Social Security Fundamentals

Guidelines For Making Well-Informed Decisions

When it comes to thinking about the part Social Security plays in your retirement plan, most of your concerns probably relate to one of two main questions:
1) How much can I expect to receive? (determining amount of benefit)
2) What is the best age for me to begin? (determining timing of benefit)

Unfortunately, the only simple answer to most Social Security questions is, "it depends," because the benefit each person receives is relative to both his or her earnings history and the choice he or she makes about the age benefits begin. Throw in the fact each person approaches Social Security with a different set of financial circumstances, tax issues and other considerations, and you really have a lot to think about.

This "relative" nature of Social Security makes your decision about Social Security a complex one. However, this relativity can be seen as a positive instead of a negative. The good news is, if you understand some basic concepts, you can make well-informed decisions to help you optimize both the amount and the timing of your benefit, relative to other factors in your life.

A good source of information about the Social Security benefit you personally may receive is the Social Security Statement mailed to you by the Social Security Administration each year. Be sure to read and understand it. Another wealth of information, including easy to use calculators, is the Social Security Administration website at www.SSA.gov.

The rest of this brochure provides an overview of the basic concepts you need to understand to make well-informed decisions about Social Security. If you have any questions about this material, or want help making decisions about Social Security, your Financial Consultant can talk to you about the role Social Security plays in your retirement plan.

What You Need to Know About Determining the Amount of Your Benefit

Funding Your Benefits

Reduced to its basics, Social Security is a trust administered by the Federal government through which current workers and their employers fund benefits paid to current retirees. The money you and your employer pay into Social Security is used now to provide benefits. It is not set aside in an account waiting for you. As a corollary, the benefits you may receive upon retirement are funded by workers and employers paying into the trust after you stop working. (Source = www.SSA.gov)

Key take away — Social Security is a "pay as you go" system.

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Future Payment of Benefits

According to government reports, unless changes to the system are made to adjust for shifting demographics, the Social Security Trust Fund will be exhausted by 2037, at which point there will be enough money to pay only about 76% of scheduled benefits. (Source: "Your Social Security Statement" January, 2010)

Key take away — Depending on your age and when you plan to retire, you may not receive full benefits and/or receive benefits as defined by current Social Security law.

An Incomplete Solution

According to surveys done by the Social Security Administration, Social Security now provides for about 36% of a typical retiree's expenses. At the same time, the U.S. Department of Labor estimates a married couple earning between $50,000 and $100,000 today will receive less than 20% of their retirement income from Social Security. (Source: SSA Publication No. 13-11727 Released April 2010)

Key take away — According to current usage, it's not practical to anticipate that Social Security will cover more than 20-25% of your retirement income needs.

Contribution and Benefit Caps

Social Security law authorizes the Federal government to tax workers on earnings up to $106,800 for 2010. Earnings above $106,800 are not subject to Social Security tax. The maximum monthly Social Security benefit at full retirement age is $2,346 for 2010. (Source: www.SSA.gov)

Key take away — There is an upper limit on both what you are expected to contribute and what you can expect to receive in benefits.

Qualifying for Benefits

You must be insured under the Social Security program to receive benefits. Your insurance status is determined by the number of Quarters of Coverage (also called "credits") you have earned for meeting the minimum work requirements defined by Social Security law. You may earn up to four credits per year and you need to earn 40 credits to qualify for retirement benefits. (Source: www.SSA.gov)

Key take away — You need the equivalent of ten full years of a minimum level of employment as defined by Social Security law to qualify for benefits.

Determining your Benefit

Current Social Security law uses a special formula to calculate benefits. First, it indexes your average earnings from the highest 35 years of your working life, so the value of each year's earnings are adjusted for inflation and changes in average wages to be expressed in current dollars. Then it uses your average indexed monthly earnings to determine your basic benefit, or "primary insurance amount" (PIA), based on the age at which you decide to begin benefits. (Source: www.SSA.gov)

Key take away — A number of factors go into determining your benefit. For a quick and easy estimate, look at your annual Social Security Statement or use one of the calculators available at www.SSA.gov.

What You Need to Know About Determining the Timing of Your Benefit

Early Retirement

You become eligible for Social Security beginning at age 62. However, if you elect to take early retirement, your monthly benefit will be lower than if you had waited until your normal retirement age, because the lifetime benefit is spread over more time. See the chart below to determine how much your monthly benefit is reduced if you elect to take early retirement.

Key take away — You can begin receiving benefits at 62, however they will be permanently lower than if you had waited until your normal retirement to begin.

Normal (or full) Retirement

In 2010, the age at which you can begin receiving your full Social Security benefit ranges from 66 to 67, depending on the year you were born and the year you retire. See the chart below to determine what age you can begin receiving full Social Security benefits.

Key take away — Normal retirement age depends on the year you were born.

Normal Retirement Ages and Early Retirement Reductions					
Year of Birth[1]	Normal (Full) Retirement Age	Early Retirement Reduction, Month	Monthly % Reduction[2]	Total % Reduction[2]	Age in 2010
1940	65 and 6 months	42	0.535	22.50	70
1941	65 and 8 months	44	0.530	23.33	69
1942	65 and 10 months	46	0.525	24.17	68
1943-1954	66	48	0.520	25.00	67-56
1955	66 and 2 months	50	0.516	25.84	55
1956	66 and 4 months	52	0.512	26.66	54
1957	66 and 6 months	54	0.509	27.50	53
1958	66 and 8 months	56	0.505	28.33	52
1959	66 and 10 months	58	0.502	29.17	51
1960 and later	67	60	0.500	30.00	50

[1] If you were born on January 1st, you should refer to the previous year.

[2] Monthly and total percentage reductions are approximate due to rounding. The actual reductions for the worker are 0.555 or 5/9 of 1% per month the first 36 months and 0.416 or 5/12 of 1% for subsequent months.

Source: www.SSA.gov

Delayed Retirement Credit

Delayed retirement credits given for retirement after your normal retirement age can increase your benefits. To receive full credit, you must be insured at your normal retirement age. No credit is given after age 69, so the largest benefit you can expect to receive is for retirement at 70. See the chart below to determine how much your benefit would be increased if you elect to delay retirement.

Key take away — Postponing retirement until after your normal retirement age increases your benefit.

Delayed Retirement Credit		
Year of Birth[1]	Credit Per Year	Age in 2010
1933-34	5.5%	77, 76
1935-36	6.0%	75, 74
1937-38	6.5%	73, 72
1939-40	7.0%	71, 70
1941-42	7.5%	69, 68
1943 and later	8.0%	67

[1] If you were born on January 1st, you should refer to the previous year.

Source: www.SSA.gov

Your Break-even Age

As you can see, the amount of your benefit depends on whether you choose early retirement, normal retirement or delayed retirement, with your benefit increasing the longer you wait. Your "break-even" age is the age at which you would recover the full value of the benefits lost by postponing retirement. See the chart below for sample benefits and break-even ages.

Key take away — Go to www.SSA.gov for calculators to help you estimate the amount of benefit you will be eligible for and the break-even ages for each.

Retirement Benefit Estimates For Person Born In 1950 (Age 60 in 2010)			
Retirement Ages	Monthly Benefit Amount	Retirement Ages Considered	Break-Even Age
Early (62 and 1 month)	$1,594.00	62 Versus 66	77 Years
Normal (66)	$2,167.00	62 Versus 70	79 Years
Maximum Delayed (70)	$2,946.00	66 Versus 70	81 Years

This chart is for illustrative purposes and not intended to be representative of any specific investment vehicle. Past performance is not indicative of future results.

Source: www.SSA.gov

Other Things that May Affect Your Decision

Benefit Reduction for Earned Income

If you retire before your normal retirement age and receive earned income, your benefit will be reduced by $1 for every $2 of earned income above $14,160 for 2010.

For the purposes of this penalty, earned income is defined as wages earned for work done for others and/or net earnings from self-employment. Income from other government benefits, investment earnings, interest, pensions, annuities and capital gains do not count.

Furthermore, if you earn wages, you must count the income in the year it is earned (income from accumulated sick or vacation pay, bonuses, etc. should not be counted in the following year, if that is when it is paid to you). And if you are self-employed, you must count income in the year it is received – unless this would delay payment on early retirement earnings until after you qualify for normal retirement benefits, in which case you would need to count the self-employment income in the year it was earned. Deferred compensation is also included in the year it is earned, not in the year it is later received.

This earned income penalty does not apply once you achieve full retirement age.
Source: www.SSA.gov

Key take away – If you retire before your normal retirement age and receive earned income above $14,160, your benefit may be reduced until you reach normal retirement.

Benefit Reduction for Earned Income in Early Retirement			
	Age 62 to Normal Retirement Age	Year of Reaching Full Retirement Age – Months Prior to Attaining Normal Retirement Age	Month Attaining Full Retirement Age and Greater
Earned Income	› $14,160	$37,680	No limit
Reduction in Benefit	$1.00 for every $2.00 earned	$1.00 for every $3.00 earned	Not applicable

Income Tax Consequences

Your Social Security benefit may be taxable, based on your combined income. Your combined income is determined by adding your adjusted gross income, your nontaxable interest and one-half of your Social Security benefit. See the following table to determine how much of your Social Security benefit may be subject to income tax.

Key take away — Depending on how you file and your combined income, 50% to 85% of your benefit may be subject to Federal income tax at your marginal tax rate.

Amount of Benefit Subject to Federal Income Tax (2010)		
	50% Of Benefit Subject To Federal Income Tax At Your Marginal Tax Rate	85% Of Benefit Subject To Federal Income Tax At Your Marginal Tax Rate
Filing Individually	Combined Income of $25,000 to $34,000	Combined Income More Than $34,000
Filing Jointly	Combined Income of $32,000 to $44,000	Combined Income More Than $44,000

Source: www.SSA.gov ; IRS Publication Number 915.

It's A Critical Decision. Get Professional Help.

Making well-informed decisions about when to begin Social Security (and how much benefit you may receive) depends on a number of factors, including:

- Your current health/overall life expectancy
- Your other sources of income in retirement
- Your tax situation in retirement

Ask your financial consultant how Social Security fits into your retirement income plan. He or she can help you explore your options, recommend strategies and make sure the decisions you make about Social Security are appropriate for both your needs and your financial situation in retirement.

And please note, whenever you choose to begin Social Security benefits, you should always apply for Medicare three months before you turn age 65.

This material is based on data obtained from sources we consider to be reliable; however, it is not guaranteed to accuracy and does not purport to be complete.

This information is not intended to be used as the primary basis of investment decisions. Because of individual client requirements, it should not be construed as advice designed to meet the particular investment needs of any investor.

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