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Social Security Changes for 2018

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Every October, the U.S. Social Security Administration 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. 13, 2017, the government announced the Social Security COLA effective for December 2017 and the other increases effective for 2018. On Nov. 27, SSA modified its original announcement to reflect new data.

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 2.0 percent (rounded to the nearest 0.1 percent) year-to-year from the 3rd quarter of 2016 through the 3rd quarter of 2017. Accordingly, all Social Security benefits, in current-payment status or not, rose by the same percentage, effective December 2017. The December 2017 COLA was the largest since December 2011 (which was 3.6 percent). Note that, 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.

MAXIMUM TAXABLE AMOUNT AND TAX RATES

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 W-2 data. 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 have only their earnings from employment included, leading to some minor distortion in the resulting percentage change.

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. The maximum taxable amount increased from $127,200 for 2017 to $128,400 for 2018, based on the increase in the national average wage to $48,642.15 for 2016. Note that the 2016 value used in the calculation is the most recent national average wage figure available; at the time of the announcement, 2017 wasn't over yet.

The Social Security tax rates are not automatically adjusted, but are set by law. The FICA tax rate, payable by employees and employers, has been 6.2 percent for each 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 $16,920 for 2017 to $17,040 for 2018. For beneficiaries who reached their NRA in 2017, the exempt amount was $44,880 for earnings in the months before reaching NRA. That exempt amount rose to $45,360 for 2018. Since January 2000, workers who have reached their Social Security NRA can earn unlimited amounts without causing any reduction in their Social Security benefits. In fact, the additional earnings can cause monthly benefits to rise due to recomputations.

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 $1,300 in 2017 and rose to $1,320 in 2018. Workers who earn at least $5,280 in Social Security-covered employment (or self-employment) during 2018 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 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 2018 (that is, born in 1956 in the case of retired-worker benefits) are $895 and $5,397. The three MFB bend-points for 2018 eligibilities are $1,144, $1,651 and $2,154.

The complete list of wage-indexed program parameters for 2018 and corresponding values for previous years are available at *www.ssa.gov/oact*. ■

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