

over \$



SOCIAL SECURITY

THE REAL FACTS

AARP's guide to America's most vital retirement program

By many measures, Social Security is the most important program the federal government operates. Last year, 1 in 6 Americans received benefits, which totaled nearly \$1 trillion. And over half of all Americans contributed a chunk of their income through payroll taxes to help secure their own future retirement.

But as large as it is—or perhaps *because* of how big it is—Social Security is often misunderstood. From rumors the program is running out of money to claims that politicians are diverting its cash, myths and questions about Social Security abound. On these pages we'll tackle many of them, to help you better understand both how the program works and how to make the most of what it has to offer. Find even more insights and answers at aarp.org/SocialSecurity. Our newly relaunched Social Security Resource Center is the top place for members—and all Americans—to better understand and plan for Social Security. —*The editors*

12 TOP THINGS TO KNOW ABOUT SOCIAL SECURITY

UNDERSTANDING THE PROGRAM THAT HELPS SECURE YOUR FUTURE

BY KENNETH TERRELL

HOW IT WORKS TODAY

MONEY FLOWS IN

Up to \$132,900 of a person's wages (in 2019) will be subject to a 12.4 percent payroll tax. Self-employed workers pay the entire amount, while employers and employees equally pay 6.2 percent into the Social Security system.

174 MILLION CONTRIBUTORS



TOTAL INCOME GOING INTO SYSTEM IN 2017

\$996.6 BILLION

88%

Tax money contributed by workers and employers

8%

Interest on the Social Security Trust Funds

4%

Taxes on Social Security benefits



For years, more money has flowed into the two trust funds (one for retirement benefits, one for disability) than has gone out, creating a reserve to help pay benefits in future years. At the end of 2017, the funds totaled \$2.89 trillion; all of it is invested in Treasury securities.

MONEY FLOWS OUT

Workers are eligible to begin receiving Social Security retiree benefits as early as 62, but claiming at this age results in the smallest benefit. Workers who wait to claim until age 70 can obtain the largest benefit available to them.

63 MILLION RECIPIENTS



TOTAL EXPENDITURES PAID FROM SYSTEM IN 2017

\$952.5 BILLION

84%

Benefits to retirees or their survivors

15%

Benefits to disabled workers

0.7%

Financial or administrative costs

0.4%

Railroad retirement funds

IT IS ALSO INSURANCE



In addition to paying retiree benefits, Social Security provides insurance for workers who become disabled, and also protects survivors of program participants. In 2017, 10.4 million disabled workers received benefits, and 6 million spouses and children got survivor benefits.

1 Social Security is not going bankrupt. At the moment, you could say the opposite; the Social Security trust funds are near an all-time high. "The program really is in good shape right now," says David Certner, AARP's legislative policy director. "But we know it has a long-term financial challenge." Here's why: For decades, Social Security collected more money than it paid out in benefits. The surplus money collected from payroll taxes each year got invested in Treasury securities; today, the trust fund reserves are worth about \$2.89 trillion. But as the birth rate has fallen and more boomers retire, the ratio of workers to Social Security recipients is changing. This year is a tipping point: The program will need to dip into its reserves to pay full

benefits from this point forward, absent any change to the program. It's now forecast that the trust fund reserves could be exhausted in 2034. Even if that happens, Social Security won't be bankrupt. The program will continue to pay benefits, but at a rate of 79 percent of what recipients expected to receive. But if the goal is to keep benefits at their current levels, the sooner funding issues are addressed, the better. The reason is simple: The earlier you make needed adjustments, the less dramatic they need to be. "The longer we wait to fix Social Security funding, the more the cost will be paid by the younger generations, either on the tax side or the benefits side," says Kathleen Romig, a Social Security analyst at the nonpartisan Center on Budget and Policy Priorities.

2 Congress probably will not take up Social Security reform anytime soon. Several members of Congress have proposed legislation to address the program's long-term funding issues. But given the deep political divides on Capitol Hill, it's unlikely that Congress will make any effort to reform Social Security until there's the possibility of bipartisan support. "Because Social Security is so important, we need to be really thoughtful and deliberate about how to make change," Romig says. "And we want a bipartisan consensus because we want the change to last." There are concerns that the tax-cut legislation passed in late 2017 could lead some lawmakers to look for places where they might cut spending. "The stage has been

set by the tax bill to take another run at Social Security, Medicare and Medicaid," says Max Richtman, CEO of the National Committee to Preserve Social Security and Medicare. Control of Congress after this year's elections will play a key role in how Social Security's funding is addressed.

3 Some ideas to reform funding are starting to take shape. One proposal is to either raise or eliminate the wage cap on how much income is subject to the Social Security payroll tax. In 2019, that cap will be \$132,900, which means that any amount a worker earns beyond that is not taxed. Remove that cap, and higher-income earners would contribute far more to the system. Other options lawmakers might consider include either raising the percentage rate of the payroll tax or raising the age for full retirement benefits.

4 Lawmakers do not raid the trust fund. Another common myth about Social Security is the belief that Congress or the president use trust fund assets to pay for other federal expenses, such as education, defense or economic programs. That's not accurate. The money remaining after the Social Security Administration (SSA) has paid benefits and other expenses is invested directly into U.S. Treasury securities. The government can use the money from those securities, but it has to pay the money back with interest. Congress does get to determine each year how much the SSA spends on administrative costs, which includes staffing at field offices and call centers. In the most recent fiscal year, the SSA got an increase of \$480 million, which raised the agency's administrative budget to more than \$12 billion.

5 Many believe it can be run better. As you would expect, the SSA is a big operation, with more than 60,000 employees and 1,200 field offices nationwide. With the rapid increase in the number of retirees, the agency has struggled to keep up. "There aren't enough resources to take care of all the people now, and another 10,000 people turn 65 every day," Richtman says. A recent audit showed that average wait times at field offices increased 32 percent between fiscal years 2010 and 2017, for example. During that

AT A GLANCE

RUNNING THE SOCIAL SECURITY ADMINISTRATION

- ▶ **ACTING COMMISSIONER:** Nancy A. Berryhill
- ▶ **OVERSIGHT:** It has been an independent government agency since 1994.
- ▶ **OPERATING BUDGET:** \$12.5 BILLION
- ▶ **FEDERAL OFFICES:** Headquarters in Baltimore
- ▶ **FEDERAL EMPLOYEES:** 63,414
- ▶ **STATE EMPLOYEES:** ABOUT 16,000 (primarily making disability determinations)
- ▶ **REGIONAL OFFICES:** 10
- ▶ **FIELD OFFICES:** 1,245
- ▶ **PROGRAM SERVICE CENTERS:** 6
- ▶ **TELESERVICE CENTERS:** 26

same period, the number of visitors who had to wait over an hour to be seen at a field office nearly doubled.

6 Your Social Security benefits can be taxed. If you have other income in addition to Social Security, you might have to pay federal taxes on your benefits. Single filers whose combined annual income exceeds \$34,000 might pay income tax on up to 85 percent of their Social Security benefits; couples filing jointly may pay tax on up to 85 percent if their combined income tops \$44,000. And 13 states tax Social Security benefits depending upon differing variables: Colorado, Connecticut, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Rhode Island, Utah, Vermont and West Virginia.

7 Social Security is not meant to be a retiree's sole source of income. The SSA says if you have average earnings, the program's retirement benefits will replace only about 40 percent of your preretirement wages. Nevertheless, 26 percent of those 65 and over who receive a monthly Social Security benefit today live with families that depend on it for almost all of their retirement income. And 50 percent of them say their families depend on Social Security for at least half of their income.

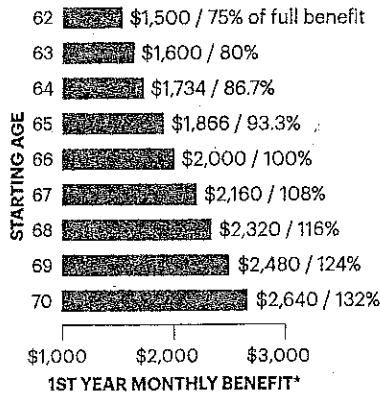
8 The purchasing power of Social Security is diminishing Every year, the SSA issues a cost-of-living adjustment (COLA), which is an annual adjustment that beneficiaries receive to help their monthly checks keep up with inflation. However, the formula used to calculate the COLA does not fully account for the medical costs of an average older American. These costs have been increasing faster than other goods and services. An average American 55 and older spends about 27 percent more annually on health care costs than the overall population, according to the Bureau of Labor Statistics.

9 You can work and get Social Security. But beware: The agency will withhold some of your benefit if you are younger than full retirement age and your earned wages exceed a certain limit. In 2019, the threshold on your

IT PAYS TO WAIT

When should you start claiming Social Security retirement benefits? The math is clear: Wait until age 70 if you can. That will maximize monthly and lifetime benefits, assuming you live to the average life expectancy for people your age.

Here is how the first-year monthly payment would differ based on the age you start receiving benefits. Data assumes full retirement age of 66 (for those born between 1943 and 1954).



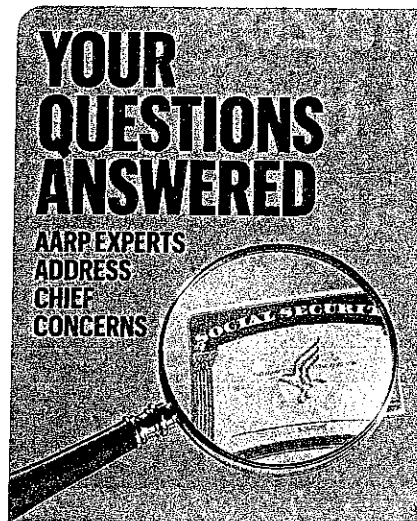
*Based on a full-retirement benefit of \$2,000. Actual amounts are based on your lifetime work-pay history.

earnings will be \$17,640. Make more than that, and the government will temporarily withhold \$1 from your benefit for every \$2 earned over the cap. You will receive this money eventually, in the form of higher benefits once you hit your full retirement age. If you wait until full retirement age to start drawing Social Security, you can work as much as you like and your benefits won't be reduced.

10 Social Security has gone digital. The U.S. Treasury Department has moved away from sending out paper checks in favor of electronic payments. The SSA also has set up an online portal called My Social Security, where you can track your benefits. People are encouraged to go to the website (ssa.gov/myaccount) and set up an account. It will help prevent scammers from setting up an account in your name and possibly stealing your benefits.

11 Social Security is not just a retirement program. There are four main types of Social Security benefits: retirement, disability, dependent and survivor. Sometimes a person can qualify for more than one of these. However, Social Security generally will only pay one benefit at a time to a person. When filing for benefits, you should make sure to ask about your eligibility for other benefits. And if there is a change in your family status, such as the death of the family breadwinner, you should inform SSA of his or her death and ask if you or other family members are now eligible for additional survivor or dependent benefits.

12 Most people get back more than they put in. Worried that the money taken out of your check to fund Social Security will never come back to you? Over the years, studies have shown that most people receive more in benefits than they paid into the program. The Urban Institute issues reports that estimate how much people are paying into the program and what they are likely to receive in retirement benefits. (The reports can be viewed at urban.org.) As a general matter, married couples are more likely to get back more than they contributed than single people, and both low-income and high-income people may receive more dollars from the program over a lifetime than the amount of money they contributed to it.



Is there a maximum Social Security benefit you can receive no matter how much you've earned?

Yes, but that depends on the worker's year of birth, his or her yearly taxable earnings and the age the worker starts getting benefits. The highest amount a worker turning age 66 in 2019 can get is \$2,861 a month. But you can increase that amount if you wait until turning 70 to start claiming the benefit. A worker with \$2,861 a month payable at a full retirement age of 66 would collect \$3,776 a month by delaying until age 70—without working past 66. That's because your benefit increases by 8 percent a year between full retirement age and 70.

I am making contributions to my 401(k). Will that change my Social Security earnings limit?

Contributing to a 401(k) plan does not reduce the amount of earnings that the program uses for tax purposes or in the program's retirement earnings test. Social Security looks at your gross earnings before any tax-deferred deductions and allotments.

I am on Social Security disability. Can I collect these disability payments and the program's retirement benefits at the same time?

You cannot collect both at the same time. If you are eligible for both, you would receive the higher of the two. In most cases, the disability payment will be higher than a reduced retirement benefit. That is because the program calculates your disability benefit as though you reached full retirement age when you became disabled. It converts to a retirement benefit in the month you attain full retirement age.

Can you change your mind about collecting retirement benefits from the program?

Yes, but only one time. Social Security will allow you to withdraw your application for retirement and repay the benefits within your first 12 months of eligibility. If you are over full retirement age, you can ask the program to suspend your payments. If you temporarily stop your retirement benefit between full retirement age and age 70, you will get a higher amount when you start collecting again.

If I start taking my benefit at 62, can I switch to spousal benefits when my husband claims his Social Security?

You can claim your own benefit at 62 and then pick up a spouse's benefit on your husband's record later if it is higher. When your husband files for his retirement funds, you will be eligible for an additional benefit on his record if your full-retirement-age amount is less than half of his.

Can I collect a survivor benefit from my deceased husband at age 62 and switch to my own retirement benefits later?

Yes. When you are eligible for both your own retirement benefit and a survivor benefit, you have the option of collecting one benefit early and waiting until you are older to switch to the other. Collecting one early will not affect the amount of the other when you switch later. You can collect a survivor benefit on your deceased spouse's record as early as age 60, and wait as late as age 70 to switch to your own record. Another option is to collect your own retirement benefit as early as age 62 and switch to the survivor benefit when you reach full retirement age.

What if I stop working in my 50s? Will it affect the benefits that I receive if I apply at age 62 or 66, or even if I wait until 70?

Your program benefits are calculated based on your 35 highest years of earnings. It doesn't matter what age you were when your earnings peaked. The estimates on your Social Security statement include anticipated future earnings if you have worked in the two years prior to the statement date. So, that estimate may be off if you plan to stop working sooner than that. You can fine-tune that estimate with Social Security's Retirement Estimator, which can be found on its website at ssa.gov. You can also get a revised estimate by calling the Social Security Administration at 800-772-1213 (TTY 800-325-0778).