

Social Security Changes for 2019

By Bruce D. Schobel

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Every October, the U.S. Social Security Administration (SSA) announces certain changes in program amounts that occur **automatically**—that is, without any new legislation being necessary. The most widely publicized of these changes is the annual cost-of-living adjustment (COLA) affecting monthly Social Security benefits. Other automatic changes are important to people of working age as well as to beneficiaries. On Oct. 11, 2018, the government announced the Social Security COLA effective for December 2018 and the other increases effective for 2019.

Benefit Increase

Since 1984, Social Security's COLAs have been based on the third-quarter-to-third-quarter increase, if any, in the average Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). The CPI-W, which is computed by the U.S. Labor Department's Bureau of Labor Statistics, rose 2.8 percent (rounded to the nearest 0.1 percent) year-to-year from the third quarter of 2017 through the third quarter of 2018. Accordingly, all Social Security benefits, in current-payment status or not, rose by the same percentage, effective December 2018. The December 2018 COLA is the largest since the 3.6-percent increase effective for December 2011. As usual, December benefits were actually paid in the following January; all monthly Social Security benefits are paid in arrears, after the month is over.

Wage-Indexed Parameters

A long list of updated Social Security program parameters, some of which are rather obscure, is ordinarily announced simultaneously with the COLA each year. Unlike the COLA, changes in these parameters are based on changes in the national average wage, which the Social Security Administration computes from all W-2 forms filed each year by employers. Interestingly, workers who are self-employed, but not **also** employed by someone else, are excluded entirely from the average-wage computation. Workers who are both self-employed and employed during the year have only their earnings from employment included in the calculation of the national average wage, leading to some minor distortion in the resulting percentage change. The national average wage rose from \$48,642.15 for 2016 to \$50,321.89 for 2017. The 2017 value used in SSA's automatic-adjustment calculations is the most recent national average wage figure available; at the time of the October announcement, 2018 wasn't over yet, and W-2 forms for 2018 will not be available until several months into 2019, after employers submit them to SSA.

Maximum Taxable Amount and Tax Rates

One very important change that affects high-income workers (employees and the self-employed) is the increase in the maximum amount of earnings subject to Social Security payroll taxes (FICA and SECA) during the year and creditable for benefit-computation purposes. This program parameter can rise (it cannot fall) in any year following the effective date of a COLA. In a few recent years when no COLA was effective, due to the CPI-W declining, the maximum taxable amount did not rise in the following year. Because a COLA was effective for December 2018, the maximum taxable amount rose from \$128,400 for 2018 to \$132,900 for 2019, based on the change in the national average wage.

Social Security tax rates are not automatically adjusted but are set by law. The FICA tax rate, payable by employees and employers, each, has been 6.2 percent since 1990. The self-employed pay both

halves of this tax and get to deduct, for income-tax purposes, the half representing the employer share. Employees cannot deduct Social Security taxes from their taxable incomes, but employers can.

Retirement Earnings Test

Another wage-indexed Social Security program parameter is the exempt amount under the retirement earnings test for beneficiaries who have not yet reached their normal retirement age, or NRA. (Social Security's NRA was 65 for workers born before 1938 and is rising gradually under present law to 67 for workers born after 1959.) The annual exempt amount for beneficiaries who will not reach their NRA during the current calendar year rose from \$17,040 for 2018 to \$17,640 for 2019. For beneficiaries who reached their NRA in 2018, the exempt amount was \$45,360 for earnings in the months before reaching NRA. That exempt amount rose to \$46,920 for 2019. Since January 2000, workers who have reached their Social Security NRA can earn unlimited amounts without causing any reduction in their Social Security benefits, starting with the month in which they reach that age. In fact, additional covered earnings can cause monthly benefits to rise due to annual benefit recomputations, effective each January.

Coverage Credits

Interestingly, certain wage-indexed program amounts are permitted by law to increase (or even decrease) with or without a COLA occurring. The amount of earnings needed to receive one coverage credit was \$1,320 in 2018 and rose to \$1,360 in 2019. Workers who earn at least \$5,440 in Social Security-covered employment (or self-employment) during 2019 will receive the maximum four coverage credits for the year. Workers need 40 coverage credits to be eligible for retired-worker benefits at age 62 or older. (These coverage credits used to be known as "quarters of coverage"; since 1978, they have been granted based on **annual** earnings, making the old name inappropriate.)

Benefit Formulas

The so-called "bend-points" of the formulas used to compute primary insurance amounts (PIAs) and maximum family benefits (MFBs) are also wage-indexed and can move up or down with or without a COLA occurring. The two PIA bend-points for workers first becoming eligible for benefits in 2019 (that is, born in 1957 in the case of retired-worker benefits) are \$926 and \$5,583. The three MFB bend-points for 2019 eligibilities are \$1,184, \$1,708 and \$2,228.

The complete list of wage-indexed program parameters for 2019 and corresponding values for previous years are available at www.ssa.gov/oact.

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