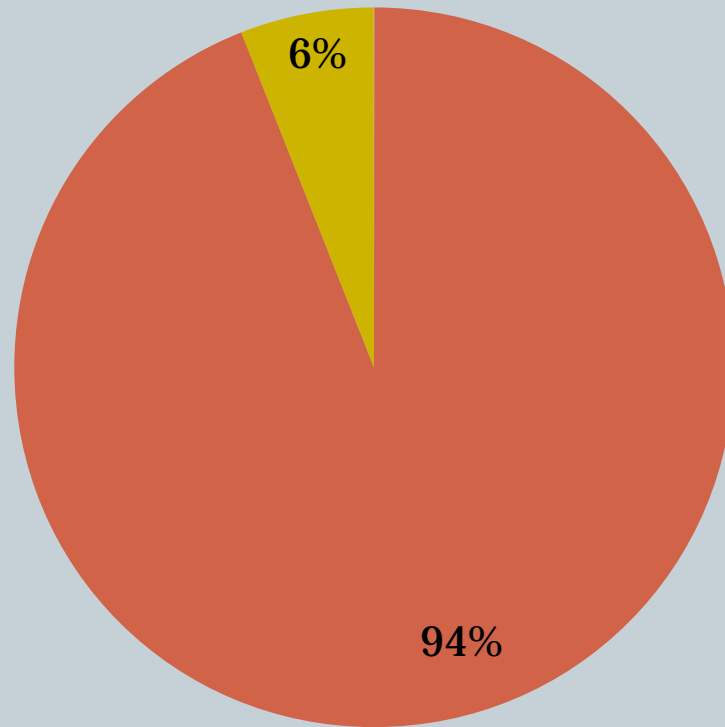


# **Social Security 101**



**KATHLEEN ROMIG  
CENTER ON BUDGET AND POLICY  
PRIORITIES**

# Social Security covers nearly everyone



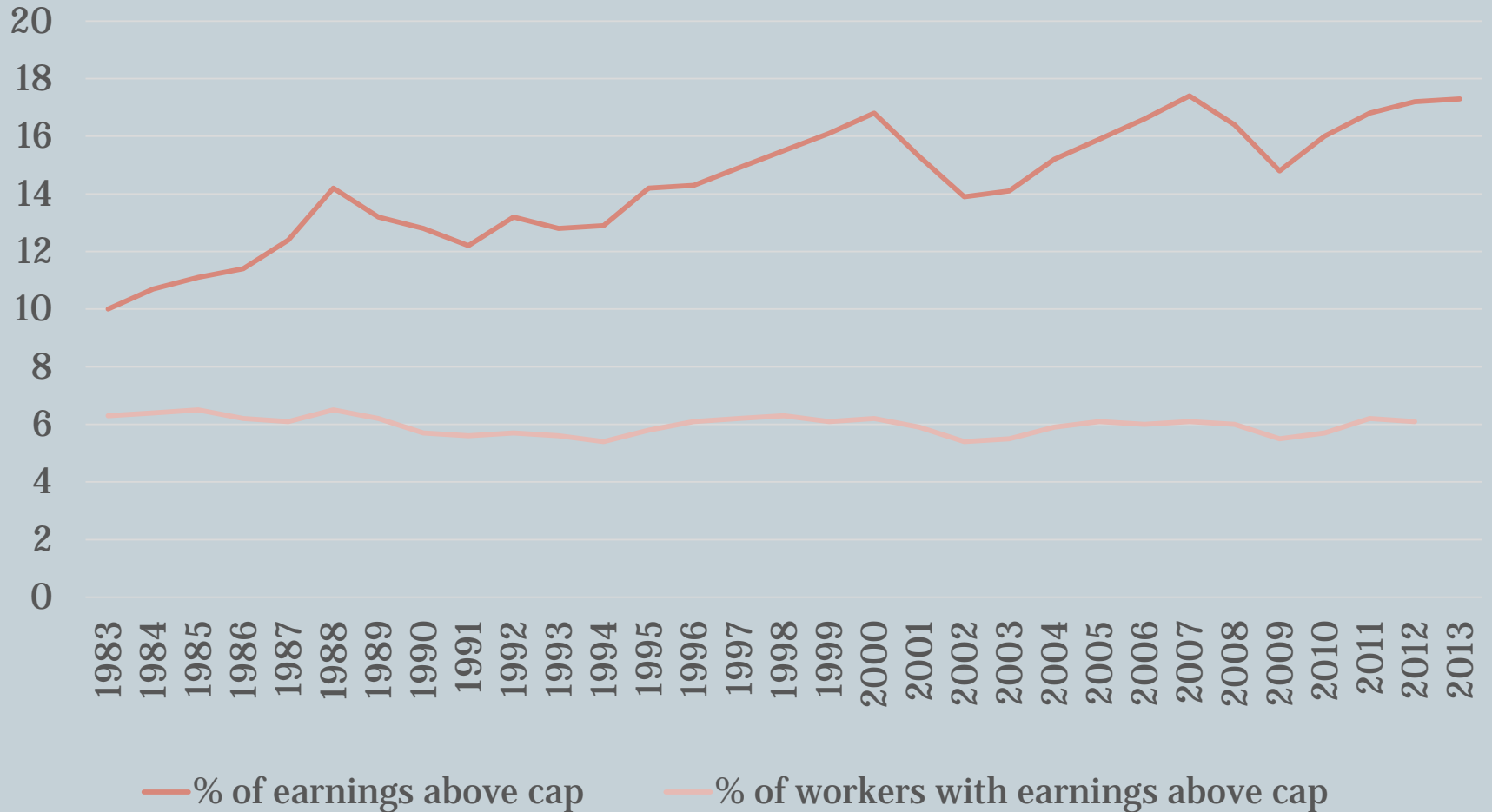
■ Covered workers    ■ Uncovered workers

# Why payroll taxes?



- “We put those payroll contributions there so as to give the contributors a legal, moral, and political right to collect their pensions and their unemployment benefits. With those taxes in there, no damn politician can ever scrap my social security program”
  - *Franklin Delano Roosevelt, 1941*

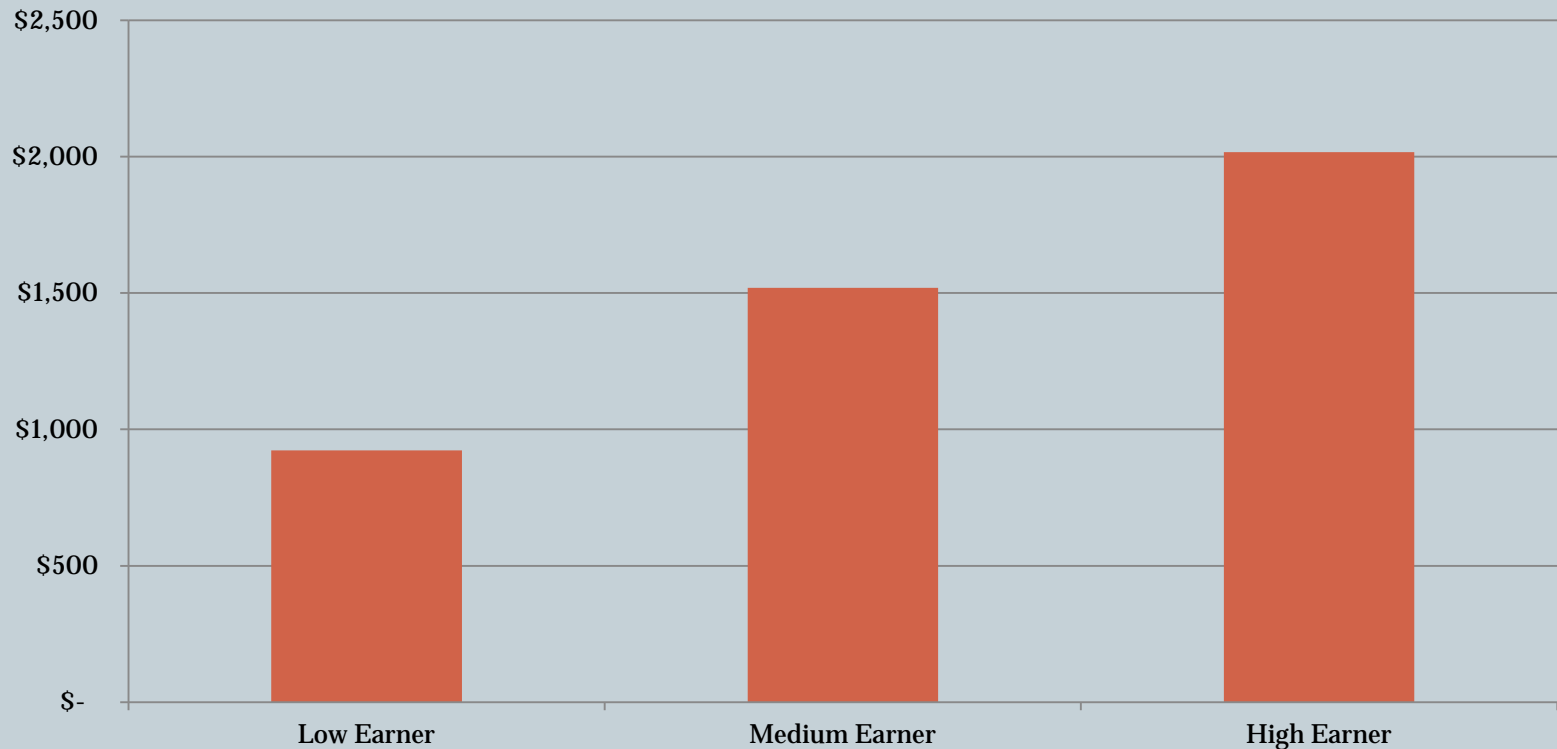
# Rising income inequality -> fewer earnings taxed



# Higher earners have greater monthly benefits



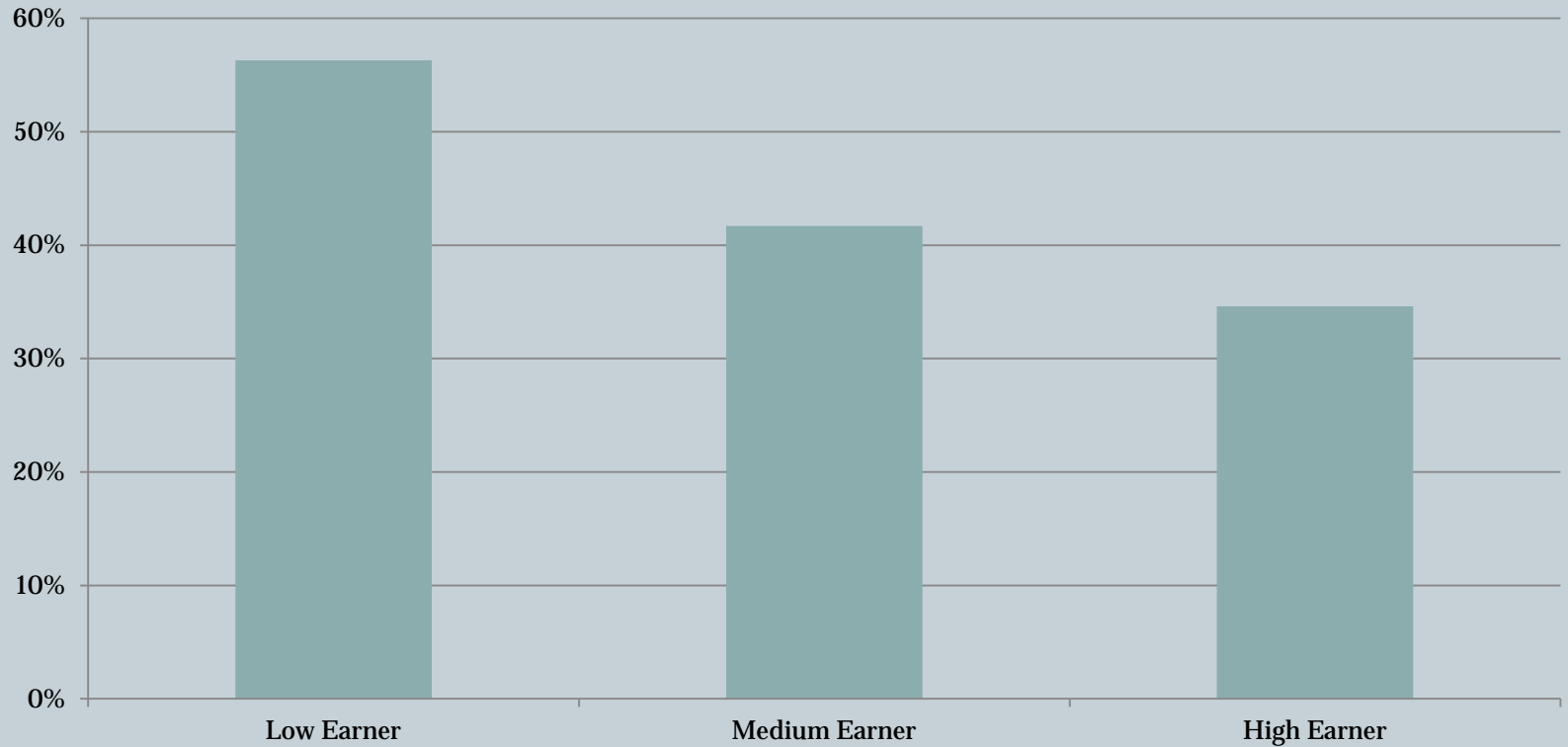
## Monthly Benefit Amounts



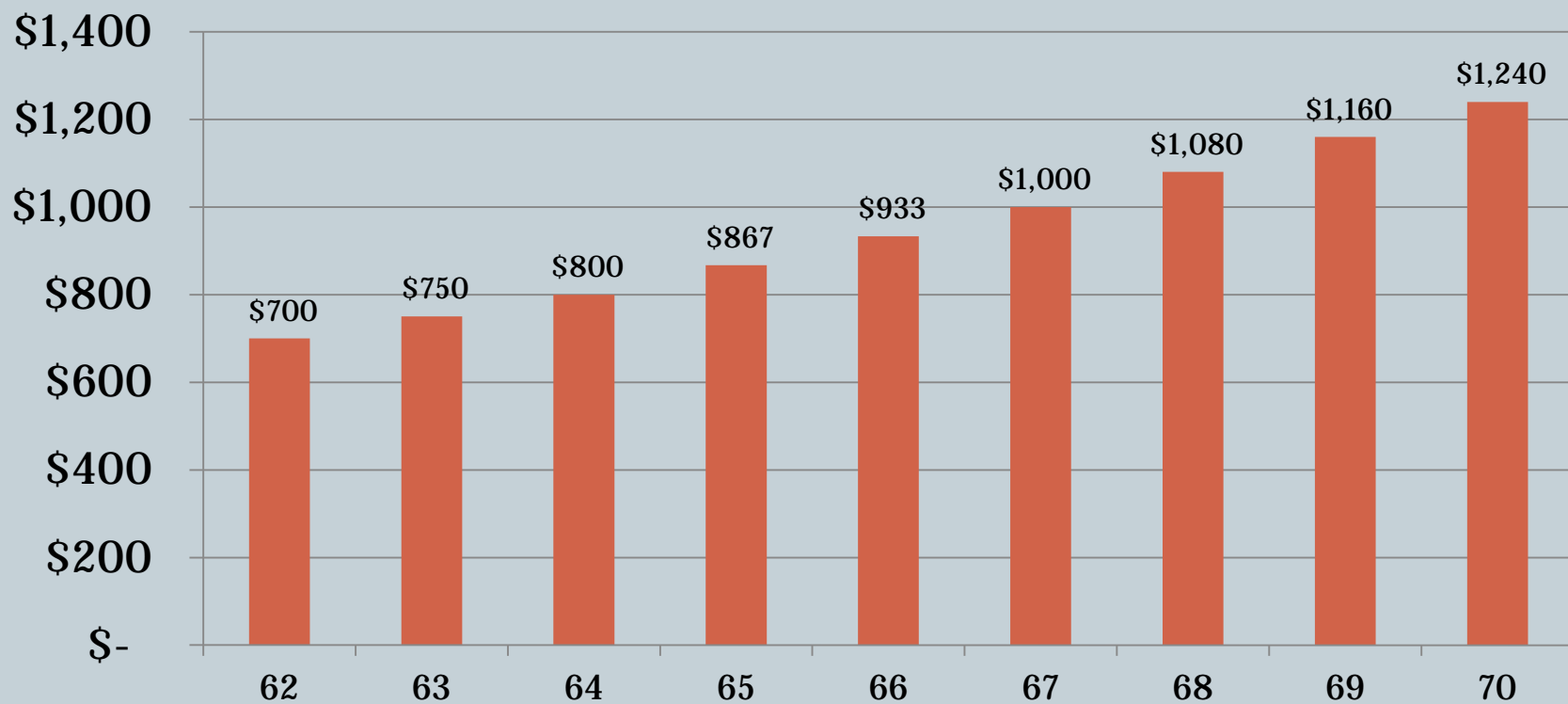
# Lower earners have higher replacement rates



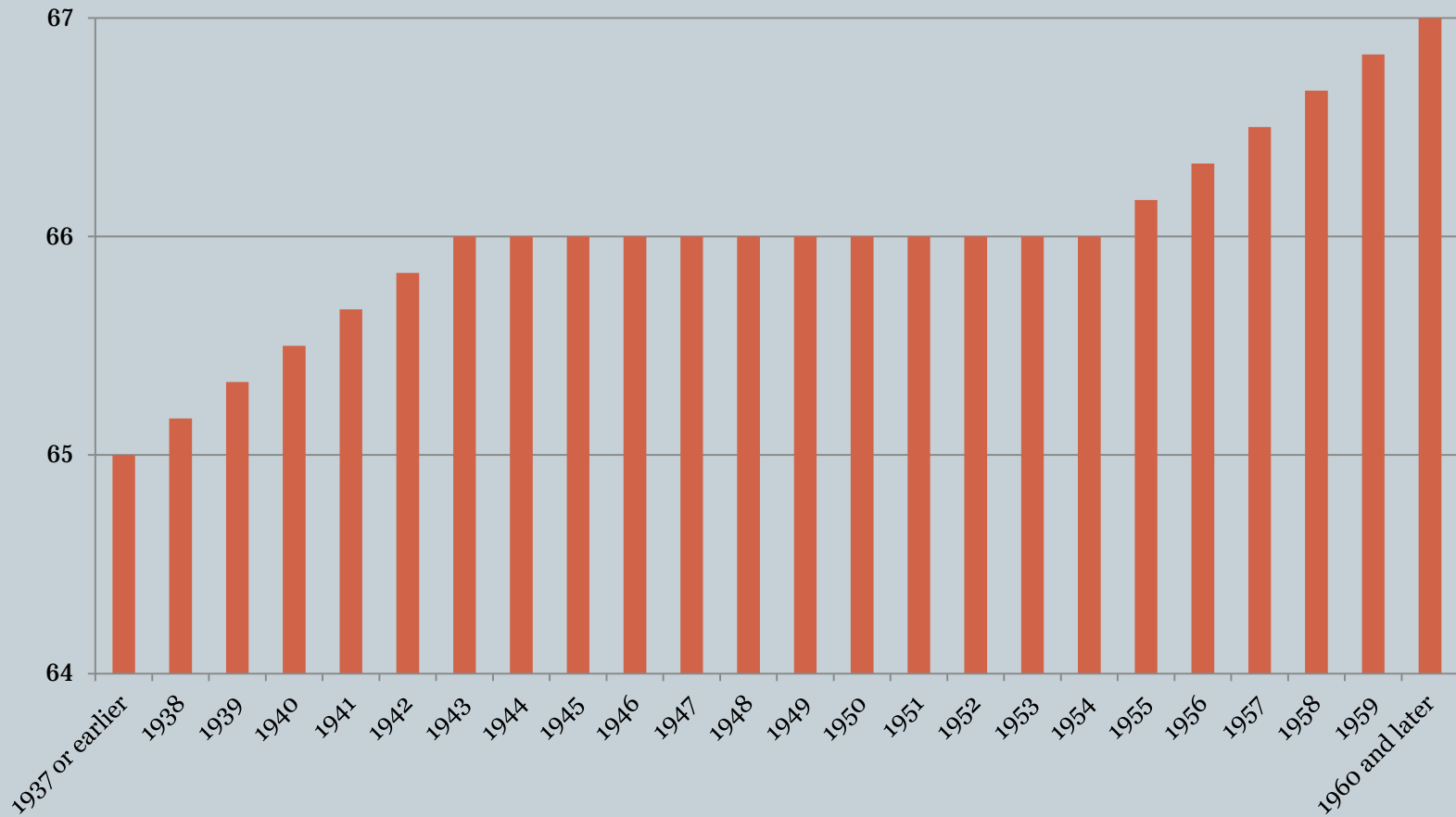
## Replacement Rates



# How much you get depends on when you retire

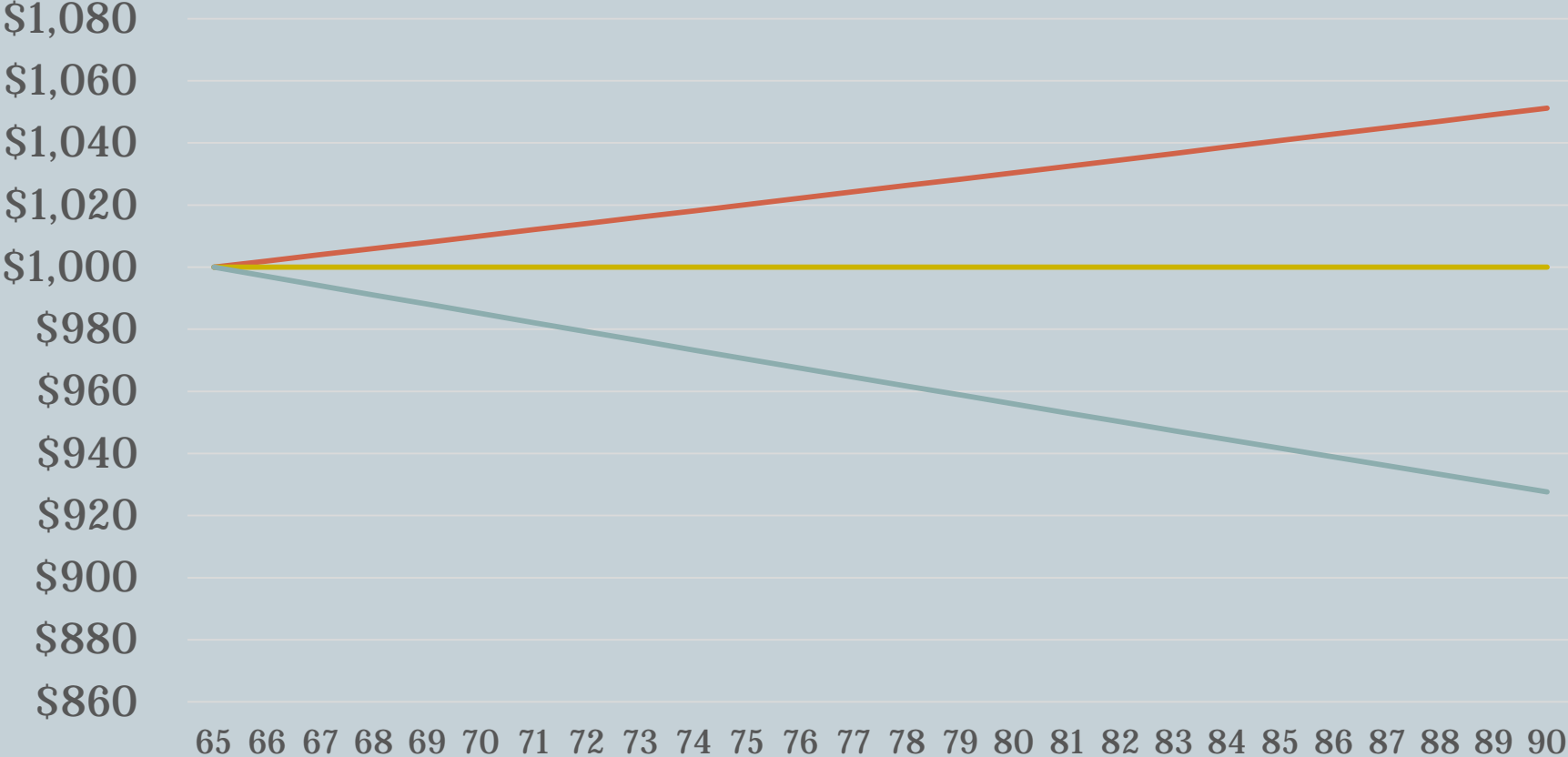


# The full retirement age is rising . . .





# Changes to the COLA compound over time



— CPI-E — CPI — Chained CPI

# Social Security protects families, too



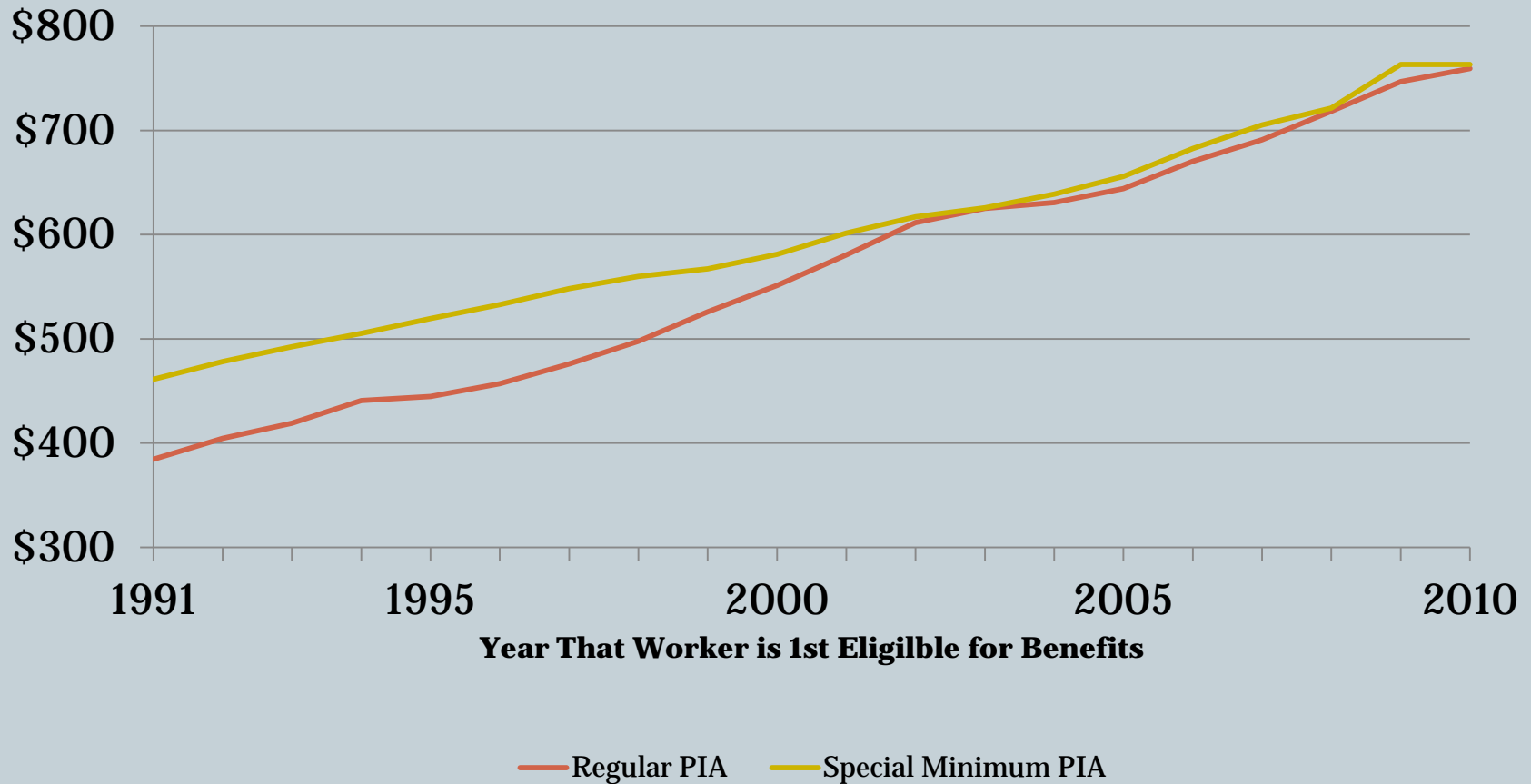
Family Relationship	Max % of Worker's Basic Benefit
Spouse of retired/disabled worker	50%
Surviving spouse (with child in care)	75%
Surviving spouse (aged)	100%
Child of retired/disabled worker	50%
Surviving child	75%

**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

# Social Security's minimum benefit is obsolete



**Monthly Value of Special Min & Regular PIA**



# Good luck!



# Appendix



# How Much Do We Pay?



- **Payroll tax rate:**
  - Employers & employees each contribute **6.2%** of covered earnings
- **Payroll tax cap:**
  - **\$118,500** in earnings for 2015

# The Basic Benefit Formula (2015)



- **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 \$826 of AIME, plus
  - 32% of AIME over \$826 up to \$4,980, plus
  - 15% of AIME over \$4,980 (up to the tax max)

# COLAs & Other 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;
  - This is called the COLA (cost-of-living adjustment)



# Social Insurance vs. Welfare



<b>Social Insurance</b>	<b>Welfare</b>
Qualify based on contributions	Qualify based on need
Benefit amounts based on earnings	Benefit amounts means-tested
Supplements workers' savings	Discourages savings
Replaces lost wages	Provides a floor of income/benefits
Near-universal participation	Limited participation
Funded through payroll tax	Funded through general revenues
Pools of risks & resources among all	Richer people assisting poorer people
Poverty prevention	Poverty alleviation