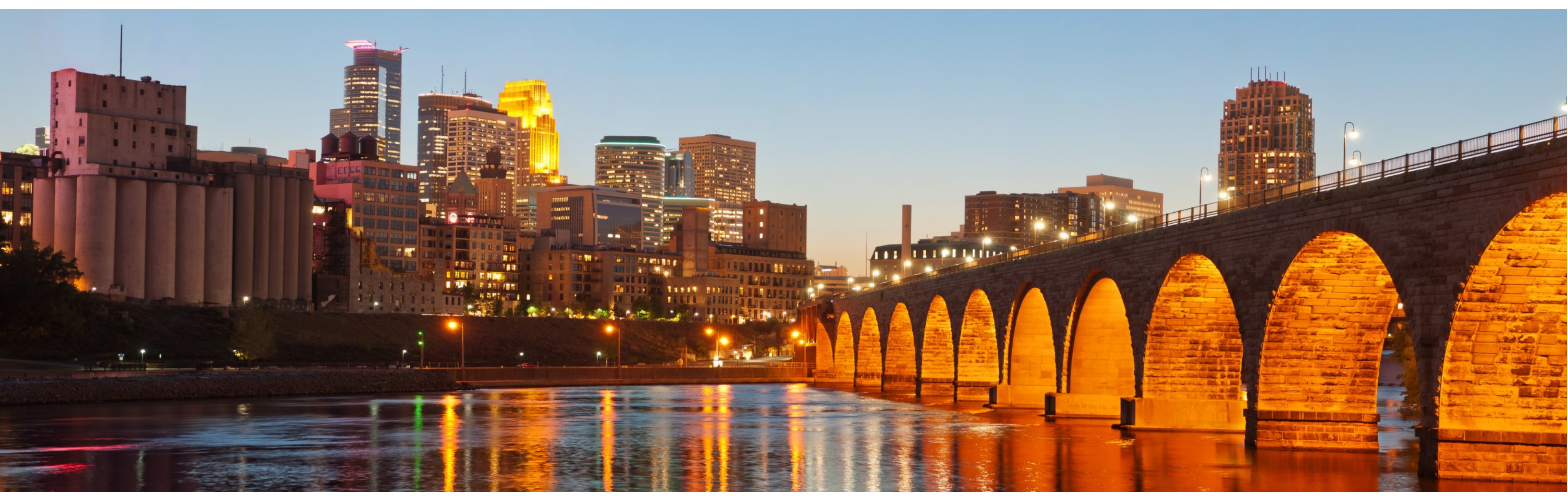
The Bridge Research Article:

A Look Into Social Security

April 22, 2019

By: Mitchell Cornelsen, Sales & Client Service Associate



Social Security

Social Security is a topic most people in the US are aware of and working individuals and their employers are contributing to, but not a lot of people understand the nuances that make up Social Security. There are many questions surrounding Social Security: What are the qualifications to receive benefits? What retirement age will recoup the most benefits? How much can I expect to receive after I retire? To understand Social Security, we need to know when it started and understand where it is going.

History of Social Security & How it Works

Social Security was started in 1935 as a response to the devastation caused by the stock market crash in 1930 and The Great Depression that followed. Many individuals lost their savings, jobs, possessions, homes and dreams due to the Great Depression. There was a need for new safeguards to be enacted to help avoid another economic collapse and the fallout that ensued, and from this need Social Security was created. Social Security is a plan that is paid for by workers and their employers via taxes on earned income. The purpose of Social Security is to help support individuals when they retire or become disabled; it can also assist dependents if the covered worker were to pass away before retirement age.

Social Security tax is applied only to the worker's earned income. The Social Security Administration establishes a taxable wage base (TWB) each year. This determines the maximum amount subject to Social Security tax. For 2019 the TWB cap is $132,900 and the Social Security tax rate is 12.4 %. If the worker is self-employed, they are responsible for the full 12.4%. If the worker is not self-employed the worker pays half (6.2%) and the employer pays the other half (6.2%).

Coverage & Qualifications for Social Security

One of the big questions surrounding Social Security centers on who is covered. The short answer is anyone employed in a Social Security qualified position, including federal employees that were hired after 1984. This was also expanded in 1951 to include self-employed individuals and further expanded to include sole proprietors, partners in a partnership, members of religious orders and many other occupations. According to the Social Security Administration, over 95% of the US workforce today is covered by Social Security.

With over 95% of the workforce paying into Social Security, what does the worker need to do to ensure they qualify to receive their Social Security benefits? For an individual to be eligible to collect Social Security they must meet certain qualifications which are based on the amount of time the individual has participated in the system. There are two categories of qualifications within the Social Security system, fully insured and currently insured.

Fully Insured:

For an individual to be considered fully insured they must have a total of 40 credits, or 10 years of qualified employment (does not have to be consecutive). According to ssa.gov, 1 credit is equal to $1,360 of earnings, with a maximum accumulation of 4 credits per year. If an individual has not acquired 40 credits, they can still be considered fully insured if they have earned 6 credits and have at least as many credits as the number of years between age 21 and the year of their disability, death or age 62.

Currently Insured:

For an individual to be currently insured they must have earned at least 6 credits (has worked for at least 6 quarters) in qualified employment during the last 13 quarters prior to retirement benefits, disability benefits, or death.

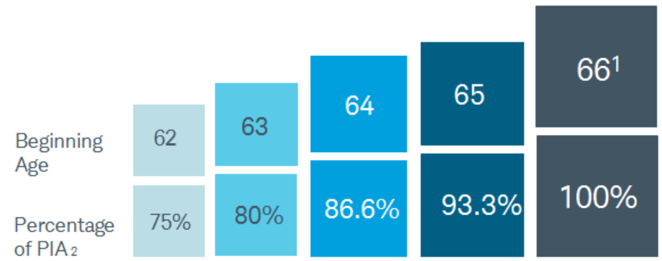
Benefits of Social Security

In order to understand the benefits associated with Social Security we need to define the primary insurance amount (PIA). The PIA is the amount that will be paid to the worker at full retirement age. It is calculated based on the individuals average indexed monthly earnings (AIME). Social Security will use the workers highest 35 years of earnings to compute the PIA and AIME. Simplified, the actual dollar amount the worker will receive will depend on the earnings credited to the worker and the wages they have earned over their qualified working years. These calculations can be very complicated, luckily there are PIA calculators on the ssa.gov website that can do it for you. A fully covered worker can start to receive Social Security as early as age 62, but if you decide to take your benefits before your full retirement age it can reduce the amount you will receive. First you need to establish what your full retirement age is. Refer to the graph of full retirement ages based on birth year below.

If you were born in ...	Your full retirement age is ...
1950 or earlier	You've already hit full retirement age
1951-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 or later	67

As stated earlier you can start to collect Social Security benefits as early as age 62. However, if you decide you want to retire early and receive your Social Security benefits before your reach your full retirement age, your PIA will decrease. Below is the breakdown of the PIA percentages you will receive between age 62 and full retirement age.

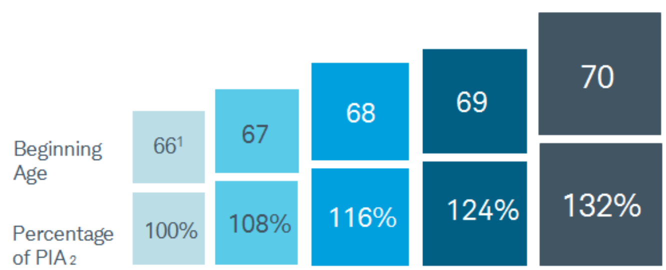
Effect of early retirement on benefit (DOB: Jan. 2, 1943-Jan. 1, 1955)



1. Represents Full Retirement Age (FRA) based on DOB Jan. 2, 1943 to Jan. 1, 1955
2. PIA = The Primary Insurance Amount is the basis for benefits that are paid to an individual

Notice that if you decide to retire at age 62 you will be receiving 75% of PIA. Let's say your monthly PIA at full retirement age is $3,000.00, but you decide to retire at age 62. You will instead be receiving $2,250 a month rather than your full amount. On the other hand, if you wait to claim your Social Security benefits after age 66 you can expect to receive a higher percentage of monthly income every additional year until age 70 as shown below.

Effect of late retirement on benefit (DOB: Jan. 2, 1943-Jan. 1, 1955)



1. Represents Full Retirement Age (FRA) based on DOB Jan. 2, 1943 to Jan. 1, 1955
2. PIA = The Primary Insurance Amount is the basis for benefits that are paid to an individual

These charts illustrate the importance in waiting until full retirement age or longer (up to age 70) to start receiving your Social Security Benefits. The more time you give Social Security to build, the more you can expect to recoup in retirement.

Social Security and your Retirement Plan

When planning your retirement, Social Security should not be your sole means of income after you retire. It should be used to supplement your after-retirement income along with your employer sponsored benefit plan and your personal savings. These sources of post retirement income are often referred to as the "three-legged stool". The Social Security leg is already set up and as mentioned earlier is controlled by the government for you. Your job is to ensure the other two legs of the stool are being funded adequately to achieve your postretirement financial goals. These goals can vary greatly from one person to another—some will need more and others less—but setting up a plan as early as possible is the key to success. Social Security can help fill in financial gaps in your retirement income, but it should not be your only source of income after you retire. To understand the benefits you can expect to receive from Social Security (at full retirement age), go to the Social Security website: ssa.gov to set up your account. The site is a wealth of information and will show the estimated amount you will be receiving on a monthly basis, your work history and the benefits you can receive. When you have an idea of how much you will be receiving you can estimate how much you need to allocate to the other sources for your retirement.

Future of Social Security

The future of Social Security is ever-changing. Increased life expectancy and the large population of baby boomers retiring coupled with lower fertility rates among younger generations leaves more people collecting Social Security and a smaller work force contributing. Social Security needs to make changes, otherwise benefits will continually decrease for future generations. With the unpredictable atmosphere surrounding Social Security, it drives home the need for individuals to plan their retirement and not rely solely on Social Security benefits. Creating a comprehensive retirement plan that is in line with your goals and objectives is paramount to ensuring your financial stability and happiness in retirement.

Sources:

McLellan, A. C. Okumura, K. S. (2014) Foundations of Retirement Planning, Bryn Mawr, PA: The American College Press

"Social Security Benefits." The United States Social Security Administration, www.ssa.gov/.

Accessed on 4/17/2019