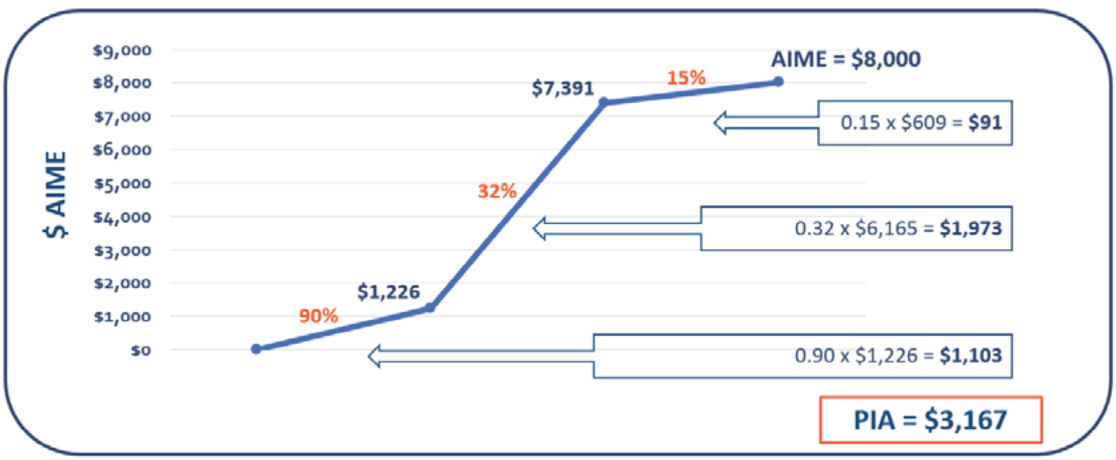


**FIGURE 4**

| Claiming Age | Monthly Benefits | % of PIA | |
|---|---|---|---|
| 62 | $2,217 | 70 | Benefit is Reduced |
| 63 | $2,375 | 75 | |
| 64 | $2,534 | 80 | |
| 65 | $2,745 | 87.66 | |
| 66 | $2,956 | 93.33 | |
| 67 (FRA) | $3,167 | 100 | PIA Amount |
| 68 | $3,420 | 108 | Benefit is Increased |
| 69 | $3,674 | 116 | |
| 70 | $3,927 | 124 | |

Source: SSA.gov (2025)


an essential piece of Social Security income planning. Life expectancy should be thought of as the *maximum age* they expect to live, not the average for a particular gender and age group of retirees. Retirees should plan for the possibilities of their own life, which include living longer than the average life expectancy. Social Security is fundamentally an insurance against outliving other financial resources, and therefore the filing strategy should consider the possibility of living to an individual's maximum estimated age.

**RELATIONSHIP STATUS**

Many Social Security claiming rules are dependent upon the individual's marital status. A single retiree may have been married and entitled to ex-spousal or ex-survivor benefits. Married individuals may reach out individually for information on their claiming decisions, unaware that their spouse's situation is a critical part of the puzzle. For individuals who have been married, divorced, or widowed multiple times, the situation becomes that much more complicated.

**WORK AND CLAIMING STATUS**

Individuals may be certain about the date they want to retire from work, but they may not realize that they do not necessarily need to begin collecting Social Security at that time. Or, they may need help understanding when they can afford to quit working. A complete past earnings record is needed to calculate each person's PIA. Future projected earnings for remaining years of work can be estimated to determine the effect on eventual PIAs.

**PENSION(S)**

Many retirees will collect pensions in addition to their Social Security benefits. Prior to January 5, 2025, *non-covered pensions* could affect the amount of the beneficiary's retirement, spousal and survivor benefits. The two rules that governed this, the Windfall Elimination Pension (WEP) and the Government Pension Offset (GPO) were repealed on January 5, 2025 by the *Social Security Fairness Act*, H.R. 82. Individuals affected by these rules are eligible for retroactive benefits starting in January 2024 and increased benefits going forward. The SSA began making these changes in February 2025.

**DEPENDENT(S)**

It is critical for applicants to consider any minor or disabled children, a disabled spouse, or a parent who is dependent on the worker for the majority of their expenses. There is a *family maximum benefit* that limits the total income payable based on one worker's earnings record. Multiple dependents may not receive the full dependent benefit amount in these situations.

## The Application Process

The process to apply for Social Security benefits involves the following steps, whether you apply online, in person at an office, or by phone:

1. Gather the information and documents needed to apply.
2. Complete and submit the application for SSA review.
3. Receive the Social Security decision letter.
4. Plan for your benefit start date.

## Application Options

Applications for benefits may be started up to four months prior to the age the worker chooses on the application for them to begin. The first check will be paid in the month following the start date month.

There are three ways to apply for Social Security benefits:

1. **Online.** This is the easiest way to complete an application at a time that works for you without a trip to the local Social Security office. Applications online can be made for retirement, spousal and disability benefits at www.ssa.gov. Applying online has the benefit of being able to start, stop, save and return to the application later. Survivor benefits must be applied for in person or on the phone.
2. **At a local SS office.** All benefits can be applied for in person or on the phone. To make an


appointment at a local Social Security office, find the local phone numbers and locations, go to www.ssa.gov/locator.

3. **By phone.** You can apply by phone by calling the national SSA number at 1-800-772-1213 from 8:00 a.m. to 7:00 p.m., Monday through Friday.

## Application Sections and Details

The application includes the following sections:

- marriage information
- children
- military details
- employer/self-employment details
- earnings
- pensions and annuities (no longer required)
- reduced benefits
- benefit start date
- direct deposit details and other supplemental information

After completing these sections, you can also include additional information and remarks and explain estimated dates, places and amounts. You can fully review all sections and details and edit prior to signing and submitting the application. When the SSA receives your application and reviews it, they will contact applicants with questions and additional documents needed.

## Decisions, Appeals, and Payments

The SSA will mail a letter with their decision, including any other family members who are also able to receive benefits from the application. Applicants have the right to appeal any decision the SSA makes about entitlement to benefits. Appeal requests must be made in writing within 60 days of receiving an SSA decision.

If, after submitting an application, the applicant's circumstances change and they no longer wish to start benefits, a request to *Withdraw the Application* can be made within 12 months of filing. This is only allowed one time.

The processing times depends on the accuracy of application and number of applications in processing, but generally it takes about six weeks to process applications and begin benefits. Social Security benefits are paid the month after they are due, so if the requested start month is May, the first benefit check will be received in June.

## The Future of the Social Security Program

### THE PROBLEM SOCIAL SECURITY FACES

Social Security was designed as a "pay as you go" system, meaning that the funds coming in from payroll taxes basically equaled those being paid out each year as benefits. This worked fine from the 1930s through the 1970s while there were 10 to 15 tax-paying workers for every retiree. As the baby boomers aged and began having fewer children, however, that ratio has been dropping. There are now only about three workers per retiree. In the late 1970s and early 1980s, the Social Security program began running annual deficits and was facing a severe and immediate shortfall in 1983. On April 20, the 1983 Amendments to the Social Security Act were signed into law.

The 1983 Amendments made major reforms to the program and were made with the intent of accumulating a reserve in the trust fund that would extend the solvency of Social Security. Those reserves are now being used, in addition to the current incoming payroll tax, to pay 100% of benefits.The Social Security Board of Trustees estimates the program will completely exhaust these reserves in the trust fund during 2033. Since the program cannot operate in the red, it would no longer be able to pay 100% of Social Security benefits.

Without extra cash, Social Security would again become a "pay as you go," program. It is estimated that 83% of benefits would be able to be paid if no changes are made to the program.

There are many options, or combinations of options, which could result in long-term solvency of the trust fund if the Social Security Administration and lawmakers on Capitol Hill are willing to act.

## SOLUTIONS TO THE PROBLEM

The proposed corrective measures to keep Social Security solvent for the foreseeable future involve increasing revenue, decreasing expenditures, or some combination of both.

The proposals include changes to any number of Social Security rules, some of which are:

- **Maximum taxable earnings** – The current 2025 earnings cap for FICA Social Security taxes is $176,100. There is potential for an annual increase at a higher rate or elimination of the cap altogether, mirroring the structure for Medicare taxes.
- **Payroll taxes into Social Security (FICA and SECA)** – The current rate of 6.2% paid by each employee and employer, for a total of 12.4%, could be increased. It has not been raised since 1990.
- **Cost of living adjustment (COLA)** – Currently based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), this could be changed to an inflation index that more closely mirrors retirees' expenses such as the CPI-E.
- **Retirement age** – The FRA changed from 66 to 67 for those born between 1955 and 1960. This could be raised to age sixty-eight or higher. Early retirement benefits are paid at age sixty-two and this age could also be raised.
- **Primary Insurance Amount (PIA)** – The formula that calculates monthly benefits could be changed to produce smaller or larger benefits for everyone or specifically for a certain group such as low or high earners. The number of work years used in the calculation could be increased or decreased from the current 35.
- **Family benefits** – Family benefits, such as spousal and child benefits, are currently equal to 50% of the earner's PIA and could be lowered.

The sooner adjustments are made, the less severe the changes will need to be. It is remarkable that a program started in 1935–90 years ago–is still delivering the true social security insurance that it set out to provide. Because of the changes made over the years, this is still a vital piece of most retirees' retirement finances. Changes continue to be needed for this new century. •CSA

**Martha Shedden** is President and Co-founder of the *National Association of Registered Social Security Analysts*, NARSSA, and is a Chartered Retirement Planning Counselor (CRPC). She began teaching online CPE/CE Social Security courses to finance and tax professionals in 2014.

Recognizing the demand for retirees to obtain personalized Social Security guidance on their claiming decisions, Martha launched *Shedden Social Security & Retirement Planning* in 2015 to provide Social Security claiming analysis services.

In 2017 Martha co-founded NARSSA with Michael Rosedale to provide an e-learning platform and software for retirement professionals to become educated and trained to help their clients make their most optimal claiming decisions.

Martha hosts a popular Podcast, *Social Security, Answers from the Experts,* and is the author of numerous Social Security white papers, seminar presentations, and financial publication articles and her book *Avoiding Social InSecurity, The Retirement You Desire, The Social Security You've Earned (2022)*, based on top podcast interviews.

mshedden@rssa.com
https://rssa.com/analyst/martha-shedden/
831-359-9620

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For detailed calculations, forms, and tables, refer directly to the SSA's website or specific documents like the *Social Security Trustees Report* or the *Program Operations Manual System (POMS)*.