

Social Security 101

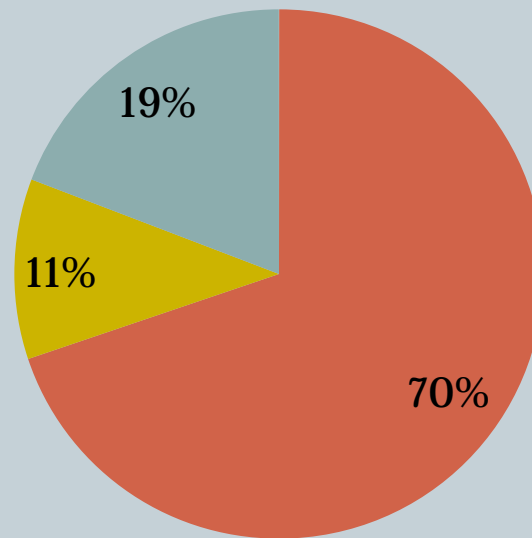


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Who Receives Social Security Benefits?



- About **1 in 6 Americans** (57 million people)

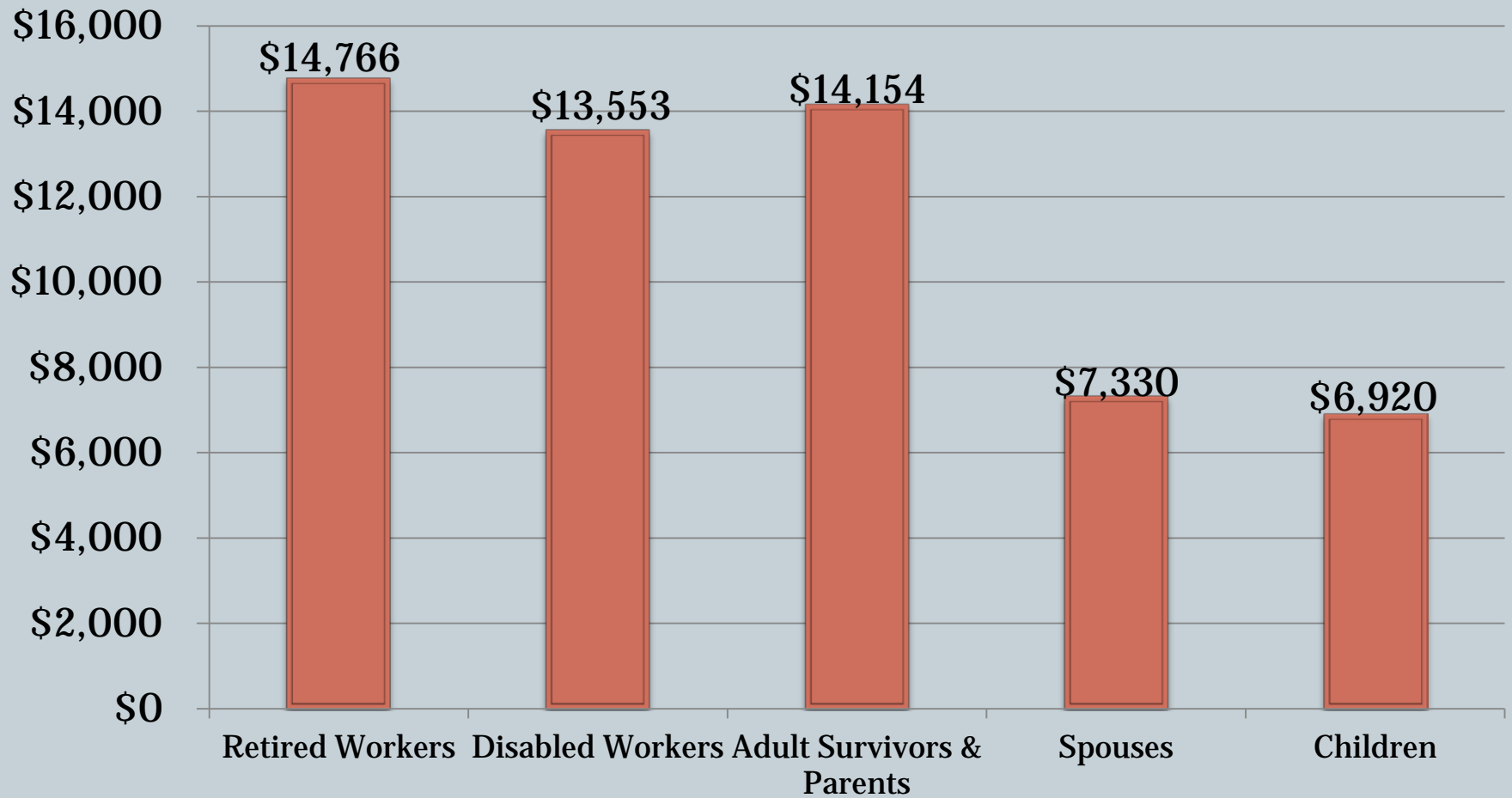


■ Retired Workers & Families ■ Survivors of Deceased Workers ■ Disabled Workers & Families

Source: SSA, <http://www.ssa.gov/oact/FACTS/index.html>

Note: As of December 2012

How Much Do Beneficiaries Receive?



SOURCE: SSA, based on June 2013 monthly benefits, www.socialsecurity.gov/OACT/ProgData/icp.html

The Basic Benefit Formula (2013)

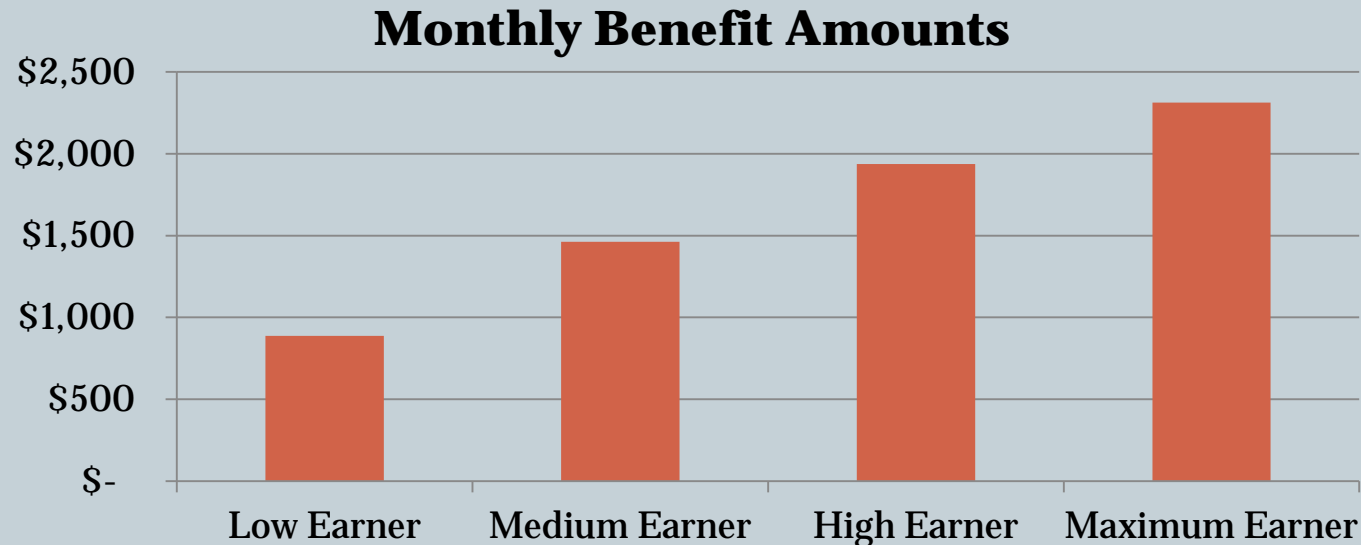


- **Calculate the worker's average indexed monthly earnings (AIME):**
 - Indexed to wages at age 60
 - Average of the highest 35 years of earnings
- **Calculate the basic benefit amount (or primary insurance amount, PIA):**
 - 90% of the first \$791 of AIME, plus
 - 32% of AIME over \$791 up to \$4,768, plus
 - 15% of AIME over \$4,768 (up to the tax max)

How Does the Benefit Formula Work?



- **Higher earners have greater monthly benefits** than lower earners, since benefits are based on earnings



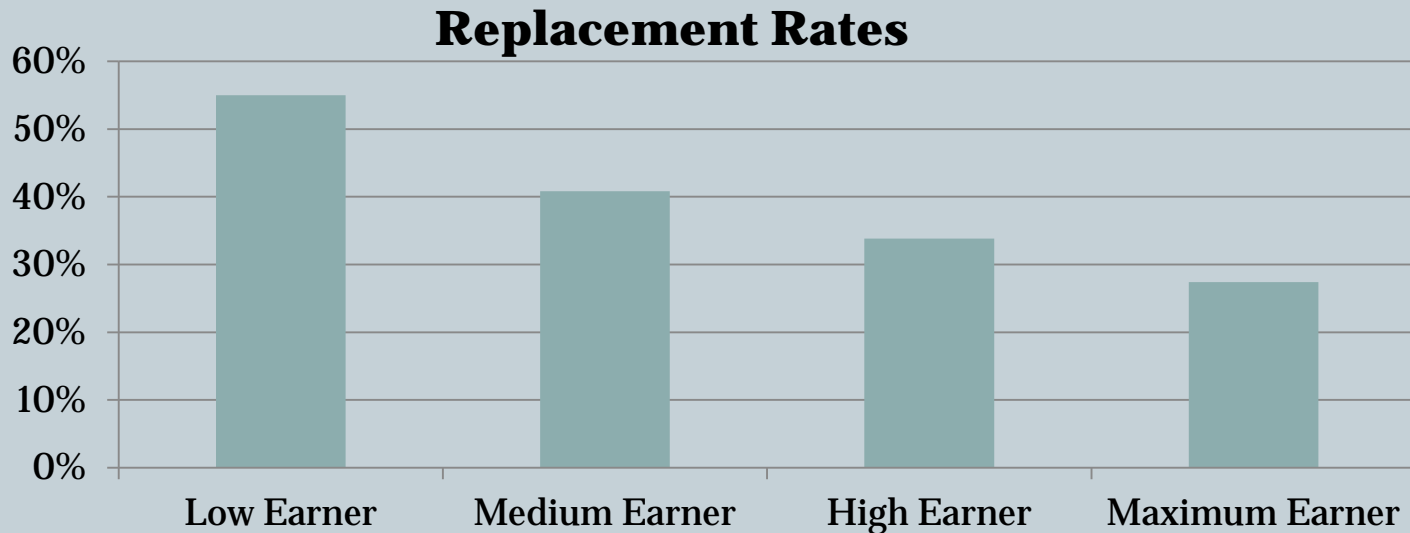
Note: Hypothetical scaled earners who turn 65 and retire in 2012

Source: 2012 Social Security Trustees Report, intermediate assumptions

How Does the Benefit Formula Work?



- **Lower earners have higher replacement rates than higher earners, since the benefit formula is progressive**



Note: Hypothetical scaled earners who turn 65 and retire in 2012

Source: 2012 Social Security Trustees Report, intermediate assumptions

Automatic Adjustments



- ***Initial* benefits are indexed to **wages** (AWI), which . . .**
- . . . allows beneficiaries to reap the benefits of rising living standards.
- . . . provides a steady replacement rate to new beneficiaries.
- . . . recognizes that workers' Social Security payroll tax payments increase as their wages rise.
- After the first year, benefits rise with **inflation** (CPI-W), which . . .
- . . . allows benefits to maintain purchasing power over time

Benefits for Workers' Family Members



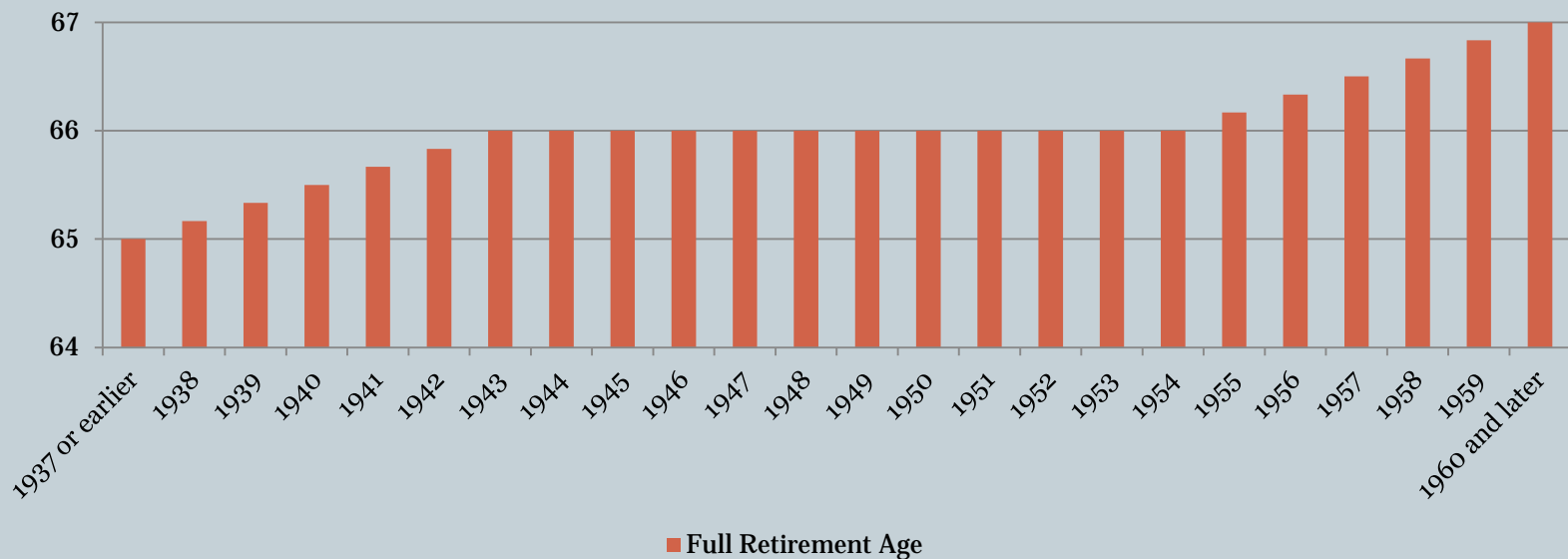
Family Relationship	Max % of Worker's Basic Benefit
Spouse of retired/disabled worker	50%
Surviving spouse (with child in care)	75%
Surviving spouse (aged)	100%
Child of retired/disabled worker	50%
Surviving child	75%

Note: Benefits may not be payable or may be reduced for: dual entitlement (i.e., earning a higher worker benefit of one's own), earnings, age, family maximum rules

The Rising Full Retirement Age



- The **full retirement age (FRA)** is the age at which a person can receive unreduced retirement benefits
- Increases to the FRA reduce benefits for *all* retired workers, regardless of the age they retire

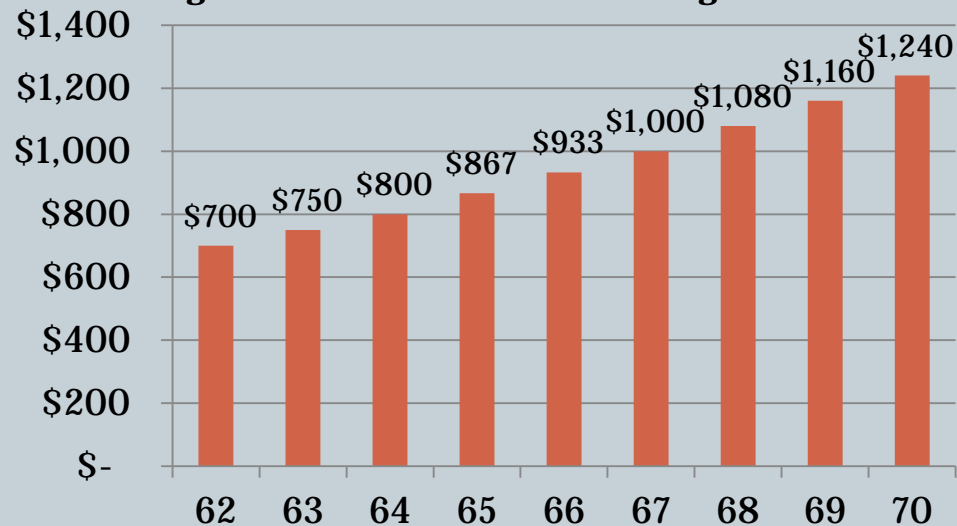


Sliding Scale Benefits



- **How much you get depends on when you retire**
 - Early retirement = permanent benefit reduction, up to 30%
 - Delayed retirement = permanent benefit credit, up to 24%

Monthly Benefit Amounts Differ Based on the Age You Decide to Start Receiving Benefits



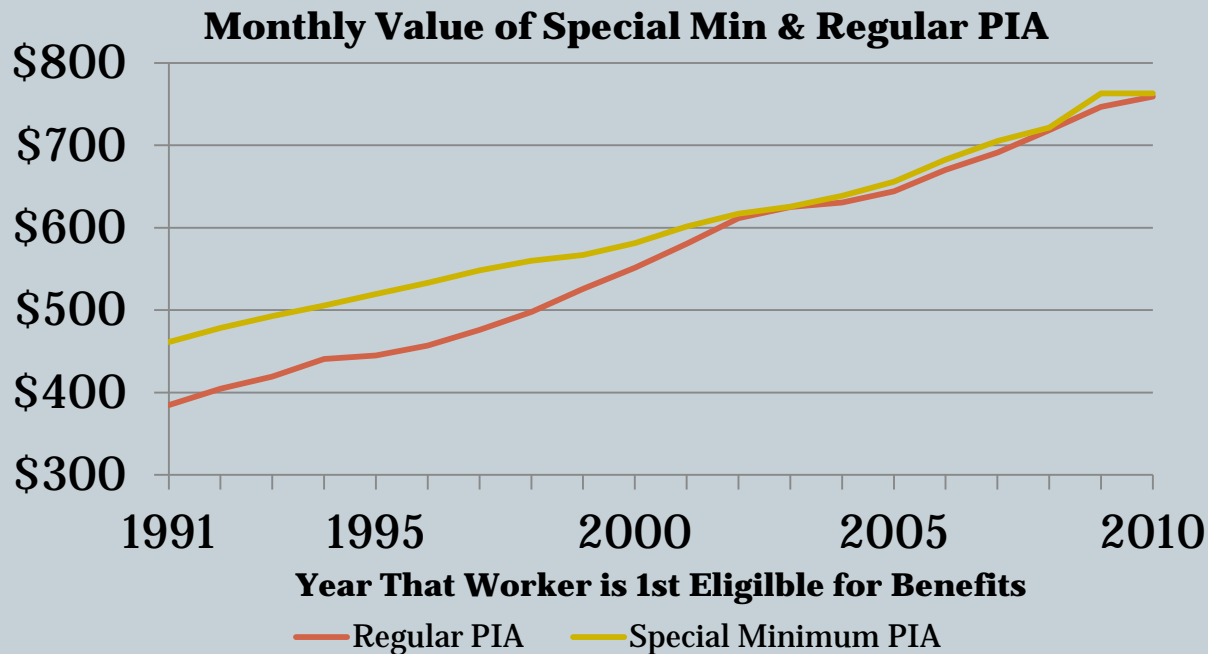
Note: Illustration assumes benefit of \$1,000 at full retirement age of 67 (i.e., born in 1960 or later).

Source: Social Security Administration

The No-Longer-So-Special Minimum Benefit



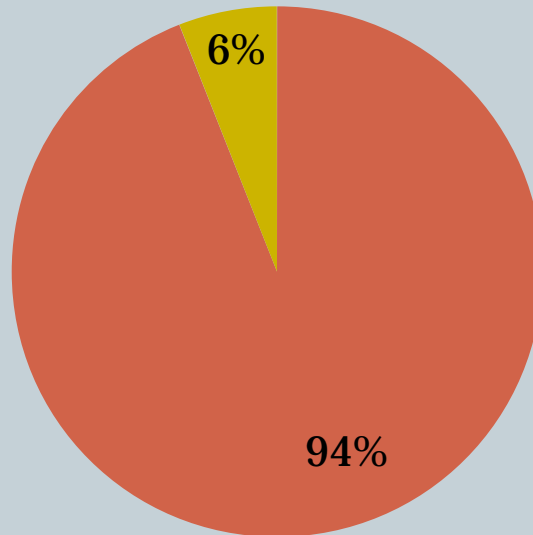
- **Social Security's special minimum benefit:**
 - Enacted in 1972 to boost benefits for long-term low earners and indexed to inflation (not wages)
 - Since 1998, no new beneficiaries have received it



Who Pays into Social Security?



- About **19 in 20 workers** (161 million people)
 - This includes all Members of Congress—so tell your uncle!



■ Covered workers ■ Uncovered workers

Source: SSA, <http://www.ssa.gov/oact/FACTS/index.html>

Note: As of December 2012

How Much?

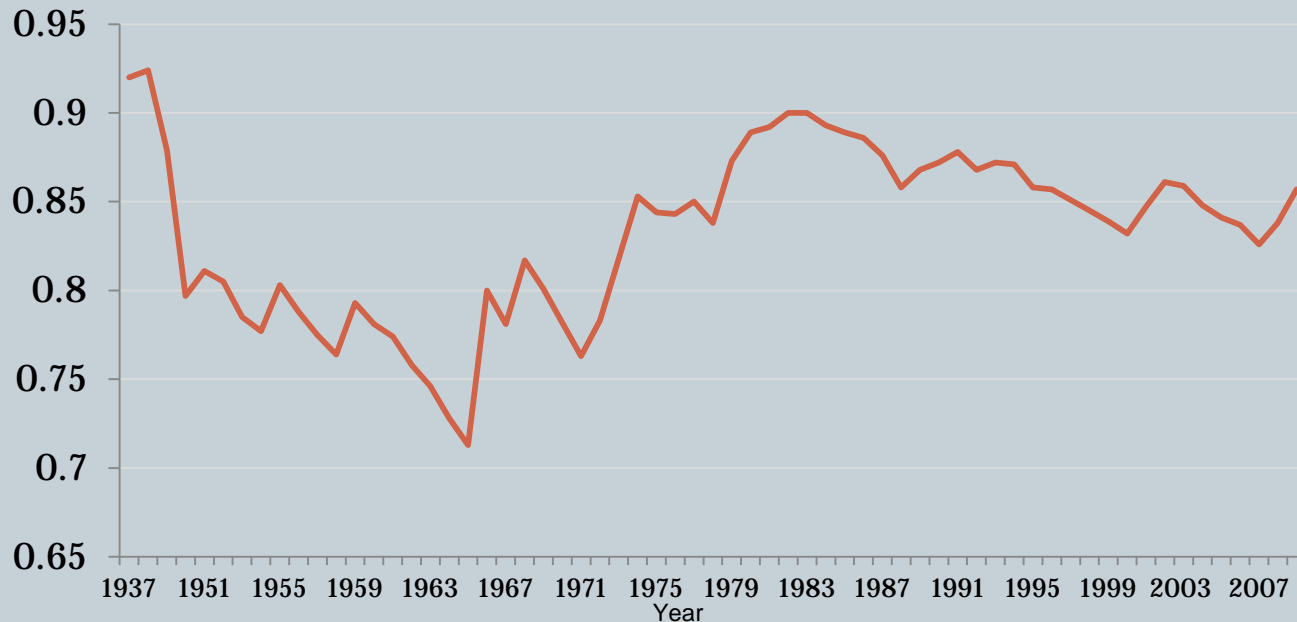


- **Payroll tax rate:**
 - Employers & employees each contribute **6.2%** of covered earnings
- **Payroll tax cap:**
 - **\$113,700** in earnings for 2013
 - Note: Medicare Hospital Insurance has no payroll tax cap

The Tax Max Over Time



- The percentage of covered earnings subject to payroll taxes has varied over time
 - Set at 90% of covered earnings in the 1983 reforms
 - In 2008, about 83% of covered earnings were taxed



SOURCE: Whitman (2011).