



### 1. WHAT IS SOCIAL SECURITY?

Social Security is a U.S. government program that provides a monthly cash benefit to individuals when they reach age 62 and have worked and accumulated enough work history to qualify. It also can provide a monthly cash benefit to those who become disabled, survivors, and families.

### 2. HOW IS SOCIAL SECURITY FUNDED?

Social Security Tax is collected from “earned income.”

- Individuals employed on a W-2 basis pay 6.2%, and their employer pays 6.2%.
- Self-employed individuals pay double, thus 12.4%, as they cover both the employee and the employer share. The tax is based on their net business profit (income less expenses).

Social Security tax stops being collected when an individual’s earnings (whether employed via a W-2, self-employed, or both) reach a certain amount each year. The dollar amount changes annually, but in 2023 it is \$ 160,200.

### 3. WHAT IS MEDICARE? AND HOW IS IT RELATED TO SOCIAL SECURITY?

Medicare is a U.S. government program to provide health care coverage to individuals when they turn 65. It is possible to get Medicare when you are younger if you are disabled or have certain diseases.

Medicare Tax funds the Medicare program, which is collected from “earned income.”

- Individuals employed on a W-2 basis pay 1.45%, and their employer pays an additional 1.45% of earnings.
- Self-employed individuals pay double the above, thus 2.9%, as they cover both the employee and the employer share. The tax is based on their net business profit.

Unlike Social Security, there is NO earnings limit. Medicare tax is charged on all earned income.

Social Security and Medicare are separate programs. A person could qualify for Medicare and not Social Security. The main similarity is that they are funded by taxes paid while people work, and the benefit is usually received when people are older.

### 4. WHO CAN COLLECT SOCIAL SECURITY?

To be eligible for Social Security benefits as a worker, you must be:

- Age 62 or older, or a person with a disability or blindness.
- "Insured" by having enough work credits.
- Additionally, for applications filed December 1, 1996, or later, you must either be a U.S. citizen or lawfully present noncitizen.

## **5. WHAT IS A WORK CREDIT? AND HOW MANY CREDITS DO YOU NEED TO QUALIFY FOR SOCIAL SECURITY?"**

Work Credits are the way Social Security measures if you are entitled to Social Security. A work credit is earned when you make a certain amount of money subject to Social Security tax; it can be from W-2 or Self Employment earnings.

However, the maximum number of work credits you can earn in any year is four.

The amount you need to earn to get a work credit changes annually.

- In 2023, you earn one work credit for every \$ 1,640 in earnings.
- Thus, in 2023, you would reach the maximum four work credits provided your income subject to Social Security tax equals or exceeds ( $\$1640 \times 4 =$  ) \$6,560.

You must have earned at least 40 "Work Credits" before you can collect Social Security. Thus, if you worked ten years and earned four credits each year, you would meet the work credit requirement.

If you become disabled or blind, you can collect Social Security at a younger age with fewer work credits. Consult the Social Security website to find out the formula, but a minimum of six work credits are required in all cases.

<https://www.ssa.gov/benefits/disability/qualify.htm>

## **6. CAN ANYONE ELSE RECEIVE BENEFITS BASED ON YOUR EARNINGS RECORD?**

Family members can qualify for Social Security based on your earnings record. If they are eligible, they do not need work credits, but as of December 1, 1996, applicants must be U.S. citizens or lawfully present noncitizens.

If you are receiving Social Security, your spouse or ex-spouse may also qualify if they are:

- Age 62 or older and married to you.
- Age 62 or older, divorced from you, and was married to you for at least ten years.
- Under age 62 and caring for a child under age 16 or a child who was certified with a disability before they turned 22

If you are not receiving Social Security but have enough work credits to receive the benefits, your divorced spouse may still qualify for benefits on your record if:

- They had been married to you for at least ten years and divorced you for at least two years.

Additionally, if a worker is deceased, there are ways that a spouse, ex-spouse, minor or disabled children, adopted children, stepchildren, grandchildren, and step-grandchildren can be entitled to Social Security benefits. The rules are complex, so contact the Social Security Department for the requirements.

7. **AT WHAT AGE ARE SOCIAL SECURITY BENEFITS PAID?**

All individuals can start collecting as early as age 62; however, every year, they delay collecting until age 70, and they will get more money when they do collect. For those born in 1943 or later, the increase is 8% annually for every year delayed.

To illustrate the impact of how benefits rise if you delay taking social security, here is a chart for a person who was entitled to \$2,000 at age 62, showing how much more they would get if they waited to collect

Age at which they start collecting	Monthly Amt
62	\$ 2,000.00
63	\$ 2,160.00
64	\$ 2,332.80
65	\$ 2,519.42
66	\$ 2,720.98
67	\$ 2,938.66
68	\$ 3,173.75
69	\$ 3,427.65
70	\$ 3,701.86

8. **WHAT IS THE “NORMAL (FULL) RETIREMENT AGE?”**

The Social Security Administration uses the term "Normal (or full) Retirement Age" as the anticipated age when they expect people to collect. For many decades, the Normal Retirement age was 65 years old.

In 1983, Congress passed a law to raise the Normal Retirement Age gradually because people were living longer and thus using the benefit for longer. The government did not want to run out of money, so they encouraged people to consider retiring later.

For people born in 1938 or later, the law increased the Normal Retirement Age by a few months. If you were born:

- Before 1938, your full retirement age is 65
- Between 1938 and 1960, there are charts on the internet to tell you your full retirement age, but it will be between 65 and 1 month to 66 and 11 months.
- If you were born after 1960, your full retirement age is 67.

However, focusing on Social Security’s definition of your full retirement age is not critical. What is essential to know is that you can collect as early as age 62, but then you will get a minimal benefit. However, if you wait to collect, your benefit will increase by 8% each year you wait until you reach age 70.

**9. HOW MUCH WILL THE BENEFIT BE? AND HOW IS IT DETERMINED?**

Social Security payments are based on the highest thirty-five years of earnings. However, the formula is complicated, as the Social Security Administration adjusts to compare your earnings to those of others at that time. They adjust payments based on a “Cost Of Living Adjustment,” often called COLA.

To get an idea of the 2023 social security payments made at the highest level, thus for a person who had worked steadily all their life, the maximum that would be paid based on the age they began collecting would be:

Age at which they began collecting	Monthly benefit
62	\$ 2,572
65	\$ 3,279
66	\$ 3,506
67	\$ 3,808
70	\$ 4,555

**10. WHAT FACTORS TO CONSIDER ON WHEN TO START COLLECTING SOCIAL SECURITY?**

The most significant factor is how long you will live because if you knew the date you would die, you could do a break-even analysis – so consider family health history.

You might also consider the following:

- Can someone else benefit after I am gone? – marital status “survivor benefits.”
- Lifestyle – do I have necessary expenses now for which I have no other sources of cash?
- Opportunity cost and time value of money? If you took the benefit and invested it, could you earn more than 8% consistently?
- Will the government be solvent and pay my benefit?

**11. CAN YOU CONTINUE TO WORK AND STILL COLLECT SOCIAL SECURITY BENEFITS?**

Yes, but your benefits will be reduced if you’re younger than full retirement age and earn more than a certain amount. Consult with Social Security to find out how much you can earn without a reduction.

Also note that if your benefits are reduced, they are not genuinely lost because your benefit will increase when you reach your full retirement age to account for benefits withheld due to earlier earnings.

**12. HOW DO I CHECK THE SOCIAL SECURITY DEPARTMENT HAS MY WAGE RECORDS?**

Every working person should register with the Social Security Administration and at least annually check that they have an accurate earnings history. To register, go to:

<https://www.ssa.gov/myaccount/>