



Social Security

# Understanding The Benefits

January 2005

[www.socialsecurity.gov](http://www.socialsecurity.gov)

## Contacting Social Security

### Visit our website

Our website, [www.socialsecurity.gov](http://www.socialsecurity.gov), is a valuable resource for information about all of Social Security's programs. At our website, you also can:

- Apply for benefits;
- Get the address of your local Social Security office;
- Get forms to request important documents, such as a *Social Security Statement*, a replacement Social Security or Medicare card or a letter to confirm your benefit amount; and
- Find copies of our publications.

### Call our 1-800 number

In addition to using our website, you also can call toll-free at **1-800-772-1213**. We can answer specific questions and provide information by automated phone service 24 hours a day. If you are deaf or hard of hearing, you may call our TTY number, **1-800-325-0778**.

We treat all calls confidentially. We also want to make sure you receive accurate and courteous service. That is why we have a second Social Security representative monitor some telephone calls.

## A message from the Commissioner of Social Security

**S**ocial Security reaches almost every family, and at some point will touch the lives of nearly all Americans.

Social Security helps not only older Americans, but also workers who become disabled, and families in which a spouse or parent dies. Today, more than 156 million people work and pay Social Security taxes and more than 47 million people receive monthly Social Security benefits.

Most of our beneficiaries are retirees and their families—about 32 million people.

But Social Security was never meant to be the only source of income for people when they retire. Social Security replaces about 40 percent of an average wage earner's income after retiring, and most financial advisors say retirees will need about 70–80 percent of their work income to live comfortably in retirement. To have a comfortable retirement, Americans need much more than just Social Security. They also need private pensions, savings and investments.

The Social Security Administration wants you to understand what Social Security can mean to you and your family's financial future. This publication, *Understanding The Benefits*, explains the basics of the Social Security retirement, disability and survivors insurance programs.

I also urge you to learn more about the financial issues that Social Security faces in the future. Today's retirees and those who will be retiring soon should



not worry—their benefits will not be affected. We need to take steps to ensure that Social Security will provide a foundation of protection for future generations as it has done in the past.

A handwritten signature in blue ink that reads "Jo Anne B. Barnhart". The signature is written in a cursive style with a large initial "J".

Jo Anne B. Barnhart  
Commissioner

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## Social Security: a simple concept

The current Social Security system works like this: when you work, you pay taxes into Social Security. The tax money is used to pay benefits to:

- People who already have retired;
- People who are disabled;
- Survivors of workers who have died; and
- Dependents of beneficiaries.

The money you pay in taxes is not held in a personal account for you to use when you get benefits. Your taxes are being used right now to pay people who now are getting benefits. Any unused money goes to the Social Security trust funds, not a personal account with your name on it.

### The future of Social Security

Social Security is a compact between generations. For more than 65 years, America has kept the promise of security for its workers and their families. But now, the Social Security system is facing financial problems, and action is needed to make sure that the system is sound when today's younger workers are ready for retirement.

Here is why the level of benefits that Social Security will be able to pay in the future is uncertain. Today there are about 35 million Americans age 65 or older. Their Social Security retirement benefits are funded by today's workers and their employers, who jointly pay Social Security taxes—just as the money they paid into Social Security was used to pay benefits to those who retired before them. Unless action is taken to strengthen Social Security, in just 13 years we will begin paying more in benefits than we collect in taxes. Without changes, by 2042 the Social Security trust funds will be exhausted. By then, the number of

Americans 65 or older is expected to have doubled. There will not be enough younger people working to pay all of the benefits scheduled for those who are retiring. At that point, there will be enough money to pay only about 73 cents for each dollar of benefits that retirees are scheduled to receive. We will need to resolve these issues to make sure Social Security will provide a foundation of protection for future generations as it has done in the past.

## **Social Security is more than retirement**

Many people think of Social Security as just a retirement program. Although it is true that most of the people receiving Social Security receive retirement benefits, many others get Social Security because they are:

- Disabled; or
- A spouse or child of someone who gets Social Security; or
- A spouse or child of a worker who died; or
- A dependent parent of a worker who died.

Depending on your circumstances, you may be eligible for Social Security at any age. In fact, Social Security pays more benefits to children than any other government program. Today, more than 47 million people, about one out of every six Americans, collect some kind of Social Security benefit.

## Your Social Security taxes

The Social Security taxes you and other workers pay into the system are used to pay for Social Security benefits.

You pay Social Security taxes on your earnings up to a certain amount. That amount increases each year to keep pace with wages. In 2005, that amount is \$90,000.

## Medicare taxes

You pay Medicare taxes on all of your wages or net earnings from self-employment. These taxes are used for Medicare coverage.

If you work for someone else	Social Security tax	Medicare tax
You pay	6.2%	1.45%
Your employer pays	6.2%	1.45%
If you are self-employed		
You pay	12.4%	2.9%

## Where your Social Security tax dollars go

When you work, 85 cents of every Social Security tax dollar you pay goes to a trust fund that pays monthly benefits to current retirees and their families and to surviving spouses and children of workers who have died. The other 15 cents goes to a trust fund that pays benefits to people with disabilities and their families.

From these trust funds, Social Security also pays the costs of managing the Social Security programs. The Social Security Administration is one of the most efficient agencies in the federal government, and we are working to make it better every day. Of each



Social Security tax dollar you pay, we spend less than one penny to manage the program.

The entire amount of taxes you pay for Medicare goes to a trust fund that pays for some of the costs of hospital and related care of all Medicare beneficiaries. Medicare is managed by the Centers for Medicare and Medicaid Services, not Social Security.

## What you need to know about Social Security while you are working

### Your Social Security number

Your link with Social Security is your Social Security number. You will need it to get a job and to pay taxes. We use your Social Security number to track your earnings while you are working and to track your benefits after you are getting Social Security.



Do not carry your Social Security card unless you need to show it to your employer. You should be careful about giving someone your Social Security number. Identity theft is one of the fastest growing crimes today. Most of the time identity thieves use your Social Security number and your good credit to apply for more credit in your name. Then they use the credit cards to buy things for themselves, and they do not pay the bills.

Your Social Security number and our records are confidential. If someone else asks us for information we have about you, we will not give any information without your written consent, unless the law requires or permits it.

Contact us if you need a Social Security number, if you lose your card and need another one or if you need to change your name on your current card. We

will ask you to fill out a simple one-page form and ask to see certain documents. (We need to see originals or certified copies.) Examples of documents we may ask you for are:

- A birth certificate and some form of identification for a new card (see Publication No. 05-10002, *Your Social Security Number And Card*, for a detailed list of identity documents we accept);
- Some form of identification for a replacement card; or
- A marriage certificate or divorce papers for a name change.

All of our services are free. Social Security never charges for the services we provide.

## **How you become eligible for Social Security**

As you work and pay taxes, you earn Social Security “credits.” In 2005, you earn one credit for each \$920 in earnings—up to a maximum of four credits per year. (The amount of money needed to earn one credit goes up every year.)

Most people need 40 credits (10 years of work) to qualify for benefits. Younger people need fewer credits to be eligible for disability benefits or for family members to be eligible for survivors benefits when the worker dies.

## What you need to know about benefits

Social Security benefits replace a percentage of your earnings when you retire, become disabled or die. Each year, we will send you a *Social Security Statement* showing your earnings history and an estimate of the retirement, disability and survivors benefits you and your family may receive based on those earnings.

When you receive your *Statement*, check your earnings history carefully. Make sure all of your earnings are accurate. Be sure to report any errors to us. That is important because your benefits will be based on your lifetime earnings. Your *Statement* also is useful in helping you plan your financial future.

### Retirement benefits

Choosing when to retire is one of the most important decisions you will make in your lifetime. If you choose to retire when you reach full retirement age (see page 10), you will receive your full retirement benefits. But if you retire before reaching full retirement age, you will receive reduced benefits for the rest of your life.

If you work past your full retirement age, you will get full retirement benefits no matter how much you earn. If you continue working and decide not to collect your retirement benefits until you reach age 70, you will get higher benefits when you retire (see page 11 for information on delayed retirement). If you choose not to collect retirement benefits before you reach full retirement age, you should be sure to file for Medicare when you reach age 65. If you do not, you may have to pay a higher premium when you file later.

## Full retirement age

If you were born before 1938, you were eligible for your full Social Security benefit on your 65th birthday. In 2003, the age at which full benefits are payable began to increase gradually. The following chart will guide you in determining your full retirement age:

Full retirement age	
<i>Year of birth</i>	<i>Full retirement age</i>
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960	67

**NOTE:** Although the full retirement age is rising, you should still apply for Medicare benefits within three months of your 65th birthday. If you wait longer, your Medicare medical insurance (Part B) may cost you more money.

62 65 67

## Delayed retirement

If you choose to delay receiving benefits beyond your full retirement age, you have two more options:

- You can work and get full retirement benefits no matter how much you earn; or
- You can decide not to collect your retirement benefits until age 70 and then get a higher benefit when you do retire.

Social Security benefits are increased by a certain percentage depending on the year you were born. If, for example, you were born in 1940, your benefits would increase 7 percent for each year, between your full retirement age and age 70, that you do not get retirement benefits.

## Early retirement

You may start receiving benefits as early as age 62. However, if you start your benefits early, your benefits are reduced **permanently**. Your benefit is reduced about one half of one percent for each month you start your Social Security before your full retirement age. For example, if your full retirement age is 65 and 6 months and you sign up for Social Security when you are 62, you would only get 77.5 percent of your full benefit.

***NOTE:** The reduction will be greater in future years as the full retirement age increases.*

## If you work and get benefits

You can continue to work and still receive retirement benefits. Your earnings in (or after) the month you reach full retirement age will not reduce your Social Security benefits. However, your benefits will be reduced if your earnings exceed certain

limits for the months before you reach your full retirement age.

If you work but start receiving benefits before full retirement age, \$1 in benefits will be deducted for each \$2 in earnings you have above the annual limit.

In the year you reach your full retirement age, your benefits will be reduced \$1 for every \$3 you earn over a different annual limit until the month you reach full retirement age.

Once you reach full retirement age, you can keep working and your Social Security benefit will not be reduced no matter how much you earn.

For more information about how work affects your benefits contact us and ask for a copy of *How Work Affects Your Benefits* (Publication No. 05-10069).

***NOTE:** People who work and receive disability or Supplemental Security Income payments have different earnings rules. They must report all of their earnings to Social Security no matter what they earn.*

## **Retirement benefits for widows and widowers**

If you are receiving widow's or widower's benefits, you can switch to your own retirement benefits as early as age 62, assuming your retirement benefit is more than the amount you receive on your deceased spouse's earnings. In many cases, you can begin receiving one benefit at a reduced rate and then switch to the other benefit at the full rate when you reach full retirement age. The rules are complicated and vary depending on your situation, so talk to a Social Security representative about the options available to you.

## Disability benefits

If you cannot work because of a physical or mental condition that is expected to last at least one year or result in death, you may be eligible for Social Security disability benefits.

Our disability rules are different from those of other private plans or government agencies. The fact that you qualify for disability from another agency or program does not mean you will be eligible for disability benefits from us. And having a statement from your doctor indicating you are disabled does not mean you will automatically be eligible for Social Security disability benefits.

People with disabilities, including children, who have little income and few resources, also may be eligible for disability payments through the Supplemental Security Income (SSI) program. For more information about SSI, contact us to ask for a copy of *Supplemental Security Income (SSI)* (Publication No. 05-11000).

If you become disabled, you should file for disability benefits as soon as possible, because it usually takes several months to process a disability claim. We may be able to process your claim more quickly if you have the following when you apply:

- Medical records from your doctors, therapists, hospitals, clinics and caseworkers;
- Your laboratory and other test results;
- The names, addresses and phone and fax numbers of your doctors, clinics and hospitals;
- The names of all medications you are taking; and
- The names of your employers and job duties for the last 15 years.

## Benefits for your family

When you start receiving Social Security retirement or disability benefits, other family members also may be eligible for payments. For example, benefits can be paid to your husband or wife:

- If he or she is age 62 or older; or
- At any age if he or she is caring for your child (the child must be younger than 16 or disabled and receiving Social Security benefits on your record).

Benefits also can be paid to your unmarried children if they are:

- Younger than 18;
- Between 18 and 19 years old, but in elementary or secondary school as full-time students; or
- Age 18 or older and severely disabled (the disability must have started before age 22).

If you become the parent of a child (including an adopted child) after you begin receiving benefits, let us know about the child, so we can decide if the child is eligible for benefits.

### How much can family members get?

Each family member may be eligible for a monthly benefit that is up to half of your retirement or disability benefit amount. However, there is a limit to the total amount of money that can be paid to your family. The limit varies, but is generally equal to about 150 to 180 percent of your retirement benefit.

### If you are divorced

If you are divorced, your ex-spouse may qualify for benefits on your earnings. In some situations, he or she may get benefits even if you are not receiving them. To qualify, a divorced spouse must:



- Have been married to you for at least 10 years;
- Have been divorced at least two years;
- Be at least 62 years old;
- Be unmarried; and
- Not be eligible for an equal or higher benefit based on his or her own work or someone else's work.

## **Survivors benefits**

When you die, your family may be eligible for benefits based on your work.

Family members who can collect benefits include a widow or widower who is:

- 60 or older; or
- 50 or older and disabled; or
- Any age if he or she is caring for your child who is younger than 16 or disabled and receiving Social Security benefits.

Your children can receive benefits, too, if they are unmarried and:

- Younger than 18 years old; or
- Between 18 and 19 years old, but in an elementary or secondary school as full-time students; or
- Age 18 or older and severely disabled (the disability must have started before age 22).

Additionally, your parents can receive benefits on your earnings if they were dependent on you for at least half of their support.

## **Payment after death**

If you had enough credits, a one-time payment of \$255 also will be made after your death. This benefit may be paid to your spouse or minor children if they meet certain requirements.

## If you are divorced

If you are divorced, your ex-spouse may be eligible for survivors benefits on your record when you die. He or she must:

- Be at least age 60 years old (or 50 if disabled) and have been married to you for at least 10 years; or
- Be any age if he or she is caring for a child who is eligible for benefits based on your work; and
- Not be eligible for an equal or higher benefit based on his or her own work; and
- Not be currently married, unless the remarriage occurred after age 60 or after age 50 if disabled.

*NOTE: If your ex-spouse remarries after 60, he or she may be eligible for Social Security benefits based both on your work and the new spouse's work, whichever is higher.*

## How much will your survivors get?

Your survivors receive a percentage of your basic Social Security benefit—usually in a range from 75 to 100 percent each. However, there is a limit to the amount of money that can be paid each month to a family. The limit varies, but is generally equal to about 150 to 180 percent of your benefit rate.

## Your benefits may be taxable

Some people who get Social Security will have to pay taxes on their benefits. About one-third of our current beneficiaries pay taxes on their benefits.

You will have to pay taxes on your benefits if you file a federal tax return as an “individual” and your total income is more than \$25,000. If you file a joint return, you will have to pay taxes if you and your spouse have a total income that is more than \$32,000.

For more information call the Internal Revenue Service's toll-free number, **1-800-829-3676**.

## When you are ready to apply for benefits

Contact us when you are ready to file for benefits. If you are just thinking about filing for retirement benefits, we suggest you talk with a Social Security representative a few months before the year you plan to retire. To file for disability or survivors benefits, you should apply as soon as you are eligible.

You also can apply for benefits on our website. Go to **[www.socialsecurity.gov](http://www.socialsecurity.gov)** and click on "Apply for retirement benefits." You also can calculate your benefit amount at **[www.socialsecurity.gov/planners](http://www.socialsecurity.gov/planners)**.

## What you will need to apply

When you apply for benefits, we will ask you to provide certain documents. The documents we will ask for depend on the type of benefits you are filing for. Providing these documents to us quickly will help us pay your benefits faster. You must submit original documents or copies certified by the issuing office—we cannot accept photocopies.

Do not delay filing an application just because you do not have all of the documents you need. We will help you get them.

Here is a list of some documents you may need when you sign up for Social Security:

- Your Social Security card (or a record of your number);
- Your birth certificate;
- Your children's birth certificates (if they are applying);
- Proof of U.S. citizenship or lawful alien status if you (or a child who is applying) were not born in the United States;

- Your spouse's birth certificate and Social Security number if he or she is applying for benefits based on your earnings;
- Marriage certificate (if signing up on a spouse's earnings);
- Your military discharge papers if you had military service; and
- Your most recent W-2 form, or your tax return, if you are self-employed.

We will let you know if other documents are needed when you apply.

## **How benefits are paid**

Social Security benefits generally are paid by direct deposit. Direct deposit is a simple, safe and secure way to receive your benefits. Be sure to have your checkbook or account statement with you when you apply. We will need that information to make sure your monthly benefit is correctly deposited into your account.

If you do not want direct deposit, we will make other arrangements to pay your monthly benefits.

## **Supplemental Security Income (SSI) program**

If you get Social Security benefits, but have limited income and resources (things you own), SSI may be able to help. SSI is financed from general revenues, not Social Security taxes.

SSI makes monthly payments to people who are age 65 or older or who are blind or disabled. We do not count some of your income and some of your resources when we decide whether you are eligible for SSI. Your house and your car, for example, usually are not counted as resources.

Call us for more information or to apply for SSI.

## Right to appeal

If you disagree with a decision made on your claim, you can appeal it. The steps you can take are explained in *The Appeals Process* (Publication No. 05-10041), which is available from Social Security.

You have the right to be represented by an attorney or other qualified person of your choice. More information is in *Your Right To Representation* (Publication No. 05-10075), which is also available from Social Security.

## Medicare

Medicare is our country's basic health insurance program for people age 65 or older and many people with disabilities.

You should not confuse Medicare and Medicaid. Medicaid is a health care program for people with low income and limited resources. It is usually run by state welfare or social services agencies. Some people qualify for one or the other, while some people qualify for both Medicare and Medicaid.

### Medicare has two parts

Medicare provides—

- Hospital insurance (Part A) that helps pay for inpatient hospital care and certain follow-up services; and
- Medical insurance (Part B) that helps pay for doctors' services, outpatient hospital care and other medical services.

### Who is eligible for hospital insurance (Part A)?

Most people get hospital insurance when they turn 65. You qualify for it automatically if you are eligible for Social Security or Railroad Retirement benefits.

Or you may qualify based on a spouse's (including divorced spouse's) work. Others qualify because they are government employees not covered by Social Security who paid the Medicare tax.

If you get Social Security disability benefits for 24 months, you will qualify for hospital insurance.

Also, people who have permanent kidney failure that requires maintenance dialysis or a kidney replacement or who have amyotrophic lateral sclerosis (Lou Gehrig's disease) qualify for hospital insurance if they have worked long enough or if they are the spouse or child of a worker who qualifies.

## **Who can get medical insurance (Part B)?**

Almost anyone who is eligible for hospital insurance can sign up for medical insurance. Part B is an optional program. It is not free. In 2005, the monthly premium is \$78.20 per month. Most people sign up for this part of Medicare.

## **Help with Medicare expenses for people with low income**

If you have a 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.

Only your state can decide whether you qualify for help under this program. If you think you qualify, contact your state or local medical assistance (Medicaid) agency, social services or welfare office. You can get more information about this program from the publication, *Medicare Savings Programs*. To get a copy, call the Medicare toll-free number, **1-800-MEDICARE (1-800-633-4227)**, or visit **[www.medicare.gov](http://www.medicare.gov)** on the Internet and click on "Publications."

## Some facts about Social Security

### 2005 Social Security taxes

- You and your employer each pay 6.2 percent
- If you are self-employed, you pay 12.4 percent
- You do not pay Social Security taxes on any earnings above \$90,000

### 2005 Medicare taxes

- You and your employer each pay 1.45 percent
- If you are self-employed, you pay 2.9 percent
- Medicare taxes are paid on all of your earnings; there is no limit

### Work credits in 2005

- For each \$920 you earn, you receive one Social Security “credit,” up to four per year
- Most people need 40 credits to be eligible for retirement benefits
- Younger people need fewer credits to qualify for disability and survivors benefits

### Average 2005 monthly Social Security benefits

- Retired worker: \$955
- Retired couple: \$1,574
- Disabled worker: \$895
- Disabled worker with a spouse and child: \$1,497
- Widow or widower: \$920
- Young widow or widower with two children: \$1,979

### 2005 SSI payment rates

(does not include state supplement, if any)

- \$579 for an individual
- \$869 for a couple

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