



Chapter 12 Social Security

- 1935
- All workers participate except:
 - Federal workers hire before 1984
 - 25% of state & local government employees who have opted out
 - Railroad workers
- Benefits funded through the FICA tax

Fully Insured

- Entitled to everything (OASDI)
- Has at least 40 quarters of coverage (you earn four per year)

Currently Insured

- Are paying through FICA tax but have less than 40 quarters of coverage
- Status of limited eligibility (death benefits, \$255)

Benefits are computed based on Average Indexed Monthly Earnings (AIME); this is the average of a workers' lifetime earnings that were subjected to the FICA tax

Primary Insurance Amount

- The dollar amount someone will receive at Full Retirement Age (FRA)
- Benefits are based on a % of FRA

Types of Benefits

1. Death Benefits –

- Worker** - \$255 one-time death benefit paid to a spouse or surviving child
- Spouse** –
 - age 65 receives 100% of the workers' PIA;
 - can take as early as age 60 but the benefit is reduced
 - if spouse has a child under 16, spouse may receive benefits until the youngest child reaches age 16. Then, spouse's check stops and will not begin until, at the earliest, age 60. This period when benefits stop, until they begin again, are **called Black-out period.**
- Child** – child receives a check until 18 or 19 if still in high school
- Parents** – if a fully insured person dies, & if the parents were claiming the person for at least 50% on their taxes, the parents could receive a benefit as early as age 62

2. Retirement Benefits –

a. Worker –

- i. 100% benefit at Full Retirement Age (FRA)
- ii. Earlier at age 62 for a permanently reduced benefit

b. Spouse –

- i. 50 % of the retired workers' check at FRA or reduced benefit at age 62 (this does not reduce the workers retirement check)

c. Child –

- i. Child receives a check until 18, or if disabled before age 22, indefinitely

Earnings Test

- At **Full Retirement Age** a worker can work, receive S.S. retirement check and earn as much as she can without a penalty.
- Under Full Retirement Age, the worker is allowed to earn only a certain amount of income before the government will reduce her check by \$1 for every \$2 earned above a certain amount.

Taxation of Benefits

- Up to 85% of the retirement check can be added to earned income and taxed if recipient earns too much money in the year. Whaaaaat?

3. Disability

a. Worker

b. Spouse

c. Child – up to age 18

Social Security Disability Definition

- The inability to engage in any substantial gainful work
- Medically determinable physical or mental impairment that can be expected to last at least 12 months or result in earlier death
- Must satisfy a waiting period of five months
- Benefits can be paid retroactively for 12 months, excluding the 5 month waiting period