Social Insurance Programs

Old-Age, Survivors, and Disability Insurance

In 1996, 43.7 million persons received monthly benefits

The OASDI program—which for most Americans means Social Security—is the largest income-maintenance program in the United States. Based on social insurance principles, the program provides monthly benefits designed to replace, in part, the loss of income due to retirement, disability, or death. Coverage is nearly universal: About 96% of the jobs in the United States are covered. Workers finance the program through a payroll tax that is levied under the Federal Insurance and Self-Employment Contribution Acts (FICA and SECA). The revenues are deposited in two trust funds (the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund), which pay benefits and the operating expenses of the program. Benefit payments totaled over $343.2 billion in fiscal year 1996.

In December 1996, 43.7 million persons were receiving monthly benefits totaling $29.4 billion. These beneficiaries included 30.3 million retired workers and their spouses and children, 7.4 million survivors of deceased workers, and 6.1 million disabled workers and their spouses and children.

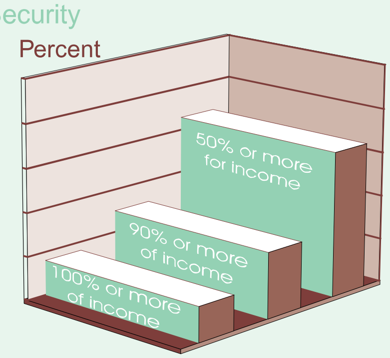
Social Security is an important source of retirement income for almost everyone; 3 in 5 beneficiaries aged 65 or older rely on it for at least half of their income. Social Security is also an important source of continuing income for young survivors of deceased workers: 98% of young children and their mothers or fathers are eligible for benefits should a working parent die. Four in five workers aged 21-64 and their families have protection in the event of a long-term disability.

Coverage

The Social Security Act of 1935 covered employees in nonagricultural industry and commerce only. Today, almost all jobs are covered.

Nearly all work performed by citizens and noncitizens is covered if it is performed within the United States (defined for Social Security purposes to include all 50 States, the District of Columbia, the

Portion of beneficiaries aged 65 or older who rely heavily on Social Security



Program Principles

Certain fundamental principles have shaped the development of the Social Security program. These basic principles are largely responsible for the program's widespread acceptance and support:

Work Related.—Economic security for workers and their families is based on their work history. Entitlement to benefits and the benefit level are related to earnings in covered work.

No Means Test—Benefits are an earned right and are paid regardless of income from savings, pensions, private insurance, or other forms of nonwork income.

Contributory—The concept of an earned right is reinforced by the fact that workers make contributions to help finance the benefits.

Universal Compulsory Coverage—Workers at all income levels and their families have protection if earnings stop or are reduced due to retirement, disability, or death. With nearly all employment covered by Social Security, this protection continues when workers change jobs.

Rights Clearly Defined in the Law.—How much a person gets and under what conditions are clearly defined in the law and are generally related to facts that can be objectively determined. The area of administrative discretion is severely limited.

Monthly OASDI benefits and average amount

Type of beneficiary	Number of beneficiaries December				Average amount, December 1996
	1940	1960	1980	1996	
All beneficiaries	222,488	14,844,589	35,618,840	43,736,836	$672.80
Retirement program	148,490	10,599,021	23,243,078	30,310,865	703.58
Retired workers	112,331	8,061,469	19,582,625	26,898,072	744.96
Wives and husbands	29,749	2,269,384	3,018,008	2,970,226	383.50
Children	6,410	268,168	642,445	442,567	337.07
Survivor program	73,998	3,558,117	7,600,836	7,353,284	637.95
Nondisabled widows and widowers	4,437	1,543,843	4,287,930	5,027,901	706.85
Disabled widows and widowers	...	...	126,659	181,911	470.95
Widowed mothers and fathers	20,499	401,358	562,798	242,135	514.91
Children	48,238	1,576,802	2,608,653	1,897,667	487.17
Parents	824	36,114	14,796	3,670	613.54
Disability program	...	687,451	4,682,172	6,072,034	561.36
Disabled workers	...	455,371	2,861,253	4,385,623	703.94
Wives and husbands	...	76,599	462,204	223,854	171.39
Children	...	155,481	1,358,715	1,462,557	193.51
Special age-72 beneficiaries	...	...	92,754	653	197.27

Commonwealth of Puerto Rico, the territories of Guam and American Samoa, the U.S. Virgin Islands, and the Northern Mariana Islands).

In addition, the program covers work performed outside the United States by American citizens or resident aliens who are employed by an American employer, employed by a foreign affiliate of an American employer electing coverage for its employees, or (under certain circumstances) the self-employed.

The majority of workers excluded from coverage are in three major categories: (1) Federal civilian employees hired before January 1, 1984, (2) agricultural workers and domestic workers whose earnings do not meet certain minimum requirements, and (3) persons with very low net earnings from self-employment (generally less than $400 per year). The remaining few groups excluded from coverage are very small. An example is certain nonresident, nonimmigrant aliens temporarily admitted into the United States to study, teach, or conduct research. Certain family employment is also excluded (such as employment of children under age 18 by their parents).

Major Exclusions

Federal civilian employees hired before 1/1/84

Agricultural workers and domestic workers whose earnings do not meet certain minimum requirements

Persons with very low net earnings from self-employment

Ministers and members of religious orders who have not taken a vow of poverty and Christian Science practitioners have their professional services covered automatically as self-employment unless within a limited period they elect not to be covered on the grounds of conscience or religious principle. Religious orders whose members have taken a vow of poverty may make an irrevocable election to cover their members as employees.

Employees of State and local governments are covered under voluntary agreements between the States and the Commissioner of Social Security. Each State decides whether it will negotiate an agreement and, subject to special conditions that apply to retirement system members, what groups of eligible employees will be covered. At present, more than 75% of State and local employees are covered.

Special rules of coverage apply to railroad workers and members of the uniformed services. Railroad workers have their own Federal insurance system that is closely coordinated with the Social Security program. If they have less than 10 years of railroad service, their railroad credits are transferred to the Social Security program. Under certain circumstances, members of the uniformed services may be given noncontributory wage credits in addition to the credits they receive for basic pay. The Social Security Trust Funds are reimbursed from Federal general revenues to finance noncontributory wage credits.

Eligibility for Benefits

To qualify for Social Security a person must be insured for benefits. Most types of benefits require fully insured status, which is obtained by acquiring a certain number of credits (also called

In 1997, workers earn one Social Security credit for each $670 of annual earnings, up to four credits ($2,680 = 4 credits) per year

quarters of coverage) from earnings in covered employment. The number of credits needed depends on the worker's age and type of benefit.

Workers can acquire up to four credits per year, depending on their annual covered earnings. In 1997, one credit is acquired for each $670 in covered earnings. This earnings figure is updated annually, based on increases in average wages.

Retirement and Survivors Insurance

Persons are *fully* insured for benefits if they have at least as many credits (acquired at any time after 1936) as the number of full calendar years elapsing after age 21 and before age 62, disability, or death, whichever occurs first. For workers who attained age 21 before 1951, the requirement is one credit for each year after 1950 and before the year of attainment of age 62, disability, or death. Persons reaching age 62 after 1990 need 40 credits to qualify for retirement benefits.

For workers who die before acquiring fully insured status, certain survivor benefits are payable if they were *currently* insured—that is, they acquired 6 credits in the 13-quarter period ending with the quarter in which they died.

Annual Earnings Test.—Beneficiaries may have some or all benefits withheld, depending on the amount of their annual earnings. Benefits payable to a spouse and/or child may also be reduced or withheld due to the earnings of the retired worker. This provision, known as the earnings test (or retirement test) is in line with the purpose of the program—to replace some of the earnings from work that are lost because of the worker's retirement, disability, or death.

1997 Earnings Test

Age 70
No limit

Age 65-69
$1 less for every $3 over $13,500

Under age 65
$1 less for every $2 over $8,640

The dollar amount beneficiaries can earn without having their benefits reduced depends on their age. Persons aged 70 or older receive full benefits regardless of their earnings. In 1997, benefits for persons under age 65 are reduced $1 for each $2 of annual earnings in excess of $8,640; benefits for persons aged 65-69 are reduced $1 for each $3 of earnings above $13,500.

The exempt amounts for persons aged 65-69 will increase gradually to $30,000 in 2002, while amounts for those under age 65 will be indexed to the growth in average wages. After the year 2002, amounts for persons aged 65-69 will also be indexed to increases in average wages.

A "foreign work test" applies to beneficiaries who work outside the United States in noncovered employment. Benefits are withheld for any month in which more than 45 hours of work is performed. Generally, any benefits to family members are also withheld. The test is based on the amount of time the beneficiary is employed rather than on the amount of money the beneficiary earns because it is impractical to convert earnings in a foreign currency into specific dollar amounts.

Disability Insurance

To be eligible for disability benefits, workers must be fully insured and must meet a test of substantial recent covered work—that is, they must have credit for work in covered employment for at least 20 quarters of the 40 calendar quarters ending with the quarter the disability began. Young workers disabled before age 31 may qualify for benefits under a special insured status requirement. They must have credits in one-half the calendar quarters after age 21, up to the date of their disability, or, if disabled before age 24, one-half the quarters in the 3 years ending with the quarter of disability. Blind workers need only to be fully insured to qualify for benefits.

Disability Determination.—For purposes of entitlement, disability is defined as "the inability to engage in any substantial gainful activity (SGA) by reason of any medically determinable physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for a continuous period of not less than 12 months." A person's age, education, and work experience are considered along with the medical evidence in making a determination of disability. A less strict rule is provided for blind workers aged 55 or older. Such workers are considered disabled if, because of their blindness, they are unable to engage in SGA requiring skills and abilities comparable to those required in their past occupations.

Disability = the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for a continuous period of not less than 12 months.

The impairment must be of a degree of severity that renders the individual unable to engage in any kind of substantial gainful work that exists in the national economy, regardless of whether such work exists in the immediate area in which the individual lives, or if a specific job vacancy exists for that person, or if that person would be hired upon application for the work. The amount of earnings that ordinarily demonstrates SGA is set forth in regulations. For nonblind beneficiaries, earnings averaging more than $500 a month are presumed to represent SGA, and earnings below $300 generally indicate the absence of SGA. The SGA level for statutorily blind beneficiaries is $1,000 a month.

Unlike the Retirement and Survivors Insurance program, which is an entirely Federal program, the law mandates Federal-State cooperation in carrying out the DI program. Each State's Disability Determination Services (DDS) develops the medical evidence and makes an initial determination of disability, after SSA determines that the applicant is insured for benefits. DDS costs are reimbursed to the States by the Federal Government.

The applicant may appeal an unfavorable decision through a four-step process taken in the following order: a reconsideration of the initial decision; a hearing before an Administrative Law Judge; a review by the Appeals Council; and lastly, filing a civil suit in Federal District Court. A sample of DDS decisions is reviewed by SSA to assure consistency and conformity with national policies.

Applicants may be referred to the State vocational rehabilitation agency. If they are offered services and refuse them without good reason, benefits may be withheld. SSA pays for the cost of the rehabilitation services if such services result in a beneficiary's return to work at the SGA level for at least 9 continuous months.

Other Disabled Beneficiaries.—Monthly benefits at a permanently reduced rate are payable to disabled widow(er)s beginning at age 50, based on the same definition of disability that applies to workers. The disability must have occurred within 7 years after the spouse's death or within 7 years after the last month of previous entitlement to benefits based on the worker's earnings record.

Benefits are also payable to an adult child of a retired, disabled, or deceased worker if the child became disabled before age 22. The child must meet the same definition of disability that applies to workers.

Work Incentives.—Beneficiaries are allowed a trial work period to test their ability to work without affecting their eligibility for benefits. The trial work period can last up to 9 months (not necessarily consecutive) during which an individual's entitlement to benefits and benefit payment are unaffected by earnings, so long as the individual's impairment meets program standards. Months in which earnings are below a threshold amount, which is currently $200, do not count as months of trial work. At the end of the trial work period, a decision is made as to the individual's ability to engage in SGA. If the beneficiary is found to be working at SGA, disability benefits are paid for an additional 3 months (period of readjustment) and then cease; otherwise, benefits continue.

Work Incentives

Trial work period

Extended period of eligibility

Work excluded as not SGA

Elimination of second waiting period for both cash and Medicare benefits

Medicare buy-in

Impairment-related expenses

The law also includes other work incentive provisions: (1) A 36-month extended period of eligibility after a successful trial work period. This special benefit protection allows benefit payments during any month in the 36-month period in which earnings fall below $500. (2) The continuation of Medicare coverage for at least 39 months beyond the trial work period and, after that, the opportunity to purchase Medicare coverage when benefits terminate because of work. (3) Deductions from earnings for impairment-related work expenses in determining SGA. Deductible costs include such things as attendant care, medical devices, equipment, and prostheses.

Additionally, family benefits payable in disabled-worker cases are subject to a lower cap than the one that prevails for other types of benefits, because of concern that some disabled workers might be discouraged from returning to work because their benefits could exceed their predisability net earnings.

Type of Benefits

Monthly retirement benefits are payable at age 62 but are permanently reduced if claimed before the normal retirement age (currently, age 65). Benefits may also be payable to the spouse and children of retired-worker beneficiaries. A spouse receives benefits at age 62 or at any age if he/she is caring for a child under age 16 or disabled. A divorced spouse aged 62 or older who had been married to the worker for at least 10 years is also entitled to benefits. If the spouse has been divorced for at least 2 years, the worker who is eligible for benefits need not be receiving benefits for the former spouse to receive benefits. Benefits are payable to unmarried children under age 18, or aged 18-19 if they attend elementary or secondary school full time. A child can be the worker's natural child, adopted child, stepchild, and—under certain circumstances—a grandchild or stepgrandchild. A person aged 18 or older may also receive benefits under a disability that began before age 22.

Monthly benefits are payable to disabled workers after a waiting period of 5 full calendar months. This rule applies because Disability Insurance is not intended to cover short-term disabilities. Benefits terminate if the beneficiary medically improves and returns to work (at a substantial gainful activity level) despite the impairment. At age 65, beneficiaries are transferred to the retirement program. Benefits for family members of a disabled worker are payable under the same conditions as for those of retired workers.

Monthly benefits are payable to survivors of a deceased worker. A widow(er) married to the worker for at least 9 months (3 in the case of accidental death) may receive an unreduced benefit if claimed at age 65 (if the spouse never received a retirement benefit reduced for age). It is permanently reduced if claimed at age 60-64, and for disabled survivors at age 50-59. Benefits are payable to a widow(er) or surviving divorced spouse at any age who is caring for a child under age 16 or disabled. A surviving divorced spouse aged 60 or older is entitled to benefits if he or she had been married to the worker for at least 10 years. A deceased worker's dependent parent aged 62 or older may also be entitled to benefits.

Surviving children of deceased workers may receive benefits if they are under age 18, or are full-time elementary or secondary school students aged 18-19, or were disabled before age 22.

A lump sum of $255 is payable upon an insured worker's death, generally to the surviving spouse. If there is no surviving spouse or entitled child, no lump sum is payable.

Benefit Amounts

The OASDI benefit amount is based on covered earnings averaged over a period of time equal to the number of years the worker reasonably could have been expected to work in covered

Benefits payable and insured status requirements under Social Security

Type of benefit	Requirement for entitlement
Retired worker	Fully insured: • Age 65 or older (100% of PIA) • Age 62-64 (PIA reduced 5/9 of 1% (or 1/180) for each month of entitlement before age 65)
Disabled worker	Fully insured and has 20 quarters of coverage in the 40 calendar quarters ending with the disability onset: • Under age 65 • Under age 31, a special insured status requirement applies
Spouse or child (of a worker receiving retirement or disability benefits)	Spouse married to the worker for at least 1 year, or is the parent of the worker's child, and meets one of the following age requirements: • Any age, if caring for an entitled child who is under 16 or disabled (50% of the worker's PIA) • Age 65 (50% of the worker's PIA) • Age 62 or older (50% of the worker's PIA, permanently reduced for each month of the spouse's entitlement before age 65) Divorced spouse, married to the worker for at least 10 years, and meets one of the following age requirements: • Age 65 or older (50% of the worker's PIA) • Age 62-65 (50% of the worker's PIA, permanently reduced for each month of the spouse's entitlement before age 65) Child: • Under age 18 and unmarried (50% of the worker's PIA) • Attending elementary or secondary school full time at age 18 and through the end of the school term in which age 19 is attained (50% of the worker's PIA) • Disabled child, age 18 or older, who was disabled before age 22 (50% of the worker's PIA)
Survivors (of a deceased worker)	Widow/widower: • Married to the worker at least 9 months (3 months in the case of accidental death), or is the parent of the worker's child, and meets one of the following age requirements: – Any age, caring for an entitled child who is under age 18, or disabled (75% of the worker's PIA) – Age 65 (100% of worker's PIA) – Age 60-64 (permanently reduced benefit) – Age 50-59 and disabled (permanently reduced benefit) • Surviving divorced spouse, married to the worker at least 10 years, aged 60 or older (permanently reduced benefit if entitled before age 65) • Surviving divorced spouse, regardless of length of marriage, of any age caring for an entitled child of the deceased worker (75% of the worker's PIA) Child: • Under age 18 and unmarried (75% of the worker's PIA) • Attending elementary or secondary school full time at age 18 and through end of school term in which age 19 is attained (75% of the worker's PIA)

Benefits payable and insured status requirements under Social Security—*Continued*

Type of benefit	Requirement for entitlement
	• Disabled child, aged 18 or older, who was disabled before age 22 (75% of worker's PIA)
	Dependent parent aged 62 or older:
	• One surviving parent (82½% of the worker's PIA)
	• Two surviving parents (75% of the worker's PIA payable to each parent)
	Lump-sum death payment:
	• A one-time amount of $255 is payable, upon the death of an insured worker, to a spouse with whom the worker was living at the time of death or to a spouse or child who is eligible for monthly survivor benefits for the month of the worker's death

Note: Auxiliary and survivor benefits are subject to a family maximum amount.

employment. Specifically, the number of years in the averaging period equals the number of full calendar years after 1950 (or, if later, after age 21) and up to the year in which the worker attains age 62, becomes disabled, or dies. In survivor claims, earnings in the year of the worker's death may be included. In general, 5 years are excluded. Fewer than 5 years are disregarded in the case of a worker disabled before age 47. The minimum length of the averaging period is 2 years.

For persons who were first eligible (attained age 62, became disabled, or died) after 1978, the actual earnings are indexed—updated to reflect increases in average wage levels in the economy. For persons first eligible before 1979, the actual amount of covered earnings is used in the computations. After a worker's average indexed monthly earnings (AIME) or average monthly earnings (AME) have been determined, a benefit formula is applied to determine the worker's primary insurance amount (PIA), on which all Social Security benefits related to the worker's earnings are based. The benefit formula is weighted to replace a higher portion of lower paid workers' earnings than of higher paid workers' earnings (although higher paid workers will always receive higher benefits).

For persons first eligible for benefits in 1997, the formula is:

90% of the first $455 of AIME, plus
32% of next $2,286 of AIME, plus
15% of AIME over $2,741.

The dollar amounts defining the AIME brackets are adjusted annually based on changes in average wage levels in the economy. As a result, initial benefit amounts will generally keep pace with future increases in wages. A special minimum PIA is payable to persons who have had covered employment or self-employment for many years at low earnings. It applies only if the resulting payment is higher than the benefit computed by the regular formula.

Persons who retire at age 65 (in 1997), with average earnings, have 45% of their prior year's earnings replaced by Social Security benefits. For those with maximum earnings the replacement rate is 25%; for minimum earners, 61%. The PIA is $1,326 for workers whose earnings were at or above the maximum amount that counted for contribution and benefit purposes each year and who retire at age 65 in 1997.

Earnings replaced by Social Security benefits

Pre-retirement earnings replaced (Workers retiring at age 65 in 1997)		Disabled workers earnings replaced (Workers age 45 in 1997)	
Maximum earnings	$62,700	Maximum earnings	$62,700
Worker	25.4%	Worker	27.7%
Worker/spouse	38.1%	Worker/spouse	41.5%
Average earnings	$24,706	Average earnings	$24,706
Worker	45.3%	Worker	44.8%
Worker/spouse	67.9%	Worker/spouse	67.2%
Low earnings	$11,118	Low earnings	$11,118
Worker	61.0%	Worker	60.4%
Worker/spouse	91.4%	Worker/spouse	85.0%

After the initial benefit amount has been determined for the year of first eligibility, the amount is increased automatically each December (payable in the January checks) to reflect any increase in the Consumer Price Index. The 1997 cost-of-living adjustment is 2.9%. The benefit may be recomputed if, after retirement, the worker has additional earnings that produce a higher PIA.

The monthly benefit for a worker retiring at age 65 is equal to the PIA rounded to the next lower multiple of $1. For workers retiring before age 65, the benefit is actuarially reduced to take account of the longer period over which they will receive benefits. Currently, a worker who retires at age 62 receives 80% of the full benefit amount (20% reduction). The benefit is reduced 5/9 of 1% for each month of entitlement before age 65. The maximum reduction is 20% for those entitled to benefits for all 36 months between ages 62-65. A spouse who begins to receive benefits at age 62 receives 75% of the amount that would have been payable at age 65; a widow(er) at age 60 will be paid 71-1/2% of the deceased spouse's PIA, as will a disabled widow(er) aged 50-59.

The normal retirement age (the age of eligibility for unreduced benefits) will be increased gradually from 65 to 67 beginning with workers who reach age 62 in the year 2000. The normal retirement age will be increased by 2 months per year in two stages—2000-2005 and 2017-2022—until it reaches age 67 for workers attaining age 62 in 2022 and later. During 2006-2016, the normal retirement age will remain at 66 for workers attaining age 62 in that period. Benefits will continue to be payable at age 62 for retired workers and their spouses and at age 60 for widow(er)s, but the maximum benefit reduction for workers and spouses will be greater. Workers retiring before the normal retirement age will have benefits reduced by 5/9 of 1% for the first 36 months of receipt of benefits immediately preceding age 65, plus 5/12 of 1% for months in excess of 36 months (maximum reduction 30%).

Age for full Social Security benefits

Retirees, spouses, and divorced spouses		Widow(er)s and divorced widow(er)s	
Full benefit at age	Date of birth*	Full benefit at age	Date of birth*
65	Prior to 1938	65	Prior to 1940
65 and 2 months	1938	65 and 2 months	1940
65 and 4 months	1939	65 and 4 months	1941
65 and 6 months	1940	65 and 6 months	1942
65 and 8 months	1941	65 and 8 months	1943
65 and 10 months	1942	65 and 10 months	1944
66	1943–1954	66	1945–1956
66 and 2 months	1955	66 and 2 months	1957
66 and 4 months	1956	66 and 4 months	1958
66 and 6 months	1957	66 and 6 months	1959
66 and 8 months	1958	66 and 8 months	1960
66 and 10 months	1959	66 and 10 months	1961
67	1960 or later	67	1962 or later

*Month and date are January 2 unless otherwise shown.

Similarly, spouses of retired workers electing benefits before the normal retirement age in effect at the time will have their benefits reduced 25/36 of 1% for each of the first 36 months and 5/12 of 1% for up to 24 earlier months (maximum reduction 35%).

Workers who retire after age 65 have their benefits increased based on the delayed retirement credit. The credit is 5.0% of the PIA per year for workers attaining age 65 in 1996-97. It will increase gradually until it reaches 8% per year for workers attaining age 66 in 2009 or later.

Benefits for eligible family members are based on a percentage of the worker's PIA. A spouse or child may receive a benefit of up to 50% of the worker's PIA. A surviving widow's or widower's benefit is equal to as much as 100% of the amount of the deceased worker's PIA. The benefit of a surviving child is 75% of the worker's PIA.

The law sets a limit on the total monthly benefit amount to workers and their eligible family members. This limitation assures that the families are not considerably better off financially after the retirement, disability, or death of the worker than they were while the worker was employed.

Persons eligible for benefits based on their own earnings and as an eligible family member or survivor (generally as a wife or widow) will receive the full amount of the worker benefit, plus an amount equal to any excess of the other benefit over their own—in effect, the larger of the two.

Benefits for disabled workers are computed in much the same way as are benefits for retired workers. Benefits to the family members of disabled workers are paid on the same basis as those to the family of retired workers. The limitation on family benefits is, however, somewhat more stringent for disabled-worker families than for retired-worker or survivor families.

Taxation of Benefits

Up to 85% of Social Security benefits may be subject to Federal income tax depending on the taxpayer's amount of income (under a special definition) and filing status. The applicable definition of income is:

> Adjusted gross income (before Social Security or Railroad Retirement benefits are considered), plus tax-exempt interest income—with further modification of adjusted gross income in some cases involving certain tax provisions of limited applicability among the beneficiary population—plus one-half of Social Security and Tier I Railroad Retirement benefits.

For married taxpayers filing jointly whose income under this definition is between $32,000 and $44,000, the amount of benefits included in gross income is the lesser of one-half of Social Security and Tier I Railroad Retirement benefits or one-half of income over $32,000. If their income exceeds $44,000, the amount of benefits included in gross income is the lesser of (1) 85% of Social Security and Tier I railroad retirement benefits or (2) the sum of $6,000 plus 85% of income over $44,000.

For married taxpayers filing separate returns, no exempt amounts are applicable. The amount of benefits included in the gross income is the lesser of 85% of Social Security or Tier I Railroad Retirement benefits, or 85% of income (as defined above). For individuals in all other filing categories, the amount of benefits to be included in gross income is determined in a manner analogous to that for married taxpayers filing jointly. The difference lies in the lower amounts of gross income exempted.

Financing

The OASDI program requires workers and their employers and self-employed persons to pay taxes on earnings in covered jobs up to the annual taxable maximum ($65,400 in 1997). This amount is automatically adjusted as wages rise. These taxes are deposited in two separate trust funds—the OASI Trust Fund and the DI Trust Fund.

The money received by the trust funds can be used only to pay the benefits and operating expenses of the program. Money not needed currently for these purposes is invested in interest-bearing securities guaranteed by the U.S. Government.

In addition to the Social Security taxes, trust fund income includes amounts transferred from the general fund of the U.S. Treasury, income from the taxation of benefits, and interest on invested assets of the funds. Transfers from the general fund include payments for gratuitous military service wage credits and for limited benefits to certain very old persons who qualify under special insured status requirements. Interest income on trust fund assets is derived from securities guaranteed by the U.S. Government.

Based on 75-year actuarial forecasts, a schedule of current and future tax rates designed to produce sufficient revenues, together with other revenues, to finance the program over the long range is set forth in the law. This schedule also specifies what portion of total revenues collected is to be allocated to each of the Social Security programs.

The OASDI tax rate is 6.20% each for employees and employers. Self-employed persons pay at the combined employee-employer rate, or 12.40%. (Note: Medicare (HI) taxes are paid on total earnings. The tax rate, for both employee and employer is 1.45%.)

For self-employed persons, two deduction provisions reduce their OASDI and income tax liability. The intent of these provisions is to treat the self-employed in much the same manner as employees and employers are treated for purposes of Social Security and income taxes. The first provision allows persons to deduct

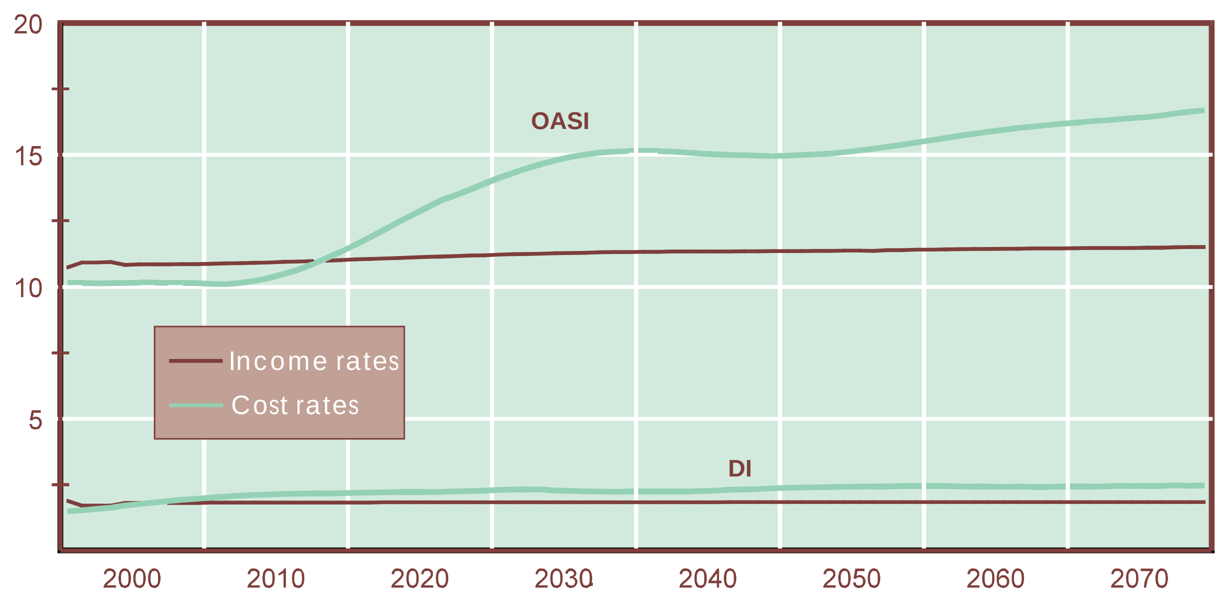
Tax Rate

Maximum taxable amount of earnings
$62,700

Tax rate for—
Employers and employees each
6.20%

Self-employed persons
12.40%

Income rates and cost rates



Administrative expenses for OASDI were $3.0 billion in CY '96, or about 0.9% of benefit payments in the year

from their net earnings from self-employment an amount equal to one-half their Social Security taxes. The effect of this deduction is intended to be analogous to the treatment of the OASDI tax paid by the employer, which is disregarded as remuneration to the employee for OASDI and income tax purposes. The second provision allows a Federal income tax deduction, equal to one-half of the amount of the self-employment taxes paid, which is designed to reflect the income tax deductibility of the employer's share of the OASDI tax.

A Board of Trustees is responsible for managing the OASDI Trust Funds and for reporting annually to Congress on the financial and actuarial status of the trust funds. This Board is comprised of six members—four of whom serve automatically by virtue of their positions in the Federal Government: The Secretary of the Treasury, who is the Managing Trustee, the Secretary of Labor, the Secretary of Health and Human Services, and the Commissioner of Social Security. The other two members are appointed by the President and confirmed by the Senate to serve as public representatives.

Administration

The Commissioner of Social Security is responsible for administering the OASDI program (except for the collection of FICA taxes, which is performed by the Internal Revenue Service of the Department of the Treasury), the preparation and mailing of benefit checks (or the payment of benefits through direct deposit), and the management and investment of the trust funds, which is supervised by the Secretary of the Treasury as Managing Trustee. The Commissioner is appointed by the President and confirmed by the Senate for a 6-year term.

A bipartisan Advisory Board, which is composed of seven members who serve 6-year terms, examines issues regarding the Social Security system and advises the Commissioner on policies related to the OASDI (and SSI) programs.

The Social Security number (SSN) is the method used for posting and maintaining the earnings and employment records of persons covered under the Social Security program.

Employers withhold FICA taxes from their employees' paychecks and forward these amounts, along with an equal amount of employer tax, to the IRS on a regular schedule. By the end of February, employers file wage reports (Form W-2) with the Social Security Administration showing the wages paid to each employee during the preceding year. In turn, SSA shares this information with the IRS. Self-employed persons report their earnings for Social Security purposes and pay SECA taxes in connection with their Federal income tax return. Information from self-employment income reports is sent by IRS to SSA.

Reported earnings are posted to the worker's earnings record at SSA headquarters in Baltimore, Maryland. When a worker or his or her family member applies for Social Security benefits, the worker's earnings record is used to determine the claimant's eligibility for benefits and the amount of any cash benefits payable.

Payment is certified by SSA to the Department of the Treasury, which, in turn, mails out benefit checks or deposits the proper amounts directly into the beneficiary's bank account.

SSA's administrative offices and computer operations are located in its central office in Baltimore, Maryland. The Office of Disability and International Operations are also at that location. Program service centers in New York City, Philadelphia, Birmingham, Chicago, Kansas City (Missouri), and Richmond (California) certify benefit payments to the Department of the Treasury's Regional Disbursing Centers, maintain beneficiary records, review selected categories of claims, collect debts, and provide a wide range of other services to beneficiaries.

In addition, SSA has a nationwide network of about 1,300 field offices. The field operations are directed by Regional Commissioners and their staffs. Personnel in the field installations are the main points of public contact with SSA. They issue Social Security numbers, help claimants file applications for benefits, adjudicate Retirement and Survivors Insurance claims and help determine the amounts of benefits payable, and forward disability claims to a State DDS for a determination of disability. In calendar year 1995, administrative expenses of SSA amounted to $3.1 billion, or 0.9% of total benefits payable.

SSA also provides personal and automated services through its toll-free telephone number (1-800-772-1213). The 800-number network received about 62.3 million calls in calendar year 1995.

The Office of Hearings and Appeals administers the nationwide hearings and appeals program for SSA. The Appeals Council, located in Falls Church, Virginia, reviews hearing decisions.

Social Security and Foreign Systems

Through international "totalization" agreements, the U.S. Social Security program is coordinated with the programs of other countries. These agreements benefit both workers and employers. First, they eliminate dual coverage and taxation when persons from one country work in another country and are required to pay social security taxes to both countries for the same work. Second, they prevent the loss of benefit protection for workers who have divided their careers between two or more countries.

The agreements allow SSA to totalize U.S. and foreign coverage credits only if the worker has at least six quarters of U.S. coverage. Similarly, a person may need a minimum amount of coverage under the foreign system in order to have U.S. coverage counted toward meeting the foreign benefit eligibility requirements. The United States currently has Social Security agreements in effect with 17 countries (Austria, Belgium, Canada, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom).

Beneficiaries and average benefit amounts under U.S totalization agreements, December 1995

Austria	314	$182.07
Belgium	260	$155.84
Canada	25,721	$110.13
Finland	28	$167.25
France	1,748	$136.40
Germany	7,694	$199.93
Greece	120	$107.92
Ireland	264	$138.92
Italy	5,098	$119.26
Netherlands	653	$120.52
Norway	1,750	$136.92
Portugal	964	$113.45
Spain	909	$113.72
Sweden	523	$135.58
Switzerland	1,509	$132.77
United Kingdom	7,251	$162.60

Benefits are generally payable to U.S. citizens regardless of where they reside. Benefits cannot be paid to an alien who is outside the United States for more than 6 months unless that person meets one of several exceptions in the law. For example, an exception is provided if (1) the worker on whose earnings the benefit is based had acquired at least 40 credits or had resided in the United States for at least 10 years, or (2) nonpayment of benefits would be contrary to a treaty obligation of the United States, or (3) the alien is a citizen of a country that has a social insurance or pension system of general applicability that provides for the payment of benefits to qualified U.S. citizens who are outside that country. Even if they qualify under these exceptions, aliens who are first eligible after 1984 for benefits as family members or survivors generally must also have resided in the United States for 5 years and been related to the worker during that time. Benefits are not payable to an alien living in a country in which the mailing of U.S. Government checks is prohibited.

Country Agreement	
Italy	1979
Germany	1979
Switzerland	1980
Belgium	1984
Norway	1984
Canada	1984
United Kingdom	1985
Sweden	1987
Spain	1988
France	1988
Portugal	1989
Netherlands	1990
Austria	1991
Finland	1982
Ireland	1993
Luxembourg	1993
Greece	1994