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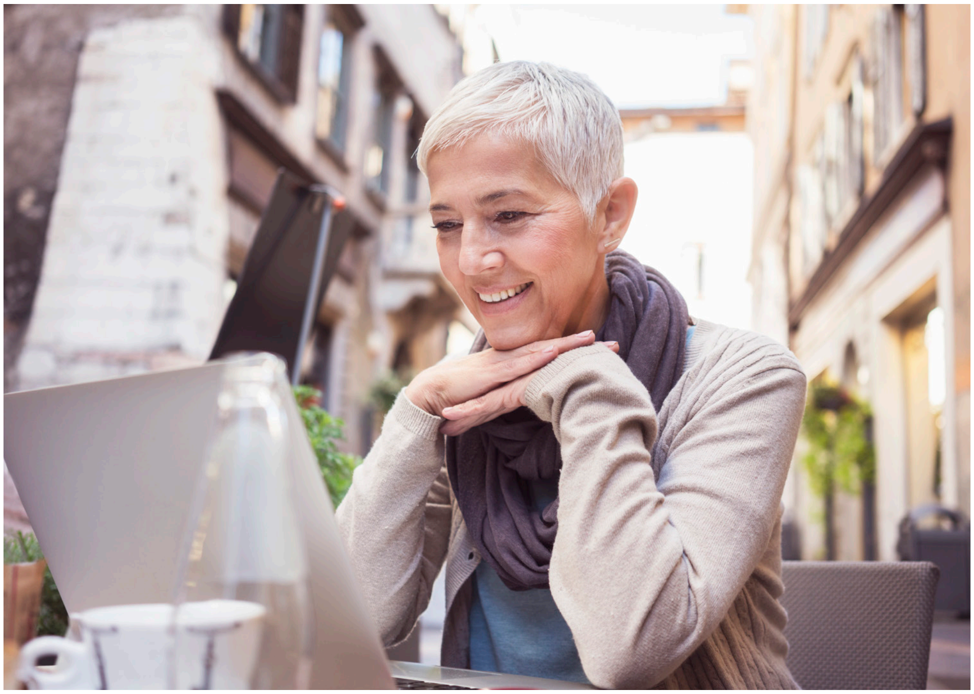

Social Security Totalization Agreements

The U.S. Social Security system is designed to provide retired and disabled workers with supplemental income. Social Security is funded primarily through payroll taxes on wage income under the Federal Insurance Contributions Act, where both workers and their employers contribute through withholdings on wage income. Social Security's Old-Age, Survivors, and Disability Insurance (OASDI) program limits the amount of wages subject to tax in a given year. For 2019 the OASDI wage base is $132,900 with employees and employers both contributing 6.2 percent of up to $132,900 of wages. The OASDI tax rate for self-employment income up to $132,900 in 2019 is 12.4 percent. The OASDI wage base is indexed each year for inflation. The Medicare Hospital Insurance (HI) program tax rate is 1.45 percent for both the employee and employer on all wage income (there is no HI wage base as there is for OASDI). The HI tax rate for self-employed individuals is 2.90 percent.

When an individual works and pays Social Security taxes, he or she earns "credits" toward Social Security benefits. Individuals born after 1929 need ten years of work (40 credits) to qualify for benefits. An individual's benefit payment is based on their lifetime earnings and the age at which he or she retires; higher lifetime earnings and delaying retirement will result in higher benefits.

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U.S. INTERNATIONAL SOCIAL SECURITY AGREEMENTS

Since 1978 the U.S. has entered into agreements with other countries that eliminate dual Social Security taxation and assist in providing benefit protection. Referred to as "totalization" agreements, each agreement (except the one with Italy) contains a "detached-worker" exception that allows for minimal disruptions in coverage for employees working abroad on temporary assignments. For example, a U.S. citizen who is temporarily transferred by an American employer to work in a totalization agreement country (such as the United Kingdom) would continue to be covered under the U.S. Social Security system and would be exempt from UK social taxes under the host country's system for a period of five years.

Workers who are exempt from U.S. or foreign Social Security tax withholding in the host country must obtain a Certificate of Coverage (CoC) from their home country (the country where they will continue to be covered). The CoC will document the exemption and is generally valid for a period of five years but can, in some cases, be extended. Employers and self-employed individuals can request a CoC online. The online U.S. CoC service provides faster service, data verification, email confirmation, online help, and up-to-date information. Access to the online U.S. CoC service is available at **opts.ssa.gov**.

TOTALIZATION BENEFITS

In some cases, an individual may not have worked long enough or recently enough in one country to meet the minimum eligibility requirements to qualify for benefits. If a worker has at least six quarters of U.S. coverage, the Social Security Administration will count periods of coverage that the worker has earned under the Social Security program of another totalization agreement country, which may enable the worker to qualify for benefits. If the combined or "totalized" credits from both countries allow the worker to qualify for benefits, a partial benefit can be paid that is based on the portion of the worker's total working career in each respective country to their total working career.

The Windfall Elimination Provision is a formula that is designed to reduce U.S. Social Security benefits if a worker receives a foreign pension from a job in which he or she did not pay Social Security taxes. However, for workers with thirty or more years of substantial earnings under Social Security, this provision does not apply. The substantial earnings amount changes each year; for 2019 substantial earnings is $24,675.

CONCLUSION

Social Security "totalization" agreements benefit individuals who are currently working, as well as those whose working careers have ended. For current workers, the agreements eliminate potential dual contributions under the Social Security systems of both the U.S. and the foreign host country. For individuals who have worked both in the U.S. and overseas in totalization agreement countries, and are now retired, the agreements can result in the payment of benefits in cases where the worker did not meet minimum eligibility requirements in one or both countries. In these situations, the individual may qualify for partial U.S. or foreign benefits based on their combined "totalized" coverage credits from both countries. For companies with international operations totalization agreements also reduce the overall cost of doing business abroad and encourage the exchange of human capital between countries.