

Nov 30

## Social Security

**Problem 2.** Rob earned \$62,000 last year. Calculate his FICA contribution for the year. How much did his employer pay toward FICA?

Rob paid \$3,844.00 [ $\$62,000 \times 6.2\%$ ] to FICA, and \$899.00 [ $\$62,000 \times 1.45\%$ ] to Medicare, while his employer matched these same payments of \$3,844.00 and \$899.00, respectively.

### Exercise 7

Philip began his professional corporation single practitioner CPA firm 38 years ago at age 27. He worked profitably as a sole practitioner for the full 38 years and is now 65 years and 4 months. He retired December 31, 2011. On January 1, 2014 he sold his practice for \$400,000 to be received in equal installments for four years. Is he eligible for Social Security benefits in 2014?

Yes, he is eligible because he is of retirement age, retired, and fully insured. The installment sale proceeds are not earned income, and, therefore, do not affect his Social Security benefits.

### Problem 3

Last year Michelle, filing single, received \$10,400 in Social Security benefits. For the entire she had adjusted gross income of \$28,000. How much, if any, of her Social Security benefit is taxable?

$$\begin{aligned} & \$4,100 \text{ of her Social Security Benefit.} \\ & (50\% \times \$10,400) = \$5,200 \\ & 50\% (\$33,200 - \$25,000) = \$4,100 < \text{LESSER} \end{aligned}$$

### Problem 5

A married couple with adjusted gross income of \$38,000, no tax exempt interest, and \$11,000 of Social Security benefits who file jointly must include how much of their Social Security benefits in gross income?

$$\begin{aligned} & .50 (\$11,000) = \$5,500 \text{ or} \\ & .50 [\$38,000 + .50(\$11,000) - \$32,000] = .50(\$11,500) = \$5,750 \end{aligned}$$

So they will include \$5,500 in gross income. If the couple's adjusted gross income was \$15,000 and their Social Security benefits totaled \$5,000, none of the benefits would have been taxable, since  $.50 [\$15,000 + .50 (\$5,000) - \$32,000]$  is

### Exercise 1

Michael was divorced after 15 years of marriage. He has two dependent children ages four and six who are cared for by their mother. He was currently but not fully insured under Social Security at the time of his death. What are the benefits that his survivors are entitled to under Social Security?

A lump-sum death benefit of \$255 is payable to the surviving spouse or children of the deceased worker if he was fully or currently insured. The children's benefit of 75 percent of PIA is payable because Michael was currently insured. The mother of the children is entitled to a benefit of 75 percent of PIA since the children are under age 16.

**Exercise 3**

Charles age 38 has just died. He has been credited with the last 30 consecutive quarters of Social Security coverage since he left school. He did not work before leaving school. Which of the following persons are eligible to receive Social Security survivor benefits as a result of Charles' death?

1. Bill, Charles' 16 year old son Yes
2. Dawn, Charles' 18 year old daughter No
3. Margaret, Charles' 38 year old widow No
4. Betty, Charles' 60 year old dependent mother No

**Problem 1**

Larry is married at the following ages and to the following wives. Larry is now 62 and married to Dawn

|       | Wife            | Age | Larry's age at Marriage | Current marital Status | Length of marriage |
|-------|-----------------|-----|-------------------------|------------------------|--------------------|
| Alice | <del>Dawn</del> | 62  | 20                      | Single                 | 10 years 1 month   |
|       | Betty           | 63  | 31                      | Single                 | 10 years 1 month   |
|       | Claire          | 64  | 42                      | Single                 | 9 years            |
|       | Dawn            | 65  | 53                      | Married                | 9 years            |

Who receives Social Security benefits if Larry is retired or not retired?

If Larry is retired: Alice, Betty, and Dawn

If Larry is not retired: Alice and Betty.

**Social Security Benefits**

|                                | Retirement           | Survivorship         |                              | Disability |
|--------------------------------|----------------------|----------------------|------------------------------|------------|
|                                | Fully Insured<br>(2) | Fully Insured<br>(2) | Currently<br>Deceased<br>(3) |            |
| Participant                    | 100%                 | Deceased             | Deceased                     | 100%       |
| Child under 18 (5)             | 50%                  | 75%                  | 75%                          | 50%        |
| Spouse with child under 16 (6) | 50%                  | 75%                  | 75%                          | 50%        |
| Spouse Age 65 (1)              | 50%                  | 100%                 | 0%                           | 50%        |
| Spouse Age 62 (1)              | 40%                  | 83%                  | 0%                           | 40%        |
| Spouse Age 60 (1)              | N/A                  | 71.5%                | 0%                           | N/A        |
| Dependent Parent (Age 62)      | 0%                   | 75/82.5 (4)          | 0%                           | 0%         |

- 1) Includes divorced spouse if married at least 10 years (unless they have remarried) or gets benefit if remarried after 60 years old
- 2) Fully insured is 40 quarters of coverage or 1 quarter for each year between age 21-62.
- 3) Currently insured is at least 6 quarters of coverage over last 13
- 4) Parent benefit is 82.5% for one parent and 75% for each parent if two.
- 5) Child under age 19 and a full time student or any age and disabled before age 22 also qualifies.
- 6) Spouse with child disabled before age 22 also qualifies