Understanding Social Security Insurance Programs

Implications for Personal Finance

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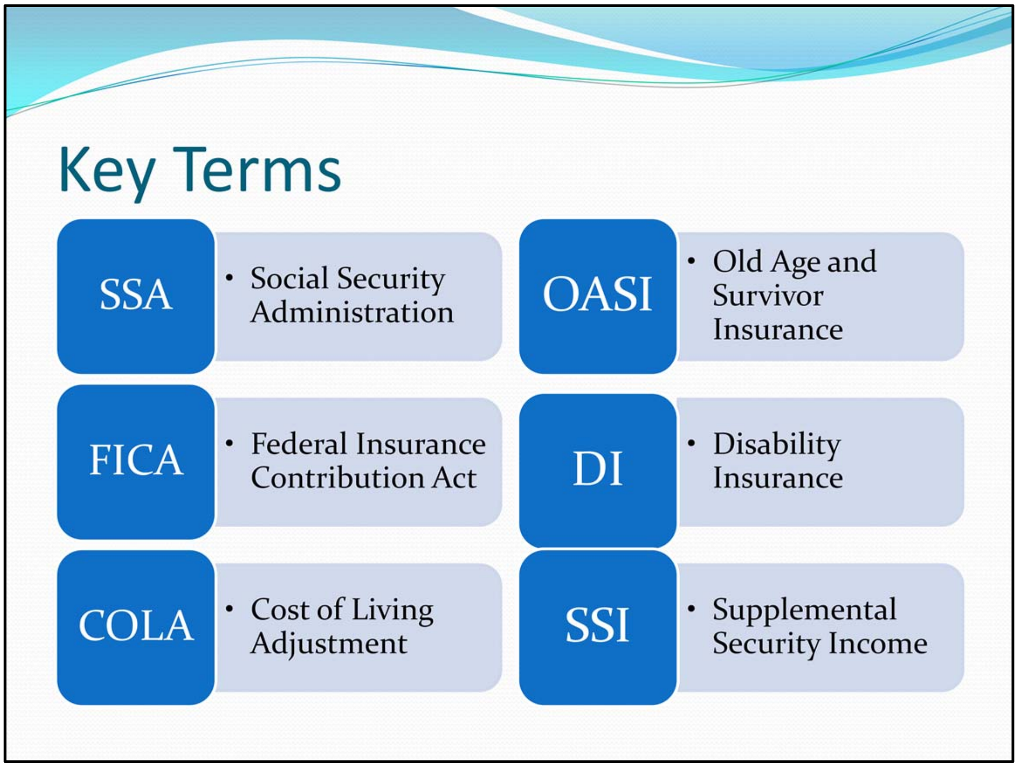
Note to the Presenter:
This slide presentation aims to offer a detailed and comprehensive look at the SSA and its programs. Please feel free to pick and choose those slides more relevant to your topic.



Some of the Social Security brochures also talk about the Schedule SE (self-employed) tax but it does not seem to be widely used.

Background

- SSA was created by Pres. Franklin D. Roosevelt as part of his New Deal to combat poverty.
- The Social Security Act of 1935 was signed into law on August 14, 1935.
- The first Commissioner, Arthur J. Altmeyer from DePere, WI, drafted the original bill that later become the Social Security Act.
- The first person to receive monthly checks, Ida May Fuller, lived to be 100 and received benefits for 35 years.
- More people have experience with the SSA than any other federal agency (even the IRS).

Fun Fact: Germany was the first modern country to put into effect a social security retirement program in 1889. It was designed by its first chancellor, Otto Von Bismarck.

Figures

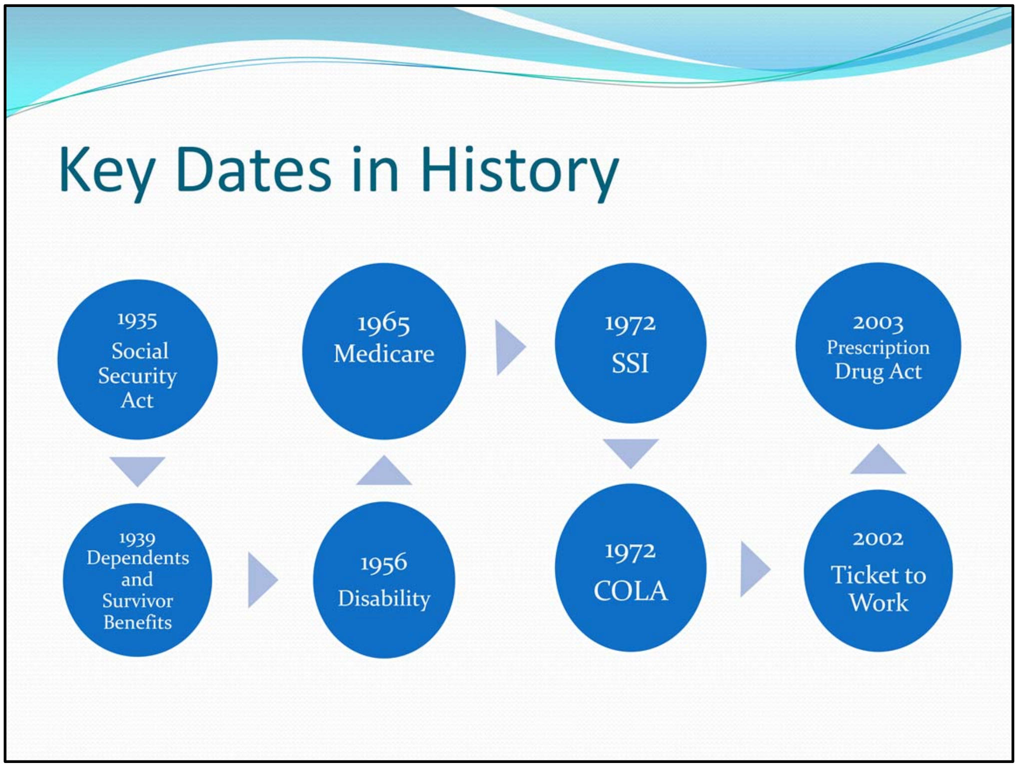
- Second Highest Expenditure on Budget (20.8%)
- Self-funded by payroll taxes called FICA (Federal Insurance Contribution Act)
- About 160 million people work and pay FICA taxes
- About 52 million receive monthly benefits (36 million are retirees and their families/survivors)
- COLA (cost of living adjustment) introduced in 1975

• COLA – COLA's law is from 1972 but introduced in 1975. No automatic increases existed until COLA. Benefits were actually fixed from 1935 until 1950 when an amendment increased, for the first time, general benefits by 77 percent.
• According to many experts, COLA has outpaced inflation since it was created. Good for retirees but might be hurting the Trust Fund assets.

Initial Design

- To replace about 40% of an average worker's earnings.
- More than just a **retirement program** – it is a social insurance that pays benefits to:

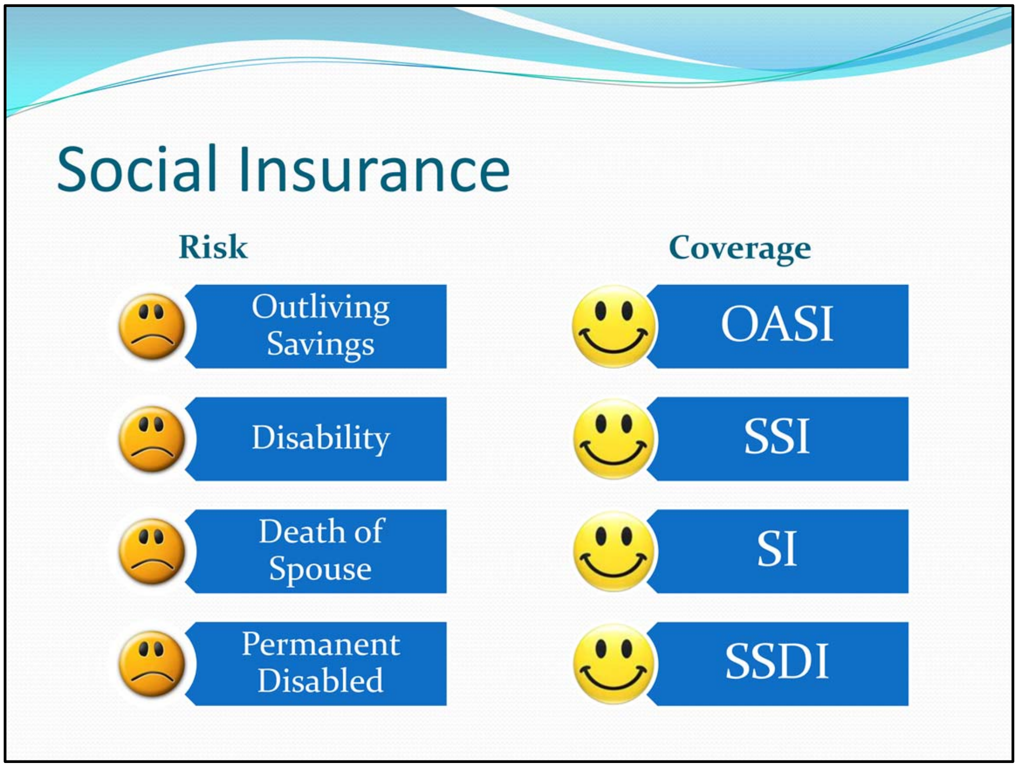
✓ People who have already retired
✓ People who are disabled
✓ Survivors of workers who have died
✓ Dependents of Beneficiaries



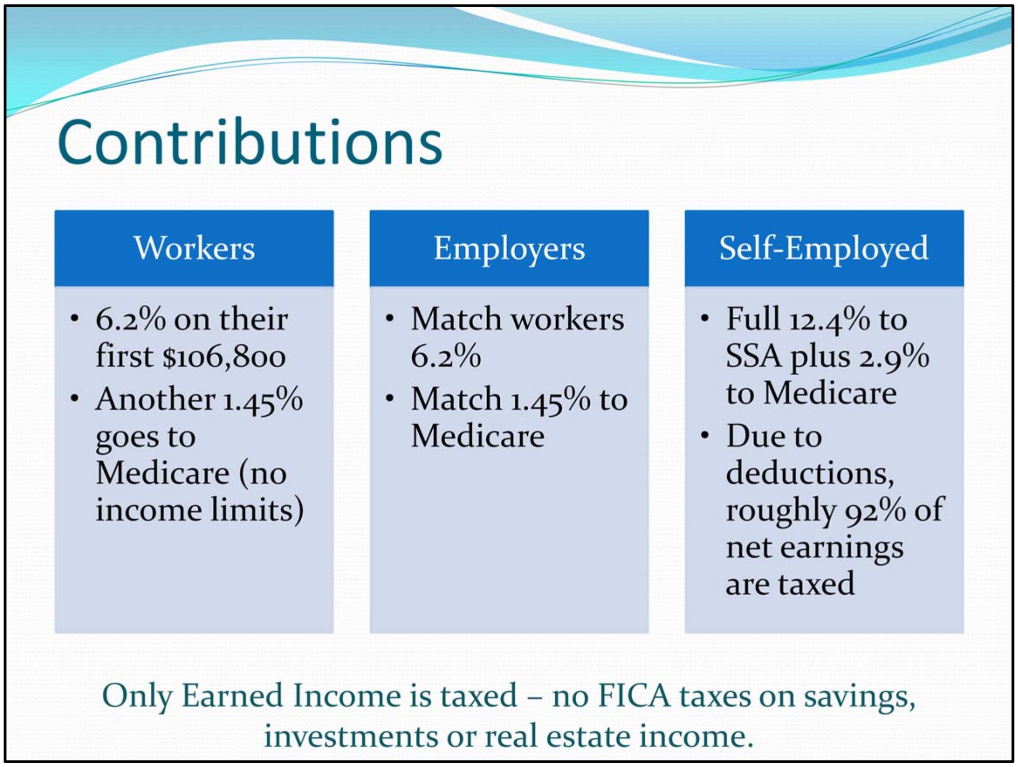
1935 Act – provided benefits to the retired worker only
1939 – dependents (such as non-working spouse or children) were added to a retired worker benefits. Survivor benefits were also added to the program. More on those two categories later.
Medicare – 20 million people signed up for Medicare during the first three years of the program
SSI – it consolidates more than 1,000 state and federal agencies providing assistance and welfare programs.
Ticket to Work – provide disabled workers with re-training and incentives to return to work.

Social Relevance

- Largest social insurance program in the world
- Keeps 40% of all Americans over 65 out of poverty
- More children receive benefits than any other social or welfare program in the world
- Benefits are entitlement, not charity
- Vulnerable population can be dually protected by Social Security and SSI



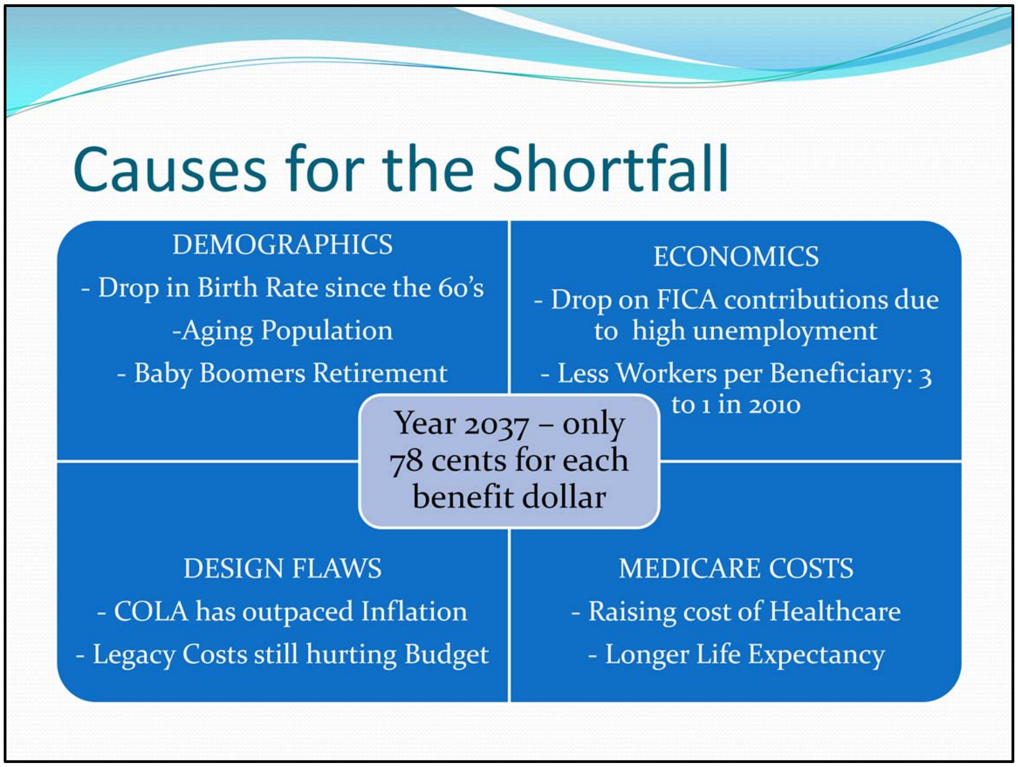
Acronyms Reminder
OASI – Old Age and Survivor Insurance
SSI – Supplemental Security Income
SI – Survivor Insurance
SSDI – Social Security Disability Insurance



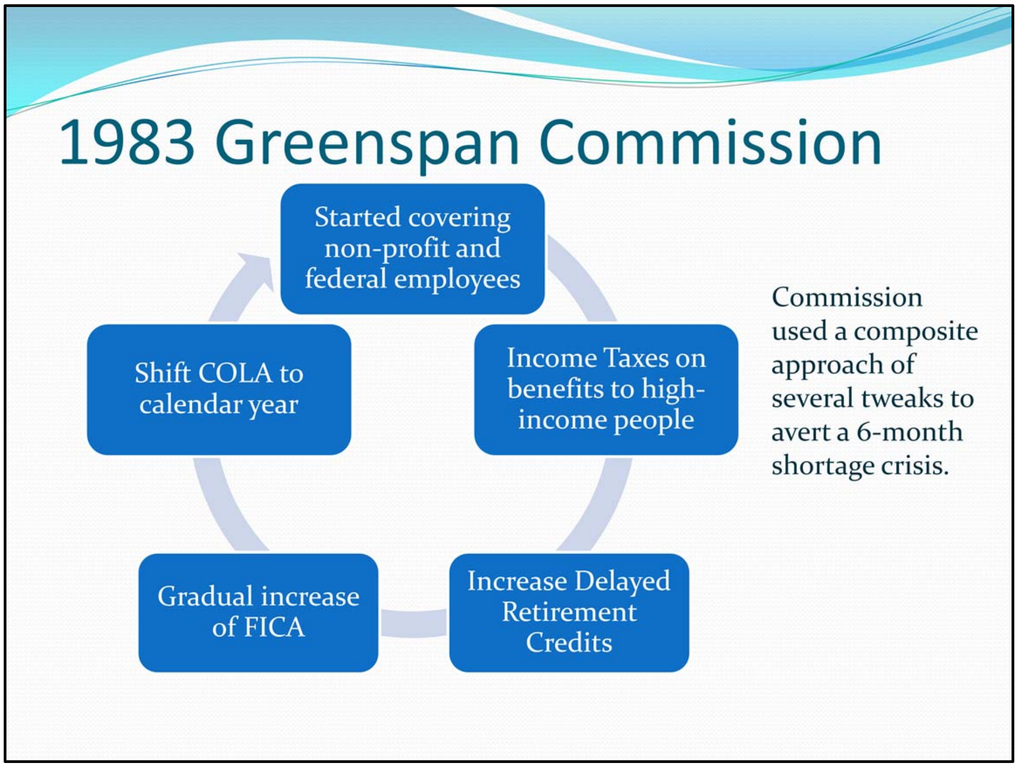
Self-Employed: rather confusing calculation but the 92% figure comes from the fact that half of self-employed social security taxes are deductible from federal taxes and some business expenses can also be deducted from the total payment. Our recommendation is that self-employed workers consult with their tax advisor for more detail.
Retirement benefits are calculated using your highest 35 years of income so might not be advisable for a self-employed person to push for too many deductions to lower FICA. Again, case-by-case decision.

The importance of this slide is to recognize that there are lots of valid concerns about the Social Security financial status out there but most of the headlines do not paint the picture properly. If the SSA does not change anything on the program, 78% of each dollar in benefits will still be paid after 2037, *ceteris paribus*.

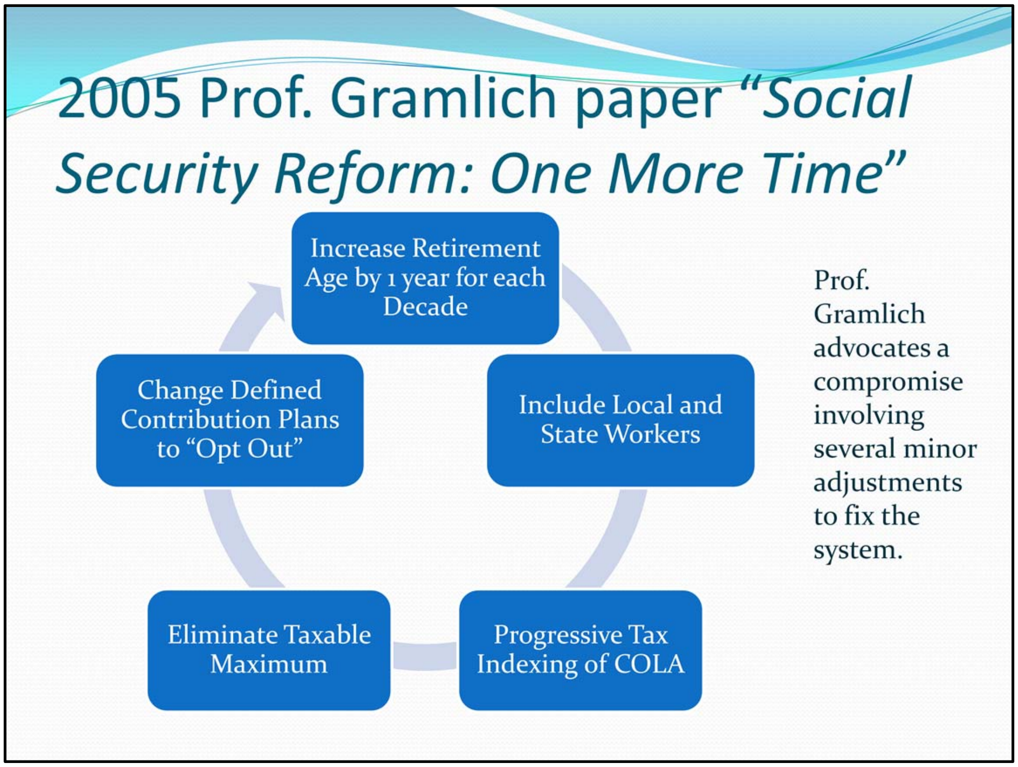
Just an overview of some facts that shows that, despite valid concerns about the SSA, it has been actually a pretty solid program.
The last thumbs-up can be used in a discussion of turning the program into personal accounts and defined-contribution.



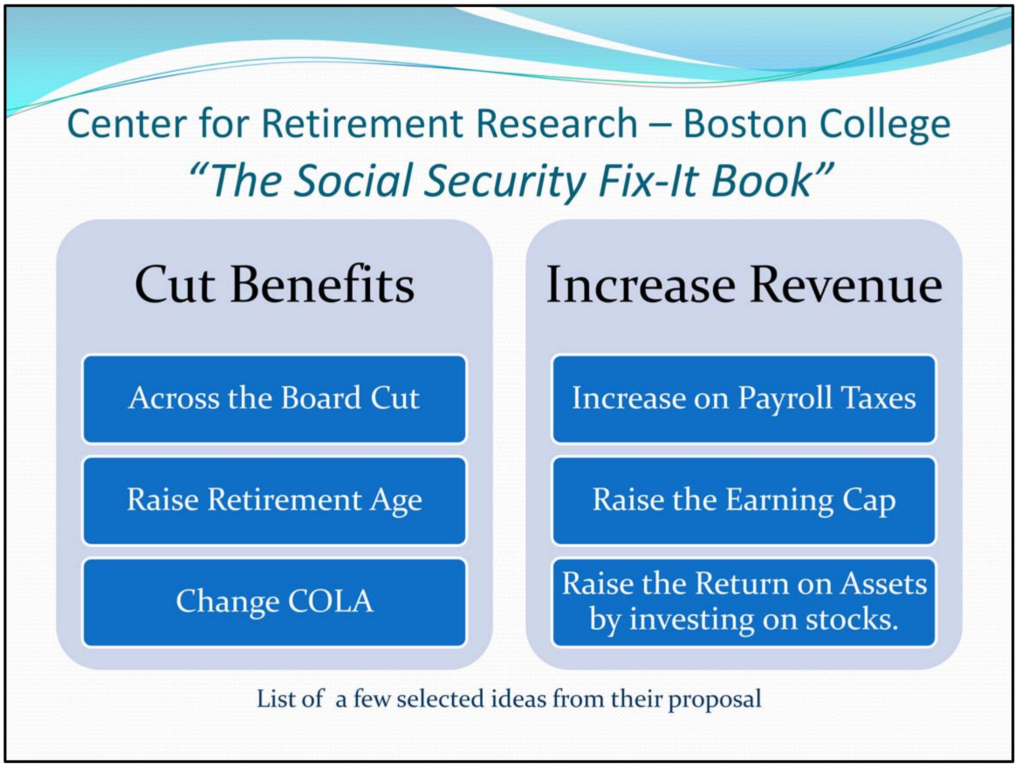
A quick list of some the reasons why the SSA would face this net payment challenges in 2037. Information came from many sources, including the SSA web site.



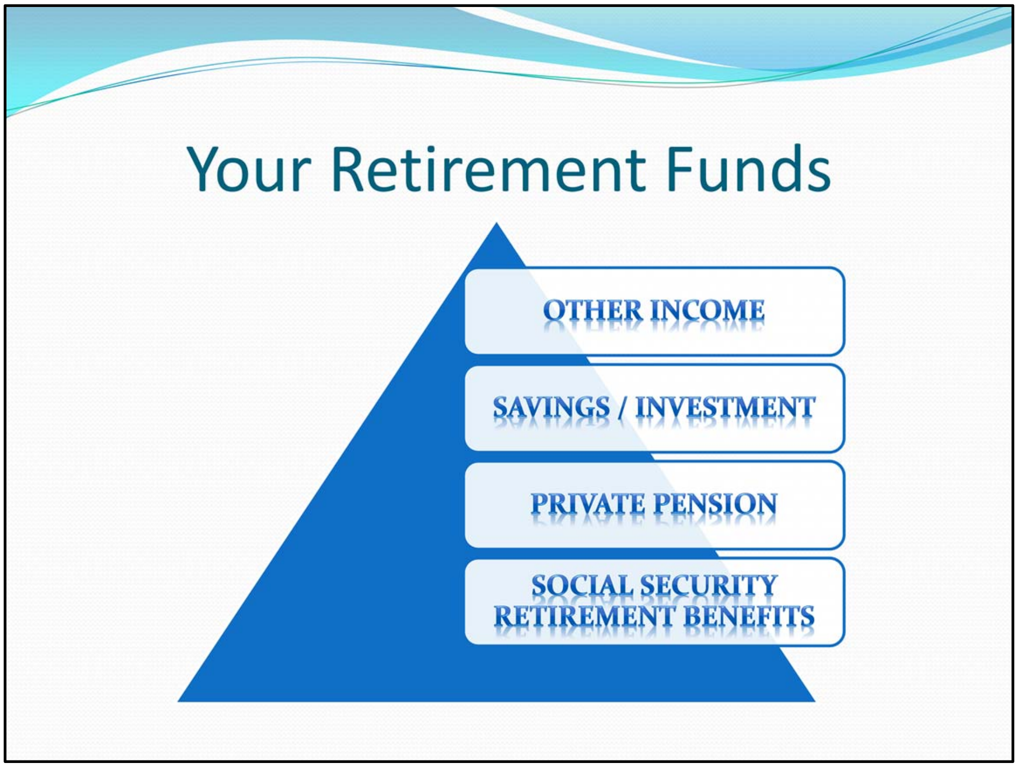
It aimed to keep the program out of the red for another 75 years. However, since then two major economic shifts occurred that Greenspan's commission didn't anticipate: The growth of average U.S. wages slowed (less contributions from workers), and income inequality soared (high earners paying even less in FICA than before due to the cap of $106,800). Despite of that, this commission is highly regarded as a very successful “fix” of the program. It is the same Greenspan that later become the Chairman of the Federal Reserve.



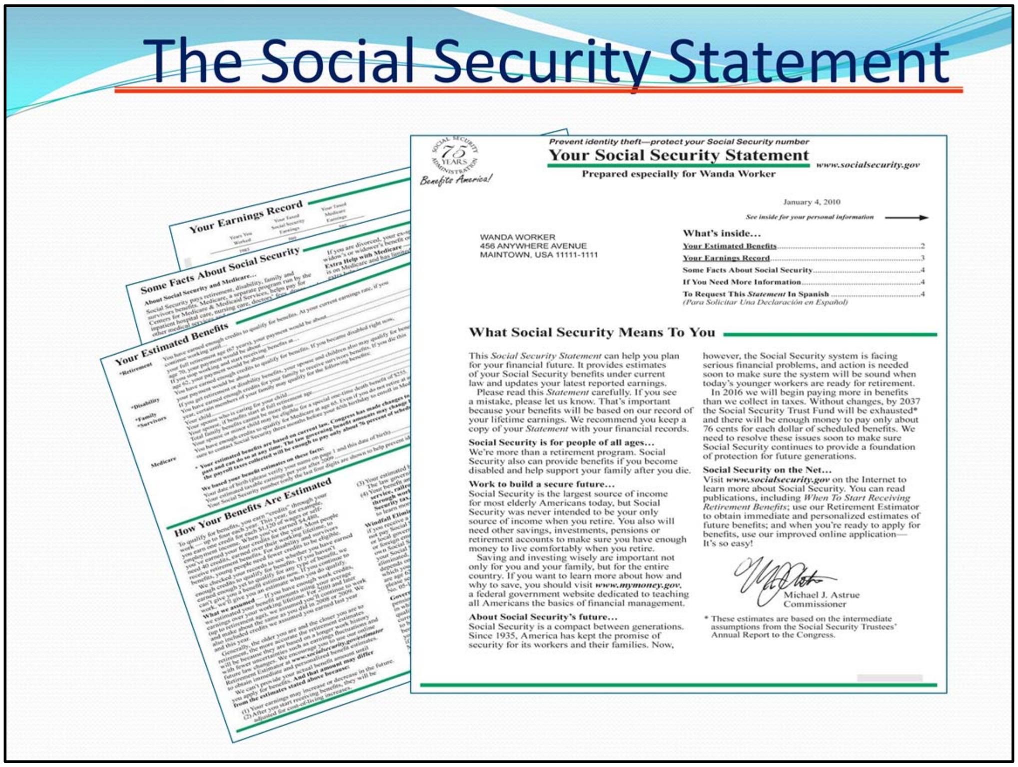
Prof. Gramlich was a highly respected Professor of Economics at Michigan University (he passed away in 2007) and a former board member of the Federal Reserve (like Greenspan). He studied the Social Security for many decades. He defended the "opt out" option to 401(k) not necessarily as a way to help the program financially but to increase overall retirement savings. He also supported private accounts but only as an addition to the defined-benefit system already in place.



The Boston College paper has a nice "silver bullet" type of approach, discussing all the possible solutions to the problem, and listing their pros and cons. Highly recommended read for anybody looking for a more comprehensive discussion of the issue.



Your retirement benefits are the base of the pyramid since they are our constant, defined-benefit, and pretty much every retiree will get them. Private pension could be defined-benefit or defined-contribution (401(k)). Savings and investments are all your other already taxed financial assets plus IRAs and annuities. Other income could be from continued work, rentals, etc.



(Note to speaker: This slide can serve as an introduction for the *Statement*.) According to FINRA 2009 National Financial Capability Survey only 66% of non-retired people acknowledge receiving the Statement and the vast majority of those do not use it on their retirement planning.

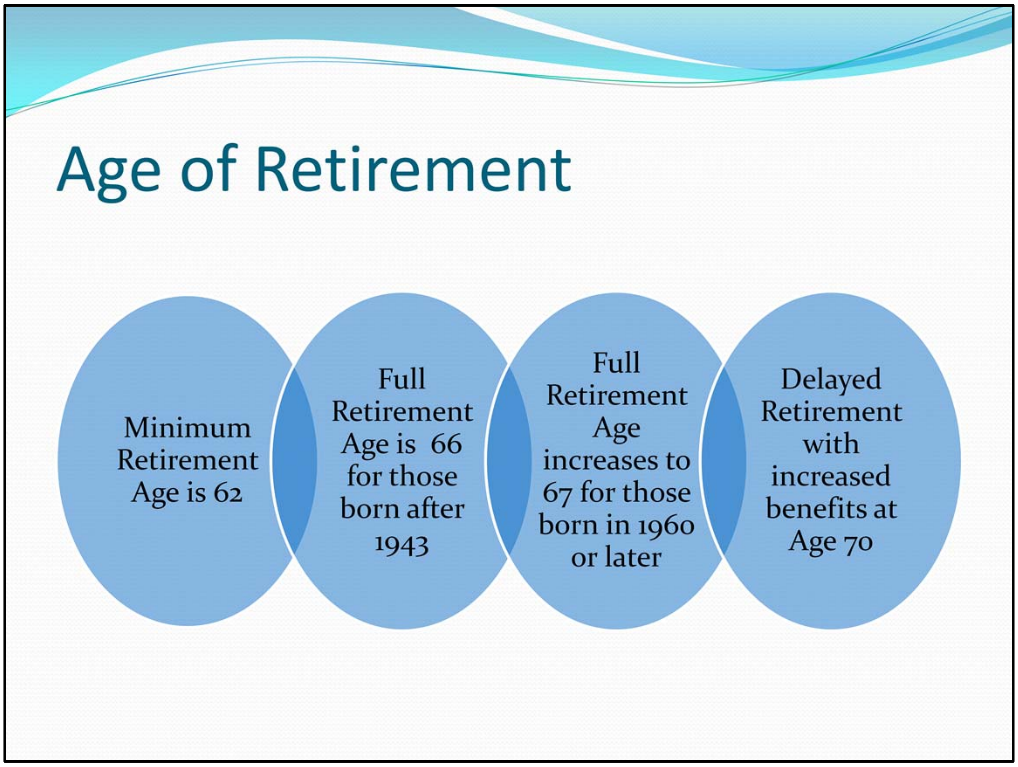
The SSA only sends statements to workers over the age of 25.

The statement has extensive and, hopefully, very useful information that should be taken into consideration within an individual overall financial planning. For instance, one could better evaluate how much life insurance they should purchase after checking survivors benefits listed here.

OASI

(Old-Age and Survivor Insurance)

- Main part of the program and most people refer to it as the "Social Security"
- Paid almost $550 billion in 2009
- Maximum Social Security Benefit is $2,346 per month
- Cost of Living Adjustments are applied to benefits after worker turns 62
- Benefits are reduced for earlier retirement, but increased for delayed claims – age 70
- Spouses and children can also qualify for benefits from a retired worker.

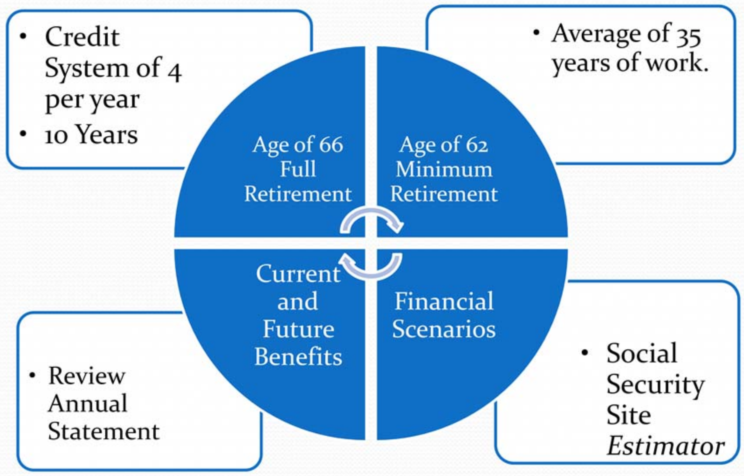


Reminder: Medicare remains at age 65 - no changes.

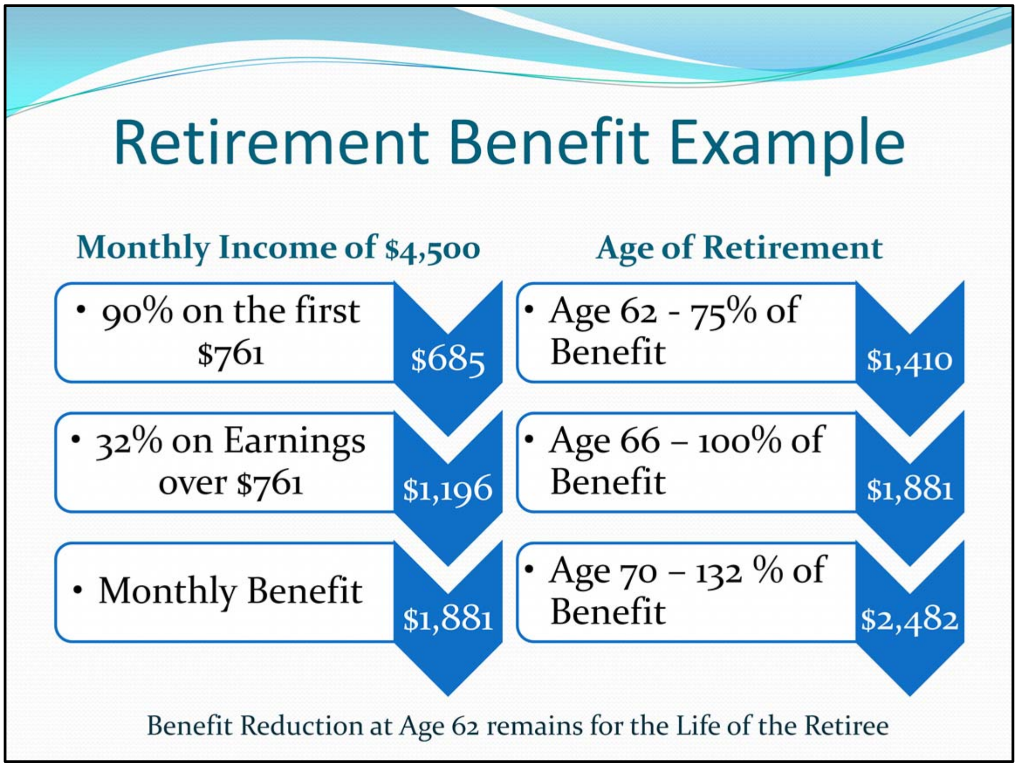
Month of Election (MOE)

- For wages, income counts when it is earned
- For self-employed, income counts when you receive it
- If you retire mid-year, the income earned before the month of retirement does not affect your benefit
-

Retirement Benefits



Apply for benefits 3 months before desired start date



Benefit Calculation, using monthly income, $4,500, on slide
90% on the first $761 in earnings (761 X .90 = $685)
32% on earnings over $761 through $4,586 (4500-761 = 3739, 3739 X .32 = $1,196)
685 = 1196 = 1881 (for example on slide)
15% on earning over $4,586
Maximum Benefit Payment = $2,346
No COLA in 2010 and 2011

Right side of slide percentage based on age.
1881 X .75 = $1,410
1881 X 1 = $1,881
1881 X 1.32 = $2,482

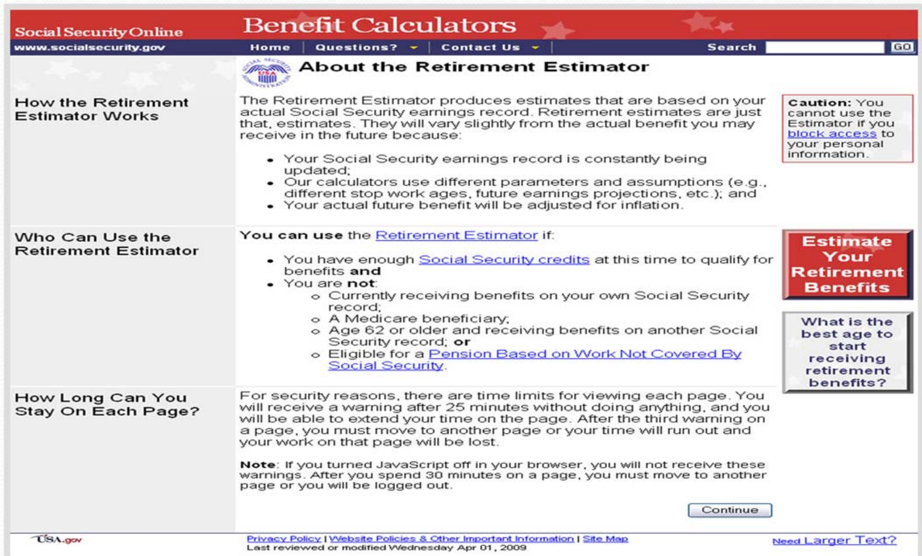
Retirement Benefit Estimator

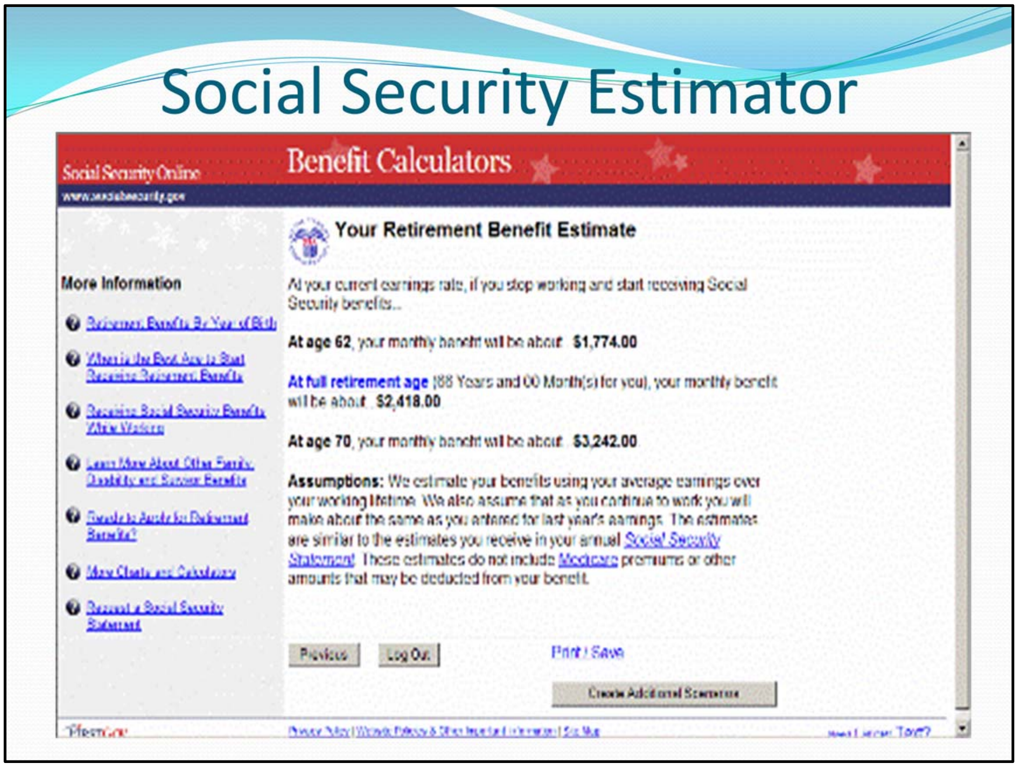
www.socialsecurity.gov/estimator

Average Earnings of $45,000		Average Earnings of $65,000	
Age 62	Age 67	Age 62	Age 67
$1,126	$1,707	$1,352	$2,013

Assumptions: worker born in 1970, 40 credits contribution.
Results taken directly from SSA estimator.
Taxes were not included – potentially up to 85% of your benefit

Social Security Estimator



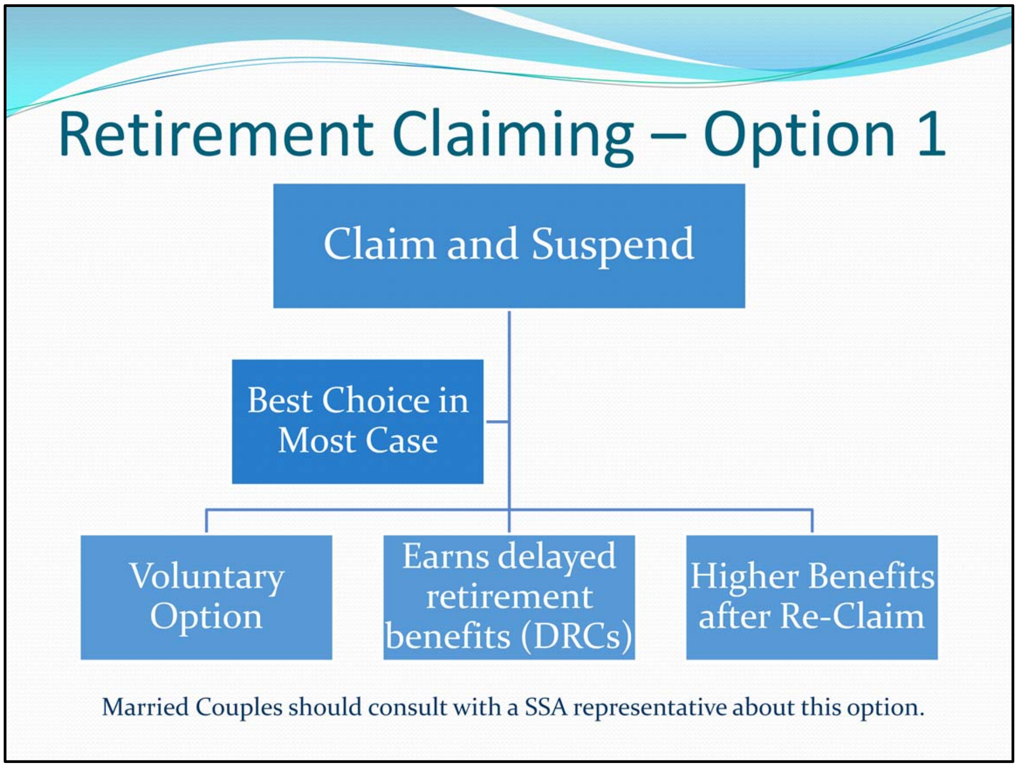


This slide is just to give your audience a brief sketch of the estimator. We should advise them to go online and give it a try. The Choose to Save website listed in the end of this presentation is also a very powerful planning tool.

Estimator does not include any deductions for Medicare premium payments. And assumes that your last year salary would remain unchanged until retirement age.

COLA – Cost of Living Adjustment

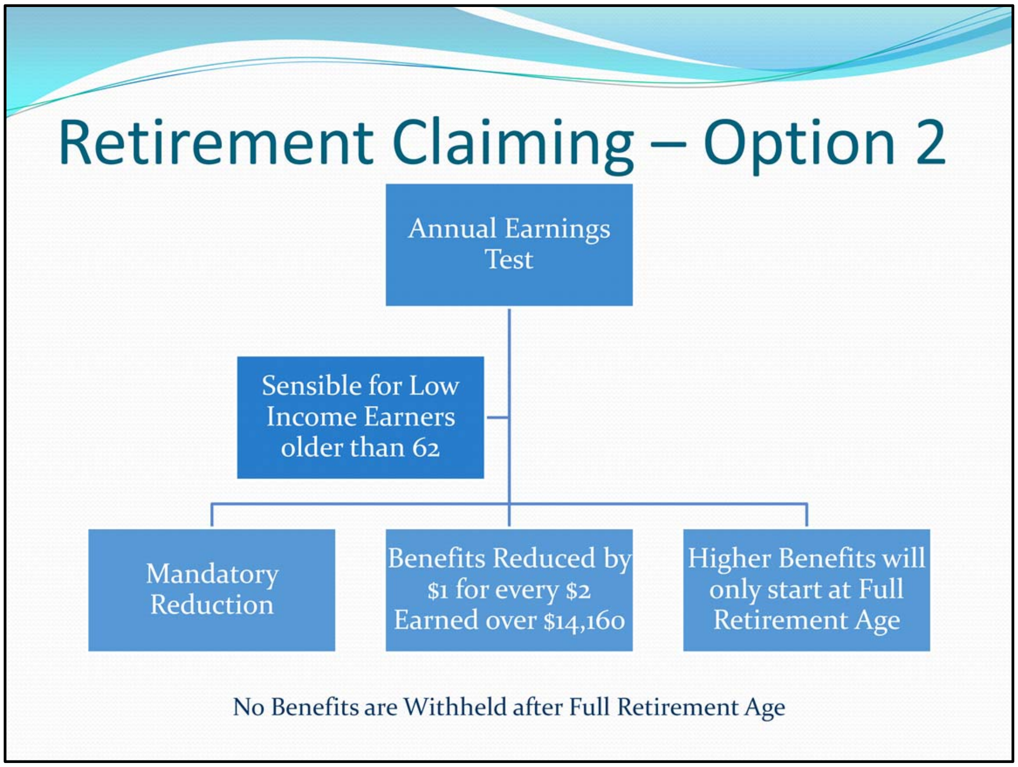
- Created on the 1972 Amendment, but implemented in 1975.
- It ties monthly payments to inflation to protect the purchasing power of your benefits.
- Index starts after retirement; pre-retirement benefits are computed using wages only.



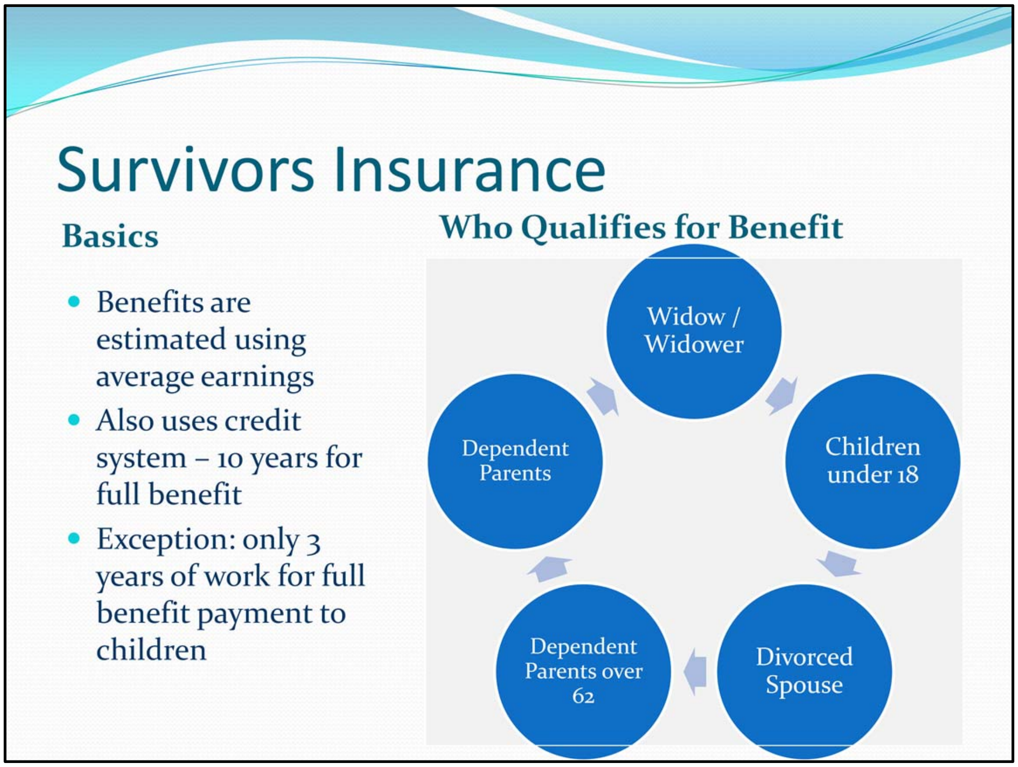
Good option for those still working and earning a high income.

• To maximize your benefits dollars, the ideal is to wait until age 70 to start collecting payments again.

• This option offers lots of flexibility for married couples. For instance, a husband claim and suspend at 65 to continue working. His wife, if a lower income earner, can do a spouse claim to start receiving based on his retirement. Later, he can re-claim higher benefits at age 70. She can also switch to her own retirement benefit at age 70 if it pays more than the spousal amount. As a result, both can get the higher delayed retirement credit.



• The Rule of $1 of benefit reduction applies to retirees that claim benefits before their full retirement age.
• During the year of full retirement age (used to be 65, now it is 66, and 67 in the future), $1 of benefit is only reduced for $3 of income earned. No benefit reductions after full retirement age is reached.
• The benefit amount withheld will be added back to your payments at your full retirement age – it is not lost.
• The Boston College link gives us more details on claiming strategies.



• More detail on the next slide.

Survivor Benefits Details

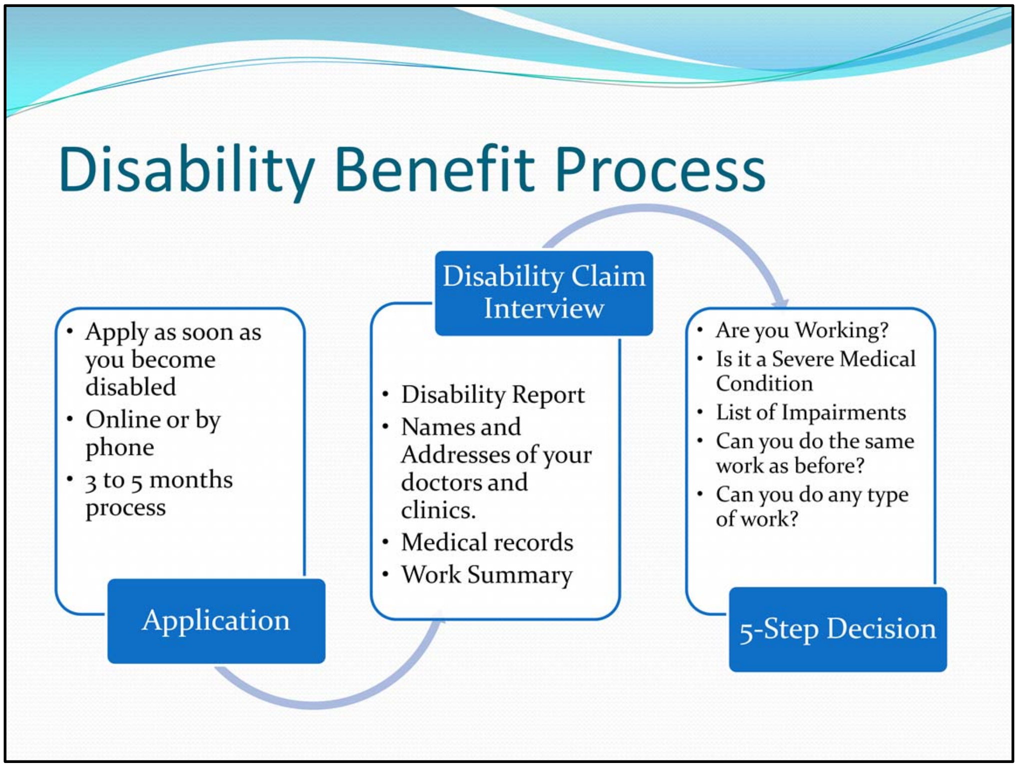
- **Widow/widower**: full benefits at retirement age or reduced as early as 60.
- **Unmarried Children**: younger than 18 (or 19 if still in secondary school)
- **Stepchildren, adopted children, grandchildren, step grandchildren**: special circumstances
- **Widow/widower**: caring for children younger than 16 with disabilities
- **Dependent Parents**: age 62 or older and receiving one-half support from deceased worker
- **Divorced Spouse**: age 60 or older and marriage lasted at least 10 years.

Benefits stop for widow or widower that remarries before the age of 60 but may be started again if the marriage ends.

Disability Insurance

- Protection for workers in the event they become disabled.
- Studies show that a 20-year old worker has a 3-in-10 chance of becoming disabled before retirement age.
- Disability Benefit is estimated on your annual Social Security Statement.
- Benefits start on the sixth full month after becoming disabled.
- Benefit is based on work history and earnings.
- To qualify, a worker must be currently insured.

Disability is a complicated process.



Workers can disagree on a claims decision and start an appeal process. Depending on the complexity of the issue, the claimant might want to get an attorney involved. A person always has the right to be represented by an attorney or another representative when dealing with the Social Security.

The SSA has two publications giving more information on the appeal process: *The Appeals Process* and *Your Right to Representation*. Both can be obtained online or at a SSA office.

Disability Insurance

Social Security Definition

- Unable to do the work you did before and cannot adjust to other work due to medical condition
- Disability must last or expect to last at least one year

Requirement Test

- Recent Work Based on the Age of Disability
- Duration of Work under Social Security

Disability Eligibility Test

Age you become disabled	• Requirement
Before the quarter you turn 24	• 1.5 years of work during the 3-year period before disability began
Between 24 and the quarter you turn 31	• Work during half the time for the period after you turn 21 until 31
In the quarter you turn 31	• 5 years out of the 10 year period until disability began.

Table does not cover all scenarios, for general purpose only

• The best way to start a disability claim is online at http://www.ssa.gov/pgm/disability.htm.
• A disable person might have difficulties leaving their house so the SSA encourages using their online claim.
• The SSA will mail you all the necessary forms including medical history disclosures.

Supplemental Security Income

- Managed by the SSA but funded by the Treasure
- Not based on Work History, it is an assistance program
- Nearly 7.7 million of beneficiaries in 2009
- Must live in the US or an American territory.

Who is Eligible?
- Low-Income over 65
- Blind
- People with Disabilities

Resources Limits
- $ 2,000 individual
- $ 3,000 couple

Benefit Rate
- $ 674 individual
- $ 1,011 couple

Medicare

- Health Insurance Program primarily for people over **65 years old**
- Designed to help with the costs of health care
- You pay the premium for the Medicare Part elected
- Low income people might qualify for state help
- Younger people with disabilities and certain medical conditions can also qualify.
- Not the same as Medicaid; which is state-run for low income population
- Social Security representatives can help your decision regarding the different plans offered

Medicare Plans

Part A: Hospital Insurance
enroll 3 months before turning 65
no extra coverage cost
includes some in-home assistance and hospice care

Part B: Medical Insurance
doctor services
monthly premium by income level
7 months to enroll after Part A – late enrollment triggers premium increases

Choice of Plans

Part C: Advantage Plans
supplemental health to cover expenses not paid by Part A
monthly premium in most cases
annual election

Part D: Prescription Drugs
available when enrolled in A, B or C
annual election and monthly premiums
important : people with frequent drug needs should enroll immediately

Medicare Plans follow similar rules as retirement benefits – need 40 quarters of coverage for free Part A

Medicare Part A

Eligible at Age 65 if:	Eligible before 65 if:
•Eligible for Social Security Benefits •Dependent parent of a deceased and fully insured child • Worked at a government job covered by Medicare	• Entitled for Disability Benefit for 24 months • A disabled child, or widow/widower age 50 or older of a government worker fully insured by Medicare

Part A (Hospital Insurance) available for somebody age 65 or older that does not qualify for free coverage. Premium is up to $461/monthly

Apply for Part A regardless of your work or retirement status

Medicare Part B - Enrollment

If you enroll on this month	Coverage starts
- 3 months	The month you become eligible for Medicare
- 2 months	The month you become eligible for Medicare
- 1 month	The month you become eligible for Medicare
Month you turn 65	One month after enrollment
+ 1 month	Two months after enrollment
+ 2 months	Three months after enrollment
+ 3 months	Three months after enrollment

Important: enroll up to 3 months before age 65 for immediate coverage.
Standard Premium on 2010 = $ 110.50.

Medicare Part B – Special Cases

General Enrollment Period

- If you miss the initial enrollment period, you can still enroll every year from **January 1 to through March 31**
- Monthly Premiums are **permanently increased by 10% for each 12-month delay** after your initial eligibility period

Age 65 & Still covered by a Group Health Plan

- Yours or your spouse **current employment**
- Enroll at anytime while you are covered by the group health plan, **or** on the month that employment ends **or** up to 8 months after the month your group coverage ends
- No late enrollment penalty

Important: if covered by a group health plan with less than 20 employees, **must apply for Part B** since your employer is not required by law to provide you with coverage after age 65.

Medicare Optional Plans

Part C – Medicare Advantage

Need to have Parts A and B to qualify

Plans include plans like PPO (preferred provider organization) and HMO

Monthly premium varies for each plan

Part D – Prescription Drug Coverage

Need to have Parts A, B or C to qualify -

You can wait to enroll if you have an existing prescription plan that is, on average, as good as Medicare

Late enrollment w/o a pre-existing drug plan would incur a lifelong penalty of 1% per month of delay

For both Parts, apply during initial Medicare enrollment or at annual election period from November 15 to December 31

Dual Entitlement

Retired Beneficiaries

A beneficiary eligible for a Primary Insurance Amount and a higher spouse survivor benefit would get a pro-rated payment from those two.

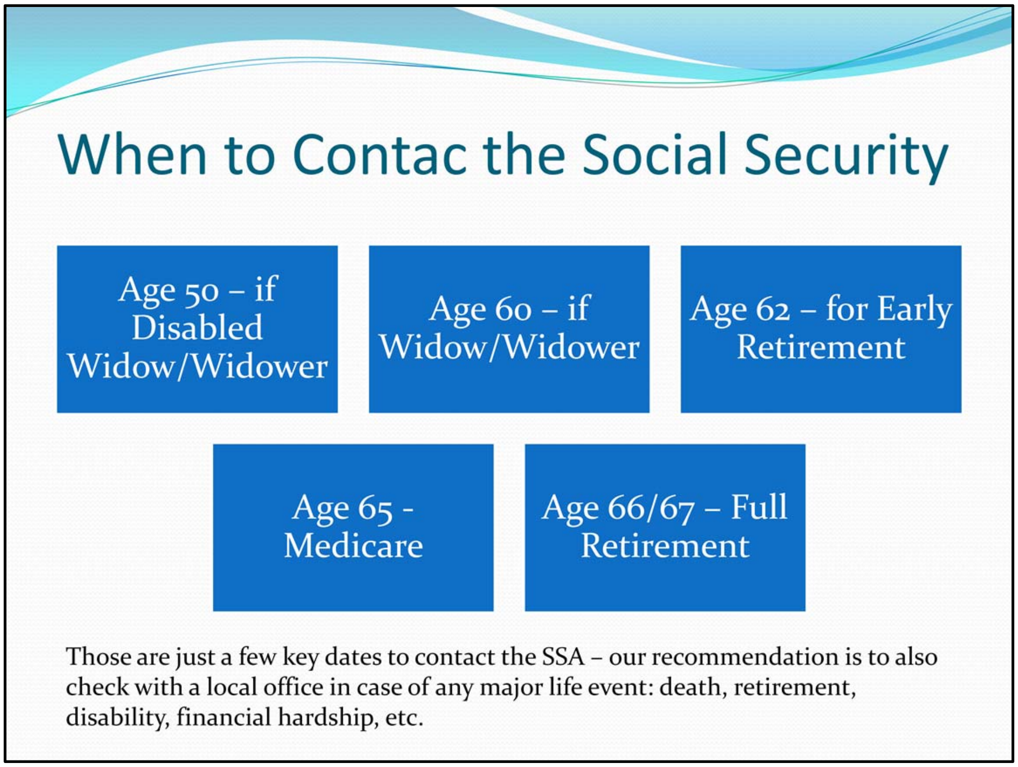
A child from a divorced couple might be entitled to the highest of benefits from parents and stepparents

Workers and SSI

A worker can qualify for both DI and SSI in the event of a disability

A worker collecting small retirement benefits might also qualify for SSI

A worker with disabilities might qualify for SSI but still keep a low-paid job and pay FICA to future benefits.



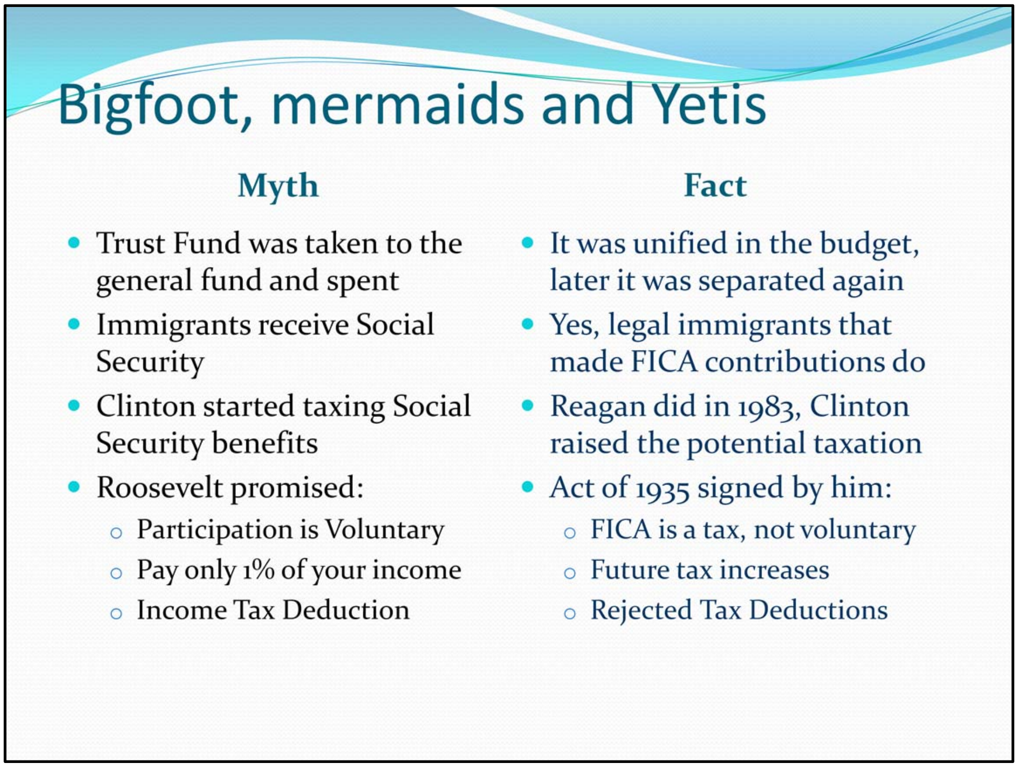
Those are just a few key dates/events when contacting the SSA is truly mandatory. However, the SSA actually strives to be a source of information to workers and retirees – people should actually contact them more often either online, by phone or in-person whenever necessary.
Benefits are paid in the beginning of the month, which makes this their busier time. For non-urgent questions I would recommend contact the SSA after the 10th of the month.

Social Assistance

The SSA offers a variety of resources and programs to those in need

SSI assistance payments	Food Stamps and other Nutrition Programs	Medicare Savings Program: help with premiums and deductibles	Extra Help: help with prescription drug plan costs	Ticket to Work: employment support for people with disabilities

Families suffering financial hardship should contact their local Social Security office to review their options and receive advice.



Second myth:
The immigrant myth is probably more relatable to SSI since, in some cases, a legal immigrant might receive this assistance. Normal benefits are only paid to legal immigrants if they qualify for it as any other worker.
Hot Topic Alert: illegal immigrants are a positive contribution to the system since they pay FICA (maybe under a fake social security number) but will never be eligible to benefits.
Third myth:
Reagan signed the 1983 Amendment from Greenspan Commission. He made up to one half of benefits potentially taxable. Clinton raised the potential taxable amount to 85% of benefits.

• No statements are automatically sent until age 25 but a younger person can request it online too.

Since benefits are paid in the beginning of the month, the SSA phone lines and offices get really busy at this time. For non-urgent questions I would recommend contacting the SSA after the 10th of the month, either by phone or in-person.

- Boston college link is sometimes a bit trick to work. If does not link properly, we can go to their website at www.bc.edu and search on top for “Center for Retirement Research”
- The benefits.gov