Social Security Benefits

UNIT 6-6

How does the government help you finance retirement?

- There are many expenses involved in maintaining a comfortable, healthy lifestyle when you are not working.

- In addition to your own savings plans, the government has an insurance program that helps workers in their retirement by providing financial assistance.

- The Great Depression (in the 1930s) led to the **Social Security Act**: an insurance program that paid workers benefits after they retired.
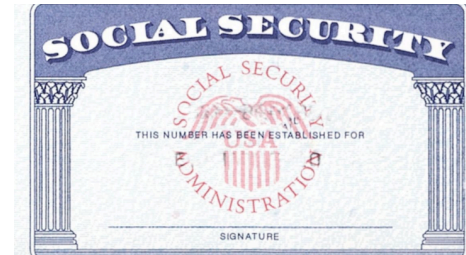
The Social Security Act

- Social Security Taxes fund **Old Age, Survivors, and Disability Insurance (OASDI)**.

- This insurance pays benefits to **retired** workers that help them meet their financial obligations.

  o Medicare taxes fund a health insurance program that provides benefits to people over age **65** and to some disabled persons under 65. It helps pay for doctor's costs, hospital costs, and prescription drugs.

The Social Security Act

- Younger employees are usually concerned with these programs because they are funded through taxes taken out of **employee paychecks**.

- There is a maximum amount of earnings subject to Social Security taxes. This maximum hold no matter how many jobs you have – it is a **per-person** maximum for the year.

- As you get older, you will be more concerned with what these benefits provide – benefits that you contributed to over your entire working career.

The Social Security Benefits

- Social Security benefits are based on **your earnings over your working lifetime**.

  o Benefits can start as early as **62**, but are **reduced**. Anyone born after 1960 must wait to start collecting their full retirement benefit until they are **67** (full retirement age).

- You can keep track of every year's earnings by requesting a Social Security statement each year from the IRS.

Future

Example 1:

In 2009, the maximum amount an individual should pay for Social Security taxes was $6,621.60. That year, John had two jobs. He earned $73,440 working at a nursing home the first 8 months. He switched jobs in September and began to work in a hospital, where he earned $42,566. Each of his employers took out the required 6.2% for Social Security. How much Social Security tax did he overpay?

Nursing home: $6.2\% \times 73{,}440 = 0.062 \times 73{,}440 = \$4{,}553.28$

Hospital: $6.2\% \times 42{,}566 = 0.062 \times 42{,}566 = \$2{,}639.03$

Total paid: $4{,}553.28 + 2{,}639.03 = \$7{,}192.31$

The two employers withheld $7,192.31 in Social Security taxes in 2009.

Example 1:

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Since John paid $7,192.31 but the maximum anyone should pay that year was $6,621.60.

Overpayment: $7,192.31 - 6,621.60 = $**$570.71**

Social Security Statement

- Your social security statement is a record of the money you **earned** every year.

    o You get a certain number of credits each **working year**.

    o It includes the number of Social Security credits you have earned.

    o You can earn a maximum of **four** credits for each year.

    o Employers report earnings **once a year** and credits are based on your **total wages** and self-employment income during the year, no matter when you did the actual work.

    o The amount of earnings it takes to earn a credit changes each year.

Example 2:

Fran requests her annual Social Security statement from the Social Security Administration each year. She wants to check how many Social Security credits she received for 2009. She finds that to earn a credit it 2009, she needed to earn $1,090. She worked all year and earned $8,102 per month. How many credits did she earn in 2009?

To earn the maximum 4 credits, she needed to have earned:

$$4 \times \$1,090 = \$4,360$$

Since she earned over $4,360, she earned her 4 credits for the year.

More with the benefits...

- Your social security *benefit* is based on the **35 highest** years of earnings throughout your lifetime.

- The earnings are adjusted for **inflation**. The adjusted earnings are used to find the average adjusted monthly earnings.

- Keep in mind that benefit computations **can change**, and you must be sure to keep up to date on how your particular benefit will be computed.

Will Your Social Security Be Enough?

More with the benefits…

- The formula for computing Social Security benefits is:

  - **90%** of the first **$680** of monthly earnings

  - **32%** of the monthly earnings between **$680** and **$4,100**

  - **15%** of the earnings, over **$4,100**

Example 3:

Marissa reached age 62 in 2007. She did not retire until years later. Over her life, she earned an average of $2,300 per month after her earnings were adjusted for inflation. What is her Social Security full retirement benefit?

➤ 90% of the first $680 of monthly earnings: $.90 \times 680 = \$612$

➤ 32% of the monthly earnings between $680 and $4,100: $.32 \times 1620 = \$518.40$

➤ ~~15% of the earnings, over $4,100~~

Amount earned over $680: $2,300 - 680 = \$1620$

Total earned in retirement benefit: $612 + 518.40 = \textbf{\$1,130.40}$

Retiring Early

- If you retire before the age of 67, your retirement benefit is reduced as follows:

    o If you retire at age 62, the reduction is about 30%

    o If you retire at age 63, the reduction is about 25%

    o If you retire at age 64, the reduction is about 20%

    o If you retire at age 65, the reduction is about 13.3%

    o If you retire at age 66, the reduction is about 6.7%
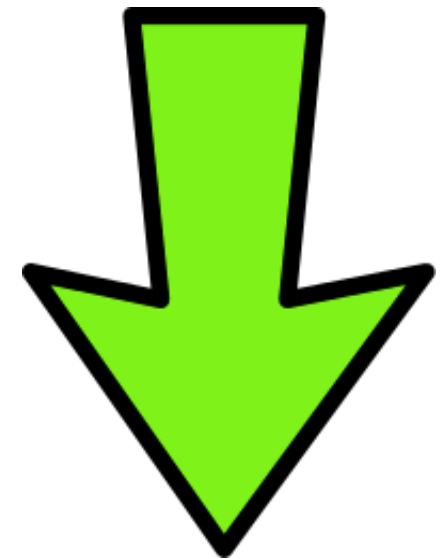
Example 4:

Marissa (from example 3) retired at the age of 65. What will her monthly benefit be since she did not wait until age 67 to receive full retirement benefits?

Marissa's full retirement benefit was $1,130.40.

Since she retired at age 65, the benefit will be reduced about 13.3%.

$13.3\% \text{ of } 1,130.40 = .133 \times 1,130.40 = \$150.34$

$1,130.40 - 150.34 = \textbf{\$980.06}$

Medicare Benefit

- When you apply for Social Security, you may also apply to receive Medicare.

- Medicare has four parts:

  o <u>Part A</u>: hospital insurance that helps pay for inpatient care in a hospital.

  o <u>Part B</u>: medical insurance and helps pay for **doctor's visits**

    ▪ You must pay a **monthly** premium for this. The standard premium for 2017 was $109 and for 2018 is $134.

Medicare Benefit

- When you apply for Social Security, you may also apply to receive Medicare.

- Medicare has four parts:

    o <u>Part C</u>: Medicare advantage; is available in **only some areas**

    o <u>Part D</u>: **prescription drug** coverage

Example 5:

Ryan has retired and is qualified to receive Medicare. In 2017, he paid the standard monthly premium of $109. How much did he pay for the year?

Ryan paid the standard monthly premium all year.

$109 \times 12 = $ **$1,156.80**