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A Guide to Claiming and Receiving Social Security Benefits For U.S. Taxpayers Residing Abroad

1. Am I Eligible for Social Security Benefits?

- a. **Eligibility for Retirement Benefits** – In determining whether you are eligible for Social Security benefits, one of the first things to check is whether you earned the requisite number of credits (formerly known as "quarters") during your working years. Persons born after 1929 need 40 credits (usually corresponding to 10 years of work) to qualify for retirement benefits.

Prior to 1978, a person earned one credit, or "quarter", if at least \$50 was earned in a 3-month calendar quarter. From 1978, the calculation has been made annually, based on a person's total earned income for the year. Remember, earned income generally includes wages earned as an employee, and net self-employment income from a trade or business. In 2017, a person with total earned income of \$1,300 received one credit. A person who earned \$5,200 received the maximum four credits for the calendar year. A nonresident alien who worked in the US for 10 years, receiving 40 credits, is also eligible to receive Social Security retirement benefits.

- b. **Eligibility for Disability and Survivors Benefits** – To qualify for disability benefits, a person also generally needs 40 credits to qualify, 20 of which were earned in the last 10 years. But there are exceptions for younger workers with fewer credits. Similarly, the eligibility of family members to collect survivor's benefits depends on the number of credits a deceased worker earned based on his/her age. But under a special rule, a spouse and children can receive benefits if the deceased person earned 6 credits (out of 12 possible) in the last three years.

2. How Much of a Monthly Benefit Will I Receive?

The amount of your monthly retirement benefit payment is determined by the Social Security office based on your personal history of annual earned income as reported on timely filed US income tax returns, with records of timely paid income and self-employment taxes.

That calculated monthly benefit payment represents the amount that will be paid beginning with the month in which you attain full retirement age (see below.) It is possible to accelerate or defer benefit payments, as described below.

- a. **Full Retirement Age** – depends on the year of a person's birth. Here are some examples:
- For a person born in the year 1937 or earlier, the full retirement age is 65.
 - For a person born in the year 1940, the full retirement age is 65 years and 6 months.
 - For a person born between the years 1943 and 1954, the full retirement age is 66.

- For a person born in the year 1956, the full retirement age is 66 years and 4 months.
 - For a person born in the year 1960 or later, the full retirement age is 67.
- b. **Accelerating or Deferring Benefits** – The earliest you can begin receiving retirement benefits is the month after which you turn 62. But be aware that benefits received prior to full retirement age will be reduced, as described below. Generally, the longer you wait to begin receiving benefits, the higher your monthly benefit payment will be. In fact, if you delay your receipt of benefits beyond full retirement age, your annual benefit will increase by 8% annually up to the age of 70. This is in addition to the increase that your additional earnings during the period will have on your ultimate monthly benefit amount.
- c. **Reduced Benefits** – If you have reached the age of 62, and are still earning wages or if you still have self-employment income from a trade or business, you will have to show that you work less than 45 hours per month in order to receive retirement benefits. In addition, the benefits that you actually receive will generally be reduced, depending on your age, and the amount of income you earn. A person who is under full retirement age for the entire year will have \$1 deducted from his benefit payments for every \$2 earned above the annual limit, which for 2017 was \$16,920. Note that once you have reached full retirement age, there is no work restriction and your earnings no longer reduce your benefits.
- As mentioned above, you can begin receiving benefits at age 62, but the monthly benefit will be reduced according to a formula based on the additional number of months that you are expected to receive benefits over what you would have been expected to receive if you had waited to begin receiving benefits at full retirement age.
- d. **Example of Benefit Reduction** – As an example, a person born in 1954 reaches full retirement at age 66 in 2020. In 2016, in the month he turned 62, he became eligible to receive exactly 75% of the benefit he would be entitled to at age 66, because he is expected to receive benefits for an additional 48 months, (i.e. an additional 4 years until he reaches the age of 78).

Here is an example of how this would work out. Let's say a person's calculated benefit at full retirement age would be \$1,000 per month, i.e. \$12,000 per year.

- \$12,000 annual benefit payment x 12 (expected years of receiving benefits) = \$144,000 expected total retirement benefit payment.

As compared with:

- \$12,000 per year x 75% (the benefit reduction percentage) = \$9,000 annual benefit pmt.
- \$9,000 annual benefit payment x 16 (expected years of receiving benefits) = \$144,000 expected total retirement benefit payment

Note that the reduction percentage changes, depending on which month you begin receiving benefits, i.e. if you start receiving your monthly payment at 62 years and 1 month, you will annually receive 75.4% of the total annual benefit of \$12,000, i.e. \$9,048 in our example, etc.

- e. **Spouse's Benefits** – Your non-working spouse, or a qualifying child, can receive up to 50% of your monthly benefit. This applies even if your spouse is a nonresident alien.
- This 50% amount is a maximum, based on your non-working spouse receiving benefits at his/her full retirement age. It is reduced if your non-working spouse begins receiving benefits prior to his/her full retirement age. In our example above, the non-working spouse would receive 35% of the working spouse's benefit if the non-working spouse begins to collect when he/she reaches age 62.

- f. **Divorced Spouse's Benefits** – A non-working divorced spouse, who was married for at least 10 years to a working spouse, and who didn't remarry prior to age 60, can be eligible to receive retirement benefits based on the working former spouse's income, on condition that the former spouse is receiving benefits.

3. Are there any special rules for U. S. taxpayers residing abroad?

- o **Exemption from US Income Tax under Article 21 of the US – Israel Tax Treaty** – If you are a US citizen who is a resident of Israel, i.e. you maintain a permanent home in Israel, any Social Security benefits you receive during the year are exempt from US income tax.
- o **Windfall Elimination Provision** – If you work for an employer who does not withhold Social Security taxes from your salary, such as an employer in a foreign country, any pension you receive based on that work may reduce your Social Security benefits under the Windfall Elimination Provision. The Provision does not apply if you have 30 years or more of "substantial earnings" under Social Security. The substantial earnings threshold is calculated for each year. As examples, it was \$5,100 in 1980, \$9,525 in 1990, \$14,175 in 2000 and \$19,800 in 2010.

4. How do I claim Benefits?

- o A recommended first step is to contact the Social Security Administration to request:
 - A record of your earnings history.
 - An estimate of how much you paid in Social Security taxes.
 - An estimate of the benefits which you and your family may be eligible for.

You can make this request online at www.ssa.gov

You can also download Form SSA-7004, and mail it to PO Box 7004, Wilkes Barre, PA 18767-7004. Or you can call the Social Security Administration at 1-800-772-1213.

You can also contact the local Social Security office in Jerusalem with questions or to request a form to apply for benefits. Their email is fbu.jerusalem@ssa.gov and phone is 02-630-4031 (representatives are available for questions Mondays and Thursdays 8:30 am to 11:30 am.)

Our office is also available to assist you with any specific questions at 02-624-6057.

Sincerely Yours,

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