

TAXATION TIDBITS

Social Security Retirement Benefits

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Data reveals an aging farm population. A review of most farming communities will reveal a large number of farmers are within 10 or 15 years of retirement. Retirement planning for farmers poses some special challenges. We are all familiar with the statement "farmers live cash poor and die land rich". The large percent of capital tied-up in long term assets, the desire of many farm families to pass on the farm to the next generation, and the current tax laws all work together to complicate the financing of retirement from within the farming operation. These factors tend to make Social Security benefits a substantial component of the retirement plan for most farmers.

The basic philosophy behind Social Security is rather simple. During your working years you put funds into the "system" - and when you retire or become disabled, you and members of your family become eligible for monthly benefits. Further, your survivors may be eligible to receive benefits even after you die. However, it should be recognized, particularly in today's economic and political environment, the Social Security system was not designed nor intended to be your only or even your main source of retirement income or disability coverage.

Your age and most importantly your earning's history are factors which will significantly affect the amount of your Social Security retirement benefits. However, to be eligible, you must have paid taxes into the Social Security system for a minimum number of quarters. Most people need 40 quarters to qualify for benefits. The earnings required to receive a quarter varies year to year. In 2009, a quarter is earned for each \$1,090 of earnings; so you need \$4,360 of earned income to receive credit for 4 quarters. Four quarters are the maximum that can be earned per year. Additionally, in computing quarters, the number of quarters are rounded down to a whole number, so

\$4,000 of earnings would result in 3 quarters.

Since 1991, the calculation of retirement benefits is much easier to understand. First, your earnings which have been reported over the years are indexed to adjust for inflation. Second, the highest 35 years of indexed earnings are added together and divided by 420 months (the number of months in 35 years) to arrive at your "Average Indexed Monthly Earnings" (AIME). Finally, the average indexed monthly earnings is multiplied by percentages to determine your retirement benefits.

There are three percentage rates used to calculate your retirement benefit. For 2009, your average indexed monthly earnings amount is divided into three brackets: the 1st bracket is first \$744; the next bracket is the AIME between \$744 and \$4,483; and the last bracket is the AIME over \$4,483. Your estimated Social Security retirement benefit at your full-retirement age is the sum of (90 % of the AIME in the 1st bracket of \$744; 32% of your AIME in the 2nd bracket; and 15% of your AIME over \$4,483).

This percentage weighting of the benefit formula in favor of low-income earners and against high-income earners, is one reason why people in higher income brackets attempt to minimize their exposure to Social Security tax liability - once they have 35 years of earnings.