

Chapter 5.-Family Benefits

After developing its recommendations for changes in the basic benefit structure, the Panel turned its attention to several important needs for change in the structure of family benefits. We have not examined these matters in sufficient depth to justify describing our conclusions as recommendations, but we are offering several proposals that we believe to be worthy of consideration. In this chapter several such proposals are presented under the following headings:

1. Spouse Benefits After Retirement.
2. Child and Mother Benefits.
3. Pre-Retirement Survivor and Disability Benefits.
4. Family Maximum Benefits.
5. Divorced Wife and Widow Benefits.
6. Additional Detail on Spouse Benefits.

1. Spouse Benefits After Retirement

The retired spouse of a retired worker now is granted a benefit equal to the larger of the benefit based on the spouse's own earnings record or one-half the benefit based on the worker's record (subject to reduction below age 65 and to the family maximum). Whatever the virtues of this treatment in the past, the pronounced trend toward two-worker families and the increased frequency of divorce warrant serious reconsideration of family benefits.[1] Current law does not produce a satisfactory pattern of replacement ratios for two-person families relative to one-person families and, as we have illustrated in Chapter 2, unfairly gives different benefits to two-worker families that have identical total earnings but divided differently between husband and wife.

In this section our proposal will be stated for the simplest case—that of a retired couple at age 65. Complications arising from age and retirement date differences, early retirements, and divorces will be treated in Section 6.

This Panel believes that in general the family, not the two separate individuals, should be the criterion for equity in social security. The current law seriously violates this equity principle as is indicated in the following table showing benefits arising from the same earnings shared differently. The benefit formula recommended in Chapter 3 does not in itself remedy this inequity.

This calculation ignores the temporary existing difference in averaging periods for men's and women's benefit calculations.

FAMILY BENEFITS FOR A TWO-PERSON FAMILY

[With different shares of income earned by husband and wife. Retirement in 1976. Both Spouses aged 65]

	Division of earnings (percent)	Monthly benefit under current law
Low Earner (AME=\$183)	50-50	\$239.40
	75-25	257.90
	100-0	264.80
Middle Earner (AME=\$439)	50-50	388.00
	75-25	388.20
	100-0	445.10
High Earner (AME=\$585)	50-50	458.40
	75-25	455.60
	100-0	546.00

[1] In 1940, 14 percent of married women with husbands present were in the labor force; by 1950, this became 22 percent; by 1960, 31 percent; by 1970, 40 percent. In March, 1974, in 51 percent of the 36.4 million husband-wife families in which the husband was between ages 25 and 65, both worked in the paid labor force. [Sources: D. Cymrot & L. Mallan, "Wife's Earnings as a Source of Family Income," U.S. Department of Health, Education and Welfare, Social Security Administration, Office of Research and Statistics, Note N 10, April 30, 1974, p. 14, and *Current Population Reports*, Series P-60, N 97, January 1975, p. 155.1

As the table indicates, the one-worker family gets the largest benefit, while benefits for two-worker families depend somewhat upon the share of income earned by each spouse. Such differences seem inequitable since these families have had approximately the same earnings histories. There follow the Panel's recommendations for remedying this.

PROPOSAL No. 1 A: That upon retirement of both husband and wife, even if only one of them has insured status, they may choose between (1) averaging their two AIME's and receiving a family benefit equal to double the benefit based on the average AIME, or (2) a benefit to each spouse based on his or her own earnings record. The benefit under (1) would be divided between the spouses in proportion to the PIA's of their respective earnings records, subject to a minimum of one-third and a maximum of two-thirds. Throughout life a person would be permitted to average AIME's with only one other person. The present spouse benefit would be eliminated, and the child's and mother's or father's benefit would be revised.²

PROPOSAL No. 1B: That in the event of adoption of Proposal No. 1A consideration be given to suitable revision of the factors in the basic benefit formula recommended by this Panel in Chapter 3 so that the annual disbursement will be approximately the same as would result from combining the present recommendation of Chapter 3 with the spouse benefit under present law.

ANALYSIS OF PROPOSALS No. 1A AND No. 1B: The Panel regards this change as desirable on either of two counts: as a solution to the problem of differing treatment of families of different sizes, or as a temporary expedient during the necessarily slow building of individual wage records for all potential beneficiaries proposed in Chapter 7. There are basically two approaches that will accomplish the objective of making family benefits identical whatever the division of earnings between spouses. One is our proposal-averaging earnings records *after* both spouses have retired, a method that closely parallels income tax provisions for income splitting between husband and wife. The alternative---averaging earnings records each year and granting benefits based on these two separate records---fails, for reasons stated in Chapter 7, to give suitable benefits when the spouses retire at different times. Even if it were satisfactory for the future, it involves serious transition problems not found in our proposal. It works poorly or may even be impractical for recognizing past earnings in the many divorce and remarriage situations that exist.

The following natural questions about the characteristics and implications of our Proposal No. 1 arise and are answered as stated.

Question 1. How do benefits to a couple depend upon the proportions in which their combined AIME is divided between them?

Answer. Our proposal makes the benefits completely independent of the share earned by each in the total of their AIME's.

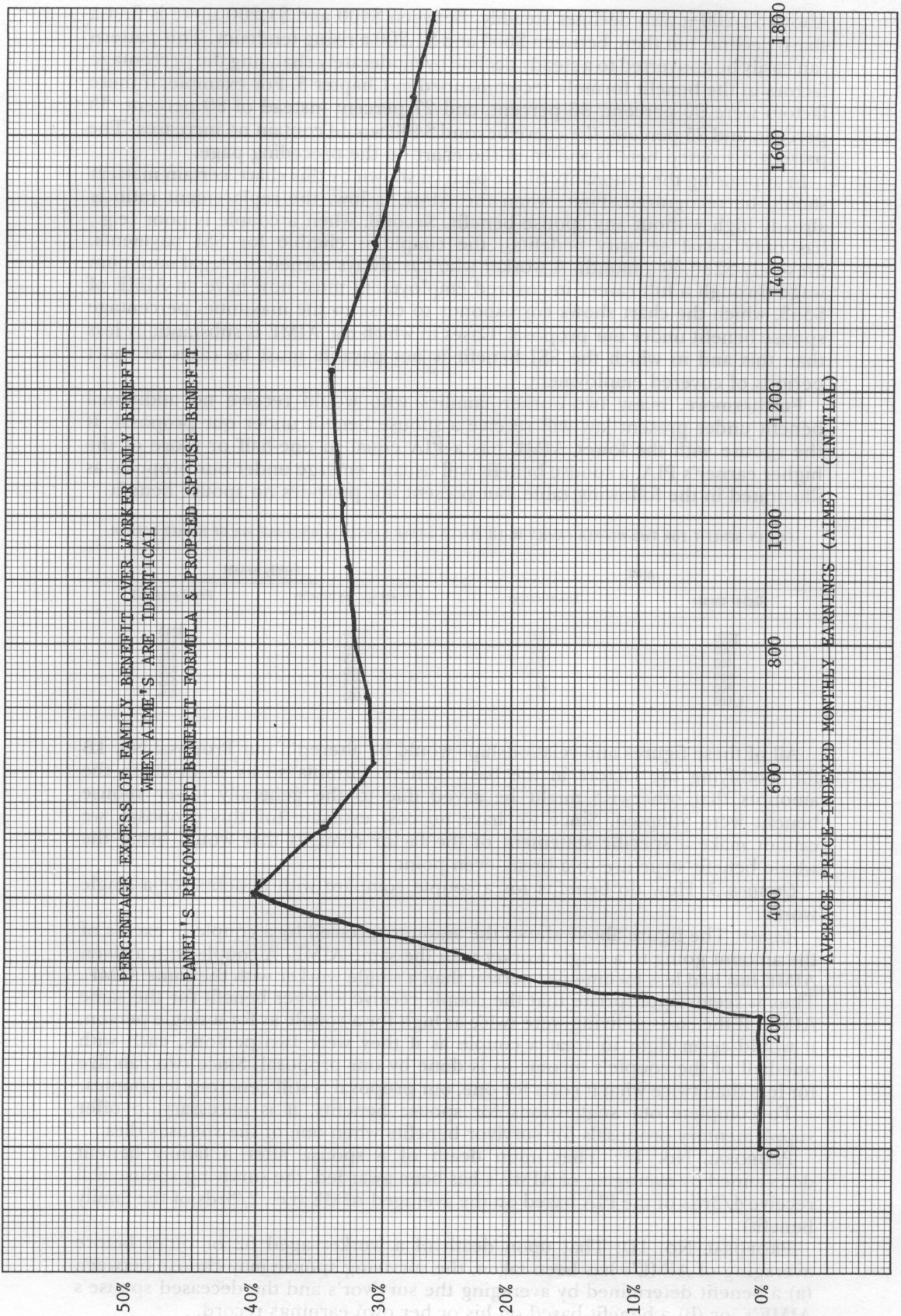
Question 2. How do benefits to a couple with a specified total AIME compare with the benefits the couple would have received if the present spouse benefit had been retained in conjunction with our price-indexing recommendation?

Answer. This depends upon whether only Proposal No. 1A is adopted, or whether Proposal No. 1 B is adopted also.

If only No. 1A is adopted, it can easily be shown that the spouse benefit in a one-worker family will never be as high as the 50 percent under present law. It is also true that the circumstances under which no spouse benefit at all will accrue are different under our proposal and present law.

In the situation in which the entire AIME is earned by one spouse, the effective spouse benefit is at its maximum, 39.1 percent, when the AIME is (currently) \$400. Below \$400 it declines until it is zero at AIME's of \$200 or less.

² The reason why we have chosen to average the AIME's rather than the earnings records themselves is that the former seems fairer in dealing with spouses of different ages and different periods in covered employment. Admittedly, it is less satisfactory to have dropout years reflect individual rather than family earnings histories but we consider this less important than the other point.



Above \$1,200 it also declines steadily. Between \$400 and \$1,200 there is first a sharp decline, but then, between \$600 and \$1,200 a rising tendency. This pattern can easily be converted to a steady decline by moderately changing the percentage factors in the benefit formula recommended in Chapter 3. For example, if these factors were 90 percent, 36 percent, and 27 percent instead of 80 percent, 35 percent, and 25 percent, the curve beyond \$400 would contain no increases. The pattern discussed here is shown in the chart on the preceding page.

In appraising the rationality of the pattern shown by this chart, certain matters should be recognized. First, when the AIME is low, the replacement ratio is already high without any spouse benefit. Second, when a couple is poor (e.g., has only social security benefits), the couple is eligible for SSI payments, presently \$236.60 a month. A worker who has always earned the legal minimum wage through a full career in covered employment must now have an AIME of \$353, which the chart shows corresponds to close to the maximum percentage spouse benefit under our proposal. Cases in which the AIME is substantially less than this and in which the SSI benefit is not payable must be cases of short periods of covered employment.

Furthermore, many two-worker families who would receive no additional benefit under present law will receive a spouse benefit under our proposal. If the spouse with the lower AIME has a PIA equal to one-half or more of the higher earner's PIA, a spouse benefit will usually emerge under our proposal as illustrated in the following table, but present law provides no spouse benefit.

FAMILY BENEFIT FOR TWO-WORKER FAMILY WHEN PIA OF LOWER EARNER IS ONE-HALF PIA OF HIGHER EARNER

AIME		Family benefit	
Higher earner	Lower earner	Current spouse benefits	Panel proposal
\$200	\$100	\$240	\$240
300	122	293	328
400	144	345	370
600	188	450	456
800	243	525	545
1,000	314	600	629

All of these figures and relationships would be altered if our Proposal No. III for modifying the factors in the basic benefit formula so as to disburse the amounts that otherwise might be saved due to the generally lower spouse benefit were adopted. Since we have no cost estimate for this proposal, we cannot make a specific statement of the factor changes that would bring the whole benefit structure to a break-even point.

Question 3. How do benefits for a couple compare with benefits for a single worker?

Answer. The figure above shows the amount received by a couple in excess of the amount going to a single worker with the same AIME. A couple with a given AIME has had less income per person than a single worker with the same AIME. Thus it seems appropriate that the couple receive a larger benefit for the same AIME. If the costs of living were twice as high for a couple as for a single person, it would seem right to treat a couple as if they were two persons, each with one-half of the couple's income as is done by our proposal. Since two can live for less than twice what it costs for one, our proposal is still generous to couples.

To complete our suggestions for spouse benefits, it is necessary to offer supplementary proposals for survivor benefits when one of the spouses dies.

PROPOSAL No. 1C: That upon death of a spouse after a family benefit determined by averaging of AIME's has been awarded, the surviving spouse will receive 4/3rds of the PIA based on the averaged AIME (i.e., 2/3rds of the family benefit).

PROPOSAL No. ID: That upon death of a worker aged 62 or older before averaging of AIME's has been taken, the surviving spouse may choose between (a) a benefit determined by averaging the survivor's and the deceased spouse's AIME's, or (b) a benefit based on his or her own earnings record.

The basic justification for giving the survivor two-thirds of the family benefit is recognition that expenses of one are usually greater than one-half those of two. The two-thirds rule may seem too generous if the spouse is considerably younger than the deceased and will not begin receiving benefits (at age 62) until long after the death of the worker. Perhaps it would be best to scale this proposition gradually downward so that it would be as low as one-half for much younger spouses.

Under these proposals no widow or widower benefit would be available on the record of the deceased worker, except that an adjustment must be made for widows or widowers under age 62. Under current law a widow or widower receives no additional benefit from her or his own covered earnings if the AIME of the deceased worker is larger than that of the survivor. Our proposal is more generous to all surviving lower earners. On the other hand, death of the lower earner will leave some survivors with lower incomes as a consequence of having averaged their lifetime income for benefit calculation.

2. Child and Mother Benefits

Under current law, a dependent unmarried child can receive benefits upon retirement of one of his parents,³ provided the child is under 18, between 18 and 22 and attending school, or under disability which began before age 18. The benefit is one-half the PIA of the parent (subject to the family maximum). A child can collect benefits based on only a single earnings record. In addition, a woman, of any age, can receive benefits based on her retired husband's earnings record if she has in her care a child under age 18 who is entitled to benefits on her husband's record. The benefit is one-half the PIA of the husband (subject to the family maximum).

These benefits are not entirely in keeping with changing social patterns and the view of Social Security which has been taken by this Panel. After both parents have retired, it seems inappropriate to have a child's benefits depend on the division of family earnings between the parents; it seems better to permit a child to receive benefits based on the earnings records of both parents. A similar argument holds for survivor benefits. Also, we doubt that a family's replacement needs are increased 50 percent by the presence of a child. Benefits for a child should reflect the extent to which the child increases the family's necessary expenditures. Sharing expenditures on non-necessities with children does not, in our view, justify an increased replacement ratio.

A simple way to incorporate these considerations into the benefit structure is to impose a maximum on the benefit for the child of a retired worker. (Different considerations hold for children of deceased workers.) We believe that the first bend-point (\$160 on a \$200 AIME initially) in the formula recommended in Chapter 3 stands as a reasonable measure of necessity level.

PROPOSAL No. 2A: That the benefit for each dependent child of a retired worker not exceed one-half the PIA based on the AIME at the first bend-point of the benefit formula. A child may receive benefits based on two earnings records (or double that arising from averaging) if both parents have retired, but subject to a single maximum, initially \$80 per month.

This proposed maximum is approximately the same as that received by a spouse under SSI. This limitation is of course not appropriate after the death of a retired worker. To incorporate our proposal into the general structure of children's benefits, it is necessary also to define benefits at the death of a worker who has averaged.

PROPOSAL No. 2B: That at the death of a retired worker whose earnings record has been averaged, the maximum limit on a child's benefit be removed. However, the increase in benefits for the surviving spouse and all children should not exceed the benefit that the retired worker received before death.

Under current law, if no children are present, the wife of a retired worker is

[3] Or grandparents, if the parents are dead or disabled and the child is living with the grandparents.

not entitled to any benefit until she is 62 years old. The premise is that a younger person can look after herself.

Nevertheless, a young mother with dependent children is entitled to a spouse benefit. This provision fails to recognize the growth of two-worker families and the more equal modern roles in child raising. Since a retired worker presumably is available to look after a child, it seems unnecessary to maintain the young mother benefit for children of school age. Here also it seems right to have different benefit structures for retirement than for death.

PROPOSAL No. 2C: That the benefit to the mother of a dependent child of a retired worker shall be available only if the child is less than 6 years old or is under a disability that began before age 18. The same benefit should be available to the father of a dependent child.

3. Pre-Retirement Survivor and Disability Benefits

The needs that survivor and disability benefits are designed to fill are basically different from those for retirement benefits. The ages differ, frequency of presence of children differs, and needs for care differ. Hence it is not appropriate to have identical benefit structures and formulas for these quite different situations. Likewise, the different lengths of earnings records suggest a need for different benefit patterns and different numbers of dropout years. This Panel has concentrated on benefits for retirements, and therefore recommends a separate exploration of redesign of survivor and disability benefit programs by a selected group of authorities.

4. Family Maximum Benefits

Use of the recommended averaged AIME's requires suitable adaptation of the family maximum provisions. The Panel believes, furthermore, that the structure of the family maximum should be changed. At present the maximum benefit paid on a single earnings record is approximately 1.75 times the PIA.⁴ Under our recommended benefit formula for those with AIME around \$300, the corresponding family maximum in the present law is about 1.2 times AIME. The central role of social security benefits as replacement for lost earnings suggests to us that the family maximum should be related to the AIME rather than to the PIA. The former better identifies the level of earnings to be replaced.

PROPOSAL No. 3: That the family maximum benefit based on the earnings record of a retired worker should be 120 percent of the AIME. The family maximum based on two averaged AIME's should be 240 percent of their average.

This proposal would generate a considerable increase in the family maximum for those with large AIME's, or with averaged AIME's if one spouse had very low or no earnings. This, however, is not a serious objection because of the limit we have proposed for the benefit to a dependent child of a retired worker.

5. Divorced Wife and Widow Benefits

Greater frequency of divorce in our society has increased the magnitude of the problem of individuals of retirement age who have not had substantial earnings records and are also not eligible for spouse or survivor benefits. To ensure availability of some benefits for such people, Congress, in 1965, provided benefits for the divorced wife of a retired worker provided the couple had been married for 20 years immediately before the date of divorce and the woman had not remarried. The benefit is the same as the wife's benefit—the excess of one-half of PIA of the divorced husband over the PIA of the woman. This amount was not subjected to the family maximum. Similarly, a surviving divorced wife is entitled to widow's benefits.

This structure of benefits has several serious limitations. It does nothing to provide benefits for uninsured women divorced after less than 20 years of

[4] The ratio of maximum family benefit to PIA starts at 1.5, rises almost to 1.9, then settles down at 1.75.

marriage. As with the spouse benefit, it provides very different benefits to families that have made similar contributions. Nevertheless, since this Panel's averaging proposal does not ease this problem, we do not have any recommendations on the reform of the benefit. In the long run, the natural solution is development of individual records for all adults in our society, whether workers or not. Such a proposal is made in Chapter 7. Since it would take a long time to build up individual records, it seems necessary to maintain the divorced wife benefit for at least 20 years after the adoption of any decision to build up individual records.

6. Additional Detail on Spouse Benefits

In Section 1 of this chapter proposals on spouse benefits were considered, but only for fully retired spouses both at least aged 65. It is necessary to be sure that the proposals work satisfactorily in other situations. We conclude that they will, provided companion proposals in this section, or others like them, are adopted. We present here possible solutions to questions on actuarial reduction, earnings limitation, adjustments upon divorce, and transition from current law.

a. Actuarial Reduction. If a husband and wife apply for benefits at the same time and choose to average their AIME's, a simple procedure would be to calculate the benefit for each by the rule of Proposal No. IA. The husband's benefit would be reduced if he were less than age 65, and the wife's would be reduced if she were less than age 65. At the death of either, the survivor would receive two-thirds of the family benefit, under Proposal No. 1C. A complication arises when both have received (possibly) actuarially reduced benefits based on separate earnings records, and later choose to average AIME's while still subject to those actuarial reductions. In this case each should receive the amount described by our Proposal No. IA less two actuarial reductions—first, the actuarial reduction attributable to the individual's previous records, and second, an actuarial reduction (based on the age when averaging AIME's) for the difference between the amount to be received after averaging and the PIA before averaging. Note that this second reduction, might, in fact be an increase.[5]

A further case arises when records are averaged after one spouse has died. To combine the two cases, the surviving spouse should receive two-thirds of the family amount that would be payable if the deceased spouse were still alive and were the same age as the surviving spouse.

b. Earnings Limitation. Within the structure of the present earnings limitation there are two questions to be faced in the averaging proposal. When is a worker eligible to average, and how are benefits to be reduced for earnings above the exempt amount? Following current procedure, benefits would be reduced by 50 cents for each dollar earned above the minimum amount. If this reduces benefits to zero, benefits of the spouse would be reduced 50 cents for each additional dollar earned until benefits of the spouse have been reduced to their level if AIME averaging had not occurred.

c. Divorce and Remarriage. Upon the divorce of a couple who have averaged AIME's, each could continue to receive the benefits being paid provided they were married sufficiently long (e.g., 20 years or perhaps less). [6] Since averaging of AIME's can only be done once, remarriage creates no difficulties of recomputation. Similarly, remarriage after spouse's death that followed averaging creates no recomputation problems.

One small difficulty comes from the possibility of recomputation after divorce as a consequence of further earnings. Since benefits being received are not

[5] This solution might be clearer in equation form. Denote by HPIA, WPIA, and APIA the PIA's on the individual and averaged records. Let H and W ($H + W = 2$) be the shares of APIA paid to husband and wife. Then, the husband should receive $H \times \text{APIA}$ less the actuarial reduction previously incurred on HPIA less the actuarial reduction appropriate for the amount $(\text{HPIA} - H \times \text{APIA})$ and the age of the husband at the time of averaging. The wife would be treated similarly.

[6] Alternatively, one might have the individuals revert to benefits on their individual records. The procedure in the text assumes unavailability of the divorced wife's benefit (for divorce after averaging).

based on the individual's record, an artificial record must be constructed to enable recomputation to give whatever benefit increase is appropriate. A solution is to multiply the earnings record of an individual by a constant, selecting the multiplier so that the benefit received (ignoring actuarial reductions) equals the PIA based on the multiplied record. If the record is zero, it can be set equal to a constant indexed amount.

d. Transition From Current Law. If the proposals in Section 1 are adopted at the same time as the formula of Chapter 3 comes into effect, it will be necessary to adapt the transition rule offered in Chapter 3.

Changing the spouse benefit justifies use of the transition arrangement for the same reasons that changing the basic benefit needs transition. If the spouse benefit should change later, transition can easily be designed; if it should change concurrently with introduction of the price-indexing arrangement, then the two transitions can be combined by use of the rule described in Proposal No. 4.

PROPOSAL No. 4: That the spouse of any worker who is receiving benefits based on old rules be eligible for spouse benefits of present law. A couple may average AIME's and use the new benefit rules if either spouse is receiving benefits based in whole or in part on new rules (making both ineligible for spouse benefits). The spouse of a worker receiving benefits based partly on old rules would be eligible for a spouse benefit based on part of the worker's PIA. The calculation would be thus:

If the worker's PIA is equal to a fraction, a , of PIA based on old rules (OPIA), and a fraction, $1-a$, of PIA based on new rules, the spouse benefit would be the fraction of the spouse benefit that would be available under old rules determined by the relationship $\{a[1/2 \text{ OPIA (worker)-PIA (spouse[7])}]\}$.

e. Other Issues. The delayed retirement increment creates no complications since the worker can receive the appropriate additional amount for his or her individual earnings record or his or her share of the family benefit.

The computations proposed in this chapter could be made more easily if all were done in dollars of constant (e.g., 1976) purchasing power, adjustments to current dollars being the final step. This would be particularly useful if the proposal on actuarial reduction in Chapter 7 were also adopted. An implication of this approach would be a simple percentage increase for all on the rolls at the time of a cost-of-living adjustment.

In the matter of weighting the benefit formula in favor of low-income workers, the Panel sees three primary reasons for maintaining this time-honored principle in both the basic formula and the extra provision represented by the spouse benefit. First, social concern for wage replacement is greater for income that covers expenditures for items that are necessities rather than luxuries. This makes replacement need greater for those with low than with high incomes. Second, recognizing the social security system as part of our country's general tax-transfer program, it seems to us appropriate to give greater benefits relative to earnings to the low-income people on the same principles that it is considered appropriate to have a progressive income tax.

The third point is that individuals in our economy are subject to considerable uncertainties about the size of income in any year of their working lives. Benefits that vary with averaged earnings (as in present law and our recommendations) help to cushion people against loss of retirement benefits due to particularly low earnings in some years. These three reasons stand behind the design of the benefit formula the Panel favors.

[7] Old or new PIA, whichever applies.