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Uncovering Social Security Secrets

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This course, *Uncovering Social Security Secrets*, will do just as its name implies. Little known facts and strategies used to maximize Social Security benefits will be uncovered and explored. The course must begin, however, just where Social Security began. It will take you through the annals of American history leading to the ultimate creation of the Social Security Act of 1935. Readers will be transported from the pages of the history book into the basic elements that support the Social Security program, through the many changes that have evolved, and into the world of creative strategies to maximize Social Security benefits—benefits not only for the worker, but also for the worker’s spouse, the worker’s children, grandchildren, parents, and any other dependents the worker may be responsible for.

An unfortunate fact is that most individuals are unaware of the basic benefits Social Security provides, and that lack of knowledge can lead to hasty decisions. Hasty decisions can leave so many benefits untapped—untapped income that can negatively affect a family’s quality of life as they near or are in their retirement years. This course is all-encompassing as it explains the details of every benefit Social Security provides.

Taking Social Security benefits is no longer a one-person decision. The program has been expanded to include spousal benefits, divorced spouses benefits, and dependent benefits, all within the arena of retirement, disability, and survivors benefits.

Many are operating under the misconception that the Social Security program is insolvent and there will not be anything for them in the long run, so they should start their benefits early so at least they can get “some” before it runs out and the system goes bankrupt. This belief can lead some to make a life-altering mistake.

More and more seniors are turning to their financial advisors to help them sort through the available options when planning retirement. Many have financial portfolios that need to be considered in conjunction with their Social Security benefits. But the fact remains that the Social Security program today remains a major source of income for most seniors.
Readers of this course will learn the complex calculations of benefits at any age and for any marital status and will become knowledgeable in the many strategies involved with savvy retirement planning, such as earning “delayed retirement credits,” and the filing strategies of “file and suspend” and filing a “restricted application.”

**Note:** The file and suspend method has been repealed with the passage of the Bipartisan Budget Act of 2015, but is explained in abbreviated fashion as there are grandfathering rules that apply.

If the reader is planning his or her own retirement, this course will enable them to understand what benefits are available to them and show them how they can plan their own strategies to maximize their benefits. If the reader is an advisor, this course will enable them to understand the many options available to their clients—as well as to their clients’ eligible family members.
CHAPTER 1

WHAT IS SOCIAL SECURITY?

THE BASICS

Everyone knows something about Social Security, but very few are familiar with all of the benefits that the program provides. And even fewer know just how to maximize those benefits through the use of some creative and innovative strategies.

Social Security is a financial vehicle that can be utilized to deliver income for the rest of an eligible individual’s life. No matter how long a person may live—they will never outlive the income that Social Security provides. Very few vehicles today can make that promise.

The Social Security program offers protection through several different income venues—not only for the retiree, but also for the retiree’s spouse, the retiree’s children (including adopted children, stepchildren, grandchildren, and step-grandchildren), and even the retiree’s parents. How and when these benefits are claimed can make a huge difference in the quality of life for many beneficiaries and their families.

This course will take you, the reader, from the very basics of the Social Security program through the intricacies of intertwining retirement benefits for individuals as well as couples, to disability benefits, to health care programs for seniors, and on through to long-term care options.

In this beginning chapter, we will investigate the very basic elements of the Social Security program. Each subject will be elaborated on as you progress through the material.

- How and when did the Social Security program come to fruition?
- What changes have been made since the program’s inception (i.e., spouses benefits, disability benefits, and survivors benefits)?
What is the underlying funding of the program (i.e., FICA and Social Security Trust Funds)?

How can a beneficiary ascertain and keep abreast of the program’s details and changes regarding their individual retirement accounts (i.e., mySocialSecurity online account)?

How are benefits estimated and calculated (i.e., AWI, AIMEs, PIAs and DRCs)?

What retirement benefits are available for the retiree, as well as the retiree’s eligible family members?

What survivors benefits are available for the deceased’s spouse, the deceased’s children, and other dependent family members?

What disability benefits are available for the disabled beneficiary and the disabled beneficiary’s family members?

What coverage does Medicare provide and how are those benefits accessed?

What is Medicaid coverage and who is eligible?

Does Medicare and/or Medicaid provide coverage for long-term health care? What other options are available for long-term care?

**Precursors to the Social Security Program**

It is a little known fact that there have been several precursory programs implemented throughout history that led to the eventual creation of the Social Security Act as we know it today. In fact, there have been many attempts at providing assistance for the retired and the disabled and their families, dating as far back as the “English Poor Law” of 1601.

The major precursor, however, was implemented directly following the American Civil War. That program is historically referred to as America’s first “Social Security” program. Following the Civil War, there were hundreds of thousands of widows and orphans, and hundreds of thousands of disabled veterans. In fact, immediately following the Civil War a much higher proportion of the population was disabled (or survivors of deceased breadwinners) than at any other time in America’s history. The aftermath of the Civil War led to the development of a generous pension program with interesting similarities to later developments in our current Social Security program.
Despite the fact that since 1862 America has had a “social security” program in the form of Civil War pensions, benefits were never extended to society as a whole until much later. President Franklin Delano Roosevelt set out to rectify that situation when he came into office in 1932. The President introduced a “social insurance” program to address “economic security for the elderly.”

The proposal created the work-related, contributory system we know today—a system in which workers provide for their own future economic security through payroll tax deductions. Thus through further movement and improvement, the implementation of the Social Security Act of 1935 changed history.

**THE SOCIAL SECURITY ACT OF 1935**

The U.S. Government originally enacted the Social Security Act amidst the worst crisis in America’s modern history—the Great Depression of the 1930’s. President Roosevelt signed the Social Security Act into law on August 14, 1935.

The Act’s original purpose was to provide for the financial welfare of the aged, (just as its precursor provided for the financial welfare of the military) as those individuals reached their retirement years.

Payroll taxes were collected for the first time in January 1937 and the first one-time, lump-sum payments were made in that very same month. A Cleveland motorman named Ernest Ackerman retired the day after the Social Security program began. During his one day of participation in the program, a contributory nickel was withheld from Mr. Ackerman’s pay. Upon retiring in January 1937, he received a payment of 17 cents. This was a one-time, lump-sum payout, which was the only form of benefits paid during the start-up period, January 1937 through December 1939. The average lump-sum payment during this period was $58.06. The smallest payment ever made was for five cents. The regular ongoing monthly benefits that we are accustomed to didn’t start until January 1940.

The first recipient of these monthly Social Security benefits was a lady named Ida May Fuller from Ludlow, Vermont. Her first check was issued on January 31, 1940 in the amount of $22.54. Miss Fuller was a legal secretary who retired in November of 1939. She began collecting benefits in January 1940 at the age of 65 and lived to be 100 years old, dying in 1975. Ida May Fuller worked for three years under the Social Security program and she paid a total of $24.75 into the system. During her lifetime she collected a total of $22,888.92 in Social Security benefits. Not a bad return on her small investment.
The Social Security program was expanded in 1939 to include spouses and children of eligible retirees, and in 1956 the program was again expanded to include disability benefits for individuals who meet the program’s qualifications.

In 1977, Congress enacted a law to gradually raise the Social Security retirement age from the original age of 65—to 66 and up to 67—depending upon the beneficiary’s year of birth. Charts will be provided later that show the varying full retirement ages depending upon birth years.

In 1983, the Social Security program was amended to include:

- New federal employee coverage;
- Coverage for all nonprofit employees;
- Benefit taxation for higher-income individuals; and
- Future retirement age increases.

The Social Security program was an innovative system from its early beginnings in regard to the fact that it is financed “by the people, for the people.” At the time of inception, there were approximately 40 workers for every retiree receiving benefits. Today there are 2.8 workers contributing for every retiree (statistics vary according to the source, but remain within the two to three range). Even though the Baby Boomer generation has been called the largest generation ever they, overall, did not contribute as much to the general population growth as did other generations, having relatively fewer children than in past generations. And they are reaching their retirement years in unprecedented numbers. It is estimated that there will only be two to three workers for each senior as this generation retires.

The Social Security program today remains a major source of income for retirees, with nine out of ten individuals age 65 and older receiving benefits, ultimately representing approximately 39 percent of income for the elderly. During fiscal year 2014, the Administration paid out more than $893 billion to an average of approximately 64 million beneficiaries each month.¹

The Social Security Administration estimates that among senior Social Security beneficiaries, 53 percent of married couples and 74 percent of unmarried individuals receive 50 percent or more of their income from Social Security. Additionally, 23 percent of married couples and approximately 46 percent of unmarried individuals rely on Social Security for 90 percent or more of their income. That is a heavy burden for a program that was originally intended to be a supplement to retirement income.

¹ SSA Annual Performance Report 2014-2016
Following are the Social Security Administration’s Monthly Statistical Snapshots as of February 2016 (released March 2016).

Table 1.1 — Number of people receiving Social Security, SSI, or both (in thousands)

<table>
<thead>
<tr>
<th>TYPE OF BENEFICIARY</th>
<th>TOTAL</th>
<th>SOCIAL SECURITY ONLY</th>
<th>SSI ONLY</th>
<th>BOTH SOCIAL SECURITY AND SSI</th>
</tr>
</thead>
<tbody>
<tr>
<td>All beneficiaries</td>
<td>65,377</td>
<td>57,026</td>
<td>5,588</td>
<td>2,763</td>
</tr>
<tr>
<td>Aged 65 or older</td>
<td>44,353</td>
<td>42,184</td>
<td>965</td>
<td>1,204</td>
</tr>
<tr>
<td>Disabled under age 65</td>
<td>14,213</td>
<td>8,030</td>
<td>4,623</td>
<td>1,559</td>
</tr>
<tr>
<td>Other*</td>
<td>6,811</td>
<td>6,811</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

*Social Security beneficiaries who are neither aged nor disabled (e.g., early retirees, young survivors)

Illustration 1.1*

Table 1.2 — Social Security benefits

<table>
<thead>
<tr>
<th>TYPE OF BENEFICIARY</th>
<th>BENEFICIARIES NUMBER¹</th>
<th>PERCENT</th>
<th>TOTAL MONTHLY BENEFITS²</th>
<th>AVERAGE MONTHLY BENEFIT³</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td>60,200</td>
<td>100.0</td>
<td>74,088</td>
<td>1,230.70</td>
</tr>
<tr>
<td>Old-Age &amp; Survivors Insurance</td>
<td>49,406</td>
<td>82.1</td>
<td>63,053</td>
<td>1,276.23</td>
</tr>
<tr>
<td>• Retirement benefits</td>
<td>43,341</td>
<td>72.0</td>
<td>56,299</td>
<td>1,298.98</td>
</tr>
<tr>
<td>• Retired workers</td>
<td>40,339</td>
<td>67.0</td>
<td>54,244</td>
<td>1,344.70</td>
</tr>
<tr>
<td>• Spouses of retired workers</td>
<td>2,343</td>
<td>3.9</td>
<td>1,625</td>
<td>$693.64</td>
</tr>
<tr>
<td>• Children of retired workers</td>
<td>659</td>
<td>1.1</td>
<td>430</td>
<td>$652.77</td>
</tr>
<tr>
<td>Survivor benefits</td>
<td>6,065</td>
<td>10.1</td>
<td>6,754</td>
<td>1,113.60</td>
</tr>
<tr>
<td>• Children of deceased workers</td>
<td>1,911</td>
<td>3.2</td>
<td>1,594</td>
<td>$834.14</td>
</tr>
<tr>
<td>• Widowed mothers and fathers</td>
<td>130</td>
<td>0.2</td>
<td>121</td>
<td>$928.71</td>
</tr>
<tr>
<td>• Nondisabled widow(er)s</td>
<td>3,764</td>
<td>6.3</td>
<td>4,852</td>
<td>1,289.11</td>
</tr>
<tr>
<td>• Disabled widow(er)s</td>
<td>259</td>
<td>0.4</td>
<td>186</td>
<td>$718.31</td>
</tr>
<tr>
<td>• Parents of deceased workers</td>
<td>1</td>
<td>&lt;0.05</td>
<td>1</td>
<td>1,140.64</td>
</tr>
<tr>
<td>Disability Insurance</td>
<td>10,794</td>
<td>17.9</td>
<td>11,035</td>
<td>1,022.34</td>
</tr>
<tr>
<td>• Disabled workers</td>
<td>8,897</td>
<td>14.8</td>
<td>10,372</td>
<td>1,165.83</td>
</tr>
<tr>
<td>• Spouses of disabled workers</td>
<td>139</td>
<td>0.2</td>
<td>44</td>
<td>319.47</td>
</tr>
<tr>
<td>• Children of disabled workers</td>
<td>1,758</td>
<td>2.9</td>
<td>619</td>
<td>351.99</td>
</tr>
</tbody>
</table>

Illustration 1.2²

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¹(thousands) ²(millions of dollars) ³(dollars)

² SSA, Master Beneficiary Record and Supplemental Security Record, 100 percent data
Table 1.3 — Social Security income recipients

<table>
<thead>
<tr>
<th>AGE</th>
<th>RECIPIENTS</th>
<th>TOTAL PAYMENTS</th>
<th>AVERAGE MONTHLY PAYMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>All recipients</td>
<td>8,351</td>
<td>4,770</td>
<td>539.11</td>
</tr>
<tr>
<td>• Under 18</td>
<td>1,268</td>
<td>858</td>
<td>642.47</td>
</tr>
<tr>
<td>• 18-64</td>
<td>4,914</td>
<td>2,968</td>
<td>559.04</td>
</tr>
<tr>
<td>• 65 or older</td>
<td>2,169</td>
<td>943</td>
<td>433.59</td>
</tr>
</tbody>
</table>

Illustration 1.3

When the Social Security program was first developed, it was estimated that a 65-year old man could expect to spend about 13 years in retirement—16 percent of their lifetime. Women of the same age averaged 15 years—or 18 percent of their lifetime—in retirement. Today, an eligible male retiree born in 1942 will spend 19 to 25 percent of his life collecting Social Security benefits, depending on whether he retired at his full retirement age or chose early retirement. An eligible woman born in the same year will collect benefits for 21 to 27 percent of her life. All Americans are living longer and that is a contributing factor to what some people refer to as Social Security depletion.

It is estimated that, in general, retired workers and their dependents account for 70 percent of total Social Security benefits paid—and that’s just retirement benefits—not counting the benefits for millions of disabled workers and their dependents, and surviving dependents of deceased workers.

Like death, no person wants to think about it happening to him or herself. However, statistics show that approximately one in four of today’s 20-year-olds will become disabled before reaching the age of 67.

Not all working individuals qualify for Social Security benefits, however. Individuals who have not paid into the Social Security program through their payroll taxes are not covered. Individuals who do not qualify for Social Security benefits include:

• Most federal employees who were hired before 1984 who are covered by Civil Service Retirement or another similar pension plan;

---

3 SSA, Master Beneficiary Record, 100 percent data
4 SSA, Supplemental Security Record, 100 percent data
• Approximately 25 percent of state and local government employees who are covered by a state pension program and who have elected not to participate under the Social Security program; and

• Railroad workers who are covered under a separate federal program—the Railroad Retirement System.

**FEDERAL INSURANCE CONTRIBUTIONS ACT (FICA)**

The Social Security program is funded through the Federal Insurance Contributions Act—or FICA as it is commonly known. FICA taxes are withheld through each worker’s payroll. A portion of each worker’s wages up to a certain limit, called the **taxable wage base** (or earnings base), are “contributed” (hence the name, Federal Insurance Contributions Act) to Social Security through FICA taxes. Employers and employees alike contribute 6.2 percent each on wages up to the employee’s maximum taxable limit. Since self-employed individuals are considered employers as well as employees, their contribution amounts to 12.4 percent (6.2 percent multiplied by two). Though that may not sound fair at first, self-employed individuals are compensated by being able to deduct half of that amount on their personal taxes.

The 2016 maximum taxable limit is $118,500 (the same as in 2015. The following table (*Illustration 1.4*) shows how the taxable wage base has increased through the years and through which periods it remained unchanged.
The same annual limit, also called the “contribution and benefit base,” applies when those earnings are used to calculate benefits. The limit changes each year with changes in the national average wage index (AWI).

FICA taxes provide funding in two ways for two separate benefits under the Social Security program:

1. **Social Security Benefits** (Old Age, Survivor and Disability, commonly known as OASDI) — Provides contributions at the rate of 6.2 percent; and

2. **Medicare Benefits** — Provides contributions at the rate of 1.45 percent.

The OASDI tax rate for wages paid in 2016 is set by statute at 6.2 percent for employees and employers, each. Thus, an individual with wages equal to or larger than $118,500 would contribute $7,347 to the OASDI program (in 2016), and his or her employer would contribute the same amount for a total contribution of $14,694.
Unlike OASDI contributions, there is no cap on Medicare contributions. Since there is no cap on Medicare contributions, no matter how much money a participant makes their entire earnings are subject to the 1.45 percent Medicare contribution. And, no matter how much money they make, no more than $118,500 is subject to the 6.2 percent OASDI contribution. Following are two examples of how benefit contributions are calculated.

1) Ray earned $150,000 in 2016. How would FICA taxes be computed on his earnings?
   Medicare Contribution: 1.45 percent of $150,000 equals $2,175
   \[150,000 \times 0.0145 = 2,175\]
   OASDI Contribution: 6.2 percent of $118,500 equals $7,347.00
   \[118,500 \times 0.0620 = 7,374\]
   **Ray’s total contribution amounts to** $9,522.00

2) Ray’s wife, Sally, earned $175,000 in 2016. How would FICA taxes be computed on her earnings?
   Medicare Contribution: 1.45 percent of $175,000 equals $2,537.50
   \[175,000 \times 0.0145 = 2,537.5\]
   OASDI Contribution: 6.2 percent of $118,500 equals $7,347.00
   \[118,500 \times 0.0620 = 7,347\]
   **Sally’s total contribution amounts to** $9,884.50

**Additional Medicare Tax** went into effect in 2013 and applies to wages, compensation, and self-employment income above a threshold amount received in taxable years beginning after December 31, 2012. An individual is liable for Additional Medicare Tax if the individual’s wages, compensation, or self-employment income (together with that of his or her spouse if filing a joint return) exceed the threshold amount for the individual’s filing status as detailed in Illustration 1.5 below. All wages that are currently subject to Medicare tax are subject to Additional Medicare Tax if they are paid in excess of the applicable threshold for an individual’s filing status.
Social Security credits are earned when an individual works and pays Social Security taxes. Credits are based on earnings. Usually, the amount a person must earn to get credits goes up slightly each year as average earnings levels rise. Earned credits through the Social Security program count toward retirement benefits. The same credits qualify individuals and their family members for disability and survivors benefits.

In addition to retirement, disability and survivors benefits, when a participant pays Medicare taxes through FICA, they are earning Medicare protection that becomes available at age 65—or sooner in the case of disability.

Social Security’s overall benefit package includes all of the following.

- **Retirement Benefits** — Paid each month to retired workers as early as age 62 through the rest of the beneficiary's life.
- **Disability Benefits** — Paid each month to workers of all ages who have a severe disability. (In some cases, a young worker may qualify for a disability benefit with as little as one and one-half years of work.)
- **Family Benefits** — Paid each month to the spouse and children of retired or disabled workers. (In some cases, parents may also qualify.)
- **Survivors Benefits** — Paid each month to the widow or widower and children of a deceased worker. (In some cases, the family of a young deceased worker can receive these benefits even if the worker had as few as one and one-half years of work – and, in some cases, parents may also qualify.)
- **Medicare** — Helps with hospital bills and provides limited coverage for skilled nursing facility stays and hospice care. Medicare can also cover doctors’ services and some prescription drugs.
**SELF-EMPLOYED INDIVIDUALS**

If an individual works for an employer, both they and their employer each pay a 6.2 percent Social Security tax on up to $118,500 of their earnings and a 1.45 percent Medicare tax on all earnings. If the individual is self-employed, however, they must pay the combined employee and employer amount, which is a 12.4 percent Social Security tax on up to $118,500 of their net earnings and a 2.9 percent Medicare tax on their entire net earnings. If their earned income is more than $200,000 (or whichever threshold applies from *Illustration 1.5* above) they must pay 0.9 percent more in Medicare taxes.

There are two income tax deductions that can reduce their taxes, however. First, the net earnings from self-employment are reduced by half the amount of their total Social Security tax. (The employer’s share of the tax is not considered wages to the employee and is, therefore, deductible.) Second, they can deduct half of their Social Security tax on Form 1040. The deduction must be taken from their gross income in determining the adjusted gross income.

Though a large part of Social Security funding is obtained through payroll contributions, payroll contributions cannot fund this extensive program entirely.

**SOCIAL SECURITY TRUST FUNDS**

Additional funds are provided through revenue generated through Social Security Trust Funds, which are managed by the U.S. Department of the Treasury. Monies are collected through payroll taxes, taxes on pension and disability benefits, and interest earnings. Nearly all of the tax monies collected go directly toward the payment of benefits. Less than one cent of each dollar collected is allocated for management of the Social Security program itself.

There are two separate Social Security Trust Funds:

1. The Old Age and Survivors Insurance (OASI) Trust Fund, which pays retirement and survivors benefits; and
2. The Disability Insurance (DI) Trust Fund, which pays disability benefits.
The trusts serve two purposes:

1. They provide an accounting mechanism for tracking all income to, and disbursements from, the trust funds; and
2. They hold all accumulated assets.

A Board of Trustees oversees the financial operations of the Social Security Trust Funds. The Board reports annually to the United States Congress on the financial status of the trust funds.

Any monies that are not used for trust fund benefits and administrative costs in any given year are invested in U.S.-backed treasury bonds. The bonds are only redeemed when they are needed for payout or when they reach maturity.

United States law requires that the income to the trust funds be invested on a daily basis in securities guaranteed as to both principal and interest by the federal government. All securities held by the trust funds are “special issues” of the U.S. Treasury and are available only to the trust funds.

Money flowing into the trust funds is invested in U.S. Government securities. Because the government spends this borrowed cash, some people see the trust fund assets as an accumulation of securities that the government will be unable to make good on in the future. Without legislation to restore long-range solvency of the trust funds, some experts believe that redemption of long-term securities prior to maturity would be necessary.

Far from being “worthless IOUs” as some have reported, the investments held by the trust funds are backed by the full faith and credit of the U.S. Government. The government has always repaid Social Security, with interest. The Social Security Administration states that these special-issue securities are therefore just as safe as U.S. Savings Bonds or other financial instruments of the federal government. However, everyone agrees that reform must take place sooner rather than later.

According to the Board of Trustees’ Summary of the 2013 Annual Reports:

“Neither Medicare nor Social Security can sustain projected long-run programs in full under currently scheduled financing, and legislative changes are necessary to avoid disruptive consequences for beneficiaries and taxpayers.”
The Summary ends with:

“The sooner action is taken to address the long-run financial imbalances, the more reform options will be available, and the more time there will be to phase in changes so that those affected will have adequate time to prepare.”

Not much has changed from the 2013 report. The 2015 Annual Reports Summary reiterated:

“Social Security’s total expenditures have exceeded non-interest income of its combined trust funds since 2010, and the Trustees estimate that Social Security cost will exceed non-interest income throughout the 75-year projection period. The Trustees project that this annual cash-flow deficit will average about $76 billion between 2015 and 2018 before rising steeply as income growth slows to its sustainable trend rate after the economic recovery is complete while the number of beneficiaries continues to grow at a substantially faster rate than the number of covered workers.”

The 2015 Summary concludes with the following warning:

“Lawmakers should address the financial challenges facing Social Security and Medicare as soon as possible. Taking action sooner rather than later will permit consideration of a broader range of solutions and provide more time to phase in changes so that the public has adequate time to prepare.”

Many options are being considered to restore long-range trust fund solvency. Options are being considered now, well in advance of the year the funds are likely to be exhausted. It is thus likely that legislation will be enacted to restore long-term solvency, making it unlikely that the trust funds’ securities will need to be redeemed on a large scale prior to maturity.

The assets of the larger of the two trust funds (OASI), from which retirement benefits are paid, were nearly depleted in 1982. No beneficiary was shortchanged though because Congress enacted temporary emergency legislation that permitted borrowing from other federal trust funds and then later enacted legislation to strengthen OASI Trust Fund financing. The borrowed amounts were repaid with interest within four years.

Speculation is looming as to whether the Social Security Trust Funds will remain solvent. Some experts report that without reform the funds will be depleted within the next 20 years. Other experts estimate that the funds could remain intact for another 50 years with slight changes. The Social Security Administration reports that by 2033, the payroll taxes collected will be enough to pay only about 77 cents for each dollar of scheduled benefits. The future of Social Security reform is uncertain in this regard,
but experts agree that future reform will allow the Social Security program to remain solvent for the long haul.

Some of the more frequently mentioned options for policy reform include:

• Raising the Full Retirement Age;
• Begin longevity indexing;
• Recalculate the COLA;
• Increase the payroll tax cap;
• Eliminate the payroll tax cap;
• Reduce benefits for higher earners;
• Increase the payroll tax rate;
• Tax all salary reduction plans;
• Cover all newly hired state and local government workers; and
• Increase the number of years used to calculate initial benefits.

Discussions on options for reforming Social Security are ongoing with no decisions made to date. Therefore, knowledge of what benefits are available now and key strategies to access those benefits to the ultimate degree is paramount in retirement planning for all participants.

ORGANIZATIONAL STRUCTURE OF THE SOCIAL SECURITY ADMINISTRATION

The Social Security Administration is headed by a Commissioner and has a staff of almost 66,000 employees. The Administration’s central office is located in Baltimore, Maryland. The current organization is comprised of over 80,000 federal and state employees. The Administration delivers services through a nationwide network of 1,500 offices that include regional offices, field offices (including Social Security card centers), teleservice centers, processing centers, hearing offices (including satellite offices and national hearing centers), the Appeals Council, and the headquarters in Baltimore. The Social Security Administration also maintains a presence in several United States embassies throughout the world.

The Social Security Administration is headed by the Commissioner, the Deputy Commissioner, the Chief of Staff, and the Deputy Chief of Staff.
The vast majority of the Administration’s employees serve the public directly or provide support to employees who do.

**ETHICAL COMMITMENT**

Acting Commissioner Carolyn W. Colvin laid out the highlights of the Administration’s FY 2014 performance, which includes the following.

- Initiated development of a long-range vision to meet the needs of our future customers and provide them with service options that accommodate their changing needs and expectations.

- Continued to improve and expand service delivery options for customers to conduct business face-to-face, by phone, through video interviews, or online, which allowed us to:
  - Service about 40 million visitors and handle approximately 21 million calls in our field offices;
  - Handle more than 37 million calls through our National 800 Number; and
  - Process more than 70 million online transactions.

- Continued our aggressive program integrity and fraud prevention efforts, including:
  - Completed more than 525,000 full medical continuing disability reviews;
  - Expanded our Cooperative Disability Investigation by opening units in Baltimore and Detroit, and establishing special fraud investigations unit in New York, Kansas City and San Francisco; and
  - Prevented online theft of more than 4,700 benefit payments totaling more than $5.6 million.

- Worked diligently to deliver quality disability decisions, including:
  - Completed nearly 2,862,000 claims for disability benefits; and
  - Completed nearly 681,000 hearing dispositions.

**CONFIDENTIALITY**

Confidentiality and high ethical standards are paramount in the Social Security Administration to protect all beneficiaries and their information. Beneficiary information is considered sensitive data and receives a high degree of protection. All
employees and users of Social Security Administration sensitive data are required to sign a Social Security Administration Confidentiality Statement, the purpose of which is for all users of Social Security sensitive data to certify that they understand the Administration’s security, confidentiality and ethics requirements. Among other specific confidential requirements, signature on the Confidentiality Statement means that the signee:

- Will only work with Social Security Administration data at the designated centralized secure Social Security Administration site;
- Will not remotely connect to Social Security Administration data from any alternate work location or from the user’s home;
- Will not transport Social Security Administration data to any other location;
- Agrees to keep confidential any third-party proprietary information; and
- Understands that disclosure of any information to parties not authorized by the Social Security Administration may lead to civil or criminal prosecution under federal law and/or regulations.

**ETHICS TRAINING PROGRAMS**

Essentially, ethics programs in the workplace are designed to effectively enable employees to address ethical issues that arise while in the workplace. Social Security Administration employees are encouraged to attend in-house educational courses—many of these courses are specifically geared toward ethics and ethical behavior. Many courses offered by the Social Security Administration for its employees are grounded in ethical philosophies—courses such as:

- Adverse and Performance-based Actions;
- Alternative Dispute Resolution;
- Avoiding Harassment Claims;
- Avoiding the Pitfalls of Discrimination;
- Business Ethics;
- Conflict Across Cultures;
- Correcting Employee Performance and Conduct;
- Culture and Behavior;
- Effective Communication with Customers;
- Employment Civil Rights;
• Keeping Your Company out of Legal Trouble;
• Managing the Risks of Litigation;
• Mediating Employee Disputes;
• Mentoring Skills; and
• Preventing Sexual Harassment in the Workplace.

The implementation of ethics training provides employees with the tools needed to avoid ethical dilemmas. Should such a dilemma present itself, the trained employee will have the knowledge and resources needed to work through the conflict.

As the public serviced continues to increase and becomes significantly more diverse, the Administration strides to ensure that its employees have the tools to work effectively with people of all age groups, educational levels, and cultural backgrounds.

**ACTING COMMISSIONER’S MESSAGE**

Commissioner Colvin’s “Acting Commissioner’s Message” from the Social Security Administration Annual Performance Report, 2014-2016 stated:

“It is imperative that we maintain our momentum in positioning our agency for future success. Over the next two years, we will increase our efforts to attract, train, and retain employees who can best serve the public. We will also continue to invest in and leverage technology to meet the changing needs of our customers. We are dedicated to being good stewards, providing the American taxpayer the maximum value of the resources entrusted to us. In partnership with our stakeholders, we will take every available measure to prevent waste, fraud, and abuse from happening and to prosecute those responsible when it does.”

**SOCIAL SECURITY ADMINISTRATION ANNUAL PERFORMANCE REPORT**

One of the keys to creating a successful ethics-oriented workplace is establishing goals and implementing procedures to achieve those goals. The Social Security Administration takes the initiative outlining strategic goals and reporting annually on progress and results. In this section, we will examine the 2014-2016 Annual Performance Report.
SOCIAL SECURITY ADMINISTRATION VALUES

Our Mission — Deliver Social Security services that meet the changing needs of the public.

Our Vision — Provide the highest standard of considerate and thoughtful service for generations to come.

Our Motto — Social Security Benefits America

Our Service Principles — We serve with empathy, creativity, integrity, and “an unbeatable determination to do the job at hand” by following these service principles.

• Adherence to the law
• Clarity
• Commitment to best demonstrated practices
• Cultural sensitivity
• Honesty
• Prevention of waste, fraud, and abuse
• Protection of privacy and personal information
• Recruitment and training of the best public servants
• Safety of the public and our employees

In order to measure achievement of the Strategic Goals set forth, the Administration routinely conducts a variety of studies and surveys. The compilation of the retrieved data allows the Administration to evaluate the effectiveness of its programs. As the organization continues to build on its collection of program data, research, and analysis, it is more accurately able to identify program strengths and weaknesses.

SUMMARY OF GOALS AND OBJECTIVES

Strategic Goal 1 — Deliver Innovative, Quality Services

• Develop and increase the use of self-service options
• Enhance the customer experience by completing customers’ business at the first point of contact
• Partner with other agencies and organizations to improve customers’ experience and align with the Administration’s One-Government Approach
• Evaluate our physical footprint to incorporate improved service options

Strategic Goal 2 — Strengthen the Integrity of Our Programs
• Transform the way we record earnings to enhance data accuracy
• Protect the public’s data and provide secure online services
• Increase payment accuracy

Strategic Goal 3 — Serve the Public through a Stronger, more Responsive Disability Program
• Improve the quality, consistency, and timeliness of our disability decisions
• Maximize efficiencies throughout the disability program
• Enhance employment support programs and create new opportunities for returning beneficiaries to work

Strategic Goal 4 — Build a Model Workforce to Deliver Quality Service
• Attract and acquire a talented and diverse workforce that reflects the public we serve
• Strengthen the competency, agility, and performance of our workforce to align with the needs of the public
• Foster an inclusive culture that promotes employee well-being, innovation, and engagement
• Enhance planning and alignment of human resources to address current and future public service needs

Strategic Goal 5 — Ensure Reliable, Secure, and Efficient Information Technology Services
• Maintain system performance and the continuity of information technology services
• Enhance and execute plans to modernize our systems
• Incorporate innovative advances in service delivery
• Continuously strengthen our cyber security program
**AGENCY PRIORITY GOALS**

In support of the Government Performance and Results Modernization Act of 2010, the Administration established four Agency Priority Goals (APG). The APGs are 24-month goals, scheduled for completion by the end of fiscal year (FY) 2015. The following goals were established in FY 2014.

- Improve access to our services by increasing the number of citizens who complete their business with us online
- Deliver a world-class customer experience by expanding the use of video technology to hold hearings
- Provide the public with access to personalized information by increasing the number of established mySocialSecurity accounts.
- Reduce the percentage of improper payments made under the Supplemental Security Income (SSI) program

**MEMBERS OF CONGRESS — ARE THEY EXEMPT FROM SOCIAL SECURITY PROGRAM PARTICIPATION?**

It has long been rumored that members of Congress do not have to pay into the Social Security program. This rumor is untrue.

All members of Congress, the President and Vice President, federal judges, and most political appointees, were covered under the Social Security program starting in January 1984. They pay into the system just like everyone else does. Thus all members of Congress, no matter how long they have been in office, have been paying into the Social Security system since January 1984.

Prior to this time, most federal government workers and officials were participants in the Civil Service Retirement System (CSRS), which came into being in 1920—fifteen years before the Social Security system was formed. For this reason, historically, federal employees were not participants in the Social Security system.

Employees of the three branches of the federal government were also covered beginning in January 1984, under the 1983 law, but with some special transition rules.
• Executive and judicial branch employees hired before January 1, 1984 were given a one-time irrevocable choice of whether to switch to Social Security or stay under the old CSRS. Rehired employees (other than rehired annuitants) are treated like new employees if their break in service was more than a year.

• Employees of the legislative branch who were not participating in the CSRS system were mandatorily covered, regardless of when their service began. Those who were in the CSRS system were given the same one-time choice as employees in the executive and judicial branches.

• All federal employees hired on or after January 1, 1984 are mandatorily covered under Social Security—the CSRS system is no longer an option for them.

In summary there are still some federal employees who are not participants in the Social Security system—those first hired prior to January 1984. All other federal government employees participate in Social Security like everyone else.

SOCIAL SECURITY STATEMENT AND mySOCIALSECURITY ONLINE ACCOUNT

How much a family can receive in benefits from Social Security depends upon the contributor’s average lifetime earnings. That means, in general, the more the participant has earned, the more their benefits will be. In the past, every eligible worker would receive a Social Security Statement through the U.S. mail on an annual basis. Beneficiaries could check their statement to get an overview of their estimated retirement benefits. Statements are no longer delivered through the mail to every participant, but are available now online. Participants can create a mySocialSecurity online account, which allows review of pertinent information contained on the statement.

Note: The Social Security Statement shows beginning benefit amounts at differing ages in “today’s dollars,” while almost all financial planning is done in “future dollars.”

If a participant is not yet receiving Social Security benefits, by utilizing the mySocialSecurity online account they can review:

• Estimates of their retirement, disability, and survivors benefits;

• Their earnings record; and

• The estimated Social Security and Medicare taxes they have paid.
If beneficiaries are currently receiving Social Security benefits or if they are currently enrolled in Medicare, with a mySocialSecurity online account they can:

- Get their benefit verification letter;
- Check their benefit and payment information and their earnings records;
- Change their address and phone number; and
- Start or change direct deposit of their benefits.

Registrants must be age 18 years of age or older, have a Social Security number, and have valid email and U.S. mail addresses to create a mySocialSecurity online account. To create an account with Social Security, go to www.socialsecurity.gov/myaccount.

Registrants will be asked to provide some personal information and answer some questions that only they are likely to know the answers to. Once a username and password has been created, they can sign in at anytime for access to their own personal information.

Since we are in the age of identity theft and fraud, the Administration has instituted a new identity verification process to protect the privacy of registrant identity and Social Security Statement information. The new process will:

- Issue a single User ID (Username and Password);
- Offer extra security if the registrant so chooses (optional); and
- Comply with federal laws, regulations, and guidelines.

Registrants will be required to supply the following personal information:

- Name;
- Social Security number;
- Date of birth;
- Residential address;
- Phone number; and
- Email address.

If the registrant opts for the additional security when creating their account online, Social Security has instituted a new series of in-depth questions. (Registrants can upgrade to extra security or opt out at any time.)
First, in addition to providing a username and password, registrants will be sent a
unique code via text to their cell phone. (Cell phone text message rates will apply.)
They will have to enter this unique code every time they log in.

When an account is originally created, the user will be asked if they want to add the
extra security measures. The following message will appear.

“You may add an extra level of security to your account by receiving a text
message on your cell phone each time you sign in. Would you like to add this
extra security feature?”

Two obvious answer options are presented to choose from:

1. **Yes, let’s start now**; or
2. **No, maybe later**.

Second, new registrants will be required to provide additional information that will be
used to further verify their identity. Once they have provided the requested additional
information, they will receive a letter via U.S. mail within five to ten business days,
which will confirm their original answers. This letter will also contain certain
information that will be required to complete the process.

After the original registration when the person next logs in, they will be required to
provide at least one of the following items to verify their identity:

- The last eight digits of their Visa, MasterCard, or Discover credit card;
- Information from their W2 tax form;
- Information from a 1040 Schedule SE (self-employment) tax form; or
- Their direct deposit amount, if they are presently receiving Social Security
  benefits.

The Social Security Administration has also created a new identification alert on their
website for individuals who log into their *mySocialSecurity* account – giving users an
additional security benefit.

When registrants log in and are asked to supply personal information, they will notice
a green address bar that appears at the top of their computer screen. The green
address bar indicates the website has an extended validation certificate. This means
the information they provide to Social Security will be encrypted and the owner of the
website has been verified by a certification authority. Extended validation certificates
and their green address bar indicators provide assurance that the website they are
using is legitimate and safe, and is not a phishing site used to capture a person’s
personal information. *(Phishing* is a scam by which an email user is duped into revealing personal or confidential information which the scammer can use illicitly.)*

Anytime users log into the Social Security website, they should look for the green address bar before entering any personal information.

Any unauthorized use of the account is considered a misrepresentation of identity according to the federal government and the guilty party could be subject to criminal or civil penalties, or both.

**HOW BENEFITS ARE ESTIMATED**

When estimating a beneficiary’s benefit amount, the Social Security Administration uses the average earnings accumulated over their working lifetime.

The qualifying retirement benefit is called the “Primary Insurance Amount” (PIA). This is the benefit (before rounding down to the next lower whole dollar) that a person would receive if he or she elects to begin receiving retirement benefits at his or her full retirement age (also called “normal retirement age”). A beneficiary’s full retirement age can vary depending upon their birth year and birth month. At the beneficiary’s full retirement age, the benefit is neither reduced for early retirement nor increased for delayed retirement. The highest 35 years of earned income is used to calculate a beneficiary’s PIA.

The Social Security website offers several online calculators so that an individual can estimate the benefit they are or will be eligible to receive when the time comes. When using one of the Administration’s online calculators if the individual worked in the previous year, Social Security will assume that the person will continue to work and make about the same amount as what they had for their last year’s earnings (or the estimated annual future earnings if they entered information for custom scenarios).

Generally, the older a person is and the closer they are to retirement, the more accurate the retirement estimates will be. The estimates are more accurate when they are based on a longer work history with fewer uncertainties, such as earnings fluctuations and future law changes.

Though the calculators can provide estimated benefit amounts, the beneficiary’s actual benefit amount cannot be provided until the beneficiary actually applies for benefits.
The final benefit amount may differ from the original retirement estimate because:

- The beneficiary’s earnings may increase or decrease in the future;
- The beneficiary may continue to work after benefits begin (future earnings can affect benefit amounts);
- The beneficiary’s actual benefits will be adjusted for cost of living increases;
- A beneficiary’s estimated benefits are based on current law. (The law governing benefit amounts may change. Congress has made changes to the law in the past and can do so at any time);
- The beneficiary’s benefit amount may be affected by military service, railroad employment or pensions earned through work in which they did not pay Social Security taxes;
- The beneficiary’s estimated benefit does not include Medicare premiums or other amounts that may be deducted from their benefit; and/or
- The beneficiary’s estimated benefit does not include any Social Security benefit they may be eligible for on the record of a current, divorced, or deceased former spouse.

The age at which the beneficiary begins taking benefits determines how much they will receive in payments each month. The Social Security Administration’s Retirement Benefit Estimator provides three common retirement ages using a person’s earnings information. Custom estimates can also be added by changing the stop work age and future earnings amounts.

**Benefits Calculators**

The Social Security website provides several online Benefits Calculators. Any of these calculators can be used to enable individuals to estimate their monthly benefit amount based on certain criteria.

- The **Quick Calculator** — Provides a rough estimate of a person’s retirement benefit.
- The **Online Calculator** — Provides a more detailed estimate of a person’s retirement benefit.
- The **Detailed Calculator** — Provides the most accurate estimate of a person’s retirement benefit.
Each calculator is available online through the Social Security Administration’s website at www.SocialSecurity.gov.

For security purposes, there are time limits for viewing each page when using any one of the calculators. If after 25 minutes no activity is detected, users will receive a warning, but will be presented with an option to extend their time on the page. After the third warning on the page, users will be required to move to another page. If the user does not move to another page, his or her time will run out and any work that was done on that page will be lost.

When a person first registers, they are given the option of blocking access to their personal information. If they have chosen to block access, no one can see or change any information and even the user cannot use the Retirement Estimator. Upon registration, the user will be presented with the following option.

**Block Electronic Access**

“You can choose to block electronic access to your Social Security record. When you do this, no one, including you, will be able to see or change your personal information on the Internet or through the Administration’s automated telephone service. You may want to block your information if you:

- Have been the victim of domestic violence;
- Have been the victim of identity theft; or
- Have any reason you do not want your record to be available.

*If you block access to your record and then change your mind in the future, you can contact the Social Security Administration and ask to be unblocked.*

**Quick Calculator**

The **Quick Calculator** provides rough estimates of retirement benefits as well as estimated disability and survivors benefits. The estimate for disability and survivors benefits will be calculated under the assumption that the beneficiary dies or becomes disabled on the date the calculator is accessed.

The Quick Calculator can provide an estimate of what the beneficiary’s future retirement benefit amount will be at any given age. The user can enter his or her birthdate, past earnings amounts and the age at which they plan to retire, and their benefits will be calculated automatically. Users can change the retirement age with a click of a button and their retirement benefit will be recalculated.
**ONLINE CALCULATOR**

The **Online Calculator** provides a more detailed and more accurate estimate of the beneficiary’s retirement benefit as the user inputs their earnings manually. To use the Online Calculator, users must have a copy of their earnings record available because they will need to enter their covered earnings for each year. (The Online Calculator requires that the user’s browser be JavaScript-enabled.)

**DETAILED CALCULATOR**

The **Detailed Calculator** provides the most accurate estimate of a beneficiary’s retirement benefit than any of the other two calculators provide. The Detailed Calculator must be downloaded to the user’s computer, but it will provide a more precise benefit estimate. The Detailed Calculator is the most powerful of the calculators and is capable of computing any type of Social Security benefit.

**WINDFALL ELIMINATION PROVISION (WEP)**

A special online calculator containing the **Windfall Elimination Provision (WEP)** is available for those who are receiving a pension based on work that was not covered by Social Security. If an individual is subject to the WEP, their retirement benefit can be reduced in the first bend point to as little as 40 percent from the normal 90 percent rate. The WEP applies to persons who worked in a job that did not require Social Security withholding in addition to a job that was subject to withholding.

However, if the beneficiary had worked in the Social Security-covered job for a significant amount of time and the amount of earnings received there was substantial, it is possible that the reduction due to WEP could be lessened and possibly eliminated.

*For instance, if a person paid Social Security tax on 30 years of substantial earnings, the Windfall Elimination Provision does not apply to them. (More details on the WEP are provided later in the course material.)*

WEP affects the benefits of retired or disabled workers who are also receiving a pension based on work not covered by Social Security. Since dependents’ benefits are derived from the worker’s benefit, WEP affects dependents’ benefits as well. WEP does not affect benefits paid to survivors of workers who received pensions based on non-covered employment.
**Example**

A worker and spouse both claim their benefits at full retirement age. Because the worker receives a pension based on work not covered by Social Security, the benefit amount under the WEP benefit formula is $700. Based on the WEP benefit amount, the spouse’s benefit is $350 (one-half of the worker’s WEP benefit amount).

When the worker dies, the WEP reduction is removed. The surviving spouses benefit is refigured using the regular benefit formula.

The Windfall Elimination Provision does not apply if:

- The beneficiary is a federal worker who was first hired after December 31, 1983;
- The beneficiary was employed on December 31, 1983, by a nonprofit organization that did not withhold Social Security taxes from their pay at first, but then began withholding Social Security taxes from their pay;
- The beneficiary’s only pension is based on railroad employment;
- The only work the beneficiary did where they did not pay Social Security taxes was before 1957; or
- The beneficiary has 30 or more years of substantial earnings under Social Security.

The Windfall Provision does not apply to survivors benefits. However, benefits may be reduced for widows or widowers because of another provision of the law. If the beneficiary gets a relatively low pension, they are protected. The reduction in their Social Security benefit cannot be more than one-half of the amount of their pension that is based on earnings after 1956 on which they did not pay Social Security taxes.

**Government Pension Offset (GPO) Calculator**

The Government Pension Offset Calculator affects individuals who worked as federal, state or local government employees whose jobs are not covered by Social Security.

If the individual receives a pension from a federal, state or local government based on work in which they did not pay Social Security taxes, their Social Security spouse’s or widow’s (or widower’s) benefits may be reduced. The GPO reduces Social Security spouses or survivors benefits by two-thirds of the amount of the pension.
Example

Melody and Ruben had been married for 20 years. Melody retired as a schoolteacher with a monthly pension of $600. Ruben worked and paid into Social Security until he died. After Ruben’s death, Melody applied for survivors benefits, which should bring her $500 in benefits. However, the GPO causes two-thirds of Melody’s pension to be deducted from her survivors benefits (two-thirds of $600 = $400). Therefore, Melody will only receive $100 in survivors benefits. ($500 - $400 = $100)

Some individuals are exempt from the offset. Generally, Social Security benefits as a spouse, widow or widower will not be reduced if you:

- Are receiving a government pension that is not based on your earnings;
- Are a federal (including Civil Service Offset), state or local government employee whose government pension is based on a job where you were paying Social Security taxes; and:
  - you filed for and were entitled to spouse’s widow’s or widower’s benefits before April 1, 2004;
  - your last day of employment (that your pension is based on) is before July 1, 2004; or
  - you paid Social Security taxes on your earnings during the last 60 months of government service. (Under certain conditions, fewer than 60 months may be required for people whose last day of employment falls after June 30, 2004, and before March 2, 2009.)

Overview of Individual Retirement Benefits

Social Security benefits represent about 39 percent of the income of the elderly.

- Nine out of ten individuals age 65 and older receive Social Security benefits.
- Among elderly Social Security beneficiaries, 53 percent of married couples and 74 percent of unmarried persons receive 50 percent more of their income from Social Security.
- Among elderly Social Security beneficiaries, 22 percent of married couples and about 47 percent of unmarried persons rely on Social Security for 90 percent or more of their income.
By 2035, the number of older Americans will increase to 79 million. There are currently 2.8 workers for each Social Security beneficiary—by 2035, there will be 2.1 workers for each beneficiary.

Retired workers and auxiliary beneficiaries receive payments for their benefits from the Old Age and Survivors Insurance Trust Fund (OASI). In 2015, over 59 million Americans received nearly $870 billion in Social Security benefits.

<table>
<thead>
<tr>
<th>JUNE 2015 BENEFICIARY DATA</th>
<th>BENEFICIARIES¹</th>
<th>BENEFIT TOTAL²</th>
<th>AVERAGE MONTHLY BENEFIT</th>
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<tr>
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<tr>
<td>Survivors</td>
<td>6.1</td>
<td>6.7</td>
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¹(million), ²($ billion)

Nine out of ten individuals age 65 and older receive Social Security benefits. In fact, Social Security benefits represent about 39 percent of the income of the elderly. The Administration reports that an estimated 165 million workers are covered under Social Security. 51 percent of the workforce has no private pension coverage, and 34 percent have no savings set aside specifically for retirement. Among elderly Social Security beneficiaries, 53 percent of married couples and 74 percent of unmarried persons receive 50 percent or more of their income from Social Security. Among elderly Social Security beneficiaries, 22 percent of married couples and about 47 percent of unmarried persons rely on Social Security for 90 percent or more of their income.⁶

The Social Security Act of 1935 was originally enacted to provide retirement benefits for retirees. To be qualified and eligible for retirement benefits, working individuals are required to have 40 credits. Forty credits equal ten years of work. (Those born before 1929 need fewer years of work.)

When a person reaches their full retirement age (FRA), they are eligible to receive 100 percent of their accrued benefits. FRA varies according to a person’s year of birth. Individuals who were born before 1938 reach their FRA at 65. The full

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⁵ SSA, Social Security Basic Facts, October 13, 2015
⁶ SSA, Social Security Basic Facts, October 13, 2015
retirement age gradually rises until it reaches 67 for people born in 1960 and later. Delaying receiving retirement benefits beyond full retirement age (up to age 70) will provide beneficiaries with special credit (delayed retirement credits called “DRCs”) for each month they do not take benefits.

Typically, retirement occurs between the ages of 62 and 66. For general purposes throughout this course, we will refer to age 66 as full retirement age. Of course, the earlier a person opts to begin receiving Social Security benefits, the lesser the monthly benefit amount will be. The longer a person delays receiving benefits, on the other hand, the greater the monthly benefit will be (up to age 70).

**DIFFERENCES BETWEEN TWO INDIVIDUAL BENEFIT AMOUNTS**

Social Security benefits are based on earnings averaged over the majority of a worker’s lifetime. Actual earnings are first adjusted (or indexed) to account for changes in average wages since the year the earnings were received. The Social Security Administration calculates a person’s monthly indexed earnings during the 35 years in which they earned the most. The Social Security Administration (SSA) applies a formula to these earnings and arrives at the basic benefit, or Primary Insurance Amount (PIA). Even if two people have similar earnings patterns, there are other factors that can make one individual's benefit amount differ from someone else’s.

Let’s say your neighbor and you have similar work histories, so you want to know why he receives more in retirement benefits than you do. Following is a list of possible factors that can make your neighbor’s retirement benefit greater than your own.

- If your neighbor’s lifetime earnings are higher than yours, these higher earnings can result in higher benefits. Benefit amounts are based on how much a person earned during their working career. If there were some years when you did not work or had low earnings, your benefit amount may be lower than if you had worked steadily.

- If you begin receiving benefits at age 62 (the earliest possible age for receiving Social Security retirement benefits), your benefit will be permanently reduced. You will not receive as much as you would if you had waited until your full retirement age.

- If your neighbor worked after he began receiving Social Security benefits, his benefits may be higher. Each additional year a person works adds another year of earnings to their Social Security record.
• If your neighbor did not begin receiving benefits until after his full retirement age, his benefit will increase automatically by a certain percentage from the time he reaches full retirement age until he starts receiving benefits or until he reaches age 70.

**Overview of Survivors Benefits**

In 1939, the original Social Security Act was expanded to include survivors benefits for spouses and children (and other eligible family members) of deceased workers. Payment for surviving beneficiaries is made from the Old Age and Survivors Insurance Trust Fund (OASI).

Typically, the deceased individual must have worked and paid Social Security taxes for up to ten years to qualify his or her survivors for benefits—the same as with retirement benefits. However, if the deceased worker was young at the time of his or her death, surviving family members may still be qualified for benefits—if the worker was employed for one year during the three years before his or her death.

Family members who can qualify for survivors benefits include spouses, children, parents, grandchildren, stepchildren, etc., under specific qualifying circumstances.

**Overview of Disability Benefits**

In 1956, the Social Security Act was expanded to include disability benefits for qualified individuals. Benefits for disabled workers and auxiliary beneficiaries are paid from the Disability Insurance Trust Fund (DI).

Disability is one of those subjects we try to avoid as we think “it will never happen to me.” On the contrary, it certainly could. It is estimated that just over one in four of today’s 20-year-olds will become disabled before reaching the age of 67.

Disability is generally defined as “loss of income, either temporary or permanent, caused by an accident or illness.” The Social Security Administration elaborates on that definition. According to Social Security, disability is based on the inability to work. Under Social Security rules, an individual is considered disabled if:

• They cannot do the work they did before;
• They cannot adjust to other work because of their medical condition; or
• The disability has lasted or is expected to last for at least one year or to result in death.
This is the strict definition of disability according to the Social Security Administration. Social Security does not provide benefits for short-term episodes of disability, only long-term. Social Security rules assume that working families have access to other resources to provide support during periods of short-term disabilities, including workers’ compensation, insurance, savings, and/or investments.

Disability benefits are available through Social Security under two different programs:

1. Social Security Disability Insurance (SSDI); and

Unlike retirement benefits, a person’s monthly disability benefit cannot be predicted. The benefit will depend on whether the beneficiary qualifies for SSDI or SSI benefits.

The basic differences between the two programs are qualifications and funding. Qualifications for eligibility are basically the same for both programs, but with subtle differences.

**Social Security Disability Insurance (SSDI)**

Social Security Disability Insurance (SSDI) provides benefits for lower income individuals who are age 65 or older, blind, or disabled. SSDI base benefit amounts on a worker’s average lifetime earnings (or those of certain family members) when those earnings are insured under Social Security.

**Supplemental Security Income (SSI)**

Supplemental Security Income (SSI) benefits depend on financial needs as determined by a person’s income, resources and living situation. SSI benefits are also payable to individuals who are age 65 and older who are not disabled but who meet SSI’s financial limits.

**Overview of Medicare**

The Medicare program was passed into law on July 30, 1965 and beneficiaries were first able to sign up for the program on July 1, 1966.

Medicare provides health insurance for individuals who are age 65 or older. Individuals under 65 years of age, however, may also qualify for Medicare based upon certain health conditions—including those individuals who have disabilities, permanent kidney failure, or amyotrophic lateral sclerosis (Lou Gehrig’s disease).
The program helps with the cost of health care, but it does not cover all medical expenses nor does it cover the cost of most long-term care. Medicare is also funded through payroll taxes paid by workers and their employers through FICA.

The Centers for Medicare and Medicaid Services is the agency in charge of the extensive Medicare program. When a person applies for Medicare through the Social Security Administration, they will receive general information about the Medicare program.

The Medicare program consists of the following four parts.

1. **Part A – Hospital Insurance** — Helps pay for inpatient care in a hospital or skilled nursing facility (following a hospital stay), some home health care services and hospice care.

2. **Part B – Medical Insurance** — Helps pay for doctors’ services and many other medical services and supplies that are not covered by hospital insurance (Part A).

3. **Part C – Medicare Advantage Plans** — People with Medicare Parts A and B can choose to receive all of their health care services through provider organizations under Part C.


**MEDICAID**

Medicaid is a state-run program that provides hospital and medical coverage for people with low income and little or no resources. Since it is run by individual states, each state has its own rules regarding eligibility and what is covered under Medicaid. Some people can qualify for both Medicare and Medicaid.

**CHILDREN’S HEALTH INSURANCE PROGRAM**

The Children’s Health Insurance Program enables individual states to provide health insurance to children from working families with incomes too high to qualify for Medicaid, but too low to afford private health insurance. The program provides coverage for prescription drugs, vision, hearing, and mental health services. Children’s Health Insurance programs are available in all 50 states and the District of Columbia.
LONG-TERM CARE INSURANCE

Long-term care insurance policies are sold by private insurance companies and provide for the cost of long-term health care that is generally not covered by private health insurance programs, Medicare, or Medicaid.

Long-term care can become necessary in the event of an illness, accident, or through the normal effects of aging. Long-term care insurance can provide important coverage that can enable a person to protect their financial resources while undergoing care on a long-term basis.

Private long-term care insurance has become increasingly popular. Unfortunately, the law of supply and demand and the continuing rise in the cost of health care has dictated the dramatic rise in long-term care policy premiums.

According to Argentum (formerly known as the Assisted Living Federation of America), a room at an assisted living facility could run on average over $3,600 a month, or over $43,000 a year (depending upon the location, it could be more or less)—and that does not include the costs of medication. Nursing home assistance can run on average about $85,000 a year. Estimates vary according to the source, but these estimates are pretty close to others who have reported average cost findings.

It is estimated that approximately 70 percent of the elderly will need long-term care at some point in their lives. Men typically average 2.2 years of assistance, while women average 3.7 years—which stands to reason, since women tend to outlive men as a whole.

The cost for this kind of care is astronomical, so more and more people are turning toward a long-term care insurance policy to ease their minds and their wallets. Age is the main contributing factor to the cost of these policies.

Not only cost, but there are plenty of other variables to look into when shopping for a long-term care policy. Some additional factors that can affect the cost of a policy are:

- Inflation riders;
- Deductibles;
- Daily benefits; and
- Maximum benefits.
Long-term care insurance premium increases have skyrocketed. In the past five to seven years, premium rates have risen an average of 30 to 50 percent. When shopping for a long-term care insurance policy, it is advisable to look at the company’s history of premium increases. Perhaps exchanging a paid-up life insurance policy for a long-term care policy might be beneficial for someone who is shopping for such coverage.
POINTS TO PONDER — SOCIAL SECURITY BASICS

• The maximum taxable limit for 2016 is $118,500.

• OASDI contributions are capped—Medicare is not.

• Social Security contribution amounts are 6.2 percent for OASDI and 1.45 percent for Medicare.

• Medicare consists of four parts: (1) Part A (hospital insurance), (2) Part B (medical insurance), (3) Part C (Medicare Advantage), and (4) Part D (prescription drug coverage).

• The highest 35 years of earned income is used to calculate a person’s Primary Insurance Amount (PIA).

• The Government Pension Offset (GPO) reduces Social Security spouses or widow(er) benefits by two-thirds of the amount of the pension.

• A deceased individual must have worked and paid Social Security taxes for up to ten years to qualify survivors for benefits on his or her account.

• Full Retirement Age (FRA) varies according to a person’s year of birth.

• Early retirement age is 62 years to FRA; Full retirement age is 66 (or 67, depending upon birth year); delayed retirement age is between FRA and age 70.

• Medicaid is a state-run program that provides hospital and medical coverage for people with low income and little or no resources.

• The Social Security Administration promotes ethics in the workplace by offering employees in-house educational courses that include subjects on ethical conduct.

• Self-employed individuals contribute 12.4 percent because they are considered both employers as well as employees, but are compensated by deducting half of that amount from their personal taxes.
CHAPTER 1 REVIEW QUESTIONS — SOCIAL SECURITY BASICS

Which of the following answers/completes each question/sentence the best?
(Answers are in the back of the text.)

1. In 2016, OASDI contributions are capped at:
   a) $9,800.
   b) $10,100.
   c) $11,300.
   d) $118,500.

2. FICA taxes provide funding in two ways: (1) Social Security benefits provide contributions at a rate of _____; and (2) Medicare benefits, which provide contributions at a rate of _____.
   a) 6.2%, 1.45%
   b) 1.45%, 1.2%
   c) 2.25%, 2.2%
   d) 3.2%, 3.25%

3. Social Security counts the highest ______ of earned income when calculating your Primary Insurance Amount.
   a) 10 years
   b) 20 years
   c) 35 years
   d) 40 years

4. Full retirement age (FRA) varies according to a person’s:
   a) Social Security number.
   b) birth year and birth month.
   c) earnings record.
   d) PIA.

5. Social Security is funded entirely through payroll contributions.
   a) TRUE
   b) FALSE
CHAPTER 2

THE SOCIAL SECURITY CARD AND NUMBER

Most people know how to get, and have already gotten, their Social Security number and card. Even though getting a Social Security card can seem like second nature to most of us, there is a lot involved. For instance, did you know there are actually three different types of Social Security cards?

The Social Security Administration requires supporting documentation as proof to establish eligibility for a Social Security card. In this chapter, we'll look at the types of documentation that is accepted and what is required from each applicant—such as what types of documents are accepted as identifiers to establish proof of identity, proof of age, or proof of United States Citizenship or legal Immigration Status—and much more.

- How can a parent obtain a Social Security number on a newborn child?
- How can a parent obtain a Social Security number for an adopted child?
- How can a child under the age of 12 obtain a Social Security number?
- How do you replace a card for an adult?
- How do you replace a card for a child?
- What happens if you change your name?
- What if you discover there’s an error on your Social Security card?
- Under what circumstances might you need to change your Social Security number?

The answers to these questions will be found within this chapter; as well as the history of how the Social Security number system came to be and how it has evolved throughout the years.

THE HISTORY BEHIND THE SOCIAL SECURITY CARD

The first monumental task undertaken when the Social Security Act was implemented was registering employers and workers as contributors to the program. The goal was
to have the registration completed by January 1, 1937, when workers would begin acquiring credits toward benefits. Since the Social Security Board (SSB) did not have the resources available to accomplish this, the U.S. Postal Department was assigned the task of distributing applications to citizens. The Social Security Administration’s intention was to issue Social Security Numbers (SSNs) to track individuals’ accounts within the Social Security program. The first application forms were distributed in late November 1936 and the numbers were assigned in local post offices and consequently turned over to Social Security field offices.

A man named John David Sweeney, Jr. of New Rochelle, New York, was the first SSN account recorded. Although John Sweeney was the first recorded SSN account, his was not the lowest number ever issued. A lady named Grace Dorothy Owen from New Hampshire received the number 001-01-0001.

Over 30 million Social Security cards and numbers were issued through this early procedure with the assistance of local post offices. By June 30, 1937, the Social Security Board established enough field offices to take over the task and remove the burden from the post offices.

Since the inception of the Social Security program, the Social Security card (or number) has commonly become a source of proving a person’s identity. However since the card itself does not provide any facial identification or specifics, it only confirms that a particular number is issued to a particular name. It does not testify that this person is who they claim to be.

Beginning with the sixth design version of the Social Security card, issued starting in 1946, the Administration added a legend to the bottom of the card, which reads:

“FOR SOCIAL SECURITY PURPOSES – NOT FOR IDENTIFICATION”

Note: This legend was removed as part of the design changes for the 18th version of the card, issued beginning in 1972. The legend has not been on any new cards issued since 1972.

The U.S. Army and U.S. Air Force first began using Social Security numbers as a form of identification number in 1969. The U.S. Navy and U.S. Marine Corps began using SSNs as identification numbers in 1972, and the U.S. Coast Guard began using SSNs for the same purpose in 1974. Prior to the U.S. Armed Forces accepting Social Security numbers as identification, a complicated system of service numbers was used as identifiers.
Since 1935, there have been 50 different versions of the Social Security card, all of which are still valid. Items such as the size of the card, the shading of the card, word placement, etc., have changed throughout the years. For instance, the 2011 change:

- A square 2D barcode of the control number appears immediately to the right of the control number on the back of the card.

Social Security numbers are issued in a unique nine-digit combination to United States citizens, permanent residents of the U.S., and temporary residents working within the United States. The system is designed in a three-part combination of numbers (example, “111-22-3333”).

When Social Security numbers were first issued, the three separate sections of the number were represented as:

- Area Numbers (the first three digits, ex. “111 - xx - xxxx”);
- Group Numbers (the second two digits, ex. “xx - 22 - xxxx”); and
- Serial Numbers (the last four digits, ex. “xx - xx - 3333”).

The first three digits (example, “111 - xx - xxxx”) referred to specific geographical regions. Numbers were assigned to areas beginning in the Northeast, then moving southward and westward so people on the West Coast were issued higher numbers than people on the East Coast.

The second two digits (example, “xxx - 22 - xxxx”) range from 01 to 99, but were not assigned in consecutive order.

The last four digits (example, “xxx - xx - 3333”) represent a straight numerical sequence of digits from 0001 to 9999.

In 2011, the Social Security Administration changed the number assignment to SSN randomization. Over 450 million Social Security numbers have been issued since the start of the program, and the Administration estimates there are enough number combinations to last several more generations without reuse and without changing the number of digits.

**APPLYING FOR A SOCIAL SECURITY CARD**

Applying for a Social Security card is easily accomplished with proper documentation through Form SS-5, Application For A Social Security Number Card, available from any local Social Security office or online through the Administration’s website.
The Social Security Administration actually issues three types of cards—which type depends upon certain contributing factors.

The most common type of Social Security card is issued to individuals who can work in the United States without restriction. This type of card, which contains only the individual’s name and corresponding Social Security number is issued to:

- United States citizens;
- Noncitizens lawfully admitted to the United States for permanent residence; and
- Noncitizens with permission from the Department of Homeland Security (DHS) to work permanently in the United States (e.g., refugees and asylees).

The second type of card is issued to lawful noncitizens who do NOT have DHS permission to work within the United States, but who are required by law to provide a Social Security number to receive general assistance benefits they have already qualify for.

This card bears the individual's name and their Social Security number as well as the legend:

“NOT VALID FOR EMPLOYMENT”

The third type of card is issued to individuals with DHS permission to work temporarily within the United States. This card bears the individual’s name and their Social Security number as well as the legend:

“VALID FOR WORK ONLY WITH DHS AUTHORIZATION”

**REQUIRED DOCUMENTATION**

When applying for an original Social Security card, applicants must present two of the following documents:

- Proof of identity;
- Proof of age; and/or
- Proof of U.S. citizenship or immigration status.

**PROOF OF IDENTITY**

To establish identity, an acceptable document must be current and show the applicant’s name, identifying information (date of birth or age), and preferably a
recent photograph. The Social Security Administration does not consider a birth certificate sufficient as proof of identity. The Administration will accept a United States driver's license, a U.S. state-issued non-driver identification card or U.S. passport as sufficient proof of identity.

If at least two of these documents cannot be provided, the Social Security Administration will request one of the following documents.

- Employee identification card/badge
- Health insurance card or Medicaid card (not Medicare card)
- U.S. Military identification
- U.S. Government identification card
- Certificate of Naturalization
- Certificate of U.S. Citizenship
- U.S. Indian Tribal card (Social Security has to approve as an acceptable form of identification)
- Certified copy of a medical record
- School identity card, certified record, or transcript (current year)
- An identifying life insurance policy

Any person applying for a card on behalf of a minor must provide proof of custody as well as proof of identity.

The Social Security Administration requires current immigration status for noncitizens of the United States. The Administration requires documents that are being presented to be original documents or certified copies that have been issued within the last two years. Documents the Administration determines as acceptable are:

- Form I-551 (includes machine-readable immigrant Visa) with unexpired foreign passport;
- Form I-94 with unexpired foreign passport; and
- I-766 work permit from DHS.
**Proof of Age**

Documents the Administration determines as acceptable to establish proof of age are:

- Birth certificate (required if one exists);
- Religious record made before the age of five showing date of birth; and
- A United States passport.

Though the Social Security Administration will not accept a birth certificate as proof of identify, they will accept it to establish proof of age. If a birth certificate does not exist or cannot be presented, one of the following documents might be accepted as proof of age:

- Religious record made before the age of five showing the applicant’s date of birth;
- United States hospital record of the applicant’s birth; or
- The applicant’s U.S. passport.

For noncitizens of the United States, the Social Security Administration will accept the following documents as proof of age:

- Foreign birth certificate;
- Passport; or

*Note: Applicants must present their foreign birth certificate if they have it or can get it within ten days.*

**U.S. Citizenship or Immigration Status**

Documents the Administration determines as acceptable to establish proof of U.S. citizenship or legal immigration status are:

- United States birth certificate;
- U.S. Consular Report of Birth Abroad;
- U.S. passport;
- Certificate of Naturalization; and
- Certificate of Citizenship.
If the applicant is a noncitizen, the Social Security Administration must verify the presented documents with DHS before a Social Security card will be issued.

**APPLICATION FOR A SOCIAL SECURITY CARD (FORM SS-5)**

For the most part, the application process to obtain an original Social Security card or number can be accomplished online. Any documents that need to be provided can be sent via U.S. mail.

To apply for a Social Security number and card, applicants must gather at least two documents proving:

- The applicant’s identity;
- The applicant’s age; and
- The applicant’s proof of United States Citizenship or Immigration Status.

Form SS-5, *Application For A Social Security Card*, is a one-page application that requires the following information:

1) Name (name to be shown on the card);
2) Full Name at Birth (if changed since birth);
3) Place of Birth;
4) Date of Birth;
5) Citizenship
   - If the applicant checks “Legal Alien Not Allowed to Work” or “Other,” they must provide a document from a U.S. federal, state, or local government agency that explains why they need a Social Security number and that they meet all the requirements for the government benefit. (Most agencies do not require that individuals have a Social Security number – applicants can contact the Social Security Administration to see if their reason qualifies for a Social Security number);
6) Ethnicity;
   - Providing race and ethnicity information is voluntary and is requested for informational and statistical purposes only. It is the applicant’s choice whether to answer or not and does not affect decisions made on their application.
7) Race;
8) Gender;
9) Parent/Mother’s Name at Her Birth;
10) Parent/Mother’s Social Security Number (if known);
11) Parent/Father’s Name;
12) Parent/Father’s Social Security Number (if known)
   • If the applicant is applying for an original Social Security card for a child under age 18, they must show the parents’ Social Security numbers unless the parent was never assigned a Social Security number;
13) Date of Application;
14) Daytime Phone Number;
15) Mailing Address; and
16) The Applicant’s Signature - or the signature of the person representing the applicant, and their relationship to the applicant.
   • If the applicant is age 18 or older and is physically and mentally capable of reading and completing the application, they must sign. If the applicant is under age 18, they may either sign for themselves, or a parent or legal guardian may sign for them. If they are over 18 and cannot sign on their own behalf, a legal guardian, parent, or close relative may generally sign for them. If they cannot sign their name, they should sign with an “X” mark and have two people sign as witnesses in the space beside the mark. Do not alter the signature by including additional information on the signature line as this may invalidate the application.

The application form must be completed and signed legibly using only black or blue ink. All of the information furnished on the application is voluntary. However, failure to provide the requested information may prevent the Social Security Administration from issuing a Social Security number and card.

The completed application and supporting documentation can be taken to any local Social Security office or local Social Security Card Center, or the application and supporting documentation can be mailed to a local Social Security office or Social Security Card Center. Any documents mailed to the Social Security office will be returned to the applicant.

**Note:** Any individual applying for an original Social Security card who is age 12 or older must make a personal appearance in a Social Security office for an interview. Applicants must also provide evidence to show they do not currently have a Social Security number.
Social Security cards are not available at local offices as they are processed in a secure off-site location. Once documents have been verified, applicants typically receive their card within seven to fourteen (7-14) days (usually within ten business days) from the date of receipt.

The Social Security Administration does not charge a fee for a Social Security card. Some private companies not affiliated with the Administration or with any other government agency charge fees for the same services that the Administration provides free of charge. These independent companies offer no advantage and applicants will still have to provide documents directly to the Social Security Administration.

If a person has never been issued a Social Security number because they lived outside the United States for an extended period of time, one of the following documents must be provided:

- The applicant’s passport (current or previous passport will be accepted);
- The applicant’s school and/or employment records; or
- Any other record the applicant possesses that shows long-term residence outside the United States that could be used to show the applicant does not have a Social Security number.

If the applicant has lived in the United States and is applying for an original Social Security number, they may be asked for information about the schools they attended or to provide copies of tax records that would show they were never assigned a Social Security number.

**REQUESTING A SOCIAL SECURITY NUMBER FOR A CHILD**

Social Security numbers for children can be obtained, whether the child is:

- Newborn in the United States;
- Foreign born; or
- Adopted.

**REQUESTING A SOCIAL SECURITY NUMBER FOR A NEWBORN**

When parents apply for their newborn’s birth certificate they can, at the same time, request the child be issued a Social Security card. In order for parents to claim the child as a dependent on their federal income tax return, they will need the child’s
Social Security number. The state agency that issues birth certificates will notify the Social Security Administration providing the child’s birth information, and a card will be issued and mailed to the parents’ address on record.

Individual states differ in processing times to send the application and paperwork to the Social Security Administration. For instance, California takes approximately three weeks, and Illinois takes approximately five weeks, whereas North Carolina takes approximately one week. Then, of course, add another two weeks for Social Security to send the card in the mail.

**Requesting a Social Security Number for an Adopted Child**

Whether a child is adopted who was born inside the United States or outside the United States, the same basic documents must be gathered and submitted to the Social Security Administration:

- Proof of the child’s age;
- Proof of the child’s identity; and
- Proof of United States citizenship or legal immigration status.

Individuals who are completing the application process on behalf of the child must also provide documents proving their own identity as well as their relationship to the child. A Social Security card application (Form SS-5) must also be completed and submitted.

If the applicant does not have proof of the child’s citizenship, special rules apply for foreign-born adopted children that allow the Social Security Administration to assign a number based on documentation issued by the Department of Homeland Security upon the child’s arrival in the United States. When documentation of the child’s citizenship is received, parents (or applicants) can bring it to the Social Security Administration, and the child’s record will be updated. When all documents are verified, a Social Security card will be issued.

*Note: The adoption decree (issued in a foreign country or in the United States) or a birth certificate is NOT proof of U.S. citizenship for a foreign-born child.*

**Requesting a Replacement Social Security Number**

Even if a person has lost their Social Security card, a replacement Social Security card may not be necessary. Before going to the trouble of replacing a lost Social Security card, the individual should determine if they really need the physical card.
Knowing the Social Security number is what is most important. As long as the individual has committed their Social Security number to memory, possession of the actual card may be irrelevant.

Even though people need a Social Security number to get a job, collect Social Security benefits, and receive certain government services, they do not often need to show the physical Social Security card.

**Requesting a Replacement Social Security Card for an Adult**

If it is determined that a replacement card should be obtained, the applicant must, again, gather documents proving their identity and citizenship—or legal immigration status.

*Note: Proof of U.S. citizenship and age are not required if that information is already contained within the records of the Social Security Administration.*

The applicant must again submit a completed Social Security card application along with the required documentation. All documents must either be originals or certified copies by the issuing agency. The Social Security Administration will not accept photocopies or notarized copies of documents.

**Requesting a Replacement Social Security Card for a Child**

If an applicant is requesting a replacement Social Security card for a child, documents must be submitted showing proof of the child’s identity and citizenship (or legal immigration status). The applicant must also gather documents proving their own identity and their relationship to the child. A completed Social Security card application must also be submitted.

**Requesting a Different Social Security Number**

There are very few circumstances in which a different Social Security number will be issued. The Social Security Administration states that in any of the following scenarios, however, a replacement card may be issued:

- Problems have arisen due to the fact that sequential numbers have been assigned to members of the same family;
- A duplicate number has been assigned;
- An individual has religious or cultural objections to certain numbers or digits in the original number;
• A victim of identity theft continues to be disadvantaged by using the original number; and
• Situations of harassment, abuse or life endangerment, including domestic violence, have occurred.

The Social Security Administration will not issue a new Social Security number under any of the following circumstances:
• To avoid the consequences of filing for bankruptcy;
• If the beneficiary intends to avoid the law or some other legal responsibility; or
• If the beneficiary’s Social Security card is lost or stolen, but there is no evidence that anyone is using the number.

In order to obtain a different Social Security number, a Social Security card application must be completed and submitted along with required documentation establishing:
• Proof of identity;
• U.S. citizenship or legal immigration status;
• Proof of age;
• Evidence of legal name change (if applicable); and
• Evidence in support of the need for a new Social Security number.

**REQUESTING A NAME CHANGE**

To request a name change on a Social Security card, the following documentation must be provided along with a completed Social Security card application:
• Proof of legal name change (i.e., marriage certificate, divorce decree, Certificate of Naturalization showing a new name, court-ordered name change, etc.);
• Proof of identity; and
• United States citizenship or legal immigration status.

**CORRECTING AN ERROR ON A SOCIAL SECURITY CARD**

If an applicant has received their Social Security card and found an error, such as the misspelling of their name, they can contact the Social Security office that processed the card and request the correction. Depending upon the error, they may have to
submit another Social Security card application. Any local Social Security office can be contacted to provide advice in such situations.

REQUESTING A COPY OF AN ORIGINAL APPLICATION

The Social Security Administration charges fees if a copy of an original Social Security card application is requested. You can use mySocialSecurity account to apply for a replacement card online if you:

- Are a U.S. citizen age 18 or older with a U.S. mailing address (this includes APO, FPO, and DPO addresses);
- Are not requesting a name change or any other change to your card; and
- Have a valid driver’s license or a state-issued identification card from one of the following:
  - District of Columbia (driver’s license only);
  - Iowa;
  - Kentucky;
  - Michigan;
  - Nebraska;
  - New Mexico;
  - Washington; or
  - Wisconsin (driver’s license only).

COSTS

- Request for copy of Original Application For A Social Security Card (Form SS-5), Social Security number provided - $27
- Request for copy of Original Application For A Social Security Card (Form SS-5), Social Security number not provided - $29
- Request for computer extract of Social Security card application, Social Security number provided (requested by the number holder) - $16
- Request for computer extract of Social Security card application, Social Security number not provided (requested by the number holder) - $18
• Search for information about the death of an individual, Social Security number provided - $16
• Search for information about the death of an individual, Social Security number not provided - $18

PROTECTING YOUR SOCIAL SECURITY NUMBER AND CARD

Anyone who possesses a Social Security card and number should protect it from loss and identity theft. The Social Security Administration warns individuals NOT to carry their Social Security card with them. The card should be kept in a safe and secure location and only taken out when the physical card must be shown (e.g., to obtain a new job, open a new bank account, or to obtain benefits from certain United States agencies). Caution is paramount when giving out a Social Security number to others, particularly during phone, mail, email and Internet requests that the beneficiary did not initiate.

FRAUD ALERT — FRAUD OR MISUSE OF YOUR SOCIAL SECURITY NUMBER

If an individual becomes a victim of identity theft, fraud or misuse, they should contact the Federal Trade Commission (FTC). The FTC is a consumer protection agency—their mission is to prevent business practices that are anticompetitive or deceptive or unfair to consumers. In case of identity theft, fraud or misuse, the FTC recommends that a fraud alert be placed on the affected individual’s credit file with Equifax, Trans Union, or Experian. All three agencies do not need to be contacted individually. When one agency is contacted, they will contact the others on the individual’s behalf. Individuals are encouraged to keep an eye on their credit report and notify the agency of any discrepancies.

In addition to reporting discrepancies to the FTC, the Social Security Administration recommends filing a report with the local police.

MISLEADING ADVERTISING

Misleading advertisers who use the terms “Social Security” or “Medicare” to entice the public often victimize consumers. Often, these companies offer Social Security services for a fee, even though the same services are available directly from the Social Security Administration free of charge. Some of these services may include getting:

• A corrected Social Security card showing a bride’s new married name;
• A Social Security card to replace a lost card;
• A Social Security Statement; and/or
• A Social Security number for a child.

Some direct marketers suggest that Social Security is in dire financial shape and that people risk losing their Social Security or Medicare benefits unless they send a contribution or membership fee to the advertiser. Other companies give the false impression of a Social Security endorsement or affiliation by offering a “Social Security Update” or related benefit update. Typically, these companies solicit information from consumers and then resell the consumer's private information. Such marketing practices clearly mislead and deceive the American public. The law that deals specifically with misleading Social Security and Medicare advertising prohibits people or non-government businesses from using words or emblems that mislead others. Their advertising cannot lead people to believe that they represent or are somehow affiliated with or endorsed or approved by the Social Security Administration or the Centers for Medicare and Medicaid Services.

In the case of a potentially misleading Social Security advertisement, Social Security’s Office of the Inspector General reviews the ad. When questioned about their advertisements, many people and companies voluntarily agree to stop using them or change the ads to comply with the law. However, if a voluntary agreement cannot be reached, the Office of the Inspector General can fine the offending person or company up to $5,000—for EACH occurrence and EACH advertisement mailed. Misleading ads concerning Medicare should be referred to the Office of Inspector General for the Department of Health and Human Services for review. The Social Security Administration also advises consumers to notify their state’s Attorney General or Consumer Affairs office and the Better Business Bureau in their area.

**CRIMINAL PENALTIES AND PROSECUTION**

The Social Security Act prescribes criminal penalties for violation of its provisions concerning fraud, disclosure of certain information, and representation. Not only do these provisions protect the public and the integrity of the claims process, but federal law generally prohibits acts involving false claims against the government and false or fraudulent statements made in matters before a government agency.

According the Social Security Administration Code of Federal Regulations, a person may be subject to criminal penalties for furnishing false information in connection with earnings records or for wrongful use or misrepresentation in connection with Social Security numbers. (Sec. 208 of the Social Security Act)
**MAKING FALSE STATEMENTS**

Knowingly or willfully making a false statement of a material fact in connection with benefits payable from the Social Security Administration can result in a fine of up to $25,000 or imprisonment for up to five years, or both.

(a) Whoever-

(1) knowingly and willfully makes or causes to be made any false statement or representation of a material fact in connection with the furnishing of items or services for which payment may be made by a State from funds allotted to the State under this subchapter, or

(2) having knowledge of the occurrence of any event affecting his initial or continued right to any such payment conceals or fails to disclose such event with an intent fraudulently to secure such payment either in a greater amount than is due or when no such payment is authorized, shall be fined not more than $25,000 or imprisoned for not more than five years, or both.  

**FRAUD**

Penalties for fraud include possible fines and imprisonment, even if the attempted fraud is unsuccessful. The penalty upon conviction for violation of the criminal provisions of the Social Security Act or Title 18 of the United States Code (U.S.C) may be a fine, imprisonment, or both.

The following actions are subject to criminal prosecution for fraud:

- Furnishing false information of identity in connection with the establishment and maintenance of Social Security Administration records, or with the intent to gain information as to the date of birth, employment, wages, or benefits of any person;

- Forging or falsifying Social Security Administration documents;

- Conspiring to obtain or allow a false, fictitious, or fraudulent claim;

- Using a Social Security number obtained on the basis of false information or falsely using the Social Security number of another person for the purpose of obtaining or increasing a payment under Social Security or any other federally funded program, or for any other purpose;

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7 §707, Criminal penalty for false statements
• Altering, buying, selling, or counterfeiting a Social Security card;

• Disclosing, using, or compelling the disclosure of the Social Security number of any person for unauthorized purposes;

• Making or causing to be made a false statement or representation of a material fact in any application for any payment or for a disability determination under the Social Security Act;

• Making or causing to be made any false statement or representation as to whether wages were paid or received, the amount of such wages, the period during which wages were paid or received, or the person to whom such wages were paid;

• Making or causing to be made any false statement or representation as to whether net earnings from self-employment were received, the amount of such earnings, the period during which such earnings were received, or the person who received them;

• Concealing or failing to report any event affecting the initial or continued right to payment received or to be received by a person individually or on behalf of another;

• Converging all or any part of a payment received on behalf of a beneficiary to a use other than for the use and benefit of that beneficiary;

• Falsely representing oneself to be an employee of the U.S. Government;

• Accessing Social Security Administration computer records without authorization;

• Disclosing unauthorized information from the Administration’s systems of records;

• Receiving or soliciting a bribe, illegal gratuity, or contribution to or supplementation of salary for U.S. Government service.
POINTS TO PONDER — THE SOCIAL SECURITY CARD AND NUMBER

• Any individual applying for an original Social Security card who is age 12 or older must make a personal appearance in a Social Security office for an interview.

• Keep your Social Security card in a safe and secure location and only take it with you when you must show the physical card.

• If an individual has become a victim of identity theft, fraud or misuse, they should contact the Federal Trade Commission (FTC).

• The most common type of Social Security card is issued to individuals who can work in the United States without restriction.

• The Social Security card (or number) has commonly become a source of proving a person’s identity, though it merely shows that a specific number has been assigned to a certain individual name.

• Acting in an unethical manner such as knowingly or willfully making a false statement of a material fact in connection with benefits payable from the Social Security Administration can result in a fine of up to $25,000 or imprisonment for up to five years, or both.

• Conviction of misleading advertisement in conjunction with the Social Security Administration can result in a fine of $5,000 for each occurrence and for each advertisement mailed.
CHAPTER 2 REVIEW QUESTIONS — THE SOCIAL SECURITY CARD AND NUMBER

Which of the following answers/completes each question/sentence the best?
(Answers are in the back of the text.)

1. An individual who is age 12 or older applying for an original Social Security card number must:
   a) have a representative complete the application form for them.
   b) make a personal appearance in a Social Security office for an interview.
   c) apply under their parents’ Social Security account.
   d) call the Social Security office directly.

2. The Social Security Administration advises individuals to carry their Social Security card on their person at all times.
   a) TRUE
   b) FALSE

3. If you suspect you are a victim of identity theft or fraud, you should contact:
   a) the Social Security Administration.
   b) your parents.
   c) your lawyer.
   d) the Federal Trade Commission.

4. The most common type of Social Security card is issued to individuals who:
   a) can work in the United States without restriction.
   b) can work in the United States with restrictions.
   c) are illegal aliens.
   d) reside in the United States.

5. Since the inception of the Social Security system, the Social Security card (or number) has commonly become a source of proving a person’s:
   a) age.
   b) identity.
   c) citizenship.
   d) gender.
YOUR RESPONSIBILITIES TO SOCIAL SECURITY

Just as the government has guaranteed responsibilities to its contributors, those contributors who have a Social Security number have responsibilities to the Social Security Administration.

Many people think that once they are issued a Social Security number and card, their responsibilities to the Administration end. As we all go through life, we face many changes and many of those changes need to be reported to the Social Security Administration—changes such as any of the following when a beneficiary is receiving or applying for benefits.

- When a beneficiary’s estimated earnings change
- When a beneficiary changes their address
- When a beneficiary changes their name
- When a beneficiary changes direct deposit accounts
- When a representative payee is assigned to a beneficiary and the representative’s fiduciary responsibilities
- If a beneficiary begins receiving pension payment funds from employment that did not contribute Social Security taxes
- When a beneficiary’s marital status changes (benefits may be increased or decreased accordingly)
- If a beneficiary is caring for a child and that status changes (benefits may be increased or decreased accordingly)
- If a beneficiary is being held responsible for any criminal activity
- If a beneficiary leaves the United States for an extended period of time
- When a beneficiary dies
- Changes involving Railroad Retirement benefits
CHANGES THAT NEED TO BE REPORTED TO THE SOCIAL SECURITY ADMINISTRATION

Social Security must be notified promptly by phone, mail or in person whenever a change occurs that could affect a beneficiary or their family members’ benefits, even if the beneficiary has given the information to another government agency and that agency reports directly to the Social Security Administration.

Most changes can be made online by opening a mySocialSecurity account through the Administration’s website at www.socialsecurity.gov/myaccount. Remember, users must be 18 years of age or older, have a Social Security number, valid email address and U.S. mail address to open the account.

WHEN ESTIMATED EARNINGS CHANGE

All Social Security benefits, whether retirement, disability, or survivors benefits, are predicated on earnings. If a beneficiary is receiving benefits and their earnings are higher or lower than estimated, benefits may need to be adjusted.

Failure to report changes in any required information may result in over- or underpayment of benefits. If the changes result in overpayment of benefits, future benefits will be deducted to make up the difference. If the changes result in underpayment of benefits, benefits will be increased accordingly to make up the difference. If changes are not reported in a timely manner or if intentional false statements are made, benefits may be stopped completely for as long as 24 months. ANY violation can cause stoppage. The first violation can cause a six-month stoppage; the second violation can cause a 12-month stoppage; and the third violation can cause a 24-month stoppage.

REPORTING A CHANGE OF ADDRESS

If a beneficiary is receiving benefits and they plan to move, they must notify Social Security of their new address and phone number as soon as that information becomes available. Beneficiaries must also provide the names of any family members who are receiving benefits if those family members are moving along with the beneficiary.

If Social Security cannot contact a beneficiary, their benefits may be stopped. Even if benefits are received through direct deposit, beneficiaries must still notify the Social Security Administration of any change in address so the beneficiary can continue to receive any letters or other important information the Administration may send.
REPORTING A NAME CHANGE

If a beneficiary legally changes their name (i.e., marriage, divorce, court order), and they do not notify the Social Security Administration, their benefits will continue to be issued under the previous name. If benefits are received through direct deposit, payments may not reach the proper account because of the discrepancy in records. If checks are delivered via mail service, the beneficiary may not be able to cash or deposit the check if their present identification does not match.

CHANGING DIRECT DEPOSIT ACCOUNTS

If a beneficiary changes financial institutions or accounts, or opens a new account, they should not close their original account right away. The financial institution should be notified that the beneficiary will be receiving direct deposits from Social Security. Direct deposit information can be updated online through the Social Security Administration if the beneficiary has a personal identification number and password—or the Administration can change their direct deposit information over the telephone when the beneficiary’s old and new bank account numbers are provided.

It takes 30 to 60 days for Social Security to change the payment record after being notified of the change, so old accounts should not be closed right away. Only after the first benefit deposit has been received in the new account, is it safe to close the original account.

CHANGE IN MARITAL STATUS

If a beneficiary’s marital status changes, benefits may be recalculated. If a beneficiary is receiving retirement benefits on their own account, their benefits will continue. If a beneficiary is receiving spouses benefits, their benefits will continue if the beneficiary gets divorced and they are age 62 or older, unless the marriage lasted less than ten years. If a beneficiary receives widow or widower’s benefits (survivors benefits), their benefits will continue if they remarry—but only if the beneficiary is age 60 or older.

Generally, benefits will stop when a beneficiary gets married. However if the marriage ends, benefits may be restarted.

CARING FOR A CHILD

If a beneficiary receives benefits due to the care of a child under the age of 16 or for a child who is disabled and the beneficiary is no longer caring for that child, Social
Security must be notified of the name and address of the individual with whom the child is now being cared for. If the separation is temporary and the beneficiary continues to exercise parental control, benefits may not be affected.

If a child who is receiving benefits is adopted, the child’s new name, date of adoption decree, and adopting parent’s name and address must be reported. Adoption does not mean that benefits will cease.

If a beneficiary becomes the parent of a child (including an adopted child) after the beneficiary begins receiving benefits, the child may be eligible for benefits as well.

**Criminal Activity**

For the most part, under both Social Security and Supplemental Security Income programs, payments to incarcerated individuals are prohibited. If an eligible person is confined in a jail, prison, or other penal institution for more than 30 continuous days due to conviction of a crime, Social Security benefits will be suspended.

No individual can receive any type of benefits for the month in which there is an outstanding warrant for their arrest due to:

- Flight to avoid prosecution or confinement;
- Escape from custody; or
- Flight-escape.

The same is true if a beneficiary violates a condition of parole or probation.

If a beneficiary is convicted of a criminal offense, benefits will cease during the period of confinement. Benefits may be extended to certain eligible family members, however.

Administrators of jails, prisons and other correctional and certain mental health institutions assist the Social Security Administration by reporting information about confined or incarcerated individuals. Federal law permits incentive payments to these institutions for providing information that:

- Results in the suspension of Supplemental Security Income (SSI) payments to people whose confinement began in March 1997 or later; or
- Results in the suspension of Social Security retirement, survivors or disability insurance benefits to people whose confinement began in April 2000 or later.
The institutions that want to participate in the incentive program must sign an agreement with the Commissioner of Social Security. Under the agreement, the institutions must provide the following information every month about all newly admitted inmates:

- Social Security number;
- Name;
- Date of birth;
- Date that confinement or incarceration began; and
- Any other identifying information about the inmate.

In addition to monthly reports of new admissions, institutions must provide initial reports containing pertinent information for their total inmate population. Participating institutions forward the information to the Social Security Administration electronically.

For every Social Security or SSI recipient that is suspended as a result of information provided by the participating institution, the Social Security Administration pays the institution:

- $400 for information received within 30 days of the confinement; or
- $200 for information received after 30 days but within 90 days after confinement.

**IF A BENEFICIARY LEAVES THE UNITED STATES**

If a beneficiary is receiving benefits and is planning to travel outside the United States for 30 days or more, the Social Security Administration must be notified. Special reporting instructions and arrangements to continue receiving benefits can be made in the beneficiary’s absence.

Social Security benefits cannot be sent to any of the following countries, however:

- Azerbaijan, Belarus, Cuba, Georgia, Kazakhstan, Kyrgyzstan, Moldova, North Korea, Tajikistan, Turkmenistan, Ukraine, Uzbekistan and Vietnam.

**OFFICE OF INTERNATIONAL OPERATIONS**

The Social Security Administration Office of International Operations (OIO) was designed to assist beneficiaries who are outside the United States or who are planning to leave the United States. The Social Security Administration does not have offices outside the United States. Instead, the Administration relies on the
Department of State's embassies and consulates throughout the world for assistance with pertinent matters. The Department of Veterans Affairs Regional Office in Manila assists in the Philippines.

If a beneficiary is in Canada, the British Virgin Islands or Samoa, they can obtain services from a Social Security Administration Field Office located within those countries.

THE DEATH OF A BENEFICIARY

The Social Security Administration must be notified when a Social Security beneficiary passes away. Payments will not be made for the month the beneficiary dies. Since benefits are paid in arrears, a benefit payment received for the month in which the beneficiary dies must be returned. For instance, if the beneficiary dies on August 2nd, the September payment must be returned (since September's payment is actually for the month of August). If direct deposit is made, the financial institution must be notified so it can return any payments received after the date of death.

RAILROAD RETIREMENT BENEFITS

If a beneficiary is receiving both Social Security and Railroad Retirement benefits based on their spouse’s work and their spouse dies, the beneficiary will no longer be eligible to receive both benefits.

OVERPAYMENTS

An overpayment occurs when Social Security pays a beneficiary more than they should have been paid. If this happens, the beneficiary will be sent a notice that explains how the overpayment occurred, repayment options, and appeal and waiver rights.

When the overpayment occurs, and if the beneficiary agrees that they have been overpaid, there are options for repayment.

Social Security can withhold the full amount from any future benefit that is due until the overage is accounted for. Full withholding would start 30 days after the beneficiary is notified of the overpayment. The beneficiary has the option, however, of requesting that a lesser amount be deducted from future benefits until the overage is satisfied.
If the overpayment involves SSI benefits, Social Security will generally withhold ten percent (10%) of the maximum federal benefit rate each month. If the beneficiary cannot afford this reduction, they can request that the Administration take a lesser amount. If the beneficiary can afford the reduction and would like to repay the amount in less time, they can request that the Administration reduce their future benefits at a rate greater than ten percent. At any rate, the Social Security Administration will not begin benefit reductions until at least 60 days after the beneficiary receives notification of the overpayment.

If the beneficiary is no longer receiving SSI benefits but is receiving retirement benefits, the beneficiary can pay back the SSI overpayment by having up to ten percent of their monthly retirement benefit withheld.

If any person receives a check from Social Security that they are not entitled to, they can send a check back to the Administration for the entire amount within 30 days or they can contact the Administration to set up a monthly installment plan until the funds have been repaid. If the recipient does not pay back the undue funds, the Social Security Administration can recover the funds from the recipient’s federal income tax refund or by attaching the recipient’s employment wages. If the undue funds cannot be recovered in any of those manners, the funds will be recovered from future Social Security benefits. The delinquency will also be reported to credit bureaus.

If the beneficiary does not agree with the overpayment, or if they believe the amount of the overpayment is incorrect, they can file an appeal using Form SSA-561, which is available from any local Social Security office or on the Administration’s website. The form should include an explanation of why the beneficiary believes the overpayment is incorrect or why they believe the amount of the overpayment is incorrect.

Recipients have 60 days from the date of receipt of the original overpayment notice to file an appeal. Social Security will assume that the recipient received the notice five days after the date of the notice, unless the recipient can prove they did not receive the notice within that five-day period.

If the recipient believes they should not have to pay the money back, a request to waive the collection may be filed using Form SSA-632. Again, this form can be obtained at any local Social Security office or on the Administration’s website.

There is no time limit for filing a waiver for collection, but the recipient must prove that the overpayment was not the recipient’s fault and that paying the funds back would cause the recipient financial hardship or be unfair for some other reason. If that’s the
case, Social Security may ask the recipient for proof of income and expenses. The Administration may also request a meeting.

The Social Security Administration will cease recovery of the overpayment until they make a decision on any submitted request.

**PENSION PAYMENTS**

If a beneficiary begins receiving pension payment funds from employment that did not contribute Social Security taxes, the Social Security Administration will recalculate their benefits. Once reported, any changes to those payments must also be reported.

If the pension comes from work where Social Security taxes were paid, it would not affect any Social Security benefit the beneficiary may receive. However, if any part of the pension is from work where the beneficiary did not pay Social Security taxes, it could affect the amount of their Social Security benefit.

A pension based on work that is not covered by Social Security (for example, federal civil service and some state or local government agencies, such as police officers and some teachers) may cause the amount of the beneficiary’s Social Security benefit to be reduced. The benefit can be reduced based on one of two provisions.

1. The first provision is the **Government Pension Offset** (GPO), which we’ve already briefly touched upon. This applies only if the beneficiary receives a government pension not covered by Social Security and they are eligible for Social Security benefits as a spouse or widow or widower. Under the GPO provision, the Social Security Administration may reduce the beneficiary’s Social Security benefit as a spouse or widow/widower.

2. The second provision is the **Windfall Elimination Provision** (WEP), which we’ve also already touched upon. This affects how the Social Security Administration calculates the beneficiary’s Social Security retirement or disability benefits if they receive a pension from work not covered by Social Security.

**SOCIAL SECURITY CLAIM NUMBERS**

Once the Social Security Administration receives a benefit claim, a claim number will be issued. Claim numbers are a combination of the beneficiary’s Social Security number and an alphabetic letter that serves as the individual identifier.
When reporting any change, beneficiaries must provide the claim number. If benefits are being received based on the beneficiary’s own account, the claim number will be the same as the beneficiary’s Social Security number followed by the letter “A.” For example, if you are a wage earner applying for benefits and your Social Security number is 123-45-6789, your claim number will be 123-45-6789A. If a beneficiary is receiving benefits on someone else’s account, their claim number will be the other person’s Social Security number followed by a different letter. The claim number is shown on the award notice received when the beneficiary’s benefits began. This number will also be used as the beneficiary’s Medicare claim number once they become eligible for Medicare.

Following is a listing of codes and their respective identifiers.
### Social Security Claim Identification Codes

<table>
<thead>
<tr>
<th>Code</th>
<th>Identification</th>
<th>Code</th>
<th>Identification</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Primary Claimant (wage earner)</td>
<td>E5</td>
<td>Surviving divorced father</td>
</tr>
<tr>
<td>B</td>
<td>Aged wife, age 62 or over</td>
<td>F1</td>
<td>Parent (father)</td>
</tr>
<tr>
<td>B1</td>
<td>Aged husband, age 62 or over</td>
<td>F2</td>
<td>Parent (mother)</td>
</tr>
<tr>
<td>B2</td>
<td>Young wife, with a child in her care</td>
<td>F3</td>
<td>Stepfather</td>
</tr>
<tr>
<td>B3</td>
<td>Aged wife, age 62 or over, second claimant</td>
<td>F4</td>
<td>Stepmother</td>
</tr>
<tr>
<td>B5</td>
<td>Young wife, with a child in her care, second claimant</td>
<td>F5</td>
<td>Adopting father</td>
</tr>
<tr>
<td>B6</td>
<td>Divorced wife, age 62 or over</td>
<td>F6</td>
<td>Adopting mother</td>
</tr>
<tr>
<td>BY</td>
<td>Young husband, with a child in his care</td>
<td>HA</td>
<td>Disabled claimant (wage earner)</td>
</tr>
<tr>
<td>C1-C9</td>
<td>Child – includes minor, student, or disabled child</td>
<td>HB</td>
<td>Aged wife of disabled claimant, age 62 or over</td>
</tr>
<tr>
<td>D</td>
<td>Aged widow, age 60 or over</td>
<td>M</td>
<td>Uninsured – Premium Health Insurance Benefits (Part A)</td>
</tr>
<tr>
<td>D1</td>
<td>Aged widower, age 60 or over</td>
<td>M1</td>
<td>Uninsured – Qualified for but refused Health Insurance Benefits (Part A)</td>
</tr>
<tr>
<td>D2</td>
<td>Aged widow (2nd claimant)</td>
<td>T</td>
<td>Uninsured – Entitled to HIB (Part A) under deemed or renal provisions; or fully insured who have elected entitlement only to HIB</td>
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<td>D3</td>
<td>Aged widower (2nd claimant)</td>
<td>TA</td>
<td>Medicare Qualified Government Employment (MQGE)</td>
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<td>D6</td>
<td>Surviving divorced wife age 60 or over</td>
<td>TB</td>
<td>MQGE aged spouse</td>
</tr>
<tr>
<td>E</td>
<td>Widowed mother</td>
<td>W</td>
<td>Disabled widow</td>
</tr>
<tr>
<td>E1</td>
<td>Surviving divorced mother</td>
<td>W1</td>
<td>Disabled widower</td>
</tr>
<tr>
<td>E4</td>
<td>Widowed father</td>
<td>W6</td>
<td>Disabled surviving divorced wife</td>
</tr>
</tbody>
</table>

Illustration 3.1
POINTS TO PONDER — YOUR RESPONSIBILITIES TO SOCIAL SECURITY

• If direct deposit accounts change, do NOT close out the old account until the new account has successfully received the first Social Security benefit deposit. It takes 30 to 60 days for the Administration to record the change.

• If a beneficiary legally changes their name, their benefits will continue to be issued under the previous name unless the Administration is notified.

• The Administration must be notified when a beneficiary is receiving benefits and is planning to travel outside the United States for 30 days or more.

• If a Social Security beneficiary dies, payments will not be made for the month in which the beneficiary died. If a payment is received, it must be returned to the Administration.

• Social Security benefits will be suspended if an eligible person is confined in a jail, prison, or other penal institution for more than 30 continuous days due to conviction of a crime.

• If a beneficiary’s marital status changes, benefits may be recalculated.

• Benefit overpayments must be reported to the Administration and are subject to appeal.
CHAPTER 3 REVIEW QUESTIONS — YOUR RESPONSIBILITIES TO SOCIAL SECURITY

Which of the following answers/completes each question/sentence the best?
(Answers are in the back of the text.)

1. If you do not notify the Social Security Administration of a legal name change, your benefits will:
   a) be suspended.
   b) be reduced.
   c) be issued under the previous name.
   d) terminate permanently.

2. If you are planning to travel outside the United States for ________ or more, you must notify the Social Security Administration.
   a) 7 days
   b) 30 days
   c) six months
   d) one year

3. If a beneficiary changes financial institutions or accounts, or opens a new account, they should close their original account right away.
   a) TRUE
   b) FALSE

4. If an eligible person is confined in a jail, prison, or other penal institution for more than ________ due to conviction of a crime, Social Security benefits will be suspended.
   a) 7 continuous days
   b) 7 total days
   c) 30 continuous days
   d) 60 total days

5. If your marital status changes, your benefits may be:
   a) terminated.
   b) suspended.
   c) penalized.
   d) recalculated.
Social Security is part of the retirement plan of almost every American worker. Choosing when to retire is an important yet very personal decision. Regardless of the age at which a person chooses to retire, it is an excellent idea to familiarize oneself with the available options Social Security provides in order to make an informed decision. In some cases, merely the choice of the retirement month, let alone the year, could mean higher benefit payments for a beneficiary as well as for the beneficiary’s family.

In this chapter we will look at retirement benefits and the aspects involved in estimating benefit amounts at various qualifying retirement ages. The three retirement ages we will look at closely are early retirement age—the earliest year in which retirement benefits can be claimed (age 62), full retirement age—also referred to as “normal retirement age” or FRA (66-67), and delayed retirement age—the latest age in which to claim benefits without accruing extra credit (age 70).

We will learn how a person’s Primary Insurance Amount (PIA) is determined and the formulas used for those determinations when calculating retirement benefits at different qualifying ages. We’ll learn how the Cost of Living Adjustments (COLAs) and Delayed Retirement Credits (DRCs) can substantially increase a beneficiary’s benefits over their lifetime.

One of the most important questions retirees can ask themselves is, “When should I retire?” We’ll investigate the many factors that influence the answer to that question, such as:

- *Is the beneficiary still working?*
- *Does longevity run in the beneficiary’s family?*
- *Will the beneficiary continue to have health insurance?*
- *Is the beneficiary eligible for benefits on another person’s record?*
- *Will the beneficiary have other income such as pension plans available?*
- *Will other family members qualify for benefits on their own record or on the beneficiary’s record?*
Any individual planning retirement needs to know the answers to these questions in order to make the decision that is right for them. Advisors need the answers to these questions to constructively guide their clients appropriately. There is no right or wrong answer to any of those questions, but the answers are major influences on the decision of when to begin taking benefits, and which benefits to apply for.

When individuals reach retirement age and continue to work, complex situations may develop. If an eligible individual decides to take benefits while still working, there are many items they need to be aware of, such as earnings limits. Just how much can a person earn and still collect retirement benefits?

Various occupations and how those occupations interact with Social Security benefits need to be explored, such as:

- Self-employed individuals;
- Domestic workers;
- Military personnel; and
- Employment involved in family-run businesses.

Answers to many questions will be provided within the context of this chapter. These answers will have a direct influence on how to maximize individual and auxiliary (family members) Social Security benefits.

- What about those individuals who are not living in a conventional marriage, such as same-sex couples and common-law marriages?
- What happens to a beneficiary’s benefits when they are living outside the United States?
- How are benefits taxed?
- How does a person apply for benefits?
- What happens if benefits are denied?
- Once benefits are approved, how will beneficiaries receive their money?

**HOW WORK CREDITS ARE EarnED**

In order to become eligible for retirement benefits, participants need a certain number of work credits. Credits are earned through the time a person works and contributes to FICA. The number of credits needed depends upon the individual’s age and the type of benefit for which they are applying. Individual's can earn a maximum of four
credits each year. Most people need 40 credits (ten years) to qualify for retirement benefits. In 2016, a worker must receive $1,260 in covered earnings to get one Social Security or Medicare work credit and $5,040 to get the maximum of four credits for the year.

During most workers’ lifetime, they will probably earn more credits than the minimum number needed to be eligible for benefits. Extra credits, however, do not increase benefit amounts. The average earnings over a person’s working years determine how much his or her monthly benefit payment will be.

Not all income is counted as “income” for Social Security benefit purposes, however. For instance, pension payments or interest or dividends on savings and investments is not counted as income since Social Security tax is not paid on these types of revenue.

Self-employed individuals must generally have net earnings of at least $400 a quarter to earn one credit. The self-employed earn credits the same way employees do (one credit for each $1,260 in net earnings, but no more than four credits per year). Special rules apply if you have net annual earnings of less than $400.

Military personnel earn credits the same way civilian employees do; however, they may also get additional earnings credits under certain conditions. (For more information, read Military Service and Social Security, Publication No. 05-10017.)

The number of work credits a person needs to receive retirement benefits depends on their date of birth. If the individual was born in 1929 or later, they need 40 credits. Individuals born before 1929 need fewer than 40 credits (39 credits if born in 1928; 38 credits if born in 1927, etc.).

If an individual becomes disabled before age 62, the number of credits needed for entitlement to disability benefits depends on their age at the time they become disabled. If a beneficiary dies before age 62, the number of credits needed for eligible family members to receive survivors benefits on the worker’s record depends on the beneficiary’s age at the time of death.

**RETIREMENT AGES**

Social Security will pay benefits based on three different ages, or times, when benefits begin:

1. Early Retirement Age;
2. Full Retirement Age; and
3. Delayed Retirement.

Early retirement benefits can begin as early as 62 years of age. Benefits are typically taken at full (or "normal") retirement age (66-67). However, taking benefits can also be delayed until after full retirement age (referred to as “delayed retirement”) up to age 70.

Not only is age a determining factor on when to begin collecting benefits and how much those monthly payments will be, Social Security also puts a cap or limit on the amount of benefits that can be paid out. The cap is not affected by how much income the beneficiary produced before he or she retired. Those limits vary according to the age in which the beneficiary begins receiving benefits.

In general, the longer a beneficiary waits to begin receiving benefits, the more the benefit amount will be. For instance, if a beneficiary takes early retirement benefits in 2016 at age 62, his or her maximum benefit would be $2,102 (a 25 percent reduction for early withdrawal). If they retire in 2016 at their full retirement age, their maximum benefit would be $2,639. If they retire in 2016 at age 70, their maximum benefit would be $3,576.8

**MAXIMUM SOCIAL SECURITY BENEFIT**

<table>
<thead>
<tr>
<th>MAXIMUM BENEFIT</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early Retirement Age at 62</td>
<td>$2,102</td>
</tr>
<tr>
<td>Full Retirement Age at 66</td>
<td>$2,639</td>
</tr>
<tr>
<td>Delayed Retirement Age at 70</td>
<td>$3,576</td>
</tr>
</tbody>
</table>

Generally speaking, an individual’s earnings history determines their Social Security retirement benefit amount. That information typically comes from the earnings reported on the individual’s W-2 form—or if the individual is self-employed, from their self-employment earnings reported on their income tax return.

A married couple’s lifetime earnings are calculated independently. Spouses get monthly benefits based on their individual earnings. Each spouse receives a monthly benefit amount based on his or her own earnings. However, if one person earned

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8 SSA, *What is the maximum Social Security retirement benefit payable?*
lower wages than the other, or did not earn enough Social Security credits to be insured for retirement benefits, he or she may be eligible to receive benefits as a spouse.

Social Security benefits are paid the month after they are due. So, for instance, if you are eligible to receive your first benefit payment in May, you will receive your first benefit check in June. If you want to receive your first benefit check in May, you need to be eligible for benefits in April and you must inform Social Security that you want your benefits to begin that month.

**EARLY RETIREMENT AGE — 62 TO FRA**

Early retirement benefits can begin as early as at age 62. Generally, age 62 through 65 (with monthly increments until reaching 66 years of age or FRA) is referred to as the early retirement years.

If a beneficiary chooses to begin receiving benefits early, the benefits will be reduced based on the number of months the beneficiary receives benefits before they reach their full retirement age. The reduction in their benefit amount also depends on the year they were born.

If the beneficiary's full retirement age is older than 65 (that is, they were born after 1937) and they want to take their benefits at age 62, the reduction in their benefit amount will be greater than it is for people who were born before 1938.

The tables on the following pages illustrate how a beneficiary’s retirement benefit will be reduced for early retirement and also how the beneficiary’s spouse will be affected if he or she files for spouses benefits.
## Retirement Benefit Reductions at Age 62

<table>
<thead>
<tr>
<th>Begin benefits at age 62</th>
<th>AND YOU ARE THE…</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>…Wage Earner, the retirement benefit you will receive is reduced to:¹</td>
</tr>
<tr>
<td>62</td>
<td>75.0</td>
</tr>
<tr>
<td>62 + 1 month</td>
<td>75.4</td>
</tr>
<tr>
<td>62 + 2 months</td>
<td>75.8</td>
</tr>
<tr>
<td>62 + 3 months</td>
<td>76.3</td>
</tr>
<tr>
<td>62 + 4 months</td>
<td>76.7</td>
</tr>
<tr>
<td>62 + 5 months</td>
<td>77.1</td>
</tr>
<tr>
<td>62 + 6 months</td>
<td>77.5</td>
</tr>
<tr>
<td>62 + 7 months</td>
<td>77.9</td>
</tr>
<tr>
<td>62 + 8 months</td>
<td>78.3</td>
</tr>
<tr>
<td>62 + 9 months</td>
<td>78.8</td>
</tr>
<tr>
<td>62 + 10 months</td>
<td>79.2</td>
</tr>
<tr>
<td>62 + 11 months</td>
<td>79.6</td>
</tr>
</tbody>
</table>

¹(percent), ²(percent)  
Illustration 4.2
## Retirement Benefit Reductions at Age 63

<table>
<thead>
<tr>
<th>Begin Benefits at Age 63</th>
<th>AND YOU ARE THE...</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>...Wage Earner, the retirement benefit you will receive is reduced to:</td>
<td>...Spouse, the retirement benefit you will receive is reduced to:</td>
<td></td>
</tr>
<tr>
<td>63</td>
<td>80.0</td>
<td>37.5</td>
<td></td>
</tr>
<tr>
<td>63 + 1 month</td>
<td>80.6</td>
<td>37.8</td>
<td></td>
</tr>
<tr>
<td>63 + 2 months</td>
<td>81.1</td>
<td>38.2</td>
<td></td>
</tr>
<tr>
<td>63 + 3 months</td>
<td>81.7</td>
<td>38.5</td>
<td></td>
</tr>
<tr>
<td>63 + 4 months</td>
<td>82.2</td>
<td>38.9</td>
<td></td>
</tr>
<tr>
<td>63 + 5 months</td>
<td>82.8</td>
<td>39.2</td>
<td></td>
</tr>
<tr>
<td>63 + 6 months</td>
<td>83.3</td>
<td>39.6</td>
<td></td>
</tr>
<tr>
<td>63 + 7 months</td>
<td>83.9</td>
<td>39.9</td>
<td></td>
</tr>
<tr>
<td>63 + 8 months</td>
<td>84.4</td>
<td>40.3</td>
<td></td>
</tr>
<tr>
<td>63 + 9 months</td>
<td>85.0</td>
<td>40.6</td>
<td></td>
</tr>
<tr>
<td>63 + 10 months</td>
<td>85.6</td>
<td>41.0</td>
<td></td>
</tr>
<tr>
<td>63 + 11 months</td>
<td>86.1</td>
<td>41.3</td>
<td></td>
</tr>
</tbody>
</table>

\(^{1}(\text{percent}), \quad^{2}(\text{percent})

Illustration 4.3
# Retirement Benefit Reductions at Age 64

<table>
<thead>
<tr>
<th>Begin Benefits at Age 64</th>
<th>AND YOU ARE THE…</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>…Wage Earner, the retirement benefit you will receive is reduced to: (^1)</td>
</tr>
<tr>
<td>64</td>
<td>86.7</td>
</tr>
<tr>
<td>64 + 1 month</td>
<td>87.2</td>
</tr>
<tr>
<td>64 + 2 months</td>
<td>87.8</td>
</tr>
<tr>
<td>64 + 3 months</td>
<td>88.3</td>
</tr>
<tr>
<td>64 + 4 months</td>
<td>88.9</td>
</tr>
<tr>
<td>64 + 5 months</td>
<td>89.4</td>
</tr>
<tr>
<td>64 + 6 months</td>
<td>90.0</td>
</tr>
<tr>
<td>64 + 7 months</td>
<td>90.6</td>
</tr>
<tr>
<td>64 + 8 months</td>
<td>91.1</td>
</tr>
<tr>
<td>64 + 9 months</td>
<td>91.7</td>
</tr>
<tr>
<td>64 + 10 months</td>
<td>92.2</td>
</tr>
<tr>
<td>64 + 11 months</td>
<td>92.8</td>
</tr>
</tbody>
</table>

\(^1\)(percent), \(^2\)(percent)

Illustration 4.4
### Retirement Benefit Reductions at Age 65

<table>
<thead>
<tr>
<th>Benefit Reductions at Age 65</th>
<th>Begin Benefits at Age 65</th>
<th>...Wage Earner, the retirement benefit you will receive is reduced to:</th>
<th>...Spouse, the retirement benefit you will receive is reduced to:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Begin Benefits at Age 65</td>
<td>65</td>
<td>93.3 percent</td>
<td>45.8 percent</td>
</tr>
<tr>
<td></td>
<td>65 + 1 month</td>
<td>93.9 percent</td>
<td>46.2 percent</td>
</tr>
<tr>
<td></td>
<td>65 + 2 months</td>
<td>94.4 percent</td>
<td>46.5 percent</td>
</tr>
<tr>
<td></td>
<td>65 + 3 months</td>
<td>95.0 percent</td>
<td>46.9 percent</td>
</tr>
<tr>
<td></td>
<td>65 + 4 months</td>
<td>95.6 percent</td>
<td>47.2 percent</td>
</tr>
<tr>
<td></td>
<td>65 + 5 months</td>
<td>96.1 percent</td>
<td>47.6 percent</td>
</tr>
<tr>
<td></td>
<td>65 + 6 months</td>
<td>96.7 percent</td>
<td>47.9 percent</td>
</tr>
<tr>
<td></td>
<td>65 + 7 months</td>
<td>97.2 percent</td>
<td>48.3 percent</td>
</tr>
<tr>
<td></td>
<td>65 + 8 months</td>
<td>97.8 percent</td>
<td>48.6 percent</td>
</tr>
<tr>
<td></td>
<td>65 + 9 months</td>
<td>98.3 percent</td>
<td>49.0 percent</td>
</tr>
<tr>
<td></td>
<td>65 + 10 months</td>
<td>98.9 percent</td>
<td>49.3 percent</td>
</tr>
<tr>
<td></td>
<td>65 + 11 months</td>
<td>99.4 percent</td>
<td>49.7 percent</td>
</tr>
<tr>
<td></td>
<td>66</td>
<td>100.0 percent</td>
<td>50.0 percent</td>
</tr>
</tbody>
</table>

\(^{1}\text{(percent)}, \ ^{2}\text{(percent)}

**Illustration 4.5**

*Note: If the beneficiary’s birthday is on the 1st of the month, Social Security will figure the benefit as if their birthday were the previous month.*

### Full Retirement Age (FRA)

The age at which full retirement benefits become payable gradually increases for beneficiaries who were born between 1943 and 1960. Though age 66 is considered full (or normal) retirement age at this point in time, the FRA actually increases gradually in monthly increments depending upon a person’s year of birth.
FULL RETIREMENT AGE (FRA) ACCORDING TO BIRTH YEAR

<table>
<thead>
<tr>
<th>BIRTH YEAR</th>
<th>FULL RETIREMENT AGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1943-1954</td>
<td>66</td>
</tr>
<tr>
<td>1955</td>
<td>66 and 2 months</td>
</tr>
<tr>
<td>1956</td>
<td>66 and 4 months</td>
</tr>
<tr>
<td>1957</td>
<td>66 and 6 months</td>
</tr>
<tr>
<td>1958</td>
<td>66 and 8 months</td>
</tr>
<tr>
<td>1959</td>
<td>66 and 10 months</td>
</tr>
<tr>
<td>1960 or later</td>
<td>67</td>
</tr>
</tbody>
</table>

Illustration 4.6

VOLUNTARY SUSPENSION

If a beneficiary has reached their full retirement age, but is not yet age 70, they can apply for retirement benefits and then request to have payments suspended.

- If you apply for benefits and the Administration has not yet made a determination that you are entitled, you may voluntarily suspend benefits for any month for which you have not received a payment. Your request to suspend benefits may include all months for which you might be due a benefit.

- If you are already entitled to benefits, you may voluntarily suspend retirement benefit payments up to age 70 beginning with the month after the month when you make the request.

The Administration pays Social Security benefits the month after they are due. For instance, if a beneficiary contacts the Administration in June and requests to suspend benefits, they will still receive their June benefit payment in July.

A voluntary suspension request can be made orally or in writing. If benefit payments are suspended, they will start automatically the month the beneficiary reaches age 70.

If the beneficiary changes his or her mind and wants payments to start before age 70, the request can be made orally or in writing. The request may also include benefits for any months when payments were suspended.

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9 SSA, Retirement Planner: Full Retirement Age
THE FILE AND SUSPEND STRATEGY NO LONGER APPLIES

With the file and suspend method, one member of a couple would file for benefits and immediately request that Social Security “suspend” (not send) their checks.

The first spouse would apply for retirement benefits and have those payments suspended so that the second spouse could collect their share of the first spouse’s benefits in the form of spouses benefits. In order for one person (e.g., wife) to file spouses benefits, the spouse (e.g., husband) must have filed for benefits first. (If the worker did not receive benefits for months after reaching full retirement age, the delayed retirement credit increases the spouses benefit amount.) The file and suspend strategy worked extremely well when one spouse had a much lower lifetime earning’s record than the other.

The following bullet points demonstrate how the “file and suspend” strategy worked best.

- The high-earning spouse (husband in this case) files for his own retirement benefit at age 66. Doing so enables his wife to become eligible for spouses benefits.
- The husband subsequently requests that Social Security suspend his retirement benefit so that he can earn delayed retirement credits past his full retirement age.
- His wife files for spouses benefits on her husband’s account and leaves her own retirement record to accrue as well.

Using this strategy, the beneficiary’s spouse could receive a spouses benefit and the beneficiary would continue to earn delayed retirement credits, up until age 70 of course. However, the ruling was changed through the Bipartisan Budget Act of 2015, making the strategy no longer available.

Now, effective April 30, 2016, the method means that someone who suspends his or her benefits is treated as suspending all associated benefits, including his spouse—thus eliminating the file and suspend strategy as a means of maximizing benefits for married couples.
THE Bipartisan BUDGET ACT OF 2015

The new rules for voluntary suspension are a result of the Bipartisan Budget Act of 2015. Following are key points in the new ruling, effective April 30, 2016, issued by the Administration.

- We [SSA] will no longer permit suspension of retroactive benefits in situations where you apply for benefits and we have not yet made a determination regarding your entitlement.
- If you voluntarily suspend your retirement benefit and you have others who receive benefits on your record, they will not be able to receive benefits for the same period that your benefits are suspended. Please note that there is one exception—divorced spouses will be able to continue receiving benefits.
- If you voluntarily suspend your retirement benefit, any benefits you receive on someone else’s record will also be suspended. Your Part B premiums cannot be deducted from your suspended benefits.
- If you request voluntary suspension on or after April 30, 2016, we [SSA] will only permit benefit reinstatement beginning with the month after the month of your request.

The new rules will not affect individuals who had already suspended their benefits before April 30, 2016. If the request was submitted before that date and the beneficiary’s spouse or children become entitled to benefits either before or after that date, they will not be affected by the new rules and will continue to receive payments. In addition, the new rules do not affect divorced spouses’ benefits.

Section 831(a) of the Act, closure of unintended loopholes, states that an individual who applies for a spousal benefit is automatically deemed to have also applied for his or her own retirement benefit. A restricted application to only one person’s benefit is no longer allowed, thereby preventing married couples from taking advantage of the “claim now, claim more later” method.

Note: More complete details on the file and suspend revocation, the deeming provision, and the retroactive benefit rescission will be provided later.
**DELAYED RETIREMENT — AFTER FRA**

If a beneficiary does not need their Social Security retirement benefit for living expenses, it can be most beneficial to delay taking benefits until after they reach full retirement age (up to age 70). If benefits are suspended, they will start automatically the month the beneficiary reaches age 70.

Monthly benefits increase substantially once FRA is passed, increasing the retirement benefit at the rate of approximately eight percent per year of delay plus cost of living increases.

**Note:** If a beneficiary applies for benefits more than six months after the month they reach full retirement age, Social Security will only pay benefits for the previous six months. For instance, if you file for benefits eight months after you reach your FRA, you will still receive benefits for only six of those eight months.

If a beneficiary waits until after reaching full retirement age, their benefit will be increased by a certain percentage (depending on the year they were born) and will be added in automatically each month from the time the beneficiary reaches full retirement age until they start taking benefits—or until they reach age 70, whichever comes first. It is not mandatory that benefits be taken by age 70, but delayed retirement credit increases no longer apply, even if the beneficiary continues to delay filing. So it really does a person no good to keep postponing benefits once they have reached 70 years of age. The only way the benefit amount will increase at that point is through any annual cost of living increases, which would apply regardless of whether benefits were taken or not. However, cost of living adjustments are not guaranteed.

The first chart (*Illustration 4.7*) shown below demonstrates how much benefits are increased each month and each year due to delayed retirement.
PERCENTILE INCREASE FOR DELAYED RETIREMENT

<table>
<thead>
<tr>
<th>YEAR OF BIRTH</th>
<th>YEARLY RATE OF INCREASE</th>
<th>MONTHLY RATE OF INCREASE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1933-1934</td>
<td>5.5</td>
<td>11/24 of 1%</td>
</tr>
<tr>
<td>1935-1936</td>
<td>6.0</td>
<td>1/2 of 1%</td>
</tr>
<tr>
<td>1937-1938</td>
<td>6.5</td>
<td>13/24 of 1%</td>
</tr>
<tr>
<td>1939-1940</td>
<td>7.0</td>
<td>7/12 of 1%</td>
</tr>
<tr>
<td>1941-1942</td>
<td>7.5</td>
<td>5/8 of 1%</td>
</tr>
<tr>
<td>1943 or later</td>
<td>8.0</td>
<td>2/3 of 1%</td>
</tr>
</tbody>
</table>

**Note:** If you were born on January 1st, you should refer to the rate of increase for the previous year.

\(^{1}\text{percent}\)

**Illustration 4.7**

The following charts (*Illustrations 4.8 - 4.11*) demonstrate how delayed retirement affects a beneficiary’s benefit, assuming their full retirement age, from age 66 to 70. You can see that by age 70, the increase has grown by 132 percent. The increase is based on the beneficiary’s date of birth and the number of months they delay the start of retirement benefits. For instance, if the beneficiary begins receiving retirement benefits:

- At age 67, they will receive 108 percent of the monthly benefit because they delayed getting benefits for 12 months; or
- At age 70, they will receive 132 percent of the monthly benefit because they delayed getting benefits for 48 months.
## Delayed Retirement Credits After Age 66

<table>
<thead>
<tr>
<th>Begin Benefits at Age 66</th>
<th>Multiply Your Full Retirement Benefit by: (^1)</th>
<th>2016 Maximum Benefit (^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>66</td>
<td>100.0</td>
<td>$2,639</td>
</tr>
<tr>
<td>66 + 1 month</td>
<td>100.7</td>
<td>$2,657</td>
</tr>
<tr>
<td>66 + 2 months</td>
<td>101.3</td>
<td>$2,673</td>
</tr>
<tr>
<td>66 + 3 months</td>
<td>102.0</td>
<td>$2,691</td>
</tr>
<tr>
<td>66 + 4 months</td>
<td>102.7</td>
<td>$2,710</td>
</tr>
<tr>
<td>66 + 5 months</td>
<td>103.3</td>
<td>$2,726</td>
</tr>
<tr>
<td>66 + 6 months</td>
<td>104.0</td>
<td>$2,744</td>
</tr>
<tr>
<td>66 + 7 months</td>
<td>104.7</td>
<td>$2,763</td>
</tr>
<tr>
<td>66 + 8 months</td>
<td>105.3</td>
<td>$2,778</td>
</tr>
<tr>
<td>66 + 9 months</td>
<td>106.0</td>
<td>$2,797</td>
</tr>
<tr>
<td>66 + 10 months</td>
<td>106.7</td>
<td>$2,815</td>
</tr>
<tr>
<td>66 + 11 months</td>
<td>107.3</td>
<td>$2,831</td>
</tr>
</tbody>
</table>

\(^1\) \text{(percent)}; \(^2\) \text{(Results are rounded down to the nearest dollar and do not contain COLA)}

Illustration 4.8
## Delayed Retirement Credits After Age 67

<table>
<thead>
<tr>
<th>Begin Benefits at Age 67</th>
<th>Multiply Your Full Retirement Benefit by:</th>
<th>2016 Maximum Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>67</td>
<td>108.0</td>
<td>$2,850</td>
</tr>
<tr>
<td>67 + 1 month</td>
<td>108.7</td>
<td>$2,868</td>
</tr>
<tr>
<td>67 + 2 months</td>
<td>109.3</td>
<td>$2,884</td>
</tr>
<tr>
<td>67 + 3 months</td>
<td>110.0</td>
<td>$2,902</td>
</tr>
<tr>
<td>67 + 4 months</td>
<td>110.7</td>
<td>$2,921</td>
</tr>
<tr>
<td>67 + 5 months</td>
<td>111.3</td>
<td>$2,937</td>
</tr>
<tr>
<td>67 + 6 months</td>
<td>112.0</td>
<td>$2,955</td>
</tr>
<tr>
<td>67 + 7 months</td>
<td>112.7</td>
<td>$2,974</td>
</tr>
<tr>
<td>67 + 8 months</td>
<td>113.3</td>
<td>$2,989</td>
</tr>
<tr>
<td>67 + 9 months</td>
<td>114.0</td>
<td>$3,008</td>
</tr>
<tr>
<td>67 + 10 months</td>
<td>114.7</td>
<td>$3,026</td>
</tr>
<tr>
<td>67 + 11 months</td>
<td>115.3</td>
<td>$3,042</td>
</tr>
</tbody>
</table>

\(^1\) (percent), \(^2\) (Results are rounded down to the nearest dollar and do not contain COLA)

Illustration 4.9
# Delayed Retirement Credits After Age 68

## Delayed Retirement Credits After Age 68 FRA

<table>
<thead>
<tr>
<th>Begin Benefits at Age 68</th>
<th>Multiply Your Full Retirement Benefit by:</th>
<th>2016 Maximum Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>68 + 0 months</td>
<td>116.0</td>
<td>$3,061</td>
</tr>
<tr>
<td>68 + 1 month</td>
<td>116.7</td>
<td>$3,079</td>
</tr>
<tr>
<td>68 + 2 months</td>
<td>117.3</td>
<td>$3,095</td>
</tr>
<tr>
<td>68 + 3 months</td>
<td>118.0</td>
<td>$3,114</td>
</tr>
<tr>
<td>68 + 4 months</td>
<td>118.7</td>
<td>$3,132</td>
</tr>
<tr>
<td>68 + 5 months</td>
<td>119.3</td>
<td>$3,148</td>
</tr>
<tr>
<td>68 + 6 months</td>
<td>120.0</td>
<td>$3,166</td>
</tr>
<tr>
<td>68 + 7 months</td>
<td>120.7</td>
<td>$3,185</td>
</tr>
<tr>
<td>68 + 8 months</td>
<td>121.3</td>
<td>$3,201</td>
</tr>
<tr>
<td>68 + 9 months</td>
<td>122.0</td>
<td>$3,219</td>
</tr>
<tr>
<td>68 + 10 months</td>
<td>122.7</td>
<td>$3,238</td>
</tr>
<tr>
<td>68 + 11 months</td>
<td>123.3</td>
<td>$3,253</td>
</tr>
</tbody>
</table>

1(Percent), 2(Results are rounded down to the nearest dollar and do not contain COLA)

Illustration 4.10
**DELAYED RETIREMENT CREDITS AFTER AGE 69**

<table>
<thead>
<tr>
<th>BEGIN BENEFITS AT AGE 69-70</th>
<th>MULTIPLY YOUR FULL RETIREMENT BENEFIT BY:</th>
<th>2016 MAXIMUM BENEFIT²</th>
</tr>
</thead>
<tbody>
<tr>
<td>69</td>
<td>124.0</td>
<td>$3,272</td>
</tr>
<tr>
<td>69 + 1 month</td>
<td>124.7</td>
<td>$3,290</td>
</tr>
<tr>
<td>69 + 2 months</td>
<td>125.3</td>
<td>$3,306</td>
</tr>
<tr>
<td>69 + 3 months</td>
<td>126.0</td>
<td>$3,325</td>
</tr>
<tr>
<td>69 + 4 months</td>
<td>126.7</td>
<td>$3,343</td>
</tr>
<tr>
<td>69 + 5 months</td>
<td>127.3</td>
<td>$3,359</td>
</tr>
<tr>
<td>69 + 6 months</td>
<td>128.0</td>
<td>$3,377</td>
</tr>
<tr>
<td>69 + 7 months</td>
<td>128.7</td>
<td>$3,396</td>
</tr>
<tr>
<td>69 + 8 months</td>
<td>129.3</td>
<td>$3,412</td>
</tr>
<tr>
<td>69 + 9 months</td>
<td>130.0</td>
<td>$3,430</td>
</tr>
<tr>
<td>69 + 10 months</td>
<td>130.7</td>
<td>$3,449</td>
</tr>
<tr>
<td>69 + 11 months</td>
<td>131.3</td>
<td>$3,465</td>
</tr>
<tr>
<td>70</td>
<td>132.0</td>
<td>$3,483</td>
</tr>
</tbody>
</table>

¹(Percent), ²(Results are rounded down to the nearest dollar and do not contain COLA)

By not taking benefits right away, a person could increase their guaranteed lifetime Social Security annual income by up to 70 to 80 percent. There is no additional benefit for delaying taking benefits past age 70—the beneficiary would just be losing out on their earned income.

**Note:** If a person decides to delay their retirement, they should still sign up for Medicare at age 65. If the eligible beneficiary does not sign up, in some circumstances their Medicare coverage may be delayed and actually cost them more.

**FILLING THE INCOME GAP**

Delaying taking retirement benefits until reaching the maximum benefit sounds good. But how does a person get by without that income? By choosing to delay taking retirement benefits, it may be necessary to find other means of income to satisfy that interim period. Many people have IRAs, 401(k)s, or profit sharing plans through their employment, or they may have other investments they’ve been holding onto. These
investments can provide much needed income as they wait for their Social Security benefit to reach its maximum.

Other individuals may continue to work, putting off retirement for a few years—or perhaps a combination of the two. Take a small amount out of an IRA and continue to work. Tax implications may be involved and a financial expert should be consulted for any of these strategies.

Many seniors who are ill prepared for retirement are turning toward reverse mortgages—many without understanding the long term affects for themselves and their heirs. For some, a reverse mortgage may work; for others, maybe not. Again, another personal choice—but, as in any decision, correct and complete information can lead to better decisions.

**A BRIEF NOTE ABOUT REVERSE MORTGAGES**

Many seniors do not have savings vehicles such as IRAs, 401(k)s, pension plans, etc., that can be utilized in conjunction with their Social Security benefits. For this very reason, popularity of the reverse mortgage has increased among seniors. Unfortunately, many do not understand all the details involved.

A reverse mortgage is a special type of home equity loan that allows a homeowner to receive cash against the value of their home without selling it. In general, a reverse mortgage converts home equity into cash in several different ways, ranging from monthly payments to an equity line of credit to one-time payouts—or through a combination of such methods.

The amount borrowed varies according to the homeowner’s age, the value of the home, current interest rates and loan fees.

For most reverse mortgages:

- The homeowner can choose to receive a lump sum payment, a monthly payment, or a line of credit;
- There are no restrictions on how the homeowner uses the remainder of the money;
- The homeowner can continue to live in the home and retain title and ownership; and
- The homeowner is still responsible for taxes, hazard insurance, and home repairs.
• However, the homeowner does not have to repay the loan as long as they continue to live in the home.
  o Instead, the amount owed based on loan payouts and interest on the loan becomes due when the homeowner (who is the last borrower—usually the last remaining spouse) dies, sells, or permanently moves out of the home.

To qualify for a reverse mortgage:

• The homeowner must be age 62 or older;
• Unlike a traditional mortgage, the homeowner does not have to provide an income or credit history to get the loan; and
• The home must be the homeowner’s primary residence.

Most people get reverse mortgages through a mortgage lender. Some credit unions and banks, with state and local housing agencies, may offer these loans as well.

Advertising these products is not necessarily misleading—but most of the finer things to consider are not presented immediately to the homeowner. For instance, upfront costs (front loading) can be very high. Homeowners also continue to be responsible for maintaining homeowners’ insurance, home repairs, paying real estate taxes, and providing mortgage insurance.

THE BENEFICIARY’S PRIMARY INSURANCE AMOUNT (PIA)

The primary insurance amount (PIA) is the benefit (before rounding down to next lower whole dollar) a beneficiary would receive if he or she elects to begin receiving benefits at their normal (full) retirement age.

As you know, Social Security benefits are computed based on a worker’s average lifetime earnings. A specific formula is used to determine the primary insurance amount. The PIA is the amount equal to the worker’s full retirement benefit at age 66 (or full retirement age). Benefits are usually expressed as a percentage of the worker’s PIA. Generally, the more a person pays into Social Security in their lifetime, the higher their PIA will be.

The beneficiary’s actual earnings are first adjusted (or indexed) to account for changes in average wages since the year earnings were received. Average monthly indexed earnings during the 35 years in which the most monies were earned are calculated.
The PIA is the sum of three separate percentages of portions of the average indexed monthly earnings (AIME). The portions depend on the year in which the beneficiary reaches age 62, becomes disabled before age 62, or dies before reaching age 62.

In order to calculate the PIA, the AIME must first be calculated. To do that, the earned income in each year is converted to today’s dollars through a wage inflation factor, and then the highest 35 years of income are averaged. The average is divided by 12 months to arrive at the monthly amount.

**PIA Formula Bend Points**

Bend points are the portions of a beneficiary’s average income (average indexed monthly earnings, or AIME) in specific dollar amounts that are indexed each year, based upon the average wage index (AWI) series. The dollar amounts in the formula are called bend points because a formula, when graphed, appears as a series of line segments joined at these amounts as shown below.
The PIA formula breaks the AIME figure into three monetary portions. These dollar amounts are the bend points of the PIA formula.

<table>
<thead>
<tr>
<th>Year</th>
<th>Dollar amounts in PIA formula</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>First</td>
<td>Second</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>$761</td>
<td>$4,586</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>749</td>
<td>4,517</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>767</td>
<td>4,624</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>791</td>
<td>4,768</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>816</td>
<td>4,917</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>826</td>
<td>4,980</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>$856</td>
<td>$5,157</td>
<td></td>
</tr>
</tbody>
</table>

As you can see by the above table (Illustration 4.12), for 2016 these portions (or bend points) are the first $856, the amount between $856 and $5,157, and the amount over $5,157.

For an individual who first becomes eligible for retirement or disability benefits in 2016, or who dies in 2016 before becoming eligible for benefits, his or her PIA will be the sum of:

- 90 percent of the first $856 of his or her AIME, plus
- 32 percent of his or her AIME over $856 and through $5,157, plus
- 15 percent of his or her AIME over $5,157.

This amount is rounded to the next lower multiple of ten cents if it is not already a multiple of $.10.

<table>
<thead>
<tr>
<th>DETERMINATION OF THE PIA BEND POINTS FOR 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>AMOUNTS IN FORMULA</td>
</tr>
<tr>
<td>--------------------</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>COMPUTATION OF BEND POINTS FOR 2016</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Illustration 4.12
An individual’s monthly retirement benefit may be based on their PIA but the amount of the check they will actually receive may be higher or lower than that figure, depending upon when they begin taking their benefits and any COLA that may be applied.

**SPECIAL MINIMUM BENEFITS**

The special minimum benefit is a special minimum PIA enacted in 1972 to provide adequate benefits to long-term low earners. To be eligible for a special minimum benefit, a person must have at least eleven years of coverage. A person acquires a year of coverage by having a certain minimum amount of earnings in the year.

Before 1979, the special minimum benefit amounts did not increase when benefit increases occurred. Legislation provided the benefit amounts for January 1973, March 1974, and January 1979. The first full special minimum PIA in 1973 was $170 per month. Cost of living adjustments were enacted beginning in June 1979.

The Administration announced that Congress is looking at several methods for revising the special minimum benefit. The benefit is projected to be functionally obsolete for retired workers beginning with those who will become eligible for benefits between 2017 and 2023.

- The number of beneficiaries receiving the special minimum PIA has declined from about 200,000 in early 1990’s to about 75,000 in 2010.

- Fewer new beneficiaries are receiving the price-indexed special minimum PIA because wage growth typically exceeds price growth, thus, their wage-indexed regular PIA is usually higher.

- 2016 is projected as the last year a new beneficiary could theoretically be awarded a special minimum PIA that is higher than his or her regular PIA, but 1998 is the last year it actually happened.

- The value of the regular PIA has held constant while the value of the special minimum PIA has declined relative to the average wage.

- The value of the regular PIA has risen while the value of the special minimum PIA has held constant relative to the poverty threshold.
In response to these facts, the Administration stated that:

“Researchers and policymakers have long expected that outcome because the special minimum benefit, which is price-indexed, has risen more slowly than the regular PIA, which is wage-indexed.”

**OLD-LAW BENEFIT CONTRIBUTION**

For persons eligible before 1979, benefits are based on average earnings rather than average indexed earnings. Social Security determines the PIA for qualified beneficiaries from a benefit table. The table is updated annually to reflect the latest automatic cost of living increase and the latest increase in the contribution and benefit base.

The “old-law” contribution and benefit base for 2016 is $88,200. This is the base that would have been effective without the enactment of the 1977 amendments to the Social Security Act. The present-law contribution and benefit base is substantially higher than the old-law base. The old-law contribution and benefit base is used by:

- The Railroad Retirement program to determine certain tax liabilities and Tier II benefits payable under that program to supplement the Tier I payments which correspond to basic Social Security benefits;
- The Pension Benefit Guaranty Corporation to determine the maximum amount of pension guaranteed under the Employee Retirement Income Security Act;
- Social Security to determine a year of coverage in computing the special minimum benefit; and
- Social Security to determine a year of coverage (acquired whenever earnings equal or exceed 25 percent of the old-law base for this purpose only) in computing benefits for persons who are also eligible to receive pensions based on non-covered employment.

The formula for determining the old-law contribution and benefit base is set by law. The formula is applicable only if a cost of living increase becomes effective for December of the year in which a determination of the base would ordinarily be made. Because there is a cost of living increase for December 2015, the formula is applicable. Thus the old-law base for next year is the same as this year’s base, $88,200.

---

COST OF LIVING ADJUSTMENTS (COLA)

The cost of living adjustment (COLA) is an adjustment made to Social Security benefits in order to modify beneficiary income in an effort to counteract the effects of inflation. COLAs were first paid in 1975 as a result of a 1972 law.

During the 1970’s, inflation was at record-high levels and, as a result, cost of living adjustments were introduced to the Social Security program. Prior to 1975, benefits were increased irregularly by special acts of Congress. Since 1975, Social Security benefits have been subject to annual cost of living adjustments based on the consumer price index (CPI). For example, if the cost of living has increased by two percent, benefits will also increase by two percent. Increases are processed in January of each year and beneficiaries are notified in advance of any additions.

In 1972 a technical error was introduced in the law, which resulted in beneficiaries getting a double adjustment for inflation. In 1977, Congress acted to correct the error through amendments to the Social Security Act affecting the way Social Security benefits are computed. Instead of making the correction immediate, they phased it in over a five-year period (this is known as the “notch” period). The term “notch” is used to refer to the difference between benefit amounts payable to individuals born after 1916 and those payable to workers with similar earnings histories born in 1916 or earlier. The phase-in period was defined as affecting those persons born in 1917-1921. Individuals in the notch generally receive higher benefits than those born after the notch, although they receive lower benefits than those born in the period prior to the notch when the error was in effect.

The cost of goods and services in the third quarter consumer price index is compared with the previous year’s third quarter. The Social Security Administration calculates the COLA by comparing the average index value of the CPI for July, August and September of each year with data from the same period in the prior year. It then adjusts all retirement benefits upward by the resulting percentage increase, if there is one. For instance, there was no adjustment in 2010 and 2011 because inflation was relatively flat.

This is the way the COLA has been calculated since its integration into the Social Security program. Meanwhile, however, lawmakers have been pushing for a different kind of inflation measure to be used to determine Social Security cost of living adjustments. As policymakers debate ways to reduce the federal budget deficit, several proposals have included a change to the way that inflation is calculated in Social Security. A new cost of living measure (chained-CPI), which grows more slowly than the current calculation (CPI-W), would reduce spending on Social
Security as well as other federally administered programs such as SSI and pensions for veterans.

The chained CPI measures living costs differently because it assumes that when prices for one thing go up, people will settle for cheaper substitutes. Cost of living increases would be lower using this method rather than with the traditional CPI calculation method. Estimates show that under the chained CPI, cost of living adjustments would average .3 percentage points below the CPI method. That works out to three dollars ($3) less on every $1,000. May not sound like much but, over time, it can certainly make a dent in a person’s retirement check. For instance, the COLA for 2014 was 1.7 percent, so a $1,250 benefit increased to $1,271.25. With the chained CPI, the same check would be $3.75 less—$1,267.50 a month or $45 a year less. For now, the method for COLA computation remains the same, with the standard CPI method.

Beneficiaries are notified every year when the COLA is announced. If benefits are received by check, beneficiaries will receive a notice explaining the cost of living adjustment with the check. If benefits are received by direct deposit, beneficiaries will be notified in advance. If there is an increase, it must be rounded to the nearest tenth of one percent. If there is no increase, or if the rounded increase is zero, there is no COLA.

The COLA increases a person’s Social Security retirement benefit by approximately the product of the COLA and the benefit amount. The exact computation, however, is more complex.

The table below (*Illustration 4.14*) shows estimated future cost of living adjustments and estimated future percentage increases in the national average wage index (AWI). These estimates are derived from the intermediate assumptions in the 2015 Social Security Trustees Report. The AWI is used to index an individual’s earnings through age 60 in the benefit calculation formula, and the COLA is used to increase benefits annually. The COLA shown for a year is effective for December of that year, but is payable in January of the following year.
### PROJECTED COLA AND AWI INCREASES

#### 2015 Trustees Report — Intermediate Assumptions

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>COLA(^1)</th>
<th>Increase in AWI(^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>1.7</td>
<td>3.1</td>
</tr>
<tr>
<td>2015</td>
<td>0.0</td>
<td>3.3</td>
</tr>
<tr>
<td>2016</td>
<td>3.1</td>
<td>5.4</td>
</tr>
<tr>
<td>2017</td>
<td>2.7</td>
<td>5.1</td>
</tr>
<tr>
<td>2018</td>
<td>2.7</td>
<td>4.9</td>
</tr>
<tr>
<td>2019</td>
<td>2.7</td>
<td>4.7</td>
</tr>
<tr>
<td>2020</td>
<td>2.7</td>
<td>4.4</td>
</tr>
<tr>
<td>2021</td>
<td>2.7</td>
<td>4.2</td>
</tr>
<tr>
<td>2022</td>
<td>2.7</td>
<td>4.2</td>
</tr>
<tr>
<td>2023</td>
<td>2.7</td>
<td>4.1</td>
</tr>
<tr>
<td>2024 and later</td>
<td>2.7</td>
<td>3.9(^*)</td>
</tr>
</tbody>
</table>

\(^1\) (percent), \(^2\) (percent), \(^*\) (average increase)

Illustration 4.14

Assuming a hypothetical 2.8 percent COLA, if a beneficiary’s monthly benefit is $2,000, the following would apply.

- In 10 years, their monthly benefit will be $2,636.
- In 20 years, their monthly benefit will be $3,474.
- In 30 years, their monthly benefit will be $4,580.

When Social Security computes a beneficiary’s retirement benefit, they use the national AWI series to index that person’s earnings. This indexation ensures that a worker’s future benefits reflect the general rise in the standard of living that occurred during his or her working lifetime.

Each Social Security benefit is based on the worker’s primary insurance amount. The PIA in turn is directly related to the primary beneficiary’s earnings through a specific benefit formula. It is the PIA that is increased by the COLA, with the result adjusted to the next lower dime.
Example

If the initial PIA is $1,275.50 and is increased by a 2.8 percent COLA, the new PIA would be $1,311.21 (after adjustment to the next lower dime).

The COLA shown for a year is effective for December of that year, but is payable in January of the following year. COLAs received from 1975 to 2015 are shown in the table (Illustration 4.15) below.

**COLA History 1975-2015**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>INCREASE(^1)</th>
<th>YEAR</th>
<th>INCREASE(^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>8.0</td>
<td>1996</td>
<td>2.9</td>
</tr>
<tr>
<td>1976</td>
<td>6.4</td>
<td>1997</td>
<td>2.1</td>
</tr>
<tr>
<td>1977</td>
<td>5.9</td>
<td>1998</td>
<td>1.3</td>
</tr>
<tr>
<td>1978</td>
<td>6.5</td>
<td>1999</td>
<td>2.5</td>
</tr>
<tr>
<td>1979</td>
<td>9.9</td>
<td>2000</td>
<td>3.5</td>
</tr>
<tr>
<td>1980</td>
<td>14.3</td>
<td>2001</td>
<td>2.6</td>
</tr>
<tr>
<td>1981</td>
<td>11.2</td>
<td>2002</td>
<td>1.4</td>
</tr>
<tr>
<td>1982</td>
<td>7.4</td>
<td>2003</td>
<td>2.1</td>
</tr>
<tr>
<td>1983</td>
<td>3.5</td>
<td>2004</td>
<td>2.7</td>
</tr>
<tr>
<td>1984</td>
<td>3.5</td>
<td>2005</td>
<td>4.1</td>
</tr>
<tr>
<td>1985</td>
<td>3.1</td>
<td>2006</td>
<td>3.3</td>
</tr>
<tr>
<td>1986</td>
<td>1.3</td>
<td>2007</td>
<td>2.3</td>
</tr>
<tr>
<td>1987</td>
<td>4.2</td>
<td>2008</td>
<td>5.8</td>
</tr>
<tr>
<td>1988</td>
<td>4.0</td>
<td>2009</td>
<td>0.0</td>
</tr>
<tr>
<td>1989</td>
<td>4.7</td>
<td>2010</td>
<td>0.0</td>
</tr>
<tr>
<td>1990</td>
<td>5.4</td>
<td>2011</td>
<td>3.6</td>
</tr>
<tr>
<td>1991</td>
<td>3.7</td>
<td>2012</td>
<td>1.7</td>
</tr>
<tr>
<td>1992</td>
<td>3.0</td>
<td>2013</td>
<td>1.5</td>
</tr>
<tr>
<td>1993</td>
<td>2.6</td>
<td>2014</td>
<td>1.7</td>
</tr>
<tr>
<td>1994</td>
<td>2.8</td>
<td>2015</td>
<td>0.0</td>
</tr>
<tr>
<td>1995</td>
<td>2.6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^1\)(percent), \(^2\)(percent)

Illustration 4.15
COLAs for the SSI program are generally the same as those for the Social Security program. However, COLAs for SSI have generally been effective for the month following the effective month of Social Security benefit increases.

In 2015 there was no COLA, so there was no increase in SSI payment amounts in 2016. The monthly maximum amounts for 2016 are $733 for an eligible individual and $1,100 for an eligible individual with an eligible spouse. The monthly amount received is reduced by subtracting any monthly countable income. In the case of an eligible individual with an eligible spouse, the amount payable is further divided equally between the two spouses. Some states supplement SSI benefits. For instance in California, the monthly maximum amount for an SSI-eligible individual is $889.40; and in Nevada, the maximum is $769.40 (2016).

2016 SOCIAL SECURITY CHANGES

Monthly Social Security and Supplemental Security Income (SSI) benefits will not automatically increase in 2016 as there was no increase in the CPI-W from the third quarter of 2014 to the third quarter of 2015. Other important 2016 Social Security information is detailed in the following tables. (Illustrations 4.16 - 4.22)

**Tax Rate**

<table>
<thead>
<tr>
<th>Tax Rate:</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Employee</td>
<td>7.65%</td>
<td>7.65%</td>
</tr>
<tr>
<td>• Self-Employed</td>
<td>15.30%</td>
<td>15.30%</td>
</tr>
</tbody>
</table>

The 7.65% tax rate is the combined rate for Social Security and Medicare. The Social security portion (OASDI) is 6.20% on earnings up to the applicable taxable maximum amount. The Medicare portion (HI) is 1.45% on all earnings. Also as of January 2013, individuals with earned income of more than $200,000 ($250,000 for married couples filing jointly) pay an additional 0.9% in Medicare taxes. The tax rates shown above do not include the 0.9%.

**Maximum Taxable Earnings**

<table>
<thead>
<tr>
<th>Maximum Taxable Earnings:</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Security (OASDI only)</td>
<td>$118,500</td>
<td>$118,500*</td>
</tr>
<tr>
<td>Medicare (HI only)</td>
<td>No Limit</td>
<td></td>
</tr>
</tbody>
</table>

*Because there is no COLA, by law these amounts remain unchanged in 2016.

Illustration 4.17
### Retirement Earnings Test Exempt Amounts

<table>
<thead>
<tr>
<th>Retirement Earnings Test Exempt Amounts:</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under FRA</td>
<td>$15,720/yr.</td>
<td>$15,720/yr.*</td>
</tr>
<tr>
<td><strong>NOTE:</strong> One dollar in benefits will be withheld for every $2 in earnings above the limit</td>
<td>($1,310/mo.)</td>
<td>($1,310/mo.)</td>
</tr>
<tr>
<td>The year an individual reaches full retirement age</td>
<td>$41,880/yr.</td>
<td>$41,880/yr.*</td>
</tr>
<tr>
<td><strong>NOTE:</strong> Applies only to earnings for months prior to attaining full retirement age. One dollar in benefits will be withheld for every $3 in earnings above the limit.</td>
<td>($3,490/mo.)</td>
<td>($3,490/mo.)</td>
</tr>
<tr>
<td>There is no limit on earnings beginning the month an individual attains FRA</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Because there is no COLA, by law these amounts remain unchanged in 2016.

### Social Security Disability Thresholds

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Substantial Gainful Activity (SGA)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Non-Blind</td>
<td>$1,090/mo.</td>
<td>$1,130/mo.</td>
</tr>
<tr>
<td>• Blind</td>
<td>$1,820/mo.</td>
<td>$1,820/mo.*</td>
</tr>
<tr>
<td>Trial Work Period (TWP)</td>
<td>$780/mo.</td>
<td>$810/mo.</td>
</tr>
</tbody>
</table>

*Because there is no COLA, by law these amounts remain unchanged in 2016.

### Maximum Social Security Benefit

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Worker retiring at full retirement age</td>
<td>$2,663/mo.</td>
<td>$2,639/mo.*</td>
</tr>
</tbody>
</table>

*A decrease in full maximum benefits occurs when there is no COLA, but there is an increase in the national average wage index.*

Illustration 4.19
**Supplemental Security Income**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual</td>
<td>$733/mo.</td>
<td>$733/mo.*</td>
</tr>
<tr>
<td>Couple</td>
<td>$1,100/mo.</td>
<td>$1,100/mo.*</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SSI Resources Limits:</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual</td>
<td>$2,000</td>
<td>$2,000</td>
</tr>
<tr>
<td>Couple</td>
<td>$3,000</td>
<td>$3,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SSI Student Exclusion:</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly limit</td>
<td>$1,780</td>
<td>$1,780*</td>
</tr>
<tr>
<td>Annual limit</td>
<td>$7,180</td>
<td>$7,180*</td>
</tr>
</tbody>
</table>

*Because there is no COLA, by law these amounts remain unchanged in 2016.

Illustration 4.21

**Estimated Average Monthly Social Security Benefits**

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>All retired workers</td>
<td>$1,341</td>
</tr>
<tr>
<td>Aged couple, both receiving benefits</td>
<td>$2,212</td>
</tr>
<tr>
<td>Widowed mother and two children</td>
<td>$2,680</td>
</tr>
<tr>
<td>Aged widow(er) alone</td>
<td>$1,285</td>
</tr>
<tr>
<td>Disabled worker, spouse and one or more children</td>
<td>$1,983</td>
</tr>
<tr>
<td>All disabled workers</td>
<td>$1,166</td>
</tr>
</tbody>
</table>

Illustration 4.22
ESTIMATE YOUR RETIREMENT BENEFITS

The average monthly Social Security benefit for a retired beneficiary changes monthly based upon the total amount of all benefits paid and the total number of beneficiaries receiving benefits.

The Social Security Administration supplies online calculators so that eligible individuals can calculate and view their potential benefits. Using the Social Security online Quick Calculator can provide a basic understanding of benefits and how they can change based upon a chosen year of retirement.

ESTIMATE YOUR SOCIAL SECURITY BENEFITS — EXAMPLES

Example #1

Elaine’s date of birth is June 1, 1954, so she becomes eligible for early retirement benefits in 2016. She wants to know what her retirement benefits will be if she begins taking her benefits at 62 or waits until her full retirement age or even if she waits until age 70. She has a good job that has provided her with a consistent salary of $50,000 per year. She uses the online Quick Calculator and takes a look at what her retirement scenarios present. At age 62 (and one month) in 2016, her benefit will be $1,866 per month; at 66, her benefit will be $2,491 per month. But if she can wait until age 70, her benefit will increase to $3,266 per month, providing her with an annual benefit of $16,800 more.

<table>
<thead>
<tr>
<th>Retirement Age</th>
<th>Monthly Benefit Amount</th>
<th>Annual Income</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>62 in 2016</td>
<td>$1,866</td>
<td>$22,392</td>
<td>(n/a)</td>
</tr>
<tr>
<td>66 in 2020</td>
<td>$2,491</td>
<td>$29,892</td>
<td>+$7,500</td>
</tr>
<tr>
<td>70 in 2024</td>
<td>$3,266</td>
<td>$39,192</td>
<td>+$16,800</td>
</tr>
</tbody>
</table>

Illustration 4.23

You can see how the benefit increased substantially with the delayed benefit credits between ages 66 to 70.

The figures in Illustration 4.23 (above) were calculated on “today’s dollars.” The information can also be shown based on future (inflated) dollars.
Now that Elaine knows what her future retirement benefits will approximately be, she also wants to see what other benefits will be available to her. She wants to look at what the disability benefits should be if she should become disabled, and also what the survivors benefits will be for her dependents should she die prematurely.

**Example #2**

*When Elaine inputs the same data, disability and survivor benefits are calculated as well. For disability and survivors estimates, Social Security makes the assumption that Elaine became disabled or died on the date the calculator was accessed. Future earnings are not calculated into the estimates.*

<table>
<thead>
<tr>
<th>Elaine’s Disability/Survivors Benefits</th>
<th>Monthly Benefit Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disability Benefits</td>
<td>$2,474.00</td>
</tr>
<tr>
<td>Survivors Benefits (Family Maximum)</td>
<td>$4,004.90</td>
</tr>
<tr>
<td>• Child</td>
<td>$1,855.00</td>
</tr>
<tr>
<td>• Spouse caring for the child</td>
<td>$1,855.00</td>
</tr>
<tr>
<td>• Spouse at full retirement age</td>
<td>$2,474.00</td>
</tr>
<tr>
<td>• Family maximum</td>
<td>$4,330.90</td>
</tr>
</tbody>
</table>

**Illustration 4.24**

Any individual can use these calculators and input different information, which allows them to compute basic scenarios and their corresponding outcomes. The actual benefit will vary, but the calculators will provide general approximations.

These calculators provide very basic information, but do not provide options for Elaine nor do they show her ways to maximize her benefits. That’s where knowledge and constructive guidance come into play, which is something a calculator cannot provide.

**HOW THE SOCIAL SECURITY ADMINISTRATION POSTS EARNINGS**

Earnings are not automatically posted to a worker’s Social Security account as soon as they are earned—or even at the end of the year. It takes some time for a person’s current year’s earnings to be posted to their Social Security account.
The Social Security Administration receives more than 260 million reports of workers’ earnings in any given year. America’s six million employers send in these reports between January and mid-April of each year.

Self-employed persons report their Social Security covered earnings on their personal income tax returns. The IRS forwards this information to Social Security after they complete their annual tax processing activity.

Social Security must then process all these reports and associate the earnings with the correct worker’s record. This is an enormous task. By the end of September of each year, however, more than 98 percent of all reported earnings will be on record.

**Correcting Your Social Security Earnings Record**

Since Social Security benefits are predicated on the amount of earnings shown on a beneficiary’s Social Security record, if those earnings are not posted correctly the beneficiary as well as the beneficiary’s eligible family members may not receive all the benefits they are entitled to. Beneficiaries should not “assume” their earnings records are correct. Any participant who is age 18 or older can check their past earnings record through their mySocialSecurity online account.

There are several reasons why some earnings may be missing from a beneficiary’s Social Security record. There is no real cause for worry if the missing earnings are for the current year or for last year. It may take the Administration some time to record recent earnings. Once they are posted, they will appear on a later statement. However, earnings could be missing from a beneficiary’s earnings record for earlier years for any of the following reasons:

- A past employer reported the beneficiary’s earnings using the wrong name or Social Security number;
- A past employer reported earnings incorrectly;
- The beneficiary got married or divorced and changed their name but never reported the change to Social Security; and
- The beneficiary worked using an incorrect Social Security number.

If a beneficiary discovers missing earnings from their Social Security record, the first thing they should do is find some proof of the missing earnings, such as:

- A W-2 form;
- A federal income tax return;
- A wage stub or pay slip;
• The earner’s own wage records; or
• Any other documents showing work records.

If the beneficiary cannot find any written documents providing proof, the following facts may be provided that will narrow the search for missing earnings:

• Where the beneficiary worked;
• The name of the beneficiary’s employer;
• The dates the beneficiary worked;
• How much the beneficiary earned; and
• The name and Social Security number the beneficiary used while performing the work.

SOCIAL SECURITY RETIREMENT BENEFIT WORKSHEET

The following worksheet shows how to estimate the Social Security monthly retirement benefit you would be eligible for at age 62, if you were born in 1954 (workers born in 1954 become age 62 in 2016 and are eligible for a benefit). It also allows you to estimate what you would receive at age 66, your full retirement age, excluding any cost-of-living adjustments for which you may be eligible. If you continue working past age 62, your additional earnings could increase your benefit. People born after 1954 can use this worksheet, but their benefit may be higher because of additional earnings and benefit increases. Individuals who were born before 1954 can visit www.socialsecurity.gov and search for Retirement Age Calculator.
### SAMPLE BENEFIT WORKSHEET

<table>
<thead>
<tr>
<th>Year</th>
<th>A. Maximum earnings</th>
<th>B. Actual earnings</th>
<th>C. Index factor</th>
<th>D. Indexed earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952</td>
<td>$3,600</td>
<td>14.46</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1953</td>
<td>$3,600</td>
<td>13.69</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1954</td>
<td>$3,600</td>
<td>13.62</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1955</td>
<td>$4,200</td>
<td>14.08</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1956</td>
<td>$4,200</td>
<td>13.16</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1957</td>
<td>$4,200</td>
<td>12.76</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1958</td>
<td>$4,200</td>
<td>12.65</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1959</td>
<td>$4,800</td>
<td>12.05</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1960</td>
<td>$4,800</td>
<td>11.60</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1961</td>
<td>$4,800</td>
<td>11.37</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1962</td>
<td>$4,800</td>
<td>10.83</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1963</td>
<td>$4,800</td>
<td>10.57</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1964</td>
<td>$4,800</td>
<td>10.16</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1965</td>
<td>$4,800</td>
<td>9.98</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1966</td>
<td>$6,600</td>
<td>9.41</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1967</td>
<td>$6,600</td>
<td>8.92</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1968</td>
<td>$7,800</td>
<td>8.34</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1969</td>
<td>$7,800</td>
<td>7.89</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1970</td>
<td>$7,800</td>
<td>7.51</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1971</td>
<td>$7,800</td>
<td>7.15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1972</td>
<td>$9,000</td>
<td>6.52</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1973</td>
<td>$10,800</td>
<td>6.13</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1974</td>
<td>$13,200</td>
<td>5.79</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1975</td>
<td>$14,100</td>
<td>5.39</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1976</td>
<td>$15,300</td>
<td>5.04</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1977</td>
<td>$16,500</td>
<td>4.75</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1978</td>
<td>$17,700</td>
<td>4.40</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1979</td>
<td>$22,900</td>
<td>4.05</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1980</td>
<td>$25,900</td>
<td>3.71</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1981</td>
<td>$29,700</td>
<td>3.37</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1982</td>
<td>$32,400</td>
<td>3.20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1983</td>
<td>$35,700</td>
<td>3.05</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Illustration 4.25\(^{11}\)

---

\(^{11}\) SSA, *Your Retirement Benefit: How It’s Figured*, Pub. No. 05-10070
**Step 1:**
Enter your actual earnings in Column B, but not more than the amount shown in Column A. If you have no earnings, enter “0.”

**Step 2:**
multiply the amounts in Column B by the index factors in Column C, and enter the results in Column D. This gives you your indexed earnings, or the approximate value of your earnings in current dollars.

**Step 3:**
Choose from Column D the 35 years with the highest amounts. Add these amounts. $__________.

**Step 4:**
Divide the result from Step 3 by 420 (the number of months in 35 years). Round down to the next lowest dollar. This will give you your average indexed monthly earnings (AIME) $__________.

**Step 5:**
(a) Multiply the first $856 in Step 4 by 90 percent $__________.
(b) Multiply the amount in Step 4 over $856 and less than or equal to $5,157 by 32 percent $__________.
(c) Multiply the amount in Step 4 over $5,157 by 15 percent. $__________.

**Step 6:**
Add a, b, and c from Step 5. Round down to the next lowest dollar. This is your estimated monthly retirement benefit at age 66, your full retirement age. $__________.

**Step 7:**
Multiply the amount in Step 6 by 75 percent. This is your estimated monthly retirement benefit if you retire at age 62. $__________.

**FAMILY MAXIMUM BENEFIT**

The maximum family benefit is the maximum monthly amount that can be paid on a worker’s earnings record. There is a special formula for computing the maximum benefits payable to the family of a disabled worker. We’ll look at that when we study disability benefits. The following, however, is devoted to the more common family maximum for retirement and survivors benefits.
The formula used to compute the maximum family benefit is similar to that used to compute the beneficiary’s primary insurance amount. The formula adds four separate percentages of portions of the worker’s PIA.

<table>
<thead>
<tr>
<th>Year</th>
<th>Dollar amounts in maximum family benefit formula</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>First</td>
</tr>
<tr>
<td>2010</td>
<td>$972</td>
</tr>
<tr>
<td>2011</td>
<td>957</td>
</tr>
<tr>
<td>2012</td>
<td>980</td>
</tr>
<tr>
<td>2013</td>
<td>1,011</td>
</tr>
<tr>
<td>2014</td>
<td>1,042</td>
</tr>
<tr>
<td>2015</td>
<td>1,056</td>
</tr>
<tr>
<td>2016</td>
<td>$1,093</td>
</tr>
</tbody>
</table>

Illustration 4.26

As you can see by the above table (Illustration 4.26), for 2016 these portions are the first $1,093, the amount between $1,093 and $1,578, the amount between $1,578 and $2,058, and the amount over $2,058. These dollar amounts are the bend points of the family-maximum formula. Thus, the family-maximum bend points for 2016 are $1,093, $1,578, and $2,058.

For a family of a worker who becomes age 62 or dies in 2016 before reaching age 62, the total amount of benefits payable will be computed so that it does not exceed:

- 150 percent of the first $1,093 of the beneficiary’s PIA, plus
- 272 percent of the beneficiary’s PIA over $1,093 through $1,578, plus
- 134 percent of the beneficiary’s PIA over $1,578 through $2,058, plus
- 175 percent of the beneficiary’s PIA over $2,058.

The total amount is then rounded to the next lower multiple of ten cents if it is not already a multiple of $.10.
## Determination of Family-Maximum Bend Points for 2016

<table>
<thead>
<tr>
<th>Amounts in Formula</th>
<th>Average Wage Indices</th>
</tr>
</thead>
<tbody>
<tr>
<td>For 1977:</td>
<td>9,779.44</td>
</tr>
<tr>
<td>For 2014:</td>
<td>46,481.52</td>
</tr>
</tbody>
</table>

### Bend Points for 1979

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>$230</td>
</tr>
<tr>
<td>Second</td>
<td>$332</td>
</tr>
<tr>
<td>Third</td>
<td>$4333</td>
</tr>
</tbody>
</table>

### Computation of Bend Points for 2016

<table>
<thead>
<tr>
<th>First Bend Point:</th>
<th>$230 x 46,481.52 + $9,779 = $1,093.19 which rounds to $1,093</th>
</tr>
</thead>
<tbody>
<tr>
<td>Second Bend Point:</td>
<td>$332 x 46,481.52 + $9,779 = $1,577.99 which rounds to $1,578</td>
</tr>
<tr>
<td>Third Bend Point:</td>
<td>$433 x 46,481.52 + $9,779 = $2,058.04 which rounds to $2,058</td>
</tr>
</tbody>
</table>

Illustration 4.27

## Factors that can Change Retirement Benefit Amounts

There are so many factors that can affect a beneficiary’s retirement benefit amount. In order to do proper planning, they all must be considered.

- **Choosing to receive benefits before full retirement age.** Individuals can begin to receive Social Security benefits as early as age 62, but at a reduced rate. The basic benefit will be reduced by a certain percentage if filing for benefits before reaching full retirement age.

- **Eligibility for cost of living benefit increases starting with the year of becoming age 62.** This is true even if the individual does not get benefits until their full retirement age or even age 70. Cost of living increases are added to the benefit beginning with the year a person reaches 62 years of age and up to the year they begin receiving benefits.
• **Delaying retirement past full retirement age.** Social Security benefits are increased by a certain percentage (depending on the beneficiary’s date of birth) if they delay receiving benefits until after reaching full retirement age. The benefit amount will be increased until they start taking benefits or until they reach age 70, whichever comes first.

• **Individuals who are a government worker with a pension.** If the beneficiary also gets or is eligible for a pension from work where they did not pay Social Security taxes (usually a government job), a different formula is applied to their average indexed monthly earnings (the Windfall Elimination Provision).

There is no single right answer for everyone. When deciding when to begin taking Social Security retirement benefits, there are even more factors that need to be taken into consideration.

**ARE YOU STILL WORKING?**

Once reaching full retirement age, there is no limit on how much the worker can earn. But if they plan to keep working and take early retirement benefits, there are limits. For 2016, the limit is $15,720. Social Security uses a formula to make the determination.

Before reaching full retirement age, for every $2 earned above the annual limit, $1 in benefits will be deducted. Upon reaching full retirement age, for every $3 earned above a different limit, $1 in benefits will be deducted, but only the earnings before the month of reaching FRA. Earnings limitation rules change during the year the worker reaches full retirement age. If the worker will reach full retirement age in 2016, the limit on their earnings for the prior month is $41,880. Upon reaching full retirement age, there are no more earnings limits. (Rules regarding the Earnings Test are explored in detail in this chapter.)

**DOES LONGEVITY RUN IN YOUR FAMILY?**

On average, one out of every four 65-year-olds today will live an additional 25 years. One out of every ten will live an additional 30 years. A 65-year-old male in 2016 is expected to average approximately 19 additional years of life; females are expected to average approximately 21 additional years.
If longevity runs in the beneficiary’s family, they may want to delay receiving benefits in favor of receiving more money in their latter years. On the other hand, if they are not in good health or if longevity does not run in their family, they may want to begin receiving benefits earlier.

**WILL YOU CONTINUE TO HAVE HEALTH INSURANCE?**

Since Medicare does not become available until age 65 for most individuals, employer-sponsored health plans may be invaluable. Married individuals may be able to continue coverage under their spouse’s health plan.

**ARE YOU ELIGIBLE FOR BENEFITS ON SOMEONE ELSE’S RECORD?**

If a beneficiary is eligible for disability benefits, they may want to delay taking retirement benefits on their own account to earn delayed retirement credits.

If a beneficiary qualifies for benefits as a surviving spouse, they may want to delay taking benefits on their own account to earned delayed retirement credits.

**WILL YOU HAVE OTHER INCOME SUCH AS PENSION PLANS OR IRAS AVAILABLE?**

If a beneficiary has other income socked away (i.e., pension plans, profit sharing plans, IRAs), it may be beneficial to delay receiving Social Security benefits. The beneficiary can tap into their IRA, for example, so that they can leave their Social Security retirement benefits to build.

If a beneficiary takes benefits and still has to withdraw from their IRA, they need to be aware of the “tax torpedo.” The tax torpedo occurs when IRA withdrawals cause the taxation of Social Security benefits and push taxpayers into a higher tax rate.

By holding off on taking Social Security benefits and living on IRA income in the early retirement years, the beneficiary could receive a larger benefit later, hence reducing the amount of taxable income they will need from their IRA. Smaller IRA withdrawals could also increase the likelihood that Social Security benefits will remain tax-free.

**WILL OTHER FAMILY MEMBERS QUALIFY FOR BENEFITS ON THEIR OWN RECORD OR ON YOUR RECORD?**

There are many scenarios that can affect the ability to make lucrative decisions when it comes to optimizing retirement benefits. For instance, for a married retiree, a good
claiming strategy may be to delay taking payments or to suspend payments thereby increasing a couple’s combined future income.

In the case of surviving spouses benefits, the surviving spouse’s benefits will be affected depending upon when the worker starts taking his or her retirement benefits. If the beneficiary’s benefits begin before he or she reaches full retirement age and they die prematurely, the surviving spouses benefit amount will be limited. The maximum survivors benefit is limited to what the beneficiary would receive if they were still alive. If the beneficiary waits until after full retirement age to begin benefits and dies prematurely, their surviving spouse may receive the full benefit amount plus any accumulated delayed retirement credits.

**Applying for Benefits**

Beneficiaries should apply for benefits approximately three months before the date they wish to begin receiving benefits. Beneficiaries can apply as early as 61 years and nine months of age. Whether they decide to file for retirement benefits or not, they should still sign up for Medicare three months before their 65th birthday.

**When Benefits are Paid**

Retirement and spouses benefits are paid the month after they are due to begin. For example, if your benefit start month is April, Social Security will pay April’s benefit in May. The exact payment date is determined by the birthdate of the retired worker. For example, if the retired worker’s date of birth is on:

- The 1st through the 10th — Benefits will be paid on the second Wednesday of the month;
- The 11th through the 20th — Benefits will be paid on the third Wednesday of the month; and
- The 21st through the 31st — Benefits will be paid on the fourth Wednesday of the month.

**Example**

Jane will be 62 on August 2nd and wants to begin her retirement benefits early. Since she was born on the 2nd day of the month, Social Security considers her to be age 62 for the entire month and therefore entitled for that month. Since retirement benefits are paid the month following entitlement, though, Jane will receive her first payment in September. Since her birthday is between the 1st and the 10th of the month, Social Security will pay her benefits on the second Wednesday of September.
If a beneficiary’s regularly scheduled date falls on a weekend or holiday, they will receive their benefit check on the preceding business day.

**RECEIVING BENEFITS WHILE STILL WORKING**

It is possible to receive retirement or survivors benefits and continue to work. Doing so could even mean a higher benefit in the future. There is, of course, a reduction for taking early benefits. However, that reduction ceases when the beneficiary reaches full retirement age. Upon reaching FRA, the Administration will recalculate the benefit amount leaving out the months that contained reduced or withheld benefits due to earnings over the set earnings limit.

**THE EARNINGS TEST EXEMPTION**

If a beneficiary begins taking worker, spouses, or survivor benefits prior to reaching full retirement age, they will be subject to the Earnings Test.

The Earnings Test applies only to workers who wish to retire before reaching their full retirement age. Social Security will withhold benefits if earnings exceed the threshold. The annual earnings limit for 2016 is $15,720—or $1,310 per month. Once the worker has reached FRA, they are no longer subject to the earnings test.

For people attaining normal retirement age (NRA) after 2016, the annual exempt amount in 2016 is $15,720. For people attaining NRA in 2016, the annual exempt amount is $41,880. The higher exempt amount applies only to earnings made in months prior to the month of NRA attainment.

Before the year in which the beneficiary reaches FRA, $1 in benefits will be deducted for every $2 earned above the annual earnings limit. This means that for every $2 earned over $15,720, Social Security will withhold $1 from the beneficiary’s benefits. Earnings in or after the month the beneficiary reaches NRA do not count toward the retirement test.

For instance, if Sean earned $20,720 in 2016, he would have earned $5,000 over the earnings limit. Social Security would withhold $2,500 from his benefit payments. ($5,000 ÷ 2 = $2,500)

You may think that the benefit reduction would be averaged and reduced proportionately each month for the year, but not so. The benefit is totally withheld until the overage is accounted for.
**Example**

Susie, age 62, files for Social Security benefits in January 2016 and her benefit is calculated to be $600 per month ($7,200 a year). She continues to work and earns $21,800 for the year, which is $6,080 over the $15,720 limit. Social Security will withhold $3,040 of her benefits ($6,080 ÷ 2 = $3,040).

How they do this is by withholding all benefit payments from January 2016 to June 2016. Beginning in July 2016, she would receive her full $600 benefit, which would continue for the remainder of the year.

**Annual Retirement Earnings Test Exempt Amounts**

<table>
<thead>
<tr>
<th>Earnings Test Exemption Amounts — 2000-2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>YEAR</strong></td>
</tr>
<tr>
<td>----------</td>
</tr>
<tr>
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<td>2014</td>
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<tr>
<td>2015</td>
</tr>
<tr>
<td><strong>2016</strong></td>
</tr>
</tbody>
</table>

<sup>1</sup>Applies in years before the year of attaining FRA

<sup>2</sup>Applies in the year of attaining FRA, for months prior to such attainment

*Illustration 4.28*
During the year the beneficiary reaches full retirement age, and up until the month they reach their FRA, $1 in benefits will be deducted for every $3 earned above the annual earnings limit ($41,880 in 2016).

**Example #1**

Joan will reach her full retirement age in November 2016 and her PIA is $2,000 a month. If Joan earns $53,880 in the first ten months of 2016, she will have exceeded the limit by $12,000. Social Security will withhold $4,000 from her benefits.

How they do this is by withholding her first two benefit payments of the FRA year. Beginning in March 2017, Joan will receive her full $2,000 benefit, which will continue through the remainder of the year—and no further deductions will be made—

Beginning with the month a beneficiary reaches full retirement age, there is no limit on their earnings.

If a beneficiary applies for benefits more than six months after they reach full retirement age, benefits will only be paid for the previous six months.

**Example #2**

Lydia begins receiving $600 a month in benefits ($7,200 a year) at age 62 in January 2016. During 2016, Lydia plans to work and earn $20,800 ($5,080 above the $15,720 limit). Social Security would withhold $2,540 of her benefits ($1 for every $2 over the limit). To do this, they would withhold all benefit payments from January 2016 through May 2016. Beginning in June 2016, Lydia would receive her $600 benefit and this amount would be paid to her each month for the remainder of the year. In 2017, Social Security would pay her the additional $460 withheld in May 2016.
The following chart (*Illustration 4.29*) will provide an idea of how much a beneficiary would receive in Social Security benefits for the year 2016, based on monthly benefits and estimated earnings.

<table>
<thead>
<tr>
<th>If your monthly Social security benefit is…</th>
<th>And you earn…</th>
<th>You’ll receive yearly benefits of…</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 700</td>
<td>$15,720 or less</td>
<td>$ 8,400</td>
</tr>
<tr>
<td>$ 700</td>
<td>$16,000</td>
<td>$ 8,260</td>
</tr>
<tr>
<td>$ 700</td>
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<td>$15,720 or less</td>
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<td>$1,100</td>
<td>$15,720 or less</td>
<td>$13,200</td>
</tr>
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</tr>
<tr>
<td>$1,100</td>
<td>$20,000</td>
<td>$11,060</td>
</tr>
</tbody>
</table>

*Illustration 4.29*

If a beneficiary continues working while receiving benefits, they may increase their AIME if their income increases their average career earnings. The Social Security Administration will check the beneficiary’s earnings record each year. If their additional earnings result in a higher monthly benefit, they will be notified of the new benefit amount.

Unemployment insurance benefits are not counted under the Social Security annual earnings test and therefore do not affect Social Security benefits. However, the receipt of a pension or other retirement income, including Social Security Railroad Retirement benefits, may reduce an individual’s unemployment benefit.

**SPECIAL EARNINGS LIMIT RULE**

Social Security provides a special rule for certain individuals who retire in mid-year, even if they’ve earned more than their annual limit. Benefits can be provided for any whole month in which the Social Security Administration considers the beneficiary retired based on certain criteria, regardless of their annual earnings.
Social Security may consider a beneficiary retired if the beneficiary will be under full retirement age for all of 2016 and the beneficiary’s earnings are $1,310 or less in any given month.

Note: The beneficiary must not have devoted more than 45 hours a month to a self-employment business during those months, or between 15 and 45 hours to a business in a highly skilled occupation.

Example

Anita retired at 62 on October 30, 2016. She will earn $45,000 through October. She takes a part-time job beginning in November earning $500 per month. Although her earnings for the year substantially exceed the 2016 annual limit of $15,720, she will receive a Social Security payment for November and December.

This is because her earnings in those months are $1,310 or less, the monthly limit for people younger than full retirement age. If she earns more than $1,310 in either November or December, she won’t receive a benefit for that month. Beginning in 2017, only the annual limit will apply to her.

If a portion of the beneficiary’s benefits are withheld because of their earnings, their monthly benefit will increase starting at their full retirement age to take into account those months in which benefits were withheld.

Example

Ralph claimed his retirement benefits when he turned 62 in 2016 and his payment is $750 per month. He decided to return to work and have 12 months of benefits withheld. Social Security would recalculate his benefit at his full retirement age of 66 and pay him $800 per month (in today’s dollars).

Now let’s say Ralph earned so much between the ages of 62 and 66 that all benefits in those years were withheld. In that case, Social Security would pay him $1,000 a month starting at age 66.

SPECIAL PAYMENTS AFTER RETIREMENT

After a person has retired, they may receive payments for work they did before retirement benefits began. Usually, those payments will not affect the beneficiary’s Social Security retirement benefit.

If a beneficiary worked for wages, any income received after retirement counts as a special payment if the last thing they did to earn the payment was completed before
the beneficiary stopped working. Some special payments to employees include bonuses, accumulated vacation or sick pay, severance pay, back pay, standby pay, sales commissions and retirement payments or deferred compensation reported on a W-2 form for one year, but earned in a previous year.

These amounts may be shown on an individual's W-2 form in the box labeled "Nonqualified Plan."

If the beneficiary was self-employed, any net income received after the first year of retirement counts as a special payment if the beneficiary performed the services to earn the payment before they were entitled to receive Social Security benefits. Special payments to self-employed individuals may include farm agricultural program payments, income from carryover crops or income derived by an owner of a business who does not perform significant services in that business.

If a beneficiary is receiving Social Security retirement benefits and their total annual earnings exceed the earnings limit because of a special payment, Social Security may not count the special payment as part of the beneficiary’s total earnings for the year. The Social Security Administration will need to be contacted directly to have any special payments disregarded.

**SELF-EMPLOYED INDIVIDUALS**

Most individuals pay into Social Security via payroll deductions through their employer. Employers deduct Social Security taxes from employee paychecks, match the contribution, and send taxes to the Internal Revenue Service (IRS).

Self-employed individuals report their earnings through their federal income tax returns and pay taxes directly to the IRS. If a self-employed individual’s net earnings are $400 or more in any given year, they must report their earnings on a separate self-employment report (Schedule SE) in addition to any other required tax forms. If a married couple operates a business together, they are entitled to Social Security credits as a partner. But they must file a separate Schedule SE or they will not get Social Security benefits from their own work because all of the earnings will be reported on one spouse’s record.

Typically, income earned through self-employment counts toward the earnings limit when that income is **received**. However, if money is received after the beneficiary has already begun receiving Social Security retirement benefits for income that was earned before they began receiving those benefits, it will not count against the earnings limit.
**IF YOU WORKED FOR SALARY/WAGES**

According to the Social Security Administration, earned income is money earned from employment, including wages, salaries, tips, and net earnings from self-employment income. It does not include income from items such as annuities, pensions, IRA withdrawals, capital gains distributions, etc.

Earned income counts toward the annual earnings limit when the compensation is earned. Deferred income is not counted against the earnings limit. Deferred compensation can be in the form of bonuses, stock options, vacation pay, sick pay, etc.

*Note: If a beneficiary is paid wages in one year for work performed in previous years and is collecting benefits, they will need to contact the Social Security Administration.*

**DOMESTIC SERVICE WORKERS**

According to the Social Security Administration, domestic service means work normally performed as an essential part of household duties. Domestic service contributes to the maintenance of the employer’s residence or private home or administers to the personal wants and comforts of the employer, other members of the household, and guests.

A private home is considered the fixed place of residence of one or more people. Any shelter used as a dwelling may, depending on the circumstances, be considered a private home. For example, a boat, trailer, room or suite in a hospital, hotel, sanatorium or nursing home, or an apartment, can be considered a private home. If a house is used mainly as a commercial rooming or boarding house, only that part of the house that is used as the operator’s living quarters is considered to be a private home.

In general, domestic service includes work performed by any of the following:

- Babysitters
- Butlers
- Caretakers
- Chauffeurs of family automobiles
- Companions
- Cooks
- Footmen
Domestic service must be their principle job and the worker must be 18 years of age or older during the entire year to be eligible for Social Security.

Domestic service in the private home of the employer became covered by Social Security in 1951. Beginning in 1994, rules for coverage of domestic services performed in the private home were revised. The ruling also covers election workers.
Illustration 4.30 (below) shows the minimum amount a worker must earn for Social Security purposes.

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>Minimum Cash Pay</th>
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<tbody>
<tr>
<td>1994-1997</td>
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<td>1998-1999</td>
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<td>$1,900</td>
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<tr>
<td>2016</td>
<td>$2,000</td>
</tr>
</tbody>
</table>

Illustration 4.30

If an individual hires a domestic service worker, it is the employer’s responsibility to withhold (and match) Social Security taxes from the worker’s wages, if applicable, and report to the IRS on the employer’s own federal income tax return.

If the individual is a domestic service worker, it is the worker’s responsibility to make sure their employer is paying Social Security taxes for them, if applicable. The worker should receive a W-2 form from their employer at yearend.

What if the domestic worker is under age 18? Beginning in 1995, services are excluded from Social Security coverage for any portion of the year worked in a private home while the worker is under 18 years of age. However, services may be covered by Social Security if the service is the individual’s principle occupation.
**SPECIAL PROVISION FOR REPORTING WAGES PAID TO HOUSEHOLD WORKERS**

For Social Security tax reporting purposes only, cash wages paid for household workers in the private home of an employer may be rounded to the nearest dollar, simplifying computation of the Social Security tax.

For example, if the worker is paid daily and their cash pay is $22.50, their payment is considered $23 for reporting purposes. Alternately, a payment amount of $22.49 is reduced to $22. Rounding to the nearest dollar is permitted if the worker is paid on a weekly, semi-monthly, or monthly basis.

Domestic services performed by a student for a college club, fraternity, or sorority is not covered under Social Security if:

- The domestic service is performed in or about the club rooms or house; or
- The student is enrolled in a school, college, or university in which they regularly attend classes.

**FAMILY EMPLOYMENT**

Family employment is covered by Social Security for a corporation or an association classifiable as a corporation, even if there is a family relationship between the worker and the person(s) controlling the corporation.

Beginning January 1998, the following types of family employment are **not covered** by Social Security:

- A child under age 18 working for their parent(s) – (Prior to January 1, 1988, a child under age 21 in the employ of a parent);
- A child age 18 to 21 working for their parent(s), but not performing work in the course of the parent's trade or business;
- A spouse working for the other spouse, but not performing work in the course of the other spouse's trade or business; or
- A parent working for their child performing domestic service in or about the private home of the child, or work not in the course of the child's trade or business.
HOW UNEMPLOYMENT COMPENSATION AFFECTS BENEFITS

Many individuals seem to have a lot of questions regarding unemployment compensation and just how Social Security benefits are affected, if at all.

So many people have lost their jobs in this economy, and seniors are certainly not immune. It is often more difficult for workers who are older to find another job once they have been laid off. And if they do find work, it’s often for lesser pay. For those individuals, it may be imperative that they begin collecting their Social Security benefits as soon as possible. But the first thing to draw on may be unemployment compensation. Many don’t realize that they can, without penalty, collect unemployment compensation and Social Security benefits at the same time—in most states. Social Security does not count unemployment benefits as earnings so the benefits will not push a beneficiary closer to earnings ceilings that trigger cuts in Social Security benefits for people ages 62 to 66.

There is a federal law, however, that requires individual states to offset unemployment compensation for individuals who are also receiving Social Security retirement benefits at the same time. That law was amended, putting the decision in the hands of state government, rather than federal. Most states have repealed the offset rule, but a few have not and still reduce benefits.

The states that continue to reduce benefits require a 50 to 100 percent offset. That means that if you were receiving unemployment compensation and Social Security benefits at the same time, your unemployment compensation could be reduced by 50 to 100 percent of your Social Security benefit. So if you were receiving $1,000 a month in Social Security benefits and $1,000 a month in unemployment compensation, your unemployment compensation could be reduced by $500 (50 percent of your Social Security benefit)—or the checks could stop entirely (100 percent of your Social Security benefit).

AARP and the National Employment Law Project were instrumental in the push to get states to repeal these Social Security offsets stating, “The drive to repeal unemployment compensation offsets permits countless Social Security recipients to benefit from employer-paid unemployment benefits free of offsets and allowing them a stronger safety net in the event of job loss.”
HOW MILITARY SERVICE AFFECTS BENEFITS

Collecting military retirement benefits does not affect an individual’s Social Security retirement benefit. When a beneficiary applies for Social Security retirement benefits, the credits they receive for military service are added to their civilian work credits. They will get their full Social Security benefit based on those earnings.

Active Duty Military Service means that the individual served on Active Duty, Active Duty for Training (ACDUTRA) or were in the Reserves for any of the following United States military organizations.

- Air Force
- Army
- Coast Guard
- Coast & Geodetic Survey (CGS)
- Marines
- National Guard
- Navy
- Commissioned Officer in the Public Health Service (PHS)

Since 1957, if an individual had military service earnings for active duty, they paid Social Security taxes on those earnings. Since 1988, inactive duty service in the Armed Forces Reserves (such as weekend drills) has also been covered by Social Security.

Under certain circumstances, special extra earnings for periods of active duty from 1957 through 2001 can also be credited to Social Security earnings records for benefit purposes.

- If the individual was in the active military service from 1957 through 1967, special extra earnings are added to their earnings record when they apply for Social Security benefits; and
- If the individual’s active duty was from 1968 through 2001, the extra earnings were automatically added to their record.

There are no special extra earnings credits for military service after 2001.
From 1957 through 1977, individuals are credited with $300 in additional earnings for each calendar quarter in which they received active duty basic pay.

From 1978 through 2001, for every $300 in active duty basic pay, they are credited with an additional $100 in earnings up to a maximum of $1,200 a year. If they enlisted after September 7, 1980, and didn’t complete at least 24 months of active duty or their full tour, they may not be able to receive the additional earnings.

If the individual was in the military from 1940 through 1956, including attendance at a service academy, they did not pay Social Security taxes. However, their records are credited with special earnings that may help them qualify for Social Security and Medicare or increase the amount of their Social Security benefit.

These special earnings credits are added to their earnings record when they apply for Social Security benefits.

**SPECIAL EARNINGS CREDITS FOR THE MILITARY**

The individual’s Social Security record may be credited with $160 a month in earnings for military service from September 16, 1940, through December 31, 1956, under the following circumstances:

- They were honorably discharged after 90 or more days of service, or they were released because of a disability or injury received in the line of duty;
- They are still on active duty; or
- They are applying for survivors benefits and the veteran died while on active duty.

Individuals cannot receive credit for these special earnings if they are already receiving a federal benefit based on the same years of service. There is one exception:

- If they were on active duty after 1956, they can still get the special earnings for 1951 through 1956, even if they are receiving a military retirement based on service during that period.

In addition to retirement benefits, Social Security pays survivors benefits to the family if the individual dies. Disability benefits are also provided for the individual and the individual’s family if the worker becomes disabled while on active military service on or after October 1, 2001.
**WORKING FOR A NONPROFIT ORGANIZATION**

Some religious groups oppose paying Social Security taxes. By law, they are permitted to choose not to participate in the Social Security program. When a religious group does not participate, it does not withhold Social Security taxes from the employee’s wages or pay the matching share of Social Security taxes like other employers.

If a person works for a religious organization that does not pay into the Social Security program, they are still required to contribute a certain amount to Social Security. Employees of nonprofit organizations who earn $100 a year or more are still required to pay Social Security taxes on their earnings. In effect, they are treated similarly to individuals who are self-employed. The self-employment tax rate is 13.3 percent, although there are special tax return credits that can be taken.

Workers basically need 40 credits (typically ten years of employment) to qualify for Social Security benefits. However, if an individual is an employee of a nonprofit organization whose Social Security coverage was mandated by law starting in 1984, that employee may be able to receive retirement benefits even if they have fewer than 40 credits. If the employee is age 60 or older and was an employee of the nonprofit organization on January 1, 1984, they may need as little as six credits to qualify for retirement benefits. To be eligible for this special rule, the employee must have worked and paid Social Security taxes after January 1, 1984.

**STATE AND LOCAL GOVERNMENT EMPLOYEES**

When Social Security first began, state and local employees were not covered under the Social Security program. Over the years, law has been revised to change this situation. Most employees now have Social Security protection because their states and the Social Security Administration entered into special agreements called “Section 218 agreements.” Each state has a designated official, called the State Social Security Administrator, who is responsible for the state’s Section 218 agreement.

Except for workers specifically excluded by law, employees hired after March 31, 1986 also have Medicare protection. States also may obtain Medicare coverage for workers not covered for Social Security who have been continuously employed by the same state or local governmental employer since before April 1, 1986. Workers covered for Social Security under a Section 218 agreement are automatically covered for Medicare.
SAME-SEX COUPLES AND COMMON-LAW MARRIAGES

The Social Security Administration is processing some retirement spousal claims for civil unions, common-law marriages, and same-sex couples. The Administration continues to work with the Department of Justice to develop and implement policy and processing instructions in these cases.

According to the Social Security Handbook, “a common-law marriage is one in which neither a religious nor civil ceremony was held.” In certain states, a common-law marriage may be entered into if a man and a woman agree to be married for the rest of their lives. Most states, even those in which a man and woman cannot enter into a valid common-law marriage, generally recognize a common-law marriage that has been validly entered into in another state.

Social Security follows state laws. As more and more states begin to recognize same-sex marriages, the Social Security Administration is working to give them the same benefits as all legally married couples. To get survivors or spouses benefits, couples generally must live in a state that recognizes common-law marriage. However, most states (even those that do not recognize in-state common-law marriages) will recognize a common-law marriage entered into in another state that does.

BASIC REQUIREMENTS FOR A COMMON-LAW MARRIAGE

Following are the basic requirements for a common-law marriage—however, states may vary and have additional requirements.

- Partners must have the capability to enter into a contract for a valid marriage.
- Partners must live in a state that recognizes common-law marriages at the time that the marriage contract is entered into.
- Partners must have the mutual intent to marry one another.
- Partners must consider themselves as husband and wife.
- Partners must agree to be husband and wife from that time on.

If a beneficiary feels they may be entitled to benefits, they should file as soon as possible to preserve their filing date, which will be used to determine the start of any potential benefits.
IF YOU ARE LIVING OUTSIDE THE UNITED STATES

Through the Social Security Administration Office of International Operations, individuals can access the following forms and information (as well as others) for foreign applicants and beneficiaries.

- Supplement to Claim of Person Outside the United States (SSA-21)
- Disability Report Form (SSA-3368)
- Application For a Social Security Card (Form SS-5-FS)
- Obtain a replacement Medicare Card
- Request a Proof of Income Letter
- Obtain a Form SSA-1099 / 1042S – Social Security Benefit Statement
- Multilanguage Gateway Form

If a beneficiary is planning to leave the United States, the SSA publication, “Your Payments While You Are Outside The United States,” Publication No. 05-10137, is available in English, French, German, Greek, Italian, and Spanish through the Social Security Administration’s website.

A person who now lives in another country and is not eligible for Social Security benefits may believe they should receive a refund of their contribution. Although they cannot receive a refund, they may still be able to get benefits. It depends on where they live and whether the United States has an international agreement with that country. These agreements help if a beneficiary otherwise would not be eligible for benefits under the Social Security program in either country. They also ensure the beneficiary will not have to pay taxes to both countries on the same earnings.

TAXATION OF BENEFITS

Taxation of Social Security income benefits did not begin until 1983. Today, about one-third of current beneficiaries pay taxes on their benefits. Though some people do not pay tax on their benefits, those with substantial income in addition to their Social Security benefits definitely have to pay taxes.

If a beneficiary has substantial earnings, they will be taxed. According to the Social Security Administration, substantial earnings is defined as an amount equal to or above the income amounts shown in the table below (Illustration 4.31) in which FICA taxes were withheld for the years from 1937 to 2015.
**SUBSTANTIAL EARNINGS THRESHOLDS**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1937-1954</td>
<td>$900</td>
<td>1991</td>
<td>$9,900</td>
</tr>
<tr>
<td>1955-1958</td>
<td>$1,050</td>
<td>1992</td>
<td>$10,350</td>
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<tr>
<td>1959-1965</td>
<td>$1,200</td>
<td>1993</td>
<td>$10,725</td>
</tr>
<tr>
<td>1966-1967</td>
<td>$1,650</td>
<td>1994</td>
<td>$11,250</td>
</tr>
<tr>
<td>1968-1971</td>
<td>$1,950</td>
<td>1995</td>
<td>$11,325</td>
</tr>
<tr>
<td>1972</td>
<td>$2,250</td>
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</tr>
<tr>
<td>1973</td>
<td>$2,700</td>
<td>1997</td>
<td>$12,150</td>
</tr>
<tr>
<td>1974</td>
<td>$3,300</td>
<td>1998</td>
<td>$12,675</td>
</tr>
<tr>
<td>1975</td>
<td>$3,525</td>
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<tr>
<td>1985</td>
<td>$7,425</td>
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</tr>
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<td>1986</td>
<td>$7,825</td>
<td>2012</td>
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</tr>
<tr>
<td>1990</td>
<td>$9,525</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

If the worker’s earnings from the Social Security covered job are substantial according to *Illustration 4.31* above, it is possible to change the reduction factor or, possibly, eliminate it altogether. If the worker has had those substantial earnings for more than 20 years, the table below (*Illustration 4.32*) would apply.
Using the table above, you can see that if the individual has had 20 or fewer years in a Social Security covered job with substantial earnings, the WEP-reduced factor on the first bend point is 40 percent. For each year more than 20 of substantial earnings, the WEP-reduced factor increases by five percent and if the worker had 30 or more years of substantial earnings, the first bend is not affected.

**TAXATION THRESHOLDS**

Social Security income may be received tax-free. However, once certain income thresholds are met, up to 50 cents of every Social Security dollar becomes taxable. The taxable portion of a beneficiary’s Social Security benefits cannot exceed 85 percent of their total benefits, however.

If the combined income is under $25,000 for singles, or under $32,000 for couples filing jointly, then the benefits are not taxable.

If an individual files as an “individual” (single, head of household) and their **combined income** is:

- Between $25,000 and $34,000, they may have to pay income tax on up to 50 percent of their Social Security benefits; or
More than $34,000, up to 85 percent of their benefits may be taxable.

If a couple files a joint return, and they have a combined income that is:

- Between $32,000 and $44,000, they may have to pay income tax on up to 50 percent of their Social Security benefits; or
- More than $44,000, up to 85 percent of their benefits may be taxable.

If a couple is married and they file a separate tax return, they will, most likely, pay taxes on your benefits.

<table>
<thead>
<tr>
<th>TAXATION THRESHOLDS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FILING STATUS</strong></td>
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<tr>
<td>Married, filing jointly</td>
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<td></td>
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<tr>
<td></td>
</tr>
<tr>
<td>Married, filing separately, different addresses</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Single, head of household, widow(er)</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Married, filing separately, sharing an address</td>
</tr>
</tbody>
</table>

Illustration 4.33

If a beneficiary plans to keep working after beginning their retirement benefits prior to reaching their full retirement age, they should keep in mind the tax consequences involved in their decision. Adding Social Security benefits to their earned income could just push them up into the next tax bracket—in addition to taking the $1 to $3 reduction. Possible tax implications may be another consideration for delaying the start of taking benefits.

Combined income is the adjusted gross income plus nontaxable interest plus half of the beneficiary’s Social Security benefit.

**Adjusted gross income + Nontaxable interest + ½ of their Social Security benefits**

The combined income formula (also known as the provisional income formula) determines how much of a retiree’s Social Security benefits are subject to taxation.
Up to the thresholds listed above (Illustration 4.33), Social Security benefits are tax-free.

There is a way to reduce the amount of provisional income that exceeds the thresholds, however. A beneficiary could supplement their Social Security income with an IRA. But be careful because 100 percent of funds withdrawn from an IRA are included in the provisional income formula, while only 50 percent of Social Security benefits are included in the formula. So if a beneficiary can get a higher Social Security benefit and, therefore, lessen the amount withdrawn from their IRA, they can avoid paying higher taxes. We’ll look at the difference in the example below with the Hatfield’s and the McCoy’s.

**Example**

The Hatfield’s filed for their retirement benefits early and receive an annual combined income of $24,000. They withdraw an additional $45,000 a year from their IRA. Their provisional income is $57,000 ($45,000 plus $12,000). Assuming they are in the 25 percent tax bracket, they will pay $6,060 in taxes each year.

The McCoy’s, on the other hand, delayed taking their benefits, so they receive an annual combined income of $39,000. They take $30,000 from their IRA each year to supplement. Their provisional income is $49,500 ($30,000 plus $19,500). Assuming the same 25 percent tax bracket, they will only pay $2,854 (less than half what the Hatfield’s must pay each year).

**CHECKING THE STATUS OF YOUR BENEFIT APPLICATION**

After a beneficiary has applied for benefits, they can check the status of their claim online. The application status will show:

- The date the application was received;
- Any requests for additional documents;
- The address of the office processing the application; and
- If a decision has been made.

When a determination has been made, the applicant will receive a benefit verification letter.
**BENEFIT VERIFICATION LETTER**

There may be times when a beneficiary needs to provide proof that they are receiving Social Security benefits, such as when applying for a loan. The Social Security Benefit Verification Letter can provide the proof needed.

The Administration can provide a benefit verification letter online as well. The letter can serve as proof of income, if needed. It is an official letter from Social Security that can be used as:

- Proof of income when applying for a loan or mortgage;
- Proof of income for assisted housing or other state or local benefits;
- Proof of current Medicare health insurance coverage;
- Proof of retirement status;
- Proof of disability; or
- Proof of age.

The letter doesn’t need to include all aspects of the beneficiary’s account. It can be customized to include only that information the beneficiary wants shown.

**APPEALING A DECISION ON A CLAIM**

Once a beneficiary has applied for benefits and received the Social Security Administration’s determination of their case, they have the right to appeal if they do not agree with the Administration’s determination. The applicant will have 60 days from the date they receive the determination to file a written appeal.

There are four levels to the appeals process:

1. Reconsideration;
2. Hearing by an Administrative Law Judge;
3. Review by the Appeals Council; and
4. Federal Court review.
**STEP 1 — RECONSIDERATION**

The Administration will conduct a complete review of the case. An individual who did not take part in the first determination process will conduct this review. The original evidence and any new evidence will be closely regarded. In most cases, the applicant will not have to make a personal appearance for a reconsideration.

**STEP 2 — HEARING**

Once the reconsideration determination is made and if the applicant still disagrees with the decision, they can request a hearing. An administrative law judge who was not party to either the original determination or the reconsideration process will conduct the hearing. In most cases, the applicant will have to be present at this hearing. And they can, if applicable, present any witnesses on behalf of their case. The hearing is usually held within 75 miles of the applicant’s home for their convenience. If the applicant cannot appear in person, however, a videoconference may be permitted.

The applicant will receive a letter with the law judge's final determination.

**STEP 3 — REVIEW**

If the applicant disagrees with the administrative law judge's determination of their case, the third step is to present the case to the Social Security’s Appeals Council. The Appeals Council may or may not accept the request for review, however. If the Council feels the hearing decision was correct, it may deny the request for review. If the request for review is accepted, the Council may return the case to an administrative law judge for further review, or they may make a decision themselves on the case.

The applicant will receive a letter from the Appeals Council with their determination.

**STEP 4 — FEDERAL COURT**

The final step in the appeals process is to file a lawsuit in a federal district court. The letter the applicant receives from the Appeals Council will contain information on how to ask a court to look at the case.
WAYS TO RECEIVE BENEFITS

There are a few different ways to receive Social Security benefit payments. Some individuals prefer to receive their Social Security checks in the mail. It is the slowest way, however.

Generally, the fastest, easiest and most efficient way to receive Social Security benefits is to arrange for direct deposit to a specifically designated financial account. Currently, the Social Security Administration cannot split direct deposit between multiple accounts.

If the beneficiary does not have a bank account or would prefer not to receive checks in the mail, they can opt for the Direct Express Card from the U.S. Department of the Treasury.

If a benefit payment the beneficiary is expecting does not arrive, they will need to contact the Social Security Administration directly. If they normally receive their check by mail, they should wait three days after the due date and then call the Administration. If they normally receive their check by direct deposit, a non-receipt of payment should be reported immediately by calling the Administration.

ELECTRONIC DEPOSITS

By choosing electronic deposits, Social Security benefits can be sent directly to the beneficiary’s bank, savings and loan, or credit union account quickly and safely. There are no checks to be lost or stolen and beneficiaries will get their benefits on time, even if they are out of town, sick, or unable to get to the bank.

Beneficiaries can expect their first payment to be in their account within 30 to 60 days. The Social Security Administration will send the recipient a letter advising them when to expect their first payment as well as the schedule for future payments.

If the beneficiary changes accounts, they must be sure to leave the old account open for at least 30 days to allow processing of the change with the Administration. When the first payment in the new account is received then, and only then, is it safe to close the old account.

DIRECT EXPRESS CARD

The Direct Express Card is a prepaid debit card (Direct Express Debit MasterCard). There is no sign-up fee, no monthly fees, and no bank account or credit check is
required. Cardholders can make purchases, pay bills and get cash at thousands of ATMs and retail locations.

Beneficiaries can use the Direct Express card to get retirement, SSI, and other federal benefit payments deposited directly into their account.

If the beneficiary chooses Direct Express, payments will be deposited into their card account on their designated payment date. The Direct Express card uses a personal information number (PIN), and the funds are insured and protected by the Federal Deposit Insurance Corporation (FDIC). It is also subject to federal consumer protection regulations.

**INFORMATION FOR THE BLIND**

Typically, notices to applicants and beneficiaries are sent via the U.S. Postal Service. Recipients who are blind can choose optional ways in which to receive their notices.

Any of the following can be arranged.

- Standard print notice by first-class mail
- Standard print notice by certified mail
- Standard print notice by first-class mail and a follow-up telephone call
- Braille notice and a standard print notice by first-class mail
- Microsoft Word file on a data compact disc (CD) and a standard print notice by first-class mail
- Audio CD and a standard print notice by first-class mail
- Large print (18-point size) notice and a standard print notice by first-class mail

Any of the above arrangements (or special requests) can be made by calling the Social Security Administration directly. The Administration also provides a dedicated phone number for the deaf or hard of hearing.

**RIGHT TO REPRESENTATION — ASSIGNING A REPRESENTATIVE PAYEE**

A representative payee is an individual or organization appointed by the Social Security Administration to receive Social Security and/or Supplemental Security Income benefits for beneficiaries who cannot manage or direct someone else to
manage his or her money. More than seven million individuals who are receiving monthly Social Security or SSI benefits need help managing their money.

The main responsibilities of a representative payee are to use the benefits to pay for the current and foreseeable needs of the beneficiary and to properly save any benefits not needed to meet the beneficiary's current needs. A payee is responsible for maintaining accurate records of expenses. When the Social Security Administration requests a report, the payee must provide an accounting to the Administration of how benefits were used or saved. The Social Security Income and Expenses Worksheet outlines:

- The month and year the expense occurred;
- The amount of Social Security or SSI benefits received;
- Expenses used for food and housing;
- Expenses used for clothing, medical/dental, personal items, recreation, and miscellaneous items.

The totals from each category must be reported on Form SSA-623 available online from the Social Security Administration website. If the representative payee does not have access to the Internet or decides not to use the online accounting report, the completed paper form can be used and sent to the Administration.

There can be many reasons why Social Security decides a beneficiary needs a representative payee. Usually it is because the Administration has been given information that indicates the beneficiary needs help in managing their money and meeting their current needs. As long as the payments are used for the care of the beneficiary, payments can be sent directly to the representative.

Generally, the Administration looks for a family member or a friend of the beneficiary who can serve in this capacity. When friends and family are not available or are not able to serve as a payee, Social Security looks for qualified organizations with suitable personnel who can serve as a representative payee on behalf of the beneficiary. One or more persons in a firm, corporation or other organization can be appointed as a representative, but the firm, corporation or organization itself cannot be appointed.

The Social Security Administration actively looks for individuals or organizations that can serve as representative payees for some of their most vulnerable beneficiaries. The Administration even conducts a webinar that explains the basic duties expected of representative payees and how to help fill the critical shortage.
A representative payee is appointed to manage Social Security funds only. A payee has no legal authority to manage non-Social Security income or medical matters. Family members often use a power of attorney as another way to handle a family member’s finances. For Social Security purposes, a power of attorney is not an acceptable way to manage a person’s monthly benefits. Having power of attorney or having a joint bank account with the beneficiary is not the same thing as being a representative payee. Those personal arrangements do not give legal authority to negotiate and manage a beneficiary’s Social Security and/or SSI payments. In order to be a representative payee, the person or organization must apply to the Social Security Administration. If the Administration approves, the payee will be legally appointed as the beneficiary’s representative payee.

Application to become a representative payee for a beneficiary cannot be performed online. The Social Security Administration conducts in-person interviews and provides assistance to applicants in completing Form SSA-11 to serve as a representative payee. The Administration conducts interviews in person to enable them to better evaluate an applicant’s ability to oversee benefits in the best interest of Social Security beneficiaries.

Adult beneficiaries are typically presumed to be capable of managing their own benefits. If there is evidence to the contrary, however, the Administration may gather evidence and determine there is a need to appoint a representative payee. The law requires all legally incompetent adults and most minor children to have payees.

Since the representative payee acts on behalf of the beneficiary, they are responsible for everything related to the benefits that the beneficiary would normally do for him or herself if the beneficiary were capable of handling their own affairs. More than just managing finances, The Administration encourages payees to become actively involved in the beneficiary’s life. The representative payee must know what the beneficiary’s needs are so they can decide how benefits can best be used for his or her personal care and well-being. This is especially important if the beneficiary does not live with the representative payee.

If a representative payee has been assigned for a child receiving SSI payments, the payee is required to obtain treatment for the child’s medical condition when treatment is determined to be medically necessary. If the representative does not obtain medical treatment for the child, Social Security may appoint a new representative payee.

Both the beneficiary and the beneficiary’s representative are responsible for providing Social Security with accurate information regarding the handling of the beneficiary’s benefits. Social Security will request an accounting of the benefits.
received and how those benefits were used on the beneficiary’s behalf. The Administration will mail the required form to the representative payee every year. The law requires representative payees to use the benefits properly. If a payee misuses benefits, he or she must repay the misused funds. A payee who is convicted of misusing funds may be fined and imprisoned.

It is also illegal to furnish false information to the Social Security Administration knowingly or willfully. Anyone who does so may face criminal prosecution.

Once a representative is appointed, he or she can act on the beneficiary’s behalf before Social Security in the following manners:

- Having accessibility to information from the beneficiary’s Social Security file and using that information in the best interests of the beneficiary;
- Helping the beneficiary get medical records or information to support their claim;
- Coming with the beneficiary, or for them, to any interview, conference or hearing with Social Security on their behalf;
- Requesting a reconsideration, hearing or Appeals Council review; and
- Helping the beneficiary and the beneficiary’s witnesses prepare for a hearing, as well as questioning any witnesses.

The representative payee will also receive a copy of any decision(s) the Administration makes on the beneficiary’s claim(s). The representative payee is also responsible for:

- Determining the beneficiary’s needs and using his or her payments to meet those needs;
- Saving any money left over after meeting the beneficiary’s current needs in an interest-bearing account or savings bonds for the beneficiary’s future needs;
- Reporting any changes or events which could affect the beneficiary’s eligibility for benefits or payment amount;
- Keeping records of all payments received and how the funds are spent and/or saved;
- Providing benefit information to social service agencies or medical facilities that serve the beneficiary;
• Helping the beneficiary get medical treatment when necessary;
• Notifying the Administration of any changes in the payee’s circumstances that would affect their performance or from continuing as payee;
• Completing written reports accounting for the use of funds; and
• Returning any Social Security payments the beneficiary received that he or she was not entitled to.

A representative payee cannot:

• Sign legal documents, other than Social Security documents, on behalf of the beneficiary (unless the payee is also a guardian or also has power-of-attorney);
• Have legal authority over earned income, pensions, or any income from sources other than Social Security or SSI;
• Use a beneficiary’s money for the payee’s personal expenses, or spend funds in a way that would leave the beneficiary without necessary items or services, such as housing, food, and medical care;
• Put the beneficiary’s Social Security or SSI fund in the payee’s own account or another person’s account;
• Use a child beneficiary’s “dedicated account” funds for basic living expenses (this only applies to disabled/blind SSI beneficiaries under age 18)*;
• Keep conserved funds once they are no longer acting as the payee; and
• Charge the beneficiary for services that have not been authorized by the Social Security Administration.

*Note: If the payee uses “dedicated account” funds for anything other than the allowable dedicated account fund expenses, even if the funds were spent on other needs for the child, the payee must repay the Social Security Administration, from their own funds, an amount equal to what was spent.

Beneficiaries can make their own choice of whom they want as their representative payee. They can choose an attorney or any other qualified individual to represent them. They also can have more than one representative. However, they cannot have someone who has been suspended or disqualified from representing others before the Social Security Administration or who may not, by law, act as a representative.

There are some organizations that can help beneficiaries find a representative or give them free legal services, if they qualify. Some representatives do not charge
unless the beneficiary receives benefits, so the beneficiary doesn’t have to worry about upfront fees. Any local Social Security office can provide a list of organizations that can assist a beneficiary in finding an appropriate representative.

If a beneficiary chooses his or her own representative payee, the Social Security Administration must be notified in writing as soon as possible. Form SSA-1696-U4, Appointment of Representative, must be completed and filed with the Administration. The form can be obtained from the Social Security Administration website or from any Social Security office. The name of the individual requested for the appointment must be furnished and the beneficiary must sign their name on the form indicating it is their request. If the individual the beneficiary wants appointed is not an attorney, he or she must also sign the form.

**Representative Payee Fiduciary Responsibilities**

A representative payee acts with fiduciary responsibility toward the beneficiary they represent. A fiduciary is a legal or ethical relationship of trust between two or more parties. A fiduciary under law is a person in a position of authority whom the law obligates to act solely on behalf of the person he or she represents and in good faith. Examples of fiduciaries are agents, executors, trustees, guardians, etc. Unlike people in ordinary business relationships, fiduciaries may not seek personal benefit from their transactions with those they represent.

Representative payees must first make sure the beneficiary’s day-to-day needs for food and shelter are met. Once those immediate needs are met, the funds can be used for any of the beneficiary’s medical and dental care that is not covered by health insurance, and for personal needs such as clothing and recreation. Any funds that are remaining must be saved, preferably in an interest-bearing account or U.S. savings bonds.

If the beneficiary is in a nursing home or other institution, benefits should be used to pay the usual charges for care. In such cases, a minimum of $30 each month should be set aside to cover the beneficiary’s personal needs.

If a beneficiary lives in an institution and is eligible for Medicaid or is a member of a family that receives payments from the Temporary Assistance for Needy Families program, the Social Security Administration should be contacted for advice on using the beneficiary’s Social Security benefits to support the family.

If Medicaid is paying more than half the cost of an SSI beneficiary’s care, or private health insurance is paying for the care, the SSI payment is usually limited to $30 per month, plus any additional money paid by the state. This entire payment must be
used for the beneficiary’s personal needs or saved on his or her behalf if personal needs have been met.

It may take some time for benefits to be approved once applied for. In such cases, back benefits may be paid all at once in a large payment. Expenses from such large benefit payments must be used first on the beneficiary’s current needs such as rent, security deposit, food or furnishings. After those expenses are paid, the funds must be used to improve the beneficiary’s daily living conditions or for better medical care. The payee may use the additional funds for major health-related expenses that are not covered by the beneficiary’s health insurance, such as reconstructive dental care, a motorized wheelchair, rehabilitation expenses, or insurance premiums. Funds could be used to arrange for the beneficiary to attend school or to receive special training. Funds could also be used for recreational activities for the beneficiary such as movies, concerts or magazine subscriptions.

If there are enough funds, special purchases can be made on behalf of the beneficiary such as any of the following.

• **A Home** — Funds can be used as a down payment on a new home or to make payments on the beneficiary’s existing home.

• **Home Improvements** — Funds can be used to pay for renovations that make the beneficiary’s home safer and more accessible; for example, installing a wheelchair ramp or widening doorways to accommodate a wheelchair.

• **Furniture** — Funds can be used to purchase furniture for the beneficiary’s personal use as well as items that may be shared with other members of the household, such as a television.

• **An Automobile** — Funds can be used as a down payment on a new car or to make monthly car payments as long as the car is used for and owned by the beneficiary.

If there is any question in the representative’s mind as to whether a special purchase is allowed by the Social Security Administration, such as paying a bill the beneficiary owed before the representative became the payee, the Administration should be contacted for the answer.

**Beneficiary Banking Accounts**

The Administration recommends that benefits be held in a checking or savings account to protect against loss or theft. Funds should never be commingled—they should, at all times, be held separately. To protect the beneficiary’s funds, the
checking or savings accounts title must reflect the beneficiary’s ownership of the funds and the representative’s fiduciary relationship. Neither the representative payee nor any other third party can have ownership interest in the account. The beneficiary must never have direct access to the account. Under state law, any account title that shows beneficiary ownership of the account with the representative payee as fiduciary is acceptable. Joint accounts are unacceptable. The Social Security Administration recommends the following two methods to title the accounts:

1. “[Beneficiary’s name] by [representative payee’s name], representative payee”
   or
2. “[Representative payee’s name], representative payee for [beneficiary’s name].”

There is an exception for parents who are representative payees. A common checking account for all family members living in the same household who receive benefits may show a parent as the owner of the account. Children’s savings, however, must be held in a separate savings account for each child, with the child’s name shown as the owner of the account.

Sometimes other organizations such as nursing homes place funds for several beneficiaries in a single checking or savings account, called a collective account. This is usually acceptable to the Social Security Administration, but special rules apply.

- The account title must show that the funds belong to the beneficiary and not the representative payee.
- The account must be separate from the organization’s operating account.
- Any interest earned belongs to the beneficiaries.
- There must be clear and current records showing the amount of each beneficiary’s share and proper procedures for documenting credits and debits.
- The account and supporting records must be made available to the Social Security Administration if requested.

Examples of collective account titles are:

- “XYZ Nursing Home, representative payee for Social Security beneficiaries” or
- “XYZ patients’ fund for Social Security beneficiaries.”
The Social Security Administration must approve any charges for past care and maintenance costs to beneficiaries. Also, any decision to “pool” the personal funds of several beneficiaries for an item such as a television that will benefit the group must receive the Administration’s approval.

Some individuals who receive Social Security benefits will have to pay federal income tax on those benefits. At the beginning of each year, the Administration will mail the representative payee a Social Security Benefit Statement (Form SSA-1099) that shows the amount of benefits paid during the previous year. This statement should be given to the person who prepares the beneficiary’s tax returns to use in figuring out if any tax must be paid on the beneficiary’s Social Security benefits.

**Changes to Report to the Social Security Administration**

Any changes that may affect a beneficiary’s benefit payments must be reported to the Social Security Administration. The representative payee is responsible for repaying any funds the payee received on behalf of the beneficiary if any of the following events occur and the payee did not report them to the Administration.

- The beneficiary moves.
- The beneficiary starts or stops working, no matter how little the amount of earnings.
- A disabled beneficiary’s medical condition improves.
- The beneficiary starts receiving another government benefit or the amount of the benefit changes.
- The beneficiary will be outside the United States for 30 days or more.
- The beneficiary is imprisoned for a crime that carries a sentence of more than one month.
- The beneficiary is committed to an institution by court order for a crime committed because of a mental impairment.
- Custody of a child beneficiary changes or a child is adopted.
- The beneficiary is a stepchild, and the parents divorce.
- The beneficiary gets married.
- The beneficiary no longer needs a payee.
- The beneficiary dies.
The Social Security Administration must also be notified if any of the following events occur.

- The representative payee is no longer responsible for the beneficiary.
- The representative payee moves.
- The representative payee no longer wishes to be the beneficiary’s representative.
- The representative payee is convicted of a felony.
- The representative payee is violating a condition of probation or parole imposed under federal or state law.

In addition, the Administration must be notified if the representative payee or the beneficiary has an outstanding arrest warrant for a crime that is a felony under the laws of the state in which the representative or the beneficiary lives; or a crime punishable by death or imprisonment for more than one year in states that do not classify crimes as felonies.

If the beneficiary is receiving SSI benefits, any of the following events must be reported to the Administration at the time of occurrence:

- The beneficiary moves to or from a hospital, nursing home, correctional facility or other institution;
- A married beneficiary separates from his or her spouse, or they begin living together again after a separation;
- Someone moves into or out of the beneficiary’s household; or
- The beneficiary or the spouse has a change in income or resources.

Beneficiaries are responsible for reporting personal changes to their representative payee as well. Any changes such as the following need to be reported to the beneficiary’s representative:

- If the beneficiary gets a new employment position or ceases working;
- If the beneficiary moves;
- If the beneficiary gets married or divorced;
- If the beneficiary travels outside the United States;
- If the beneficiary is sentenced to jail or prison;
• If the beneficiary is admitted to a hospital; or
• If the beneficiary is no longer disabled, if benefits are based on a disability.

**IF A REPRESENTATIVE PAYEE RESIGNS THEIR PAYEE POSITION**

If a representative payee wishes to no longer serve in that capacity for a beneficiary, the Social Security Administration must be notified immediately. A new representative payee will have to be selected as soon as possible. Once a representative payee is no longer responsible for the beneficiary, he or she must return any benefits, including interest and cash on hand, to the Administration. The funds will then be reissued to the beneficiary or to a new payee.

**IF THE BENEFICIARY DIES**

If the beneficiary dies, any saved benefits belong to the deceased’s estate. The representative payee must give the funds to the legal representative of the estate or otherwise handle the funds according to state law.

The Social Security Administration does not pay benefits for the month in which a Social Security beneficiary dies, even if the death occurred on the last day of the month. Any benefit payment received from the month of death or later must be returned to the Administration. An SSI check, however, is payable for the month of death—Any SSI checks that arrive after the month of death must be returned to the Administration.

**A SPECIAL NOTE ABOUT BLIND OR DISABLED CHILDREN RECEIVING SSI BENEFITS**

Occasionally, blind or disabled children may receive a large, past due SSI payment covering more than six months of benefits. Usually, these payments must go directly into a separate banking account known as a dedicated account. Funds in this account may be used only for certain expenses, primarily those related to the child’s disability. The dedicated account must be kept separate from any other savings or checking account set up for the beneficiary. Except for certain subsequent past due payments, no other funds may be commingled into the dedicated account. Neither funds in the dedicated account or interest earned on the funds is not countable as a resource.
Funds in a dedicated account must be used only for the following expenses:

- Medical training and education or job skills training;
- Personal needs assistance related to the child’s disability—special equipment, housing modification and therapy or rehabilitation; or
- Any other item or service related to the child’s disability that the Administration determines to be appropriate, such as legal fees incurred in establishing the child’s claim for benefits. (Approval from the Social Security Administration should be obtained prior to using the account funds for these kinds of expenses.)

A child’s SSI benefit amount may change if there are any changes in the family’s income or resources. At least once a year, the Social Security Administration will review records and receipts of all expenditures that were used from a dedicated account.

**REPRESENTATIVE PAYEE FEE AGREEMENTS**

A fiduciary should not profit from his or her relationship with the individual they represent. For the Social Security beneficiary’s protection, in most situations a representative payee cannot charge or collect a fee from the beneficiary. However, the Social Security Administration does provide, in some cases, for payees to receive compensation. However, the representative payee must receive written approval from the Social Security Administration to do so.

In order for a representative to charge a beneficiary a fee for services, the representative must file either a fee agreement or a fee petition with the Social Security Administration. The Administration, if applicable, will approve the fee and the representative cannot charge the beneficiary more than that authorized fee. If either the beneficiary or the representative disagrees with the fee authorized, they can request that the Administration take a second look at the request.

Fees do not necessarily have to be approved in advance. A representative may give Social Security a fee petition after completing work on the beneficiary’s claim(s). The written request should describe in detail the amount of time spent on each service the representative provided. The representative must provide the beneficiary with a copy of the fee petition and each attachment. If the beneficiary disagrees with the fee requested or the information shown, the Administration needs to be contacted within 20 days. The Administration will consider the reasonable value of the representative’s services and will inform the beneficiary in writing the amount of the fee that has been authorized.
The amount of the fee the Administration decides the representative may charge is
the most the beneficiary owes for his or her services even if the beneficiary agreed to
pay the representative more. The representative can, however, charge the
beneficiary for out-of-pocket expenses, such as costs involved with obtaining medical
reports, without Social Security’s approval. In addition, the representative is not
prohibited from accepting money from the beneficiary in advance as long as it is held
in a trust or escrow account.

If an attorney or non-attorney whom Social Security has found eligible for direct
payment represents the beneficiary, the Administration usually withholds 25 percent
(but never more) of the beneficiary’s past-due benefits to pay toward the fee. They
pay all or part of the representative’s fee from this money and send the beneficiary
any money that is left over.

If the beneficiary and the representative have a written fee agreement that has not
yet been authorized by the Administration, the representative may ask the Social
Security Administration to approve it any time before a decision on the beneficiary’s
claim has been made.

Usually, the Administration will approve the agreement and notify the beneficiary in
writing how much the representative may charge as long as:

• Both the beneficiary and the representative signed the agreement;
• The claim was approved and resulted in past due benefits; and
• The fee agreed upon is no more than 25 percent of past due benefits
  or $6,000, whichever is less.

If Social Security does not approve the fee agreement, they will notify the beneficiary
and the representative in writing.

A representative who charges or collects a fee without SSA authorization, or charges
or collects too much, may be suspended or disqualified from representing anyone
before the Social Security Administration and may also face criminal prosecution.

If any of the following situations occur, the beneficiary must pay their representative
directly.

• The beneficiary must pay the rest of the money owed if the amount of the
  approved fee is more than the amount of money Social Security withheld and
  paid the representative for the beneficiary.
The beneficiary must pay the entire fee amount if:

- the representative is not eligible for direct payment;
- the Social Security Administration did not withhold 25 percent from the beneficiary’s past-due Social Security or Supplemental Security Income benefits, or both; or
- the representative made a timely request for a fee and the Administration sent the beneficiary the money that they should have withheld.

The beneficiary is also responsible for reimbursing the representative for out-of-pocket expenses the representative incurs or expects to incur (for example, the cost of getting doctor’s or hospital records on the beneficiary’s behalf).

Even when someone else will pay the fee for the beneficiary (for example, an insurance company), the Social Security Administration must approve the fee unless:

- The beneficiary and any auxiliary beneficiaries are free of direct or indirect liability to pay the fee or expenses, either in whole or in part, to a representative or to someone else; and
- It is a nonprofit organization or federal, state, county or city agency that will pay the fee and any expenses from government funds; or
- The representative gives the Social Security Administration a written statement that the beneficiary will not have to pay any fee or expenses.

If the beneficiary appeals a claim to the federal court, the court can allow a reasonable fee for the beneficiary’s attorney. The Administration does not need to authorize that fee. The fee will not exceed 25 percent of all past-due benefits that result from the court’s decision. The beneficiary’s attorney cannot charge any additional fee for services before the court.

If the representative knows that the claimant or beneficiary has filed for bankruptcy and that representative is due a fee, the representative should notify the Social Security Administration.

Once the Administration receives notice of the bankruptcy action, they will stop all actions to:

- Approve or disapprove a fee agreement;
• Set the amount of the representative’s fee based on a fee petition or an approved fee agreement (either initially or in response to a request for administrative review from a proper party); or

• Pay an authorized fee from past due benefits to a representative who is an attorney or an eligible-for-direct-payment non-attorney.

The automatic stay that follows from the bankruptcy proceeding merely suspends the adjudication of collection of the debt. The stay does not automatically eliminate the debt. The Administration will delay taking any other action on the fee request until the bankruptcy court provides instructions.

Once the bankruptcy court has released the claimant from the debt to the representative, the Administration cannot pay a fee directly to the representative. If through administrative error, the Administration pays a fee directly to a representative after the release of the debt by the bankruptcy court, the representative must return the fee to the Administration. If the representative does not return the fee to the Administration, he or she may be in potential violation of law, which prohibits the knowing retention of a fee for representational services in violation of applicable laws or regulations.

WHAT EVERY WOMAN SHOULD KNOW

Nearly 60 percent of beneficiaries receiving Social Security benefits today are women. Not only do women make up the largest percentile of individuals receiving benefits, they generally receive benefits the longest, since women tend to outlive men overall. Most often, a wife will outlive her husband on average by four to five years. If she is unfamiliar with spouses benefits, her economic future may be in jeopardy.

This generation has called women forth to join the workplace in record numbers, and more women are paying into Social Security than at any other time in history.

On average, though, women still earn less than men. What’s more, they tend to be the caretakers in their families, responsible for the care of their spouses, children and, in many cases, elderly parents.

If a person is caring for an elderly or disabled relative who needs help managing his or her monthly Social Security or SSI benefits, they can apply to be a representative payee. Social Security will conduct a careful investigation to determine if they meet the requirements.
As a representative payee, Social Security will pay the payee the person’s benefits to use on his or her behalf. Therefore, the payee must know what their relative’s needs are so they can decide how benefits can best be used for his or her personal care and well-being. First, the payee must make sure that food and shelter are provided. Then, the payee can use the money to pay medical and dental bills not covered by health insurance and for personal needs and recreation.

Many wives of high earning spouses leave Social Security decisions and other financial decisions up to their husbands, so they are unprepared for the financial calamities that may strike. Yet, women tend to outlive men. So, statistically speaking, the wife will be left alone to live with the decisions her husband has made.

Over the years, Social Security protection for women has increased but, by and large, many women do not understand what kinds of protection are available to them beyond their own benefits – such as spouses benefits, divorced spouse benefits, benefits if a spouse is disabled, survivor spouse benefits, divorced-spouse survivor benefits, and surviving children’s benefits.

For instance, updates to the Social Security system resulted in the removal of the requirement that the divorced wife be dependent on her spouse; the number of years the couple must be married in order for the divorced spouse to qualify for benefits decreased; the amount of benefits for a surviving spouse was raised; and the benefits for disabled spouses also increased. Most women are not familiar with their options—and they should be—they need to be.

In addition to understanding their own benefits, women need to know about providing Social Security coverage for anyone they may hire as a household worker or childcare provider. And they need to know some basics like what to do if they change their names. If they are already collecting benefits, what happens to those benefits if they get remarried? What happens to their children’s benefits if they remarry? What if the new spouse wants to adopt her children?

The proportion of women aged 62 or older receiving a Social Security benefit based on their own earnings record is increasing. Dually entitled women (women who qualify for two or more types of benefits) increased from five percent (5%) in 1960 to 28% in 2010. Similarly, women receiving spouse-only benefits declined from 33% in 1960 to 10% in 2010, while those receiving only retired-worker benefits increased from 39% in 1960 to 46% in 2010. A number of factors are associated with these increases, including:

- Increasing female labor force participation, particularly married women; and
Increasing proportions of women who never marry or who divorce without a ten-year marriage.

Despite these changes, a majority of eligible women still receive some type of Social Security spouse and survivor benefits.

Marital Status and Poverty

- The never-married elderly (aged 65 or older) have the highest poverty rate among all marital groups, followed by those who are divorced and widowed.
- The overall elderly poverty rate is two-thirds higher among women than men with 11 percent of women in poverty compared with less than seven percent of men. Unmarried women—including those who are widowed, divorced, and never married—are significantly more likely than unmarried men to be poor.
- The unmarried elderly are disproportionately poorer than the married elderly. Never-married individuals represent about five percent of the elderly, but 10 percent of the elderly poor. Likewise, divorced individuals make up 11 percent of the elderly and 20 percent of the elderly poor.\(^\text{12}\)

Now, more than ever, it is imperative that women understand the complexities of Social Security filing to maximize their benefits for the long haul.

If You Change Your Name

Since it is more common for women to change their names than men, they must know how important it is for the Social Security Administration to be notified of any change in their name.

For instance, did you know that failure to change your name with Social Security could, actually, delay your income tax refund?

If a name change is not reported to Social Security, the person’s earnings may not be recorded properly and they may not receive all the benefits they are due. And, of course, not changing a name with Social Security CAN delay your income tax refund.

The Social Security Administration may require documentation to prove a legal name change, such as a:

- Marriage document;

\(^{12}\) SSA Office of Retirement Policy, Population Profile, March 2015
• Divorce decree;
• Certificate of Naturalization showing the new name; or
• Court order for a name change.

If the document provided as evidence of a legal name change does not provide enough information to identify the individual in Social Security's records or if the individual changed their name more than two years ago (four years ago if they are younger than age 18), they must show an identifying document in their old name (as shown in Social Security records). Even if the document has expired, the Administration will still accept it.

If the individual does not have an identifying document in her old name, the Administration may accept an unexpired identifying document in the new name, as long as it can properly establish their identity in Social Security records.

If the individual is a U.S. citizen born outside the United States and Social Security records does not show the person as a citizen, they will need to provide proof of U.S. citizenship. If the individual is a U.S. citizen, Social Security will ask to see current immigration documents.

The new card will have the same number as their previous card, but will show the new name.

**Victims of Family Violence**

People in all walks of life can be victims of family violence or harassment, abuse or any number of life-endangering situations. If a person is a victim of family violence, Social Security may be able to offer assistance.

Public awareness campaigns stress how important it is for victims to develop safety plans that include gathering personal papers and choosing a safe place to go. Sometimes the best way to evade an abuser and reduce the risk of further violence may be to relocate and establish a new identity. Following these changes, it also may be helpful to get a new Social Security number.

Although Social Security does not routinely assign new numbers, they will do so when evidence shows a person is being harassed or abused or their life is endangered.

Applying for a new number is a big decision, however. It may impact an individual’s ability to interact with federal and state agencies, employers and others. This is
because financial, medical, employment and other records will be under the former Social Security number and name (if the person changes their name also).

**THE KEY ROLE OF ADVISORS**

Financial planners and advisors can play a key role in assisting their clients navigate the complex waters of Social Security—but only if they have the knowledge themselves. Every aging worker dreams of a secure and comfortable retirement. And now because we’re living longer, healthier lives, we can expect to spend more time in retirement than our parents and grandparents ever did. Achieving the dream is much easier with proper guidance and planning. The more an advisor knows, the more they can help their clients plan for retirement and other life events.

For instance, did you know that any of the following factors could have an affect on a beneficiary's retirement benefits?

- Farm work
- Federal government employment
- Household employment
- Military service
- Nonprofit or religious organizations
- Railroad earnings
- Self-employment
- State and local government employment
- Working outside the United States

And do you know how?

Do you know the answers to these questions?

- *Can I decide if I want to claim my spouses benefit or my own benefit at age 62?*
- *Can I claim my spouses benefit at 62 and then my own benefit at 66?*
- *What happens if I can’t wait until 66?*
- *Can I keep working and still take my benefits?*
- *I’ve never worked before—Can I still collect benefits?*
- *Should I take my benefits early, or should I draw from my annuity?*
• I’m a widow—If I get remarried, will I lose my benefits?
• I worked in a government job for 20 years where I didn’t pay into Social Security. I’ve been working in the private sector for the last ten years. Am I eligible for any benefits?
• Can I collect unemployment benefits if I’m receiving Social Security benefits?

If you are an advisor, you need to know the answers to all these questions and much, much more. After all, how can you effectively advise another person if you’re not familiar or are unaware of the many available options and how they can interact with each other?

Most financial advisors say a person will need about 70 to 80 percent of their pre-retirement earnings to comfortably maintain their pre-retirement standard of living. If a person has average earnings, Social Security retirement benefits will replace only about 40 percent of those earnings. The percentage is lower for people in upper income brackets and higher for people with lower incomes.

The bottom line for the majority of Americans is that the monthly Social Security check will play a major role in defining the quality of life in a person’s (or couple’s) retirement years. That seemingly small monthly Social Security check could easily add up to providing close to $1.5 million in benefits over a 30-year retirement (with cost of living adjustments). That’s nothing to sneeze at, and certainly no potential to be overlooked.

Partly due to so much speculation about the Social Security program becoming insolvent, baby boomers are increasingly turning toward advisors for help with understanding their Social Security benefits and for creative ways to maximize those benefits. After paying into the Social Security system for most of their lives, many on the edge of retirement suddenly realize they don’t understand how the system even works. Social Security was always something way, way in the future—now it’s staring them directly in the face. And trying to understand it now can be a daunting task.

Social Security planning for women is critical considering that a woman’s life expectancy is longer than a man’s—women typically become the survivor in a marriage, outliving their spouses. Having to live without the husband’s income can severely jeopardize a widow’s remaining years. No husband should want his wife to suffer financially after he’s gone. That’s one reason more and more financial advisors are reaching out to women and couples to offer their services.

Each client’s story will be different—each solution will be different. There are different ages, different PIAs, and different life expectancies. There is no “one size fits all”
answer. Only by becoming knowledgeable in this field can you effectively advise your clients, keeping their best interests in mind, how to take advantage of the many little known strategies that can make such a huge difference in their quality of life during their retirement years.

We will examine those little-known strategies. You will want to become familiar with them all in order to help clients maximize their Social Security income potential. The ultimate decision will be theirs. But, without proper guidance, they may just make an extremely costly mistake.
• Retirement and spouses benefits are paid the month after they are due to begin. The exact payment date is determined by the birthdate of the retired worker.

• If a person decides to delay their retirement, they should still sign up for Medicare at age 65.

• Approximately one-third of current beneficiaries pay taxes on their benefits. The taxable portion of a beneficiary’s Social Security benefits cannot exceed 85 percent of their total benefits.

• Retired Worker—Beneficiary who worked in covered employment long enough to be insured and who is at least 62 years old. Benefits equal to the Primary Insurance Amount are payable at the normal retirement age; maximum benefits are payable at age 70.

• The Earnings Test applies only to workers who wish to retire before reaching their full retirement age.

• Most financial advisors say a person will need about 70 to 80 percent of their pre-retirement earnings to comfortably maintain their pre-retirement standard of living. If a person has average earnings, Social Security retirement benefits will replace only about 40 percent of those earnings.

• The taxable portion of a beneficiary’s Social Security benefits cannot exceed 85 percent of their total benefits.

• By not taking benefits right away, a person could increase their guaranteed lifetime Social Security annual income by up to 70 to 80 percent.

• In 2016, a worker must receive $1,260 in covered earnings to get one Social Security or Medicare work credit and $5,040 to get the maximum of four credits for the year.

• If a beneficiary applies for benefits more than six months after the month they reach full retirement age, Social Security will only pay benefits for the previous six months.
CHAPTER 4 REVIEW QUESTIONS — RETIREMENT BENEFITS

Which of the following answers/completes each question/sentence the best?
(Answers are in the back of the text.)

1. On what day of the month will retirement benefits be paid?
   a) It depends upon the retired worker’s date of birth.
   b) It depends upon the day of the week the worker actually retires.
   c) On the first day of each month.
   d) On the last day of each month.

2. If you decide to delay your retirement, you should still sign up for Medicare:
   a) at age 62.
   b) at age 65.
   c) at age 68.
   d) after age 70.

3. The taxable portion of a beneficiary’s Social Security benefits cannot exceed __________ of their total benefits.
   a) 15%
   b) 25%
   c) 85%
   d) 100%

4. Not reporting a name change to Social Security can:
   a) delay your income tax return.
   b) suspend your benefits.
   c) result in criminal conviction.
   d) stop your benefits altogether.

5. If a beneficiary applies for benefits more than six months after the month they reach full retirement age, Social Security will:
   a) only pay benefits for the previous year.
   b) only pay benefits for the previous six months.
   c) suspend their benefits.
   d) stop their benefits altogether.
Upon the death of an eligible worker, Social Security can provide monthly benefits to eligible surviving spouses, dependent children and dependent parents. These death benefits are known as survivor benefits. Survivors of deceased workers account for 11.8 percent of Social Security beneficiaries.

When an individual is employed and contributes to Social Security through FICA, some of their taxes are allocated to Survivors Insurance (SI), which provides survivors benefits for workers and their families. When both people in a marriage are working and contributing, there is added security for both spouses. If one spouse dies, they can leave their spouse and other eligible family members with the additional income afforded by survivors benefits.

The amount of benefit to be paid to survivors is dependent upon the deceased’s average lifetime earnings. Obviously, the more monies earned and years worked, the higher the benefit amount—up to certain limits, of course. In addition to estimated retirement benefits, a beneficiary’s Social Security Statement provides an estimate of survivors benefits that could be paid as well.

Benefits are not paid on the deceased’s date of death, but rather on the date of application by the survivor. Therefore, surviving individuals should contact Social Security as soon as possible if they believe they may be entitled to survivors benefits. Survivors can find out if they are eligible for benefits and then make their decision as to whether they want to begin receiving those benefits or not. Survivors benefits can be applied for by telephone or at any Social Security office.

Certain documentation will be required by the Administration when applying for survivors benefits. Any documents that are required must be either original documents or copies certified by the agency that issued them. The following documents may need to be presented to establish eligibility and to claim benefits:

- Proof of death either from a funeral home or death certificate;
- Deceased’s worker’s Social Security number;
• Claimant’s Social Security number;
• Claimant’s birth certificate;
• Claimant’s marriage certificate if they are the surviving spouse;
• Claimant’s divorce papers if applying as a divorced surviving spouse;
• Dependent children’s Social Security numbers, if available;
• Dependent children’s birth certificates;
• Deceased worker’s most recent W-2 forms or federal self-employment tax return; and/or
• Name of the bank and bank account number for direct deposit.

If a beneficiary is getting benefits as a wife or husband based on their spouse’s work, when they report the death to Social Security, their benefits will be changed to survivors benefits. If the surviving spouse is getting benefits based on their own retirement account, Social Security will check to see if they can get more money as a surviving spouse. If that is the case, the survivors benefit will be adjusted and they will receive the amount that is the highest.

• A surviving spouse who has reached full retirement age will generally receive 100 percent of the worker’s basic allowable benefit amount.
• A surviving spouse age 60-65 will generally receive anywhere between 71-99 percent of the basic benefit amount.
• A surviving spouse at any age who is caring for a child under 16 years of age will receive 75 percent of the worker’s benefit amount.
• Children can receive 75 percent of the worker’s benefit amount.

If a surviving spouse is under full retirement age and still working, their benefits may be reduced if their earnings exceed certain limits. Once the surviving spouse reaches full retirement age, however, the limits no longer apply.

**FULLY INSURED VS. CURRENTLY INSURED**

Individuals must be insured under the Social Security program before retirement, survivors, or disability benefits can be paid to any beneficiary or beneficiary’s family. The Social Security Administration considers the number of quarters of coverage earned to determine if the worker is insured. Contributors earn a quarter of coverage—also called a credit—for a certain amount of work covered under Social Security, but they may earn no more than four quarters per year. Generally,
contributors need to be fully insured to receive Social Security benefits, but other requirements may also apply.

The minimum number of quarters needed is six. The maximum number needed is 40. Any year (all or part of a year) that was included in a period of disability is not included in determining the number of quarters needed.

There are two classifications for determining eligibility regarding the provision for survivor benefits:

1. Currently Insured; and
2. Fully Insured.

Credits are the determining factor between the two classifications. A currently insured status qualifies a worker for a limited range of survivor benefits, whereas a fully insured status entitles a worker and the worker’s family to full retirement and survivor benefits.

Currently insured affords limited eligibility and provides only death benefits. A worker must have earned six credits during the 13-quarter period ending with the quarter in which the worker died to be considered currently insured.

Fully insured provides eligibility for full benefits, including death benefits, retirement benefits, survivors benefits, disability benefits, and Medicare benefits. Workers are classified as fully insured if they have accumulated the required number of credits based on their age. For most people, the required number of credits is 40 (four credits per year for ten years).

To be fully insured, contributors need at least one quarter for each calendar year after they turned age 21 and the earliest of the following:

- The year before attaining age 62;
- The year before the contributor dies; or
- The year before the contributor becomes disabled.

**Note:** Beneficiaries who were born before 1930 need at least one quarter for each year after 1950. Other exceptions may apply.

Individuals are permanently insured if they are fully insured and they will not lose their fully insured status when they stop working under covered employment.

Fully insured beneficiaries have disability insured status if they have earned at least 20 quarters during the last ten years.
Note: Exceptions may apply for those beneficiaries who are under age 31 and in certain other cases.

**Lump Sum Death Benefits**

Social Security provides a maximum one-time lump sum benefit payment of $255 to the eligible survivor in the case of an eligible worker’s death. In most cases, this is the surviving spouse. The lump-sum payment can be made only to the spouse or child if they meet certain requirements. Survivors must apply for this payment within two years of the worker’s date of death.

The one-time lump-sum death payment is payable to:

- A surviving spouse if he or she was living with the deceased; or, if living apart, he or she was receiving certain Social Security benefits on the deceased person’s record; or
- If there is no surviving spouse, a child who is eligible for benefits on the deceased person’s record in the month of death.

The application for the lump-sum death payment must be filed within the two-year period ending with the second anniversary of the insured person’s death.

The lump-sum death payment cannot be paid to funeral homes or estates for funeral expenses—if no spouse or child meeting the requirements exists, the lump-sum death payment will not be paid.

**What to Do When a Family Member Dies**

Social Security should be notified as soon as possible when an eligible worker dies. In most cases, the funeral director will report the person’s death to the Social Security Administration. They will need the deceased’s Social Security number to make the report.

Some of the deceased’s family members may be eligible to receive monthly benefits in the form of survivors benefits, including:

- A widow or widower who is age 60 or older;
- A disabled widow or widower who is age 50 or older;
- A widow or widower at any age who is caring for the deceased’s child who is under age 16 or who is disabled;
• An unmarried child of the deceased who is:
  o under the age of 18 (or up to age 19 if he or she is a full-time student in an elementary or secondary school); or
  o age 18 or older with a disability that began before age 22;
• A stepchild, grandchild, step-grandchild or adopted child under certain circumstances;
• Parents, age 62 or older, who were dependent on the deceased for at least half of their support; and
• A surviving divorced spouse, under certain qualifying circumstances.

If the deceased was receiving Social Security benefits, the benefit received for the month of death or any later months must be returned. For example, if the person dies in July, the August benefit must be returned. If benefits were paid by direct deposit, the bank or other financial institution should be contacted. If the benefits were paid by check, the checks must be returned to the Social Security Administration as soon as possible. However, eligible family members may be able to receive death benefits for the month in which the beneficiary died.

**SURVIVING SPOUSES BENEFITS**

Generally, the spouse of the deceased worker qualifies for survivors benefits if they were married to their spouse for at least nine months before the spousal worker’s death. If, however, the deceased worker had a condition that led to the assumption that the worker was not expected to live for at least nine months at the time of their marriage, benefits will not be payable.

In order to qualify for surviving spouses benefits, the spouse must be age 60 or older or meet one of the following requirements:

• A disabled surviving spouse who is age 50 or older; or
• A surviving spouse who is caring for the deceased’s child if that child is under the age of 16 or if the child is disabled.*

*Note: This benefit will continue indefinitely as long as the child remains disabled and under the care of the surviving spouse.

Generally, a person is not eligible for surviving spouses benefits if they remarry before age 60. But remarriage after age 60 (or age 50 if the surviving spouse is disabled) will not prevent them from getting benefit payments based on their deceased spouse’s record. And at age 62 or older, they may get benefits based on
their new spouse’s record, if those benefits would be higher. The Social Security
Administration will always pay the higher benefit.

There are strategies involved in maximizing Social Security benefits, including
surviving spouses benefits. These strategies will be discussed as we venture further
into this course.

**SURVIVING DIVORCED SPOUSES BENEFITS**

In order to qualify for surviving divorced spouses benefits, the deceased worker must
have been fully insured at the time of death, and their marriage must have lasted at
least ten years.

An individual can receive benefits as a surviving divorced spouse on the Social
Security record of a deceased former spouse who is fully insured if the surviving
divorced spouse:

- Is at least age 60 (or age 50 if disabled);
- Was married to the former spouse for at least ten years;
- Is not entitled to a higher Social Security benefit on their own record; and
- Is unmarried, unless the following exception applies:
  - They remarried after age 60 (or after age 50 and at the time of
    remarriage they were entitled to Social Security disability benefits).

If the surviving divorced spouse age 60 or over applying for benefits remarried after
age 60 (or after age 50 and at the time of remarriage was entitled to disability
benefits), the Social Security Administration will disregard the marriage. The marriage
will have no affect on the surviving divorced spouse benefits.

A former spouse does not have to meet the age or length-of-marriage rule if they are
caring for the deceased former spouse’s child if that child is under the age of 16 or if
that child is disabled and also entitled. The child must be the former spouse’s natural
or legally adopted child to qualify.

Any benefits that are paid to the individual as a surviving divorced spouse (who
meets the age and/or disability requirement) will not affect the benefit rates for other
survivors who are receiving benefits on the deceased beneficiary’s record.
SURVIVING CHILDREN’S BENEFITS

Other family members besides spouses who are eligible for survivors benefits may also include the deceased beneficiary’s children. Social Security pays more benefits to children than any other federal program. In fact, 98 out of every 100 children could get Social Security survivors benefits if an eligible contributing parent dies.

To be eligible, the child must be unmarried and be less than 18 years of age (or up to age 19 if the child is a full-time student in an elementary or secondary school), or age 18 or older with a disability. Children can get benefits at any age if they were disabled before age 22 and they remain disabled. Under certain circumstances, a stepchild, adopted child, grandchild, or even step-grandchild may be eligible.

Surviving children’s benefits will not be affected if the surviving spouse remarries, even if the surviving spouse’s new spouse adopts the children. Their surviving children’s benefits will continue uninterrupted.

SURVIVORS BENEFITS WHEN A CHILD IS ADOPTED

The adoption of a child already entitled to survivors benefits does not terminate the child’s benefits.

Example

Lauren and Bill had two young children during their marriage. Bill passed away a couple years ago and the children began receiving survivors benefits. Lauren is now engaged and planning to remarry. Her fiancé, Joe, wants to adopt the children after their marriage. Lauren and Joe can remarry, Joe can adopt the children, and the children will not lose their survivors benefits.

SURVIVING PARENTS’ BENEFITS

If the deceased worker’s parents are age 62 or older and were dependent on the deceased for at least 50 percent of their support, the parents may be eligible for survivors benefits as well.

Dependent parent(s) of the deceased worker, ages 62 or older are eligible for:

- 82.5 percent of the deceased worker’s PIA for one surviving parent; or
- 75 percent to each parent if there are two surviving parents.
**MAXIMUM SURVIVOR BENEFITS FOR THE FAMILY**

There is a limit on just how much can be paid out, however. The maximum family benefit for survivors is limited and varies according to the deceased beneficiary’s retirement benefit.

The maximum family benefit for survivors benefits is generally 150-180 percent of the deceased worker’s benefit amount. If the total benefits due to a spouse and children exceed the limit, benefits will be reduced proportionately.

**Example**

Alice and Ray had been married for 20 years when Ray suddenly passed away. They have three children, ages 9, 12, and 14 that Alice is now solely responsible for. At the time of Ray’s passing, he was fully insured. Social Security survivors benefits could pay Alice 100 percent of Ray’s benefit amount. Each child is eligible for 75 percent as well. But 75 percent multiplied by three is 225, plus Alice’s 100 percent is way over the maximum family limit. So Alice and all three children will receive a lesser percentage resulting in benefit amounts that equal up to 150-180 percent of Ray’s benefit amount.

**OBTAINING SOCIAL SECURITY RECORDS ON A DECEASED PERSON**

Social Security records are confidential, but information about deceased individuals can be disclosed. (Individuals can also request information on a living person, but that individual must give their consent to the Social Security Administration for disclosure.) No records are available for people born before 1865, however.

The Social Security Administration will supply information about a deceased person’s records for a fee as long as the applicant supplies the required information and/or documentation. Requests can be made online or in writing. The Administration’s Form SSA-711 (available online) can be used to receive a copy of the original Application for a Social Security Card (Form SS-5) of the deceased person—or the applicant can receive a computer extract of the deceased’s original Social Security card application.

If the request is made in writing rather than online, the applicant must provide the deceased individual’s Social Security number (if known) or their full name, date and place of birth, and parents’ names (including the mother’s maiden name).

Under certain circumstances, detailed earnings information for a deceased person can also be disclosed, but Form SSA-7050 must be used.
POINTS TO PONDER — SURVIVORS BENEFITS

• Dependent parent(s) of the deceased worker, ages 62 or older are eligible for 82.5 percent of the beneficiary’s PIA for one surviving parent or 75 percent to each parent if there are two surviving parents.

• Social Security provides a maximum one-time lump sum benefit payment of $255 to the eligible survivor in the case of an eligible beneficiary’s death.

• The amount of benefit to be paid to survivors is dependent upon the deceased beneficiary’s average lifetime earnings.

• In order to qualify for surviving spouses benefits, the spouse must be age 60 or older—or age 50 or older if disabled; or one who is caring for the deceased beneficiary’s child if that child is under the age of 16 or is disabled.

• For survivors benefits, the maximum family benefit is generally 150-180 percent of the deceased worker’s benefit amount.

• Surviving children’s benefits will not be affected if the surviving spouse remarries, even if the surviving spouse’s new spouse adopts the children.

• Surviving children can receive 75 percent of the deceased beneficiary’s benefit amount.
CHAPTER 5 REVIEW QUESTIONS — SURVIVORS BENEFITS

Which of the following answers/completes each question/sentence the best?
(Answers are in the back of the text.)

1. If there is one dependent parent of a deceased worker who is 62 years of age or older, the parent is eligible for __________ in survivors benefits.
   a) 25% of the deceased worker’s PIA
   b) 50% of the deceased worker’s PIA
   c) 50% of the deceased worker’s PIA
   d) 82.5% of the deceased worker’s PIA

2. If there are two dependent parent(s) of a deceased worker who are 62 years of age or older, they are eligible for __________ in survivors benefits.
   a) 25% to each parent
   b) 50% to each parent
   c) 50% to the first parent, and 75% to the second parent
   d) 75% to each parent

3. Social Security provides a maximum one-time lump sum payment of _____ in case of an eligible worker’s death to their survivor.
   a) $100
   b) $255
   c) $300
   d) $450

4. Children can receive _____ of the worker’s benefit amount in survivors benefits.
   a) 20%
   b) 30%
   c) 75%
   d) 100%

5. The amount of benefit to be paid to survivors is dependent upon the:
   a) age of the survivor.
   b) ages of the surviving children in the household.
   c) deceased’s average lifetime earnings.
   d) deceased’s PIA at full retirement age.
CHAPTER 6

SOCIAL SECURITY DISABILITY BENEFITS

In this chapter, we will look at the benefits Social Security provides for disabled beneficiaries, their dependents, and their caretakers.

Studies show that a 20-year-old worker has a three-in-ten chance of becoming disabled before reaching their full retirement age. The average 2015 monthly Social Security benefit for a disabled worker was $1,165. In 2015, over 59 million Americans received almost $870 billion in Social Security benefits.

<table>
<thead>
<tr>
<th>JUNE 2015 BENEFICIARY DATA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disabled workers</td>
</tr>
<tr>
<td>Dependents</td>
</tr>
</tbody>
</table>

Illustration 6.1

DISABILITY BENEFIT REQUIREMENTS

In addition to meeting Social Security’s definition of disability to be considered eligible, a person must have worked long enough and recently enough to qualify for disability benefits. Social Security work credits are based on total annual wages or self-employment income. Disability benefits can be paid to eligible beneficiaries of any age, but eligible recipients must have earned the required number of work credits. The required number of work credits depends upon their age at the time they became disabled.

A worker can earn up to four credits per year. Generally, you need 40 credits, 20 of which were earned in the last ten years ending with the year the beneficiary became disabled. However, there are exceptions for younger workers. Younger workers may qualify with fewer credits.

If a worker becomes disabled before age 24, they will need six credits earned in the three-year period ending when disability begins.

If a worker becomes disabled between the ages of 24 and 31, they may qualify if they have credit for working half the time between age 21 and the time they became disabled. For example, if they became disabled at age 27, they would need credit for three years of work (12 credits) out of the past six years (between ages 21 and 27).

For workers who become disabled at age 31 or older, the credit requirements vary from 20 to 40. For instance, 20 credits are required if the disability occurs between the ages of 31 to 42, 22 to 38 credits are required if the disability occurs between the ages of 44 and 60, and 40 credits are required if the disability occurs at age 62 or older.

**CREDITS REQUIRED FOR DISABILITY BENEFITS**

<table>
<thead>
<tr>
<th>AGE DISABLED</th>
<th>CREDITS NEEDED</th>
<th>YEARS OF WORK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 24</td>
<td>6</td>
<td>1.5</td>
</tr>
<tr>
<td>24 – 30</td>
<td>6</td>
<td>2 – 4.5</td>
</tr>
<tr>
<td>31 – 42</td>
<td>20</td>
<td>5</td>
</tr>
<tr>
<td>44</td>
<td>22</td>
<td>5.5</td>
</tr>
<tr>
<td>46</td>
<td>24</td>
<td>6</td>
</tr>
<tr>
<td>48</td>
<td>26</td>
<td>6.6</td>
</tr>
<tr>
<td>50</td>
<td>28</td>
<td>7</td>
</tr>
<tr>
<td>52</td>
<td>30</td>
<td>7.5</td>
</tr>
<tr>
<td>54</td>
<td>32</td>
<td>8</td>
</tr>
<tr>
<td>56</td>
<td>34</td>
<td>8.5</td>
</tr>
<tr>
<td>58</td>
<td>36</td>
<td>9</td>
</tr>
<tr>
<td>60</td>
<td>38</td>
<td>9.5</td>
</tr>
<tr>
<td><strong>62 or older</strong></td>
<td><strong>40</strong></td>
<td><strong>10</strong></td>
</tr>
</tbody>
</table>

In general, a fully insured worker who has become disabled is entitled to disability benefits along with the worker’s spouse and dependent children.

Applying for disability benefits is relatively easy. Beneficiaries can apply directly online at [www.socialsecurity.gov](http://www.socialsecurity.gov) or apply at any local Social Security office. An
in-person disability claims interview lasts about one hour. Applicants who schedule an appointment will receive a Disability Starter Kit to assist in preparation for the interview. Applicants will also need to complete an Adult Disability Report as well.

Applicants can also make an appointment for a representative to take their claim information over the telephone.

The following information will be needed:

- The applicant’s Social Security number;
- The applicant’s birth certificate or baptismal certificate;
- Names, addresses and phone numbers of attending physicians, caseworkers, hospitals and clinics, and dates of visits—and corresponding medical records;
- Names and dosage of all medications taken by the applicant;
- Laboratory and test results;
- A summary of employment location and type of work performed; and
- A copy of the applicant’s most recent W-2 Form—or if self-employed, their most recent federal tax return.

**SOCIAL SECURITY DEFINITION OF DISABILITY**

According to the Social Security Administration, a disabled worker must be “unable to perform any substantial, gainful work” in order to qualify for disability benefits.

In addition, the disability must be “the result of a medically determinable physical or mental impairment that can be expected to last at least twelve (12) months or to result in an earlier death.” Social Security pays benefits for total disability only. Partial disability or short-term disability situations are not provided for.

A medically determinable physical or mental impairment is an impairment that results from anatomical, physiological, or psychological abnormalities, which can be shown by medically acceptable clinical and laboratory diagnostic techniques. Claimants cannot just attest to their own state of health. The impairment must be established by medical evidence consisting of signs, symptoms, and laboratory findings.
**EARNINGS TEST**

In order to receive disability benefits, beneficiaries must meet two different earnings tests:

1. A **recent work test** based on age at the time of disability; and

2. A **duration of work test** showing that the recipient worked long enough under Social Security. (Certain blind workers have to meet only the duration of work test.)

**THE RECENT WORK TEST**

If a beneficiary becomes disabled before the quarter they turn age 24, then they generally need 1.5 years of work during the three-year period ending with the quarter the disability began.

If the beneficiary became disabled in the quarter after turning age 24 but before the quarter they turn age 31, then they generally need work during half the time for the period beginning with the quarter after they turned 21 and ending with the quarter they became disabled.

For example, if you became disabled in the quarter you turned age 27, then you would need three years of work out of the six-year period ending with the quarter you became disabled. If you became disabled in the quarter you turn age 31 or later, then you generally need work during five years out of the ten-year period ending with the quarter your disability began.

The following table (*Illustration 6.3*) outlines the rules for how much work an individual needs for the recent work test, based on the age when disability began. The rules are based on the calendar quarter in which the individual turned or will turn a certain age.

The calendar quarters are:

- First Quarter — January 1 through March 1;
- Second Quarter — April 1 through June 30;
- Third Quarter — July 1 through September 30;
- Fourth Quarter — October 1 through December 31.
If you become disabled… Then, you generally need…

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>In or before the quarter you</td>
<td>• 1.5 years of work during the three-year period ending with</td>
</tr>
<tr>
<td>turn age 24</td>
<td>the quarter your disability began</td>
</tr>
<tr>
<td>In the quarter after you turn</td>
<td>• Work during half the time for the period beginning with the</td>
</tr>
<tr>
<td>24 but before the quarter</td>
<td>quarter after you turned 21 and ending with the quarter you</td>
</tr>
<tr>
<td>you turn age 31</td>
<td>became disabled</td>
</tr>
<tr>
<td>In the quarter you turn age 31 or</td>
<td>• Work during five years out of the 10-year period ending</td>
</tr>
<tr>
<td>later</td>
<td>the quarter your disability began</td>
</tr>
</tbody>
</table>

**THE DURATION OF WORK TEST**

The following table *(Illustration 6.4)* provides examples of how much work a beneficiary needs to meet the *duration of work test* if the beneficiary becomes disabled at various selected ages.

<table>
<thead>
<tr>
<th>If you become disabled…</th>
<th>Then, you generally need…</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before age 28</td>
<td>1.5 years of work</td>
</tr>
<tr>
<td>Age 30</td>
<td>2.0 years</td>
</tr>
<tr>
<td>Age 34</td>
<td>3.0 years</td>
</tr>
<tr>
<td>Age 38</td>
<td>4.0 years</td>
</tr>
<tr>
<td>Age 42</td>
<td>5.0 years</td>
</tr>
<tr>
<td>Age 44</td>
<td>5.5 years</td>
</tr>
<tr>
<td>Age 46</td>
<td>6.0 years</td>
</tr>
<tr>
<td>Age 48</td>
<td>6.5 years</td>
</tr>
<tr>
<td>Age 50</td>
<td>7.0 years</td>
</tr>
<tr>
<td>Age 52</td>
<td>7.5 years</td>
</tr>
<tr>
<td>Age 54</td>
<td>8.0 years</td>
</tr>
<tr>
<td>Age 56</td>
<td>8.5 years</td>
</tr>
<tr>
<td>Age 58</td>
<td>9.0 years</td>
</tr>
<tr>
<td>Age 60</td>
<td>9.5 years</td>
</tr>
</tbody>
</table>

Unlike the recent work test, under the guidelines of the duration of work test, work does not have to fall within a certain period of time.
The Social Security Administration provides a Benefit Eligibility Screening Tool to assist claimants in finding out if they are eligible for Social Security disability benefits. BEST is not an application, but merely a tool used to establish possible eligibility for disability benefits.

BEST will screen for the following benefits:

- Medicare Benefits;
- Social Security Disability Benefits;
- Social Security Retirement Benefits;
- Social Security Survivors Benefits;
- Special Veterans Benefits; and
- Supplemental Security Income Benefits.

BEST will ask for:

- The claimant’s (and claimant’s spouse’s) date of birth, date of marriage(s) and earnings information; and
- Information about the claimant’s personal finances to determine if they could be eligible for Supplemental Security Income (SSI) or if they qualify for help with Medicare premiums.

Based on answers to the questions, this tool will list benefits for which a claimant might be eligible and provide more information about how to qualify and apply. Remember, BEST is NOT an application for benefits and it:

- Does not know, or ask for, the claimant’s name or Social Security number;
- Does not access personal Social Security records; and
- Will not give claimants an estimate of benefit amounts.

BEST will not screen for help with Medicare prescription drug plan costs but if the claimant has Medicare, they might be eligible for a program that offers assistance.
DISABILITY DETERMINATION PROCESS

There is a specific process that claimant’s must go through during the eligibility phase for disability benefits.

Disability claims are typically processed through Social Security field offices by Social Security Administration representatives (SSAs) and state agencies referred to as Disability Determination Services (DDSs).

The process begins with Social Security representatives as they are the ones who receive the disability application forms. SSAs do not investigate medical eligibility requirements. Instead, they verify nonmedical eligibility requirements such as proof of age, employment, marital status, citizenship/residency and Social Security coverage information. When establishing eligibility, the individual’s income resources and living arrangements are also verified. Once the non-medical verification is complete and the applicant is deemed qualified in that regard, the case is sent to a Disability Determination Services (DDS) for evaluation.

The DDS renders the initial determination through the development of all gathered medical evidence. Health professionals play a most vital part in the determination process. Medical evidence is typically obtained by the DDS from the claimant’s own medical sources. If the DDS determines they need additional information, they will arrange for a consultative examination (CE), typically with the claimant’s treating source or medical expert.

DDS will ask the claimant’s attending physician(s) for the following information.

- What their medical condition is
- When their medical condition began
- How their medical condition limits their activities
- What the medical tests have shown
- What treatment they have received

They will also ask about the claimant’s ability to do work-related activities, such as walking, sitting, lifting, carrying, and memory capabilities. If DDS requires an additional examination by another qualified medical expert, Social Security will pay for the examination as well as some of the related travel costs.
To decide whether a person is disabled, Social Security uses a step-by-step process involving five questions.

1. **Is the claimant working?** If you’re working and your earnings average more than a certain amount each month, the Administration generally won’t consider you disabled. The amount changes each year.

   If you’re not working, or your monthly earnings average to the current amount or less, the state agency then looks at your medical condition.

2. **Is the claimant’s medical condition severe?** For you to be considered to have a disability by Social Security’s definition, your medical condition must significantly limit your ability to do basic work activities—such as lifting, standing, walking, sitting, and remembering—for at least twelve months.

   If it does not, they will not be classified as disabled. If it does, then they will proceed to Step 3.

3. **Is the claimant’s condition found in the list of disabling conditions?** For each of the major body systems, Social Security maintains a list of medical conditions that are so severe they automatically classify that person as disabled. The list of impairments describe medical conditions that the Administration considers severe enough to prevent a person from completing substantial gainful activity, regardless of age, education, or work experience. (The list of impairments is presented later within this section.)

   If their medical condition (or combination of medical conditions) is not on the list, Social Security will decide if it is of equal severity to a medical condition that is on the list. If it is, they will be considered disabled. If it is not, then they will proceed to Step 4.

4. **Can the claimant do the work they did previously?** If their condition is severe but not at the same or equal level of severity as a medical condition on the list, then Social Security must determine if it interferes with their ability to do the work they did previously.

   If it does not, their claim will be denied. If it does, they will then proceed to Step 5.
5. **Can the claimant do any other type of work?** If they cannot do the work they did in the past, Social Security will determine if they are able to adjust to other work, despite the impairment(s). Social Security considers their medical conditions and their age, education, past work experience, and any transferable skills they may have.

If they cannot adjust to other work, their claim will be approved. If they can adjust to other work, their claim will be denied.

Once they have examined all the gathered information, they make the determination as to whether the claimant is or is not disabled or blind as defined by law. It is also determined whether or not the claimant qualifies for vocational services to help them continue employment.

If DDS has determined that the claimant is disabled and therefore eligible for disability benefits, the Social Security Administration again takes over. The claim is processed and benefit payments begin.

If DDS has determined that the claimant is not disabled and therefore not eligible for disability benefits, the case is filed and retained by the Social Security field office. The claimant may then file an appeal. If an appeal is signed, a different adjudicative team in the DDS goes over the evidence again and makes their own determination.

The determination process takes approximately three to five months.

**DISABILITY ADJUDICATION AND REVIEW AND THE OFFICE OF GENERAL COUNCIL**

The Social Security Administration is the country’s largest administrative law system. The legal work these professionals perform positively impacts the lives of everyone you know. The Office of General Counsel and Office of Disability Adjudication and Review are the two components of Social Security staffed primarily by attorneys and legal support professionals. The Office of General Counsel promotes, advocates, and protects all legal interest of the Social Security Administration. The Office of Disability Adjudication and Review (ODAR) administers the hearings and appeals process for Social Security.

The Office of Disability Adjudication and Review administers the nationwide Disability Adjudication and Review program for the Social Security Administration. ODAR provides the basic means through which individuals who are dissatisfied with determinations that affect their rights and/or benefit amounts to appeal these
All review procedures are in accordance with the requirements of the Administrative Procedure and the Social Security Act.

ODAR includes a nationwide field organization staffed with Administrative Law Judges (ALJs) who conduct impartial hearings and make decisions on appeals filed by claimants and/or their representatives under the Social Security Act. The Appeals Council of ODAR impartially reviews ALJ decisions upon the claimant’s request and renders the Commissioner’s final decision when review is taken.

**RIGHT TO APPEAL**

If the claimant disagrees with Social Security’s decision, they have the right to appeal the decision. The request for appeal must be made in writing and must be delivered to any Social Security office within 60 days of the date the claimant receives the letter containing Social Security’s decision. If the claimant does not appeal within the 60-day time limit, they may lose their right to appeal and the last decision Social Security made will become final, and the case may not be reconsidered. However, if the claimant can provide good reason for not appealing the case within the time limits, Social Security may give them more time. A request for more time must be made in writing, stating the reason for the delay. In addition, when the last day of a time limit is on a Saturday, Sunday or national holiday, the time limit ends on the next workday.

A reconsideration is a complete review of the claim by someone at Social Security (or at the state disability determination services) who had no part in the first decision. That person will look at all the evidence used to make the original decision, plus any new evidence. When a decision is made on the reconsideration, the claimant will receive a letter explaining the decision.

If the claimant is still not satisfied, there are further steps that can be taken. They may choose to have someone help them with their appeal or to represent them. The representative may be a lawyer or other qualified person familiar with the claimant and the Social Security program. Social Security will work with the representative just as they work with the claimant. The representative can act for the claimant in most Social Security matters and will receive a copy of any decisions made about the claim.

The representative cannot charge or collect a fee from the claimant without first getting written approval from the Social Security Administration.
**HEARING**

If the claimant disagrees with the reconsideration decision, a hearing can be requested. An administrative law judge who had no part in the original decision or the reconsideration of the case will conduct the hearing. The process is similar to an appeal on retirement benefit decisions.

Before the hearing, the claimant will be asked for any supporting evidence and to clarify information about the claim. At the hearing, the administrative law judge will question the claimant and any witnesses that may be brought. Other witnesses, such as medical or vocational experts, may also provide information at the hearing. The claimant or the claimant’s representative has the right to question the witnesses as well.

In certain situations, the hearing may be held by a videoconference rather than in person, if the videoconference can make it more convenient. Often an appearance by video hearing can be scheduled faster than an in-person appearance. Also, a video hearing location may be closer to the claimant’s home and make it easier for witnesses or other people who may be involved in the hearing.

If the claimant is unable to attend a hearing or does not wish to do so, Social Security must be notified in writing of the reason. Unless the administrative law judge believes the claimant’s presence is necessary to decide their case and requires the claimant to attend, their presence will be waived. Social Security may be able to make other arrangements for the claimant’s convenience, such as changing the time or place of the hearing, but the claimant must provide a good reason for other arrangements.

After the hearing, the judge will make a decision based on all the information in the case, including any new information that was provided. The claimant and the claimant’s representative, if applicable, will be sent a letter and a copy of the judge’s decision.

If the claimant disagrees with the hearing decision made by the administrative law judge, a review by the Social Security’s Appeals Council can be requested. The Appeals Council looks at all requests for review, but it may deny a request if it believes the hearing decision was correct. If the Appeals Council decides to review the case, the Council will either decide the case itself or issue an order returning the case to an administrative law judge for further action. If the Appeals Council denies the request for review, they will send the claimant a letter explaining the denial. If the Appeals Council decides the case itself, they will send a copy of the decision to the claimant. If the Appeals Council returns the case to an administrative law judge, they will send the claimant a letter and a copy of the order.
As with the retirement benefit appeals process, any final decision rests in the hands of the federal court. If the claimant disagrees with the Appeals Council’s decision or if the Appeals Council decides not to review the case, the claimant may file a lawsuit in a federal district court. The letter the claimant receives explaining the Appeals Council’s decision will also explain how the claimant can ask a court to look into the case.

**Filing an Unfair Treatment Complaint**

Administrative Law Judges (AJLs) are not beyond reproach. The Social Security Administration treats all claimants and their representatives fairly and equally. If the claimant feels that an administrative law judge has treated them or their case unfairly, the Administration should be advised and given the following information:

- The claimant’s name and telephone number;
- The claimant’s Social Security number;
- The name of the person who the claimant believes treated them unfairly;
- In what way the claimant feels they were treated unfairly;
- When the claimant feels they were treated unfairly;
- The actions and/or words the claimant thought were unfair; and
- Any identifying information on witnesses who saw or heard the unfair treatment.

If a representative is filing the complaint on behalf of someone else, the representative needs to provide the Administration with the following information:

- The representative’s name;
- The representative’s address and telephone number; and
- The representative’s relationship to the claimant.

Filing an unfair treatment complaint is not the same as appealing a decision. The letter the claimant receives that contains the administrative law judge’s decision will explain how to file an appeal. When a claimant receives a decision on their claim, they have 60 days from the date they receive the decision to ask for an appeal if they do not agree with the decision. Any alleged unfair treatment can be included and reported within the appeal request format.

Social Security will advise the claimant when the complaint is received. An SSA representative who had not previously handled the claimant’s case will look into the
information provided regarding the complaint. The claimant will be advised when the matter is closed.

If the claimant also appealed the decision on their claim and included information about their complaint, the Appeals Council will address the complaint when responding to the appeal.

LISTING OF IMPAIRMENTS

There are actually two listings of impairments the Social Security Administration utilizes:

1. Adult Listings (Part A); and
2. Childhood Listings (Part B).

Most criteria for both listings of impairments are the same; however, an additional impairment is listed under Childhood Listings—Growth Impairment, which includes bone age determinations and abnormal growth rate.

The following is a brief explanation of listings. A comprehensive explanation of each category can be ascertained through the Social Security Administration website.
<table>
<thead>
<tr>
<th>Code</th>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.00</td>
<td>Musculoskeletal System</td>
<td>Affects muscles, ligaments, tendons, and bones. Disorders may result from hereditary, congenital, or acquired pathologic processes</td>
</tr>
<tr>
<td>2.00</td>
<td>Special Senses and Speech</td>
<td>Visual impairment, hearing loss, loss of speech</td>
</tr>
<tr>
<td>3.00</td>
<td>Respiratory System</td>
<td>Affects the pulmonary system</td>
</tr>
<tr>
<td>4.00</td>
<td>Cardiovascular System</td>
<td>Affects the heart or the circulatory system</td>
</tr>
<tr>
<td>5.00</td>
<td>Digestive System</td>
<td>Includes liver dysfunction, inflammatory bowel disease, short bowel syndrome, and malnutrition</td>
</tr>
<tr>
<td>6.00</td>
<td>Genitourinary Impairments</td>
<td>Includes renal dysfunction and kidney transplantation</td>
</tr>
<tr>
<td>7.00</td>
<td>Hematological Disorders</td>
<td>Affects the blood, including anemia and sickle cell disease</td>
</tr>
<tr>
<td>8.00</td>
<td>Skin Disorders</td>
<td>Includes chronic infections of the skin or mucous membranes</td>
</tr>
<tr>
<td>9.00</td>
<td>Endocrine Disorders</td>
<td>Complications resulting from hormonal imbalance including pituitary, thyroid, pancreatic and adrenal gland disorders, and diabetes</td>
</tr>
<tr>
<td>10.00</td>
<td>Congenital Disorders That Affect Multiple Body Systems</td>
<td>Includes Down syndrome (non-mosaic only)</td>
</tr>
<tr>
<td>11.00</td>
<td>Neurological</td>
<td>Includes epilepsy, brain tumors, disorganized motor function</td>
</tr>
<tr>
<td>12.00</td>
<td>Mental Disorders</td>
<td>Includes schizophrenic, paranoid and other psychotic disorders, intellectual disability, anxiety-related disorders, personality disorders</td>
</tr>
<tr>
<td>13.00</td>
<td>Malignant Neoplastic Diseases</td>
<td>Includes some forms of carcinoma and lymphoma</td>
</tr>
<tr>
<td>14.00</td>
<td>Immune System Disorders</td>
<td>Includes dysfunction in one or more components of the immune system</td>
</tr>
</tbody>
</table>

**FOR THE BLIND OR THOSE WITH LOW VISION**

There are special rules for people who are blind or who have low vision. The Social Security Administration considers a person to be legally blind if their vision cannot be corrected to better than 20/200 in their better eye, or if their visual field is twenty degrees or less, even with a corrective lens. Many people who meet the legal definition of blindness still have some sight, and may be able to read large print and get around without a cane or a guide dog.
Those individuals who do not meet the legal definition of blindness may still qualify for disability benefits if their vision problems alone, or combined with other health problems, prevent them from working.

There are a number of special rules for people who are blind that recognize the severe impact of blindness on a person's ability to work. For example, the monthly earnings limit for people who are blind is generally higher than the limit that applies to non-blind disabled workers. The 2016 monthly earnings limit is $1,820. For non-blind individuals, the monthly substantial gainful activity (SGA) amount (for 2016) is $1,130. Both SGA amounts generally change with changes in the national average wage index.

If a beneficiary is blind and self-employed, Social Security does not evaluate the time spent working in the business in the same way as for those who are not blind. You can do a lot of work in your business and still receive disability benefits, as long as your net profit averages $1,820 or less a month.

If the beneficiary is age 55 or older and legally blind, their ability to work is determined differently than for people who are not blind. After age 55, even if earnings exceed $1,820 a month (in 2016), benefits are only suspended, not terminated, if the work being done requires a lower level of skill and ability than what you did before you reached age 55.

**Substantial Gainful Activity Levels**

<table>
<thead>
<tr>
<th>Substantial Gainful Activity (SGA) Levels</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Persons with disabilities other than blindness</td>
<td>$1,130</td>
</tr>
<tr>
<td>Persons who are blind</td>
<td>$1,820</td>
</tr>
</tbody>
</table>

Illustration 6.6
### Monthly SGA Amounts by Disability Type

<table>
<thead>
<tr>
<th>Year</th>
<th>Blind</th>
<th>Non-Blind</th>
<th>Year</th>
<th>Blind</th>
<th>Non-Blind</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>$1,110</td>
<td>$700</td>
<td>2008</td>
<td>$1,570</td>
<td>$940</td>
</tr>
<tr>
<td>2000</td>
<td>1,170</td>
<td>700</td>
<td>2009</td>
<td>1,640</td>
<td>980</td>
</tr>
<tr>
<td>2001</td>
<td>1,240</td>
<td>740</td>
<td>2010</td>
<td>1,640</td>
<td>1,000</td>
</tr>
<tr>
<td>2002</td>
<td>1,300</td>
<td>780</td>
<td>2011</td>
<td>1,640</td>
<td>1,000</td>
</tr>
<tr>
<td>2003</td>
<td>1,330</td>
<td>800</td>
<td>2012</td>
<td>1,690</td>
<td>1,010</td>
</tr>
<tr>
<td>2004</td>
<td>1,350</td>
<td>810</td>
<td>2013</td>
<td>1,740</td>
<td>1,040</td>
</tr>
<tr>
<td>2005</td>
<td>1,380</td>
<td>830</td>
<td>2014</td>
<td>1,800</td>
<td>1,070</td>
</tr>
<tr>
<td>2006</td>
<td>1,450</td>
<td>860</td>
<td>2015</td>
<td>1,820</td>
<td>1,090</td>
</tr>
<tr>
<td>2007</td>
<td>1,500</td>
<td>900</td>
<td><strong>2016</strong></td>
<td>$1,820</td>
<td>$1,130</td>
</tr>
</tbody>
</table>

**Illustration 6.7**

**Terminal Illness**

An individual who has a terminal illness may or may not qualify for disability benefits—The requirements are the same for a person with a non-terminal illness. Eligibility determination may be expedited in the case of terminal illness, but the guidelines are the same.

**Disability Benefits for People Living with HIV/AIDS**

If an individual has HIV/AIDS and cannot work, they may qualify for disability benefits from the Social Security Administration. The disability must be expected to last at least a year (12 months) or end in death, and must be serious enough to prevent the recipient from doing substantial, gainful work. The amount of earnings Social Security considers substantial and gainful changes each year.

If a child has HIV/AIDS, he or she may be able to get Supplementary Security Income (SSI) if the household income is low enough.

The Social Security Administration pays disability benefits under two programs: (1) The Social Security Disability Insurance program (SSDI) for people who paid Social Security taxes; and (2) the Supplemental Security Income (SSI) program for people who have little income and few resources. If an individual’s Social Security
benefits are very low and they have limited other income and resources, they may qualify for benefits from both programs.

The amount of the monthly benefit depends on how much the beneficiary earned while working. The beneficiary will also qualify for Medicare after they have been receiving disability benefits for 24 months. Medicare helps pay for hospital and hospice care, lab tests, home health care and other medical services.

If a beneficiary gets SSI, they most likely will be eligible for food stamps and Medicaid. Medicaid takes care of medical bills while the beneficiary is in the hospital or receiving outpatient care. In some states, Medicaid pays for hospice care, a private nurse and prescription drugs used to fight HIV disease.

**COMPASSIONATE ALLOWANCES INITIATIVE**

The Compassionate Allowances initiative (CAL) is a way to expedite the processing of SSDI and SSI disability claims for applicants whose medical conditions are so severe that their conditions obviously meet Social Security’s definition of disability. It is not a separate program from SSA’s two disability programs, SSDI and SSI.

CAL conditions are developed as a result of information received from the public, outreach to advocacy groups, comments received from the Social Security and Disability Determination Service communities, counsel from medical and scientific experts, research with the National Institutes of Health (NIH), and information received from past public outreach hearings. The Social Security Administration considers which conditions are most likely to meet their definition of disability.

Social Security plans to add new conditions on an annual basis to the CAL list. The Administration works with both internal and external medical experts, the National Institute of Health, and many others to identify and research potential CAL conditions.

There is no special application or form that is unique to the CAL initiative. Individuals with a CAL condition apply for benefits using the standard SSA process for filing claims for SSDI, SSI, or both SSDI and SSI benefits. Social Security will make the determination. However, the Administration will expedite the applications of those with a CAL condition.
Typically it can take months, and in some cases even years, for a disability claim to reach a final determination. Individuals with CAL conditions, however, may receive a decision on their claim in a matter of weeks instead of months. The determination process can vary depending on several factors, but primarily on:

- How quickly the Social Security Administration obtains medical evidence from a doctor or other medical source;
- Whether a medical examination is necessary in order to obtain evidence to support the claim; and
- If the claim is randomly selected for quality assurance review of the decision.

As of July 30, 2011, the Administration reduced the paperwork burden for applicants with CAL conditions by eliminating the work and education history questions from the application. Due to the severity of CAL-qualifying conditions, they now regard this information as unnecessary.

Being diagnosed with a CAL condition does not provide additional funds above what an individual is eligible for under SSDI and/or SSI disability programs. CAL simply speeds up the receipt of a decision on the claim.

The Administration updates their listings more frequently and meets regularly with disease groups to explore how they can work together to improve claimant experience with the disability application process. In addition, they are working with researchers at NIH to identify medical “tipping points” which can pinpoint when impairments become severe enough to meet their standards.

The Administration has held CAL public outreach hearings, on subjects such as:

- Rare diseases;
- Cancers;
- Traumatic brain injury and stroke;
- Early onset Alzheimer’s disease and related dementias;
- Schizophrenia (with focus on homelessness);
- Cardiovascular disease and multiple organ transplants; and
- Autoimmune diseases.

Even though the Compassionate Allowances List is extremely long (with approximately 200 medical conditions already listed), in October 2011 the Social Security Administration added 13 new conditions to the list.
The Administration will not notify disability applicants that their claim has been selected for fast-tracked processing. Applicants will simply be contacted if additional medical evidence is needed and/or once they have made a final decision on the applicant’s claim.

**DISABILITY BENEFIT AMOUNTS**

Unlike retirement benefits, disability benefits cannot be predicted. The amount of the benefit depends upon whether Social Security Disability Insurance (SSDI) or Supplemental Security Income (SSI) disability benefits are received.

SSDI benefits base benefit amounts on *average lifetime earnings*. Benefits may be reduced if the individual is also receiving workers’ compensation, a public disability benefit, or a pension based on earnings not insured under Social Security. SSI benefits are based on *financial need* as determined by income resources and living situation.

The following table (*Illustration 6.8*) shows the differences between SSDI and SSI disability.

**Differences Between SSDI and SSI**

<table>
<thead>
<tr>
<th></th>
<th>SOCIAL SECURITY DISABILITY INSURANCE (SSDI)</th>
<th>SUPPLEMENTAL SECURITY INCOME (SSI)</th>
</tr>
</thead>
</table>
| **Eligibility**        | A disabled or blind individual must have paid Social Security taxes to become insured for benefits. | A disabled or blind adult or child must meet all of the following categories:  
  • Have limited income;  
  • Have limited resources;  
  • Be a U.S. citizen or national, or in one of certain categories of aliens; and  
  • Live in the United States or Northern Mariana Islands. |
| **Payment**            | The monthly disability benefit amount is based on the Social Security earnings record of the insured worker. | The monthly payment is based on need and varies up to the maximum federal benefit rate. Some states add money to federal SSI payments. |
| **Medical Coverage**   | The worker will get Medicare coverage automatically after receiving disability benefits for two years. | In most states, beneficiaries are automatically eligible for Medicaid. |

*Illustration 6.8*
It can take several months to process a disability claim, so anyone who wants to submit a claim should not delay in applying for benefits.

When an individual is collecting a disability benefit when they reach full retirement age, their disability benefits will automatically be converted to retirement benefits.

**WHEN DISABILITY BENEFITS BEGIN**

Disability benefits begin after the disabled worker has satisfied a waiting period of five consecutive months, therefore it is essential to file as soon as the disability occurs. Once the application is approved, the first Social Security disability benefit will be paid for the sixth full month after the disability began. Following is an example.

If the state agency decides an individual’s disability began on January 15, the first disability benefit will be paid for the month of July. Social Security benefits are paid in the month following the month for which they are due, so the beneficiary will receive the July benefit in August.

When the state agency reaches a decision on the case, they will send the claimant a letter. If the claimant’s application is approved, the letter will show the amount of the benefit and when payments begin. If the claimant’s application is not approved, the letter will explain why and inform them how to appeal the decision if they disagree.

If family members are eligible for benefits based on the claimant’s record, they will receive a separate notice along with a booklet.

Generally, disability benefits will continue as long as the beneficiary’s medical condition has not improved and they continue to be unable to work. Benefits will not necessarily continue indefinitely. Because of advances in medical science and rehabilitation techniques, many people with disabilities recover from serious accidents and illnesses. Mostly due to these medical advancements, Social Security will periodically review individual cases to make certain their eligibility is sustained.

Anyone who is receiving disability benefits is responsible for informing the Social Security Administration if:

- There is any change in their ability to work;
- They return to work; and/or
- Their medical condition improves.

The date upon which recipients and their dependents receive their payments is based on the disabled worker’s date of birth.
If a recipient has been receiving benefits as an adult disabled since childhood, the benefits generally end if he or she gets married. Some marriages are exempt, however, such as a marriage to another disabled adult.

**RETURNING UNDUE DISABILITY BENEFITS**

If an individual receives a benefit check knowing it is not due, they must return it to the U.S. Treasury Department or local Social Security office. Failure to do so can result in criminal charges. Wages can be attached or funds withdrawn from federal tax return refunds.

**FAMILY DISABILITY BENEFITS**

Certain family members of disability recipients may qualify for benefits on the beneficiary’s record, including spouse, divorced spouse, children, disabled children, and adult children disabled before age 22.

A divorced spouse may qualify for benefits if he or she was married to the disabled worker for at least ten years, is not currently married and is at least age 62. The money paid to a divorced spouse does not reduce the disabled’s benefit or any benefits due to the current spouse or children.

As you know, a worker’s PIA is the amount equal to the worker’s full retirement benefit at age 66. The PIA is also used to determine benefits for a disabled worker. Benefits are expressed as a certain percentage of the worker’s primary insurance amount.

A disabled worker is entitled to a monthly benefit equal to 100 percent of the worker’s PIA at the time the disability occurred. Eligible family members can qualify for up to 50 percent of the disabled worker’s disability rate.

The spouse of a qualified disabled worker may receive benefits from Social Security, depending upon the spouse’s age. If the spouse is 65, the benefit is equal to 50 percent of the worker’s PIA.

If there is a dependent child under age 16 (or who is disabled, regardless of age), the spouse can receive the 50 percent spouses benefit, regardless of the spouse’s age.

An unmarried dependent child of a disabled worker who is under age 18 is also eligible for monthly benefits equal to 50 percent of the worker’s PIA. A child who was disabled prior to age 22 is also eligible for monthly benefits equal to 50 percent of the worker’s PIA.
**MAXIMUM BENEFITS FOR THE DISABLED WORKER’S FAMILY**

When a beneficiary begins receiving disability benefits, certain members of the family also may qualify for benefits on the disabled person’s record. If any qualified family member applies for benefits, the Administration will ask for their Social Security numbers and their birth certificates.

If the spouse is applying for benefits, the Administration may also ask for proof of marriage, and dates of prior marriages, if applicable.

Each family member may be eligible for a monthly benefit of up to 50 percent of the disability rate. However, there is a limit to the amount the family will receive. The total depends upon the benefit amount and the number of family members who also qualify on the disabled worker’s record. The total varies, but generally the total amount the disabled worker and the disabled worker’s family can receive is about 150 to 180 percent of the disability benefit.

If the sum of the benefits payable on the disabled worker’s account is greater than the family limit, the benefits to the family members will be reduced proportionately. The disabled worker’s benefit will not be affected.

If the disabled worker has a divorced spouse who qualifies for benefits, it will not affect the amount of benefits the disabled worker or the disabled worker’s family may receive.

**DISABILITY FREEZE**

A disability freeze refers to the period of time Social Security deemed a beneficiary to be disabled. Since retirement benefits are predicated on earnings records, and since earnings may be lessened during the disability period, the disabled worker can apply to have a disability freeze established on their earnings record.

One consequence of a period of disability is that the worker may have years of little or no earnings. These years, if taken into account in computing a retirement benefit could reduce, and in some cases eliminate entirely, future potential retirement benefits. Therefore, the disabled worker could lose the ability to earn a substantial living from employment, and they might also lose their future Social Security retirement benefits. To prevent this, disability freeze provisions were enacted in 1954 to, in effect, ignore periods of disability when computing retirement or survivors benefits.
If the beneficiary files a claim for other benefits later, the Social Security Administration will take into consideration the disability freeze when computing the monthly benefit amount. Doing so may qualify the beneficiary and the beneficiary’s family for a higher benefit amount.

**WORKERS’ COMPENSATION OFFSET**

Both workers’ compensation and public disability benefit payments may reduce beneficiary and the beneficiary’s family’s Social Security benefits.

- **Workers’ compensation defined:** A workers’ compensation benefit payment is made to a worker because of a job-related injury or illness. It may be paid by federal or state workers’ compensation agencies, employers, or insurance companies on behalf of employers.

- **Public disability benefit defined:** Public disability benefit payments that may affect the beneficiary’s Social Security benefit are those paid under a federal, state or local government law plan. Examples are civil service disability benefits, temporary state disability benefits, and state or local government retirement benefits based on disability.

Based on the law, the total monthly amount of Social Security disability benefits, plus workers’ compensation, plus certain public disability benefits cannot exceed 80 percent of the average earnings the disabled worker was receiving before becoming disabled. In any month that the amount exceeds 80 percent, Social Security will generally reduce (offset) the monthly disability benefit.

**WORK INCENTIVES**

Just because a person has been classified as disabled by the Social Security Administration does not prevent them from returning to work. If a beneficiary has been classified as disabled by the Administration, they may want to try working again after they begin receiving disability benefits. Social Security has special rules called work incentives that allow a beneficiary to test his or her ability to work and still receive monthly Social Security disability benefits. Beneficiaries can also get help with education, rehabilitation and training they may need in order to work.

If a beneficiary receives Social Security benefits due to a disability, they must notify the Social Security Administration promptly when:

- They start or stop work;
• Their duties, hours, or pay change; or
• They start paying expenses for work due to your disability.

Changes in work activity can be reported by phone, by mail, or in person.

THE TICKET TO WORK PROGRAM

The Social Security Ticket To Work Program provides most people who are receiving disability benefits more choices for employment. Participation in the Ticket To Work program is strictly voluntary. A beneficiary can choose if, when, and where to participate in the program.

Designated providers under the Ticket To Work program coordinate and provide appropriate services to help individuals find and maintain employment, including training, career counseling, vocational rehabilitation, job placement and ongoing support services.

The Ticket To Work Program:

• Increases beneficiary choices in obtaining rehabilitation and vocational services to help them go to work and attain their employment goals;
• Removes barriers that require people with disabilities to choose between health care coverage and work; and
• Assures that more Americans with disabilities have the opportunity to participate in the workforce and lessen their dependence on public benefits.

As long as the Ticket To Work participant is making progress in the program, the Administration will not review their disability. Participation in the Ticket To Work program begins when the worker signs an agreement with an employment network (EN) or state vocational rehabilitation agency.

An EN is an entity that contracts with the Social Security Administration to either provide or coordinate the delivery of the necessary services to Social Security disability beneficiaries. The EN can be a single individual, a partnership/alliance (public or private) or a consortium of organizations collaborating to combine resources to serve eligible individuals. Since the Ticket To Work program is a performance-based program, ENs receive payments when the beneficiary achieves certain employment-related milestones.
Together, the agency and the worker develop an employment plan. While the worker is in the program, the Administration will review the worker’s progress in achieving the goals of the employment plan every twelve months.

The following table (Illustration 6.9) explains how Social Security determines whether the worker is making timely progress. In addition to the items in this chart, earning a high school diploma/GED will satisfy the educational requirement for the first twelve-month review.

### How Timely Progress is Measured

<table>
<thead>
<tr>
<th>12-Month Review Period</th>
<th>Work Requirement</th>
<th>Degree or Certification Program</th>
<th>Technical, Trade or Vocational Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Year</td>
<td>3 out of 12 months with trial work period level earnings</td>
<td>Completed 60% of full time course load for one year</td>
<td>Completed 60% of full time course load for one year</td>
</tr>
<tr>
<td>Second Year</td>
<td>6 out of 12 months with trial work period level earnings</td>
<td>Completed 75% of full time course load for one year</td>
<td>Completed 75% of full time course load for one year</td>
</tr>
<tr>
<td>Third Year</td>
<td>9 out of 12 months with substantial gainful activity level earnings*</td>
<td>Completed a 2-year program or, for a 4-year program, completed an additional academic year full time study</td>
<td>Completed the program</td>
</tr>
<tr>
<td>Fourth Year</td>
<td>9 out of 12 months with substantial gainful activity level earnings*</td>
<td>Completed an additional academic year of full time study</td>
<td></td>
</tr>
<tr>
<td>Fifth Year</td>
<td>6 out of 12 months at substantial gainful activity level with no Social Security disability or SSI benefits</td>
<td>Completed an additional academic year of full time study</td>
<td></td>
</tr>
<tr>
<td>Sixth Year</td>
<td>Work criteria are same for 5th and subsequent 12-month periods</td>
<td>Completed 4-year degree program</td>
<td></td>
</tr>
</tbody>
</table>

*In 2016, earnings over $1,130 (over $1,820 if blind) are considered substantial

Illustration 6.9

14 SSA, Pub 05-10062, January 2016
If the Social Security Administration determines that the beneficiary is not making progress in the Ticket To Work program, the Administration will no longer suspend future medical reviews. The beneficiary can continue in the Ticket To Work program even if the Administration finds that they are not making progress.

Whenever the beneficiary believes that they are making progress again, they should contact the Ticket Call Center. Social Security will make a decision about the reported progress. As long as the beneficiary meets the disability rules, qualifies to participate in the Ticket To Work program and starts making progress as expected, the Administration will not begin a medical review.

If the beneficiary disagrees with any determination, they have to ask for a review of the decision within 30 days after the date they receive the decision.

If the beneficiary has completed their trial work period, is working and has substantial earnings, their Social Security disability benefits may stop. Benefits can quickly start again if their income drops or they stop work and are still disabled.

Supplementary Security Income (SSI) payments are reduced until earnings have reached a high enough level that the beneficiary no longer receives his or her benefit payment. The Social Security Administration counts less than one-half of the beneficiary’s earnings when figuring the SSI payment amount.

**TRIAL WORK PERIOD (TWP)**

The Social Security Administration allows a Trial Work Period (TWP) for disability beneficiaries to test their ability to work for at least nine months without losing benefits. For the first nine months, beneficiaries can continue to receive their disability benefits with no limit on their earnings. After nine months, they can work and still receive benefits for any month in which their earnings do not exceed certain limits ($1,820 for blind individuals and $1,130 for sighted individuals).

How the TWP works:

- Lasts for nine months;
- The nine months do not have to be in a row; and
- The nine months must take place within 60 months (five years).

For 2016, the monthly earnings amount that Social Security uses to determine if a month counts as a TWP month is $810 per month. If a beneficiary loses his or her job during a trial work period, their benefits are not affected.
The following table (*Illustration 6.10*) demonstrates how monthly earnings trigger a TWP.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>MONTHLY EARNINGS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978 &amp; prior</td>
<td>$50</td>
</tr>
<tr>
<td>1979-1989</td>
<td>75</td>
</tr>
<tr>
<td>1990-2000</td>
<td>200</td>
</tr>
<tr>
<td>2001</td>
<td>530</td>
</tr>
<tr>
<td>2002</td>
<td>560</td>
</tr>
<tr>
<td>2003</td>
<td>570</td>
</tr>
<tr>
<td>2004</td>
<td>580</td>
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<tr>
<td>2005</td>
<td>590</td>
</tr>
<tr>
<td>2006</td>
<td>620</td>
</tr>
<tr>
<td>2007</td>
<td>640</td>
</tr>
<tr>
<td>2008</td>
<td>670</td>
</tr>
<tr>
<td>2009</td>
<td>700</td>
</tr>
<tr>
<td>2010-2012</td>
<td>720</td>
</tr>
<tr>
<td>2013</td>
<td>750</td>
</tr>
<tr>
<td>2014</td>
<td>770</td>
</tr>
<tr>
<td>2015</td>
<td>780</td>
</tr>
<tr>
<td>2016</td>
<td>810</td>
</tr>
</tbody>
</table>

*Illustration 6.10*

Monthly earnings in 2016, used to determine whether a month is part of a trial work period, is such amount for 2001 multiplied by the ratio of the national average wage index for 2014 to that for 1999 or, if larger, such amount for 2015 ($780). If the amount so calculated is not a multiple of $10, the figure is rounded to the nearest multiple of $10.
### Calculation Details

<table>
<thead>
<tr>
<th>AMOUNTS IN FORMULA</th>
<th>COMPUTATION</th>
<th>HIGHER AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001 monthly earnings</td>
<td>$530</td>
<td>$810 exceeds the amount for 2015, so the amount for 2016 is $810</td>
</tr>
<tr>
<td>1999 average wage index</td>
<td>$530 x 46,481.52 ÷ 30,469.84 = $808.51, which rounds to $810</td>
<td></td>
</tr>
<tr>
<td>2014 average wage index</td>
<td>46,481.52</td>
<td></td>
</tr>
</tbody>
</table>

### Illustration 6.11

$15$ **Note**: If Social Security disability benefits cease because of the beneficiary’s earnings, but he or she is still disabled, their free Medicare Part A coverage will continue for at least 93 months after the nine-month trial work period. After that, the beneficiary can purchase Medicare Part A coverage by paying a monthly premium. If the beneficiary has Medicare Part B coverage, they must continue to pay the premium. If they want to end their Part B coverage, they must make a request in writing.

### Extended Period of Eligibility (EPE)

The Extended Period of Eligibility (EPE) starts the month after the trial work period ends.

After the trial work period ends, beneficiaries get a 36-month extended period of eligibility. Whether Social Security pays the beneficiary during this period depends on how much they work and earn. During the extended period of eligibility:

- Social Security can pay the beneficiary for any month their work and earnings are not at a substantial gainful activity (SGA) level; and
- Social Security can pay the beneficiary for the first month that their work and earnings are substantial and for the next two months:
  - benefits will terminate if their work is substantial in any month after the extended period of eligibility ends.

During the trial work period, there are no limits on the beneficiary’s earnings. During the 36-month extended period of eligibility, he or she usually can make no more than $1,130 a month or benefits will stop (non-blind, or $1,820 if blind). But, the work expenses the beneficiary incurs as a result of the disability are deducted when Social Security counts his or her earnings. If the beneficiary has extra work expenses,

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15 **SSA, Trial Work Period**
earnings could be substantially higher than $1,130 before benefits are affected. The substantial earnings amount usually increases each year.

Social Security deducts work expenses related to disability from the beneficiary’s earnings before the Administration determines if he or she is still eligible for benefits. These expenses may include the cost of any item or service needed to work, even if the item or service also is useful to the beneficiary in their daily living. Examples include copayments for prescription drugs, counseling services, transportation to and from work (under certain conditions), a personal attendant or job coach, a wheelchair or any specialized work equipment.

If the beneficiary loses their job during a trial work period, benefits are not affected. If the beneficiary loses their job during the 36-month extended period of eligibility, benefits will be reinstated as long as the beneficiary is still disabled.

If the beneficiary works, he or she may have to pay for certain items and services that people without disabilities do not pay for. For example, because of their medical condition, they may need to take a taxi to work instead of public transportation, or pay for counseling services. Social Security may be able to deduct these expenses from the beneficiary’s monthly earnings before the Administration determines if he or she is still eligible for benefits.

**EXPEDITED REINSTATEMENT (EXR)**

Expeditied Reinstatement (EXR) is the beneficiary’s safety net if their cash benefits end because of work. If the beneficiary makes less money or has to stop working because of their disability, Social Security may restart their benefits right away if:

- The beneficiary stops working above the substantial gainful activity level; and
- The disability is the same as or related to their current disability; and
- They make the request within five years of when benefits end.

If you work while receiving disability benefits, you must notify the Social Security Administration about your earnings no matter how little you earn. You may have unlimited earnings during a trial work period of up to nine months (not necessarily in a row) and still receive full benefits. Once you have completed your nine-month trial work period, the Administration will determine if you are still entitled to disability benefits. You also may be eligible for other work incentives to help you make the transition back to work.
DISABILITY BENEFITS FOR THE SPOUSE

Benefits are payable to the disabled worker's spouse at:

- Age 62 or older, unless the spouse collects a higher Social Security benefit based on his or her earnings record. The spouse benefit amount will be permanently reduced by a percentage based on the number of months up to his or her full retirement age; and

- Any age if the spouse is caring for the disabled worker’s child under age 16 or disabled and receiving Social Security benefits. The spouse would receive these benefits until the child reaches age 16. At that time, the child's benefits continue, but the spouse’s benefits stop unless the spouse is old enough to receive retirement benefits (age 62 or older) or survivors benefits as a widow or widower (age 60).

If the disabled worker’s spouse is eligible for retirement benefits on their own account, Social Security will always pay that amount first. But if the spouse’s benefit that is payable on the disabled worker’s record is a higher amount, the spouse will get a combination of benefits that equals that higher amount.

It doesn’t matter if the spouse starts getting benefits before, after, or at the same time the disabled worker does—Social Security will check both records to make sure that the spouse gets the higher amount whenever he or she becomes entitled to it.

If the spouse of a disabled worker will also receive a pension based on work not covered by Social Security, such as government or foreign work, the spouse’s Social Security benefit on the disabled worker’s record may be affected.

HOW NON-COVERED PENSIONS MAY AFFECT SPOUSES BENEFITS

If the disabled beneficiary receives a pension from a government job in which they did not pay Social Security taxes, some or all of the Social Security spouse’s, widow’s or widower’s benefit may be offset due to receipt of that pension, referred to as the Government Pension Offset (GPO). We’ve touched upon how this affects retirement benefits, but it also affects disability and survivors benefits as well.
The GPO will reduce the amount of Social Security spouse's, widow's or widower's benefits by two-thirds of the amount of the government pension. For example, if you receive a monthly civil service pension of $600, two-thirds of that, or $400, must be used to offset your Social Security spouse's, widow's or widower's benefits. If you are eligible for a $500 spouses benefit, you will receive $100 per month from Social Security.

\((500 - 400 = 100)\)

Some individuals are exempt from the offset. Generally, Social Security benefits as a spouse, widow, or widower will not be reduced if the disabled beneficiary:

- Is receiving a government pension that is not based on their earnings; or
- Is a federal (including Civil Service Offset), state or local government employee whose government pension is based on a job where they were paying Social Security taxes and:
  - they filed for and were entitled to spouse’s, widow’s or widower’s benefits before April 1, 2004;
  - their last day of employment (that the pension is based on) is before July 1, 2004; or
  - they paid Social Security taxes on their earnings during the last 60 months of government service. (Under certain conditions, fewer than 60 months may be required for people whose last day of employment falls after June 30, 2004, and before March 2, 2009.)

**Disability Benefits for the Divorced Spouse**

If the disabled beneficiary is divorced, even if the ex-spouse has remarried, the ex-spouse may qualify for benefits on the beneficiary’s record.

To qualify on the disabled beneficiary’s record, the ex-spouse must:

- Have been married to the disabled beneficiary for at least ten years;
- Be at least 62 years of age;
- Be unmarried; and
- Not be eligible for an equal or higher benefit on his or her own Social Security record, or on someone else’s Social Security record.

The amount of benefits payable to a divorced spouse has no effect on the amount of benefits the disabled beneficiary or their current spouse may receive.
**Disability Benefits for the Children**

When a beneficiary qualifies for Social Security disability benefits, their children may also qualify to receive benefits on their record. An eligible child can be the beneficiary’s biological child, adopted child or stepchild. A dependent grandchild may also qualify.

To receive benefits, the child must be unmarried and be:

- Under age 18; or
- 18-19 years old and a full-time student (no higher than grade 12); or
- 18 or older and have a disability that started before age 22.

Normally, benefits stop when children reach age 18 unless they are disabled. However, if the child is still a full-time student at a secondary or elementary school at age 18, benefits will continue until the child graduates or until two months after the child becomes age 19, whichever is first.

Within the beneficiary’s family, each qualified child may receive a monthly payment up to one-half of the full disability amount. However, just as with survivors benefits, there is a limit to the amount that Social Security will pay family members.

**Disability Benefits for the Disabled Child**

A child under age 18 may be disabled, but Social Security doesn’t need to consider the child’s disability when deciding if he or she qualifies for benefits as the disabled beneficiary’s dependent. The child’s benefits normally stop at age 18 unless he or she is a full-time student in an elementary or high school (benefits can continue until age 19) or is disabled.

For a child with a disability to receive benefits on the disabled beneficiary’s record after age 18, the following rules apply:

- The disabling impairment must have started before age 22; and
- The child must meet the definition of disability for adults.

**Disability Benefits for Adults Disabled Before Age 22**

An adult who was disabled before age 22 may be eligible for “child's” benefits on a parent’s Social Security earnings record if the parent is deceased or if the parent starts receiving retirement or disability benefits on their own record. Social Security
considers this a “child’s” benefit because it is paid on the parent’s Social Security earnings record.

Normally, individuals who are age 18 or older are considered adults and, therefore, only eligible for adult benefits. However, an “adult” (age 18 or older) can qualify for child’s benefits if their disability began before the age of 22.

The "adult child" could be an adopted child or, in some cases, a stepchild, grandchild, or even step-grandchild. But the “adult child” must be unmarried, age 18 or older, and have a disability that started before age 22.

**Example**

Steven is 38 years of age and has had cerebral palsy since birth. His father, George, has just retired at age 62 and has begun collecting his retirement benefits. Steven automatically becomes eligible for the “child’s” benefit on George’s record.

Since the benefits Steven will receive are based on George’s earnings, it is irrelevant whether Steven has ever worked or not. However, if Steven is working, his earnings must not have exceeded $1,130 a month.

If Steven was already receiving SSI benefits or disability benefits on his own record, benefits may still be available on George’s record, which could result in a higher benefit payment. Entitlement to Medicare may also be possible.

No benefits would be payable on the record of a parent who never worked.

**Note:** At this time the Administration does not accept applications for child’s benefits online, but applicant’s can get the process started by completing the online Adult Disability Report.

If the beneficiary receives benefits as an adult disabled since childhood, the benefits generally end if he or she gets married. However, some marriages (for example, to another adult disabled child) are considered protected.

**DISABILITY BENEFITS FOR WOUNDED WARRIORS**

The Social Security Administration expedites disability claims for those military service members who became disabled while on active military service on or after October 1, 2001. It does not matter where the disability occurred and it does not matter if they remain on active duty.
The length of time it takes to receive a determination can vary according to:

- The nature of the disability;
- How quickly the required medical evidence is obtained; and
- Whether it is necessary to obtain additional medical evidence.

Having all the required information at hand can help expedite the process. If a military service member becomes disabled, even for a limited time, they should file an application as soon as feasible. Filing an application online is fastest as well. The applicant should:

- Provide information regarding all medical experts responsible for the applicant’s medical care;
- Provide the address of the military site where the applicant’s records are kept;
- Keep Social Security abreast of any address changes while the application is pending; and
- Notify Social Security of any changes in doctors, hospitals, or outpatient clinics where treatment is being received.

Dependents of the eligible military service member may be entitled to benefits as well, including the recipient’s:

- Spouse, if age 62 or older;
- Spouse at any age who is caring for the applicant’s child who is under the age of 16 or disabled;
- Unmarried child or adopted child (in some cases, stepchild or grandchild) under the age of 18 (or under the age of 19 if in elementary or secondary school full time);
- Unmarried child 18 or older if the child has a disability that began before age 22; and
- Unmarried divorced spouse age 62 or older if the marriage had lasted for at least ten years.

Both SSI benefits and SSDI benefits are available to military service members. SSI pays benefits to those beneficiaries and certain family members if the beneficiary is fully insured. SSI pays benefits based on financial need.
Regardless of whether you are a military service member, or a civilian, the definition of disability according to the Social Security Administration remains the same:

- Beneficiaries must be unable to perform any substantial, gainful work; and
- The disability must be the result of a medically determinable physical or mental impairment that can be expected to last at least twelve months or to result in an earlier death.

**What if an individual met the required definition of disability for only a certain amount of time and then the condition improved?**

The Social Security Administration provides an avenue, called a closed period of disability for those circumstances; however, specific requirements must be met.

- The medical evidence must establish that the applicant was unable to engage in substantial work for a continuous period of 12 months, but by the time the disability decision is made, their condition has improved to the point where they are no longer disabled.
- The applicant must file an application within 14 months after the disability ended.

If the requirements for disability benefits are met, there is a five-month waiting period before the first monthly benefit can be paid. Eligible beneficiaries can receive up to twelve months of retroactive benefits from the date the application was filed.

**Example**

*Matthew filed an application for Social Security disability benefits on December 2012. After reviewing his claim, Social Security determines that his disability started on April 15, 2011, and that his condition improved to the point that he was no longer considered disabled as of September 2012. This is the “closed period of disability.”*

*His five-month waiting period begins May 2011, the first full month he was disabled. The months in his waiting period are May, June, July, August, and September. Thus, the first month for which he is entitled to disability benefits is October 2011.*

*Matthew could potentially receive benefits for October 2011 until September 2012, the month his disability ended. Based on the application he filed in December 2012, he would receive ten months of retroactive benefits for December 2011 through September 2012.*
Military pay may or may not affect this benefit. It depends upon the amount of earnings and how those earnings are being made. Earnings limits may or may not apply. The Social Security Administration will take a close look at the type of work activity being performed and take that into consideration when looking at the earnings. The actual work activity is the controlling factor and not the amount of pay received or the recipient’s military duty status.

To apply for benefits, Social Security will require information and documentation about the applicant’s age, employment, proof of citizenship, and information regarding all impairments and related treatment, such as:

- Original or certified copy of the applicant’s birth certificate or proof of U.S. citizenship or legal residency if foreign-born;
- Form DD 214, if discharged from military service;
- W-2 form or income tax return from last year;
- Proof of military pay or workers’ compensation;
- Social Security numbers of the applicant’s spouse and minor children;
- Checking or savings account number, if applicable;
- Name, address, and phone number of a contact person; and
- Medical records from all military and civilian sources.

For service members who are entitled to Medicare Part A and Part B, TRICARE provides Medicare “wraparound” coverage. Medicare is the primary payer for these beneficiaries, and TRICARE serves as a supplement, paying the Medicare deductible and patient cost share.

Individuals who are awarded retroactive Social Security disability benefits also may become entitled to Medicare Part A for months before they receive the disability award notice. Effective October 2009, TRICARE beneficiaries who are awarded retroactive benefits based on disability or permanent kidney failure do not have to enroll in Part B for those months in the past and can keep their TRICARE coverage as long as they enroll in Part B currently.

The Patient Protection and Affordable Care Act of 2010 provides for a 12-month Medicare Part B special enrollment period for TRICARE beneficiaries who are entitled to Medicare Part A, but did not enroll in Medicare Part B during their initial enrollment period. The Department of Defense will notify eligible individuals about this period.
Beneficiaries may continue to receive Social Security disability benefits while they remain on active duty. It is important that the Social Security Administration be notified if there is a change in:

- Military Occupational Specialty Code (MOS);
- Air Force Specialty Codes (AFSC);
- Navy Enlisted Classification (NEC);
- A Permanent Change of Duty Station (PCS); and
- Changes in work status or active duty status.

**DISABILITY AND MEDICARE**

Disabled beneficiaries are automatically eligible for Medicare after receiving disability benefits for 24 months. The beneficiary will receive information about Medicare several months before coverage begins. If the disabled beneficiary has permanent kidney failure requiring regular dialysis or a transplant or has amyotrophic lateral sclerosis (Lou Gehrig’s disease), they may qualify for Medicare almost immediately.

**DISABILITY AND CRIMINAL ACTIVITY**

Social Security must be notified if the disabled beneficiary has an outstanding arrest warrant for any of the following felony offenses:

- Flight to avoid prosecution or confinement;
- Escape from custody; and
- Flight-escape.

The beneficiary cannot receive regular disability benefits, or any underpayments they may be due for any month in which there is an outstanding arrest warrant for any of these felony offenses.

If the disabled beneficiary is convicted of a crime, they will be ineligible for disability benefits. Regular disability benefits or any underpayments that may be due are not paid for the months a person is confined for a crime, but any family members who are eligible for benefits based on the beneficiary’s work may continue to receive benefits.
Monthly benefits or any underpayments that may be due usually are not paid to someone who commits a crime and is confined to an institution by court order and at public expense. This applies if the person has been found:

- Not guilty by reason of insanity or similar factors (such as mental disease, mental defect, or mental incompetence); or
- Incompetent to stand trial.

If the beneficiary violates a condition of probation or parole imposed under federal or state law, they cannot receive regular disability benefits or any underpayment that may be due for any month in which they violate a condition of their probation or parole.

**DISABILITY MEDICAL CONDITION REVIEWS**

By law, the Social Security Administration is required to review the medical condition of all people receiving disability benefits from time to time to make sure they continue to be disabled. The frequency of reviews depends on the nature and severity of the beneficiary’s medical condition and whether it is expected to improve.

If improvement is expected, the first review generally will be six to 18 months after the date the beneficiary first became disabled. If improvement is possible, but cannot be predicted, the case will be reviewed about once every three years. If improvement is not expected, the case will be reviewed once every seven years.

Generally, if the beneficiary’s health has not improved or if the disability still keeps them from working, they will continue to receive their benefits.

Social Security will gather any new information about the beneficiary’s medical condition. The Administration will ask their doctors, hospitals, and other medical sources for medical records. The Administration will ask how the beneficiary’s medical condition limits their activities, what their medical tests show, and what medical treatments have been provided. If Social Security needs more information, the Administration will ask the beneficiary to go for a special examination or test for which the Administration will pay.

Next, the Administration will look at what the beneficiary’s medical condition was when the case was last reviewed. The Administration will also look at any new health problems the beneficiary may have.

Social Security will then make a decision about whether or not the beneficiary’s medical condition has improved. If the Administration decides the medical condition
has improved, they will make a decision about whether or not the beneficiary’s medical condition has improved enough to allow them to work. The Administration will also look to see if the overall medical condition affects the kind of work the beneficiary can do. This includes the work they did in the past and any other kind of work the beneficiary might be able to do now.

If the Social Security Administration decides that the medical condition has improved to the extent that the beneficiary can work, benefits will stop. Disability benefits also will stop in any of the following situations.

- The beneficiary has benefited from vocational training or advances in medical treatment or vocational technology and because of this they can work.
- The Administration made a mistake in an earlier decision to give the beneficiary or continue the beneficiary’s disability benefits.
- The beneficiary is not following the treatment doctors have ordered (without a good reason), and the beneficiary probably could work if the treatment was followed as directed.
- The beneficiary gave the Administration false or misleading information that affected an earlier decision.
- The beneficiary is not cooperating with the Administration and there is no good reason for not cooperating.
POINTS TO PONDER — DISABILITY BENEFITS

• SSI beneficiaries qualify for Medicare after they have been receiving disability benefits for 24 months.

• When an individual is collecting a disability benefit when they reach full retirement age, their disability benefits will automatically be converted to retirement benefits.

• The Social Security Administration allows a Trial Work Period (TWP) for disability beneficiaries to test their ability to work for at least nine months without losing benefits.

• An adult who was disabled before age 22 may be eligible for “child's” benefits on a parent's Social Security earnings record if the parent is deceased or if the parent starts receiving retirement or disability benefits on their own record.

• SSDI benefits base benefit amounts on average lifetime earnings. SSI benefits are based on financial need as determined by income resources and living situation.

• Disability benefits begin after the disabled worker has satisfied a waiting period of five consecutive months.

• A disability freeze refers to the period of time Social Security deemed a beneficiary to be disabled.

• If an individual receives a benefit check knowing it is not due, they must return it to the U.S. Treasury Department or local Social Security office. Failure to do so can result in criminal charges. Wages can be attached or funds withdrawn from federal tax return refunds.

• If a recipient has been receiving benefits as an adult disabled since childhood, the benefits generally end if he or she gets married. Some marriages are exempt, however, such as a marriage to another disabled adult.
CHAPTER 6 REVIEW QUESTIONS — DISABILITY BENEFITS

Which of the following answers/completes each question/sentence the best?
(Answers are in the back of the text.)

1. You will automatically be enrolled in Medicare after you have received disability benefits for:
   a) three months.
   b) six months.
   c) nine months.
   d) 24 months.

2. What happens to an individual’s disability benefit when they reach full retirement age?
   a) Nothing. Their disability benefit remains the same.
   b) Their disability benefits will automatically be converted to retirement benefits.
   c) It depends upon whether they are receiving SSDI benefits or SSI benefits.
   d) Their case will have to be re-evaluated.

3. The Social Security Administration allows a Trial Work Period for disability beneficiaries to test their ability to work for at least nine months:
   a) without losing benefits.
   b) in the same work they did before the disability began.
   c) out of the first 12 months of their disability.
   d) in any type of work without benefits.

4. An adult disabled before age 22 may be eligible for __________ a parent's Social Security earnings record.
   a) “child’s” benefits on
   b) adult benefits on
   c) 300% of
   d) 200% of

5. SSDI benefits base benefit amounts on:
   a) financial need.
   b) average lifetime earnings.
   c) the age of the recipient.
   d) the individual’s PIA.
THE COMPONENTS OF SSI AND SSDI

THE SUPPLEMENTAL SECURITY INCOME PROGRAM (SSI)

The Supplemental Security Income (SSI) program pays benefits to disabled adults and children who have very limited income and assets. SSI benefits are also payable to people 65 and older without disabilities who meet the financial limits.

SSI is a federal income supplement program funded by general tax revenues, not Social Security taxes. It is designed to help aged, blind, and disabled individuals who have little or no income and it provides cash to meet basic needs for food, clothing, and shelter.

SSI and SSDI are very similar. SSDI came to fruition in 1960. SSI began operating in 1974, 14 years after SSDI.

SSDI is funded through Social Security taxes. SSI is financed through general revenues that the Treasury Department collects to run the U.S. government, so SSI has never been tied to a person’s work record.

SSI QUALIFICATIONS AND BENEFITS AT A GLANCE

<table>
<thead>
<tr>
<th>ELIGIBILITY</th>
<th>A disabled or blind adult or child must meet all of the following categories:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Have limited income</td>
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<td>• Have limited resources</td>
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<td>• Be a U.S. citizen or national, or in one of certain categories of aliens</td>
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<td></td>
<td>• Live in the United States or Northern Mariana Islands</td>
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<tr>
<td>PAYMENT</td>
<td>The monthly payment is based on need and varies up to the maximum federal benefit rate. Some states add money to federal SSI payments.</td>
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<tr>
<td>MEDICAL COVERAGE</td>
<td>In most states, beneficiaries are automatically eligible for Medicaid.</td>
</tr>
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Illustration 7.1
SSI BENEFITS

Generally, the maximum federal SSI benefit changes annually. For 2015/2016, the Federal Benefit Rate (FBR) is $733 for an individual and $1,100 for couples. SSI benefits did not increase in 2016 because there was no increase in the Consumer Price Index from the third quarter of 2014 to the third quarter of 2015.

However, some states supplement the federal SSI benefit with additional payments. This makes the total SSI benefit levels higher in those states. SSI benefit amounts and state supplemental payment amounts vary based upon income, living arrangements, and other factors.

For instance, some states provide supplementary payments to all individuals eligible for SSI benefits while others limit them to certain SSI recipients (e.g., the blind or residents of domiciliary-care facilities), or extend them to persons ineligible for SSI because of excess income.

The following states DO NOT pay a supplement to people who receive SSI:

- Arizona;
- Mississippi;
- North Dakota;
- West Virginia; and
- The Commonwealth of the Northern Mariana Islands.
**State Supplements**

The table below (*Illustration 7.2*) outlines the individual states that **DO** supplement SSI benefits.

<table>
<thead>
<tr>
<th>State Administered Supplement</th>
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<tr>
<td>Alabama</td>
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<td>Wisconsin</td>
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<td>Wyoming</td>
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*Illustration 7.2*

**Social Security Administered Supplements by State**

Social Security administers the state supplement for the following states (*Illustration 7.3*). Some states are dual administration states. In these states, Social Security administers some categories of state supplement payments, while the state administers other categories of supplemental payments. Dual administration states are noted with an asterisk (*).

<table>
<thead>
<tr>
<th>Social Security Administered Supplement</th>
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<tbody>
<tr>
<td>California</td>
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<tr>
<td>Delaware*</td>
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<td>District of Columbia*</td>
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<td>Hawaii</td>
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<td>Iowa*</td>
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<td>New Jersey</td>
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<td>Pennsylvania*</td>
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<td>Rhode Island*</td>
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<td>Vermont</td>
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*Dual administration state

*Illustration 7.3*
The Annual Report of the Supplemental Security Income Program

The Annual Report of the Supplemental Security Income Program provides comprehensive information on the SSI program in accordance with the mandate in Section 231 of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. The Administration prepares and delivers this report to the President and Congress on an annual basis. In addition to a comprehensive description of the SSI program, the SSI Report includes:

- 25-year projections of future recipients and program costs;
- A historical summary of statutory changes to the SSI program;
- Historical and current data relating to various aspects of the SSI program; and
- Summaries of any relevant research on the SSI program by the Administration or others.

The Executive Summary of the Annual Report contains the highlights of the SSI Program and a brief description of the major findings of the report.

Highlights of the SSI Program 2015

- In January 2015, 8.2 million individuals received monthly Federal SSI payments averaging $526, a small increase of nine thousand recipients over the 8.1 million recipients with an average payment of $516 in January 2014.
- Federal expenditures for cash payments under the SSI program during calendar year 2014 increased 1.4 percent to $54.2 billion, while the funds made available to administer the SSI program in fiscal year 2014 increased 5.4 percent to $4.1 billion. In 2013, the corresponding program and administrative expenditures were $53.4 billion and $3.8 billion, respectively.

Major Findings of the Report

- By 2039, the end of the 25-year projection period, we estimate that the Federal SSI recipient population will reach 9.1 million. The projected growth in the SSI program over the 25-year period is largely due to the overall growth in the U.S. population, though the growth in the SSI recipient population is projected to be somewhat slower than the growth in the U.S. population.
• As a percentage of the total U.S. population, the number of Federal SSI recipients decreased slightly from 2.53 percent in 2013 to 2.51 percent in 2014. We project this percentage to gradually decline throughout the 25-year projection period, reaching 2.33 percent of the population in 2039.

• We estimate that Federal expenditures for SSI payments in calendar year 2015 will increase by $1.0 billion to $55.2 billion, an increase of 1.9 percent from 2014 levels.

• In dollars adjusted by the Consumer Price Index to 2015 levels, we project that Federal expenditures for SSI payments will increase to $60.8 billion in 2039, a real increase of 0.5 percent per year.

• Federal SSI expenditures expressed as a percentage of the Gross Domestic Product (GDP) were 0.31 percent in 2014. We project that expenditures as a percentage of GDP will decrease to 0.30 percent of GDP in 2015, and continue to decline thereafter to 0.21 percent of GDP by 2039.

SSI QUALIFICATIONS

SSI provides Social Security benefits for lower income individuals who are age 65 or older, blind, or disabled.

Disabled or blind children whose parents have little income or resources may be eligible for SSI benefits as well. The basic SSI amount is the same nationwide. Many states, however, supplement the basic benefit.

Individuals may be qualified for SSI benefits if they live in certain types of publicly operated institutions as well. If the claimant lives in a city or county rest home, halfway house or other public institution, they usually cannot get SSI. But there are some exceptions.

If the claimant lives in a publicly operated community residence that serves no more than sixteen people, they may get SSI. If the claimant lives in a public institution mainly to attend approved educational or job training that provides employment assistance, they may get SSI. If the claimant lives in a public emergency shelter for the homeless, they may get SSI. If the claimant lives in a public or private institution and Medicaid is paying more than half the cost of the claimant’s care, they may get a small SSI benefit.

Qualified beneficiaries must live in the United States or the Northern Mariana Islands and be a U.S. citizen or national. SSI benefits and Social Security benefits can be paid in conjunction with one another.
To receive SSI benefits, a beneficiary must be:

- A citizen or national of the United States; or
- A noncitizen who meets the alien eligibility criteria under the 1996 legislation and its amendments.

Beginning August 22, 1996, most noncitizens must meet two requirements to be eligible for SSI:

1. The noncitizen must be in a qualified alien category (qualified alien specifications are described below); and
2. Meet a condition that allows qualified aliens to get SSI benefits.

The Benefit Eligibility Screening Tool (BEST) provided by the Social Security Administration on their website (that we’ve already discussed) is where beneficiaries can go to find out if they are eligible for SSI or other benefits. If a person is eligible for Social Security or other benefits, they should apply for them. Eligible beneficiaries can get SSI and other benefits if they are eligible for both. Use of the tool requires about five to ten minutes of time to answer a few questions.

In some cases, noncitizen residents can qualify for SSI. The noncitizen must also meet all of the other requirements for SSI eligibility, including the limits on income, resources, etc.

**WHAT IS A QUALIFIED ALIEN?**

In order to be classified as a noncitizen **qualified alien**, according to the Department of Homeland Security, individuals must fit into one of the following categories:

- Lawfully Admitted for Permanent Residence in the United States;
- Granted conditional entry under the Immigration and Nationality Act (INA);
- Parole into the United States under the INA for a period of at least one year;
- Refugee admitted to the United States under the INA;
- Granted asylum under the INA;
- Deportation is or removal is being withheld under the INA; and
- “Cuban or Haitian entrant” under the Refugee Education Assistance Act.

In addition, the individual can be “deemed” a qualified alien if, under certain circumstances, themselves, their child(ren), or their parent(s) has been subjected to battery or extreme cruelty by a family member while in the United States.
WHat Counts as SSI Income and SSI Assets

The definition of income according to SSI includes wages, Social Security benefits, and pensions. Individual states set their own limits on the amount of income that is counted toward establishing or denying benefits.

Income, for the purposes of SSI, includes:

• Money earned from work;
• Money received from other sources, such as Social Security benefits, workers’ compensation, unemployment benefits, the Department of Veterans Affairs, friends, or relatives; and
• Free food or shelter.

Social Security does not count all of a claimant’s income when deciding whether that person qualifies for SSI benefits. For example, Social Security does not count:

• The first $20 a month of most income the claimant receives;
• The first $65 a month earned from working and half the amount over $65;
• Supplemental Nutrition Assistance Program (SNAP) benefits, formerly known as food stamps;
• Shelter the claimant may be receiving from private nonprofit organizations; and
• Most home energy assistance.

Even though the claimant’s assets and income determine benefits, not all income is considered and not all assets are considered.

If the claimant is married, part of the spouse’s income and resources may be counted as income. If the claimant is under age 18, part of the claimant’s parents’ income and resources may be counted as well. If the claimant is a sponsored noncitizen, Social Security may include the claimant’s sponsor’s income and resources. If the claimant is a student, some of the wages or scholarships the claimant receives may not count.

If the claimant is disabled but is still working, Social Security does not count wages used to pay for items or services that help the claimant work. For example, if the claimant needs a wheelchair, the wages used to pay for the wheelchair do not count as income for qualification purposes.
Also, Social Security does not count any wages that a blind person uses for work expenses. For example, if a blind person uses wages to pay for transportation to and from work, the wages used to pay the transportation costs are not counted as income.

If the claimant is disabled or blind, some of the income used (or saved) for training or to purchase things needed for work may not count.

When deciding whether a claimant qualifies for SSI benefits, Social Security considers real estate, bank accounts, cash, and stocks and bonds as resources or assets.

Claimants may be eligible for SSI benefits if their resources are worth no more than $2,000. A couple may be eligible for SSI benefits if they have resources worth no more than $3,000. If the claimant owns property that he or she is trying to sell, they may be able to get SSI while trying to sell it. However, again, not all assets are counted.

SSI does not count the following as assets:

- The claimant’s primary residence and the land it sits on;
- Household goods and personal effects (e.g., wedding and engagement rings);
- Life insurance policies with face values of $1,500 or less;
- One vehicle, regardless of value, if it is used for transportation for the claimant or a member of the household;
- Retroactive SSI or Social Security benefits for up to nine months after receiving them (including payments received in installments);
- Grants, scholarships, fellowships, or gifts set aside to pay educational expenses for nine months after receipt;
- The first $2,000 of compensation received per calendar year for participating in certain clinical trials;
- Burial plots for the claimant and for the claimant’s immediate family; and
- Up to $1,500 (for the claimant) and $1,500 (for the claimant’s spouse) in burial funds.

The limit for countable resources is $2,000 for an individual and $3,000 for a couple.
SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP)

The Supplemental Nutrition Assistance Program (SNAP), formerly known as food stamps, helps low-income individuals buy food. Although it is a federal government program, it is run by state or local agencies.

Anyone can apply for SNAP, but they and the other people in their household must meet certain conditions. Everyone who is applying in the household must have or apply for a Social Security number and be either a U.S. citizen, U.S. national or have status as a qualified alien.

Most able-bodied people between the ages of 18 and 60 must register for work to qualify for SNAP. Many people may be required to participate in an employment or training program. Some college students also may be eligible.

Generally, the household cannot have more than $2,000 in resources. But, if the household includes a person who is age 60 or older or who is disabled, the limit is $3,000. Resources of people who receive Supplemental Security Income or benefits under the Temporary Assistance for Needy Families (TANF) program are not counted for SNAP purposes. Resources include cash, bank accounts, and other property.

Not all resources count, however. For example, the personal home and land it sits on do not count for SNAP eligibility. A car or truck counts differently depending on how it is used.

Most households also meet an income limit. Certain things do not count as income and can be subtracted. The household may qualify for other income exclusions if it includes a person age 60 or older or disabled. The income limits vary by household size and may change each year.

APPLYING FOR SSI BENEFITS

The majority of the application process for SSI benefits can be done online through the Social Security Administration’s website. The rest of the process must be completed in person. Parents or guardians usually can apply for blind or disabled children under age 18. In some cases, other third parties can apply for children.
When meeting with the Social Security representatives to apply for SSI benefits, claimants should bring the following items with them:

- The claimant’s Social Security card or a record of their Social Security number;
- The claimant’s birth certificate or other proof of age;
- Information about the home in which the claimant lives, such as the mortgage or lease and landlord’s name;
- Payroll slips, bankbooks, insurance policies, burial fund records and other information about the claimant’s income and items he or she owns;
- If the claimant is applying for SSI because he or she is disabled or blind, the names, addresses and telephone numbers of doctors, hospitals and clinics that the claimant has been to;
- Proof of U.S. citizenship or eligible noncitizen status; and
- The claimant’s checkbook or other papers that show the claimant’s bank, credit union or savings and loan account numbers.

If a claimant is approved for SSI, payments must be received via direct deposit, the Direct Express card program or an Electronic Transfer Account.

**RIGHT TO APPEAL**

If a claimant disagrees with a decision made on his or her claim, the claimant can file an appeal.

Social Security provides assistance to SSI claimants who decide to handle their own appeals.

**BENEFICIARIES WHO ARE BLIND OR DISABLED**

If an SSI beneficiary is blind or disabled and is working, there are special rules to provide them with assistance. The beneficiary may be able to continue receiving SSI benefits while working. SSI payments may be reduced or stopped if the beneficiary earns more money, but he or she may be able to keep their Medicaid coverage.

The working beneficiary may also be able to set aside some money for a work goal or to attend school. In this case, the money set aside will not reduce the amount of the SSI benefit.
Blind or disabled beneficiaries may get free special services to help them work. These services may include counseling, job training and help in finding work.

**SSI Benefits for Children with Disabilities**

A child under the age of 18 can qualify for disability benefits if they meet Social Security’s definition of disability for children and if their income and resources fall within eligibility limits. Child benefits normally end at age 18; however, they can continue if he or she is a full-time student in an elementary or secondary school until age 19.

**Who is Considered a “Child” for SSI Purposes?**

A person who is neither married (as determined by Social Security) nor head of a household and:

- Is under age 18; or
- Is under age 22 and is a student regularly attending school (as determined by Social Security).

To be eligible for SSI benefits, a child must be either blind or disabled.

- A child may be eligible for SSI disability benefits beginning as early as the date of birth—there is no minimum age requirement;
- A child may be eligible for SSI disability benefits until age 18;
- When the child reaches age 18, impairments based on the definition of disability for adults is evaluated;
- A child with a visual impairment may be eligible for SSI blindness benefits if the impairment meets the definition of blindness.

**What is the Criterion for a Disabled or Blind Child?**

- If under 18, whether or not married or head of household, the child has a medically determinable physical or mental impairment or impairments (including emotional or learning problems) which result in marked and severe functional limitations; and
- The impairment(s) has lasted or can be expected to last for a continuous period of at least twelve months or be expected to result in death; or
• If the child is blind, he or she meets the same definition of “blind” as applies for adults. (Unlike the requirement for SSI disability benefits, there is no duration requirement for SSI blindness benefits.)

Blindness in Social Security disability programs is “statutory blindness,” which means:

• The individual has a central visual acuity of 20/200 or less in their better eye with use of a correcting lens; or

• They have a visual field limitation in their better eye, such that the widest diameter of the visual field subtends an angle no greater than 20 degrees.

An individual may still qualify for SSI benefits on the basis of disability even if the visual impairment is not considered “statutory blindness.”

Unlike retirement income, the Social Security Administration cannot provide accurate benefit amounts for disability benefits as some states contribute to SSI payments as we’ve already learned, so amounts can vary.

When an adult applies for SSI, the Social Security Administration looks at their income and resources. The same is true with children. Income and the resources of family members living in the household with the child are considered.

Even if the child attends school away from home, as long as he or she returns home. Home is considered the child’s primary residence. If the combined resources and income in the child’s household is more than the allowable amount, the child’s application for SSI payments will be denied.

If the child is in a medical facility where health insurance pays for his or her care, SSI payments are limited to $30 per month (2016).

Children with disabilities can qualify for SSI benefits if the following criteria are met:

• The child must not be working and earning more than $1,130 a month (2016);

• The child must have a physical or mental condition, or a combination of conditions, that results in “marked and severe functional limitations.” The condition(s) must very seriously limit the child’s activities and must last for at least twelve consecutive months, or must be expected to result in death.

The child’s application for SSI benefits is sent to the Disability Determination Services (DDS). As explained in the determination process, DDS will examine the child’s medical records. If it is determined that more or further information is needed, they will request additional testing on the child at the Administration’s expense.
Usually it takes three to five months to begin receiving SSI benefits. Certain conditions, however, qualify for immediate payments, such as:

- HIV infection;
- Total blindness;
- Total deafness;
- Cerebral palsy;
- Down syndrome;
- Muscular dystrophy;
- Severe intellectual disorder for children age seven and older; and
- Birth weight below two pounds ten ounces.

When applying for SSI benefits for a child, parents can assist in the determination process by providing the following information:

- A description of the child’s medical condition and description of how the child’s disability affects his or her ability to function on a day-to-day basis;
- Dates of doctor and hospital visits;
- Copies of any medical reports or additional information that may be of assistance in the determination;
- Records of income and resources for both parents and the child;
- Names of teachers, day care providers, and family members who can provide information about how the child functions; and
- Any school records.

If after the determination process the child’s condition does not qualify for SSI benefits, those immediate payments will not have to be repaid.

If after the determination process the child’s condition does qualify for SSI benefits, the child’s medical condition may be reviewed:

- At least every three years for children younger than age 18 whose conditions are expected to improve; and
- By age one for babies who are getting SSI payments because of their low birth weight, unless it is determined that their medical condition is not expected to improve by their first birthday and a review is scheduled for a later date.

If a review is conducted on the child, proof will have to be presented that the child is and has been receiving medically necessary treatment for the child’s condition.
When the child turns 18, he or she is considered an adult. Adult rules for SSI then become effective. For instance, the resources and combined income of those in the household are no longer of consequence. Only the resources and income of the recipient are considered at that time.

**Example**

*Ricky lives in a household with his mother and father, and aunt and uncle. Everyone in the family works except Ricky, so their combined income is too high for him to qualify for SSI benefits as a child.*

*Now that he’s turned 18, he can reapply and the Social Security Administration will now only look at his personal income and resources, not those of his other family members. Ricky may qualify for SSI benefits as an adult now.*

**DEEMING**

If a child is under age 18, unmarried, and lives at home with parent(s) who do not receive SSI benefits, a portion of the parent(s) income and resources may be considered as if they were available to the child. A portion of a stepparent’s income and resources if the child lives with both a natural or adoptive parent and a stepparent may also be counted. This process is called *deeming*. Social Security may also use deeming when a child is temporarily away at school, returns home during weekends, holidays or during the summer and remains subject to parental control.

Deductions are made from deemed income for parents and for other children living in the home. After these deductions are subtracted, the remaining amount is used to determine if the child meets the SSI income and resource requirements for a monthly benefit.

Deeming from the parent stops when a child attains age 18, marries, or no longer lives with a parent. Deeming does not apply, and Social Security may pay up to $30 plus the applicable state supplement when:

- A disabled child receives a reduced SSI benefit while in a medical treatment facility; and
- The child is eligible for Medicaid under a state home care plan; and
- Deeming would otherwise cause ineligibility for SSI benefits.
CHILDREN OF MILITARY PERSONNEL

Most people who get supplemental security income and leave the U.S. for 30 days or more are no longer eligible for SSI. However, there is a special rule for the children of military personnel. A child may continue to get SSI benefits or apply for benefits while overseas if the child:

- Is a citizen of the United States; and
- Is living with a parent who is a member of U.S. Armed Forces assigned to permanent duty ashore anywhere outside the United States.

If the child is receiving SSI benefits and the parent(s) receives military orders to move overseas, the following information must be given to Social Security:

- When the family is expected to report to the new duty station overseas;
- When the parents expect the child to join them;
- The mailing address at the new duty station; and
- Any information about military allowances (i.e., housing allowances, rations, allowances, etc.) at the new duty station.

EMPLOYMENT SUPPORT FOR CHILDREN WITH DISABILITIES

When a child’s monthly SSI payment is determined, most of the child’s income is disregarded. If the child is a student who regularly attends school and is under the age of 22, even more of his or her earnings each month are excluded. Disabled students who are under the age of 22 may exclude $1,780 of their monthly earnings, with an annual limit of $7,180. (2016 figures—limits are subject to increase each year.)

Medicaid coverage will continue even if the child’s earnings are high enough to stop the monthly SSI payments as long as the earnings are under a certain amount. Medicare is available for people who have been receiving disability benefits for at least two years, with two exceptions.

A child will be immediately covered by Medicare if he or she:

- Has a chronic renal disease and needs a kidney transplant or maintenance dialysis; or
- Has Lou Gehrig’s disease.

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Other items are excluded from the child’s income when the monthly SSI payment is configured.

- A child who is age 15 or older can save some income and resources to pay for education and other employment necessities by utilizing a Plan to Achieve Self-Support (PASS). Any saved income is excluded.
- Expenses incurred for special items and services necessary for employment, such as a wheelchair or personal assistant, are excluded.
- Rehabilitation and training expenses for a child older than age 15 are excluded.

If you get Medicare and have low income and few resources, your state may pay your Medicare premiums and, in some cases, other out-of-pocket medical expenses such as deductibles and coinsurance. Qualifications are determined on a state-by-state basis.

**HOW MARRIAGE AFFECTS SSI BENEFITS**

If a beneficiary is receiving SSI widow or widower’s benefits, marriage may affect the benefit. If the beneficiary gets married, the new spouse’s income and resources may affect eligibility.

If the beneficiary and the new spouse are on SSI, the benefit will change from an individual rate to a couple’s rate.

Generally, beneficiaries cannot get widow or widower’s benefits if they remarry before age 60 (or 50 if disabled).

**HOW EARNINGS AFFECT SSI PAYMENTS**

The amount of a beneficiary’s SSI payments is based on how much other income they have. When any other income goes up, SSI payments usually go down. So when the beneficiary earns more than the SSI limit, payments will stop for those months. But, payments will automatically start again for any month their income drops to less than the SSI limits. If the beneficiary’s earnings are reduced or if they stop working, Social Security must be notified.

If the beneficiary’s only income aside from SSI is the money they make from their job, then the Administration does not count the first $85 of their monthly earnings. Social Security will deduct from the beneficiary’s SSI payments 50 cents of every dollar earned after the $85 deduction.
Example

David works and earns $1,000 a month. He receives no other income besides his earnings and his SSI.

- $85 subtracted from $1,000 equals $915
- $915 divided by 2 equals $457.50

Social Security would deduct $457.50 from David’s SSI payment.

The Social Security Administration provides a Plan to Achieve Self-Support (PASS) program, which allows beneficiaries to use money and resources for a specific work goal. These funds do not count when the Administration figures out how the beneficiary’s current income and resources affect their benefit amount.

The work goal should reduce dependence on SSI or help the recipient leave the Social Security disability or SSI rolls altogether. Any money used to help achieve the work goal won’t count when the Administration figures out how the recipient’s current income and resources affect their benefits.

For example, you could set aside money to go to school to get training for a job or to start a business. You can also use money you save for:

- Transportation to and from work;
- Childcare;
- Attendant care;
- Employment services, such as job coaching and resume writing;
- Supplies to start a business;
- Equipment and tools to do the job; or
- Uniforms, special clothing, and safety equipment.

The savings plan must be in writing, and must be approved by the Administration.17

SSI Medicaid and Medicare Benefits

When a beneficiary qualifies for SSI, he or she may get Medicaid, which helps pay doctor and hospital bills.

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17 SSA Publication No. 05-10095
If SSI benefits cease, the beneficiary’s Medicaid coverage will continue until the beneficiary’s income reaches a certain level. The level varies with each state and reflects the cost of health care in that particular state. However, if health care costs are higher than the stated level, the beneficiary can have more income and keep their Medicaid eligibility. In most states in order for Medicaid benefits to continue, eligible beneficiaries must:

- Need Medicaid to work;
- Be unable to afford similar medical coverage without SSI;
- Continue to have a disabling condition; and
- Meet all other SSI eligibility requirements.

If a beneficiary qualifies for Medicaid under these rules, Social Security will review the beneficiary’s case from time to time to see if they are still disabled (or blind) and still earn less than their state’s allowable level.

If an SSI beneficiary gets Medicare and has low income and few resources, the state in which the beneficiary lives may pay Medicare premiums and, in some cases, provide assistance with other Medicare expenses such as deductibles and coinsurance. Individual states make their own qualification determinations.

**SOCIAL SECURITY DISABILITY INSURANCE (SSDI)**

The Social Security Disability Insurance (SSDI) program is very similar to SSI. The basic differences between the two programs are qualifications and funding.

The SSI program is only for individuals who have very limited income and assets and is a federal income supplement program funded by general tax revenues, *not* Social Security taxes. On the other hand, SSDI is tied to a person’s work record through the funding of Social Security FICA taxes.

SSDI base benefit amounts on the worker’s average lifetime earnings (or those of certain family members) when those earnings are insured under Social Security. However, if the beneficiary receives a payment from workers’ compensation, a public disability benefit, or a pension based on earnings not insured under Social Security, benefits may be reduced.

SSDI is an earned benefit that focuses on physical and mental impairments that are severe enough to prevent people from engaging in their normal occupations or any other work. The impairment must be expected to last for at least twelve months or to end in death.
SSDI benefits can be paid to blind or disabled workers and, like Social Security retirement benefits, to their children, to their widows or widowers, and to those adults who haven't worked but have been disabled since childhood.

### SSDI Eligibility and Benefits at a Glance

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<td>A disabled or blind individual must have paid Social Security taxes to become insured for benefits.</td>
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<td>The worker will get Medicare coverage automatically after receiving disability benefits for two years.</td>
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*Illustration 7.4*

### SSDI Benefits

In order for adults to qualify, they must have been disabled since childhood. The individual's disability must have begun before 22 years of age. Benefits are paid on a parent’s Social Security earnings record. In order for the disabled individual to qualify, the parents of the disabled individual must be receiving Social Security retirement or disability benefits or must be deceased after having worked long enough to qualify under Social Security.

Benefits are also payable to an adult who received dependents benefits on a parent's Social Security earnings record prior to age 18, if that individual is disabled at age 18.

SSDI benefits continue as long as the individual remains disabled. An adult disabled before age 22 can also get help with work expenses, rehabilitation, and training.

If a beneficiary is receiving SSDI benefits when they reach full retirement age, disability benefits automatically convert to retirement benefits at the same rate.

If a beneficiary marries while receiving SSDI benefits, their marriage will not affect their benefit.
SSDI Benefits for Adults Disabled Since Childhood

The SSDI program can pay “child’s benefits” on a parent’s Social Security earnings record to adults who have a disability that began before they reached 22 years of age. For entitlement to this benefit, one of the individual’s parents must:

- Be receiving Social Security retirement or disability benefits; or
- Have died after having worked long enough under the Social Security program.

These benefits are also payable to an adult who received dependents' benefits on a parent’s Social Security earnings record prior to age 18, if he or she was disabled at age 18. The disability determination is made using the same disability rules as those used for adults.

The child does not need to have worked to get these benefits. SSDI disabled “adult child” benefits continue as long as the individual remains disabled. The determination process for adult child benefits is the same as with the adult determination process with DDS.

To apply for adult child benefits, parents can complete an application online through the Social Security Administration or visit their local Social Security Administration office. If visiting the local Administration office, parents should bring their own Social Security number in addition to the following documents:

- The adult child’s Social Security number;
- The adult child’s birth certificate;
- A description of the adult child’s medical condition;
- Dates of doctor and hospital visits and patient account numbers; and
- Copies of any medical reports or additional information that may be of assistance in the determination.

Employment Support for Children With Disabilities

A disabled adult receiving SSDI benefits before age 22 can receive the same assistance as a child receiving SSI benefits.

- Expenses incurred for special items and services necessary for employment, such as a wheelchair or personal assistant; and
- Rehabilitation and training expenses.
Benefits may continue until the individual can work on a regular basis. Medicare may continue for up to seven years and nine months.

**IF YOU ARE SELF-EMPLOYED AND RECEIVING SSDI BENEFITS**

Social Security uses the term *substantial gainful activity* (SGA) to describe a level of work activity and earnings. Work is “substantial” if it involves doing significant physical or mental activities or a combination of both. For work activity to be substantial, it does not need to be performed on a full-time basis. Work activity performed on a part-time basis may also be considered SGA.

Gainful work activity is defined as:

- Work performed for pay or profit; or
- Work intended for profit, whether or not a profit is realized.

If a beneficiary is receiving SSDI benefits, Social Security will use SGA to decide if eligibility for benefits continues after the beneficiary returns to work and completes their Trial Work Period.

If an SSDI beneficiary is self-employed and the disability is not blindness, the way Social Security evaluates the individual’s work activity for SGA purposes will depend on whether the Administration evaluates their work activity before or after the beneficiary has received SSDI benefits for 24 months and the purpose of the evaluation. Social Security will evaluate the beneficiary’s work under The Three Tests or the Countable Income Test to determine if their work activity is SGA, depending on when the beneficiary works.

**THE THREE TESTS**

The Social Security Administration applies three tests to evaluate a beneficiary’s work activity when the beneficiary initially applies for SSDI and before they have received SSDI benefits for 24 months. Social Security will also use the three tests to evaluate the beneficiary’s work activity during the re-entitlement period to determine if benefits can be reinstated during the Extended Period of Eligibility.

**SELF-EMPLOYMENT TEST**

The beneficiary’s self-employment work activity is considered SGA if:

- The beneficiary renders significant services to the business and their average monthly earnings were over the SGA level ($1,130 in 2016);
• The beneficiary’s work is comparable to the work of persons without disabilities in the community engaged in the same or similar businesses; or

• The beneficiary’s work is worth more than the SGA level earnings in terms of its effects on the business or when compared to what the beneficiary would have to pay an employee to do the work.

**THE COUNTABLE INCOME TEST**

When a beneficiary has received SSDI benefits for at least 24 months, the Social Security Administration will apply the countable income test. Social Security will only use the countable income test to determine whether the beneficiary has engaged in SGA and if their disability has ended as a result of that SGA.

The beneficiary’s countable earnings will be compared to the SGA earnings guidelines. If the beneficiary’s monthly countable earnings average more than $1,130, Social Security will determine that the work is SGA unless there is evidence that the beneficiary is not rendering significant services in the month. If the beneficiary’s monthly countable earnings average less than $1,130, Social Security will decide that the work is not SGA.

**UNINCURRED BUSINESS EXPENSES**

Unincurred business expenses are contributions made by others to a self-employed beneficiary’s business effort. For example, if a state agency gave the beneficiary a computer for the business or friend works for the business as unpaid help Social Security would consider these as unincurred business expenses.

The Social Security Administration generally follows IRS rules to figure net earnings from self-employment. The IRS only allows individuals to deduct expenses actually paid or debt actually incurred from net earnings. When Social Security makes an SGA decision, they also deduct unincurred business expenses from the beneficiary’s net earnings in an attempt to get an accurate measure of the value of the beneficiary’s work. For an item or service to qualify as an unincurred business expense for Social Security purposes, it must be an item or service that the IRS would allow as a legitimate business expense if the individual had paid for it.
The basic differences between SSDI and SSI are qualifications and funding.

SSDI is funded through Social Security taxes. SSI is financed through general revenues that the Treasury Department collects.

When the child turns 18, he or she is considered an adult. Adult rules for SSI then become effective. Resources and combined income of those in the household are no longer applicable. Only the resources and income of the 18-year-old are considered.

Individuals may qualify for SSI benefits if their assets total no more than $2,000. For couples, the limit is $3,000 in assets.

When an adult applies for SSI, the Social Security Administration looks at their income and resources.

SSI benefit levels are higher in the states that subsidize the federal SSI benefit with supplemental payments.

SSI beneficiaries qualify for Medicare after they have been receiving disability benefits for 24 months.

SSI provides benefits for lower income individuals who are age 65 or older, blind, or disabled.

For SSI purposes, the beneficiary’s qualifying impairment must be expected to last for at least 12 months or to end in death.
CHAPTER 7 REVIEW QUESTIONS — SSI AND SSDI

Which of the following answers/completes each question/sentence the best?
(Answers are in the back of the text.)

1. Individuals may qualify for SSI benefits if their assets total no more than ________.
   Couples may qualify for SSI benefits if their assets total no more than ________.
   a) $2,000, $3,000
   b) $10,000, $20,000
   c) $21,000, $30,000
   d) $31,000, $40,000

2. Child SSI benefits normally end:
   a) at age 15.
   b) at age 18.
   c) at age 25.
   d) at age 30.

3. When an adult applies for SSI, the Social Security Administration looks at:
   a) the work they perform.
   b) if they are married.
   c) how many children they have.
   d) their income and resources.

4. When states supplement the federal SSI benefit with additional payments, it makes the total SSI benefit levels ________ in those states.
   a) higher
   b) lower
   c) 50 percent higher
   d) 50 percent lower

5. SSDI is funded through:
   a) general revenues that the Treasury Department collects.
   b) Social Security taxes.
   c) a person’s PIA.
   d) a parent’s PIA.
Another vital aspect of retirement planning is preparing for health care in the latter years of life. Aside from the financial aspects we’ve been covering, no one can ignore the fact that health care in their elder years is one of the most important factors in a person’s quality of life. Most people are unprepared for what may loom ahead—if not for you, perhaps for your spouse—and perhaps for the both of you.

As you age, you can feel better knowing there are steps you can take to ensure that your welfare, both medical and financial, have been planned for. At the very least, you’ll become familiar with a few of the many options that are available.

And if you are a financial advisor, you’ll be prepared to answer questions you may get from your clients when helping them plan for their financial future. Medical costs are difficult to estimate at best, but they are an essential part of implementing a successful retirement strategy.

That’s why in this chapter we’re going to delve into the many government and private health care programs that are available:

- Medicare;
- Medigap;
- Medicaid; and
- Long-term Care

**Medicare**

Medicare is the federal program that provides health insurance for individuals who are age 65 or older. Individuals under 65 years of age may also qualify for Medicare, however, based upon certain health conditions; including those individuals who have disabilities, permanent kidney failure, or amyotrophic lateral sclerosis (Lou Gehrig’s disease).

The program helps with the cost of health care, but it does not cover all medical expenses nor does it cover the cost of most long-term care. Medicare is financed through FICA at the 1.45 percent rate.
Medicare consists of the following four parts.

1. Part A – Hospital Insurance
2. Part B – Medical Insurance
3. Part C – Medicare Advantage Plans
4. Part D – Prescription Drug Coverage

Medicare Part A covers inpatient hospital stays, care in a skilled nursing facility, hospice care, and some home health care.

Medicare Part B covers certain doctors’ services, outpatient care, medical supplies, and preventive services.

Medicare Part C is known as the Medicare Advantage Plan. A Medicare Advantage Plan is a type of Medicare health plan offered by a private company that contracts with Medicare to provide individuals with all of their Part A and Part B benefits. Medicare Advantage Plans include Health Maintenance Organizations (HMOs), Preferred Provider Organizations (PPOs), Private Fee-for-Service Plans, Special Needs Plans, and Medicare Medical Savings Account Plans. If a person is enrolled in a Medicare Advantage Plan, Medicare services are covered through the plan and not paid for under Original Medicare. Most Medicare Advantage Plans offer prescription drug coverage.

Medicare Part D adds prescription drug coverage to Original Medicare, some Medicare Cost Plans, some Medicare Private Fee-for-Service Plans, and Medicare Medical Savings Account Plans. Insurance companies and other private companies approved by Medicare offer these plans. Medicare Advantage Plans may also offer prescription drug coverage that follows the same rules as Medicare Prescription Drug Plans. Individuals who are enrolled in Parts A and B are eligible for Part D. Medicare Part D is paid for through monthly premiums. Individuals with higher incomes pay higher monthly premiums.
## Medicare Costs at a Glance — 2016

<table>
<thead>
<tr>
<th></th>
<th>Medicare Costs at a Glance — 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Part A premium</strong></td>
<td>Most people don’t pay a monthly premium for Part A. If you buy Part A, you’ll pay up to $411 each month</td>
</tr>
<tr>
<td><strong>Part A hospital inpatient deductible</strong></td>
<td>You pay:</td>
</tr>
<tr>
<td></td>
<td>• $1,288 deductible for each benefit period</td>
</tr>
<tr>
<td></td>
<td>• Days 1-60: $0 coinsurance for each benefit period</td>
</tr>
<tr>
<td></td>
<td>• Days 61-90: $322 coinsurance per day of each benefit period</td>
</tr>
<tr>
<td></td>
<td>• Days 91 and beyond: $644 coinsurance per each “lifetime reserve day” after day 90 for each benefit period, up to 60 days over your lifetime</td>
</tr>
<tr>
<td></td>
<td>• Beyond lifetime reserve days: All costs</td>
</tr>
<tr>
<td><strong>Part B premium</strong></td>
<td>Most people pay $121.80 each month</td>
</tr>
<tr>
<td><strong>Part B deductible</strong></td>
<td>$166 per year</td>
</tr>
<tr>
<td><strong>Part C premium</strong></td>
<td>The part C monthly premium varies by plan</td>
</tr>
<tr>
<td><strong>Part D premium</strong></td>
<td>The Part D monthly premium varies by plan (higher-income consumers may pay more)</td>
</tr>
</tbody>
</table>

*Illustration 8.1*

## Original Medicare

Original Medicare is coverage managed by the Centers for Medicare & Medicaid Services (CMS). Social Security works with CMS by enrolling people in Medicare.

Generally, there is a cost for each service. In most cases, you can go to any doctor, other health care provider, hospital, or other facility that is enrolled in Medicare and is accepting new Medicare patients. Prescription drugs are generally not covered in Original Medicare (with a few exceptions). With Original Medicare, participants do not need to choose a primary care physician, and do not need a referral to see a specialist. However, if a Medicare participant does see a specialist, that specialist must be enrolled in Medicare.

With Original Medicare, participants generally pay a set amount for their health care (deductible) before Medicare pays its share. Then Medicare pays its share, and the participant pays their share (coinsurance/copayment) for covered services and supplies. There is no annual limit for out-of-pocket expenses. Part B requires a monthly premium.
Participants don’t need to file their own Medicare claims. Providers (doctors, hospitals, skilled nursing facilities, and home health agencies) and suppliers are required by law to file claims for any covered services and supplies.

There are many factors that can affect Original Medicare out-of-pocket costs, such as any of the following:

- Whether the participant has Part A and/or Part B (most people have both);
- Whether the participant’s doctor, other health care provider, or supplier accepts assignment;
- The type of health care that is needed and how often it is needed;
- Whether the participant chooses to get services or supplies Medicare does not cover (if not covered, the participant is responsible for all associated costs, unless the participant has other insurance that covers those costs);
- Whether participants have other health insurance that works in conjunction with Medicare;
- Whether the participant has Medicaid or gets state help with paying Medicare costs;
- Whether the participant has a Medicare Supplement Insurance (Medigap) policy; and
- Whether the participant or the participant’s physician (or other health care provider) sign a private contract.

It is not necessary to sign up for Medicare each year. However, participants will be given a chance to review their coverage and change plans annually.

**Signing up for Medicare**

Persons who are already getting Social Security retirement or disability benefits or railroad retirement checks will be contacted a few months before becoming eligible for Medicare and they will be given the information they need. Anyone living in one of the fifty states, Washington, D.C., the Northern Mariana Islands, Guam, American Samoa, or the Virgin Islands, will be enrolled in Medicare Parts A and B automatically. However, since a premium for Part B coverage is required, they have the option of turning it down.

*Note: Residents of Puerto Rico or foreign countries will not receive Part B automatically. Those residents must elect this benefit.*
SPECIAL ENROLLMENT SITUATIONS

Individuals applying for Medicare should contact Social Security if:

- They are a disabled widow or widower between age 50 and 65, but have not applied for disability benefits because they are already getting another kind of Social Security benefit;
- They are a government employee and become disabled before age 65;
- They or their spouse or dependent child has permanent kidney failure;
- They had Medicare medical insurance in the past but dropped the coverage;
- They turned down Medicare medical insurance when they became entitled to hospital insurance (Part A); or
- They or their spouse worked for the railroad industry.

ENROLLMENT PERIODS

When an individual first becomes eligible for hospital insurance (Part A), they have a seven-month period (initial enrollment period) in which to sign up for medical insurance (Part B). A delay in signing up will cause a delay in coverage and will result in higher premiums. If an individual is eligible at age 65, their initial enrollment period begins three months before their 65th birthday, including the month they turn 65 and ends three months after their 65th birthday. If an individual is eligible for Medicare based on disability or permanent kidney failure, their initial enrollment period depends on the date their disability or treatment began.

If an eligible individual accepts the automatic enrollment in Medicare Part B, or if they enroll in Medicare Part B during the first three months of their initial enrollment period, medical insurance protection will start with the month they are first eligible. If they enroll during the last four months, protection will start from one to three months after enrollment.

The following (Illustration 8.2) outlines the effective dates of Medicare Part B coverage.
### Part B Enrollment and Coverage Periods

<table>
<thead>
<tr>
<th>If you enroll in this month of your initial enrollment period:</th>
<th>Then your Part B Medicare coverage starts:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-3 months before reaching age 65…</td>
<td>The month you reach age 65.</td>
</tr>
<tr>
<td>The month you reach age 65…</td>
<td>One month after the month you reach age 65.</td>
</tr>
<tr>
<td>One month after you reach age 65…</td>
<td>Two months after the month of enrollment.</td>
</tr>
<tr>
<td>2-3 months after you reach age 65…</td>
<td>Three months after the month of enrollment.</td>
</tr>
</tbody>
</table>

Illustration 8.2

If an individual does not enroll in Medicare Part B during their initial enrollment period, they have another chance each year to sign up during the **general enrollment period** from January 1 through March 31. Coverage begins on July 1 of the year in which the individual enrolls. However, the monthly premium increases ten percent for each twelve-month period in which the individual was eligible for, but did not enroll in, Medicare Part B.

If an individual has a Medicare Advantage plan (Part C), they can leave their plan and switch to original Medicare from January 1st through February 14th. If this option is utilized, the individual will also have until February 14th to join a Medicare prescription drug plan. Coverage begins the first day of the month after the plan receives the enrollment form.

If an individual is 65 or older and is covered under a group health plan, either from their own or their spouse’s current employment, they will have a **special enrollment period** in which to sign up for Medicare Part B. This means that they may delay enrolling in Medicare Part B without having to wait for a general enrollment period and paying the ten percent premium surcharge for late enrollment. The rules allow individuals to:

- Enroll in Medicare Part B anytime while they are covered under a group health plan based on current employment; or
- Enroll in Medicare Part B during the eight-month period that begins following the last month their group health coverage ends, or following the month employment ends—whichever comes first.

Special enrollment period rules do not apply if employment or employer-provided group health plan coverage ends during the initial enrollment period.
When an individual enrolls in Medicare Part B while they are still in the group health plan or during the first full month when they are no longer in the plan, coverage begins either:

- On the first day of the month of enrollment; or
- At the individual’s option, on the first day of any of the following three months.

If an individual enrolls during any of the remaining seven months of the "special enrollment period” Medicare Part B coverage begins on the first day of the following month.

If the individual does not enroll by the end of the eight-month period, they will have to wait until the next general enrollment period, which begins January 1st of the next year. They also may have to pay a higher premium, as described previously.

Beneficiaries who receive Social Security disability benefits and are covered under a group health plan from either their own or a family member’s current employment also have a special enrollment period and premium rights that are similar to those for workers age 65 or older.

**MEDICARE PART A**

Medicare Part A provides beneficiaries with hospital insurance. Medicare Part A is automatically provided when an individual applies for Social Security benefits as long as the individual is 65 years of age or older. If an individual is automatically enrolled in Medicare, they will get their red, white, and blue Medicare card in the mail three months before their 65th birthday or their 25th month of disability. If the person decides not to file for Social Security benefits, they should still file for Medicare—and they should file three months before their 65th birthday.

Most people do not pay a monthly premium for Part A. Participants can get premium-free Part A at age 65 if:

- They already get retirement benefits from Social Security or the Railroad Retirement Board;
- They are eligible to get Social Security or Railroad benefits but haven't yet filed for them;
- They or their spouse had Medicare-covered government employment.
If under 65 years of age, participants can get premium-free Part A if:

- They got Social Security or Railroad Retirement Board disability benefits for 24 months; or
- They have end-stage renal disease (ESRD) and meet certain requirements.

In most cases, if a participant chooses to purchase Part A, they must also have Medicare Part B and pay monthly premiums for both.

Part A provides specific in-hospital and related benefits. For the first 60 days of hospitalization during one benefit period, Part A participants are subject to a deductible. (For 2016, the Part A deductible is $1,288.)

For 2016, the monthly Medicare Part A Hospital Insurance base premium is $411. Individuals can get premium-free Part A at 65 if:

- They already get retirement benefits from Social Security or the Railroad Retirement Board;
- They are eligible to get Social Security or Railroad benefits but haven’t filed for them yet; or if
- They or their spouse had Medicare-covered government employment.

Individuals under age 65 can get premium-free Part A if:

- They’ve received Social Security or Railroad Retirement Board disability benefits for 24 months; or
- They have end-state renal disease and meet certain other requirements.

In most cases, if a participant chooses to purchase Medicare Part A, they must also have Medicare Part B and pay monthly premiums for both.

Part A provides the following services:

- Inpatient hospital services (including semi-private room and board, nursing services, and other inpatient hospital services);
- Inpatient psychiatric care (on a limited basis);
- Post-hospital skilled nursing facility care*;
- Hospice care for terminal illness (to the exclusion of all other Medicare benefits, except for physician services); and
• Post-hospital home health care services (including nursing care, therapy, and the part-time services of home health aides).

*Note: The first 20 days is covered in full contingent upon the patient being hospitalized prior for three consecutive days. Maximum limit is 100 days in each benefit period, and a copayment is applicable from the 21st to the 100th day of care that is equal to one-eighth of the initial deductible.

Medicare covers only those services deemed medically necessary and only up to the amount deemed “reasonable” by Medicare.

**LIFETIME RESERVE**

Medicare patients have a lifetime reserve of 60 days of hospital coverage. The lifetime reserve is a one-time benefit and does not renew with a new benefit period. If a patient is hospitalized longer than 90 days in one benefit period, he or she can tap into the 60-day reserve. If the patient taps into the reserve days, the patient must pay a higher copayment equal to half of the initial deductible figure. If a patient is hospitalized beyond the 60th lifetime reserve day, the patient then becomes responsible for all hospital charges.

**MEDICARE PART A COSTS AT A GLANCE**

If you don’t purchase Medicare Part A it when first eligible, your monthly premium may go up ten percent (10%).

<table>
<thead>
<tr>
<th><strong>MEDICARE PART A COSTS AT A GLANCE — 2016</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Part A premium</strong></td>
</tr>
<tr>
<td><strong>Part A hospital inpatient deductible</strong></td>
</tr>
<tr>
<td></td>
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<tr>
<td></td>
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<td></td>
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</tr>
</tbody>
</table>

*Illustration 8.3*
MEDICARE PART B

Medicare Part B provides beneficiaries with medical insurance. Medicare Part B is a voluntary program designed to provide supplemental medical insurance (SMI) to cover physician services, medical services and supplies not covered under Part A. Medicare Part B participants pay monthly premiums and are responsible for an annual deductible. After the deductible, Part B will pay 80 percent of covered expenses.

Medicare Part B’s deductible is raised simultaneously and in conjunction with the premium rate. For instance, if the premium rate is raised by five percent, the deductible will also be raised by five percent. For 2016, the annual deductible for Part B coverage is $166.

Premium amounts are adjusted according to income—the more you make, the higher premium payment you will be required to pay. Higher income levels are explained later.

Part B provides outpatient hospital care and physicians’ and surgeons’ services. Covered medical and health services include, but are not limited to, the following:

- X-rays and tests;
- Therapy;
- Dressings;
-Splints;
- Casts;
- Rental of medical equipment; and
- Prosthetic devices.

If a Medicare participant is also covered under an employer-provided health care plan, the employer-sponsored plan would be considered the primary payor and Medicare the secondary payor.
**MEDICARE PART B COSTS AT A GLANCE**

<table>
<thead>
<tr>
<th>Part B premium</th>
<th>Most people pay $121.80 each month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part B deductible</td>
<td>$166 per year. After your deductible is met, you typically pay 20% of the Medicare-approved amount for most doctor services (including most doctor services while you’re a hospital inpatient), outpatient therapy, and durable medical equipment.</td>
</tr>
</tbody>
</table>

**ACTIVE DUTY SERVICE MEMBERS**

If an individual is an active duty service member, or the spouse or dependent child of an active duty service member:

- They do not have to enroll in Part B to keep their TRICARE coverage while the service member is on active duty;
- Before the active duty service member retires, they must enroll in Part B to keep TRICARE without a break in coverage;
- They can get Part B during a special enrollment period if they have Medicare because they are 65 or older, or disabled; and
- If they have end-state renal disease, they should enroll in Part A and Part B when first eligible.

If they have Veterans’ benefits, enrolling in Medicare may provide them with additional service and location options.

**MEDICARE PART C — MEDICARE ADVANTAGE**

Medicare Part C, or Medicare Advantage, refers to specialty plans that are run through Medicare that allow private health insurance companies to provide Medicare benefits. By law, Medicare Part C plans must provide coverage that is at least equal to original Medicare Part A and Part B coverage, but can do so with different rules, costs and coverage restrictions. Some Part C plans provide significant coverage beyond what Part A and Part B offers. These Medicare private health plans, such as HMOs and PPOs, are known as Medicare Advantage plans. Many different kinds of Medicare Advantage plans are available. Participants may pay a monthly premium for this coverage, in addition to their regular Part B premium.
Some Medicare Advantage Plans include a reduction in the Part B premium. Beneficiaries may elect deduction of their Medicare Part C premiums from their Social Security benefit. Social Security takes that reduction into account as soon as they receive notification of the reduction by the Centers for Medicare & Medicaid Services. Beneficiaries may also elect deduction of the prescription drug plan premium from their Social Security benefit.

**MEDICARE PART D — PRESCRIPTION DRUG PLAN**

Medicare Part D provides beneficiaries with prescription drug coverage. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) created Medicare Part D as an optional outpatient prescription drug benefit for individuals who are entitled to or who are enrolled in benefits under Medicare Part A, Part B, or both.

Anyone who has Medicare Part A, Part B, or Part C is eligible for prescription drug coverage, Part D. Joining a Medicare prescription drug plan is voluntary, and participants pay an additional monthly premium for the coverage. Participants can wait to enroll in a Medicare Part D plan if they have other creditable prescription drug coverage but if they don’t have prescription coverage that is, on average, at least as good as Medicare prescription drug coverage, they will pay a penalty if they wait to join later—and those participants will pay this penalty for as long as they have Medicare prescription drug coverage.

Beneficiaries who become newly entitled to Medicare should enroll during their initial enrollment period. After the initial enrollment period, the annual coordinated election period to enroll or make provider changes is October 15th through December 7th each year. The effective date for this enrollment is January 1st of the upcoming year. There are also special enrollment periods for some situations.

Unlike Social Security’s full retirement age, Medicare’s eligibility age is still 65. And unlike a tax penalty that is paid just once, Medicare late enrollment penalties are lifelong. If a participant has good genes, that could mean 25 or even 30 years of penalty payments. The amount that a participant pays adds up fast because it increases in two ways. It grows bigger the longer a person puts off signing up. And, because it is based on a percentage of the Medicare premium, the amount a participant pays climbs along with the premium. The penalty for Part B grows ten percent for each year a person delays signing up, and the penalty for Part D is one percent of the national base Part D premium, for every month a person is not covered.
One of the most important attractions of working after age 65 is employer-provided health coverage. While that is an essential benefit, no person should automatically assume that the employer-provided plan is always going to be the best choice or be the most cost effective. Health and drug plans vary significantly and no one plan ever fits all. Many employers are requiring their employees to absorb more of the costs involved in providing employer-sponsored health care coverage. Many employer-sponsored health care plans have lowered options for prescription drug coverage as well. So, in essence, working just for employer-sponsored health care coverage may not be the best option.

The table below (Illustration 8.5) provides estimated prescription drug plan monthly premium costs based on income as reported to the IRS from 2014. If a person’s income is above a certain limit, they will pay an income-related monthly adjustment amount in addition to the plan premium.

**MEDICARE PART D COSTS AT A GLANCE**

<table>
<thead>
<tr>
<th>MEDICARE PART D PREMIUM COSTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>If your yearly income in 2014 was</td>
</tr>
<tr>
<td>File individual tax return</td>
</tr>
<tr>
<td>$85,000 or less</td>
</tr>
<tr>
<td>Above $85,000 up to $107,000</td>
</tr>
<tr>
<td>Above $107,000 up to $160,000</td>
</tr>
<tr>
<td>Above $160,000 up to $214,000</td>
</tr>
<tr>
<td>Above $214,000</td>
</tr>
</tbody>
</table>

*Illustration 8.5*

If an individual does not sign up for Medicare Part D when they first become eligible, or if they drop Part D and then get it later, they may have to pay a late enrollment penalty for as long as they have Part D. The cost of the late enrollment penalty depends on how long they went without creditable prescription drug coverage.
EXTRA HELP PROGRAM

Individuals may also be able to receive additional assistance paying for the annual deductibles, monthly premiums, and prescription copayments related to Medicare Part D. Persons may qualify for an Extra Help Program if they have limited income (which is tied to the federal poverty level) and limited resources. Income and resource limits usually change each year. The Extra Help is estimated to be worth approximately $4,000 per year. Many individuals are unaware that they may qualify for these big savings.

Individuals automatically qualify and do not need to apply for the Extra Help Program if they have Medicare and meet one of the following conditions:

- Have Medicaid with prescription drug coverage;
- Have Supplemental Security Income (SSI); or
- Participate in a state program that pays their Medicare premiums.

Following are the qualifications for the Extra Help Program.

- The person must reside in one of the 50 states or the District of Columbia.
- The person’s combined savings, investments, and real estate must not be worth more than $27,250 if married and living with their spouse, or $13,640 if not currently married or not living with their spouse. Resources include such things as bank accounts, stocks, and bonds. (Do not include your home, vehicles, personal possessions, life insurance, burial plots, irrevocable burial contracts or back payments from Social Security or SSI.)
- Even if the person’s annual income is higher, they still may be able to get some help. Some examples where income may be higher are if the individual or the individual’s spouse:
  - supports other family members who reside with them;
  - has earnings from work; or
  - lives in Alaska or Hawaii.

Once a person qualifies, they can choose a Medicare Prescription Drug Plan. If they do not select a plan, the Centers for Medicare & Medicaid Services (CMS) will do it for them.
MEDICARE SAVINGS PROGRAMS

Individuals who cannot afford to pay their Medicare premiums and other medical costs may be able to get help from their state. Medicare Savings Programs can help participants with their out-of-pocket expenses, pay Medicare Part A and Medicare Part B deductibles, coinsurance and copayments if they meet certain conditions. These states offer programs for people who are entitled to Medicare and have low income. The programs may pay some or all Medicare premiums and may also pay Medicare deductibles and coinsurance. To qualify, individuals must have Part A and have limited income and resources.

Only the state can decide if a person qualifies for help under these programs. Individuals may also be able to get assistance in paying for their annual deductibles, monthly premiums and prescription copayments related to the Medicare Prescription Drug Program (Part D). Persons automatically qualify and do not need to apply if they have Medicare and meet one of the following conditions:

- Have Medicaid with prescription drug coverage;
- Have Supplemental Security Income (SSI); or
- Participate in a state program that pays their Medicare premiums.

If an individual can answer yes to the following three questions, they may qualify for a Medicare Savings Program.

1. Do you have or are you eligible for Medicare Part A?
2. Is your income at or below the annual income limits?
3. Do you have limited resources below the limits?
### Medicare Savings Programs Limits

#### Qualified Medicare Beneficiary (QMB) Program

<table>
<thead>
<tr>
<th>Individual Limits</th>
<th>Married Couple Limits</th>
<th>Program Helps Pay For</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,010 monthly income limit</td>
<td>$1,355 monthly income limit</td>
<td>Part A premiums</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Part B premiums</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Deductibles, coinsurance, and copayments</td>
</tr>
<tr>
<td>$7,280 resource limit</td>
<td>$10,930 resource limit</td>
<td></td>
</tr>
</tbody>
</table>

#### Specified Low-Income Medicare Beneficiary (SLMB) Program

<table>
<thead>
<tr>
<th>Monthly Income Limit</th>
<th>Program Helps Pay For</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,208</td>
<td>Part B premiums only</td>
</tr>
<tr>
<td>$7,280 resource limit</td>
<td></td>
</tr>
</tbody>
</table>

#### Qualifying Individual (QI) Program

<table>
<thead>
<tr>
<th>Monthly Income Limit</th>
<th>Program Helps Pay For</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,357</td>
<td>Part B premiums only</td>
</tr>
<tr>
<td>$7,280 resource limit</td>
<td></td>
</tr>
</tbody>
</table>

#### Qualified Disabled and Working Individuals (QDWI) Program

<table>
<thead>
<tr>
<th>Monthly Income Limit</th>
<th>Program Helps Pay For</th>
</tr>
</thead>
<tbody>
<tr>
<td>$4,045</td>
<td>Part A premiums only</td>
</tr>
<tr>
<td>$4,000 resource limit</td>
<td></td>
</tr>
</tbody>
</table>

*Limits are slightly higher in Alaska and Hawaii

Illustration 8.6

Even if an individual has income from working, they may qualify for these four programs even if their income is higher than the income limits listed above *(Illustration 8.6).*

Countable resources include:

- Money in a checking or savings account;
- Stocks; and
- Bonds.

Countable resources **do not** include:

- Personal residence;
- Personal automobile;
- Burial plot;
• Up to $1,500 for burial expenses if money is set aside;
• Furniture; and
• Other household and personal items.

Individuals must apply every year for QI (Qualifying Individual Program) benefits. QI applications are granted on a first-come, first-served basis, with priority given to people who received QI benefits the previous year. Individuals who qualify for Medicaid are ineligible for QI benefits.

An individual may qualify for the QDWI (Qualified Disabled and Working Individuals) program if any of these apply:
• The individual is a working disabled person under age 65;
• The individual lost their premium-free Part A when they went back to work;
• The individual isn’t receiving medical assistance from their state; or
• The individual meets the income and resource limits required by their state.

If the individual qualifies for a QMB, SLMB, or QI program, they automatically qualify to get Extra Help paying for Medicare prescription drug coverage.

**Rules for Higher-Income Beneficiaries**

If an individual has a higher income, the law requires an adjustment to their monthly Medicare Part B and Medicare Prescription Drug coverage premiums. Higher-income beneficiaries pay higher premiums for Part B and prescription drug coverage. Most beneficiaries do not pay the higher premium as this rule affects less than five percent of all Medicare beneficiaries.

However, if an individual does reach the higher income limits, they will pay an additional premium amount for Medicare Part B and Medicare Prescription Drug coverage. Here’s how it works.

• Medicare Part B helps pay for doctors’ services and outpatient care. It also covers other medical services, such as physical and occupational therapy, and some home health care. For most beneficiaries, the government pays a substantial portion—about 75 percent—of the Part B premium and the beneficiary pays the remaining 25 percent.
If the individual is a higher-income beneficiary, they will pay a larger percentage of the total cost of Medicare Part B based on their income. They may pay monthly Part B premiums that are equal to 35, 50, 65, or even 80 percent of the total cost, depending on what they report to the Internal Revenue Service.

- **Medicare Prescription Drug Coverage** helps pay the cost of drugs that require a prescription obtained by a physician. For most beneficiaries, the government pays a major portion of the total costs for this coverage and the beneficiary pays the rest. Prescription drug plan costs vary depending on the plan, and whether the beneficiary gets Extra Help with their portion of the Medicare prescription drug coverage costs.

If the individual is a higher-income beneficiary with Medicare prescription drug coverage, they will pay monthly premiums plus an additional amount, which is based, again, upon income. Because individual plan premiums vary, the law specifies that the amount is determined using one base premium. The additional amount is tied to the base beneficiary premium, not the individual’s own premium amount. If the individual is a higher-income beneficiary, this amount is deducted from their monthly Social Security payments regardless of how they ordinarily pay their monthly prescription plan premiums. If the amount is greater than their monthly payment from Social Security, or if they do not get monthly payments, they will get a separate bill from another federal agency, such as the Centers for Medicare & Medicaid Services or the Railroad Retirement Board.

To make the determination if an individual will pay higher premiums, Social Security uses their most recent federal tax return. If an individual must pay higher premiums, a sliding scale is used to make the adjustment. The sliding scale is based on the individual's modified adjusted gross income (MAGI). The MAGI is the total of their adjusted gross income and tax-exempt interest income.

If an individual files taxes as “married, filing jointly” and their MAGI is greater than $170,000, they will pay higher premiums for Medicare Part B and Medicare Prescription Drug coverage. If they file taxes using a different status and their MAGI is greater than $85,000, they will pay higher premiums.
The standard Part B premium for 2016 is $121.80. If single and filing an individual tax return, or married and filing a joint tax return, the following chart (Illustration 8.7) applies.

<table>
<thead>
<tr>
<th>MODIFIED ADJUSTED GROSS INCOME (MAGI)</th>
<th>PART B MONTHLY PREMIUM AMOUNT</th>
<th>PRESCRIPTION DRUG COVERAGE MONTHLY PREMIUM AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals with a MAGI of $85,000 or less</td>
<td>2016 standard premium ($121.80)</td>
<td>Your plan premium</td>
</tr>
<tr>
<td>Married couples with a MAGI of $170,000 or less</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individuals with a MAGI above $85,000 up to $107,000</td>
<td>Standard premium + $48.70</td>
<td>Your plan premium + $12.70</td>
</tr>
<tr>
<td>Married couple with a MAGI above $170,000 up to $214,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individuals with a MAGI above $107,000 up to $160,000</td>
<td>Standard premium + $121.80</td>
<td>Your plan premium + $32.80</td>
</tr>
<tr>
<td>Married couples with a MAGI above $214,000 up to $320,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individuals with a MAGI above $160,000 up to $214,000</td>
<td>Standard premium + $194.90</td>
<td>Your plan premium + $52.80</td>
</tr>
<tr>
<td>Married couples with a MAGI above $320,000 up to $428,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individuals with a MAGI above $214,000 up to $428,000</td>
<td>Standard premium + $268.00</td>
<td>Your plan premium + $72.90</td>
</tr>
</tbody>
</table>

Illustration 8.7

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If married and lived with spouse at some time during the taxable year, but filed a separate tax return, the following chart (*Illustration 8.8*) applies.

<table>
<thead>
<tr>
<th>MODIFIED ADJUSTED GROSS INCOME (MAGI)</th>
<th>PART B MONTHLY PREMIUM AMOUNT</th>
<th>PRESCRIPTION DRUG COVERAGE MONTHLY PREMIUM AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals with a MAGI of $85,000 or less</td>
<td>2016 standard premium ($121.80)</td>
<td>Your plan premium</td>
</tr>
<tr>
<td>Individuals with a MAGI above $85,000 up to $129,000</td>
<td>Standard premium + $194.90</td>
<td>Your plan premium + $52.80</td>
</tr>
<tr>
<td>Individuals with a MAGI above $129,000</td>
<td>Standard premium + $268.00</td>
<td>Your plan premium + $72.90</td>
</tr>
</tbody>
</table>

*Illustration 8.8”*

If the individual must pay higher premiums, they will receive a letter that includes the premium amount(s) and the reason for the determination. If the individual has both Medicare Part B and Medicare Part D, they will pay higher premiums for each. If they have only one—Medicare Part B or Medicare Part D—they will pay an income-related monthly adjustment amount only on the benefit they have. If the individual decides to enroll in the other program later in the same year and they are already paying an income-related monthly adjustment amount, an adjustment will be applied automatically to the other program upon enrollment.

If the individual’s income has gone down due to any of the following situations and the change makes a difference in the income level that was originally considered, they may request a new determination:

- They married, divorced, or became widowed;
- They or their spouse stopped working or reduced their work hours;
- They or their spouse lost income-producing property due to a disaster or other event beyond their control;
- They or their spouse experienced a scheduled cessation, termination or reorganization of an employer’s pension plan; or
- They or their spouse received a settlement from an employer or former employer because of the employer’s closure, bankruptcy or reorganization.

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LIVING OUTSIDE THE UNITED STATES

In most situations, Medicare does not cover health care while an individual is outside the United States. The term “outside the United States” means anywhere other than the 50 states of the United States, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa and the Northern Mariana Islands.

In rare cases, however, Medicare may pay for inpatient hospital services provided in Canada or Mexico. If any one of the following three scenarios occurs, Medicare may provide coverage:

1. If the beneficiary lives in the United States and a foreign hospital is closer or easier to get to from their home than the nearest United States hospital that can provide the care they need; or
2. If the beneficiary is in the United States when they have a medical emergency and a foreign hospital is closer or easier to get to than the nearest United States hospital that can treat the emergency; or
3. If the beneficiary is traveling through Canada without unreasonable delay by the most direct route between Alaska and another state and has a medical emergency and the Canadian hospital is closer or easier to get to than the nearest United States hospital that can treat the illness or injury. Medicare determines what qualifies as “without unreasonable delay” on a case-by-case basis.

Medicare does not pay for dialysis treatments when traveling outside the United States unless it is an emergency in which dialysis is provided at a hospital. Medicare drug plans cannot cover prescription drugs bought outside the United States. Medicare coinsurance and copayments and deductibles are the same as if the individual was being treated within the United States.

Medicare may cover medically necessary health care services a beneficiary may receive on a cruise ship under any one of these situations:

- The doctor is allowed under certain laws to provide medical services on the cruise ship; and
- The ship is in a United States port or no more than six hours away from a U.S. port when the services are performed, regardless of whether it is an emergency or not.

Medicare does not cover health care services received when the ship is more than six hours away from a U.S. port.
Hospitals in the United States are required to submit medical claims to Medicare for their patients. Foreign hospitals are not required to file Medicare claims. Therefore, if an individual is admitted to a foreign hospital under one of the three scenarios listed above, it is the individual’s responsibility to file the claim with Medicare.

Since Medicare has limited coverage of health care services outside the U.S., individuals can choose to buy a travel insurance policy to get more coverage. Some Medicare Advantage and Medigap plans provide worldwide or emergency coverage for individuals traveling outside the United States.

**REPLACING A MEDICARE CARD**

If a beneficiary's Medicare card is lost, stolen or damaged, they can request a replacement card through the Social Security Administration’s website. If a new card is applied for, the card will be mailed to the address Social Security has on file for that individual, and it should arrive in about 30 days. If the beneficiary needs proof that they have Medicare sooner than 30 days, they can also request a letter, which they will receive in about ten days. If immediate proof is required for a doctor or for a prescription, they can visit the nearest Social Security office.

**MEDICARE MEDICAL SAVINGS ACCOUNT (MSA) PLANS**

Medicare works with private insurance companies to offer individuals ways to get health care coverage. These companies can choose to offer a consumer-directed Medicare Advantage Plan, called a Medicare MSA Plan. These plans are similar to Health Savings Account Plans (HSAs) and are available outside of Medicare. Medicare Medical Savings Account Plans can afford a beneficiary flexibility in choosing health care services and providers.

Medicare MSA Plans combine a high-deductible insurance plan with a medical savings account that can be used to pay for incurred health care costs.

1. **High-Deductible Health Plan** — The first part is a special type of high-deductible Medicare Advantage Plan (Part C). The plan will only begin to cover costs once the participant meets a high annual deductible, which varies by plan.

2. **Medical Savings Account (MSA)** — The second part is a special type of savings account. The Medicare MSA Plan deposits money into the beneficiary’s account. Participants can choose to use money from this savings account to pay their health care costs before meeting the deductible.
In addition to the Medicare services that all Medicare Advantage Plans must cover, some of these plans may cover extra benefits for an extra cost (i.e., dental, vision, or long-term care not covered by Medicare). Medicare MSA Plans do not cover Medicare Part D prescription drugs. If a beneficiary joins a Medicare MSA Plan and needs drug coverage, they will have to join a Medicare Prescription Drug Plan.

**HOW A **MEDICARE MEDICAL SAVINGS ACCOUNT PLAN WORKS**

- An individual chooses and joins a high-deductible Medicare MSA Plan.
- The individual sets up an MSA with a bank the plan selects.
- Medicare gives the plan an amount of money each year for the individual’s health care needs.
- The plan deposits some money into the individual’s account.
- The individual can use the money in the account to pay their health care costs, including health care costs that are not covered by Medicare. When account money is used for Medicare-covered Part A and Part B services, it counts toward the plan’s deductible.
- If the individual use all of the money in the account and they have additional health care costs, they will have to pay for Medicare-covered services out-of-pocket until the plan’s deductible has been reached.
- During the time the individual is paying out-of-pocket for services before the deductible is met, doctors and other providers cannot charge more than the Medicare-approved amount.
- After reaching the deductible, the plan will cover the individual’s Medicare-covered services.
- If any funds are left in the account at the end of the year, they must remain in the account to be used for future health care costs.
- If the individual uses funds from the account, they must include a special form when taxes are filed that contains information on how the account funds were used by that individual.
MEDIGAP

Medicare Supplemental Insurance, also known as “Medigap,” is a private policy designed to fill in some of the gaps in Medicare coverage. Specifically, these policies help to:

- Cover Medicare copayments and deductibles;
- Enhance hospital and physician coverage (does not extend to long-term care coverage); and
- Cover the daily Medicare copayment for days 21 through 100 for the small portion of nursing home stays that qualify for Medicare coverage.

Medigap insurance is not intended to meet long-term care needs and provides no coverage for the vast majority of long-term care expenses, such as care in a nursing home, vision or dental services, hearing aids, eyeglasses or private-duty nursing.

A Medigap policy is different from a Medicare Advantage Plan. Medicare Advantage Plans work in conjunction with Medicare benefits while a Medigap policy only supplements original Medicare benefits.

In order to get a Medigap policy, individuals must have Medicare Part A and Part B. If the individual has a Medicare Advantage Plan, they can apply for a Medigap policy, but should make certain that they can leave the Medicare Advantage Plan before the Medigap policy begins.

A Medigap policy can be purchased from any insurance company that is licensed in the state to sell Medigap policies. Each insurance company decides which Medigap policies it wants to sell, although state laws might affect which ones they offer. Insurance companies that sell Medigap policies:

- Don’t have to offer every Medigap plan;
- Must offer Medigap Plan A if they offer any Medigap policy; and
- Must also offer Plan C or Plan F if they offer any plan.

Participants pay the private insurance company a monthly premium for the Medigap policy in addition to the monthly Part B premium that they pay to Medicare. A Medigap policy only covers one person. If the participant and the participant’s spouse both want Medigap coverage, they will each have to purchase separate policies. Any standardized Medigap policy is guaranteed renewable even if the participant has health problems. This means the insurance company cannot cancel the Medigap policy as long as the participant continues to pay the premiums.
Some Medigap policies sold in the past provide prescription drug coverage, but Medigap policies sold after January 1, 2006 are not allowed to include prescription drug coverage. If an individual wants prescription drug coverage, they can join a Medicare Prescription Drug Plan (Part D).

Certain types of insurance are not qualified as Medigap plans, including:

- Medicare Advantage Plans (i.e., an HMO, PPO, or Private Fee-for-Service Plan);
- Medicare Prescription Drug Plans;
- Medicaid;
- Employer or union plans, including the Federal Employees Health Benefits Program (FEHBP);
- TRICARE;
- Veterans' benefits;
- Long-term care insurance policies; and
- Indian Health Service, Tribal and Urban Indian Health plans.
The table below (*Illustration 8.9*) shows basic information about the different benefits Medigap policies cover.

- Yes = the plan covers 100 percent of this benefit
- No = the policy does not cover that benefit
- % = the plan covers that percentage of this benefit

<table>
<thead>
<tr>
<th>Medigap Benefits</th>
<th>Medigap Plans</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>F*</th>
<th>G</th>
<th>K</th>
<th>L</th>
<th>M</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part A coinsurance and hospital costs up to an additional 365 days after Medicare benefits are up</td>
<td></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Part B coinsurance or copayment</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>50%</td>
<td>75%</td>
<td>Yes</td>
<td>Yes***</td>
<td></td>
</tr>
<tr>
<td>Blood (first 3 pints)</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>50%</td>
<td>75%</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Part A hospice care coinsurance or copayment</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>50%</td>
<td>75%</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Skilled nursing facility care coinsurance</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>50%</td>
<td>75%</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Part A deductible</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>50%</td>
<td>75%</td>
<td>50%</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Part B deductible</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Part B excess charge</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Foreign travel exchange (up to plan limits)</td>
<td>No</td>
<td>No</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
<td>80%</td>
<td>No</td>
<td>No</td>
<td>80%</td>
<td>80%</td>
<td></td>
</tr>
<tr>
<td>Out-of-pocket limit**</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>$4,960</td>
<td>$2,480</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

*Plan F also offers a high-deductible plan. If you choose this option, this means you must pay for Medicare-covered costs up to the deductible amount of $2,180 in 2016 before your Medigap plan pays anything.

** After you meet your out-of-pocket yearly limit and your yearly Part B deductible, the Medigap plan pays 100% of covered services for the rest of the calendar year.

***Plan N pays 100% of the Part B coinsurance, except for a copayment of up to $20 for some office visits and up to a $50 copayment for emergency room visits that don’t result in inpatient admission.

*Illustration 8.9*

**Note:** If you live in Massachusetts, Minnesota, or Wisconsin, Medigap policies are standardized in a different way.
If a participant decides to drop the entire Medigap policy, they need to be careful about the timing. For example, they may want a completely different Medigap policy (not just the old Medigap policy without the prescription drug coverage), or they might decide to switch to a Medicare Advantage Plan that offers prescription drug coverage.

If the participant drops their entire Medigap policy and the drug coverage was not creditable or they go more than 63 days before the new Medicare coverage begins, they will have to pay a late enrollment penalty for their Medicare Prescription Drug Plan if they choose to enroll in one.

**MEDICAID**

Medicaid is a healthcare program that is managed by individual states. Medicaid’s purpose is to provide healthcare coverage for families, individuals and children who are considered lower income. Because of the Medicaid program, millions of Americans are able to have access to quality healthcare. Without Medicaid, most of these individuals would go without ever visiting a doctor.

Medicaid is a jointly funded, federal-state health insurance program for low-income and needy individuals. Medicaid provides coverage for children, the aged, blind and/or disabled individuals along with many others who are eligible to receive federally assisted income maintenance payments.

Thirty-two states and the District of Columbia provide Medicaid eligibility to people who are eligible for Supplemental Security Income (SSI) benefits. In these states, SSI applications are also Medicaid applications. Medicaid eligibility begins the same month as SSI eligibility.

The following jurisdictions use the same rules to decide eligibility for Medicaid as the Social Security Administration uses for SSI, but require the filing of a separate application: Alaska, Idaho, Kansas, Nebraska, Nevada, Oregon, Utah, and Northern Mariana Islands.

The following states use their own rules of eligibility for Medicaid, which are different from the Social Security Administration’s SSI rules. In these states a separate application for Medicaid must be filed: Connecticut, Hawaii, Illinois, Indiana, Minnesota, Missouri, New Hampshire, North Dakota, Ohio, Oklahoma, and Virginia.
In order to be eligible to receive assistance under a state’s Medicaid program, a few different eligibility requirements must be met. Eligibility requirements can vary state to state but, in general, to qualify a recipient must:

• Have been eligible for an SSI cash payment for at least one month;
• Still be disabled;
• Still meet all other eligibility rules, including the resources test;
• Need Medicaid in order to work; and
• Have gross earned income that is insufficient to replace SSI, Medicaid, and any publicly funded attendant care.

The main requirement for Medicaid eligibility is determining that a low-income situation exists in the home. Currently, the requirement states that the family’s income must be below the federal poverty level. The number of people living in the household is taken into consideration, and all forms of income are counted, including child and spousal support. Currently, participant’s income has to be 100 percent (100%) of the poverty level. As of January 2016, 31 states have Medicaid income eligibility levels for parents and other adults at or above 138 percent (138%) of the federal poverty level. Just two years ago, in 2014, eligibility levels were at 133 percent (133%). Because of this change, many people who did not previously qualify for Medicaid found themselves eligible.

The Center for Medicare and Medicaid Services oversees the state administration of Medicaid.

The federal government offers partial funding for Medicaid in each state, in partnership with that state. Therefore, the federal government has set forth a few different guidelines that must be followed when determining Medicaid eligibility as well as determining which benefits must be offered to participants. Regardless of what state a person resides in, if they are approved to receive Medicaid benefits, they can expect to receive the following:

• Inpatient and outpatient hospital services;
• Home health services;
• Physician services;
• Rural health clinic services;
• Laboratory services;
• X-ray services;
• Family planning services;
• Prenatal care; and
• Tobacco cessation services.

These guidelines are set by the federal government and are a required part of each state’s Medicaid program. In addition to being required to offer federally mandated services, each state has the freedom to design a Medicaid plan for their residents according to the additional services they wish to offer. Most states have added extra types of coverage, including:

• Pharmacy benefits;
• Clinic services;
• Physical therapy;
• Occupational therapy;
• Respiratory care;
• Mental health services;
• Dental services; and
• Optometry services.

Each state has a number of categories that are used to determine Medicaid eligibility. Applicants must answer questions about areas such as:

• Blindness;
• Disability;
• Pregnancy;
• Assets;
• Resources;
• Age; and
• Citizenship.

The answers to these categorical questions are paired with the family’s combined income to determine eligibility.

**LONG-TERM CARE**

Nobody wants to think about spending any portion of his or her life needing long-term care or spending time in a long-term care facility. However, research studies show that at least 70 percent (70%) of individuals over age 65 will need long-term care services and supports at some point in their remaining years. In fact, studies show that 40 percent (40%) of individuals currently receiving long-term care services are
ages 18 to 64. Studies show that, on average, women need care longer (3.7 years) than men (2.2 years). The good news is that one-third of today's 65-year-olds may never need long-term care support. The bad news is that 20 percent (20%) will need long-term care support for periods longer than five years.

The American Association of Long-Term Care Insurance states that by 2050, the number of individuals using paid long-term care services in any setting will reach the 27 million mark.

Of course, age and gender play a major contributing role in the need for long-term care. In addition to age and gender, however, there are a number of factors that affect the possibility of needing long-term care.

- **Disability:**
  - Having an accident or chronic illness that causes a disability;
  - Between the ages of 40 and 50, on average, eight percent of people have a disability that could require long-term care services;
  - 69 percent of people age 90 or more have a disability.

- **Health Status:**
  - Chronic conditions such as diabetes and high blood pressure make a person more likely to need care;
  - Family history, such as whether a person's parents or grandparents had chronic conditions, may increase a person's likelihood of needing long-term care services;
  - Poor diet and exercise habits increase the chances of needing long-term care;

- **Living Arrangements:**
  - If a person lives alone, they are more likely to need paid care than if married, or single and living with a partner.
The table below (Illustration 8.10) shows that, overall, more people use long-term care services at home (and for longer periods) than in facilities.

<table>
<thead>
<tr>
<th>Type of Care</th>
<th>Average Number of Years People Use This Type of Care</th>
<th>People Who Use This Type of Care</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>At Home</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Unpaid care only</td>
<td>1 year</td>
<td>59 percent</td>
</tr>
<tr>
<td>• Paid care</td>
<td>Less than 1 year</td>
<td>42 percent</td>
</tr>
<tr>
<td>• Any care at home</td>
<td>2 years</td>
<td>65 percent</td>
</tr>
<tr>
<td><strong>In Facilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Nursing facilities</td>
<td>1 year</td>
<td>35 percent</td>
</tr>
<tr>
<td>• Assisted living</td>
<td>Less than 1 year</td>
<td>13 percent</td>
</tr>
<tr>
<td>• Any care in facilities</td>
<td>1 year</td>
<td>37 percent</td>
</tr>
</tbody>
</table>

Illustration 8.10

Long-term care services and support typically come from:

- An unpaid caregiver who may be a family member or friend;
- A nurse, home health or home care aide; and/or a therapist who comes to the home;
- Adult day services in the area; and
- A variety of long-term care facilities.

About 80 percent (80%) of care at home is provided by unpaid caregivers and may include an array of emotional, financial, nursing, social, homemaking, and other services. On average, caregivers spend 20 hours a week giving care. More than half (58%) have intensive caregiving responsibilities that may include assisting with a personal care activity, such as bathing or feeding.

According to a 2015 AARP report, the majority of caregivers are female (60%), but 40 percent are male. Eight in ten are taking care of one person (82%). They are 49 years of age, on average. A large majority of caregivers provide care for a relative (85%), with 49 percent caring for a parent or parent-in-law. One in ten provides care for a spouse. Higher-hour caregivers are almost four times as likely to be caring for a spouse/partner.21

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20 LongTermCare.gov, How Much Care Will You Need?
21 AARP, Caregiving in the U.S., 2015 Research Report
Long-term care provides a range of services and supports to meet individual personal care needs. Most long-term care is not medical care, but rather assistance with the basic personal tasks of everyday life, called Activities of Daily Living (ADLs), such as the following items.

- Bathing
- Dressing
- Using the toilet
- Transferring (to or from bed or chair)
- Caring for incontinence
- Eating

Other common long-term care services and supports are assistance with everyday tasks, sometimes called “Instrumental Activities of Daily Living” including:

- Housework;
- Managing money;
- Taking medication;
- Preparing and cleaning up after meals;
- Shopping for groceries or clothes;
- Using the telephone or other communication devices;
- Caring for pets; and
- Responding to emergency alerts such as fire alarms.

Medicare only pays for long-term care if the individual requires skilled services or rehabilitative care:

- In a nursing home for a maximum of 100 days; however, the average Medicare-covered stay is much shorter (22 days).
- At home if the individual is also receiving skilled home health or other skilled in-home services. Generally, long-term care services are provided only for a short period of time.

Medicare does not pay for non-skilled assistance with ADLs, which make up the majority of long-term care services.

Medicaid does not pay for the largest share of long-term care services. Requirements are based on the amount of assistance needed with ADLs.
Disability insurance is intended to replace some of a working person’s income when a disability prevents them from working. It does not:

- Cover medical care or long-term care services; or
- Provide benefits once a person is over age 65 (the time when long-term care services are most likely to be needed).

Other federal programs such as the Older Americans Act and the Department of Veterans Affairs pay for long-term care services, but only for specific populations and under specific circumstances.

Private companies offer long-term care insurance coverage. Most policies provide for medical care that is needed for an extended period of time, usually longer than 90 days. Age limits are set and vary by policy, but the minimum age is typically around age 50 with the maximum age is typically around age 89.

Everyone knows that long-term care costs can be astronomical. The average cost is now over $50,000 per year and rising. Much of the cost depends upon where the recipient lives. Employee insurance does not cover home health care costs. About one-third of nursing home residents pay all of their nursing home costs out of their own pockets. Many people exhaust their savings after just six months.

Most people who do not have a long-term care insurance policy use a variety of options to pay for long-term care expenses, including personal income and savings, life insurance, annuities and reverse mortgages to ensure they can pay for the care they require.
Long-term care can be provided in a variety of settings with varying costs as demonstrated in the following table (Illustration 8.11).

<table>
<thead>
<tr>
<th>HOME</th>
<th>NATIONAL MEDIAN HOURLY RATE</th>
<th>INCREASE OVER 2014</th>
<th>FIVE-YEAR ANNUAL GROWTH(^1)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Homemaker Services</strong>: Service providing help with household tasks that cannot be managed alone. Homemaker services includes “hands-off” care such as cooking, cleaning and running errands.</td>
<td>$20</td>
<td>2.63%</td>
<td>1.61%</td>
</tr>
<tr>
<td><strong>Home Health Aide Services</strong>: Home Health aides offer services to people who need more extensive care. It is “hands-on” personal care, but not medical care. This is the rate charged by a non-Medicare certified, licensed agency.</td>
<td>$20</td>
<td>1.27%</td>
<td>1.03%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>COMMUNITY</th>
<th>NATIONAL MEDIAN HOURLY RATE</th>
<th>INCREASE OVER 2014</th>
<th>FIVE-YEAR ANNUAL GROWTH(^1)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Adult Day Health Care</strong>: Provides social and support services in a community-based, protective setting. Various models are designed to offer socialization, supervision and structured activities. Some programs may provide personal care, transportation, medical management and meals.</td>
<td>$69</td>
<td>5.94%</td>
<td>2.79%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FACILITY</th>
<th>NATIONAL MEDIAN HOURLY RATE</th>
<th>INCREASE OVER 2014</th>
<th>FIVE-YEAR ANNUAL GROWTH(^1)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assisted Living Facility</strong>: Residential arrangements providing personal care and health services. The level of care may not be as extensive as that of a nursing home. Assisted living is often an alternative to a nursing home, or an intermediate level of long-term care.</td>
<td>$3,600</td>
<td>2.86%</td>
<td>2.48%</td>
</tr>
<tr>
<td><strong>Nursing Home Care</strong>: These facilities often provide a higher level of supervision and care than Assisted Living Facilities. They offer residents personal care assistance, room and board, supervision, medication, therapies and rehabilitation, and on-site nursing care 24 hours a day.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Semi-Private Room</td>
<td>$220</td>
<td>3.77%</td>
<td>3.53%</td>
</tr>
<tr>
<td>Private Room</td>
<td>$250</td>
<td>4.17%</td>
<td>3.95%</td>
</tr>
</tbody>
</table>

\(^1\) Percentage increase represents the compound annual growth rate for surveys conducted from 2010 to 2015

Illustration 8.11\(^2\)

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\(^{22}\) Genworth, Cost of Care Survey 2015
The cost of long-term care depends on the type and duration of care that is needed, the chosen provider, and where the recipient lives. Costs can also be affected by certain other factors, such as the following.

- **Time of Day:**
  - Home health and home care services provided in two- to four-hour blocks of time referred to as “visits,” are generally more expensive in the evening, on weekends, and on holidays.

- **Extra Charges:**
  - For services provided beyond the basic room, food and housekeeping charges at facilities, although some may have “all inclusive” fees.

- **Variable Rates:**
  - Variable rates in some community programs, such as adult day service, are provided on a per-day rate, but can be more based on extra events and activities.

The cost of a long-term care policy is based on:

- The individual’s age when they purchase the policy;
- The maximum amount that the policy will pay per day;
- The maximum number of days (years) that the policy will cover;
- The maximum amount per day times the number of days determines the lifetime maximum amount that the policy will pay; and
- Any optional benefits the individual chooses, such as benefits that increase with inflation.
The following table (*Illustration 8.12*) reflects the national median average rate for various long-term care services.

<table>
<thead>
<tr>
<th>HOME</th>
<th>MEDIAN ANNUAL RATE</th>
<th>FIVE-YEAR ANNUAL GROWTH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homemaker Services</td>
<td>$44,616</td>
<td>2%</td>
</tr>
<tr>
<td>Home Health Aide Services</td>
<td>$45,760</td>
<td>1%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>COMMUNITY</th>
<th>MEDIAN ANNUAL RATE</th>
<th>FIVE-YEAR ANNUAL GROWTH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adult Day Health Care</td>
<td>$17,904</td>
<td>3%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FACILITY</th>
<th>MEDIAN ANNUAL RATE</th>
<th>FIVE-YEAR ANNUAL GROWTH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assisted Living Facility (One bedroom, single occupancy)</td>
<td>$43,200</td>
<td>2%</td>
</tr>
<tr>
<td>Nursing Home (Semi-private room)</td>
<td>$80,300</td>
<td>4%</td>
</tr>
<tr>
<td>Nursing Home (Private room)</td>
<td>$91,250</td>
<td>4%</td>
</tr>
</tbody>
</table>

*Illustration 8.12*

If an individual is in poor health or already receiving long-term care services, they may not even qualify for long-term care insurance, as most individual policies require medical underwriting. In some cases, they may be able to buy a limited amount of coverage or coverage at a higher “non-standard” rate. Some group policies do not require underwriting, however.

Many long-term care insurance policies have limits on how long or how much they will pay. Some policies will pay the costs of long-term care for two to five years, while other insurance companies offer policies that will pay long-term care costs for as long as the recipient lives—no matter how much it costs. These of course, as you can imagine, are few and far between.

Medicare only pays for long-term care if the beneficiary requires skilled services or rehabilitative care and Medicare does not pay for non-skilled assistance with Activities of Daily Living, which make up the majority of long-term care services.

There are two types of illnesses that are commonly associated with long-term care:

1. Acute Illness; and
2. Chronic Illness.
Acute illness is a serious condition. Acute conditions are sudden and severe in onset. This could be anything from a serious case of the flu or pneumonia to a broken bone. However, with proper medical treatment, acute illnesses should result in the patient’s full recovery. An acute illness will typically “run its course” and is usually treated with over-the-counter (OTC) medications.

Chronic illness, on the other hand, is a more serious illness that requires medical supervision. It is a physical condition that is constant in nature and for which there is no “full recovery” possible. A chronic illness is one that requires medical supervision and is often a disease that has formed over a long period of time, such as cancer and diabetes. Usually, medications for chronic illnesses are administered by prescription only.

The diagnosis of chronic illness can be made on two levels:

1. Physical; and
2. Cognitive.

A physical diagnosis would mean that the individual has been certified as unable to perform at least two activities of daily living. An individual is considered chronically ill if they require substantial supervision to protect their health or safety owing to severe cognitive impairment* and the condition was certified within the previous 12 months.

*Cognitive relates to the thought processes of reasoning, intuition, or perception.

There are a multitude of long-term care plans available in the marketplace, all with varying degrees of coverages. Most policies pay a lump sum benefit on a per-day basis. For instance, if the policy pays a $300 per day assisted living facility benefit and the facility charges $325 per day, the additional $25 would be the patient’s responsibility. On the other hand, if the facility charges $275 per day, the policy will still pay $300 per day. The extra $25 can be used for other expenses.

There are three basic levels of long-term care:

1. Institutional care;
2. Home-based care; and
3. Community care.
Skilled and intermediate nursing care, custodial care, home health care, adult day care, respite care, and continuing care are all included within these basic levels of care.

**SKILLED NURSING CARE**

Most people don’t think about skilled nursing care until a loved one and/or family member needs more help than what a caregiver can provide. Skilled nursing care facilities are commonly called nursing homes. Most of these facilities offer long- and short-term care for individuals with health conditions that are too complicated to be tended to at home or at an assisted living facility.

Skilled nursing care is the most expensive care that can be given as these facilities provide around-the-clock care, 24 hours a day, 7 days a week.

Skilled nursing care involves trained professionals that are needed temporarily due to an injury or illness, including:

- A nurse attending to a post-operative wound or dispensing and monitoring intravenous medications;
- A physical therapist working with a resident to rectify strength and balance issues;
- A speech therapist assisting a resident in reclaiming their ability to communicate following a stroke; and
- An occupational therapist helping a resident to become independent again, particularly when it comes to dressing, personal hygiene, and eating.

Some facilities are specially designed to accommodate seniors suffering from Alzheimer’s or Parkinson’s disease, dementia or respiratory ailments.

**INTERMEDIATE NURSING CARE**

Intermediate nursing care is less specialized than skilled nursing care and often involves more personal care. Care is provided on a daily basis by registered nurses or skilled medical practitioners. Under supervision of a physician, licensed nurses and physical therapists administer intermediate care to patients.
CUSTODIAL CARE

Unskilled nursing assistants usually provide custodial care in nursing homes, day care centers and at home. Custodial care is often called “personal care” because there are no special training or medical skills that are required for patient care of this type. Custodial care is intended to assist patients with their ADLs, which include basic functions such as bathing, eating, dressing, personal hygiene, maneuvering in and out of bed and/or walking, incontinence and other routine activities.

HOME HEALTH CARE

Home health care helps seniors live independently for as long as possible, given the limitations of their medical condition. It is provided to patients while they are still in their own home and are generally able to function for themselves in most areas. A qualified, but not necessarily medical, person helps out on a part-time basis with performing the essential activities of daily living such as fixing meals, shopping, and/or physical therapy. Benefit periods are usually more limited under home care provisions.

ADULT DAY CARE

Adult day care usually takes over when primary caregivers are not accessible. Care is centered on those individuals who are mentally or physically impaired. The primary focus is custodial care, providing participants with transportation to and from the facility where they can join in social activities, group exercises, therapeutic activities, nutritional education, medical care, meals, speech therapy, and occupational and physical therapy.

RESPITE CARE

Respite care is designed to give the primary caregiver a short rest period while still providing the patient with assistance in various activities of daily living.

CONTINUING CARE

Continuing care provides assistance with full time medical and social needs for seniors who are living in an ongoing or lifelong care retirement community. Personal, intermediate, and skilled nursing care is provided, but the main goal is to allow seniors to enjoy living a more independent lifestyle. Retirement communities are often sponsored by religious or nonprofit organizations.
STATE PROGRAMS

Many states have programs to pay for home and community-based long-term care services for older adults, generally age 60 and older, and their families. Individual states often draw on funds from county, state and federal sources, such as the Older Americans Act. The focus of these programs is to help older adults remain in the community as independently as possible. Individual states administer these services through state and local agency networks and include:

- Nutritional programs such as home-delivered meals for homebound elderly or meals served in community settings;
- Transportation services;
- Health promotion services to help prevent disease or manage chronic illnesses;
- Personal care assistance and help with household chores and shopping;
- Legal assistance and services that protect the rights of older persons such as the long-term care Ombudsman Program; and
- Family caregiver services and supports including time off from their responsibility (respite care).

While the financial eligibility criteria for these programs differ by state and by program, they are generally targeted for low-income, frail seniors over age 60, minority older adults and seniors living in rural areas.

STATE PARTNERSHIP PROGRAMS FOR LONG-TERM CARE

As the number of elderly Americans increases, long-term care needs and costs have only one place to go—UP. Many believe that private long-term care insurance can and should play a more significant role in providing financial protection for future home care and nursing home services. Most people are ill prepared for this possible future need. That is why more and more states across America have developed State Partnership Programs. These programs were developed with the original intention of encouraging consumers to invest in long-term care insurance.
Under a partnership plan, insureds obtain a form of long-term partnership with insurers who will give them a certain amount of long-term care insurance protection. If they collect maximum benefits under the coverage, they qualify for Medicaid and will be permitted to retain assets equal to the amount of insurance benefits they receive. These partnerships allow state governments and insurers to work together for the well being of participants.

In general, these partnerships have four objectives:

1. To stimulate the availability of high-quality, private, long-term care insurance;
2. To remove the fear of impoverishment resulting from a need for health care services;
3. To contain the growth of public expenditures; and
4. To improve the understanding of the financing of long-term care through state counseling services.

Although these programs were designed for people in the lower- to middle-income ranges, the majority of policyholders have significant assets to protect.

The primary plan design allows the owner of a partnership plan to receive insurance benefits before applying for Medicaid. Under the plan, the insurer reimburses the insured for services that would have been covered by Medicaid if the insured had been an eligible Medicaid recipient. Those services include:

- Nursing home care;
- Home health care;
- Adult day care services;
- Respite care; and
- Supportive home care.

The amount of benefits paid by the insurer is excluded from the applicant’s total assets when applying for Medicaid. In other words, the state Medicaid program does not have to count this amount as part of the applicant’s assets. The applicant still must have income levels below the state’s Medicaid limits. Once qualified for Medicaid, persons receiving these types of services must contribute their income toward their care in the same way as required for other Medicaid recipients.
A second model of asset protection allows participants to keep all of their assets after receiving insurance benefits for three years of nursing home care, six years of home health care, or a combination of the two (in which two days of home care equal one day of nursing home care).

**HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT (HIPAA)**

HIPAA is the acronym for the Health Insurance Portability and Accountability Act passed by Congress in 1996. HIPAA does the following:

- Provides the ability to transfer and continue health insurance coverage for millions of American workers and their families when they change or lose their jobs;
- Reduces health care fraud and abuse;
- Mandates industry-wide standards for health care information on electronic billing and other processes; and
- Requires the protection and confidential handling of protected health information.

HIPAA requires all long-term care policies to contain certain provisions in order to qualify for tax-exempt treatment and requires the adoption of certain provisions of the National Association of Insurance Commissioners (NAIC) long-term care insurance model regulation.

Qualified long-term care services are defined as:

- Diagnostic;
- Preventive;
- Therapeutic;
- Curing;
- Treating;
- Mitigating and rehabilitative services; and
- Maintenance or personal care services that are required by a chronically ill individual and are provided under a plan of care established by a licensed health care practitioner.
IMMEDIATE LONG-TERM CARE ANNUITY

The immediate long-term care annuity, just like any immediate annuity, is purchased with one single premium payment. The insurance company will send the purchaser a specified monthly income payment in return.

Even if the recipient’s current health status is not optimal, and even if they are currently receiving long-term care, they can still purchase this type of annuity.

The insurance company converts the single premium payment into a guaranteed monthly income stream for a specified period of time or for the rest of the recipient’s life. The amount the recipient will receive every month depends upon the amount of the initial premium, the recipient’s age, and the recipient’s gender. Since women tend to live longer than men, women generally receive a smaller monthly payment over a longer period of time than do men of the same age.

DEFERRED LONG-TERM CARE ANNUITY

Just like an immediate annuity, these annuities are purchased with a single lump sum payment. This type of annuity is generally available to people up to age 85, and they provide a stream of monthly income for a specified period of time.

The annuity actually creates two funds:

1. A fund that provides for long-term care expenses; and
2. A separate cash fund for other uses.

The long-term care fund can be accessed immediately. The separate cash fund becomes available at a later date. Both funds have accessibility limits.

Unlike the immediate long-term care annuity, the recipient’s health may play a part in qualifying. Certain health criterion is adhered to as well.
POINTS TO PONDER — GOVERNMENT AND PRIVATE HEALTH PLANS

• There are three basic levels of long-term care: (1) Institutional Care, (2) Home-based Care and (3) Community Care.

• There are two types of illnesses that are commonly associated with long-term care: (1) Acute Illness and (2) Chronic Illness.

• If an individual is in poor health or is already receiving long-term care services, they may not qualify for long-term care insurance as most individual policies require medical underwriting.

• Medicaid is a healthcare program managed by the state.

• Individuals who cannot afford to pay their Medicare premiums and other medical costs may be able to get help from their state through Medicare Savings Programs.

• Medicare Part A is automatically provided when an individual applies for Social Security benefits as long as the individual is 65 years of age or older.

• Medicare consists of four parts: (1) Part A - Hospital Insurance, (2) Part B - Medical Insurance, (3) Part C - Medicare Advantage Plans, and (4) Part D - Prescription Drug Coverage.

• When an individual first becomes eligible for hospital insurance (Part A), they have a seven-month period (initial enrollment period) in which to sign up for medical insurance (Part B).

• In most situations, Medicare does not cover health care while an individual is outside the United States. In rare cases, however, Medicare may pay for inpatient hospital services provided in Canada or Mexico.
CHAPTER 8 REVIEW QUESTIONS — GOVERNMENT AND PRIVATE HEALTH PLANS

Which of the following answers/completes each question/sentence the best?
(Answers are in the back of the text.)

1. There are three basic levels of long-term care:
   a) nursing home are, skilled nursing care, and intermediate nursing care.
   b) home health care, custodial care, and intermediate nursing care.
   c) institutional care, home-based care, and community care.
   d) adult day care, respite care, and continuing care.

2. There are two types of illnesses that are commonly associated with long-term care:
   a) terminal illness and acute illness.
   b) acute illness and chronic illness.
   c) chronic illness and terminal illness.
   d) long-term and short-term illness.

3. If an individual is in poor health or already receiving long-term care services, they may not qualify for long-term care insurance, as most individual policies:
   a) require medical underwriting.
   b) are too expensive.
   c) have restrictive preexisting condition clauses.
   d) are sold to couples.

4. Medicaid is managed by:
   a) the federal government.
   b) individual counties.
   c) private companies.
   d) individual states.

5. Individuals who cannot afford to pay their Medicare premiums and other medical costs may be able to get help from:
   a) the Medicare program.
   b) their state through Medicare Savings Programs.
   c) the Welfare system.
   d) their employer.
The Baby Boomer generation is arriving at the gates of retirement in droves. It is estimated that approximately 10,000 baby boomers are turning age 62 every day. Given the economic shift away from traditional pension plans, Social Security benefits are likely to provide some seniors with their only guaranteed source of income—for the rest of their lives. Social Security is an invaluable source of retirement income protecting seniors against inflation, market volatility, and longevity.

The sad fact is that very few people understand how to get the most out of the investment they have contributed to throughout their entire lifetime. And it’s no wonder. The official Social Security Handbook contains over 2,700 separate rules governing the program’s benefits. Where and how do you begin to sort it all out?

Perhaps the most confusing aspect of claiming Social Security benefits is trying to understand the different types of benefits for which married spouses might be eligible, and how those benefits can interact with each other. At one time or another, a married spouse might be receiving a spouses benefit, a worker benefit, or a survivor benefit. Whether both spouses worked and earned benefits or whether only one spouse did, there are many ways to optimize those benefits by developing a savvy claiming strategy. To create the right strategy for any given situation, it is important to first understand the types of benefits and when those benefits might become available.

The Social Security Administration website offers many calculators as we’ve already learned, but they do not offer the sophisticated software to allow users to explore different scenarios—to explore the many options that are available to them. So, unless they know all the rules and creative ways to maximize their benefits, they just may be leaving thousands upon thousands of dollars in benefits behind, untapped.
Before the recessions in the 2000’s, many people, financial advisors included, didn’t put much stock into the benefits of Social Security. The program was largely considered an add-on—IF the program still existed by the time retirement was reached. Now it’s become one of the most integral financial tools a retiree can have—IF it is utilized to its full potential.

Most people don’t understand that the Social Security decisions they make today can have long-term affects—not only for themselves, but also for their spouses, ex-spouses, children, and any other dependents they might have as well. For instance, if a husband begins taking his benefits early and his wife survives him, her survivors benefits will be less than what they would have been had he delayed taking his benefits.

In this chapter, we will concentrate on the strategies that can maximize Social Security income benefits. We’ll look at how retirement benefits, spouses benefits, and survivors benefits may be utilized and intertwine. And we’ll see how single and unmarried couples alike can maximize their own benefits.

We will incorporate the strategies of:

- Continuing to work beyond Social Security retirement years;
- The best time to apply for benefits;
- Accruing delayed retirement credits;
- An individual’s own retirement benefits;
- Spouses benefits;
- Survivors benefits; and
- Benefits for single-income couples.

It is estimated that approximately 70 percent of retirees are receiving reduced benefits mainly because they are unaware of their options. Navigating the complexities involved can be difficult. Advisors who understand these complexities can present their clients with the many options that are available to them and show them how to maximize those benefits. The differences in claiming strategies could have a dramatic affect on a retiree’s standard of living.
The most common mistakes seniors make when it comes to their Social Security benefits involve:

- When to apply for benefits (most apply too early);
- The interaction between retirement benefits, spouses benefits, and survivors benefits;
- Understanding tax consequences; and
- The impact of premature decisions.

As we have already learned, generally, it is most advantageous to delay receiving paid-out benefits until a person reaches their full retirement age—and benefits delayed after reaching full retirement age increase by about eight percent per year, plus the rate of inflation (COLAs). For those individuals who were born between 1943 and 1954, the monthly Social Security benefit will be one-third larger at full retirement age than if taken at age 62. If retirees can hold off on claiming their Social Security benefits until they are 70 years of age, they can increase their monthly income by approximately 76-80 percent.

Most people do not even realize that. If they do, many of them just do not think they can hold out that long and are therefore tempted to begin taking their benefits at the earliest age possible. The complexities of Social Security can be navigated, however, to provide maximum benefits for the future. That’s where savvy planning comes into play.

The greatest fear a retiree faces is whether or not they will have enough money to maintain a comfortable lifestyle in their latter years. When the Social Security program was first implemented, it was never intended to provide full retirement income, but rather to supplement retirement living.

However, the recession has taken its toll on savings, IRAs, pension and profit sharing plans, etc. Every day, 10,000 baby boomers retire. And as these baby boomers enter their retirement years, many are finding they are not financially able to quit working and settle into the relaxation they had envisioned. Many have found they need to tap into their Social Security benefits at an earlier age than they had originally expected in an effort to capture some additional income. And many are continuing to work beyond the years they had expected to retire. So, for many, Social Security is their lifeline. That is exactly why maximizing Social Security retirement strategies has become critical for anyone nearing their retirement years.

Underestimating the value of Social Security is a huge mistake. In the past, Social Security retirement benefits were largely overlooked in individual retirement planning.
However, Social Security is the only retirement plan that provides the income guarantees it does, so it cannot afford to be overlooked. As life expectancy increases, individuals can find themselves living in retirement for one-third or more of their lives. The income stream Social Security provides can be vital in the quality of those years, if utilized properly.

For example, let’s take a look at Frank and Wilma. Frank is a 66-year-old worker with final annual wages of $80,000. His wife, Wilma, is a non-working spouse. Even though Wilma has never worked, with some strategic planning they can expect to effectively and substantially increase their annual Social Security income.

The true value of Social Security benefits should not be underestimated—it is an income that cannot be outlived.

For instance, if your monthly Social Security benefit is $2,000 and you live:

- 10 more years, you can receive over $300,000 in lifetime benefits.
- 20 more years, you can receive nearly $700,000 in lifetime benefits.
- 30 more years, you can receive over $1,000,000 in lifetime benefits.

Another mistake seniors make is rushing to collect benefits without understanding how to maximize those benefits—this is a HUGE mistake and one that cannot be understated. If patience is exercised and knowledge is gained, benefits can be increased dramatically. We will investigate the strategies involved to incorporate the many different benefits that are available. But first, since so many seniors are opting to continue working for a few more years rather than retiring, we will look at how employment income can affect Social Security benefits.

**HOW CONTINUED WORKING AFFECTS BENEFITS**

Medical advancements and better nutritional and physical awareness have not only made us all feel better, but has also given rise to life longevity. Not only are we living longer, many are finding that they are working longer as well. The majority of people reaching retirement age today are putting off retirement, perhaps for financial reasons or perhaps they just are not ready to retire yet.

According to a recent survey, 35 percent of those polled said that they plan to work until they are at least 80, and 37 percent stated that they will never retire and plan to either work until they get too sick or die.
With the economic struggles we have all suffered, more people than not are struggling today just to make ends meet—let alone put money away for retirement. With minimal savings built up, Social Security may well be a person’s primary source of income. And with average benefits of $1,341 a month (2016), many just cannot afford to retire.

But what happens to a person’s Social Security retirement account if they continue to work? Can they still take their benefits, or do they have to wait until they actually physically quit working?

Improvements in healthcare and longer life spans have lent credence to the fact that we can now work longer than we had originally expected. Most baby boomers thought they would retire at about the same age as their parents, but this generation is living longer, healthier lives. And all of the advancements we have enjoyed have helped ensure our overall and continued productivity.

When it comes to Social Security planning, many people do not understand that they can work and still collect benefits if they need to. Many operate under the misconception that they can no longer work if they decide to take their Social Security benefits. Others may continue to work while they collect benefits, but do not understand that their benefits will be reduced if they earn too much. Many are not even aware that there is an exempted amount allowed under the program.

That’s why we’re going to address these concerns.

The Social Security Administration does not penalize individuals who need to continue working while taking their retirement benefits, but the program does put a limit on just how much income beneficiaries can generate while they are receiving those benefits. If a person earns more than the limit (or exempted amount), which varies depending upon age, their benefits will be reduced. But the good news is that once the beneficiary reaches full retirement age, earnings limits no longer apply.

Since Social Security uses the highest 35-year earnings for the basis of benefits, those who decide to stay in the workforce can actually generate a higher PIA (Primary Insurance Amount) once they do quit working. Following this strategy can enable a person to have more income now while their Social Security benefits increase. “Earn now—earn more later” is the concept.

In most cases, people earn their highest income in the latter years of their working career. If a person is earning more in their sixties than they did in their forties, for instance, their Social Security earnings and PIA will only increase as they continue to work.
WHEN SHOULD I APPLY FOR BENEFITS?

“When should I apply for my benefits?” This is the most common question asked regarding Social Security retirement benefits. We have all heard the age-old adage, “timing is everything.” When to apply—the timing aspect—for benefits can be crucial in the quest to maximize retirement income.

Unfortunately, many people live for the “here and now” with their main focus on their present state of being—giving less regard to their own future self. As time passes and we get older, inflation rises and everyday costs rise. What we take today in benefits will be worth less in the future. If you can live on your $1,000 Social Security benefit today, which covers your housing costs, utilities, food, sundries, etc., that’s great. But interest rates will rise, utility costs will rise, food costs will rise. If you have locked yourself into a benefit that only covers “today’s” costs, it may not be enough to cover “tomorrow’s” expenses. That is where a lot of retirees miss the boat, so to speak.

Social Security Administration representatives are, of course, at a person’s disposal. However, they cannot offer advice—and they cannot provide callers with alternatives or inform them of the many options available. It is tempting to take what you can get now and leave the future to take care of itself. But, unfortunately, the future will not take care of itself. You have to be cognizant enough to take care of your own future as well as your present.

Just to begin, the table below (Illustration 9.1) shows the benefit reductions caused by taking benefits early—whether the beneficiary’s full retirement age is at 66 or at 67.
Early Retirement Benefit Reductions

<table>
<thead>
<tr>
<th>Apply for benefits at age</th>
<th>FRA is 66 benefit will be:</th>
<th>FRA is 67 benefit will be:</th>
</tr>
</thead>
<tbody>
<tr>
<td>62</td>
<td>75.0%</td>
<td>70.0%</td>
</tr>
<tr>
<td>63</td>
<td>80.0%</td>
<td>75.0%</td>
</tr>
<tr>
<td>64</td>
<td>86.7%</td>
<td>80.0%</td>
</tr>
<tr>
<td>65</td>
<td>93.3%</td>
<td>86.7%</td>
</tr>
<tr>
<td><strong>66</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>93.3%</strong></td>
</tr>
<tr>
<td>67</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Illustration 9.1

So if a beneficiary’s full retirement age is 66 and they begin taking their Social Security benefits at age 63, they will only get 80 percent of their Primary Insurance Amount. If the same beneficiary waited until age 64 to begin taking their benefits, they will get 86.7 percent of their PIA, and so on.

Social Security implements these reductions in an effort to encourage retirees to delay taking benefits. And they are good incentives. Especially given the eight percent per year increase from full retirement age to 70 years of age—add cost of living increases, and that IS a good incentive!

The question everyone has to ask him or herself is if they can afford to delay taking benefits. If Social Security is a person’s only income, then waiting may not be an option. In that case, if the beneficiary begins taking early retirement benefits, at least they will be getting something rather than nothing. On the other hand, if they can afford to wait and waiting can fit into their retirement plan, then postponing filing for benefits can be the best option.

Social Security is designed so that no matter at what age a person begins taking benefits, by the time they die they will have received the same cumulative amount. Of course, this is based on averages, so one question that must be asked is:

“Would it be better to begin receiving benefits early with a smaller monthly amount or wait for a larger monthly check later that you may not receive as long?”
There is no generic answer to this question. The answer depends on a number of factors—Factors such as:

- The individual's current cash needs;
- Health and family longevity;
- Whether they plan to work in retirement;
- Whether they have other retirement income sources;
- Their anticipated future financial needs and obligations; and
- The amount of their future Social Security benefit.

When considering when to collect retirement benefits, one of the most important factors to take into account is how long you might live.

For instance, Beth begins taking her benefits at age 62, collecting $800 a month vs. Robbie taking his benefits at age 66 and collecting $1,200 a month. If they live to the same age, Beth will be receiving checks for four years longer than Robbie. But, given the design of how benefits should even out in the long run, just how long will it take for their cumulative totals to catch up with one another? And will they live long enough to reach that breakeven point? In the next chapter, we will analyze this breakeven point.

Life expectancy estimates vary from one source to another but, according to data compiled by the Social Security Administration, a male reaching age 65 today can expect to live, on average, until age 84 and a female turning age 65 today can expect to live, on average, until age 86. Other estimates state that the average lifespan of a female today averages four to five years longer than a male's.
At any rate, these figures are just averages. About one out of every four 65-year-olds today will live past age 90, and one out of ten will live past age 95. The U.S. Census Bureau reported that there were 53,364 centenarians in 2010, the majority being female (82.8%). Social Security benefits, which last as long as you live, provide valuable protection against outliving your savings and any other sources of income you might have.

The whole concept behind Social Security benefits is that if you live to the average life expectancy for someone your age, you will receive about the same amount in lifetime benefits no matter whether you choose to begin receiving benefits at age 62, full retirement age, age 70 or any age in between.
However, monthly benefit amounts can differ substantially based on a person’s retirement age. Basically, beneficiaries can get lower monthly payments over a longer period of time or higher monthly payments over a shorter period of time. The amount a beneficiary receives when they first begin taking benefits sets the base for the amount they will receive for the rest of their life, though they will receive annual cost of living adjustments and, depending on their work history, may receive higher benefits if they continue to work.

The following chart (Illustration 9.3) provides an example of how a monthly benefit amount can differ based on the age at which a person decides to begin receiving benefits. The example assumes a benefit of $1,000 at the full retirement age of 66.

**Benefit Calculations Before and After Full Retirement Age**

<table>
<thead>
<tr>
<th>Age You Choose to Start Receiving Benefits</th>
<th>Monthly Benefit Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>62</td>
<td>$750</td>
</tr>
<tr>
<td>63</td>
<td>$800</td>
</tr>
<tr>
<td>64</td>
<td>$866</td>
</tr>
<tr>
<td>65</td>
<td>$933</td>
</tr>
<tr>
<td><strong>66</strong></td>
<td><strong>$1,000</strong></td>
</tr>
<tr>
<td>67</td>
<td>$1,080</td>
</tr>
<tr>
<td>68</td>
<td>$1,160</td>
</tr>
<tr>
<td>69</td>
<td>$1,240</td>
</tr>
<tr>
<td>70</td>
<td>$1,320</td>
</tr>
</tbody>
</table>

**Example #1**

- **George, Age 62, PIA $1,000**

  Let’s say George’s full retirement age is 66 and he chooses to begin receiving benefits as early as possible. His monthly benefit will be reduced by 25 percent to $750 to account for the longer period of time he is receiving benefits.

This is generally a permanent reduction in a beneficiary’s monthly benefit. The only possibility of benefit increases at that point is through annual cost of living adjustments (COLAs).
If George chooses not to receive benefits until age 70, however, he would increase his monthly benefit amount to $1,320. This increase is from delayed retirement credits he gets for his decision to postpone receiving benefits past his full retirement age. The benefit amount at age 70 in this example is 32 percent more than what he would receive per month if he had chosen to begin receiving benefits at his full retirement age.

**Example #2**

- **Hilary, Age 61, PIA $2,500**

  Hilary currently earns $55,000 per year. She is trying to forecast when she should retire. If she quit working and were to file for Social Security benefits next year at age 62, she would receive an annual benefit of $22,500 (75 percent of $2,500 x 12 = $22,500). At age 66 with a PIA of $2,500, her annual benefit would be $30,000 ($2,500 x 12 = $30,000). However, if she were able to hold off for several more years until age 70, with a 2.8 percent COLA plus delayed retirement credits her annual benefits would climb to $39,600 ($3,300 per month). That is an increase of $9,600 per year. That is a big difference—close to $1,000 a month more.

<table>
<thead>
<tr>
<th>Hilary takes benefits at age</th>
<th>Monthly Benefit</th>
<th>Annual Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>62</td>
<td>$1,875</td>
<td>$22,500</td>
</tr>
<tr>
<td>66 (FRA)</td>
<td>$2,500</td>
<td>$30,000</td>
</tr>
<tr>
<td>70</td>
<td>$3,300</td>
<td>$39,600</td>
</tr>
</tbody>
</table>

The annual difference can add up quickly, especially when estimated lifespans are taken into consideration. If Hilary lives to be 95 years of age, claiming her benefits at age 70 could result in approximately $990,000 in cumulative Social Security benefits compared to the approximate $742,000 in benefits that she would have received if she had filed at age 62, COLAs excluded. Just eight years can make such a huge difference in the latter years of a person’s life.

But who is to say Hilary will live to age 95 though? If she has a family history of shorter than average lifespans, she may not live long enough to reap the rewards of the higher income. If that is the case, she may opt to begin taking benefits at a younger age. Then, again, she may not be able to work due to health issues or unemployment in the latter years of her life—another consideration for choosing earlier retirement benefits.
What if Hilary decides to continue to work and still take her retirement benefit? If she continues to work and decides to apply for benefits before she has reached her full retirement age and if her earnings exceed the allowed limits, some of her benefit payments during the year will be withheld.

This does not mean that if a person decides to continue working, they must try to limit their earnings. If some of their benefits are withheld, they will receive a higher monthly benefit amount when they reach their full retirement age. In other words, if they would like to work and earn more than the exempt amount, they should know that it would not, on average, reduce the total value of lifetime benefits they can receive from Social Security—and may actually increase them in the long run.

After reaching full retirement age, the working person’s benefit amount will be recalculated to give them credit for any months in which they did not receive some benefit because of their earnings. In addition as long as they continue to work and receive benefits, the Administration will check their work records annually to determine whether the additional earnings will increase their monthly benefit.

**Suspending Retirement Benefit Payments**

If a beneficiary has reached full retirement age, but not yet reached age 70, they can ask the Social Security Administration to suspend their retirement benefit payments.

If the beneficiary has applied for benefits and Social Security has not yet made a determination that they are entitled to benefits, the beneficiary can voluntarily “suspend” benefits for any month for which he or she has not received a payment.

If a beneficiary is already entitled to and is receiving benefits, he or she may voluntarily suspend current or future retirement benefit payments up to age 70 beginning the month after the month when the request was made. (Social Security benefits are paid the month after they are due so if you contact the Administration in June and request benefits to be suspended, you will still receive your June benefit payment in July.)

Before making the decision to suspend, there are certain things that need to be brought to the beneficiary’s attention for his or her consideration. For instance, Medicare Part B premiums must be deducted from Social Security benefits if the monthly benefit covers the deduction, and the affect on Supplemental Security Income benefits.

- If the beneficiary is enrolled in Medicare Part B, they will be billed by the Centers for Medicare & Medicaid Services for future Part B premiums.
Medicare premiums cannot be deducted from suspended retirement benefits. If the beneficiary does not pay the premiums timely, Part B coverage may be lost. (The exception would be if the beneficiary also receives benefits as a spouse or divorced spouse and the Part B premium is deducted from that benefit payment.)

- If the beneficiary also receives SSI benefits, suspending retirement benefits will make the beneficiary ineligible for SSI.

If a beneficiary chooses to suspend after benefits begin, then they will have the option of re-filing at a future point in time. If benefits are suspended until after FRA, the current benefit will grow by earning delayed retirement credits, plus any COLAs on the larger amount.

Effective April 30, 2016, the Social Security Administration will no longer permit suspension of retroactive benefits in situations where the beneficiary applies for benefits and the Administration has not yet made a determination regarding entitlement.

If the beneficiary voluntarily suspends retirement benefits and they have others who receive benefits on their record, those recipients will not be able to receive benefits for the same period that the benefits are suspended. There is one exception, however—divorced spouses will be able to continue receiving benefits.

If the beneficiary voluntarily suspends their retirement benefit, any benefits they receive on someone else’s record will also be suspended.

If the request for voluntary suspension is made on or after April 30, 2016, Social Security will only permit benefit reinstatement beginning with the month after the month of the request.

**IF YOU’VE ALREADY FILED, YOU CAN GET A “DO-OVER”**

Unexpected changes may occur after making a decision about when to start taking Social Security retirement benefits. If an individual, or married couple, feel that they may have made a mistake in filing for early benefits and are questioning their decision, there is a way to rectify the situation. Social Security provides the option of temporarily suspending their benefits to restart at a later date.

Perhaps at 62, the beneficiary lost their job and had no other means of income—the financial future looked bleak—so they applied for Social Security benefits. Shortly thereafter, however, they were able to get another job that put them right back on
their feet and now they wish they had found a way to make it through that tough time without having had to file for the reduced benefit.

If they had received Social Security benefits for less than one year, they can repay all of that income (without interest) and get a “do-over” as if they had never filed. Doing so will give them the option of re-applying at a future date. However, if they change their mind twelve months or more after becoming entitled to retirement benefits, they cannot withdraw the application.

**Note:** Beneficiaries are limited to one withdrawal per lifetime.

Before making the decision to withdraw an application for benefits, there are some things that need to be taken into consideration. First, the beneficiary must repay all the benefits they and their family had received based on the retirement application.

The repayment must include any:

- Benefits the spouse or children received based on the application, whether or not they are living with the beneficiary. (Anyone who received benefits based on the beneficiary’s application must also consent in writing to the withdrawal.)
- Money withheld from the benefit payment including:
  - Medicare Part B, Part C and Part D premiums;
  - voluntary tax withholding (VTW) of federal income taxes for all years, including the current year. (It is advisable to contact the Internal Revenue Service or a tax advisor regarding any tax implications); and
  - garnishments.

If the beneficiary is already entitled to Medicare, he or she may also choose to withdraw their Medicare coverage (though it is not necessary to do so). They have 60 days to cancel an approved withdrawal. After that, the beneficiary will lose any possible entitlement for the period covered by the original application.

**THE STRATEGY OF “FILE AND SUSPEND” REPEALED**

The method of file and suspend was a little-known, yet effective, strategy until it came to the attention of the Presidential Administration, which ultimately repealed the strategy through the Bipartisan Budget Act of 2015 (BBA). Under the President's budget proposal for fiscal year 2015, the administration called for changing the rules to eliminate “aggressive Social Security claiming strategies which allow upper-income beneficiaries to manipulate the timing of collection of Social Security benefits in order
to maximize delayed retirement credits.” However, the changes affect ALL eligible Social Security recipients, not just “upper-income beneficiaries.”

Section 831 of the BBA is titled “Closure of unintended loopholes.” The mindset of this provision is to close perceived loopholes in Social Security’s rules regarding filing a restricted claim for spousal benefits and suspending benefits “in order to prevent individuals from obtaining larger benefits than Congress intended.”

Through the utilization of this formerly little-known strategy, couples could generate additional income through filings made by the spouse while the retiree held off on claiming his/her own retirement benefits.

The method was never available to single beneficiaries, but could be utilized by couples as an effective way to generate more income. With the file and suspend method, one member of the couple would file for benefits and immediately request that Social Security “suspend” (not send) their checks. Here’s how it worked:

- The first spouse could apply for retirement benefits and have those payments suspended so that the second spouse could collect their share of the first spouse’s benefits in the form of spouses benefits. In order for one person (e.g., wife) to file spouses benefits, the spouse (e.g., husband) must have filed for benefits first. (If the worker did not receive benefits for months after reaching full retirement age, the delayed retirement credit increased the spouses benefit amount.) The file and suspend strategy worked extremely well when one spouse had a much lower lifetime earning’s record than the other.

Beneficiaries who turned age 62 on or before January 2, 2016, are grandfathered under the new laws—but in only one respect. When the eligible beneficiary reaches FRA, they can file a restricted application only for a spousal benefit. With this option, they are able to let their own retirement benefit grow through delayed retirement credits. Filing earlier than FRA will reduce benefits, trigger earnings test benefit reductions, and prevent the beneficiary from ever being able to receive their own maximum retirement benefit, however.

Under the new Social Security rules, only people who reach FRA on or before April 29, 2016 are able to file and suspend by that deadline date. And their spouses will only be able to file a restricted application for just their spousal benefits at FRA if they turned 62 by the beginning of 2016. For everyone else, the file and suspend strategy is no longer permitted.

And, as of April 30, 2016, a person who suspends his or her benefit at FRA may not receive any other benefits (such as a spousal benefit) to which they are entitled. In
addition, during suspension, no one else can claim a benefit based on that person’s earnings record except for a former spouse.

There are two other major changes made by the BBA: (1) Deeming and (2) retroactive benefits.

**Deeming Provision**

Under the new **deeming** rules, if a beneficiary files for benefits prior to reaching full retirement age, they are deemed to have filed for **all** benefits for which they are eligible—retirement and spouses benefits—and will be paid the higher of the two amounts.

The deemed filing rule applies to all reduced spouse’s benefits, including divorced spouse’s benefits. Exceptions include caring for a child—if you are between the age of 62 and FRA and have a child under age 16 in your care or a disabled adult child, as discussed previously.

**Retroactive Benefits Repealed**

Another change that was made through the BBA is the rule of **retroactive benefits**.

When a person reaches FRA, they have two options: (1) Take the FRA benefit or (2) suspend the benefit until age 70 and let it accrue. Let’s say you choose option #2. Then you find out at age 69 that you have a terminal disease and only have a few years left to live. Under the prior law, you could go to Social Security and ask them to pay you a lump sum check for the previous three years because of your terminal condition. However, the new law disallows retroactive benefits. Under the new law, those three years of suspended benefits are lost—unless you’ve been grandfathered.

**The Three Types of Benefits for Married Couples**

Depending upon certain qualifying circumstances, married couples are actually eligible for three different kinds of benefits. Most do not even realize this, or that these benefits can be intertwined to produce maximum income results.

(Disability benefits will not be considered at this juncture, but will be addressed later.)

1. **The Retired Workers Benefit** — The retired worker’s benefit is the benefit accrued over a person’s own working years.
2. **The Spouses Benefit** — The spouses benefit entitles a person to one-half of their spouse’s benefit while he or she is still alive. (If the spouse has not hit full retirement age, they are only eligible to receive a portion of those benefits, however).

3. **The Survivors Benefit** — The survivors benefit entitles the surviving spouse, once they reach full retirement age, to their deceased spouse’s full benefit. (Again, if the spouse has not hit full retirement age, they are only eligible to receive a portion of those benefits.)

Couples can increase their annual benefits by coordinating when and how they file for Social Security. In many cases, for example, it makes sense for the lower-earning spouse to file first, while the higher-income earner waits as long as possible—because the higher PIA will increase at a more rapid rate and to a higher amount.

**Breakeven Point**

Remember earlier when we talked about Beth and Robbie and the breakeven point? Now we are going to see how this actually works.

If a beneficiary begins taking their benefits at age 62, they will receive 48 more checks than the beneficiary who waits until age 66. Now, just how long will it take for their cumulative totals to catch up with one another?

**Example #1**

- **June, Age 66, PIA $2,000**
- **Lisa, Age 62, PIA $2,000**

June’s PIA is $2,000 and she has decided to take her reduced benefit of $1,500 at age 62. June’s best friend, Lisa, on the other hand, has the same PIA but has decided to wait until age 66 to collect her benefits so that she can collect the full retirement benefit amount. By the time Lisa files, June will have already collected $72,000.

So how long will it take Lisa to catch up with June monetarily? The difference between their two benefits when they first begin taking benefits is $500 a month. Divide 72,000 by 500 and you get 144. 144 months equals 12 years. It will take 12 years for Lisa to catch up.
By the time they reach the breakeven point, both women will be 78 years of age. But from then on, Lisa will pull ahead by collecting $500+ per month more than June. And these figures do not include COLAs. Of course, the larger check benefits more from the annual cost of living adjustments.

If we go along with the premise that the life expectancy for a 62-year-old female is 84.5 years, Lisa would collect 12.5 years worth of larger checks than June. $500 multiplied by 150 months equals $75,000. That is a huge difference in itself. However, by adding COLAs to each lady’s benefit payment, the cumulative difference could easily be twice that amount, and the breakeven point will be even lower.

**Example #2**

- **Ross, Matt, and Jennifer, each Age 62, each PIA $2,230**

Compare three friends, each the same age, all with the same PIA. Now we are going to add in the cost of living adjustment, so let’s assume the same 2.8 percent COLA. Life expectancy is at least 80 for all of them. Ross takes his benefits early, at age 62; Matt takes his at his full retirement age of 66; and Jennifer delays taking her benefits until age 70.

**Breakeven Point Examples**

<table>
<thead>
<tr>
<th>Benefit Taken at Age</th>
<th>First Benefit Payment</th>
<th>At Age 75</th>
<th>At Age 76</th>
<th>At Age 80</th>
<th>At Age 87</th>
<th>At Age 92</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ross</td>
<td>62</td>
<td>$1,672</td>
<td>$338,000</td>
<td>$494,000</td>
<td>$40,017</td>
<td>$970,000</td>
</tr>
<tr>
<td>Matt</td>
<td>66</td>
<td>$2,490</td>
<td>$339,000</td>
<td>$547,000</td>
<td>$53,362</td>
<td>$1,182,000</td>
</tr>
<tr>
<td>Jennifer</td>
<td>70</td>
<td>$3,672</td>
<td>$335,000</td>
<td>$558,000</td>
<td>$70,461</td>
<td>$1,396,000</td>
</tr>
</tbody>
</table>

Illustration 9.5

They will reach their breakeven point in their mid-70’s. By the time they reach age 80, Jennifer will have surpassed Ross by $64,000, and surpassed Matt by $11,000. By the time they are all age 87, Jennifer’s annual benefit will be nearly twice as much as Ross’ and over $17,000 more than Matt’s. If they each live to age 92, Jennifer’s lifetime income will be $426,000 more than Ross’ and $214,000 more than Matt’s. And, remember, she filed for her benefits last.
POINTS TO PONDER — CREATIVE STRATEGIES FOR MAXIMIZING BENEFITS

• Benefits delayed after reaching full retirement age increase by about eight percent per year, plus the rate of inflation (COLAs).

• If a beneficiary chooses to begin receiving benefits early, their monthly benefit will be reduced. This is generally a permanent reduction in a beneficiary’s monthly benefit.

• Medicare Part B premiums are deducted from Social Security benefits. If benefits are suspended, the beneficiary must pay Part B premiums out-of-pocket. If the beneficiary does not pay the premiums timely, he or she may lose their Part B coverage.

• If a beneficiary chooses to suspend after benefits began, they will have the option of re-filing at a future point in time.

• If a beneficiary has received Social Security benefits for less than one year, they can repay all of that income (without interest) and get a “do-over” as if they had never filed.

• In order for a spouse to receive spouses benefits, the other spouse MUST file on their own retirement record.

• The method of “file and suspend” does not apply to single individuals.

• The whole concept behind Social Security benefits is that if you live to the average life expectancy for someone your age, you will receive about the same amount in lifetime benefits no matter whether you choose to begin receiving benefits at age 62, full retirement age, age 70, or any age in between.
CHAPTER 9 REVIEW QUESTIONS — CREATIVE STRATEGIES FOR MAXIMIZING BENEFITS

Which of the following answers/completes each question/sentence the best?
(Answers are in the back of the text.)

1. If benefits are delayed past full retirement age, the benefits will increase by about _____ plus cost of living adjustments.
   a) 3%
   b) 5%
   c) 8%
   d) 10%

2. If the right to a Social Security “do-over” is exercised, the beneficiary:
   a) must repay all the benefits they and their family members had received based on the original application.
   b) can keep all the benefits previously received.
   c) must repay the benefits the beneficiary received, but not the benefits received by other family members.
   d) must repay the benefits received by other family members, but keep the benefits the beneficiary previously received.

3. “Do-over” beneficiaries are limited to _____ withdrawal(s) per lifetime.
   a) one
   b) two
   c) three
   d) four

4. When it comes to a “do-over,” if the recipient changes their mind ________ or more after becoming entitled to retirement benefits, they cannot withdraw the application.
   a) 30 days
   b) 6 months
   c) 9 months
   d) 12 months

5. The spouses benefit entitles one spouse to ________ of their spouse’s benefit while he or she is still alive.
   a) all + 50%
   b) all + 25%
   c) all
   d) one-half
Assuming an individual has worked and contributed to Social Security for 40 quarters, the earliest that individual can file for retirement benefits on his own account is the first full month of age 62. In other words, it is the first FULL month that one has turned age 62. So if you were born on March 4th, you would be eligible for benefits in April—and, since benefits are paid a month in arrears, you would receive your first benefit check in May. If you were born on March 24th, you would not be eligible for benefits until May, and you would receive your first benefit check in June.

Age and income are the two major factors that affect the individual worker’s benefit.

**Example #1**

- **Ralph, Age 62, PIA $2,000**

If Ralph files at age 62, his benefit will be $1,500 a month (75 percent of $2,000). Assuming an average lifespan of 80, his lifetime benefit would be $324,000, excluding COLAs.

If Ralph waits until reaching his full retirement age of 66, his benefit jumps to $2,000 a month (100 percent of his PIA), which provides him a lifetime benefit of $432,000, excluding COLAs. Just four years brings him approximately $100,000 more in lifetime benefits—much more when COLAs are added.

If Ralph waits until after reaching his full retirement age to claim benefits, delayed retirement credits kick in, yielding an additional eight percent per year, plus COLAs.

**Example #2**

- **Donna, Age 62, PIA $1,200**

  Donna is a 62-year-old single divorcee from her second marriage. She was married to her first husband for nine years, and to her second husband for seven years. Since neither of her marriages lasted the required ten years to qualify her for spouses benefits, she must file on her own record. She worked part time during her marriages, averaging $25,000 a year and now that her second marriage has ended, she finds herself in a quandary.
Can she continue to work part time and support herself? Does she now have to look for full time work? If she goes back to work full time, will she be able to increase her PIA? Should she take her retirement benefits early?

**Scenario #1**

Donna’s retirement benefit at age 62 would be $900 per month (75 percent of $1,200). So she decides not to file on her own account and goes back to work part time instead, earning $25,000 a year. In this case, her annual income will be $25,000. Her Social Security benefits remain untouched and continue to grow with DRCs and COLAs.

($25,000 earnings + $0 Social Security = $25,000)

- Donna continues to work at age 62 ($25,000 per year)
- She does not file for benefits

**Scenario #2**

Donna decides to continue working at age 62, earning $25,000 a year, but decides to take her retirement benefit early. Her reduced $900 per month benefit will be reduced even further because she will be subject to the earnings limit.

Donna will be earning $9,880 a year over the exempt amount ($25,000 - $15,120) and her benefits will be reduced to $4,940 ($1 for every $2 over the limit). Her cumulative annual income will then be $29,940.

($25,000 earnings + $4,940 Social Security = $29,940)

- Donna continues to work at age 62 ($25,000 per year)
- Files for benefits at age 62 ($4,940 per year)

**Scenario #3**

Donna decides to discontinue working altogether and take her early retirement benefit at age 62. She will earn just $10,800 for the first year, with COLAs being her only means of increasing that benefit.

($0 earnings + $10,800 Social Security = $10,800)

- Donna quits work
- Files for benefits at age 62 ($10,800 per year)
Scenario #4

Donna continues to work earning $25,000 annually, and delays taking her benefits until full retirement age—her cumulative income at 66 will be $14,400.

($25,000 earnings + $14,400 = $39,400)
  • Donna continues to work at age 62 ($25,000 per year)
  • Files for benefits at 66 ($14,400 per year)

Scenario #5

Or – Donna can work full time and earn even more money without filing for benefits. As long as she lets her benefits sit and accrue, she will be increasing her PIA with no earnings limit penalties. And as her PIA increases, so will her lifetime benefits once she does finally retire.

  • Donna works full time
  • Does not file for benefits letting benefits accrue

Scenario #6

If Donna continues to work part time earning the same $25,000 annually, and begins taking her benefits at age 70, her benefit will jump to $1,584, increasing her annual cumulative income to $44,008 at age 70.

($25,000 earnings + $19,008 Social Security = $44,008)
  • Donna continues to work at age 62 ($25,000 per year)
  • Files for benefits at age 70 ($19,008 per year)

Scenario #7

If Donna decides at age 70 to quit working altogether, her annual income will be $19,008. ($0 earnings + $19,008 Social Security = $19,008)

  • Donna quits working at age 70 and files for benefits ($19,008)

COLAs will also apply and compound over the time period. For example, if Ralph (from Example #1) waits from age 67 to age 68, and the COLA is at 2.8 percent, his benefit will grow at the rate of 10.8 percent (eight percent delayed retirement credit plus 2.8 percent COLA). You can see the difference between benefits taken at age 62 and benefits delayed until age 70—More than double the monthly and annual income.
The Social Security Administration considers two different ages when they compute benefits: (1) Retirement Age, and (2) Stop Work Age.

A beneficiary’s retirement age is the age at which they begin receiving Social Security retirement benefits. The stop work age is the age at which the beneficiary leaves the labor force and no longer works. The stop work age is the factor that affects the amount of a person’s Social Security retirement benefit.

**IF YOU STOP WORK BEFORE RETIREMENT AGE**

If you stop work before you have 35 years of earnings, Social Security will use a zero for each year without earnings when they do their calculations to determine the amount of retirement benefits you are due.

Even if you have 35 years of earnings, some of those years may be low earnings years. Those low earnings years will be averaged in creating a lower benefit than if you had continued to earn higher levels of income.

**IF YOU STOP WORK BETWEEN AGE 62 AND FULL RETIREMENT AGE**

The table below (Illustration. 10.2) demonstrates age 62 reduction amounts and includes examples based on an estimated monthly benefit of $1,000 at full retirement age.
age. You can see how much a benefit will be reduced for retiring between age 62 and full retirement age.

**Benefit Reductions Before and After FRA by Month**

<table>
<thead>
<tr>
<th>Year of birth</th>
<th>Normal (or full) retirement age</th>
<th>Number of reduction months</th>
<th>Amount (based on $1,000 PIA)</th>
<th>Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>1937 or earlier</td>
<td>65</td>
<td>36</td>
<td>$ 800</td>
<td>20 percent</td>
</tr>
<tr>
<td>1938</td>
<td>65 and 2 months</td>
<td>38</td>
<td>$ 791</td>
<td>20.83 percent</td>
</tr>
<tr>
<td>1939</td>
<td>65 and 4 months</td>
<td>40</td>
<td>$ 783</td>
<td>21.67 percent</td>
</tr>
<tr>
<td>1940</td>
<td>65 and 6 months</td>
<td>42</td>
<td>$ 775</td>
<td>22.50 percent</td>
</tr>
<tr>
<td>1941</td>
<td>65 and 8 months</td>
<td>44</td>
<td>$ 766</td>
<td>23.33 percent</td>
</tr>
<tr>
<td>1942</td>
<td>65 and 10 months</td>
<td>46</td>
<td>$ 758</td>
<td>24.17 percent</td>
</tr>
<tr>
<td>1943-1954</td>
<td>66</td>
<td>48</td>
<td>$ 750</td>
<td>25 percent</td>
</tr>
<tr>
<td>1955</td>
<td>66 and 2 months</td>
<td>50</td>
<td>$ 741</td>
<td>25.83 percent</td>
</tr>
<tr>
<td>1956</td>
<td>66 and 4 months</td>
<td>52</td>
<td>$ 733</td>
<td>26.67 percent</td>
</tr>
<tr>
<td>1957</td>
<td>66 and 6 months</td>
<td>54</td>
<td>$ 725</td>
<td>27.50 percent</td>
</tr>
<tr>
<td>1958</td>
<td>66 and 8 months</td>
<td>56</td>
<td>$ 716</td>
<td>28.33 percent</td>
</tr>
<tr>
<td>1959</td>
<td>66 and 10 months</td>
<td>58</td>
<td>$ 708</td>
<td>29.17 percent</td>
</tr>
<tr>
<td>1960 and later</td>
<td>67</td>
<td>60</td>
<td>$ 700</td>
<td>30 percent</td>
</tr>
</tbody>
</table>

Illustration 10.2\(^23\) – Percentages are approximate due to rounding

- If a beneficiary is born on January 1\(^{st}\), refer to the previous year.
- If a beneficiary was born on the 1\(^{st}\) of the month, Social Security will figure their benefit (and full retirement age) as if their birthday was in the previous month. If they were born on January 1\(^{st}\), Social Security will figure their benefit (and full retirement age) as if their birthday was in December of the previous year.
- Beneficiaries must be at least 62 years of age for the entire month to receive benefits.

As a general rule, early or late retirement will provide about the same total Social Security benefits over a beneficiary’s lifetime.

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\(^{23}\) SSA, Benefit Reduction for Early Retirement
If he or she retires early, the monthly benefit amounts will be smaller to take into account the longer period benefits will be received. If he or she retires late, they will get benefits for a shorter period of time but the monthly amounts will be larger to make up for the months when they did not receive anything.

As you have seen, there are advantages and disadvantages to taking benefits before reaching full retirement age. The advantage is that the beneficiary will collect benefits for a longer period of time. The disadvantage is the benefit is reduced. Each person’s situation is different, so the following factors should be taken into consideration.

- Remember that if benefits are delayed until after full retirement age, the account may be eligible for delayed retirement credits that would increase the beneficiary’s monthly benefit.
- Keep in mind that there are other things to consider when making the correct decision about retirement benefits.

**IF YOU STOP WORK AFTER FULL RETIREMENT AGE**

If a beneficiary decides to continue working beyond full retirement age, their Social Security benefit can increase in two ways.

- Each additional year worked adds another year of earnings to a beneficiary’s Social Security record. Higher lifetime earnings may result in higher benefits when they retire and begin collecting payments.
- In addition, the benefit will be increased by a certain percentage if they delay retirement. Delayed retirement credits will be added in automatically from the time the beneficiary reaches full retirement age until they begin receiving benefits or until they reach age 70, whichever comes first.

Delaying taking Social Security retirement benefits also increases the benefit to a surviving spouse. Upon the death of a spouse, the surviving spouse will receive their then-current benefit or the deceased spouse’s then-current benefit, whichever is larger. The Social Security Administration will always pay the larger benefit.

In summary, there is no one “best age” for everyone regarding when to claim benefits—ultimately, it is the beneficiary’s choice.
POINTS TO PONDER — MAXIMIZING THE WORKERS BENEFIT

• If a beneficiary stops working before they have 35 years of earnings, Social Security will use a zero for each year without earnings when they do their calculations to determine the amount of retirement benefits the beneficiary is due.

• As a general rule, early or late retirement will provide about the same total Social Security benefits over a beneficiary’s lifetime.

• Delaying taking Social Security retirement benefits also increases the benefit to a surviving spouse. Upon the death of a spouse, the surviving spouse will receive their then-current benefit or the deceased spouse’s then-current benefit, whichever is larger.

• Higher lifetime earnings may result in higher benefits when a beneficiary retires and begins collecting payments.

• A beneficiary’s retirement age is the age at which they begin receiving Social Security retirement benefits. The stop work age is the age at which the beneficiary leaves the labor force and no longer works. The stop work age is the factor that affects the amount of a person’s Social Security retirement benefit.

• The earliest that individual can file for retirement benefits on his own account is the first full month that person is age 62.
CHAPTER 10 REVIEW QUESTIONS — MAXIMIZING THE WORKERS BENEFIT

Which of the following answers/completes each question/sentence the best?
(Answers are in the back of the text.)

1. If you stop work before acquiring 35 years of earnings, Social Security will use _________ for each year without earnings when your retirement benefits are calculated.
   a) a zero
   b) figures from your first year of earnings
   c) figures from your last year of earnings
   d) your average earnings listed

2. Early or late retirement will provide _________ total Social Security benefits over a beneficiary’s lifetime.
   a) 50% less
   b) less overall
   c) more
   d) about the same

3. Higher lifetime earnings result in _________ benefits when a beneficiary retires.
   a) lower
   b) higher
   c) no change in
   d) delay when receiving

4. A beneficiary’s _________ age affects the amount of a person’s Social Security retirement benefit.
   a) retirement
   b) survivors
   c) spouse’s
   d) stop work

5. If Rachel turns age 62 on March 4th and applies for her retirement benefits, when will she receive her first check?
   a) February
   b) March
   c) April
   d) May
The Baby Boomer generation is the first generation in which a woman’s role in the workplace has changed so dramatically, bringing about more two-career marriages than ever before. More women than ever are now reaching their retirement years with Social Security benefits that are equal to or even higher than those of their husbands.

Now it is no longer a, “I’ll claim my benefits and you claim yours” mentality when it comes to retirement benefits. It is more important now than ever before that Social Security benefits be coordinated to work together to generate the highest income for couples.

Couples can now choose to file for their own benefits on their own Social Security retirement accounts, or they can choose to file for their spouses benefits on each other’s accounts. But here’s the key—In order to receive the most “bang for your buck” you have to wait until you reach your full retirement age to be able to make that choice.

If a beneficiary files before reaching full retirement age, they do not get to decide which benefit they want to receive. If they file before reaching full retirement age, Social Security will make that choice for them. The good news is that the Administration will give the beneficiary the one that initially pays the higher amount. The bad news is that the beneficiary has no choice in the matter, and they do not have the option of changing their mind later on down the road.

But if a couple can wait and be patient, they can substantially increase their cumulative income.
THE NON-WORKING SPOUSE

Even if one spouse has never worked, that spouse is still eligible to collect spousal benefits as a result of their spouse’s earned income.

**Example**

- **Phillip, Age 66, PIA $2,000**
- **Joan, Age 62, $0 PIA**

Joan, age 62, has never worked outside the home, instead concentrating on raising the children and running the household. Joan’s husband, Phillip, remained the breadwinner throughout those years. Phillip is now 66 years of age and has decided to retire. His monthly benefit at age 66 is $2,000. They know that if he waits to begin receiving benefits his monthly benefit will increase, but they feel they need extra income now.

Phillip can apply for his $2,000 monthly benefit now and then suspend his benefit. That way, Joan can apply for her spouse’s benefit. Since Joan has not reached full retirement age yet, her spouse’s benefit will not be 50 percent of Phillip’s benefit. Since she is 62, she would be eligible for only 35 percent of Phillip’s PIA, or $700.

The benefit amount depends upon the applicant’s age when applying, no matter whose earnings record it is based on. So even if Phillip was 80, if Joan is still under her FRA, she will only be eligible for a discounted portion of Phillip’s PIA.

If an individual chooses to begin receiving spousal benefits before reaching full retirement age, the benefit amount will be permanently reduced. If Joan waits until she reaches her full retirement age to begin taking spousal benefits, she will be entitled to the maximum benefit, which is up to half of the amount Phillip is entitled to receive at full retirement age—in this case, $1,000 per month.

**BENEFITS FOR DEPENDENT CHILDREN**

Not only the non-working spouse but also the couple’s children have protection through the employed spouse’s work as well. If there is a child under the age of 18, or under the age of 19 who is still in secondary school or if the child was disabled before age 22, they, too, are protected through the worker’s retirement account. If the non-working spouse is caring for a child who is younger than age 16 or who is disabled and entitled to benefits, the non-working spouse could receive benefits no matter what their age.
Children who qualify under this provision through Social Security do not have to be the biological child of the worker. Qualified children may include a natural legitimate child, a legally adopted child, a dependent stepchild, and a grandchild.

A biological child born outside of marriage may also qualify for Social Security benefits on a parent’s record. To receive benefits, the child must have:

- A parent who is disabled or retired and entitled to Social Security benefits; or
- A parent who has died after having earned enough qualifying Social Security credits.

The child also must be:

- Unmarried;
- Under the age of 18;
- A full-time student, 18 to 19 years of age (no higher than grade 12); or
- Disabled, age 18 or older (the disability must have started before age 22).

**Benefits for Dependent Grandchildren**

A dependent grandchild or step-grandchild may receive benefits on the record of a grandparent, if the following requirements are met.

- The grandchild’s natural or adoptive parents are deceased or disabled:
  - at the time the grandparent became entitled to retirement or disability insurance benefits or died; or
  - at the beginning of the grandparent’s period of disability, which continued until he or she became entitled to disability or retirement insurance benefits or died;

- The grandchild was legally adopted by the grandparent’s surviving spouse in an adoption decreed by a court of competent jurisdiction within the United States;

- The grandchild’s natural or adopting parent or stepparent must not have been living in the same household and making regular contributions to the child’s support at the time the grandparent died; or
• The grandchild must have lived with the grandparent in the United States before reaching age 18 and have received at least one-half support from the grandparent for the year before the month the grandparent began receiving retirement or disability benefits or died.
POINTS TO PONDER — MAXIMIZING COUPLES’ BENEFITS

• Even if one spouse has never worked, that spouse is still eligible to collect benefits as a result of their spouse’s earned income.

• If a spouse chooses to begin receiving spouses benefits before reaching full retirement age, the benefit amount will be permanently reduced.

• A biological child born outside of marriage can qualify for benefits on a parent’s record if the child is unmarried, under the age of 18, a full-time student 18-19 years of age (no higher than grade 12), or disabled at age 18 or older (if the disability began before age 22).

• Individual benefit amounts depend upon the applicant’s age when applying, no matter whose earnings record it is based on.

• If a non-working spouse is caring for a child who is younger than age 16 or who is disabled and entitled to benefits, the non-working spouse could receive benefits no matter what their age.
CHAPTER 11 REVIEW QUESTIONS — MAXIMIZING THE COUPLES’ BENEFITS

Which of the following answers/completes each question/sentence the best?
(Answers are in the back of the text.)

1. In order for a biological child born outside of marriage to qualify for Social Security benefits on the parent’s record, the child must be:
   a) married.
   b) unmarried.
   c) under the age of 15.
   d) over the age of 21.

2. Generally speaking, a non-working spouse:
   a) cannot collect spouses benefits.
   b) can still collect spouses benefits.
   c) must wait until reaching their own full retirement age to apply for spouses benefits.
   d) can start collecting spouses benefits at age 70.

3. What happens if a non-working spouse chooses to begin receiving spouses benefits before reaching full retirement age?
   a) They will not be eligible. They must wait until they reach their full retirement age.
   b) Their benefits will be permanently reduced.
   c) As long as the working spouse has reached their full retirement age, the non-working spouse is entitled to receive 50% of the working spouse’s primary insurance amount.
   d) Their benefits will be reduced until they reach their full retirement age.

4. A person’s spousal benefit amount depends upon:
   a) the age of the person upon whose record they are applying.
   b) how much they have contributed through their working years.
   c) the applicant’s age at the time of application.
   d) the day of the month in their birth year.

5. Carol is a 50-year-old non-working spouse who is caring for a 15-year-old disabled child. Is Carol entitled to benefits?
   a) Yes – Carol is entitled to benefits, no matter what her age.
   b) No – Carol is not entitled to benefits because she has not reached age 60.
   c) No – Carol is not entitled to benefits because she has not reached her full retirement age.
   d) Yes – Only if Carol’s husband has filed for benefits.
Today the world is a much different place than what it was when the Social Security program was first implemented. During the 1950’s and 60’s, it was typically customary for the wife to stay at home tending to the family and household needs. It was common for wives to have less, if no, income while the husband was the primary breadwinner. The baby boomer generation changed that. Women have become increasingly equal to men in the workplace—and many women are earning even more than their counterparts.

It is a statistical fact that, overall, women outlive men. In some studies it has been estimated that a healthy and active 65-year-old woman today has a 65 percent chance of living to age 90 and a 28 percent chance of living to age 95. Her counterpart’s lifespan, on the other hand, can average four to five years less.

Social Security spouses benefits are designed to provide significant benefits for the lower-earnings spouse, gender excluded. (For clarity purposes in the illustrations and examples that follow, we will refer to spouses as husbands and wives or by gender-specific names.)

Under most circumstances in order to qualify for spouses benefits, the spouse must be at least 62 years of age and the couple must have been married at least one year.

If a spouse begins collecting spouses benefits once they have reached their full retirement age, that spouse is eligible to receive one-half (50 percent) of the retired worker’s full benefit. If the spouse begins collecting benefits before full retirement age, the amount of the spouse’s benefit is reduced by a certain percentage based on the number of months before he or she reaches their full retirement age.

Based on the full retirement age of 66, if a spouse begins collecting benefits:

- At age 62, the benefit amount would be 35 percent of the retired worker’s full benefit;
- At age 63, it would be 37.5 percent;
- At age 64, it would be 42 percent;
• At age 65, it would be 46 percent; and
• At age 66, the benefit amount would be 50 percent of the retired worker’s full benefit.

**EARLY BENEFIT REDUCTIONS BY PERCENTAGE**

<table>
<thead>
<tr>
<th>Spouse Taking Benefits at Age:</th>
<th>Benefit Amount:</th>
</tr>
</thead>
<tbody>
<tr>
<td>62</td>
<td>35.0%</td>
</tr>
<tr>
<td>63</td>
<td>37.5%</td>
</tr>
<tr>
<td>64</td>
<td>42.0%</td>
</tr>
<tr>
<td>65</td>
<td>46.0%</td>
</tr>
<tr>
<td>66</td>
<td>50.0%</td>
</tr>
</tbody>
</table>

Illustration 12.1

However, if a spouse is taking care of a child who is either under age 16 or disabled and who receives Social Security benefits, the spouse will get full benefits regardless of the spouse’s age.

If a beneficiary is eligible for both their own retirement benefit and the benefits as a spouse, Social Security will always pay the benefits based on that person’s own record first. If the benefit as a spouse is higher than their own retirement benefit, they will receive a combination of benefits equaling the higher spouse’s benefits.

As you know, one spouse cannot file for spouses benefits until the other spouse has filed for their own benefits. For instance, Charlie and Ann are married and Ann wants to file for spouses benefits. Charlie MUST file for his benefits first—then, and only then, can Ann file for spouses benefits.

If Ann had already claimed her own retirement benefit, however, she would not be eligible for spouses benefits if her own PIA is greater than 50 percent of Charlie’s PIA. A spouse cannot claim spouses benefits if they have already claimed their own retirement benefit and their own PIA is greater than 50 percent of their spouse’s PIA.

What’s more, only one spouse can claim spouses benefits. The husband can claim spouses benefits on his wife’s Social Security account, OR the wife can claim spouses benefits on her husband’s Social Security account.
Spouses benefits are always predicated on the PIA of the higher-earning spouse.

Social Security issues only one check, but the spouses benefit actually consists of two parts. The Administration provides that the lower-earning spouse can receive benefits that are based on their own record, but a dollar amount would be added to bring their monthly benefit check up to the same level of what their spouses benefit is.

Only those individuals who were born on or before January 1, 1954, are currently married, or are divorced and eligible for a benefit on a former spouse’s record, can employ this strategy. Once the beneficiary reaches full retirement age, they file a restricted application for spouses benefits, and leave their own retirement benefit to grow. At age 70, they switch to their own higher benefit.

Individuals born on or after January 2, 1954 are not eligible to file a restricted application for the purpose of claiming spouses or ex-spouses benefits. Widow(er)s, however, may continue to use a restricted application at any claiming age.

For those who are eligible, filing a restricted application to ensure receipt of the spouses benefit and to ensure that the claimant’s own benefit accrues delayed retirement credits is absolutely necessary. The Social Security Administration Operations Manual System (POMS) states that a claimant may restrict the scope of the application for any reason unless the deemed filing rule applies.

As you will recall, the deemed filing rule states that an application for retirement or spouses benefits will be deemed to be an application for both if the claimant files prior to full retirement age. However, the rule does not apply if the claimant is filing at full retirement age. The POMS rules also state that any claim will be considered a claim for all benefits to which a claimant is eligible unless it is specifically limited by the claimant.
**EARLY BENEFIT REDUCTION EXAMPLES**

<table>
<thead>
<tr>
<th>Example #1</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Charlie</strong></td>
<td><strong>Ann</strong></td>
</tr>
<tr>
<td>Takes Benefits at Age</td>
<td>Takes Benefits at Age</td>
</tr>
<tr>
<td>62</td>
<td>62</td>
</tr>
<tr>
<td>66</td>
<td>66</td>
</tr>
<tr>
<td>62</td>
<td>66</td>
</tr>
</tbody>
</table>

Illustration 12.2

*We did not add in COLAs in this illustration to make the concept easier to understand.*

Let’s take a look at Charlie and Ann to illustrate.

If Charlie has filed for benefits and Ann is under age 66 (FRA), she cannot file for only one type of benefit. If she files for benefits on her own record, Social Security deems her to be filing for both (exercising the deeming provision). She must reach her full retirement age to be able to make that choice.

However, if Charlie does not file for his benefit early, Ann cannot file for her spouses benefit. If Charlie waits until age 66 (FRA) to file for his full PIA of $2,000 and Ann wants to file at an earlier point, she can apply for her own worker benefit of $600, but not a spouses benefit. The spouses benefit does not become available until after one of the spouses files on their own record.

**Scenario #1:**

Ann could apply for her own benefit at age 62 and receive 75 percent of her PIA ($450). Once Charlie files for his worker benefit at 66, she would receive an additional $400 (spouses benefit). At that point she would be receiving $850 (in one check). You can see that Ann’s benefit will not increase to one-half of Charlie’s benefit ($1,000). By starting her worker benefit early, she locked herself into a permanent reduction on her benefits.

The spouses benefit is added on later in this example. Of course, if Ann took the spouses benefit at any age prior to age 66, then it would be subject to a different actuarial reduction.
Scenario #2:

If Charlie filed for his benefit at age 65 and Ann decided to start her spouses benefit at age 65 as well, the $400 potential spouses benefit would be permanently reduced to $366 because Ann started twelve months early.

If a beneficiary is under full retirement age and is still working while receiving benefits, the retirement earnings test will apply. If the beneficiary is receiving a pension for work not covered by Social Security, such as government work, the amount of their Social Security benefits on the spouse’s record may be reduced.

Benefits paid to a spouse will not decrease the spouse’s retirement benefit. In fact, the value of the benefits received, added to their own benefits, may help them decide if taking benefits sooner may be more advantageous.

Spouse’s Children

If a spouse’s child also qualifies for benefits, the family maximum benefit applies. The total depends on the spouse’s benefit amount and the number of family members who also qualify on the same record. The total varies, but generally the total amount is about 150 to 180 percent of the worker’s full retirement benefit.

If there is an ex-spouse who also qualifies for benefits, he or she will not affect the total amount of benefits paid to either the worker or the worker’s family.
• At age 66, the spouses benefit amount would be 50 percent of the retired worker’s full benefit.

• Under most circumstances, in order to qualify for spouses benefits, the spouse must be at least 62 years of age and the couple must have been married at least one year.

• If the spouse begins collecting benefits before full retirement age, the amount of the spouse’s benefit is reduced by a certain percentage based on the number of months before he or she reaches their full retirement age.

• Social Security will issue only one benefit check. If a beneficiary is eligible for two benefits (i.e., disability and spouses benefit), the Administration will issue the one check that yields the highest benefit.

• If a beneficiary is eligible for both their own retirement benefit and the benefits as a spouse, Social Security will always pay the benefits based on that person’s own record first.

• If the benefit as a spouse is higher than the individual’s own retirement benefit, they will receive a combination of benefits equaling the higher spouse’s benefit.

• A spouse cannot claim spouses benefits if they have already claimed their own retirement benefit and their own PIA is greater than 50 percent of their spouse’s PIA.

• Spouses benefits are always predicated on the PIA of the higher-earning spouse.
CHAPTER 12 REVIEW QUESTIONS — SPOUSES BENEFITS

Which of the following answers/completes each question/sentence the best?
(Answers are in the back of the text.)

1. A spouse at full retirement age is eligible for up to ______ of the other spouse’s PIA in the form of spouses benefits.
   a) 10%
   b) 33%
   c) 50%
   d) 100%

2. In order to qualify for spouses benefits, the spouse must be:
   a) at least 55 years of age.
   b) at least 62 years of age.
   c) over age 66.
   d) age 70.

3. If a spouse begins collecting benefits before full retirement age, their benefit is reduced by a certain percentage based on:
   a) the number of months before full retirement age.
   b) the benefit amount the first spouse has already taken.
   c) the number of years before full retirement age.
   d) their age.

4. If the benefit as a spouse is higher than the individual’s own retirement benefit, what will occur when the individual files?
   a) They will receive a combination of benefits equaling the higher spouse’s benefits.
   b) They will receive their own retirement benefit.
   c) They will receive their spouse’s retirement benefit.
   d) SSA will call them to ask which benefit they want.

5. Spouses benefits are always predicated on:
   a) the PIA of the lower-earning spouse.
   b) a combination of each spouse’s benefit amount.
   c) whichever benefit the individual chooses.
   d) the PIA of the higher-earning spouse.
Many people do not even realize that they can file spouses benefits if they are divorced. Once divorced, individuals have a tendency to think only of their own retirement benefit and forget, or don’t even know, about this other option.

A joint study conducted for AARP and the Financial Planning Association found that only 26 percent of married or previously married consumers could correctly identify the rules regarding divorce and Social Security benefits.

Many of the rules are the same for ex-spouses as they are for current spouses. However, the higher-earner does not have to file in order for the ex-spouse to file. And, the higher-earner does not even need to know that the ex-spouse has filed.

There can even be multiple ex-spouses claiming on the same Social Security account—it is not limited to just one.

**Requirements and Benefits**

An ex-spouse can receive benefits based on the former spouse’s record (even if they have remarried) if:

- Their original marriage lasted ten years or longer;
- They have been divorced for more than two years;
- The ex-spouse claiming the benefits is unmarried;
- Both ex-spouses are age 62 or older;
- The benefit that the ex-spouse is entitled to receive based on his or her own account is less than the benefit he or she would receive based on the former spouse’s account; and
- They are entitled to Social Security retirement or disability benefits.

Benefits as a divorced spouse are equal to one-half of the ex-spouse’s full retirement amount (or disability benefit) IF the divorced spouse starts receiving benefits at full retirement age.
Benefits do not include any delayed retirement credits the ex-spouse may have accrued.

If the divorced spouse remarries, benefits will typically end—unless the latter marriage ended as well, either by death, divorce, or annulment.

If the divorced spouse is eligible for both retirement benefits on their own record and spouse’s benefits, Social Security will pay the retirement benefit first. If the benefit on the ex-spouse’s record is higher, the divorced spouse will get an additional amount so that the combination of benefits equals the higher amount.

Let’s look at the case of Tim and Joan, whose marriage ended after 13 years. Both remarried after a few years, but Joan’s second marriage ended in divorce after just five years.

Joan was born in 1949 (as was Tim) so she has reached her full retirement age at this point. Because of this, she can choose to receive only the divorced spouse’s benefit so that she can delay receiving her own retirement benefit until a later date. If she had been born January 2, 1954 or later, the option to take only one benefit at full retirement age would no longer exist. If that were the case when she files for one benefit, she would effectively be filing for all retirement or spousal benefits that she is entitled to—and Social Security would pay her the higher amount.

Also, if Joan’s birthday was after that date (January 2, 1954) and she was still working, the benefit earnings limit would apply.

If a divorced spouse is receiving a pension based on work not covered by Social Security, the benefit on the ex-spouse’s record may be affected.

Also, the amount of benefit Joan receives has no effect on the amount of benefits Tim or his current spouse may receive.

If Joan’s second marriage had not ended, she would not be eligible for divorced spouse’s benefits on Tim’s record—and if Joan’s marriage to Tim had only lasted nine years, she would also be ineligible.

Now let’s say that Tim had passed away by the time Joan decides she wants to file for divorced spouses benefits. She can still receive benefits as a surviving divorced spouse—and the benefits she receives will not affect the benefit rates for other survivors who are getting benefits on Tim’s record. (More on this subject in the chapter on survivors benefits.)
POINTS TO PONDER — DIVORCED SPOUSES BENEFITS

• Divorced spouses have basically the same rights as married spouses to a spouses benefit.

• Unlike a married spouse, a divorced spouse becomes entitled to a spouses benefit as soon as the former spouse reaches eligibility age, regardless of whether the former spouse has filed for benefits or not.

• A divorced spouse can file a restricted application for a spouses benefit only once they have reached full retirement age. The former spouse only needs to have turned age 62 (for a full month).

• An ex-spouse can receive benefits based on the former spouse’s record (even if they have remarried) if:
  o Their marriage lasted ten years or longer;
  o They have been divorced for more than two years;
  o The ex-spouse claiming the benefits is unmarried;
  o Both ex-spouses are age 62 or older;
  o The benefit that the ex-spouse is entitled to receive based on his or her own work is less than the benefit he or she would receive based on the former spouse’s work; and
  o They are entitled to Social Security retirement or disability benefits.

• The benefit paid to a divorced spouse (or a surviving divorced spouse) will not affect the benefit amount paid to other family members who receive benefits on the same record.

• There can be multiple ex-spouses claiming on the same Social Security account.
CHAPTER 13 REVIEW QUESTIONS — DIVORCED SPOUSES BENEFITS

Which of the following answers/completes each question/sentence the best?
(Answers are in the back of the text.)

1. A divorced spouse can receive benefits based on the former spouse’s record (even if they have remarried) if:
   a) their marriage lasted at least five years.
   b) their marriage lasted ten years or longer.
   c) they had no children during the marriage.
   d) they had at least one child during the marriage.

2. In order for a 62-year-old divorced spouse to file for spouses benefits on the former spouse’s record, the ex-spouse must:
   a) have filed.
   b) have reached full retirement age.
   c) have reached age 62.
   d) not have remarried.

3. The benefit paid to a divorced spouse will _________ the benefit amount paid to other family members who receive benefits on the same record.
   a) not affect
   b) determine
   c) decrease
   d) increase

4. How many ex-spouses can be eligible for spouses benefits?
   a) All ex-spouses.
   b) Only the first ex-spouse.
   c) Only one ex-spouse at a time.
   d) An ex-spouse is ineligible if their ex-spouse has remarried.
MAXIMIZING SURVIVORS BENEFITS

In 2015, 6.1 million individuals received survivors benefits for a total of $6.7 billion. Survivors of deceased workers account for ten percent of total Social Security benefits paid.

According to the Social Security Administration, about 96 percent of persons aged 20-49 who worked in covered employment in 2013 have survivors insurance protection for their young children and the surviving spouse caring for the children. In fact, 98 of every 100 children could get benefits if a working parent dies. Social Security pays more benefits to children than any other federal program.

- Hard to believe, but about one in eight of today’s 20-year-olds will die before reaching age 67.

Nobody likes to think about it, but death is a fact of life. Everyone knows this, but few plan for it. Even though statistics show that women outlive men by an average of four to five years, few women are prepared to handle the circumstances in which they may be thrust. Whether the husband or the wife passes first, the one left behind is the one who must deal with everything, from coping with the loss of a loved one to the everyday chores of paying the bills and buying food. Wouldn’t you feel better knowing that if you were no longer living, Social Security would help take care of those you’ve left behind?

When a person works and pays into Social Security, a portion of their Social Security taxes goes toward Survivors Insurance. In fact, the value of survivors benefits under Social Security can be more valuable than a person’s current life insurance. Life insurance has a finite number—Social Security survivors benefits do not.

When a beneficiary dies, family members could be eligible for benefits based on the deceased’s earnings. If the beneficiary’s spouse or parent dies, the beneficiary and the beneficiary’s immediate surviving family members could be eligible to receive benefits based on the deceased’s earnings. If a beneficiary is married and both spouses are wage earners, survivors benefits should be considered from both perspectives.
Just as a husband plans for his family’s protection if he dies, he should consider the Social Security benefits that may be available if he were the survivor, predeceasing his wife. Either way, the deceased spouse must have worked long enough under Social Security to qualify for benefits by earning enough credits.

Survivor benefits are based on the deceased’s earnings record. The number of credits needed to provide benefits for survivors depends on the worker’s age when he or she dies. The younger a person is, the fewer credits he or she must have for family members to receive survivors benefits. But no one needs more than 40 credits (ten years of covered work) to be eligible for any Social Security benefit.

However, benefits can be paid to the worker’s children and the surviving spouse who is caring for the children even if the worker does not have the required number of credits. Survivors can get benefits if the worker has credit for one and one-half years of work (six credits) in the three-year period just before his or her death.

There are many options to explore when it comes to survivors benefits. Most people’s knee-jerk reaction is to file as soon as possible. But those benefits aren’t going anywhere; there is no time limit on when to collect, so the options should be carefully weighed. It might be advantageous over the long haul to delay taking benefits, especially if there are other assets to draw from. First, let’s look at the qualifications for survivors benefits.

In order to qualify for survivors benefits as a surviving spouse:

- The deceased spouse must have been fully insured at the time of death;
- The surviving spouse must be at least age 60 (or disabled at age 50 or older);
- The marriage must have lasted at least nine months (exceptions to this limit are in cases where the death was caused by an accident); and
- The surviving spouse must not have remarried unless they did so at age 60 or older.

If the above criteria are met and the surviving spouse has not already begun taking benefits, they can apply for survivors benefits on the deceased’s earnings record.

With the survivors benefit, the survivor can elect to receive benefits as early as age 60. Unlike retirement benefits, the survivor does not have to be the qualifying age for the full month either. There are no spouses benefits available to a widow or widower, of course—once the spouse is deceased, any benefits would be in the form of survivors benefits. However, whereas spouses benefits pay 50 percent of the beneficiary’s benefit at the beneficiary’s full retirement age, the spouse’s survivor
benefit is 100 percent of the deceased spouse’s PIA. Just like other benefits, survivors benefits are permanently reduced if started prior to full retirement age. These are examples of the benefits that survivors may receive:

- Widow or widower, full retirement age or older — 100 percent of the deceased worker’s benefit amount;
- Widow or widower, age 60 to full retirement age — 71.5 to 99 percent of the deceased worker’s basic amount;
- Disabled widow or widower aged 50 through 59 — 71.5 percent;
- Widow or widower, any age, caring for a child under age 16 — 75 percent;
- A child under age 18 (19 if still in elementary or secondary school) or disabled — 75 percent;
- Dependent parent(s) of the deceased worker, age 62 or older:
  - one surviving parent — 82.5 percent,
  - two surviving parents — 75 percent to each parent.

**Percentile of Survivors Benefits**

<table>
<thead>
<tr>
<th>SURVIVOR</th>
<th>AGE</th>
<th>DECEASED’S BENEFIT AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Divorced Spouse</td>
<td>FRA or older</td>
<td>100 percent</td>
</tr>
<tr>
<td></td>
<td>60 to FRA</td>
<td>71.5 – 99 percent</td>
</tr>
<tr>
<td></td>
<td>Any age caring for a child under 16</td>
<td>75 percent</td>
</tr>
<tr>
<td>Disabled Spouse</td>
<td>50 – 59</td>
<td>71.5 percent</td>
</tr>
<tr>
<td>Child</td>
<td>Under 18</td>
<td>75 percent</td>
</tr>
<tr>
<td></td>
<td>19 if still in school</td>
<td>75 percent</td>
</tr>
<tr>
<td></td>
<td>19 if disabled</td>
<td>75 percent</td>
</tr>
<tr>
<td>One Dependent Parent</td>
<td>62 or older</td>
<td>82.5 percent</td>
</tr>
<tr>
<td>Two Dependent Parents</td>
<td>62 or older</td>
<td>75 percent each parent</td>
</tr>
</tbody>
</table>

Percentages for a surviving divorced widow or widower would be the same as in the table above (*Illustration 14.1*).
**SURVIVING SPOUSES BENEFITS**

If the divorced spouse of a worker dies, the divorced spouse can get benefits just the same as the current widow or widower, provided that the marriage lasted ten years or more. Surviving spouses benefits are not limited to only one spouse.

Qualifying surviving spouses are entitled to:

- Receive full benefits at full retirement age for or reduced benefits as early as age 60; or
- Begin receiving benefits as early as age 50 if disabled AND the disability started before or within seven years of the deceased beneficiary’s death.

A widow or widower (or surviving divorced spouse) cannot apply online for survivors benefits. Application must be performed in person at a local Social Security office.

If a surviving spouse remarries after the age of 60 (or 50 if disabled), the remarriage will not affect their eligibility for survivors benefits.

As a general rule, just like all other types of benefits, survivors benefits based on age will generate about the same total Social Security benefits over a lifetime, whether they start early or at full survivors retirement age. As with Social Security retirement benefits, if monthly benefits begin before full retirement age, the amount is smaller to take into account for the longer period the person receives benefits.

Surviving spouses benefits based on age can start any time between age 60 and full retirement age as a survivor. If the benefits start at an earlier age, they are reduced a fraction of a percent for each month before full retirement age.

If a person receives surviving spouses benefits and will qualify for a retirement benefit that is more than their survivors benefit, he or she can switch to their own retirement benefit as early as age 62 or as late as age 70. The maximum survivors benefit is limited to what the deceased would have received if they were still alive.

As in all Social Security payout scenarios, the earlier benefits are taken, the lesser those benefits will be. It all depends on whether the deceased took early retirement or not and the surviving spouse’s full retirement age.

The illustration below *(Illustration 14.2)* lists full retirement ages for survivors based on year of birth. It includes examples of the age 62 survivors benefit based on an estimated PIA of $1,000 at full retirement age.
## Survivors Benefits Based on Year of Birth

<table>
<thead>
<tr>
<th>Year of Birth</th>
<th>Full Survivors Retirement Age</th>
<th>At age 62 a $1,000 survivors benefit would be reduced to:</th>
<th>Months between age 60 and full retirement age</th>
<th>Monthly percentile reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>1939 or earlier</td>
<td>65</td>
<td>$829</td>
<td>60</td>
<td>0.475</td>
</tr>
<tr>
<td>1940</td>
<td>65 and 2 months</td>
<td>$825</td>
<td>62</td>
<td>0.460</td>
</tr>
<tr>
<td>1941</td>
<td>65 and 4 months</td>
<td>$822</td>
<td>64</td>
<td>0.445</td>
</tr>
<tr>
<td>1942</td>
<td>65 and 6 months</td>
<td>$819</td>
<td>66</td>
<td>0.432</td>
</tr>
<tr>
<td>1943</td>
<td>65 and 8 months</td>
<td>$816</td>
<td>68</td>
<td>0.419</td>
</tr>
<tr>
<td>1944</td>
<td>65 and 10 months</td>
<td>$813</td>
<td>70</td>
<td>0.407</td>
</tr>
<tr>
<td>1945-1956</td>
<td>66</td>
<td>$810</td>
<td>72</td>
<td>0.396</td>
</tr>
<tr>
<td>1957</td>
<td>66 and 2 months</td>
<td>$807</td>
<td>74</td>
<td>0.385</td>
</tr>
<tr>
<td>1958</td>
<td>66 and 4 months</td>
<td>$805</td>
<td>76</td>
<td>0.375</td>
</tr>
<tr>
<td>1959</td>
<td>66 and 6 months</td>
<td>$803</td>
<td>78</td>
<td>0.365</td>
</tr>
<tr>
<td>1960</td>
<td>66 and 8 months</td>
<td>$801</td>
<td>80</td>
<td>0.356</td>
</tr>
<tr>
<td>1961</td>
<td>66 and 10 months</td>
<td>$798</td>
<td>82</td>
<td>0.348</td>
</tr>
<tr>
<td>1962 and later</td>
<td>67</td>
<td>$796</td>
<td>84</td>
<td>0.339</td>
</tr>
</tbody>
</table>

*Monthly reduction percentages are approximate due to rounding.

Illustration 14.2

The $1,000 benefit would be reduced to $715 for anyone who started receiving survivors benefits at age 60. The maximum benefit is limited to what the worker would receive if he or she were still alive. Survivors benefits that begin at age 60 are always reduced by 28.50 percent.

The table below (Illustration. 14.3) lists the percentages of survivors benefits that will be paid at each varying claiming age.
## How Social Security Survivors Benefits Are Reduced

<table>
<thead>
<tr>
<th>Begin collecting survivor benefits at Age</th>
<th>FRA 66 (%)</th>
<th>Begin collecting survivor benefits at Age</th>
<th>FRA 66 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>60</td>
<td>71.5</td>
<td>63</td>
<td>85.8</td>
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<tr>
<td>60 and 1 month</td>
<td>71.9</td>
<td>63 and 1 month</td>
<td>86.1</td>
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<tr>
<td>60 and 2 months</td>
<td>72.3</td>
<td>63 and 2 months</td>
<td>86.5</td>
</tr>
<tr>
<td>60 and 3 months</td>
<td>72.7</td>
<td>63 and 3 months</td>
<td>86.9</td>
</tr>
<tr>
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<td>73.1</td>
<td>63 and 4 months</td>
<td>87.3</td>
</tr>
<tr>
<td>60 and 5 months</td>
<td>73.5</td>
<td>63 and 5 months</td>
<td>87.7</td>
</tr>
<tr>
<td>60 and 6 months</td>
<td>73.9</td>
<td>63 and 6 months</td>
<td>88.1</td>
</tr>
<tr>
<td>60 and 7 months</td>
<td>74.3</td>
<td>63 and 7 months</td>
<td>88.5</td>
</tr>
<tr>
<td>60 and 8 months</td>
<td>74.7</td>
<td>63 and 8 months</td>
<td>88.9</td>
</tr>
<tr>
<td>60 and 9 months</td>
<td>75.1</td>
<td>63 and 9 months</td>
<td>89.3</td>
</tr>
<tr>
<td>60 and 10 months</td>
<td>75.5</td>
<td>63 and 10 months</td>
<td>89.7</td>
</tr>
<tr>
<td>60 and 11 months</td>
<td>75.9</td>
<td>63 and 11 months</td>
<td>90.1</td>
</tr>
<tr>
<td>61</td>
<td>76.3</td>
<td>64</td>
<td>90.5</td>
</tr>
<tr>
<td>61 and 1 month</td>
<td>76.6</td>
<td>64 and one month</td>
<td>90.9</td>
</tr>
<tr>
<td>61 and 2 months</td>
<td>77.0</td>
<td>64 and two months</td>
<td>91.3</td>
</tr>
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<td>61 and 3 months</td>
<td>77.4</td>
<td>64 and three months</td>
<td>91.7</td>
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<td>61 and 4 months</td>
<td>77.8</td>
<td>64 and four months</td>
<td>92.1</td>
</tr>
<tr>
<td>61 and 5 months</td>
<td>78.2</td>
<td>64 and five months</td>
<td>92.5</td>
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<td>61 and 6 months</td>
<td>78.6</td>
<td>64 and six months</td>
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<td>61 and 7 months</td>
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<td>61 and 11 months</td>
<td>80.6</td>
<td>64 and eleven months</td>
<td>94.9</td>
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<tr>
<td>62</td>
<td>81.0</td>
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<td>96.0</td>
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<td>96.4</td>
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<td>62 and 5 months</td>
<td>83.0</td>
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<td>65 and eight months</td>
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</tr>
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<td>62 and 9 months</td>
<td>84.6</td>
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<td>98.8</td>
</tr>
<tr>
<td>62 and 10 months</td>
<td>85.0</td>
<td>65 and ten months</td>
<td>99.2</td>
</tr>
<tr>
<td>62 and 11 months</td>
<td>85.4</td>
<td>65 and eleven months</td>
<td>99.6</td>
</tr>
</tbody>
</table>

Illustration 14.3
If the surviving spouse is still caring for the deceased’s child (or children) who is under the age of 16, the surviving spouse will receive 75 percent of their deceased spouse’s PIA for as long as the child is under 16. When the youngest child turns age 16, then the survivors benefit ceases until the spouse turns 60 (age 50 if the surviving spouse is disabled). There can only be one benefit check.

If the surviving spouse (in this case the wife) were already receiving benefits when the death occurred, she would receive the greater of the two benefits. If the benefit she was already receiving were more than what the survivor benefit would be, she would continue to receive the higher benefit. If the survivor benefit was more, her original benefit would cease, and she would begin receiving the survivor benefit.

If the deceased spouse had taken his benefits early before he died, the surviving spouse would be eligible for the original benefit he was receiving (the reduced amount) or 82.5 percent of his PIA, whichever is greater. But the surviving spouse must be at full retirement age for this to occur.

**Example #1**

John was already taking early retirement benefits upon his demise, and his surviving wife, Sue, is at her full retirement age. Sue could receive the greater of John’s original benefit (what he was receiving when he died), or 82.5 percent of his PIA.

This amount will not change. Since he took his benefits early, Sue’s survivors benefit will only increase with COLAs. If John had not taken his benefits early when Sue reached her full retirement age, she would be entitled to 100 percent of his PIA.

John began taking his benefits at age 62. His PIA is $2,400, but since he filed early, he was only receiving 75 percent of that amount, or $1,800 per month. When Sue files for survivors benefits at age 66, Social Security will pay her either what he was already receiving ($1,800) or 82.5 percent of John’s PIA, whichever is greater. In this case, of course, she would receive 82.5 percent, or approximately $1,980.

- John filed for early benefits at age 62 ($1,800)
- Sue files for survivors benefits at age 66 ($1,980)

Now let’s look at it this case another way.
**Example #2**

- John, Age 66 upon death, PIA $2,400
- Sue, Age 62, PIA $2,400

*John was 66 when he died but had not yet begun taking his benefits. What if Sue was only 62 years of age when John died?*

If Sue were only 62 when John died, her survivors benefit would be 71.5 percent of John’s PIA, or $1,716. Her own PIA is also $2,400, just like John’s. If she begins taking her own early retirement benefit instead of the survivors benefit, she could get $1,800 ($84 more a month). Even that little amount may be tempting, as it can certainly add up over the years. However, if she takes her early retirement benefit, she will be locking herself into the reduced amount of $1,800 a month for the rest of her life (with COLAs being the only way to increase that amount). If she takes the survivors benefit, she can leave her account alone to build up its own benefits. By the time she reaches age 66, she can file on her own earnings record and receive $2,400 a month (an increase of $7,200 a year).

- Sue files for survivors benefits at age 62 ($1,800)
- Switches to her own benefit at age 66 ($2,400)

What’s more, she may also be able to defer taking her own benefit until age 70, which would yield her almost three times as much.

**Example #3**

- Jim, Age 65, PIA $1,600
- Faye, Age 66

*Let’s look at Jim and Faye. Jim was 65 when he died and Faye was 66 but she had not yet tapped into her own retirement account.*

Jim decided to begin taking his benefits at age 63, providing him with an 80 percent payout of his PIA, which gave him benefit checks of $1,280 per month. Jim died two years after his benefit payments began. Faye would be eligible to receive the larger of what Jim had been receiving ($1,280) or 82.5 percent of his PIA ($1,320).

- Jim files for his own benefit at age 63 ($1,280)
- Faye files for survivors benefits ($1,320)
But what if Jim had waited to begin taking his benefits? If he had waited until age 68 (and died two years later at age 70), the delayed credits would have added 16 percent to his PIA. Then Faye’s survivor benefit would be $1,856 per month—$6,432 a year more. Not counting COLAs.

Of course, one never knows when the inevitable will happen, so there's nothing concrete in the equation. The best we can do is try to plan ahead to make the biggest difference we can to a surviving spouse’s lifestyle. Here we’ll look at Jason and Amy and a few possible scenarios for them.

**Example #4**

- **Jason, Age 62, PIA $2,400**
  - **Amy, Age 62**

Jason and Amy are both 62 years of age. Jason’s PIA at age 66 is $2,400. Let’s see how Amy’s survivors benefit can vary.

**Scenario #1:**

*Jason dies without ever filing for benefits when Amy is 62 years of age.* If Amy waits to file for survivors benefits at 66, she would get $2,400 a month (100 percent of Jason’s PIA). If she files right away (at age 62), her survivors benefit will be $1,944. If she files between 63 and 66, her benefits would be reduced proportionately.
The illustration below (Illustration 14.4) shows the reduction at the various ages.

**SCENARIO EXAMPLES**

<table>
<thead>
<tr>
<th>If Amy files at age</th>
<th>Monthly benefit</th>
<th>Annual income</th>
</tr>
</thead>
<tbody>
<tr>
<td>62</td>
<td>$1,944.00</td>
<td>$23,328.00</td>
</tr>
<tr>
<td>63</td>
<td>$2,056.80</td>
<td>$24,681.60</td>
</tr>
<tr>
<td>64</td>
<td>$2,172.00</td>
<td>$26,064.00</td>
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<tr>
<td>65</td>
<td>$2,284.80</td>
<td>$27,417.60</td>
</tr>
<tr>
<td>66</td>
<td>$2,400.00</td>
<td>$28,800.00</td>
</tr>
</tbody>
</table>

*Illustration 14.4*

The following charts (Illustrations 14.5 and 14.6) show the affect on Amy's income, depending upon the choices she makes. As you can see if she files at age 62, by the time she is 74 her monthly income will be $2,602.91. If she files at 66, by the time she is 69 her monthly income will catch up to that 74-year figure.

If she files at 62, by the time she is 81 her annual income will be $37,895.88. If she files at 66, by the time she is 76 years of age, her annual income will catch up to the 81-year figure.
## Spouses Survivors Benefits at any Age

If Amy files at Age 62, by the time she is:

<table>
<thead>
<tr>
<th>Age</th>
<th>Monthly Benefit</th>
<th>Annual Income</th>
<th>Cumulative Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>62</td>
<td>1,944.00</td>
<td>23,328.00</td>
<td>23,328.00</td>
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<tr>
<td>63</td>
<td>1,989.20</td>
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<tr>
<td>66</td>
<td>2,135.30</td>
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<td>68</td>
<td>2,240.29</td>
<td>26,883.48</td>
<td>176,208.96</td>
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<tr>
<td>69</td>
<td>2,285.49</td>
<td>27,425.88</td>
<td>203,634.84</td>
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<tr>
<td>70</td>
<td>2,330.69</td>
<td>27,968.28</td>
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<tr>
<td>71</td>
<td>2,395.95</td>
<td>28,751.40</td>
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<tr>
<td>72</td>
<td>2,463.04</td>
<td>29,556.48</td>
<td>289,911.00</td>
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<tr>
<td>73</td>
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<td>30,384.12</td>
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<td>$2,602.91</td>
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<td>34,882.92</td>
<td>485,463.72</td>
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<td>2,988.30</td>
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<td>$596,082.84</td>
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<td>38,956.92</td>
<td>635,039.76</td>
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<td>85</td>
<td>3,526.81</td>
<td>42,321.72</td>
<td>758,578.20</td>
</tr>
</tbody>
</table>
If Amy files at Age 66, by the time she is:

<table>
<thead>
<tr>
<th>Age</th>
<th>Monthly Benefit</th>
<th>Producing an Annual Income of</th>
<th>Cumulative Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>66</td>
<td>2,400.00</td>
<td>28,800.00</td>
<td>28,800.00</td>
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<tr>
<td>67</td>
<td>2,467.20</td>
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<td>$120,129.36</td>
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<td>70</td>
<td>2,680.30</td>
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<td>152,292.96</td>
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<td>2,755.35</td>
<td>33,064.20</td>
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<tr>
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<td>254,288.88</td>
</tr>
<tr>
<td>74</td>
<td>2,993.34</td>
<td>35,920.08</td>
<td>290,208.96</td>
</tr>
<tr>
<td>75</td>
<td>3,077.15</td>
<td>36,925.80</td>
<td>327,134.76</td>
</tr>
<tr>
<td>76</td>
<td>$3,163.31</td>
<td>$37,959.72</td>
<td>$365,094.48</td>
</tr>
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<td>3,251.88</td>
<td>39,022.56</td>
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<tr>
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<td>3,342.93</td>
<td>40,115.16</td>
<td>444,232.20</td>
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<tr>
<td>79</td>
<td>3,436.53</td>
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<tr>
<td>80</td>
<td>3,532.75</td>
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<td>3,945.35</td>
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<tr>
<td>85</td>
<td>4,055.82</td>
<td>48,669.84</td>
<td>758,312.64</td>
</tr>
</tbody>
</table>

Illustration 14.6

**Scenario #2:**

*Jason has chosen to wait to file for his benefits until he reaches age 70 to get the optimum delayed retirement credits. However, he dies shortly before his 70th birthday. Amy’s survivor benefit will be increased by 32 percent, bringing her survivor benefit up to $3,168 per month.*

The difference in Amy’s lifestyle at age 70+ will be substantial. Waiting from age 62 to 70 is only eight years, but the benefits can be invaluable—IF she can wait. And that’s the key. Individual circumstances, health, lifestyle, assets, life insurance, pension plans, and other income all come into play and cannot be discounted.

- If the surviving spouse is in their early 60’s, healthy, and has a long life expectancy, it may not be beneficial to file for survivors benefits right away.
• If there is additional income, it may be best to wait until full retirement age to get the higher benefit.

• The surviving spouse may file for benefits based on their own earnings record at age 62 and wait until reaching their full retirement age to file for survivors benefits.

• The surviving spouse may file for a lower survivors benefit right away and then make the switch to their own PIA upon reaching full retirement age; or hold off even longer to accrue delayed credits.

Working while receiving surviving spouses benefits follows the same rules as working while receiving retirement benefits.

While the surviving spouse is working, their earnings will reduce their benefit amount—but only until they reach their full retirement age. The income thresholds are the same as in the case of retirement benefits. The same $1 to $3 deductions apply. Starting with the month the surviving spouse reaches full retirement age, there is no limit on earnings.

**SURVIVING SPOUSE AND REMARRIAGE**

If a widow or widower is collecting survivors benefits and decides to remarry, the marriage can cause them to lose their benefits. If they remarry before age 60, they will no longer be entitled to survivors benefits, so they might consider waiting to remarry until after age 60. That way, their benefits will not be affected. If they do not wait and they lose their survivors benefits because of the marriage and that marriage ends in divorce, they may be eligible to regain their survivors benefits.

If, however, the new spouse’s earnings record is substantially higher than that of the former spouse’s, they may look at switching over to a spouses benefit based on the new spouse’s PIA—if it is the larger of the two benefits. And if the new spouse again predeceases him or her, they have the option of choosing the highest survivors benefit between the two deceased spouses.

They can also look at switching over to their own benefits if that figure would be larger than their existing survivors benefit or current spouses benefit.
POINTS TO PONDER — MAXIMIZING SURVIVORS BENEFITS

• If the deceased spouse had taken his benefits early before he died, the surviving spouse would be eligible for the original benefit he was receiving (the reduced amount) or 82.5 percent of his PIA, whichever is greater.

• If the surviving spouse is still caring for the deceased’s child who is under the age of 16, the surviving spouse will receive 75 percent of the deceased’s spouse’s PIA for as long as the child is under 16. When the youngest child turns age 16, then the survivors benefit ceases until the spouse turns 60 (age 50 if the surviving spouse is disabled).

• If you are a surviving spouse:
  • You may begin your survivors benefit at age 60, or your retirement benefit at age 62, but you may not draw both at the same time;
  • One option is to draw the survivors benefit early, at age 60;
  • Another option is to draw the survivors benefit early, at age 60, and subsequently switch over to your own retirement benefit at a later date, such as at age 70; and
  • Another strategy is to draw your retirement benefit at age 62 and switch to a survivors benefit at full retirement age.

• You may step into a survivors benefit based on your former spouse’s benefit if it is higher than your own at the time your former spouse passes away. As a result, the longer your former spouse delays the claiming of benefits, the more you may benefit later on in your retirement years.

• The higher Social Security benefit continues when the first spouse passes away. No matter which spouse dies first, the smaller benefit is eliminated and the larger benefit continues.

• In order to qualify for survivors benefits:
  • The deceased spouse must have been fully insured at the time of death;
  • The surviving spouse must be at least age 60 (or disabled at age 50 or older);
• The marriage must have lasted at least nine months (exceptions to this limit are in cases where the death was caused by an accident); and
• The surviving spouse must not have remarried unless they did so at age 60 or older.
CHAPTER 14 REVIEW QUESTIONS — MAXIMIZING SURVIVORS BENEFITS

Which of the following answers/completes each question/sentence the best?

(Answers are in the back of the text.)

1. If a surviving spouse is still caring for their deceased’s child under the age of 16, the surviving spouse will receive _______ of the deceased’s spouse’s PIA.
   a) 25%
   b) 50%
   c) 75%
   d) 100%

2. Oscar started taking his benefits at age 63, providing him with an 80% payout of his PIA. At 65, Oscar passed away. His wife, Ella, is entitled to receive ______________ in spouses benefits.
   a) the larger of what Oscar had been receiving or 82.5% of his PIA
   b) the same amount that Oscar was receiving when he passed away
   c) 82.5% of Oscar’s PIA
   d) 100% of Oscar’s PIA

3. A surviving spouse (not disabled) can begin receiving survivors benefits as early as age:
   a) 60.
   b) 62.
   c) 66.
   d) 70.

4. If the divorced spouse of a worker dies, the divorced spouse can get benefits just the same as the current widow or widower, provided that the marriage lasted:
   a) at least one year.
   b) two years or more.
   c) five years or more.
   d) ten years or more.

5. Working while receiving surviving spouses benefits:
   a) follows the same rules as working while receiving retirement benefits.
   b) has no affect on income.
   c) is prohibited.
   d) is permitted if the income earned is smaller than the benefit payment.
CHAPTER 15

THE DEVELOPING ENVIRONMENT OF ETHICS AND ETHICAL BEHAVIOR

The past twenty years have witnessed numerous changes in American business in general, including the insurance industry. The concepts of consumerism and full disclosure, begun in the automobile industry, spread rapidly to other fields including that of life insurance and life insurance sales. At the same time, the life insurance industry itself underwent enormous changes both in the technical structure of many of its products and in the way life insurance in general was sold.

THE TRUST RELATIONSHIP

The relationship of trust, so vital to the sale of valuable, needed coverage, often proves to be a door that could swing both ways. On those occasions when the prospect would encounter a serious disappointment with his or her purchase, or when the agent's motives had been called into question by a third party, the prospect's perception of the situation often was not that of a simple business disagreement or misunderstanding. Rather, it would take on elements of a personal betrayal—that the prospect looked to the agent to care for his or her interests and allowed the development of a delicate trust relationship, only to be let down in later years.

ETHICS IN THE LIFE INSURANCE INDUSTRY

Consumerism and full disclosure would have been enough to deal with for an industry as inherently complicated as life insurance. The actuarial structure of a cash value life insurance policy has always been difficult for the layman to comprehend, even on those rare occasions when a knowledgeable person has attempted to explain it. Most often it was presented as a package of ideas, "bundled" together, which was assured to the prospect by the agent to do certain things, among which were:

- Provide a death benefit;
- Accrue a cash value;
• Pay dividends (in some cases);
• Permit loans; and
• Provide a number of nonforfeiture options.

It was almost impossible to explain to the prospect exactly how these benefits were provided by the policy and, in fact, most agents had a less than perfect understanding of it themselves. They could only assure the prospect with the help of historical data, third party information and centers of influence that the policies did work as they described and had done so reliably for many, many years. For an agent to succeed in selling insurance under such circumstances, without the prospect's complete understanding of the product itself, required the development of an adequate trust relationship between the agent and the prospect.

THE “BUY TERM AND INVEST” PHILOSOPHY

This was the environment of potential problems that existed in the late 1960's and 1970's, and which created many sales opportunities for the "buy term and invest" movement which advocated the purchase of lower priced term insurance instead of cash value life insurance, with the difference in price invested in other types of savings or investments.

Owing largely to the sales efforts of agents who promoted the "buy term and invest" method, many prospects came to feel that they understood that method much better than they did cash value life insurance. They came to believe that mutual funds or other investments would give them the opportunity to accrue greater values, and that they would be better off with those investments in the long run. Sometimes they came to feel that the agent who had sold them cash value life insurance had made too much commission income from the sale and were, therefore, in a conflict of interest situation between their own financial needs and those of the prospect. Such agents frequently found their ethics being called into question and would find that it required a strong agent-client relationship indeed to weather the ensuing storm.

On the other hand, the "buy term and invest" proponents were in a good position to develop their own strong relationship by appearing to save the clients from what they described as an undesirable insurance situation, and providing a sometimes more understandable one with higher potential returns. However, this type of insurance and investment also has its areas for potential misunderstandings, disappointments and the deterioration of relationships, and not all of its converts remained entirely with the term insurance philosophy.
POLICY REPLACEMENT

One of the most controversial aspects regarding this "term and invest' sales drive was the tendency of some agents to replace existing whole life coverage with term insurance, and to take the cash values from the surrendered policies and place them into other types of investments such as mutual funds. Many whole life agents who had placed the original policies, felt this process was unethical and only served the interests of the replacing agent.

So, the process resulted in agents from both sides raising ethical questions about their competitors in the opposite camp.

POLICY LOANS

The late 1970's also saw a tremendous rise in the interest rates paid on relatively secure investments in the form of corporate and government bonds. Owners of whole life insurance policies who had generally borrowed against their cash values Conservatively in the past began borrowing heavily from their policies at guaranteed low interest rates in order to invest in these high interest investments which eventually paid interest rates in the high teens. The high percentage of loans made by policyowners at guaranteed low rates greatly damaged the insurance companies' ability to invest and earn income as they needed to in the high interest bond investments available on the market.

These two forces, the "term and invest" sales campaign and the unacceptably high level of whole life policy loans, put enormous pressure on the providers of whole life insurance policies to find ways not only to stem the tide of policy loans, but also to develop new forms of insurance policies that could compete in a high interest environment with the "term and invest" philosophy.

UNIVERSAL LIFE INSURANCE

Such were the market circumstances that set the stage for the first broad-scale marketing of universal life insurance policies in the early 1980's. Companies which developed and marketed universal life insurance were able to invest the policies' reserves in secure financial instruments that paid the current high interest rates of that day, and then passed those earnings on to the policyowner in terms of cash value growth. Many companies adopted indexes to assure policyowners they would always receive a rate based on the actual interest rates available in the open market. Under these indexes they provided a floor guarantee in the range of four percent.
VARIABLE WHOLE LIFE INSURANCE AND VARIABLE UNIVERSAL LIFE

Another type of life insurance had been available since 1976 which was a type of whole life policy, but different. Traditional whole life cash reserves had historically been invested in carefully selected, conservative investments, like corporate bonds, which had modest, secure returns and maturity dates of 20 years or more. This allowed the insurance company to provide stable returns over the long run, and to provide certain minimum guarantees in the policy itself in terms of the death benefit and the nonforfeiture options such as the cash value, reduced paid-up insurance, and extended term insurance all of which were based on the minimum rate of earnings guaranteed in the policy of between three and five percent. Any earnings in excess of the guarantee would be returned to the policyowner in the form of a dividend, which could be used in a number of ways to augment policy values.

The new type of policy, called variable whole life, allowed its reserves to be invested in equity separate accounts, which in turn were invested in common stocks and other speculative investments. Such investments made it possible for the reserves to earn much higher returns than a traditional whole life policy. It also eliminated most traditional policy guarantees and even allowed the policyowner to lose money, a previously unheard of possibility. This policy was more complicated than whole life or universal life and required the policyowner to make decisions about what types in investments would be used. These companies and others would also develop a later generation of variable life called variable universal life, which had flexible premiums and "unbundled" costs like universal life, but with the opportunity for stock market type gains.

THE CHANGING SALES ENVIRONMENT

By 1981 the life insurance industry, which had been one of the most stable in the country for decades, found itself in the middle of a competitive battle of huge proportions:

- Providers of traditional whole life continued to promote the virtues of long term conservative thinking with minimum guaranteed cash values and death benefits and excess earnings expressed as dividends.
- "Term and invest" proponents continued to promote the idea of surrendering whole life contracts, buying term insurance, and investing in mutual funds, and later, variable annuities.
- Universal Life advocates were promoting the new policies in all life markets, and finding its unique features to be extremely popular.
• Promoters of variable life found a following, too, in the ranks of insurance buyers with a "risk tolerance" that would let them buy an equity based policy with fewer guarantees and the possibility of loss.

**PRODUCT WARS**

Many people felt that the American life insurance industry had degenerated into a product war characterized by rampant replacement, and that the consumer's long term interests had been removed to a position of secondary consideration. The client-centered process of carefully exploring and analyzing a prospect's financial situation in order to make thoughtful and accurate recommendations of the correct type and amount of life insurance he or she should have was still practiced by many of the best, most far-sighted agents. However, it was very often superseded in the highly competitive sales environment by a battle of products with the newest, most competitive product and the best product promoter getting the sale.

This highly competitive situation motivated insurance companies to continually update their products to make them more competitive and more attractive than before. Every insurance policy has certain features that are guaranteed, like maximum mortality costs and minimum rates of return on reserves, that cannot be readily changed. These features govern the minimum possible performance of the policy. However, each policy also has a set of "current" figures for such costs and returns which are not guaranteed, and which will not support the policy under the most adverse circumstances. These, however, can be illustrated to support the policy under the circumstances in effect at a particular time. Sometimes these "current" criteria are highly favorable and allow a policy illustration to be produced with very high performance. It may allow premiums to appear to vanish in a particular year or illustrate extremely attractive cash values at the policyowner’s age of 65, for example.

**THE VANISHING PREMIUM**

Because performance criteria can fluctuate widely, illustrations based on current assumptions may not be valid once they have changed. In the mid-1980's it was common for companies to illustrate premiums on whole life policies that would "vanish" in six to eight years. The word "vanish" did not mean premiums were not due, but rather that the premiums would be paid by a combination of current policy dividends and dividends that had been previously stored up. Universal life policies also illustrated very low premiums required for very few years using the high interest rates of the day. Often it seemed the sale of the product depended on how low the premium obligation could go.
Today, many years later, the criteria are not as favorable. Interest rates have generally gone down and caused the number and sometimes the size of required premiums to go up dramatically, often to twice the original amount of overall premium required. The illustrations generated in the 1980's were so wrong in the eight to ten year timeframe that some policyowners have instituted legal action against the companies whose policies they bought. Under the sales philosophy of the 1970's and 1980's, there was a limit to what the policyowner was expected to understand, and to what the agent was expected to explain. In the 1990's the expectations became considerably higher.

THE AGENT’S ETHICAL RESPONSIBILITY TO THE PROSPECT OR CLIENT

The life insurance industry has gone through a period of enormous shock and increasing change beginning in the late 1970's and extending to the present day. A number of life insurance companies have become insolvent and ceased operating, leading to fear and skepticism on the part of the buying public. Sales illustrations from many of the best companies have apparently failed to achieve what buyers felt they were promised in terms of financial performance. Some of the biggest companies have been sued for sales practices that may have seemed reasonable to agents in those earlier years.

The result is that insurance companies, agents and state insurance commissioners alike, have come to the conclusion that sweeping changes are necessary on the part of all concerned if the life insurance sales industry is to survive. All parties agree that new standards and procedures are required which:

- Safeguard the interests of the policyowner and serve to reassure the public;
- Protect the insurance company and the agent from unfounded or opportunistic litigation; and
- Enable the state insurance commissioners to assure that insurance is sold with appropriate sales materials, terminology, and disclosure of essential information.
THE CONCEPT OF PROFESSIONALISM

The concept of professionalism, as defined in the fields of law and medicine, has always required that the client's interests come first.

The best insurance agents have long believed the same thing—identification of which product will serve the client's interest the best. Insurance buyers are more sophisticated than they once were. They are better educated and they have been trained to function in an increasingly complex business environment.

THE MODERN LIFE INSURANCE BUYER

Modern insurance buyers are increasingly exposed to volumes of investment information on numerous television programs and in a number of magazines. They expect to be given a great deal of information and they expect to be spoken to in sophisticated terms. They understand rates of return, loads, expense charges and income taxes; tax deferred qualified plans, limited partnerships and mutual funds. The modern agent has to be able to speak with understanding about such things and to present life insurance favorably in a highly competitive context. The modern insurance buyer can tell when the insurance agent is unsure, when he or she seems to exaggerate the benefits of a policy, or seems to obscure the difference between a policy's guarantees and its non-guaranteed overall potential performance. The modern insurance buyer has the same skepticism that buyers have always had and needs more information than ever to overcome that skepticism and enter into a professional relationship.

THE MODERN LIFE INSURANCE AGENT

It is contingent upon the modern agent to do everything in his or her power to become the most well trained, well educated, and professional salesperson possible. The modern agent is in competition with stockbrokers, bankers, and even insurance policies sold on television. The agent who falls behind the industry in terms of education and training is truly risking his or her career. In today's environment, clients want to know that the agent is continuing to learn, just as their doctor and lawyer are doing.

It is not only a matter of practicality in maintaining one's clientele, it is also a matter of professional ethics for agents to remain up to date in their field. This is the primary reason the state insurance commissioners have instituted continuing education requirements in almost every state in the union in order for an agent to remain licensed.
CONTINUING EDUCATION AND SELF-IMPROVEMENT

Agents today have a wide variety of educational opportunities, including programs of study leading to professional designations including Chartered Life Underwriter (CLU), Chartered Financial Consultant (ChFC), Certified Financial Planner (CFP), Certified Employee Benefit Specialist (CEBS), and Registered Health Underwriter (RHU). The attainment of one or more of these designations is often recognized by prospective buyers of an agent's willingness to honor his ethical responsibility to keep up to date in his or her profession.

In addition to these organized programs of study, there are a number of educational seminars presented at regular intervals in urban areas by the local chapter of the American Society of CLU & ChFC, and the local Association of Life Underwriters. There are also professional seminars, designed by continuing education experts in various areas of the insurance industry, and presented throughout the year all over the United States. These seminar courses, along with approved correspondence courses, provide a convenient and effective way for busy insurance agents to keep up to date with important topics and changes in their fields of expertise.

THE FINANCIAL ENVIRONMENT

It is also important today for agents to remain aware of the state of the financial world in general. Life insurance once may have been perceived as separate—being in a world of its own functioning apart from the areas of securities, accounting, finance and law. However, today a change in the law, securities, accounting, or securities regulation, just to name a few, can resonate across financial boundaries and make unforeseen changes in matters of insurance that may be critical to the welfare of an agent's best clients.

Examples of this phenomenon are easy to find. A number of changes in the estate tax law in the early 1980's, including the “One Hundred Percent Marital Deduction,” made it essential for many persons to rethink their entire financial plan and have their will redrafted. It was also the single greatest motivation for the insurance industry to develop and market the first "second-to-die" insurance policies, which today enjoy a substantial share of the market for large-case insurance sales. Is it the ethical responsibility of a life insurance agent to be aware of this and to inform his or her clients of the need to consult a lawyer about having current wills?

In the same timeframe, accounting procedures were introduced which greatly reduced the suitability of certain types of deferred compensation plans for many small businesses, causing many such businesses which had recently established
such plans to terminate them immediately, often at considerable expense. The agents who became aware of these accounting changes as soon as they occurred and who were able to advise their clients accordingly, were perceived as performing in a professional, client-centered manner. Those who did not learn of it until the accountants brought their clients the bad news did not look as good. Were the clients justified in feeling it was the agent's ethical responsibility to keep them abreast of such things? Many people would say yes.

In the late 1980's, changes in the way the interest on insurance policy loans was treated for tax purposes drastically changed the way tax-conscious policyowners paid their premiums. Many agents had sold policies with premium paying programs based on the deductibility of the interest on policy loans. Often the agent had encouraged the policyowner to use policy loans to pay the required premiums in order to enjoy the tax deduction brought to them by the payment of the loan interest. In this limited historical context, the result looked good. The client wrote a check for loan interest, which was tax-deductible, instead of writing a check for the premium itself, which was not tax-deductible.

The problem came years after the original sale when the client lost the deductibility of the loan interest. By that time, many of the older policies sold this way had accrued substantial loans, often approaching the entire policy cash value. This made many of them very unattractive and expensive to keep in the absence of the lost deduction. Those insured persons who wanted to drop them for new policies were inevitably older, requiring higher premiums. At worst, they found themselves highly rated for health problems, sometimes even uninsurable, and unable to make a financially feasible purchase.

Some of the more conservative agents, who had never sold policies this way, felt this sales method was poorly founded and ethically questionable. Some of the policyowners may also have thought so in the end. It is interesting to consider the ethical question in the context of that time. The loan interest was, indeed, tax deductible, but the concept eventually lost its value with an unpredictable act of Congress. Who is to say who was right and who was wrong? However, it is interesting to consider the difference in sales philosophy between those who used that sales method and those who did not, considering the outcome.
THE BROAD AREA OF SALES ETHICS

These questions and others, including the vanishing premium discussed previously, are just a few of the areas covered by the concept of life insurance sales ethics. The following subjects are directly related to the daily operation of a life insurance sales practice. They involve matters of ethics as they exist between the life insurance agent and the prospect or client.

SALES METHODOLOGY

Most life agents would agree that different prospects require different sales methods.

One prospect might seem to have only a single need to be addressed while another might appear to have two or more needs. A third person's situation might demand a comprehensive analysis to discover exactly what his or her various needs were and how to most logically fill them. It is entirely possible that the prospect does not even know exactly what is needed because he or she has never thoroughly analyzed his or her own financial situation with that end in mind.

The life insurance agent should make every effort to determine the need or combination of needs for every product sold and to apply to that need the appropriate product in the appropriate manner. The same product today may fill widely different types of needs.

A client may desire a policy for a single specific reason, such as:

- To pay off a mortgage or other large debt;
- To provide for the education of a child;
- To pay final expenses at death;
- To provide a fund to generate income to support the insured person’s survivors; or
- To help pay estate and/or inheritance taxes in larger estates.

Any of these needs or others, may exist alone or they may exist in combination. The agent will not know, unless he or she asks, whether the right single need or the right combination of needs is being addressed. It has happened many times that an agent has sold a policy for the single need described by the prospect, only to find out years later that a number of needs existed that the prospect had not mentioned, but which could have been revealed in a short exploratory conversation. Agents have been called lazy, incompetent and worse for not providing coverage a surviving spouse
thought should have been there but wasn't. In today's environment it is justified in expecting a professional insurance person to inquire into all such various needs, and to make sure the survivors will have the assets they need at the insured's death.

**FACT-FINDING**

That is why a comprehensive analysis of the insured person's financial responsibilities and insurance needs is often important. Only when the agent, the client, and sometimes the client's spouse, have gone through a thorough fact-finding process, can the agent say that all needs have been professionally explored and discussed.

**THE NEEDS APPROACH**

The method used for determining how much insurance protection a person should have by analyzing a family’s or business’ requirements and objectives is known as the needs approach. The agent must know what the client’s needs are before he or she can make the correct recommendation.

Once a comprehensive fact-finding interview has been conducted and all necessary notes made, the agent owes it to himself and to his clients to do a thorough analysis of the information. A number of computer programs exist which will do this sort of work, which if done by hand would take a very long time and much effort. Any such analysis needs to include certain assumptions for the future rate of inflation, and for the rate at which pledged assets grow.

Such a program will not only explore and quantify all of the various needs for insurance at the time it is done, but it will provide the basis in the future for regular updates of the information and adjustments to the client's insurance plan. In a great many instances, a surviving spouse has asked the agent to go over the plan with him or her after the insured's death, to review with them exactly what amount of insurance money was supposed to be applied to exactly which financial need. This has been described by many agents as the most moving and satisfying service they have ever provided for their clients.

In addition to the practical benefits described above, a comprehensive analysis also safeguards the agent's interests. When kept in the agent's records, it provides evidence that the plan was done thoroughly and in good faith, with full understanding by the clients. Some agents, for all of the reasons above, refuse to work with a new client unless they will agree to go through such an analysis because it is concrete evidence of the agent's ethical conduct of his or her business.
PRODUCT ILLUSTRATIONS

Once the various needs have been explored, analyzed and quantified, it is time for the agent to make a product proposal.

The product, or products, proposed should fill all of the financial needs to the extent possible and in a manner that is well understood by the client. The product should also be priced in accordance with what the clients have said they could afford to pay. Sometimes it is not possible to cover all needs with the premium dollars available. In such cases, the clients have the choice of either reducing some of their financial goals or deferring them to a later date when the plan may be revised as more funds become available.

The insurance recommendations must be presented to the clients in a manner they can understand. Clients must be able to understand how the policy works, what guarantees are available, and what features depend on the non-guaranteed financial performance of the recommendations.

TERM LIFE INSURANCE

Most people understand that term insurance is pure insurance with no cash value and that the premium per thousand goes up over a person's lifetime. It is true that some policies have level premiums for ten or even twenty years, but in the long run most premiums go up a great deal in the years approaching normal mortality.

Most of these policies are illustrated either with gross premiums and net premiums or with current premiums (similar to net) and maximum premiums (similar to gross). In either case, the client must be informed that the gross or maximum premium is the actual guaranteed premium for the policy. The net or current premium is generally a lower figure, which is used by the insurance company under its current financial circumstances, which are more favorable than its higher guaranteed rates. If an insurance company encounters financial difficulties, as many have in recent years, it is possible that the policyowner will find him or herself paying the higher rate and they must be made aware of that.
PARTicipating Whole Life INSURANCE

There has been a great deal of misunderstanding on the part of policyowners in recent years because of the way whole life policies and their dividend performances have been described. Reductions in the dividend scales of many companies have resulted in premium requirements well beyond the "vanishing" period for which they were originally illustrated.

Whole life insurance has level premiums because of a reserve of money that builds in the policy over time and is credited with a minimum guaranteed rate of interest. As this reserve, or cash value, grows, it displaces a portion of the policy's pure risk element and earns interest to help pay for the portion of the risk element that remains. A whole life policy has two main guarantees—namely, the guaranteed death benefit and the guaranteed cash value. These two elements only exist if the stated premiums for the policy are paid as scheduled all the way to the end of the premium paying period stated in the policy. If the premiums are paid as scheduled, there are other nonforfeiture options, in addition to the cash value, which include a schedule of benefits for reduced paid-up insurance and paid-up extended term insurance. All of these benefits exist independent of dividends, which are not guaranteed to be paid. The policyowner must be told clearly that these are the only guarantees in the policy.

All of the guaranteed benefits described above are based on certain "worst case" actuarial assumptions used in designing the policy, such as maximum possible policy expenses, maximum mortality costs, and minimum guaranteed rates of interest credited to the policy reserves. Any savings realized in terms of costs or expenses, as well as any excess interest earnings above the guarantee, are returned to the policyowner in the form of a dividend, which, again, is not guaranteed. The policyowner needs to be aware of what the policy guarantees are, as opposed to what the dividend is.

Dividends, when paid, may be applied in several ways:

- In cash to reduce the premium;
- To purchase paid-up additions, which are additional amounts of single pay life insurance containing their own cash value;
- To accumulate at interest; and
- To buy various kinds of term insurance to augment the base policy’s death benefit.
Premiums don't vanish at all. They are still there for as long as the premium-paying period lasts. They may be partially or wholly paid for by the policy dividends, but they are still there and they must be paid. When they are said to "vanish," it means that the current dividend, together with money from previous dividends that has been stored as the cash value of dividend additions or as dividend accumulations, have been used to pay the current premium. Also, since dividends depend on a number of factors, part of which are entirely out of the insurance company’s control, they may be expected to vary significantly in the future from the current dividend scale.

Dividend scales before the mid-1980's had experienced significant increases for several decades, culminating in a dividend scale interest rate for many companies in the range of 11 to 12 percent between 1985 and 1988. Very few agents selling life insurance in the 1980's had ever experienced a downturn in the level of dividends, much less like the one experienced in this country since 1988. Should the agents and companies have known a downturn was coming? Should they have insisted on agents using a lower assumed rate for ethical reasons? These events are in the past, but they provide the modern agent with a historical context for developing his or her own ethical standards regarding dividend projections.

**Universal Life Insurance**

Universal life policies were developed in the late 1970's and early 1980's in response to the high interest rates of the day, the high volume of policy loans, and the activities of the "buy term and invest" movement. Their design around the ability to invest in secure short term investments was their attractive point in the beginning, enabling them to offer cash value interest rates which ran as high as 12 percent.

Many policies were sold in the early to mid-1980’s with premium payment levels and "vanish" schedules based on those high rates of interest. Today, such policies experience far lower rates of interest and the premium levels and timeframes have had to be increased significantly to compensate. In this way, the experience of universal life policies in terms of premium vanish schedules has been similar to that of whole life, although with somewhat different timeframes and levels of severity.

Universal life policies are still very flexible in terms of the ability to vary face amounts and premiums, but they still do not generally have the policy guarantees associated with whole life. The way to show a death benefit or cash value guarantee on a universal life illustration is to have the computer solve for a premium that will have a specified cash value at age 90 to 100 based on the guaranteed policy expenses and mortality costs, and on the guaranteed interest rate, generally around four percent. Even though it is sometimes unattractive or inconvenient to illustrate, it is the
responsibility of the agent that the policyowner should know very clearly what is
guaranteed in the policy and what is not.

**Variable Whole Life and Variable Universal Life**

Variable products may be considered in our discussion to be similar to traditional
whole life and universal life, but with two exceptions. First, these policies generally
have part or all of their reserves invested in a variety of equity separate accounts for
higher potential gains.

Second, there is no guaranteed floor interest rate for the performance of these funds.
It is possible for the funds to earn extremely high returns in some years, and it is
possible for them to actually lose money in some years.

In the standard form of these policies there is no guaranteed death benefit or cash
value because there is no guaranteed interest rate on the invested reserves. The
prospective buyer who is "suitable" to buy such a policy under NASD and industry
guidelines must have a suitable amount of income and outside savings and must
agree that they have a "risk tolerance" appropriate to the purchase of a variable
product.

Some recently developed products have been given a guaranteed death benefit
feature, based on the payment of a specific premium for every year of the premium
paying period. This feature will generally keep the death benefit in force even if the
cash value disappears altogether. This benefit varies from company to company.

Nowhere is the concept of agent's ethics and compliance with industry and company
regulations more important than in the sale of variable products because there are so
many variables involved and so few guarantees. Agents are subject to far more
training, NASD registration, special licensing, special compliance regulations,
inspections and supervision at the agency and company level.

It is of paramount importance that the agent maintain the best records possible in
selling variable products. Beyond the normal criteria involved with whole life and
universal life, there is the necessity of handling money and paperwork similar to the
way that investment dollars and paperwork are handled by a stockbroker. If dollars
do not arrive at their investment destination on time, or if transfers are not made from
one account to another on time, the client could lose money and hold the agent or
the company responsible.
CHECKING QUESTIONS

In selling variable products, as with other insurance products, it is wise for the agent to occasionally ask him or herself the following questions.

• What is the worst that can happen in this situation? Have I prepared my client for it?
• Am I prepared to defend my client’s interests if things go wrong?
• Am I prepared to defend myself and my own interests if things go wrong?
• Are my client records and my training and licensing in order?
• Is my relationship and my reputation with my company and client as strong as possible?

RECORDKEEPING

The place in which many agents get in trouble is recordkeeping. On occasion a client will call complaining that something was not done correctly, or not done on time, or even that something was done contrary to his or her wishes. It is in the interests of the client, as well as in his or her own interests, that the agent keep complete records in order to clarify any situation.

The classic case is that of a life and health agent who sells a group health insurance policy that does not cover certain preexisting conditions. The client employer buys the coverage and six months later a covered employee files a claim on a preexisting condition and the claim is denied. How did this happen? What are the possible remedies? Is the agent caught in someone’s crosshairs?

The agent is in a strong position if he or she has records, which indicate that the preexisting condition’s language in the new contract was addressed fully and clearly with the employer. Without such records, the agent may be found liable for the amount of the claim.

Records to be kept include:

• Notes of all conversations;
• Copies of all correspondence;
• Copies of all promotional material;
• Copies of all case materials, including:
  o fact finders,
  o sales presentations, and
  o policy illustrations;
• Copies of applications, new account forms, monthly draft forms; and
• Copies of service forms, changes of beneficiaries.

While the primary purpose of such records is the service of the client, the associated reasons are (1) to assure the insurance company and other regulators (like the state insurance commissioner or the NASD) that the agent is performing his duties ethically and in compliance with company, industry and governmental guidelines; and (2) to assure that the agent is in a strong position in case of a complaint.

**MONEY HANDLING**

The most frequent problems in the area of handling money do not involve actual theft, but rather the mistakes made in the way money is managed once it leaves the client's hands. It is important to follow agency and company procedures to the letter about:

• How and when money is to be collected from the prospective insured, as well as when it may not be collected;
• Within what timeframe the funds must be transferred to the agency or company; and
• What forms, properly filled out, must accompany the funds, such as monthly bank draft forms and, for variable products, new account forms.

Here are some of the most important rules about accepting money from clients.

• **Discourage the client from giving you cash for a premium payment.** Your agency or company may prohibit this entirely. If you must accept cash, be sure to provide a proper receipt.

• **Never commingle a client's funds with your own money.** If it can be construed in any way that the client's money has been used for the agent's own purposes the agent may possibly be charged with theft.
U**T**MOST GOOD FAITH

Probably no business in the world is more dependent on the concept of **utmost good faith** than is the insurance business. It is one of the basic concepts on which the insurance industry is based.

Most business arrangements involve the exchange of money by one party for tangible goods or valuable services in the present timeframe. There is an equality implied between the money paid and the value received. Such arrangements do not require a great deal of mutual good faith, at least not for very long.

The insurance industry is unique in that it only works if everyone involved generally tells the truth and does what they say they will do. The insurance company receives a relatively small amount of money, in the form of a premium, from the policyowner in the present timeframe, and promises to pay a much larger sum to a beneficiary at some unknown time in the future when and if the covered event occurs. This requires a great deal of faith on the part of the policyowner that the insurance company will remain sound, live up to its fiduciary responsibility, and pay the claim when it is due. Also, below a certain level of coverage, the insurance company accepts the risk involved on the basis of information provided on the application, which is another example of utmost good faith.

It is the agent's ethical responsibility to fulfill their role in the relationship of utmost good faith that must exist between the policyowner and the insurance company.

MAINTAINING THE RELATIONSHIP

The relationship that the agent seeks to build with the client is sometimes perceived as beginning and ending in the process of the first sale, and being of little importance beyond that—except in order to obtain referrals. It may appear to have very little to do with ethics in that context. It does, however, have a great deal to do with ethics, and is perhaps the agent's best insurance against complaints and legal action throughout the agent's career.

It is commonly believed that the relationship with the prospect begins and is built in the fact-finding process. When an agent indicates interest in the personal details of a prospect and his or her family, he or she is asking for a great deal of trust. And when the agent follows through by listening closely, asking about their hopes and dreams, and appearing to adopt their financial goals as his or her own, a significant bond of trust is built—at least for a while.
It is up to the agent to maintain that relationship and that quality of trust for the client's own benefit.

If the agent provides continuing service, including reviews of the client's plan every year or two, then the client is well served and feels the agent is a valuable resource.

Under these circumstances, when a concern arises the client will call the agent first for advice and the agent will have an excellent chance to provide immediate service to the client and, in most cases, ease the situation entirely before it becomes serious. In the absence of such a relationship, the client might delay taking action until the situation has deteriorated beyond hope. It is the agent's ethical responsibility to prevent this from happening primarily for the benefit of the client but, in fact, for the agent's own benefit as well.
POINTS TO PONDER — THE DEVELOPING ENVIRONMENT OF ETHICS AND ETHICAL BEHAVIOR

• The "buy term and invest" movement advocated the purchase of lower priced term insurance instead of cash value life insurance, with the difference in price invested in other types of savings or investments.

• The Concept of Professionalism has always required that the client's interests come first.

• The attainment of one or more professional designations, such as CLU and ChFC, is often recognized by prospective buyers of an agent's willingness to honor his ethical responsibility to keep up to date in his or her profession.

• Most life agents would agree that different prospects require different sales methods.

• The method used for determining how much insurance protection a person should have by analyzing a family’s or business' requirements and objectives is known as the needs approach.

• The agent is in a strong position if he or she has maintained proper and accurate records—without such records, the agent may be found liable for a claim.

• It is up to the agent to maintain a relationship and quality of trust for the client's own benefit. If the agent provides continuing service, including reviews of the client's plan every year or two, then the client is well served and feels the agent is a valuable resource.

• Nowhere is the concept of agent's ethics and compliance with industry and company regulations more important than in the sale of variable products because there are so many variables involved and so few guarantees. Agents are subject to far more training, NASD registration, special licensing, special compliance regulations, inspections and supervision at the agency and company level.
CHAPTER 15 REVIEW QUESTIONS — THE DEVELOPING
ENVIRONMENT OF ETHICS AND ETHICAL BEHAVIOR

Which of the following answers/completes each question/sentence the best?
(Answers are in the back of the text.)

1. The "buy term and invest" movement advocated the purchase of lower priced term insurance instead of ___________ with the difference in price invested in other types of savings or investments.
   a) cash value life insurance
   b) term life insurance
   c) variable life insurance
   d) variable annuities

2. The Concept of Professionalism has always required that the:
   a) insurer comes first.
   b) client’s interests come first.
   c) agent’s needs are foremost.
   d) underwriter’s needs are paramount.

3. The attainment of one or more professional designations, such as CLU and ChFC, is often recognized by prospective buyers:
   a) as a waste of time.
   b) as irrelevant if it doesn’t pertain to their needs.
   c) of an agent’s willingness to honor his ethical responsibility to keep up to date in his or her profession.
   d) as a deterrent.

4. Most life agents would agree that different prospects:
   a) require different sales methods.
   b) basically require the same sales methods.
   c) need the same basic coverage.
   d) needs depend upon their financial status.

5. The method used for determining how much insurance protection a person should have by analyzing a family’s or business’ requirements and objectives is known as the:
   a) policy illustration.
   b) product presentation.
   c) needs approach.
   d) first meeting.
CHAPTER 16

IMPLEMENTING AN ETHICAL PHILOSOPHY

Ethical behavior creates the very foundation for societal trust. There is no instrument more valuable in creating a trustworthy and secure relationship, whether that relationship is a business one or a personal one. But what exactly is ethical behavior and how is it expressed?

Webster’s Dictionary defines ‘Ethics’ as the discipline dealing with what is good and bad and with moral duty and obligation:

“…a set of moral principles or values; a theory or system of moral values; the principles of conduct governing an individual or a group.”

Expressing ethical behavior is the practice of or relating to ethics:

“…involving or expressing moral approval or disapproval; conforming to accepted professional standards of conduct.”

Business ethics are generally accepted professional standards of conduct.

Under normal circumstances, no one can tell another person what they should or should not do or what is right or wrong. The principles of conduct, or system of moral values, governing an individual or a group can certainly be generally applied; however, ethical guidelines can often become laws or regulations depending upon legal interpretation.

Though times and relationships may change, a strong bond is created through ethical treatment of one another.

Most companies these days have developed their own Code of Ethics, their own ethical value system.

As times change, so can the basic laws of ethics that an organization adheres to. Most employees value and adhere to the ethical concepts that their parent company embraces. Organizations usually adopt the same types of ethics that most private individuals adhere to. Ethical interaction between an employer and employee can only create a more trustworthy and beneficial relationship.
THE VALUE OF ETHICAL BEHAVIOR

An ethical individual develops admirable attributes. The practice of integrity stresses that one person’s interests are just as valuable as another’s.

Exercising personal responsibility reflects the willingness to hold oneself accountable for ensuing actions and results.

Personal responsibility does not lend credence to the notion of looking at others to blame for a negative result of one’s actions. An individual who perceives his activities in terms of purpose ties that individual to the organization he or she is interacting with and, in turn, ties that organization to their surroundings.

Newton’s Third Law of Motion states that “For every action, there is an equal and opposite reaction.” When speaking of ethical philosophy, the quote would be more accurately stated as “for every action, there is a reaction.” By the very nature of business interactions, those seeking advice must have faith and trust in their advisor. If that faith and trust is violated, both parties suffer. The advisor not only loses business, but the interaction can adversely affect the business in general. A professional must not only comply with the minimum legal standards established by the organization which he or she represents, but must also adhere to a set of high personal ethical standards as well.

Any individual who is tempted by another individual or by a certain situation to act in an unethical manner must consider the long-term affects of those actions—not only for him or herself, but also for the individual he/she is interacting with—for instance, the representative payee. A representative payee must steer his or her actions with a strict moral compass, acting with fiduciary responsibility toward the beneficiary he or she represents.

A representative payee, an agent, an advisor—can make a valuable difference in the lives of the people who entrust them with their care, whether that care be of a financial venue or other venue. The agent is responsible for understanding the intricacies of the products and services he represents. He must be able to analyze individual needs and continue to support those he represents, his customers, by making appropriate recommendations when needed.
CODE OF ETHICS

After an organization has developed and implemented its Code of Ethics, it must find a way to enforce code adherence. Any suspected violation of the Code needs to be investigated and dealt with in a clear-cut manner as soon as possible. Expediency sends a clear message not only to the perpetrator but also to the rest of the employees. Investigation procedures and enforcement consequences need to be outlined. Administrative staffs are responsible for designing and implementing enforcement of any breach of Code.

Complaint procedures are typically made available to all employees as well as forms designed for lodging a complaint. Once a complaint is filed, the organization's investigating committee takes over.

In the process of investigating serious cases of alleged ethical violations, the following should be addressed:

• Has any major damage to the company occurred or is it likely to occur?
• Has the integrity of the company been threatened or jeopardized?
• Has an individual's personal safety or security been threatened?
• Is there any substantial risk to the company?

Depending upon the severity, consequences for Code of Ethics violations could include:

• A verbal warning;
• A written warning;
• Suspension;
• Termination of employment;
• Financial penalties; and/or
• Legal prosecution.

Any organization that is governed by a written Code of Ethics should also have written procedures detailing what infractions equal what consequences. Adherence to the breach of Code penalties is vital. If one employee commits an ethical violation and is suspended from practicing within the company, the next individual who commits the same violation must receive the same punishment. Any favoritism would be a breach of ethical behavior within itself.
Following is an excerpt from the National Association of Insurance and Financial Advisors (NAIFA) Code of Ethics. It is presented below as an example of the type of ethical behavior required of professionals through adherence to a published organizational Code of Ethics.

PREAMBLE: Those engaged in offering insurance and other related financial services occupy the unique position of liaison between the purchasers and the suppliers of insurance and closely related financial products. Inherent in this role is the combination of professional duty to the client and to the company as well. Ethical balance is required to avoid any conflict between these two obligations.

I Believe It To Be My Responsibility:

• To hold my profession in high esteem and strive to enhance its prestige.
• To fulfill the needs of my clients to the best of my ability
• To maintain my clients’ confidences
• To render exemplary service to my clients and their beneficiaries
• To adhere to professional standards of conduct in helping my clients to protect insurable obligations and attain their financial security objectives
• To present accurately and honestly all facts essential to my clients’ decisions
• To perfect my skills and increase my knowledge through continuing education
• To conduct my business in such a way that my example might help raise the professional standards of those in my profession.
• To keep informed with respect to applicable laws and regulations and to observe them in the practice of my profession
• To cooperate with others whose services are constructively related to meeting the needs of my clients

CODE OF CONDUCT

The ethical advisor must strive for a high level of personal integrity and must always put the interest of the customer first, above all else.

He must be aware of the factors that influence his customers and provide them with the same service, advice, compassion and skill with which he would serve his own family. He must not make unsupported claims or make untrue or exaggerated or misleading statements. Therefore, he must make it his own personal responsibility to know the laws and rules that regulate the business he represents and to follow them
in both spirit and the letter of the law. He must strive to constantly improve his professional skills and knowledge in the industry and maintain a professional level of conduct with all associates.

**FIDUCIARY RESPONSIBILITIES**

A fiduciary is a relationship involving a confidence or trust. When a representative (advisor) enters into a relationship with another individual (customer), both have agreed to a mutually beneficial relationship. When an advisor acts as a fiduciary, this means he has a relationship of confidence and trust with his customer—his customer views him as trustworthy and reliable.

Any representative/advisor acting in a fiduciary capacity owes his client/customer all of the following.

- **Good Faith** — If any one party cannot be seen by the other as generally acting in a good faith manner, a mutually successful relationship cannot exist.

- **Loyalty** — Acting on behalf of the client’s best interest.

- **Skill and Care** — Responsibility to handle the customer’s needs in a proficient and scrupulous manner.

- **Full Disclosure** — Without full disclosure, a customer cannot make a fully informed decision; therefore, the customer’s needs are not serviced appropriately.

- **Timeliness** — Obligations are typically based on time schedules. Any required paperwork should be submitted on a timely basis.

- **Funds Accountability** — In most cases and most business relationships, funds should not be commingled.

- **Avoid Conflict of Interest** — An advisor must act in all transactions to avoid any potential conflict of interest between himself, his customer, and the organization involved.

- **Proper Business Solicitation** — Solicit only that business deemed appropriate.

- **Competitive Fair Play** — Never disparage a competitor. Do not commit any act of defamation.
ESTABLISHING A GOOD FAITH RELATIONSHIP

While each party in a relationship has their own needs and responsibilities, the unifying theme to the relationship is that of utmost good faith. Utmost good faith is a term principally used with respect to insurance contracts, but can apply to any common financial transaction. The doctrine of utmost good faith is a minimum standard that requires both the buyer and the seller in a transaction to act honestly toward each other and to not mislead or withhold critical information from one another.

Operating with utmost good faith legally obliges all involved parties to reveal any information that might influence one party’s decision to enter into a contract with the other party. Whether the subject of the relationship is an insurance contract or any other mutually agreeable business transaction, all parties involved should operate with utmost good faith.

One party alone cannot create a cohesive relationship. If any one party cannot be viewed by the other as generally acting in good faith, a successful relationship cannot exist. When all parties are oriented toward the same goal with each striving toward that goal, and all parties are mutually dependent on each other for the attainment of that goal, then there is a minimization of conflict and a maximization of cooperation among the parties.

MAINTAINING LOYALTY

An advisor always acts on behalf of his customer’s best interest. An advisor cannot represent more than the interest of one principal/customer, without the full knowledge and consent of all parties involved. The advisor cannot receive personal financial gain other than that specified in agreement with all parties involved.

SKILL AND CARE

The advisor’s responsibility is to handle the customer’s needs in a proficient and scrupulous manner, thus enabling the customer’s goals to be reached. In order to accomplish this, the advisor must represent the customer in a skillful manner. Should a subject arise in which the advisor is unskilled, he must put his customer’s needs above his own, even if that means referring the customer elsewhere or to another source. Doing so insures the customer’s best representation.
**FULL DISCLOSURE**

Full disclosure is critical to the welfare of the customer/client. Should any information remain undisclosed, the customer cannot make a fully informed decision. Without having all the information at his disposal, a fully informed decision cannot be made and, therefore, the client’s needs are not being serviced appropriately. Even if disclosure of an item could deter the customer from acting upon the advisor’s recommendations, it is best to avoid any potential conflicts of interest. It is the fiduciary’s responsibility to keep his ethics and motivations unquestionable and intact.

**TIMELINESS**

Obligations are typically based on time schedules, such as applying for Social Security benefits at the appropriate time, or filing an appeal within the allotted timeframe. All paperwork should be submitted on a timely basis to limit the customer’s risk of a denial, such as in the case of filing a claim for Social Security benefits, or delaying the underwriting process for acceptance in an insurance contract.

**ACCOUNTABILITY OF FUNDS**

In most cases and most business transactions, customer funds should never be commingled with other funds, especially those of an individual serving as advisor. As in the case of a representative payee for a beneficiary, the beneficiary’s Social Security benefit payments may not be commingled with the representative payee’s funds.

In the case of an insurance transaction, by law funds that are submitted to the agent are the same as if they had been delivered directly to the insurance company. The insurance company is responsible for those funds as soon as they are placed into the agent’s hands. Most states require premiums to be held in premium funds trust accounts for a time specified in the agent’s contract with the insurer (usually no more than 90 days). The agent can then submit the premiums to the insurer, less his portion of commission earned.

**CONFLICT OF INTEREST**

An advisor must act in all transactions to avoid any potential conflict of interest between himself, his customer, and the organization involved. The advisor’s highest priority is the obligation to his customer—acting at all times with his customer’s best interest in mind is paramount.
An advisor should never put himself in a position in which he can benefit from both parties involved in a transaction. He represents his customer and acts with his customer's best interest in mind.

An insurance agent must act in all transactions to avoid any potential conflict of interest between himself, the insurer, and the insured. An agent has an obligation to the insurer to represent the insurer's product in a skillful and honest manner. Should there be any misrepresentation wherein the insured's decision was based on misrepresentation, intentional or not, the agent is liable for losses to the insurer, the insured, or perhaps both. In the event an agent receives compensation in a transaction for performing related services in the same transaction, the insurer must be made aware of this compensation and it must in no way conflict with the agent's contractual obligation with the principal.

**BUSINESS SOLICITATION**

It is an advisor's obligation to solicit only that business which represents the risk element that his/her employer is willing to take. To solicit higher risk business and omit or alter information in an effort to conceal any risk factor is unethical and not in keeping with the fiduciary responsibilities owed to the customer.

**DEFAMATION**

Defamation is malicious and should be avoided at all times. Defamation of character can cause injury to one's reputation, sometimes resulting in irreparable damage. Opinions, of course, need to be expressed but must be done so with thought and moral testimony.

Any intentional false communication, either written or spoken, that harms a person's reputation can be construed as defamation of character. Not only is defamation unethical, it can also be considered a criminal act.

**BENEFITS OF MORALITY**

Unfortunately, small transgressions that do not break any laws can lead to larger acts that do. It is imperative that representatives who interact with each other support each other to maintain a high and consistent degree of ethical behavior.

It is crucial for individuals who represent others or who interact with fellow representatives to maintain a moral course. Doing so can only create strong teamwork and productivity. Adhering to a strict code of ethics not only supports
individual growth but, as a result, tends to promote a strong public image. The "good of the consumer" becomes part of the individual's own philosophy—in theory and in practice.

There is no limit on the value of ethics in business. An ethical corporation is headed by ethical leaders and created through the implementation of ethical practices and procedures. Ethical behavior in the workplace naturally trends toward ethical employees and trickles down to its most important task—treatment of customers in an ethical manner.

**Ethical behavior is contagious.**

The application of ethics within the corporate community lends a way to determine responsibility in business dealings. The identification of respected business and social issues leads to an improved society.

**AVOIDING ETHICAL DILEMMAS**

Acting in an unethical manner doesn’t necessarily mean that a law has been broken; however, breaking the law often starts with some unethical behavior that has gone unnoticed. Stressful situations could lead someone to make a “gray” decision, which under normal circumstances would be seen by the same person as “black” or “white.” Applying a series of questions and answering those questions honestly could avoid an ethical dilemma.

- Has the problem or situation been defined accurately?
- If you were the other party, how would you define the problem?
- If you were the other party, would you make the same decision on your own behalf?
- What caused this situation?
- Where does your loyalty lie?
- What is your objective in making this decision?
- How does this aim compare with the probable outcome?
- Could your decision or action injure anyone and, if so, whom?
- Prior to making your decision, could you discuss the problem with the affected parties openly and honestly?
• Are you convinced that your position will be as valid over a long period of time as it seems now?

• Could you disclose your decision or action to your superiors (i.e., CEO, Board of Directors, family members, society as a whole), without apprehension?

• What is the symbolic potential of your action if understood?

• What is the symbolic potential of your action if misunderstood?

• Would you allow exceptions to your decision and, if so, under what circumstances?
POINTS TO PONDER — IMPLEMENTING AN ETHICAL PHILOSOPHY

• Business ethics are generally accepted professional standards of conduct.

• Most companies these days have developed their own Code of Ethics, their own ethical value system.

• Exercising personal responsibility reflects the willingness to hold oneself accountable for ensuing actions and results.

• Any individual who is tempted by another individual or by a certain situation to act in an unethical manner must consider the long-term affects of those actions.

• If one employee commits an ethical violation and is suspended from practicing within the company, the next individual who commits the same violation must receive the same punishment.

• The ethical advisor must strive for a high level of personal integrity and must always put the interest of the customer first, above all else.

• The doctrine of utmost good faith is a minimum standard that requires both the buyer and the seller in a transaction to act honestly toward each other and to not mislead or withhold critical information from one another.

• Full disclosure is critical to the welfare of the customer/client. Should any information remain undisclosed, the customer cannot make a fully informed decision.

• In the case of an insurance transaction, by law funds that are submitted to the agent are the same as if they had been delivered directly to the insurance company.

• Defamation of character can cause injury to one’s reputation, sometimes resulting in irreparable damage.
CHAPTER 16 REVIEW QUESTIONS — IMPLEMENTING AN ETHICAL PHILOSOPHY

Which of the following answers/completes each question/sentence the best?
(Answers are in the back of the text.)

1. Business ethics are generally accepted professional:
   a) standards of conduct.
   b) modus operandi.
   c) contracts.
   d) employment agreements.

2. Most companies these days have developed their own__________, their own ethical value system.
   a) Code of Conduct
   b) Code of Ethics
   c) modus operandi
   d) administration

3. Exercising _____________ reflects the willingness to hold oneself accountable for ensuing actions and results.
   a) skill and loyalty
   b) commingling of funds
   c) personal responsibility
   d) care and skill

4. Any individual who is tempted by another individual or by a certain situation to act in an unethical manner must consider:
   a) his employer's reaction.
   b) the long-term affects of those actions.
   c) how those actions may benefit him personally.
   d) how his next employer will view his actions.

5. If one employee commits an ethical violation and is suspended from practicing within the company, what should happen to the next individual who commits the same violation?
   a) It depends upon the individual's circumstances.
   b) It depends upon the individual's motivation.
   c) The next individual's punishment should be even harsher.
   d) The next individual must receive the same punishment.
ANSWERS TO CHAPTER REVIEW QUESTIONS

Following are the correct answers to the chapter review questions—listed by chapter, question number, the correct answer, and the section where the answers can be found within the course material.

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