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. Benefits are paid as an earned right to workers, their families and their survivors. There is no means test to qualify for benefits.

During 1999, nearly 45 million people received cash benefits at a rate exceeding $32 billion each month ($385 billion annually). According to the latest Social Security Trustees Report, these cash benefits comprised just over 4 percent of the nation's gross domestic product. During the same year, approximately 152 million employees and self-employed workers, along with employers, contributed more than $450 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 about 90 percent of those aged 65 or older. It is the major source of income (providing 50 percent or more of total income) for 64 percent of the beneficiaries. It contributes 90 percent or more of income for almost one-third of the beneficiaries, and is the only source of income for 18 percent of them. (See charts 1–4 at the end of this section.)

Social Security Contributions and Trust Funds

A person contributes to Social Security either through payroll taxes or self-employment taxes under the Federal Insurance Contribution Act (FICA) or the Self-Employed Contribution 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, $76,200 in 2000. Employees whose contributions 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 the Old-Age (Retirement) and Survivors (OASI) Trust Fund, the Disability Insurance (DI) Trust Fund, and the Hospital Insurance (HI) Trust Fund. In addition to the taxes on 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 trust funds may only be disbursed for:

(1) Monthly benefits for workers and their families.
(2) Vocational rehabilitation services for disabled beneficiaries.
(3) Administrative costs (currently less than 1 percent of expenditures).
(4) The lump-sum death payment to eligible survivors.

Revenue received from FICA payments is transferred to the U.S. Treasury. FICA 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.

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 number of persons is not available, but is estimated to be less than 100,000.

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, will consist of two components:

- Tier 1—A basic Social Security level component equivalent 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 staff level component payable over and above the Social Security equivalent, on the basis of a formula applicable only to railroad service.

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 and commissions studies and issues 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 is headquartered in Baltimore, Maryland. Major headquarter components include the National Computer Center that contains SSA's mainframe computers that drive its systems, much of the executive staff for policy, programs and systems as well as field support components. SSA's field structure is divided into 10 geographic regions containing over 1,300 field installations in communities throughout the country. 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 located in all regions. While 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. Six program service centers provide direct service to the public and support for the field offices in all aspects of Social Security's workloads.

Table 2.F2 summarizes data describing SSA's national workforce, and **table 2.F3** provides a historical record of work years committed to SSA's overall operations. **Table 2.F4** provides workload data for the Old-Age and Survivors' Insurance programs, and **table 2.F5** similarly provides workload data for the Disability Insurance program.

Significant Program Changes

Program changes occur through legislation or (in areas where authority is delegated to the Commissioner) through regulation. Recent program changes follow.

Work Incentives Improvement Act

The Ticket to Work Incentive and Work Incentives Improvement Act (TWIIAA) was enacted on December 17, 1999. This legislation provides major enhancements to SSA's programs that assist disabled beneficiaries who attempt to work. The TWIIAA provides beneficiaries more choices in vocational rehabilitation services, and offers expanded health care for beneficiaries who are no longer eligible for cash benefits due to work. Effective October 1, 2000, the Act offers extended Medicare coverage to beneficiaries who return to work, and offers a buy-in for Medicaid coverage.

The provisions of TWIIAA will be phased in over a 3-year period beginning January 1, 2001. These provisions include demonstration projects that will eventually apply a disability earnings test more directed toward individuals' earnings history and circumstances of their reemployment. The Ticket to Work will emphasize and encourage rehabilitation efforts and will reimburse private vocational rehabilitation agencies for their services to beneficiaries attempting to return to work. Also beginning January 1, 2001, former beneficiaries may have their benefits resumed if their work activity ends within 5 years of the month their benefits stopped and they are still disabled.

Elimination of Annual Earnings Test for Persons Reaching Full Retirement Age

Public Law 106-182, The Senior Citizen's Freedom to Work Act of 2000, enacted April 7, 2000 eliminated the earnings test beginning with the month a beneficiary attains full retirement age (FRA), currently age 65. Elimination of this earnings test is effective for taxable years ending after December 31, 1999.

The earnings limit that applies in the year of attainment of FRA is based on the limits previously established for persons at FRA through age 69—$17,000 in 2000, $25,000 in 2001, and $30,000 in 2002. Benefits are withheld at the rate of $1 for every $3 of earnings above these exempt amounts. In determining earnings for purposes of the annual earnings test under this legislation, only earnings before the month of attainment of FRA will be considered. The legislation also permits retired workers to earn delayed retirement credits for any months between the attainment of full retirement age and age 70 for which the worker requests that benefits not be paid.

Public Law 106-182 did not change the annual exempt amount for beneficiaries who are under FRA throughout the year, which continues to be pegged to increases in the average wage. This amount increased from $9,600 in 1999 to $10,080 in 2000. Withholding for beneficiaries subject to this earnings test is at $1 for each $2 of earnings over the exempt amounts.

Increase in Substantial Gainful Activity Amount

Effective July 1, 1999, the Social Security Administration raised from $500 to $700 the amount of monthly earnings for a nonblind disabled individual to be considered engaging in substantial gainful activity (SGA). This regulatory change was issued as part of an effort to encourage disabled individuals to attempt to return to the workforce.

The SGA threshold is part of the definition of disability that requires an individual to be unable to engage in substantial gainful activity to be eligible for benefits. Earnings of more than $700 a month will ordinarily demonstrate that an individual is engaged in SGA. Earnings of less than $300 a month will ordinarily demonstrate that an individual is not engaged in SGA. Earnings between $300 and $700 a month will require that consideration be given to circumstances related to the work activity.

A different definition of SGA applies to blind persons receiving Social Security disability benefits. Increases in the SGA amount for blind individuals are pegged to increases in the national average wage index and thus were not affected by the 1999 rule change. The level for blind individuals increased from $1,110 in 1999 to $1,170 in 2000.

Table 2.A30 provides related historical data on Disability program earnings guidelines, including reference to recent changes in thresholds for determining substantial gainful activity (SGA).

Coverage and Financing

In 1999, about 152 million persons worked in employment or self-employment 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 American workforce are 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 and agricultural workers. In 2000, a domestic employee must earn $1,200 from any single employer in a calendar year 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 each pay taxes on earnings in covered employment and self-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—$76,200 in 2000—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.

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 persons.

A self-employed person pays the combined employee-employer rate of 12.4 percent for OASDI and 2.9 for HI under the Self-Employment Contributions Act (SECA). 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, times 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 1984-89 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

To become eligible for his or her benefit and/or benefits for family members or survivors, a worker must earn a minimum number of credits based on work in covered employment or self-employment. These credits are described as quarters of coverage. In 2000, a quarter of coverage (QC) is credited for each $780 in annual covered earnings, up to a maximum of four QCs for the year. Earnings of $3,120 or more in 2000 will give the worker four QCs regardless of when the money is actually earned or paid during the year. The amount of earnings required for a QC is adjusted automatically each year in proportion to increases in the average annual 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 age 21 (or 1950 if later) and the year in which he or she reaches age 62, becomes disabled, or dies—whichever occurs first. Under this requirement, workers who reach age 62 in 1991 or later need the maximum number of 40 QCs to be fully insured. 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 the worker is disabled or dies. A minimum of 6 QCs is required regardless of age.

Currently Insured

If a worker dies before achieving fully insured status, benefits can still be paid to qualified survivors if the worker was "currently insured" at the time of death. (In the case of a young worker, survivor benefits are potentially payable to a worker's children and to a widow(er) with children in care.) To be currently insured, the worker must have earned 6 QCs in the 12 quarters before death (that is, 6 of the last 13 quarters, including the quarter in which death occurred).

Disability Insured

To qualify for disability benefits, a nonblind worker must have recent work activity as well as being fully insured. Under the test involving recent work experience, a nonblind worker older than age 31 must have earned at least 20 QCs among the 40 calendar quarters ending with the quarter in which the disability began. Workers disabled at ages 24 through 30 must have earned QCs in one-half of the calendar quarters elapsing between age 21 and the calendar quarter in which the disability began. Workers under age 24 need 6 QCs in the 12-quarter period ending with the quarter of disability onset. Workers who qualify for benefits based on blindness need only be fully insured.

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

International Agreements

The President is authorized to enter into international agreements (also called "totalization" agreements) to provide coordination between the Social Security programs of the United States and the programs of other countries. The United States currently has social security agreements in effect with 17 countries. Agreements with several other countries are in process.

An international social security agreement is designed to benefit both workers and employers. Such agreements eliminate dual coverage and contributions with respect tocountries that are parties to the agreement. Agreements the same work under the social security programs of the

Social Security Agreements and Effective Dates

Austria	1991	Luxembourg	1993
Belgium	1984	Netherlands	1990
Canada	1984	Norway	1984
Finland	1992	Portugal	1989
France	1988	Spain	1988
Germany	1979	Sweden	1987
Greece	1994	Switzerland	1980
Ireland	1993	United Kingdom	1985
Italy	1978		

from a country even if the worker lacks the necessary coverage/contributions for a full benefit. Under the agreements, coverage from other countries is added to the coverage from the other to create sufficient periods of coverage to establish eligibility under the laws of the country from which benefits are being claimed and that were not already credited under its own laws. A benefit is then computed based on the proportion of total covered earnings in that country.

Table 5.M1 provides data on the number of beneficiaries receiving totalization payments, and average amounts.

Benefit Computation and Automatic Adjustment Provisions

The primary insurance amount (PIA) is the monthly benefit amount payable to the worker upon retirement at full retirement age or upon entitlement to disability benefits. The PIA is also the base figure from which monthly benefit amounts payable to the worker's family members or survivors are determined. The PIA is derived from the worker's annual taxable earnings, 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 worker's 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, the year a worker reaches age 62, becomes disabled, or dies). Earnings in years after the indexing year are not indexed, but instead 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 in 1987-2000. **Table 2.A9** shows indexed earnings for workers first eligible in 1993-2000 who had maximum taxable earnings in each year after 1950. For a more detailed technical description of an AIME computation, including a computation worksheet, see the Technical Note "Computing a Retired-Worker Benefit".

(2) Determining AIME: The period used to calculate AIME equals the number of full calendar years elapsing between age 21 (or 1950, if later) and the year of first eligibility, usually excluding the lowest 5 years. Workers disabled before age 47 have between zero and four excluded years. At an absolute minimum, two years are used to compute AIME. 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. **Tables 2.A15** and **2.A16** describe AMW benefit computations based on the worker's nonindexed earnings after 1936 and 1950, respectively. (Very few persons currently being awarded benefits have PIAs computed under these old-start or new-start computation methods. These methods, particularly the new-start method shown in table 2.A16, are 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 2000, the formula provides a PIA equal to the sum of:

90 percent of the first $531 of AIME, plus
32 percent of the next $2,671 of AIME, plus
15 percent of AIME over $3,202.

Beginning with the first year of eligibility, the PIA is increased by cost-of-living adjustments (COLAs).

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 annual 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 benefit formula applicable to a worker depends on the year of eligibility (or death) rather than on the year benefits are first received. Thus the PIA of a worker retiring at age 65 in 2000 is calculated using the benefit formula that applies to all workers first eligible in 1997 (the "year of attainment" of age 62). The PIA derived from that formula is then increased by the COLAs effective for December 1997, 1998, and 1999 to obtain the PIA effective at age 65. Subsequent recomputations of the worker's benefit (additional earnings not originally considered, delayed retirement credits, or additional COLA increases) all are based on the computation that originally applied for the year of attainment.

Beginning in 1981, benefits have been rounded to the next lower ten cents at each step in the computation. The final benefit payment is rounded to the next lower dollar amount (if not already an even dollar). Prior to 1981, SSA paid in ten-cent increments after rounding down to them in the process.

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 arithmetic mean of the CPI-W for July, August, and September in the year of determination is compared with the arithmetic 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 one-tenth of one 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 are determined under an alternative method, called the "stabilizer provision." In no case, however, are benefits reduced below the benefit level existing in the year of determination.

Table 2.A18 presents a history of provisions relating to the automatic adjustment of benefits, including a description of the stabilizer provision. In addition, Table 2.A18 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 a steady work history 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. Benefits based on the special minimum PIA are increased by cost-of-living adjustments (COLAs).

See **Table 2.A12** for additional information on the Special Minimum PIA.

Windfall Elimination Provision PIA.—The Windfall Elimination Provision (WEP) affects persons who receive Social Security benefits along with a pension based on noncovered work after 1956. First eligibility for the noncovered pension and Social Security benefits must be after December 31, 1985 for WEP to apply. WEP reduces the Social Security PIA upon which SSA benefits are based and affects all benefits paid on that record, except survivors benefits. 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 never more than one-half of the noncovered pension.

A WEP PIA is generally based on 40% of the first bend point instead of 90% as with the regular PIA:

Example: A retired worker with a noncovered pension of $2,000 a month and less than 20 years of covered employment attains age 62 in 2000:

Normal PIA, based on AIME of $800:
$531 x .90 = $477.90
$269 x .32 = $86.08
PIA = $563.90

WEP PIA, based on AIME of $800:
$531 x .40 = $212.40
$269 x .32 = $86.08
PIA = $298.40

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 normal 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 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 85 percent of AIME (or 100 percent of PIA, if larger) or 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). Once the worker's maximum family benefit amount for the year of first eligibility is determined, it is increased by subsequent 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 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, with the first incremental increase affecting workers who reach age 62 in the year 2000. Workers over age 62 who leave the workforce before they are eligible for a full retirement benefit can receive reduced benefits. 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 have risen from 20 percent to 30 percent by 2022, when age 67 becomes the full retirement age.

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 workers who postpone their retirement beyond the full retirement age, benefits are increased for each month of nonpayment beyond that age. This increase is called a "delayed retirement credit," and is potentially available for any or all months following attainment of the full retirement age (currently a maximum of 60 months for persons age 65). The annual rate of increase for delayed retirement credits is 6-1/2 percent for workers who reach age 62 in 1999 or 2000. The credit will increase to 7 percent in 2001 and will eventually rise to 8 percent for workers reaching age 62 in 2005 or later.

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 the full retirement age. 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.

Children of retired or disabled workers are also eligible to receive monthly benefits. The term "child" refers to a child under the age of 18, a child up to the age of 19 attending elementary or secondary school full time, or to an adult child, aged 18 or older, who was disabled prior to age 22. In addition, young spouses (that is, those under the age of 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 a child under age 16, or to an adult child of the worker who was disabled prior to age 22. Children of living 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 age 62 or older who have been divorced for 2 or more years (after marriage of 10 or more years) may be independently entitled on the record of the ex-spouse if the ex-spouse could be entitled if he or she applied.

Survivors Benefits

Widows and widowers of fully insured workers are eligible for unreduced benefits at full retirement age (FRA), currently age 65. As with retired workers and spouses, widows' and widowers' FRA will gradually increase to age 67. 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 benefit retirement age is over 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 retirement beyond the FRA. In these cases, the survivor benefits include any delayed retirement credits the deceased worker had earned. Conversely, if the worker had elected early retirement, widows' and widowers' benefits are limited for widows and widowers first entitled to survivor 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 widows and widowers aged 50 - 60 receive the age 60 widow's rate (71.5 percent of PIA) regardless of their age at the time of entitlement.

Children of deceased workers and mothers and fathers under FRA are eligible to receive monthly benefits up to 75 percent of the worker's PIA if the worker died either fully or currently insured. Mothers and fathers must be caring for the worker's entitled child who is either under age 16 or disabled. (See the above definitions of "child".) A dependent parent aged 62 or older is eligible for monthly benefits equal to 82.5 percent of the worker's PIA. Each of two dependent parents can qualify for benefits equal to 75 percent of the deceased worker's PIA. Monthly benefits payable to survivors are reduced to conform to the family maximum benefit payable on the deceased worker's account. Benefits for a surviving divorced spouse, however, are disregarded when computing the maximum family benefit. (See charts 5–8 at the end of this section.)

> 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** (widows and widowers). 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 lump-sum death payments and vocational rehabilitation services. **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.

Effect of Current Earnings on Benefits

Beneficiaries under age 65 with earnings in excess of certain exempt amounts may have all or part of their benefits withheld as a result of the annual earnings test (AET) provisions of the Social Security Act. For those aged 65 or older, however, there have been recent changes to AET provisions. Amendments in 1996 eased the impact of AET provisions, while changes in 2000 removed the AET altogether for beneficiaries age 65 and older. Public Law 104-121, enacted March 29, 1996 substantially raised the exempt amounts under the annual earnings test for persons who have reached full retirement age. These amounts are $12,500 in 1996; 13,500 in 1997; $14,500 in 1998; $15,500 in 1999; $17,000 in 2000; $25,000 in 2001; and $30,000 in 2002. After 2002, the annual exempt amount will be indexed to the growth in average wages. Benefits were withheld at the rate of $1 in benefits for every $3 of earnings above the age 65 exempt amount.

P.L. 106-182, enacted April 7, 2000 eliminated the earnings test beginning with the month a beneficiary reaches full retirement age (FRA). The annual earnings test that applies in the year one attains FRA is based on the more generous annual limits established under P.L. 104-121 (including the $1 for $3 withholding rate). In determining annual earnings for purposes of the annual earnings test, only earnings before the month of attainment of age 65 will be counted.

Public Laws 104-121 and 106-182 did not change the annual exempt amount for beneficiaries who are under age 65 throughout the year. This annual amount continues to be pegged to increases in average wages. The amounts are $9,600 in 1999, and $10,080 in 2000. When the annual earnings limit affects working beneficiaries under age 65, benefits are withheld at the rate of $1 for every $2 of earnings above the exempt amount.

Individuals have the option to receive reduced 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 retirement, as in that year the monthly test permits payment for some months even if the annual earnings limit is greatly exceeded. Under the monthly test, a beneficiary receives a full monthly benefit for months in which they do not earn more than 1/12 of the annual earnings limit. The monthly earnings test is applied to the self-employed based on hours they work instead of monthly earnings. As a rule, beneficiaries are eligible for the monthly earnings test in only one year.

> **Table 2.A29** provides historical detail on the retirement test.

Beneficiaries entitled on the basis of their own disability—disabled workers, disabled adult children, and disabled widows and widowers—are not subject to the earnings test. Substantial earnings by disabled beneficiaries, however, may indicate that they are able to do work which constitutes substantial gainful activity (SGA) and are therefore no longer disabled. Although other factors are considered, numerical earnings thresholds are used in a determination of SGA.

> **Table 2.A30** provides historical thresholds for determining substantial gainful activity (SGA).

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 one-half of Social Security and Tier 1 Railroad Retirement benefits.

For married beneficiaries filing jointly with adjusted gross income under $32,000 a year, no Social Security benefits are subject to taxation. If adjusted gross income exceeds $32,000 but is under $44,000, the amount of benefits included in gross income is the lesser of one-half of benefits (Social Security and Tier 1 Railroad benefits), or one-half of income over $32,000. If a couple's adjusted gross income exceeds $44,000, the amount of benefits included in gross income is 85 percent of income over $44,000 plus the lesser of $6,000 or one-half of benefits. However, no more than 85 percent of benefits are subject to income tax. The income thresholds for single beneficiaries are $25,000 and $32,000.

If members of a married couple are filing separately, they do not have a minimum threshold if they lived together any time during the tax year. The amount of benefits included in gross income is the lesser of 85 percent of Social Security or Tier 1 Railroad Retirement benefits, or 85 percent of all income as defined above. Like all matters dealing with tax liability, taxation of Social Security benefits fall 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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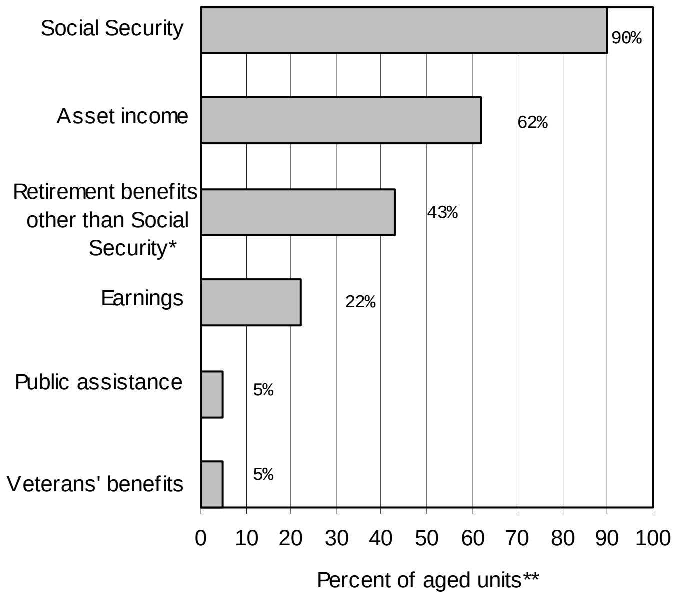
Income of the Aged

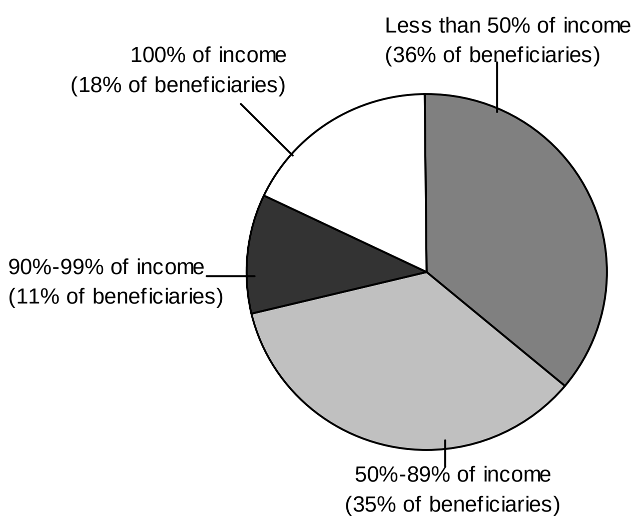
Chart 1: Sources of income for the aged, 1999



*Includes private pensions and annuities, government employee pensions, Railroad Retirement, and IRA, Keogh, and 401(k) payments.
**An aged unit is either a married couple living together with the husband or wife aged 65 or older, or a person 65 or older, who does not live with a spouse. Beneficiary units are the subset of this group who are receiving Social Security benefits.

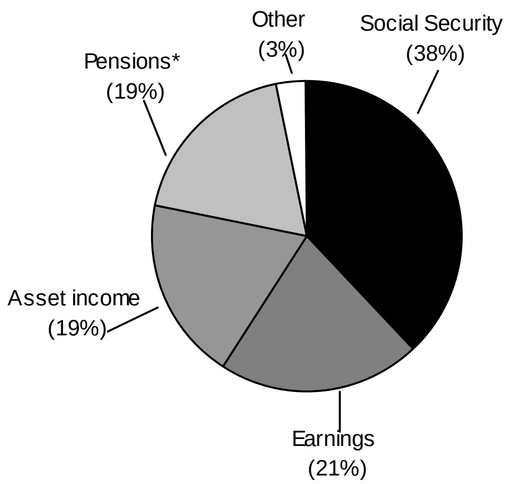
Source: March 2000 Income Supplement, Current Population Survey, U.S. Census Bureau.

Chart 2: Percentage of income from Social Security for those aged 65 or older, 1999



Source: March 2000 Income Supplement, Current Population Survey, U.S. Census Bureau.

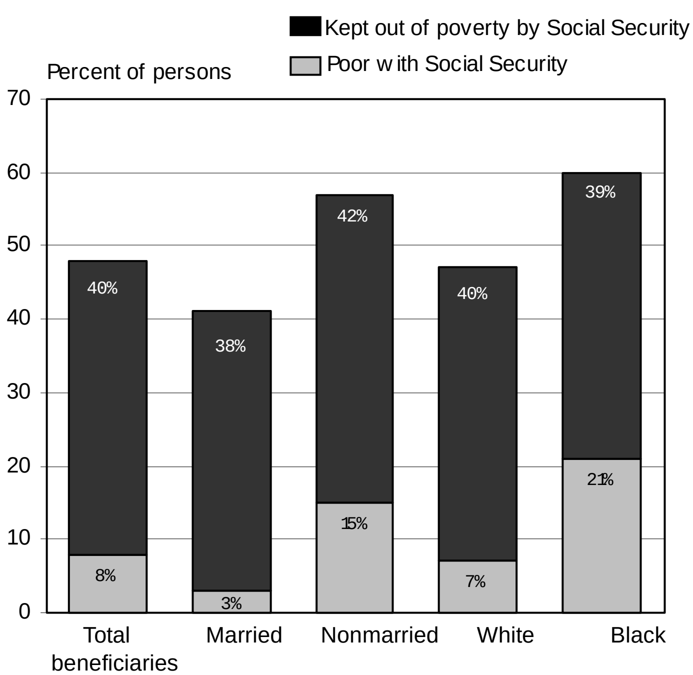
Chart 3: Share of income for the population aged 65 or older, by source of income, 1999



*Includes private pensions and annuities, government employee pensions, Railroad Retirement, and IRA, Keogh, and 401(k) payments.

Source: March 2000 Income Supplement, Current Population Survey, U.S. Census Bureau.

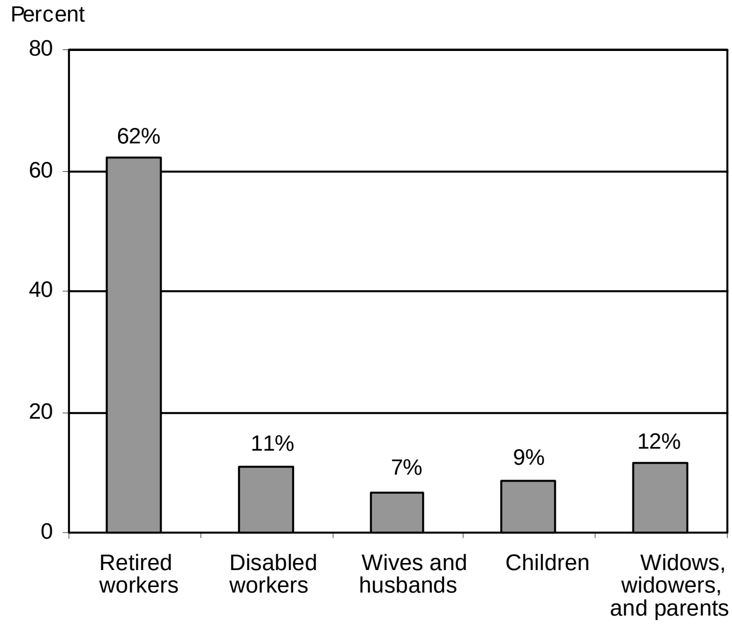
Chart 4: Social Security's role in reducing poverty for the aged, by marital status and race, 1999



Source: March 2000 Income Supplement, Current Population Survey, U.S. Census Bureau.

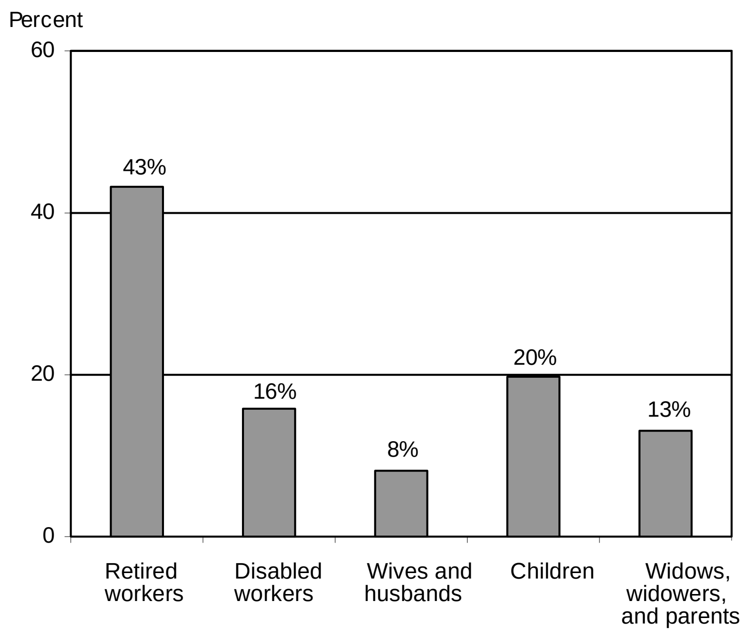
Old-Age, Survivors, and Disability Insurance

Chart 5: OASDI beneficiaries, by type of benefit, December 1999



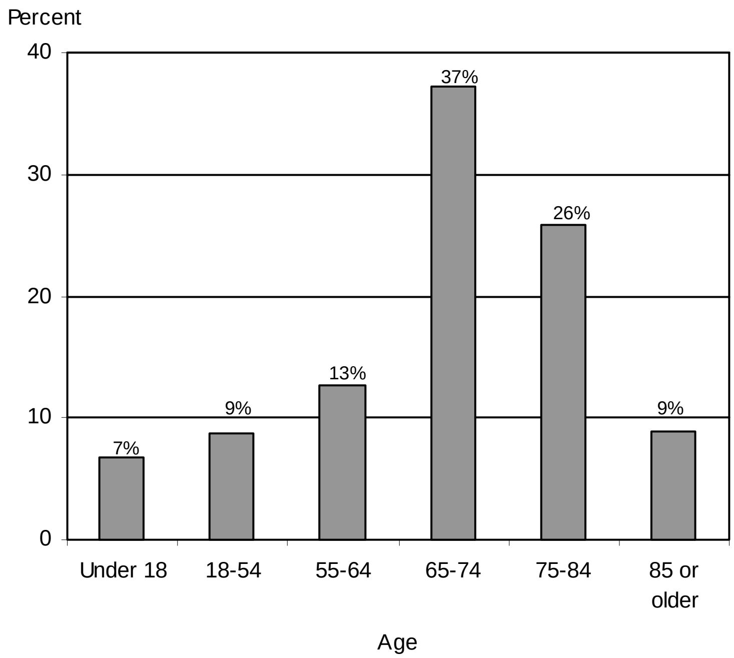
Source: Table 5.A4.

Chart 6: OASDI benefits awarded, by type of benefit, December 1999



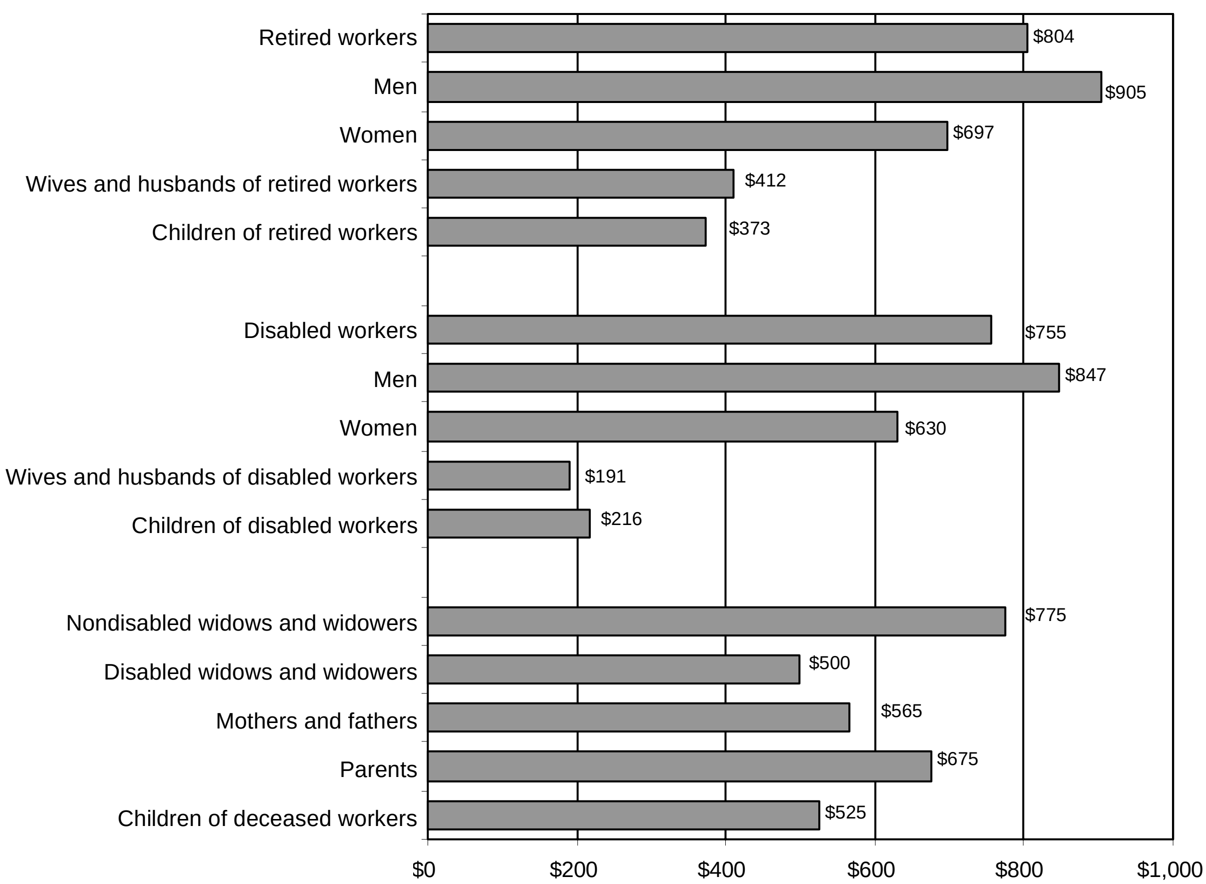
Source: Table 6.A1.

Chart 7: OASDI beneficiaries, by age, December 1999



Source: Table 5.J5.

Chart 8: Average monthly OASDI benefit amount, December 1999



Source: Table 5.A1.