



Social Security: Answers to Your Questions

Social Security was created in 1937 to help provide retirees with a source of guaranteed income in retirement. Here are four commonly asked questions retirees have about the program and their benefits.

1. What if I plan on working during retirement?

You may decide to continue working or even start another career while taking your Social Security benefits anyway, but be careful. Your Social Security benefits can be reduced if your wages from work exceed certain limits.

For example, in 2010:

- If you are under full retirement age for the entire year, Social Security deducts \$1 from your benefit payments for every \$2 you earn above \$14,160.
- If you reach normal retirement age, Social Security deducts \$1 in benefits for every \$3 you earn above \$37,680, but Social Security only counts earnings before the month you reach your normal retirement age.
- You will receive your benefits with no limit on your earnings starting with the month you reach normal retirement age.

If your second career really takes off, you will be hearing from the taxman. Social Security recipients earning substantial income (e.g., wages, self-employment, interest, dividends, etc.) may have to pay income tax on up to 85% of their Social Security benefit.

2. What is the difference in benefits if I take Social Security at 62 vs. my normal retirement age?

There's a significant difference. A person taking their Social Security benefit at 62 years gets 20 to 30% less in monthly benefits than if he or she waited until they were 66. Example: a recipient born in 1946 will receive \$1,000 per month if he or she elects full benefits at age 66, his or her normal retirement age. If the retiree instead elects benefits at age 62, his or her benefit is reduced 25% to \$750 per month.

Before you make a decision on when to receive your Social Security benefits:

- Verify your full retirement age and find out what your expected Social Security benefit will be. You can get this information from the Social Security website (www.socialsecurity.gov).
- Consider your family's history of longevity. If longevity doesn't run in your family, you may want to begin taking benefits at 62. If it does, consider waiting until your normal retirement age or even later. For instance, you'll need to live until at least age 75 to receive as much in payment by starting benefits at age 65 versus 62.

Social Security Normal Retirement Age		
Birth Year	Age for Full Benefits	Reduction for Benefits at Age 62
1937 or earlier	65	20%
1938	65 and 2 months	20.83%
1939	65 and 4 months	21.67%
1940	65 and 6 months	22.5%
1941	65 and 8 months	23.33%
1942	65 and 10 months	24.17%
1943-1954	66	25%
1955	66 and 2 months	25.83%
1956	66 and 4 months	26.67%
1957	66 and 6 months	27.5%
1958	66 and 8 months	28.33%
1959	66 and 10 months	29.17%
1960 and later	67	30%

Source: www.socialsecurity.gov/retire2/agereduction.htm

3. Are there advantages to waiting until after normal retirement age to begin payments?

Absolutely. For recipients born after 1943, there is an 8% annual increase in payouts (which stops at age 70) for waiting to take distributions until after their full retirement age. This is an important increase for those who do not need the benefit due to other income sources.

4. How do my Social Security decisions impact my spouse's benefits?

In general, spouses are eligible to receive the higher of either their own Social Security worker's benefit or one-half of their spouse's benefit (known as a spousal benefit). In cases where one spouse earns more than double the other spouse during their lifetime, collecting benefits before full retirement age not only reduces the higher earning spouse's benefits, the other spouse's benefits will likely be lowered, as well.

Delaying Social Security can increase the protection for a surviving spouse. Upon the death of a worker, the spouse will receive the greater of their existing benefit or the deceased spouse's benefit. Some married couples may find it favorable for the spouse with the lower benefit to take their payments early while delaying the benefits of the spouse with higher earnings.



WE'LL GIVE YOU AN EDGE®

Principal Life Insurance Company, Des Moines, Iowa 50392-0002, www.principal.com

While this communication may be used to promote or market a transaction or an idea that is discussed in the publication, it is intended to provide general information about the subject matter covered and is provided with the understanding that The Principal is not rendering legal, accounting, or tax advice. It is not a marketed opinion and may not be used to avoid penalties under the Internal Revenue Code. You should consult with appropriate counsel or other advisors on all matters pertaining to legal, tax, or accounting obligations and requirements.

<p align="center">Not FDIC or NCUA insured</p> <p align="center">May lose value • Not a deposit • No bank or credit union guarantee Not insured by any Federal government agency</p>

Principal Funds, Inc. is distributed by Principal Funds Distributor, Inc.