

Social Security Benefits

Hello!

With yesterday's news that Social Security benefits and Supplemental Security Income (SSI) benefits will be given a cost of living adjustment (COLA) increase of 3.6% in 2012, we thought it would be helpful to provide additional information on Social Security benefits. In addition to the increase in benefits, the maximum amount of earnings subject to the Social Security tax will increase from \$106,800 to \$110,100.

Overview

The Social Security Act was signed by President Franklin D. Roosevelt in August 1935 as part of the New Deal. Social Security taxes were collected for the first time in early 1937 and monthly benefits started three years later. Social Security not only provides for older Americans but also for those individuals who are disabled and for those who have lost a spouse or parent. Today, approximately 155 million people pay Social Security taxes and about 54 million people receive monthly Social Security benefits. The Social Security taxes collected today are used to pay for those currently collecting Social Security benefits.

2011 Social Security Taxes

As part of the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010, the payroll tax that goes towards Social Security was reduced from 6.2% to 4.2% for this year. For those that are self-employed, the Social Security tax payment has been reduced from 12.4% to 10.4%. One pays Social Security taxes on earnings up to \$106,800.

Where the Collected Social Security Taxes Go

For every dollar that is paid in Social Security taxes, 85 cents goes to a trust fund that pays monthly benefits to current retirees and their families as well as to surviving spouses and children of workers who have died. The remaining 15 cents goes to a trust fund that pays benefits to those with disabilities and their families. From each of these trust funds, it also goes towards the costs of managing the Social Security Administration programs which has historically been less than one cent for every dollar.

Eligibility

To receive Social Security benefits, an individual must have a minimum work history of at least 10 years or 40 quarters of work and be at least age 62. Benefits increase with more years of work, as Social Security uses 35 years of work history to calculate retirement benefits.

Social Security Benefits

Full or Normal Retirement Age (NRA)

Depending on what year one is born is when he or she is eligible for full Social Security benefits. Currently, it is as follows:

- Before 1938: Age 65
- 1938: Age 65 and 2 months
- 1939: Age 65 and 4 months

- 1940: Age 65 and 6 months
- 1941: Age 65 and 8 months
- 1942: Age 65 and 10 months
- 1943 to 1954: Age 66
- 1955: Age 66 and 2 months
- 1956: Age 66 and 4 months
- 1957: Age 66 and 6 months
- 1958: Age 66 and 8 months
- 1959: Age 66 and 10 months
- 1960 and later: Age 67

Early Retirement

One can start receiving Social Security benefits before normal retirement age and they can be drawn as early as age 62. The amount of benefits will be reduced at a rate of approximately ½ of 1% for each month one starts Social Security benefits before his or her full retirement age. For example, if full retirement age is 66 and one signs up for Social Security at age 62, he or she would only get 75% of the full benefit amount (48 months x 0.5% = 24.0% reduction of benefit).

Delayed Retirement

If one chooses to delay receiving benefits beyond his or her full retirement age, the benefit will be increased by a certain percentage, depending on the year he or she was born. The increase will be added in automatically each month from the time one reaches full retirement age until he or she start staking benefits or reach age 70, whichever comes first. Here is the current information posted on the Social Security Administration's Website regarding birth year and annual rate of benefit increase:

- 1933 to 1934: 5.50%
- 1935 to 1936: 6.00%
- 1937 to 1938: 6.50%
- 1939 to 1940: 7.00%
- 1941 to 1942: 7.50%
- 1943 and later: 8.00%

Continuing to Work and Receiving Benefits

If an individual starts to receive Social Security benefits before full retirement age, his or her benefits will be reduced if earnings exceeds a certain amount: \$1 in benefits will be deducted for each \$2 in earnings above the annual limit, which for this year, is \$14,160.

In the year one reaches full retirement age, benefits will be reduced by \$1 for every \$3 earned above a different annual limit (\$37,680 for 2011) until the month full retirement age is reached.

Once an individual reaches full retirement age, he or she can continue to work as this will have no effect on Social Security benefits being reduced.

Calculation

An individual's benefit payment is based on how much he or she earned during their working career. Higher lifetime earnings result in higher benefits. If there were some years when an individual was not employed or had lower earnings, this will likely result in a lower monthly Social Security benefit compared to those who worked and contributed to Social Security consistently. Social Security benefits at age 62 are typically 70-75% of what would have received if they had waited until full retirement age benefits and benefits at age 70 are 130% of full retirement age benefits.

An individual should apply for benefits about three months before the date he or she wants benefits to begin.

Spousal Benefits

A non-working spouse can receive retirement benefits as early as age 62 based on personal work history or the work history of the working spouse. Spousal benefits at full retirement age are 50% of the worker's benefit and at age 62 are 32 ½ to 35% of the worker's benefit amount.

Taxation of Social Security Benefits

Some individuals who receive Social Security benefits will have to pay taxes on them based on their other income. Based on how you file your taxes, here are the amounts of total income in which benefits become taxable:

- Single: \$25,000
- Married filing jointly: \$32,000
- Head of household: \$25,000
- Married filing separately and did not have spouse living with you at any time of the year: \$25,000
- Married filing separately and did have spouse living with you at any time of the year: \$0

Social Security Disability Benefits

For those that cannot work due to a physical or mental condition that is anticipated to last for at least 12 months or result in death, they may be eligible to receive Social Security disability benefits. If one becomes disabled, he or she should file for disability benefits as soon as possible as it usually takes several months for a disability claim to be processed. People with disabilities, including children, who have little income and few resources, may also be eligible for disability payments through the Supplemental Security Income (SSI) program as this is paid based on financial need. When one applies for either program, information (including medical) is collected and then a decision is made if an individual meets Social Security's definition of disability.

It is important to note qualifying for these disability benefits is much different than those of other governmental agencies or those from private disability insurance plans.

For those individuals who receive disability and/or Supplemental Security Income payments have different earnings rules. They immediately must report all of their earnings to Social Security no matter how much they earn.

Survivor Benefits

When an individual passes away, their family may be eligible to receive benefits (based on the deceased's employment history). The surviving family members receive a percentage of the deceased's basic Social Security benefit usually between 75-100% each. But there is a limit to the amount of money that can be paid each month to a family. The limit varies, but is generally equal to between 150-180% of the deceased's benefit rate.

Family members include a widow or widower who is age 60 or older, age 50 or older if disabled, or any age if he or she is caring for a child age 16 and younger or disabled and entitled to Social Security benefits on your record.

Children are also entitled to receive benefits if they are:

- Single and under age 18;
- Between the ages 18 and 19 and in elementary or secondary school as full-time students; OR
- Age 18 or older and severely disabled (the disability must have begun before age 22)

Parents of a deceased individual may also be eligible to receive benefits on the deceased's earnings if they were dependent on him or her for at least half of their support.

Social Security Death Benefit

Assuming an individual has sufficient credits and passes away, a one-time payment of \$255 will be made to the deceased's beneficiaries.

Conclusion

Social Security benefits were never intended to be the only source of income for people when they retire as it typically replaces about 40% of an average wage earner's income. As individuals plan for retirement, most anticipate needing 70-80% of their gross

earned income to be able live comfortably in retirement. Social Security benefits are just one source of income as it needs to be supplemented with other sources such as IRA and retirement plan distributions, savings, investments, and pensions.