Social Security and potential NARFE positions

Social Security was created in 1935 by the Social Security Act. The Old Age and Survivors Insurance Fund, and the Federal Disability Insurance Trust Fund are collectively referred to as the Social Security Trust Fund, (OASDI). In the report by the Social Security Trustees for 2023, the Social Security Trustees state that Social Security will deplete its reserves by 2033 and require a 20% reduction in benefits for both OASDI and Social Security Disability Insurance beginning in 2034. The Social Security Trust Fund will run a deficit of $254,000,000,000.00 each year for the next 11 years, (See the Center on Budget and Policy Priorities article "What the 2023 Trustees' Report Shows About Social Security", 4-17-2023, Kathleen Romig, as well as The 2023 Report of the Social Security Trustees, and the Congressional Budget Office: CBO's 2022 Long-Term Projections for Social Security, December 2022). In 2034, cuts of 20% will be applied to all Social Security benefits, as the Social Security Trust Funds reserves will be depleted and revenues will only fund benefits at 80% of their level in 2033. There are 70,000,000 beneficiaries of the Social Security system receiving benefits in 2023. The Trust Fund contained $2,908,000,000,000.00 as of the 2021 calendar year. The Trust Fund is required to be invested in non-marketable securities issued and guaranteed by the 'full faith and credit' of the federal government. These securities earn a market rate of return.

A. How is Social Security Funded?

Internal Revenue Code (IRC) Section 3101(a), OASDI, (Title 26 of the U.S.C.), requires that a 6.2% tax be imposed on an employee's income as defined by IRC Section 3121(a), (salary/payments, received in exchange for services provided by an employee to their employer as defined by IRC Section 3121(b)). This amount is to be withheld and deposited into the Social Security Trust Fund.

Internal Revenue Code (IRC) Section 3111(a), OASDI, (Title 26 of the U.S.C.), further requires that a 6.2% tax be imposed on every employer, based on the wages the employer paid to their employees, as defined by IRC Section 3121(a), based on the employees employment with the employer as defined by IRC Section 3121(b). This amount is to be withheld and deposited into the Social Security Trust Fund.

IRC Section 3121(a) provides the definition of compensation for services rendered by an employee for an employer. These amounts are subject to the Social Security (OASDI) tax and are withheld pursuant to IRC Section 3101(a) and IRC Section 3111(a). Two important concepts apply here:

A. Passive income, and distributions from annuities or IRAs or 401(k)s are not subject to IRC Section 3101(a) and IRC Section 3111(a), only wages paid for services rendered in an employment relationship.
B. Compensation taken into account is limited by section 230 of the Social Security Act (Title 42 of the U.S.C.) which limits the compensation (wages/remuneration) subject to the IRC Section 3101(a) and IRC Section 3111(a) OASDI tax, to the Taxable Wage

Base. For 2023 the Taxable Wage Base is $160,200, (See Revenue Ruling 2022-24).

To summarize, for each U.S. citizen or permanent U.S. resident, earning wages from employment in the United States, Puerto Rico, the Virgin Islands, and, (with caveats, in Guam and American Samoa); each employee must pay 6.2% of their first $160,200 (2023) of income into the Social Security Trust fund. Each employer must pay 6.2% of the employee's first $160,200 (2023) of income into the Social Security Trust fund.

For self employed individuals the tax is 12.4% on the first $160,200 (2023) of income that must be withheld and paid into the Social Security Trust fund.

Keep in mind that the tax for Medicare: IRC 3101(b) is 1.45% (up to the Taxable Wage Base with an additional tax of .9% for wages over $200,000, (or $250,000 for joint filers)), that must be paid by employees into the Medicare Trust Fund). IRC Section 3111(b) requires that employers pay an additional tax of 1.45% of their employees wages (up to the Taxable Wage Base) into the Medicare Trust Fund. This proposal does **not** address Medicare.

Employment is defined by IRC Section 3111(b), as services performed in the United States, Puerto Rico, and the Virgin Islands, (with some caveats for Guam and American Samoa). Employment also covers U.S. citizens engaged in employment outside the United States in the U.S. Maritime Service, and for international U.S. based airlines.

Beneficiary is defined as a U.S. Citizen or as a permanent U.S. Resident.

B. The Social Security Trust Fund:

Public Law 101-508, Title XIII Section 13301(a) (passed November 5, 1990), provided that "Notwithstanding any other provision of law, the receipts and distributions of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund **shall not be counted** as new budget authority, outlays, receipts, or deficit or surplus for purposes of- (1) the budget of the United Stated Government as submitted by the President, (2) the congressional budget, or (3) the Balanced Budget and Emergency Deficit Control Act of 1985."

Therefore, Public Law 101-508 does not permit deposits, made to the Social Security Trust Fund, to be used for any other federal expenditure. The Social Security Trust Fund is similar to the "G Fund" of the Thrift Savings Plan, for federal employees. The monies must be segregated into the Social Security Trust Fund, and must be invested in non-marketable U.S. Treasury Securities.

The Board of Trustees of the Social Security Trust Fund are composed of six members: The Secretary of the Treasury, The Secretary of Labor, the Secretary of Health and Human Services, and two members appointed by the President and confirmed by the Senate.

C. Who are the beneficiaries of the Social Security Trust Fund?

Retired Workers
Spouses of Retired Worker (at least 62 years old), or spouses' who have a child under 16, or have a disabled child in his or her care
Aged Widow
Young Widow, child under 16 in their care, or a disabled child
Disabled Widow, at least 50
Parent of deceased worker, if age 62 and dependent on the worker
Spouse of Disabled Worker, at least 62, or if they have a child under 16
Child Beneficiaries of deceased parents:
- Minor Child under age 18
- Adult Disabled before age 22
- High School Student under 19

General eligibility requires a worker to pay social security taxes for 10 years (40 quarters), attain age 62, or be a spouse or beneficiary of a worker who has met the general eligibility requirements, listed above..

D. How is a Social Security Benefit calculated?

Primary Insurance Amount: Section 202 of the Social Security Act (Title 42 U.S.C.), for folks first reaching Social Security Retirement Age in **2023** and who apply to commence benefits in **2023:**
The Primary Insurance Amount and Bend Points are as follows:
For folks reaching their Social Security Retirement Age in **2023**.
Their Monthly Benefit at full Social Security Retirement Age, without any age adjustment, is as follows::

A. 90% of the first $1,115 of average indexed monthly earnings, plus
B. 32% of average indexed monthly earnings in excess of $1,115, up to $6,721, plus
C. 15% of average indexed monthly earnings in excess of $6,721.

This formula is applied to the sum of an employee's Social Security Earnings over their entire working life, (taking into account their highest earnings over 35 years). The sum of the employee's total annual Social Security Earnings are then divided by 35; (35 years must be taken into account). The amount that is calculated, is then divided by 12 to determine the individuals average monthly wage, based on all their earnings from all years of employment, taking into account 35 years.

This average monthly wage amount is applied to the Primary Insurance Amount formula to determine the individual's monthly social security benefit for an individual retiring at their social security retirement age, without adjustment.

Another example: For folks reaching their Social Security Retirement Age in **2001**, applying the Primary Insurance Amount Bend Points from **2001** to determine their monthly Social Security benefit, is as follows:

A. 90% of the first $561 of average indexed monthly earnings, (**2001**), plus
B. 32% of average indexed monthly earnings over $561 and not exceeding $3,381, (**2001**), plus
C. 15% of average indexed monthly earnings over $3,381, (**2001**)

Example A: Employee Y earns Social Security wages for 28 years that average $38,000 (annual compensation). Y attains age 65. Y attains their Social Security Retirement Age in **2001** and applied for their Social Security benefits in **2001**: (Y was born in 1936)

($38,000 x 28) = $1,064,000, (then divide by 35) = $30,400
(then divide by 12) = $2,533
Y's monthly Social Security Benefit, (**2001**), would be:
90% of $561 = $505
32% of $1,972 = $631 ($2,533 minus $561 equals $1,972)
Y's Total Social Security Benefit in **2001**= $1,136, monthly Social Security benefit in **2001** assuming Y attained age 65.
If Y commenced benefits in 1998 at age 62, the monthly benefit would be reduced to $908
(See the reduction schedule below)

Example B: Employee X earns Social Security wages for 28 years that average $54,000 (annual compensation). X attained their Social Security Retirement Age in **2023**, and applied for their Social Security benefits in **2023:**

($54,000 x 28) = $1,512,000 (then divide by 35) = $43,200
(then divided by 12) = $3,600
X's monthly Social Security Benefit, (**2023**), would be:
90% of $1,115 = $1,003
32% of $2,485 = $795.20 ($3,600 minus $1,115 equals $2,485)
X's Total Social Security Benefit in **2023** = $1,798 monthly benefit
This assumes X was born January 1957 and commenced benefits July 2023.
If X commenced benefits at age 62, the monthly benefit would be reduced to $1,303, assuming X commenced benefits January, 2019.
(See the reduction schedule below)

E. What is full social security retirement age?

Full Social Security Retirement Age:

Year of Birth:	Social Security Retirement Age:
1937 and earlier:	65
1943 to 1954:	66
1955	66, 2 months
1956	66, 4 months
1957	66, 6 months
1958	66, 8 months
1959	66, 10 months
1960	67

F. What are the adjustments?

For someone **born 1943 to 1954** whose Social Security Retirement Age is 66

The adjustments to their PIA monthly benefit is as follows:

Age 62: 75% of benefit is payable
Age 63: 80% of benefit is payable
Age 64: 86 2/3% of benefit is payable
Age 65: 93 1/3% of benefit is payable
Age 66: 100% of benefit is payable
Age 67: 108% of benefit is payable
Age 70: 132% of benefit is payable

For someone **born in 1960** whose Social Security Retirement Age is 67:

The adjustments to their PIA monthly benefit is as follows:

Age 62: 70% of benefit is payable
Age 63: 75% of benefit is payable
Age 64: 80% of benefit is payable
Age 65: 86 2/3% of benefit is payable
Age 66: 93 1/3% of benefit is payable
Age 67: 100% of benefit is payable
Age 70: 124% of benefit is payable

Each year of delayed commencement of Social Security benefits, beyond a participant's Social Security Retirement Age, the monthly PIA benefit is increased by 8% for each 12 month period, (on a monthly basis .0066% each month). The increase stops at age 70.

Reduction to the PIA monthly benefit is 5/9s of 1% for each month benefits commence prior to Social Security Retirement Age, up to 36 months. The reduction after that is 5/12s of 1% for each additional month.

G. Spousal Benefits and the Social Security minimum benefit:

The minimum social security benefit for 2023 is $1,033.50 at Social Security Retirement Age based on 30 years of contributions into the Social Security Trust Fund. There are reductions for fewer than 30 years worked (must have contributed for at least for 11 years, 44 quarters), and there is a reduction if benefits are commenced prior to the participants Social Security Retirement Age. The individual will receive **the greater of** their calculated benefit or the Social Security Minimum Benefit.

A non-working spouse can receive Social Security Retirement Benefits if they are at least age 62, or caring for a qualifying child. The spouse must be married at least one continuous year to an individual eligible for Social Security benefits. The maximum Social Security Benefit of a non-working spouse is up to 50% of the working spouse's Social Security Benefit at Social Security Retirement Age, based on the worker spouse's contributions to the Social Security Trust Fund.

H. Why are we facing deficits?

Between 2008 to 2019, the retired population aged 55 and over grew by one million. From 2020 to 2022 the retired population grew by 3.5 million. Fertility is lower than the replacement level required. The ratio of workers to social security beneficiaries was 8.5 to 1 in 1955. In 1995, the ratio of workers to social security beneficiaries was 3.5 to 1. In 2023, the ratio of workers to social security beneficiaries was 2.8 to 1, (according to "Fast Facts and Figures about Social Security, 2023", SSA Pub. No. 13-11785). (Folks need to have more kids.)

See The NARFE (Chapter 073, San Bernardino) Proposal on the **next page**:

NARFE Proposal to address Social Security deficits and under-funding which will affect benefit payments in 2034.

NARFE Chapter 073 (San Bernardino) proposes the following for consideration by the NARFE California Federation and by National NARFE

NARFE Chapter 073 (San Bernardino), proposes a onetime increase to the Taxable Wage Base of Section 230 of the Social Security Act, (Title 42 U.S.C.), of $29,500, to assist in addressing the forecasted under-funding of the Social Security Trust Fund, that the trust fund will face when disbursing benefits in 2034, (as determined by the trustees and actuaries in the 2023 Social Security Trustee Report). This permanent, one time increase to the Taxable Wage Base, would be effective in calendar year 2025. In addition, a Fourth Bend Point needs to be added to the definition and calculation of the Primary Insurance Amount of Section 202 of the Social Security Act, of 6% of average annual earnings in excess of $120,000 (based on a 35 year average), which are average monthly earnings in excess of $10,000, (based on a 35 year average).

The Primary Insurance Amount formula needs to be adjusted. The first bend point and the second bend point, and the third bend point, would continue to be based on the Bureau of Labor Statistics average indexed monthly earnings as they increase from year to year.

Bend Points would be calculated as the indexed monthly earnings from the Bureau of Labor Statistics, (defined as: the current indexed monthly earnings), as follows:

Bend Point One: $180 times (the current indexed monthly earnings) divided by 9.779.44 which equals average monthly compensation up to $1,114.94, (**2023**), x 90%.

Bend Point Two: $1,085 times (the current indexed monthly earnings) divided by 9.779.44 which equals a participant's average monthly compensation in excess of $1,114.95 to $6,721,(**2023**), x 32%.

Bend Point Three: Average Monthly Compensation in excess of $6,721 to $10,000 (as adjusted by the Current Indexed Monthly Earnings determined by the Bureau of Labor Statistics) multiplied by 15%.

(**Needed to add-Fourth Bend Point-by legislation**)

Bend Point Four: Average Monthly Compensation in excess of $10,000 (as adjusted by the Current Indexed Monthly Earnings determined by the Bureau of Labor Statistics), multiplied by 6%.

For each Bend Point defined in the formula for the Primary Insurance Amount, the only variable is current indexed monthly earnings, determined each year by the Bureau of Labor Statistics. In the first bend point the calculation of $180 times, and division by 9.779.44 are constants used year to year. In the second bend point $1,085 times, and division by 9.779.44 are constants year to year.

The $180 for the first bend point, and the $1,085 for the second bend point are based upon the original bend points from calendar year 1979, as adjusted by the Current Indexed Monthly Earnings determined by the Bureau of Labor Statistics for 44 years.

In addition, NARFE Chapter 073 (San Bernardino), proposes an increase to the tax rate of IRC Section 3101(a) to 6.9%, replacing its current tax rate of 6.2%, effective in the 2025 calendar year.

NARFE Chapter 073 (San Bernardino) also proposes an increase tot he tax rate of IRC Section 3111(a) to 6.6% replacing its current tax rate of 6.2%, effective in the 2025 calendar year.

NARFE Chapter 073 (San Bernardino) proposes an annual limited scope audit of the Social Security Trust Fund by a large outside CPA firm, effective in the 2025 calendar year.

Finally, NARFE Chapter 073 (San Bernardino) proposes that all beneficiaries of Social Security benefits can only commence benefits after 5 full years of U.S. Citizenship, or U.S. Permanent Residency, effective in the 2025 calendar year.

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