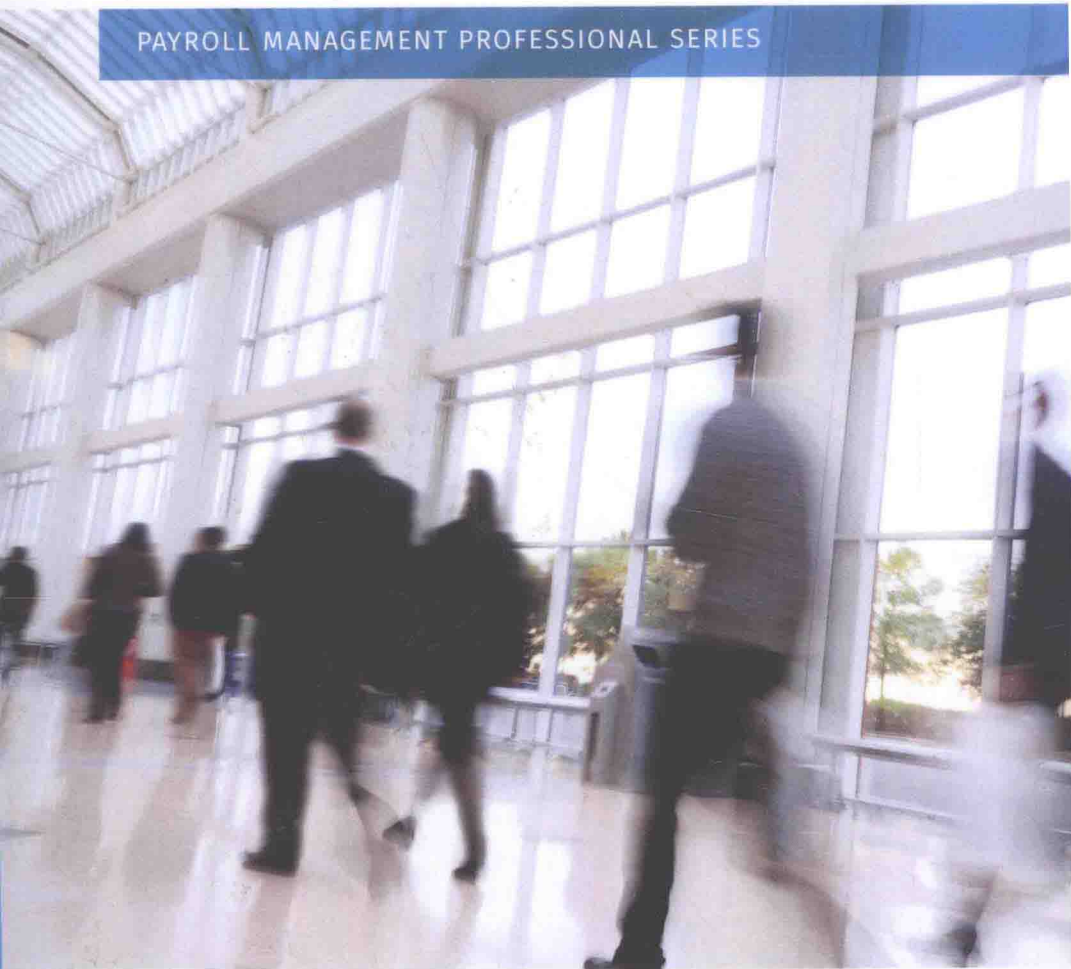


2016

# Social Security Explained

PAYROLL MANAGEMENT PROFESSIONAL SERIES



Wolters Kluwer

2016

# **Social Security Explained**

PAYROLL MANAGEMENT PROFESSIONAL SERIES



Wolters Kluwer

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional service. If legal advice or other expert assistance is required, the services of a competent professional person should be sought.

978-1-4548-7407-2

© 2016 CCH Incorporated and its affiliates. All rights reserved.

4025 W. Peterson Ave.  
Chicago, IL 60646-6085  
800 248 3248  
[www.wklawbusiness.com](http://www.wklawbusiness.com)

No claim is made to original government works; however, within this Product or Publication, the following are subject to CCH Incorporated's copyright: (1) the gathering, compilation, and arrangement of such government materials; (2) the magnetic translation and digital conversion of data, if applicable; (3) the historical, statutory and other notes and references; and (4) the commentary and other materials.

All Rights Reserved.

Printed in the United States of America.



# Social Security Explained

## SOCIAL SECURITY COST-OF-LIVING ADJUSTMENT (COLA) CHARTS

Subject to COLA <sup>1</sup>	2016	2015	2014
<b>Tax rate FICA-Medicare<sup>2</sup></b>			
Employee	7.65 (6.20 OASDI, 1.45 HI)	7.65 (6.20 OASDI, 1.45 HI)	7.65 (6.20 OASDI, 1.45 HI)
Self-employed	15.30 (12.40 OASDI, 2.90 HI)	15.30 (12.40 OASDI, 2.90 HI)	15.30 (12.40 OASDI, 2.90 HI)
<b>Taxable wage base OASDI maximum earnings taxable</b>	\$118,500	\$118,500	\$117,000
<b>Taxable wage base HI maximum earnings taxable<sup>3</sup></b>	unlimited	unlimited	unlimited
<b>Quarter of coverage</b>	\$1,260	\$1,220	\$1,200
<b>Retirement earnings test exempt amounts</b>			
Earnings test <sup>4</sup>			
Year worker reaches full retirement age <sup>5</sup>	\$41,880	\$41,880	\$41,400
Under full retirement age	\$15,720	\$15,720	\$15,480
<b>Maximum Social Security benefit (workers retiring at full retirement)<sup>6</sup></b>	\$2,639 per mo.	\$2,663 per mo.	\$2,642 per mo.
<b>Supplemental Security Income federal payment standard</b>			
Individual	\$733 per mo.	\$733 per mo.	\$721 per mo.
Couple	\$1,100 per mo.	\$1,100 per mo.	\$1,082 per mo.
<b>Supplemental Security Income resource limits</b>			
Individual	\$2,000	\$2,000	\$2,000
Couple	\$3,000	\$3,000	\$3,000

<sup>1</sup> Sources: Social Security Administration News Release and Fact Sheet—10/15/2015.

<sup>2</sup> The 7.65% represents the combined Social Security and Medicare tax rate. The Social Security portion (OASDI) is 6.20% on wages up to the applicable maximum taxable amount. The Medicare portion (HI) is 1.45% on all wages. Note: A 0.9% Medicare tax is also imposed on employees who receive wages in excess of \$200,000 (\$250,000 for joint filers and \$125,000 for married taxpayers filing separately). In addition, a 3.8% Medicare contribution tax is assessed on the lesser of (1) an individual's net investment income for the year and (2) any excess of modified adjusted gross income for the tax year over \$200,000 for individuals (\$250,000 for joint filers and \$125,000 for married individuals filing separately).

<sup>3</sup> The maximum was eliminated by the Omnibus Budget Reconciliation Act of 1993 (P.L. 103-66).

<sup>4</sup> There is no limit on earnings beginning the month an individual attains full retirement age (66 years for retirees born in 1943-1954).

<sup>5</sup> Applies only to earnings for months prior to attaining full retirement age.

<sup>6</sup> The age at which a retiree is entitled to his or her full benefit amount—i.e., the age at which benefits are no longer reduced on account of early retirement—is gradually increasing to age 67. A decrease in full maximum benefits occurs when there is no COLA, but there is an increase in the national average wage index.

## ESTIMATED AVERAGE MONTHLY SOCIAL SECURITY BENEFITS (PER PERSON JANUARY 2016)

	2016
All retired workers	\$1,341
Aged couple, both receiving benefits	\$2,212
Widowed mother and two children	\$2,680
Aged widow(er) alone	\$1,285
Disabled worker, spouse, and children	\$1,983
All disabled workers	\$1,166

There was no increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) from the third quarter of 2014 through the third quarter of 2015, therefore, Social Security beneficiaries and Supplemental Security Income recipients will not receive a COLA increase for benefit payments received beginning in January 2016.



## OLD-AGE OR DISABILITY BENEFITS

<b>Monthly benefits can be paid to—</b>	<b>If the worker—</b>
A retired worker age 62 or over	Is fully insured.
A disabled worker under full retirement age	Would have been fully insured had he or she attained age 62 in the month the disability began and (except in the case of a person disabled because of blindness) has 20 quarters of coverage out of the 40 calendar quarters ending with the quarter in which the disability began.
A worker disabled before age 31 who does not have sufficient quarters of coverage to meet above requirement	Has quarters of coverage in one-half of the quarters elapsing in the period after attaining age 21 and up to and including the quarter of becoming disabled, but no fewer than 6 or, if disabled in a quarter before attaining age 24, he or she has 6 quarters of coverage in the 12 calendar-quarter period immediately before he or she became disabled.
("Special Insured" status, which allows an alternative to the "20 in 40 quarters" provision, may apply to a worker disabled after age 31 if he or she had a period of disability prior to age 31)	

## DEPENDENTS OF RETIRED OR DISABLED WORKERS

<b>Monthly benefits can be paid to—</b>	<b>If the worker—</b>
The spouse of a person entitled to disability or retirement insurance benefits, if he or she is: (a) Age 62 or over (may be divorced spouse in certain circumstances); or (b) Caring for a child who is under age 16 or disabled before age 22 and entitled to benefits	Is fully insured or insured for disability benefits, whichever is applicable, as shown above.
A dependent, unmarried child, grandchild, or stepgrandchild of a person entitled to disability or retirement insurance benefits if the child is: (a) Under age 18; or (b) Under age 19 and qualified as a full-time elementary or secondary school student; or (c) Age 18 or over and under a disability which began before the child reached age 22	Is insured for retirement or disability benefits, whichever is applicable, as shown above (and, with respect to benefits for grandchildren, if the child's natural or adoptive parents were deceased or disabled when the grandparent or stepgrandparent became entitled to benefits).

## SURVIVORS BENEFITS

<b>Monthly benefits can be paid to—</b>	<b>If the worker—</b>
A widow or widower (may be surviving divorced spouse in certain circumstances) age 60 or over	Is fully insured.
A widow or widower and, under certain conditions, a surviving divorced spouse, if the widow or widower or divorced spouse is caring for a child entitled to benefits if the child is under age 16 or disabled	Is either fully or currently insured.
A disabled widow or widower (may be surviving divorced spouse in certain circumstances), age 50 or over but under age 60, whose disability began within a certain period	Is fully insured.
A dependent, unmarried child, grandchild, or stepgrandchild of a deceased worker if the child is: (a) Under age 18; or (b) Under age 19 and qualified as a full-time elementary or secondary school student; or (c) Age 18 or over and under a disability which began before the child reached age 22	Is either fully or currently insured (and, with respect to benefits for grandchildren, if the child's natural or adoptive parents were de-ceased or disabled when the grandparent or stepgrandparent became entitled to benefits).
The dependent parents, age 62 or over, of the deceased worker	Is fully insured.

## LUMP-SUM DEATH PAYMENT

<b><i>The lump-sum death payment will be paid in the following order of priority to—</i></b>	<b><i>If the worker—</i></b>
(a) The widow(er) of the deceased wage earner who was living in the same household as the deceased wage earner at the time of death;	Is either fully or currently insured.
(b) The widow(er) (excluding a divorced spouse) who is eligible for or entitled to benefits based on the deceased wage earner's record for the month of death;	
(c) Children who are eligible for or entitled to benefits based on the deceased wage earner's record for the month of death.	
If no surviving widow(er) or child as defined above survives, no lump sum is payable.	

To contact a Wolters Kluwer Legal & Regulatory US Sales Representative, please call 1-800-638-8437

## Preface

A central pillar of the post-employment retirement system in the United States is Social Security. Most Americans have protection under the Social Security System, either because they have worked in jobs covered by the system or because they have the required family relationship with a person who has worked in the system. This book provides a concise explanation of the federal old-age, survivors, and disability insurance (OASDI) program under Title II of the Social Security Act—the program most people refer to simply as “Social Security.” While explaining the nuances of the governing law, the book also provides detailed information on the benefit computation process so that individuals may calculate the amount of benefits to which they may be entitled under the current program and make basic decisions such as whether or not to retire early or delay retirement. The explanatory text is supplemented by examples that not only illustrate the rules, but will enable employees to better plan for retirement.

Major developments that will impact Social Security benefits in 2016 include:

***No COLA for 2016.*** For the third time since 1975, when Social Security benefits became indexed to increases in the Consumer Price Index, there will be no cost-of-living increase for the coming year. The Social Security Act provides for a cost-of-living adjustment, or COLA, based on changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) from the third quarter of one year to the third quarter of the next year, but only if the adjustment is a positive one (Act §215(i)). The decline in the index from the third quarter of 2014 to the third quarter of 2015 means that benefits will not rise in 2016. In order for an increase to next occur, the index must first make up for any decline in the CPI-W this past year and then rise above its level as of the third quarter of 2016.

***Maximum amount of earnings subject to Social Security tax remains same in 2016.*** The maximum amount of earnings subject to Social Security tax will remain at \$118,500 in 2016. Social Security beneficiaries will see an estimated average monthly benefit of \$1,341 for all retired workers in 2016.

***Full retirement age at 66.*** The full retirement age has been adjusted from 65 to 66. Pursuant to this change, workers who attain age 65 in 2016 will have to wait until 2017 to retire if they wish to receive full retirement benefits. The only individuals attaining full retirement age in 2016 will be those attaining age 66 (i.e., individuals born January 2, 1950 through January 1, 1951). The maximum possible benefit for such individuals will be \$2,639 per month.

**Note:** The full retirement age will eventually increase to 67.

***A note about the citations in the text***

Throughout the text, statements are documented by citations to the law, regulations, congressional committee reports, administrative rulings, agency manuals, etc. Generally, only the highest authority for a statement is given, but in some instances, only the most widely available source is cited. References to the “Social Security Handbook” throughout the text refer to the online version at [https://www.socialsecurity.gov/OP\\_Home/handbook/handbook.html](https://www.socialsecurity.gov/OP_Home/handbook/handbook.html).

***Other available products***

Detailed coverage of this material is available in the SOCIAL SECURITY REPORTER and in UNEMPLOYMENT INSURANCE REPORTS WITH SOCIAL SECURITY. These products are available on-line and on the Internet. Note that Medicare is treated in a separate book titled “Medicare Explained” and in the MEDICARE AND MEDICAID GUIDE, a product that is available in print, on-line, and on the Internet.

# Contents

<b>The Social Security System .....</b>	<b>7</b>
<b>Social Security and Hospital Insurance Taxes .....</b>	<b>19</b>
Tax Rates .....	19
Avoiding Tax Scams .....	24
Employee Taxes .....	27
Wages .....	38
Returns and Payment Of Taxes .....	79
<b>Federal Income Taxability of Benefits .....</b>	<b>125</b>
<b>Coverage .....</b>	<b>131</b>
Employees .....	131
Employers .....	150
Employment .....	151
Election of Coverage or Exemption .....	171
Totalization Agreements .....	181
<b>Coverage of Self-Employed Persons .....</b>	<b>191</b>
Introduction .....	191
Self-Employment Income and Taxes .....	198
Net Earnings from Self-Employment .....	202
Returns and Payment of Taxes Under SECA .....	215
Benefits .....	217
<b>Social Security Benefits .....</b>	<b>221</b>
Introduction .....	221
Insured Status Requirements .....	225
Computing Averages of Earnings .....	232
Computing the Primary Insurance Amount .....	239
Retirement Benefits .....	247
Disability .....	252
Family Benefits .....	327
Gratuitous Wage Credits .....	358
Actuarially Reduced Benefits .....	361
Minimum and Maximum Benefits .....	370
Events Causing Increases in Benefits .....	375
Events Causing Loss of Benefits .....	380
Miscellaneous Provisions .....	410
Claims for Benefits and Appeals .....	421
<b>Table of Cases .....</b>	<b>441</b>
<b>Topical Index .....</b>	<b>447</b>



# 2016 **Social Security Explained**

PAYROLL MANAGEMENT PROFESSIONAL SERIES



Wolters Kluwer



## Preface

A central pillar of the post-employment retirement system in the United States is Social Security. Most Americans have protection under the Social Security System, either because they have worked in jobs covered by the system or because they have the required family relationship with a person who has worked in the system. This book provides a concise explanation of the federal old-age, survivors, and disability insurance (OASDI) program under Title II of the Social Security Act—the program most people refer to simply as “Social Security.” While explaining the nuances of the governing law, the book also provides detailed information on the benefit computation process so that individuals may calculate the amount of benefits to which they may be entitled under the current program and make basic decisions such as whether or not to retire early or delay retirement. The explanatory text is supplemented by examples that not only illustrate the rules, but will enable employees to better plan for retirement.

Major developments that will impact Social Security benefits in 2016 include:

***No COLA for 2016.*** For the third time since 1975, when Social Security benefits became indexed to increases in the Consumer Price Index, there will be no cost-of-living increase for the coming year. The Social Security Act provides for a cost-of-living adjustment, or COLA, based on changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) from the third quarter of one year to the third quarter of the next year, but only if the adjustment is a positive one (Act §215(i)). The decline in the index from the third quarter of 2014 to the third quarter of 2015 means that benefits will not rise in 2016. In order for an increase to next occur, the index must first make up for any decline in the CPI-W this past year and then rise above its level as of the third quarter of 2016.

***Maximum amount of earnings subject to Social Security tax remains same in 2016.*** The maximum amount of earnings subject to Social Security tax will remain at \$118,500 in 2016. Social Security beneficiaries will see an estimated average monthly benefit of \$1,341 for all retired workers in 2016.

***Full retirement age at 66.*** The full retirement age has been adjusted from 65 to 66. Pursuant to this change, workers who attain age 65 in 2016 will have to wait until 2017 to retire if they wish to receive full retirement benefits. The only individuals attaining full retirement age in 2016 will be those attaining age 66 (i.e., individuals born January 2, 1950 through January 1, 1951). The maximum possible benefit for such individuals will be \$2,639 per month.

**Note:** The full retirement age will eventually increase to 67.

***A note about the citations in the text***

Throughout the text, statements are documented by citations to the law, regulations, congressional committee reports, administrative rulings, agency manuals, etc. Generally, only the highest authority for a statement is given, but in some instances, only the most widely available source is cited. References to the “Social Security Handbook” throughout the text refer to the online version at [https://www.social security.gov/OP\\_Home/handbook/handbook.html](https://www.socialsecurity.gov/OP_Home/handbook/handbook.html).

***Other available products***

Detailed coverage of this material is available in the SOCIAL SECURITY REPORTER and in UNEMPLOYMENT INSURANCE REPORTS WITH SOCIAL SECURITY. These products are available on-line and on the Internet. Note that Medicare is treated in a separate book titled “Medicare Explained” and in the MEDICARE AND MEDICAID GUIDE, a product that is available in print, on-line, and on the Internet.

# Contents

<b>The Social Security System.....</b>	<b>7</b>
<b>Social Security and Hospital Insurance Taxes .....</b>	<b>19</b>
Tax Rates .....	19
Avoiding Tax Scams .....	24
Employee Taxes .....	27
Wages.....	38
Returns and Payment Of Taxes .....	79
<b>Federal Income Taxability of Benefits .....</b>	<b>125</b>
<b>Coverage .....</b>	<b>131</b>
Employees.....	131
Employers .....	150
Employment .....	151
Election of Coverage or Exemption.....	171
Totalization Agreements.....	181
<b>Coverage of Self-Employed Persons.....</b>	<b>191</b>
Introduction .....	191
Self-Employment Income and Taxes .....	198
Net Earnings from Self-Employment .....	202
Returns and Payment of Taxes Under SECA .....	215
Benefits .....	217
<b>Social Security Benefits.....</b>	<b>221</b>
Introduction .....	221
Insured Status Requirements .....	225
Computing Averages of Earnings.....	232
Computing the Primary Insurance Amount.....	239
Retirement Benefits .....	247
Disability .....	252
Family Benefits.....	327
Gratuitous Wage Credits.....	358
Actuarially Reduced Benefits.....	361
Minimum and Maximum Benefits.....	370
Events Causing Increases in Benefits.....	375
Events Causing Loss of Benefits .....	380
Miscellaneous Provisions.....	410
Claims for Benefits and Appeals.....	421
<b>Table of Cases .....</b>	<b>441</b>
<b>Topical Index .....</b>	<b>447</b>



# The Social Security System

---

In General .....	¶101
The Social Security Administration.....	¶102
Financing the Social Security Program .....	¶103
Account Numbers and Identification Numbers.....	¶104

---

## ¶101 In General

The purpose of the Social Security Act, stated in its broadest terms, is to “provide for the general welfare.” To this end, the Act covers a wide range of programs, including retirement (old-age) insurance, survivor’s insurance, disability insurance, hospital and medical insurance for the aged and disabled, black lung benefits, supplemental security income, unemployment insurance, and a variety of public assistance and “welfare” services.

The benefit portions of the Social Security Act discussed in this book are those dealing with what most people mean when they refer to “Social Security.” Accordingly, the book discusses the old-age, survivor’s, and disability insurance program for insured workers under Title II of the Social Security Act, rather than any of the other social insurance programs.

## ¶102 The Social Security Administration

The Social Security Administration is an independent agency in the executive branch of the federal government that is responsible for administering the Old-Age, Survivors, and Disability Insurance (OASDI) and Supplemental Security Income (SSI) programs, and programs providing health benefits (including Black Lung benefits to coal industry workers). [Soc. Sec. Act §701.]

The Social Security Administration is headed by a Commissioner of Social Security appointed by the President, with the advice and consent of the Senate, to serve a six-year term. The Commissioner is responsible for the exercise of all powers and the discharge of all duties of the Administration, and has authority and control over all personnel and activities thereof. The Commissioner may prescribe rules and regulations (subject to established rule making procedures) to carry out the functions of the agency. [Soc. Sec. Act §§702(a), 704(a).]

A seven-member Social Security Advisory Board advises the Commissioner on policies related to the OASDI and SSI programs. The Board meets at least quarterly, serves without pay, and is nominally bipartisan. Three Board members are chosen by the President, with no more than two from the same

political party. The remaining four members of the Board are appointed by Congress: two by the Speaker of the House, in consultation with the chairman and ranking member of the minority party on the House Ways and Means Committee, and two others by the President Pro Tempore of the Senate. [Soc. Sec. Act §703.]

### ¶103 Financing the Social Security Program

The old-age, survivors, and disability insurance system and hospital insurance benefits for the aged and disabled are largely financed out of taxes paid by employers, employees, and the self-employed under the provisions of the Federal Insurance Contributions Act and the Self-Employment Contributions Act. That is, a portion of the revenues from these taxes is used to fund current benefit payments, rather than saved and invested to fund the benefits to be claimed by current workers when they retire. These taxes are collected by the Internal Revenue Service and paid into the United States Treasury as internal revenue collections. Amounts collected are appropriated to the Federal Old-Age and Survivors Insurance (OASI) Trust Fund, the Federal Disability Insurance (DI) Trust Fund, and the Federal Hospital Insurance (HI) Trust Fund. There is also a Federal Supplementary Medical Insurance (SMI) Trust Fund, which consists primarily of the premiums and matching payments made under the SMI program. [Soc. Sec. Act §§201(a), 201(b), 201(c), 201(g), 709, and 710.] In the case of each of these funds, portions of the funds not needed for current withdrawals are invested in special issue U. S. Treasury notes, which, in turn, earn interest for the trust funds. [Soc. Sec. Act §201(a), (d).]

The Social Security Disability Income (DI) program faces the most imminent financing shortfall of the separate trust funds. In order to bolster the financial security of the DI funds, a portion of the OASI tax is allocated to the DI funds. [Soc. Sec. Act §201(b)(1).] The 2015 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance (OASI) and Federal Disability Insurance (DI) Trust Funds (“2015 Trustees’ Report”) reported that DI Trust Fund reserves, expressed as a percentage of annual cost, declined to 40 percent at the beginning of 2015. The trust was projected to be depleted of funds by late 2016.

The OASI Trust Fund will have sufficient reserves to pay full benefits on time until 2035. However, the Trustees estimate that Social Security costs will exceed non-interest income throughout the 75-year projection period. Noting a \$73 billion deficit of non-interest income relative to cost in 2014, the Trustees project that the cash-flow deficit will continue throughout the short-range period between 2015 and 2024.

As the cash-flow deficit will be less than interest earnings through 2019, reserves of the combined trust funds measured in current dollars will continue to



grow. However, this growth will not be sufficient to prevent the combined trust fund ratio (the ratio of reserves to one year's projected cost) from declining.

After 2019, Treasury will redeem trust fund asset reserves to the extent that program costs exceed tax revenue and interest earnings until depletion of total trust fund reserves in 2034. Thereafter, tax income would be sufficient to pay about three-quarters of scheduled benefits through 2089.

The projected 75-year actuarial deficit for the combined OASDI Trust Funds is 2.68 percent of taxable payroll (down from 2.88 percent projected in the 2014 report).

*2034 projected depletion date for combined trust funds.* The combined OASDI trust funds have a projected depletion date of 2034 (one year later than projected in the 2014 report). Once reserves are depleted, the Trustees advise that continuing tax income would be sufficient to pay 79 percent of scheduled benefits in 2034 and 73 percent in 2089.

*Deficit as percentage of payroll.* An instructive way in which to demonstrate the financial shortfall is as a percentage of taxable payroll. The 75-year projection for the deficit changed from 2.22% of taxable payroll in the 2011 report, to 2.67% of taxable payroll in the 2012 report, to 2.72% of payroll in the 2013 report, to 2.88% in the 2014 report, and to 2.68% in the 2015 report. Social Security costs are projected to grow to 16.73% of taxable payroll in 2038 and to 17.97% in 2089.

A summary of how these solvency projections have changed in the Trustees' reports over the past years appears in the following table:

**History of Trustees' Reports' Insolvency Projections**

	Year in which costs exceed FICA/SECA tax revenue	Year costs exceed tax revenue and interest	Year in which Social Security (OASDI) trust fund assets are exhausted	Long-term deficit as a percentage of taxable payroll
2000 report	2015	2025	2037	1.89%
2001 report	2016	2025	2038	1.86%
2002 report	2017	2027	2041	1.87%
2003 report	2018	2028	2042	1.92%
2004 report	2018	2028	2042	1.89%
2005 report	2017	2027	2041	1.92%
2006 report	2017	2027	2040	2.02%
2007 report	2017	2027	2041	1.95%
2008 report	2017	2027	2041	1.70%
2009 report	2016	2024	2037	2.00%
2010 report	2015	2025	2037	1.92%
2011 report	2010	2023	2036	2.22%
2012 report	2010	2021	2033	2.67%
2013 report	2010	2022	2033	2.72%
2014 report	2010	2020	2033	2.88%
2015 report	2010	2020	2034	2.68%

*Legislative means of maintaining solvency.* The Trustees stress that the relatively large deficits at the end of the 75-year projection period indicate that sustained solvency will require payroll tax rate increases or benefit reductions