Article from:

In The Public Interest

January 2014 – Issue 9

SOCIAL SECURITY CHANGES FOR 2014

By Bruce D. Schobel

Bruce D. Schobel is located in Sunrise, Fla. He can be reached at *bdschobel@aol.com*.

Every October, the Social Security Administration announces certain changes in program amounts that occur automatically (i.e., without any new legislation). The most widely publicized of these changes is the cost-of-living adjustment (COLA) affecting all Social Security benefits. Other changes are important to people of working age as well as to beneficiaries. On Oct. 30, 2013 (two weeks late, due to the government shutdown), the Social Security Administration announced that Social Security benefits will increase by 1.5 percent. Whenever a COLA occurs, certain other program parameters automatically change, too. Several important ones are described below.

BENEFIT INCREASE

Since 1984, Social Security's cost-of-living benefit increases have been based on the 3rd-quarter-to-3rd-quarter change in the average Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), which is computed by the U.S. Labor Department's Bureau of Labor Statistics. The 3rd-quarter-average CPI-W rose 1.5 percent (rounded to the nearest 0.1 percent) from 2012 to 2013. Accordingly, Social Security benefit amounts will rise by the same 1.5 percent (or a little less, due to rounding rules), effective with the December 2013 benefits that will be paid in January 2014. No COLAs were effective in December of 2009 or 2010, because the CPI-W in the 3rd quarter of each of those years was actually lower than in the 3rd quarter of 2008. Social Security benefits do not decrease when cost-of-living increases are negative. The COLAs effective in December of 2011 and 2012 were 3.6 percent and 1.7 percent, respectively.

MAXIMUM TAXABLE AMOUNT AND TAX RATES

Other automatic Social Security changes, which are ordinarily announced simultaneously with the COLA, are based on changes in the national average wage, which the Social Security Administration computes from W-2 data. However, some Social Security parameters, such as the maximum taxable amount, do not change after years without a COLA, despite changes in the national average wage. The 2012 national average wage (the most recent figure, just announced) was $44,321.67. Based on this figure, a very important change that affects workers and their employers is the increase in the maximum amount of earnings subject to the Social Security (OASDI) payroll tax. The maximum taxable amount increased from $110,100 for 2012 to $113,700 for 2013. The 2014 amount will be $117,000, based on the increase in the national average wage from 2011 to 2012. About 6 percent of workers earn more than the maximum taxable amount in any given year.

The Social Security tax rate, on the other hand, is not automatically adjusted and, instead, is set by law at 6.2 percent, payable by both employees and employers. (The self-employed pay both halves of this tax, or 12.4 percent, with half of the total paid deductible for income-tax purposes.) Congress temporarily reduced the employee share of the tax to 4.2 percent during 2011 and 2012, but it went back to its "permanent" statutory rate of 6.2 percent in 2013.

RETIREMENT EARNINGS TEST

Since January 2000, workers who have reached their normal retirement age (NRA) can earn unlimited amounts without any reduction in their Social Security benefits. However, beneficiaries younger than NRA who have earnings may see reductions in benefits, if they earn above specified exempt amounts. (Social Security's NRA is 66 for workers born during 1943–54 and rises gradually to 67 for workers born after 1959.) The retirement earnings test exempt amounts are wage-indexed. The annual exempt amount for beneficiaries who will be younger than their NRA during the entire calendar year rose from $14,640 for 2012 to $15,120 for 2013. For 2014, the annual exempt amount will rise to $15,480. Affected beneficiaries who earn more than this exempt amount lose $1 in benefits for each $2 of excess earnings. For beneficiaries who will reach their NRA (of 66) in 2014, the exempt amount is $41,400 for earnings in the months before reaching NRA. Affected beneficiaries who earn more than this exempt amount lose $1 in benefits for each $3 in excess earnings (but only earnings in the months before reaching NRA count).

COVERAGE CREDITS

Interestingly, the amount of earnings needed to receive one "coverage credit" for the year is a wage-indexed amount that does not require a COLA to increase, unlike the maximum taxable amount and the retirement earnings test exempt amounts. The amount required to earn one coverage credit was $1,160 in 2013 and will rise to $1,200 for 2014. Workers who earn at least $4,800 in Social Security-covered employment (or self-employment) during 2014 will receive the maximum four coverage credits for the year. (These coverage credits used to be known as "quarters of coverage"; however, since 1978, they have been granted on the basis of annual earnings, making the old name inappropriate.)

The maximum taxable amount increased from $110,100 for 2012 to $113,700 for 2013. The 2014 amount will be $117,000. . . .