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The DC and Social Security

Kenneth Satin, JD

Whether the doctor of chiropractic is young or old, single or married, he has likely thought on more than one occasion about retirement and the degree of security he will have when retirement time arrives.

In this author's opinion, most people think of social security as the key retirement vehicle as opposed to thinking about social security as a supplement to other retirement plans in which the DC should invest over the course of his working life.

All too often, social security is very misunderstood.

Assuming that the DC has been paying into social security for many years and will continue to do so, one can only ponder whether social security funding will be adequate at the time of retirement to pay benefits back which have been justly earned.

Government pamphlets concerning social security tell us that social security will definitely be there when needed and that there is nothing to worry about in connection with the future of social security. The pamphlets tell us that there were difficulties surrounding the system in the 1970s and early 1980s. Accordingly, we all did have something to worry about at that time. The government pamphlet indicates that "at the time, because of high inflation and other economic problems, social security was in a very serious financial condition."

However, we are then led to believe that there is no cause for concern any longer, and that because of an improved economy (what, are we having no recession?) and adjustments in social security tax, the system is now "in excellent shape and will be for many years to come."

Supposedly, social security receives many more dollars than is spent; the extra funds are placed in "reserve." Apparently the government does borrow from these social security funds, but the representation is that the government, by law, has already paid back these trust funds "with interest, and there is no reason to expect it will not continue to do so."

Who Receives Social Security?

Obviously, retirees are first in line in terms of our thinking, but others receive social security because they are disabled or because they are a dependent of someone who receives social security, or because they are a widow, widower or child of someone who has died.

The Rate for the Employee

For an individual who is an employee, both that individual and his employer paid taxes to the government for social security and Medicare. This year, the employee and the employer each pay 7.65 percent of the employees gross salary up to a limit determined by congress. In 1992 the limit is $55,500.

The Rate If You Are Self-Employed

If you are self-employed, you pay 15.3 percent of your taxable income into social security up to the same limit of $55,500. There are some special deductions which can apply.

Extra Taxes for Medicare

If an individual earns more than $55,500 in 1992, he continues to pay the Medicare portion of the social security tax up to a limit of $130,200. The Medicare portion is 1.45 percent for employees and employers, and 2.9 percent for self-employed individuals.

Accrual of Benefits

As an individual pays taxes, he earns social security "credit" and, generally speaking, an individual earns four credits per annum. Four credits is the maximum number which can be earned in one year. It seems that the amount of money needed to earn one credit is increased each year.

How many credits are needed to quality for social security varies, and the factors which are considered are age and the type of benefit sought. It should be noted that when an individual earns more credits than are necessary to qualify for social security, the additional credits do not increase the social security entitlement. However, the income earned while employed will increase the benefit and this will be discussed hereinafter.

How to Calculate Your Benefits

The benefit is based upon earnings averaged over most of an individual's working lifetime. The Department of Social Security ascertains the number of years of earnings to utilize as a base. For everyone born after 1928 and retiring in 1991 or later, that number is 35 years.

Then, the earnings are adjusted for inflation. The department then determines the individual's average adjusted earnings based upon the number of years figured in the first step. The department then multiplies the average adjusted earnings by percentages in a formula that is specified above. The formula results in benefits that replace about 42 percent of a person's earnings. The percentage is lower for people in the higher income brackets, such as professional doctors of chiropractic.

The social security formula is weighed in favor of low income workers "who have less opportunity to save and invest during their working years."

It should be noted that beginning in the year 2000, the age at which full benefits are payable will increase in gradual steps from 65 to 67. One can only ponder that if the social security system is in such excellent financial condition and receives much more than it pays, why are the benefits being decreased in this subtle fashion?

Early Retirement

Notwithstanding what is stated above regarding full retirement, it is possible to begin receiving benefits at age 62. If benefits are received in advance of age 65, however, they will be reduced by a percentage for each month in which retirement is taken before full retirement age.

Late Retirement

If an individual works full time beyond his full retirement age and does not begin drawing social security until a later time, the extra income increases the average earnings which is the basis for determining the amount of the retirement benefits. By delaying, typically for people turning 65 in

1992, the rate of increase granted is four percent per year which gradually increases in future years until it reaches eight percent per year for people turning 65 in 2008 or later.

Disability Benefits

As mentioned above, there are certain benefits payable under the social security disability program which essentially concentrates on people who have worked and earned enough social security "credits" to qualify for disability. There are other types of disability benefits available for widows and widowers with disabilities, people with disabilities who have low income and few assets, and disabled children over age 18.

Survivor's Benefit

When a husband or wife dies, for example, certain members of the family receive benefits based on the social security record of the deceased, if enough credits were earned while working. Those family members who can collect benefits include: a widow/widower 60 years of age or older; a widow/widower 50 years or older and disabled; a widow/widower at any age if caring for a child under 16; or a disabled child.

Supplemental Security Income (SSI)

SSI payments are not financed by social security taxes or social security trust funds, instead they are paid from the general revenue funds of the United States Treasury. SSI pays benefits to individuals who have low income and few assets, who are 65 years old or older, or blind, or disabled. There are strict asset and income limitations.

Kenneth Satin, J.D.
Newport Beach, California

Editor's Note:

Mr. Satin's law firm is located at 4000 McArthur Street, Suite #950, Newport Beach, CA. 92660 (714) 851-1163. We thank Mr. Satin for providing this series of articles for our readers.