

THE ESSENTIALS

SOCIAL SECURITY



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The Essentials: Social Security

First established in 1935, Social Security is a comprehensive federal program that provides retirement benefits, disability benefits, and other payments to workers and their dependents. Social Security is designed to pay the following:

- Retirement benefits to those age 62 or older;
- Disability benefits to workers who are disabled;
- Survivor benefits to family members of deceased workers; and
- Health care coverage through Medicare.

While Social Security can be an important source of income for you and your family, it will not replace all lost income. You should be prepared to supplement Social Security income with other savings, investments, insurance, and/or pensions.

MetLife is pleased to offer this document as a useful tool in understanding the basics about Social Security. This is not intended to provide advice or counsel, but information and a starting point to research other, more complex questions you might have.

Table of Contents

- › Where Do Social Security Funds
Come From? 4
- › How Are the Collected Funds Used? 4
- › How Do I Qualify for Social Security? 5
- › Do I Need a Social Security Card? 5
- › Who Is Covered Under Social Security? 6
- › When Can I Begin Receiving
Social Security? 6
- › What Does Social Security Consider
to Be the “Full Retirement Age”? 7
- › How Does Early Retirement Affect
My Social Security Benefits? 8
- › How Will It Affect My Social Security
if I Plan to Work Beyond My
“Full Retirement Age”? 8
- › How Do I Know What My Social
Security Benefit Will Be When I Retire? 9
- › Can I Work After I Begin Receiving
Social Security? 10

› When I Retire, to Whom May Benefits Be Paid?.....	11
› How Are the Retirement Benefits of My Spouse Determined?	12
› What Happens if I Become Disabled?	12
› If I Become Disabled, to Whom Can Benefits Be Paid?	13
› If I Die Who Can Receive Benefits?	13
› What Is Survivors Insurance?	14
› Is There also a Lump Sum Survivor Benefit?	15
› What Is Supplemental Security Income?	15
› What Is Medicaid?.....	16
› What Is Medicare?.....	16
› How Do I Apply for Medicare?	16
› How Do I Sign Up for Social Security Benefits?.....	17
› When Should I Contact the Social Security Administration?	18
Resources for You.....	19

Social Security

Q. Where Do Social Security Funds Come From?

A. Social Security and Medicare are financed by taxes paid by you and your employer. Throughout your working career as a salaried employee, your employer withholds a percentage of your earnings (up to the maximum taxable amount), adds a matching amount as the employer's contribution, and pays the total to the Internal Revenue Service (IRS) as payroll tax. This is called "FICA"—the Federal Insurance Contributions Act—on your paycheck. Those who are self-employed will pay the full tax (15.3 percent) themselves as (SECA) Self-Employment Contributions Act contributions to the IRS. Although self-employed people pay double the Social Security taxes of a salaried person, half of the tax is deductible on their tax returns as a business cost.

Q. How Are the Collected Funds Used?

A. Social Security payroll taxes are credited to two Social Security trust funds: "Old Age and Survivors Insurance" (OASI) and the "Disability Insurance" (DI) trust funds. Money not used to pay benefits and administrative costs is invested in U.S. government bonds. The government uses the money invested in savings bonds to pay for projects and services it provides to U.S. citizens.

For the most part, out of every dollar you pay:

- 70 cents goes to a trust fund that pays monthly benefits to retirees and their families as well as to widows, widowers, and children of workers who have died.

- 19 cents goes to a trust fund that pays for the health care of all Medicare beneficiaries.
- 11 cents goes to a trust fund that pays benefits to people with disabilities and their families.
- Less than one cent goes to administering Social Security.

Q. How Do I Qualify for Social Security?

A. In order to be eligible for Social Security and Medicare benefits, you must have worked long enough, and in some cases, recently enough, to qualify. As you work and pay taxes, you earn Social Security credits. The amount of money you earn each quarter to obtain one credit goes up each year based on wage inflation. For example, in 2011, a worker will get one credit for each \$1,130 of annual earnings on which Social Security taxes are paid. A maximum of four credits can be earned within one calendar year. The number of credits needed to qualify for benefits also depends on the type of benefit. Generally, one needs 40 credits (or 10 years of work) to obtain retirement benefits. It doesn't matter when the credits are earned, nor is the dollar amount of the benefit based on the number of credits. All credits you've earned remain on your record, even if you have not worked for a period of time. Your benefit amount is based on your earnings averaged over most of your working career. Higher lifetime earnings result in higher benefits. If you have some years of low or no earnings, your benefit amount will be lower than if you had worked steadily.

Q. Do I Need a Social Security Card?

A. Everyone is required to have a Social Security number in order to work, file a federal income tax return, or be claimed as a dependent on someone

else's return. In most states, the application for a birth certificate also serves as an application for a Social Security number. Others should contact their nearest Social Security office.

Q. Who Is Covered Under Social Security?

A. Social Security pays benefits to nearly 54 million people. Though most people associate Social Security with retirement funds, Social Security also includes Medicare hospital and supplementary medical insurance programs, which cover a portion of health care expenses for beneficiaries over the age of 65. It also pays survivor benefits to the families of deceased workers as well as benefits for blind and disabled persons and their families. Today, almost every adult in the United States is either paying Social Security taxes or receiving benefits. The only exceptions are federal government employees hired before 1984; 25 percent of state and local government employee units that may already be covered with a pension plan. Each state and local government with a pension plan decides for itself whether to join Social Security/Medicare. Railroad workers are covered under the federal Railroad Retirement system.

Q. When Can I Begin Receiving Social Security?

A. You can retire as early as 62 years old ("Early Retirement") and receive benefits for the rest of your life. However, the age at which you choose to retire is important because it can have a significant impact on how much money you receive each month. The maximum benefit you can receive at retirement is determined by Social Security law,

and the amount changes from year to year. See the questions related to your anticipated retirement age for more information.

Q. What Does Social Security Consider to Be the “Full Retirement Age”?

A. Full Retirement Age had traditionally been set at 65 years, though it will gradually increase to age 67 depending upon the year in which you were born. The formula is designed so that if you have average earnings throughout your working life and retire at the Full Retirement Age, the benefit you receive in your first year of retirement will equal approximately 42 percent of what you earned in the year just before you retired. No matter what your earnings, the maximum benefit you can receive at retirement is determined by Social Security law. The amount changes from year to year.

The chart below shows the “Full Retirement Age” based on your date of birth.

“Full” Social Security Retirement Age

Year of Birth	Normal Retirement Age
› 1943–54	› 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 and later	› 67

Source: Social Security Administration

Q. How Does Early Retirement Affect My Social Security Benefits?

A. If you retire at age 62, you can take “Early Retirement” and begin collecting Social Security. However, the benefit amount you will receive is permanently reduced because of the longer period of time in which you’ll receive payments. You would continue receiving the lower amount even after you turned 65. If you choose to retire at age 62, also keep in mind you cannot apply for Medicare until age 65. If you retire early because you cannot work due to poor health, you should consider applying for Social Security Disability benefits. The amount of the disability benefit is the same as a full retirement benefit.

Q. How Will It Affect My Social Security if I Plan to Work Beyond My “Full Retirement Age”?

A. You can increase your Social Security benefit by delaying retirement, but you should sign up for Medicare at age 65 to insure continued health coverage. In some circumstances, medical insurance costs more if you delay applying for it. With Social Security, if you decide to retire after Full Retirement Age, you can increase your benefit in two ways:

1. You’ll add additional years of earnings to your Social Security record. Each year of work adds another year to Social Security; higher lifetime earnings could result in higher benefits when you do retire.
2. Your benefit will increase by a certain percentage if you delay retirement. These increases will be added automatically from the time you reach Full Retirement Age until you

start receiving your benefits, or until you reach age 70. The chart below provides an example of how your Social Security benefits may be impacted based on the age at which you retire:

Retirement: You Have Earned Enough Credits to Qualify for Benefits

› At age 62, your payment would be about	› \$1,064/month
› If you continue working until your full retirement age (67 years), your payment would be about	› \$1,543/month
› If you continue working until age 70, your payment would be about	› \$1,924/month

Source: Sample Statement, Social Security Administration.

In the above example, the individual would receive an extra \$860 per month for the rest of his/her life by waiting eight years to take Social Security. Find out how different retirement ages will change your benefit. Refer to the annual benefits estimate statement you get each year from the Social Security Administration. (See the Question: “How Do I Know What My Social Security Benefit Will Be When I Retire?” to learn how to obtain a statement of your projected benefits if you have not been receiving one.)

Q. How Do I Know What My Social Security Benefit Will Be When I Retire?

A. Social Security law uses a complex formula for determining retirement benefit amounts. In general, the formula will be applied to your record

of lifetime earnings through the year before your retirement. Since October 1999, Social Security has been sending personalized benefit statements to all workers over age 25 not currently receiving benefits. The annual Social Security Statement contains a complete earnings history along with estimates of benefits payable at age 62, full retirement age, and at age 70. You should receive it three months before your birthday. If not, you should call Social Security and request one. When you receive the statement, you should check for errors so they can be corrected promptly. Verify that the amounts listed equal your own record of earnings from pay stubs or income tax records. Call the Social Security helpline at 1-800-772-1213 to obtain your statement or to report any inaccuracies in the statement you received.

Q. Can I Work After I Begin Receiving Social Security?

A. You may want to work in some capacity after you retire. In April 2000, the law that determined what happens when you work and get benefits at the same time changed. As of now, while you are working, your benefit amount will be reduced only until you reach Full Retirement Age, not up to age 70. You can use the following formula to determine how much your benefit will be reduced:

- If you are under your “Full Retirement Age” (See the question “What Does Social Security Consider to Be the “Full Retirement Age?”) when you start collecting Social Security payments, \$1 in benefits will be deducted for every \$2 you earn above the annual limit (the annual limit or retirement earnings exempt

amount, is determined by an automatic adjustment procedure, which is periodically revised. In 2012, you could earn \$14,640 before your benefits would be reduced.

- The deductions in the year during which you reach “Full Retirement Age” are \$1 in benefits for every \$3 earned above a defined limit (\$38,880 in 2012). This limit only applies to your earnings in that year which are prior to the month in which you reach “Full Retirement Age.” Starting with the month in which you reach “Full Retirement Age,” you will receive your benefits with no limit on your earnings.

When figuring out how much is deducted from your benefits, only the wages you make from a job, or your net profit if you are self-employed, are counted. Pensions, annuities, investment income, interest, veterans, or other government or military retirement benefits are not counted.

Q. When I Retire, to Whom May Benefits Be Paid?

A. When you retire, benefits may be paid to the following:

- You (age 62 or older).
- Your spouse who is either a) age 62 or older or b) any age but caring for a child under 16 or a child older than 16 and disabled before age 22.
- Your divorced spouse (age 62 or over if the marriage lasted at least 10 years. These benefits may be paid before the worker actually retires.).
- Your unmarried child under age 18, or 18 if in high school, or any age if disabled before age 22.

Q. How Are the Retirement Benefits of My Spouse Determined?

A. A spouse can collect Social Security based on his or her own earned benefits or can collect a spousal benefit equal to 50 percent of the benefit of his or her spouse. A spouse is eligible to receive either one or the other, whichever would provide the greater monthly income amount. Social Security would make that determination prior to the individual's "Full Retirement Age." A spouse can also, however, at "Full Retirement Age" choose to receive the spousal benefit and delay receiving his or her own benefits until a later date. This will allow the individual to receive a higher benefit at a later age based on the delayed retirement benefit credit. A spouse cannot apply for a spousal benefit until his or her spouse files for benefits.

Q. What Happens if I Become Disabled?

A. It's important to note a distinction between short- and long-term disability insurance and Social Security. Social Security does not pay for partial disability or short-term disability. Generally, working families have other resources to provide support during periods of short-term disability, including sick pay, worker's compensation, insurance, savings, and investments.

Social Security disability payments cannot begin until after a five-month waiting period from the first full month of disability has expired. When a worker has received Social Security disability benefits for two years, he or she becomes eligible for Medicare. If you think you qualify for disability, you can file a disability claim at the local Social Security Administration office. The process is lengthy and requires review by the State

Disability Determination Service to decide if you qualify. You'll be required to provide the following:

- Your Social Security Card and birth certificate.
- Your medical records, including dates of hospitalization and doctors' visits, copies of prescriptions, etc.
- A detailed work history and explanation of how your disability has affected your ability to work. You may also be examined by a medical professional, as well as having all your records verified. If you are denied disability, you have 60 days to file an appeal. If you are approved to receive disability benefits, your case will be periodically reviewed.

Q. If I Become Disabled, to Whom Can Benefits Be Paid?

A. Benefits can be paid to the following, if you become disabled and unable to continue working:

- You at any age before "Full Retirement Age"
- Your spouse who is either a) age 62 or older or b) any age but caring for a child under 16 or a child older than 16 and disabled before age 22.
- Your unmarried child who is under 18, is 18 in high school, or is any age but disabled before age 22.

Q. If I Die, Who Can Receive Benefits?

A. If you die, Social Security will pay benefits to the following:

- Your spouse who is either a) age 62 or older or b) any age but caring for a child under 16 or a child older than 16 and disabled before age 22.
- Your unmarried child who is under 18, is 18 in high school, or is any age but disabled before age 22.

Q. What Is Survivors Insurance?

A. If you are a family member of a deceased worker, you may be able to apply for Social Security survivors benefits. Family members may qualify for all or a portion of a deceased worker's benefits if they meet any of these criteria:

- A widow or widower. The most typical situations are as follows: Today a widowed spouse age 65 or older will receive 100 percent. A widowed spouse age 60 to 64 may receive 71-99 percent. A spouse at any age with a minor child will generally receive about 75 percent.
- Divorced spouses may qualify for benefits if they're presently unmarried, if the marriage to the deceased lasted at least 10 years, and the surviving ex-spouse is at least 60 years of age.
- Children, for Social Security purposes, are defined as biological children, adopted children, step-children, and in some cases, dependent grandchildren. In order to receive benefits, a child must be under age 18 (or still in high school at age 18) and unmarried. Benefits are generally 75 percent of the worker's benefits. Benefits cease if the child marries.
- Parents may be entitled to benefits if they are 62 or older and were dependent on the deceased worker as their principal means of support.

Q. Is There also a Lump Sum Survivor Benefit?

A. Yes. A lump sum death benefit of \$255 is payable to any surviving spouse living with the deceased at the time of death. Children who are eligible for benefits are also eligible for the lump sum death payment of \$255 if there is no surviving spouse. Otherwise, the benefit is not payable. You must apply for this one-time payment within two years of the worker's death. The number of credits needed for earnings to be eligible for survivor's benefits depends on the age of the deceased. The younger a person is when he/she dies, the fewer the credits needed for his or her family to be eligible. Generally, a worker must have 1½ to 10 years Social Security-covered work in order for his or her family to receive benefits.

Q. What Is Supplemental Security Income?

A. Not to be confused with Social Security disability, Supplemental Security Income (SSI) pays monthly benefits for people who are in financial need and are blind, disabled, or over age 65. It is supplemental support paid for by the U.S. Treasury, not through Social Security taxes. Blind, mentally challenged, or disabled children may be eligible for SSI, regardless of their age. Eligibility and the amount received depends upon your assets, income, living arrangements, and whether your state government supplements the federal payment. People eligible for SSI are almost always eligible for Medicaid as well.

Q. What Is Medicaid?

A. Medicaid is a joint Federal/State program that provides significant hospital, physician, nursing home, and community-based long-term care benefits—as defined by each state’s program—for individuals with limited income and assets.

Q. What Is Medicare?

A. Medicare is the national health insurance program for people age 65 or older, certain people with disabilities who are younger than 65, and people who have permanent kidney failure. It is administered by the U.S. Health Care Financing Administration (HCFA). After you become 65 years old, you’ll be eligible for Medicare whether you continue to work or not.

*See **The Essentials: Medicare and Medicaid.***

Q. How Do I Apply for Medicare?

A. Three months prior to your 65th birthday, go to your local Social Security Administration (SSA) office to complete an application. Ask for a copy of the Medicare handbook. If you’re already receiving Social Security when you turn 65, you’ll automatically be enrolled in Medicare. If you are disabled, you will automatically be enrolled after you have been getting disability benefits for 24 months.

Q. How Do I Sign Up for Social Security Benefits?

A. Social Security will not start your benefits until you file an application. You can start the process by calling 1-800-772-1213 or by going to your local SSA office. You will need to bring the following original (or certified) documents with you:

- Your Social Security number and card. If you lost your card, call the Social Security office and give them the requested information to replace your card.
- Your birth certificate.
- Your W-2 or self-employment tax return from last year.
- Your military discharge papers if you had military service.
- Your spouse's birth certificate and Social Security number if he/she is applying for benefits as well.
- Your children's birth certificates and Social Security numbers if you're applying for benefits for them as well.
- The name of your bank and your account number so your benefits can be deposited directly into your account.

Q. When Should I Contact the Social Security Administration?

A. Individuals should take action and contact the SSA in these instances:

- Persons reaching age 62 should contact Social Security three months prior to age 62 if they are retired or planning to retire .
- Survivors (spouse or immediate family members) of deceased workers should contact the SSA as soon as possible after the death of the worker.
- Disabled workers should contact the SSA as soon as their physicians tell them their medical condition is expected to last at least 12 months.

Resources for You

Center for Retirement Research at Boston College

<http://crr.bc.edu/>

The Center for Retirement Research at Boston College has a great deal of information related to retirement. It offers a Social Security Claiming Guide. It can also be accessed directly at:

http://crr.bc.edu/special_projects/social_security_claiming_guide.html

Medicare.gov

www.medicare.gov

This is the official site of Medicare, providing access to information about all aspects of Medicare including its various plan options, what is and is not covered, and its prescription drug program. It includes useful publications such as Medicare at a Glance and Medicare and You. You can also reach them at 800-633-4227.

The National Council on Disability (NCD)

www.ncd.gov

The National Council on Disability (NCD) offers information about policies, programs, practices, and procedures that guarantee equal opportunity for individuals with disabilities.

Social Security Disability Claims

www.social-security-disability-claims.org

Provides comprehensive information on Social Security disability benefits and SSI disability claims. It contains an option to complete a free claim evaluation form, and have a claim reviewed by a case manager or licensed attorney.

U.S. Social Security Administration

www.ssa.gov

The federal agency that administers Social Security, a social insurance program consisting of retirement, disability, and survivors' benefits. The Web site can help you determine what you can expect to receive from Social Security when you retire or if you become disabled. The searchable site offers multiple publications and information about all aspects of Social Security in both English and Spanish. You can also reach them at 800-772-1213.

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