

## Social Security

### How does it work?

Social Security is a **compulsory system**. Employers, employees, and self-employed individuals are **required to participate and pay taxes** that finance Social Security benefits.

#### As an employee, you pay:

- **Social Security tax of 6.2 percent of your pay up to the maximum earnings limit (currently \$106,800); reduced to 4.2 percent for 2011 only;**
- **Medicare tax of 1.45 percent of your pay (no income limit on this one).**

**Note:** Your employer also pays this tax on your behalf; self employed people pay the entire tax themselves

### What is it?

Social Security is a federal system of programs designed to protect individuals and families against economic hardship. Most Americans work in occupations covered by the Social Security system, and they will at some point in their lives receive Social Security benefits. The system is administered by the Social Security Administration and financed mainly by Social Security tax (FICA) withholding on wages and by taxes on self-employment income.

- If you were born between **1943 and 1954**, your full retirement age is **66**.
- Full retirement age increases in two-month increments thereafter, until it reaches **age 67** for anyone **born in 1960 or later**.

No matter what your full retirement age, you can begin receiving retirement benefits at age 62. You'll receive a reduced benefit for a longer period.

You can also **delay receiving** retirement benefits past full retirement age. If you delay retirement, the Social Security **benefit that you eventually receive will be as much as 6 to 8 percent higher**. That's because you'll receive a delayed retirement credit for each month that you delay receiving retirement benefits, up to age 70.

**Your retirement benefits are based on your average earnings over your working career.** To be eligible to receive Social Security benefits, you must be insured under the system. To become insured, you have to work for a certain amount of time in an occupation covered under Social Security or be the spouse, ex-spouse, widow or widower, or parent of someone who has.

**If you're married**, it's possible for you to claim Social Security benefits at the appropriate time in one of two ways:

- 1) You can claim benefits in your own name (if you have been employed and have accumulated enough credits over the years), OR
- 2) You can claim benefits as a dependent (whether or not you ever worked), provided that your spouse satisfied the applicable requirements.

Although, you'll probably be entitled to only 50 percent of your spouse's primary insurance amount (PIA)--the benefit that your spouse is entitled at normal retirement age.

### Can a divorced person benefit from an ex-spouse's Social Security entitlement?

In certain cases, a divorced party can qualify as a dependent for Social Security purposes. Thus, you may be entitled to 50 percent of your former spouse's benefits.

**Note:** That this entitlement doesn't reduce your ex-spouse's benefits by one-half; rather, this merely establishes the amount of money you may collect.

### What requirements must be met?

The requirements vary, depending on whether your former spouse is presently of retirement age or has died.

### If ex-spouse is of retirement age:

In order to qualify for one-half of your ex-spouse's Social Security benefits, **all of the following conditions must be met:**

- ✓ Your ex-spouse is currently entitled to receive Social Security retirement or disability benefits
- ✓ You and your ex-spouse had been married for at least 10 years before the divorce became final
- ✓ You are not currently married
- ✓ You are age 62 or older, and not You aren't entitled to collect a retirement or disability benefit based on a PIA that equals (or exceeds) one-half of your ex-spouse's PIA .

**Note:** If you're age 62 or older and you've been divorced for at least two years, you can receive Social Security benefits immediately (based on your former spouse's earnings) regardless of whether that spouse has chosen to retire or has submitted an application for Social Security benefits. This, of course, is assuming that the other four requirements listed above have been satisfied. However, if you choose to receive benefits at age 62 instead of your normal retirement age, the benefit that you would have received at your normal retirement age will be reduced by at least 25 percent (assuming you don't have a dependent child who's entitled to benefits on the deceased spouse's Social Security record). In other words, if you choose to receive reduced benefits at age 62, you will not be entitled to collect full benefits when you reach your full retirement age.

### If ex-spouse has died:

You may also qualify for Social Security benefits if your former spouse has died. **You may qualify if:**

- ✓ Your ex-spouse was entitled to Social Security benefits
- ✓ You and your ex-spouse had been married to each other for at least 10 years before the divorce was finalized
- ✓ You are age 60 or over (or are between ages 50 and 60 and are disabled)
- ✓ You aren't currently married, and
- ✓ You aren't entitled to a retirement benefit that is equal to or greater than 100 percent of your deceased spouse's benefit

If you're age 62 or older and are caring for a dependent child who is entitled to child's benefits based on a deceased parent's Social Security record, then your benefits won't be reduced currently and will remain unreduced later, after you reach your full retirement age. Bear in mind that you can't receive a spouse's benefits prior to age 62, even if you have a dependent child.

**Note:** that if you meet the above conditions, you will be entitled to full widow's or widower's benefits; that is, you will collect an amount equal to 100 percent of your former spouse's PIA, not merely one-half. However, if you're under full retirement age, your benefits will be reduced for each month you receive benefits under your full retirement age. Benefits at age 60 will be 71.5 percent of your former spouse's PIA.

It's also important to note that a divorced spouse may be entitled to a mother's or father's benefit if caring for the dependent child (under age 16 or disabled) of his or her deceased former spouse. Typically, the amount of a mother or father's benefit is equal to 75 percent of the deceased spouse's PIA. Unlike a spousal benefit, it isn't necessary for the marriage to have lasted 10 years.

## Frequently asked questions....

### Question: How does remarriage of the husband and/or the wife impact Social Security benefits?

Answer: If your ex-spouse gets remarried and you don't, your Social Security entitlement will be unaffected. If your ex-spouse is married to a second spouse for at least 10 years and then they get a divorce, you and that second spouse will each be entitled to collect an amount equal to one-half of the former spouse's benefits (assuming that you each meet the requirements set forth above).

If you're the one who remarries, you would then look to your current spouse's PIA in computing your dependent Social Security benefit. However, if you worked for a sufficient period of time, you may be entitled to a larger benefit amount computed based on your own earnings record.

### Question: I'm getting remarried. How will this affect my Social Security benefits?

Answer: *If you're receiving benefits based on your own work record, your benefits will continue. If you're receiving spousal benefits based on your former spouse's work record, those benefits will generally end upon your getting remarried, but you may be able to receive benefits based on your new spouse's work record, or on your own.*

If you're a widow(er) under age 60, or you're disabled but under 50, remarriage ends any benefits based on the record of your deceased spouse. However, if you remarry after age 60 (or after 50 and are disabled), those benefits remain intact, unless you choose to receive the spousal allowance through your new spouse. If your second marriage ends as a result of death, divorce, or annulment in less than 10 years, you will again be eligible to collect benefits on your first spouse's record. Benefits paid to a disabled widow(er) are unaffected by remarriage.

**Question: Are my Social Security benefits subject to income tax?**

**Answer:**

A portion of your benefits may be subject to income tax if your modified adjusted gross income (MAGI), plus one-half your Social Security benefits, exceeds specific limits. Your MAGI equals:

- ✓ Adjusted gross income (or the adjusted gross income of you and your spouse if married and filing jointly), including wages, interest, dividends, taxable pensions, and other sources,
- ✓ Tax-exempt interest income (e.g., interest from municipal bonds and qualified U.S. savings bonds), and
- ✓ Amounts earned in a foreign country, U.S. possession, or Puerto Rico that are exempt from tax

Up to 50 percent of your Social Security benefits may be subject to income tax if:

- ✓ your combined income (MAGI plus one-half your Social Security benefits) exceeds \$25,000 for an individual filing single, unmarried head of household, or qualified widow(er) with dependent (\$32,000 if married and filing jointly).

If your combined income exceeds \$34,000 (\$44,000 if married and filing jointly), up to 85 percent of your benefits is taxable. If you are married and filing separately, up to 85 percent of your benefits will be taxed unless you and your spouse live apart for the entire year.

**Question: Should I retire now at age 62 and collect Social Security benefits, or should I wait until full retirement age?**

**Answer:**

There's no right time to begin collecting Social Security benefits, but the age at which you begin receiving benefits will affect how much retirement income you have, so you should weigh the consequences carefully.

Keep in mind that if you collect Social Security before your full retirement age, your benefit will be permanently reduced.

Depending on the year you were born, you'll receive between 25 and 30 percent less per month if you collect benefits at age 62 than if you wait until full retirement age to begin collecting benefits. However, this doesn't necessarily mean that collecting benefits at age 62 is unwise. In fact, unless you live to an especially old age, you may actually end up with more money if you start collecting Social Security benefits at age 62 than if you wait until full retirement age, because you'll receive more benefit checks.

However, there are also good reasons to wait until full retirement age to start collecting benefits. For example, if you work full-time past age 62, you'll have the opportunity to increase your eventual retirement benefit, particularly if you are in your peak earnings years, because your benefit will be figured using your 35 highest earnings years. Additionally, if you'll barely scrape by after you retire, you may want to receive as much as possible from Social Security each month.

Other things to consider include whether other people will be eligible to receive benefits based on your work record, your eligibility for Medicare, and your estimated life expectancy. The Social Security Administration has several online benefit estimators available at [www.ssa.gov](http://www.ssa.gov) that can help you make an informed decision, or you can talk to a representative by calling (800) 772-1213 if you have questions.

Beneficiary	Minimum Age	Insured Status	Conditions	Amount of Benefit
Spouse of retired worker	62 or earlier if caring for a dependent child (under 16 or disabled) who is eligible for child's benefits	Worker must be fully insured. Spouse does not have to be insured	Worker must be receiving retirement benefits before spouse is eligible	50% of the worker's PIA, subject to early retirement reduction, if applicable
Divorced spouse of worker	62 or earlier if caring for a dependent child (under 16 or disabled) who is eligible for child's benefits	Marriage must have lasted at least ten years before final divorce date. Remarriage may affect benefit	Worker does not have to be receiving retirement benefits but must be 62 or older	Usually 50% of the worker's PIA, subject to early retirement reduction, if applicable
Child of retired worker	No minimum age but must be under 18 or under 19 (in school). Disabled child can be over 18 if disability began before 22	Worker must be fully insured	Worker must be receiving retirement benefits before child is eligible. Child in school must be a full-time student and unmarried	Each child receives 50% of worker's PIA. Family maximum, however, may limit this benefit

The following chart summarizes the relationship between your PIA and your eventual benefits:

Benefit	Requirements	Amount
Retirement	Normal retirement age	100% of PIA
	62 or above, but less than normal retirement age	PIA reduced by 5/9 of 1% for each month under age 65, and by 5/12 of 1% thereafter
Disability	None	100% of PIA
Spouse's Benefit	Caring for dependent child	50% of PIA
	Normal retirement age	50% of PIA
	Age 62 or above, but less than normal retirement age	50% of PIA further reduced by 25/36 of 1% for each of the first 36 months under normal retirement age
Child's Benefit	Child of retired or disabled worker	50% of PIA
	Child of deceased worker	75% of PIA
Mother's or Father's Benefit	Child must be under 16 or disabled	75% of PIA
Widow(er)'s Benefit	Normal retirement age	100% of PIA
	Age 60 or above, but less than normal retirement age	Reduced; 71½% of PIA or more
Disabled Widow(er)'s Benefit	Starting at age 50-60	71½% of PIA
Parent's Benefit	One dependent parent; two dependent parents	82½% of PIA; 75% of PIA (each)