

## How Social Security Works

The Social Security program was signed into law in 1935 after the nation had endured more than a half-decade of the Great Depression. It was intended to provide a safety net of income for individuals too old or disabled to continue working.

Participation in the Social Security program is mandatory, with most wage earners contributing a percentage of their annual incomes to support the program. In return, participants, their spouses, and certain dependents are eligible for retirement, disability, and survivorship benefits.

Today, approximately 90% of people aged 65 and older receive a Social Security benefit check each month. For many, this benefit is their primary source of retirement income.

### How Contributions are Made and Accounted For

Each year you work, you and your employer contribute to the Social Security program in equal amounts. In 2007, 6.2% will be withheld from your paycheck, with another 1.45% going to Medicare, for a total contribution of 7.65% (unchanged from 2006). Your employer matches contributions with another 7.65% of your total earnings. After you reach an earnings cap of \$97,500 (in 2007), no further Social Security contributions are deducted. However, there is no cap on earnings for Medicare contributions.

### How Your Benefits Are Calculated

Your benefits are based on a calculation that includes how many years you worked and how much you earned. These figures are used to determine the number of quarterly credits you accumulated toward benefits. If you were born prior to 1938, you may collect full Social Security benefits when you turn 65, or you may collect 80% of your benefit if you retire at 62. For people born after 1938, Normal Retirement Age (NRA), or the age at which you can receive full benefits, gradually increases from age 65 to age 67. To determine your NRA, visit <http://www.ssa.gov>. When you die, your surviving spouse is entitled to your benefits, unless he or she would collect more based on their own earnings history.

Your Social Security account opens once you receive a Social Security card. However, it is not activated until you begin earning income. Once your earnings begin, the amount you contribute each year is recorded.

The accuracy of this record is important. You can obtain a copy of your earnings record from the Social Security Administration by filling out and mailing Form 7004. Forms are available at your local Social Security office or by calling 800-772-1213 or online at [www.ssa.gov/online/ssa-7004.html](http://www.ssa.gov/online/ssa-7004.html). If you discover errors in your record, you can ask that it be corrected, though you must supply evidence of such errors. The Social Security Administration encourages people to check their earnings records every three years or so, because the earlier a problem is found, the easier it is to correct.

### How Your Benefits Are Taxed

Once you begin receiving retirement benefits, you may have to include them as part of your taxable income reported to the IRS each year.



If your total income for the year, including half of your Social Security and your tax-exempt earnings, is greater than \$32,000 (\$25,000 for single taxpayers), you will owe federal income tax on a portion of your Social Security benefits. The IRS provides a worksheet to help you determine how much you must include in your taxable income each year.

Did you know that...

The Social Security Administration paid approximately \$539 billion in benefits to nearly 49 million people in 2006

Social Security benefits were awarded to more than 4 million people

Among elderly Social Security beneficiaries, 54% of married couples and 74% of unmarried persons receive half or more of their income from Social Security.

Women accounted for 57% of adult Social Security beneficiaries

The average age of disabled-worker beneficiaries was 51

Disability and blindness were the reasons for paying 82% of Supplemental Security Income recipients

*Material discussed is meant for general illustration and/or informational purposes only and it is not to be construed as tax, legal, or investment advice. Although the information has been gathered from sources believed to be reliable, please note that individual situations can vary therefore, the information should be relied upon when coordinated with individual professional advice. Past performance is no guarantee of future results. Diversification does not ensure against loss. Source: Financial Visions, Inc.*