

# WHAT CAN YOU EXPECT FROM SOCIAL SECURITY?

The Story Behind America's  
**Retirement  
Safety Net**

How **Social  
Security**  
Works Today

**Future  
Shortfalls**  
Are Easy to Foresee

Time to Get Serious  
About Your Own  
**Retirement  
Income**



# Foreword

Are you one of the 43% of retirees who believe they will eventually suffer a cut in their Social Security payments, or possibly one of the 51% of workers who doubt they will ever receive a benefit?<sup>1</sup>

Our nation's largest and most expensive social program was put in place more than 75 years ago, but it has never faced more challenges than it does today. Social Security is no longer taking in more in payroll taxes than it is paying out in benefits to retired workers.<sup>2</sup> This simple fact, along with the rising tide of retiring baby boomers, means that changes are most likely on the horizon. And even though there's a good chance that Social Security will survive into the future, lawmakers may be forced to address the growing benefit gap with some combination of higher taxes and reduced benefits.

If you still have many years yet to work, then this booklet may inspire you to think about when you will start claiming benefits. It's important to understand how Social Security works today and to consider the role it might play in your financial strategy.

Your financial professional can provide information that may apply to your situation.

## Sources:

1) Gallup, 2017

2) Social Security Administration, 2017

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# The Story Behind America's Retirement Safety Net

The Social Security program was created in the midst of the Great Depression, when many senior citizens were left penniless and without the financial support that might have come from family members during a more prosperous time.

President Franklin D. Roosevelt pushed for a system in which workers would contribute toward their future economic security through taxes paid while they worked. Social Security was established in 1935 along with several other public assistance programs.

This popular social insurance program was never intended to fund a lavish retirement, but rather to “insure the essentials” for retired workers age 65 and older by paying them a steady, modest income. The 1939 Amendments changed the program by adding payments to the spouse and minor children of a retired worker and benefits for survivors of deceased workers.

Social Security was designed to be a pay-as-you-go system, which means payroll taxes collected from workers are used to fund payments for current retirees.

Until recently, this method didn't pose a problem for the federal government because Social Security had produced big surpluses for three decades. But benefit outlays have been exceeding tax revenues since 2010. Meanwhile, the oldest of the 70 million baby boomers (born between 1946 and 1964) started to reach full retirement age (66) in 2012.



## Social Security and the New Deal

The Old-Age, Survivors, and Disability Insurance (OASDI) program — the official name of Social Security — was created as part of Franklin Delano Roosevelt's New Deal legislation during the Great Depression.

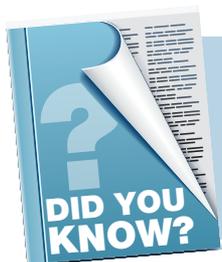
## Coming of Age

The first baby boomer to receive Social Security retirement benefits was former schoolteacher Kathleen Casey-Kirschling, who was born one second after midnight on January 1, 1946, and became eligible for early benefits when she turned 62 in 2008.

Source: Social Security Administration

## Important dates in the history of Social Security

- **August 14, 1935** — President Franklin D. Roosevelt signed the Social Security Act (H.R. 7260) into law.
- **November 1936** — The first Social Security cards were distributed in post offices around the nation.
- **1939** — The 1939 Amendments added two new categories of benefits: dependent benefits for the spouse and minor children of retired workers and survivor benefits.
- **January 31, 1940** — Sixty-five-year-old Ida May Fuller was issued the first monthly Social Security check for \$22.52. She lived to the age of 100 and collected a total of \$22,888.92 in benefits.
- **August 28, 1950** — President Harry S. Truman signed the 1950 Amendments, which increased benefits for the first time to compensate for inflation.
- **1956** — The Social Security Act was amended to provide benefits to disabled workers ages 50 to 64 and disabled adult children. The law was further amended in 1960 to include benefits for disabled workers of any age and their dependents.
- **July 1, 1972** — President Richard M. Nixon signed a law that provided for annual automatic cost-of-living adjustments for Social Security benefits.
- **April 20, 1983** — President Ronald Reagan signed a lengthy amendment to address a short-term financing crisis. Reforms included raising payroll tax rates and increasing the retirement age to 67 in two stages for future recipients.
- **Fiscal year 2010** — Social Security outlays exceeded tax revenues for the first time since the program was amended in 1983. The program's Trustees project that this trend will continue.



**There are currently 2.8 workers for each Social Security beneficiary. By 2040, it's expected that there will be only 2.0 workers for each beneficiary.**

Social Security Administration, 2017

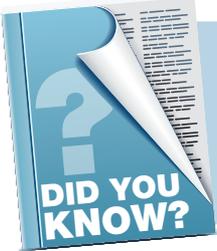
# How Social Security Works Today: Your Key Questions Answered

## How does the government determine my monthly benefit?

Over the years that you work, you earn Social Security “credits.” Your benefit is based on an average of the highest 35 years of earnings in which you paid payroll taxes. To qualify for benefits, you must accumulate a minimum of 40 work credits, which equals about 10 years of work.

Workers age 25 and older should receive a Social Security Statement in the mail every five years. Workers who are 60 and older and not yet receiving Social Security benefits will receive annual statements.

Regardless of your age, you can view your statement online. Visit [ssa.gov/myaccount](https://ssa.gov/myaccount) to create your own personal Social Security online account. This will enable you to see your statement, which summarizes your earnings history and estimates your future retirement benefits. Because the Social Security Administration (SSA) estimates future benefits based on today’s laws (which could change) and assumes that future earnings will remain the same until retirement, it’s possible that the estimates may be inaccurate — especially if you are years away from retiring or you experience a period during which you are not working.



**Since 1975, Social Security beneficiaries have received a COLA every year except for 2010, 2011, and 2016, when inflation was too low to trigger an increase.**

Social Security Administration, 2017

## What is a COLA?

Social Security benefits are indexed to inflation, so your benefit may increase as the cost of living climbs from year to year. At the present time, the automatic cost-of-living adjustment (COLA) is equal to the percentage increase (if any) in the average Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) from the third quarter of the last year in which a COLA became effective to the third quarter of the current year.

## When can I start collecting Social Security income?

The earliest you can claim benefits is age 62, although you will receive less each month than if you had waited until full retirement age, when you would be eligible for 100% of your full benefit. Full retirement age ranges from 66 to 67, depending on the year you were born.

## How much would my benefit be reduced if I claimed it at age 62?

If you claim benefits at age 62, the amount you receive each month could be reduced to 75% or 70% of your full retirement benefit. For each month you wait to claim benefits after age 62, your monthly benefit increases slightly.

<b>Year of birth</b>	<b>Full retirement age</b>	<b>Monthly benefit reduction at age 62</b>
<b>1943–54</b>	<b>66</b>	<b>25.00%</b>
<b>1955</b>	<b>66 and 2 months</b>	<b>25.83%</b>
<b>1956</b>	<b>66 and 4 months</b>	<b>26.67%</b>
<b>1957</b>	<b>66 and 6 months</b>	<b>27.50%</b>
<b>1958</b>	<b>66 and 8 months</b>	<b>28.33%</b>
<b>1959</b>	<b>66 and 10 months</b>	<b>29.17%</b>
<b>1960 &amp; later</b>	<b>67</b>	<b>30.00%</b>

Source: Social Security Administration, 2017

## When is the best time to claim benefits?

It depends on how long you are willing and able to remain in the workforce, your health, your financial situation, and other factors. If you are married, it's also important to keep your spouse's age and eligibility for benefits in mind, and how long he or she might survive you, as you decide when each of you should file.

If you live an average life expectancy, you will receive roughly the same amount in lifetime benefits regardless of whether you begin collecting benefits at age 62, full retirement age, or age 70.

That's because the longer you wait to begin collecting benefits, the higher your monthly benefit will be, but the shorter the time period over which you will receive benefits.



**The estimated average monthly Social Security benefit for all retired workers in January 2018 is \$1,404.**

Social Security Administration, 2017

## How much would my benefit increase if I wait to claim Social Security?

For each month you wait after reaching full retirement age, your benefit will continue to increase by about 8% annually until you reach age 70, when you could be entitled to receive up to 132% of your full benefit amount (depending on year of birth).

A worker retiring in January 2018 could receive these *maximum* Social Security monthly benefits:

Age 62	Age 66	Age 70
\$2,158	\$2,788	\$3,698

Source: Social Security Administration, 2017

## How does my spouse's work history affect my benefit?

Married individuals are entitled to receive a benefit based on their own earnings history or a spousal benefit — whichever is higher. To be eligible for a spousal benefit, you must be age 62 or older, you must have been married for at least one year, and your spouse must be receiving Social Security benefits.

The maximum spousal benefit, if claimed at your full retirement age, is 50% of the primary worker's full benefit amount. If you elect to receive a spousal benefit before reaching full retirement age, you will receive a permanently reduced amount, unless a qualifying child is being cared for.

## Can divorced individuals receive spousal benefits?

An unmarried, divorced spouse may also be eligible to collect spousal benefits based on a former spouse's work record if they were married for at least 10 years. The payments have no effect on the former spouse's benefits or on his or her subsequent spouse's benefits. Ex-spousal benefits are permanently reduced if claimed prior to full retirement age, just like regular spousal benefits.

If you remarry, you cannot collect retirement benefits on a former spouse's work record.



**The most prevalent age for claiming Social Security benefits is 62. Only about 3% of men and 5% of women delay claiming benefits until age 70 or older.**

Social Security Administration, 2017

## How do survivor benefits work?

Widowed individuals have dual entitlements under Social Security — benefits based on their own earnings history or survivor benefits based on the deceased spouse's earnings record. The full survivor benefit is 100% of the deceased worker's benefit amount. Survivor benefits can be claimed as early as age 60, but the amount is reduced by up to 28.5% if taken before full retirement age.

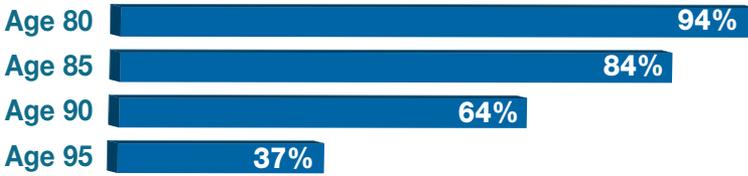
A widow or widower who remarries before age 60 will forfeit his or her late spouse's Social Security benefits while married. *Divorced individuals who were married to the deceased ex-spouse for at least 10 years may be able to receive survivor benefits just like a widow or widower.*

Unlike spousal benefits, survivor benefits reflect any delayed retirement credits. So the more the deceased spouse paid into the program, the higher the survivor benefit would be. A worker who claims Social Security at full retirement age (instead of 62) could increase the amount that his or her spouse receives as survivor by more than 20% — or by as much as 60% if worker benefits are delayed until age 70.

Source: Social Security Administration, 2017

## Odds Are You'll Live a Long Time

Chances that one member of a married couple (both age 65) will live to:



Source: Society of Actuaries, 2017

## Changes to Social Security claiming strategies

The Bipartisan Budget Act of 2015 included a section titled “Closure of Unintended Loopholes” that effectively ended the use of two Social Security claiming strategies used by some married couples — “restricted application” and “file and suspend” — and also changed the deemed filing rules for those applying for Social Security benefits. Survivor benefits were not affected by these changes.

Under the new deemed filing rules, once you file for Social Security benefits, you will be deemed to be applying for the highest benefit to which you are entitled: worker or spousal benefit. In other words, you will not be able to claim a spousal benefit and switch to a higher worker benefit at a later date.

**Note:** *If you were born on or before January 1, 1954, you may still be eligible to file a “restricted application” for spouse-only benefits upon reaching full retirement age and earn delayed retirement credits on your own work record.*

The original “file and suspend” benefit-enhancement strategy effectively ended as of April 30, 2016. Although you can file and suspend Social Security worker benefits when you reach full retirement age, doing so may not be advantageous because no benefits will be paid to your spouse or dependent children during the suspension period.

**Note:** *If you were 66 or older and filed and suspended your worker benefits on or before the April 29, 2016, deadline, your eligible spouse might still be able to receive spousal benefits during the time when your own benefits are suspended.*

## How much is taken out of my wages to pay Social Security and Medicare payroll taxes?\*

	<b>Social Security tax</b>	<b>Medicare tax</b>
<b>Worker pays:</b>	<b>6.2%</b>	<b>1.45%</b>
<b>Employer pays:</b>	<b>6.2%</b>	<b>1.45%</b>
<b>Self-employed pays:</b>	<b>12.4%</b>	<b>2.9%</b>

\*In 2018, workers pay Social Security payroll taxes on earnings up to \$128,400 and Medicare taxes on all employment earnings. A 0.9% additional Medicare tax is assessed on earnings above specific levels: \$200,000 for single filers, \$250,000 for joint filers.

## If I take early Social Security benefits before reaching full retirement age and decide to work, will my benefits be affected?

The reduction in benefits known as the retirement earnings test (RET) applies only if you claim Social Security payments prior to reaching full retirement age. When this happens, one dollar in benefits will be deducted for each two dollars you earn above the annual limit (\$17,040 in 2018).

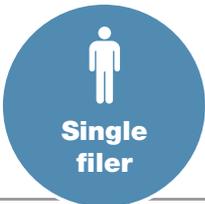
In the calendar year in which you reach full retirement age, one dollar in benefits is deducted for each three dollars you earn above a higher annual limit (\$45,360 in 2018) until your birthday month. Once you reach full retirement age, any wages earned through employment will not affect your Social Security benefit. These earnings limitations do not apply to investment income such as interest or dividends, only to wages earned through employment.

The RET shouldn't really be considered a penalty. Your benefit will be recalculated after you reach full retirement age, and you will receive credit for any benefits you did not receive because of your earnings.

Of course, if you are working, you must still pay Social Security and Medicare payroll taxes on all your wages.

## Are my Social Security benefits taxable?

If your income as a single filer or as a married joint filer exceeds specific income thresholds, you may owe federal income tax on up to 50% or 85% of your Social Security benefits.

Taxable portion of benefits	 Single filer	 Married joint filer
50%	\$25,000 to \$34,000	\$32,000 to \$44,000
85%	Over \$34,000	Over \$44,000

The IRS uses your “combined income” to determine taxability of benefits. Combined income is defined as your adjusted gross income plus any tax-exempt interest (such as interest from municipal or savings bonds) plus 50% of your Social Security benefit.

If you are married and file a separate tax return, you will probably pay taxes on all your Social Security benefits. In addition, some states may tax Social Security benefits, whereas other states may exempt them from taxation.



**About 40% of current beneficiaries pay taxes on their Social Security benefits.**

Social Security Administration, 2017

## Could income from a pension affect my benefits?

If you receive a pension from a job in which Social Security taxes were not taken out of your wages (“noncovered employment”), the windfall elimination provision (WEP) could reduce the amount of your Social Security benefit, unless you paid Social Security payroll taxes on 30 years or more of “substantial earnings.” If you receive a pension from a government job in which you did not pay Social Security taxes, your Social Security spousal or survivor benefit could be reduced by the government pension offset (GPO).

# Future Shortfalls Are Easy to Foresee

The 2017 Annual Report from the Social Security Trustees suggests that the long-term financial prospects of the program are a matter of concern for current and future retirees. Revenues (not including interest) for 2017 were less than total expenditures.

Social Security outlays have exceeded tax revenues since 2010. The Trustees project that outlays will continue to exceed revenues on a regular basis as the number of baby boomers retiring increases more rapidly than do the number of workers paying into the system.

Once the program's combined trust funds are exhausted (estimated to occur in 2034), payroll tax revenues should be sufficient to cover about 77% of scheduled benefits; this percentage will decline gradually to 73% by 2091 (based on the current formula).

Source: Social Security Administration, 2017



**Forty-five percent of Americans worry a great deal about the fate of the Social Security system; 21% think it is in a state of crisis.**

Gallup, 2017

Many ideas have been proposed to address the fiscal challenges facing Social Security, including:

- Eliminating or increasing the taxable earnings cap
- Increasing the payroll tax
- Raising the full retirement age
- Reducing benefits for high earners

Congress has been slow to take action, but the clock is ticking. It's likely that any changes would apply primarily to future beneficiaries rather than those who are eligible for Social Security at the time the changes are adopted.

Source: Social Security Administration, 2017

## No popular solution in sight

Here's how U.S. workers view these possible (but so far hypothetical) changes to Social Security.

### Eliminating the taxable earnings cap

Strongly favor	Somewhat favor	Somewhat oppose	Strongly oppose
39%	40%	15%	6%

### Raising the Social Security payroll tax to 7.2%

Strongly favor	Somewhat favor	Somewhat oppose	Strongly oppose
37%	46%	13%	4%

### Raising the full retirement age to 68

Strongly favor	Somewhat favor	Somewhat oppose	Strongly oppose
8%	29%	37%	29%

### Requiring people to provide proof of eligibility based on having limited income and assets (means testing)

Strongly favor	Somewhat favor	Somewhat oppose	Strongly oppose
11%	29%	33%	27%

### Reducing cost-of-living adjustments (COLAs) by using a different measure of inflation

Strongly favor	Somewhat favor	Somewhat oppose	Strongly oppose
3%	20%	40%	36%

Source: National Academy of Social Insurance, 2014 (most current information available); may not equal 100% due to rounding



**More than 43% of people ages 62 to 68 are at risk of having their retirement incomes fall short of what they need even for basics like food, housing, and transportation.**

Employee Benefit Research Institute, 2015  
(most current information available)

# Time to Get Serious About Your Own Retirement Income

In a survey comparing the retirement income expectations of workers with the experiences of retirees, workers overestimated the degree to which they would be able to rely on many sources of retirement income, such as continued employment, IRAs, and employer-sponsored retirement plans.

Only 35% of today's workers expect Social Security to be a major source of retirement income, yet 61% of retirees report that Social Security is a major source of income for them. This may mean that their other sources of retirement income did not provide what they were expecting.

Source: [Employee Benefit Research Institute, 2017](#)



**Social Security provides about 40% of total income for beneficiaries ages 65 and older (with household incomes of \$49,366 or more).**

[Social Security Administration, 2017](#)

Considering the uncertain outlook for Social Security, it might be a good idea to prepare for retirement based on the assumption that your Social Security benefits may not provide a significant source of income. By leaving Social Security out of your retirement income projections, you are likely to approach your preparations with a different outlook.

If you think you can always fall back on Social Security, you could be lured into a false sense of security, which might cause you to save too little of your current income and invest too conservatively (or too aggressively) for your risk profile. Then, if it turns out that drastic changes to keep Social Security solvent include significantly lower benefits, it might be too late for you to do anything to overcome a potential income shortfall.

## **Begin Preparing Now**

It's highly unlikely that this popular program will go away. But the longer you have until retirement, the more likely it is that Social Security will undergo changes that could affect your retirement income and lifestyle.

In the meantime, you might be able to enhance your future benefits by working longer and waiting to file for Social Security. If you claim retired worker benefits at age 70, your monthly benefit would be about 132% of your full retirement benefit. This higher benefit could also enhance a spouse's survivor benefit.

If you maintain a conservative outlook about the income that Social Security might provide and it turns out that benefit levels are higher than you expected, you could have more income in retirement to enjoy the lifestyle you've envisioned.

Your financial professional can help you calculate your retirement-needs projection and look for potential ways to help build a financial future that does not depend too heavily on Social Security.

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