2-9-2016

Social Security Primer

Dawn Nuschler

Congressional Research Service

Social Security Primer

Abstract

[Excerpt] This report provides an overview of Social Security financing and benefits under current law. Specifically, the report covers the origins and a brief history of the program; Social Security financing and the status of the trust funds; how Social Security benefits are computed; the types of Social Security benefits available to workers and their family members; the basic eligibility requirements for each type of benefit; the scheduled increase in the Social Security retirement age; and the federal income taxation of Social Security benefits.

Keywords

Social Security, financing, benefits, taxation

Comments

Suggested Citation

Nuschler, D. (2016). *Social Security primer* (CRS Report R42035). Washington, DC: Congressional Research Service.

Congressional Research Service
Informing the legislative debate since 1914

Social Security Primer

Dawn Nuschler
Specialist in Income Security

February 9, 2016

Congressional Research Service
7-5700
www.crs.gov
R42035

Summary

The Social Security program was established in the 1930s and has been modified by Congress many times over the years. Today, Social Security provides monthly cash benefits to retired or disabled workers and their family members, and to the family members of deceased workers. Among the beneficiary population, approximately 82% are retired or disabled workers, and 18% are the family members of retired, disabled, or deceased workers. In November 2015, nearly 60 million beneficiaries received a total of $74 billion in benefit payments for the month, with an average monthly benefit of $1,227.

Workers become eligible for Social Security benefits for themselves and their family members by working in Social Security-covered employment. An estimated 94% of workers in paid employment or self-employment are covered, and their earnings are subject to the Social Security payroll tax. In 2016, employers and employees each pay 6.2% of covered earnings, up to the annual limit on taxable earnings ($118,500 in 2016).

Among other requirements, a worker generally needs 40 earnings credits (10 years of covered employment) to be eligible for a Social Security retired-worker benefit. Fewer earnings credits are needed to qualify for a disabled-worker benefit; the number needed varies depending on the age of the worker when he or she became disabled. A worker's initial monthly benefit is based on his or her career-average earnings in covered employment. Social Security retired-worker benefits are first payable at the age of 62, subject to a permanent reduction for early retirement. Full (or unreduced) retirement benefits are first payable at the full retirement age (FRA), which is increasing gradually from 65 to 67 under a law enacted by Congress in 1983. The FRA will reach 67 for persons born in 1960 or later (i.e., persons who become eligible for retirement benefits at the age of 62 in 2022 or later).

In addition to payroll taxes, Social Security is financed by federal income taxes that some beneficiaries pay on a portion of their benefits and by interest income that is earned on the Treasury securities held by the Social Security trust funds. In 2014, the Social Security trust funds had receipts totaling $884 billion, expenditures totaling $859 billion, and accumulated assets (in the form of Treasury securities) totaling $2.8 trillion. Projections by the Social Security Board of Trustees show that, based on the program's current financing and benefit structure, benefits scheduled under current law can be paid in full and on time until 2034. The projections also show that Social Security expenditures will exceed income by about 19% *on average* over the next 75 years. Restoring long-range trust fund solvency and other policy objectives (such as increasing benefits for certain groups of beneficiaries) have made Social Security reform an issue of ongoing congressional interest and debate.

This report provides an overview of Social Security financing and benefits under current law. Specifically, the report covers the origins and a brief history of the program; Social Security financing and the status of the trust funds; how Social Security benefits are computed; the types of Social Security benefits available to workers and their family members; the basic eligibility requirements for each type of benefit; the scheduled increase in the Social Security retirement age; and the federal income taxation of Social Security benefits.

Contents

Tables

Contacts

Introduction

Social Security is a primarily self-financed program that provides monthly cash benefits to retired or disabled workers and their family members and to the family members of deceased workers.[1] As of November 2015, there were 60 million Social Security beneficiaries. Of those, 43 million (72%) were retired workers and family members, 11 million (18%) were disabled workers and family members, and 6 million (10%) were survivors of deceased workers.[2]

Social Security is financed primarily by payroll taxes paid by covered workers and their employers. An estimated 167.5 million workers are covered by Social Security.[3] Employers and employees each pay 6.2% of covered earnings, up to the annual limit on taxable earnings ($118,500 in 2016);[4] self-employed individuals pay 12.4% of net self-employment income, up to the annual limit ($118,500 in 2016). Social Security is also credited with tax revenues from the federal income taxes paid by some beneficiaries on a portion of their benefits. In addition, Social Security receives interest income from Social Security trust fund investments. Social Security income and outgo are accounted for in two separate trust funds authorized under Title II of the Social Security Act: the Federal Old-Age and Survivors Insurance (OASI) Trust Fund and the Federal Disability Insurance (DI) Trust Fund. In this report, the separate OASI and DI trust funds are referred to on a combined basis as the Social Security trust funds.[5] In 2014, the combined Social Security trust funds (OASDI) had total receipts of $884 billion, total expenditures of $859 billion, and accumulated holdings (assets) of $2.8 trillion.[6]

Origins and Brief History of Social Security

Title II of the original Social Security Act of 1935[7] established a national plan designed to provide economic security for the nation's workers. The system of Old-Age Insurance it created provided benefits to individuals who were aged 65 or older and who had "earned" retirement benefits through work in jobs covered by the system. Benefits were to be financed by a payroll

[1] A person may receive retired-worker benefits and continue to have earnings. However, under certain circumstances, earnings may affect the amount of a person's monthly benefit.

[2] Social Security Administration (SSA), *Monthly Statistical Snapshot, November 2015*, Table 2. See the latest edition of the *Monthly Statistical Snapshot* at http://www.socialsecurity.gov/policy/docs/quickfacts/stat_snapshot/index.html.

[3] Currently, 94% of workers in paid employment or self-employment are covered by Social Security. (SSA, *2015 Social Security/SSI/Medicare Information*, March 25, 2015, at https://www.ssa.gov/legislation/2015%20Fact%20Sheet.pdf.)

[4] The annual limit on covered wages and net self-employment income that is subject to the Social Security payroll tax (the taxable wage base) is adjusted annually based on average wage growth, if a Social Security cost-of-living adjustment (COLA) is payable.

[5] Under current law, the Federal Old-Age and Survivors Insurance (OASI) and Federal Disability Insurance (DI) trust funds cannot borrow from each other when faced with a funding shortfall. The shifting of funds between OASI and DI can only be done with authorization from Congress. In the past, Congress has authorized temporary interfund borrowing among the OASI, DI, and Medicare Hospital Insurance trust funds, as well as temporary payroll tax reallocations between OASI and DI, to deal with funding shortfalls. Most recently, under the Bipartisan Budget Act of 2015 (P.L. 114-74), Congress authorized a temporary reallocation of payroll taxes from the OASI fund to the DI fund for calendar years 2016 through 2018. SSA's Office of the Chief Actuary estimates that the reallocation will extend solvency of the DI fund from the fourth quarter of 2016 to the third quarter of 2022. Because of such actions, the OASI and DI trust funds are discussed on a combined basis. For more information, see CRS Report R43318, *The Social Security Disability Insurance (DI) Trust Fund: Background and Current Status*, by William R. Morton.

[6] SSA, *Trust Fund Data*, http://www.ssa.gov/OACT/STATS/table4a3.html.

[7] P.L. 271, 74th Congress.

tax paid by employees and their employers on wages up to a base amount ($3,000 per year at the time). Monthly benefits were to be based on cumulative wages in covered jobs. The law related the amount of the benefit to the amount of a worker's wages covered by the program, but the formula was progressive. That is, the formula was weighted to replace a larger share of the earnings of low-wage workers compared with those of higher-wage workers. Before the Old-Age Insurance program was in full operation, the Social Security Amendments of 1939[8] shifted the emphasis of Social Security from protection of the individual worker to protection of the family by extending monthly cash benefits to the dependents and survivors of workers. The program now provided Old-Age and Survivors Insurance (OASI).

During the decades that followed, changes to the Social Security program were mainly ones of expansion. Coverage of workers became nearly universal (the largest groups remaining outside the system are state and local government employees who have not chosen to join the system and federal employees who were hired before 1984). In 1956, Congress established the Disability Insurance (DI) program.[9] Over the years, there were increases in the payroll tax rate, which increased from 2.0% of pay (1.0% each for employees and employers) in the 1937-1949 period to its current level of 12.4%.[10] In addition, there were increases in the amount of wages subject to the payroll tax (the taxable wage base), which increased from $3,000 in the 1937-1950 period to its current level of $118,500.[11] The types of individuals eligible for benefits were expanded over the years,[12] and benefit levels were increased periodically. In 1972, legislation provided for automatic cost-of-living adjustments, starting in 1975, indexed to the change in consumer prices as measured by the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) published by the Department of Labor's Bureau of Labor Statistics.[13]

Beginning in the late 1970s, legislative action regarding Social Security became more concentrated on solving persistent financing problems. Legislation enacted in 1977 raised taxes and curtailed future benefit growth in an effort to shore up the system's finances.[14] Still, in 1982, the OASI trust fund needed to borrow assets from the DI trust fund and the Medicare Hospital Insurance (HI) trust fund (borrowed amounts were fully repaid by 1986). In 1983, Congress passed additional major legislation that was projected to restore solvency to the Social Security system *on average* over the 75-year projection period at that time.[15]

---

[8] P.L. 379, 76th Congress.

[9] The DI program was established by the Social Security Amendments of 1956 (P.L. 880, 84th Congress). The program became known as the Old-Age, Survivors, and Disability Insurance (OASDI) program, the formal name for Social Security.

[10] Congress has increased the Social Security payroll tax rate many times over the program's history. The payroll tax rate under current law (12.4%) was established by the Social Security Amendments of 1983 (P.L. 98-21). P.L. 98-21 increased the payroll tax rate gradually from 11.4% in 1984 to 12.4% in 1990.

[11] The taxable wage base amounts ($3,000 and $118,500) are in current dollars. The most recent legislative change to the Social Security taxable wage base was in 1977. The Social Security Amendments of 1977 (P.L. 95-216) established ad-hoc increases in the taxable wage base for 1979, 1980, and 1981, followed by a return to automatic wage indexation for 1982 and subsequent years.

[12] For example, the Social Security Amendments of 1965 (P.L. 89-97) established benefits for divorced wives aged 62 or older.

[13] See the Social Security Amendments of 1972 (P.L. 92-603). For more information, see CRS Report 94-803, *Social Security: Cost-of-Living Adjustments*, by Gary Sidor.

[14] See the Social Security Amendments of 1977 (P.L. 95-216).

[15] Following the Social Security Amendments of 1983 (P.L. 98-21), projections showed the re-emergence of long-range deficits as a result of changes in actuarial methods and assumptions and because program changes had been evaluated with respect to their effect on the *average* 75-year deficit. That is, while program changes were projected to restore (continued...)

Current projections by the Social Security Board of Trustees show that the Social Security system has a long-range funding shortfall and that the system will operate with annual cash-flow deficits each year through the end of the 75-year projection period (2089). These projections, and other factors, have focused attention on potential Social Security program changes.[16]

Social Security Financing

The Social Security program is financed primarily by revenues from Federal Insurance Contributions Act (FICA) taxes and Self Employment Contributions Act (SECA) taxes. FICA taxes are paid by both employers and employees, however it is employers who remit the taxes to the U.S. Treasury. Employers remit FICA taxes on a regular basis throughout the year (e.g., weekly, monthly, quarterly, or annually), depending on the employer's level of total employment taxes (Social Security, Medicare, and federal individual income tax withholding).

The FICA tax rate of 7.65% each for employers and employees has two components: 6.2% for Social Security and 1.45% for Medicare HI.[17] Under current law, employers and employees each pay 6.2% of covered wages, up to the taxable wage base, in Social Security payroll taxes. The SECA tax rate is 15.3% for self-employed individuals, with 12.4% for Social Security and 2.9% for Medicare HI. Self-employed individuals pay 12.4% of net self-employment income, up to the taxable wage base, in Social Security payroll taxes.[18] One-half of the SECA taxes are allowed as a deduction for federal income tax purposes. SECA taxes are normally paid once a year as part of filing an annual individual income tax return.[19]

In addition to Social Security payroll taxes, the Social Security program has two other sources of income. First, certain Social Security beneficiaries must include a portion of Social Security benefits in taxable income for the federal income tax, and the Social Security program receives part of those federal tax revenues.[20] Second, the Social Security program receives interest from the U.S. Treasury on its investments in special U.S. government obligations.

As the Managing Trustee of the Social Security trust funds, the Secretary of the Treasury is required by law to invest Social Security revenues in interest-bearing federal government securities held by the trust funds.[21] The revenues exchanged for the federal government securities

(...continued)

trust fund solvency *on average* over the 75-year projection period, a period of surplus years was followed by a period of deficit years. As time passed, the inclusion of additional deficit years in the 75-year valuation period resulted in a return to projected long-range deficits.

[16] For more information, see CRS Report RL33544, *Social Security Reform: Current Issues and Legislation*, by Dawn Nuschler.

[17] The Patient Protection and Affordable Care Act (ACA, P.L. 111-148) imposed an additional Medicare HI tax of 0.9 percentage point on high-income workers with wages over $200,000 for single filers and $250,000 for joint filers, effective for taxable years beginning in 2013.

[18] Self-employed individuals must pay Social Security payroll taxes if they have net earnings from self-employment of $400 or more in a year; only 92.35% of net earnings (up to the annual limit) are taxable.

[19] If a self-employed individual does not pay himself or herself wages, SECA taxes are paid annually on the Internal Revenue Service Form 1040 (U.S. Individual Income Tax Return). If a self-employed individual does pay himself or herself wages, FICA taxes are paid during the year along with any FICA tax payments for his or her employees.

[20] The tax revenues associated with including Social Security benefits in federal taxable income go to the Social Security trust funds and the Medicare HI trust fund. For more information, see CRS Report RL32552, *Social Security: Calculation and History of Taxing Benefits*, by Julie M. Whittaker and Katelin P. Isaacs .

[21] Social Security Act, Title II, §201(d). For more information, see SSA, Office of the Chief Actuary, Actuarial Note Number 142, *Social Security Trust Fund Investment Policies and Practices*, by Jeffrey L. Kunkel, January 1999, at

(continued...)

are deposited into the general fund of the U.S. Treasury and are indistinguishable from revenues in the general fund that come from other sources. Because the assets held by the trust funds are federal government securities, the trust fund balance represents the amount of money owed to the Social Security trust funds by the general fund of the U.S. Treasury. Funds needed to pay Social Security benefits and administrative expenses come from the redemption of federal government securities held by the trust funds.[22]

Taxation of Social Security Benefits

Since 1984, Social Security benefits have been subject to the federal income tax. First, as part of the Social Security Amendments of 1983 (P.L. 98-21), Congress made up to 50% of a person's Social Security benefits subject to the federal income tax if he/she has provisional income above a specified threshold ($25,000 for an individual tax filer and $32,000 for a married couple filing jointly). Provisional income is defined as the total income from all sources recognized for tax purposes plus certain otherwise tax-exempt income, including half of Social Security benefits. Tax revenues from this "first tier" of taxation are credited to the Social Security trust funds. In 2014, the trust funds received $29.6 billion (3.4% of total trust fund income) from this provision.[23]

Second, as part of the Omnibus Budget Reconciliation Act of 1993 (P.L. 103-66), Congress made up to 85% of a person's Social Security benefits subject to the federal income tax if he or she has provisional income above a second higher threshold ($34,000 for an individual tax filer and $44,000 for a married couple filing jointly). Tax revenues from this "second tier" of taxation are credited to the Medicare HI trust fund. In 2014, the HI trust fund received $18.1 billion (6.9% of total trust fund income) from this provision.[24]

The income thresholds are fixed under current law (i.e., they are not adjusted for inflation or wage growth). Over time an increasing number of beneficiaries will be subject to the federal income tax on benefits. The Congressional Budget Office (CBO) estimates that about half of current Social Security beneficiaries are affected by the taxation of benefits.[25]

Status of the Social Security Trust Funds

Projections by the Social Security Board of Trustees (the trustees) show that Social Security expenditures will exceed *tax revenues* each year through the end of the 75-year valuation period (2089).[26] That is, Social Security will operate with annual *cash-flow deficits*. When interest

(...continued)

http://www.ssa.gov/OACT/NOTES/n1990s.html.

[22] SSA, *Trust Fund FAQs*, http://www.socialsecurity.gov/OACT/ProgData/fundFAQ.html.

[23] The 2015 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, July 22, 2015, at https://www.socialsecurity.gov/oact/tr/2015/tr2015.pdf. (Hereinafter cited as 2015 Annual Report of the Social Security Board of Trustees.) See Table III.A3 on page 35.

[24] *Status of the Social Security and Medicare Programs: A Summary of the 2015 Annual Reports*, Social Security and Medicare Boards of Trustees, July 22, 2015, page 2, https://www.socialsecurity.gov/OACT/TRSUM/tr15summary.pdf.

[25] Unpublished data from CBO showing projections for tax year 2014. For more information, see CRS Report RL32552, *Social Security: Calculation and History of Taxing Benefits*, by Julie M. Whittaker and Katelin P. Isaacs.

[26] Projections cited in this CRS report are based on the intermediate (or "best estimate") assumptions of the 2015 Annual Report of the Social Security Board of Trustees and refer to the OASI and DI trust funds on a combined basis. For more information on the trust fund projections, see CRS Report RL33028, *Social Security: The Trust Funds*, by Dawn Nuschler.

income to the trust funds is taken into account, however, Social Security is projected to have a *total surplus* (tax revenues plus interest income will exceed expenditures) each year through 2019. The trustees also project that the trust funds will have a positive balance (asset reserves) until 2034, allowing Social Security benefits scheduled under current law to be paid in full and on time until then.[27]

Over the long run, the trustees project that Social Security expenditures will exceed income by about 19% *on average* over the next 75 years. Stated a different way, the trustees project that the 75-year actuarial deficit for the trust funds is 2.68% of taxable payroll.[28] Social Security's projected long-range funding shortfall is attributed primarily to demographic factors (such as lower fertility rates and increasing life expectancy) as well as program design features (such as a wage-indexed benefit formula and annual COLAs).[29]

At the end of 2014, the trust funds were credited with asset reserves of $2.8 trillion. The trustees project that the trust fund balance will continue to grow over the next several years due to interest income, peaking at $2.9 trillion in current dollars[30] ($2.6 trillion in constant 2015 dollars[31]) at the end of 2019. Beginning in 2020, Social Security expenditures will exceed total income (tax revenues plus interest income) and the trust fund balance will begin to decline, until the asset reserves are fully depleted in 2034. To put the size of the trust fund balance into perspective, one can look at the *trust fund ratio*. The trust fund ratio represents trust fund assets at the beginning of a year as a percentage of costs for the year. In 2016, for example, the projected trust fund ratio is 298% (assets held by the trust funds at the beginning of 2016 are projected to be 2.98 times

---

[27] On a separate basis, the OASI trust fund is projected to have asset reserves until 2035, allowing retirement and survivor benefits to be paid in full and on time until then. When the 2015 Annual Report of the Social Security Board of Trustees was published in July 2015, the trustees projected that the DI trust fund's asset reserves would be depleted by the end of calendar year 2016. In October 2015, Congress passed the Bipartisan Budget Act of 2015 (H.R. 1314; P.L. 114-74, signed November 2, 2015). Section 833 of the act authorized a temporary reallocation of payroll tax revenues from the OASI fund to the DI fund for calendar years 2016 through 2018. Updated projections by SSA's Office of the Chief Actuary show that the DI trust fund will have asset reserves until 2022, allowing benefits for disabled workers and their family members to be paid in full and on time until then. The projected reserve depletion dates for the OASI trust fund (2035) and the combined trust funds (2034) remain unchanged following enactment of the payroll tax reallocation. SSA, Office of the Chief Actuary, Letter to the Honorable John Boehner, October 27, 2015, at https://www.socialsecurity.gov/OACT/solvency/index.html.

[28] 2015 Annual Report of the Social Security Board of Trustees, p. 4, https://www.socialsecurity.gov/OACT/TR/2015/tr2015.pdf. Following enactment of the Bipartisan Budget Act of 2015 (H.R. 1314; P.L. 114-74, signed November 2, 2015), the 75-year actuarial deficit is projected to be 2.65% of taxable payroll. SSA, Office of the Chief Actuary, Letter to the Honorable John Boehner, October 27, 2015, at https://www.socialsecurity.gov/OACT/solvency/index.html. In addition to the trustees, the Congressional Budget Office (CBO) publishes long-range projections for the Social Security trust funds. CBO projects that the trust funds will have a positive balance (asset reserves) until 2029 and a 75-year actuarial deficit of 4.4% of taxable payroll. CBO notes, "The larger shortfall projected by CBO stems mostly from three areas of difference between the Social Security trustees' and CBO's projections: CBO anticipates that life expectancy will increase somewhat more rapidly, the incidence of disability will be a little higher, and interest rates will be 0.6 percentage points lower in the long run." For more information, see CBO, *Social Security Policy Options, 2015*, December 2015, at https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51011-SocSecOptions.pdf.

[29] A wage-indexed benefit formula allows initial monthly benefits for successive groups of new beneficiaries to keep pace with increases in the standard of living. An annual COLA for benefits already in payment allows benefits for current beneficiaries to keep pace with increases in prices.

[30] 2015 Annual Report of the Social Security Board of Trustees, Supplemental Single-Year Tables, Table VI.G8, https://www.socialsecurity.gov/OACT/TR/2015/lr6g8.html.

[31] 2015 Annual Report of the Social Security Board of Trustees, Supplemental Single-Year Tables, Table VI.G7, https://www.socialsecurity.gov/OACT/TR/2015/lr6g7.html.

greater than the cost of the program in 2016). The trustees project that the trust fund ratio will decline to 173% in 2024 and reach zero at the point of trust fund reserve depletion in 2034.[32]

After depletion of trust fund reserves, the program would continue to operate with incoming Social Security receipts; those receipts are projected to be sufficient to pay 79% of benefits scheduled under current law in 2034 and 73% of scheduled benefits in 2089.[33] Social Security does not have authority to borrow from the general fund of the Treasury. Therefore, the program cannot simply draw upon general revenues to make up the difference between incoming receipts and benefit payments when the program no longer has asset reserves to draw upon. The Social Security Act does not specify what would happen to the payment of benefits scheduled under current law in the event of Social Security trust fund depletion. Two possible scenarios are (1) the payment of full monthly benefits on a delayed schedule, or (2) the payment of partial (reduced) monthly benefits on time.[34]

Social Security Cash-Flow Surpluses and Deficits

From 1984 to 2009, Social Security generated surplus tax revenues (i.e., the program operated with annual cash-flow surpluses). Surplus tax revenues and interest income credited to the trust funds in the form of federal government securities contributed to a growing trust fund balance. Beginning in 2010, however, the program began operating with annual cash-flow deficits, and the trustees project that Social Security tax revenues will remain below program expenditures each year throughout the 75-year projection period (2015-2089).

When Social Security operates with a cash-flow deficit, the trust funds redeem more federal securities than the amount of current Social Security tax revenues, relying in part on trust fund asset reserves to pay benefits and administrative expenses. Because the federal securities held by the trust funds are redeemed with general revenues, this results in increased spending for Social Security from the general fund. When there are no surplus governmental receipts, the federal government must raise the necessary funds by increasing taxes or other income; reducing other spending; borrowing from the public; or some combination of these measures.

With respect to the program’s reliance on general revenues, it is important to note that Social Security does not have authority to borrow from the general fund of the Treasury under current law. Rather, the program relies on revenues collected for Social Security purposes in previous years that were used by the federal government at the time for other (non-Social Security) spending needs and interest income earned on trust fund investments. The program draws on those previously collected Social Security tax revenues and interest income (trust fund asset reserves) when current Social Security tax revenues fall below current program expenditures.

Social Security Reform Debate

Social Security reform is an issue of ongoing interest to lawmakers. For some advocates of reform, the focus is on restoring long-range solvency to the trust funds. For others, the focus is on

[32] 2015 Annual Report of the Social Security Board of Trustees, Table IV.A3, p. 47, https://www.socialsecurity.gov/OACT/TR/2015/tr2015.pdf.

[33] *Status of the Social Security and Medicare Programs: A Summary of the 2015 Annual Reports*, Social Security and Medicare Boards of Trustees, July 22, 2015, p. 10, https://www.socialsecurity.gov/OACT/TRSUM/tr15summary.pdf.

[34] For more information, see CRS Report RL33514, *Social Security: What Would Happen If the Trust Funds Ran Out?*, by Dawn Nuschler and William R. Morton, and CRS Report RL32822, *Social Security Reform: Legal Analysis of Social Security Benefit Entitlement Issues*, by Emily M. Lanza and Thomas J. Nicola.

constraining the projected growth in spending for entitlement programs—including Social Security, Medicare, and Medicaid—in the context of broader efforts to reduce growing federal budget deficits. The Social Security reform debate reflects other policy objectives as well, such as improving the adequacy and equity of benefits,[35] and different philosophical views about the role of the Social Security program and the federal government in providing retirement income. The debate has reflected two fundamentally different approaches to reform. The *traditional approach* would maintain the current structure of the program (i.e., a defined benefit system funded on a pay-as-you-go basis) by making relatively modest changes, such as an increase in the retirement age or an increase in the taxable wage base. In general, the goal of this approach is to preserve the social insurance nature of the program. In contrast, the *personal savings and investment approach* would redesign the 1930s-era program to create a pre-funded system in which benefits would be based partially or entirely on personal savings and investments.[36] Recently, there has been a shift in the Social Security reform debate from efforts to scale back the program—to address projected trust fund depletion, federal budget deficits, and other concerns—to an expansion of the program to address the adequacy of benefits, retirement income security, and other issues. In general, the shift in focus among some lawmakers has been toward proposals that would increase Social Security benefits and require higher-earners to pay more payroll taxes.

Social Security Benefit Rules

Social Security provides monthly cash benefits to retired or disabled workers and to the family members of retired, disabled, or deceased workers. The computation of a worker's primary insurance amount (PIA) is based on his or her earnings record in Social Security-covered employment. The worker's PIA is the initial monthly benefit amount payable at the full retirement age (i.e., before any adjustments for early or delayed retirement). Benefits paid to the family members of a worker are based on a percentage of the worker's PIA. The eligibility requirements for each category of benefits differ, as described below.

Full Retirement Age

Social Security retirement benefits are first payable to retired workers at the age of 62, subject to a permanent reduction for early retirement. The age at which full (or unreduced) retirement benefits are first payable is the full retirement age (FRA).[37] For most of the program's history, the FRA was 65. As part of the Social Security Amendments of 1983 (P.L. 98-21), Congress raised the FRA from 65 to 67. The 1983 law established a gradual phase-in from 65 to 67 over a 22-year period (2000 to 2022).

Specifically, workers born in 1938 or later are affected by the increase in the FRA (i.e., workers who become eligible for retirement benefits at age 62 in 2000 or later). The increase in the FRA will be fully phased-in for workers born in 1960 or later (i.e., workers who become eligible for

[35] Traditionally, one of the principles governing the Social Security program has been balancing the competing goals of social adequacy and individual equity. The *social adequacy* goal takes into account factors beyond a person's payroll tax contributions in determining the appropriate level of benefits (factors such as providing a minimum standard of living). The *individual equity* goal takes into account the degree to which a person's benefit level reflects his or her contributions to the system.

[36] For more information, see CRS Report RL33544, *Social Security Reform: Current Issues and Legislation*, by Dawn Nuschler.

[37] The full retirement age is also called the *normal retirement age* (NRA).

retirement benefits at age 62 in 2022 or later). **Table 1** shows the scheduled increase in the FRA being phased-in under current law.[38]

Table 1. Increase in the Full Retirement Age Scheduled Under Current Law

Year of Birth	Full Retirement Age
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943 to 1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 or later	67

Source: SSA, *2015 Social Security/SSI/Medicare Information*, March 25, 2015, available at http://www.socialsecurity.gov/legislation/2015%20Fact%20Sheet.pdf.

Computation of a Social Security Retired-Worker Benefit

Among other requirements, a worker generally needs 40 earnings credits (10 years of Social Security-covered employment) to be eligible for a Social Security retired-worker benefit.[39] A worker's initial monthly benefit is based on his or her highest 35 years of earnings in covered employment, which are indexed to historical wage growth (earnings through age 60 are indexed; earnings thereafter are counted at nominal value).[40] The highest 35 years of indexed earnings are summed, and the total is divided by 420 months (35 years x 12 months = 420 months). The resulting amount is the worker's *average indexed monthly earnings* (AIME). If a worker has fewer than 35 years of earnings in covered employment, years with no earnings are entered as zeroes in the computation, resulting in a lower AIME and therefore a lower monthly benefit.

The worker's PIA is determined by applying a formula to the AIME as shown in **Table 2**. First, the AIME is sectioned into three brackets (or segments) of earnings, which are divided by dollar amounts known as bend points. In 2016, the bend points are $856 and $5,157.[41] Three progressive replacement factors—90%, 32%, and 15%—are applied to the three brackets of AIME.[42] The three products derived from multiplying each replacement factor and bracket of AIME are added

[38] For more information, see CRS Report R41962, *The Social Security Retirement Age: In Brief*, by Gary Sidor.

[39] A worker may earn up to four earnings credits per calendar year. In 2016, a worker earns one credit for each $1,260 of covered earnings, up to a maximum of four credits for covered earnings of $5,040 or more. Earnings credits are also called *quarters of coverage*.

[40] Indexing past earnings brings them up to near-current wage levels.

[41] The bend points in the benefit formula are indexed to average wage growth under current law.

[42] The replacement factors in the benefit formula are fixed under current law.

together. For workers who become eligible for retirement benefits (i.e., those who attain age 62), become disabled, or die in 2016, the PIA is determined as shown in the example in **Table 2**.

Table 2. Computation of a Worker's Primary Insurance Amount (PIA) in 2016 Based on an Illustrative AIME of $5,200

Replacement Factors	Three Brackets of AIME	PIA for Worker with an Illustrative AIME of $5,000
90%	first $856 of AIME, plus	$770.40 (*90% x $856*)
32%	AIME over $856 and through $5,157, plus	$1,376.32 (*32% x $4,301*)
15%	AIME over $5,157	$6.45 (*15% x $43*)
Total: Worker's PIA (*rounded down*)		**$2,153.10**

Source: Congressional Research Service.

A worker's PIA increases each year from the year of eligibility (at age 62) to the year of benefit receipt based on the Social Security COLA. In addition, Social Security benefits already in payment increase each year based on the COLA.[43]

Adjustments to Benefits Claimed Before or After the FRA

A worker's initial monthly benefit is equal to his or her PIA if he or she begins receiving benefits at the FRA. A worker's initial monthly benefit will be *less* than his or her PIA if he or she begins receiving benefits *before* the FRA, and it will be *greater* than his or her PIA if he or she begins receiving benefits *after* the FRA.

A retired-worker benefit is payable as early as the age of 62, however, the benefit will be permanently reduced to reflect the longer expected period of benefit receipt. Retired-worker benefits are reduced by five-ninths of 1% (or 0.0056) of the worker's PIA for each month of entitlement before the FRA up to 36 months, for a reduction of about 6.7% per year. For each month of benefit entitlement before the FRA in excess of 36 months, retirement benefits are reduced by five-twelfths of 1% (or 0.0042), for a reduction of 5% per year.[44]

Workers who delay filing for benefits until after the FRA receive a delayed retirement credit (DRC). The DRC applies to the period that begins with the month the worker attains the FRA and ends with the month before he or she attains the age of 70. The DRC is 8% per year for workers born in 1943 or later (i.e., workers who attain the age of 62 in 2005 or later).

---

[43] Since 1975, COLAs have not been payable in 2010, 2011, and 2016. For more information, see CRS Report 94-803, *Social Security: Cost-of-Living Adjustments*, by Gary Sidor.

[44] The early retirement reduction for *spousal benefits* is different. Spousal benefits claimed before the FRA are reduced by 25/36 of 1% (or 0.0069) for each month of entitlement before the FRA, up to 36 months, and by five-twelfths of 1% (or 0.0042) for each month of entitlement before the FRA in excess of 36 months. The reduction is applied to the base spousal benefit, which is 50% of the worker's PIA. The spousal benefit is not reduced for entitlement before the FRA if the spouse is caring for a qualifying child. The early retirement reduction also differs for *widow(er)'s benefits*. The maximum reduction for widow(er)'s benefits claimed before the FRA is equal to 28.5% of the deceased worker's PIA. Alternatively, if a widow(er) claims benefits at the FRA, his or her benefits are reduced if the deceased worker claimed benefits before the FRA and therefore was receiving a reduced benefit. Under the widow(er)'s limit provision, the widow(er)'s benefit is limited to the higher of (1) the benefit the deceased worker would be receiving if he or she were still alive or (2) 82.5% of the deceased worker's PIA. In this case, the maximum reduction applied to the widow(er)'s benefit is equal to 17.5% of the deceased worker's PIA.

The actuarial adjustment to benefits claimed before or after the FRA is intended to provide the worker with roughly the same total lifetime benefits, regardless of the age at which he or she begins receiving benefits. Therefore, if a worker claims benefits before the FRA, his or her monthly benefit is reduced to take into account the longer expected period of benefit receipt. For a worker whose FRA is 66, the decision to claim benefits at the age of 62 results in a 25% reduction in his or her PIA. For a worker whose FRA is 67, the decision to claim benefits at the age of 62 results in a 30% reduction in his or her PIA. Similarly, if a worker claims benefits after the FRA, his or her monthly benefit is increased to take into account the shorter expected period of benefit receipt.[45]

Other Adjustments to Benefits (Including GPO and WEP)

Other benefit adjustments may apply, such as those related to simultaneous entitlement to more than one type of Social Security benefit. Under the dual entitlement rule, for example, a Social Security spousal benefit is reduced if the person also receives a Social Security benefit based on his or her own work in covered employment (a retired-worker or disabled-worker benefit). Similarly, under the government pension offset (GPO), a Social Security spousal benefit is reduced if the person receives a non-covered pension based on his or her own work in non-covered employment. Under the windfall elimination provision (WEP), a modified benefit formula is used to compute a worker's Social Security benefit (resulting in a lower initial monthly benefit compared to the regular benefit formula) in certain cases when the person receives a non-covered pension based on other work performed in non-covered employment.[46] Under the retirement earnings test (RET), the Social Security benefit is reduced when a person is below the FRA and he or she has wage or salary income above an annual dollar threshold (an annual exempt amount).[47] Under the Social Security maximum family benefit provision, benefits payable to each family member (excluding the worker) may be reduced to keep the total benefits payable to the family based on the worker's record within a specified limit.

Disabled-Worker Benefit

For Social Security disability benefits, "disability" is defined as the inability to engage in substantial gainful activity (SGA) by reason of a medically determinable physical or mental impairment that is expected to last for at least 12 months or result in death. Generally, the worker must be unable to do any kind of substantial work that exists in the national economy, taking into account age, education, and work experience. As noted previously, a worker generally needs 40 earnings credits to qualify for a Social Security retired-worker benefit. A worker under the age of 62 can qualify for a Social Security disabled-worker benefit with fewer earnings credits. The number of earnings credits needed varies, depending on the age of the worker when he or she became disabled; however, a minimum of six earnings credits is needed. Similarly, while the worker's highest 35 years of earnings are used to compute a retired-worker benefit, fewer years of earnings may be used to compute a disabled-worker benefit.[48] Because a disabled worker's

[45] For more information, see CRS Report R43542, *How Social Security Benefits Are Computed: In Brief*, by Katelin P. Isaacs.

[46] For more information on these provisions, see the following CRS documents: CRS Report RL32453, *Social Security: The Government Pension Offset (GPO)*; and CRS In Focus IF10203, *Social Security: The Windfall Elimination Provision (WEP) and the Government Pension Offset (GPO)*, by Gary Sidor.

[47] For more information on the RET, see CRS Report R41242, *Social Security Retirement Earnings Test: How Earnings Affect Benefits*, by Dawn Nuschler.

[48] For more information, see CRS Report R43370, *Social Security Disability Insurance (SSDI): Becoming Insured*, (continued...)

benefit is not reduced for entitlement before the FRA, a disabled worker's benefit is equal to his or her PIA.[49]

Benefits for the Worker's Family Members

Social Security may be viewed by some as a program that provides benefits only to retired or disabled workers; however, about 18% of Social Security beneficiaries are the dependents and survivors of retired, disabled, or deceased workers.[50]

Social Security benefits are payable to the spouse, divorced spouse, or child of a retired or disabled worker. Benefits are also payable to the widow(er), divorced widow(er), child, or parent of a deceased worker. In addition, mother's or father's benefits are payable to a young widow(er) who is caring for a deceased worker's child, if the child is under the age of 16 or disabled and entitled to benefits.[51] Benefits payable to family members are equal to a specified percentage of the worker's PIA, subject to a maximum family benefit. For example, the spouse of a retired worker may receive up to 50% of the retired worker's PIA, and the widow(er) of a deceased worker may receive up to 100% of the deceased worker's PIA. Benefits paid to family members may be subject to adjustments based on the person's age at entitlement, receipt of a Social Security benefit based on his or her own work record, and other factors.

Table 3 provides a summary of Social Security benefits payable to family members of a retired, disabled, or deceased worker, including basic eligibility requirements and basic benefit amounts before any applicable adjustments are made (such as for the maximum family benefit).[52]

Maximum Family Benefit

The total amount of Social Security benefits payable to a family based on a retired, disabled, or deceased worker's record is capped by the maximum family benefit. The family maximum cannot be exceeded, regardless of the number of beneficiaries entitled to benefits on the worker's record.[53] If the sum of all benefits payable on the worker's record exceeds the family maximum, the benefit payable to each dependent or survivor is reduced in equal proportion to bring the total amount of benefits payable to the family within the limit. In the case of a *retired or deceased worker*, the maximum family benefit is determined by a formula and varies from 150% to 188% of the worker's PIA. For the family of a worker who attains the age of 62 in 2016, or dies in 2016 before attaining the age of 62, the total amount of benefits payable to the family is limited to

- 150% of the first $1,093 of the worker's PIA, plus
- 272% of the worker's PIA over $1,093 and through $1,578, plus

(...continued)

Calculating Benefit Payments, and the Effect of Dropout Year Provisions, by William R. Morton.

49 For more information, see CRS Report RL32279, *Primer on Disability Benefits: Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI)*, by William R. Morton.

50 SSA, *Monthly Statistical Snapshot, November 2015*, Table 2. See the latest edition of the *Monthly Statistical Snapshot* at http://www.socialsecurity.gov/policy/docs/quickfacts/stat_snapshot/index.html.

51 To receive mother's/father's benefits, the person must be unmarried and must not be entitled to widow(er)'s benefits.

52 For related information, see CRS Report RS22294, *Social Security Survivors Benefits*, by Scott D. Szymendera.

53 Social Security Act, Title II, §203.

- 134% of the worker's PIA over $1,578 and through $2,058, plus
- 175% of the worker's PIA over $2,058.[54]

The dollar amounts in the maximum family benefit formula ($1,093, $1,578, and $2,058 in 2016) are indexed to average wage growth, as in the regular benefit formula. In the case of a *disabled worker*, the maximum family benefit is equal to 85% of the worker's AIME; however, the family maximum cannot be less than 100% or more than 150% of the worker's PIA.[55]

Table 3. Social Security Benefits for the Worker's Family Members

Basis for Entitlement	Basic Eligibility Requirements	Basic Benefit Amount Before Any Applicable Adjustments
Spouse	At least age 62, or Any age if caring for the child of a retired or disabled worker. The child must be under the age of 16 or disabled, and the child must be entitled to benefits.	50% of worker's PIA
Divorced Spouse (The divorced individual must have been married to the worker for at least 10 years before the divorce became final.)	At least age 62 Must be unmarried Note: A divorced spouse who is under the age of 62 is not eligible for spousal benefits even if he/she is caring for the child of a retired or disabled worker.	50% of worker's PIA
Aged Widow(er) & Divorced Aged Widow(er) (The divorced individual must have been married to the worker for at least 10 years before the divorce became final.)	At least age 60 Must be unmarried (unless the marriage occurred after attainment of age 60)	100% of worker's PIA

[54] SSA, Formula for Family Maximum Benefit, https://www.socialsecurity.gov/OACT/COLA/familymax.html.

[55] Benefits for a divorced beneficiary are not taken into account for purposes of the family maximum. SSA, Program Operations Manual System (POMS), Section RS 00615.682, "Family Benefits Where a Divorced Spouse or a Surviving Divorced Spouse is Entitled," available at https://secure.ssa.gov/apps10/poms.nsf/lnx/0300615682.

Basis for Entitlement	Basic Eligibility Requirements	Basic Benefit Amount Before Any Applicable Adjustments
Disabled Widow(er) & Divorced Disabled Widow(er) (The divorced individual must have been married to the worker for at least 10 years before the divorce became final.)	At least age 50 (ages 50-59) Must be unmarried (unless the marriage occurred after attainment of age 50) The qualifying disability must have occurred (1) before or within seven years of the worker's death; (2) within seven years of having been previously entitled to benefits on the worker's record as a widow(er) with a child in his or her care; or (3) within seven years of having been previously entitled to benefits as a disabled widow(er) that ended because the qualifying disability ended (whichever is later).	71.5% of worker's PIA Disabled widow(er)s and divorced disabled widow(er)s ages 50-59 receive the same rate of reduction set for widow(er)s at age 60 (28.5% of the worker's PIA), regardless of their age at the time of entitlement.
Widowed Mother or Father (Young Widow(er) with Child)	Surviving spouse of any age who is caring for the deceased worker's child. The child must be under the age of 16 or disabled, and the child must be entitled to benefits. Must be unmarried Must not be entitled to widow(er)'s benefits Note: In the case of a surviving divorced parent, the child must be his or her natural or legally adopted child. The 10-year marriage requirement that applies to divorced spouses under other circumstances does not apply.	75% of deceased worker's PIA
Child	A dependent, unmarried child of a retired, disabled, or deceased worker. The child must be (1) under the age of 18; (2) a full-time elementary or secondary student under the age of 19; or (3) a disabled person aged 18 or older whose disability began before age 22. The term child refers to a biological child, adopted child, stepchild, or in some cases grandchild, of the worker.	50% of worker's PIA for child of a retired or disabled worker 75% of deceased worker's PIA for child of a deceased worker

Basis for Entitlement	Basic Eligibility Requirements	Basic Benefit Amount Before Any Applicable Adjustments
Dependent Parent of a Deceased Worker	At least age 62 Must not have married since the worker's death Must have been receiving at least one-half of his or her support from the worker at the time of the worker's death (or, if the worker had a period of disability that continued until death, at the beginning of the period of disability).	82.5% of deceased worker's PIA if one parent is entitled to benefits 75% of deceased worker's PIA (for each parent) if two parents are entitled to benefits

Source: Congressional Research Service.

Notes: The family relationship requirement for entitlement to benefits based on the worker's record may be met in alternative ways. For example, the relationship requirement can be met if, under state law as interpreted by the courts of the state, the applicant would be able to inherit a share of the worker's personal property if the worker were to die without leaving a will. The table shows the minimum eligibility age for each type of benefit (i.e., the age at which benefits are first payable on a reduced basis). The maximum family benefit may apply, reducing the benefit payable to each family member (excluding the worker) on a proportional basis. In the case of a retired or deceased worker, the maximum family benefit varies from 150% to 188% of the worker's PIA. In the case of a disabled worker, the maximum family benefit is equal to the lesser of 85% of the worker's AIME or 150% of the worker's PIA, but no less than 100% of the worker's PIA. Other benefit adjustments may apply.

Social Security Beneficiaries

In November 2015, there were 60 million Social Security beneficiaries. As shown in **Table 4**, retired-worker and disabled-worker beneficiaries accounted for 81.7% of the beneficiary population. The largest single category of beneficiaries was retired workers (66.8%), with an average monthly benefit of about $1,340. The second-largest category was disabled workers (14.9%), with an average monthly benefit of about $1,166. Family members of retired, disabled, or deceased workers accounted for the remainder of the beneficiary population (18.3%). **Table 4** provides a detailed breakdown of the Social Security beneficiary population in November 2015.

Table 4. Social Security Beneficiaries, by Type, November 2015

Type of Beneficiary	Number of Beneficiaries (in thousands)	Percentage of All Beneficiaries	Total Monthly Benefits ($ in millions)	Average Monthly Benefit (in dollars)
All beneficiaries	**59,916**	**100.0%**	**$73,522**	**$1,227.10**
Old-Age and Survivors Insurance	**49,103**	**82.0**	**62,469**	**1,272.20**
Retirement benefits	43,019	71.8	55,699	1,294.76
- Retired workers	40,040	66.8	53,672	1,340.48
- Spouses of retired workers	2,335	3.9	1,607	688.51
- Children of retired workers	645	1.1	419	650.46
Survivor benefits	6,084	10.2	6,770	1,112.70
- Children of deceased workers	1,884	3.1	1,567	831.72
- Widowed mothers and fathers	140	0.2	132	941.23
- Nondisabled widow(er)s	3,799	6.3	4,882	1,285.29
- Disabled widow(er)s	259	0.4	187	719.41

Type of Beneficiary	Number of Beneficiaries (in thousands)	Percentage of All Beneficiaries	Total Monthly Benefits ($ in millions)	Average Monthly Benefit (in dollars)
- Parents of deceased workers	1	a	1	1,130.51
Disability Insurance	**10,813**	**18.0**	**11,053**	**1,022.27**
- Disabled workers	8,916	14.9	10,394	1,165.76
- Spouses of disabled workers	142	0.2	45	318.24
- Children of disabled workers	1,754	2.9	614	350.25

Source: Table is reproduced from SSA, *Monthly Statistical Snapshot, November 2015*, Table 2. See the latest edition of the *Monthly Statistical Snapshot* at http://www.socialsecurity.gov/policy/docs/quickfacts/stat_snapshot/index.html.

a. Indicates a value less than 0.05%.

Author Contact Information

Dawn Nuschler
Specialist in Income Security
dnuschler@crs.loc.gov, 7-6283

Key Policy Staff

Area of Expertise	Name	Phone	E-mail
Social Security	Dawn Nuschler	7-6283	dnuschler@crs.loc.gov
Social Security Disability Insurance	William Morton	7-9453	wmorton@crs.loc.gov
Social Security Disability Insurance	Scott Szymendera	7-0014	sszymendera@crs.loc.gov