OSCPA Oklahoma Society of CPAs

7 QUESTIONS ABOUT SOCIAL SECURITY

Did you know 67 million people 1·eceived benefits from programs administered by the Social Security Administration (SSA) in 20177 Of those, 5.5 million were newly awarded benefits, 55 percent of beneficiaries were women and 86 percent of Supplemental Security Income (SSI) recipients received payments because of a disability or blindness (Source: SSA.gov). In August, the Center on Budget and Policy Priorities said one in every six U.S. residents collected Social Security benefits in June 2018. The average Social Security retirement benefit in June 2018 was $1,413 a month, or about $17,000 per year. While they may not seem like a lot, for some, it's all they have. Understanding Social Security may help you utilize it to your greatest benefit.

1. How does Social Security work?

The Social Security system is based on a simple premise: Throughout your career, you pay a portion of your earnings into a trust fund by paying Social Security or self-employment taxes. Your employer, if any, contributes an equal amount. In return, you receive certain benefits that can provide income to you when you need it most-at retirement or when you become disabled, for instance. Your family members can receive benefits based on your earnings record, too. The amount of benefits you and your family members receive depends on several factors, including your average lifetime earnings, your date of birth and the type of benefit for which you are applying. Your earnings and the taxes you pay are reported to the SSA by your employer, or if you are self-employed, by the Internal Revenue Service (IRS). The SSA uses your Social Security number to track your earnings and your benefits. You can estimate your retirement benefit online based on your actual earnings record using the Retirement Estimator calculator online at ssa.gov/benefits/retirement/estimator. Other benefit calculators are also available that can help you estimate disability and survivor's benefits.

2. When is someone eligible for Social Security benefits?

When you work and pay Social Security taxes, you earn credits that enable you to qualify for Social Security benefits. You can earn up to 4 credits per year, depending on the amount of income you have. Most people must build up 40 credits (10 years of work) to be eligible for Social Security retirement benefits, but need fewer credits to be eligible for disability benefits or for their family members to be eligible for survivor's benefits.

3. How are retirement benefits calculated?

Your Social Security retirement benefit is based on your average earnings over your working career. Your age at the time you start receiving Social Security retirement benefits also affects your benefit amount. If you were born between 1943 and 1954, your full retirement age is 66. Full retirement age increases in two-month increments thereafter, until it reaches age 67 for anyone born in 1960 or later. But you don't have to wait until full retirement age to begin receiving benefits. No matter what your full retirement age, you can begin early retirement benefits at age 62. There is one advantage: Although you'll receive a reduced benefit if you retire early, you'll receive benefits for a longer period than someone who retires at full retirement age. You can also choose to delay receiving retirement benefits past full retirement age. If you delay retirement, the Social Security benefit that you eventually receive will be as much as 6 to 8 percent higher. That's because you'll receive a delayed retirement credit for each month you delay receiving retirement benefits, up to age 70. The amount of this credit varies, depending on your year of birth.

4. What are disability benefits?

If you become disabled, you may be eligible for Social Security disability benefits. The SSA defines disability as a physical or mental condition severe enough to prevent a person from performing substantial work of any kind for at least a year. This is a strict definitionof disability, so if you're only temporarily disabled, don't expect to receive Social Security disability benefits-benefits won't begin until the sixth full month after the onset of your disability. And because processing your claim may take some time, apply for disability benefits as soon as you realize that your disability will be long-term.

5. How are family benefits determined?

If you begin receiving retirement or disability benefits, your family members might also be eligible to receive benefits based on your earnings record. Eligible family members may include:

- Your spouse age 62 or older, if married at least 1 year;
- Your former spouse age 62 or older, if you were married at least 10 years;
- Your spouse or former spouse at any age, if caring for your child who is under age 16 or disabled;
- Your children under age 18, if unmarried;
- Your children under age 19, if full-time students (through grade 12} or disabled; or
- Your children older than 18, with a disability that began before age 22.

Each family member may receive a benefit that is as much as 50 percent of your benefit. However, the amount that can be paid each month to a family is limited. The total benefit that your family can receive based on your earnings record is about 150 to 180 percent of your full retirement benefit amount. If the total family benefit exceeds this limit, each family member's benefit will be reduced proportionately. Your benefit won't be affected.

6· What are survivor's benefits?

When you die, your family members may qualify for survivor's benefits based on your earnings record. These family members include:

- Your widow(er) or ex-spouse age 60 or older (or age 50 or older if disabled);
- Your widow(er) or ex-spouse at any age, if caring for your child who is under 16 or disabled;
- Your children under 18, if unmarried;
- Your children under age 19, if full-time students (through grade 12)

- Your children can get benefits at any age if they were disabled before age 22 (Please note: disabled children whose parents have limited income and resources may be eligible for Supplemental Security Income (551) benefits);
- Your widow(er) or children may also receive a one-time $255 death benefit immediately after you die.

7. How Can You Apply for Social Security Benefits?

You can apply for Social Security benefits in person at your local Social Security Office. You can also begin the process by calling (800) 772-1213. Or by filling out an online application on the Social Security website (ssa.gov). The SSA suggests you contact its representative the year before the year you plan to retire to determine when you should apply and begin receiving benefits. If you're applying for disability or survivor's benefits, apply as soon as you are eligible. Depending on the type of Social Security benefits for which you are applying, you will be asked to furnish certain records, such as a birth certificate, W-2 forms, and verification of your Social Security number and citizenship. The documents must be original or certified copies. If any of your family members are applying for benefits, they will be expected to submit similar documentation. The SSA representative will let you know which documents you need and help you get any documents you don't already have.

Returning to Work After Retirement Can Affect Benefits and Taxes

Returning to work after retirement can affect benefits and taxes. Rather than leaving work at age 65 and going fishing or focusing on gardening, many retirees are celebrating retirement by going back to work. According to 2017 research from the Pew Research Center, baby boomers make up one quarter of the U.S. labor force. Regardless of the reason, it's important to understand how going back to work might impact retirement benefits and taxes. Individuals thinking about returning to the workforce after retiring need to learn if and how Social Security benefits, health insurance and taxes will be affected so they don't lose benefits or end up in a higher tax bracket. Keep the following in mind when considering employment after retirement:

1. **Social Security Benefits:** If you're aged 62 or older, you may have already decided to start receiving retirement benefits. However, if you get a new job and expect your income to increase, you're required to notify the Social Security Administration (SSA). If you receive benefits, but are not yet at full retirement age (as defined by the SSA), some of your benefits may be reduced. For example, if you're younger than full retirement age during all of 2019, SSA will deduct $1 from benefits each $2 earned above $17,640 (Source: SSA.gov). The SSA full retirement age has been gradually increasing, but it's currently between 65 and 67 years old, depending on the year you were born (it is age 67 for everyone born in 1960 and later). If you reach full retirement age during 2019, the SSA will deduct $1 from your benefits for each $3 you earn above $46,920 (Source: SSA.gov). If you return to work after starting to receive benefits, you may be able to receive a higher benefit based on those earnings. The SSA automatically re-computes your benefit amount after the additional earnings are credited to your earnings record. Moreover, you can repay all SSA benefits collected to date with no interest, and the benefits will be reset to a higher number based on your current age and past earnings.

2. **Income Tax:** Going back to work might mean more money, but it also might bump you into a higher tax bracket. In addition, extra distributions or benefits received on top of your salary may

count as additional income. You could also find yourself in a higher tax bracket by taking pension distributions on top of a regular salary or by collecting Social Security benefits while you continue working. You should consider having a CPA crunch the numbers to see how close your current income is to the next tax bracket. As much as 85 percent of your Social Security benefits can be taxable if your other income, including tax exempt interest plus half of your Social Security, exceeds the threshold. According to the on line Benefits Planner at www.SSA.gov, if you :

- File a federal tax return as an "individual" and your combined income is:
  - Between $25,000 and $34,000, you may have to pay income tax on up to 50 percent of your benefits.
  - More than $34,000, up to 85 percent of your benefits may be taxable.
- File a joint return, and you and your spouse have a combined income that is:
  - Between $32,000 and $44,000, you may have to pay income tax on up to 50 percent of your benefits.
  - More than $44,000, up to 85 percent of your benefits may be taxable.
  - Are married and file a separate tax return, you probably will pay taxes on your benefits.