SOCIAL SECURITY PLANNING FOR FACULTY: IMPORTANT ISSUES FOR CONSIDERATION

Nathan Oestreich, Fowler College of Business, San Diego State University, 5500 Campanile Drive, San Diego, CA 92182-8230, 619-594-2478, drno@mail.sdsu.edu
Francine Lipman, William S. Boyd School of Law, University of Nevada, Las Vegas, 4505 S. Maryland Parkway, Las Vegas, NV 89154, 702-895-209, francine.lipman@unlv.edu
Sheldon Smith, Woodbury School of Business, Utah Valley University, 800 West University Parkway, Orem, Utah, 84058, 801-863-6153, smithsh@uvu.edu
James Williamson, Fowler College of Business, San Diego State University, 5500 Campanile Drive, San Diego, CA 92182-8230, 619-594-2476, james.williamson@sdsu.edu

ABSTRACT

Many universities participate in Social Security; others do not. Some faculty members have served at both types of campuses. This workshop will be a discussion involving planning topics like how benefits are calculated, when to start benefits, spousal benefits, federal and state taxation of benefits, the windfall elimination penalty, etc.

Keywords: full retirement age, spousal benefits, taxation of social security benefits, the windfall elimination penalty,

OVERVIEW

Many universities participate in Social Security; others do not. Some faculty members have served at both types of campuses. This workshop will be a question and answer dialogue. The workshop coordinators will provide an overview of each of the topics and then open up the floor for discussion, questions and answers.

The discussions will include planning topics like:

- How benefits are calculated,
- When to start benefits: full retirement age, earlier, later?
- Spousal benefits,
- Federal and state taxation of benefits,
- The windfall elimination penalty,
- etc.

The workshop coordinators have materials to start the discussion. The goal of the session is to explore participants' preparation for the decisions they will face and help them identify the questions that they should ask the Social Security Administration and their expert adviser.

SOCIAL SECURITY PRIMER

Social Security Taxes

Paid on most compensation at a rate of 12.4 (10.4 for 2011 and 2012 only) percent—One half withheld from compensation (4.2 percent for 2011 and 2012 only), the other half matched by employer.

The Social Security tax is paid only up to wage base that is $127,200 for 2017.
Self-employed taxpayers, generally sole proprietors and general partners, pay both halves. One-half of this tax is deductible for income tax purposes.

Medicare taxes are paid on all covered wages and self-employment income.

Retirement Benefits

See-- http://www.socialsecurity.gov/pgm/retirement.htm

An Annuitant Must Be Vested--This generally requires 40 calendar quarters.

Many state and local government and school employees do not participate. Their government elected to provide an alternative retirement [2].

A windfall elimination provision will generally prohibit long-term school and local government employees from receiving benefits.

Married Couples

When one is married, or was married for at least 10 years, they can claim the larger of their own benefit or 50% of their spouse's benefit.

A surviving spouse can claim the larger of their own benefit or their deceased spouse's benefit.

There are tricky combinations of these.

The windfall elimination rule can spoil a good thing.

Social Security Benefits Are Based on Social Security Taxes Paid

For information, http://www.ssa.gov/oact/cola/piaformula.html

The PIA (Primary Insurance Amount) is based on the inflation adjusted average earnings for the best 35 years. There are two bend points. PIA equals:

- 90 percent of average earnings up to $826 per month, plus
- 32 percent of earnings from $826 to $4,980, plus

- 15 percent of earnings over $4,980.

Age to Receive Full Social Security Benefits

Year of birth	Full retirement age
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 and later	67

NOTE: People who were born on January 1 of any year should refer to the previous year.

Discount and Bonuses

Early starters suffer a significant discount. How much? Twenty-five percent for age-62 starters, which is prorated for those starting between age-62 and full retirement age. Benefits are also reduced for 50 percent of earned income in excess of $16,920 (for 2017) [1].

Late starters gain significant premiums. How Much? Eight percent per year plus any COLAs (based on average wage increases). Increase ends at age-70.

DON'T UNDER-VALUE OTHER BENEFITS

"Life insurance" from Social Security

See-- http://www.socialsecurity.gov/pgm/survivors.htm

"Many people think of Social Security only as a retirement program. But some of the Social Security taxes you pay go toward providing survivors insurance for workers and their families. In fact, the value of the survivor's insurance you have under Social Security is probably more than the value of your individual life insurance."

When one dies, "certain members of (their) family may be eligible for survivor's benefits. These include widows, widowers (and divorced widows and widowers), children and dependent parents." See-- http://www.socialsecurity.gov/pubs/10084.html

Social Security Disability Benefits

See-- http://www.socialsecurity.gov/pgm/disability.htm

Social Security pays benefits to people who cannot work because they have a medical condition that is expected to last at least one year or result in death. Federal law requires this very strict definition of disability. While some programs give money to people with partial disability or short-term disability, Social Security does not.

Certain family members of disabled workers also can receive money from Social Security. This is explained in "Can my family get benefits?" See
http://www.socialsecurity.gov/pubs/10029.html#part1

Social Security Benefits May Be Taxed

Generally, Social Security benefits are excludable, BUT

Up to 85 percent of a taxpayer's Social Security benefits may be taxed. This only occurs if his or her income, including any municipal bond interest and a portion of the Social Security benefits, exceeds a certain level [3, § 86].

For taxpayers between the first threshold and the second threshold, the amount of taxable Social Security and Railroad Retirement Benefits is the lesser of:

One-half of the benefit received, or
One-half of the combined income minus a base amount
Combined income is adjusted gross income (before including Social Security benefits) adjusted for certain amounts as follows:
Adjusted Gross Income, excluding the benefit
Plus: Municipal Bond Interest
Plus: One-half of the Social Security benefit received

The base amount is generally $25,000, $32,000 on a joint return, and zero on a return of a married person who lives with his or her spouse at any time during the year and does not file a joint return.

For higher income taxpayers, the taxable amount is the lesser of:

Eighty five percent of the benefit received, or
The amount taxable from above (under ''a,'' but not to exceed $4,500 generally or $6,000 for married filing jointly), plus 85 percent times combined income over a higher base amount.
The higher base amount is generally $34,000; $44,000 for married persons.

The effects of increases in AGI on taxable social security is difficult to predict, but higher income individuals simply pay on 85% of benefits. A really tricky aspect is when a spurt if income drives the social Security benefits to a point where 85%, rather than 50% or 0%, of the benefit is taxed.

MUST BE PART OF A COMPREHENSIVE FINANCIAL PLAN

One in, or facing, retirement should understand the issues discussed here, and many others. There are "many moving parts." Many examples can be given, but perhaps one of the most important is the possibility of digging into voluntary retirement or unqualified savings for a few years in order to maximize Social Security. This may be productive, or unproductive, depending on the life span of the retiree, or the retiree's spouse.

CONCLUSION

This dialogue is not intended to cover all of the aspects of retirement and Social Security; to the contrary, it is a discussion session to identify questions and concepts that one should discuss with financial planners, employers, retirement program employee advisers and Social Security Administration employee advisers. Vast amounts of information can also be gathered from the retirement plan and SSA.gov.

REFERENCES

[1]https://faq.ssa.gov/link/portal/34011/34019/Article/3739/What-happens-if-I-work-and-get-Social-Security-retirement-

[2] National Association of State Retirement Administrators (www.nasra.org/socialsecurity).

[3]U.S. Code, Title 26, Internal Revenue Code.