

Issue Briefs

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Family Financial Education



Understanding Social Security Insurance Programs

Social Security in a nutshell

The Social Security Act was signed into law on August 14, 1935. It was the period of the Great Depression in the USA and strong labor movements in Europe. President Franklin D. Roosevelt saw the need to provide a social insurance program to protect workers at old-age.

Currently, the Social Security Administration (SSA) consists of 3 main programs:

- **OASDI** (Old-Age, Survivor and Disability Insurance), further divided into:
 - Retirement
 - Survivors
 - Disability
- **SSI** (Supplemental Security Income)
- **Medicare**

Retirement / Old-Age Insurance

Old Age Insurance was the social security program first established in the Act of 1935. The retirement age was initially set at 65 or older. Ernest Ackerman, a motorman from Cleveland, was the first person to receive a retirement benefit as a lump sum of 17 cents. Ida May Fuller, a legal secretary from Vermont, was the first beneficiary of monthly retirement benefits.

A worker needs a total of 40 credits (usually 10 years or 40 quarters) for full retirement benefits. You can earn four credits whenever you earn at least \$4,480 per year of income.

Retirement benefits are calculated using the 35 highest paid years of a workers' life and the

primary insurance amount (PIA)¹. Early retirement at age 62 will reduce PIA to 75%. At full retirement age (currently age 66), a worker receives 100% of his/hers PIA, and 132% if retirement claim is delayed until age 70. Thus, waiting three years will increase benefits by over 8% per year.

Over 33 million retired workers received benefits in 2009. The average monthly benefit paid was \$1,182. In some special cases, spouses and children of retired workers can also receive retirement benefits, averaging a little over \$500/monthly. The maximum Social Security benefit is \$2,346 for 2010. People receiving low retirement benefits (usually under \$674) may also qualify for SSI payments.

Work after Retirement

A person may still work after they start receiving benefits. At age 62, up to \$14,160 may be earned per year without any benefit reduction. After this threshold for every \$2 earned \$1 will be deducted from benefits. At full retirement age of 66 (or 67 for those born in 1960 or later) for every \$3 earned \$1 will be taken out of a retiree's benefits.

Workers may also choose to suspend payments and resume working. Using this approach, a retiree can return to work, earn some more wages, and watch his/her benefits continue to grow until they are needed in the future.

Survivor's Insurance

This benefit was added to the Social Security program in 1939 to protect dependents of a deceased and insured worker.

¹ For more details see <http://www.socialsecurity.gov/piaformula>

Children not married and under the age of 18 (19 if still in high school) qualify for survivors benefits. A disabled (and unmarried) child under the age of 22 can also receive benefits.

A widow or widower receives full benefits if they are at full retirement age, or if they are at least 50 and disabled, or if still caring for a child (under the age 16 or disabled).

Parents can also qualify for benefits if they were receiving no less than one half of their support from the deceased. A divorced spouse, age 60 or older, may also collect survivor benefits if the marriage lasted at least 10 years. The age and length of marriage rule are not required if caring for a former spouse's child.

If a widow or widower remarries before the age of 60 the benefit is cancelled. However, remarriage after age of 60 does not affect your benefits. The same rule applies to a divorced spouse receiving survivor benefits.

Disability Insurance (DI)

A worker might qualify for DI benefits if:

- He or she is currently insured by Social Security, but 40 credits are not necessary
- The disability is expected to last at least one year or result in death
- He or she cannot do the same work as before or any other type of work.

In addition to the above requirements, the SSA uses a recent work test to determine your eligibility. This test compares your age with the length of time worked before the onset of the disability. For instance, a worker age 35 must have at least 5 years of work during the last 10 years before becoming disabled to qualify for DI.

The SSA definition of disability follows a very strict federal law based on a List of Impairments². A worker should apply immediately after a disability occurs since the inquiry process might take up to 5 months.

Benefit payments, if approved, will only start 6 months after the date of the initial onset of disability and are not retroactive. The average disability payment in 2009 was \$1,189 for men and \$925 for women.

Supplemental Security Income (SSI)

SSI is an assistance program - not based on work history – to provide support to low income people over the age of 65 as well as blind or disabled adults and children of any age. The SSI was established in 1974 to replace several state and federal assistance programs. SSI payments are funded by the US treasury general funds, not by payroll taxes.

A resources test is required to qualify for SSI. Currently, the asset limits are \$2,000 for an individual or \$3,000 for a couple. Benefit payments can be as high as \$674 for a single person and \$1,011 for a couple. Over 7.7 million beneficiaries received SSI support in 2009.

Medicare

Medicare is the federal health insurance program for people age 65 or older. Some younger people with disabilities may also qualify. It is designed to help with health care expenses, but does not cover all medical expenses or the cost of most long-term care.

Important: one should always apply for Medicare 3 months before turning 65 to start coverage immediately. A retired or non-retired status is not relevant to Medicare.

Medicare consists of four distinct plans:

² For more details, see www.socialsecurity.gov/listing-impairments

- Plan A – hospital insurance
- Plan B – doctor services
- Plan C – supplemental health
- Plan D – prescription drug

Part A is free since it has already been funded by payroll taxes. Parts B, C and D require an additional monthly premium payment. However, both Medicare and state run agencies offer programs to help low-income people pay for medical and prescription costs.

Social Security/Medicare Funding

83% of the social security funding comes directly from payroll taxes. FICA (Federal Insurance Contribution Act) taxes are deducted from workers' wages at a rate of 6.2% on the first \$106,800 in annual wages. Employers match another 6.2%.

Medicare is taxed at 1.45% of earnings for both employees and employers, with no income limit. Self-employed individuals are responsible for the entire tax rate of 12.4% for SSA and 2.9% for Medicare. However, half of their social security payment is deducted on federal taxes.

From the most recent actuarial projections, Social Security will be paying more in benefits than can be collected through taxes by the year 2015. However, the Trust Fund holds enough assets to continue full payments until 2037 when it will be also exhausted. At that point, the SSA forecasts that it will only be able to pay 78 cents for each dollar in scheduled benefits.

Important Resources

- Websites:
 - ssa.gov: online forms and information
 - medicare.gov: application for coverage and general information
 - dhs.wisconsin.gov (department of health services): Medicare information
 - benefits.gov: find out more about benefits eligibility
- Annual Statement: mailed to workers over age 25, review salary history, future benefits and retirement options. You can request a copy at ssa.gov/mystatement
- Retirement Estimator at ssa.gov/estimator: create your unique retirement scenario
- 24-hour number **1-800-772-1213** for automated service; representatives are available on weekdays from 7 a.m. to 7 p.m.
- Your local Social Security office

Key Dates to Contact the SSA

- Age 50: if disabled, a widow/widower can qualify for full retirement from spouse
- Age 60: a widow/widower can qualify for full retirement from spouse
- Age 62: if divorced spouse or looking for partial retirement
- Age 65: Medicare application
- Age 66/67: full retirement
- Age 70: delayed retirement with higher benefits



The University of Wisconsin-Extension (UWEX) Cooperative Extension's mission extends the knowledge and resources of the University of Wisconsin to people where they live and work. Issue Briefs are an ongoing series of the Family Financial Education Team. This brief was drafted by J. Michael Collins, Assistant Professor in Consumer Finance and Extension State Specialist and Nilton Porto, Project Assistant for the Center for Financial Security.

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