

SOCIAL SECURITY Financial Literacy GUIDE



A guide *to the* most important
financial decision
you'll likely make

Carl Robinson & David Vinokurov





Outline



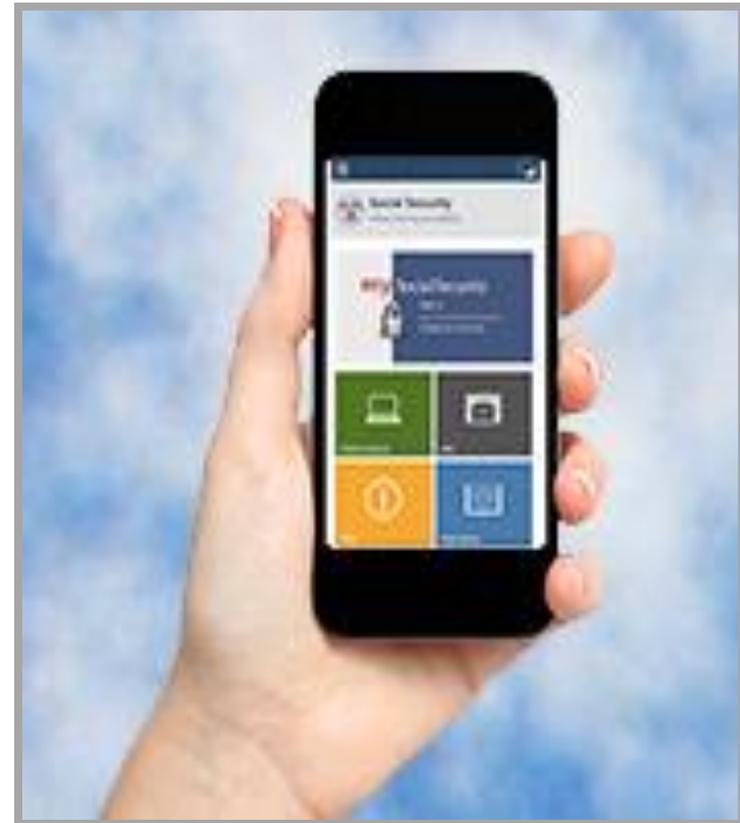
- **Where does Social Security fit into my overall Financial Planning?**
- **What benefits does Social Security provide?**
- **Is Social Security going to be there?**
- **How are benefits computed?**
- **What should I consider when I am ready to claim my benefits?**
- **How much income will Social Security replace?**
- **Summing Up**



Go Mobile with Social Security

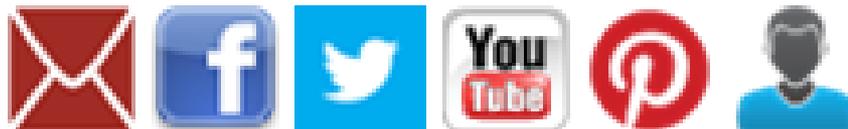


- Our website is fully optimized for smartphone users.
- Learn about our most popular programs, services, publications, frequently asked questions, social media, and more.
- Create a My Social Security Account.
- All you need to know is www.socialsecurity.gov on your smartphone.





Social Security Engages on Social Media



- Discover us on Facebook, Twitter, YouTube, and Pinterest
- View popular agency webinar videos at www.socialsecurity.gov/webinars
- Sign-up to get emails and SMS/Texting when we update popular www.socialsecurity.gov web pages



History of Social Security Program



On August 14, 1935, President Roosevelt signs the Social Security Act in the Cabinet Room of the White House.

History of Social Security Programs



- 1935 – Retirement Insurance
- 1939 – Survivors Insurance
- 1956 – Disability Insurance



President Eisenhower signs the first major piece of Social Security disability legislation in 1954.



Other SSA Programs



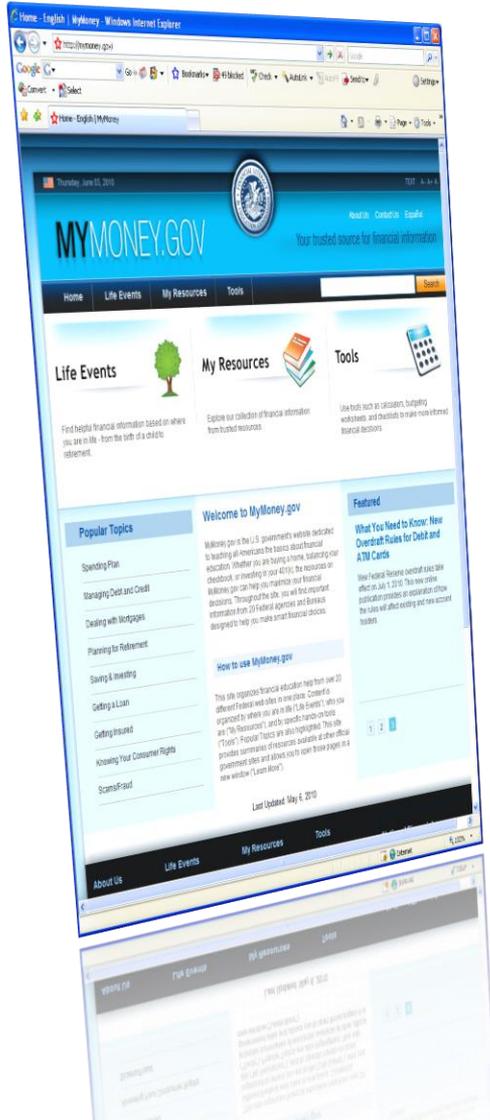
- 1965 – Medicare Program
- 1972 – Supplemental Security Income
- 2003 – Medicare Prescription Drug Coverage
- 2010 – Patient Protection and Affordable Care Act



President Obama is committed to protecting Social Security and working in a bipartisan manner to preserve its original purpose as a reliable source of income for American citizens.



Save for a Secure Future



Social Security is the foundation for a secure retirement, but you will also need other savings and investments.

If you want to learn more about how and why to save, visit www.mymoney.gov



A Foundation for Planning Your Future



OTHER INCOME

SAVINGS & INVESTMENTS

PENSION

SOCIAL SECURITY



Social Security Slide Calculator



PULL



Extra Savings BOOSTER® Calculator

www.socialsecurity.gov

Save more money for your retirement years

*You will need **more than Social Security** when you retire.*

Save now for a secure future.

Use a savings vehicle with compound interest.
Put your money to work and make it grow.
Compare the 20-year numbers below.

Spending Less and Saving More Can Really Add Up!

Save **MORE** a Day,
and you can **SAVE** this much in:

| | | | |
|----------------------------------|------------------------------------|-------------------------------------|-------------------------------------|
| 1 year | 10 yrs | 20 yrs | 20 yrs with 5% interest |
| ▼ | ▼ | ▼ | ▼ |
| <input type="text" value="730"/> | <input type="text" value="7,304"/> | <input type="text" value="14,610"/> | <input type="text" value="25,022"/> |

Move the slide for more savings examples

See Over for Larger Social Security Benefits

© Copyright 2010 Advantage Publications, Boston. All rights reserved.

PULL

PULL



Social Security Benefits BOOSTER® Calculator

www.socialsecurity.gov

How to get larger Social Security benefits

The later you start collecting Social Security, the larger your monthly benefits will be.

*Move the slide for examples.**

See how much more you can get by waiting to start collecting. For example:

| | | |
|--------------|------------------------------------|-------------------------------------|
| | Monthly | Yearly |
| | ▼ | ▼ |
| Start at age | <input type="text" value="66"/> | and get |
| | <input type="text" value="1,000"/> | <input type="text" value="12,000"/> |

*The examples above are for a person entitled to \$1,000 a month at age 66. To find your numbers: use the Social Security Retirement Estimator online at <http://www.socialsecurity.gov/estimator>

See Other Side for Boosting Your Savings

PULL

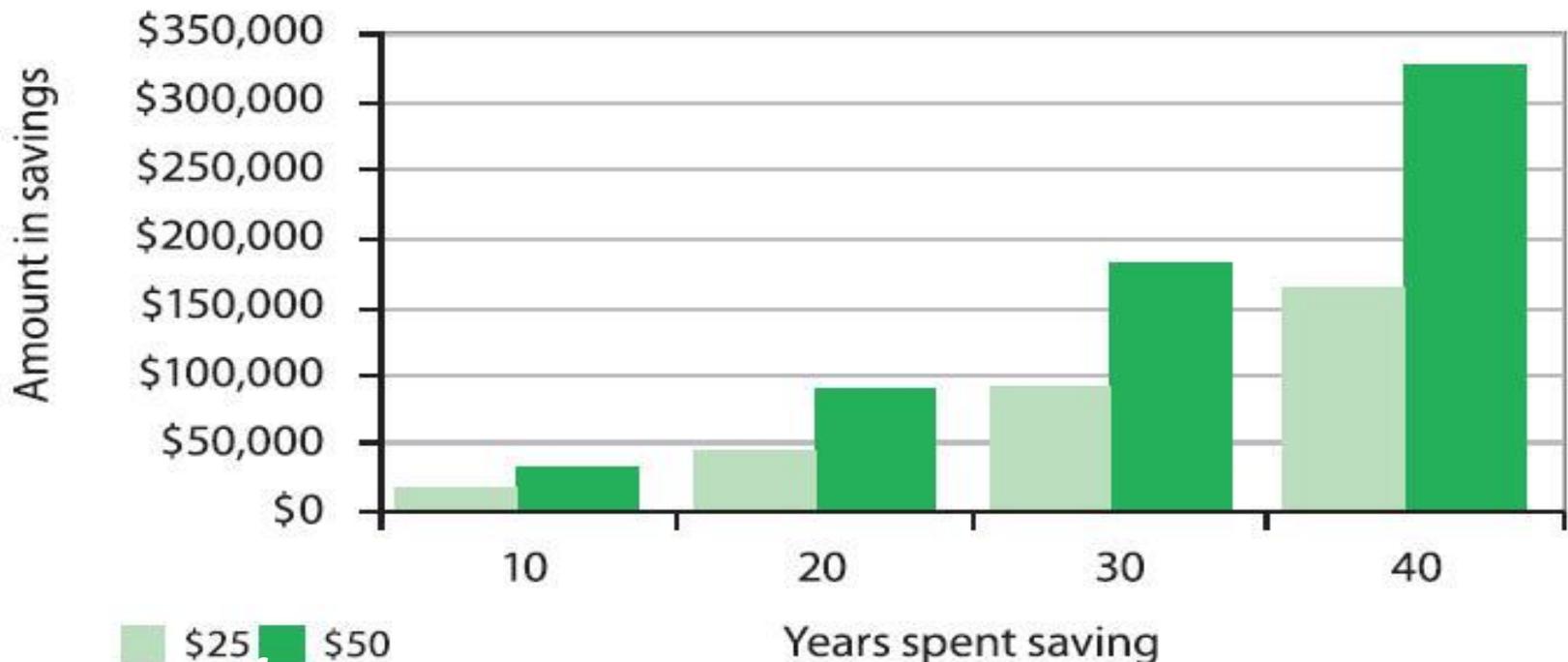
Growth In Savings



The sooner you start, the more time you will have to save for retirement

Growth in savings when you save \$25 or \$50 a week

(assuming a 5% annual rate of return)





With a [my Social Security](#) account, you can view your Social Security earnings record and estimated future benefits.



my Social Security



**Your Online Account ... Your Control
...www.socialsecurity.gov/myaccount**



my Social Security is an easy-to-access, easy-to-use portal to view and update some of your own Social Security information.



Who Can Create a *my* Social Security Account



my Social Security 

Your Online Account ... Your Control ...

www.socialsecurity.gov/myaccount

Create your Social Security account now:
Access your *Social Security Statement* to check your earnings and get your benefit estimates.

If you receive benefits, you also can:

- Get your benefit verification letter;
- Change your address; and
- Start or change your direct deposit.

Social Security Administration | Confidentiality Notice | Privacy | Contact Us | 2014

- You must be at least 18
- A valid E-mail address;
- A Social Security number; and
- A U.S. mailing address.



my Social Security Services



If you don't get benefits, you can—

- View, save, and print your online *Social Security Statement*.
- Use the Statement a Financial tool.

If you do get benefits you can—

- Get your benefit verification letter;
- Check your benefit and payment information and your earnings record;
- Change your address and phone number; and
- Start or change your direct deposit.

What young workers should know about Social Security and saving
www.socialsecurity.gov

Saving for the future is important for multiple reasons. Education, buying your own home, taking a special vacation and even planning for your retirement are all good reasons to start saving early. Today's young workers can expect to spend 20 or more years in retirement, so it is important to begin your financial planning as early as possible. Here are some basic facts about Social Security and saving that can help you prepare for the future.

Social Security: more than retirement
Social Security reaches almost every family, and at some point will touch the lives of nearly all Americans. This year, more than 50 million Americans will collect nearly \$4 billion in Social Security benefits. Currently, more than 10 million Americans age 65 and over receive benefits, and for two-thirds of the elderly, Social Security represents at least half of their income.

Will Social Security still be around when I retire?
Yes. The Social Security taxes you now pay go into the Social Security Trust Funds and are used to pay benefits to current beneficiaries. The Social Security Board of Trustees now estimates that based on current law, in 2035 the Trust Funds will be depleted. Because people are living longer and the birth rate is low, the ratio of workers to beneficiaries is falling. Therefore, the taxes that are paid by workers will not be enough to pay the full benefit amounts scheduled.

Social Security protects your family in the event of death
More than two million children and surviving spouses caring for children now receive survivor benefits from a deceased worker. Page 2 of your Statement contains an estimate of your monthly disability benefit should you become disabled and of monthly benefits for your children and surviving spouse caring for children should you die. (Cover)

Why this Statement is important for your financial planning
You have probably been paying into the nation's Social Security and Medicare systems since you first began working. The enclosed Statement is a report of what you have paid into these programs and an estimate of how much you can expect to eventually get in benefits.

So start saving today
The sooner you start, the more time you'll have to save for retirement.

Growth in savings when you save
Investing \$10,000 per year

| Years | Amount |
|-------|-----------|
| 0 | \$10,000 |
| 10 | \$150,000 |
| 20 | \$250,000 |
| 30 | \$350,000 |

Social Security is a financial foundation
Social Security helps replace earnings during retirement. Financial planners generally agree retirees will need about 70-80 percent of pre-retirement earnings to enjoy a comfortable retirement. For an average worker, Social Security replaces about 40 percent of annual pre-retirement earnings.

But you also should save and invest
Since Social Security will only replace part of your lost earnings, your savings and investments play an important role in covering adequate income for you and your family.

Even saving aside a small portion of each paycheck pays off in the long run. A \$2 a week investment at 3 percent for 40 years will amount to \$60,000.

Any amount you contribute is added to \$2 a week, up over time.

The earlier you start, the more you will benefit if you contribute to your employer's 401(k) plan.

If your employer offers other financial options, you should take advantage of them.

You will receive a Statement each year about three months before your birthday. As you read through your Statement, you should pay close attention to a few items.

Check your earnings information. This will be the basis for determining how much you will receive in Social Security benefit payments.

If you change jobs or marital status, make sure your name and Social Security number are reported correctly on your employer's records.



my Social Security Services



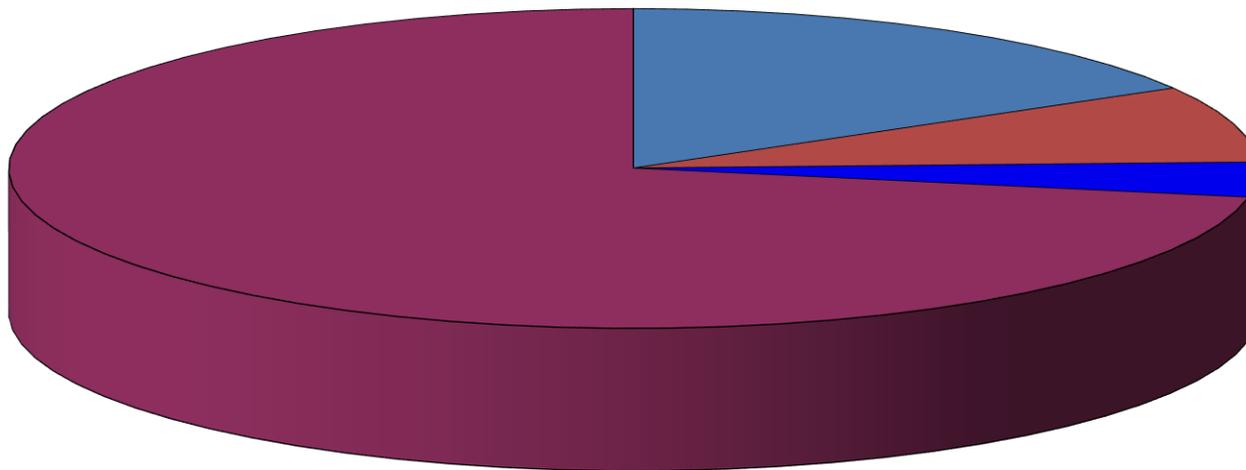
- Estimates of the retirement and disability benefits you may receive;
- Estimates of benefits your family may get when you receive Social Security or die;
- A list of your lifetime earnings according to Social Security's records;
- The estimated Social Security and Medicare taxes you've paid;
- Information about qualifying and signing up for Medicare; and
- A printable version of your *Social Security Statement*.



Who Gets Benefits from Social Security?



59 million people



- 9 million Disabled Workers and 2.1 million Dependents
- 4.2 million Widows/Widowers
- 1.9 million Children of Deceased Workers
- 39 million Retired Workers and 2.9 million Dependents



Who Pays for Social Security?



Today's
Workers
&
Employers



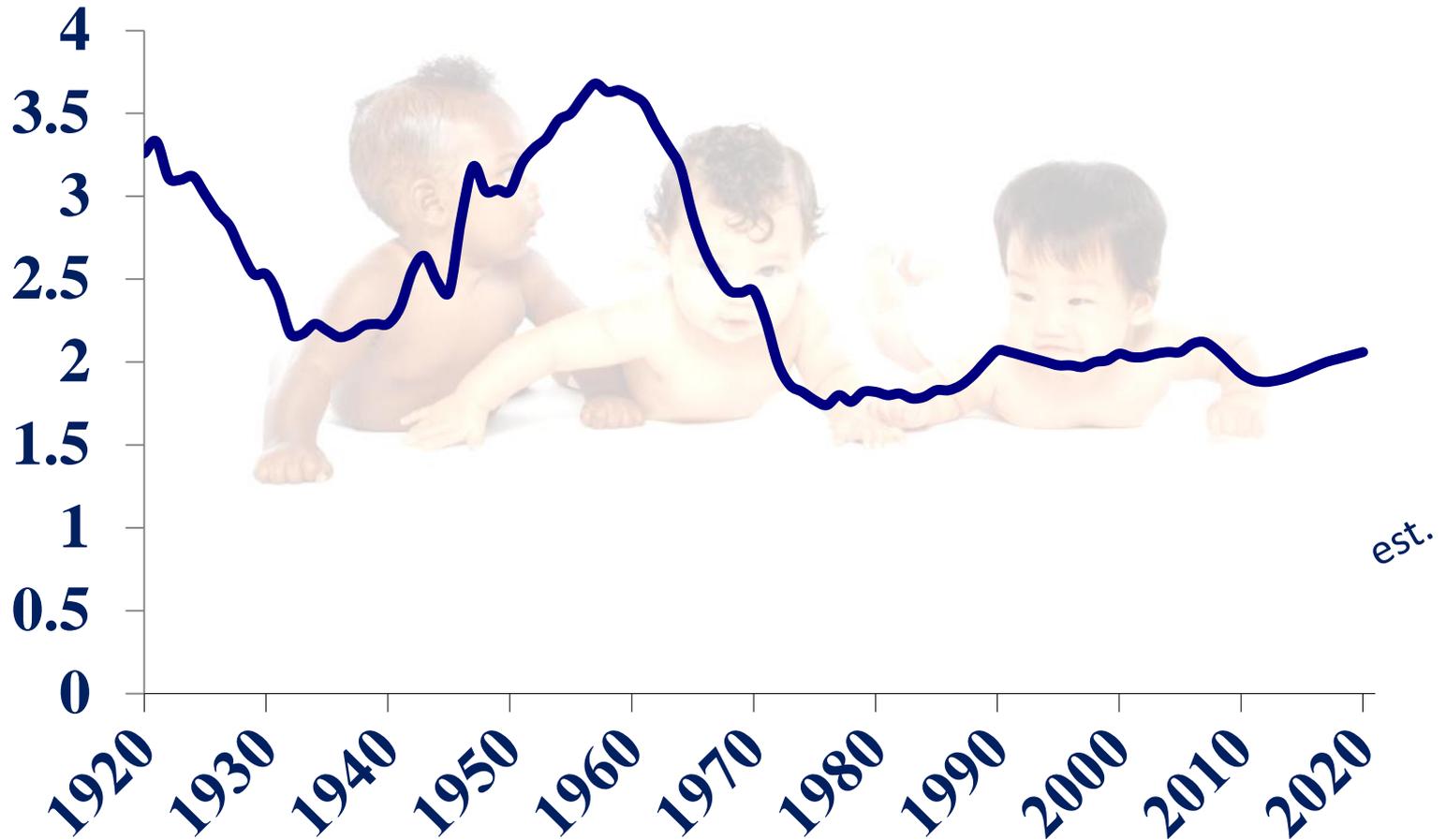
Today's
Beneficiaries



U.S. Birth Rate 1920-2020



Children Per Woman





The Number of Workers per Beneficiary is Decreasing



5 – 1960

3 – 2015

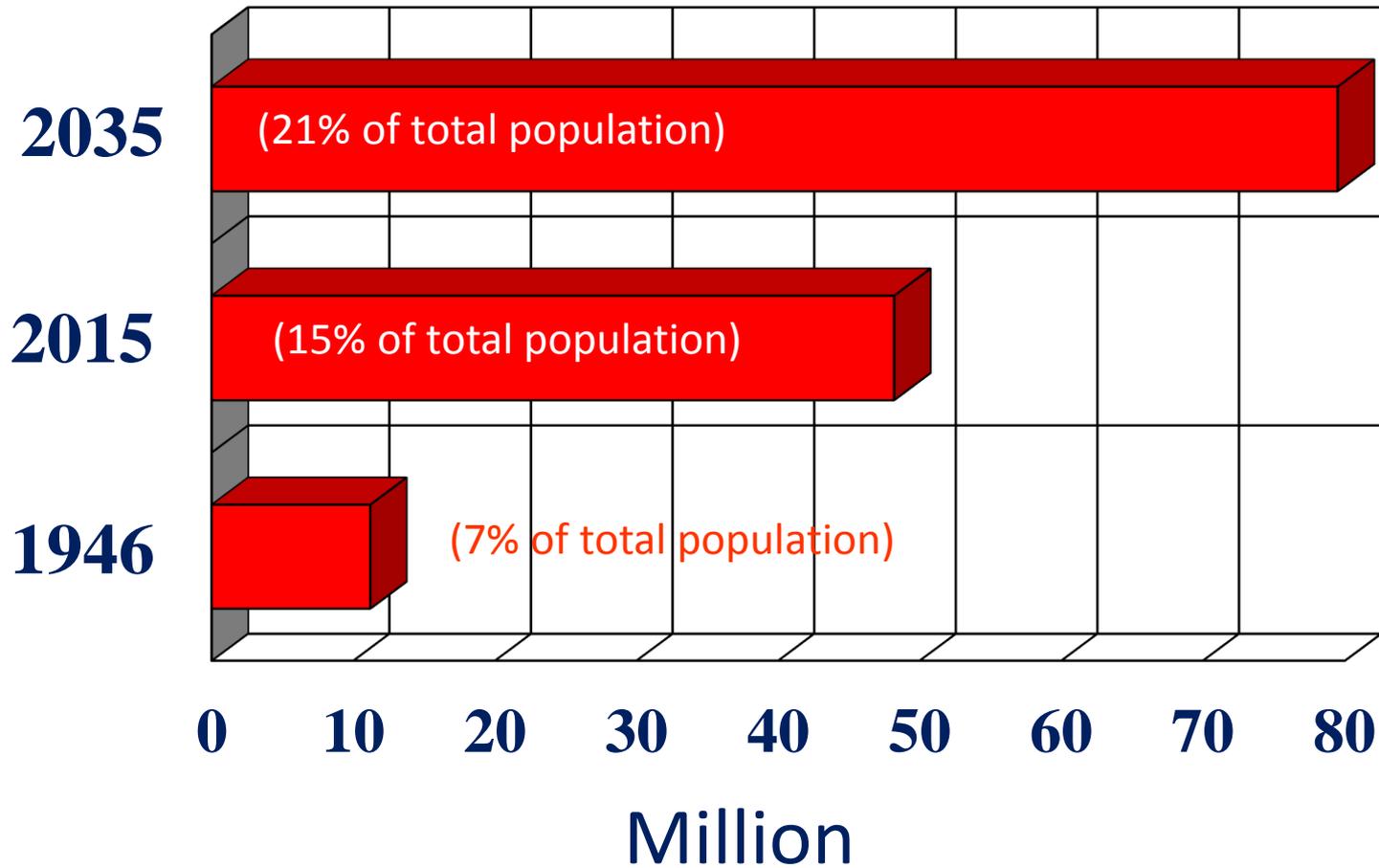
2 – 2035



America is Getting Older



■ U.S. Population Age 65 & Older





Life Expectancy for Those Age 65 Today

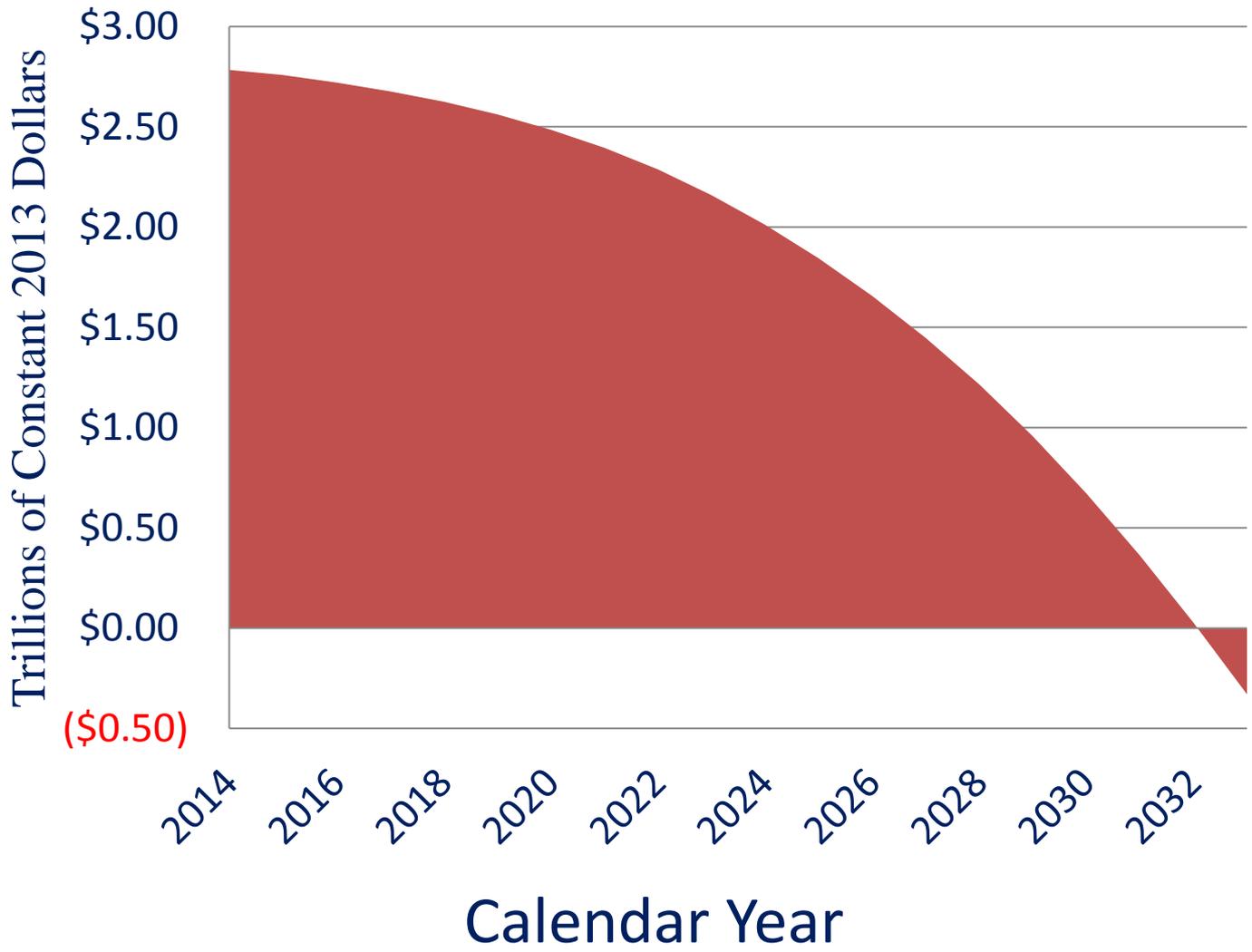


Men Women

| | | |
|------------------|----|----|
| U.S. Population | 82 | 85 |
| White | 82 | 85 |
| African American | 79 | 83 |
| Hispanic | 85 | 89 |
| Asian | 85 | 88 |
| American Indian | 84 | 88 |



Social Security Trust Funds Will Be Able to Pay Only About 77 Cents for Each Dollar of Scheduled Benefits after 2033





Importance of Social Security to Young Americans





Importance of Social Security to Young Americans

- Social Security offers more financial protections than retirement
- Saving and investing can help assure a comfortable retirement
- Just over 1 in 4 of today's 20-year-olds will become disabled before reaching age 67
- About 1 in 8 of today's 20-year-olds will die prior to age 67





Social Security for Students



We protect young people before they start working.

At the end of 2013, about 3.2 million children under the age of 18 were receiving an average monthly benefit of \$534 because one or both of their parents are disabled, retired or deceased.

When a parent becomes disabled or dies, Social Security benefits help to stabilize the family's financial future.



Social Security for Students



We protect disabled young adults, even if they've never worked.

- An [adult disabled before age 22](#) may be eligible for child's benefits if a parent is deceased or starts receiving retirement or disability benefits.
- The "adult child"—including an adopted child, or, in some cases, a stepchild, grandchild, or step grandchild—must be unmarried, age 18 or older, and have a disability that started before age 22.
- It is not necessary that the adult child ever work because benefits are paid based on the parent's earnings record. In fact:
- Approximately 1 million disabled adult children were receiving an average monthly benefit of \$735 at the end of 2013.



Social Security for Students



We also offer financial protection to minor children with disabilities.

Through the [Supplemental Security Income](#) (SSI) program, we make monthly payments to the parents or guardians of disabled children. A child younger than age 18 can qualify if he or she meets Social Security's definition of disability for children, and if his or her income and resources fall within the eligibility limits.



Social Security is important to young workers

Social Security is much more than a retirement program. Although retirement benefits represent 70% of the total payments we make, they are just one of the benefits we provide.

Disabled workers and their dependents account for 19% of the total benefits paid while survivors account for 11%.



So how does Social Security protect young workers?

Disability Insurance

We provide benefits to young workers and their families if they become disabled and have worked in covered employment. This means that if you become disabled before you reach retirement age, we got you and your family covered.



What is covered employment?

Covered employment is any job where you pay Social Security taxes, also known as FICA and OASDI taxes.

By paying Social Security taxes, you earn what is called a “quarter of coverage.” Quarter of coverage is a legal term, but you may also see the term "Social Security credit" or "work credit" being used.



How do I get coverage or insurance under Social Security?

- You actually earn Social Security coverage simply by working and earning enough work credits. The number of credits you earn is based on your total wages and self-employment income during the year. You can earn up to four credits per year.
- In 2015, you must earn \$1,220 in covered earnings to get one Social Security or Medicare work credit and \$4,880 to get the maximum four credits for the year. You can earn the four annual credits regardless of when you did the actual work. For example, you can work all year to earn the four credits, or you may earn them by working during the summer or a school semester if your job pays enough.



How do I get coverage or insurance under Social Security?

- The number of work credits you need to qualify for disability benefits depends on your age when you become disabled. Generally you need 40 credits. However, younger workers may qualify with fewer credits. [Click here to see the specific number of credits you need based on your age.](#) To get retirement benefits however, you need 40 credits (10 years of work).
- You can check how many credits you have right now by creating a [my Social Security](#) account. Once you create an account, you can access your *Social Security Statement* and review your earnings record, the estimated Social Security and Medicare taxes you've paid, and an estimate of your retirement, disability, and survivors benefits.



Number Of Credits Needed For Disability Benefits

- **Before age 24**--You may qualify if you have 6 credits earned in the 3-year period ending when your disability starts.
- **Age 24 to 31**--You may qualify if you have credit for working half the time between age 21 and the time you become disabled. For example, if you become disabled at age 27, you would need credit for 3 years of work (12 credits) out of the past 6 years (between ages 21 and 27).
- **Age 31 or older**--In general, you need to have the number of work credits shown in the chart below.

You can find additional information about disability benefits in our [Disability Planner](#).

Why File Online?



- You can complete the application in as little as 15 minutes.
- You can apply from the comfort of your home or office at a time that is convenient for you.
- You do not need to drive to a Social Security office or wait for an appointment with a representative.
- In most cases, once you submit your electronic application, you're done.
- You do not need to sign any forms or submit documentation.

OR

- You can call Social Security at 1-800-772-1213 (TTY 1-800-325-0778) to schedule an appointment.





Use the Social Security Calculators



- Convenient, secure, and quick financial planning tool
- Immediate and accurate benefit estimates
- Lets you create “What if” scenarios based on different ages and earnings
- Use [your my Social Security account](#) to get your *Social Security Statement* online.

www.socialsecurity.gov/estimator



Retirement Nest Egg???



How old you are when you claim Social Security has a dramatic effect on the monthly benefits you and, if married, your spouse will get for the *rest of your lives*.





Your most important financial decision



- The later you claim Social Security, the higher your monthly benefit.
- As you approach retirement, how long you work and when you claim will usually have a far greater impact on how much income you'll have in retirement than how much you save or how you invest.



Full Retirement Age

| Year of Birth | Full Retirement Age |
|----------------------|---------------------|
| 1937 or earlier | 65 |
| 1938 | 65 & 2 months |
| 1939 | 65 & 4 months |
| 1940 | 65 & 6 months |
| 1941 | 65 & 8 months |
| 1942 | 65 & 10 months |
| 1943 – 1954 | 66 |
| 1955 | 66 & 2 months |
| 1956 | 66 & 4 months |
| 1957 | 66 & 6 months |
| 1958 | 66 & 8 months |
| 1959 | 66 & 10 months |
| 1960 or later | <u>67</u> |



How Social Security Determines Your Benefit



Social Security benefits are based on earnings

- Step 1 -Your wages are adjusted for changes in wage levels over time
- Step 2 -Find the monthly average of your 35 highest earnings years
- Step 3 -Result is “average indexed monthly earnings”





Social Security Benefit

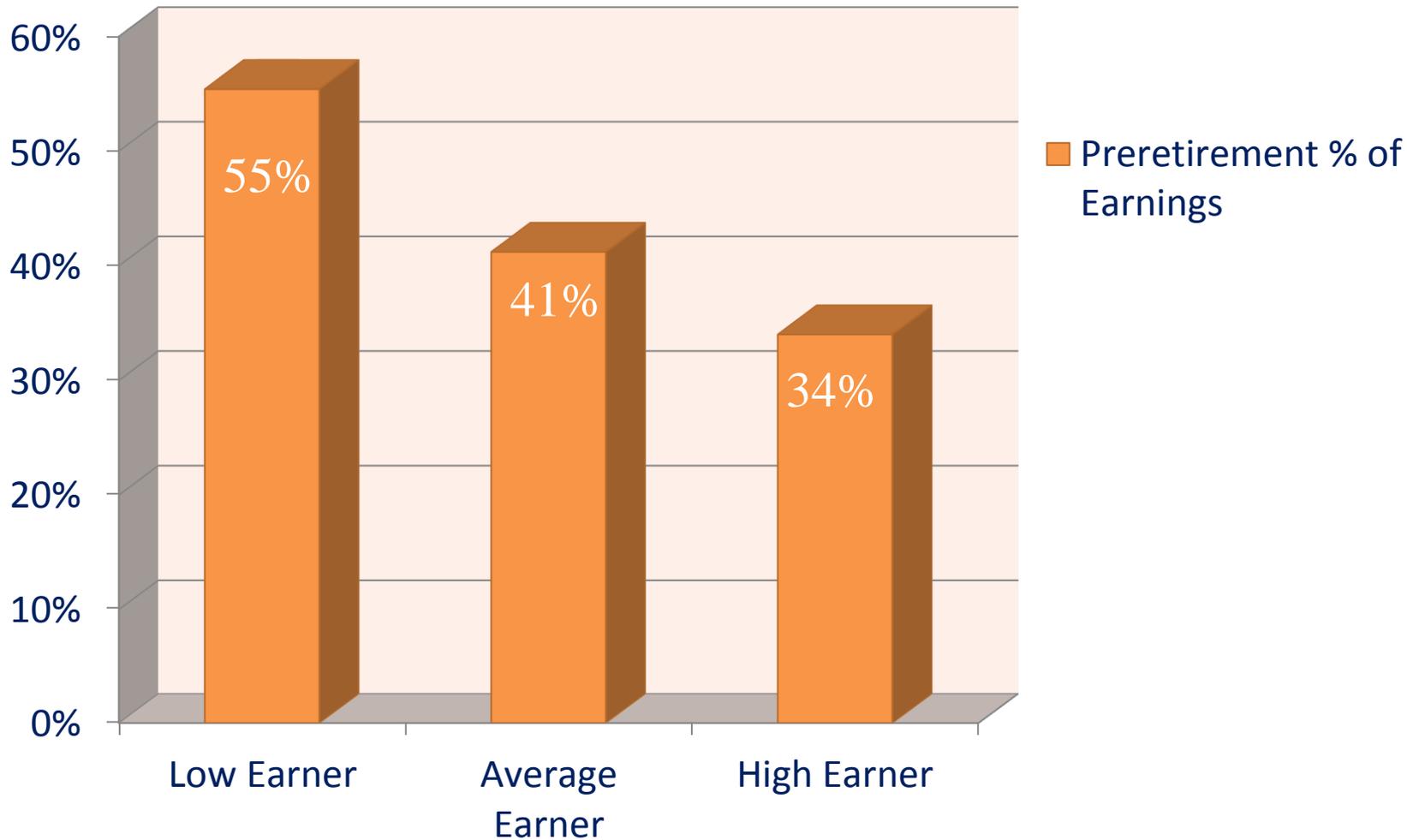


Social Security replaces an average of about 40% of pre-retirement earnings.

Financial planners generally agree that retirees will need 80%-100% of pre-retirement earnings to enjoy a comfortable retirement.



What You Can Expect at Full Retirement Age





The power of patience



For example, if you were born from 1943 through 1954:

- Age 62 75% of benefit
- Age 66 100% of benefit
- Age 70 132% of benefit



How much income will you need in retirement?

- There's no simple answer.
- You may pay less tax (????).
- *You won't pay payroll tax on income from Social Security, savings, or employer pensions.*
- *You won't pay income tax on all your Social Security benefits.*
- You won't need to save for retirement.
- The mortgage will probably be paid off (or will be soon).
- The kids will probably be out on their own (or will be soon).
- To maintain your standard of living, experts say you'll need roughly 75% to 100% of your current income.



How retired households spend their income

- 30% *Housing (utilities, taxes, upkeep, etc.)*
- 20% *Medical expenses*
- 25% *Food, clothing, transportation*
- 25% *Everything else*





Some are willing to live on less

- If work is difficult, you might want to retire early even if it means having a lower standard of living.

But be careful:

- You're talking about a lower standard of living for the rest of your life.
- *You also need money in reserve for medical emergencies, unexpected home repairs, and other "rainy day" expenses.*

How much really secure income will you need?

- Social Security is especially good for providing a basic retirement income that you and your spouse can rely on.
- The income it provides is inflation-proof and keeps coming as long as you or your spouse is alive.

Inflation-proof!

- *You get more dollars from Social Security if prices rise, so what you can buy stays the same.*



Income from other sources is less secure

- Employer pensions and private annuities provide a guaranteed income for the rest of your life.
- But they are rarely inflation-proof. If prices rise 3% a year, in 20 years they'll buy barely half what they do today.





Income from other sources

- 401(k)s, Individual Retirement Accounts (IRAs), and other savings can be invested in stocks that could produce high returns, saved for rainy days, or passed on to your children.
- But high returns bring increased risk, and financial shocks are likely over the course of your retirement. On the other hand, cash in the bank is not inflation-proof.

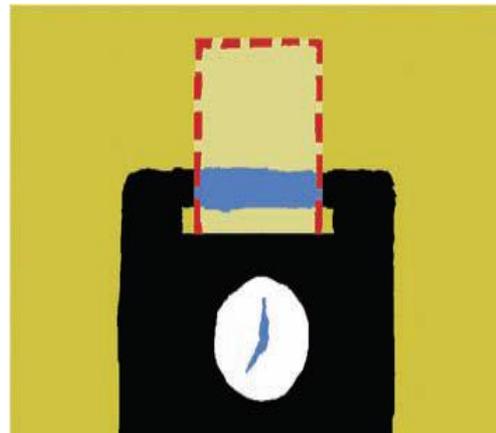




Income from other sources



- Work is an important source of income for some retirees.
- But very few people work past 70. So relying too much on earnings could be a big mistake.
- *Social Security will likely be much more important as you age, as other sources of income often dry up.*



The later you claim, the more you get

- The monthly benefit you earn as a worker is generally based on when you start to collect and the average of the highest 35 years of earnings on which you've paid Social Security payroll tax.
- CLAIM AT 62 IN 2005
- CLAIM AT 66 IN 2009 (THE FULL RETIREMENT AGE) 33% MORE
- CLAIM AT 70 IN 2013 - 76% MORE





You get even more ...



- ... if working longer raises the average of the highest 35 years of earnings on which you've paid Social Security payroll tax.
- For example, say you were 62 in 2005 and had 31 years of employment, at \$40,000 a year.
- **If you retire and start to collect benefits at 62:**
The average of your highest 35 years of earnings is: **\$35,400**
- Your monthly benefit, based on your average earnings and claiming age = **\$1,030**



You get even more ...

- If you work four more years, at \$40,000 a year, and retire at 66:
- The average of your highest 35 years of earnings is: **\$40,000**
- Your monthly benefit, based on your average earnings and claiming age = **\$1,500**

*33% for claiming later
+12% more for more earnings
= 45% more overall*





More options if you're married

- Special rules that raise the benefits of the lower-earning spouse — generally make claiming later an attractive option for higher earners.

The spousal benefit

- If both husband and wife have claimed benefits, each is guaranteed half what the other would get at the Full Retirement Age (which used to be 65, is now 66, and will be 67)
- Spousal benefits are reduced up to 35% if claimed before the recipient's Full Retirement Age.
- Ex-spouses are entitled to these benefits if the marriage lasted 10 years.





The survivor benefit



- Widow(er)s can keep their own benefit or, if they chose, instead claim a survivor benefit equal to their spouse's monthly benefit.
- Survivor benefits are available as early as age 60, or age 50 if disabled, but are reduced up to 28.5% if claimed before the recipient's Full Retirement Age.
- Survivor benefits almost always go to widows, as most survivors are women (wives are generally younger than their husbands and live longer) and most wives have lower monthly benefits (they generally earn less and start to collect at younger ages).
- **Ex-spouses are entitled to these benefits if the marriage lasted 10 years.**

Husbands can get more for their wives

- Most wives will outlive their husband, by about 7 years on average, and most widows get their husband's higher monthly benefit in place of their own.
- A husband can increase the monthly benefit his wife gets as his survivor more than 20% if he claims Social Security at 66, not 62, and 60% if he claims at 70.
- *Claiming later could be the most effective way a husband can improve his wife's long-term financial security.*



You can continue to work after you claim

- However, Social Security is designed to replace your earnings when you no longer work. So if you start to collect benefits and continue to work before you reach your Full Retirement Age, some of your benefits might be withheld.
- *Before* the Full Retirement Age, Social Security withholds ...

No benefits are withheld after the Full Retirement Age no matter how much you earn.





Benefits withheld aren't lost

- They're rolled forward to increase your Social Security monthly benefits *after* you reach the Full Retirement Age.
- For example, say you start to collect benefits at 62, continue to work, and only retire for good at 63. If you earn so much that half your monthly benefits are withheld, at the Full Retirement Age your monthly benefit is raised to what it would be had you started to collect at 62 and a half.



Benefits withheld aren't lost

*Benefits are withheld to
increase your monthly
benefits down the road.*



You don't have to claim when you retire

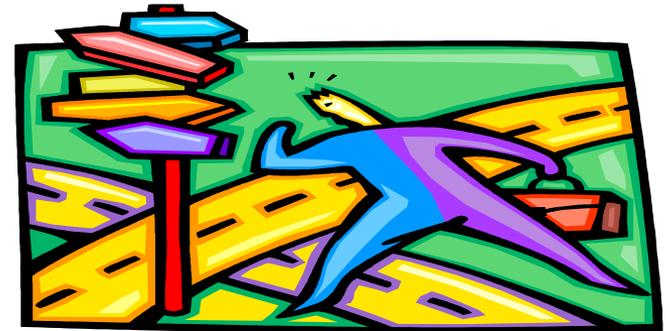
- **Retiring** and **Claiming** are two different things. So if you have enough savings when you retire, you have two options.

Option 1

- *Start collecting right away.*

Option 2

- *Delay and, while you wait, work and/or use a portion of your savings to live on. This option will draw down your savings more quickly, but increase the inflation-proof Social Security benefit you'll get each month for the rest of your life.*



Should you delay or claim right away?

- The answer is that there is no one “best age” for everyone and, ultimately, it is your choice.
- You should make an informed decision about when to apply for benefits based on your individual and family circumstances.



Yes, you might get less over your lifetime if you claim later

- Monthly benefits are set so that lifetime benefits are much the same no matter when the average person starts to collect.
- *If you're in poor health and unlikely to live as long as the average person, you'll probably get less, over your lifetime, the later you claim.*
- (That's because you probably won't get the higher monthly benefit long enough to make up for starting later.)
- But note: *many whose health is poor still outlive the "average person."*

Should you bet that your life will be short?

- No one really knows how long they will live. But if your health is OK, you'll probably outlive the average person.
- If you're married and both in good health, the odds are even greater that you or your spouse outlives the average person.
- The cost could be quite high if you lose the bet and live "too long." If blessed with long life, you might barely scrape by in your 80s.



Life Expectancy

When you are considering when to collect retirement benefits, one important factor to take into account is how long you might live.

According to data compiled by the Social Security Administration:

- A man reaching age 65 today can expect to live, on average, until age 83.
- A woman turning age 65 today can expect to live, on average, until age 85.
- And those are just averages. About one out of every four 65-year-olds today will live past age 90, and one out of 10 will live past age 95.

Life Expectancy

Want to know your life expectancy?

- You can use SSAs simple [life expectancy calculator](#) to get a rough estimate of how long you (or your spouse) may live.
- Knowing this information can help you make a more informed choice regarding when to collect Social Security retirement benefits.

Don't start early because Social Security has money problems

- Yes, Social Security has issues. After benefit payments deplete the program's Trust Fund, in about 2033, Social Security will only be able to pay about 75¢ on the dollar.

Something *will* be done:

- *Modifications will be made to sustain this wonderful program.*





Next steps



- You can claim Social Security at any age between 62 and 70.
- *Social Security is your safety net if at 62 you're in poor health or can't find a job.*
- *But if you can work, you have critically important options. You might want to quit and relax. But it's important to think long term. What's at stake is nothing less than the financial well-being of you and your spouse for the rest of your lives.*

Social Security is your security

*You can draw it down or save it up.
The choice is yours.*





What you can do now



- Estimate how much retirement income you and your spouse will need and how much of that income needs to be secure.
- Target when you would like to retire, considering the effect on your retirement income and how difficult (or easy) it would be to work longer. Social Security's estimator should be a big help:
www.socialsecurity.gov/estimator.
- Now make a plan that allows you to work to that age. It could mean learning new skills, taking on a new role at work, and seeing that your employer, or perhaps a new employer, has plans that allow you to stay on that long.



What you can do now



- Calculate
- Plan
- File on Line



Questions???

