

Understanding Social Security

FACT SHEET

2024 Annual Lesson Series



What is Social Security?

Social Security is a social insurance plan for retirement. Workers and their employers contribute to Social Security when they work. Then, at retirement, workers who have met eligibility requirements can receive retirement benefits. While Social Security retirement benefits provide a major portion of many retirees' retirement income, these benefits were never intended to be, and often are not, the only source of income during retirement.

The Social Security Act was signed into law by President Franklin Roosevelt in 1935. Provisions of the Act also provide benefits to dependents or survivors if the covered worker becomes disabled or dies. The Social Security Administration reports that nearly 90% of people in the United States aged 65 and older — more than 52 million people — were receiving a Social Security benefit as of December 2022. It is anticipated that the number of Americans 65 and older will increase from about 58 million in 2022 to about 76 million by 2035.

Workers and their families should know what they can expect from the program. You need to understand

how the program operates, when to apply for benefits, and where to go for more information.

Life's Journey

Social Security travels with you throughout life's journey. From birth through student life and from your first job throughout your career, Social Security offers financial protections, information, and tools to help you secure your future.

At Birth

For most U.S. citizens, your connection with Social Security more than likely started at birth when your parents registered your Social Security number in the hospital. A Social Security number (SSN) is a nine-digit number that is assigned to all American citizens by the Social Security Administration. It is unique to you. If you became a citizen through immigration and naturalization, getting your Social Security number was probably a proud moment. A Social Security number used as a personal identifier early in life may be necessary if:

- a bank or financial (529 or investment) account is in a child's name;

- a child is claimed as a dependent on an income tax return;
- seeking medical coverage for a child;
- applying for government services for a child;
- enrolling a child in school;
- seeking a non-driver ID card;
- applying for a United States passport;
- obtaining a driver's permit/driver's license.

For Education

If preparing for education beyond high school (college, university, or technical school), a Social Security number is required for:

- application and enrollment;
- completing FASFA paperwork for financial aid or scholarships.

At Work

When you get a job, you will have to provide documentation to establish both identity and employment authorization to work in the United States. Your Social Security card is one document that establishes employment authorization. Others may be your birth certificate or passport. Your Social Security number is also used to track your earnings through employment and calculate work quarters.

Over Time

Your Social Security number will not change, but your name might. If you legally change your name due to marriage, divorce, or any other reasons, it is important that you get an updated Social Security card for accurate tracking of earnings.

In addition to Social Security, the SSN is now also used for a wide range of purposes. Because the number is so personal, it is understandable (and wise) to be protective of it. You may legitimately be asked to provide your SSN in any of the following situations.

- Financial transactions when opening accounts or obtaining credit or a loan. For investments or retirement accounts. When buying a car or real estate.
- Credit checks associated with credit card, vehicle and/or mortgage loan decisions, utility services, or health care services.
- Applying for insurance, including auto, homeowners, renters, private health insurance, and life insurance.

- To get a driver's license as well as when applying for a hunting, fishing, or other recreational license.
- Obtaining government benefits, including Medicare benefits.
- Anytime you get hired for a new job or wish to obtain current or past employment records.
- When filing income taxes.
- When undergoing a background check.

Who Receives Social Security Benefits?

Retirees, people with disabilities, and children may be eligible for benefits. Social Security benefits have become the foundation of economic security for millions of people. These benefits were established through trust funds.

- Old Age and Survivors Insurance (OASI), which pays retirement benefits for retirees.
- Disability Insurance (DI), which pays disability benefits.
- Hospital Insurance (HI), known as Medicare Part A, helps pay for services such as inpatient hospital care.
- Supplementary Medical Insurance (SMI), known as Medicare Part B and Medicare Part D, helps pay for services such as physician services, medical supplies, and prescription drug coverage.

These trust funds are funded by FICA taxes collected through employment earnings and income taxes. Eligibility and benefits through these trust funds are dependent on a person's earnings and qualified work quarters or qualification through someone else's record.

A work quarter is equal to three months. There are four quarters in a year. To earn a quarter, you must earn \$1,640 (2023) in a quarter. Typically, you must have 40 quarters or 10 years of work to receive Social Security retirement benefits and Medicare Part A at a zero-dollar premium.

Disability Insurance (DI)

People who cannot work because of a physical or mental condition may be eligible for Disability Insurance. A worker might qualify for DI benefits if:

- he or she is currently insured by Social Security, based on a recency test;

- the disability is expected to last at least one year or result in death; and
- he or she cannot do the same work as before or any other type of work.

In addition to the above requirements, the SSA uses a recent work test to determine your eligibility. This test compares your age with the length of time worked before the onset of the disability.

Benefit payments, if approved, will only start 6 months after the date of the initial onset of disability and are not retroactive.

Survivors Insurance (SI)

The Survivors Insurance benefit was added to the Social Security program in 1939 to protect dependents of a deceased and insured worker. Who qualifies?

An unmarried child receives full benefits if:

- Younger than 18 or between 18 and 19 and a full time K-12 student, or
- they have a disability that started before age 22.

A widow or widower receives full benefits if:

- full retirement age,
- at least 50 and disabled, or
- still caring for a child under age 16 or disabled.

A widow/widower can begin drawing a reduced

benefit at age 60. If a widow/widower remarries before the age of 60, the benefit is canceled. Remarriage after the age of 60 does not affect your benefits. The same rule applies to a divorced spouse, if the marriage lasted 10 years or more, receiving survivor benefits.

Retirement/Old-Age Insurance

Social Security benefit payments can start anytime between the ages 62 and 70 along with 40 work quarters. The amount of the benefit is based on the highest 35 years of earnings.

Know Your Full Retirement Age (FRA). It is the age at which you can start collecting your full Social Security payment without a reduction in benefits. Your FRA depends on the year and month you were born. If benefits are started prior to FRA, they will be reduced. If you continue to work and draw Social Security benefits prior to FRA, they are subject to an earnings limit.

Know your numbers. Be aware of how much money comes in and goes out each month. Consider both your actual income and expenses before retirement and your expected income and expenses after you retire. This can help you understand how a reduced or increased benefit will affect your ability to meet your needs in retirement.

Benefits of continuing to work. Staying in the workforce, full or part time, for even one or two additional years can earn you an even bigger increase in your Social Security benefit by replacing years with low or no earnings from your earnings record.

Consider your spouse's long-term needs. A surviving spouse receives the higher of the two spouses' benefits. It may make sense for higher earning spouses to



claim benefits at their Full Retirement Age or after to get the full or highest possible benefit. This can minimize the reduction in income a surviving spouse may experience.

The Link Between Social Security and Medicare

Medicare is a federal health insurance program for people aged 65 and older. Some younger people with disabilities may also qualify. It is designed to help with health care expenses but does not cover all medical expenses or the cost of long-term care. Even if you do not retire at age 65, you may need to enroll in Medicare. If you don't sign up at the appropriate time, you may pay a penalty in the form of higher premiums for the rest of your life.

Medicare consists of four distinct plans referred to as Medicare Parts and supplemental insurance.

Hospital Insurance — Medicare Part A is the hospitalization portion of the program. Most people do not pay a monthly Part A premium because they or a spouse has 40 or more quarters of Medicare-covered employment.

Medical Insurance — Medicare Part B is the medical insurance portion for outpatient care, doctor visits, and certain other services of the Medicare program. It requires payment of a monthly premium. The federal government pays for about 75% of part B.

Prescription Drug Coverage — Medicare Part D provides an optional prescription coverage plan.

Medicare Advantage — Medicare Part C regulates a type of health care plan that offers Medicare benefits through private health plans, such as HMOs and PPOs. Medicare pays Medicare Advantage Plans a lump sum annually to provide Plan A and B coverages. Some plans also provide prescription drug benefits.

Medigap policies provide supplemental medical insurance to cover gaps in standard Medicare coverage.

Plan for Your Future Now

Retirement may not seem like something to think about at this point, but it is never too early to start planning and understanding when you can claim benefits, what benefits you will have when you do, and the other benefits Social Security has to offer.

Tools and Resources

Determine your full retirement age at <https://www.ssa.gov/benefits/retirement/planner/ageincrease.html>

Claim a my Social Security account at www.ssa.gov/myaccount and track your actual earnings record and your estimated retirement and survivors benefits. You can also see and verify the estimated Social Security and Medicare taxes you have paid.

Explore 20 online services and calculators to assist you in planning for retirement, calculating your benefits, and calculating the value of continuing to work at <https://www.ssa.gov/benefits/calculators/>

What are work quarters?

Also called Social Security credits, these are the building blocks that are used to determine if you've worked long enough to qualify for each type of Social Security benefit. Workers earn credits when they work and pay Social Security taxes. You are not eligible for benefits if you do not have enough credits. Learn more at <https://www.ssa.gov/benefits/retirement/planner/credits.html>

What is FICA?

FICA, or Federal Insurance Contribution Act, is deducted from each paycheck. It is a federal payroll tax that helps to fund Social Security and Medicare.

What is a Social Security Blackout Period?

The gap that exists between the time a deceased worker's children reach the upper age limits for survivors benefits and the time that worker's spouse becomes eligible for widow/widower benefits.

What is a Medicare Initial Enrollment Period?

When you first become eligible for Original Medicare. This period lasts for seven months and includes the three months before the month you turn 65, the month of your 65th birthday, and the three months after the month you turn 65.

What is an Income Related Monthly Adjustment Amount (IRMAA)?

If you have a higher income, you might pay more for your Medicare Part B and Part D premiums. Social Security determines your IRMAA based on information provided by the Internal Revenue Service (IRS).

What is Extra Help?

If you have limited income and resources, you may qualify for help to pay for some drug coverage costs.

What is a Medicare Savings Program?

If you have limited income and resources, you may be able to get help from the state to pay your Medicare costs.

Worksheet

It is important that you and your family understand how Social Security benefits work. Understanding your eligibility for benefits and your full retirement age is just the beginning. Go to <https://www.ssa.gov/benefits/calculators/> for general information or to <https://www.ssa.gov/myaccount/> to review your personal work history and earnings record. From myssa.gov use the prompts below to explore your current personal situation.

I have claimed my account at www.ssa.gov/myaccount/

YES NO

I have/have earned enough work credits for:

Disability Benefits YES NO

Survivors Benefits YES NO

Retirement Benefits YES NO

Medicare YES NO

Fill in the blank:

My full retirement age (FRA) is _____

My Social Security benefit at age 62 would be _____

My Social Security benefit at the FRA would be _____

My Social Security benefit at age 70 would be _____

If I were to qualify for Medicare through disability or retirement, the current standard Part A and Part B premium is _____

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Kansas State University Agricultural Experiment Station and Cooperative Extension Service

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