

PUBPOL
2300



PART 2

Social Security



Social Security
Celebrating
7 Decades
of
Service

August 14, 1935-
August 14, 2005

The birth of Social Security

- The Great Depression in the 1930s
- 25% unemployment rate
- Poverty and social collapse of labor markets
- No jobs for the young and healthy
- No pensions for those who wanted to retire
- Solutions proposed for solving the problem?
 - Re-distribute the wealth of the nation
 - National sales tax and pensions for the elderly
- Roosevelt's "New Deal" plan

Legislative History

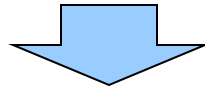


President Franklin
D. Roosevelt
signing Social
Security Act

August 14, 1935

Roosevelt's Goals

- Create a program that provides **financial security** against:
 - Loss of a job: unemployment compensation
 - Poverty-stricken old age: Social Security retirement income
 - Poor health: the poor aged, disabled, and blind



Social Security Act 1935

Legislative History



Social
Security Act
1935

Social Security



- The Original Act contained two financial support programs for older people:
 - **Old Age Survivors Insurance (OASI)**
 - **Aid for the Aged (AFA)**

Social Security Trust Funds

- **1935 Social Security Act**
 - **Old Age & Survivors Insurance**
 - Social Security Trust Fund (OASI)
 - **Aid for the Aged**
 - Welfare program paid from the General Funds of the US Treasury, based on financial need
- **1965 Medicare** (Health care insurance for those receiving Social Security benefits) was added to the program



Financing Social Security

- **1965 Medicare**
 - Separate payroll taxes
 - Separate trust funds
- Hospital Insurance fund **(HI)**
 - **Pays for in-hospital stays and procedures**
- Supplemental Medical Insurance Fund **(SMI)**
 - **Partially pays for out-of-hospital expenses**

Legislative History



- 1972 Supplemental Security Disability Income (**SSI/SSDI**) replaced Aid for the Aged (AFA):
 - Aid for the Aged
 - Aid for the Disabled
 - Aid for the Blind
- A **means-tested** program, based on demonstration of financial need

**Program for
Poor and
Disabled**

Social Security



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Social Security

- About **94 percent** of the population aged 65+ receive Social Security benefits.
- In 2023, over **72** million Americans received approximately **\$1 trillion** in Social Security benefits (Retirement and disability).
- By 2035, the number of older Americans receiving Social Security will increase to **78+ million** as the baby Boomers reach peak retirement

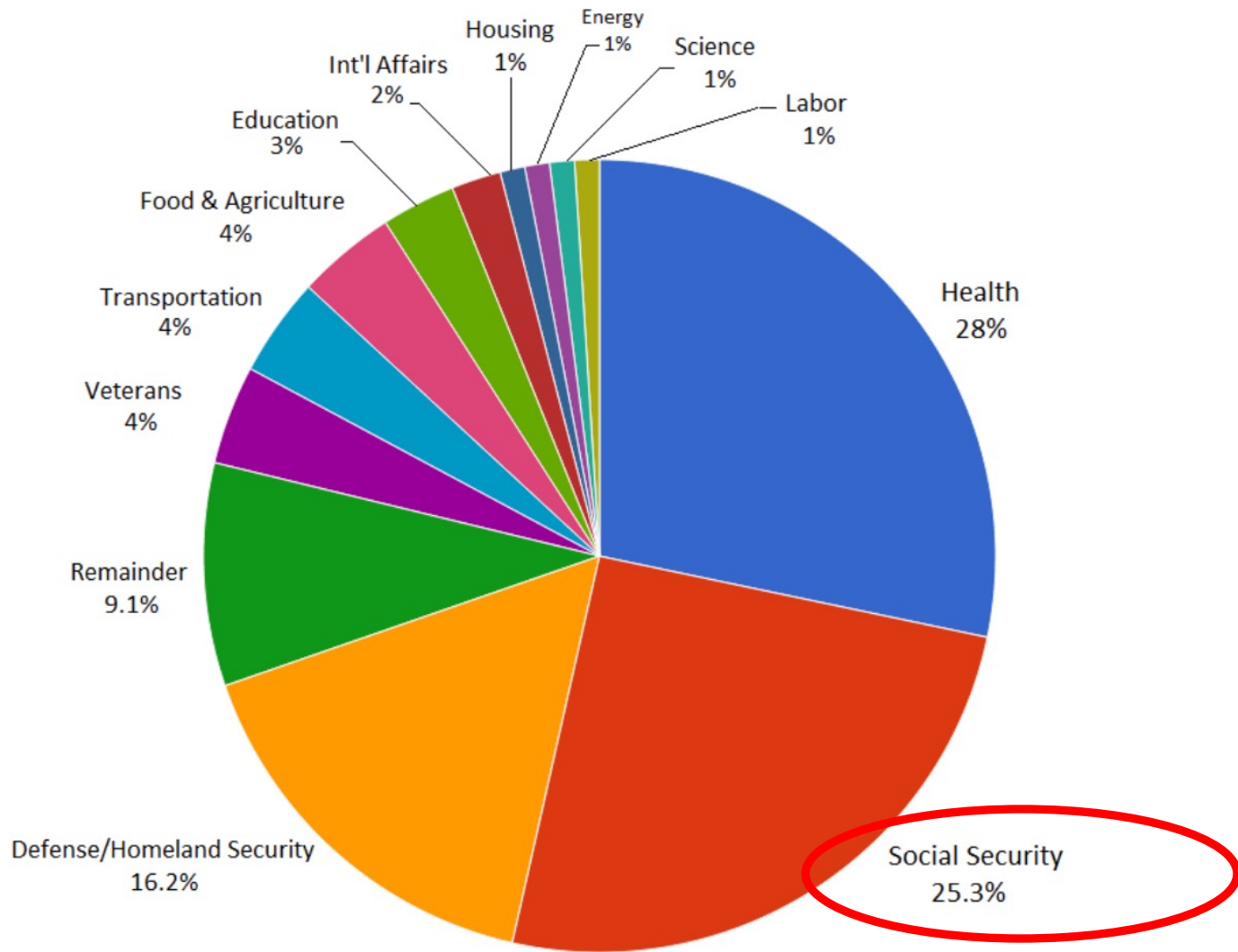
Social Security



- The largest and most comprehensive *income maintenance program* in the US
 - *Federally funded* through special taxes

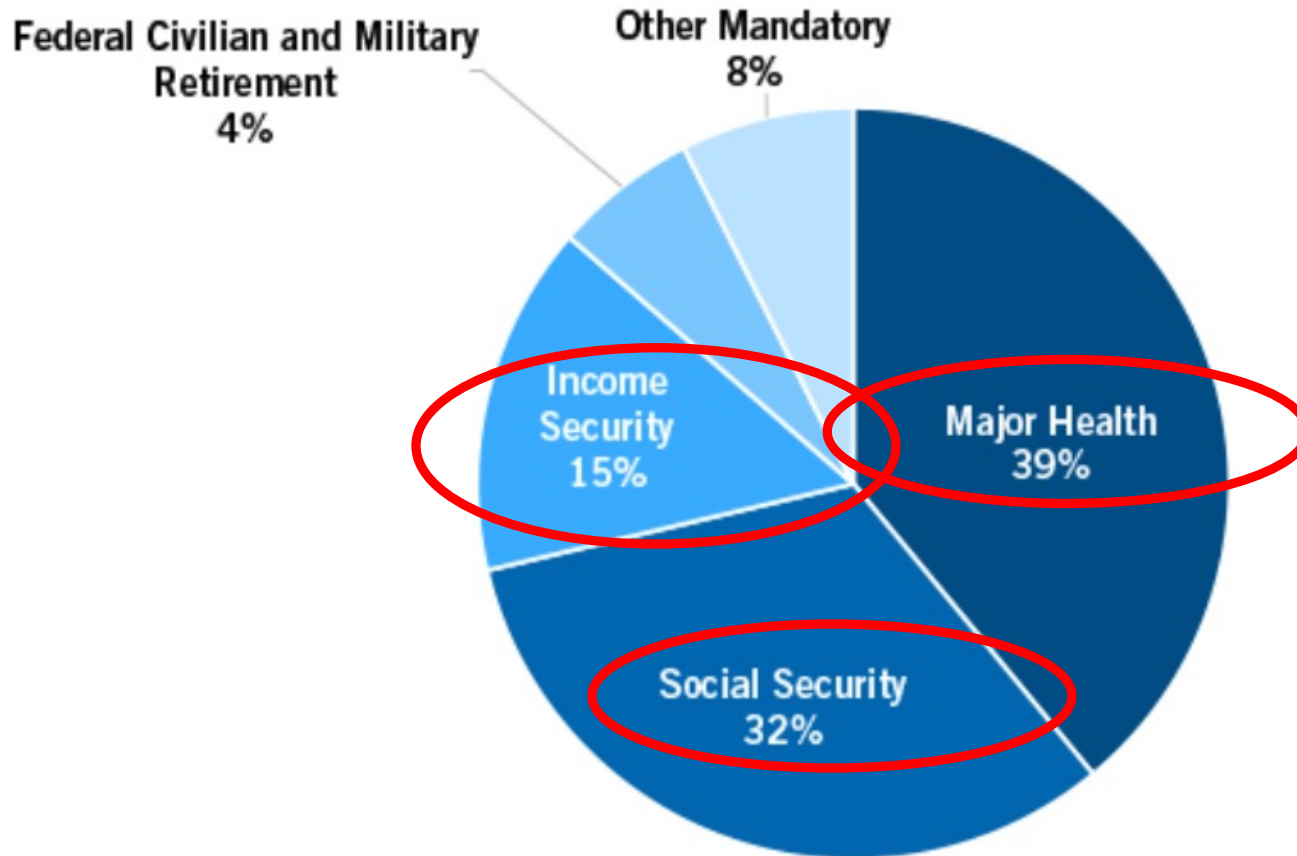
How does the **size of this program** compare to the size of other programs in the full **federal budget** (mandatory and discretionary) in 2023?

Percent of spending, including discretionary and mandatory



Social Security and major health programs account for over 70 percent of mandatory spending

2022 Mandatory Outlays: \$3,751 Billion





Who receives Social Security?

Table 1.

**Number of people receiving Social Security, Supplemental Security Income (SSI), or both, June 2022
(in thousands)**

Type of beneficiary	Total	Social Security only	SSI only	Both Social Security and SSI
All beneficiaries	70,287	62,681	5,074	2,532
Aged 65 or older	52,250	49,949	995	1,306
Disabled, under age 65 ^a	12,304	6,998	4,079	1,226
Other ^b	5,734	5,734

SOURCES: Social Security Administration, Master Beneficiary Record and Supplemental Security Record, 100 percent data.

NOTES: Social Security beneficiaries who are entitled to a primary and a secondary benefit (dual entitlement) are counted only once in this table. SSI counts include recipients of federal SSI, federally administered state supplementation, or both.

Maximum Social Security **Benefit:**

- The maximum benefit depends on **the age you retire**.
- if you retire at full retirement age (65/7) in 2023, your maximum benefit would be **\$3,627**.
- If you retire at age 62 in 2023, your maximum benefit would be **\$2,572**
- If you retire at age 70 in 2023, your maximum benefit would be **\$4,555**.

- Note:
- Every year the Social Security Administration sets an annual **maximum earnings limit** on which taxes must be paid
- You are required to pay Social Security taxes on earnings up to a specified limit each year (**2023 = \$160,200**)

Characteristics of the U.S. Social Security Program



Characteristics of the program

- Social Security a ***risk protection program***:
 - Protects against risk of poverty & longevity
- Social Security is a:
 - Annuity program (***Social insurance program***)
 - Transfer program (***redistributive policy***)
 - Distributes income across your lifetime (***annuity – pay while working, receive benefits when retired***)
 - and among cohorts (***redistribution – from workers to non-workers***)

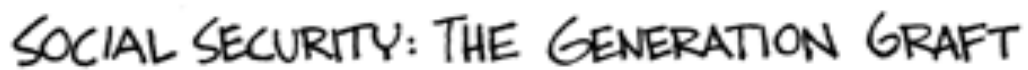
How Does the Program Work?



Program Implementation



- “Pay-as-you-go” (Ponzi) intergenerational program
 - *Each generation contributes to the financial support of the generation older than them*



Program Implementation



- Social Security Trust Fund is maintained by **mandatory** contributions (**TAXES**)
 - FICA - ***Federal Insurance Contributions Act***

Federal Insurance Contributions Act = FICA Taxes (Social Security + Medicare)

	Employee pays	Employer pays
Social Security tax (aka OASDI)	6.2% (only the first \$147,000 in 2022; \$160,200 in 2023).	6.2% (only the first \$147,000 in 2022; \$160,200 in 2023).
Medicare tax	1.45%.	1.45%.
Total	7.65%.	7.65%.
	0.9%	

Individual income of more than \$200,000 (\$250,000 for married couples filing jointly) pay **0.9 percent** more in Medicare taxes on all earned income. The tax rates shown above do not include this 0.9 percent:

15.6% if self employed

For 2023, you will pay Social Security taxes only on income below \$160,200; Medicare paid on ALL income

Age at which SS benefits kick in


Social Security Benefits



- Full benefits at:
 - age ~65 (~67)
 - early retirement (reduced) benefits at age 62 (64)
 - Maximum benefits at age 70

Age to receive full Social Security benefits

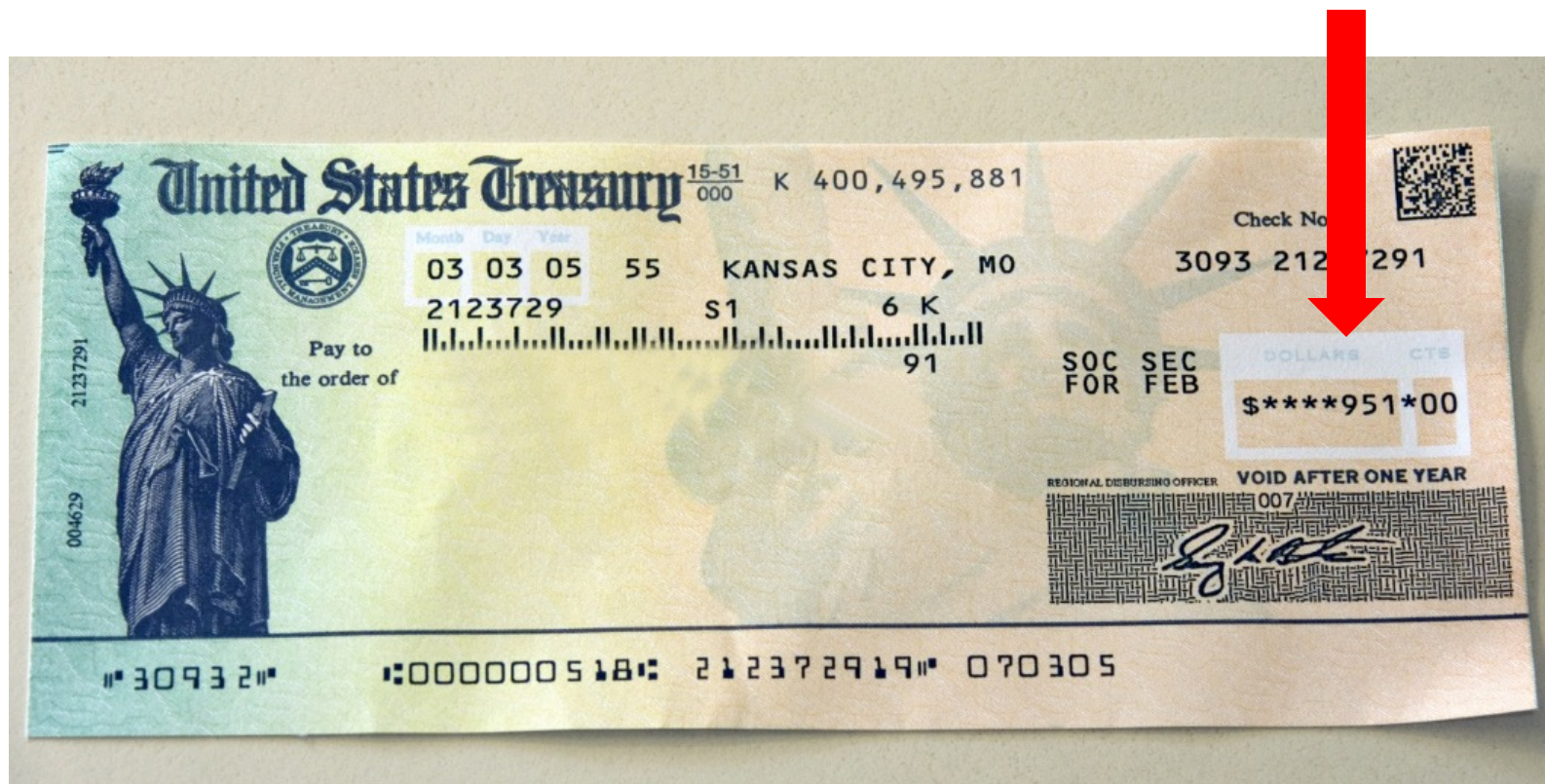
<i>Year of birth</i>	<i>Full retirement age</i>
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67



NOTE: People born on January 1 of any year, refer to the previous year.

Social Security Benefits

- **Primary Insurance Amount (PIA)**



Social Security: Primary Insurance Amount

- **Primary Insurance Amount (PIA)**
 - The PIA is calculated from:
 - **Average Indexed Monthly Earnings (AIME)** which is the average monthly earnings the person made over their working and earning lifetime (35 years).

Future Value Calculations

- **What does “Indexed” mean?**
 - Your earnings over the past 35 years are “future valued” in each year, added up (they are all “apples” now and can be added together) and then averaged.

Here is how it is calculated:

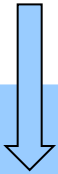
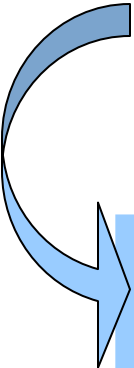
Year	A. Maximum earnings	B. Actual earnings	C. Index factor	D. Indexed earnings	Year	A. Maximum earnings	B. Actual earnings	C. Index factor	D. Indexed earnings
1956	\$4,200		13.62		These are now "present value" dollars and can be added together				
1957	\$4,200		13.21		1987	\$43,800		2.61	
1958	\$4,200		13.09		1988	\$45,000		2.49	
1959	\$4,800		12.47		1989	\$48,000		2.39	
1960	\$4,800		12.00		1990	\$51,300		2.29	
1961	\$4,800		11.77		1991	\$53,400		2.21	
1962	\$4,800		11.21		1992	\$55,500		2.10	
1963	\$4,800		10.94		1993	\$57,600		2.08	
1964	\$4,800		10.51		1994	\$60,600		2.02	
1965	\$4,800		10.32		1995	\$61,200		1.95	
1966	\$6,600		9.74		1996	\$62,700		1.86	
1967	\$6,600		9.23		Inflation factors				
1968	\$7,800		8.63		1998	\$68,400		1.67	
1969	\$7,800		8.16		1999	\$72,600		1.58	
1970	\$7,800		7.78		2000	\$76,200		1.50	
1971	\$7,800		7.40		2001	\$80,400		1.46	
1972	\$9,000				Annual indexed earnings are summed up and divided by the number of working years, then by 12 (months in the year)				
1973	\$10,800								
1974	\$13,200								
1975	\$14,100								
1976	\$15,300								
1977	\$16,500								
1978	\$17,700		4.56		2008	\$102,000		1.16	
1979	\$22,900		4.19		2009	\$106,800		1.18	
1980	\$25,900		3.84		2010	\$106,800		1.15	
1981	\$29,700		3.49		2011	\$106,800		1.12	
1982	\$32,400		3.31		2012	\$110,100		1.09	
1983	\$35,700		3.16		2013	\$113,700		1.07	
1984	\$37,800		2.98		2014	\$117,000		1.03	
1985	\$39,600		2.86		2015	\$118,500		1.00	
					2016	\$118,500		1.00	

Let's use an example for you

Assume the year is **2061**, you have worked for **35 years** starting in **2026**, and you have earned **above the maximum** Social Security earnings cap every year

Assuming you start earning in 2026

Assuming you earn above maximum earnings in each year



Year	Max Income	Index Factor	Indexed annual earnings	Indexed monthly earnings (inc/12)
2026	\$160,000	13.26	\$2,121,600	\$176,800
2027	\$164,800	13.21	\$2,177,008	\$181,417
2028	\$169,744	13.09	\$2,221,949	\$185,162
2029	\$174,836	12.47	\$2,180,209	\$181,684
2030	\$180,081	12.05	\$2,169,981	\$180,832
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2061	\$350,000	1	\$850,000	\$70,833

AIME = Sum of #s in Column 5 divided by 35 years



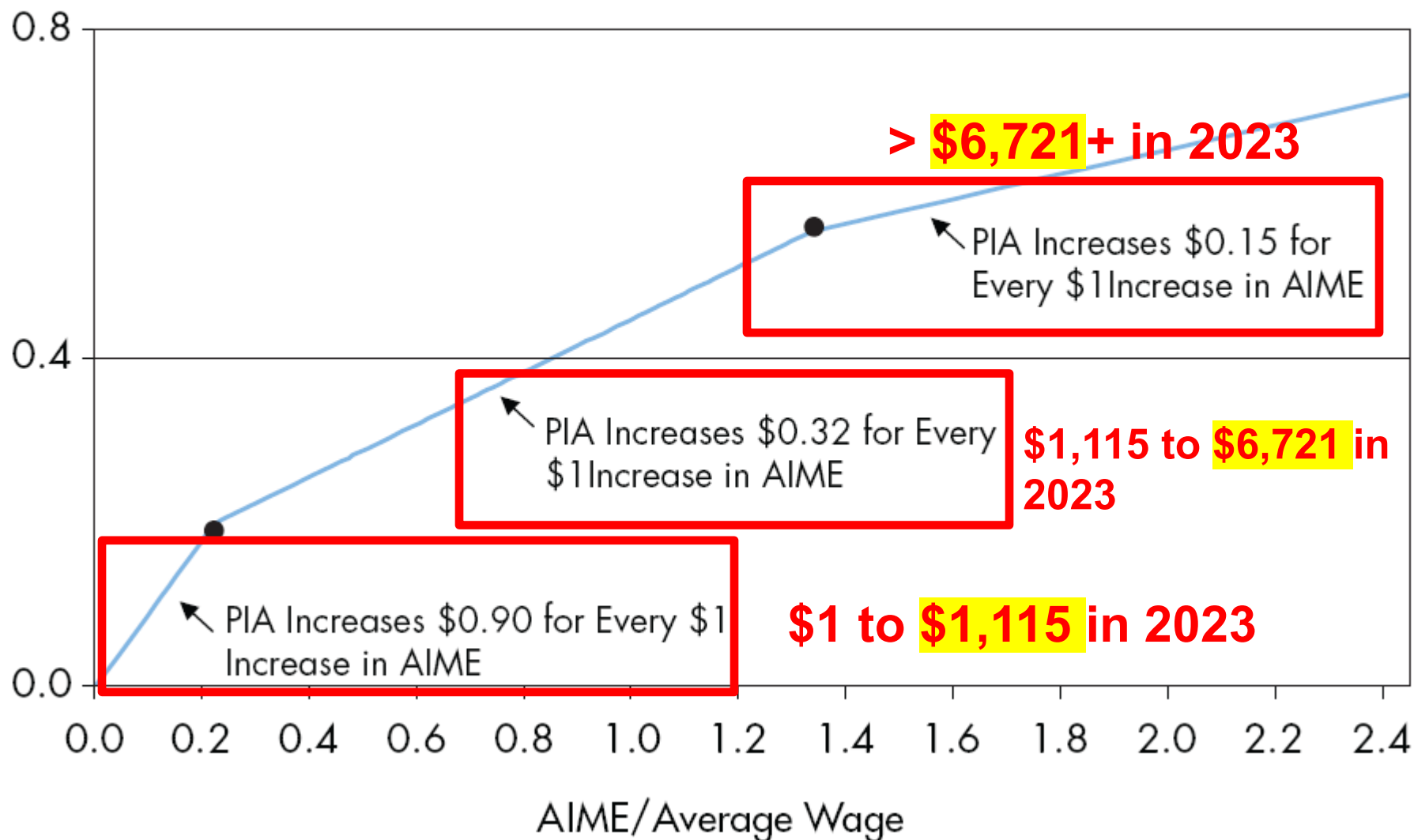
Calculation of PIA?

- **Primary Insurance Amount (PIA)**
 - Using the person's average indexed monthly earnings (**AIME**) you subject the AIME to a formula:
- Under current law, the **PIA factors** are
 - **90 percent** below the first bend point
 - **32 percent** between the two bend points
 - **15 percent** above the second bend point

Figure 1: Current-Law Primary Insurance Amount Formula

<https://www.ssa.gov/oact/cola/bendpoints.html>

PIA/Average Wage



Source: Department of the Treasury

Social Security Benefits

- **Primary Insurance Amount (PIA)** Your PIA is indexed to the **Consumer Price Index (CPI)** every year after they are received
 - Value of PIA keeps up with inflation
 - Social Security and Supplemental Security Income (SSI) benefits will increase **8.7 percent** in 2023.