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Social Security benefits and taxable wage base both up for 2021

The Social Security Administration has announced key 2021 social security numbers, including a cost-of-living adjustment of 1.3% and taxable wage base of \$142,800.

Key changes for 2021

By law, social security benefits increase automatically each year if the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) increases from the third quarter of the last year to the corresponding period of the current year. The measure for the current period in 2020 is compared to the 2019 index to determine the increase for 2021. Accordingly, the 2021 social security cost-of-living percentage increase will be 1.3% and will first apply to December 2020 benefits payable in January 2021.

For Old Age Survivors and Disability Insurance (OASDI), the payroll tax rate in 2021 will be 6.20% on wages up to the social security taxable wage base. The social security taxable wage base will increase in 2021 to \$142,800, up from \$137,700 in 2020. The Medicare payroll tax rate of 1.45% will continue to apply on all wages in 2021. An additional 0.9% Medicare tax rate will apply on wages over \$200,000 for single filers (including those filing as a head of household or qualifying widow(er)), wages over \$250,000 for joint filers, and wages over \$125,000 for persons who are married but filing separately. These threshold amounts are not indexed for inflation.

Other social security amounts for 2021 include the following:

- The average of total wages for 2019 (the most recent year) is \$54,099.99. This figure is used in adjusting previous years' earnings to determine the Average Indexed Monthly Earnings (AIME), which is used to calculate social security benefits.
- For 2021, the primary social security monthly benefit formula will be 90% of the first \$996 of AIME, plus 32% of the next \$5,006, plus 15% of any excess over \$6,002.

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- For recipients under social security normal retirement age (SSNRA) in 2021, the annual exempt amount is \$18,960. For recipients who reach SSNRA in 2021, the annual exempt amount is \$50,520, which applies only to earnings in months prior to the month the recipient attains SSNRA. There is no earnings test for social security recipients in months following attainment of SSNRA.

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