

How would you like to have a pension plan that provides lifetime income with an annual cost-of-living increase? If you will have worked at least 10 years before you retire, you have one: Social Security.

Social Security is the base of retirement security for 96 percent of American workers, and the largest source of income for older Americans. As long as you work, you'll continue to earn credit toward your retirement benefit. And once you decide to retire, any time after you turn 62, you'll be able to collect Social Security for the rest of your life.

However, the average earner's retirement benefit is about 40 percent of their past earnings. So personal savings and pensions must make up the rest of the amount you'll need to have the lifestyle you've planned for on your retirement roadmap.

How It Works

Most of us pay into Social Security through contributions (FICA) that come out of our paychecks (payroll deductions). In return, you may qualify not only for a monthly retirement benefit but also for disability benefits, survivor benefits, and support for families in which a parent is survived by children under the age of 16. Each type of benefit has different eligibility rules. For details, see the Social Security Administration website, www.ssa.gov.

Retirement Benefit

To qualify for a retirement benefit, you must work for at least 10 years. The amount you receive is based on how much you've earned throughout your life. The retirement benefit is designed to replace more of the earnings of lower-income workers, who have less opportunity to earn a pension or save for retirement than people who earn more.

You can start collecting Social Security at age 62. But you can only receive the full retirement benefit when you reach a certain age—between 65 and 67— that

depends on your birth date. To find the exact date when you'll qualify for full retirement benefits, see this chart on the Social Security website at www.ssa.gov/retirechartred.htm.

These are the broad age categories:

Birth year	Full retirement age
Before 1938	65
1938-1942	65
1943-1959	66
1960 or later	67

Your Social Security Statement: A Planning Tool

Every year, the federal government sends "Your Social Security Statement" to everyone age 25 or older. The Statement is a good tool to help you plot your path to retirement.

Here's how you can use the Statement to help with your retirement planning:

- Read the "Estimated Benefits" section to find an estimate of your Social Security benefit based on retiring at three different ages—62, your "full" retirement age, or 70.
- Make sure your name, birthdate (on page 2) and the last four digits of your Social Security number are correct.
- Study your annual Earnings Record, on page 3. If you think there's a mistake, check your salary stubs or other records. If you don't have the documentation, try to get it from your previous employer. If Social Security doesn't have a record of all of your earnings, you could end up with a lower benefit or even no benefit at all.
- Ask questions or correct mistakes by calling the Social Security Administration at 1-800-772-1213.

The amount that your benefit is reduced by retiring earlier depends on your age when you start receiving Social Security. For example, if you were born in 1954, your full retirement age is 66. If you start receiving benefits at 62, you'll receive 75% of your full benefit. If your full benefit would have been \$1,000, you will only receive \$750 each month.

If you delay your benefits until after full retirement age, you can receive a larger monthly payment. The amount of the increase depends on how long you delay. The increase gets larger until you reach age 70.

When should you start receiving Social Security? How you decide depends on factors such as whether you plan to continue working, the amount of your retirement savings, how many years you expect to be retired, and your family situation. (See the AARP Tip Sheet, "Timing Your Retirement.")

Here's an example of the estimated benefit for a worker who earns about \$37,000 currently and has worked a full career under Social Security:

Age 62	\$786 a month
Age 67 (full retirement age)	\$1,090 a month
Age 70	\$1,518 a month

In general, you should try to wait until full retirement age, or even longer, to start on Social Security. Unless you can rely on a traditional pension or have a lot of personal savings, you may need the higher benefit that comes with waiting a few years.

Spousal Benefit

If you're married, you may be able to increase your Social Security benefit based on your spouse's work record. Social Security benefits are not awarded based on sex. A man and a woman with the same earnings over their lifetime will receive the same benefit. However, the program was created at a time when it was common for wives to work in the home, rather than in a job that was covered by Social Security. Even though this is no longer the norm, the benefits are still calculated the same way. Basically, a spouse may receive up to 50 percent of the benefit of the eligible spouse.

These examples show two ways you can qualify for this additional retirement income:

- You never worked in a job with Social Security—or you worked in a covered job less than 10 years, so you're not eligible for a benefit. Your spouse receives \$1,200 per month in Social Security. Based on your spouse's work record, you can receive half of that, which is \$600. So you and your spouse will receive a total of \$1,800 per month from Social Security.
- You worked enough to qualify for \$300 a month from Social Security. Your spouse gets \$1,200 per month. Half of that is \$600, so you're eligible to receive \$600, instead of the \$300 based on only your record. So instead of \$1,500 a month, the two of you will receive \$1,800.

Even if you're divorced, you may be able to collect Social Security based on your ex's work history. To qualify in this case, you must:

- Have been married for at least 10 years; and
- Remain unmarried until after age 60.

This does not affect your ex's benefit, and Social Security does not tell your ex that you're getting the benefit.

Survivor Benefit

If a parent dies and is survived by children under age 16, the surviving parent may apply for benefits. If there are no children under age 16, the surviving spouse can begin to collect the benefit at full retirement age, or take a reduced benefit beginning at age 60. A surviving spouse who is disabled can begin receiving benefits at age 50.

Social Security and Work

Social Security allows you to work and collect your benefit at the same time, but there can be a penalty for doing this. If you earn more than certain limits, you can lose some of your Social Security. Here are the basic rules:

- If you're younger than your full retirement age and working, Social Security will deduct \$1 from your benefit for every \$2 you earn above an annual limit. (The 2009 limit is \$14,160.)
- In the year before you reach full retirement age, Social Security deducts \$1 in benefits for every \$3 you earn above a different limit. (The 2009 limit is \$37,680.) But this only applies to earnings before the month you reach your full retirement age.

Once you reach your full retirement age, you are not subject to the earnings limit. More important, your benefit is automatically recalculated using a later retirement age that gives you credit for any months in which you lost benefits because of working. This means that any benefit reduction because of working will be made up after full retirement age by an increase in your future benefit.

The System's Outlook

As Americans live longer and the first wave of baby boomers approaches retirement, there will be more

retirees receiving benefits, and fewer workers to pay into the system. But even if no changes are made, Social Security will pay full benefits until the 2040s. After that, if no changes are made, Social Security will still be able to pay over 70 percent of promised benefits. AARP favors a balanced approach to restoring the long-term solvency of the program and encourages policy makers to consider ways to keep Social Security strong for the future.

Your To-Do List:

- Sign up for benefits** at 1-800-772-1213 or www.ssa.gov.
- Use one of Social Security's calculators** to find out how much your benefit is expected to be at www.ssa.gov/planners/calculators.htm.
- Look up your full retirement age** at www.socialsecurity.gov/retire2/agereduction.htm.
- Before deciding to collect your benefit while continuing to work**, take the "earnings test" at www.ssa.gov/OACT/COLA/RTeffect.html to find out how your benefit would be affected.
- Save!** Social Security isn't a stand-alone retirement answer. Make use of retirement savings options available to you, like 401(k)s and IRAs.
- Update your information annually on AARP's Retirement Planning Calculator**, www.aarp.org/finance, and include the latest benefit estimates from your Social Security Statement.
- Stay up to date on Social Security news** at www.aarp.org/money/social_security
- Order other Money Matters Tip Sheets** to share with friends at www.aarp.org/orderfinancial-pubs.

This and other tip sheets provide general financial information; it is not meant to substitute for, or to supersede, professional or legal advice.

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