



Retirement Benefits from Social Security

Social Security benefits will probably be an important source of income once you retire. The amount you will receive is based on a number of factors including your earnings history, the age at which you retire and annual Cost of Living Adjustments made to payment levels.

Earnings History

The Social Security program limits the amount of earnings subject to the Social Security tax and then uses that same annual limit in examining your income to determine your basic benefit level. The benefit level calculation takes into account your highest earnings years over a 35-year period to determine your basic benefit. The annual taxation limit and resulting income limit for the basic benefit calculation is \$106,800 for 2010.

Retirement Age

If you retire at the normal retirement age, that basic benefit will be what you receive. If you retire before the normal retirement age, beginning at age 62, the benefit is adjusted downward. For many years, the normal retirement age was 65. However, for those born in 1938 or later, the normal retirement age is gradually increasing to age 67 until it reaches 67 for people born after 1959.

The amount of the downward adjustment for early retirement benefits depends on your normal retirement age and how early you begin receiving the benefits. If your normal retirement age is 65 (born before 1938) and you start receiving benefits at age 62, your basic benefit is reduced by 20%. If your normal retirement age is 67 (born after 1959) and begin receiving benefits at age 62, your reduction is 30%.

Cost of Living Adjustments

The Social Security Administration adjusts the payment levels each year to reflect increases in the cost of living (inflation). The 2009 adjustment was 5.8% and there was no adjustment for 2010.

What does all this mean for you?

Here are some typical monthly benefits:

- Maximum benefit retiring at normal retirement age in 2010 – \$2,323
- Average benefit for all retired workers in 2010 – \$1,153
- Average benefit for an aged couple with both receiving benefits – \$1,876
- Average benefit for a widowed mother and two children – \$2,399
- Average benefit for an aged widow(er) alone – \$1,112

What should you do?

First, make sure your Social Security records are accurate. You should receive a statement each year with your earnings history and an estimate of what your retirement benefit would be. Review it carefully and contact a local Social Security office if you find an error.

Finally, note that Social Security alone will probably not enable you to have the retirement lifestyle you want. Therefore, you should take advantage of other retirement plans (employer sponsored plans and IRAs) and save even more.