- Understanding Social Security -

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History

- ❖Signed into law August 14, 1935
- ❖Began benefit accrual January 1, 1937
- ❖Initially lump sum benefit
- ❖Monthly payments began in 1942
- ❖Automatic COLAs started in 1975
- ❖Partial taxation of benefits effective 1984
- ❖Paper statements stopped in 2010
- ❖Estimates & tools available - www.ssa.gov

Eligibility

- ❖Earned 40 credits of coverage
- ❖Credit of work is equivalent to $1,120 of earned income
- ❖Only 4 credits may be accumulated annually
- ❖Survivor benefits are available to the dependents of a deceased worker who has worked 1½ years of the prior 3 years
- ❖Spouse of insured, disabled, or deceased workers
- ❖Age 62 for retirement benefits
- ❖Age 60 for survivor's benefits
- ❖Disabled, Widowed and not remarried

Primary Insurance Amount

- ❖Calculated on average monthly earnings
  - ❖35 highest earning years
  - ❖Employer and employee each contribute 6.2%
  - ❖Maximum benefit base
- ❖Determines benefits paid
- ❖Reductions and increases – determined by age

Collecting

- ❖Reduced benefit at age 62
- ❖Full retirement age (FRA) dependent on year of birth
  - ❖ FRA is 66 years if born between 1943 and 1954. FRA increases for those born after 1955
- ❖Reduction of value for early retirement – approx. 25%
- ❖Maximum benefit at age 70 – Increased by approx. 35%
- ❖COLA increases

Taxation

- ❖Ind – Combined income between $25,000 and $34,000
  - ❖Income tax on 50% of your benefits
- ❖Ind – Combined income more than $34,000
  - ❖Up to 85% of your benefits may be taxable
- ❖Jt – Combined income between $32,000 and $44,000
  - ❖Income tax on 50% of your benefits
- ❖Jt – Combined income more than $44,000
  - ❖Up to 85% of your benefits may be taxable

Collecting Early vs. Waiting

At what age would the amount collected break-even?

Retirement Ages	Break-even Age
62 & **1** month versus **66**	**76** years & **10** months
62 & **1** month versus **70**	**79** years & **3** months
66 versus **70**	**81** years & **0** months

*The Social Security program faces a long term financing shortfall. The trust fund's reserves are currently projected to cover payments until the end of 2037. Then there will only be sufficient resources to pay about three quarters of scheduled benefits. For full checks to be issued after that date the program's financing or benefit structure must be modified. **SOURCE** www.ssa.gov as of 9/2011*

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The Anticipated 12 'Fixes'

per the U.S. Senate Special Committee on Aging report released in June 2011   www.ssa.gov

1. Reduce benefits. If SS payouts were reduced by 3% for new beneficiaries, about 18% of the funding shortfall would be eliminated. A 5% benefit cut would reduce the deficit by 30%. Alternatively, reductions could be more gradually phased in and exempt those with low lifetime earnings.

2. Raise the retirement age. The eligibility age for unreduced benefits currently ranges from 65 to 67 depending on the worker's year of birth. Proposals to push back the retirement age include accelerating the increase currently underway to age 67, further increasing the full retirement age to 68 or 70, and indexing the full retirement age to keep up with longevity. Each of these switches, however, eliminates less than a third of the deficit.

3. Increase worker and employer contributions. Workers and their employers currently pay 6.2% of earnings up to $106,800 into the system. Self-employed workers pay 12.4% up to the same cap. If the contribution rate were increased by 1.1%, the projected deficit would be eliminated.

4. Boost future contributions. Taxes do not need to be increased today since there is currently enough money in the SS trust fund to pay out scheduled benefits. If the contribution rate was increased to 7.2% for workers and employers in 2022, and to 8.2% in 2052, the shortfall would be eliminated. Alternatively, taxes could be gradually ramped up by 1/20% annually for 20 years, which would decrease the deficit by about 69%.

5. Tax as needed. Social Security contribution rates could be designed to increase as funds are needed and reduced when there is a surplus. Additionally, efforts to collect unpaid Social Security payroll taxes could be enhanced.

6. Modify the Social Security tax cap. Workers pay into the SS system on earnings up to $106,800 in 2011. About 83% of worker earnings were subject to SS payroll taxes. If all earned income above $106,800 annually were subject to SS contributions but did not count toward benefits, Social Security's projected deficit would be completely eliminated. If the higher income counted toward SS benefits, about 95% of the shortfall would be absolved.

7. Average in more working years. Checks are currently based on an avg. of a worker's 35 highest paid years. Those who haven't worked 35 years have zeros averaged in. The avg. period could be increased to 38 or 40 years, which would reduce the deficit by 14% and 23% respectively.

8. Decrease the cost-of-living adjustment. Benefits are currently automatically adjusted each year to keep up with inflation, as measured by the CPI. Reducing the cost-of-living adjustment by 1% each year would eliminate 78% of the deficit. Even knocking half a percent off the annual adjustment would reduce the deficit by 40%.

9. Lower spousal benefits. Social Security pays a benefit to nonworking and low earning spouses equal to up to 50% of the higher earning spouse's check. One proposal would gradually lower the maximum spousal benefit to 33% by 2026. This change would reduce about 6% of the long term deficit. However, this provision may have less of an impact over time as more women become entitled to benefits based on their own work records.

10. Include more workers. About 94% of workers pay employment or self-employment SS taxes. Some Americans are currently exempt from SS taxes including government workers, federal workers hired before 1984, college students working at academic institutions, and ministers who choose not to be covered. Extending coverage to workers who previously did not participate would only reduce the Social Security shortfall by about 9%.

11. A legacy tax. The first retirees who received Social Security payments from the system didn't pay SS taxes throughout their entire working life. Including a 3% legacy tax on earnings above the current tax cap of $106,800 or on adjusted gross income over $125,000 for individuals and $250,000 for couples would eliminate close to a third of the shortfall. Also directing estate tax revenue into the SS trust fund would eliminate 20% of the deficit.

12. Diversify investments. Part of the SS trust fund could be invested in equities to try to earn returns that would help to sustain the SS program. Investing 15% of trust fund assets in equities would reduce the deficit by 14% if a 9.4% rate of return was achieved. If 40% of the trust fund were shifted into the stock market and earned 9.4% annually the deficit could be reduced by a third.