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Social Security Administration - What is It and How Does It Work?

We have presented a view of the Social Security Administration in order to provide you with information to assist you in applying for and obtaining the social security benefits that are best for you and your family.

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Social Security Administration - What is It and How Does It Work?

Introduction

Do you want to understand the social security administration to be able to receive maximum benefits? Learn the history of social security and which social security application is best for you.

Undoubtedly, we all think it is important to understand the social security administration and how it works. Understanding the history of social security will better prepare you for the issues that one must deal with in making a social security application for benefits.

The key areas in understanding social security are many. How does its history play into the world of today? You may need to know how the government gets the money to pay you each month. Are you concerned about the various social security administration forms that one must fill out to be able to receive benefits. It is beneficial to understand the various tax rates that apply, so you can determine when is best to submit your social security administration forms.

Using and understanding the social security website will help you in making the best decision for your long term future and the payments that you will receive. Do you want to know when is the best time to apply for your social security benefits?

If you have a spouse, the benefits for both of you could vary based on how and when you apply and whether your spouse has paid into social security for the required period of time. It is good to understand all aspects of this issue.

Disability benefits can provide additional income, if one qualifies. It is best to fully understand all of these elements.

Finally, what are the death benefits of social security and how will they impact you. We hope that all of these factors help you in making the determination of when to file for social security and give you a full understanding of what you may expect to receive.

Our best to you and your family in working through these critical elements. We hope that this e-book assist you in evaluating your particular situation and maximizes your benefits.

Chapter 1

History of Social Security And Its Impact on You

Learning the history of Social Security is important for a complete understanding of the reasons we have our Social Security benefits structure of today.

Let's start with a definition, then move on to the history of Social Security. Social Security is a form of **social insurance that is meant to provide basic protection against financial hardship due to significant events, such as, death, disability and aging.**

Early History

We should start in England to provide an understanding on why we may qualify for Social Security benefits.

The concept of "Poor Laws" were brought by the early colonist from England. This idea included taxation to help the destitute. The concept was set up on a local basis, that is, the village or small town would help its own. Later as colonies grew, the process of handling locally became more difficult. The assistance to those in need as a public arrangement DID NOT develop on a wider scale. Even as late as 1915, according to the IRS, public funds only provided up to 25% of the money spent on relief for citizens.

Thomas Payne, later during the Revolutionary War period, proposed the establishment of a public system of economic security. That system called for a way to give a person a start in life by providing a one time payment. The amount given at that time was 15 pounds sterling when that person reached age 21. Additionally, it provided a way to protect against poverty in old age by annual payments. The amount of those payments were 10 pounds sterling to be paid to every person age 50 or older. However, this proposal was **never enacted.**

Upon the ending of the Civil War, we began seeing the development of a pension program to help the many widows, orphans and disabled veterans of the War. It was later determined that service-connected disability **was not required for the veteran to receive a pension.** Any disabled veteran of the Civil War could qualify. Therefore, a veteran qualified if he reached old age, even without a disability. Then by 1910, veterans and surviving widows were receiving benefits. **This encouraged many young women to search out their love in the ranks of the Civil War veterans, which they did.** The result was payments to the widows of these veterans well past the original intended period which raised some Social Security questions.

Poverty grew dramatically, especially among the elderly, as a result of the Great Depression, A number of states developed some form of old age pension to help, but these programs were not significantly effective.

Enactment

Our political leaders attempted to focus on ways to improve security as our nation grew after the Great Depression. Then on June 8, 1934, Franklin Roosevelt announced his intention to provide a program for the social security of the citizens. **That notice changed the history of Social Security as it was later signed into law on August 14, 1935. The main provisions were:**

1. **Provide for general welfare**
2. **Provide social insurance program to pay workers age 65 or older after retirement**
3. **Unemployment insurance**
4. **Old age assistance**
5. **Aid to dependent children**
6. **Grants to states to provide various forms of medical care**

Amendments

Several amendments were added in 1939 which provided for 1) payments to spouses and minor children of a worker and 2) survivor's benefits paid to a family in the event of premature death of a covered worker. **These amendments changed the program to a *family based economic security program* from a program for retired workers.**

By 1950 the Cost of Living Adjustment ("COLA") was added and later was adjusted periodically by special acts of Congress until 1972 when legislation called for automatic annual adjustments.

In 1954 the Disability Insurance program was added. This eventually allowed payments to **disabled workers of any age and to their dependents.**

In 1964 a new social insurance program was added that extended health coverage to all Americans age 65 or older, i.e. **Medicare.**

In 1972 the Social Security Administration assumed responsibility of a program called Supplement Security Income. It was designed to 1) help aged, blind or disabled people who have little or no income, and 2) provide cash to meet basic needs for food, clothes, and shelter.

Conclusion

Today, the end result is a program that provides some Social Security benefits due to old age – for the worker’s retirement, spouse’s benefits, and child’s benefits. It also provides survivor benefits after the death of a worker. Disability Insurance provides benefits to the worker and perhaps to the spouse or child of the disable worker. All of these elements should be considered in your own retirement planning.

We have seen through the history of Social Security that the concept has evolved from that of assisting the destitute and old aged to a retired worker program to a security program for families on a national level. Undoubtedly, it will continue to change and may have an impact on your view of retirement jobs.

Disclaimer: The above statements represent the opinion of the author and individuals should contact the Social Security Administration (<http://www.socialsecurity.gov/>) to gain a full understanding of the benefits for which they may qualify.

Chapter 2

Social Security Tax Rates - How Does SS Work

What are the social security tax rates and how have they changed over the years? We will start by discussing how money comes into the social security system.

How Money Goes In

In today's environment, a parent presents a social security card application to begin the process of obtaining a social security number for their child. Of course, the SSN becomes the identifying criteria for a number of agencies and companies, including establishing a 529 College Savings account.

Once the number is obtained, then that person must submit that number to his/her employer for payroll setup purposes. **A person begins paying into the social security system on date of their first paycheck by any employer in the United States.** If one starts his/her own business, they are required to pay to the United States Treasury the amount that is required for self-employed persons.

Before we discuss the social security tax rates that are charged on your income, let's first identify the components of the tax. **It consists of three components and one summation element:**

1. OASI = Old-Age and Survivor Insurance
2. DI = Disability Insurance
3. HI = Hospital Insurance
4. OASDI = Old-Age, Survivor, and Disability Insurance

The rate that must be paid to the U S Treasury has changed significantly over the years. **Believe it or not, the rate for Old-Age and Survivor Insurance (OASI) started out at one percent (1.0%) in 1937.**

Note that both the employer AND the employee had to pay that rate, so 2.0% was paid to the government. None of the other components applied at that time. Disability Insurance came into play in 1957 at a rate of 0.25% for each employer and employee. Thus, the total rate paid in was 2.25% each by employer and employee, made up of 2.0% OASI and 0.25% DI. HI was added in 1966 at 0.35% each.

The total OASDI and HI is 7.65% for 2009 to be paid each by employer and employee, according to the latest table published on the social security website.

The social security tax rates mentioned here are applied on all income one earns up to \$106,800 for the year for 2009.

However, if one is self-employed, then one must pay both sides of the rate for a total of 15.3% for OASDI and HI. Just think, it all starts with your social security card application.

How Money Goes Out

The amazing thing about social security is the concept of the process itself. When it began, more people were paying into social security than were receiving benefits. That has changed significantly. Here is a short table of the Social Security Covered Workers to Beneficiaries over the years:

Year	Covered Workers (thousands)	Beneficiaries (thousands)	Ratio
1940	35,390	222	159.4
1950	48,280	2,930	16.3
1960	72,530	14,262	5.1
1970	93,090	26,168	3.7
1980	113,655	35,118	3.2
1990	133,672	39,470	3.4
2000	155,295	45,166	3.4
2006	161,852	48,863	3.3

Since the beginning of the program through 2007, the social security program has expended \$10.6 trillion. During that same time period the program has received \$13.0 trillion. Based on the fact that more baby boomers are starting to retire, more money will be required for those additional payments, which will put additional strain on the program.

The program has not always taken enough money each year to pay the current year's benefits. There has been 11 years when this has occurred, the last period was from 1975 - 1981. During those years, Trust Fund bonds made up the difference.

Chapter 3

Social Security Administration Forms - Can the Social Security Website Help?

Filling out social security administration forms can be a daunting process. However, **the social security administration has spent a good deal of effort to make it easier to apply for benefits through the social security website website.** Considering the number of people asking for assistance and the workload at the local offices, it is beneficial to have a direct alternative to submit a claim for social security.

We will provide a list below of the numerous things one can do at the social security website.

There are a number of steps one can take on-line to apply for benefits. You can:

- Apply for Social Security retirement benefits
- Apply for Social Security spouse's benefits
- Apply for Social Security disability benefits
- Begin or continue the Adult Disability and Work History Report
- Apply for extra help with your Medicare prescription drug costs.
- Check your application status.
- Appeal a recent medical decision about your disability claim.
- Continue the appeal that you have already started.

You can also determine if you qualify for benefits.

- Find out what benefits you can apply for.
- Find out if you can get extra help with your Medicare prescription drug costs.

You can estimate your future benefits through the use of:

- Retirement Estimator Calculator
- Determine your full retirement age.
- Use the benefit planner to estimate your retirement, disability and survivors benefits.
- Request a social security statement.
- Block online and automated telephone access.

Should you be able to get benefits, you can online:

- Change your address or telephone number.
- Get a replacement Medicare Card.
- Request a Proof of Income Letter.
- Get a Form 1099/1042S -- Social Security Benefit Statement.
- Choose a password.
- Get a password.
- Block electronic and automated telephone access to your personal information.

For business, governments, payees and third parties, you can:

- Use Business Services Online to report wages.
- Verify Social Security numbers.
- Use Government to Government Services Online.
- Submit health or school records related to disability claims using Electronic Records Express.
- File a Representative Payee Accounting Report.

Considering the amount of time that one would expect to spend on social security application forms, it is not really bad to submit your application online. **It should take an average of about 15 minutes.**

The most common application would be “Application for Retirement Benefits” or Application for Spouses Benefits”. You should be at least 61 years and 9 months old and want your benefits to start no more than 4 months in the future.

It is worthwhile to utilize the Retirement Estimator tool online to provide you with a realistic view of the amount of benefits you will receive. Just go to the estimator an input basic info including social security number, date of birth, last year’s wages and you will receive in return a page showing your eligible benefits at this time and at full retirement age. Good way to check with your own data.

Once an application is submitted, you can check its status online at its “Application Status” page. Then just fill in your SSN and Confirmation Number for a complete up to date status.

By the way, some may be confused between an application and a claim for social security. They are the same thing. To claim your benefits under social security, you must submit an application.

All in all, filling in the social security application forms online is the way to go.

Chapter 4

Social Security Tax Limit - Does the Social Security Tax Rate Increase?

When you are working it doesn't seem like the social security tax limit will ever come into play for you, but it can. **The quick answer is that for the year 2009, the limit on the social security tax is 7.65% for the employee and the same amount for the employer.**

If one is self-employed, then one must pay both sides of the tax rate, or a total of 15.30% to the government. That social security tax limit has been in place since 1990, when it was increased from 7.51% in 1989 (or 15.02% if self-employed).

Of course, **just because the rate itself has not risen since 1992, doesn't mean that you are not paying more into social security.** The government has increased the "Annual Maximum Taxable Earnings" in dollars upon which the tax rate is applied.

We mentioned above that the rate increased in 1990. The Annual Maximum Taxable Earnings increase also from \$48,000 in 1989 to \$51,300 in 1990. So you were taxed at a higher rate on a greater earnings amount in 1990. And of course, the Annual Maximum Taxable Earnings has only gone up since then.

Matter of fact, **the Annual Maximum Taxable Earnings HAS GONE UP EVERY YEAR SINCE 1971.** It increased by 4.7% from 2008 to an amount of \$106,800 in 2009. The following table shows that, although the social security tax limit has not changed, by increasing the Annual Maximum Taxable Earnings over the last 10 years from 2000 - 2009, the government has received \$138,756 from the employer and employee. Had the Annual Maximum Taxable Earnings not increase since 200, they would have collected \$116,586. So they have collected an incremental \$22,170 from us, just due to the increases in the Annual Maximum Taxable Earnings over this time period, without having to increase the social security tax rate.

Year	Annual Maximum Taxable Earnings	Total, OASDI and HI Rate	Employee Payment	Employer + Employee Payment
2000	\$76,200	7.65%	\$5,829	\$11,659
2001	\$80,400	7.65%	\$6,151	\$12,301
2002	\$84,900	7.65%	\$6,495	\$12,990
2003	\$87,000	7.65%	\$6,656	\$13,311
2004	\$87,900	7.65%	\$6,724	\$13,449
2005	\$90,000	7.65%	\$6,885	\$13,770
2006	\$94,200	7.65%	\$7,206	\$14,413
2007	\$97,500	7.65%	\$7,459	\$14,918
2008	\$102,000	7.65%	\$7,803	\$15,606
2009	\$106,800	7.65%	\$8,170	\$16,340
Total			\$69,378	\$138,756
Total at Yr 2000 Level			\$58,290	\$116,590
Increase 2000 -2009			\$11,088	\$22,166

Even though it has not changed since 1990, keep an eye on the social security tax limit. You can expect that to change too at some point.

Chapter 5

Social Security Web Site - Social Security Administration Can Help

How the Social Security web site can help you determine when you should submit a claim. Find out when it the best time for you.

The Social Security Administration has put in a good deal of effort to make it easier for individuals to apply for benefits online. What should you do? **Start with the social security homepage.** It gives you a good overview of what is available in the various portions of the social security web site.

I recommend that you take your time to review most all of the topics listed under the Retirement section on the social security homepage. It describes a number of actions including:

- 1) What you can do online
- 2) Check the status of your application
- 3) Business services online
- 4) Your social security earnings statement
- 5) Estimate your benefits
- 6) Already receiving benefits
- 7) Forms and publications

One of the most critical elements in submitting a claim is “When should I take social security benefits?” Should I take it at age 62, at age 65, at full retirement age, or at age 70?

Great questions. We all want to maximize the amount that we receive from social security, but our circumstances are all different. As we pointed out in our page on social security retirement ages, one will only receive 75% of your full retirement amount, if you take benefits at age 62.

That means that once you start taking benefits at age 62, you will receive that amount and any cost of living adjustments, if any, from that time forward. **So, in essence, the longer you live, the more money you will lose or forego if you start at age 62.**

However, if one is in poor health or does not expect to live a longer life, it may be the right decision for you to indeed take benefits at age 62. It has generally been reported that approximately 70% of the those that qualify do take early retirement benefits.

A general estimate for a break-even point is age 80. If one expects to live past age 80, then it is generally economically advantageous to wait until full retirement age

to take your benefits. This is not a hard and fast rule. One must take into consideration a number of factors for your particular situation, including how much one needs the income in the earlier years.

For the boomers, the normal full retirement is age is 66. At that age, you would received 100% of the full amount due you. Should you wait until age 70, you would receive 132% of the amount at full retirement age. Even waiting until age 67 would give you 108% of the full retirement age amount.

One good approach is to use the Estimate Your Retirement Benefits calculator on the social security web site to run several cases of taking retirement at different ages. This will give you a good indication of your benefits for each age.

Chapter 6

Social Security Calculator - Which Social Security Retirement Calculator is Best

Learn which social security calculator should you use. Are there differences in the social security benefit calculator?

There are differences between the calculators. The first is **the Quick Calculator** and it is just that. You would input your date of birth and your earnings for this year. If you did not have earnings for the current year, you input the earnings for your last year. Input the month and year you expect to start drawing social security and you will receive an estimate of your benefits in today's dollars or inflated (future) dollars.

The second social security retirement calculator is the **Online Calculator**. For this one, you will need your latest Social Security Statement and will enter the data in a table on the Online Calculator page. You will also enter your date of birth, age at retirement, your earnings in the current year and expected earnings in future years. Based on this information, pressing the Calculate Benefit button will provide you with your estimated benefits in today's dollars or inflated (future) dollars, if you chose that option.

Additionally, the social security retirement calculator provides your monthly disability benefit amount, your monthly surviving benefits for:

- a) a surviving child,
- b) your surviving spouse caring for your child.
- c) your surviving spouse at full retirement age and
- d) the maximum of total family benefits.

The third and most accurate social security benefits calculator is the Detailed Calculator. In order to use it, you must download the calculator to your computer. PC and MAC versions are both available. This calculator also contains a Windfall Elimination Provision (WEP). This provides a reduction for someone who was eligible for a pension based on work that was not covered by social security.

None of the three calculators above are linked to your social security records. Having said that, I recommend that you do indeed use the Detailed Calculator based on your home records that were provided by the social security administration. It is just a good practice to do your own calculation and work your way through the assumptions to determine you calculated benefits.

In addition to using the Detailed Calculator, **I feel you should also use the Retirement Estimator that is available on the social security website.** This social security retirement calculator does use the social security earnings records to calculate your benefits. Then make your own comparison of the benefits shown for the Retirement Estimator and the Detailed Calculator. If your assumptions were similar for these two social security calculator, then you should be very close, if not right one, identical answers.

Be aware, that your assumptions play a critical role in the calculation process. Should you feel you want additional assistance, toll free phone numbers are provided on the website.

It is well worth it to use more than one social security calculator to provide you with the information you need to make your decisions on when to take your benefits.

Chapter 7

Social Security Application - Social Security Payments for Your Spouse

Spouse benefits can change based on when you submit your social security application. **It is important to note that the amount that a spouse is eligible to receive can vary based on the amount that the spouse has worked covered by social security.**

Case 1

Let's take an example to demonstrate what may happen when evaluating your the social security payments for a spouse. We will assume for a moment that the couple in this case started out their career after a marriage in their 20's. Both the husband and the wife took jobs that were covered by social security and they both made payments into the systems.

After 5 years the wife decided that she wanted to stay home with her two children as they grew up and went to school. **Therefore, the wife worked 5 years and paid into social security for 4 quarters for each year or 20 quarters.** She originally intended to go back to work later on, but decided to continue to stay a homemaker and raise the children. She did not go back to work in a position covered by social security. Based on these assumptions, **she would NOT have worked 40 quarters by the time she and her husband reached full retirement.**

Since she has not worked the required 40 quarters, she would not qualify for social security payments on her own. Although she paid into social security for 20 quarters, she would not be approved for benefits should she submit a social security application for benefits based on her own work record. **No payments would be made to her by social security.**

However, since her husband did work at least the required 40 quarters by the time he reached full retirement, she would qualify for social security spouse benefits calculated on his payments into social security. **An important note here is that she CANNOT take spouse benefits until such time as the husband takes his benefits.**

When she does apply for and start receiving spouse benefits, it will be paid based on her age at the time she begins receiving such benefits. If we assume that she applies for spouse benefits at age 66 (full retirement age), then she will receive the maximum allowed, which is 50% of the husband's benefits at full retirement age.

If she applies for such spouse benefits at age 62, then she will receive a reduced amount of 35% of the husband's benefits at full retirement age. The following table provides a quick view of the impact of taking spouse benefits before full retirement age.

Spouse Age	Spouse Benefits Reduced To
62	35.0%
63	37.5%
64	41.7%
65	45.8%
66	50.0%

Case 2

In our next example, the couple started off the same way, however, the wife decided to go back to work after the children were raised. She worked past an additional 20 quarters in a position covered by social security.

Therefore, when she reached age 62 she could apply for and receive social security benefits based on her own earned income **because she contributed to social security for at least 40 quarters**. By submitting her own social security application in her name, without applying for spousal benefits, she would qualify for social security payments to be made to her at age 62, if she so desired. Those payments would be reduced by the standard amount at age 62 and she would receive 75.0% of the amount she would have received at full retirement age.

Generally, it is beneficial for the woman in this case to indeed take her own social security payments from age 62 until such time as the husband begins to take his social security benefits. Then she can apply for and will receive her spouse benefits, if that benefit amount is greater than her benefits under her own work record.

So she can take advantage of her work record and then her husband's work record to maximize social security payments to her.

Case 3

If we assume that our couple is now close to retirement and the wage earner dies, then the widow or widower is entitled to social security survivor benefits.

The widow or widower is entitled to reduced benefits as early as age 60 or full benefits at full retirement age or older. If the widow or widower is disabled, then benefits can be paid out as early as age 50.

It is important to note that if you receive a widow's or widower's benefit and you qualify for your own retirement benefit that is greater than your social security survivor benefits, then you can switch to your own benefit as early as age 62.

As always, review your situation and get all of the facts before making your decision.

Chapter 8

Social Security Disability Form - Determine Your Social Security Disability Income

Use the social security disability form to maximize your social security disability income. Their website has a page devoted especially to the application for social security disability benefit.

Child Disability

You can submit an application for a child under the age of 18. The social security disability form that is needed is the Application for Supplemental Security Income (SSI) and a Child Disability Report. Currently, only the Child Disability Report can be completed online. One must schedule an appointment with an office to complete the SSI form.

Adult Disability

In order to submit a social security disability application for an adult (age 18 or over), one must complete an application for Social Security Benefits and an Adult Disability Report. BOTH of these forms can be completed online.

To qualify to receive social security disability income, one must complete a three step process and fully qualify.

Steps:

1. Review the Adult Disability Starter Kit, that is available online. Common questions are answered about benefits and provides a worksheet to gather the information one needs for the process.
2. Complete the online application for Social Security Benefits. This is the same process that one would use if you are not applying for social security disability benefit.
3. Fill out the complete online Adult Disability Report. Later, the SSA will request information from your doctor to send them information about your disability.

One does not have to fully complete these documents online in one sitting. You can use your confirmation number to return to your online application at any time. Additionally, you can use your re-entry number to return to the online Adult Disability Report.

The social security office provides direct help at a toll free phone number, if needed. See their website for further details.

Chapter 9

Social Security Death Benefit - Understand Your Rights to Social Security Death Benefits

Social Security Death Benefit can be a confusing element in the social security process. **Certain members of a person's family may be eligible for survivors benefits, if the person has worked in a job covered by social security and that person dies.**

When you die and have paid into social security for a certain period of time, members of your family could be eligible for social security death benefits based on your earnings. One normally needs no more than 40 credits of work, or 10 years, to be eligible for survivors to receive some of your benefits.

But the number of credits that one needs depends on your age when you die. Younger workers will need fewer credits for their family to receive social security death benefit at the time of death.

The situation does exist that benefits can be paid to your children and spouse who is caring for your children even if you don't have enough credits. They can get benefits if you have one or one-half years of work, equivalent to 6 credits, within three years just before your death.

Lump Sum Death Benefit

One may receive a lump sum payment as social security death benefit, but must provide information regarding birth, military discharge and work records (W-2, etc.). One must also provide detailed information regarding the deceased worker and their work history. The surviving spouse must also provide information regarding his/her work history.

Survivors Benefits

The surviving spouse may qualify for social security survivors benefits. Full benefits may be received at full retirement age or reduced benefits can be received as early as age 50.

A disabled widow or widower may receive benefits as early as age 50. A widow or widower can receive survivor benefits at any age if he or she takes care of the deceased child, who is under age 16 or disabled, and receiving Social Security benefits.

Unmarried children under age 18 qualify as well. Children of any age who were disabled before age 22 and remain disabled also qualify.

Lastly, dependent parents age 62 or older can qualify to receive social security survivors benefits.

More on survivors benefits can be found in Chapter 7.

This e-Book can only provide an overview of all of the elements involved in understanding the social security benefits that are available to you. We hope you have found this information useful and encourage you to examine the social security website at <http://www.socialsecurity.gov/> to provide more detail to you in your analysis of the full range of benefits available to you.

THE END