



## SOCIAL SECURITY What You Should Know

### **Funding**

The funding for the Social Security trust comes from contributions made by you and by your employer. Each time you get paid, a total of 6.2% (4.2% in 2011 due to government sponsored tax relief) is withheld from your pay for Social Security and your employer contributes an additional 6.2% for a total contribution of 12.4% on pay up to an annual maximum (\$106,800 in 2011 and \$110,100 for 2012).

Because Social Security benefits are based on earnings, it is important to ensure that all earnings are accurately recorded with the Social Security Administration (SSA). SSA sends an annual statement to each worker age 25 and older and not receiving retirement benefits. So, it is important to review the earnings record shown on the statement carefully and immediately report any discrepancies.

### **Retirement**

Social Security retirement benefits usually begin at "normal retirement age" (NRA). For those born in 1937 or earlier, NRA is age 65. For those born after 1937, NRA gradually increases until it reaches age 67 for those born in 1960 and later. A worker can earn a larger benefit by continuing to work past NRA. If a person is willing to accept a reduced payment, retirement benefits may begin as early as age 62. Social Security also provides some disability benefits for those unable to work because of illness or other disability.

### **Retirement Benefits**

A decision to take Social Security retirement benefits is an irrevocable decision. Once the decision is made to begin receiving benefits, you cannot change your mind. And, the initial benefit will serve as the "base amount for the rest of your life, subject only to adjustment for increases in the cost of living.

#### *Normal Retirement Age – Full Benefits*

Normal Retirement Age (NRA) is when "full" benefits – 100% of an individual's Primary Insurance Amount (PIA) – is available. For those born in 1937 or earlier, this is age 65. For those born in 1938 or later, NRA gradually increases until it reaches age 67 for those born in 1960 or later.

#### *Early Retirement – Reduced Benefits*

Age 62 is generally the earliest age that someone can begin to receive Social Security retirement benefits. However, if retirement benefits begin before the "normal" retirement age, the benefit paid is reduced to reflect the income that will be paid over a longer period of time. The amount of the reduction varies with the year of birth.

#### *Delay Retirement – A Bigger Benefit*

If a decision is made to wait to take retirement benefits after the Normal Retirement Age the benefit grows. For each year beyond NRA, up to age 70, the benefit will increase – the amount of which depends on the year of birth.

### **How Work Affects Social Security Retirement Benefits**

In accordance with the Senior Citizens' Freedom To Work Act of 2000, if an individual continues to have wages after retirement, there is no impact on the Social Security benefit once the Normal Retirement Age is reached. Prior to Normal Retirement Age, there is no impact on the Social Security benefit up to the Annual Exempt Amount (currently \$14,160 per year) and then a reduction of one dollar of benefit for every two dollars earned over the Annual Exempt Amount.

### **Which is Better? – Early or Late?**

This is an individual decision based on personal circumstances. One way to answer the question is to perform a "break-even" analysis which estimates the age at which the total value of higher benefits (from delaying retirement) are greater than the total value of lower benefits (from starting retirement early). The Social Security Administration has a break-even calculator available on its website at [www.ssa.gov/OACT/quickcalc/when2retire.html](http://www.ssa.gov/OACT/quickcalc/when2retire.html). Use the estimated retirement benefits from the annual statement provided.

If life expectancy is longer than the break-even age, then there would likely be a benefit from delaying the start of Social Security retirement benefits. Alternatively, if life expectancy is limited due to illness or family genetic history, then there would likely be a benefit from an early start.

This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.

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