

4. Social Security

Social Security is our nation's method of providing some continuing income after family earnings are reduced or stop because of retirement, disability, or death. You can survive, but you cannot retire in dignity, on Social Security! This article reviews what the Social Security system covers so that you can understand what to expect, and it discusses basic eligibility requirements, retirement benefits, disability and survivor benefits, and Medicare.

Use this information when planning for retirement and figuring out how to supplement your Social Security benefits with some combination of savings, pensions, investments, and insurance.

Basic Eligibility

Before you can receive a monthly Social Security check, you must have a certain amount of "work credit." Work credit is measured by units called "quarters of coverage." In 1998, you would earn one "quarter of coverage" for each \$700 earned from employment covered by Social Security. You can receive only four quarters of coverage in a year. You will need 40 "quarters of coverage" to be eligible for retirement benefits. (The amount or rate of benefits depends on your total earnings covered by Social Security and is discussed below.)

The Social Security Administration will provide you with a statement of your earnings and your estimated future benefits if you file Form SSA-7004-SM, Request for Earnings and Benefit Estimate Statement with the Social Security Administration, Salinas Data Operations, P.O. Box 80093, Salinas, CA 93912-0093. This statement can be obtained by contacting the Social Security Administration. You should periodically file this form to make sure your Social Security wages are being properly reported by your

employer. The estimate of your future benefits is also helpful for your retirement planning.

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Retirement Benefits

You can receive a Social Security check as early as age 62, but if you start getting checks before age 65, the amount of each check is reduced permanently to account for the longer period you will be receiving checks. The reduction depends on the number of months you get checks before you reach age 65. To assure the future stability of the Social Security system, the age for full retirement benefits will be increased to 67 in gradual steps starting in the year 2000.

When you apply for Social Security retirement your exact benefit amount will be calculated. It depends on your age and the total amount of your lifetime earnings. You may receive one-half of your spouse's (or ex-spouse's, if married at least ten years) benefit amount if that amount would be more than the benefit amount based on your own earnings.

If you retire at age 65 in 1998, your retirement benefit can be as much as \$1,342 a month. If you retire at age 62 in 1998, your monthly retirement benefit at age 62 can be as much as \$1,074. These maximum benefits would be paid to you only if you had always earned the maximum wages covered by Social Security. The most recent maximum wages are listed below. Please note that if your annual earnings were less than

the maximum covered amount, then your benefit amount would be somewhat less than the maximum. The maximum covered compensation is adjusted annually.

Year	Maximum Annual Compensation Covered
1997	\$65,400
1998	\$68,400
1999	\$72,600
2000	\$76,200
2001	\$80,400

As a reminder, the dollar limitations in social security benefits, the wage base, and excess earnings are adjusted annually for increase in the cost of living.

Once you are on Social Security, your checks will automatically increase whenever the Government applies a cost of living increase. Currently, cost of living adjustments are effective in December of each year.

Additional amounts may be payable to your spouse, children under 18 (19 if still in high school), and older children disabled before age 22.

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Working After Retirement Can Affect Your Social Security Benefits

The Senior Citizens' Freedom to Work Act of 2000 made changes to the rules regarding the loss of benefits by social security recipients who work. Individuals who are under normal retirement age (65 in 2001) lose \$1 of social security benefits for each \$2 dollars of earnings over \$10,680 in 2001. Those who reach age 65 in 2001 lose benefits in 2001 at the rate of \$1 for each \$3 of pre-retirement earnings over \$25,000. After 2001, benefits are not reduced by earnings received after normal retirement age.

Working and Your Benefits In the Year You Retire

There is a special rule that applies in the year that you retire. Under this rule, even though your earnings for the year exceed the exempt amount, a benefit can be paid for any month your wages do not exceed the monthly limit and you do not perform substantial services in self-employment. The 1998 monthly wage limit is \$1,209 if you are age 65 to 69 and \$760 if you are under age 65.

Income Tax on Benefits

Up to one-half of your Social Security check is subject to income tax if your adjusted gross income, plus nontaxable interest income and one-half of your Social Security benefits (the total being your “provisional income”), is more than a base amount, or “adjusted” base amount. The base amount and “adjusted” base amount are as follows:

Filing Status	Base Amount	“Adjusted” Base Amount
Unmarried Individual	\$25,000	\$34,000
Married Filing Jointly	\$32,000	\$44,000
Married Filing Separately	None	N/A

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Beginning in 1994, up to 85% of your Social Security benefits may be taxable. Generally, 85% of your benefits would be taxable if your “provisional income” exceeds the “adjusted” base amounts; and only 50% of your benefits would be taxable if your “provisional income” exceeded the base amounts (but not the “adjusted” base amounts). Please consult with your tax advisor for the exact computation of the taxable portion of your Social Security benefits. Internal Revenue Service Publication 915, Social Security

Benefits and Equivalent Railroad Retirement Benefits, may also be helpful and is available from your local IRS office.

Disability and Survivor Benefits

If you become severely disabled before age 65, you can receive disability checks starting with the sixth full month of your disability. Under Social Security, you are considered disabled if you have a severe physical or mental condition that prevents you from working and is expected to last (or has lasted) for at least 12 months, or is expected to end in death. If you die, your spouse and children are eligible to receive survivor benefits based upon their ages.

The “quarters of coverage” required to receive disability or survivor benefits depends on your age at the time you become disabled or die. The amount payable for disability or death is determined by comparing your earnings with the maximum wages covered by Social Security. If you always earned the maximum, you or your family will get the maximum benefit. If you earned less, then your benefit is somewhat reduced.

Payments to your dependents are structured as follows: Payments to your spouse can be made until your youngest child reaches age 16. No further benefits are payable until your spouse turns 62 (if you are retired or disabled) or 60 (if you die). Widow’s and widower’s benefits are payable as early as age 50 if the surviving spouse is disabled.

Payments to your children can be made up to age 18 and may continue, but not past the date the child graduates from high school or turns 19—whichever occurs first. Children disabled before age 22 can also receive payments.

Medicare

It's important to apply for Medicare three months before your 65th birthday month even if you do not plan to retire. That way your protection will start the month you reach 65.

The two parts of Medicare—hospital insurance (Part A) and medical insurance (Part B)—help protect you, if you are over age 65, from the high costs of health care. If you are disabled and under age 65, you may also be eligible for Medicare, after 24 months of disability.

The hospital insurance part of Medicare helps pay the cost of inpatient hospital care, home health care, skilled nursing home care, and under certain circumstances, hospice care. The medical insurance part of Medicare helps pay the cost of physicians' services, outpatient hospital services, physical therapy, ambulance services, medical equipment, prosthesis, and a number of other services not covered under Part A. When you apply for hospital insurance you will be enrolled automatically for the medical insurance part of Medicare unless you indicate that you do not want that coverage.

If you do not apply for the medical insurance part of Medicare within 3 months of the month before or after you become 65, you have to wait for an "open season" (January-March of each year) to apply. You also must pay 10% more premium for each year after 65 that you did not take the medical insurance. An exception to these rules is made if you don't apply for medical insurance because you have medical coverage through your employment or your spouse's employment. Always check with the Social Security Administration to take the insurance on time, or to be sure you qualify for the exception. Lastly, be sure to apply immediately if the excepted employer coverage ends.

Social Security and Railroad Retirement beneficiaries do not have to pay for Part A. A premium is charged for Part B of \$43.80 per month (as of 1998). This premium is adjusted each year.

Since Medicare does not pay all medical expenses, most people carry private Medicare supplement (Medigap) policies. Your employer may provide this, or you may need to purchase it on your own.

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Most nursing home and at-home long-term care is not covered by Medicare. Insurance companies offer coverage for the cost of this care, called long-term care insurance.

Social Security benefits can be substantial. Your planning is not complete without reviewing and including them. When you begin your planning, be sure you get accurate, up-to-date information about your Social Security benefits. For more information about Social Security, contact any Social Security office (see the U.S. Government pages in the white pages of your telephone directory) or call 1-800-772-1213 toll free from anywhere in the United State from 7:00 a.m. to 7:00 p.m. (local time) every business day.