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Social Security Changes for 2016

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Every October, the U.S. Social Security Administration announces certain changes in program amounts that occur automatically—i.e., 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. 15, 2015, the government announced that no Social Security COLA will be effective for December. The absence of a COLA has other consequences, too.

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 year-to-year from the third quarter of 2013 through the third quarter of 2014; accordingly, all monthly Social Security benefits rose effective December 2014 by 1.7 percent. But since the third quarter of 2014, the average quarterly CPI-W has remained lower than it was then, even though it has risen and fallen from month to month. Thus, because the average CPI-W did not rise over the applicable measuring period, no benefit increase can occur for December 2015. The same thing happened—i.e., no COLA was effective—for December 2009 and December 2010.

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. One very important change that affects workers (employees and the self-employed) is the increase in the maximum amount of earnings subject to the Social Security payroll tax each year. The maximum taxable amount increased from \$117,000 for 2014 to \$118,500 for 2015. But in the absence of a COLA, the maximum taxable amount does not rise. Accordingly, it will not rise for 2016. The Social Security tax rate, on the other hand, is fixed by law, with 6.2 percent withdrawn from each employee's pay and matched with

an employer contribution of 6.2 percent. The self-employed pay both halves of this tax.

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 \$15,480 for 2014 to \$15,720 for 2015, and there it will remain in 2016, due to the absence of a COLA. For beneficiaries who reach their NRA in 2016, the exempt amount remains at the 2015 level of \$41,880 for earnings in the months before reaching NRA. Since January 2000, workers who have reached their NRA under Social Security can earn unlimited amounts without causing any reduction in their Social Security benefits.

COVERAGE CREDITS

Interestingly, certain wage-indexed program amounts are permitted by law to increase (or even decrease) with or without a COLA occurring. For example, the amount of earnings needed to receive one coverage credit was \$1,220 in 2015 and will rise to \$1,260 in 2016, based on the increase in the national average wage from \$44,888.16 in 2013 to \$46,481.52 in 2014 (the latest available year, because 2015 wasn't even over yet when the announcement was made). Workers who earn at least \$5,040 in Social Security-covered employment (or self-employment) during 2016 will receive the maximum four coverage credits for the year. (These coverage credits used to be known as "quarters of coverage"; since 1978, they have been granted on the basis of 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. The two PIA bend-points for workers first becoming eligible for benefits in 2016 are \$856 and \$5,157. The three MFB bend-points for 2016 eligibilities are \$1,093, \$1,578 and \$2,058. Corresponding amounts for earlier years of eligibility are available at ssa.gov. ■



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