Social Security for American Expats and Retirement Abroad

Executive Summary

- Americans can continue to receive social security benefits even while living abroad.
- Totalization agreements between the US and other countries may allow Americans working abroad to qualify for benefits.
- The Windfall Elimination Provision (WEP) can reduce your benefits if you also receive a pension from a foreign social security scheme.
- A foreign spouse’s eligibility for Spousal and Survivor benefits depends on various criteria, including residence and citizenship.

Introduction

Social Security is an important source of retirement income for many Americans. The size of a monthly retirement benefit depends on a retiree’s earnings history, and how old a retiree is when they first begin taking benefits. Benefits alone generally do not provide a comfortable standard of living, but can be a vital supplementary income stream in addition to other pensions and retirement accounts.

Americans retiring abroad may receive Social Security benefits outside the United States as long as they are eligible. To receive Social Security retirement benefits, a worker must have contributed to the Social Secu-
rity system for a minimum cumulative total of at least 40 quarters (10 years).

American expats working and retiring abroad may receive U.S. Social Security benefits if they are eligible. However, there are several special issues that American expats must first consider. For example, bilateral social security agreements and foreign pension plans can impact the total amount of benefits received. This Thun Research note addresses common issues American expats and their spouses encounter when receiving U.S. Social Security benefits abroad.

**Bi-Lateral Social Security Agreements and Totalization Agreements**

Many American expats find themselves working a large portion of their careers abroad. If an expat worked less than 40 quarters under Social Security in the United States, but also contributed to an equivalent social program in another country, they may still be able to obtain Social Security retirement benefits. The bilateral agreements that permit this are specifically referred to as Totalization Agreements.

As of 2018, the United States had entered into Totalization Agreements with 26 countries. Totalization Agreements have two main purposes. First, they eliminate dual Social Security taxation, the situation that occurs when a worker from one country works in another country and is required to pay social insurance taxes to both countries. Second, the agreements fill gaps in benefit protection for workers who have divided their careers between the United States and another country.

The Social Security benefit gap can occur if an expat is working in certain countries with no Totalization Agreements. For example, if the U.S. citizen is working in a country without a Totalization Agreement, they may not work enough quarters to qualify for the social insurance benefits of either the United States or the foreign country. They will be denied the benefits from both countries, although they paid into both of them. This occurs even though their total combined years in both countries would meet the requirements for one or both countries’ retirement systems.

A Totalization Agreement, on the other hand, tracks the total quarters worked in both countries. If insufficient time is put into either system to qualify exclusively for its social insurance program, but enough combined time would qualify for one country’s social security program, then each country will pay out its proportionate share in retirement of the benefits that the employee earned. This is very beneficial for an American expat who works in one of the 26 countries (mainly Western Europe) with such Totalization Agreements.

The Social Security Administration (SSA) will obviously not send payments to countries affected by Department of Treasury sanctions, such as Cuba and North Korea. In addition, it applies strict payment restrictions on the following countries: Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

**Can Foreign Spouses Receive U.S. Social Security?**

Depending on the situation, a foreign spouse may be eligible for spousal and survivor social Security Benefits. The next section gives a brief overview of general rules regarding the treatment of foreign spouses for determining Social Security benefits. For more detailed information concerning a specific situation, it will be essential to visit
the Social Security Administration website to check for regularly updated policy and tax treaty changes.

The general rule is that with any spouse who is not a U.S. citizen or green-card holder, Social Security payments must stop if the spouse has been outside of the U.S. for six consecutive calendar months. However, there are many exceptions that could easily qualify a non-American spouse to receive Social Security. First, non-citizens may receive social security benefits abroad if they lived in the United States for at least five years as a married couple. Second, if your spouse is a resident or citizen of certain countries that have bilateral social security agreements (see above), then they can receive benefits. Importantly, foreign spouse will generally be able to receive Social Security survivor benefits.

For more information, including a full list of countries exempt from the residency requirement and the Social Security office you can contact with more questions, go to the Social Security Administration’s online publication entitled "Your Payments While You are Outside the United States.". A useful online screening tool is also available on the SSA’s website: https://www.ssa.gov/international/payments_outsideUS.html

**Windfall Elimination Provision (WEP) Could Change Benefit**

The Windfall Elimination Provision (WEP) is also something that American expats—must become familiar with. The WEP affects American expats if they earned a pension from a foreign government and are also eligible for US Social Security bene-
WINDFALL ELIMINATION PROVISION EXPLAINED

To calculate your WEP-adjusted benefits, the social security administration will start by calculating your Average Indexed Monthly Earnings (AIME), which is an inflation indexed monthly average of your highest 35 years of earnings. It then uses the AIME to calculate your Primary Insurance Amount (PIA). Your PIA is the monthly benefit you are entitled to at full retirement age, it is the sum of:

- 90 percent of the first $826 of AIME, plus
- 32 percent of AIME over $826 and through $4,980, plus
- 15 percent of AIME over $4,980.

The WEP reduces your PIA by gradually lowering the 90% factor applied to the first AIME tier in the above calculation. The size of the reduction varies depending on your Years of Contributions (YOC) to US Social Security

<table>
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<tr>
<th>Standard PIA</th>
<th>WEP impact on PIA tier</th>
<th>WEP PIA calculation with less than 20 YOC</th>
<th>WEP PIA calculation with 20 to 30 YOC</th>
<th>WEP PIA calculation with more than 30 YOC</th>
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<tbody>
<tr>
<td>90% of the first $826 of AIME +</td>
<td>May be reduced</td>
<td>40% of the first $826 of AIME +</td>
<td>Between 20% and 40% of the first $826 of AIME +</td>
<td>90% of the first $826 of AIME +</td>
</tr>
<tr>
<td>32% of AIME between $826 and $4,980 +</td>
<td>Unchanged</td>
<td>Standard PIA applies</td>
<td>Standard PIA applies</td>
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<tr>
<td>15% of AIME over $4,980.</td>
<td>Unchanged</td>
<td>Standard PIA applies</td>
<td>Standard PIA applies</td>
<td>Standard PIA applies</td>
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fits. Typically, this would be Americans who work abroad for a foreign employer, but also contributed to the U.S. Social Security System in the past.

Without the WEP, the worker would effectively be double-dipping by receiving benefits from both plans. In an extreme case, a retiree could work two half-careers and get almost two full pensions. The WEP is used in determining all benefits on the record, both for the primary beneficiary and any auxiliaries. This includes an effect upon the maximum total benefits paid on the record as well. Since the WEP does not apply after the death of the primary beneficiary, it is never used for Social Security survivor benefits.

The net effect of the WEP is to reduce the Social Security payments that you are entitled to. The resulting reduction cannot be more than 50% of your foreign pension based on earnings after 1956 on which you did not pay Social Security taxes. For comprehensive retirement planning, American expats must calculate how the Windfall Elimination Provision will affect their retirement plans and adjust accordingly. (The Social Security Administration has a website that will allow a
American expats to enter their earning history into a calculator to derive the potential deduction that might occur due to the Windfall Elimination Provision: [https://www.ssa.gov/planners/retire/anyPiaWepjs04.html](https://www.ssa.gov/planners/retire/anyPiaWepjs04.html). Or see above).

**Maximizing Retirement Wealth with Social Security Planning**

Maximizing your social security benefits when living abroad requires paying attention to when and how you collect your benefits. By thinking strategically about how you transfer your benefits to your foreign country and currency, you can save yourself from significant reductions in the benefits via poor currency exchange rates and excessive wire transfer fees. While a long-term plan can help you figure out whether drawing your social security benefits now or later will provide you with the best chance of maximizing those benefits over your and your spouse’s lifetime.

While you always have the options to receive a check, by far the easiest and fastest way to receive your benefits is to maintain a US bank account and set up a direct deposit. There is also a long list of foreign countries that the SSA may be able to send direct deposits to. A full list is available here: [https://www.ssa.gov/international/countrylist6.htm](https://www.ssa.gov/international/countrylist6.htm). Ultimately, fees should be a key consideration in deciding how to collect benefits, as banks tend to charge a very high rate for currency conversions.

The second question of when to start Social Security payments requires a comprehensive analysis of all retirement assets. Many workers decide to claim Social Security as soon as possible, but they may regret that decision later in retirement. Claiming benefits early at age 62 provides valuable retirement income, but it also triggers a reduction in monthly payments because retirees collect them over a longer period of time.

After paying into the system for decades, it is tempting to start Social Security payments as soon as possible, but the decision to sign up for benefits deserves careful consideration. Taking the money early might seem attractive, but it means settling for a lower monthly payment, which could lead to lower overall social security payments during a retiree’s lifetime. The optimal claiming decision for each individual depends on many factors, such as total liquid assets, expected mortality, employment opportunities, and health concerns.

As a general rule, early or late retirement will give you similar Social Security benefits over lifetime. Early retirement translates to smaller monthly benefit amounts, to compensate for a longer withdrawal period. Later retirement means, it’s for a shorter period of time, and the larger monthly amounts make up for the deferral of benefits.
CONCLUSION

The Social Security Administration is not a financial advisor and will not provide detailed information on strategies for maximizing Social Security benefits. To make an informed choice about beginning Social Security benefits, it is essential to review a retiree’s household budget, health, financial savings, life insurance, and plans to work in retirement. We undertake comprehensive analyses for our clients as to the best time for them to being taking Social Security payments, including the effects of Totalization Agreements and relevant Windfall Elimination Provisions.

In addition to these concerns, Thun Financial Advisors understands the unique challenges faced by Americans living outside the United States. The results of a social security analysis and our expat knowledge will be incorporated into an overall integrated financial plan and investment strategy.

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