


United States

United States: Pension system in 2012

The publicly provided pension benefit, known as social security, has a progressive benefit formula. There is also a means-tested top-up payment available for low-income pensioners.

Key indicators

		United States	OECD
Average worker earnings (AW)	USD	47 600	42 700
	USD	47 600	42 700
Public pension spending	% of GDP	6.8	7.8
Life expectancy	At birth	78.8	79.9
	At age 65	19.2	19.1
Population over age 65	% of working-age population	22.8	25.5

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Qualifying conditions

The pension age (called normal retirement age – NRA) is 66 in 2012, and will later be increasing to 67 by 2022. Eligibility for retirement benefits depends on the number of years in which contributions are made with a minimum requirement of ten years' contributions.

Benefit calculation

Earnings-related

The benefit formula is progressive. The first USD 767 a month of relevant earnings attracts a 90% replacement rate. The band of earnings between USD 767 and USD 4 624 a month is replaced at 32%. These thresholds are 22% and 133% of the national average wage index for 2010, respectively. A replacement rate of 15% applies between the latter threshold and the earnings ceiling. A 50% dependants' addition is available to married couples where secondary earners have built up a smaller entitlement and for a qualifying dependent child.

Earlier years' earnings are revalued up to the year in which the recipient reaches age 60 in line with growth in economy-wide average earnings. There is no adjustment of earnings for years after age 60. The basic benefit is computed for payment at age 62. Thereafter, the basic benefit is adjusted in line with price increases. The benefit is based on the career average earnings for the 35 highest years of earnings, after revaluing, including years with zero earnings if needed to total 35 years.

The earnings ceiling for both contributions and benefits is USD 110 100 a year, corresponding to 264% of the estimated national average wage index in 2010. This index is updated annually in line with growth in economy-wide wages.

Pensions in payment are adjusted in line with price increases.

Targeted

The United States provide a means-tested benefit for the elderly, known as Supplemental Security Income. Individuals aged 65 or older without an eligible spouse can be eligible for up to USD 8 376 a year depending on assets and other income. The maximum benefit rate for cases where both members of a couple are eligible is USD 12 576 (50% higher than the rate for singles). These benefit rates are equivalent to around 18% and 26% of average earnings in 2012, respectively. The maximum benefit is indexed to price increases.

The asset tests are strict: individuals without an eligible spouse are limited to USD 2 000 worth of assets and eligible couples to USD 3 000, excluding personal belongings, a home, a car, funeral insurance and life insurance (the last two up to USD 1 500 in value). There is a small (USD 20 a month) “disregard” applied against most types of income in calculating the benefit. Another disregard is provided for earnings in the amount of USD 65 a month and one-half of the remaining earnings. After all appropriate disregards have been applied the benefit is then withdrawn at a 100% rate against total countable income above this level.

The analysis is complicated by the fact that states and the District of Columbia can supplement the federally determined minimum. While 6 states pay only the federal minimum, 30 administer their own system, eight offer supplements that are operated solely by the federal Social Security Administration (SSA), and seven offer supplements administered by both the state and SSA. The average supplemental payment administered by SSA in these 15 states is 19% of the maximum federal benefit for pensioners without an eligible spouse and 30% for couples where both members are eligible. Note that the modelling does not include these additional payments.

Voluntary private pension

There is an additional voluntary pension which is assumed to be defined contribution. The contribution rate is assumed to be 9%.

Variant careers

Early retirement

Early retirement is possible from 62, subject to an actuarial reduction. For each year of retirement before the normal age, the benefit is reduced by 6.67%. However, after three years, the reduction falls to 5%. This applies to retirees with a NRA of over 65.

Late retirement

Initial receipt of the pension may be deferred until after NRA, and credit is given for deferment up to age 70. The actuarial increment for those attaining age 62 in 2012 and later is 8% for each year deferred.

It is also possible to combine work and pension receipt subject to an earnings test. For beneficiaries who are receiving benefits in a year before the year they reach their NRA, the pension is reduced by 50% of earnings in excess of USD 14 640. For workers who have reached their NRA, there is no benefit reduction based on earnings.

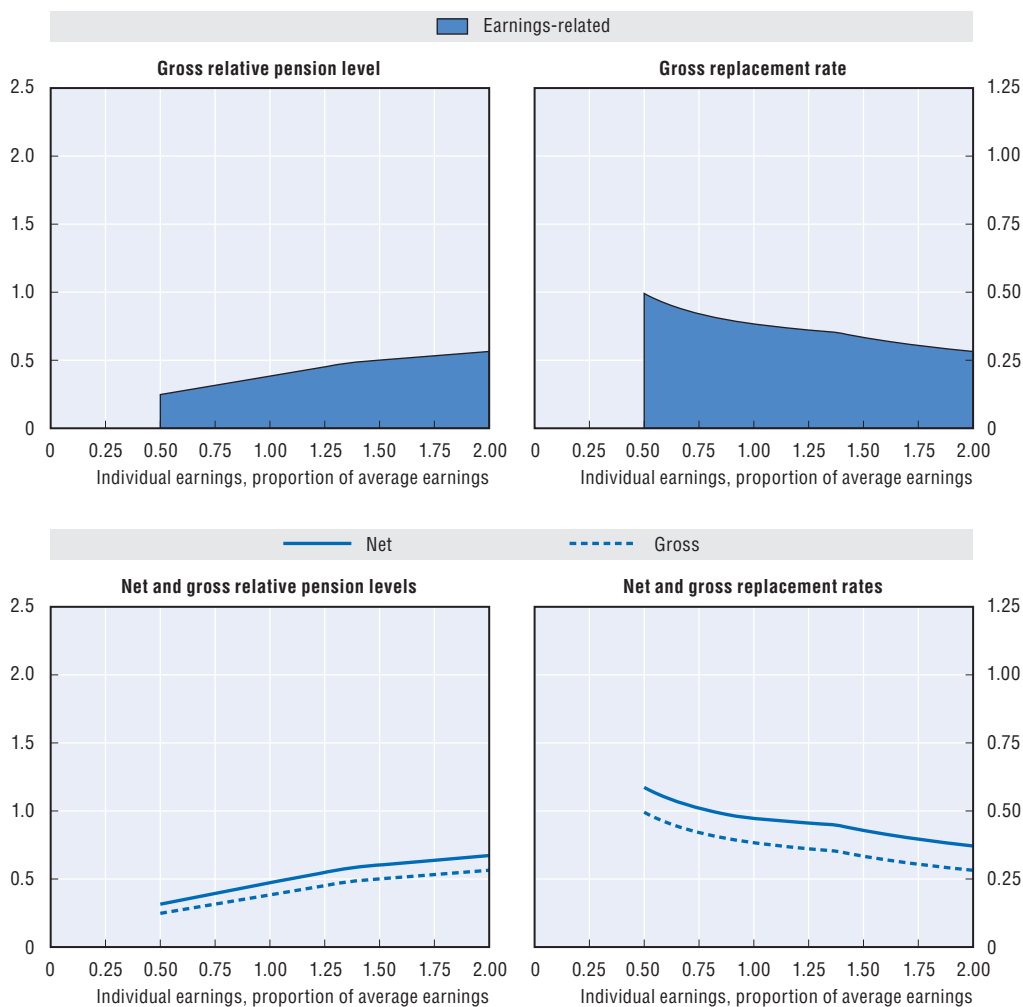
Childcare

There are no provisions for credits during periods of childcare (except for workers who become disabled at younger ages, who may drop years of child care from their benefit computation).


Unemployment

There are no provisions for credits during periods of unemployment. However periods of unemployment may be omitted from the calculation of earnings for benefit purposes in many cases as only the highest 35 years of earnings are considered. Periods of disability are omitted from the 35 years of earnings considered.

Pension modelling results: United States



Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level (% average gross earnings)	33.2	24.8	31.6	38.3	50.1	56.4
Net relative pension level (% net average earnings)	41.3	31.5	39.4	47.3	60.2	67.2
Gross replacement rate (% individual gross earnings)	41.0	49.5	42.1	38.3	33.4	28.2
Net replacement rate (% individual net earnings)	49.9	58.7	51.0	47.3	42.9	37.1
Gross pension wealth (multiple of individual gross earnings)	6.3	7.6	6.5	5.9	5.1	4.4
Net pension wealth (multiple of individual gross earnings)	6.1	7.5	6.3	5.6	4.8	4.0
	6.8	8.4	7.0	6.3	5.3	4.5

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