Social Security Essentials is intended to provide an overview of Social Security retirement concepts. You should consult your financial advisor and a Social Security Administration representative to verify your Social Security earnings. You should consult a tax advisor to verify any and all Social Security earnings or additional earnings subject to taxation. You should refer to the Social Security Administration’s website for additional information.
**What Is Social Security?**

Social Security is a simple concept. As you work, you pay taxes to the government. When you retire or become disabled, you receive monthly benefits based on your reported earnings. In the event of your unexpected death, your spouse and children will be cared for. You should work with the Social Security Administration and your financial advisor to determine how to integrate Social Security into your overall retirement plan.

**What Is the Purpose of Social Security?**

Social Security was originally intended only to supplement other sources of income in retirement.

However, Social Security is now a main source of income for many Americans. According to the Social Security Administration (SSA), on average today’s retirees derive 33% of their income from Social Security benefits. The remaining sources include employment earnings (34%), pensions and annuities (20%), income from assets (9%) and other (4%).

Social Security provides 90% or more of their income.

For 43% of elderly unmarried persons, Social Security provides 90% or more of their income.

For 24% of retired Americans, Social Security is their sole source of income.

Individuals receiving Social Security as their primary or sole source of income are usually living below, along or just above the national poverty level.

**Take Note!**

For a more comfortable retirement, individuals are encouraged to plan, save and invest with a financial advisor, so Social Security is only a supplement to their total retirement income.

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3 “Income of the Population 55 or Older, 2014,” Social Security Administration.
WHEN TO COLLECT

When to Collect

You can start collecting Social Security prior to or after reaching your full retirement age.

The minimum age to start collecting is 62. The Social Security Administration (SSA) currently considers age 66 or 67 to be the “normal” or “full” retirement age. The maximum age is 70. If you have no other source of income or require additional income, then starting to collect earlier may be an option for you. However, waiting to collect at your full retirement age or later will increase your periodic collections for the rest of your retirement. There are several strategies addressed later in this guide for individuals and couples to postpone collecting in order to maximize their benefits.

What Is My Full Retirement Age?

The 1983 Social Security Amendments included a provision for increasing the full retirement age to 67 for people born after 1959. The improvements in the health of older people — including better health care and a greater life expectancy — are responsible for the change. Please see the chart below for a simple breakdown.

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What Is Delayed Retirement?

Social Security Benefits by Retirement Age

Percent of Primary Insurance Amount

<table>
<thead>
<tr>
<th>Age</th>
<th>75%</th>
<th>80%</th>
<th>87%</th>
<th>93%</th>
<th>100%</th>
<th>108%</th>
<th>116%</th>
<th>124%</th>
<th>132%</th>
</tr>
</thead>
<tbody>
<tr>
<td>62</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
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<tr>
<td>63</td>
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<td></td>
<td></td>
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<tr>
<td>64</td>
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<td>65</td>
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<td></td>
<td></td>
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<tr>
<td>66</td>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>67</td>
<td></td>
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<tr>
<td>68</td>
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<td></td>
<td></td>
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<tr>
<td>69</td>
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<td></td>
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<tr>
<td>70</td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

If you wait until you turn 70, which is the latest age at which you can claim benefits, then your benefits can be as much as 32% larger than they would have been had you taken them at age 66.

Applying for Retirement

You must be at least 61 years and 9 months old to apply for Social Security benefits.

You should apply three to four months before you want to start collecting. When you are ready to apply, refer to the online retirement application at [https://www.ssa.gov/retire/](https://www.ssa.gov/retire/).

Before applying, you should consider the following:

**ONE**
Your full retirement age

**TWO**
Benefit reductions

**THREE**
Working in retirement

**FOUR**
Delayed retirement credits

**FIVE**
Life expectancy

1. Go to [https://www.ssa.gov/retire/](https://www.ssa.gov/retire/) and create an account to view your earnings and Social Security income projections.
2. Remember to verify your earnings, in case there may be errors or omissions.
3. As you approach retirement, determine when you should retire and when you should start collecting.
4. Work with a financial advisor to develop your retirement income plan, integrating your Social Security benefits.

Social Security Administration.

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If you wait until you turn 70, which is the latest age at which you can claim benefits, then your benefits can be as much as 32% larger than they would have been had you taken them at age 66.
Overview of Social Security Retirement Benefits

Eligibility

In order to be eligible for Social Security, you must have accrued 40 credits of Social Security. How do you know if you accrued 40 credits or more? You must have been working, or self-employed, and paid into the Social Security system for 10 years.

Earning Credits

You can earn up to four credits per year. The amount needed for one credit in 2019 is $1,360 in net earnings. By extension, two, three and four credits would require $2,720, $4,080 and $5,440, respectively, in net earnings. The amount needed to earn one credit increases automatically each year when average wages increase. The SSA refers to the Cost-of-Living Adjustments (COLA) on the CPI-W report published by the Bureau of Labor Statistics when determining the amount needed to earn one credit each year.8

Minimum Age Requirement

As discussed in When to Collect, you must be at least 62 to collect.

Maximum Benefit Retirement for 2019

Maximum benefit retirement for 2019 (full retirement age) is $38,836 annually,9 or 27.5% of earnings.8 The maximum benefit is only payable to those who attain their normal retirement age prior to collecting and who had the maximum taxable earnings for at least 35 years of working.

OVERVIEW OFSOCIAL SECURITY RETIREMENT BENEFITS

Statement Availability

The Social Security Administration sends paper statements to workers at ages 25, 30, 35, 40, 45, 50, 55 and 60 and over, who are not receiving Social Security benefits and have not established a My Social Security account. You will receive your statements via mail three months prior to your birthday.

You may receive your most current statement online at any time by creating a My Social Security account at https://www.ssa.gov/myaccount/.

Benefit Calculation

The Social Security retirement benefit amount is based on an individual's work history. Specifically, the benefit amount is calculated based on an average of the individual's highest 35 years of social security taxable earnings, which are adjusted for inflation. Maximum benefits are awarded at full retirement age to individuals who worked 35+ years. If the individual's employment was less than 35 years, inconsistent, or the earnings were below the taxable wage base, then the individual will receive less than the maximum benefits.

Cost-of-Living Adjustments (COLA)

Social Security's general benefit increases have been based on increases in the cost of living, as measured by the Consumer Price Index. COLA increases a person's retirement benefit.

Each benefit is based on a primary insurance amount, or PIA. PIA is the benefit a person would receive if he or she elects to begin receiving retirement at his or her full retirement age. At full retirement age, the benefit is neither reduced for early retirement nor increased for delayed retirement. PIA is directly related to the primary beneficiary's earnings through a benefit formula. The formula is the sum of three separate percentages of portions of average indexed monthly earnings. The portions are determined by the year in which a worker turns 62, becomes disabled before 62 or dies before 62.

Primary Insurance Amount (PIA) will be the sum of:

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>90%</td>
<td>of the first $926 of your average indexed monthly earnings, plus</td>
</tr>
<tr>
<td>32%</td>
<td>of your average indexed monthly earnings over $926 through $5,583, plus</td>
</tr>
<tr>
<td>15%</td>
<td>of your average indexed monthly earnings over $5,583</td>
</tr>
</tbody>
</table>

Round this amount to the next lower multiple of $.10.

Once PIA is determined, it is subject to annual COLA adjustments. For example, if the initial PIA is $1,393.50 and it is increased by a 1.7% COLA, the new PIA would equal $1,417.10.

For more information, refer to the 2019 Social Security Changes.pdf on the Social Security Administration website.
Spouse and Survivor Benefits

Delayed Credits Do Not Increase a Spousal Benefit Amount

Percent of Full Retirement Age Spousal Benefits

Delaying beyond age 62 does not increase a spousal benefit amount, except at age 70.

Take Note!

Some claimants may qualify for benefits based on a current, divorced or deceased spouse’s work record.

Divorced Spouse

You may qualify for a divorced spouse’s benefits if you were previously married for 10+ years and divorced for at least two years.

• If you qualify, you may start to collect benefits before your ex-spouse starts to collect.
• If you qualify, you may receive up to 50% of your ex-spouse’s maximum full retirement age benefits.
• If you qualify, you may collect reduced benefits before age 66.
• There is no additional benefit for delaying past your full retirement age.
Survivor Benefits

A survivor benefit is a benefit paid to the designated beneficiary of a worker (usually a spouse) upon the death of the worker.

Survivor benefits are offered to widows and widowers at full retirement age, or a reduced survivor benefit is available as early as age 60.

• You may not collect survivor benefits if you remarry before 60 (unless the later marriage ends).
• You may collect the greater of your retirement benefits or your deceased spouse’s benefits.
• If you remarry after age 60, you can still choose to receive survivor benefits based on your former spouse’s record.

How Much Will I Receive?

The Social Security Administration bases the benefit amounts on the earnings of the person who died. The more the worker paid into Social Security, the greater your benefits will be.

SSA uses the deceased worker’s basic benefit amount to calculate the percentage survivors get. The percentage depends on the survivor’s age and relationship to the worker. If the worker who died was getting reduced benefits, the survivor’s benefit will be based on the reduced amount.11

• A widow or widower, at full retirement age or older, generally receives 100% of the worker’s basic benefit amount;

• A widow or widower, age 60 or older, but under full retirement age, generally receives 71%–99% of the worker’s basic benefit amount; or
• A widow or widower, any age, with a child younger than age 16, generally receives 75% of the deceased worker’s basic benefit amount;
• A child generally receives 75% of the worker’s benefit amount.

For more information, refer to the 2019 Social Security Changes.pdf on the Social Security Administration website.

Benefits for Children of Retirees

When you qualify for Social Security retirement benefits, your children may also qualify to receive benefits on your record. Your eligible child can be your biological child, adopted child or stepchild. A dependent grandchild may also qualify. A child may receive benefits until age 18 with a few exceptions.

In order to receive benefits, your child must:

• Be unmarried; and
• Be under age 18; or
• Be under 18–19 years old and a full-time student (no higher than grade 12); or
• Be under 18 or older and disabled from a disability that started before age 22.

Within your family, each qualified child may receive a monthly payment up to one-half of your full retirement benefit amount. However, there is a maximum benefit amount for each family. The maximum benefit amount depends on your benefit amount and the number of family members who also qualify on your record. The limit varies between 150% and 180% of the deceased worker’s benefit amount.

If you have a divorced spouse who qualifies for benefits, it will not affect the amount of benefits you or your family may receive.

For more information on survivor benefits, refer to the Retirement Planner: Benefits for Your Children.pdf on the Social Security Administration website.
Federal Disability Program

There are two programs administered by the Social Security Administration, which provide assistance to people with disabilities. Although these two programs are very different, only individuals who have a disability and meet medical criteria may qualify for benefits under either program.

1 Social Security Disability Insurance pays benefits to you and certain members of your family if you are insured, meaning you have worked long enough and paid Social Security taxes.

2 Supplemental Security Income pays benefits based on financial need.

When applying for the Federal Disability Program, you should keep in mind the following:

- You may apply as soon as you become disabled.
- You may receive benefits if you have a medical condition expected to last at least one year or result in death.
- You may not receive benefits for up to six months after becoming disabled.

Your family may qualify for disability benefits based on your work history. They include the following:

**ONE**
Your spouse, if he or she is age 62+.

**TWO**
Your spouse, if he or she is caring for your child who is under 16 or disabled.

**THREE**
Your unmarried child under 18 (or 19 if he or she is attending high school). This may include stepchildren or grandchildren.

**FOUR**
Your unmarried child with a disability that started before age 22.

For more information, refer to the Benefits Eligibility Screening Tool on the Social Security Administration website.
Benefit Reductions

There are different types of benefit reductions designed to prevent workers from collecting benefits greater than they are entitled to collect. The Windfall Elimination Provision directly affects your retirement benefits, while the Government Pension Offset affects spousal benefits available to your spouse.

Windfall Elimination Provision

Before 1983, people whose primary job was not covered by Social Security had their benefits calculated as if they were long-term, low-wage workers. They had the advantage of receiving a Social Security benefit representing a higher percentage of their earnings, plus a pension from a job for which they did not pay Social Security taxes. Congress passed the Windfall Elimination Provision to remove the advantage.

This provision can affect you when you earn a pension from an employer who did not withhold Social Security taxes and you qualify for Social Security retirement or disability benefits from work in which you did pay taxes. This affects how your retirement or disability benefits are calculated. If you receive a pension from an employer who does not withhold Social Security taxes from your salary, then receiving a pension may reduce your Social Security benefits.

The Windfall Elimination Provision can apply if:
- You reached 62 after 1985; or
- You became disabled after 1985; and
- You first became eligible for a monthly pension based on work where you did not pay Social Security taxes after 1985. This rule applies even if you continue to work.

THERE ARE SOME EXCEPTIONS.

The Windfall Elimination Provision does not apply if:
- You are a federal worker first hired after December 31, 1983.
- You were employed on December 31, 1983 by a nonprofit organization, which did not withhold Social Security taxes from your pay at first, but then began withholding Social Security taxes.
- Your only pension is for railroad employment.
- You did not pay Social Security taxes for work before 1957.
- You have 30+ years of substantial earnings under Social Security.
- You receive survivor benefits.

For more information, refer to the Windfall Elimination Provision.pdf on the Social Security Administration website.
Government Pension Offset

The Government Pension Offset ensures that the benefits of government employees who do not pay Social Security taxes are calculated in the same manner as those of workers in the private sector who pay Social Security taxes.

If you did not contribute towards Social Security, but you receive a pension from a federal, state or local government, then your spouse, widow or widower benefit may be significantly reduced.

• Your Social Security benefits as a spouse, widow or widower will be reduced by two-thirds of your government pension.

• If you elect to take your government pension annuity in a lump sum, Social Security will calculate the reduction as if you chose to get monthly pension benefit payments.

For more information, refer to the Government Pension Offset.pdf on the Social Security Administration website.
Working in Retirement

To avoid benefit reductions, it’s generally advisable to not collect retirement benefits until your full retirement age if you continue to work. You should consult your financial advisor to determine the best time for you to start collecting.

If you are younger than full retirement age and make more than the yearly earnings limit, your earnings may reduce your benefit amount.

• If you are younger than full retirement age for the entire year, $1 of benefit for every $2 of earnings above $17,640 ($1,470 / month) will be deducted from your benefit.

• In the year you reach full retirement age, benefits will be reduced by $1 for every $3 of earnings greater than $46,920.

• If you reach full retirement age within the month, $0 will be deducted, regardless of excess earnings.

Retirement Benefits While Working

If your earnings for the prior year are higher than one of the years used to compute your retirement benefit, then your benefit amount will be automatically recalculated.

EXAMPLE

Henry is considering claiming early retirement benefits this year, at age 64. Social Security calculates that if he does so, he’ll receive $866 a month (which is about 13% less than if he waited until his full retirement age of 66). But Henry also intends to continue working part-time, with an income that will be about $5,000 over the yearly limit on earned income. If he does claim the early benefits and makes that part-time income each month, Henry would lose one dollar out of two from the $5,000 he earns over the limit, which means $2,500 for the year. So, by claiming early retirement and continuing to earn over the limit, Henry incurs a double penalty: His retirement benefits are permanently reduced by 13%, and he loses an additional amount every month (until he reaches full retirement age) to the extent he earns over the income limit. After reaching full retirement age, there is no Social Security limit on your earnings.

If some of your retirement benefits are withheld, because of your earnings, your monthly benefit will increase starting at your full retirement age.

For 2019, the limit on earned income is $17,640 annually or $1,470 per month. The limit on earned income varies each year based on the cost of living.

Take Note!

You should consult your financial advisor to determine the best time for you to start collecting.
Claiming Strategies for Married Couples

There are two claiming strategies for couples that have been effectively eliminated by the Bipartisan Budget Act of 2015, but may still apply for those who were grandfathered in.

**File-and-Suspend Strategy**

This strategy allowed one spouse to access spousal benefits while the other spouse earned delayed credits, which will provide a higher benefit amount than a benefit amount based on an earlier start date.

- In order to apply the file-and-suspend strategy, he or she must have filed and suspended on or before April 29, 2016.14
- The higher-earning spouse filed for benefits at 66 and immediately suspended payments until full retirement age or later.
- The lower-earning spouse claimed spousal benefits. He or she was only able to claim benefits because the higher-earning spouse initially filed for the benefits.
- The lower-earning spouse must have been at least 62 to claim.
- At age 70, the higher-earning spouse ends the suspension and begins collecting a higher benefit based on delayed retirement credits.

**Restricted Application**

This strategy is for couples with a spouse who is ready to retire and start collecting immediately, while the second spouse collects spousal benefits and maximizes his or her personal benefits.

- Restricted Application is available to individuals who attained age 62 prior to December 31, 2015.14
- Spouse 1 retires and collects immediately.
- Spouse 2 files for spousal benefits, while allowing his or her personal benefit to earn delayed credits.
- Spouse 2 files for his or her personal benefits at full retirement age or later if they exceed spousal benefits.

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**Take Note!**

You should consult your financial advisor to determine the best time for you to start collecting.
Taxation of Social Security Retirement Benefits

Federal Taxation of Social Security Benefits

Some individuals may have to pay federal income taxes on Social Security benefits. This generally applies only if they have other substantial income such as wages, self-employment income, interest, dividends and other taxable income that must be reported on their federal income tax returns. Based on current tax rules, no one pays federal income tax on more than 85% of his or her Social Security benefits.

A single individual who files a federal tax return and has “combined income” between $25,000 and $34,000 may have to pay federal income tax on 50% of his or her Social Security benefits. Whereas another individual with the same tax filing status who has combined income in excess of $34,000 may be taxed on up to 85% of his or her Social Security benefits.

If a couple files a joint return and has a combined income between $32,000 and $44,000, they may have to pay federal income tax on 50% of their combined Social Security benefits. A joint filer who has more than $44,000 in combined income may be taxed on up to 85% of the combined Social Security benefits.

A married individual who files a separate tax return likely will pay federal income taxes on his or her Social Security benefits.

If an individual does have to pay taxes on his or her Social Security benefits, he or she can make quarterly estimated tax payments to the Internal Revenue Service (IRS) or choose to have federal taxes withheld from his or her benefits.

“Combined income” is the total of adjusted gross income, nontaxable interest and 50% of Social Security benefits. If you believe your Social Security benefits may be taxed, you should consult a tax advisor.

Take Note!

Based on current tax rules, no one pays federal income tax on more than 85% of his or her Social Security benefits.
For more information, refer to Publication 915 on the Internal Revenue Service (IRS) website.
Individual State Taxation of Social Security Benefits

You may be considering relocating closer to your children and grandchildren or seeking a warm oasis in retirement. Your Social Security benefits may be subject to state taxes depending on your location.

The following U.S. states tax Social Security benefits: Colorado, Connecticut, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Rhode Island, Utah, Vermont and West Virginia.

(U.S. citizens residing abroad in certain countries may be exempt from U.S. tax on their Social Security benefits.)

For more information, refer to Publication 915 on the Internal Revenue Service (IRS) website.

Federal Insurance Contributions Act (FICA)

The law requires employers to withhold taxes from employee earnings to fund Social Security and Medicare programs. Your employer also pays a tax equal to the amount withheld from employee earnings. Individuals who are self-employed pay Self-Employed Contributions Act (SECA) taxes on net earnings.

Self-Employed Worker

A percentage of your annual income contributes to federal government programs. If you are self-employed, you are responsible for paying the entire percentage.

<table>
<thead>
<tr>
<th>PAY CONTRIBUTION</th>
<th>Social Security</th>
<th>12.4%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare</td>
<td>2.9%</td>
<td></td>
</tr>
</tbody>
</table>

Waged or Salaried Employee

If you are a waged or salaried employee, a percentage of your earnings is withheld from your payroll. Your employer is responsible for matching the following percentages:

<table>
<thead>
<tr>
<th>PAY CONTRIBUTION</th>
<th>Social Security</th>
<th>6.2%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare</td>
<td>1.45%</td>
<td></td>
</tr>
</tbody>
</table>

Sources: State tax departments, CCH, the Tax Foundation, Kiplinger, the American Hotel & Lodging Association and the Distilled Spirits Council of the United States.
Maximum Amount of Taxable Earnings

For 2019, the maximum amount of taxable earnings is $132,900.\textsuperscript{15} This is also known as the taxable wage base.

Social Security taxes of 6.2% for employees apply up to the taxable wage base. Medicare taxes of 1.45% apply to all earnings.

Earned income exceeding $200,000 (or $250,000 for married couples filing jointly) is subject to an additional .09% in Medicare taxes equaling 13.3%.\textsuperscript{16} High income earners who change employers may pay excess social security taxes in the year of change. The excess can be refunded when filing that year’s taxes.

Maximum Taxable Earnings Each Year

<table>
<thead>
<tr>
<th>Year Range</th>
<th>Maximum Earnings</th>
</tr>
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<tbody>
<tr>
<td>1937–1950</td>
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<td>2012</td>
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</tr>
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<td>2013</td>
<td>$113,700</td>
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<tr>
<td>2014</td>
<td>$117,000</td>
</tr>
<tr>
<td>2015</td>
<td>$118,500</td>
</tr>
<tr>
<td>2016</td>
<td>$118,500</td>
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<tr>
<td>2017</td>
<td>$127,200</td>
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<tr>
<td>2018</td>
<td>$128,700</td>
</tr>
<tr>
<td>2019</td>
<td>$132,900</td>
</tr>
</tbody>
</table>

Self-Employment: Paying Social Security and Medicare Taxes

You are self-employed if you operate a trade, business or profession either by yourself or as a partner. You must report your earnings for Social Security when filing your federal income tax return.\textsuperscript{17}

\textsuperscript{15} 2018 Social Security Fact Sheet, Social Security Administration.
\textsuperscript{16} “If You Are Self-Employed, 2017,” Social Security Administration.
\textsuperscript{17} Social Security Administration.
Take Action:

Work with your financial advisor for help determining how Social Security benefits can be integrated into your personal retirement income plan.