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Social Security Changes for 2017

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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. 18, 2016, the government announced the Social Security COLA effective for December and the other increases effective for 2017.

BENEFIT INCREASE

Since 1984, Social Security's COLAs have been based on the 3rd-quarter-to-3rd-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 3rd quarter of 2013 through the 3rd quarter

of 2014; accordingly, all monthly Social Security benefits rose effective December 2014 by 1.7 percent. But the average CPI-W for the 3rd quarter of 2015 was **lower** than the corresponding value for the previous year. Thus, because the average CPI-W did not rise over the applicable measuring period, no benefit increase was effective for December 2015, and the "base quarter" for COLA purposes was not reset. The average CPI-W for the 3rd quarter of 2016 did rise relative to the base quarter, in 2014, by 0.3 percent. Accordingly, all Social Security benefits, in current-payment status or not, rose by the same percentage, effective December 2016. (Note that, as usual, December benefits were actually paid in January; all Social Security benefits are paid one month in arrears.)

MAXIMUM TAXABLE AMOUNT AND TAX RATES

Other automatic Social Security changes are ordinarily announced simultaneously with the COLA but 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 did not rise for 2016. Because there was a COLA effective in December 2016, the maximum taxable amount rose to \$127,200 for 2017, based on the increase in the national average wage to \$48,098.63 for 2015. (Note that the 2015 value is the most recent national average wage figure available; at the time of the





announcement, 2016 wasn't even over yet). The Social Security tax rate is not automatically adjusted and has been set by law at 6.2 percent, payable by employees and employers each, since 1990. 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 remained in 2016, due to the absence of a COLA. This amount rose in 2017 to \$16,920. For beneficiaries who reached their NRA in 2016, the exempt amount remained at the 2015 level of \$15,720 for earnings in the months before reaching NRA.

For 2017, this amount is \$44,880. 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. (In fact, the additional earnings can cause monthly benefits to rise.)

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 rose to \$1,260 in 2016, despite the absence of a COLA that year. The corresponding amount for 2017 is \$1,300. Workers who earn at least \$5,200 in Social Security-covered employment (or self-employment) during 2017 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 occurring. The two PIA bend-points for workers first becoming eligible for benefits in 2017 (i.e., born in 1955 in the case of retired-worker benefits) are \$885 and \$5,336. The three MFB bend-points for 2017 eligibilities are \$1,131, \$1,633 and \$2,130. Corresponding amounts for earlier years of eligibility are available at www.ssa.gov/oact.



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