Social Security Benefits

LEARNING OBJECTIVES

After studying this appendix, you should be able to:

1. Explain the factors used in computing the various kinds of social security benefits:
   a. Quarter of coverage
   b. Fully insured
   c. Currently insured
   d. Primary insurance amount
   e. Average monthly wage

2. Describe the different kinds of benefits provided under the social security system.

3. Describe the effect of working after retirement on social security benefits and taxation of benefits.

4. Identify the procedure to be followed in applying for social security benefits.

5. Explain the basic provisions of the three-part program of medical care for the aged and the needy.

This appendix covers the benefits related to the two programs of old-age, survivors and disability insurance, and health insurance for the aged and disabled. As the employees of a firm near retirement age, they may approach the payroll manager to find out what retirement benefits and hospital and medical benefits they are entitled to under social security. If workers become disabled or die, their families may turn to the payroll manager for information concerning their rights to disability or survivor benefits.

Social security benefits payable under the old-age, survivors, and disability program may be classified as:

1. Old-age or disability benefits paid to the worker.
2. Benefits for dependents of a retired or disabled worker.
3. Benefits for surviving family members of a deceased worker.
4. Lump-sum death benefits.

WHAT FACTORS ARE USED TO DETERMINE SOCIAL SECURITY BENEFITS?

Individuals and their families are eligible for most benefits if the person is “fully insured.” If the person is only “currently insured,” lump-sum benefits and certain survivor benefits are payable. Understanding the method of computing the various benefits for individuals, their dependents, or their survivors requires knowledge of the following terms:

1. Quarter of coverage.
2. Fully insured.
3. Currently insured.
4. Primary insurance amount.
5. Average monthly wage.
Quarter of Coverage

A quarter of coverage is the minimum amount of wages or self-employment income with which individuals must be credited in a calendar quarter to receive credit toward being insured for that period. A calendar quarter is three consecutive months ending March 31, June 30, September 30, or December 31. Quarters of coverage determine whether workers (see Figure C-1) are fully insured, currently insured, or insured for disability benefits.

Fully Insured Individual

A fully insured worker needs between six and 40 quarters of coverage. The number of quarters needed depends on when the person reaches a specified age or dies. After earning 40 quarters of coverage (10 years), the worker is fully insured for life and does not need to be concerned about quarters of coverage.

Currently Insured Individual

Individuals are currently insured if they have at least six quarters of coverage during the 13-quarter period ending with (1) the quarter they died or (2) the quarter in which they became entitled to old-age insurance benefits or disability benefits. The six quarters do not have to be consecutive. Lump-sum and certain survivor benefits, not including retirement benefits, are payable if an individual is currently insured.

Primary Insurance Amount

The primary insurance amount (PIA) is a person’s monthly retirement or disability benefit and the base upon which monthly benefits of the worker’s family and survivors are computed. Under the 1977 amendments to the Social Security Act, a formula determines the PIA of workers who reach 62, become disabled, or die. The PIA is determined from the worker’s average indexed monthly earnings. Indexing adjusts the worker’s average monthly earnings to reflect changes in wage levels up to the time of entitlement to benefits. Automatic increases in social security benefits are also made, based on the increase in the cost of living as measured by the Consumer Price Index.

WHAT BENEFITS ARE PROVIDED BY SOCIAL SECURITY?

Figure C-2 summarizes the kinds of benefits available and the qualifications needed by the insured worker or beneficiary to receive these benefits.
Family Benefits

The monthly payments to members of a retired or a disabled worker’s family and payments to the survivors of an insured worker are equal to a certain percentage of the worker’s benefits, as shown in Figure C-3 shown on below.

Benefits for Aliens

If an alien is receiving benefits as a dependent or a survivor of an insured worker and has been outside the United States for six consecutive months, the benefits will be

FIGURE C-2

<table>
<thead>
<tr>
<th>Person to Receive Benefits</th>
<th>Eligibility Requirements for Insured Individual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retired worker, age 62 or older.</td>
<td>Fully insured</td>
</tr>
<tr>
<td>Disabled worker (except one who is blind) under 65.</td>
<td>Fully insured and insured for disability</td>
</tr>
</tbody>
</table>

Benefits for Dependents of Retired or Disabled Workers

| Spouse, any age, if caring for child (except student age 18 or older) entitled to benefits. Unmarried child, grandchild, or great-grandchild if a. under age 18, b. under age 19 and a full-time elementary or secondary school student, or c. age 18 or older with a disability that began before age 22. | Fully insured for old-age benefits or insured for disability benefits, whichever applies |

Survivor Benefits

| Widow, widower, or divorced parent of deceased worker’s child, any age, caring for a young child entitled to benefits. Unmarried child, grandchild, or great-grandchild if child is a. under age 18, b. under age 19 and a full-time elementary or secondary school student, or c. age 18 or older with a disability that began before age 22. | Either fully insured or currently insured |

Dependent parents, age 62 or older.

Lump-Sum Death Payment ($255)

| Paid only in priority to a. worker’s widow or widower living with worker at time of death, b. worker’s widow or widower not living with but eligible on worker’s earnings record, or c. eligible surviving child. | Either fully insured or currently insured |

Family Benefits

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FIGURE C-3

<table>
<thead>
<tr>
<th>Relationship of Family Member to Worker</th>
<th>Percentage of Worker’s Benefits to Be Received</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wife, husband, divorced wife or husband</td>
<td>50 percent while worker is alive.</td>
</tr>
<tr>
<td>Child</td>
<td>50 percent while worker is alive; 75 percent if worker is dead.</td>
</tr>
<tr>
<td>Widow, widower, or surviving divorced spouse</td>
<td>100 percent if full retirement age; 75 percent if caring for worker’s child.</td>
</tr>
<tr>
<td>Dependent grandchild</td>
<td>50 percent if worker is alive; 75 percent if worker is dead; child’s parents must be dead or disabled.</td>
</tr>
<tr>
<td>Dependent parent who outlives the Worker</td>
<td>82½ percent; if both parents qualify, a total of 150 percent is received.</td>
</tr>
</tbody>
</table>
suspended. Exceptions exist for young children and beneficiaries who lived in the United States for at least five years and had a relationship with the worker that established eligibility for benefits. Benefits continue where international social security agreements are in force.

**Benefits for Prisoners**

Persons confined in jail for a felony may not be paid benefits. Limited circumstances allow for benefits where the felon participates in an approved rehabilitation program. Benefits payable to a felon’s spouse or children are not affected.

**Benefits for the Self-Employed**

Social security pays the same benefits to self-employed persons under the same conditions as wage earners and their dependents or survivors.

**Benefits for Employees of Carriers**

FICA exempts companies engaged as carriers and employees of carriers. The Railroad Retirement Tax Act sets up the provisions under which employees of carriers subject to the Interstate Commerce Act may retire and become eligible for annuities (benefits).

**Special Minimum Benefit**

Special provision is made for persons who have worked in jobs covered by social security for many years but at rather low earnings levels. These workers qualify for a special benefit higher than that available to them under the regular benefit computations. The special benefits payable under these provisions will be automatically adjusted for cost-of-living increases.

**Benefit Amounts**

In 2012, the average monthly social security benefit for a retired worker was $1,229; for couples each receiving benefits, $1,994; for disabled workers, $1,111; and, for widows or widowers alone, $1,184. The maximum benefit for an individual worker retiring at full retirement age in 2012 was $2,513 per month.

**WHAT ARE REDUCED BENEFITS?**

The full retirement age was increased, starting in the year 2000, in gradual steps until it reaches age 67, and affects people born in 1938 and later. Figure C-4 on page C-5 shows the age to receive full social security benefits.

If a worker takes early retirement at age 62—the earliest age to qualify (if full retirement age is 66)—the benefits will be permanently reduced approximately 25 percent, based on the number of months the individual will receive checks before reaching full retirement age. If retirement starts at age 63, the reduction is about 20 percent; at age 64, it is about 13 1/3 percent; at age 65, 6 2/3 percent. Eligible widows or widowers may receive reduced benefits as early as age 60. If the worker at any time received a reduced benefit, the widow or widower may not receive more than the greater of:

a. a benefit equal to the amount the worker would be getting if alive, or
b. 82.5 percent of the worker’s PIA.

For widows or widowers whose spouse was not receiving a reduced benefit, the age-60 benefit will be 71.5 percent of the worker’s PIA. If the widow or widower takes the benefit at age 62, it will be 82.9 percent of the worker’s PIA. Severely disabled widows or widowers and surviving divorced spouses may receive reduced benefits at age 50, equal to 71.5 percent of the worker’s unreduced benefit.
HOW DOES WORKING AFTER RETIREMENT AFFECT SOCIAL SECURITY BENEFITS?

Under the rules, an individual’s benefit is increased by a certain percentage each year that retirement is delayed past age 66. Based on the recipient’s year of birth, the credit ranges from 1.0 percent to 8.0 percent per extra year worked. However, there is no increase for years worked past age 70. Individuals who continue to work after retirement must also consider two other implications to their social security benefits:

1. Reduced social security benefits (under 66).
2. Paying income tax on social security benefits.

Reduced Social Security Benefits

Individuals can continue to work and still receive retirement benefits if the earnings are under certain limits. These limits increase each year as average wages increase. The Social Security Administration provides a fact sheet, How Work Affects Your Social Security Benefits (Pub. 05-10069), that specifies the current amounts that may be earned without reducing benefits. For 2012, the following limits apply:

<table>
<thead>
<tr>
<th>Under full retirement age</th>
<th>$14,640</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full retirement age and over</td>
<td>Unlimited</td>
</tr>
</tbody>
</table>

If earnings exceed the specified limit, some or all of the benefits will be offset by the earnings, as summarized in Figure C-5 shown on below.

Under a special rule, retired workers can receive full benefits for any month they are “retired,” if their yearly earnings to date are under $38,880.

Request for Earnings and Benefit Estimate Statement

Each employee who has received taxable wages under the Social Security Act has an account with the SSA. This account shows the amount of wages credited to the employee’s account. When employees or their dependents claim benefits, the wage credits in the

FIGURE C-4

<table>
<thead>
<tr>
<th>Year of Birth</th>
<th>Full Retirement Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>1937 or earlier</td>
<td>65</td>
</tr>
<tr>
<td>1938</td>
<td>65 and 2 months</td>
</tr>
<tr>
<td>1939</td>
<td>65 and 4 months</td>
</tr>
<tr>
<td>1940</td>
<td>65 and 6 months</td>
</tr>
<tr>
<td>1941</td>
<td>65 and 8 months</td>
</tr>
<tr>
<td>1942</td>
<td>65 and 10 months</td>
</tr>
<tr>
<td>1943–1954</td>
<td>66</td>
</tr>
<tr>
<td>1955</td>
<td>66 and 2 months</td>
</tr>
<tr>
<td>1956</td>
<td>66 and 4 months</td>
</tr>
<tr>
<td>1957</td>
<td>66 and 6 months</td>
</tr>
<tr>
<td>1958</td>
<td>66 and 8 months</td>
</tr>
<tr>
<td>1959</td>
<td>66 and 10 months</td>
</tr>
<tr>
<td>1960 or later</td>
<td>67</td>
</tr>
</tbody>
</table>

LO3

Describe the effect of working after retirement on social security benefits and taxation of benefits.

FIGURE C-5

<table>
<thead>
<tr>
<th>Reduced Social Security Benefits—2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>If you are under full retirement age</td>
</tr>
<tr>
<td>If you are full retirement age</td>
</tr>
</tbody>
</table>
employee’s account are used to compute the amount of benefits payable, as discussed in Appendix B. Employees can use Form SSA-7004 (not illustrated) to request a statement of wages credited to their account. The worker will receive a statement showing the yearly earnings, the social security taxes paid each year, and a projection of the benefits the worker or the survivors will receive if the worker retires, dies, or is disabled. If workers find any discrepancies between their records and the accounts kept by the SSA, claims can be made for adjustment. Errors will be corrected if they are reported within 3 years, 3 months, and 15 days following the close of the particular taxable year.

**Taxable Benefits**

A portion of a worker’s social security benefits is included in taxable income for federal income tax purposes. The amount of benefits taxable is determined by a formula that relates to the worker’s adjusted gross income (AGI). If income is more than the base amount, as much as 50 percent of social security benefits may be taxable (see Figure C-6). If an individual receives only social security benefits as income, these benefits are generally not taxable.

**HOW DO YOU APPLY FOR SOCIAL SECURITY BENEFITS?**

Workers can apply for social security benefits by telephone or by going to any social security office. Depending on the circumstances, documents that may be needed include:

1. Social security number (SSN).
2. Birth certificate.
3. W-2 forms or self-employment tax return for last year.
4. Military discharge papers.
5. Spouse’s birth certificate and social security number.

Special application forms may be obtained from the nearest district office of the Social Security Administration. Applicants can receive assistance in preparing the forms, including notary services, at no charge.

**Proof of Age**

Applicants for benefits may be required to file a proof of age showing the date of birth. Acceptable records may include:

1. Public records of birth (birth certificate).
2. Church records of birth or baptism established or recorded before the age of five.
3. Census Bureau notification of registration of birth.
4. Hospital birth record or certificate.
5. Foreign records of birth.
6. Physician’s or midwife’s birth record.
7. Certification, on approved form, of Bible or other family record.

**FIGURE C-6**

<table>
<thead>
<tr>
<th></th>
<th>Single</th>
<th>Joint</th>
</tr>
</thead>
<tbody>
<tr>
<td>No tax</td>
<td>$25,000* or less</td>
<td>$32,000* or less</td>
</tr>
<tr>
<td>No more than 50% of Benefits taxable</td>
<td>over $25,000*</td>
<td>over $32,000*</td>
</tr>
<tr>
<td>No more than 85% of Benefits taxable</td>
<td>over $34,000*</td>
<td>over $44,000*</td>
</tr>
</tbody>
</table>

*Worker’s other income plus one-half of benefits
8. Naturalization records.
9. Immigration papers.
10. Military records.
11. Passports.
12. School records.
13. Vaccination records.
15. Labor union or fraternal organization records.
17. Other evidence of probative value, such as employment records and voting records.

**Statement of Employer**

The individual’s wage record kept by the Social Security Administration may be several months in arrears. Therefore, employers may be requested to complete a *Statement of Employer, Form SSA-7011-F4*, in order to bring an individual’s wage record up to date. Employees may periodically check their social security accounts, using *Form SSA-7004-SM*.

**WHAT IS MEDICARE?**

Medicare is a three-part health insurance plan for people 65 or older. The first program, sometimes called Basic Medicare, Part A Medicare, or the hospital insurance (HI) plan, provides protections against the cost of certain hospital and related services. The second program, the supplementary medical insurance plan, often referred to as supplementary, voluntary supplementary Medicare, the medical insurance program, or Part B Medicare, covers the cost of doctors’ services and other items not covered under the basic plan. Monthly premiums are matched with contributions by the federal government to finance the program. The third program, called Medicaid, provides medical assistance to aged and needy persons by means of a joint federal-state program.

**KEY TERMS**

- average indexed monthly earnings (p. C-2)
- currently insured (p. C-2)
- fully insured (p. C-2)
- hospital insurance (HI) plan (p. C-7)
- indexing (p. C-2)
- Medicaid (p. C-7)
- primary insurance amount (PIA) (p. C-2)
- quarter of coverage (p. C-2)
- social security benefits (p. C-1)
- supplementary medical insurance plan (p. C-7)