



**CONSORTIUM FOR CITIZENS
WITH DISABILITIES**

SOCIAL SECURITY FACT SHEET #8

How Are Social Security Benefits Calculated?

BENEFITS AMOUNTS ARE BASED ON EARNINGS

Social Security benefit amounts are calculated based on the earnings of the individual. In order to be eligible for Social Security benefits, a person must be insured, which is achieved by having worked and paid into Social Security for the requisite amount of time. To be fully insured for all benefits, a worker must have 40 quarters of coverage (i.e., 10 years). To be insured for disability or survivor benefits requires fewer quarters, the exact number depending on the worker's age at the time of disability or death.

An insured individual's Social Security benefit amount is based on the person's average earnings over their years of work, adjusted or indexed to account for the increase in average wages. For retirement benefit calculations, SSA uses the highest 35 years of earnings. If a person has fewer than 35 years of work, a year of zero earnings is included in the computation for each year less than 35 the person has reported earnings.

Retirement benefit amounts are based on average earnings over 35 highest earning years.

For disability benefits, the number of years used to determine benefit amounts will vary based on the person's age when they apply. SSA uses what is known as "elapsed years" to determine how many years of earnings are included in the calculation to determine the person's benefit amount. The number of elapsed years is the number of full calendar years since the person turned 21. People who become disabled after age 47 will have the lowest five years dropped ("dropout years"); those who apply

Disability benefit amounts are based on average earnings in "elapsed" years – the number of years since the person turned 21

for disability benefits before age 47 will have up to 4 dropout years (one-fifth the total number of elapsed years).

AVERAGE INDEXED MONTHLY EARNINGS (AIME)

Once the years to be included in the benefit computation are determined (including zero earnings years if applicable and excluding dropout years), SSA then "indexes" the person's earnings. Indexing is done to essentially update the earnings to current levels. This indexing process reflects earnings increases in average wage levels for each year after the earnings were paid. To accomplish this, the person's actual yearly earnings are multiplied by a percentage set by SSA for each year to reflect the general earnings level in the indexing year. Benefits are indexed to two years prior to when the individual first became eligible for benefits. For retirement benefits, that percentage is based on the earnings in the year the individual turned 60 years old. SSA then adds up the person's total earnings after they have

been indexed and divided by the number of months included in the calculation (420 for 35 years). The resulting figure is the person's averaged indexed monthly earnings or AIME.

PLUGGING THE AIME INTO THE BENEFIT FORMULA

SSA plugs the worker's AIME into the benefit formula to determine the person's Primary Insurance Amount (PIA), which is used to calculate retirement, disability, and survivors benefits.

The benefit formula for 2011 is
90% of the first \$749 of AIME
32% of the AIME amount in excess of \$749 up through \$4517;
15% of the AIME amount in excess of \$4517.

PRIMARY INSURANCE AMOUNT (PIA): One formula is used to determine a worker's PIA, from which the actual Social Security benefits are determined.

The percentages are unchanging from one year to the next, resulting in a stable rate of

BEND POINTS: The dollar amounts in the formula at which the wage replacement rate changes, which are indexed to the increase in average wages

replacement of wages, but the dollar amounts (the so-called "bend points") are adjusted, just as wages themselves are, to the increase in average wages. Please note that the formula replaces a higher percentage of wages for lower income earners.

ADJUSTMENTS TO THE PIA

Workers retiring at the full retirement age (FRA) receive an unadjusted PIA. Currently, the FRA is age 66. It is gradually increasing, and will be age 67 for those born on or after 1960. Workers who retire earlier than their FRA (the earliest age of eligibility to claim benefits is age 62) receive a reduced benefit, and workers who retire after their FRA, up to age 70, receive an increased benefit. The adjustment is designed to be actuarially neutral. The lower benefit for those retiring early is offset by receiving it, on average, for more years. The higher benefit for those retiring later is offset by receiving it on average, for fewer years. Workers who become disabled or die prior to the full retirement age are assumed to have reached full retirement age for purposes of determining their and their families' benefits.

FAMILY AND SURVIVOR BENEFIT AMOUNTS ARE BASED ON THE PIA

The families of retired, disabled, and deceased workers can be entitled to collect Social Security benefits based on the record of the that worker. Spouses and dependents are entitled to a percentage of the worker's benefit, up to a family maximum.

Produced by the **Consortium for Citizens with Disabilities (CCD)** Social Security Task Force. See www.disabilityandsocialsecurity.org for more information about the Task Force's public education and outreach campaign. To learn more about CCD, a coalition of over 100 national organizations, go to www.c-c-d.org.