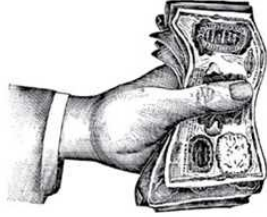




YOU CAN APPLY FOR BENEFITS  
ONLINE, BY PHONE, OR IN PERSON.



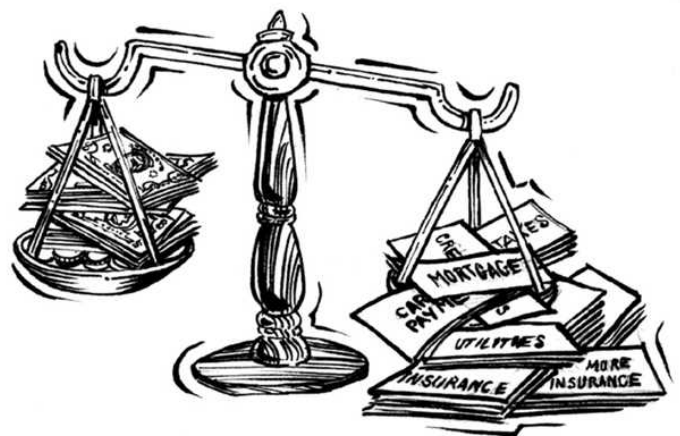
THE SIZE OF BENEFITS  
IS DETERMINED BY THE  
AMOUNT YOU EARN IN  
THE TOP THIRTY-FIVE  
EARNING YEARS OF  
YOUR CAREER.



# SOCIAL SECURITY

FROM MEDICARE TO SPOUSAL  
BENEFITS, AN ESSENTIAL PRIMER ON  
GOVERNMENT RETIREMENT AID

# 101



SOCIAL SECURITY IS NOT GOING BANKRUPT.  
SOME EASY FIXES WILL ENSURE THAT IT CAN  
PAY BENEFITS FOR A LONG TIME TO COME.

ALFRED MILL

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# **Social Security 101**

**From Medicare to Spousal Benefits, an Essential Primer on  
Government Retirement Aid**

**Alfred Mill**



Avon, Massachusetts

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## Introduction

When you think about your retirement, whether it's coming up soon or many years away, you'll start to think about Social Security. Since the Social Security program is going to be an essential part of your golden years, and since you've probably heard people say that it's running out of money, you'll probably have a lot of questions:

*How much money will I get?*

*How does the government calculate that figure?*

*Will my Social Security benefits be taxed? If so, how much?*

*Is the program going broke? Will there even be any money by the time I retire?*

A whopping 74 percent of single people and 52 percent of married couples are going to depend on Social Security payments for more than half their income in retirement. But for something so financially important, many people know very little about Social Security.

*Social Security 101* will give you the most up-to-date information about this government program. You'll learn how to apply for benefits and when you should start taking them. You'll also learn strategies to maximize the benefits you receive and about recent changes to Social Security laws, changes that affect your filing plans.

Like any part of the government, the Social Security Administration can seem intimidating. *Social Security 101* will explain to you how this agency works and how you can appeal its decision about your benefits if you don't agree with it. You'll also learn about the government healthcare programs Medicare and Medicaid and how they relate to your Social Security benefits.

Social Security is an important component of a carefully thought-out retirement plan. It is in your best interest to learn as much as you can about

how Social Security works so that you can be sure to receive all the money that's coming to you. This book will be an essential part of the toolkit you can use to build a financially secure retirement.

## What Is Social Security?

# A Retirement Plan for Everyone

On the first day of your first full-time job, retirement was probably the last thing on your mind. You were too busy wondering how to learn all your duties, impress your boss, and find out where the bathrooms and the coffee machine were located. You were thinking about this amazing new world of work you'd just stepped into and what kind of people you were going to meet and work with. All in all, it was probably one of the most exciting days of your life. Retirement—if it even crossed your mind—was something far off in the misty future. Chances are, the subject of Social Security was something that didn't even remotely intrude into your consciousness.

Although you may not have been thinking about Social Security, the Social Security Administration (SSA) was already thinking about you.

With your first paycheck, you took a step into the complex government program called Social Security. For the rest of your working career, that program tracks you. And when you finally decide to retire at the age of sixty-two or older, you'll apply to the SSA for the benefits you've accumulated in the course of your working life.

As you begin to approach your full retirement age (more about that later), you'll probably give more and more thought to Social Security:

- How much are my benefits per month going to amount to?
- What if it's not enough for me to live on?

- I keep hearing that Social Security is going bankrupt. What if all the money's gone by the time I retire?
- Where can I go for help in figuring this stuff out?

These are all good questions, and there are certainly plenty of others. Social Security has been around for a long time, and it's seen its fair share of changes and adjustments. This has led to a seemingly byzantine set of rules and regulations. We'll explain the most important of these as we go on, but for right now the important thing is for you to understand clearly what Social Security is.

## **Social Insurance**

At its most basic, Social Security is a form of social insurance, set up and administered by the U.S. government. Payments to you from the system can begin as early as age sixty-two (although there are good reasons not to take your benefits that early, as we'll see) and will continue until you die. It's essentially a government-run retirement program that aims to keep you and your fellow retirees out of poverty.

The program is funded through taxes, which are collected directly from workers' paychecks. Look on your latest paycheck stub and find the acronym FICA. The amount next to it is how much money from your paycheck went toward Social Security.

### **FICA and SECA**

FICA stands for Federal Insurance Contributions Act. The Social Security tax is also sometimes designated SECA, which stands for Self-Employment Contributions Act. This latter tax is levied on people who are self-employed (as the name implies). Some portion of both



taxes also goes toward the governmental medical program, Medicare.

Payouts from the Social Security program are huge; according to the Social Security Administration, in 2015 about 59 million people in the United States received Social Security benefits. Total payouts through the program amounted to almost \$870 billion in 2015. The number of people receiving Social Security benefits is expected to rise as members of the baby boom generation retire, something that has created concerns that the program might go bankrupt.

We'll consider this question later and look at some possible ways in which Social Security might be fixed, but for right now we'll look at the program as it currently exists.

The taxes collected through workers' paychecks go into one of a series of trust funds: The Federal Old-Age and Survivors Insurance Trust Fund, the Federal Disability Insurance Trust Fund, the Federal Hospital Insurance Trust Fund, and the Federal Supplemental Medical Insurance Trust Fund. Your earnings are taxed for these funds up to a certain federally determined limit. As of 2015, the maximum amount of taxable income was \$118,500. Any money you make beyond that cap isn't taxed for Social Security (although, of course, it is taxed in other ways such as income tax).



Your Social Security card is one of the most important documents you own. It marks your entry into the government-run retirement system, paid for by deductions from employee paychecks.

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The Social Security Administration also operates other important programs, including the State Children's Health Insurance Program (SCHIP) and Supplemental Security Income (SSI). The SSA, which has its headquarters in Maryland, has ten regional offices scattered around the United States and employs more than 67,000 people.

## **Some Facts and Figures**

Here are some things you may not know about Social Security:

- Nine out of ten people aged sixty-five and older receive Social Security benefits.
- Social Security covers an estimated 165 million workers (in the sense that anyone who pays

payroll taxes to Social Security is “covered”).

- Of those receiving benefits, 39.5 million get retirement benefits; 6.1 million receive survivors benefits; and 9 million receive disability benefits.
- About one in four of today’s twenty-year-olds will become disabled before reaching age sixty-seven.
- In today’s workforce, 51 percent of workers do not have private pension coverage.

The agency issues a nine-digit number to all U.S. citizens and temporary working residents. This number is used to track people within the Social Security system, but it has also become an important identification number that is used in many circumstances to guarantee personal security (for instance, in banking transactions).

The way in which Social Security has been administered has changed over the years, reflecting changing economic circumstances within the country. The most recent change came in 2015, when Congress passed a law that eliminated several filing strategies (particularly the strategy called file and suspend) that had been gaining in popularity.

## **Baby Names Lists**

As a by-product of issuing Social Security numbers to newborns, the SSA is very up on the popularity of baby names for any given year since the system started. Every year the SSA issues two lists: one for the ten most popular girls’ names and another for the ten most popular boys’ names. Go to

[www.ssa.gov/OACT/babynames](http://www.ssa.gov/OACT/babynames) to check out the most recent lists.

In general, Social Security mostly benefits lower-paid workers, since these are the people who are unlikely to be able to save enough for retirement on their own. However, anyone who pays into the system by working as an employee or who is self-employed and pays Social Security taxes can become eligible to receive benefits. This is a controversial aspect of the program, and some have suggested there should be an upper income level beyond which people wouldn't receive benefits (since, presumably, they could afford to support themselves in retirement without aid from the government). Warren Buffett, one of the richest people in the United States, has pointed out the absurdity of the fact that he receives Social Security benefits.

You're also eligible for benefits if you've just been released from prison. You can't receive benefits while you're in jail (provided you've been incarcerated for thirty continuous days), but once you're released, you can begin or restart your benefits.

In addition to paying out retirement checks, the Social Security Trust Funds also make payments to people who are disabled to the degree that they are unable to work. In 2013, this part of the funds made payments of around \$140 billion. Another part of the program, the Supplemental Security Income (SSI), pays money to low-income people who are sixty-five or older, blind, or disabled. Some would argue that this isn't really part of the Social Security system, since it's funded from the general funds of U.S. Treasury rather than the Social Security Trust Funds. But it's still administered by the SSA.