

Social Security Changes for 2020

By Bruce D. Schobel

Editor's note: This article was written to appear in the January 2020 issue of In The Public Interest.

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. 10, 2019, the government announced the Social Security COLA effective for December 2019 and the other increases effective for 2020.

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 1.6 percent (rounded to the nearest 0.1 percent) year-to-year from the third quarter of 2018 through the third quarter of 2019. Accordingly, all Social Security benefits, in current-payment status or not, rise by the same percentage, effective December 2019. The December 2019 COLA is smaller than the 2.8 percent increase effective for December 2018. As usual, December benefits are 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 by employers each year. 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 \$50,321.89 in 2017 to \$52,145.80 in 2018. That 2018 value, which is used in SSA's calculations of wage-indexed parameters for 2020, is the most recent national average wage figure available right now. At the time of the October 2019 announcement, 2019 wasn't over, so obviously the 2019 national average wage could not be known yet. It will be calculable later in 2020, after employers file all 2019 W-2 forms with SSA. That takes several months, including correction of errors.

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 is effective for December 2019, the maximum taxable amount rose from \$132,900 for 2019 to \$137,700 for 2020, 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 \$17,640 for 2019 to \$18,240 for 2020. For beneficiaries who reached their NRA in 2019, the exempt amount was \$46,920 for earnings in the months prior to reaching NRA. That exempt amount rose to \$48,600 for 2020. 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. Moreover, any additional covered earnings are reflected in annual benefit recomputations and can cause monthly benefits to rise (they cannot decline for this reason), effective each January after the previous year is over.

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 \$1,360 in 2019 and rose to \$1,410 in 2020. Workers who earn at least \$5,640 in Social Security-covered employment (or self-employment) during 2020 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 somewhat 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 2020 (that is, born in 1958 with respect to retired-worker benefits) are \$960 and \$5,785. The three MFB bend-points for 2020 eligibilities are \$1,226, \$1,770 and \$2,309.

The complete list of wage-indexed program parameters for 2020 and corresponding values for previous years are available at www.ssa.gov/oact.

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