

## **Question: How is the Primary Insurance Amount for Title II Benefits Determined and What Can Affect it?**

CWICs may get questions from beneficiaries about why they are receiving a certain amount of Title II payments. They may have friends or family members who receive a different amount than they do and this may be confusing. It is important to have a basic understanding of how SSA determines the Primary Insurance Amount, or PIA, for Title II beneficiaries in order to help them better understand their benefits and how work may affect them. CWICs also need to understand the limits of their advisement on this subject, and when to defer to SSA.

### **Computing the Primary Insurance Amount**

Social Security taxes paid on work are somewhat like insurance premium payments. Benefits are earned by paying Social Security taxes on wages, or on the net-profit from a trade or business. All benefits stem from the work of the person who owns the Social Security number on which the benefits are paid.

When a worker retires and collects an SSA benefit, dies, or becomes entitled to SSA disability benefits, the amount of wages previously taxed determines eligibility and the amount of payments. To determine eligibility on a worker's history of earnings, SSA counts "credits" in which a minimum amount of wages were taxed under the Social Security Act. SSA uses a count of credits to measure if the worker had sufficient, and/or recent enough work for the worker, or for dependent family members, to be due benefits. The amount required to earn a credit changes annually. In 2010, a worker must earn \$1,120 in Social Security covered employment to earn one credit. A maximum of 4 credits can be earned per year.

SSA determines if a person is eligible or "insured" for benefits by determining when and how many credits the person has earned. There are several types of insured status, and the amount of required work depends on the type of benefits, the person's age, and the point at which the person becomes disabled. SSA will make this determination when the person applies. It is not the responsibility of CWICs to determine eligibility and it is not possible for CWICs to perform this task. Only SSA personnel have access to the information needed to make entitlement determinations! One salient point here is that younger workers, below the age of 31, need fewer credits to meet the disability entitlement requirements. SSA publication number 05-10072 entitled, "How you Earn Credits," has a chart that specifies the amount of credits needed for younger workers. This can be found on the SSA website, [www.ssa.gov](http://www.ssa.gov), under "Publications." Since fewer credits are required, CWICs want to alert young SSI beneficiaries who are expected to

begin accruing credit of the possibility they could reach insured status, and the ramifications of that change.

Once SSA determines that a worker has sufficient credits to permit entitlement, SSA calculates the Primary Insurance Amount (PIA) and payments based on wages or self-employment income (SEI) on which taxes were paid. There are many different calculations, and the appropriate one is chosen based on the worker's date of birth, and the date the disability began, or the date the worker died or became entitled to a retirement benefit. The benefit calculation is very complex, and it is reliably performed by SSA's computer system when an individual applies for benefits. Re-computations occur automatically when an individual has additional earnings that positively affect the potential benefit. CWICs should never attempt to calculate benefit amounts or even offer estimates of what payment might be. This task can only be performed by SSA.

### **Special Computation Rules for People who had a Period of Disability**

If a person was disabled at some time in his or her life, received disability insurance benefits, and those benefits were terminated because she or he recovered from his or her disability or because of engaging in substantial gainful activity, special rules apply in computing the primary insurance amount when he or she becomes eligible (after 1978) for retirement benefits or if he or she becomes re-entitled to disability insurance benefits or dies. There are two sets of rules, depending on how long it has been since the period of entitlement to disability benefits ended. The object of these rules is to compute the PIA that is most advantageous to the beneficiary.

### **Cost-of-living Increases**

One factor that can affect the PIA is cost of living increases. Benefits may be automatically increased to keep pace with increases in the cost-of-living if laws for general benefit increases are not passed. Benefit increases depend upon the condition of the Federal Old-Age, Survivors and Disability Trust Funds. The increases are based on the smaller of either: (1) *the Consumer Price Index* as published by the Department of Labor; or (2) the average wage index, that is based on nationwide wages. Where the index for a current base quarter shows an increase over the same index for the last base quarter, the following happens: each PIA is raised to reflect the same percentage of increase (rounded to the nearest one-tenth of one percent). The base quarter is either: (1) the third calendar quarter of each year (after 1982), or (2) a later calendar quarter within which a general benefit increase became effective.

This cost-of-living benefit increase becomes effective beginning with December of the year that contains the base quarter for the index increase. The cost-of-living increase is published in the *Federal Register* on or about November 14 of the year preceding the year the benefits are payable.

### **Recomputation of the PIA**

The PIA may be recomputed (and increased) one or more times after the first computation. The first computation is made at the time that the beneficiary becomes entitled to retirement or disability insurance benefits. There is no need for a beneficiary to take any special action to have the benefit recomputed. The automatic recomputation gives the beneficiary credit for any substantial additional covered earnings in the year they first became entitled to benefits or in a later year. A recomputation to include a particular year's earnings is effective in January following the year in which the earnings were paid. For example, a benefit increase resulting from an automatic recomputation to include 2010 earnings will first be paid for January 2011.

A recomputation never decreases the PIA. However, an automatic recomputation can increase the PIA if earnings in the additional base year considered are higher than earnings in the lowest computation year used in the last computation or recomputation.

### **Can Benefits ever be Reduced?**

The benefit rate is reduced if the beneficiary becomes entitled to the following benefits at the ages shown:

- A. Retirement insurance benefits at age 62 through the month before you reach Full Retirement Age (FRA);
- B. Husband's or wife's insurance benefits at age 62 through the month before they reach FRA, provided that they do not have in care a child of the worker either under age 18 or disabled and entitled to benefits;
- C. Widow(er)'s insurance benefits beginning at any time from age 50 through the month before they reach FRA;
- D. Widow(er)'s insurance benefits after the deceased worker has received a retirement insurance benefit reduced for age;
- E. Disability insurance benefits received after a reduced retirement insurance benefit.

### **Conclusion**

In summary, it is important for CWICs to have a basic understanding of the PIA, and what may affect it. An important counseling point for beneficiaries is that work at any level does not adversely affect the PIA. SSA had rules in place to ensure that the PIA will be recomputed only when earnings would result in an increase in the amount of the benefit. It is important to remember that these calculations are complex and it is outside of the scope of expertise for a CWIC to attempt a calculation or estimate a potential increase in the PIA due to work.

For more information, refer to POMS:

RS 00601.000: [PIA and Benefit Amounts - Introduction - Table of Contents](#)

RS 00605.000: [Initial Computation of the PIA - Recomputations and Recalculations - Table of Contents](#)