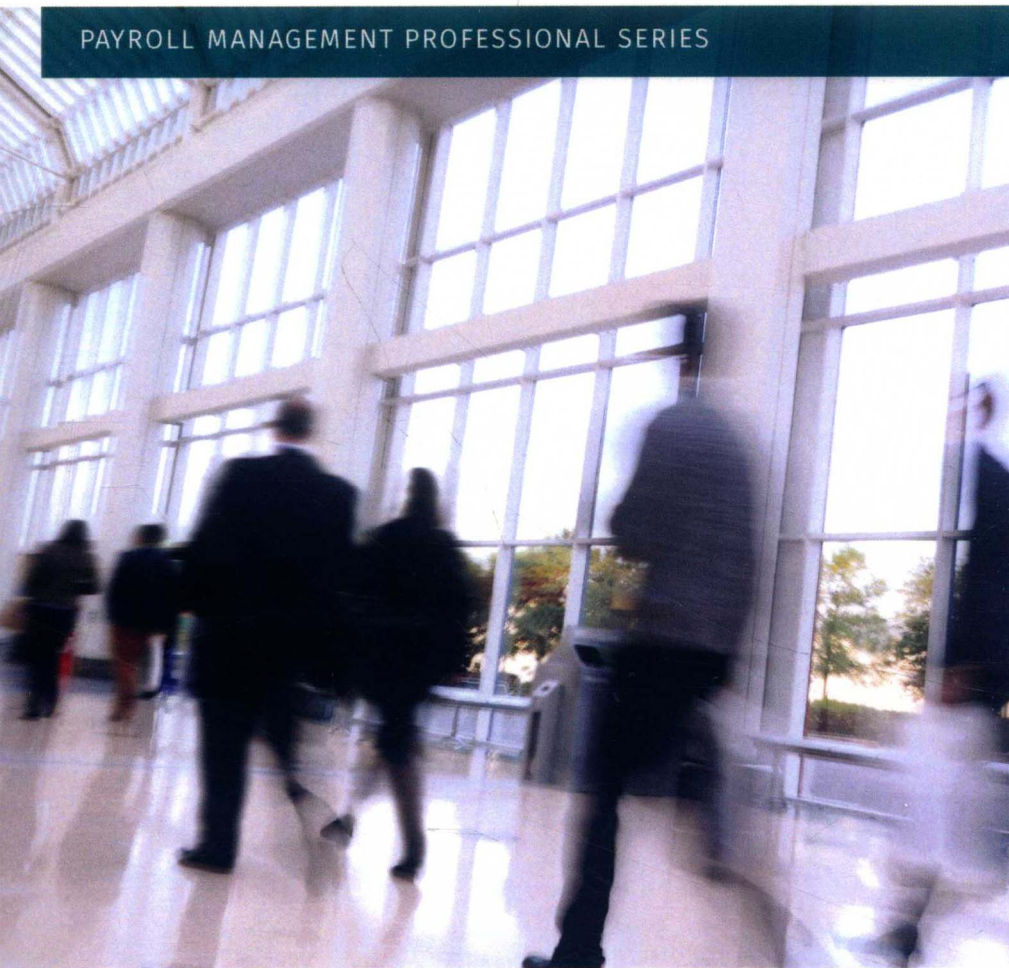


2017

Social Security Explained

PAYROLL MANAGEMENT PROFESSIONAL SERIES



Wolters Kluwer

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978-1-4548-8546-7

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2700 Lake Cook Road
Riverwoods, IL 60015
1 866 529 6600
www.wolterskluwerlr.com

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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 2017 include:

0.3% COLA for 2017. There will be a 0.3% 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 increase in the index from the third quarter of 2014 to the third quarter of 2016 means that benefits will rise slightly in 2017.

Maximum amount of earnings subject to Social Security tax increases in 2017. The maximum amount of earnings subject to Social Security tax is \$127,200 in 2017. Social Security beneficiaries will see an estimated average monthly benefit of \$1,360 for all retired workers in 2017.

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 2017 will have to wait until 2018 to retire if they wish to receive full retirement benefits. The only individuals attaining full retirement age in 2017 will be those attaining age 66 (i.e., individuals born January 2, 1951 through January 1, 1952). The maximum possible benefit for such individuals will be \$2,687 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.ssa.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.

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The Social Security System

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¶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 2016 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance (OASI) and Federal Disability Insurance (DI) Trust Funds (“2016 Trustees’ Report”) reported that DI Trust Fund reserves, expressed as a percentage of annual cost, declined to 21 percent at the beginning of 2016. The trust was projected to be depleted of funds by late 2023.

Reallocation of payroll tax revenue. The Social Security Benefit Protection and Opportunity Enhancement Act of 2015 reallocates an additional 0.57 percentage points of payroll tax revenue from the OASI Trust Fund to the DI

Trust Fund (for a total of 2.37 percentage points of the total combined 12.4 percent payroll tax) in 2016, 2017, and 2018. This reallocation is projected to be sufficient to pay benefits until 2023 and the total rate does not change. [Social Security Benefit Protection and Opportunity Enhancement Act of 2015 (P.L. 114-74), Act Sec. 833.]

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 \$70 billion deficit of non-interest income relative to cost in 2015.

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 2090.

The projected 75-year actuarial deficit for the combined OASDI Trust Funds is 2.66 percent of taxable payroll (down from 2.68 percent projected in the 2015 report).

2034 projected depletion date for combined trust funds. The combined OASDI trust funds have a projected depletion date of 2034 (the same year projected in the 2015 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 74 percent in 2090.

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, to 2.68% in the 2015 report, and to 2.66% in the 2016 report. Social Security costs are projected to grow to 16.61% of taxable payroll in 2038 and to 17.68% in 2090.

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%
2016 report	2010	2020	2034	2.66%

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 (or a combination thereof) by the end of the period that are substantially larger than those needed on average for the long-range period (2016-90).

Specifically, in order for the combined OASI and DI Trust Funds to remain solvent throughout the 75-year projection period, the Trustees advise that: (1) revenues would need to increase by an amount equivalent to an immediate and permanent payroll tax rate increase of 2.58 percentage points (from its current level of 12.40 percent to 14.98 percent); (2) scheduled benefits during the period would need to be reduced by an amount equivalent to an immediate and permanent reduction of about 16 percent applied to all current and future beneficiaries, or about 19 percent if the reductions were applied only to those who become initially eligible for benefits in 2016 or later; or (3) some combination of the two approaches would need to be implemented.

In order for benefits to be financed fully for each year starting in 2034, revenues must increase by an amount equivalent to a payroll tax rate increase of about 3.58 percentage points (yielding a total payroll tax rate of 15.98 percent) at the point of trust fund reserve depletion.

Alternatively, solvency could be maintained if benefits were reduced to the level that would be payable with scheduled tax rates and earnings subject to tax in each year beginning in 2034. At the point of trust fund reserve depletion in 2034, this level would require a reduction in all scheduled benefits of 21 percent.

The Trustees caution that some strategies for achieving solvency would not be feasible if delayed until trust fund reserve depletion in 2034. Finally, the Trustees recommend that lawmakers phase in any changes gradually in order to give workers and benefit recipients time to adjust.

¶104 Account Numbers and Identification Numbers

Every employee and every self-employed worker covered by the Social Security Act must have a Social Security account number, which is used to maintain the individual's earnings record. The earnings credited to the individual's account are used to determine whether the worker is insured under the Social Security system and the amount of benefits that might be payable to the worker and/or his or her dependents or survivors based on the worker's old-age, disability, or death. The earnings credited to the account are also used in determining entitlement to hospital insurance benefits. The same number should be used for an individual's entire life. If the worker loses the original Social Security card, he or she should obtain a duplicate card, with the same number. If a worker's name is changed—for example, upon marriage—the Social Security office should be asked for a new card showing the same account number. [Soc. Sec. Act §205(c)(2); IRS Reg. §31.6011(b)-2(a).]

Even if a person's work is not covered by Social Security, a Social Security number may be needed as a taxpayer identification number (TIN) for income tax purposes, or in connection with an application for supplemental security income, for hospital or medical insurance, or for certain state-run programs, including tax programs, driver's license and motor vehicle registration, and public assistance. [Soc. Sec. Handbook, February 2, 2006, §1401.4.]

A victim of domestic violence may obtain a new Social Security number by showing corroborating evidence from a third party, such as a local shelter, treating physician, or law enforcement official, of the abuse. Victims are not required to provide proof that their abuser had misused their Social Security number or could be expected to misuse it to locate the victim. [See the Social Security Administration's website at <http://www.ssa.gov/pubs/10093.html>.]

A TIN is required for any individual, regardless of age, claimed as a dependent on a federal income tax return. [IRC §151(e).] However, for tax years beginning in 1995 or 1996, the requirement was waived for children born in November or December 1995 or December 1996, respectively. [P.L. 103-465, §742(a), (b), amending IRC §§32(c)(3)(D)(i), 6109(e).]

The Commissioner is authorized to facilitate the issuance of Social Security numbers (1) to children who are below school age at the request of their parents or guardians, (2) to children of school age at the time of their first