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## **Social Security: Brief Facts and Statistics**

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# Social Security: Brief Facts and Statistics

## **Summary**

This document provides brief facts and statistics about Social Security that are frequently requested by Members of Congress and their staffs. It includes information about Social Security taxes and benefits, the program's impact on recipients' incomes, federal tax receipts, federal spending and the economy, and administrative information.

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# Social Security: Brief Facts and Statistics

This document provides facts and statistics about Social Security that are frequently requested by Members of Congress and their staffs. Its purpose is to provide quick answers to basic questions about the program. It should not be treated as a guide to Social Security. The reader is advised to consult other sources for explanations of how eligibility and benefits are determined and how the program is financed. Among them are the Social Security Administration's (SSA's) website at [<http://www.ssa.gov>] and the Congressional Research Service's (CRS's) product line of reports, issue briefs, and fact sheets on Social Security, accessible through the CRS homepage at [<http://www.crs.gov>] (for congressional office users only). SSA also issues numerous pamphlets on various aspects of the program as well as a lengthy *Handbook on Social Security*. For other sources that provide data and basic descriptive material, see the references listed at the end of this document.

This document is updated periodically.

## Recipient Statistics

The federal Old-Age, Survivors, and Disability Insurance (OASDI) programs collectively make up the system commonly referred to as Social Security. Officially, there are two separate programs, each of which is administered by the Social Security Administration (SSA) and managed by the operations of its own trust fund. The Old-Age and Survivors Insurance (OASI) program and the Disability Insurance (DI) program each disburse benefits to eligible retired or disabled workers and their dependents, who have been covered by payroll contributions.

### Recipients By Trust Fund and Eligibility Status

Benefit payments are disbursed by the relevant trust fund. Retired workers and their eligible dependent family members, as well as the dependent family members of deceased workers, receive benefits from the Old-Age and Survivors Insurance trust fund. Disabled workers and their eligible dependent family members receive benefits from the Disability Insurance trust fund. **Table 1** breaks down recipients by trust fund, by entitlement, and by age.

**Table 1. Recipients, By Selected Indicators**

<b>Recipients (as of December 2003)</b>	<b>47.0 million</b>	<b>100.0%</b>
Old-Age and Survivors Insurance	39.4 million	83.9%
Disability Insurance	7.6 million	16.1%
Entitled on their own work records	35.4 million	75.3%
Entitled as dependents	11.6 million	24.7%
• Widow(er)s & surviving parents	(4.9 million)	(10.4%)
• Wives and husbands	(2.8 million)	(5.9%)
• Young children & adults disabled since childhood	(4.0 million)	(8.4%)
Age 65 or older	33.4 million	71.0%
Under age 65	13.6 million	29.0%

**Source:** Social Security Administration (SSA), Office of the Actuary.

**Note:** Totals may not equal the sums of rounded components.

## Recipients by State and Other Location

Social Security benefits are paid to eligible individuals in all fifty states, the U.S. outlying areas, and foreign countries. **Table 2** illustrates the distribution of recipients in December 2003 by where they live.

**Table 2. Where Recipients Live**

State of Other Location	Number	% of Total
<b>Total</b>	<b>47,038,391</b>	<b>100.0%</b>
Alabama	867,601	1.8%
Alaska	60,860	0.1%
Arizona	863,874	1.8%
Arkansas	543,727	1.2%
California	4,363,657	9.3%
Colorado	557,253	1.2%
Connecticut	582,877	1.2%
Delaware	141,488	0.3%
District of Columbia	72,209	0.2%
Florida	3,330,425	7.1%
Georgia	1,168,095	2.5%
Hawaii	194,019	0.4%
Idaho	211,528	0.4%
Illinois	1,867,671	4.0%
Indiana	1,032,417	2.2%
Iowa	546,065	1.2%
Kansas	443,706	0.9%
Kentucky	768,861	1.6%
Louisiana	731,511	1.6%
Maine	262,533	0.6%
Maryland	751,359	1.6%
Massachusetts	1,061,851	2.3%
Michigan	1,699,384	3.6%
Minnesota	765,228	1.6%
Mississippi	533,375	1.1%
Missouri	1,033,886	2.2%
Montana	163,659	0.3%
Nebraska	287,891	0.6%
Nevada	327,319	0.7%
New Hampshire	211,499	0.4%
New Jersey	1,363,838	2.9%
New Mexico	294,669	0.6%
New York	3,035,697	6.5%
North Carolina	1,436,124	3.1%
North Dakota	114,047	0.2%

State of Other Location	Number	% of Total
Ohio	1,932,026	4.1%
Oklahoma	613,515	1.3%
Oregon	591,461	1.3%
Pennsylvania	2,386,426	5.1%
Rhode Island	192,662	0.4%
South Carolina	735,084	1.6%
South Dakota	137,880	0.3%
Tennessee	1,041,360	2.2%
Texas	2,792,148	5.9%
Utah	256,551	0.5%
Vermont	108,248	0.2%
Virginia	1,093,695	2.3%
Washington	890,466	1.9%
West Virginia	405,444	0.9%
Wisconsin	928,505	2.0%
Wyoming	78,745	0.2%
<i>Outlying Areas:</i>		
American Samoa	5,425	*
Guam	11,245	*
No. Mariana Islands	2,157	*
Puerto Rico	702,675	1.5%
Virgin Islands	15,024	
<i>Foreign Countries</i>	427,446	0.9%

**Source:** Social Security Administration, Office of Policy.

**Note:** Totals may not equal the sums of rounded components.

\* = less than 0.1%



## Tax Facts

The Social Security trust funds are financed by payroll taxes on covered earnings. Being “covered” by Social Security means that a worker is employed in a job or is self-employed and contributes a portion of his or her earnings to Social Security. Workers not covered by Social Security are either covered by a similar eligible contributory system offered by their employers outside of Social Security, do not have high enough earnings for mandatory participation, or have another special exemption. The type of workers exempt from coverage are provided below.

### Workers Exempt From the Tax

- State and local government workers participating in alternative retirement systems (HI tax is mandatory for workers hired since April 1, 1986).
- Election workers earning \$1,200 or less a year (in 2004).
- Career federal employees hired before 1984 who did not choose Social Security coverage (HI tax is mandatory for all federal workers);
- College students working at their academic institutions.
- Ministers who choose not to be covered, and certain religious sects.
- Household workers earning less than \$1,400 a year (in 2004), and those under age 18 for whom household work is not their principal occupation.
- Self-employed workers with annual net earnings below \$400.

### Social Security Taxpayers in 2003

Covered workers contribute to Social Security by paying payroll taxes on their earnings. Wage and salaried workers often have their contributions deducted from each paycheck they receive, while self-employed must report earnings regularly with the Social Security Administration. **Table 3** provides the number of covered workers that contribute to the Social Security system, as of December 2003. The total number of taxpayers is much lower than the sum of the two coverage groups because approximately six million individuals overlap coverage and engage separately in both wage and salaried work as well as in self-employed work.

**Table 3. Social Security Taxpayers**

Taxpayers, by Coverage group	Number
Number of wage and salaried taxpayers	145.1 million
Number of self-employed taxpayers	15.1 million
Total taxpayers*	154.3 million

**Source:** Social Security Administration, Office of Policy.

\* Includes people who are both self-employed and wage or salaried employees.

## Social Security Tax Rates

Covered wage and salaried workers contribute 7.65% of their earnings below the taxable maximum earnings threshold (explained below) to the Social Security system. Employers of covered workers contribute to the system an additional 7.65% of the earnings of each employee. The payroll taxes levied on workers and their employers are called FICA taxes, after the legislation that created them, the Federal Insurance Contribution Act.

Self-employed workers contribute roughly 15.30% of their net earnings to the system. The payroll tax levied on the self-employed are known as SECA taxes, for the Self-Employed Contribution Act. FICA and SECA tax rates are displayed in **Table 4**. On paper, it appears that the self-employed are subject to a tax rate that is double that of a wage and salaried worker, essentially equaling both the employee and employer FICA portions. However, the self-employed receive two breaks that are not offered to wage and salaried workers and their employers.

The first break is that not all of a self-employed worker's earnings are subject to SECA taxes. Only 92.35% of net earnings are subject to SECA taxes (meaning that 7.65% is exempt). The second break is that one-half of the tax payments made in the form of SECA contributions are deductible for income tax purposes.

**Table 4. Social Security Tax Rates**

Type of Employment and Tax	% of Earnings
FICA rate is paid by employee and employer:	7.65% each
SECA rate is paid by self-employed:	15.30%*

**Source:** Social Security Administration website, Electronic Fact Sheet [<http://www.ssa.gov/pubs/10003.html>].

\* = The self-employed now compute the tax using only 92.35% of net earnings, and one-half of the tax so computed is deductible for income tax purposes.

## How the Tax Rates Are Divided

Portions of both the FICA and SECA tax rates are dedicated to fund both Social Security and the Medicare Hospital Insurance (HI) program, also known as Medicare "Part A." Of the 7.65% FICA tax rate paid by both employers and employees, 6.2 percentage points go to OASDI, and the remaining 1.45% of the tax is used to fund HI. Similarly, of the 15.3% SECA rate, 12.4 percentage points is dedicated to OASDI, while 2.9% goes to HI. **Table 5** provides a detail of the break down.

**Table 5. FICA and SECA Tax Rates Fund Both Social Security and Medicare Hospital Insurance**

	FICA rate (employee and employer, each)	SECA rate
Old-age, survivors, and disability insurance (OASDI)	6.20%	12.4%
Hospital insurance (HI)	1.45%	2.9%
Total (OASDI and HI)	7.65%	15.3%

**Source:** Social Security Administration website, Electronic Fact Sheet [<http://www.ssa.gov/pubs/10003.html>].

## How Much Earnings Are Taxable

Covered workers contribute the proper percentage of their earnings by either the FICA or SECA tax. However, not all earnings are subject to FICA and SECA taxes. There is a maximum taxable earnings threshold, which rises each year with overall wage growth. Earnings above the cap are not subject to the OASDI portion of the FICA and SECA taxes. The earnings above the cap, however, *are* subject to the HI-dedicated portion of the FICA and SECA taxes. The wage cap is effective for both the employer and employee OASDI-dedicated portions of the FICA tax. Recent wage cap limits are shown in **Table 6**. The Social Security Administration's Office of Policy estimates that 94.6% of covered workers had earnings below the maximum taxable threshold in 2002, the latest year for which data is available.

**Table 6. Maximum Earnings Taxable by FICA and SECA**

	2003	2004	2005
Maximum taxable for OASDI:*	\$87,000	\$87,900	\$90,000
Maximum taxable for HI:	No limit	No limit	No limit

**Source:** Social Security Administration website, Electronic Fact Sheet [<http://www.ssa.gov/pubs/10003.html>].

\*Adjusted yearly to reflect the growth of average wages.

## Annual OASDI and HI Tax Payments in 2004

Self-employed workers are subject to the payroll tax rate which amounts to the sum of both the employer and employee shares of the FICA tax rate. However, the self-employed benefit from two breaks that reduce their overall tax burden. First, self-employed workers are only required to make 92.35% of their net earnings subject to the SECA tax rate. Wage and salaried employees have the FICA tax rate applied to all (100%) of their earnings.

Second, self-employed workers can deduct one-half of their SECA tax payments from their income taxes. For example, if a hypothetical self-employed person had \$35,057 in net earnings, an amount equivalent to the average wage earner in the economy, they would pay SECA taxes on \$32,375 of those earnings (92.35% of \$30,000). When the 15.3% SECA tax rate is applied to \$32,375, the result is a SECA tax burden of \$4,953. In computing the effect of the income tax deduction, one-half of the \$4,953 tax burden (\$2,477) is used for calculation purposes. Assuming that this hypothetical self-employed worker with \$35,057 in net earnings is in the 15% marginal income tax bracket, a \$2,477 income tax deduction is going to result in a tax savings of an additional \$372 (15% of \$2,477). The net real tax burden in this example would be \$4,582 — instead of \$4,953 without the income tax deduction and \$5,364 (15.3% of \$30,000) without the income tax deduction *and* the exemption from net earnings.

These computations are included in **Table 7** to illustrate the tax burdens of both wage and salary and self-employed workers with various earnings histories.

**Table 7. 2004 Social Security Tax Payments,  
Selected Work Histories**

<i>Earnings level</i>		<i>FICA</i> **	<i>SECA</i> ***
Minimum wage	(\$10,712/year)	\$819	\$1,438
Average	(\$35,057/year)	\$2,682	\$4,582
Maximum	(\$87,900/year)	\$6,724	\$10,557

**Source:** Estimates made by CRS from data in the 2004 trustees' report. The average and maximum earnings levels are linked to real average increases in wages. The minimum wage annual earnings level is obtained by multiplying the federal minimum wage for most workers, \$5.15 per hour, by 2080 hours worked (40 hours worked per week, for 52 calendar year weeks). A maximum earner is someone who earns the maximum wage subject to OASDI taxes (\$87,900 in 2004).

\*\* Employee share only.

\*\*\* Figures are net of federal income tax adjustments. Workers earning the minimum or the average wage are assumed to be in the 10% and 15% marginal tax brackets, respectively. Maximum-wage earners are assumed to be in the 30% marginal tax bracket.

## Historical Level of Taxes

The FICA and SECA tax rates have been increased several times since the beginning of the Social Security program. SECA taxes were not levied until after 1950, when coverage began for the first categories of self-employed workers. The evolution of FICA and SECA tax rates and tax payments are shown in **Table 8** and **Table 9**.

**Table 8. Social Security Tax Rates, Selected Years**

	FICA <sup>a</sup>	SECA	Maximum taxable earnings <sup>b</sup>
1940	1.00%	—	\$3,000
1950	1.50	—	3,000
1960	3.00	4.50%	4,800
1970	4.80	6.90	7,800
1980	6.13	8.10	25,900
1990	7.65	15.30	51,300
2000	7.65	15.30	76,200 (OASDI) (No limit HI)
2004	7.65	15.30	87,900 (OASDI) (No limit HI)

**Source:** Social Security Administration, Office of the Actuary.

**Table 9. Amount of FICA or SECA Tax Paid, Selected Wage Histories and Years**

	<i>Average earner</i>		<i>Maximum earner</i>	
	FICA <sup>a</sup>	SECA	FICA <sup>a</sup>	SECA
1940	\$ 12	—	\$ 30	—
1950	38	—	45	—
1960	120	\$ 180	144	\$ 216
1970	297	427	374	538
1980	767	1,014	1,588	2,098
1990	1,609	2,748 <sup>c</sup>	3,924	6,234 <sup>c</sup>
2004	2,682	4,539 <sup>c</sup>	6,724	10,557 <sup>c</sup>

**Source:** Estimates made by Congressional Research Service (CRS) from data in the 2004 OASDI trustees' report.

<sup>a</sup> Employee share only for the FICA column. An average earner is someone who earned average wages throughout his or her working years (average wages are estimated for 2003). A maximum earner is someone who always earned the maximum wage subject to OASDI taxes (\$87,900 in 2004).

<sup>b</sup> Maximum taxable earnings were the same for OASDI and HI through 1990.

<sup>c</sup> Figures are net of federal income tax adjustments. In 1990, the average and maximum wage workers were assumed to be in the 15% and 28% marginal tax brackets, respectively. In 2004, they are assumed to be in the 15% and 30% marginal tax brackets, respectively.

## Social Security Taxpayers Per Recipient

Much of the expected long-term financial strain on the Social Security system's ability to disburse benefits to future benefits lies in demographics. In the early years of the system, there were more than ten covered workers contributing with payroll taxes for every one person drawing benefits. Presently, there is barely more than three covered workers for every beneficiary, and the Social Security trustees project

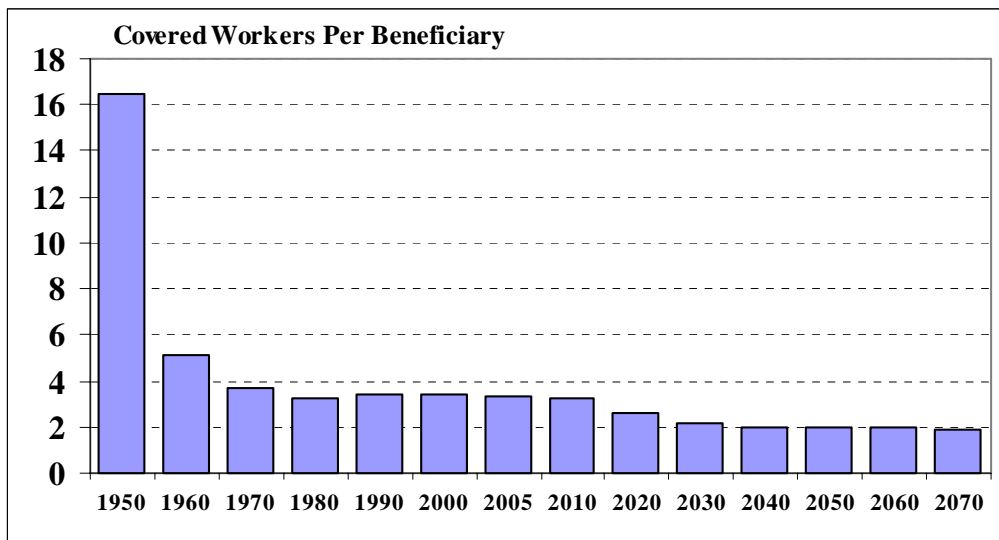
that this ratio will eventually fall to less than 2 to 1. **Table 10** and **Figure 1** illustrate how this ratio has changed drastically over time.

**Table 10. Ratio of Covered Workers to Beneficiaries**

	Covered workers (in thousands)	Beneficiaries (in thousands)	Ratio of covered workers per beneficiary
1950	48,280	2,930	16.5 to 1
1960	72,530	14,262	5.1 to 1
1970	93,090	25,186	3.7 to 1
1980	113,649	35,118	3.2 to 1
1990	133,672	39,470	3.4 to 1
2000	153,691	45,166	3.4 to 1
2005 (estimated)	158,999	47,914	3.3 to 1
2010 (projected)	167,746	52,484	3.2 to 1
2020 (projected)	177,070	67,987	2.6 to 1
2030 (projected)	181,863	83,809	2.2 to 1
2040 (projected)	187,459	91,526	2.0 to 1
2050 (projected)	192,929	95,720	2.0 to 1
2060 (projected)	197,529	100,985	2.0 to 1
2070 (projected)	201,976	106,404	1.9 to 1

Source: 2004 OASDI trustees report.

**Figure 1. Ratio of Covered Workers to Beneficiaries**



Source: Chart prepared by Congressional Research Service (CRS) from data in the 2004 OASDI trustees report.

## Benefit Facts

### Benefit Formula

The Social Security benefit computation formula is progressive, as it uses “bend points” to return higher percentages of a lower-wage worker’s lifetime indexed earnings, computed on a monthly basis. For 2004, the bend points used in the benefit formula are \$612 and \$3,689, respectively, and are increased annually based on average wage growth.

If all or most of a worker’s indexed earnings fall under the first or second bend point, they will see a higher replacement rate of average monthly earnings as compared to monthly Social Security benefits. The more earnings a worker may have beyond the second bend point, the lower the net return that worker will see in augmenting their Social Security benefit.

#### For basic benefit (or *primary insurance amount*):\*

- 90% of first \$612 of AIME,\*\* plus
- 32% of AIME over \$612 through \$3,689, plus
- 15% of AIME over \$3,689

#### For maximum family benefit:

- 150% of first \$782 of basic benefit, plus
- 272% of basic benefit over \$782 through \$1,118, plus
- 134% of basic benefit over \$1,129 through \$1,472, plus
- 175% of basic benefit over \$1,472

\* Without adjustment for early or delayed retirement or other factors.

\*\* AIME = average indexed monthly earnings

### Quarters of Coverage (QCs) Required for Eligibility

To qualify for retired or disabled worker benefits, an individual must accumulate the required number of quarters of coverage. A worker must have covered earnings equal to or exceeding the prescribed amount (\$900 in 2004) in a calendar quarter to earn a quarter of coverage. While a minimum of 40 covered quarters must be achieved to be “vested” in the system to receive retirement benefits in most cases, disabled worker benefits may be granted with as few as six quarters of coverage, if the onset of the disabling condition or event occurred while the worker was at young enough age. The number of quarters of coverage needed under different circumstances is illustrated in **Table 11**.

**Table 11. Quarters of Coverage, Selected Facts**

	2004	2005
Annual covered earnings needed to obtain one QC*	\$900	\$920
Maximum QCs that can be credited in any year	4	4
QCs needed for most retirement or survivor benefits**	40	40
QCs needed for disability benefits** (with 20 earned during 40-quarter period before disability began)	40	40
Minimum QCs needed for survivor or disability benefits	6	6

**Source:** Social Security Administration, Office of Policy.

\*Adjusted yearly to reflect the growth of average wages.

\*\*Fewer QCs may be required in some survivor and disability cases.

## Minimum Ages To Receive Benefits

In addition to covered earnings and length of coverage employment, receipt of many OASDI benefits is conditional with age. **Table 12** shows the earliest eligibility ages (EEA) and maximum eligibility age that qualify or disqualify a worker or dependent for benefit payments. Retired worker, spousal, and widow(er) benefits all have a “full” or “normal” eligibility age (FRA or NRA), in which benefits are not penalized for early receipt. In cases where an eligible claimant files for benefits between the earliest eligibility age and the normal retirement age, the amount of the monthly benefit is subject to an actuarial reduction, with the reduction being lower the closer the claimant is to reaching the normal eligibility age.

**Table 12. Age Restrictions for OASDI Benefits**

Type of Benefit Claimant	Age Restriction
For retired worker (earliest eligibility age)	62
For widow/widower	60
For disabled widow/widower	50
For mother/father caring for child under age 16	any age
For child	under age 18 (or 19, if in high school)
For disabled worker	any age up to FRA*

**Source:** Social Security Administration, Office of the Actuary.

\*The “full retirement age” or age at which benefits are not reduced for retiring “early.” (see following table).



## Ages At Which Persons Receive Full Retirement Benefits

For purposes of qualifying for spousal or widow(er)'s benefits, the full or normal retirement age (known as both the FRA or NRA), has little to do with retirement, as claims to these benefits is not conditional on a covered work history, or more specifically, the ceasing of work. In fact, the FRA is misleading to workers, too, because leaving the workforce is not a condition for retirement benefit eligibility. Rather, the FRA is simply a qualifying age threshold.

For many years, the Social Security full or normal retirement age remained constant at 65 years. In 1983, however, a comprehensive Social Security reform package that included many programmatic changes altered the law to gradually phase in an increase of the normal retirement age. Starting with those born in 1938, the full retirement age will be higher than age 65, depending on your year of birth. The highest the full retirement age is scheduled to hit is age 67, affecting those born in 1960 and later. **Table 13** provides the full schedule of current law increases scheduled to take effect.

**Table 13. Full Retirement Age Schedule**

<b>For retired worker and spouse</b>	<b>Full Retirement Age</b>
born before 1938	65
born 1938	65 and 2 months
born 1939	65 and 4 months
born 1940	65 and 6 months
born 1941	65 and 8 months
born 1942	65 and 10 months
born 1943-1954	66
born 1955	66 and 2 months
born 1956	66 and 4 months
born 1957	66 and 6 months
born 1958	66 and 8 months
born 1959	66 and 10 months
born 1960 and later	67

**Source:** Social Security Administration, Office of the Actuary.

## Average Monthly Benefits

OASDI benefits are paid to retired and disabled workers, as well as to their eligible dependent family members. The benefit formula illustrated above is used to compute primary insurance amounts (PIAs) for eligible retired or disabled workers, but benefit amounts paid to dependents are determined by applying the relevant percentage amount of the worker they are dependent upon. Typically, eligible spouses and children of workers can receive a monthly amount up to 50% of the worker's primary insurance amount. Surviving spouses may be eligible for a monthly amount up to 100% of the worker's PIA. Factors that may reduce these

maximum percentage amounts include early eligibility, a dependent's own work record and subsequent benefit eligibility based on that work record, remarriage, and other factors. **Table 14** provides average monthly benefit amounts for selected beneficiary categories before and after the application of the 2005 annual cost-of-living (COLA) automatic benefit increase (more on COLAs below).

**Table 14. Average Monthly Benefits**

	Monthly payment for January 2005	
	Before COLA	After COLA*
For all retired workers	\$930	\$955
For all disabled workers	871	895
For retired worker and spouse	1,532	1,574
For aged widow(er) alone	896	920
For widowed mother/father and 2 children	1,927	1,979
For disabled worker, spouse, and child(ren)	1,458	1,497

\*Includes January 2005 cost-of-living adjustment (COLA) of 2.7%.

**Source:** Social Security Administration, Office of the Actuary.

## Social Security Benefit Increases

Social Security benefits are inflation-protected by the application of an automatic annual cost-of-living adjustment (COLA). The percentage applied to all beneficiaries is compiled from economic indicators that track inflation of prices on goods and services over the previous year. The COLA is applied so beneficiaries do not lose their purchasing power over time as they would if benefits were held constant while prices of goods and services generally increased.

Prior to 1975, COLAs were applied sporadically to increase benefit levels to keep pace with inflation. Starting in 1975, COLAs have been applied annually, with the exception being when their effective date was switched from July to January, and there was no COLA applied in the months between July 1982 and January 1984. **Table 15** and **Figure 2** illustrate the full history of benefit level increases, while **Figure 3**, for a different perspective, focuses on recent COLAs.

**Table 15. Historical Cost-of-Living Adjustments**

Year of Increase	Percent of Increase
January 2005	2.7%
January 2004	2.1%
January 2003	1.4%
January 2002	2.6%
January 2001	3.5%
January 2000	2.5%*
January 1999	1.3%
January 1998	2.1%
January 1997	2.9%
January 1996	2.6%
January 1995	2.8%
January 1994	2.6%
January 1993	3.0%
January 1992	3.7%
January 1991	5.4%
January 1990	4.7%
January 1989	4.0%
January 1988	4.2%
January 1987	1.3%
January 1986	3.1%
January 1985	3.5%
January 1984	3.5%
July 1982	7.4%
July 1981	11.2%
July 1980	14.3%
July 1979	9.9%
July 1978	6.5%
July 1977	5.9%
July 1976	6.4%
July 1975**	8.0%
April-July 1974***	11.0%
October 1972	20.0%
February 1971	10.0%
February 1970	15.0%
March 1968	13.0%
February 1965	7.0%
February 1959	7.0%
October 1954	13.0%
October 1952	12.5%
October 1950	77.0%

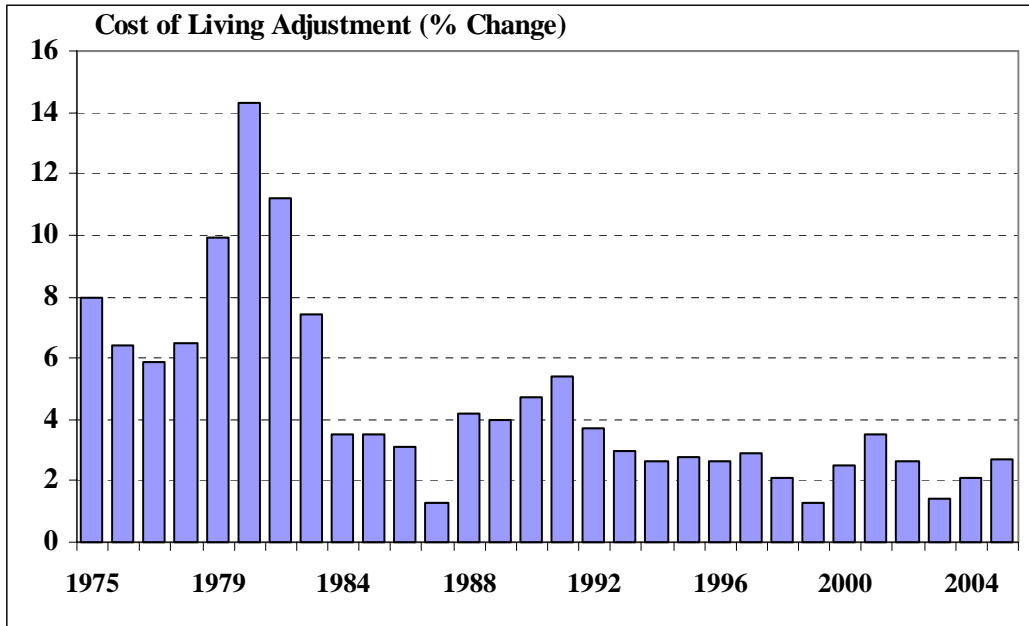
**Source:** Social Security Administration, Office of the Actuary.

\* As originally computed, the COLA payable in January 2000 was 2.4%. Later, it was corrected to 2.5% under P.L. 106-554.

\*\* Automatic cost-of-living adjustments (COLAs) began.

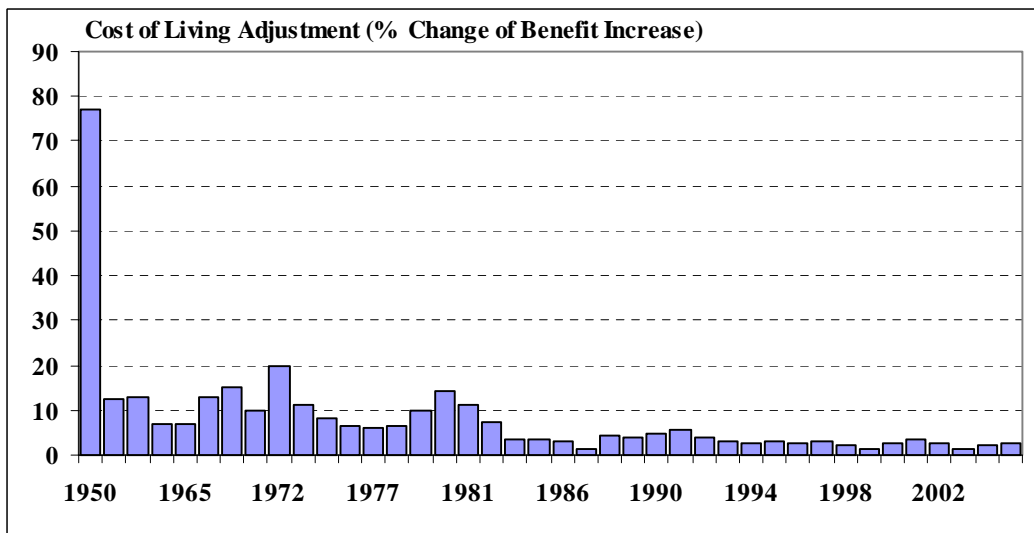
\*\*\* Provided in two steps.

**Figure 2. Cost-of-Living Adjustments Since 1975**



**Source:** Chart prepared by the Congressional Research Service (CRS) from data obtained from Social Security Administration, Office of the Actuary.

**Figure 3. Historical Cost-of-Living Adjustments**



**Source:** Chart prepared by the Congressional Research Service (CRS) from data obtained from Social Security Administration, Office of the Actuary.

## Initial Monthly Benefits for Workers Retiring in 2004

**Table 16** shows what workers with different earnings histories would receive in monthly benefits when retiring in 2004. The disparity in benefit amounts in the two columns is affected by the fact that a worker born in 1939 and turning 65 during the 2004 must wait until four months past his/her month of birth before receiving unreduced benefits at the full retirement age. See **Table 13** for the schedule of full retirement ages.

**Table 16. New Benefit Awards to Retired Workers in 2004**

	At age 65	At the normal retirement age
Low-wage earner	\$ 719	\$ 734
Average-wage earner	1,184	1,238
Maximum-wage earner	1,786	1,824

**Source:** 2004 OASDI trustees' report.

**Note:** A low-wage earner is someone who always earned approximately 45% of the national average wage. An average-wage earner is someone who always earned the average wage. A maximum-wage earner is someone who always earned the maximum amount subject to the Social Security tax.

## New Benefit Awards as Percent of Final Year's Earnings

*(new retiree age 65 in 2004; figures based on assumptions of 2004 trustees' report)*

The progressive nature of the benefit computation formula, explained above, provides lower earning workers with a higher replacement rate of benefits as compared to earnings. The expected replacement rates of new retirees in 2004, with different earnings histories and benefit election at age 65, are shown in **Table 17**.

**Table 17. Initial Retirement Benefits as a Percent of Earnings**

	Percent of Benefits to
Low-wage earner	57%
Average-wage earner	42%
Maximum-wage earner	30%

**Source:** 2004 OASDI trustees' report

**Note:** A low-wage earner is someone who always earned approximately 45% of the national average wage. An average-wage earner is someone who always earned the average wage. A maximum-wage earner is someone who always earned the maximum amount subject to the Social Security tax.

## Benefit Reductions and Offsets

While election for retirement benefits is not conditional on leaving the work force, earnings from work can reduce monthly benefits that are received before the full retirement age. In years preceding the year in which one will reach the full retirement age, benefits are reduced \$1 for every \$2 of earnings over the base earnings test annual exemption amount (\$11,640 in 2004). In the calendar year in which one will reach the full retirement age, benefits are reduced \$1 for every \$3 of earnings over a much higher second earnings test exemption amount (\$31,080 in 2004). After reaching the full retirement age, beneficiaries are not subject to any benefit reductions due to earnings. **Table 18** provides the thresholds for the earnings test, as well as other basic benefit reductions or offsets.

**Table 18. Earnings Test and Other Benefit Reductions**

<b>Earnings test (reduction in benefits on account of earnings from work)</b>	<i>2004 exempt amounts</i>	<i>2005 exempt amounts</i>	<i>Reduction rate for earnings above exempt amounts</i>
Before year in which worker reaches full retirement age	\$11,640	\$12,000	50.0%
For months before birthday in year in which worker attains full retirement age	\$31,080	\$31,800	33.3%
Month in which worker reaches full retirement age and later	all earnings	all earnings	none

**Spousal dual entitlement limitation:** \$1 reduction in spousal benefits for each \$1 of benefits earned as a worker.

**Government pension offset:** \$0.66<sup>23</sup> reduction in spousal benefits for each \$1 of pension received from government employment not covered by Social Security.

**Windfall reduction:** 40% factor is used as first step of benefit formula (instead of 90%), if worker receives a pension from government employment not covered by Social Security and has less than 21 years of substantial Social Security coverage (factor is larger if worker has 21 or more years of substantial coverage). Reduction cannot exceed 50% of the government pension.

**Source:** Social Security Administration, Office of Policy.

## Maximum Monthly Earnings From Work Permitted for Disability Benefits

The primary indicator in determining one's eligibility to receive Social Security disability benefits is one's ability to partake in gainful employment. There are two earnings thresholds that are applied to determine if a disability beneficiary or claimant is gainfully employed or has the ability to be gainfully employed - they are known as the monthly "substantial gainful activity" (SGA) levels.

In 2004, those beneficiaries whose disabling condition is blindness, the level of SGA before loss of eligibility is \$1,350 per month. For all other disabled beneficiaries, the monthly SGA amount is \$810. These amounts are provided in **Table 19**.

**Table 19. Substantial Gainful Activity Levels**

	2004	2005
Non-blind disabled	\$810	\$830
Blind disabled	1,350	1,380

**Source:** Social Security Administration, Office of the Actuary.

\*Adjusted yearly to reflect the growth of average wages.

## How Long It Takes To Get Your Taxes Back

Similar to the fact that lower-wage workers receive a higher replacement rate of benefits to earnings than higher paid workers, it also takes less time for lower-wage workers to recoup the value of worker payroll tax contributions in monthly benefit payments. **Table 20** provides expected payback times of workers with varying wage histories.

Since spouses with no earnings histories are eligible for monthly benefits when they meet certain factors such as age requirements, worker and spouse receiving benefits simultaneously significantly reduces the expected time of recoupment of the workers contributions.

**Table 20. Expected Payback Times (in years)\*, Selected Earnings Histories**

	Employee share alone		Employee/employer shares combined	
	Worker	Worker and spouse	Worker	Worker and spouse
Low-wage earner	5.4	3.5	12.0	7.5
Average-wage earner	7.5	4.8	17.4	10.5
Maximum-wage earner	10.4	6.5	25.7	14.8

**Source:** Estimates made by CRS from data obtained in the 2003 OASDI trustees report.

\* Time it takes to recover retirement portion of the Social Security payroll tax with interest. Assumes worker retired in January 2003 at age 65 after having worked steadily since age 21 (age 22 for maximum-wage earner). A low-wage earner is someone who always earned approximately 45% of the national average wage. A maximum-wage earner is someone who always earned the maximum amount subject to the Social Security tax. Assumes the worker's spouse is also age 65. The "retirement portion" of the tax is approximate since the law does not actually isolate the "old age" portion. Medicare benefits and taxes are excluded from the figures. Interest assumed to be equal to rates that accrue on government securities with four-year or longer maturities. (All figures based on intermediate assumptions of the 2003 trustees' report.)

## Social Security Benefits May Be Partially Taxable

**Table 21** and **Table 22** provide examples of how the combination of Social Security benefits and other income can subject different proportions of the Social Security benefits to income taxes.

**Up to 50% of benefits** are subject to federal income taxes if adjusted gross income *plus* tax-free interest *plus* one-half of Social Security benefits is:

- Over \$25,000, but not more than \$34,000 for a single person
- Over \$32,000, but not more than \$44,000 for a married couple filing jointly



**Table 21. A Lower Portion of Taxable Benefits**

<b>Example #1:</b>	
Single retiree's adjusted gross income	\$23,000
One-half of retiree's Social Security benefits	+4,000
Interest from tax-free municipals	+1,000
Total	\$28,000
Less: exempt amount	-25,000
Excess over \$25,000	\$ 3,000
Amount of taxable Social Security benefits ( <i>One-half of excess or one-half of benefits, whichever is lower</i> )	\$1,500

**Source:** Social Security Administration, Office of Policy, *2003 Annual Statistical Supplement*.

**Up to 85% of benefits** are subject to federal income taxes if adjusted gross income *plus* tax-free interest *plus* one-half of Social Security benefits is:

- Over \$34,000 for a single person
- Over \$44,000 for a married couple filing jointly

**Table 22. A Higher Portion of Taxable Benefits**

<b>Example #2:</b>	
Single retiree's adjusted gross income	\$32,000
One-half of retiree's Social Security benefits	+5,000
Total	37,000
Less: exempt amount	-25,000
Excess	12,000
Taxable benefits based on income between \$25,000 and \$34,000 ( <i>lower of 50% of excess, 50% of benefits, or \$4,500</i> )	\$4,500
Taxable benefits based on income above \$34,000 [ $(\$37,000 - \$34,000) \times 85\%$ ]	\$2,550
Total benefits taxable ( <i>taxable portions as calculated above, or 85% of benefits, if lower</i> )	\$7,050

**Source:** Social Security Administration, Office of Policy, *2003 Annual Statistical Supplement*.

## Economic Facts

### Income of Social Security Recipients

Many Social Security beneficiaries rely on benefit payments to make up a significant portion of their income. The incomes of many lower income beneficiary families is largely dependent on Social Security payments, and for 40% of single beneficiaries over age 65, Social Security payments make up 90% or more of the individual's income.

**Table 23** shows distributions of beneficiaries and aggregate Social Security benefit payments by income band. The lowest income band listed contains the highest number of beneficiary families, yet receives only the third highest proportion of benefit payments.

**Table 24** as well as **Figure 4** and **Figure 5** illustrate the magnitude to which recipients rely on their monthly benefit payments.

**Table 23. Distribution of Beneficiaries and Benefits,  
By Income Band**

Annual level of individual or couple income*	% of recipients in income band	% of aggregate Social Security benefits paid to recipients in income band
Less than \$10,000	18.8%	12.6%
\$10,000-15,000	12.8%	12.5%
\$15,000-20,000	10.8%	10.8%
\$20,000-25,000	8.6%	9.3%
\$25,000-30,000	7.5%	7.8%
\$30,000-40,000	12.0%	12.8%
\$40,000-50,000	9.4%	9.9%
\$50,000-100,000	14.6%	17.3%
Over \$100,000	5.4%	6.9%
All	100.0%	100.0%

**Source:** Congressional Budget Office (House Ways and Means Committee 2000 Greenbook).

**Note:** Distribution is estimated for Calendar Year 2000.

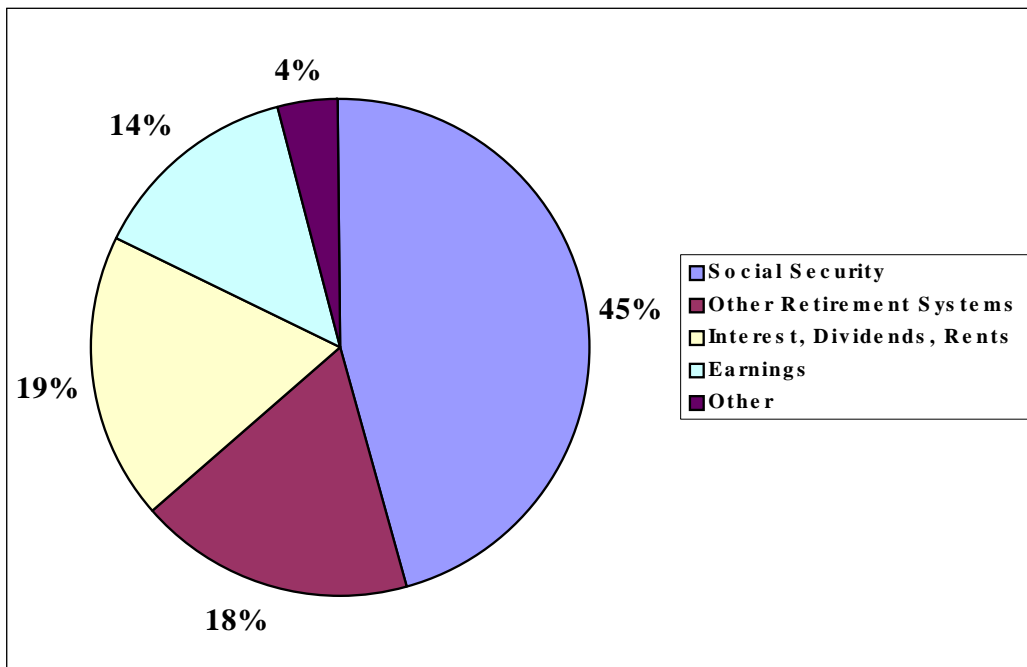
\*Includes all cash income and capital gains.

**Table 24. Aged Income Sources and Poverty Status**

<b>Income of the population age 65 and older in 2000 derived from:</b>	<b>Single</b>	<b>Married</b>
Social Security	46%	34%
Other retirement systems	18%	18%
Interest, dividends, rents	19%	17%
Earnings	14%	29%
Other	4%	2%
<i>Total</i>	<i>100%</i>	<i>100%</i>
<b>Percent of population age 65 and older in 2000:</b>		
With incomes below poverty line	17%	5%
With no income from Social Security	10%	10%
With under 50% of income from Social Security	29%	47%
With 50% or more of income from Social Security	71%	53%
With 90% or more of income from Social Security	40%	20%
With 100% of income from Social Security	26%	11%

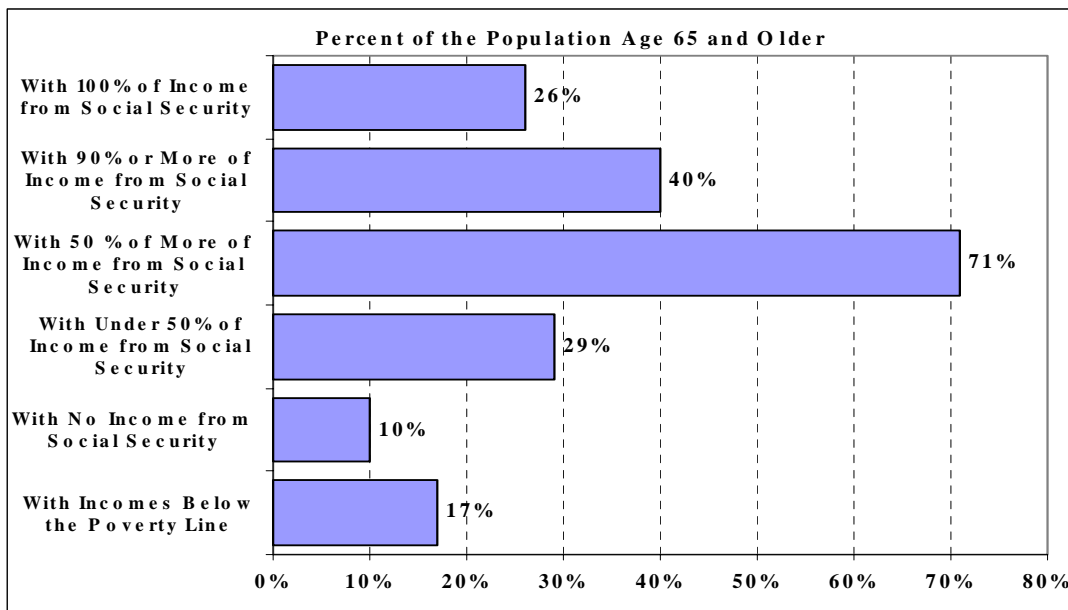
**Source:** Social Security Administration, Office of Policy. Totals may not equal sums of rounded components.

**Figure 4. Proportion of Income of Single Beneficiaries Aged 65 and Older**



**Source:** Chart prepared by Congressional Research Service (CRS) from data obtained from SSA, Office of Policy.

**Figure 5. Reliance of the Age 65+ on Social Security**



**Source:** Chart prepared by Congressional Research Service (CRS) from data obtained from Social Security Administration, Office of Policy.

## Social Security's and Medicare's Costs as Percent of Federal Budget, FY2004

Social Security and Medicare make up a significant portion of federal spending. **Table 25** shows that the two programs combined make up over one-fourth of federal outlays.

**Table 25. The Role of Social Security and Medicare in the Federal Budget, FY2004**

	<i>Estimated share of all federal outlays</i>
Social Security	21.4%
Medicare	7.3%
Combined	28.7%

**Source:** Office of Management and Budget (OMB), FY2006 Budget.

## Social Security and Medicare Spending as Percent of Gross Domestic Product (GDP)

As a proportion of the overall economy is as measured by gross domestic product (GDP), Social Security and Medicare combined spending will increase by 54% from 2004 to 2030. As **Table 26** shows, in 2004 Social Security and Medicare spending make up 5.83% of GDP. In 2030, it is projected that the two programs will account for 8.95% of GDP.

**Table 26. Social Security and Medicare Spending as a Percent of GDP**

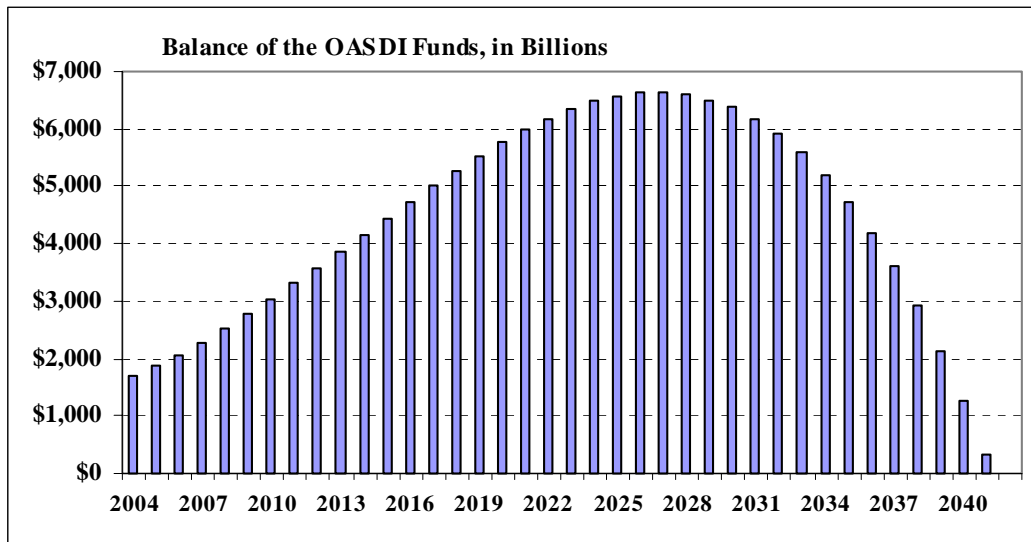
	2004	2030
Social Security	4.33%	6.31%
Medicare	1.50%	2.64%
Social Security and Medicare, combined	5.83%	8.95%

**Source:** 2004 OASDI trustees' report.

## Financial Status of Social Security Trust Funds

The Social Security trust funds currently bring in much more revenue than what is needed for benefit obligations and have accumulated large balances. However, in the near future payroll tax revenue will no longer be sufficient for expected spending, and the trust funds are projected to be no longer solvent by 2042. **Table 27** and **Figure 6** illustrate the magnitude of the projected revenue shortfall and how quickly trust fund balances will erode.

**Figure 6. Balance of the Social Security Trust Funds**



**Source:** Chart prepared by Congressional Research Service (CRS) from data obtained from 2004 OASDI trustees' report.

**Table 27. Various Performance Measures of the Trust Funds**

<i>CY</i>	<i>Income</i>	<i>Outgo</i>	<i>Balance of trust funds (end of year)</i>
(intermediate forecast, \$s in billions)			
2005	\$701	\$518	\$1,867
2010	930	670	3,030
2015	1,215	927	4,442
2020	1,539	1,299	5,776
2025	1,876	1,782	6,575
2030	2,223	2,364	6,370
2035	2,572	3,032	4,736
2040	2,919	3,778	1,280
<i>Estimated peak of trust funds' balances:</i>			\$6.6 trillion in 2027
<i>Estimated year of insolvency (intermediate forecast):</i>			
Old-Age and Survivors Insurance Trust Fund			2044
Disability Insurance Trust Fund			2029
Combined			2042

**Source:** 2004 OASDI trustees' report.

## Administrative Information

### Offices, Employees, and Administrative Costs

The Social Security Administration has an extensive nationwide network of local field offices, regional offices, and headquarters for policy and research. SSA has a large customer service network, and of all federal agencies, its 800-telephone line and internet website are among the most heavily used.

**Table 28. Administrative Structure and Customer Service Contacts for SSA**

Location of SSA headquarters:		Baltimore, Maryland
Number of:*	Regional offices	10
	Field offices	1,336
	Hearings offices	138 permanent
	Teleservice centers	36
	Program service centers	7
	Data operations centers	1
Number of SSA employees: (FY2004 full-time equivalents)		63,701
Administrative costs of Social Security:**		\$4.3 billion
Administrative costs as percent of benefit costs:**		0.9%

**Source:** Social Security Administration's *Accountability Report for Fiscal Year 2004*.

\*\* Data for FY2003 from the 2004 OASDI trustees' report.

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800 Telephone Number for SSA 800-772-1213

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