

Demystifying Social Security

Ida May Fuller was the first beneficiary of recurring monthly Social Security payments. Miss Fuller (known as Aunt Ida to her friends and family) filed her retirement claim on November 4, 1939, having worked under Social Security for a little short of three years. While running errands she dropped by the Rutland, Vermont Social Security office to ask about possible benefits. Miss Fuller's claim was the first one on a Certification List and so the first Social Security check (check number 00-000-001), was issued on January 31, 1940 for the amount of \$22.54.

Social Security has changed a lot since 1940. For one, the checks are a lot larger than \$22.54. With 10,000 boomers turning 65 every day, many are planning on Social Security to help finance retirement. But large questions loom ... what is its future and can you count on it?

Here are 7 things you should know about Social Security:

1. **Social Security pays benefits for several purposes, not just retirement benefits.** Did you know that Social Security pays more benefits to children than any other government organization? Depending on your circumstances, you may actually be eligible for Social Security benefits at any age. While the majority of those receiving Social Security receive retirement benefits, many receive benefits because they are disabled, a spouse or a child of someone who gets Social Security, a spouse or child of a worker who died, or a dependent parent of a worker who died.
2. **Each person does not have their own Social Security Account.** Many people believe that the money they pay in Social Security taxes goes into an account for them personally to draw from upon their retirement. This is simply not true. Monies collected from current taxes are paid out to those people currently receiving Social Security with any excess being paid into the Social Security Trust Fund. In other words, current workers pay for current retirees' benefits with the excess taxes going into a general Social Security savings fund.
3. **Full Social Security benefits are not guaranteed.** If the system is not reformed, it is estimated that by 2033, Social Security will start paying reduced benefits. The reduction in benefits is acknowledged by Social Security actuaries and is proof positive that full benefits are not guaranteed.
4. **The Social Security system is facing an impending bankruptcy.** If you think of bankruptcy as a position of having no financial means, then the Social Security system will never be bankrupt. However, if you define bankruptcy as the inability to pay debts as they come due, then the Social Security system is facing bankruptcy. However, this does not account for the Social Security Trust Fund, which is meant to cover periods when benefits exceed revenues. However, it is not until 2033, the year in which the trust fund is depleted, that Social Security benefits will be affected. The depletion of the trust fund, coupled with the negative cash flow, will result in a reduction in benefits

paid to roughly 75% of scheduled benefits. Reform is the only thing that could keep the system solvent.

5. **The longer you wait the more money you'll get.** You can begin receiving Social Security benefits when you turn 62, but payments will be permanently reduced by as much as 30%. Those born between 1943 and 1954 can begin to collecting unreduced benefits at age 66. After that, the full retirement age gradually increases from 66 and two months for people born after 1955 to 67 for those born after 1960 and later. Each year you delay benefits after the age of 67, you earn an additional 8% per year up to the age of 70. Another interesting note is that once people hit their individual full retirement age, benefits are no longer withheld for working and collecting Social Security benefits at the same time.
6. **Your Social Security benefits will be taxed.** In 2012, \$26.7 billion of tax was collected from Social Security benefits. Up to 85% of Social Security benefits are taxed if you have income of more than \$34,000 for single persons and \$44,000 for married couples.
7. **Your spouse can help.** This benefit allows a mate to claim a benefit worth up to one half of a spouse's benefit. What that means is at the age of full retirement, if one spouse's benefit is less than one half of the others, then they are eligible for spousal benefits, which will make up the difference. The spousal benefit even applies to divorced couples who have been married at least 10 years.

Today, Social Security provides benefits to more than 41 million people. But it's only designed to replace about 40% of the average wage earners income after retiring. To have a comfortable retirement, Americans need much more than Social Security. They need savings, investments and professional advice.

1) Social Security Administration, "The First Social Security Beneficiary," 2014. 2) Bloomberg Businessweek, "Retiring Boomers Will Hurt Consumer Spending, Economic Growth," November 7, 2013. 3) Social Security Administration, "Understanding the Benefits," 2014. 4) Social Security Administration, Publication No. 05-10024, ICN 454930, January 2014. 5) Social Security Administration, "The 2011 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds," May 31, 2014. 6) Social Security Administration Press Release, "Social Security Board of Trustees: Projected Trust Fund Exhaustion One Year Sooner," May 31, 2013. 7) Social Security Administration, "Understanding the Benefits," 2014. 8) Social Security Administration, "Benefits Planner: Income Taxes And Your Social Security Benefits," October 2012. 9) Wall Street Cheat Sheet, "4 Ways to Maximize Your Social Security Benefits," April 10, 2014. 10) Social Security Administration, "Retirement Planner: If You Are Divorced," 2014. 11) Social Security Administration, "Understanding the Benefits," 2014.

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