



Social Security Primer

If you're like most, you know what Social Security is, but you're a little hazy on the details. Don't feel bad. There are 78 million others in the same boat. Retirement is on the horizon, though, so it's time to bring you up to speed.

Is Social Security enough to live on?

I won't say it's impossible, but it's not easy. For 2013, the maximum monthly benefit for a person retiring at full retirement age (66) is \$2,533. That assumes you earned the maximum taxable amount of income every single year after turning 21. Not many people are in that category. In fact, the average estimated monthly payment for 2013 is \$1,261.

Multiply that times 12 and you're officially below the poverty line. Social Security is a great way to supplement your income, but being totally reliant on it is not a retirement plan. In all likelihood it means that your retirement planning has failed.

Can I count on Social Security?

Those at or near retirement will probably receive most (if not all) of what was promised. Those with a long ways to go probably won't be so lucky. Why? Social Security is a self-financed program that uses tax dollars from current workers to pay the benefits of current retirees. In 1945 there were 40 workers for every person collecting benefits. Now there are about 3 workers for every retiree. High unemployment and a wave of retiring baby boomers have put further strain on the program.

Benefits being paid already exceed tax revenues collected and in their 2012 report, the Social Security Board of Trustees estimated that the program will only be able to pay promised benefits through 2033 (three years earlier than previously estimated). At that point the Social Security trust fund will be exhausted and revenue from workers will only be able to pay about 75 percent of promised benefits. Expect taxes to be raised and benefits to be cut long before we get to that point.

When can I begin collecting benefits?

If you are eligible to receive Social Security benefits, you can begin collecting reduced benefits as early as age sixty-two. Most people (all 78 million baby boomers included) will

need to be on the downhill slide to seventy before becoming eligible for full benefits. [Click here](#) to see a detailed chart of full retirement ages.

What if I retire early or late?

Retire early and your benefits will be permanently reduced. Retire late and they will be increased. How much depends on how early or late in relation to your full retirement age. Retire up to 36 months early and your benefits will be reduced by 5/9ths of 1 percent per month. Anything over 36 months results in a 5/12ths of 1 percent reduction per month. For example, if your full retirement age is 66 years and 8 months and you retire at 62 (56 months early), then you can expect an almost 30 percent reduction in benefits.

Those retiring late get a credit for each year they wait. If you were born after 1943, the credit is 8 percent per year and it is paid to a maximum age of 70. For example, if your full retirement age is 67 and you retire when you're 70, then you will have a 24 percent permanent increase in your monthly benefits.

Will my benefits be subject to tax?

Maybe. If you have income sources in addition to Social Security, you may need to pay taxes on a portion of your benefits. If your modified adjusted gross income (MAGI) plus half of your Social Security benefits exceed a certain amount (\$34,000 if you're a single filer and \$44,000 if you're a joint filer), you will likely need to pay taxes on 85 percent of your Social Security benefits. If your MAGI is less than that, but still more than \$25,000 for single files or \$32,000 for joint filers, then you may need to pay taxes on 50 percent of your benefits. For further information on taxation of Social Security benefits, see IRS Publications 554 or 915. Tax law is complicated and subject to change, so always consult a trusted tax adviser.

Will continuing to work affect my benefits?

You can work while collecting benefits, but if you haven't reached full retirement age, your benefits will likely be reduced. I say likely because you are allowed to earn a certain amount of income before they begin docking your benefits. For 2013, the earnings limit is \$15,120. If you are under full retirement age, your benefits will be reduced \$1 for every \$2 you earn above that limit. In the year you reach full retirement age, the penalty will be reduced to \$1 for every \$3 of earnings and the earnings limit will be increased (\$40,080 for 2013). Once you reach full retirement age, you are free to earn as much as you want with no reduction in benefits.

The earnings test reduction is not permanent. At full retirement age your benefits will be increased to compensate for the benefits withheld because of your earned income.

How do spousal or family benefits work?

Others in your family may be entitled to receive Social Security benefits based on your earnings history. This could include a spouse, former spouse of at least 10 years, disabled children, unmarried children under age 18, or children under 19 who are full-time students. These benefits are in addition to the benefits that you are entitled to and could be worth as much as 50 percent of your benefit for each person who qualifies.

Each family has a maximum benefit that they can receive, however, which is roughly equivalent to 150 to 180 percent of your full retirement benefit. If this amount is exceeded, your benefits won't be affected, but everyone receiving benefits based on your work history will see their benefits reduced proportionately.

How can I get an estimate for my Social Security benefits?

Unfortunately, the Social Security Administration only sends benefit estimate statements to people in certain age groups. If you haven't received a statement recently, you can request one online at www.ssa.gov/mystatement. In addition, there are other calculators and estimators available at the Social Security website to estimate your potential future benefits.

How do I apply for benefits?

You can apply online at <http://www.ssa.gov/> using the Internet Social Security Benefit Application. You can also apply by phone, mail, or in person at any Social Security office. To cut down on your wait time, it's recommended that you call 1-800-772-1213 (TTY 1-800-325-0778) to make an appointment. You will need certain documents to apply, such as your birth certificate, naturalization papers, U.S. Military discharge papers, and/or W-2 forms (or self employment tax returns if applicable) for last year.

When should I file for benefits?

You basically have four choices. You can file early, file on time, delay filing to accrue increased benefits, or file and suspend. If you are married, your spouse has the same options. Most want to maximize the benefits they receive, so it makes sense to choose the option or combination of options that result in the greatest cash flow for you and your family. Work with a trusted adviser or someone at your local Social Security office to determine which claiming strategy is right for you.

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