

Pensions at a Glance 2023



United States

United States: Pension system in 2022

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

		United States	OECD
Average worker earnings (AW)	USD	64 889	41 261
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Public pension spending	% of GDP	7.1	7.7
Life expectancy	at birth	78.2	80.7
	at age 65	84.5	84.6
Population over age 65	% of working-age population	29.4	31.3

Qualifying conditions

The pension age (called normal retirement age – NRA) is 67 years for workers aged 62 in 2022. Eligibility for retirement benefits depends on the number of years in which contributions are made with a minimum requirement of ten years.

Benefit calculation

Earnings-related

The earnings-related pension benefit formula is progressive. In 2022, the first USD 1 024 a month of relevant earnings attracts a 90% replacement rate. The band of earnings between USD 1 024 and USD 6 172 a month is replaced at 32%. These thresholds are 20% and 118% of the estimated national average wage index for 2022, 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 years. The basic benefit is computed for payment at age 62 years. 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 147 000 a year in 2022, corresponding to 235% of the estimated national average wage index in 2022. This index follows the growth in economy-wide wages.

Pensions in payment are adjusted in line with price increases.

Targeted

There is a means-tested benefit for the elderly, known as Supplemental Security Income. In 2022, individuals aged 65 years or older without an eligible spouse can be eligible for up to USD 10 092 a year depending on assets and other income. The maximum benefit rate for cases where both members of a couple are eligible is USD 15 132 (50% higher than the rate for singles). These benefit rates are equivalent to around 16% and 24% of the estimated national average wage index for 2022, 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 certain assets, including 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 per 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 six states pay only the federal minimum, 33 administer their own system, six offer supplements that are operated solely by the federal Social Security Administration (SSA), and six offer supplements administered by both the state and SSA. The average supplemental payment administered by SSA in these 12 states is 18% of the maximum federal benefit for pensioners without an eligible spouse and 25% 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 assumed contribution rate is 12.25%.

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 2/3%. 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 2005 and later is 8% for each year of deferral.

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 19 560. 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 childcare from their benefit computation).

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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.

Self-employed

For self-employed workers earning USD 400 or more, all net earnings are subject to OASDI tax up to the contribution and benefit base. OASDI self-employment tax rates equal the combined employee-employer rate. The contribution base is applied to the income from the self-employment after paying social security contributions plus 50% of social security contributions.

Personal income tax and social security contributions

Taxation of pensioners

Older people are entitled to an additional standard deduction in the Federal income tax. For single people of working age, the deduction is USD 12 950 compared with USD 14 700 for the over 65s. A married couple in which both partners are over 65 is entitled to a deduction of USD 28 700, compared with a standard deduction of USD 25 900 for working-age couples.

Taxation of pension income

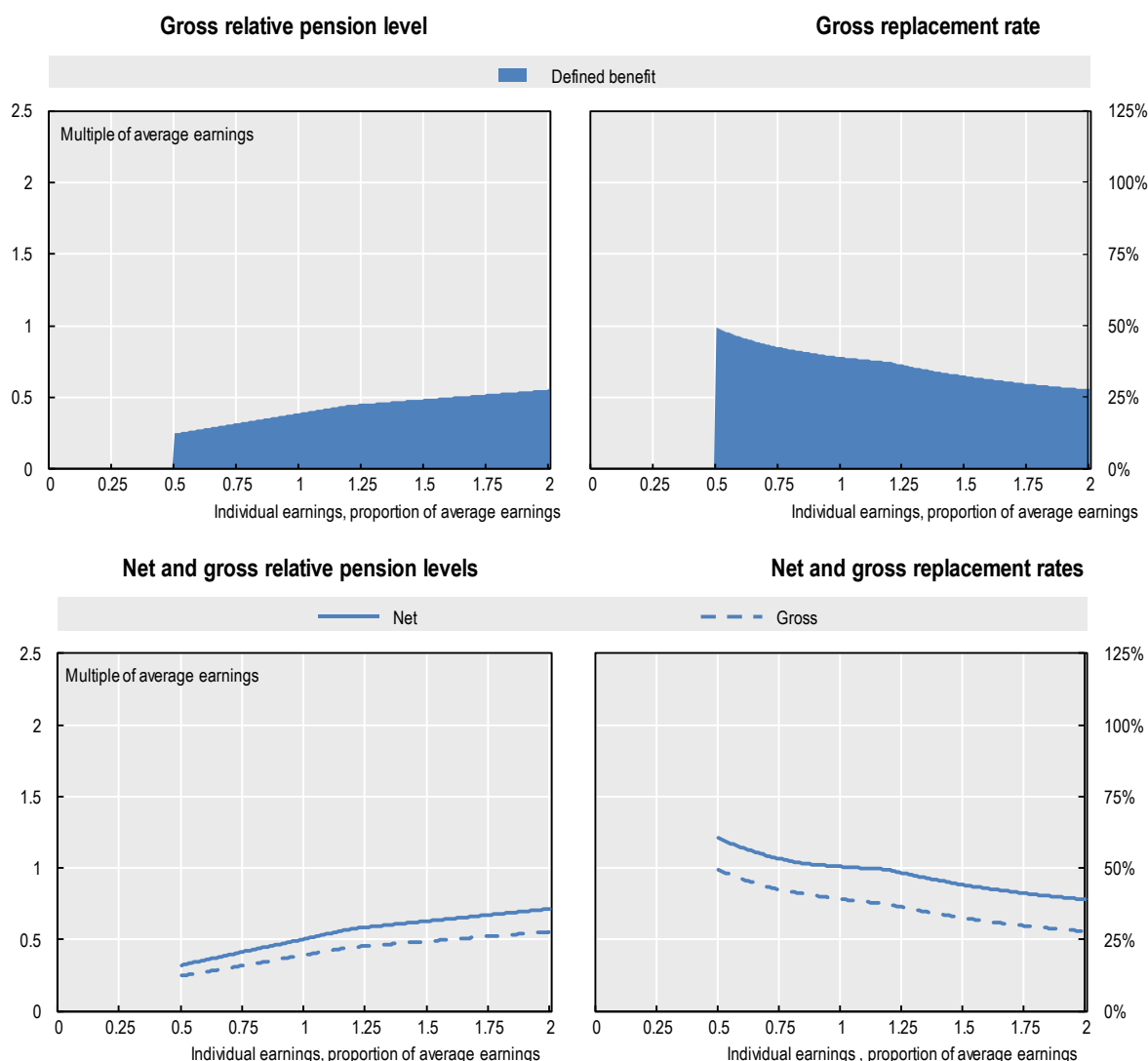
A portion of social security (public pension) benefits may be taxable. The amount that is included in income is the lesser of one-half of the benefits or one-half of the excess of the pensioner's income (including one-half of the benefits) over a base amount equal to USD 25 000 for a single individual (USD 32 000 for a married couple). However, up to 85% of social security benefits may be included in income if the pensioner's income (including one-half of the benefits) exceeds a higher adjusted base amount equal to USD 34 000 for a single individual (USD 44 000 for a married couple). Pensioners with income (including one-half of the social security benefits) that exceeds the adjusted base amount must include in income the lesser of (A) the sum of (1) 85 percent of the excess of income (including one-half of the benefits) over the adjusted base amount, plus (2) the lesser of the amount that would otherwise be includable if the 85% rule did not apply, or USD 4 500 (USD 6 000 for a married couple), or (B) 85% of social security benefits.

Differences in personal-income-tax structures between states complicate analysis of the United States. For the main empirical results, the OECD standard methodology, which assumes that the example individual lives in Detroit, Michigan, has been applied. The state income tax system for Michigan gives an extra tax-free allowance of USD 2 900 for people over age 65 (USD 5 800 for a married couple filing jointly). Public pensions are entirely exempt from the state income tax, as is the first USD 50 404 of income from a private pension. However, if the individual receives both public and private pensions, the amount of income from the public pension is used to offset the USD 50 404 exemption amount. All income from pensions is exempt from the Detroit income tax.

Social security contributions paid by pensioners

No social security contributions are levied on pension income.

Pension modelling results: United States in 2067 retirement at age 67



Men Women (where different)	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Gross relative pension level (% average gross earnings)	24.7	31.9	39.1	48.8	55.5	60.5
Net relative pension level (% net average earnings)	32.2	41.3	50.5	62.8	71.4	77.7
Gross replacement rate (% individual gross earnings)	49.4	42.5	39.1	32.5	27.8	20.2
Net replacement rate (% individual net earnings)	60.6	53.3	50.5	44.1	38.9	28.8
Gross pension wealth (multiple of individual gross earnings)	9.3	8.0	7.4	6.2	5.3	3.8
Net pension wealth (multiple of individual net earnings)	11.5	10.1	9.5	8.3	7.4	5.4
	12.2	10.8	10.2	8.9	7.9	5.8

Assumptions: Real rate of return 2.5%, real earnings growth 1.25%, inflation 2%, and real discount rate 1.5%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equals 90%. Labour market entry occurs at age 22 in 2022. Tax system latest available: 2022.