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## Social Security

# Social Security

## What is it?

Social Security is a federal system of programs designed to protect individuals and families against economic hardship. Most Americans work in occupations covered by the Social Security system, and they will at some point in their lives receive Social Security benefits. The system is administered by the Social Security Administration and financed mainly by Social Security tax (FICA) withholding on wages and by taxes on self-employment income.

## How does it work?

### *Social Security is a compulsory system*

Social Security is a compulsory system. Employers, employees, and self-employed individuals are required to participate and pay taxes that finance Social Security benefits. As an employee, you pay a Social Security tax of 6.2 percent of your pay (matched by your employer) each pay period and you pay a Medicare tax of 1.45 percent of your pay (matched by your employer). If you are self-employed, you pay a 12.4 percent self-employment tax on your earnings to finance Social Security programs and you pay a 2.9 percent tax to finance Medicare.

**Tip:** The Social Security tax on your earnings applies only to earnings under the maximum earnings limit (currently \$106,800). No limit applies, however, to the Medicare tax on your earnings.

### *Your earnings are tracked by the Social Security Administration*

Your employer reports your annual Social Security earnings to the Social Security Administration. If you are self-employed, the IRS reports your earnings. They are compiled on a record known as a Social Security earnings record, which is identified by your nine-digit Social Security number. This earnings record is eventually used to calculate the amount of your Social Security benefit.

### *You receive benefits after meeting certain eligibility criteria*

To be eligible to receive Social Security benefits, you must be insured under the system. To become insured, you have to work for a certain amount of time in an occupation covered under Social Security or be the spouse, ex-spouse, widow or widower, or parent of someone who has. You also have to meet the eligibility requirements specific to the benefit.

## Social Security benefits

### *Retirement benefits*

Providing retirement benefits was a key provision of the Social Security Act of 1935. Older Americans were especially financially vulnerable during the Great Depression, and Social Security was enacted partly to provide them with some continuing income after retirement. Today, although the scope of the program has been widened through amendments to include survivor, disability, and medical insurance benefits, Social Security remains synonymous with retirement benefits.

When planning for retirement, you should neither overlook nor overstate the value of your Social Security benefits. Despite the anxiety some baby boomers feel over the future of Social Security, funds in the trust that pays benefits will rapidly increase in the short term (10 to 15 years). Predicting the future of Social Security is difficult, however, because to keep the system solvent, some changes must be made to it. The younger and wealthier you are, the more likely that these changes will affect you. But even if you retire in the next few years, remember that Social Security was never meant to be the sole source of income for retirees. As President Dwight D. Eisenhower said: "The system is not intended as a substitute for private savings, pension plans, and insurance

protection. It is, rather, intended as the foundation upon which these other forms of protection can be soundly built."

Normal retirement age is the age at which you can retire and receive full (unreduced) Social Security benefits. However, many people choose to receive Social Security retirement benefits early at age 62 (early retirement age). You can also retire and begin receiving benefits after normal retirement age. If so, you are considered to be electing delayed retirement benefits. Electing early retirement benefits means that you will receive a reduced benefit, while electing delayed retirement benefits means that you will receive a delayed retirement credit and thus a higher benefit.

### **Disability benefits**

Most people don't expect to become disabled and are unprepared when they are unable to work due to illness or injury. The fact is that you are much more likely to become disabled than to die during your earning years. Because eligibility standards are strict, Social Security disability benefits may not offer the comprehensive protection you need. However, these benefits can help protect you and your family from financial devastation when you can't work for a year or more. In general, to receive Social Security disability benefits, you must be unable to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment that can be expected to last for at least 12 months or result in your death.

### **Benefits for family members**

Some of your family members may be eligible for benefits based on your earnings record if you are receiving Social Security retirement or disability benefits. Benefits are generally paid to family members who relied upon your income for support. Benefits paid to family members are based upon your primary insurance amount (PIA) and are paid in addition to the benefit you receive. The following chart outlines who these family members might be, what benefits they may be entitled to receive, and the basic conditions they must meet to be eligible for those benefits:

Beneficiary	Minimum Age	Insured Status	Conditions	Amount of Benefit
Spouse of retired worker	62 or earlier if caring for a dependent child (under 16 or disabled) who is eligible for child's benefits	Worker must be fully insured. Spouse does not have to be insured	Worker must be receiving retirement benefits before spouse is eligible	50% of the worker's PIA, subject to early retirement reduction, if applicable
Divorced spouse of worker	62 or earlier if caring for a dependent child (under 16 or disabled) who is eligible for child's benefits	Marriage must have lasted at least ten years before final divorce date. Remarriage may affect benefit	Worker does not have to be receiving retirement benefits but must be 62 or older	Usually 50% of the worker's PIA, subject to early retirement reduction, if applicable
Child of retired worker	No minimum age but must be under 18 or under 19 (in school). Disabled child can be over 18 if disability began before 22	Worker must be fully insured	Worker must be receiving retirement benefits before child is eligible. Child in school must be a full-time student and unmarried	Each child receives 50% of worker's PIA. Family maximum, however, may limit this benefit

**Tip:** Family benefits end when the retired worker dies. However, at that time, family members may be eligible to receive Social Security survivor's benefits.

### Survivor's benefits

If you die and you were currently or fully insured under Social Security, your surviving spouse, ex-spouse, children, or dependent parents may be eligible to receive Social Security benefits based on your earnings record. The following chart outlines those who may be eligible for benefits and under what conditions.

Beneficiary	Age	Insured Status of Worker	Conditions
Spouse of worker (no dependent child)	60 or over (or if disabled, 50 or over)	Fully insured	Must have been married to the worker for nine months before worker died (unless death was accidental or military-related) or be parent of worker's natural or adopted child
Spouse of worker with dependent child	Any age	Fully or currently insured	Must be unmarried and not already eligible for widow(er)'s benefits
Divorced spouse of worker (no dependent child)	Age 60 or over (if disabled, age 50-59)	Fully insured	Must have been married to the worker for at least ten years
Divorced spouse of worker with dependent child	Any age	Fully or currently insured	Must be unmarried and not already eligible for widow(ER)'s benefits as a divorced spouse
Dependent child of worker	Age 18 or under, or 19 if full-time elementary or secondary school student. If child is disabled, can be over 18 if disability began before age 22	Fully or currently insured	Must be unmarried
Dependent parent(s) of worker	Age 62 or above	Fully insured	50% or more of the parent's support must have been furnished by worker

### How much will you receive from Social Security?

The amount of Social Security benefit you receive is based on your Social Security earnings record. Your earnings are averaged according to a formula and then indexed. The resulting figure is called your primary insurance amount (PIA). Once your PIA has been calculated, all your benefits (and those of your family members who are dependent upon your Social Security record) will be based on this figure. Your PIA is the maximum benefit that you could receive once you become eligible.

Your maximum benefit may be payable if:

- You retire at normal retirement age
- Your widow or widower is normal retirement age
- You are disabled

In other circumstances, the benefits that you receive will be a certain percentage of your maximum benefit. For example, if you retire early, your maximum benefit will be reduced by a certain percentage for each month of early retirement. If you or your family members are eligible for reduced benefits, the reduction will be expressed as a percentage of your PIA.

**Example(s):** Mr. Jones retired at his normal retirement age after working for many years. His PIA is determined to be \$1,176. He will receive the maximum retirement benefit (100 percent of his PIA) so his monthly benefit check will be \$1,176. His wife also plans on retiring when she reaches her normal retirement age. Since her own PIA is less, she decides to base her retirement income on her husband's PIA. She is entitled to 50 percent of his PIA, so when she retires, her monthly benefit check will be \$588.

The following chart summarizes the relationship between your PIA and your eventual benefits:

Benefit	Requirements	Amount
Retirement	Normal retirement age	100% of PIA
	62 or above, but less than normal retirement age	PIA reduced by 5/9 of 1% for each month under age 65, and by 5/12 of 1% thereafter
Disability	None	100% of PIA
Spouse's Benefit	Caring for dependent child	50% of PIA
	Normal retirement age	50% of PIA
	Age 62 or above, but less than normal retirement age	50% of PIA further reduced by 25/36 of 1% for each of the first 36 months under normal retirement age
Child's Benefit	Child of retired or disabled worker	50% of PIA
	Child of deceased worker	75% of PIA
Mother's or Father's Benefit	Child must be under 16 or disabled	75% of PIA
Widow(er)'s Benefit	Normal retirement age	100% of PIA
	Age 60 or above, but less than normal retirement age	Reduced; 71½% of PIA or more
Disabled Widow(er)'s Benefit	Starting at age 50-60	71½% of PIA
Parent's Benefit	One dependent parent; two dependent parents	82½% of PIA; 75% of PIA (each)

## Getting the most from the Social Security system

You should do several things to ensure that you receive the most protection from Social Security that the system offers.

### ***Check your Social Security earnings record***

You should periodically (every couple of years) check your Social Security earnings record to make sure that your earnings have been properly credited. To do this, you can request a *Social Security Statement* from the Social Security Administration. At your request, this statement will be mailed to you. You can review it to check that all your annual earnings from employment or self-employment have been properly credited to your account. This statement will also estimate the amount of Social Security benefits you will be eligible to receive in the future (based on your actual earnings and projections of future earnings). You can request this statement through your

local Social Security Administration office or by calling (800) 772-1213. You may also request one on-line through the Social Security website ( [www.ssa.gov](http://www.ssa.gov)).

### ***Optimize your Social Security benefits***

To get the most out of Social Security, you have to make some decisions. Deciding when to retire and begin receiving benefits is important because the age at which you elect to begin receiving benefits can greatly affect the amount of monthly benefit you receive and your overall lifetime benefit. You'll also need to decide whether you want to work after you begin receiving benefits, and if so, determine how your wages will affect your benefit. Finally, if you are a business owner or a self-employed individual, you need to consider how you can minimize your Social Security payroll taxes.

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