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Social Security: Myth vs. Facts

Dispelling some misperceptions about the program.

Provided by Chris Eller

Some myths & misperceptions keep circulating about Social Security. These are worth dispelling, as more and more baby boomers are becoming eligible for their retirement benefits.

Myth #1: Social Security will go away before you do. The federal government has announced that Social Security may become insolvent between 2033 and 2037 if no action is taken – but it is practically a given that Congress will act on the program's behalf. Social Security provides 40% of the total income of the 40 million Americans receiving retirement benefits.[1]

Did you know that Social Security has had a *surplus* each year since 1984? That situation is about to change. By about 2020, the program is projected to face a deficit, which it will tap incoming interest payments to offset. It will only be able to use that tactic until the mid-2030s. The program will not "run dry" or go bankrupt at that point, but by some estimates, its payments to retirees could become about 25% smaller.[1]

Myth #2: Your Social Security benefits are "your" money. It would be a fitting reward if your Social Security income represented the return of all the payroll taxes you had paid through the years. Unfortunately, that is not the case. The payroll taxes you paid decades ago funded the Social Security benefits that went to retirees at that time. Your Social Security benefits will be funded by the payroll taxes that a younger generation pays.[2]

Myth #3: Social Security income is tax-free. In reality, up to 85% of your Social Security income may be taxed. Social Security uses a formula to determine the taxable amount, which is as follows: adjusted gross income + nontaxable interest + one-half of your Social Security benefit = your combined income. Single filers with combined incomes between $25,000-$34,000, and joint filers with combined incomes between $32,000-$44,000, may have as much as 50% of their benefits taxed. Single filers with combined incomes above $34,000, and joint filers with combined incomes above $44,000, may have up to 85% of their benefits subject to taxation.[2]

Myth #4: If you have never worked, you will never get Social Security benefits. This is not necessarily true.

Generally speaking, you have to work at least ten years to become eligible for Social Security income. That is, you have to spend ten or more years at jobs in which you pay Social Security taxes; you have to pay into the system to get something back from the system. Unfortunately, caregiving and child-rearing do not qualify you for Social Security.[1]

To get technical about it, you must accumulate 40 "credits" to become eligible for benefits. When you receive $1,260 in earned income, you get one credit. Another $1,260 in earned income brings you another credit, and so forth. You can receive up to four credits per year. Most people will collect their 40 credits in a decade; though others will take longer.[1]

If you have never worked, or worked for less than 10 years, you could still qualify for Social Security on the earnings record of your spouse, your ex-spouse, or your late spouse. A widow can choose to collect up to 100% of a deceased spouse's monthly benefit; a married spouse can collect up to 50% of the other spouse's monthly benefit. If you have divorced, you may still file for Social Security benefits based on your ex-spouse's earnings record – provided that the marriage lasted ten years or longer and you have not married again.[1]

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1 - fool.com/retirement/2016/07/18/12-jaw-dropping-stats-about-social-security.aspx [7/18/16]
2 - usatoday.com/story/money/personalfinance/2016/04/03/social-security-facts/81883222/ [4/3/16]

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