

# Notes and Brief Reports

## Effects of OASDI Benefit Increase, December 1983\*

Early in January 1984, beneficiaries under the Old-Age, Survivors, and Disability Insurance (OASDI) program received a 3.5-percent cost-of-living increase. This increase, effective for December 1983, was originally scheduled to take effect in June but was postponed by the 1983 Amendments to the Social Security Act.

Automatic cost-of-living increases were instituted in 1975 by legislation enacted in 1972 and 1973. The legislation provided that an increase be triggered whenever the Consumer Price Index (CPI) for the first calendar quarter of a year exceeded the CPI for the base quarter by at least 3 percent. The base is defined as either the first calendar quarter of the last year in which there was an automatic adjustment or any quarter in which a general benefit increase was effective.

From 1975 through 1982 the effective date for automatic increases was June. The 1983 amendments changed the effective month to December. In addition, effective with cost-of-living increases after 1983, the computation period for calculating increases will be shifted from the first to the third quarter of the year to correspond with the change in the effective month. The 1983 amendments also introduced, for the first time, a provision relating cost-of-living increases to trust fund assets. Under this provision, whenever the ratio of the combined OASDI Trust Fund assets falls below 15 percent of estimated expenditures for the year (for years 1984-88 and 20 percent thereafter), cost-of-living increases will be based on the lower of the CPI or average wage increases. In the event that the ratio of assets to outlays reaches and is maintained at the 32-percent level, beneficiaries will be compensated for reduced increases in prior years.<sup>1</sup>

The initial effects of the cost-of-living increase can best be demonstrated by comparing the monthly benefits payable to beneficiaries immediately before and after the increase. Table 1 presents such data for the various types of beneficiaries as well as for the total beneficiary population. The cost-of-living increase resulted in a rise of \$477 million in total monthly benefits

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<sup>1</sup> For a detailed summary of the 1983 amendments, see John A. Svahn and Mary Ross, "Social Security Amendments of 1983: Legislative History and Summary of Provisions," *Social Security Bulletin*, July 1983, pages 3-48.

payable to 36.1 million persons receiving OASDI benefits at the end of November 1983. Retired workers and their spouses and children accounted for 72 percent of the increase, disabled workers and their dependents accounted for 10 percent, and survivors for 18 percent.

Average monthly benefits payable to retired workers after the cost-of-living increase were \$494.68 for men and \$379.47 for women—increases of \$16.67 and \$12.81, respectively. Benefit payments to male disabled workers increased \$17.08, raising their average amount to \$502.75. Female disabled workers received an average increase of \$12.21 for an average benefit of \$360.26. Average increases for dependents of living workers ranged from \$4.52 for spouses of disabled workers to \$7.60 for spouses of retired workers. Children of retired and disabled workers received average increases of \$5.63 and \$4.59, respectively. Among survivor beneficiaries, average benefit increases ranged from \$9.74 for children to \$13.25 for widows and widowers.

Social Security benefits are based on a worker's primary insurance amount (PIA). The PIA is derived from the individual's covered earnings averaged over his or her working lifetime. Before 1979, a worker's PIA was determined by calculating his or her average monthly wage (AMW) for a specified number of highest earning years and then finding the corresponding PIA from a table (the benefit could also be calculated by means of a formula). The 1977 Amendments to the Social Security Act introduced a new method for computing the earnings to be used in the computation of the PIA for most workers who attained age 62, became disabled, or died in 1979 or later. Under this method, the worker's earnings are first indexed to reflect average wage levels in the economy during his or her working years before the averaging of earnings takes place. A formula is then applied to the result—known as the average indexed monthly earnings (AIME)—in order to arrive at the PIA. For workers who attained age 62, became disabled, or died in 1983, the formula is as follows:

Ninety percent of the first \$254 of AIME, plus 32 percent of AIME in excess of \$254 through \$1,528, plus 15 percent of AIME in excess of \$1,528.

The above result, rounded down to the lower \$0.10 (if not a multiple of \$0.10), becomes the PIA. The 3.5-percent cost-of-living increase is applied and the amount is rounded again to the lower \$0.10 in order to obtain the December 1983 PIA.

**Table 1.—Monthly cash benefits in current-payment status before and after the December 1983 benefit increase, by type of beneficiary and reduction status**

Type of beneficiary and reduction status	Total number	Total benefit amount <sup>1</sup> (in thousands)		Average benefit			
		Before increase	After increase	Amount		Increase	
				Before increase	After increase	Amount	Percent
All beneficiaries .....	36,056,449	\$13,672,127	\$14,148,846	...	...	...	3.5
Retired workers, spouses, and children .....	24,910,713	9,842,785	10,186,157	...	...	...	3.5
Retired workers .....	21,361,524	9,094,012	9,411,423	\$425.72	\$440.58	\$14.86	3.5
Men .....	11,330,325	5,415,982	5,604,903	478.01	494.68	16.67	3.5
Benefits actuarially reduced .....	6,683,880	2,878,592	2,979,002	430.68	445.70	15.02	3.5
Benefits not actuarially reduced .....	4,646,445	2,537,390	2,625,901	546.09	565.14	19.05	3.5
Women .....	10,031,199	3,678,030	3,806,520	366.66	379.47	12.81	3.5
Benefits actuarially reduced .....	7,110,154	2,382,015	2,465,246	335.02	346.72	11.70	3.5
Benefits not actuarially reduced .....	2,921,045	1,296,015	1,341,275	443.68	459.18	15.50	3.5
Spouses .....	3,033,537	661,084	684,147	217.93	225.53	7.60	3.5
Children .....	515,652	87,689	90,587	170.05	175.68	5.63	3.3
Disabled workers, spouses, and children .....	3,830,944	1,298,024	1,343,667	...	...	...	3.5
Disabled workers .....	2,577,399	1,135,969	1,175,884	440.74	456.23	15.49	3.5
Men .....	1,735,946	843,104	872,743	485.67	502.75	17.08	3.5
Women .....	841,453	292,865	303,141	348.05	360.26	12.21	3.5
Spouses .....	310,118	38,672	40,073	124.70	129.22	4.52	3.6
Children .....	943,427	123,383	127,710	130.78	135.37	4.59	3.5
Survivors .....	7,263,440	2,524,894	2,612,378	...	...	...	3.5
Widows and widowers .....	4,688,501	1,779,686	1,841,814	379.59	392.84	13.25	3.5
Widowed mothers and fathers .....	401,417	119,495	123,665	297.68	308.07	10.39	3.5
Children .....	2,162,052	621,837	642,888	287.61	297.35	9.74	3.4
Parents .....	11,470	3,876	4,011	337.89	349.68	11.79	3.5
Special age-72 beneficiaries <sup>2</sup> .....	51,352	6,425	6,643	...	...	...	3.4

<sup>1</sup> Totals may not add due to rounding.

<sup>2</sup> Authorized by 1966 legislation for persons aged 72 or older not insured un-

der the regular or transitional provisions of the Social Security Act.

Generally, retired workers who become entitled at age 65 and disabled workers at any age may receive a monthly benefit equal to the PIA. A retired worker may receive benefits as early as age 62, but the PIA is subject to a reduction of 5/9 of 1 percent for each month of entitlement before age 65 (a maximum reduction of 20 percent). Widows and widowers entitled at age 65 may also receive a benefit amount equal to the full PIA, provided that the deceased spouse did not receive reduced benefits. A widow(er)'s benefit is subject to a reduction of 19/40 of 1 percent for each month of entitlement between ages 60 and 65 (a maximum reduction of 28.5 percent). Through December 1983, benefits for disabled widow(er)s aged 50-59 were further reduced 43/240 of 1 percent for months before age 60 (a maximum reduction of 50 percent). Effective January 1984, disabled widow(er)s are no longer subject to this additional reduction. Other dependents and survivor beneficiaries are entitled to fixed proportions of the PIA, subject to a family maximum.

Table 2 shows examples of benefits payable to various types of beneficiaries and family groups at selected AIME levels. The AIME's used in the table range from \$100 through \$2,837—the AIME based on maximum earnings in 1982 and 1983. This maximum AIME is only possible in survivor cases in which the worker dies at a young age and has the minimum 2 years of earnings required in the computation. An AIME of \$2,587 was also

selected since that is the highest AIME obtainable in 1983 by a person who becomes disabled in 1983 and whose AIME is based on 2 years of maximum earnings in 1981 and 1982. AIME's of \$1,900, \$2,200, \$2,587, and \$2,837 are generally not possible for retired workers first eligible in 1983. AIME's of \$254 and \$1,528 were also selected since they are the "bend points" defining the brackets in the formula for beneficiaries becoming eligible in 1983.

The 1977 amendments also introduced a transitional guarantee provision to protect workers who were nearing retirement age when the amendments went into effect. This provision is applicable only to workers who attained age 62 from January 1979 through December 1983, had some covered earnings before 1979, and were not eligible for a Disability Insurance benefit before 1979. It guarantees the worker a benefit amount derived from his or her AMW using the December 1978 PIA tables if it results in a higher benefit amount than under the AIME method. This computation method may also be used to compute benefits for survivors of workers who were eligible for benefits but did not apply for them.

Table 3 shows that, effective December 1983, the highest PIA for a worker who retired at age 65 and who did not have a prior period of disability is \$734.30. Minimum and maximum benefits payable to workers retiring at age 65 during the period 1940-83 are also shown.

**Table 2.—Examples of monthly cash benefit awards for selected beneficiary families with first eligibility in 1983, by average indexed monthly earnings, effective December 1983**

Beneficiary family	Average indexed monthly earnings of insured worker									
	\$100	\$254	\$600	\$1,000	\$1,300	\$1,528	\$1,900	\$2,200	\$2,587	\$2,837
Primary insurance amount .....	93.10	236.60	351.10	483.60	583.00	658.40	716.20	762.70	822.90	861.70
Maximum family benefit .....	139.70	354.90	546.00	906.30	1,040.40	1,152.70	1,253.70	1,335.30	1,440.50	1,508.50
Disability maximum family benefit <sup>1</sup> .....	93.10	236.60	351.10	483.60	583.00	658.40	716.20	762.70	822.90	861.70
Disabled worker:										
Worker alone .....	93.00	236.00	351.00	483.00	583.00	658.00	716.00	762.00	822.00	861.00
Worker, spouse, and 1 child .....	93.00	236.00	351.00	483.00	583.00	658.00	716.00	762.00	822.00	861.00
Retired worker claiming benefits at age 62 <sup>2</sup> :										
Worker alone .....	74.00	189.00	280.00	386.00	466.00	526.00	...	...	...	...
Worker with spouse claiming benefits at—										
Age 65 or older .....	120.00	307.00	455.00	627.00	757.00	855.00	...	...	...	...
Age 62 <sup>2</sup> .....	108.00	277.00	411.00	567.00	684.00	772.00	...	...	...	...
Widow or widower claiming benefits at—										
Age 65 or older <sup>3</sup> .....	93.00	236.00	351.00	483.00	583.00	658.00	716.00	762.00	822.00	861.00
Age 60 .....	66.00	169.00	251.00	345.00	416.00	470.00	512.00	545.00	588.00	616.00
Disabled widow or widower claiming benefits at age 50 <sup>4</sup> .....	46.00	118.00	175.00	241.00	291.00	329.00	358.00	381.00	411.00	430.00
1 surviving child .....	69.00	177.00	263.00	362.00	437.00	493.00	537.00	572.00	617.00	646.00
Widow or widower aged 65 or older and 1 child .....	138.00	354.00	546.00	845.00	1,020.00	1,151.00	1,253.00	1,334.00	1,439.00	1,507.00
Widowed mother or father and 1 child .....	138.00	354.00	526.00	724.00	874.00	986.00	1,074.00	1,144.00	1,234.00	1,292.00
Widowed mother or father and 2 children .....	138.00	354.00	546.00	906.00	1,038.00	1,152.00	1,251.00	1,335.00	1,440.00	1,506.00

<sup>1</sup> The 1980 Amendments to the Social Security Act provide for different family maximum amounts for disability cases. For disabled workers entitled after June 1980, the maximum is the smaller of (1) 85 percent of the worker's AIME (or 100 percent of the PIA, if larger), or (2) 150 percent of the PIA.

<sup>2</sup> Assumes maximum reduction.

<sup>3</sup> A widow(er)'s benefit amount is limited to the amount the spouse would have been receiving if still living but not less than 82½ percent of the PIA.

<sup>4</sup> Effective January 1984 disabled widow(er)'s will receive the same percentage of the PIA as widows aged 60 (71½ percent).

**Table 3.—Minimum and maximum monthly retired-worker benefits payable to individuals who retired at age 65, 1940-83.**

Year of attainment of age 65 <sup>1</sup>	Minimum benefit		Maximum benefit <sup>3</sup>				Year of attainment of age 65 <sup>1</sup>	Minimum benefit		Maximum benefit <sup>3</sup>			
	Payable at the time of retirement	Payable effective December 1983 <sup>2</sup>	Payable at the time of retirement		Payable effective December 1983 <sup>2</sup>			Payable at the time of retirement	Payable effective December 1983 <sup>2</sup>	Payable at the time of retirement		Payable effective December 1983 <sup>2</sup>	
			Men	Women	Men	Women				Men	Women	Men	Women
1940 .....	\$10.00	\$189.30	\$41.20	...	\$365.90	...	1962 .....	40.00	189.30	121.00	\$123.00	497.30	\$505.70
1941 .....	10.00	189.30	41.60	...	365.90	...	1963 .....	40.00	189.30	122.00	125.00	501.40	513.30
1942 .....	10.00	189.30	42.00	...	370.40	...	1964 .....	40.00	189.30	123.00	127.00	505.70	521.80
1943 .....	10.00	189.30	42.40	...	370.40	...							
1944 .....	10.00	189.30	42.80	...	374.40	...	1965 .....	44.00	189.30	131.70	135.90	505.70	521.80
							1966 .....	44.00	189.30	132.70	135.90	509.40	521.80
1945 .....	10.00	189.30	43.20	...	370.40	...	1967 .....	44.00	189.30	135.90	140.00	521.80	548.60
1946 .....	10.00	189.30	43.60	...	379.00	...	1968 .....	<sup>4</sup> 55.00	189.30	<sup>4</sup> 156.00	<sup>4</sup> 161.60	529.80	548.60
1947 .....	10.00	189.30	44.00	...	382.50	...	1969 .....	55.00	189.30	160.50	167.30	545.30	568.30
1948 .....	10.00	189.30	44.40	...	382.50	...							
1949 .....	10.00	189.30	44.80	...	386.20	...	1970 .....	64.00	189.30	189.80	196.40	560.40	580.10
							1971 .....	70.40	189.30	213.10	220.40	571.90	591.10
1950 .....	10.00	189.30	45.20	...	391.10	...	1972 .....	70.40	189.30	216.10	224.70	580.10	602.90
1951 .....	20.00	189.30	68.50	...	391.10	...	1973 .....	84.50	189.30	266.10	276.40	595.10	618.20
1952 .....	20.00	189.30	68.50	...	391.10	...	1974 .....	84.50	189.30	274.60	284.90	613.90	637.10
1953 .....	25.00	189.30	85.00	...	432.00	...							
1954 .....	25.00	189.30	85.00	...	432.00	...	1975 .....	93.80	189.30	316.30	333.70	637.10	672.00
							1976 .....	101.40	189.30	364.00	378.80	678.40	706.10
1955 .....	30.00	189.30	98.50	...	432.00	...	1977 .....	107.90	189.30	412.70	422.40	723.00	739.90
1956 .....	30.00	189.30	103.50	...	456.20	...	1978 .....	114.30	189.30	459.80	...	760.50	...
1957 .....	30.00	189.30	106.50	...	477.00	...	1979 .....	121.80	189.30	503.40	...	781.80	...
1958 .....	30.00	189.30	106.50	...	477.00	...							
1959 .....	33.00	189.30	116.00	...	477.00	...	1980 .....	133.90	189.30	572.00	...	808.20	...
							1981 .....	153.10	189.30	677.00	...	836.90	...
1960 .....	33.00	189.30	119.00	...	489.00	...	1982 .....	<sup>5</sup> 170.30	189.30	<sup>5</sup> 679.30	...	755.00	...
1961 .....	33.00	189.30	120.00	...	492.80	...	1983 .....	<sup>5</sup> 166.40	172.20	709.50	...	734.30	...

<sup>1</sup> Assumes retirement at beginning of year.

<sup>2</sup> The final benefit amount payable after SMI premium or any other deductions is rounded to next lower \$1.

<sup>3</sup> Benefit for both men and women shown in men's columns except where women's benefit

appears separately. Assumes no prior period of disability.

<sup>4</sup> Effective for February 1968.

<sup>5</sup> Derived from transitional guarantee computation based on 1978 PIA table.