

# Social Security Benefits



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# Important Notice

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This report is intended to serve as a basis for further discussion with your other professional advisors. Although great effort has been taken to provide accurate numbers and explanations, the information in this report should not be relied upon for preparing tax returns or making investment decisions.

Assumed rates of return are not in any way to be taken as guaranteed projections of actual returns from any recommended investment opportunity. The actual application of some of these concepts may be the practice of law and is the proper responsibility of your attorney.

Investment products are not a deposit, not FDIC insured, not insured by any federal government agency, carry no bank guarantee, and may go down in value.

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# An Overview of Social Security Benefits

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## What Is Social Security?

Social Security is a system of social insurance benefits available to all covered workers in the United States. Begun in 1937, the Social Security system covers a wide range of social programs. The term “Social Security,” as it is commonly used, refers to the benefits provided under one part of the system, known by its acronym, OASDI, or Old-Age, Survivors, and Disability Insurance.

OASDI benefits are funded primarily by payroll taxes paid by covered employees, employers, and self-employed individuals. Both the OASDI portion of the payroll tax, as well as that part of the tax that goes to finance hospital insurance, HI (Medicare), are provided for under the Federal Insurance Contributions Act, FICA.

## Insured Status

To qualify for benefits, a worker must be either “fully” insured or “currently” insured. An insured status is acquired by earning “credits”, based on the wages or self-employment income earned during a year. In 2019, an individual must earn \$1,360 in covered earnings to receive one credit and \$5,440 to earn the maximum of four credits for the year.

A worker generally becomes fully insured by earning 40 credits, typically by working 10 years in covered employment.<sup>1</sup> To be considered currently insured, a worker must have at least six credits in the last 13 calendar quarters, ending with the quarter in which he or she became entitled to benefits.

All benefits are available if a worker is fully insured. Some benefits are not available if the worker is only currently insured. Special requirements apply to disability benefits.

## What Benefits Are Available?

- **Worker’s benefit:** This is a monthly income for a retired or disabled worker.
- **Spouse’s benefit:** Refers to monthly income for the spouse or former spouse of a retired or disabled worker.

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<sup>1</sup> For those working less than 10 years, an alternative test to determine fully-insured status may apply.

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## An Overview of Social Security Benefits

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- **Widow(er)'s benefit:** Refers to monthly retirement income for the surviving spouse or former spouse of a deceased worker.
- **Child's benefit:** A monthly income for the dependent child of a deceased, disabled, or retired worker. To qualify, a child must be under age 18, or 18 or 19 and a full-time elementary or high school student, or 18 or over and disabled before 22.
- **Mother's or father's benefit:** Monthly income paid to a surviving spouse who is caring for a worker's dependent child who is under age 16 or disabled before age 22. If under age 62, the spouse of a retired worker receives the same benefit.
- **Parent's benefit:** Monthly income paid to the surviving dependent parent or dependent parents of a deceased worker.

### On What Is the Amount of a Social Security Benefit Based?

In general, a covered worker's benefits, and those of his or her family members, are based on the worker's earnings record. The earnings taken into account are only those reported to the Social Security Administration (SSA), up to a certain annual maximum known as the "wage base." The wage base is indexed for inflation each year and effectively places a cap on the amount of Social Security benefits a worker can receive, regardless of earnings. The wage base for 2019 is \$132,900.<sup>1</sup>

Using a worker's earnings record, the SSA calculates a number known as the Primary Insurance Amount, or PIA. The PIA is the basic value used to determine the dollar amount of benefits available to a worker and his or her family.

### What Is the Benefit Amount?

The table below summarizes the benefit amounts generally payable under OASDI in the event of a worker's death, disability, or retirement. All monthly benefit amounts are subject to reduction to meet a "family maximum" limit. Individual benefits may also be reduced if the recipient has earned income in excess of specified limits.

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<sup>1</sup> The wage base for 2018 was \$128,400.

## An Overview of Social Security Benefits

	Death <sup>1</sup>	Disability <sup>2</sup>	Retirement <sup>3</sup>
<b>Worker's benefit</b>		100% of PIA	100% of PIA
<b>Spouse's benefit</b>	N/A	50% of PIA	50% of PIA
<b>Widow(er)'s benefit</b>	100% of PIA	N/A	N/A
<b>Child's benefit</b>	75% of PIA	50% of PIA	50% of PIA
<b>Mother's or father's benefit</b>	75% of PIA	50% of PIA	50% of PIA
<b>Parent's benefit</b>	82.5% of PIA <sup>4</sup>	N/A	N/A

Workers age 60 or older and who are not receiving Social Security benefits automatically receive a paper Social Security Statement each year, listing the worker's earnings as well as providing estimated retirement, disability, and survivors benefits.

Earnings information may also be verified by calling the SSA directly at (800) 772-1213; TTY (800) 325-0778, Monday through Friday, 7:00AM to 7:00PM. On the internet, the SSA can be found at <https://www.ssa.gov/>.

<sup>1</sup> Reduced widow(er)'s benefits are available at age 60.

<sup>2</sup> Disability benefits are subject to a very strict definition of disability. At full retirement age (FRA), disability benefits cease and retirement benefits begin.

<sup>3</sup> Unreduced benefits are available at FRA. For those born before 1938, FRA is age 65. For individuals born after 1937, FRA gradually increases from age 65 to age 67. For example, for baby boomers born between 1943 -1954, FRA is age 66. A larger retirement benefit is available to those who continue to work past FRA.

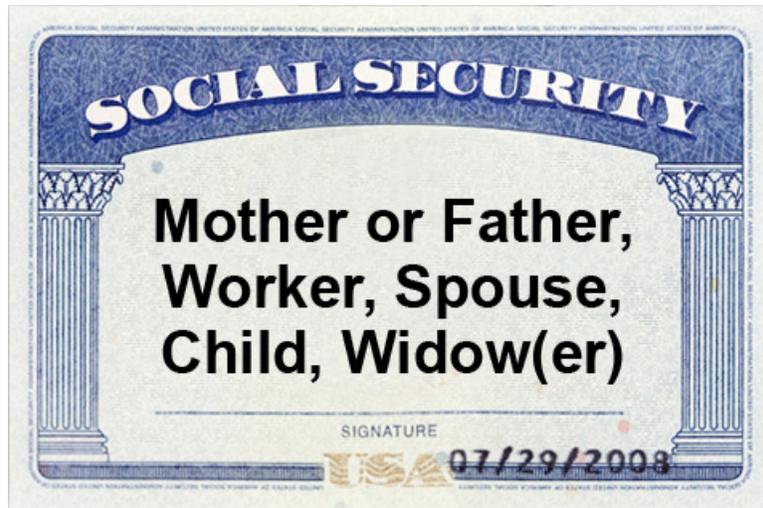
<sup>4</sup> If one parent qualifies, the benefit is 82.5% of the PIA. If both parents qualify, the benefit is 75% of the PIA to each.

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# Who Receives Social Security Benefits?

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Social Security, also known by its acronym OASDI, or “Old Age, Survivors, and Disability Insurance”, pays benefits to many individuals.



## Who Receives Benefits?

- **Worker’s benefit:** A monthly income for a retired or disabled worker.
- **Spouse’s benefit:** Monthly income for the spouse or former spouse of a retired or disabled worker.
- **Widow(er)’s benefit:** Monthly retirement income for the surviving spouse or former spouse of a deceased worker.
- **Child’s benefit:** Monthly income for the dependent child of a deceased, disabled or retired worker. To receive benefits, the child must be under age 18, over age 18 and attending elementary or high school full-time, or over age 18 and disabled before age 22.
- **Mother’s or father’s benefit:** Monthly income paid to a surviving spouse who is caring for a worker’s dependent child who is under age 16 or disabled before age 22. If under age 62, the spouse of a retired worker receives the same benefit.
- **Parent’s benefit:** Monthly income paid to the surviving dependent parent or parents of a deceased worker.

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# Social Security Disability Benefits

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Many Americans associate the term “Social Security” primarily with retirement benefits. However, Social Security also provides benefits to workers who are severely disabled.

There is a complex maze of requirements that must be met to qualify for Social Security disability benefits, and many applicants have difficulty meeting these requirements. In 2016, for example, only 32.7% of initial Social Security disability claims were accepted.<sup>1</sup>

## “Insured” For Disability Benefits

To be “insured” for Social Security disability benefits, a worker must generally meet two tests:<sup>2</sup>

- **Fully insured:** First, he or she must be “fully” insured, usually achieved by earning 40 “credits,” over 10 years in “covered” employment. In 2019, an individual must earn \$1,360 in covered earnings to receive one credit and \$5,440 to earn the maximum of four credits for the year. For those with less than 10 years in covered employment, an alternative test applies (an absolute minimum of six quarterly credits is required), summarized in the “Duration of Work Test” table<sup>3</sup> shown below:

### Duration of Work Test

Age Disability Occurs	Work Generally Required
Younger than age 28	1.5 years
30	2.0 years
34	3 years
38	4 years
42	5 years
44	5.5 years
46	6 years
48	6.5 years
50	7 years
52	7.5 years

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<sup>1</sup> Annual Statistical Report on the Social Security Disability Insurance Program, 2017, October 2018. Table 61, Medical decisions at the initial adjudicative level, by year of application and program, all decisions.

<sup>2</sup> Certain blind individuals need only meet the “fully” insured test to qualify for disability benefits.

<sup>3</sup> See SSA Publication No. 05-10029, Social Security Disability Benefits, August, 2018.

## Social Security Disability Benefits

Age Disability Occurs	Work Generally Required
54	8 years
56	8.5 years
58	9 years
60	9.5 years

- 20/40 rule:** A worker must have at least 20 credits during a 40-calendar quarter period (five out of 10 years) that ends with the calendar quarter the worker is determined to be disabled. Alternative tests apply to individuals disabled before age 31, summarized in the “Recent Work Test” table<sup>1</sup> shown on the following page.

### Recent Work Test

When Disabled	Work Generally Required
In or before the quarter age 24 is reached.	1½ years of work during the three-year period ending when the disability began.
In the quarter after reaching age 24, but before the quarter age 31 is reached.	Work at least one-half of the time, beginning with the quarter after age 21 is reached, and ending with the quarter disability begins.
In the quarter age 31 is reached, or later.	Work at least five years out of the last 10 ending with the quarter disability begins.

### Definition of “Disability”

A worker is “disabled” when he or she is unable to work because of a medical problem or condition that has lasted, or can be expected to last, for a continuous period of 12 months, or that will result in the worker’s death. Also, a worker must be unable to engage in any “substantial gainful activity.” No benefits are paid for short-term or partial disability.

<sup>1</sup> See SSA Publication No. 05-10029, Social Security Disability Benefits, August 2018.

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# Social Security Disability Benefits

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## Applying For Social Security Disability

A person who becomes disabled should apply for disability benefits as soon as possible. In addition to a mandatory five-month waiting period, the time needed to process a disability claim can be lengthy. In considering a claim, five questions will be raised:

1. **Is the individual currently working?** If the answer is “yes,” or if the individual is earning more than \$1,220 per month,<sup>1</sup> the claim will generally be denied.
2. **Is the medical problem “severe?”** The medical condition must significantly limit the individual’s ability to do basic work tasks such as walking or sitting.
3. **Is the medical condition on the List of Impairments?** Certain medical problems are so severe that an individual who suffers from one of these conditions is automatically considered to be disabled.
4. **Can the worker do the work he or she did before?** Can the worker do the same job he or she held immediately before becoming disabled? If yes, the claim will be generally be denied.
5. **Can the worker do any type of work?** If yes, the claim will usually be denied.

## Primary Insurance Amount

In general, Social Security benefit amounts are based on the worker’s lifetime earnings record. Using this earnings record, the SSA calculates a number known as the “Primary Insurance Amount,” or PIA. The PIA is the basic value used to determine the dollar amount of benefits payable to a worker and his or her qualifying dependents.

## The Worker’s Disability Benefit

If a worker is determined to be disabled, the benefit paid to the worker is generally 100% of his or her PIA, calculated as if the worker had reached “full retirement age” (FRA). FRA is the age at which unreduced Social Security retirement benefits are paid. This age varies with the year of birth. For those born in 1937 or earlier, FRA is age 65. For those born after 1937, FRA gradually increases until it reaches age 67 for those born in 1960 or later.

Disability payments will continue until the earliest of: (1) the worker recovers and the disability ends, or (2) the worker reaches FRA, at which point the disability benefits become retirement benefits, or (3) the worker dies.

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<sup>1</sup> 2019 value. For blind individuals, this value is \$2,040 per month.

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# Social Security Disability Benefits

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## Benefits for Family Members

Other individuals may receive benefits based on a disabled worker's account:

- **Spouse's benefit:** At age 62 (or younger, if caring for a child described below), a spouse is eligible for a benefit based on the worker's record. The spouse's benefit is generally equal to 50% of the worker's PIA, at the spouse's FRA. Unless the spouse is caring for a child, the benefit amount is reduced if the spouse begins receiving benefits before FRA. If the spouse is entitled to a larger benefit based on his or her own work record, the larger benefit is paid.
- **Child:** A monthly benefit is available to a dependent child. For this purpose, a child must be under age 18, or age 18 or 19 and a full-time elementary or high school student, or 18 or over and disabled before age 22, and unmarried. Generally, the benefit is equal to 50% of the worker's PIA.
- **Divorced spouse:** If a prior marriage lasted at least 10 years, at age 62 a divorced spouse may be entitled to a benefit based on the worker's record, equal to 50% of the worker's PIA. The divorced spouse must not be married and the benefit amount is reduced for early retirement.
- **Maximum family benefit:** If the total benefits payable based on a worker's Social Security account exceed certain limits (which change each year) the individual benefit amounts for a current spouse and/or child are reduced to bring the total within the family maximum limit. Neither the worker's benefit amount, nor any benefit payable to a divorced spouse, is reduced.

## Federal Income Taxation of Social Security Benefits

Under federal income tax law, Social Security benefits may be subject to income tax. If one-half of Social Security benefits plus "modified adjusted gross income" (often the same as adjusted gross income) exceed a specified threshold, then a portion (up to 85%) of social security benefits is taxable. For married couples filing jointly this threshold is \$32,000; for most others it is \$25,000.<sup>1</sup> State or local income tax treatment of Social Security benefits can vary.

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<sup>1</sup> The threshold is \$0 for those who are married filing separately and who lived with their spouse at any time during the year.

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# Social Security Disability Benefits

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## Reduced Benefits Because of Excess Earnings

If an individual<sup>1</sup> begins receiving Social Security benefits before reaching FRA and also works, the benefit will be temporarily reduced if earnings exceed certain limits. For this purpose, “earnings” generally include wages received as an employee or the net income received from self-employment. The reduction amount is calculated on a monthly basis and will vary depending on the individual’s current age in relation to his or her FRA.

- **Under FRA:** One dollar of benefits is lost for every two dollars earned over an annual total of \$17,640 (\$1,470 monthly).<sup>2</sup>
- **The year FRA is reached:** One dollar of benefits is lost for every three dollars earned over \$46,920 (\$3,910 monthly).<sup>2</sup>
- **At FRA:** Once FRA is reached, disability benefits become retirement benefits, and there is no reduction in an individual’s benefit, regardless of how much is earned.

## Verifying Social Security Records

Because Social Security benefits are based on a worker’s lifetime earnings history, it is important to insure that all covered earnings are accurately listed on SSA records. There are several ways to do this:

- **Paper statements:** Workers age 60 or older and who are not receiving Social Security benefits automatically receive a paper Social Security Statement each year, listing the worker’s earnings as well as providing estimated retirement, disability, and survivors benefits. A paper earnings statement may also be requested by completing Form SSA-7004, *Request for Social Security Statement*, and mailing it to the address on the form. The statement will arrive by mail in four to six weeks.
- **Online statements:** The same information previously provided on the paper statements is now available on an electronic statement. These electronic statements

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<sup>1</sup> In a disability situation, this would usually apply only to a qualifying dependent; if the worker is able to work, he or she would generally no longer be considered “disabled” and disability benefits would cease.

<sup>2</sup> 2019 value. These “exempt” amounts are subject to adjustment for inflation each calendar year.

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## Social Security Disability Benefits

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include a summary of a worker's earnings, as well as providing estimated retirement, disability, and survivor's benefits. To obtain a statement, an individual will need to create an account on the Social Security website at <http://www.ssa.gov/myaccount>. Each person who wishes to sign up must be at least age 18 and have a valid Social Security number, e-mail address, and United States mailing address.

- **Telephone:** Earnings information may also be verified by calling the SSA directly at (800) 772-1213; TTY (800) 325-0778, Monday through Friday, from 7:00AM to 7:00PM.

### Estimating Social Security Disability Benefits

The Social Security Administration, on its website, offers a calculator which allows an individual to estimate his or her disability benefits, using the individual's own earnings history, taken directly from Social Security records. This calculator can be reached at: <http://www.ssa.gov/planners/>

### Seek Professional Guidance

Applying for Social Security disability benefits can be a confusing process. Trained financial professionals can answer many Social Security disability questions. Social Security information can also be obtained by directly contacting the SSA.

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# Social Security Retirement Benefits

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One of the original motivations for the Social Security system was the need to provide income for retired workers. Today, the retirement benefits available through Social Security provide income not only to retired workers, but to qualifying dependents as well.

## Qualifying For Retirement Benefits

To qualify for Social Security retirement benefits, a worker must meet two primary requirements:

- **Fully insured:** To be “fully” insured, a worker must have earned 40 Social Security “credits,” generally by working 10 years in “covered” employment.<sup>1</sup> In 2019, an individual must earn \$1,360 in covered earnings to receive one credit and \$5,440 to earn the maximum of four credits for the year.
- **Age:** Be at least age 62.

## Primary Insurance Amount

In general, Social Security benefit amounts are based on the worker’s lifetime earnings record. Using this earnings record, the Social Security Administration (SSA) calculates a number known as the “Primary Insurance Amount,” or PIA. The PIA is the basic value used to determine the dollar amount of benefits payable.

## When to Take Social Security Retirement Benefits?

Once retirement payments begin, the benefit amount generally does not change, except for annual “cost-of-living” adjustments. Thus, the decision as to when to begin to take Social Security retirement benefits is a key one. Full Social Security retirement benefits are paid at “full retirement age” (FRA). A worker who elects to receive Social Security retirement benefits at his or her FRA can expect to receive 100% of the PIA. For those born in 1937 or earlier, FRA is age 65. For those born after 1937, FRA gradually increases until it reaches age 67 for those born in 1960 and later.

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<sup>1</sup> Wages or self-employment income where the earnings are subject to Social Security tax (OASDI) and the Medicare (HI) tax. For those working less than 10 years, an alternative test to determine fully-insured status may apply.

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## Social Security Retirement Benefits

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- **Early retirement (less):** Reduced retirement benefits may begin as early as age 62. For each month (up to 36 months) that a worker is under FRA, benefits are reduced by 5/9 of 1% of the PIA. For each month in excess of 36 months, benefits are reduced an additional 5/12 of 1% of the PIA.
- **Delayed retirement (more):** A worker who delays receiving retirement benefits beyond FRA can receive a larger benefit. For each year of delay up to age 70, the benefit is increased by a specific percentage of the PIA. The amount of extra credit for each year of delay will vary depending on the year of birth. No additional credit is given for delaying receipt of benefits past age 70.

### Retirement Benefits for Family Members

Other individuals may receive retirement benefits based on a worker's account:

- **Spouse's benefit:** Beginning at age 62 (or younger, if caring for a child described below), a spouse is eligible for a retirement benefit based on the worker's earnings record. The spouse's benefit is generally equal to 50% of the worker's PIA, at the spouse's FRA. Unless the spouse is caring for a child, the benefit amount is reduced if the spouse begins receiving benefits before FRA. If the spouse is entitled to a larger benefit based on his or her own work record, the larger benefit is paid.
- **Child:** A monthly retirement benefit is available to a dependent child. For this purpose, a child must be under age 18, or age 18 or 19 and a full-time elementary or high school student, or 18 or over and disabled before age 22, and unmarried. The benefit is equal to 50% of the worker's PIA.
- **Divorced spouse:** If a prior marriage lasted at least 10 years, at age 62 a divorced spouse may be entitled to retirement benefits based on the worker's record. Generally, the retirement benefit amount is 50% of the worker's PIA. The divorced spouse must not be married and benefits are reduced for early retirement.

### Maximum Family Benefit

If the total benefits payable based on a retired worker's Social Security account exceed certain limits (which change each year) the individual dollar amounts for a spouse and any

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## Social Security Retirement Benefits

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dependent children are proportionately reduced to bring the total within the family maximum limit.<sup>1</sup> Neither the worker's benefit amount nor any benefit payable to a divorced spouse is reduced because of the family maximum limit.

### Federal Income Taxation of Social Security Benefits

Under federal income tax law, Social Security benefits may be subject to income tax. If one-half of Social Security benefits plus "modified adjusted gross income" (often the same as adjusted gross income) exceed a specified threshold, then a portion (up to 85%) of social security benefits is taxable. For married couples filing jointly this threshold is \$32,000; for most others it is \$25,000.<sup>2</sup> State or local income tax treatment of Social Security benefits can vary.

### Reduced Benefits Because of Excess Earnings

If an individual begins receiving retirement benefits before reaching FRA, and also works, the retirement benefit will be temporarily reduced if earnings exceed certain limits. For this purpose, "earnings" generally include wages received as an employee or the net income received from self-employment. The reduction amount is calculated on a monthly basis and varies depending on the individual's current age in relation to his or her FRA.

- **Under FRA:** One dollar of benefits is lost for every two dollars earned over an annual total of \$17,640 (\$1,470 monthly).<sup>3</sup>
- **The year FRA is reached:** One dollar of benefits is lost for every three dollars earned over \$46,920 (\$3,910 monthly).<sup>3</sup>
- **At FRA:** Once FRA is reached, there is no reduction in an individual's benefit, regardless of how much is earned. Any benefits that were withheld earlier because of excess earnings are credited to the individual's account, resulting in a larger retirement benefit beginning at FRA.
- **Special rule for the first year of retirement:** A special rule applies to the first year of retirement, to benefit an individual who, before just retiring, earns more than the

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<sup>1</sup> The family maximum benefit is based on a formula and ranges from 150% to 180% of the worker's benefit.

<sup>2</sup> The threshold is \$0 for those who are married filing separately and who lived with their spouse any time during the year.

<sup>3</sup> 2019 values. These "exempt" amounts are subject to adjustment for inflation each calendar year.

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## Social Security Retirement Benefits

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annual limit. Under this rule, unreduced Social Security benefits are paid for any month after benefits begin that an individual does not earn more than the monthly exempt wage amount.

### Verifying Social Security Records

Because Social Security benefits are based on a worker's lifetime earnings history, it is important to insure that all covered earnings are accurately listed on SSA records. There are several ways to do this:

- **Paper statements:** Workers age 60 or older and who are not receiving Social Security benefits automatically receive a paper Social Security Statement each year, listing the worker's earnings as well as providing estimated retirement, disability, and survivors benefits. A paper earnings statement may also be requested by completing Form SSA-7004, *Request for Social Security Statement*, and mailing it to the address on the form. The statement will arrive by mail in four to six weeks.
- **Online statements:** The same information previously provided on the paper statements is now available on an electronic statement. These electronic statements include a summary of a worker's earnings, as well as providing estimated retirement, disability, and survivor's benefits. To obtain a statement, an individual will need to create an account on the Social Security website at <https://www.ssa.gov/myaccount>. Each person who wishes to sign up must be at least age 18 and have a valid Social security number, e-mail address, and United States mailing address.
- **Telephone:** Earnings information may also be verified by calling the SSA directly at (800) 772-1213; TTY (800) 325-0778, Monday through Friday, from 7:00AM to 7:00PM.

### Estimating Social Security Retirement Benefits

The Social Security administration, on its website, offers a calculator which allows an individual to estimate his or her retirement benefits, using the individual's own earnings history, taken directly from Social Security records. This calculator can be reached at: <https://www.ssa.gov/planners/retire>

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## Social Security Retirement Benefits

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### Seek Professional Guidance

For many Americans, the retirement benefits provided by Social Security form an important part of their retirement income. A qualified financial professional can answer many Social Security questions. Social Security questions can also be answered by directly contacting the SSA.

# Early or Delayed Retirement's Effect on Social Security Benefits

Full retirement age (FRA) is the age at which “full” Social Security retirement benefits – 100% of an individual’s Primary Insurance Amount (PIA)<sup>1</sup> – are available. For many years, FRA was set at age 65. Beginning with individuals born in 1938, FRA gradually increases until it reaches age 67 for those born in 1960 or later.

If an individual chooses to receive retirement benefits before his or her FRA, the benefit paid is reduced to reflect the fact that income will be paid over a longer period of time. Similarly, if an individual chooses to delay retirement benefits, the benefit is increased for each year of delay (up to age 70) beyond FRA. The table below shows the effect of early or delayed retirement on an individual’s retirement benefit, depending on the year of birth.

Retirement Benefit as a Percentage of the Primary Insurance Amount at Various Ages <sup>2</sup>									
Year of Birth	Full Retirement Age (FRA)	Credit for each year of delayed retirement after FRA (Percent)	Benefit as a % of PIA at Age						
			62	63	64	65	66	67	70
1924	65	3	80	86 <sup>2</sup> / <sub>3</sub>	93 <sup>1</sup> / <sub>3</sub>	100	103	106	115
1925-1926	65	3½	80	86 <sup>2</sup> / <sub>3</sub>	93 <sup>1</sup> / <sub>3</sub>	100	103½	107	117½
1927-1928	65	4	80	86 <sup>2</sup> / <sub>3</sub>	93 <sup>1</sup> / <sub>3</sub>	100	104	108	120
1929-1930	65	4½	80	86 <sup>2</sup> / <sub>3</sub>	93 <sup>1</sup> / <sub>3</sub>	100	104½	109	122½
1931-1932	65	5	80	86 <sup>2</sup> / <sub>3</sub>	93 <sup>1</sup> / <sub>3</sub>	100	105	110	125
1933-1934	65	5½	80	86 <sup>2</sup> / <sub>3</sub>	93 <sup>1</sup> / <sub>3</sub>	100	105½	111	127½

<sup>1</sup> The PIA is calculated by the Social Security Administration based on a person’s lifetime earnings record.

<sup>2</sup> Source: Social Security Administration.

## Early or Delayed Retirement's Effect on Social Security Benefits

Retirement Benefit as a Percentage of the Primary Insurance Amount at Various Ages <sup>1</sup>									
Year of Birth	Full Retirement Age (FRA)	Credit for each year of delayed retirement after FRA (Percent)	Benefit as a % of PIA at Age						
			62	63	64	65	66	67	70
1935-1936	65	6	80	86 <sup>2</sup> / <sub>3</sub>	93 <sup>1</sup> / <sub>3</sub>	100	106	112	130
1937	65	6½	80	86 <sup>2</sup> / <sub>3</sub>	93 <sup>1</sup> / <sub>3</sub>	100	106½	113	132½
1938	65, 2 mos	6½	79 <sup>1</sup> / <sub>6</sub>	85 <sup>5</sup> / <sub>9</sub>	92 <sup>2</sup> / <sub>9</sub>	98 <sup>8</sup> / <sub>9</sub>	105 <sup>5</sup> / <sub>12</sub>	111 <sup>11</sup> / <sub>12</sub>	131 <sup>5</sup> / <sub>12</sub>
1939	65, 4 mos	7	78 <sup>1</sup> / <sub>3</sub>	84 <sup>4</sup> / <sub>9</sub>	91 <sup>1</sup> / <sub>9</sub>	97 <sup>7</sup> / <sub>9</sub>	104 <sup>2</sup> / <sub>3</sub>	111 <sup>2</sup> / <sub>3</sub>	132 <sup>2</sup> / <sub>3</sub>
1940	65, 6 mos	7	77½	83 <sup>1</sup> / <sub>3</sub>	90	96 <sup>2</sup> / <sub>3</sub>	103½	110½	131½
1941	65, 8 mos	7½	76 <sup>2</sup> / <sub>3</sub>	82 <sup>2</sup> / <sub>9</sub>	88 <sup>8</sup> / <sub>9</sub>	95 <sup>5</sup> / <sub>9</sub>	102½	110	132½
1942	65, 10 mos	7½	75 <sup>5</sup> / <sub>6</sub>	81 <sup>1</sup> / <sub>9</sub>	87 <sup>7</sup> / <sub>9</sub>	94 <sup>4</sup> / <sub>9</sub>	101¼	108¾	131¼
1943-1954	66	8	75	80	86 <sup>2</sup> / <sub>3</sub>	93 <sup>1</sup> / <sub>3</sub>	100	108	132
1955	66, 2 mos	8	74 <sup>1</sup> / <sub>6</sub>	79 <sup>1</sup> / <sub>6</sub>	85 <sup>5</sup> / <sub>9</sub>	92 <sup>2</sup> / <sub>9</sub>	98 <sup>8</sup> / <sub>9</sub>	106 <sup>2</sup> / <sub>3</sub>	130 <sup>2</sup> / <sub>3</sub>
1956	66, 4 mos	8	73 <sup>1</sup> / <sub>3</sub>	78 <sup>1</sup> / <sub>3</sub>	84 <sup>4</sup> / <sub>9</sub>	91 <sup>1</sup> / <sub>9</sub>	97 <sup>7</sup> / <sub>9</sub>	105 <sup>1</sup> / <sub>3</sub>	129 <sup>1</sup> / <sub>3</sub>
1957	66, 6 mos	8	72½	77½	83 <sup>1</sup> / <sub>3</sub>	90	96 <sup>2</sup> / <sub>3</sub>	104	128
1958	66, 8 mos	8	71 <sup>2</sup> / <sub>3</sub>	76 <sup>2</sup> / <sub>3</sub>	82 <sup>2</sup> / <sub>9</sub>	88 <sup>8</sup> / <sub>9</sub>	95 <sup>5</sup> / <sub>9</sub>	102 <sup>2</sup> / <sub>3</sub>	126 <sup>2</sup> / <sub>3</sub>
1959	66, 10 mos	8	70 <sup>5</sup> / <sub>6</sub>	75 <sup>5</sup> / <sub>6</sub>	81 <sup>1</sup> / <sub>9</sub>	87 <sup>7</sup> / <sub>9</sub>	94 <sup>4</sup> / <sub>9</sub>	101 <sup>1</sup> / <sub>3</sub>	125 <sup>1</sup> / <sub>3</sub>
1960 and later	67	8	70	75	80	86 <sup>2</sup> / <sub>3</sub>	93 <sup>1</sup> / <sub>3</sub>	100	124

<sup>1</sup> Source: Social Security Administration.

# How Work Affects Social Security Benefits

Monthly Social Security benefits are paid to individuals for a number of reasons, including retirement, disability, and death. If a Social Security recipient also works, some of the benefits may be reduced if the income earned exceeds certain dollar amounts.

However, the month an individual reaches “Full Retirement Age,” or FRA, Social Security benefits are no longer reduced, regardless of the amount of income earned.

FRA is the age at which an individual can expect to receive 100% of his or her normal retirement benefit, without reduction for early retirement. For those born in 1937 or earlier, FRA is age 65. For those born after 1937, FRA gradually increases until it reaches age 67 for those born in 1960 or later.

Age of Social Security Benefits Recipient	Annual Exempt Amount <sup>1</sup>		One Dollar of Benefits Is Lost for Every Two or Three Dollars You Earn Over the Exempt Amount
	2018	2019	
Under FRA	\$17,040	\$17,640	Every Two Dollars
Year FRA Reached	\$45,360	\$46,920	Every Three Dollars
Month FRA Reached	No Limit	No Limit	No Loss of Benefits

**Example (1):** An individual begins receiving Social Security benefits at age 63 in January 2019, with an entitlement of \$500 per month. If the retiree works and earns \$27,640 during the year, he or she would have to give up \$5,000 of Social Security benefits (\$1 for every \$2 over the \$17,640 limit), but would still receive \$1,000.

**Example (2):** Assume an individual reaches FRA in November 2019. Also assume the individual earns \$59,904 during the year, with \$49,920 of this amount being received in the first 10 months of the year. The individual would give up \$1,000 in benefits, \$1 for every \$3 earned above the \$46,920 limit. Assuming a Social Security retirement benefit of \$500 per month, the individual would still receive \$4,000 out of \$5,000 for the first 10 months of the year. Full benefits of \$1,000 (\$500 per month) would be received for November and December, after FRA was reached.

<sup>1</sup> Source: Social Security Administration

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## How Work Affects Social Security Benefits

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### What Counts as Earnings?

Any wages earned after retirement from work as an employee and any net earnings from self-employment count as earnings. Wages include bonuses, commissions, fees, vacation pay, pay in lieu of vacation and cash tips of \$20 or more in a month.

### What Doesn't Count as Earnings?

- Investment income, including stock dividends, interest from savings accounts, income from annuities, limited partnership income and rental income from real estate you own (unless you are a real estate dealer).
- Income from Social Security, pensions, other retirement pay and Veterans Administration Benefits.
- Gifts or inheritances.
- Royalties received after age 65 from patents or copyrights obtained before that year.
- If you are a retired partner, retirement payments from partnerships don't count if:
  - The payments continue for life under a written agreement which provides for payments to all partners or a class of them; and
  - You rendered no services to the partnership during the taxable year the retirement payments were received; and
  - Your share of the partnership capital was paid to you in full before the end of the partnership's taxable year and there is no obligation to you other than retirement payments.
- Income from self-employment received in a year after the year a person becomes entitled to benefits. This refers to income which is not attributable to services performed after the month of entitlement.

### Benefits Withheld Restored at Full Retirement Age (FRA)

When an individual has had benefits withheld as a result of the Social Security retirement earnings test, these "lost" benefits are later restored, beginning at FRA. In the benefit re-computation at FRA, the actuarial reduction that was applied in the initial computation

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## How Work Affects Social Security Benefits

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(because the individual applied for benefits early) is adjusted (lessened) to reflect the number of months that he or she received no or partial benefits as a result of the earnings test. A larger benefit is then paid, beginning at FRA.

For example, assume a worker claims Social Security retirement benefits at age 62. He then takes a part-time job which, over time, results in 12 months of benefits being withheld. Once the worker reaches FRA, his retirement benefit will be re-calculated, in this case as if he had first taken Social Security retirement benefits 12 months later, at age 63, rather than at age 62. This recalculation effectively “recaptures” the benefits earlier withheld.

If spousal benefits are withheld under the earnings test, they will be adjusted upward when the spouse (not the worker) attains FRA. For a spouse who has already reached FRA, there is no subsequent adjustment to benefits to take into account months for which no or a partial benefit was paid as a result of the earnings test.

### Online Information

The Social Security Administration has a great deal of information available on its website at:

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

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# Social Security Survivor Benefits

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While Social Security is frequently associated with retirement, it also provides benefits to qualifying survivors of deceased, insured workers.

## Qualifying for Survivor Benefits

The type of survivor benefits payable by Social Security depends on whether a worker is “fully” insured or “currently” insured at the time of death.

- **Fully insured:** To be “fully” insured, a worker must have earned 40 Social Security “credits,” generally by working 10 years in “covered” employment.<sup>1</sup> In 2019, an individual must earn \$1,360 in covered earnings to receive one credit and \$5,440 to earn the maximum of four credits for the year. For a fully insured worker, survivor’s benefits may be payable to:
  - A spouse.
  - A divorced spouse.
  - A dependent child (or children).
  - A dependent parent (or parents).
- **Currently insured:** To be “currently” insured, a worker must have earned at least six Social Security “credits” during the 13-quarter period ending with the quarter in which death occurred. For a currently insured worker, survivor’s benefits may be payable to:
  - A spouse, if caring for a dependent child.
  - A divorced spouse, if caring for a dependent child.
  - A dependent child (or children).

## Primary Insurance Amount

In general, Social Security benefit amounts are based on a worker’s lifetime earnings record. Using this earnings record, the Social Security Administration (SSA) calculates a number

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<sup>1</sup> Wages or self-employment income where the earnings are subject to Social Security tax (OASDI) and the Medicare (HI) tax. For those working less than 10 years, an alternative test to determine fully-insured status may apply.

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## Social Security Survivor Benefits

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known as the “Primary Insurance Amount,” or PIA. The PIA is the basic value used to determine the dollar amount of benefits payable.

### Benefits for Surviving Family Members

The following benefits are payable to qualified surviving family members:

- **Mother’s or Father’s benefit:** This is a monthly benefit of 75% of the PIA, payable at any age, to a surviving spouse (or surviving divorced spouse), who is caring for a child of the deceased worker, under the age of 16 or disabled before age 22. The worker could have been either fully insured or currently insured at the time of death. The benefit ends when there are no children of the deceased worker under age 16 or disabled who are entitled to a child’s benefit.
- **Child’s benefit:** A monthly benefit equal to 75% of the deceased parent’s PIA is available to a dependent child of the deceased worker. The worker could have been either fully insured or currently insured at the time of death. For this purpose, a child must be under age 18, or age 18 or 19 and a full-time elementary or high school student, or 18 or over and disabled before age 22, and unmarried. Generally, a child’s benefit ends when the child dies, reaches age 18 and is neither disabled nor a full-time elementary or secondary student, or the child marries.
- **Widow(er)’s benefit:** This is a monthly benefit generally equal to 100% of the deceased worker’s PIA, available to a surviving spouse or surviving divorced spouse. The deceased worker must have been fully insured at the time of death. A surviving spouse or surviving divorced spouse must be either (1) age 60 or over; or (2) at least age 50 but not age 60 and disabled, not entitled to a retirement benefit equal to or larger than the worker’s PIA, and not married. In addition, a surviving spouse must have been married to the deceased worker for at least nine months just before the worker died, or fit one of a number of situations regarding being the parent of a child with the deceased worker. A surviving divorced spouse must have been married to the deceased worker for 10 years just before the date the divorce became final.

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## Social Security Survivor Benefits

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- **Parent's benefit:** Provides a monthly benefit equal to 87.5% of the deceased worker's PIA if one parent qualifies or 75% of the deceased worker's PIA to each parent, if two parents qualify. The worker must have been fully insured at the time of death. Generally, to qualify a parent must be at least age 62, must not be entitled to a retirement benefit equal to or larger than the amount of the unadjusted parent's benefit after any increase to the minimum benefit, must have been receiving at least one-half of his or her support from the deceased worker, must have filed evidence with the Social Security Administration that the support requirement was met within certain time limits,<sup>1</sup> and must not have remarried since the insured worker's death.
- **Lump-sum payment:** A one-time, lump-sum payment of \$255 may be made to the survivors of a worker who was either fully or currently insured at the time of death. Generally, the lump-sum payment is paid to a surviving spouse, living with the deceased as husband and wife, in the same household. If there is no spouse to receive the lump-sum payment, the payment is made to a child or children of the deceased. If there is more than one child, each child is entitled to an equal share of the lump sum.

### Maximum Family Benefit

If the total benefits payable based on a deceased worker's Social Security account exceed certain limits (which change each year), the individual dollar amounts for all beneficiaries (except a surviving divorced spouse) are proportionately reduced to bring the total within the family maximum limit.

### Federal Income Taxation of Social Security Benefits

Under federal income tax law, Social Security benefits may be subject to income tax. If one-half of Social Security benefits plus "modified adjusted gross income" (often the same as adjusted gross income) exceed a specified threshold, then a portion (up to 85%) of social security benefits is taxable. For married couples filing jointly this threshold is \$32,000; for most others it is \$25,000.<sup>2</sup> State or local income tax treatment of Social Security benefits can vary.

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<sup>1</sup> Generally, within two years of the deceased worker's death.

<sup>2</sup> The threshold is \$0 for those who are married filing separately and who lived with their spouse at any time during the year.

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# Social Security Survivor Benefits

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## Reduced Benefits Because of Excess Earnings

Full retirement age (FRA) is the age at which an individual can receive “full” retirement benefits, e.g., 100% of the PIA. For those born in 1937 and earlier, FRA is age 65. For those born after 1937, FRA gradually increases until it reaches age 67 for those born in 1960 and later. If an individual begins receiving Social Security survivor’s benefits before reaching FRA, and also works, the survivor’s benefit will be temporarily reduced if earnings exceed certain limits. For this purpose, “earnings” generally include wages received as an employee or the net income received from self-employment. The amount of the reduction is calculated on a monthly basis and will vary depending on the individual’s current age in relation to his or her FRA.

- **Under FRA:** One dollar of benefits is lost for every two dollars earned over an annual total of \$17,640 (\$1,470 monthly).<sup>1</sup>
- **The calendar year FRA is reached:** One dollar of benefits is lost for every three dollars earned over \$46,920 (\$3,910 monthly).<sup>2</sup>
- **At FRA:** Once FRA is reached, there is no reduction in an individual’s benefit, regardless of how much is earned.

## Verifying Social Security Records

Because Social Security benefits are based on a worker’s lifetime earnings history, it is important to insure that all covered earnings are accurately listed on SSA records. There are several ways to do this:

- **Paper statements:** Workers age 60 or older and who are not receiving Social Security benefits automatically received a paper Social Security Statement each year. Listing the worker’s earnings as well as providing estimated retirement, disability, and survivors benefits. A paper earnings statement may also be requested by completing Form SSA-7004, *Request for Social Security Statement*, and mailing it to the address on the form. The statement will arrive by mail in four to six weeks.

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<sup>1</sup> 2019 values. These “exempt” amounts are subject to adjustment for inflation each calendar year.

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## Social Security Survivor Benefits

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- **Online statements:** The same information previously provided on the paper statements is now available on an electronic statement. These electronic statements include a summary of a worker's earnings, as well as providing estimated retirement, disability, and survivor's benefits. To obtain a statement, an individual will need to create an account on the Social Security website at <http://www.ssa.gov/myaccount>. Each person who wishes to sign up must be at least age 18 and have a valid Social Security number, e-mail address, and United States mailing address.
- **Telephone:** Earnings information may also be verified by calling the SSA directly at (800) 772-1213; TTY (800) 325-0778, Monday through Friday, from 7:00AM to 7:00PM.

### Estimating Social Security Survivor Benefits

The Social Security Administration, on its website, offers a calculator which allows an individual to estimate his or her survivor benefits, using the individual's own earnings history, taken directly from Social Security records. This calculator can be reached at: <http://www.ssa.gov/planners/>

### Seek Professional Guidance

The survivor benefits provided by Social Security can be an important lifeline for a family struggling to keep afloat after the death of a breadwinner. Meeting the many requirements to qualify for survivor benefits can be confusing. A trained financial professional can answer many Social Security questions. Questions can also be answered by directly contacting the SSA.

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# The Social Security “Blackout” Period

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When a worker who is covered by Social Security dies, certain monthly benefits may be available to his or her survivors. Depending on the situation, these can include:

- **Mother’s or Father’s benefit:** Monthly income paid to a surviving spouse who is caring for a worker’s dependent child who is under age 16, or disabled before age 22.
- **Child’s benefit:** A monthly income for the dependent child of a deceased, disabled, or retired worker. To qualify, a child must be under age 18, or age 18 or 19 and a full-time elementary or high school student, or 18 or over and disabled before age 22.
- **Widow(er)’s benefit:** Monthly retirement income for the surviving spouse (or former spouse) of a deceased worker.
- **Parent’s benefit:** Monthly income paid to the surviving dependent parent or dependent parents of a deceased worker.

## The Social Security “Blackout” Period

Social Security survivor benefits are paid only for a limited period of time. In young families with minor children, the death of one spouse leaves the surviving spouse to raise the children alone. The chart below graphs the Social Security survivor benefits typically payable in a hypothetical case in which a 26 year-old surviving spouse is left behind to raise a three year-old child.

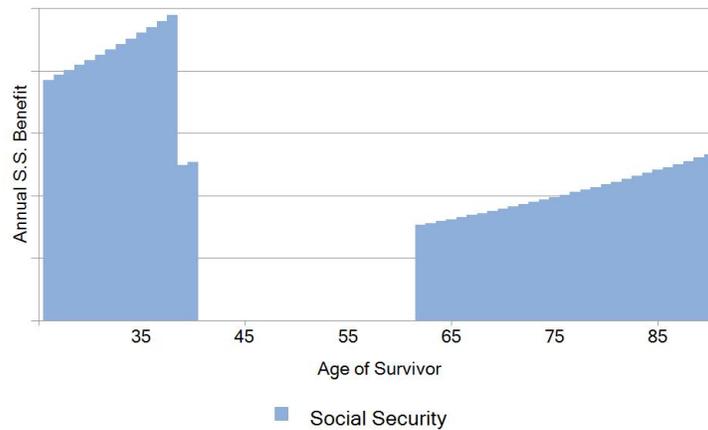
- The surviving spouse receives a Mother’s or Father’s benefit until the child reaches age 16.
- The child receives a Child’s benefit until reaching age 18.
- At retirement, the surviving spouse receives a Widow(er)’s benefit. The earliest age that this benefit can be paid is age 60. In this example, the survivor has chosen to receive this benefit at age 62.

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## The Social Security “Blackout” Period

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- Between age 40, when the child reaches 18, and age 62, when the survivor begins to receive retirement benefits, no Social Security benefits are payable. This is known as the Social Security “blackout” period.



How would you cover the gap in the blackout period?

# Taxation of Social Security Benefits

A portion of Social Security benefits may be subject to income taxation. The following worksheet will assist in determining that tax.

1. Social Security benefits for the year \$ \_\_\_\_\_
2. 50% of line 1 \_\_\_\_\_
3. Modified adjusted gross income:
  - a. AGI less net Social Security benefits received \_\_\_\_\_
  - b. Tax-exempt interest and dividends received or accrued \_\_\_\_\_
  - c. Line 3a plus line 3b \_\_\_\_\_
4. Provisional income (line 2 plus line 3c) \_\_\_\_\_
5. Applicable "first-tier" threshold \_\_\_\_\_
6. Line 4 less line 5 (not less than zero) \_\_\_\_\_
7. 50% of line 6 \_\_\_\_\_
8. Amount of benefits subject to tax (smaller of line 2 or line 7) \_\_\_\_\_

*If provisional income (line 4) does not exceed the corresponding first-tier threshold (line 5), no amount is taxable. However, if provisional income exceeds the corresponding threshold, continue with the worksheet below.*

9. Applicable second-tier threshold<sup>1</sup> \$ \_\_\_\_\_
10. Line 4 minus line 9 (if less than zero then enter zero) \_\_\_\_\_
11. 85% of line 10 \_\_\_\_\_
12. Amount taxable under first-tier (from line 8, above) \_\_\_\_\_
13. Applicable dollar amount<sup>1</sup> \_\_\_\_\_
14. Smaller of line 12 or line 13 \_\_\_\_\_
15. Line 11 plus line 14 \_\_\_\_\_
16. 85% of line 1 \_\_\_\_\_ \_\_\_\_\_
17. Amount of benefits subject to tax (smaller of line 15 or line 16) \_\_\_\_\_

Filing Status	First Tier Threshold (for line 5)	Second Tier Threshold (for line 9)	Applicable Dollar Amount (for line 13)
Married filing jointly	\$32,000	\$44,000	\$6,000
Married filing separately (but lived together part of the year)	\$0	\$0	\$0
All others	\$25,000	\$34,000	\$4,500

**Note:** This is not an official IRS worksheet.

**Caution:** Any increase in income, such as from the sale of stock or a retirement plan distribution, may subject one to an unexpected tax on the Social Security benefits.

<sup>1</sup> See applicable column in table.

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