

## Ep. 199 - Social Security: Timing, Taxes & The Truth

### **Eric:**

Hi, everybody. Welcome to The PATTI BRENNAN Show. Whether you have \$20 or \$20 million, this show is for those of you who want to grow, protect, and use your assets to live your very best lives today.

Joining me in the studio is our very own Kelsey Falco — please cue the applause. Welcome back to the show, Kelsey. It's great to have you here again. You and I recently partnered on a podcast about RMDs — required minimum distributions — so if you haven't listened to that episode, be sure to go back and check it out. There's a lot of great content there.

Today, we're together again to discuss another topic that generates significant interest from our clients and beyond — Social Security.

True to form with The PATTI BRENNAN Show, there's no fluff and no opinions — just facts. We'll be drawing from the most recent Social Security Trustees Report, which is published annually, to help educate listeners on how the system works and address some of the most common questions we receive.

Social Security is a social insurance program that began in 1935 and has been amended several times since. Interestingly, one of the earliest versions of a social insurance program dates back to 1889 under Otto von Bismarck, whose structure has influenced governments worldwide.

Regardless of its origins, Social Security is a critical component of financial security in retirement. It provides income that is not subject to market volatility and is adjusted for inflation, preserving purchasing power over time. For many individuals, it is a foundational piece of their retirement income.

So let's unpack the facts.

Kelsey, let's start with a question that's on a lot of people's minds — the long-term financial health of the program.

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### **Kelsey:**

The first question we received comes from Melissa: “Will Social Security actually be there for me?”

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### **Eric:**

That's a great question — especially for those of us in the early to middle stages of our careers.

First, I always encourage people to look at the source material. The Social Security Administration publishes an annual actuarial report — it's over 260 pages long — outlining projections and assumptions. That's the source of truth.

It's important to understand that this isn't the first time Social Security has faced solvency concerns. In the mid-1970s, a similar issue arose. The Greenspan Commission, led by Alan Greenspan, was formed to address it. Despite significant political division at the time, reforms were implemented in the early 1980s that stabilized the program for decades.

Here's how it works.

Many people believe that when they pay into Social Security throughout their careers, there's an individual account set aside for them. That's a misconception. Social Security is primarily funded through FICA taxes. Each paycheck includes a 6.2% payroll tax that is collected and immediately redistributed to current beneficiaries.

In the 1980s, reforms led to more revenue being collected than was paid out in benefits, creating a surplus that grew to approximately \$2.7 trillion. However, due to demographic shifts — particularly the retirement of baby boomers — more benefits are being paid out than are coming in.

That reserve is projected to be depleted around 2033 or 2034. If no reforms are made — such as increasing payroll taxes or adjusting the retirement age — incoming revenue would only cover about 81% of promised benefits.

It's a real issue. The sooner it's addressed, the better.

Now let's turn to another common question — and this one is much harder to answer.

When should you start taking Social Security?

Kelsey, walk us through that.

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**Kelsey:**

That's the million-dollar question — and much of the answer depends on something we don't know: how long you're going to live.

You can start taking Social Security as early as age 62, or delay until age 70. That gives you an eight-year window to decide.

If you begin at 62, your benefit is permanently reduced. Full retirement age for most people born in 1960 or later is 67. If you were born in 1959, it's 66 and 10 months. It increases gradually by month until reaching 67.

When deciding when to claim, there are several factors to consider:

- Family health history and longevity
- Whether you're still working
- Marital status and your spouse's benefit
- Other sources of retirement income
- Cash flow needs

For many of our clients, we project their retirement cash flow to determine when it makes sense to claim benefits. If someone has significant non-retirement assets, they may delay Social Security to maximize their lifetime benefit. Others may need income earlier.

There's no one-size-fits-all answer.

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**Eric:**

Exactly. Family health history matters. Lifestyle matters. If someone is still working and earning substantial income, it may not make sense to claim early.

And things get even more complex in dual-income households. When both spouses have benefits, the number of claiming combinations increases significantly.

One way I like to think about Social Security is as longevity insurance. It's protection against living a long life — which, of course, is a good problem to have.

So this surplus accumulated within the government to about \$2.7 trillion. But now, the economics have shifted because of the demographic bulge associated with the baby boomers. More people are filing for benefits, and there aren't enough new workers paying into the system at the same pace.

As a result, that reserve is being reduced and is projected to be exhausted around 2033 or 2034. If no changes are made — such as raising payroll taxes, adjusting the retirement age, or implementing other reforms — incoming revenues would only cover about 81 cents on the dollar of promised benefits.

It's certainly a significant issue. We still have some time, but the sooner it's addressed, the better.

That's our take on the system itself. Now let's turn to the next question — and this one is much more personal.

When should I start taking Social Security?

This is difficult to answer because it depends. So Kelsey, walk us through it. What should people be thinking about, and is there any general guidance our listeners can hold onto?

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**Kelsey:**

That's the million-dollar question. And a lot of it depends on something most of us don't know — how long we're going to live.

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**Eric:**

And I'm not sure I'd want to know, even if I could. But if we did, we could give the perfect answer. Since we don't, we have to make an educated decision.

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**Kelsey:**

You can begin taking Social Security as early as age 62 and as late as age 70. That gives you an eight-year decision window.

If you start at 62, your benefit is permanently reduced. Full retirement age for most people born in 1960 or later is 67. If you were born in 1959, it's 66 and 10 months. It gradually increases by month until reaching 67.

So when should you claim? It depends on several factors:

- Your health and family longevity
- Whether you're still working
- If you're married and your spouse's benefit situation
- Other sources of retirement income
- Your overall cash flow needs

For many of our clients, we project their retirement cash flow to determine when claiming makes the most sense. It depends on whether they have substantial non-retirement assets, whether they want to start at full retirement age, or wait until 70, and where their income will come from in the interim.

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**Eric:**

Exactly. You highlighted all the key variables — personal health, family history, genetics, lifestyle. If someone engages in risky behavior or doesn't prioritize their health, they might lean toward claiming earlier. Others may choose to delay.

If you're still working and earning substantial income, it often doesn't make sense to claim early.

And the complexity increases in dual-income households. When both spouses have benefits, the number of potential claiming combinations expands significantly.

I often think of Social Security as longevity insurance. It's protection against living a long life — which is a good problem to have.

As financial planners, a big part of our role is understanding and mitigating risk. You buy auto insurance to protect against accidents. You buy homeowners insurance to protect against damage to your home.

I think of the Social Security claiming decision in a similar way. If you wait to claim, it's almost like electing to buy longevity insurance. The longer you wait — up to age 70 — the higher your benefit. That strengthens your financial position later in life.

But again, the right answer depends on many inputs. This is where working with a financial planner can be helpful. We help clients evaluate all of the variables and incorporate them into a recommendation that seeks to optimize their specific circumstances.

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**Kelsey:**

Exactly. There's really no one-size-fits-all answer.

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**Eric:**

Right. So let's move to the next question.

We've talked about the system itself. We've talked about when to start — which clearly depends on many factors. The next logical question is: How much will I actually get?

Kelsey, walk us through how benefits are calculated and what the basic ranges look like. Because again, this is highly dependent on your personal earnings history.

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**Kelsey:**

The amount you receive depends on your earnings history. Social Security calculates your benefit based on your highest 35 years of earnings, adjusted for inflation.

If you worked fewer than 35 years, they'll include zeros for the missing years and still average your highest 35.

For 2026, the average retirement benefit at full retirement age is projected to be around \$2,000 per month.

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**Eric:**

But there's a pretty wide range within that average, right? What do the highs and lows look like?

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**Kelsey:**

Yes, there is a wide range.

The maximum benefit at full retirement age in 2026 is \$4,152 per month.

If you wait until age 70, the maximum benefit increases to \$5,181 per month.

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**Eric:**

That's a significant difference — if waiting makes sense.

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**Kelsey:**

Absolutely.

And one more important note: In 2026, Social Security recipients received a 2.8% cost-of-living adjustment, which began in January. However, Medicare premiums also increased — by \$17.90 per month.

So the net increase after Medicare premiums is roughly \$38 per month for most recipients.

**Eric:**

Got it. So they increase the benefit, but then some of that gets offset by higher Medicare premiums. Thirty-eight dollars doesn't sound like much — it probably feels like you're just treading water.

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**Kelsey:**

Exactly.

And the best way to find out your specific benefit amount is to go directly to Social Security's website at [ssa.gov](https://ssa.gov). It's free to create an account. Once you log in, if you're already eligible to receive benefits, you'll see your current amount. If you're still working, you'll see your projected benefit.

It takes less than ten minutes to set up an account, and it's absolutely worth doing.

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**Eric:**

That makes sense.

Another important point: if you're still working, especially in higher-earning years, that can increase your benefit. Social Security uses your highest 35 years of earnings. So if you're replacing a lower-earning year from when you were 18 or 20 with a higher-earning year now, that bumps your average up.

That can be very beneficial over time.

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**Kelsey:**

Exactly. And even if you've already started receiving benefits, if you're still working and those new earnings are higher than earlier years, Social Security will continue recalculating and adjusting your benefit accordingly.

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**Eric:**

That's a great point.

And going online is important not just to see your projection, but also to review your earnings history. While errors are rare, they do happen. Making sure your earnings record is complete and accurate is a worthwhile exercise — especially before filing for benefits.

Alright, let's move to our next question.

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**Kelsey:**

The next question we received is: What about spousal benefits — and how do they work?

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**Eric:**

That's an excellent question.

When Social Security was originally enacted around 1935, it was strictly a retirement program. If you worked and paid into the system, you were entitled to a benefit.

In 1939, two major amendments fundamentally changed the program. First, benefits were extended to spouses and children of the primary wage earner. Second, survivor benefits were added for widows and widowers.

Those changes transformed Social Security from a simple retirement program into a broader economic safety net for families.

Historically, many households were single-income households. One spouse worked; the other may not have earned enough credits to qualify independently. The spousal benefit ensured that when the primary wage earner claimed benefits, the other spouse could receive up to 50% of that primary benefit.

It significantly expanded financial security within households.

Essentially, when you file for benefits, Social Security evaluates both your own work record and your eligibility for spousal benefits, and then applies the appropriate calculation.

**Eric:**

Gotcha. So they increase the benefit, but then they take some of it back through a higher Medicare premium. Thirty-eight dollars doesn't sound like a whole lot. It probably feels like you're just kind of treading water.

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**Kelsey:**

Yeah, exactly.

And the best way to find out your specific benefit amount is to go to Social Security's website — [ssa.gov](https://ssa.gov). It's free to create an account. If you're of age to receive benefits, you'll see your amount. If you're still working, you'll see your projected amount.

It takes less than ten minutes to set up.

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**Eric:**

Okay, gotcha.

And the other important thing is, if you're continuing to work — I think about jobs I had when I was 18 — every year you work now, if you already have 35 years, you're bumping out a lower-earning year and replacing it with a higher-earning year.

So if you have 35 years and continue working, that can be beneficial because you're adding at the high end and replacing something lower.

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**Kelsey:**

Yeah, exactly.

And to your point, if you're receiving Social Security and still in high-earning years, those higher earnings can replace lower ones, and Social Security will continue to recalculate your benefit.

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**Eric:**

Right. And your point about going online is important. Not that they don't make mistakes occasionally, but it's worth reviewing your earnings history to make sure it's complete and accurate — especially before you file.

Alright, moving to the next question.

What about spousal benefits — and how do they work?

**Kelsey:**

Yeah, that's a very good question.

Originally, when Social Security was enacted — around 1935 — it was a retirement-only program. If you worked and paid into the system, you were entitled to a benefit.

In 1939, two important amendments were added. First, benefits were extended to spouses and children of the primary wage earner. Second, survivor benefits were added for widows. Those two changes fundamentally shifted Social Security from a retirement program to more of a family economic safety net.

Many years ago, most households were single-income households. One spouse worked; the other may not have worked or didn't earn enough credits. The spousal benefit guarantees that once eligible, the primary wage earner can file for benefits, and the other spouse is entitled to up to 50% of that benefit.

If the lower-earning spouse has their own earnings record, Social Security will always pay their own benefit first. If that amount is less than 50% of the higher earner's benefit, they will add an additional amount to “top it off” to reach that 50% level.

One key point: the spousal benefit is not available until the primary wage earner files. So if you are the lower-earning spouse and you file first, you'll receive your own benefit. Once the higher-earning spouse files, then the adjustment happens.

This becomes important when we talk about delaying benefits until age 70. That strategy can make sense, but if it means the spousal benefit remains locked up, those are dollars you're not receiving. So it may reduce the advantage of waiting.

Again, this is very situation-specific. But the spousal and widow benefits — added back in 1939 — have been part of the system for a long time.

So the next question is a good one: Can I work and still collect Social Security benefits? What impact does working have if you're eligible at 62 versus 67?

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**Kelsey:**

Yes, you can absolutely work and receive Social Security. But whether you *should* depends on your age and how much you're earning.

If you're at or above full retirement age, you are not subject to any earnings limitations. You can earn as much as you want.

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**Eric:**

So if I had that job paying a million dollars, I should wait until 67 to start it?

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**Kelsey:**

Exactly.

But if you're under full retirement age and you start benefits early at 62, you are subject to an annual earnings test.

For 2026, if you earn over \$24,480, your Social Security benefit will be reduced. For every \$2 you earn above that limit, Social Security will withhold \$1 in benefits.

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**Eric:**

So essentially a 50% reduction for every \$2 over the limit. And that number again was \$24,480?

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**Kelsey:**

Correct. If you earn above that amount, you're subject to the earnings test.

**Eric:**

Got you. So when you think about that, if you are going to start early and you have, let's say, a very part-time job, you can still earn up to that limit with no reduction in Social Security.

But I also think about a lot of clients we have who transition out of full-time work. Maybe they move into consulting, or they reduce their hours and their employer is open to that kind of transition. At that point, they're probably going to be over the limit. If you were making \$100,000 a year, it would essentially wipe out the benefit for most people.

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**Kelsey:**

Yeah, exactly. And the good news is that if benefits are withheld because of the earnings test, they're not lost forever.

If someone was earning \$100,000 per year and started Social Security early, Social Security would recalculate their benefit at full retirement age. You would get credit for those months when you did not receive your benefit.

One other thing to add: in the year you reach full retirement age, the earnings limit increases, and it becomes a monthly earnings test at that point. If you earn above \$65,160 in 2026, you're subject to that higher limit in the year you reach full retirement age.

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**Eric:**

So there's that unique number in the year you reach full retirement age, but after that point it doesn't matter.

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**Kelsey:**

Exactly. In that year, for every \$3 you earn over the limit, Social Security withholds \$1 in benefits. And this only applies to the months before you reach full retirement age.

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**Eric:**

So from your birthday on, you're good to go.

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**Kelsey:**

Yes. And once you reach full retirement age, the earnings test disappears.

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**Eric:**

Gotcha. So if you have a birthday in the early part of the year and you're still working, you're less likely to run into that problem.

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**Kelsey:**

Exactly. And one other important point: when we talk about these earnings limits, Social

Security is looking at wages and self-employment income. They are not considering investment income.

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**Eric:**

Great catch. It's important how income is defined here. It's earned income from active employment. Pensions, dividends, and interest do not factor into the earnings test.

Really important for our listeners to know.

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All right, let's move on to the next question.

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**Kelsey:**

One we get quite often: Will I have to pay taxes on my Social Security benefits?

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**Eric:**

For a lot of people, yes.

There is a formula. This was part of the reforms that occurred in the 1980s. When you complete your tax return, there's a special calculation to determine what's called your provisional income.

They start with your adjusted gross income (AGI). They add in any non-taxable interest, like municipal bond interest. Then they add half of your Social Security benefits.

That total determines how much, if any, of your Social Security is taxable.

For some Americans, it's zero — completely tax-free. But as income increases, more of the benefit becomes taxable. If you look at your Form 1040, there are two boxes: one shows total Social Security received, and the other shows the taxable portion.

At most, 85% of your benefit can be taxable. That means at least 15% is always tax-free.

It depends on your situation, but many people do end up paying taxes on a portion of their benefits.

This is also where tax planning becomes important. For example, Roth conversions create income. If you're not careful, a conversion can increase your provisional income and cause more of your Social Security to become taxable.

So you need to be thoughtful. The best outcome is often not paying taxes on that benefit. A poorly timed Roth conversion can undo that advantage.

All of these decisions are interconnected.

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Now let's move to the next question — COLA. And we're not talking about Coke or Pepsi.

COLA stands for Cost-of-Living Adjustment. Social Security is an inflation-indexed income stream, which makes it extremely valuable, especially if you live a long time.

Kelsey, why don't you walk us through how COLA works and how it's applied?

**Kelsey:**

Yeah. So as Eric said, COLA stands for cost-of-living adjustment.

In 2026, the Social Security Administration increased benefits by 2.8%. That was announced in October of 2025 and went into effect in January of this year. Over the past 10 years, COLAs have averaged about 3.1%.

The Social Security Administration calculates COLA using the CPI-W index. They compare the third quarter of the previous year to the third quarter of the current year, and that percentage increase becomes the COLA.

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**Eric:**

Yeah. And I think that timing is tied to the government's fiscal year, which runs roughly from September to September.

But COLA is important because it helps that income stream maintain purchasing power, especially for seniors who are no longer working. If you received a corporate pension, for example, in most cases that number is fixed. It might feel sufficient early on, but 10 or 20 years down the road, it doesn't buy as much.

The COLA helps offset that erosion.

It's also important when we think about potential reforms. I feel confident reforms will eventually happen. It may not be easy, but something will occur to ensure the viability of the system.

One possible change would be how COLA is calculated. The CPI-W is based on a basket of goods and services for an urban wage earner. There's another experimental index called CPI-E, which is designed to reflect the spending patterns of individuals over age 62, where housing and medical costs carry greater weight.

They could also move to something called chained inflation. The current CPI doesn't account for the substitution effect. For example, if the brand-name cereal costs more, consumers may switch to a store brand. Chained CPI factors that in, which could result in slower benefit growth over time.

So there are levers that could be adjusted.

But as it stands today, there is an annual adjustment. Even though Medicare premiums often increase as well, there is typically some net increase over time.

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**Kelsey:**

All right, next question: How much do I need to earn to get Social Security credits?

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**Eric:**

Good one.

To be eligible for retirement or disability benefits, you need 40 quarters of coverage — which equals 10 years of work.

In 2026, you receive one credit for every \$1,810 of earnings per quarter. If you earn at least \$7,240 in a year, that gives you four credits. Do that for 10 years and you become eligible.

That's just the minimum to qualify. Your actual benefit depends on your highest 35 years of earnings, when you claim, and all the other factors we discussed earlier.

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**Kelsey:**

Next question: What is the maximum amount subject to Social Security tax in 2026?

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**Eric:**

In 2026, the Social Security taxable wage base is \$184,500. You pay 6.2% on earnings up to that amount. Anything above that is not subject to Social Security tax.

Only about 6% of households earn above that threshold. If you're in that position, once you hit the cap during the year, your paycheck increases slightly because you stop paying that portion of FICA.

That wage base is indexed for inflation each year, so it increases over time.

Interestingly, the thresholds that determine whether your Social Security benefits are taxable are *not* indexed. Those remain fixed, which means over time, more people end up paying taxes on their benefits.

And of course, one potential reform could be raising or eliminating that wage cap — similar to Medicare taxes, which apply to all earnings with no ceiling.

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**Eric:**

All right, last question. These are always fun to do.

The question is: Can I still do a Social Security “do-over” if I made a mistake?

In other words, if I filed for benefits and later realized I want to change course, what can I do?

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**Kelsey:**

Great question. There are two options.

The first is a 12-month withdrawal. Within 12 months of starting benefits, you can withdraw your application. But you must repay every dollar you’ve received. That includes any benefits paid to a spouse or child on your record.

And you would need written consent from anyone else who was receiving benefits tied to your record.

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**Eric:**

So if someone else is receiving benefits on your record, they may have a different opinion about whether you should repay and restart.

That definitely adds an interesting dynamic.

**Kelsey:**

And if you pay it back, there are no penalties or interest. It’s essentially as if you never filed in the first place.

One reason someone might do that is if they started benefits early and then received a job offer that would put them well over the earnings limit. In that case, it wouldn’t make sense to continue receiving the benefit.

And that is a one-time Mulligan. You only get to use that option once.

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**Eric:**

I like it. The Social Security Mulligan.

But the big kicker is that you do have to repay all the benefits. And for a lot of folks, when that money comes in, it's going toward household expenses and daily living. So you need to be prepared to write a check and send it back.

So what happens if something changes beyond 12 months?

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**Kelsey:**

If you're past the 12-month window, you can't do the withdrawal. But you do have another option — the pause, also known as a voluntary suspension at full retirement age.

Let's say you started benefits early at age 62 or 63. When you reach full retirement age, you may realize that starting early wasn't the best decision. At that point, you can suspend your benefit.

When you suspend at full retirement age, you earn delayed retirement credits of 8% per year up until age 70. And you don't have to repay anything you've already received.

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**Eric:**

The pause doesn't get a lot of recognition. I find many people aren't even aware it exists.

It's almost like a light switch. Once you reach full retirement age, you can turn the benefit off. Later, you can turn it back on. That creates some interesting planning opportunities.

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**Kelsey:**

Exactly. Unlike the 12-month withdrawal, there's no strict time limit beyond reaching full retirement age.

If you started at 62 and then suspend at full retirement age, your benefit begins growing again at 8% per year until age 70. By the time you reach 70, your benefit could be much closer to what it would have been at full retirement age.

And again, you don't have to pay back the benefits you already received.

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**Eric:**

So if you started at 62 and took roughly a 30% reduction, pausing at full retirement age allows the benefit to grow again. It may not perfectly erase the early reduction, but it can help close the gap.

There are a lot of interesting scenarios here. In a two-income household, one spouse might start early while the other delays. Or someone might start benefits during a market downturn to reduce pressure on their portfolio, then pause once conditions improve.

There's flexibility there — if you understand the rules.

Well, Kelsey, thank you for joining me. As always, we packed a lot of content into a short period of time.

And thank you to all of you for joining us on the Patti Brennan Show. We hope you found this helpful and valuable.

If you'd like more information, visit us at [www.keyfinancialinc.com](http://www.keyfinancialinc.com). We have a wide range of resources on Social Security and many other retirement topics.

And if you're looking for more personalized advice, feel free to call the office and schedule an appointment.

Once again, I'm Eric Fuhrman, your guest host for the day. Thank you for joining the Patti Brennan Show, and we'll see you again soon. Take care.