SOME WORN OUT LOW INCOME WORKERS WHO TAKE THE REDUCED SOCIAL SECURITY RETIREMENT BENEFIT AT AGE 62 MAY ACTUALLY BE ENTITLED TO THE MUCH HIGHER DISABILITY BENEFIT

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ABSTRACT

Individuals can start Social Security retirement benefits as early as age 62, or as late as age 70. The decision affects the benefit that they and/or their qualified family members receive each year. Taking benefits at age 62 can be appealing for various reasons like fear of a premature death resulting in loss of benefits or just wanting to retire and the money is needed to do that. However, if individuals are unable to continue working due to verifiable disabilities, they might be able to claim a disability benefits that are equal to the full retirement benefit (age 66 for most current retirees). This paper investigates the possibility that beneficiaries might not be aware of the disability benefit, and could make poor decisions.

INTRODUCTION

Individuals can choose to start their Social Security retirement benefit as early as age 62 or as late as age 70. The decision does affect the amount of benefit that they and/or their qualified family members will receive each year. Many choose to take a reduced benefit earlier rather than a full benefit later for various reasons: some fear that, if they do not, a premature death would result in an economic loss of benefits; others have jobs that are so physically difficult that they actually need to stop working; while others have a combination of these factors which, when combined with little or no other sources of retirement income make it absolutely necessary to start the benefit [3] [6].

However, if the individual is, in fact, unable to continue working due to a verifiable disability, the amount of the benefit would be based upon the individual's full retirement age instead of the earlier claiming age. One must not only be unable to continue the current job, but must be unable to carry out any meaningful employment. Proving this may be difficult, and most claims are denied according to the last report including years 1998 to 2010 [7]. The number of initial claims that were awarded in 2010 was 34.8 percent, down from 56.0 percent in 1998. This research does not address the reasons for the decline, but provides this data to support that it is generally difficult to get the benefit.

We suspect that a lack of information has created a situation where many individuals approaching age 62 are not aware of this option and mistakenly claim the lower benefit. We also have observed that the federal government, represented by the Social Security Administration (SSA), has made little or no effort to educate or inform individuals of this potential increase in benefits. The possible lack of interest on the part of the SSA to assist workers in applying for the maximum benefit is evidenced by a plethora of attorneys advertising to assist individuals when filing claims. However, this offer of help for hire does not reach the many low-income workers who might not be aware that the benefits exist [8].

BACKGROUND

If individuals start their social security benefit at full retirement age (age 66 for every one born in 1943 through 1954, but increases to age 67 for those born in 1960 or later) they will receive the Primary Insurance Amount (PIA) each month until they die. The PIA is a function of the average monthly covered earnings that the individual paid Social Security taxes on during the 35 highest earnings years. The earnings are adjusted annually for price level changes. The Social Security taxes paid on covered earnings on years 36 and beyond have no effect on the PIA [Exhibit A].

While age 66 is currently the full retirement age for starting to receive Social Security retirement benefits, an individual may elect to start the benefit as early as age 62 or as late as age 70. Those who start the benefit at age 62 will receive a reduced amount (75% of their PIA, 70% for those born in 1960 or later). For those who delay taking the benefit until after full retirement age, the benefit is enhanced at the rate of eight percent for each year that they wait.

For an individual who paid Social Security taxes on covered earnings for 35 years and reaches age 62 in 2017, if the monthly benefit at age 66 would be $2,000, it would be reduced to $1,500 if the individual claims the retirement benefit at age 62. However, if the individual could qualify for the disability benefit, the monthly benefit would be $2,000. Except for price level adjustments, normally each of these benefits would continue on until the individual dies. In the case of spousal or other beneficiary benefits, because their benefits are tied to the amount the individual is entitled to, the 25% difference would also apply to their benefits.

Normally, if individuals start their retirement benefit early, they will still have to wait until age 65 to be eligible for Medicare benefits. However, if, instead, individuals qualify for the disability benefit, they will get early entitlement to Medicare after 24 months of SSDI payments.

Additionally, when individuals receiving SSDI reach full retirement age (NRA), if they do nothing, the disability benefit will be automatically converted to a retirement benefit. But, on a proactive basis, the individual can ask to withdraw their disability benefit at NRA and wait to start the retirement benefit as late as age 70. During this waiting period the PIA will increase at the rate of 8 percent for each year the benefit is deferred [Exhibit B, §202] [4].

SSDI ELIGIBILITY AND BENEFITS

In order to qualify for a disability benefit, one needs to be fully insured at the onset of the disability:

- For a disability that occurs after age 31 and before NRA, must have worked in covered employment for a minimum of five years out of the previous ten years (20 out of 40 quarters).
- For a disability that occurs before age 31, must have worked in covered employment for the greater of six quarters, or at least half of the quarters between age 21 and the age when the disability began.
- Must have a mental or physical disability that prevents the individual from performing any kind of substantial work and is expected to last for at least twelve months or until death.

An individual who qualified for the SSDI is entitled to the full PIA, beginning in the sixth month after the disability, until the earliest of the following:

- When the disability ends before death, the benefits stop in the second month after the disability ends.
- When the individual dies, the benefits are terminated in the month before the individual's death.
- The individual reaches NRA. After NRA, SSDI payments become retirement payments.

Any spousal or child benefits are calculated in the same way as if the individual were receiving retirement benefits. The spousal benefit is 50 percent of the disabled worker's benefit but is reduced for spouses under NRA. A child under age 18, or age 19 if still in high school, is also entitled to a benefit of 50 percent of the disabled parent's benefit. However, both of these are subject to a family maximum benefit [5] [Exhibit B].

HOW TO CLAIM THE BENEFIT

There are three ways to apply for SSDI benefits: mail, online at https://secure.ssa.gov/iClaim/rib, or in person at a Social Security Office. At a minimum, one must provide proof of identity, earnings history, marital status, including former marriages, family makeup, and evidence to support the fact that the disability meets the above-mentioned requirements.

A COMPARATIVE EXAMPLE OF BENEFITS

A model has been developed to calculate the total benefits and their present value in various scenarios. The concern in this paper is that one who is eligible for an early start, as well as SSDI, would claim early retirement rather than the much more attractive SSDI benefit until NRA is reached. This model illustrates the difference in benefits between the two possibilities.

As posited, the years before age 62 are not relevant. The model assumes age 62 and a life expectancy of 18 years (age 80). But the life expectancy could be changed. In the situation presented, the full benefit is $24,000 annually. A discount rate of 2.5% is used, but a user could change that. A low rate is appropriate because benefits are indexed for inflation, so in a risk-free environment, one could argue that 0% would be appropriate.

The model estimates the present value of a $24,000 benefit to be $344,480; but if the early retirement is elected, it drops to $258,360. The difference, $86,120, is, as expected, 25%. By pursuing SSDI when one is eligible, the disabled claimer gets the full retirement benefit. If early retirement benefits are claimed, the 25% cut is for life.

The model also enables the user to observe what happens if a disabled beneficiary suspends payments at full retirement age until age 70, taking advantage of the 8% increase for each year after full retirement. Under the scenario calculated, where the person lives to age 80, the present value is less than when the individual does not suspend. If the individual lived beyond 80, eventually the suspension would pay-off. The model can be adapted to accommodate longer life assumptions.

POTENTIAL BREADTH OF THE PROBLEM

Data is not readily available as to the breadth of the problem. Munnell, et. al., of the Center for Retirement Research address the question of when and why beneficiaries claim early, but they assume away those who claim disability benefits at or before full retirement age [6]. For an historical look at disability claims, see "An empirical analysis of the social security disability application, appeal, and award process," from

1999 [2]. More recently, it has been reported that from 1985 to 2005 the percentage of Americans between the ages of 25 and 64 receiving disability from Social Security has increased from 2.2 percent to 4.1 percent. This may indicate a continuing trend and it does not segregate those age 62 and over [1].

INCREASED BENEFITS CAN MORE THAN DOUBLE QUALITY OF LIFE

The theory that marginal income dollars can provide more utility to an individual than earlier dollars is not new. This concept is especially important when we consider the case of lower-income individuals. A few additional dollars might allow a senior to buy more nourishing and appetizing food. For example, Susan age 62 receives $1,000 per month in social security benefits. Susan's rent and utilities are $800 per month, leaving only $200 for food and other necessities; almost a starvation budget. If Susan had applied for the SSDI benefit, the increase to $1,333 ($1,000 / .75) would increase the money available for food and other necessities by 166.5 percent ($1,333 - $800 = $533; ($533- $200) / $200 = 166.5%). Therefore, the 33 percent increase in nominal dollars would have a quality of life value much greater than 33 percent of the original $1,000.

CONCLUSION

This paper is a preliminary look at the stark differences between early retirement and disability under Social Security. Many beneficiaries are so compelled to retire early, but they might be eligible for more attractive disability benefits. The goal of this research is to consider how to assist those in this situation learn about the differences

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EXHIBIT A

THE SOCIAL SECURITY RETIREMENT BENEFIT CALCULATION

The Social Security retirement benefit that a worker will receive, if retiring at full retirement age (age 66 for those born between 1943 and 1954)), is called the primary insurance amount (or PIA). Many of the worker's other benefits, including family benefits, are based on this PIA. The calculation of this PIA provides a much larger benefit to lower or middle income workers (relative to the amount of tax paid into the system) than it does to the high-income worker. Up to a certain level of inflation adjusted average monthly income[1] that social security taxes were paid on during the qualifying years (called a bend point) the PIA will include 90 percent of that amount. In the calculation, there is a second level of inflation adjusted average monthly income (from bend point one to bend point two). The PIA will include 32 percent of that amount. A third level of inflation adjusted average monthly income that Social Security taxes were paid on during the qualifying years is measured from bend point two to the social security taxable income ceiling. The PIA only includes 15 percent of this amount. This calculation is illustrated below, using the 2017 bend points, for a wage level inflation adjusted average monthly income of $8,900:

TABLE 1

Calculation of PIA for 2017

	First Bend Point $885		Second Bend Point $5,336		Maximum Income Level $10,600		Total
Range	885 * .90	+	(5,336 – 885) * .32	+	((10,600 – 5,336) * .15)		
PIA	797	+	1,424	+	790	=	**$2,687***

As illustrated, the high-income worker paying the maximum amount into the social security system on **$127,200** ($10,600 x 12) of annual wages receives a monthly PIA of **$2,687** or **$32,244** annually. However, a middle-income worker paying into the social security system on **$64,032** ($5,336 x 12) would receive a monthly benefit of **$2,221** ($797 + $1,424) or **$26,652** annually. Clearly, this illustrates the benefit advantage to the middle-range worker. The high-range income worker receives only **$466** more per month than the middle-range income worker while having paid almost twice as much in social security taxes. The benefit advantage to the low-income worker is even greater. The high-income worker, having paid almost 12 times as much in social security taxes ($10,600/$885= 12.0), receives only 3.37 times as much benefit as the low-income worker ($2,687/$797= 3.37).

* **The Social** Security Administration published maximum is $2,687, apparently due to rounding (i.e., the PIA line above does not add-up). See https://www.ssa.gov/OACT/COLA/examplemax.html.

[1] Usually, the inflation adjusted average monthly income is based on the workers 35 best years in which social security taxes were paid. The original wages are inflation adjusted using wage level inflation index rather than a consumer price level inflation index. We will not pursue this topic further but, for illustration purposes, will assume that we can use the bend points and the social security tax ceiling for 2017. The first and second bend points in 2017 are $885 and $5,336 respectively. The social security tax ceiling in 2017 is $127,200. Therefore, for our illustration, we assume the maximum inflation adjusted average monthly income is $10,600.

EXHIBIT B

RELEVANT PROVISIONS OF BIPARTISAN BUDGET ACT OF 2015
PUBLIC LAW NO: 114-74 (11/02/2015)

Subtitle C--Protecting Social Security Benefits

SEC. 831. CLOSURE OF UNINTENDED LOOPHOLES.

(a) Presumed Filing of Application by Individuals Eligible for Old-Age Insurance Benefits and for Wife's or Husband's Insurance Benefits--

(1) In general--Section 202(r) of the Social Security Act (42 U.S.C. 402(r)) is amended by striking paragraphs (1) and (2) and inserting the following:

(1) If an individual is eligible for a wife's or husband's insurance benefit (except in the case of eligibility pursuant to clause (ii) of subsection (b)(1)(B) or subsection (c)(1)(B), as appropriate), in any month for which the individual is entitled to an old-age insurance benefit, such individual shall be deemed to have filed an application for wife's or husband's insurance benefits for such month.

(2) If an individual is eligible (but for section 202(k)(4)) for an old-age insurance benefit in any month for which the individual is entitled to a wife's or husband's\ insurance benefit (except in the case of entitlement pursuant to clause (ii) of [[Page 129 STAT. 612]] subsection (b)(1)(B) or subsection (c)(1)(B), as appropriate), such individual shall be deemed to have filed an application for old-age insurance benefits—

(A) for such month, or

(B) if such individual is also entitled to a disability insurance benefit for such month, in the first subsequent month for which such individual is not entitled to a disability insurance benefit.

(2) Conforming amendment.--Section 202 of the Social Security Act (42 U.S.C. 402) is amended— (A) in subsection (b)(1), by striking subparagraph (B) and inserting the following: (B)(i) has attained age 62, or (ii) in the case of a wife, has in her care (individually or jointly with such individual) at the time of filing such application a child entitled to a child's insurance benefit on the basis of the wages and self-employment income of such individual; and (B) in subsection (c)(1), by striking subparagraph (B) and inserting the following: (B)(i) has attained age 62, or (ii) in the case of a husband, has in his care (individually or jointly with such individual) at the time of filing such application a child entitled to a child's insurance benefit on the basis of the wages and self-employment income of such individual,".

(3) <<NOTE: Applicability. 42 USC 402 note.>> Effective date--The amendments made by this subsection shall apply with respect to individuals who attain age 62 in any calendar year after 2015.

(b) Voluntary Suspension of Benefits—

(1) In general--Section 202 of the Social Security Act (42 U.S.C. 402) is amended by adding at the end the following: (z) Voluntary Suspension--(1)(A) Except as otherwise provided in this subsection, any individual who has attained retirement age (as defined in section 216(l)) and is entitled to old-age insurance benefits may request that payment of such benefits be suspended—

(i) <<NOTE: Effective date.>> beginning with the month following the month in which such request is received by the Commissioner, and

(ii) <<NOTE: Termination date.>> ending with the earlier of the month following the month in which a request by the individual for a resumption of such benefits is so received or the month following the month in which the individual attains the age of 70.

(2) <<NOTE: Termination date.>> An individual may not suspend such benefits under this subsection, and any suspension of such benefits under this subsection shall end, effective with respect to any month in which the individual becomes subject to—(A) mandatory suspension of such benefits under section 202(x); (B) termination of such benefits under section 202(n); (C) a penalty under section 1129A imposing nonpayment of such benefits; or (D) any other withholding, in whole or in part, of such benefits under any other provision of law that authorizes recovery of a debt by withholding such benefits. [[Page 129 STAT. 613]]

(3) In the case of an individual who requests that such benefits be suspended under this subsection, for any month during the period in which the suspension is in effect-- (A) no retroactive benefits (as defined in subsection (j)(4)(B)(iii)) shall be payable to such individual; (B) no monthly benefit shall be payable to any other individual on the basis of such individual's wages and self-employment income; and (C) no monthly benefit shall be payable to such individual on the basis of another individual's wages and self-employment income."

Conforming amendment--Section 202(w)(2)(B)(ii) of the Social Security Act (42 U.S.C. 402(w)(2)(B)(ii)) is amended by inserting “under section 202(z)" after ``request".