Social Security
(Old-Age, Survivors, and Disability Insurance)

The Old-Age, Survivors, and Disability Insurance (OASDI) program provides monthly benefits to qualified retired and disabled workers and their dependents and to survivors of insured workers. Eligibility and benefit amounts are determined by the worker's contributions to Social Security. There is no means test to qualify for benefits, although there is a limit on income earned from working that applies to those under the full retirement age.

At the end of December 2006, 49.1 million people were receiving benefits at a rate exceeding $46 billion each month (nearly $546 billion annually). According to the latest Social Security Trustees Report, these cash benefits made up 4.3 percent of the nation's gross domestic product. During the same year, approximately 162 million employees and self-employed workers, along with employers, contributed $626 billion to the OASDI trust funds—through which contributions are credited and benefits are paid.

Social Security benefits are essential to the economic well-being of millions of individuals. Social Security pays benefits to 91 percent of the U.S. population aged 65 or older. It is the major source of income (providing 50 percent or more of total income) for 66 percent of the beneficiaries. It contributes 90 percent or more of income for one-third of the beneficiaries and is the only source of income for 21 percent of them.

Contributions and Trust Funds

A person contributes to Social Security through either payroll taxes or self-employment taxes under the Federal Insurance Contributions Act (FICA) or the Self-Employed Contributions Act (SECA). Employers match the employee contribution, while self-employed workers pay an amount equal to the combined employer-employee contributions. (Self-employed workers receive a special tax deduction to ease the impact of paying the higher rate.) There is a maximum yearly amount of earnings subject to OASDI taxes—$97,500 in 2007. There is no upper limit on taxable earnings for Medicare Hospital Insurance. Employees whose earnings exceed the maximum taxable amount because they worked for more than one employer can receive refunds of excess FICA payments when they file their tax returns.

Taxes are allocated to three trust funds: the Old-Age (retirement) and Survivors Insurance (OASI), the Disability Insurance (DI), and the Medicare Hospital Insurance (HI) Trust Funds. In addition to the taxes on FICA and SECA covered earnings, OASI and DI trust fund revenues include interest on trust fund securities, income from taxation of OASI and DI benefits, certain technical transfers, and gifts or bequests. By law, the OASI and DI trust funds may only be disbursed for

- monthly benefits for workers and their families,
- vocational rehabilitation services for disabled beneficiaries,
- administrative costs (currently 1 percent of expenditures), and
- the lump-sum death payment to eligible survivors.

Revenue received from FICA and SECA payments is transferred to the U.S. Treasury. Revenue in excess of outlays is used to purchase special interest-bearing Treasury bonds. These securities remain assets of the trust funds until needed to cover Social Security costs.

Structure and Organization

The OASDI program is administered by the Social Security Administration (SSA), which became an independent agency in 1995. The commissioner of Social Security serves a 6-year term following appointment by the president and confirmation by the Senate. A bipartisan Social Security Advisory Board serves to review existing laws and policies, commission studies, and issue recommendations intended to anticipate changing circumstances. The president appoints three of the seven board members, and Congress appoints the other four members.

The Social Security Administration's organization is centrally managed, with a nationwide network of over 1,500 offices, which includes Field Offices, Regional Offices, Teleservice (800-Number) Centers, Processing Centers, Hearings Offices, and State Disability Determination Services. The organizational structure is designed to provide timely, accurate, and responsive service to the public. By integrating support services for all programs, the Agency enhances efficiency, avoids duplication of effort, and increases opportunities to provide one-stop service to the public.

The Social Security Administration is headquartered in Baltimore, Maryland. Major headquarter components include the National Computer Center that contains SSA's mainframe computers that drive SSA systems; much of the executive staff for policy, programs, operations, and systems; as well as field support components.

SSA's field structure is divided into 10 geographic regions containing more than 1,300 field offices in communities throughout the country. Field offices are the primary setting for personal contact with the public. Office sizes range from large urban offices with 50 or more employees to remote resident stations staffed by one or two individuals. Each region is headed by a regional commissioner and staffed with specialists to handle regional administrative tasks and to assist field offices with operational issues. In addition, there are teleservice centers servicing all regions. Teleservice centers offer national toll-free service (1-800-772-1213). Although physically located within the various regions, each teleservice center manages the public's Social Security business from throughout the nation using state-of-the-art communications systems.

Eight processing centers process a variety of workloads involving disability, international and earnings operations, ongoing eligibility for Supplemental Security Income benefits, as well as providing service and support for the field offices, and answering calls to the toll-free number. The Hearings Offices and Appeals Council make decisions on appeals of Social Security determinations in claims for benefits.

Tables 2.F1–2.F11 provide SSA administrative data on the agency's national workforce **(Tables 2.F1–2.F3)**, claims workloads **(Tables 2.F4–2.F6)**, delivery of services **(Table 2.F7)**, and its hearings and appeals operations **(Tables 2.F8–2.F11)**.

Program Changes

Program changes occur through legislation or (in areas where authority is delegated to the commissioner) through regulation. Changes are often implemented in phases and may entail recurring annual changes beyond the initial enactment date or year of first implementation.

Tables 2.A1–2.A18 and **2.A29–2.A30** show dates of enactment and list recurring annual changes.

Coverage and Financing

In 2007, about 163 million people will work in employment or self-employment that is covered under the OASDI program. In recent years, coverage has become nearly universal for work performed in the United States, including American Samoa, Guam, the Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands. Approximately 96 percent of the U.S. workforce is covered by OASDI. Workers excluded from coverage fall into five major categories:

1. Civilian federal employees hired before January 1, 1984;
2. Railroad workers (who are covered under the railroad retirement system, which is coordinated with Social Security);
3. Certain employees of state and local governments who are covered under their employers' retirement systems;
4. Domestic workers and farm workers whose earnings do not meet certain minimum requirements (workers in industry and commerce are covered regardless of the amount of earnings); and
5. Persons with very low net earnings from self-employment, generally under $400 annually.

Table 2.A1 outlines the history of coverage provisions and **Table 2.A2** provides a history of provisions regarding noncontributory wage credits, mostly for military service.

For most employees, taxes are withheld from wages beginning with the first dollar earned. The exceptions are domestic employees, election workers, and agricultural workers. In 2007, a domestic employee must earn $1,500 from any single employer in a calendar year before FICA is withheld. Most election workers must earn $1,300 in 2007 before FICA is withheld. Most agricultural workers' wages are covered if the employer pays more than $2,500 in total wages in a year or if the individual worker earns over $150 in a year from a single employer.

Employees, their employers, and the self-employed pay taxes on earnings in covered employment up to an annual maximum taxable amount for OASDI. There is no upper limit on taxable earnings for Medicare Hospital Insurance (HI). The OASDI maximum taxable amount—$97,500 in 2007—is updated automatically each year in relation to increases in the national average annual wage. The current FICA tax rate applicable to both employees and employers is 6.2 percent for OASDI (5.30 percent for OASI and 0.9 percent for DI) and 1.45 percent for HI. Those who are self-employed pay the combined employee-employer rate of 12.4 percent for OASDI and 2.9 percent for HI under SECA.

See **Table 2.A3** for annual amounts of maximum taxable earnings and contribution rates. **Table 2.A4** shows historical annual maximum amounts of contributions by employees and self-employed individuals.

Two deduction provisions reduce the SECA and income tax liability of self-employed persons. The intent of these provisions is to treat the self-employed in much the same manner as employees and employers are treated for purposes of FICA and income taxes. The first provision allows a deduction from net earnings from self-employment equal to the amount of net earnings before the deduction multiplied by one-half the SECA tax rate. The effect of this deduction is intended to be analogous to the treatment of the FICA tax paid by the employer, which is disregarded as remuneration to the employee for FICA and income tax purposes. The second provision allows an income tax deduction equal to one-half of the amount of the SECA tax paid, which is designed to reflect the income tax deductibility of the employer's share of the FICA tax.

Table 2.A5 describes income tax credits for 1984–1989 intended to cushion the impact of increases in FICA and SECA taxes enacted in 1983. The SECA tax credits were replaced, effective 1990, by the deduction provisions described above. **Table 2.A6** outlines the history of provisions regarding appropriations from general revenues and interfund borrowing.

Insured Status

Insured status is the minimum number of credits a worker must earn to become eligible for his or her own Social Security benefit. Insured status on the insured worker's earnings record is also required to establish eligibility to benefits for the worker's family members or survivors. The requirements for insured status differ depending on the type of benefit involved.

To determine whether a worker has insured status, Social Security looks at the amount of the worker's earnings (employment or self-employment) covered under Social Security and assigns "credits" for those earnings. These credits are called quarters of coverage. In 2007, one quarter of coverage (QC) is credited for each $1,000 in annual covered earnings, up to a maximum of four QCs for the year. Earnings of $4,000 or more in 2007 will give the worker the maximum four QCs for the year regardless of when the money is actually paid during the year. The amount of earnings required for a QC is adjusted automatically each year in proportion to increases in the average wage level.

Fully Insured

Eligibility for most types of benefits requires that the worker be fully insured. To be fully insured, a worker must have a number of QCs at least equal to the number of calendar years elapsing between the year in which the worker is age 21 (or 1950, if later) and the year in which he or she reaches age 62, becomes disabled, or dies—whichever occurs first. To compute "elapsed" years, Social Security does not count the year in which the worker attains age 21 (or 1950, if later) or the year in which the worker attains age 62, becomes disabled, or dies. If the resulting number of elapsed years is less than 6, the number is raised to 6. All workers need at least 6 QCs to be insured. Workers who reach age 62 in 1991 or later need 40 QCs to be fully insured. Special rules may apply if the worker had a prior period of disability. For workers who become disabled or die before age 62, the number of QCs needed for fully insured status depends on their age at the time of disability or death.

Currently Insured

Generally, if a worker dies before meeting fully insured status, benefits can still be paid to certain survivors if the worker was "currently insured" at the time of death. Survivors benefits are potentially payable to a worker's children and to a widow(er) who takes care of the deceased's child who is under age 16 or disabled and receiving Social Security benefits. To be currently insured, the worker must have earned 6 QCs in the 13 quarters ending with the quarter of death.

Additional Insured Status Requirements for Noncitizens

The Social Security Protection Act of 2004 (Public Law 108-203) was signed into law on March 2, 2004. Section 211 of this law imposed additional requirements for determining fully and currently insured status. These additional requirements affect noncitizen workers to whom Social Security did not assign a Social Security number (SSN) before January 1, 2004. A noncitizen worker must meet one of two additional requirements under section 211 in order for anyone to qualify for an OASDI benefit based on the earnings record of the noncitizen worker. These benefits include retirement or disability insurance benefits, dependents or survivors insurance benefits, the lump-sum death payment, and Medicare based on end-stage renal disease.

For purposes of the above paragraph:

1. The noncitizen worker must have been assigned an SSN for work purposes at any time on or after January 1, 2004; or
2. The noncitizen worker must have been admitted to the United States at any time as a nonimmigrant visitor for business (B-1) or as an alien crewman (D-1 or D-2).

If a noncitizen worker who was not assigned an SSN before January 1, 2004, does not meet one of these additional requirements, then he or she cannot be fully or currently insured. No one would qualify for OASDI benefits based on the noncitizen worker's earnings. This is true even if the noncitizen worker appears to have the required number of quarters of coverage (QCs) in accordance with the regular insured status provisions.

Disability Insured

To qualify for disability benefits, a nonblind worker must have recent work activity in addition to being fully insured. Under the requirement involving recent work, a nonblind worker who is age 31 or older must have earned at least 20 QCs during the 40-calendar-quarter period ending with the quarter in which the disability began. In general, workers disabled at ages 24 through 30 must have earned QCs in one-half of the calendar quarters beginning with the quarter after the quarter in which age 21 is attained and ending with the calendar quarter in which the disability began. In this case, the quarters counted will go back before the quarter in which the worker turned age 21. Workers under age 24 need 6 QCs in the 12-quarter period ending with the quarter in which the disability began. Workers who qualify for benefits based on blindness need only be fully insured. Special rules may apply if the worker had a prior period of disability.

Table 2.A7 summarizes the basic provisions concerning insured status.

International Agreements

The president is authorized to enter into international Social Security agreements (also called *totalization agreements*) to coordinate the U.S. Old-Age, Survivors, and Disability Insurance (OASDI) program with comparable programs of other countries. The United States currently has Social Security agreements in effect with 21 countries.

Social Security agreements and supplementary agreements, by effective dates

Australia	2002	Italy	1978, 1986
Austria	1991, 1997	Japan	2005
Belgium	1984	Korea (South)	2001
Canada	1984, 1997	Luxembourg	1993
Chile	2001	Netherlands	1990, 2003
Finland	1992	Norway	1984, 2003
France	1988	Portugal	1989
Germany	1979, 1988, 1996	Spain	1988
Greece	1994	Sweden	1987, 2007
Ireland	1993	Switzerland	1980, 1989
		United Kingdom	1985, 1997

International Social Security agreements have two main purposes. First, they eliminate dual Social Security coverage, the situation that occurs when a person from one country works in another country and is required to pay Social Security taxes to both countries on the same earnings. Each agreement includes rules that assign a worker's coverage to only one country.

The second goal of the agreement is to help fill gaps in benefit protection for workers who have divided their careers between the United States and another country. Such workers may fail to qualify for Social Security benefits from one or both countries because they have not worked long enough to meet minimum eligibility requirements. Under an agreement, these workers and their family members may qualify for a partial U.S. benefit based on *totalized* (that is, combined) credits from both countries. Similarly, workers may qualify for partial benefits from the foreign country on the basis of totalized credits.

Table 5.M1 shows the number of beneficiaries receiving totalization payments and their average benefits.

Benefit Computation and Automatic Adjustment Provisions

PIA Computation

The primary insurance amount (PIA) is the monthly benefit amount payable to the worker upon initial entitlement at full retirement age or upon entitlement to unreduced disability benefits. (Full retirement age [FRA] is the age at which unreduced retirement benefits may be paid.) The PIA is also the base figure from which monthly benefit amounts are determined for early retirement, delayed retirement, and for the worker's family members or survivors. The PIA is derived from the worker's annual taxable earnings from covered wages and self-employment, averaged over a period that encompasses most of the worker's adult years. Until the late 1970s, the average monthly wage (AMW) was the earnings measure generally used. For workers first eligible for benefits after 1978, average indexed monthly earnings (AIME) have replaced the AMW as the usually applicable earnings measure. The PIA computation based on AIME currently involves the following three steps:

1. Indexing of earnings. The worker's annual taxable earnings after 1950 are updated, or indexed, to reflect the general earnings level in the indexing year—the second calendar year before the year in which the worker is first eligible; that is, first reaches age 62, becomes disabled, or dies. Earnings in years after the indexing year are not indexed; they are

counted at their actual value. A worker's earnings for a given year are indexed by multiplying them by the following ratio (indexing factor): the average wage in the national economy for the indexing year, divided by the corresponding average wage figure for the year to be indexed.

Table 2.A8 shows the indexing factors applicable to the earnings of workers who were first eligible from 1992 through 2007. **Table 2.A9** shows indexed earnings for workers first eligible from 2000 through 2007 who had maximum taxable earnings in each year after 1950. For a detailed description of an AIME computation, see Appendix D, "Computing a Retired-Worker Benefit."

2. Determining AIME. The number of years used in the computation is determined by subtracting the number of dropout years from the number of elapsed years. Elapsed years are the full calendar years between age 21 (or 1950, if later) and the year of first eligibility. Years within an established period of disability may be excluded from elapsed years. Dropout years exclude the years of lowest earnings from the computation; there are five dropout years for retirement and survivor computations and many disability insurance benefit computations. Workers disabled before age 47 have zero to 4 dropout years (one-fifth the number of elapsed years). If the resulting number of computation years is less than 2, the number must be raised to 2. In no case are fewer than 2 years used in the computation. The number of computation years for computing retirement benefits is 35 for workers who are born after 1928 unless it is lowered by an established period of disability.

   The actual years used in the computation (the *computation years*) are the years of highest indexed earnings after 1950, including any years before age 22 or after age 61 as well as the year of disability or death. AIME is calculated as the sum of indexed earnings in the computation period, divided by the number of months in that period.

Table 2.A10 provides a historical outline of provisions related to AIME and AMW and describes variations in the number of dropout years. **Table 2.A16** describes AMW benefit computations based on the worker's nonindexed earnings after 1950. (Very few people currently being awarded benefits have PIAs computed under the AMW computation method. The method shown in Table 2.A16 is more frequently applicable in earnings recomputations for workers who reached age 62 before 1979.)

3. Computing the PIA. The formula used to compute the PIA from AIME is weighted to provide a higher PIA-to-AIME ratio for workers with comparatively low earnings. The formula applies declining percentage conversion rates to three AIME brackets. For workers who reach age 62, become disabled, or die in 2007, the formula provides a PIA equal to the sum of

   90 percent of the first $680 of AIME, plus

   32 percent of the next $3,420 of AIME, plus

   15 percent of AIME over $4,100.

   The PIA is increased by cost-of-living adjustments (COLAs) beginning with the first year of eligibility. The COLA for 2007 will be effective for December 2006.

Table 2.A11 shows the PIA formula and first applicable COLA for workers first eligible in 1979 or later.

The dollar amounts defining the AIME brackets are referred to as *bend points*. These bend points (as described in Table 2.A11) are updated automatically each year in proportion to increases in the national average wage level. This automatic adjustment ensures that benefit levels for successive generations of eligible workers will keep up with rising earnings levels, thereby assuring consistent rates of earnings replacement from one generation of beneficiaries to the next.

The PIA formula applicable to a worker depends on the year of eligibility (or death) rather than on the year benefits are first received. The year of eligibility for retirement benefits is the year the worker attains age 62. For workers born in 1942, the 2004 formula is used and the PIA is increased by COLAs beginning with the one for December 2004. Subsequent recomputations of the worker's benefit, including additional earnings not originally considered, delayed retirement credits, or additional COLA increases, all refer to the basic computation that originally applied on the basis of the year of eligibility. The full retirement age for workers born in 1942 is 65 years and 10 months.

Beginning in June 1982, benefits are rounded to the next lower 10 cents. The final benefit payment is rounded to the lower whole dollar amount (if not already an even dollar). Before June 1982, benefits were paid in 10-cent increments after rounding up to the next dime.

A cost-of-living increase in benefits generally is established each year if the consumer price index for urban wage earners and clerical workers (CPI-W), prepared by the Department of Labor, indicates a percentage increase (after rounding) of at least 0.1 percent between two specified quarters. The arithmetical mean of the CPI-W for July, August, and September in the year of determination is compared with the arithmetical mean of the CPI-W for the later of (a) July, August, and September in the year in which the last effective cost-of-living increase was established or (b) the 3 months of the calendar quarter in which the effective month of the last general benefit increase occurred. The percentage increase in the CPI-W, rounded to the nearest 0.1 percent, represents the size of the increase in benefits, effective for December of the year in which the determination is made.

Under certain conditions, depending on the size of the combined OASDI trust funds relative to estimated disbursements, the applicability and size of a cost-of-living adjustment may be determined under an alternative method, called the *stabilizer provision*. In no case, however, are benefits reduced below the level of benefits in the year of determination. Historically, this provision has never been triggered.

Table 2.A18 presents a history of provisions relating to the automatic adjustment of benefits, including a description of the stabilizer provision. In addition, the table includes a summary history and description of provisions relating to the annual automatic adjustment of (1) the maximum amount of taxable and creditable earnings, (2) the dollar amount needed to establish a quarter of coverage, (3) the bend points defining the AIME brackets in the PIA formula and the PIA brackets in the maximum family benefit formula, and (4) the exempt amounts under the earnings (retirement) test. All of these adjustments are linked to increases in the level of the national average annual wage, rather than to increases in the CPI. **Table 2.A19** illustrates the cumulative effect of statutory and automatic increases in benefits for workers who have been in benefit status over varying time periods.

Alternative PIA Computation Provisions

Special minimum PIA. Workers with low earnings but steady attachment to the workforce over most of their adult years may qualify for monthly benefits based on the special minimum PIA computation. This computation does not depend on the worker's average earnings but on the number of coverage years—years in which the worker had earnings equal to or above a specified amount. The level of the special minimum PIA is the same for workers having the same number of coverage years, regardless of age or year of first eligibility. Increases in the special minimum PIA are linked to cost-of-living adjustments.

See **Table 2.A12** for additional information on the special minimum PIA.

Windfall Elimination Provision (WEP). The WEP affects workers who receive Social Security benefits based on their own work and are also entitled to a pension based on noncovered work after 1956. First eligibility for the noncovered pension and for Social Security benefits must be after December 31, 1985, for WEP to apply. WEP reduces the Social Security PIA upon which OASDI benefits are based and affects all benefits paid on that record except those for survivors. The WEP reduction ceases when entitlement to the pension payment ends, the wage earner dies, or the wage earner earns a total of 30 years of substantial Social Security earnings. The WEP reduction amount is limited to no more than one-half the amount of the noncovered pension.

A WEP PIA is generally based on 40 percent of the first bend point instead of 90 percent used for the regular AIME PIA. The maximum amount of the reduction is half the amount of the first bend point for the applicable eligibility year. The maximum reduction for WEP for the 2007 eligibility year is $340. SSA's retirement planner at http://www.socialsecurity.gov/retire2/index.htm has a benefit calculator that includes WEP calculations.

Example: A retired worker with a noncovered pension of $2,000 a month and fewer than 21 years of covered employment attains age 62 in 2007.

Regular PIA, based on AIME of $800.

$680 × .90 = $612.00

$120 × .32 = $38.40

PIA = $650.40

WEP PIA, based on AIME of $800.

$680 × .40 = $272.00

$120 × .32 = $38.40

PIA = $310.40

If a worker has more than 20 years of substantial covered earnings, the WEP PIA begins to increase. With the 21st year of substantial covered earnings, the first bend point percentage is increased by 5 percentage points. This rate of increase applies for each additional year of substantial covered earnings, through the 30th year of substantial earnings at which point WEP no longer applies. After 23 years of substantial coverage, for example, the first bend point percentage would be 55 percent. Thirty years of substantial earnings would yield a first bend point percentage of 90 percent (the non-WEP percentage of the first bend point).

Examples of pensions subject to WEP are U.S. Civil Service Retirement System annuities, retirement benefits based on foreign earnings, and state and local government pensions based on noncovered earnings.

Table 2.A11.1 provides more detail about the WEP computation and contains the amounts of substantial earnings for years after 1990. Substantial earnings for earlier years are listed in **Table 2.A12**.

Family maximum provisions. Monthly benefits payable to the worker and family members or to the worker's survivors are subject to a maximum family benefit amount. The family maximum level for retired-worker families or survivor families usually ranges from 150 percent to 188 percent of the worker's PIA. The maximum benefit for disabled-worker families is the smaller of (1) 85 percent of AIME (or 100 percent of the PIA, if larger) or (2) 150 percent of the PIA.

Like the formula for determining the PIA, the maximum family benefit formula applicable to a worker depends on the year of first eligibility (that is, the year of attainment of age 62, onset of disability, or death). Once the worker's maximum family benefit amount for the year of first eligibility is determined, it is updated in line with the COLAs.

For information on family maximum provisions, as described here, see **Table 2.A13** (comparison of family maximums to the PIAs on which they are based) and **Table 2.A14** (disability family maximums). **Table 2.A17** shows the maximum family benefit amounts applicable in cases of first eligibility before 1979.

Benefit Types and Levels

Retired and Disabled Workers

The full retirement age (FRA) is the earliest age at which an unreduced retirement benefit is payable (sometimes referred to as the *normal retirement age*). The age for full retirement benefits is scheduled to rise gradually from age 65 to age 67; the first incremental increase affected workers who reached age 62 in 2000. For workers who reach age 62 in 2005 through 2016, FRA is age 66.

Reduced retirement benefits are available as early as age 62. The monthly rate of reduction from the full retirement benefit (that is, the PIA) is 5/9 of 1 percent a month for the first 36 months immediately preceding FRA. The reduction rate is 5/12 of 1 percent a month for any additional months. The maximum overall reduction for early retirement will rise from 20 percent to 30 percent for those workers who reach age 62 in 2022, when age 67 becomes the full retirement age. For workers who reach age 62 in 2005 through 2016, the maximum reduction is 25 percent.

Table 2.A17.1 shows the FRA and maximum reduction of retired-worker benefits by year of birth.

If a disabled worker receives a reduced retirement benefit for months before disability entitlement, the disability benefit is reduced by the number of months for which he or she received the reduced benefit.

For insured workers who postpone their retirement beyond FRA, benefits are increased for each month of nonpayment beyond that FRA up to age 70. This increase is called a *delayed retirement credit* and is potentially available for any or all months following attainment of FRA (maximum of 60 months for workers who attained age 65 before 2003). The total credit possible per year for delayed retirement credits is 8 percent for workers who reach age 62 in 2005 or later.

Table 2.A20 shows a history of benefit increases due to delayed retirement.

Spouses and Children of Workers

Spouses receive 50 percent of the worker's PIA (regardless of the worker's actual benefit amount), if the spouse has attained FRA at entitlement to spousal benefits. The spouse of a retired or disabled worker can elect monthly benefits as early as age 62. These benefits are reduced at the rate of 25/36 of 1 percent a month for the first 36 months immediately preceding FRA and 5/12 of 1 percent for each additional month. The maximum overall reduction for early retirement will rise from 25 percent to 35 percent by 2022, when age 67 becomes the FRA for spouses attaining age 62 in that year.

Children of retired or disabled workers are also eligible to receive monthly benefits. The term *child* refers to an unmarried child under age 18, a child aged 18 to 19 attending elementary or secondary school full time, or an adult child aged 18 or older who was disabled before age 22. In addition, young spouses (that is, those under age 62) who care for a worker's entitled child may also be eligible. For purposes of defining young spouses' benefits, the term *child* refers to an entitled child under age 16 or to a child of the worker aged 16 or older and disabled before age 22. Children of retired or disabled workers can receive up to 50 percent of the worker's PIA, as can young spouses. (The benefit of a young spouse is not reduced for age.) Monthly benefits payable to the spouse and children of a retired or disabled worker are limited to a family maximum amount, as discussed earlier.

Benefits are payable to unmarried divorced spouses of retirement age who were married at least 10 years to the worker. A divorced spouse benefit is excluded from family maximum provisions. Divorced spouses aged 62 or older and divorced for 2 or more years (after marriage of 10 or more years) may be independently entitled on the record of the ex-spouse who is not yet entitled to benefits, if the ex-spouse could be entitled to retirement benefits if he or she applied.

Survivors Benefits

Widows and widowers of fully insured workers are eligible for unreduced benefits at FRA. As with retired workers and spouses, widow(er)s' FRA will gradually increase to age 67, but on a different schedule. Widows and widowers can elect reduced monthly benefits at age 60 or, if disabled, as early as age 50. Surviving divorced spouses can also receive benefits if married to the worker for at least 10 years and not remarried before age 60 (age 50 if disabled).

For survivors whose full benefit retirement age is 65, the monthly rate of reduction for the first 60 months immediately preceding FRA is 19/40 of 1 percent of the worker's PIA, with a maximum reduction of 28.5 percent at age 60. For survivors whose full retirement age is after 65, the amount of reduction for each month prior to FRA is adjusted accordingly to ensure that the maximum reduction at age 60 remains 28.5 percent of the worker's PIA.

Benefits for widows and widowers are increased if the deceased worker delayed receiving retirement benefits beyond the FRA. In these cases, the survivor benefits include any delayed retirement credits the deceased worker earned. Conversely, if the worker had elected early retirement, widow(er)s' benefits are limited for widow(er)s first entitled to survivors benefits at age 62 or later. For these beneficiaries, the benefit is the higher of 82.5 percent of the worker's PIA or the amount the worker would be receiving if still alive. Disabled widow(er)s aged 50 to 60 receive the rate of reduction set for widow(er)s aged 60 (71.5 percent of PIA) regardless of their age at the time of entitlement.

Children of deceased workers and mother and father beneficiaries under FRA are eligible to receive monthly benefits up to 75 percent of the worker's PIA if the worker dies either fully or currently insured. Mother and father beneficiaries must be caring for the worker's entitled child who is either under age 16 or disabled. A dependent parent aged 62 or older is eligible for monthly benefits equal to 82.5 percent of the worker's PIA. When two dependent parents qualify for benefits, the monthly benefit for each is equal to 75 percent of the deceased worker's PIA. Monthly benefits payable to survivors are reduced to conform to the family maximum payable on the deceased worker's account. Benefits for a surviving divorced spouse, however, do not affect the maximum benefit to the family.

See **Table 2.A20** for more information on the increases in the full (or normal) retirement age for workers. **Table 2.A21** describes age-related reductions for dependent beneficiaries, as does **Table 2.A22** for widow(er)s. Additionally, **Tables 2.A23** and **2.A24** show the history of legislation relating to special monthly benefits payable to certain persons born before January 2, 1900. **Table 2.A25** summarizes the history of certain OASDI benefits other than monthly benefit payments. **Table 2.A26** presents illustrative monthly benefit amounts for selected beneficiary families, based on hypothetical earnings histories representing five different earnings levels. **Table 2.A27** shows minimum and maximum monthly benefits payable to retired workers retiring at age 62 in various years beginning with 1957 (the first full year benefits became available at age 62). **Table 2.A28** shows minimum and maximum monthly benefits payable to retired workers retiring at age 65 in various years beginning with 1940.

Provisions for Railroad Retirement Board Beneficiaries

The OASDI tables do not include a number of persons receiving Railroad Retirement benefits who would be eligible for Social Security benefits had they applied. The reason they have not applied is that receipt of a Social Security benefit would reduce their Railroad Retirement benefit by a like amount.

The Railroad Retirement Act of 1974, effective January 1, 1975, provided that the regular annuity for employees with 10 or more years of railroad service who retired after December 31, 1974, would consist of two components.

- Tier 1. A basic Social Security equivalent component to what would be paid under the Social Security Act on the basis of the employee's combined railroad and nonrailroad service, reduced by the amount of any monthly benefit under OASDI actually paid on the basis of nonrailroad work; and
- Tier 2. A "private pension" component payable over and above the Social Security equivalent, calculated

on the basis of the number of years of railroad service.

Public Law 107-90 (the 2001 amendments to the Railroad Retirement Act of 1974) effective January 1, 2002, revised the railroad service work requirement. The railroad service work requirement is 10 or more years of railroad service or, effective January 1, 2002, at least 5 years of railroad service after December 31, 1995. The two components are unchanged.

Effect of Current Earnings on Benefits

Annual Earnings Test

Individuals may receive Social Security retirement, dependent, or survivor benefits and work at the same time. However, under the law, those benefits could be reduced if earnings exceed certain amounts.

Under the annual earnings test provisions of the Social Security Act, beneficiaries who are younger than full retirement age and have earnings in excess of certain exempt amounts may have all or part of their benefits withheld. The annual earnings test exempt amount for nondisabled beneficiaries is pegged to increases in the average wage. Different rules on earnings apply to beneficiaries who receive disability benefits that are described in a subsequent section.

For beneficiaries who are younger than FRA throughout the year:

- The earnings test exempt amount is $12,960 in 2007.
- Benefits are withheld at the rate of $1 for each $2 of earnings above the exempt amount.

For beneficiaries who attain FRA in 2007, the annual earnings test is significantly higher.

- This earnings test exempt amount is $34,440 in 2007. Only earnings before the month of attainment of FRA are counted for purposes of this portion of the annual earnings test.
- Benefits are withheld at the rate of $1 for every $3 of earnings above the exempt amount.

Individuals have the option to receive benefits under a monthly earnings test if it is to their advantage to do so. This option is usually exercised in the first year of entitlement, because the monthly test permits payment for some months even if the annual earnings limit is greatly exceeded. Under the monthly test, beneficiaries receive a full monthly benefit for months in which they do not earn more than an amount equal to 1/12 the annual earnings test. The monthly earnings test is applied to the self-employed on the basis of the number of hours worked instead of monthly earnings. Generally, beneficiaries are eligible for the monthly earnings test in only one year.

A foreign work test applies to work outside the United States in employment or self-employment that is not subject to U.S. Social Security taxes. Benefits are withheld for each month a beneficiary younger than FRA works more than 45 hours.

The earnings test no longer applies beginning with the month a beneficiary attains FRA. Elimination of the earnings test at FRA is effective for taxable years ending after December 31, 1999 (Public Law 106-182). At FRA no benefits are withheld for earnings, regardless of the amount of earnings.

Tables 2.A29 and **2.A29.1** provide historical detail on the retirement test.

Automatic Adjustments for Additional Earnings

When a worker has earnings after filing for Social Security benefits, the additional earnings are credited to the worker's record. The reduction factor and the computation of the PIA could be affected by the additional earnings. These adjustments occur automatically; the worker does not need to request the action.

Adjusted Reduction Factor. The reduction factor is based on all months of entitlement prior to FRA. If a full month or partial month of benefits is withheld because of the earnings test, the reduction factor is automatically adjusted at FRA. For widows and widowers, the automatic adjustments are effective at age 62 and at FRA. This adjustment of the reduction factor results in a higher ongoing monthly benefit. For example, if retirement benefits are claimed 36 months before FRA, a 36-month reduction factor is applied to the PIA. If the earnings test results in no payment of benefits for 6 of those months, the reduction factor is automatically adjusted at FRA, the ongoing reduction factor is changed to 30 months, and benefits are increased retroactively to the month of FRA.

Recomputation. Additional earnings also have the potential to increase the PIA. A recomputation is automatically considered each year when earnings of the insured worker are credited to the record. A recomputation of the PIA is processed if the earnings result in an increase to the PIA of at least $1.00. The increase is retroactive to January of the year following the year of new earnings. For example, if a beneficiary's Primary Insurance Amount (PIA) is $955.50 effective December 2006 and the beneficiary had earnings in 2006, a recomputation would be considered for January 2007. After considering all earnings through 2006, if it is found that the PIA has increased to $976.50 as of January 2007, the recomputation can be allowed because the increase is at least $1.00 over the December 2006 PIA.

Earnings and Disability Benefits

Beneficiaries entitled on the basis of their own disability—disabled workers, disabled adult children, and disabled widow(er)s—are not subject to the annual earnings test. Substantial earnings by disabled beneficiaries, however, may indicate that they are able to do work that constitutes substantial gainful activity (SGA) and therefore no longer meet the requirements for disability benefits. Although other factors are considered, numerical earnings thresholds are used to evaluate SGA. Disabled beneficiaries must report all earnings to SSA for timely evaluation of SGA.

In 2001 the Social Security Administration changed from a periodic adjustment of the earnings amount for a nonblind disabled individual to be considered engaging in SGA. Effective January 1, 2001, SGA amounts are automatically adjusted annually on the basis of increases in the national average wage index. The SGA amount for nonblind individuals in calendar year 2007 is $900 per month.

A different definition of SGA applies to blind individuals receiving Social Security disability benefits. Increases in the SGA amount for blind individuals have been pegged to increases in the national average wage index since 1978. The SGA level for blind individuals in calendar year 2007 is $1,500 per month.

A 9-month trial work period allows beneficiaries who are still disabled to test their ability to work. During that period, beneficiaries may earn any amount and still receive full benefits. After the individual completes 9 trial work months, the SGA level is used to determine whether earnings are substantial.

Table 2.A30 provides related historical data on disability program earnings guidelines, including reference to recent changes in thresholds for determining SGA.

Government Pension Offset

A pension from a federal, state, or local government based on work that was not covered by Social Security could reduce the amount of Social Security spouse's or widow's or widower's benefits. Social Security benefits are reduced (offset) by two-thirds of the government pension if the pension is based on noncovered work by the spouse, widow, or widower. For example, for a monthly civil service pension of $600, two-thirds of that, or $400, would offset a Social Security spousal benefit. An individual eligible for a Social Security spousal benefit of $500 would receive $100 per month from Social Security ($500 – $400 = $100). The intent of the Government Pension Offset provision is to ensure that, when determining the amount of spousal benefits, government employees who do not pay Social Security taxes are treated in a manner similar to those who work in the private sector and pay Social Security taxes. The law requires that Social Security spousal benefits be offset dollar for dollar by the amount of a spouse's own Social Security retirement benefit. For example, if a woman worked and earned her own $600 monthly Social Security retired-worker benefit but was also eligible for a $500 wife's benefit on her husband's Social Security record, the wife's benefit would not be paid because her own Social Security benefit offset it.

Exceptions to the Government Pension Offset could apply if some of the work on which the pension is based was in covered employment. Specific rules apply depending on the employer and on the dates of employment. There are also exemptions for those who were eligible for the government pension before December 1982 or before July 1983, if specific criteria are met.

Taxation of Benefits

Up to 85 percent of Social Security benefits may be subject to federal income tax depending on the beneficiary's income, marital status, and filing status. The definition of income for this provision is as follows: adjusted gross income (before Social Security or Railroad Retirement benefits are considered), plus tax-exempt interest income, with further modification of adjusted gross income in some cases involving certain tax provisions of limited applicability among the beneficiary population, plus half the Social Security and Tier 1 Railroad Retirement benefits.

For married beneficiaries filing jointly with adjusted gross income (as defined above) that is $32,000 a year or less, no Social Security benefits are subject to taxation. If their adjusted gross income exceeds $32,000 but is $44,000 or less, up to 50 percent of the Social Security benefit is subject to income tax. If their income exceeds $44,000, up to 85 percent of the Social Security benefit is subject to income tax. For married beneficiaries filing separately who lived together any time during the tax year, there is no minimum threshold. Up to 85 percent of the Social Security benefit is subject to income tax.

For individuals in all other filing categories (single, head of household, qualifying widow(er), and married filing separately but who lived apart from their spouse for the entire year), the income threshold is $25,000. Generally, up to 50 percent of benefits are taxable for income between $25,001 and $34,000, and up to 85 percent of benefits are taxable for income exceeding $34,000.

Like all matters dealing with tax liability, taxation of Social Security benefits falls under the jurisdiction of the Internal Revenue Service.

Table 2.A31 shows the history of provisions related to taxation of Social Security benefits. **Table 2.A32** offers examples to illustrate when benefits are taxable and the amount subject to taxation.

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