Class note

Social Security Fact Sheet

I. Eligibility

1. Individuals earn credits based on working and paying taxes. One credit is earned for $1,050 in wages in 2008.
2. Maximum of four credits per year.
3. 40 credits required to qualify for benefits (10 years).
4. Categories:
   ① Retired worker:
      i. Individual is eligible for reduced retirement benefits at age 62 up through the month before attaining full retirement age.
      ii. Full retirement age is increasing from 65 for workers born in 1938 and later; it will reach age 67 for those retiring in 2022.
   ② Dependent of retired worker
      i. Spouse at age 62, widow (er) at age 60, Ex-spouse if married 10 years.
      ii. Child under 18 and widow with child under 16.
      iii. Child disable before 22 & still disbled
      iv. Disabled widow (er) at age 50.
   ③ Disabled worker
      i. Unable to perform gainful employment for more than a year.

II. Benefits

1. Benefits are derived using the average indexed monthly earnings.
   ① Formula – 90% of first $711, 32% of $711-$4,288, and 15% of $4,288+ (in 2008)
   ② Spouse receive 50% of worker's benefit
   ③ Widow (er) receives 100% of worker benefir.
2. Cost of Living Adjustment (COLAs) have been applied to the benefit since 1975.
3. As of December 2007, the average retired worker received $1,761/month (includes 2.3% COLA)
4. The average retired couple received $1,761/month (include 2.3% COLA).
5. Your benefit remains permanently reduced if you take early retirement.
6. You can work while collecting benefits but your benefit will be reduced if you have not reached full retirement age.
   ① $1 will be deducted from every $2 earned above the annual limit ($13,560 in 2008) if you are under full retirement age for the entire year.

② In the year you reach full retirement age, $1 is deducted from every $3 earned above the annual limit ($36,120 in 2008). This deduction is only against in the month(s) prior to reaching full retirement age.

III. Financing

1. Originally structured as a "pay as you go" program but currently is building reserves.
2. Financing comes two sources.
   ① Primary financing from payroll tax known as Federal Insurance Contributions Act (FICA) is paid by workers and employers (in its entirety by the self-employed).
      i. The FICA rate in 2008 is 12.4% (6.2% workers, 6.2% employers).
      ii. Earning base subject to taxation in 2008 is $102,000.
   ② Secondary financing from income tax
      i. Adjusted gross income + non-tax interest + SS benefits = $25,000 ($32,000 for a couple) up to 1/2 benefits are taxed. If over $34,000 ($44,000 couples) up to 85% tax.
3. There are two Social Security Trust Funds; the Old-Age and Survivors Insurance (OASI) and Disability (DI) Trust Funds.
   ① Retired workers, their families, and families of deceased workers are paid from the OASI Trust Fund.
   ② Disabled workers and their families receive benefits from the DI Trust Fund.
4. Funds not needed to pay current benefits are invested in interest-bearing Treasury securities.
5. Program costs are projected to exceed revenues in 2017 based on current tax rates and benefit levels.

Source: http://www.ssa.gov