# SOCIAL SECURITY

***Cost-of-Living Adjustment (COLA):***

Based on the increase in the Consumer Price Index (CPI-W) from the third quarter of 2001 through the third quarter of 2002, Social Security and Supplemental Security Income (SSI) beneficiaries will receive a 1.4 percent COLA for 2003. Other important 2003 Social Security information is as follows:

| *Tax Rate* | *2002* | *2003* |
|---|---|---|
| **Employee** | 7.65% | 7.65% |
| **Self-Employed** | 15.30% | 15.30% |
| NOTE: 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 (see below). The Medicare portion (HI) is 1.45% on all earnings. | | |

| *Maximum Earnings Taxable:* | *2002* | *2003* |
|---|---|---|
| **Social Security (OASDI only)** | $84,900 | $87.000 |
| **Medicare (HI only)** | No Limit | |

| *Maximum Social Security Benefit: Worker Retiring at Full Retirement Age in* | *January 2002* (Age 65) | *March 2003* (Age 65 and 2 months) |
|---|---|---|
| NOTE: For retirees born in 1937, full retirement age is 65; for those born in 1938, it is 65 and 2 months. Full retirement age will gradually increase to age 67 for those born in 1960 or later. | $1,660/mo. | $1,741/mo. |

| *Estimated Average Monthly Social Security Benefits Payable in January 2003:* | **Before *1.4% COLA*** | **After *1.4% COLA*** |
|---|---|---|
| **All Retired Workers** | $ 882 | $895 |
| **Aged Couple, Both Receiving Benefits** | $1,463 | $1,483 |
| **Widowed Mother and Two Children** | $1,812 | $1,838 |
| **Aged Widow(er) Alone** | $ 850 | $ 862 |
| **Disabled Worker, Spouse and One or More Children** | $1,376 | $1,395 |
| **All Disabled Workers** | $ 822 | $ 833 |

# Estimating Your Social Security Retirement Benefit
## *For Workers Born In 1940*

This worksheet shows how to estimate the Social Security monthly retirement benefit you would be eligible for at age 62 if you were born in 1940. It also allows you to estimate what you would receive at age 65 and 6 months, 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.

### *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. $_____

### *Step 5:*

a. Multiply the first $592 in Step 4 by 90%.
$_____

b. Multiply the amount in Step 4 over $592 and less than or equal to $3,567 by 32%.
$_____

c. Multiply the amount in Step 4 over $3,567 by 15%.
$_____

### *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 65 and 6 months, your full retirement age. $_____

### *Step 7:*
Multiply the amount in Step 6 by 77.5%. This is your estimated monthly retirement benefit at age 62. $_____

| Year | A. Maximum Earnings | B. Actual Earnings | C. Index Factor | D. Indexed Earnings |
|---|---|---|---|---|
| 1951 | $3,600 | | 11.49 | |
| 1952 | 3,600 | | 10.81 | |
| 1953 | 3,600 | | 10.24 | |
| 1954 | 3,600 | | 10.19 | |
| 1955 | 4,200 | | 9.74 | |
| 1956 | 4,200 | | 9.10 | |
| 1957 | 4,200 | | 8.83 | |
| 1958 | 4,200 | | 8.75 | |
| 1959 | 4,800 | | 8.34 | |
| 1960 | 4,800 | | 8.02 | |
| 1961 | 4,800 | | 7.87 | |
| 1962 | 4,800 | | 7.49 | |
| 1963 | 4,800 | | 7.31 | |
| 1964 | 4,800 | | 7.03 | |
| 1965 | 4,800 | | 6.90 | |
| 1966 | 6,600 | | 6.51 | |
| 1967 | 6,600 | | 6.17 | |
| 1968 | 7,800 | | 5.77 | |
| 1969 | 7,800 | | 5.46 | |
| 1970 | 7,800 | | 5.20 | |
| 1971 | 7,800 | | 4.95 | |
| 1972 | 9,000 | | 4.51 | |
| 1973 | 10,800 | | 4.24 | |
| 1974 | 13,200 | | 4.00 | |
| 1975 | 14,100 | | 3.73 | |
| 1976 | 15,300 | | 3.49 | |
| 1977 | 16,500 | | 3.29 | |
| 1978 | 17,700 | | 3.05 | |
| 1979 | 22,900 | | 2.80 | |
| 1980 | 25,900 | | 2.57 | |
| 1981 | 29,700 | | 2.33 | |
| 1982 | 32,400 | | 2.21 | |
| 1983 | 35,700 | | 2.11 | |
| 1984 | 37,800 | | 1.99 | |

| Year | A. Maximum Earnings | B. Actual Earnings | C. Index Factor | D. Indexed Earnings |
|---|---|---|---|---|
| 1985 | 39,600 | | 1.91 | |
| 1986 | 42,000 | | 1.86 | |
| 1987 | 43,800 | | 1.75 | |
| 1988 | 45,000 | | 1.66 | |
| 1989 | 48,000 | | 1.60 | |
| 1990 | 51,300 | | 1.53 | |
| 1991 | 53,400 | | 1.47 | |
| 1992 | 55,500 | | 1.40 | |
| 1993 | 57,600 | | 1.39 | |
| 1994 | 60,600 | | 1.35 | |
| 1995 | 61,200 | | 1.30 | |
| 1996 | 62,700 | | 1.24 | |
| 1997 | 65,400 | | 1.17 | |
| 1998 | 68,400 | | 1.11 | |
| 1999 | 72,600 | | 1.06 | |
| 2000 | 76,200 | | 1.00 | |
| 2001 | 80,400 | | 1.00 | |

**Are Social Security Benefits Taxable?**

About 20 percent of people who get Social Security have to pay taxes on their benefits. This provision affects only people who have substantial income in addition to their Social Security.

Here are some general guidelines:

If you file a federal tax return as an individual:

- And your combined income* is between $25,000 and $34,000, you may have to pay taxes on 50 percent of your Social Security benefits.
- If your combined income* is above $34,000, up to 85 percent of your Social Security benefits is subject to income tax.

If you file a joint return:

- you may have to pay taxes on 50 percent of your benefits if you and your spouse have a combined income* that is between $32,000 and $44,000.
- If your combined income* is more than $44,000, up to 85 percent of your Social Security benefits is subject to income tax.

# The Redistribution Effects of Social Security

- The social security tax is currently split equally by the employer (6.2%) and the employee (6.2%). The maximum taxable income is currently $84,900.

- To calculate ones social security benefits. The following steps are taken.

    1) Your indexed monthly income is calculated using the 35 years with the highest annual income (indexed for inflation).
    2) Once your indexed monthly income is found, your monthly benefit is found as follows:
        a. Multiply the first $592 by 90%
        b. Multiply any income between $592 and $3,567 by 32%
        c. Multiply any income above $3,567 by 15%
        d. Add up steps (a) through (c)

- Consider three individuals with the following annual incomes:

| Annual Income | Annual Tax Paid (12.4%) | Monthly Benefit at age 65.5 |
|---|---|---|
| $7,000 | $868 | $532 |
| $20,000 | $2,480 | $877 |
| $84,900 | $10,527 | $1,684 |

- Suppose that, rather than paying into the social security system, these three individuals invested their annual taxes in the private sector at an annual interest rate of 4%.

| Annual Income | Annual Contribution | Balance after 35 Yrs. | Monthly Interest Earned on Final Balance | Monthly Annuity Income |
|---|---|---|---|---|
| $7,000 | $868 | $66,487 | $221 | $469 |
| $20,000 | $2,480 | $189,963 | $633 | $1496 |
| $84,900 | $10,527 | $806,350 | $2687 | $6351 |