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Social Security:: Mysteries Unveiled

Social Security is a program of the American government that dates to the 1930s. It was designed to pay workers a continuing income starting at age 65. In those that time period, the life expectancy of a man was 56.6 years, and 60.6 years for a woman.

In 1936 and 1937, over 35 million Social Security (SSA) cards were mailed out. The first SSA recipient was a legal secretary whose first check of $22.54 was given to her with great public fanfare in January 1940. She lived to age 100, which probably should have clued the government into the fact that people would live longer in the future.

SSA is funded by means of pre-income tax, payroll deductions. In 2013, employees paid 6.2% of their salaries to SSA (there had been a one-time 2% reduction in 2011 and 2012), while employers still paid a 6.2% share. Along with the Medicare payroll tax share, this comprise what is called FICA. Self-employed people pay the same as the total of the employee + employer share.

Social Security Eligibility

Social Security is earned based on credits. A maximum of 4 credits per year can be earned. Credit is earned when a worker is paid at least the threshold salary -- $4520/year earns four credits in 2012.

Someone accumulating 40 credits is eligible for full Social Security benefits, the amount of which is based on their salary. (Medicare eligibility is also based on 40 credits, or 40 quarters of payroll tax contributions).

How Is Social Security Benefit Level Calculated?

The amount that a person is eligible to receive is based on:: (the following is from SSA Pub # 05-10070)

Social Security benefits are based on your lifetime earnings. Your actual earnings are adjusted or "indexed" to account for changes in average wages since the year the earnings were received. Then Social Security calculates your average indexed monthly *earnings during the 35 years in which you earned the most. We apply a formula to these earnings and arrive at your basic benefit, or "primary insurance amount" (PIA). This is how much you would receive at your full retirement age.*

Note that as one continues to work and contribute to the SSA through FICA taxes, their SSA benefits will be effected, even if they continue to work after SSA eligibility is attained.

Secondly, SSA does apply a maximum benefit, regardless of how high one's earnings are during their working years. The maximum monthly benefit at FRA in 2012 is $2,513, while the average benefit being paid was $1,229 for a single worker, and $1,994 for a couple.

When Am I Eligible?

Many people confuse SSA eligibility with Medicare eligibility. While Medicare is available to qualified people at age 65, SSA eligibility is determined by one's year of birth. While not currently under discussion, it is always possible that lawmakers may further alter the following eligibility ages for younger workers.

YEAR OF BIRTH	FULL RETIREMENT AGE
1943 – 1954	66
1955	66 + 2 months
1956	66 + 4 months
1957	66 + 6 months
1958	66 + 8 months
1959	66 + 10 months
1960	67
After 1960	67

So, two important terms have been introduced which will come into further focus as we proceed:

- **Primary Insurance Amount (PIA)**
- **Full Retirement Age (FRA)**

How Much Will I Get Paid?

Once someone has reached eligibility, they can receive SSA benefit payments starting at age 62, albeit at a reduced amount.

A person can also delay receiving SSA benefits after attaining FRA, and in turn receive a higher benefit for each year of delay, up to age 70.

Primary Insured Percentages

AGE	62	63	64	65	66	67	68	69	70
%	-30	-25	-20	-13.3	-6.7	0	+8	+16	+24

If both spouses have worked and have become eligible for SSA benefits, they can each receive benefits based on their payment records. However, a spouse can also receive benefits based on the earnings of the other eligible spouse.

Statistically, in 2012, about three-fourths of all SSA recipients are taking benefits prior to full retirement age.

Spousal Share of PIA

AGE	62	63	64	65	66	67
%	32.5	35	37.5	41.67	45.83	50

Example #1:: Spouse #1 receives a SSA benefit at FRA of $2000 per month. Spouse #2, who does not have a income record, also filing for benefits at FRA, can receive a spousal benefit of $1000.

Example #2:: Spouse #1 receives a SSA benefit at FRA of $2000 per month. Spouse #2 qualifies for own SSA benefit at FRA of $1500 based on own income record. Spouse #2 refuses the spousal benefit in favor of own benefit since it is greater.

Example #3:: Spouse #1 receives a SSA benefit at FRA of $2000 per month. Spouse #2 qualifies for own SSA benefit at FRA of $800. Since the spousal benefit would be $1000, Spouse #2 files for spousal benefit.

Can I Receive SSA Benefits and Continue to Work?

The simple answer to this question is “yes” but there are limitations on how much you can receive if you work and take benefits prior to your FRA.

- If a beneficiary elects to start taking SSA benefits prior to FRA, $1 of benefits will be withheld for every $2 earned above the income limit of $15,120 per year (2013 limits).
- In the year a beneficiary attains FRA, $1 of benefit will be withheld for every $3 of income over the limit of $40,080 per year (2013 limits).
- Following attainment of FRA, there is no limit on income received.

What is the "Deeming Provision"?

If you take benefits prior to FRA, you are deemed to have filed for all benefits at the time of filing. By selecting benefits at or after FRA, you can chose to take one benefit while continuing to get delayed credits on another benefit, and then switch to a higher benefit at some time in the future. This provision applies to all benefit income strategies presented here.

How Do Spousal Benefits Work?

As described above a spouse can file for a SSA Spousal Benefit once the other spouse has filed for their benefit. The minimum age for a spouse to apply for the spousal benefit is 62. Also, as shown above, the amount of the spousal benefit decreases for each year that the beneficiary applying for the benefit is less than FRA.

A spouse who is divorced from a former spouse, when they had been married for at least 10 years and is currently unmarried, can apply for a spousal benefit using the former spouse's PIA to determine the benefit.

Married spouses cannot both apply for a spousal benefit based on the other spouses benefit.

What is the "File and Suspend" Strategy?

With many couples, there is a disparity of PIA. A lower earning spouse can take advantage of the higher earning spouse's PIA without the need for the higher earning spouse to also take their benefit.

In such a case, the higher earning spouse would file for benefits, and immediately suspend receiving those benefits. This allows the lower earning spouse to apply for a spousal benefit and begin receiving those benefits now while the higher earning spouse still is working or desires to wait and earn a higher benefit at either FRA or later.

As an example::

- Spouse #1 is eligible for a $2200 per month PIA, but wants to keep working past FRA and earn a higher benefit by age 70.
- Spouse #2 has a work record with a $600 per month PIA. Spouse #1 files, and immediately suspends benefits, which then allows Spouse #2 (who has reached FRA) to file for a spousal benefit of $1100, which is greater than Spouse#2's own work record benefit.

In the above example, if Spouse #2 were to file for a spousal benefit at an age earlier than FRA, the benefit would be lower, as illustrated in the above table.

As a cautionary note, filing for a spousal benefit prior to FRA locks in that benefit level for the filing spouse.

What is the "Claim Now, Claim More Later" Strategy?

This concept uses the benefits of both spouses, but times benefit receipt to take advantage of income increases tied to age attainment::

- Spouse #1 is the higher earning spouse.
- Spouse #2 files for benefits based on own work record. The PIA at FRA would be $600 per month, but Spouse #2 files at age 62, so only receives $450.
- Spouse #1, who has reached FRA (see again the cautionary note in the previous section), files for a spousal benefit, which is calculated on Spouse #2's PIA at FRA, and receives $300 per month.
- Spouse #1 continues to work, and then files for own benefit at age 70, which in this case is $2904.

What are Survivors Benefits?

In the event of the death of a significant wage earner, the survivors are entitled to limited benefits based on the wage earners SSA benefit. Some general rules are::

- The deceased worker must have earned enough credits to qualify for SSA benefits
- Except when death is due to an accident, a couple must have been married for at least 9 months prior to death
- A survivor, if at FRA, will get the full SSA benefit of the deceased, but must be at least 60, or age 50 if disabled, to get a reduced benefit
- The benefit is not available if the survivor gets remarried prior to age 60
- An unmarried dependent can receive a benefit if under 18 or age 19 if in high school full time. A unmarried dependent that was disabled prior to age 22 is also eligible for benefit.
- A former spouse, under rules given earlier, can also receive a benefit

More specific information about survivor's benefits are available in SSA publication "Requirements for Survivors Benefits" through www.SSA.gov

Are My SSA Benefits Taxable?

Unfortunately, the answer may be "yes." Since 1997, the federal government has applied income tax rules to SSA benefits. Depending on total income, and filing status, a percentage of SSA income is combined with all other income for purposes of computing income tax::

Combined Income Amount	Portion of SSA Taxed
Individual: $25,000-$34,000	Up to 50%
Individual: over $34,000	Up to 85%
Joint Return: $32,000-$44,000	Up to 50%
Joint Return: over $44,000	Up to 85%

While beneficiaries should consult a qualified tax or financial services professional for guidance, some general rules of thumb are::

- Delay benefits while generating income from other assets. This reduces overall income for which taxes are calculated;
- Generate retirement income using instruments such as Roth IRAs or life insurance, which are free from taxes.

Estimating SSA Benefits

The mailing of paper statements of SSA estimated benefits was discontinued in 2011. People can go to www.ssa.gov and use the calculator to estimate benefits based on their current work income records.