

Learn About Your Social Security Benefits



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Whether you're approaching retirement or you've already retired, you and your financial advisor have probably discussed many questions about the financial challenges you'll face in the coming years.

Use this booklet to help answer questions about your Social Security benefits as you work with your financial advisor to achieve a more comfortable retirement.

For most people, Social Security represents a significant source of retirement income — about 40% for the average retiree, according to the Social Security Administration.



So it's important to understand how much you'll receive from Social Security and when to begin taking your benefits.



The actual amount of your Social Security benefits is based on your birth year, your retirement age, and your lifetime earnings. Higher lifetime earnings result in higher benefits. The amount of your benefits also depends on when you begin receiving payments. And Social Security benefits are increased automatically each year to help keep pace with inflation.

The information in this booklet is provided to help you understand your Social Security benefits, including when to begin receiving payments, the impact on your benefits if you continue to work, and what happens to your benefits when you die.

When can you start taking benefits?



Anyone who has contributed to Social Security from his or her working income is entitled to receive Social Security benefits. To qualify for retirement benefits, you must be "fully insured." This means you've accumulated at least 40 work credits, or the equivalent of ten years of earnings.

If you stop working before you have enough credits to qualify for benefits, the credits remain on your Social Security record; you can add to them if you return to work at a later time. No retirement benefits will be paid if you don't earn the required number of credits.

The amount of your benefits will depend upon how old you are when you start taking them. You have three options:

Early benefit. You can begin collecting benefits as early as age 62, but if you do, your monthly benefits throughout your retirement could be about 30% less than the full retirement benefit.

Full benefit. The retirement age for full Social Security benefits ranges from 65 to 67, depending on the year you were born.

Delayed benefit. You can delay taking benefits until after your full retirement age, and your monthly benefits throughout retirement will increase for each year you delay, up to age 70.

Use the following chart to see when you reach full retirement age and qualify for 100% of your Social Security benefits.

Birth year	Full retirement age
1937 and before	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943–1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and after	67

Source: Social Security Administration.

How much will you receive?

Social Security won't cover all your retirement income needs. Experts recommend that your pre-tax retirement income equal about 70% to 80% of your pre-tax earnings during your final working years. While this figure is useful as a rule of thumb, your own income requirements may be higher depending on your lifestyle.

The chart below shows the 2007 earnings replacement rates for single workers and couples at various earnings levels. Data are for workers age 65 who were entitled to collect Social Security in January 2007.

Preretirement earnings	Single worker	Married worker
\$17,427	54.2%	81.0%
\$38,726	40.2%	60.0%
\$86,046	27.9%	41.7%

Source: Social Security Administration.

The earning amounts represent the average of the worker's career earnings wage-indexed to 2006.*

The percentages assume a worker with a spouse age 65 or older who is not insured.

*For more information on wage-indexing, visit: www.socialsecurity.gov/OACT/COLA/AWI.html#Series.

Deciding when to take benefits

Some people may be inclined to begin receiving their Social Security benefits as soon as possible, even if it means reduced payouts. Whether this is the best financial decision depends on several factors, including your health, your life expectancy, and your employment status.

In general, the longer your life expectancy, the more it pays to put off taking Social Security benefits.

For planning purposes, you can consider factors such as your personal health and your family's health and longevity history to make an educated guess about your life expectancy.

Another factor in determining when to start your Social Security benefits is whether you intend to work during retirement. If you have employment income, you may want to delay taking Social Security and thus receive higher benefits later. But if you don't plan to work or if you need the money to live on, you may want to begin taking benefits earlier.

Your financial advisor can help you decide what arrangement works best within your overall financial plan.

When to apply

You should apply for Social Security benefits about three months before you want the payments to begin, but you should discuss your plans with a Social Security representative about a year before you plan to retire.

Health considerations

Health problems may leave you no choice but to retire early. If this is the case, consider applying for Social Security disability benefits. If eligible, you will receive a benefit equal to a full, unreduced retirement benefit. Then, when you reach full retirement age, the disability benefits will be converted to retirement benefits.

Should you delay taking benefits?

If you postpone taking Social Security benefits until after your full retirement age, your monthly benefits throughout retirement will increase by a certain percentage for each year you delay, until age 70.

The percentage varies depending on your year of birth. If you were born in 1940 or later, your benefits will increase by 7% per year for each year you delay taking benefits beyond your full retirement age, up to age 70.

In addition, each extra year you work adds another year of earnings to your Social Security record, which could result in a higher benefit when you retire.

What if you plan to keep working?

You can continue to work once you begin receiving Social Security benefits. If you elect to take benefits before you reach full retirement age (65 to 67, depending on the year you were born), your benefits will be reduced until you reach full retirement age if your earnings exceed certain limits.

In general, if you plan to work past normal retirement age and don't need the income right away, or if you're in good health and expect to live beyond your average life expectancy, it's probably best to delay taking benefits as long as possible to receive the higher monthly benefit throughout retirement.

If you've reached full retirement age, you can earn an unlimited amount without reducing your Social Security benefits.

Here's how it works:

- If you're not at full retirement age, \$1 in benefits will be deducted for each \$2 in earnings above the annual limit (\$14,160 in 2009).
- In the year you reach full retirement age, up until the exact month, your benefits will be reduced \$1 for every \$3 earned over the annual limit (\$37,680 in 2009).
- Once you reach full retirement age*, your employment earnings no longer affect your benefits.

Keep in mind that the earnings limitation applies only to the money that you earn through employment, not to investment income such as interest from a certificate of deposit or dividends from a mutual fund.

Continuing to work while also receiving Social Security may actually increase your benefits over the long term. That's because Social Security automatically reviews your earnings record and replaces the lowest earnings year in your work record with your latest year of earnings if it is higher.

*Full retirement age is reached in the exact month that you reach full retirement. For example, if your full retirement age is 66 years and 6 months and your birth month is March, your Social Security benefits will be subject to the \$1 for every \$3 reduction until benefits are payable in September of your full retirement year.

- > Get more information about applying for benefits from the Social Security Administration at www.socialsecurity.gov or by calling 800-772-1213.

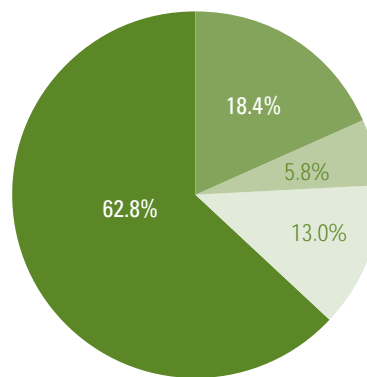
How Social Security benefits are taxed

If your total income — whether from a part-time job, pension, annuity, or other sources — exceeds certain levels, you may owe federal income tax on up to 85% of your Social Security benefits. In fact, about one-third of people who receive Social Security have to pay income taxes on their benefits.

The formula is as follows: If the sum of your total taxable income (wages, interest, dividends, and other taxable income) plus tax-exempt interest plus one-half of your Social Security benefits is between \$25,000 and \$34,000 annually for a single filer or between \$32,000 and \$44,000 for a married couple filing jointly, up to 50% of your Social Security benefit may be taxable. If the sum exceeds \$34,000 for a single filer or \$44,000 for joint filers, up to 85% of your benefit amount may be taxable.

You should receive a Form SSA-1099 every year showing the amount of your Social Security benefits. You may wish to consult a tax advisor to determine whether you'll owe tax on your Social Security benefits.

Who gets Social Security benefits



- Retired workers
- Survivor benefits—widows/widowers, children
- Disabled workers
- Spouses

Source: Social Security Administration.

Spousal and survivor benefits



If you're married, some decisions concerning Social Security may affect your spouse as well as your overall financial situation. For example, your choice of when to begin taking benefits could affect the level of benefits to which your spouse is entitled.

A spouse is entitled to receive Social Security benefits based on his or her own earnings record, but a spouse may also be entitled to "spousal benefits." Social Security will pay the higher of the two benefits. In addition, your spouse is entitled to survivor benefits when you die.

Here's a closer look at each type of benefit.

Spousal benefits

Your spouse is entitled to a spousal benefit of one-half of your full benefit once you start receiving benefits—unless your spouse starts to collect benefits before reaching full retirement age. In that case, your spouse's benefit is permanently reduced by a percentage based on the number of months until he or she reaches full retirement age. However, if your spouse is taking care of a child who is under age 16 or severely disabled, your spouse gets full benefits, regardless of age.

If a spouse is eligible for his or her own retirement benefits and for benefits as a spouse, Social Security always pays the retirement benefits first. Then, if the spousal benefit is higher than the retirement benefit, it pays a combination of benefits equaling the higher spousal benefit.

For example: Ann qualifies for a retirement benefit of \$250 and a spousal benefit of \$400. At full retirement age, she'll receive her own \$250 plus \$150 from her spousal benefit for a total of \$400. If she elects to take her retirement benefit before she reaches full retirement age, there will be a reduction in both amounts.

Of course, this option is irrelevant if your spouse can receive higher benefits based on his or her own work record.

The spousal benefit will cease at your death and your spouse will then receive the amount of your retirement benefits instead—a potential income change that should be considered in your planning.

(Note: If you're divorced, your ex-spouse is eligible for benefits based on your Social Security record if he or she is age 62 or older and unmarried and your marriage lasted at least ten years. The amount of benefits your ex-spouse receives has no effect on your or your current spouse's benefits.

Family benefits

If you're receiving Social Security retirement benefits, some of your family members, such as your unmarried children through high school age, may also be eligible to receive benefits. Individuals eligible for family benefits will receive up to one-half of your full benefit. There is a limit, however, to how much one family can receive in benefits.

If the total benefits due to your spouse and children exceed this limit, their benefits will be reduced proportionately but your benefit will not be affected.

Survivor benefits

Upon your death, your spouse is entitled to receive the retirement benefit amount you would have been entitled to or were receiving at the time of your death. If you delay taking Social Security until after your full retirement age, it could increase your spouse's potential survivor benefits.

Survivor benefits can be paid to your spouse at a reduced level as early as age 60, or age 50 if your spouse is disabled. People receiving survivor benefits (including divorced widows and widowers) can switch to their own retirement benefits—assuming they're eligible and their retirement rate is higher than the survivor's rate—as early as age 62.

Many times, a widow or widower can begin receiving one benefit at a reduced rate and then change to the other benefit at an unreduced rate at full retirement age. Because the rules vary with each situation, it's best to go over the options with a Social Security representative.

Unmarried children can get survivor benefits up to age 18 (19 if attending high school full-time). If they are severely disabled, children may get benefits beyond age 18.

In deciding the best course of action, your spouse should consider such factors as the amount of any life insurance proceeds he or she may receive and the adequacy of other sources of income.

When it comes to spousal and survivor benefits, be sure to consult with your financial advisor to determine the best course of action.

Your right to appeal

If you don't agree with a decision on your claim for Social Security benefits, you have the right to appeal it and be represented by an attorney or other qualified person you choose. Two publications from Social Security are helpful: *The Appeals Process* (Publication No. 05-10041) and *Your Right To Representation* (Publication No. 05-10075). Call 800-772-1213 or visit www.socialsecurity.gov.

Your Social Security statement

What your statement tells you

The four-page document contains:

- An estimate of the monthly retirement benefit that you would receive at early retirement (age 62), full retirement (65 to 67, depending on your birth year), and age 70.
- An earnings record and estimated taxes paid to Social Security and Medicare over your working career.
- A projection of the amount of monthly disability benefits you (and your family) could be entitled to, should you become disabled.
- An estimate of the monthly benefits that your family could receive when you die.

Your estimated benefit amounts are based on your average earnings over your lifetime. For future years, the Social Security Administration assumes that your earnings will stay at their current level until you retire. Your estimated benefits are also based on current laws and are provided in today's dollars, so you can compare them with today's living costs.

Web link

Social Security benefits can be complicated, especially when dealing with issues such as spousal and survivor benefits. You can get more information from the Social Security Administration at www.socialsecurity.gov or by calling 800-772-1213.

Every year, three months before your birthday, you'll receive a Social Security statement that summarizes your earnings record and potential retirement benefits. The Social Security Administration sends this statement to all workers and former workers age 25 and older.

> Your financial advisor is available to answer your questions and help you take full advantage of all your benefits.



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