§ 9.40 KEY FIRST STEP IN BENEFIT COMPUTATION

Dollar amount of benefits received by individual who is entitled to benefits is based on earnings records. More precisely, benefit amounts are stated as percentages of insured worker's primary insurance amount. This primary insurance amount, computed under either average wage method or average indexed monthly wage method, determines monthly benefits based on individual's earnings averaged over his or her working lifetime.

§ 9.41 Primary Insurance Amount

The amount of virtually all social security benefits is determined by the primary insurance amount (PIA), which, in turn, is based on the earnings of the insured individual. The benefit amount received by the beneficiary is expressed as a percentage of the insured worker's PIA. The percentage increases or decreases with the age of the claimant at the time of his application for benefits. (For the actual percentages of the PIA attributable to each particular benefit, see the applicable section on that benefit at § 9.60 *et seq.*)

The PIA is based on either the insured worker's average monthly earnings (AME, for those 62 before 1979) or average indexed monthly earnings (AIME, for those 62 after 1978). Whichever method is used, however, the party must first determine:

(1) the number of elapsed years;

(2) the benefit computation years; and

(3) the computation base years in order to make the necessary calculation.

In calculating the PIA and in all succeeding calculations except the calculation of the actual monthly benefit, all amounts that are not multiples of $0.10 are rounded down to the next multiple of $0.10. In calculating the monthly benefit, amounts that are not whole dollars are rounded to the next lowest dollar amount.

§ 9.42 Elapsed Years for Benefit Computation

An individual's elapsed years are measured by counting, at the time he applies for the particular benefit, the number of years after the year in which age 21 is attained through the year prior to the year of death or retirement, whichever is earlier. However, for individuals born before 1930, the elapsed years are counted from 1951 through the year before the year of death or retirement, whichever is earlier, is the measure of "elapsed years."[1] A person is considered of retirement age:

(1) if female, when 62 years old; and

(2) if male, when 62 years old if attained after 1974; if he attained the age of 62 in 1973 or 1974, his retirement year is 1975; if he reached age 62 prior to 1973, retirement age is 65.[2]

If for any part of a year the insured worker is "disabled" (see definition at § 9.82), the entire year is precluded from being counted as an elapsed year unless counting the year would result in a higher PIA.

Example: In 1997 John, who became 65 years old, wants to know the amount of his old age insurance benefits. The first step in the process is to find out the number of elapsed years he has. Since John was born after 1929, he counts the number of elapsed years from 1954, the year after John reached age 21, through 1993, the year prior to the year John attained age 62. (John's retirement age is 62, since he reached 62 after 1974.) Therefore, John has a total of 40 elapsed years. To determine whether, in fact, John is entitled to any benefits see § 9.61.

§ 9.43 Base Years for Benefit Computation

The computation base years for purposes of determining the primary insurance amount are the years in the period after 1950 and up to the year the insured worker becomes entitled to old age benefits or through the year of death of the insured worker, whichever is earlier.[3]

Out of these computation base years, the individual selects a specific number of years with which to calculate his PIA. These years are called benefit computation years. The number of benefit computation years is generally equal to the number of elapsed years less five, with a minimum amount of two years. The 1980 amendments to the Social Security Act created an exception in the case of young disabled workers. The benefit computation years are equal to the elapsed years, reduced by the number of years equal to one fifth of such individual's elapsed years (disregarding any resulting fractional part of a year), but not by more than five years.[4]

The benefit computation years selected are those years in which the individual's earnings were highest.

Any calendar year the whole of which is within a period of disability (see § 9.85) is not included as a computation base year.[5]

Example: John, who retired in 1997, has 40 elapsed years (see the example in § 9.42). He subtracts five and therefore must choose his 35 best adjusted earnings years. Those years are his benefit computation years. The benefit computation years must be selected from the computation base years of 1951 through 1993.

[1] SSA Reg § 404.221(c).

[2] SSA Reg § 404.110(b)(2).

[3] SSA Reg § 404.211(b)(2).

[4] SSA § 215(b)(2)(A)(ii).

[5] SSA Reg § 404.211(b)(2).

§ 9.44 AIME Method

An individual who dies, becomes disabled or reaches 62 after 1978 applies the average indexed monthly earnings (AIME) method in determining the primary insurance amount.

The AIME method averages the worker's earnings from 1951 to the second year prior to age 62, death or disability (whichever is applicable) after they have been adjusted or "indexed" to reflect the increases in average earnings of all workers. This is achieved by multiplying actual earnings in the year being indexed by a ratio of:

(1) average annual wages two years prior to age 62, death, or disability; over

(2) average annual wages for years being indexed.

Each benefit computation year is indexed in turn. The earnings to be indexed cannot exceed the maximum wage base (see Table 2, § 9.303). Computation base years after the worker becomes entitled (i.e., attains age 62) may be used as benefit computation years if it results in a higher benefit. However, earnings in or after the indexing year are not indexed but remain in actual dollars. The benefit computation years selected are those years in which the individual's earnings were highest. The total is then divided by the number of months and rounded down to the nearest dollar. This gives the average indexed monthly earnings (AIME).

Example: Susanna retired from work at the beginning of 1997, when she reached age 65. Thus, her eligibility year is 1994, the year in which she turned age 62. Her actual earnings for each year equaled or exceeded the maximum wage base, and are set out below. These are indexed based on the 1992 national average earnings, the second year prior to her eligibility. (Index factors are rounded.)

Year	Actual Earnings	Index Factor	Indexed Earnings
1951	$3,600	8.19	$29,497.25
1952	$3,600	7.71	$27,769.47
1953	$3,600	7.31	$26,300.08
1954	$3,600	7.27	$26,165.06
1955	$4,200	6.95	$29,177.80
1956	$4,200	6.49	$27,270.37
1957	$4,200	6.30	$26,451.45
1958	$4,200	6.24	$26,220.47
1959	$4,800	5.95	$28,551.80
1960	$4,800	5.72	$27,473.60
1961	$4,800	5.61	$26,938.21
1962	$4,800	5.34	$25,653.64
1963	$4,800	5.22	$25,039.58
1964	$4,800	5.01	$24,056.45
1965	$4,800	4.68	$22,473.06
1966	$6,600	4.42	$29,150.68
1967	$6,600	4.18	$27,612.59
1968	$7,800	3.91	$30,534.42
1969	$7,800	3.70	$28,866.20
1970	$7,800	3.53	$27,501.44
1971	$7,800	3.36	$26,185.68
1972	$9,000	3.06	$27,517.51
1973	$10,800	2.88	$31,076.56
1974	$13,200	2.72	$35,851.29
1975	$14,100	2.53	$35,632.77
1976	$15,300	2.36	$36,169.53
1977	$16,500	2.23	$36,800.82
1978	$17,700	2.07	$36,572.97
1979	$22,900	1.90	$43,511.25
1980	$25,900	1.74	$45,145.02
1981	$29,700	1.58	$47,034.04
1982	$32,400	1.50	$48,632.53
1983	$35,700	1.43	$51,096.65
1984	$37,800	1.35	$51,098.54
1985	$39,600	1.30	$51,344.26
1986	$42,000	1.26	$52,886.31
1987	$43,800	1.18	$51,846.39
1988	$45,000	1.13	$50,766.52
1989	$48,000	1.09	$52,088.57
1990	$51,300	1.04	$53,211.72
1991	$53,400	1.00	$53,400.00
1992	$55,500	1.00	$55,500.00
1993	$57,600	1.00	$57,600.00
1994	$60,600	1.00	$60,600.00
1995	$61,200	1.00	$61,200.00

First, Susanna's 1951 earnings are indexed. The national average earnings for 1992 ($22,935.42) are divided by the national average earnings for 1951 ($2,799.16), giving an index factor of 8.19 (see § 9.304 for table of average earnings). Susanna's actual earnings are multiplied by the index factor, resulting in indexed earnings of $29,497.25. This step is repeated for each year, substituting that year's national average earnings and Susanna's actual earnings for that year.

Next, Susanna selects her benefit computation years. Since she had 40 elapsed years (1954, the year after she reached age 21, through 1993, the year before she turned age 62), she must pick her 35 highest indexed earnings years. Thus, the earnings for the years 1953, 1954, 1956–1958, and 1960–1965 are excluded. Her total earnings for her benefit computation years are $1,528,825.03. She divides this by 420 (number of months in 35 years) and drops any fraction of $1.00, for an AIME of $3,640.

§ 9.45 From AIME to PIA

The "primary insurance amount" may be determined once the average indexed monthly wage figure has been found. The average indexed monthly wage figure is converted into the primary insurance amount by dividing the average amount into three parts (determined by "bend points") and multiplying each part by a specified percentage. The "bend points" will usually change each year, and are computed each November to take effect the following year.[6] However, once assigned to an individual based upon year of first eligibility, they will remain constant for that individual (under current law).

The percentage by which each part is multiplied remains a constant 90% for Part I, 32% for Part II, and 15% for Part III.

For Individuals First Eligible in 1996

Part I	$437 or less	× 90%	
Part II	$437 to $2,635	× 32%	
Part III	over $2,635	× 15%	
		Total =	Primary insurance amount

Bend points for eligibility years from 1979 are as follows:

Eligibility Year	Bend Points	
1979	$180	$1,085
1980	$194	$1,171
1981	$211	$1,274
1982	$230	$1,388
1983	$254	$1,528
1984	$267	$1,612
1985	$280	$1,691
1986	$297	$1,790
1987	$310	$1,866
1988	$319	$1,922
1989	$339	$2,044
1990	$356	$2,145
1991	$370	$2,230
1992	$387	$2,333
1993	$401	$2,420
1994	$422	$2,545
1995	$426	$2,567
1996	$437	$2,635

Example: Returning to the example in § 9.44, Susanna's AIME was calculated as $3,640. She converts this to her PIA using the bend points for 1994 (her year of eligibility, when she turned age 62) in the following calculations:

	AIME		PIA
Part I	($422)	$422 × 90%	$379.80
Part II	($422 to $2,545)	$2,123 × 32%	679.36
Part III	(over $2,545)	$1,095 × 15%	164.25
			$1,223.41

Susanna's PIA is $1,223.40 (rounded).

For Certain Individuals With Pensions From Noncovered Employment. A different benefit formula applies to workers who are eligible for a pension based wholly or in part on noncovered employment, such as a civil service pension. This benefit formula eliminates the windfall in benefits for individuals who have only minimal social security coverage and will receive a pension based on many years of work in noncovered employment. The revised formula substitutes 40% for the present 90% factor applicable to that portion of AIME that does not exceed the first bend point. However, the reduction has been phased in under the following schedule:

Eligibility Year	Applicable Percentage
1986	80%
1987	70
1988	60
1989	50
1990 and later	40

The resulting reduction in the worker's benefit cannot be more than one half of the noncovered pension.

The following groups are exempt from the reduction:

(1) federal and nonprofit organization employees who became covered by social security under the Social Security Amendments of 1983;

(2) those with 30 years or more of covered work; in addition, for persons with less than 30 but more than 20 years of substantial social security employment, the 90% factor in the benefit formula would be reduced by five percentage points for each year below 30 years of covered employment; and

(3) those with railroad retirement pensions.

This provision is applicable to those first eligible for social security benefits and for government pensions after 1985.[7]

§ 9.46 Minimum Benefit Computation

To guarantee those individuals who have worked many years for very low wages protection under the social security system, a special minimum benefit was added to the Social Security Act in 1972.

The minimum benefit applies only to beneficiaries who are receiving or who are eligible to receive benefits prior to 1982. Members of religious orders that elected social security coverage prior to December 29, 1981, are eligible for the minimum benefit if they first become eligible for benefits prior to 1992.[8]

An individual must have acquired at least 11 years of coverage to be eligible for the minimum benefit. The minimum benefit per month is based on years of coverage in excess of ten years but not to exceed 30 years. This is multiplied by the special minimum PIA of $11.50, adjusted for all cost-of-living increases since 1979 (see § 9.47). For 1996, the

[6] SSA Reg § 404.212(d)(3).

[7] SSA § 215(a)(7), (d)(5).

[8] SSA § 215(a).

minimum benefit was $26.40 per month times the number of covered years. The largest special minimum benefit in 1996 was $532.90.

"Covered years" for purposes of the minimum benefit are computed as follows:

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Period	**Calculation of Covered Years**
1937–1950	Divide total wages for this period by $900. The result, which is limited to 14 and does not include fractions, is the number of covered years.
1951–1978	Count the number of years which are both: (1) "base years" (as defined in § 9.43), and (2) years in which the worker was credited with at least 25% of the maximum earnings covered by social security.
1979–1990	Count the number of years which are both: (1) "base years," and (2) years in which the worker was credited with earnings of at least 25% of: $18,900 for 1979; $20,400 for 1980; $22,200 for 1981; $24,300 for 1982; $26,700 for 1983; $28,200 for 1984; $29,700 for 1985; $31,500 for 1986; $32,700 for 1987; $33,600 for 1988; $35,700 for 1989; and $38,100 for 1990.
After 1990	Count the number of years which are both: (1) "base years," and (2) years in which the worker was credited with at least 15% of: $39,600 for 1991; $41,400 for 1992; $42,900 for 1993; $45,000 for 1994; $45,300 for 1995; and $46,500 for 1996.

§ 9.47 Cost-of-Living Adjustment to PIA

In the event of a significant increase in the consumer price index, the law provides for an automatic cost-of-living increase in social security benefits.[9] More specifically, the Secretary of Health and Human Services determines at the outset of every year whether the first calendar quarter of that year (the "base quarter") is a cost-of-living computation quarter. If it is, then in December of that year the benefits will be increased by the amount that the consumer price index has gone up since:

(1) the last cost-of-living computation quarter; or

(2) the last calendar quarter in which a general benefit increase was effective.

Prior to 1983, the cost-of-living adjustment was effective in June (affecting July checks). The adjustment for 1983 and subsequent years is effective in December (affecting checks for January of the subsequent calendar year).[10]

A "cost-of-living computation quarter," the designation of which permits an increase in benefits, is defined as any base quarter that has a 3% increase in the consumer price index since:

(1) the last cost-of-living computation quarter; or

(2) the last calendar quarter in which a general benefit increase was effective.

The automatic benefit provisions apply to the PIA, the transitional insured method, and, after May 1979, to the special minimum benefit computation.[11] The amount of the increase is equal to the percentage of increase in the consumer price index.

Cost-of-living adjustments since 1975 are as follows:

1975	8.0%
1976	6.4
1977	5.9
1978	6.5
1979	9.9
1980	14.3
1981	11.2
1982	7.4
1983	3.5
1984	3.5
1985	3.1
1986	1.3
1987	4.2
1988	4.0
1989	4.7
1990	5.4
1991	3.7
1992	3.0
1993	2.6
1994	2.8
1995	2.6
1996	X.X

The cost-of-living increase applies only to the eligibility year and subsequent years. Thus, a person reaching age 65 in 1996 would increase his PIA by 2.6% for 1993, 2.8% for

[9] SSA Reg § 404.220(b)(4).

[10] Pub L No 98–21, 98th Cong, 1st Sess, § 111 (Apr 20, 1983).

[11] SSA § 215(a)(1)(C), (i)(2)(A)(ii); SSA Reg § 404.273.