



# Social Security: An Overview

For the National Academy of Social Insurance  
*Demystifying Social Security: Academy for Interns*  
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# Who Pays for Social Security?

- Almost all workers and employers pay Social Security taxes (94%)
- Tax rate for workers and employers is 6.2% (total of 12.4%)
- Self-employed workers pay 12.4%
- Taxes are paid on earnings up to a cap--\$106,800 in 2010
- Maximum employee Social Security taxes in 2009 = \$6,621.60

# Who Receives Benefits?

(As of December 2009)

- 52.5 million individuals receive Social Security benefits
  - 36.4 million retired workers and their family members
  - 6.4 million survivors of deceased workers
  - 9.7 million disabled workers and their family members
- Over 4.2 million children receive Social Security benefits
  - 3.3 million children under age 19 whose parent is deceased, disabled or retired
  - 0.9 million disabled adult children

# How Much Does Social Security Pay?

Beneficiary Type	Average Monthly Benefit	Average Annual Benefit
Retired worker	\$1,152	\$13,824
Retired worker & aged spouse	\$1,892	\$22,704
Disabled worker	\$1,064	\$12,768
Disabled worker, spouse and children	\$1,803	\$21,636
Aged widow(er)	\$1,123	\$13,476
Widowed mother/father and 2 children	\$2,392	\$28,704

As of December 2009. Benefits typically increase annually by cost-of-living adjustments based on inflation.

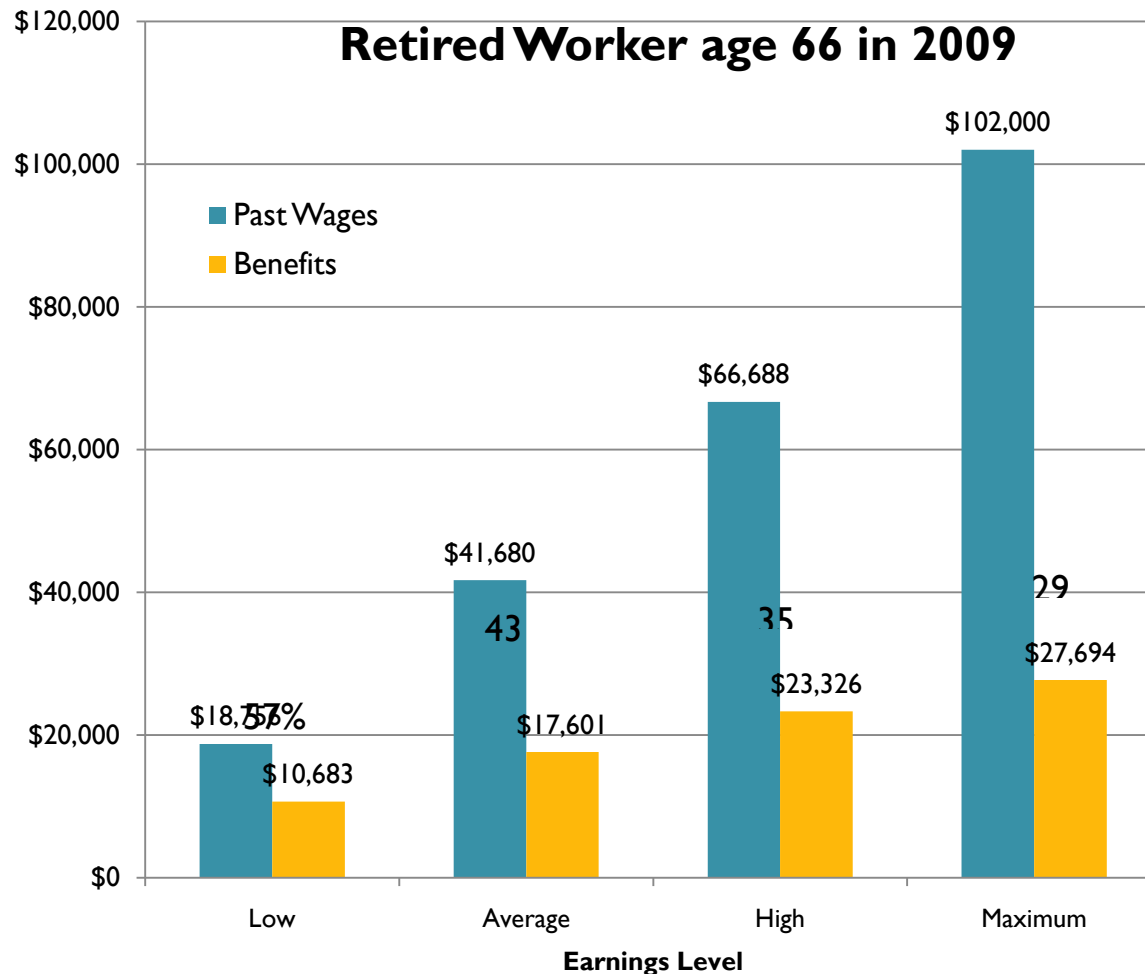
By comparison:

Working 40 hours per week at minimum wage (\$7.25/hour) for 52 weeks would result in gross annual wages of \$15,080.

# What is the Relative Importance of Social Security?

- 87% of people 65 and older received Social Security benefits in 2008
- Nearly 2 in 3 (64%) get half or more of their income from Social Security
- Almost 1 in 4 (22%) get all of their income from Social Security
- As age increases, so does reliance on Social Security

# How Do Benefits Compare to Earnings?

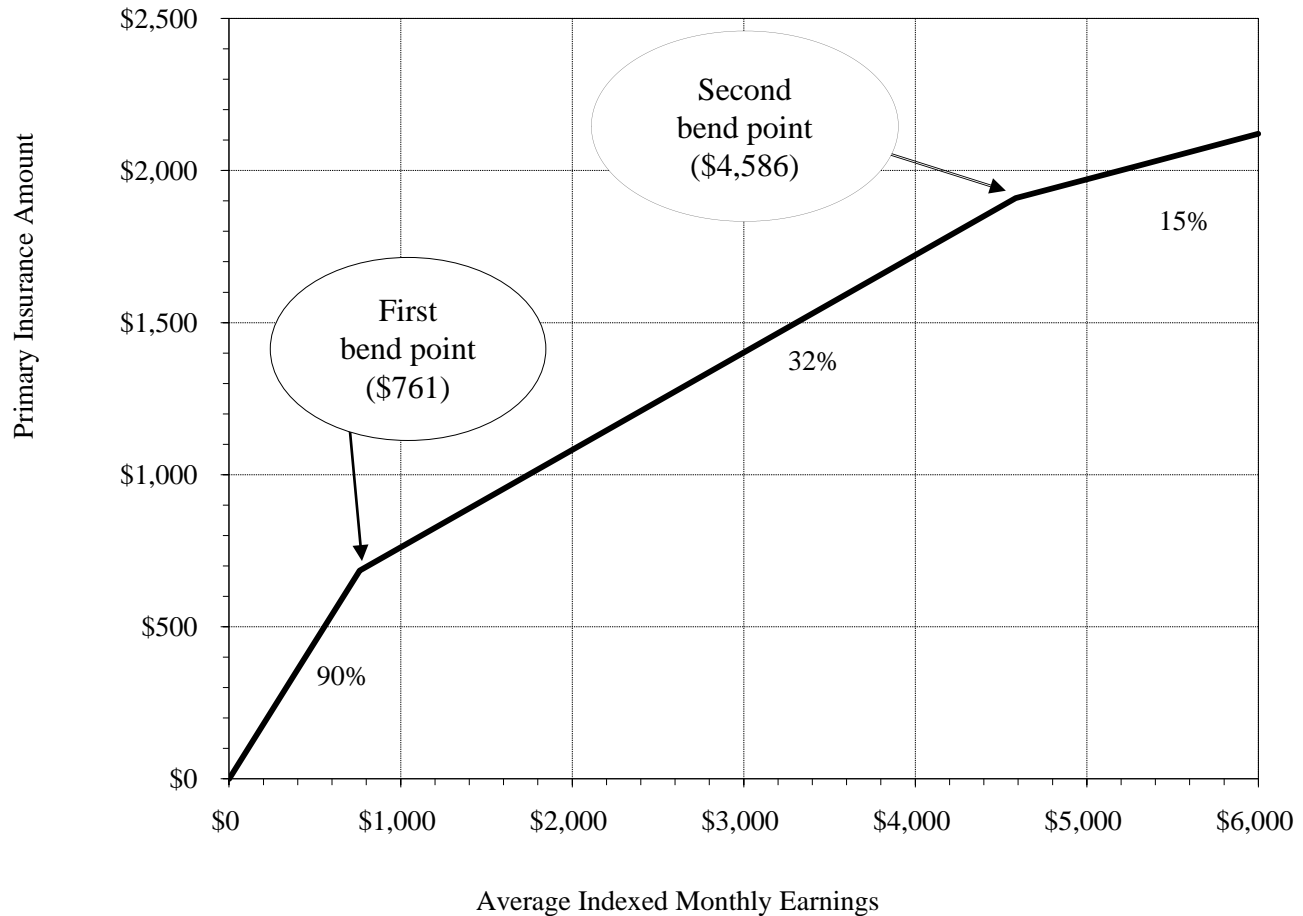


# How Are Benefits Calculated?

- Annual earnings over working life (up to age 60) are adjusted to reflect average wage growth over time
- Highest lifetime 35 years added together, the sum divided by 420 = average indexed monthly earnings (AIME)
- Formula applied to AIME to get the primary insurance amount (PIA)

# Primary Insurance Amount Formula

Chart provided by Christopher Chaplain, SSA Office of the Chief Actuary





# Calculating a PIA

- Average Indexed Monthly Earnings = \$5,293
  - \$ 761 x 90% = \$ 684.90
  - \$3,825 x 32% = \$1,224.00 (\$4,586 - \$761)
  - \$ 707 x 15% = \$ 106.05 (\$5,293 - \$4,586)
  - PIA = \$2014.95

The PIA is the benefit if there are no adjustments for early or late retirement

# How is the Retirement Age Changing?

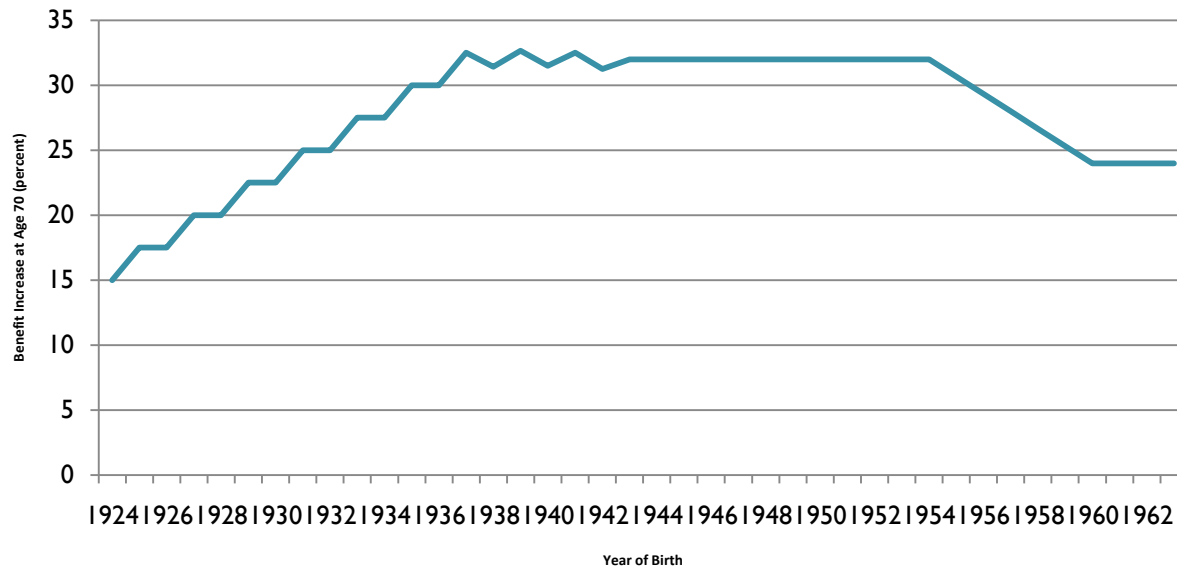
Year of Birth	Full Retirement Age	Reduced \$1,000 Benefit at age 62	% Reduction in Benefit at age 62
1937 or earlier	65	\$800	20%
1943 – 1954	66	\$750	25%
1960 and later	67	\$700	30%

- Workers can file for retirement benefits at age 62
- Benefits will be permanently reduced if claimed before full retirement age
- About half of all workers file at 62

# What are Delayed Retirement Credits (DRCs)?

- Benefits increase if workers delay taking benefits beyond their full retirement age (up to age 70)
- Increase in FRA reduces value of DRCs

**Value of Delayed Retirement Credits  
Due to Increasing FRA**



# How is Social Security Financed?

- 82.7% from Social Security payroll taxes
- 2.9% income taxes from higher-earning beneficiaries
- 14.4% interest on trust fund assets

# What are the Trust Funds?

- Any taxes collected that are not needed to pay benefits are, by law, invested in interest-bearing U.S. Treasuries
- Assets in trust funds will peak at \$4.33 trillion in 2023
- Trust fund assets exhausted in 2037

# What is the “Trustees Report”?

- Annual report to Congress about the financial status of Social Security
- SSA actuaries project program status over 10 years, 75 years, and to infinity
- Projections based on employment, wages, inflation, interest rates, birth and death rates, immigration, disability incidence
- Actuaries produce three scenarios to account for uncertainty about the future

# What is Social Security's Long-Term Financial Condition?

- Intermediate projection over 75 years shows Social Security income falling short of paying full benefits by 2.00% of taxable payroll
- The shortfall is equal to 0.7% of GDP
- If nothing is done, taxes coming into SS would pay about 76% of benefits in 2037 when trust funds are depleted

# Sources

*The 2009 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*

Available at: <http://ssa.gov/OACT/TR/2009/tr09.pdf>

*Income of the Population 55 or Older, 2008.*

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[http://ssa.gov/policy/docs/statcomps/income\\_pop55/2008/index.html](http://ssa.gov/policy/docs/statcomps/income_pop55/2008/index.html)