Pro Tip TUESDAY

Pro Tip on SOCIAL SECURITY

Understanding Social Security

Marty Leandri
Financial Consultant

The Social Security system is based on a simple premise: Throughout your career, you pay a portion of your earnings into a trust fund by paying Social Security or self-employment taxes. Your employer, if any, contributes an equal amount. In return, you receive certain benefits that can provide income to you when you need it most----at retirement or when you become disabled, for instance. Your family members can receive benefits based on your earnings record, too. The amount of benefits that you and your family members receive depends on several factors, including your average lifetime earnings, your date of birth, and the type of benefit that you're applying for.

Your earnings and the taxes you pay are reported to the Social Security Administration (SSA) by your employer, or if you are self-employed, by the Internal Revenue Service. The SSA uses your Social Security number to track your earnings and your benefits.

You can find out more about future Social Security benefits by signing up for "my Social Security" account at the Social Security website, ssa.gov, so that you can view your online Social Security Statement. Your statement contains a detailed record of your earnings, as well as estimates of retirement, survivor, and disability benefits. If you're not registered for an online account and are not yet receiving benefits, you'll receive a statement in the mail every year, starting at age 60. You can also use the Retirement Estimator calculator on the Social Security website, as well as other benefit calculators that can help you estimate disability and survivor benefits.

When you work and pay Social Security taxes, you earn credits that enable you to quality for Social Security benefits. You can earn up to 4 credits per year, depending on the amount of income that you have. Most people must build up 40 credits (10 years of work) to be eligible for Social Security retirement benefits, but need fewer credits to be eligible for disability benefits or for their family members to be eligible for survivor benefits.

Your Social Security retirement benefit is based on your average earnings over your working career. Your age at the time you start receiving Social Security retirement benefits also affects your benefit amount. If you were born between 1943 and 1954, your full retirement age is 66. Full retirement age increases in two-month increments thereafter, until it reaches age 67 for anyone born in 1960 or later. But you don't have to wait until full retirement age to begin receiving benefits. No matter what your full retirement age, you can begin receiving early retirement benefits at age 62. Doing so is sometimes advantageous. Although you'll receive a reduced benefit if you retire early, you'll receive benefits for a longer period than someone who retires at full retirement age.

You can also choose to delay receiving retirement benefits past full retirement age. If you delay retirement, the Social Security benefit that you eventually receive will be as much as 8 percent higher. That's because you'll receive a delayed retirement credit for each month that you delay receiving retirement benefits, up to age 70. The amount of this credit varies, depending on your year of birth.

First Keystone wants you to understand what Social Security can mean to you and your family's financial future. We can help you factor Social Security into your retirement goals. Call 570-802-8200 to speak with one of our Certified Social Security Claiming Strategist, Martin Leandri, today.

Pro Tip on ESTATE PLANNING

Benefits and Risks of Life Estates

C. Brian Crane, Esq.
Certified Medicaid Planner™

Life estates can be a useful tool for Medicaid planning, probate avoidance and tax efficiency, but there are potential problems. It is important to understand the risks associated with life estates before invoking this planning technique.

In a life estate, two or more people have an ownership interest in a property, but for different periods of time. The person holding the life estate -- the life tenant -- possesses the property during their life. The other owner -- the remainderman -- cannot take possession until the death of the life estate holder. The life tenant has control of the property during their lifetime and has the legal responsibility to maintain the property as well as the right to use it, rent it out, and make improvements to it.

Life estates can be a useful planning technique. They permit parents to pass ownership in their homes to their children while retaining absolute possession of the property during their lives. If done properly, life estates can protect a home from Pennsylvania's Estate Recovery Program.

However, there are risks and potential issues that may arise:

- As a life tenant, it can be difficult to sell or mortgage property with a life estate interest. The remaindermen must agree if you decide to sell or borrow against the property.
- If the property is sold, the remaindermen are entitled to a share of the proceeds equal to what their interest is determined to be at that time.
- Without the remainderman's cooperation, you cannot remove or change the remainderman once it is on a deed.
- Once a remainderman is named on the deed, he or she has an interest in the home and his or her legal problems (creditor issues, bankruptcy, divorce, or premature death) could affect the property or claims against it. However, while these claims may be made against the property, no one can kick you out of it during your life.
- Giving away an interest in property could disqualify you from receiving assistance from Medicaid, should you require long-term care within five years of the transfer.
- A life estate does not protect the property from the imposition of inheritance tax.

As with most planning tools, a life estate can be very useful with valuable benefits, but it is not for everyone. As the law in this area is complex, it's important to talk to a lawyer who knows about this in-depth. ***Call (570) 784-4654 to schedule a consultation to discuss whether a life estate is a proper planning technique for you.***

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