

2014

Social Security Explained

Payroll Management Professional Series



Wolters Kluwer
Law & Business

2014

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Contents

	Page
Social Security Cost-of-Living Adjustment (COLA) Charts	8
Examples of Tax—2014	9
The Social Security System	13
Social Security and Hospital Insurance Taxes	25
Tax Rates	25
Avoiding Tax Scams	31
Employee Taxes	33
Wages	44
Returns and Payment of Taxes	84
Federal Income Taxability of Benefits	131
Coverage	137
Employees	137
Employers	156
Employment	157
Election of Coverage or Exemption	177
Totalization Agreements	187
Coverage of Self-Employed Persons	197
Introduction	197
Self-Employment Income and Taxes	204
Net Earnings from Self-Employment	208
Returns and Payment of Taxes Under SECA	221
Benefits	223
Social Security Benefits	227
Introduction	227
Insured Status Requirements	231
Computing Averages of Earnings	240
Computing the Primary Insurance Amount	248
Retirement Benefits	257
Disability	263
Family Benefits	335
Gratuitous Wage Credits	364
Actuarially Reduced Benefits	367
Minimum and Maximum Benefits	377
Events Causing Increases in Benefits	382
Events Causing Loss of Benefits	387
Miscellaneous Provisions	423
Claims for Benefits and Appeals	450
Table of Cases	479
Topical Index	487

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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 numerous examples that not only illustrate the rules, but will enable employees to better plan for retirement.

The Social Security field is not static. Accordingly, the automatic cost-of-living adjustments and related increases for 2014 in benefit amounts, tax and wage bases, benefit computations formulas, as well as the impact of other automatic increases not dependent on a cost-of-living adjustment, such as the annual earnings test, are reflected in the following pages. Regulatory amendments finalized in 2013, along with official rulings, procedures, notices, and court cases from 2013 are also detailed.

Major developments that will impact Social Security benefits in 2014 include:

Maximum amount of earnings subject to Social Security tax to increase in 2014. The maximum amount of earnings subject to Social Security tax will increase in 2014 to \$117,000, from \$113,700 in 2013. The \$117,000 earnings base for 2014 could result in a tax increase of as much as \$204.60 for employees (and their employers) whose earnings exceed the 2013 tax and earnings base of \$113,700.

Slight increase in benefits. Social Security beneficiaries will see a small 1.5% increase in their monthly checks in 2014. The cost-of-living adjustment will produce an estimated average monthly benefit of \$1,294 for all retired workers in 2014, \$19 a month more than in 2013.

Direct electronic deposit of benefit payments. Individuals receiving or applying for Social Security or Supplemental Security Income benefits have been required as of March 1, 2013, to receive payment through direct electronic deposit. Payments can be made to a bank or credit union account. In the event an individual does not have a bank or credit union account, a pre-

paid debit card option (Direct Express) is provided. Information about the Direct Express card is available at www.USDirectExpress.com.

Additional Medicare taxes. In addition to the 1.45% employee portion of the HI (Medicare) tax that is imposed on wages, a 0.9% Medicare tax is imposed on every employee who receives wages, in tax years beginning after 2012, in excess of \$200,000 (\$250,000 in the case of joint returns and \$125,000 in the case of married taxpayers filing separately). Individual income tax returns for 2013 filed in 2014 will be the first individual returns to reflect the additional Medicare tax. Note the tax is not assessed on employers.

In addition, a separate 3.8% Medicare contribution tax will be imposed, beginning in 2013, on the lesser of an individual's net investment income for the tax year, or any excess of modified adjusted gross income for the tax year over \$250,000 for joint filers, \$125,000 for married individuals filing separately, and \$200,000 for all other individuals.

Full retirement age at 66. The full retirement age was adjusted, beginning in 2013, from 65 to 66. Pursuant to this change, workers who attain age 65 in 2014 will have to wait until 2015 to retire if they wish to receive full retirement benefits. The only individuals attaining full retirement age in 2014 will be those attaining age 66. The maximum possible benefit for such individuals will be \$2,642 per month.

Note, full retirement age will remain at age 66 for the next 7 years for individuals born January 2, 1943 through January 1, 1955. The full retirement age will eventually be 67.

Equal treatment for same sex spouses. Under Sec. 3 of the Defense of Marriage Act (DOMA), the term "spouse," for purposes of federal law and regulations was limited to "a person of the opposite sex who is a husband or wife." The rule effectively denied the spousal benefits and rights available under the rules governing Social Security to same sex couples and required employers to withhold and pay employment tax with respect to same sex benefits. In 2013, however, the United States Supreme Court ruled that Sec. 3 of DOMA, as applied to persons of the same sex who had been legally married under state law, was a violation of their right to equal protection under the Fifth Amendment (*United States v. Windsor*, US Sup Ct (2013) 570 U.S.____; 133 S Ct 2675). Significantly, the Court's decision was restricted to same sex marriages that were legally performed in a state. The decision did not require states that had not recognized same sex marriage to do so. Nor did the decision nullify Sec. 2 of DOMA, which

allows states to withhold recognition of same sex marriages performed in other states.

Accordingly, after *Windsor*, it was assumed, but not certain, that same sex couples who have been legally married would be entitled to survivor benefits under federal tax law. The IRS subsequently provided confirmation, stating that, effective September 16, 2013, it would treat same sex couples who have been legally married in jurisdictions (including foreign countries) that recognize the marriage, as married for federal tax purposes, including the rules governing survivor benefits (Rev. Rul. 2013-17, I.R.B. 2013-85, 9-16-13). Notably, the IRS will treat such couples as married even if they live in a jurisdiction that does not recognize same sex marriage. However, the IRS will not treat individuals in registered domestic partnerships, civil unions, or similar formal relationships recognized under state law as married for federal tax purposes.

The IRS has issued further guidance detailing procedures by which employees and employers may make claims for a refund or adjustment of the overpayment of Social Security taxes and withheld income taxes with respect to benefits paid to same sex spouses and remuneration paid to same sex spouses resulting from *Windsor* and the application of Rev. Rul. 2013-17. The guidance set forth special administrative procedures by which employers could correct overpayments of employment taxes for 2013 and prior years with respect to these same-sex spouse benefits and remuneration paid to same-sex spouses, including overpayments that result from a taxpayer's retroactive application of Rev. Rul. 2013-17.

By contrast, the Social Security Administration has not issued definitive guidance on the application of *Windsor* for Social Security purposes. The SSA has consistently followed the domicile rule, pursuant to which employees married in a state that recognizes same sex marriage would be treated as legally married. However, that status would not continue, for Social Security purposes, if the couple subsequently moved to a state that did not recognize same sex marriage. Absent guidance on the issue from SSA, it can be assumed that the agency will continue to follow the domicile rule.

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 http://www.ssa.gov/OP_Home/handbook/handbook.html.

Other available products

Detailed coverage of this material is available in SOCIAL SECURITY REPORTER and UNEMPLOYMENT INSURANCE REPORTS WITH SOCIAL SECURITY. These products are available in print, 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

	Page
Social Security Cost-of-Living Adjustment (COLA) Charts	8
Examples of Tax—2014	9
The Social Security System	13
Social Security and Hospital Insurance Taxes	25
Tax Rates	25
Avoiding Tax Scams	31
Employee Taxes	33
Wages	44
Returns and Payment of Taxes	84
Federal Income Taxability of Benefits	131
Coverage	137
Employees	137
Employers	156
Employment	157
Election of Coverage or Exemption	177
Totalization Agreements	187
Coverage of Self-Employed Persons	197
Introduction	197
Self-Employment Income and Taxes	204
Net Earnings from Self-Employment	208
Returns and Payment of Taxes Under SECA	221
Benefits	223
Social Security Benefits	227
Introduction	227
Insured Status Requirements	231
Computing Averages of Earnings	240
Computing the Primary Insurance Amount	248
Retirement Benefits	257
Disability	263
Family Benefits	335
Gratuitous Wage Credits	364
Actuarially Reduced Benefits	367
Minimum and Maximum Benefits	377
Events Causing Increases in Benefits	382
Events Causing Loss of Benefits	387
Miscellaneous Provisions	423
Claims for Benefits and Appeals	450
Table of Cases	479
Topical Index	487

Social Security Cost-of-Living Adjustment (COLA) Charts

Subject to COLA ¹	2014	2013	2012
Tax rate FICA-Medicare²			
Employee	7.65 (6.20 OASDI, 1.45 HI)	7.65 (6.20 OASDI, 1.45 HI)	5.65 (4.20 OASDI, 1.45 HI)
Self-employed	15.30 (12.40 OASDI, 2.90 HI)	15.30 (12.40 OASDI, 2.90 HI)	13.30 (10.40 OASDI, 2.90 HI)
Taxable wage base OASDI maximum earnings taxable	\$117,000	\$113,700	\$110,100
Taxable wage base HI maximum earnings taxable³	unlimited	unlimited	unlimited
Quarter of coverage	\$1,200	\$1,160	\$1,130
Retirement earnings test exempt amounts			
Earnings test ⁴			
Year worker reaches full retirement age ⁵	\$41,400	\$40,080	\$38,880
Under full retirement age	\$15,480	\$15,120	\$14,640
Maximum Social Security benefit (workers retiring at full retirement)⁶	\$2,642 per mo.	\$2,533 per mo.	\$2,513 per mo.
Supplemental Security Income federal payment standard			
Individual	\$721 per mo.	\$710 per mo.	\$698 per mo.
Couple	\$1,082 per mo.	\$1,066 per mo.	\$1,048 per mo.
Supplemental Security Income resource limits			
Individual	\$2,000	\$2,000	\$2,000
Couple	\$3,000	\$3,000	\$3,000

¹ Sources: Social Security Administration News Release and Fact Sheet—10/30/13.
² 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. For 2011 and 2012 only, employers and employees paid separate rates. *Employer rate:* 7.65% (6.20% OASDI, 1.45% HI); *Employee rate:* 5.65% (4.20% OASDI, 1.45% HI).
³ The maximum was eliminated by the Omnibus Budget Reconciliation Act of 1993 (P.L. 103-66).
⁴ There is no limit on earnings beginning the month an individual attains full retirement age (66 years for retirees born in 1943-1954).
⁵ Applies only to earnings for months prior to attaining full retirement age.
⁶ 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.

Estimated Average Monthly Social Security Benefits
(Payable in January 2014)

	Before 1.5% COLA	After 1.5% COLA
All retired workers	\$1,275	\$1,294
Aged couple, both receiving benefits	\$2,080	\$2,111
Widowed mother and two children	\$2,583	\$2,622
Aged widow(er) alone	\$1,225	\$1,243
Disabled worker, spouse, and children	\$1,914	\$1,943
All disabled workers	\$1,131	\$1,148

Based on the increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) from the third quarter of 2012 through the third quarter of 2013, Social Security beneficiaries and Supplemental Security Income recipients will receive a 1.5% COLA increase for benefit payments received beginning in January 2014.

Examples of Tax—2014

6.2% Rate

This table shows the amount of Social Security tax on wage payments in 2014. The Social Security tax rate is 6.2%. The Medicare tax rate is 1.45%. The combined tax rate is 7.65%. The applicable tax rates are discussed beginning at ¶ 201.

Wages	Soc. Sec.	Medicare
\$ 5.00	\$.31	\$.07
10.00	.62	.15
15.00	.93	.22
20.00	1.24	.29
25.00	1.55	.36
30.00	1.86	.44
35.00	2.17	.51
40.00	2.48	.58
45.00	2.79	.65
50.00	3.10	.73
55.00	3.41	0.80
60.00	3.72	0.87
65.00	4.03	0.94
70.00	4.34	1.02
75.00	4.65	1.09
80.00	4.96	1.16
85.00	5.27	1.23
90.00	5.58	1.31
95.00	5.89	1.38
100.00	6.20	1.45
105.00	6.51	1.52
110.00	6.82	1.60
115.00	7.13	1.67
120.00	7.44	1.74
125.00	7.75	1.81
130.00	8.06	1.89
135.00	8.37	1.96
140.00	8.68	2.03
145.00	8.99	2.10
150.00	9.30	2.18
155.00	9.61	2.25
160.00	9.92	2.32
165.00	10.23	2.39
170.00	10.54	2.47
175.00	10.85	2.54
180.00	11.16	2.61
185.00	11.47	2.68
190.00	11.78	2.76

Wages	Soc. Sec.	Medicare
\$ 195.00	\$12.09	\$2.83
200.00	12.40	2.90
205.00	12.71	2.97
210.00	13.02	3.05
215.00	13.33	3.12
220.00	13.64	3.19
225.00	13.95	3.26
230.00	14.26	3.34
235.00	14.57	3.41
240.00	14.88	3.48
245.00	15.19	3.55
250.00	15.50	3.63
255.00	15.81	3.70
260.00	16.12	3.77
265.00	16.43	3.84
270.00	16.74	3.92
275.00	17.05	3.99
280.00	17.36	4.06
285.00	17.67	4.13
290.00	17.98	4.21
295.00	18.29	4.28
300.00	18.60	4.35
305.00	18.91	4.42
310.00	19.22	4.50
315.00	19.53	4.57
320.00	19.84	4.64
325.00	20.15	4.71
330.00	20.46	4.79
335.00	20.77	4.86
340.00	21.08	4.93
345.00	21.39	\$ 5.00
350.00	21.70	5.08
355.00	22.01	5.15
360.00	22.32	5.22
365.00	22.63	5.29
370.00	22.94	5.37
375.00	23.25	5.44
380.00	23.56	5.51

Wages	Soc. Sec.	Medicare
\$ 385.00	\$23.87	\$5.58
390.00	24.18	5.66
395.00	24.49	5.73
400.00	24.80	5.80
405.00	25.11	5.87
410.00	25.42	5.95
415.00	25.73	6.02
420.00	26.04	6.09
425.00	26.35	6.16
430.00	26.66	6.24
435.00	26.97	6.31
440.00	27.28	6.38
445.00	27.59	6.45
450.00	27.90	6.53
455.00	28.21	6.60
460.00	28.52	6.67
465.00	28.83	6.74
470.00	29.14	6.82
475.00	29.45	6.89
480.00	29.76	6.96
485.00	30.07	7.03
490.00	30.38	7.11
495.00	30.69	7.18
500.00	31.00	7.25
505.00	31.31	7.32
510.00	31.62	7.40
515.00	31.93	7.47
520.00	32.24	7.54
525.00	32.55	7.61
530.00	32.86	7.69
535.00	33.17	7.76
540.00	33.48	7.83
545.00	33.79	7.90
550.00	34.10	7.98
555.00	34.41	8.05
560.00	34.72	8.12
565.00	35.03	8.19
570.00	35.34	8.27

Wages	Soc. Sec.	Medicare
\$ 575.00	\$ 35.65	\$ 8.34
580.00	35.96	8.41
585.00	36.27	8.48
590.00	36.58	8.56
595.00	36.89	8.63
600.00	37.20	8.70
605.00	37.51	8.77
610.00	37.82	8.85
615.00	38.13	8.92
620.00	38.44	8.99
625.00	38.75	9.06
630.00	39.06	9.14
635.00	39.37	9.21
640.00	39.68	9.28
645.00	39.99	9.35
650.00	40.30	9.43
655.00	40.61	9.50
660.00	40.92	9.57
665.00	41.23	9.64
670.00	41.54	9.72
675.00	41.85	9.79
680.00	42.16	9.86
685.00	42.47	9.93
690.00	42.78	10.01
695.00	43.09	10.08
700.00	43.40	10.15
705.00	43.71	10.22
710.00	44.02	10.30
715.00	44.33	10.37
720.00	44.64	10.44
725.00	44.95	10.51
730.00	45.26	10.59
735.00	45.57	10.66
740.00	45.88	10.73
745.00	46.19	10.80
750.00	46.50	10.88
755.00	46.81	10.95
760.00	47.12	11.02
765.00	47.43	11.09
770.00	47.74	11.17
775.00	48.05	11.24
780.00	48.36	11.31
785.00	48.67	11.38
790.00	48.98	11.46
795.00	49.29	11.53
800.00	49.60	11.60
805.00	49.91	11.67
810.00	50.22	11.75
815.00	50.53	11.82

Wages	Soc. Sec.	Medicare
\$ 820.00	\$ 50.84	\$ 11.89
825.00	51.15	11.96
830.00	51.46	12.04
835.00	51.77	12.11
840.00	52.08	12.18
845.00	52.39	12.25
850.00	52.70	12.33
855.00	53.01	12.40
860.00	53.32	12.47
865.00	53.63	12.54
870.00	53.94	12.62
875.00	54.25	12.69
880.00	54.56	12.76
885.00	54.87	12.83
890.00	55.18	12.91
895.00	55.49	12.98
900.00	55.80	13.05
905.00	56.11	13.12
910.00	56.42	13.20
915.00	56.73	13.27
920.00	57.04	13.34
925.00	57.35	13.41
930.00	57.66	13.49
935.00	57.97	13.56
940.00	58.28	13.63
945.00	58.59	13.70
950.00	58.90	13.78
955.00	59.21	13.85
960.00	59.52	13.92
965.00	59.83	13.99
970.00	60.14	14.07
975.00	60.45	14.14
980.00	60.76	14.21
985.00	61.07	14.28
990.00	61.38	14.36
995.00	61.69	14.43
1000.00	62.00	14.50
1005.00	62.31	14.57
1010.00	62.62	14.65
1015.00	62.93	14.72
1020.00	63.24	14.79
1025.00	63.55	14.86
1030.00	63.86	14.94
1035.00	64.17	15.01
1040.00	64.48	15.08
1045.00	64.79	15.15
1050.00	65.10	15.23
1055.00	65.41	15.30
1060.00	65.72	15.37

Wages	Soc. Sec.	Medicare
\$ 1065.00	\$ 66.03	\$ 15.44
1070.00	66.34	15.52
1075.00	66.65	15.59
1080.00	66.96	15.66
1085.00	67.27	15.73
1090.00	67.58	15.81
1095.00	67.89	15.88
1100.00	68.20	15.95
1105.00	68.51	16.02
1110.00	68.82	16.10
1115.00	69.13	16.17
1120.00	69.44	16.24
1125.00	69.75	16.31
1130.00	70.06	16.39
1135.00	70.37	16.46
1140.00	70.68	16.53
1145.00	70.99	16.60
1150.00	71.30	16.68
1155.00	71.61	16.75
1160.00	71.92	16.82
1165.00	72.23	16.89
1170.00	72.54	16.97
1175.00	72.85	17.04
1180.00	73.16	17.11
1185.00	73.47	17.18
1190.00	73.78	17.26
1195.00	74.09	17.33
1200.00	74.40	17.40
1205.00	74.71	17.47
1210.00	75.02	17.55
1215.00	75.33	17.62
1220.00	75.64	17.69
1225.00	75.95	17.76
1230.00	76.26	17.84
1235.00	76.57	17.91
1240.00	76.88	17.98
1245.00	77.19	18.05
1250.00	77.50	18.13
1255.00	77.81	18.20
1260.00	78.12	18.27
1265.00	78.43	18.34
1270.00	78.74	18.42
1275.00	79.05	18.49
1280.00	79.36	18.56
1285.00	79.67	18.63
1290.00	79.98	18.71
1295.00	80.29	18.78
1300.00	80.60	18.85
1305.00	80.91	18.92

Wages	Soc. Sec.	Medicare
\$1310.00	\$81.22	\$19.00
1315.00	81.53	19.07
1320.00	81.84	19.14
1325.00	82.15	19.21
1330.00	82.46	19.29
1335.00	82.77	19.36
1340.00	83.08	19.43
1345.00	83.39	19.50
1350.00	83.70	19.58
1355.00	84.01	19.65
1360.00	84.32	19.72
1365.00	84.63	19.79
1370.00	84.94	19.87
1375.00	85.25	19.94
1380.00	85.56	20.01
1385.00	85.87	20.08
1390.00	86.18	20.16
1395.00	86.49	20.23
1400.00	86.80	20.30
1405.00	87.11	20.37
1410.00	87.42	20.45
1415.00	87.73	20.52
1420.00	88.04	20.59
1425.00	88.35	20.66
1430.00	88.66	20.74
1435.00	88.97	20.81
1440.00	89.28	20.88
1445.00	89.59	20.95
1450.00	89.90	21.03
1455.00	90.21	21.10
1460.00	90.52	21.17
1465.00	90.83	21.24
1470.00	91.14	21.32
1475.00	91.45	21.39
1480.00	91.76	21.46
1485.00	92.07	21.53
1490.00	92.38	21.61
1495.00	92.69	21.68
1500.00	93.00	21.75
1505.00	93.31	21.82
1510.00	93.62	21.90
1515.00	93.93	21.97
1520.00	94.24	22.04
1525.00	94.55	22.11
1530.00	94.86	22.19
1535.00	95.17	22.26
1540.00	95.48	22.33

Wages	Soc. Sec.	Medicare
\$1545.00	\$95.79	\$22.40
1550.00	96.10	22.48
1555.00	96.41	22.55
1560.00	96.72	22.62
1565.00	97.03	22.69
1570.00	97.34	22.77
1575.00	97.65	22.84
1580.00	97.96	22.91
1585.00	98.27	22.98
1590.00	98.58	23.06
1595.00	98.89	23.13
1600.00	99.20	23.20
1605.00	99.51	23.27
1610.00	99.82	23.35
1615.00	100.13	23.42
1620.00	100.44	23.49
1625.00	100.75	23.56
1630.00	101.06	23.64
1635.00	101.37	23.71
1640.00	101.68	23.78
1645.00	101.99	23.85
1650.00	102.30	23.93
1655.00	102.61	24.00
1660.00	102.92	24.07
1665.00	103.23	24.14
1670.00	103.54	24.22
1675.00	103.85	24.29
1680.00	104.16	24.36
1685.00	104.47	24.43
1690.00	104.78	24.51
1695.00	105.09	24.58
1700.00	105.40	24.65
1705.00	105.71	24.72
1710.00	106.02	24.80
1715.00	106.33	24.87
1720.00	106.64	24.94
1725.00	106.95	25.01
1730.00	107.26	25.09
1735.00	107.57	25.16
1740.00	107.88	25.23
1745.00	108.19	25.30
1750.00	108.50	25.38
1755.00	108.81	25.45
1760.00	109.12	25.52
1765.00	109.43	25.59
1770.00	109.74	25.67
1775.00	110.05	25.74

Wages	Soc. Sec.	Medicare
\$1780.00	\$110.36	\$25.81
1785.00	110.67	25.88
1790.00	110.98	25.96
1795.00	111.29	26.03
1800.00	111.60	26.10
1805.00	111.91	26.17
1810.00	112.22	26.25
1815.00	112.53	26.32
1820.00	112.84	26.39
1825.00	113.15	26.46
1830.00	113.46	26.54
1835.00	\$113.77	\$26.61
1840.00	114.08	26.68
1845.00	114.39	26.75
1850.00	114.70	26.83
1855.00	115.01	26.90
1860.00	115.32	26.97
1865.00	115.63	27.04
1870.00	115.94	27.12
1875.00	116.25	27.19
1880.00	116.56	27.26
1885.00	116.87	27.33
1890.00	117.18	27.41
1895.00	117.49	27.48
1900.00	117.80	27.55
1905.00	118.11	27.62
1910.00	118.42	27.70
1915.00	118.73	27.77
1920.00	119.04	27.84
1925.00	119.35	27.91
1930.00	119.66	27.99
1935.00	119.97	28.06
1940.00	120.28	28.13
1945.00	120.59	28.20
1950.00	120.90	28.28
1955.00	121.21	28.35
1960.00	121.52	28.42
1965.00	121.83	28.49
1970.00	122.14	28.57
1975.00	122.45	28.64
1980.00	122.76	28.71
1985.00	123.07	28.78
1990.00	123.38	28.86
1995.00	123.69	28.93
2000.00	124.00	29.00
2005.00	124.31	29.07

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