Old-Age, Survivors, and Disability Insurance: Early-Retirement Provisions

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Actuarially reduced benefits under the old-age, survivors, and disability insurance program were provided for women retiring at age 62 by the 1956 amendments to the Social Security Act. They were made available by the 1961 amendments to men retiring at age 62, on a slightly different basis. The early-retirement provisions of the 1961 law are of particular interest in that they achieve simplification of law and administration, ease of explanation, and elimination of anomalies.

ARGUMENTS for and against payment of retirement benefits under the old-age, survivors, and disability insurance program to men aged 62–64 were presented when this liberalization was proposed for inclusion in the 1960 amendments, and they were continued during consideration of the 1961 legislation. In 1960 the provision was added by the Senate Finance Committee to the bill passed by the House of Representatives and was accepted by the Senate as a whole, but it was rejected by the Conference Committee. All versions of the 1961 amendments—Administration recommendations, House-approved bill, and Senate-approved bill—contained the early-retirement-for-men feature.

Proponents of the liberalization emphasized the unemployment problem, particularly in depressed areas. Availability of benefits is not, they said, an inducement for the employed man to retire but will help the unemployed man nearing age 65 who has difficulty in finding a job. In such a case, they held, reduced benefits should be made available to him in the way already provided for women. The measure was advocated in part as an antirecession aid.

Opponents pointed out that, with improvements in mortality, any change in the minimum retirement age should be upward, not downward. They argued that the principal reason for lowering the age for women was that usually the wife is younger than her husband and therefore should be eligible for benefits at a younger age than he. Another reason cited was that women tend to leave the labor market at a younger age than men. Reducing the age for men so that it is once more the same as that for women would, it was claimed, create pressure to lower the minimum age for women still further. Objection was also raised to the use of a long-range program for combating a transient economic problem, such as a recession.

The House Committee on Ways and Means, in its report [1] on H.R. 6027—the 1961 bill—made the following comments:

> The provision of benefits at age 62 for men will help to alleviate the hardships faced by that group of men who, because of ill health, technological unemployment, or other reasons, find it impossible to continue working until they reach 65. . . . The plight of the older unemployed man is particularly bad. It is, of course, worse during periods of recession and in areas of chronic unemployment. Even with relatively high employment there will always be individuals nearing age 65 who will lose their jobs and find it impossible to get new ones. Adoption of this amendment will make the program, to which these people have made contributions over the years in expectation of receiving benefits when they are too old to work, flexible enough to provide a degree of protection for them when they find themselves unable to get work because of conditions beyond their control when they are getting along in years, even though they have not reached the age of 65.

COMPUTATION-POINT AGE

The provision finally included in the 1961 amendments set the minimum retirement age for men at 62, with no increase in program cost. The element of cost involves not only the minimum age at which benefits are available in reduced amount but also the "computation-point" age. The com-

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[1] H. Rept. 216 (87th Cong., 1st sess.), p. 5.

putation-point age determines the period used in measuring the minimum number of quarters of coverage needed to qualify for benefits and in computing the average monthly wage on which the benefit amount is based (if the individual is qualified for benefits at that age). For men the computation-point age is set at 65; for women it remained at 62.

Qualifying Quarters of Coverage

To be eligible for old-age benefits, current retirees must have at least 1 quarter of coverage for each year elapsed after 1950 and before the year they attain computation-point age. Men reaching age 65 and women reaching age 62 in 1961 therefore need 10 quarters of coverage. This requirement of "1 for 1" represents a liberalization provided by the 1961 amendments; 1 quarter of coverage had been required for each 3 quarters elapsed during the measurement period. The latter provision was enacted in 1960 and was itself a liberalization from the previous requirement of 1 quarter of coverage for each 2 elapsed quarters.

The maxium requirement remains unchanged—40 quarters, or about 1 quarter for each year of normal working life. The "1 for 1" liberalization thus has no effect ultimately for age retirement—whether measurement is made from age 21 to age 62 or from age 21 to age 65. It does, of course, increase the number of persons eligible for old-age benefits in the near future.

Determination of Primary Insurance Amount

Of greater significance from a cost standpoint is the period of measurement used in computing the average monthly wage. For age retirement in 1961 and the next 30 years, average monthly earnings are, in effect, computed over a number of years equal to the number of years elapsed after 1955 and before the year the person attains the computation-point age or, if later, the first year in which he has earned the qualifying number of quarters of coverage.[2] Men attaining age 65 and women attaining age 62 in 1961 will thus have their average monthly earnings based on the 5 years of highest earnings after 1950. The man reaching age 62 and retiring in 1961 will, however, have his average monthly earnings based on his highest 8 years after 1950, since the number of years must be counted up to age 65.

Every calendar year the number of years to be used will increase by one until it reaches the maximum of 38 years for men and 35 for women—that is, the number of years elapsed between the year of attainment of age 26 and the year of attainment of computation-point age, after the 1955 cut-off date has ceased to be applicable. The relative effect of lowering the computation-point age varies with the amount of creditable earnings and the period in which they are earned.

When an individual retires and claims old-age benefits, his primary amount is determined after his average monthly wage has been computed. The amount of benefits received, actuarially reduced if the claim is made initially before age 65, is based on that primary amount. (The primary amount also determines the amount of the benefit for the eligible spouse and children.)

Should the individual have creditable earnings after retirement that increase his primary amount, he may request a recomputation to include those earnings. Upon death after retirement, also, the primary amount may be recomputed to increase the benefit payable to survivors. The recomputation provisions in effect before the 1961 amendments were applicable when the beneficiary had earned more than $1,200 in taxable earnings in a year not included in the original computation and applied for a recomputation.

The provision giving men the option of claiming old-age benefits at age 62, but with a primary amount based on the computation-point age of 65, called for some special recomputation procedures. Since years up to age 65 are counted, any earnings in those years and in the year the man reaches age 65 are included in the recomputation at age 65, regardless of the amount of earnings. The recomputation is made automatically, without application, if these earnings serve to increase the primary amount.

When death occurs before attainment of the computation-point age, the primary amount is computed as though that age had been attained in the year of death. The measuring period is

[2] The law actually specified the number of years elapsed after 1950 or, if later, the year of attainment of age 21, reduced by 5—the vestigial remainder of the former "dropout."

thus reduced for a man who dies between the ages of 62 and 65. The measuring period is not affected when a woman of that age dies, since she had already attained the applicable computation-point age of 62.

ACTUARIAL REDUCTION FOR EARLY RETIREMENT

Benefits to survivors aged 62 or over are payable in full; that is, the widow, dependent widower, or dependent parent receives the same amount when benefits are claimed at age 62 as would be received if the claim were deferred until age 65. Wife's benefits, payable to a woman who has in her care a child entitled to benefits based on her husband's earnings record, are essentially child-care benefits and are not affected by the change in the minimum retirement age.

The benefits that are reduced when the individual elects to receive them before he reaches age 65 are the old-age benefit, the wife's benefit (other than a child-care benefit), and the dependent husband's benefit. For the old-age benefit, the reduction is applied to the primary amount. For the spouse's benefit, the reduction is applied to the unreduced benefit, which is one-half the primary amount of the old-age (or disability) beneficiary on whose earnings record the spouse's benefit is claimed.

Method of Reduction

The first step is to determine the reduction period, which is the number of months in the period beginning with the month of first entitlement and ending with the month before attainment of age 65. The maximum number is 36 months.

The old-age benefit is reduced by $5/9$ of 1 percent for each month in the reduction period and the spouse's benefit by $25/36$ of 1 percent for each month. For example, if an old-age benefit based on a primary amount of $50 is claimed at age 62, the benefit is reduced 20 percent, and the reduced amount is:

$50—$50(.01) (5/9) (36)=$50—$10=$40

When a spouse's benefit amounting to $50 before reduction is claimed at age 62, the benefit is reduced 25 percent, and the computation differs only in the reduction factor used:

$50—$50(.01) (25/36) (36)=$50—$12.50=$37.50

An individual can be entitled to both an old-age benefit and a spouse's benefit only if the spouse's benefit before reduction is larger than the old-age benefit before reduction. If entitlement to the old-age benefit occurs before or at the same time as initial entitlement to the spouse's benefit, the latter is treated as a supplemental benefit consisting of the excess of the spouse's unreduced benefit over the unreduced old-age benefit. The two benefits—old-age and supplemental—are reduced separately, using the appropriate reduction factor and reduction period for each, and the beneficiary receives the sum of the two reduced benefits.

If, for example, a person becomes entitled at age 62 to an unreduced old-age benefit of $50 and to an unreduced spouse's benefit of $60, the reduced old-age benefit is $40, as computed above. The spouse's unreduced supplemental benefit is the difference between the two unreduced benefits ($60 minus $50). The spouse's reduced supplemental benefit is:

$10—$10(.01) (25/36) (36)=$10—$2.50=$7.50

The total monthly benefit therefore becomes $47.50 ($40+$7.50).

In the much less usual case of entitlement first to the spouse's benefit and later to the old-age benefit, the latter is reduced for any months that the beneficiary is under age 65. Such a case will be relatively rare because not many individuals will, in the future, first acquire eligibility for old-age benefits after attaining age 62. The primary benefit is then likely to be low (because of many years with no covered earnings), and in effect this benefit will not be paid but rather only the larger benefit—the spouse's benefit.

If eligibility for the spouse's benefit continues (because the spouse's unreduced benefit exceeds the unreduced old-age benefit), then the amount of the spouse's benefit is any excess of the spouse's reduced benefit over the reduced old-age benefit. Assume, for example, that at age 62 a woman becomes entitled to a wife's benefit of $50, which is actuarially reduced by $12.50, making $37.50 the benefit payable. At age 63½, the wife becomes eligible for an old-age benefit based on a primary amount of $40, which is then reduced on the basis of the 18 months remaining before she reaches age 65:

$40—$40(.01) (5/9) (18)=$40—$4=$36

The beneficiary receives $37.50—the old-age benefit ($36) plus the amount ($1.50) by which the wife's reduced benefit exceeds the reduced old-age benefit.

This provision represents a significant change in theory from the old law, although in some instances there is little effect on benefit amounts. The old-age benefit, before the 1961 amendments, was reduced by the dollar amount of the reduction in the wife's benefit, and then the amount by which the unreduced old-age benefit exceeded the wife's unreduced benefit was subject to actuarial reduction. The total amount payable was equal to the larger of the two reduced benefits. In the case shown in the preceding paragraph, the reduced old-age benefit would have been $40 less $12.50, or $27.50. The beneficiary would have received $37.50—the old-age benefit of $27.50 plus $10, representing the difference between the wife's reduced benefit ($37.50) and the reduced old-age benefit ($27.50), or the same as under present law. If the wife's benefit were not paid because, for example, the husband returned to work, then the old-age benefit payable under the previous law would have been only $27.50, compared with $36 under present law.

The change is more strikingly illustrated by the extremely rare case of entitlement at age 62 to a wife's benefit and subsequent eligibility for a larger old-age benefit. Here substantial earnings after age 62 would be necessary. Assume, for example, that the wife's benefit before reduction is $50 and that eligibility for an old-age benefit based on a primary insurance amount of $80 is first established at age 63½. Under present law the wife's benefit is reduced by $12.50, from $50 to $37.50. The reduced old-age benefit is computed as follows:

$80—$80(.01) (5/9) (18)=$80—$8=$72

Under the previous law the reduction was made in two steps. The unreduced old-age benefit is $30 higher than the wife's unreduced benefit. The reduction in this excess would have been:

$30(.01) (5/9) (18)=$3.

The reduction in the old-age benefit would have been the sum of the dollar reduction ($12.50) in the wife's benefit plus the reduction ($3) computed for the excess of the unreduced old-age benefit over the wife's unreduced benefit, or a total reduction of $15.50. The reduced old-age benefit would have been $64.50.

Under the 1961 amendments, as under the 1956 law, the reductions in the old-age benefit are to continue for life and those in the spouse's benefit for the joint lifetime of husband and wife. When a reduced old-age benefit is received before age 65 and initial entitlement to the spouse's benefit occurs after age 65, the spouse's supplemental benefit is not reduced, but the old-age benefit continues to be paid in a reduced amount.

Benefit Relationships

For men, as for women since 1956, application for an old-age benefit constitutes application for the spouse's benefit and vice versa. In other words, an individual cannot claim the spouse's benefit at age 62 and defer the receipt of old-age benefits for which he is eligible until age 65 in order to receive the latter without reduction. An individual can, of course, claim the old-age benefit at age 62 and later become eligible for a spouse's benefit—a usual situation for a woman who has left the labor market but whose husband continues to work and does not file for old-age benefits.

The 1961 amendments clarified the relationship between reduced old-age benefits that are claimed before age 65 and the disability benefit, which terminates when the recipient becomes entitled to old-age benefits. If, under the old law, a disability beneficiary claimed a spouse's benefit, that claim could constitute entitlement to an old-age benefit and thereby terminate the disability benefit. Under present law, entitlement to a disability benefit is not terminated by an application for a spouse's benefit.

The law continues to provide that a disability benefit will not be awarded when entitlement has been established, after the beneficiary reaches age 62, to an old-age, spouse's, or survivor benefit. Moreover, a period of disability cannot be established for a man aged 62 or over to "freeze" his earnings record. If the disability benefit has previously been awarded, however, it will not terminate because of entitlement to a spouse's benefit. If the disability benefit terminates because of recovery before attainment of age 65, then the old-age benefit must be taken if a spouse's benefit is payable.

In comparatively rare cases a man whose disability benefit is terminated because of his recovery is entitled to a husband's benefit but not to an old-age benefit. The husband's benefit is then reduced according to the number of months from the first month of entitlement to that benefit—not from the month of termination of the disability benefit. Such a case might arise if a man was qualified at the time of onset of disability but had insufficient quarters of coverage when the elapsed time after recovery from the disability was taken into account. During the next 10 years, however, the qualifications for disability benefits will assure qualification for old-age benefits.

Increase in Primary Insurance Amount

When there is an increase in the primary amount on which an actuarially reduced benefit is based, through recomputation or through a legislative liberalization of benefits, the amount of the increase is treated as a separate benefit. That amount is subject to reduction as though it were a new entitlement, with a reduction period consisting of any months remaining before the beneficiary reaches age 65. If the beneficiary is at least age 65 when the increase is awarded, there is, of course, no reduction.

Under the old law, such an increase in the benefit was treated as though it had been received at the time of initial entitlement. The additional amount might be reduced by as much as 20 percent for the old-age benefit or 25 percent for the wife's benefit even though it was first received after the beneficiary had reached age 65.

For example, suppose a woman had claimed her old-age benefit in January 1957, at exactly age 62, and her primary amount was $30—the minimum at that time. She received a monthly old-age benefit of $24 (80 percent of $30) until January 1959, when (under the 1958 amendments) the minimum primary amount was increased to $33. She then received $26.40 (80 percent of $33), even though she was aged 64 when she first received the $3 increase, and the "actuarial reduction" for that age was only 6⅔ percent. The 1961 amendments raised the minimum primary amount, effective in August 1961, to $40. Now the woman receives $33.40, with no reduction applied to the $7 increase, since it was received after she had attained age 65.

Recomputation of Reduced Benefits at Age 65

The primary amount is automatically recomputed at age 65 for all old-age benefits or spouse's benefits claimed before age 65 even if there have been no earnings after the initial claim. An adjusted reduction period is determined by eliminating from the period initially used those months for which part or all of the reduced benefit was not actually received.

For the old-age benefit, the months eliminated are those in which the benefit was reduced because of the earnings test applied to the beneficiary's earnings. In the case of the spouse's benefits, the months eliminated are those for which the benefit was (1) reduced because of the earnings test applied to earnings of either the beneficiary or the spouse on whose earnings record the benefit was claimed, (2) not payable because the wife received instead a child-care benefit, (3) withheld because the husband (or wife) was a disability beneficiary who refused to accept vocational rehabilitation, or (4) terminated because the spouse was a disability beneficiary whose benefits had been terminated because of recovery.

Similar provisions for recomputation existed under the old law. The recomputation was, however, made only if there were at least 3 months for which the benefits were withheld in full or in part. Under the 1961 amendments the recomputation is made if there is at least 1 such month.

DEVELOPMENT OF SIMPLIFIED PPROCEDURES

When the proposal was made in 1960 that actuarially reduced benefits be made available to men aged 62–64, the first question to be raised concerned the reduction factor. For simplicity of administration and explanation, Congress decided to use the same factors already applicable with respect to women.

Use of Approximate Actuarial Reduction

The amount of the reduced old-age benefit (80 percent of the primary amount) received by a woman who claims the benefit at exactly age 62 is precisely the actuarial equivalent of the full benefit deferred to age 65, based on the 1937 Standard Annuity Table and 3-percent interest. In other words, the average woman who survives the expected number of years will, when interest is taken into account, receive a total amount of benefits over her lifetime, on either basis, that represent the identical value at age 62. From this standpoint, the early-retirement provisions involve no cost to the program. No allowance is made for the loss of contributions that could result from early retirement, but that loss is probably insignificant since early retirement is apt to occur only among those who do not have employment possibilities.

To achieve a theoretical actuarial reduction for the wife's benefit, it would be necessary to use the exact age of the husband as well as the exact age of the wife. Instead, the computed factor, based on the average age of the husband, is about 30 percent for a wife aged 62, in contrast to the 25-percent factor contained in the law. The additional cost to the system for this "non-actuarial" factor has been recognized in the cost estimates.

For both benefits, linear interpolation is used to determine the factors for each age, to the nearest month, between 62 and 65. The results, of course, differ slightly from the actuarially computed intermediate values.

Even if these factors were precise for women, they would not necessarily be so for men, whose mortality experience is different. Based on the Standard Annuity Table at 3-percent interest, the factor for a man retiring at age 62 is 77.2 percent. Nevertheless, Congress decided to use the same factors, on the basis that simplicity and ease of administration should not be forfeited to an ideal of individual equity—an ideal that is, of course, impossible to attain completely in a vast and complex program.

Once this decision was made, the most difficult question was what provision to make for the wife's benefit when the man retires before age 65. Strictly speaking, if individual equity were the goal, the wife's benefit should be reduced in accordance with the period such a benefit is received before the date on which her husband attains age 65, rather than only the period before she attains that age. For a man aged 62 with a wife aged 65, it could be argued that she was receiving benefits 3 years earlier as a result of early-retirement provisions for men and therefore her benefit should be reduced on the basis of these 3 years.

Although the same situation existed when reduced benefits were made available to women workers at age 62, the problem was not so great. Benefits are payable to the husband of an old-age beneficiary only after he has furnished proof of his dependency. The number of such beneficiaries is small, and the slight added cost was recognized in the cost estimates.

When this subject was being considered in connection with the 1960 amendments, the solution first reached was that the wife's benefit should be based on the husband's reduced old-age benefit—that is, a reduction based on a reduction. This double reduction concept was changed by amendment on the Senate floor and was not considered in connection with the 1961 legislation.

Concept of Wife's Attainment Month

In the Administration bill (H.R. 4571) the concept of an "attainment month" was developed, intended to be used as the basis for determining the number of months for which a wife's benefit would be received solely as a result of early-retirement provisions for men. The attainment month was defined as the month in which the wife attained age 65 or, if later, the month in which the husband attained age 65.

This definition presented further problems. If the husband was a disability beneficiary, then the wife's benefit was already available in an unreduced amount at age 65 or with a 25-percent reduction at age 62. The attainment-month idea, in the unusual case of a man aged 50 and a wife aged 65, would reduce her benefit to a minus amount. It was apparent, however, that when the husband is an old-age beneficiary, the period between the month the wife reaches age 65 and her "attainment" month cannot be more than 36 months (the maximum period between ages 62 and 65). The proposal was then made that the reduction in the wife's benefit should be based only on her age as long as her husband was a disability beneficiary, in order to avoid deliberalization, and on the younger of the two ages if the husband was an old-age beneficiary. This solution appeared ideal. No attempt was made to extend the concept of an "attainment month" to husband's benefits, because of the deliberalization that would result.

Then came the question of a recomputation at age 65. If the attainment-month concept were used, and this month was later than the month in which the wife attained age 65, then apparently another recomputation would be necessary. That appeared reasonable, and provision was made for recomputation at age 65 and re-recomputation at the attainment month, if later.

There were problems, however, in translating this simple decision into necessarily less simple legal phraseology. The principal cause of confusion was the somewhat involved relationship between the old-age benefit and the wife's benefit set up by a provision in the 1956 amendments. The idea was clear enough. When there was entitlement to only one of the two benefits, the method of reduction was the same as it is under the 1961 amendments outlined previously. When there was dual entitlement, and the old-age benefit was received at the same time as, or earlier than, the wife's benefit, the 1956 amendments provided the same amount as do the 1961 amendments, although the process was set forth in a more involved manner. When, however, there was initial entitlement to the wife's benefit only and later entitlement, before age 65, to the old-age benefit, then the dollar amount of reduction in the wife's benefit was attached to the old-age benefit. The amount by which the unreduced old-age benefit exceeded the wife's unreduced benefit was then reduced by the product of 5/9 of 1 percent times the number of months remaining before she reaches age 65.

The difficulty would arise in cases of entitlement to the wife's benefit and subsequent entitlement, before age 65, to an old-age benefit. In such cases there would have to be a recomputation at age 65 of the old-age benefit that would include a recomputation of the dollar reduction in the wife's benefit because it also applied to the old-age benefit. Then, if the attainment month occurred later than age 65, the wife's benefit would have to be recomputed, and at the same time the old-age benefit would have to be re-recomputed to take into account any change in the reduction in the wife's benefit that also affected the former benefit. In the general simplification process, a solution to this problem was sought.

Simplifying Benefit Relationships

In drafting language to incorporate these provisions for early retirement for men and related benefits for their wives, an attempt was made to correct anomalies discovered in the existing provisions for early retirement of women and to cope with the problems presented by a computation-point age differing from the retirement age. In the process, nine complex paragraphs of "actuarial reduction" grew to 15. To reduce this part of the act to manageable proportions, the basic principles involved in the provision of actuarially reduced benefits for women were reexamined.

Most of the complexities really arose from the provision concerning entitlement to wife's benefits and subsequent entitlement to old-age benefits. Because of the "automatic" dual-filing provision, such cases are rare. The woman must work in covered employment after she first becomes entitled to wife's benefits, and therefore all or part of those benefits may be withheld because of the earnings test. In addition, the woman who is entitled to both types of benefit receives only the amount of the larger; as a result, in most cases she receives only the amount of the wife's benefit and nothing additional as a result of benefits based on her own earnings record.

It therefore seemed that the entire process could be vastly simplified by treating the old-age benefit independently, reducing it for any months between first entitlement and age 65, whether or not a wife's benefit was payable in the same period.

The same procedure was not considered for entitlement first to old-age benefits and subsequently to wife's benefits. It seemed clear that the cost would be substantial, since many women are out of the labor market at age 62 and claim their old-age benefits then. Later, when their husbands retire, they become eligible for wife's benefits. Under the present simplified procedure, the wife's benefit is reduced by the dollar amount of the reduction in the old-age benefit, just as under the 1956 amendments. The wife's supplemental benefit (the amount by which the wife's unreduced benefit exceeds the unreduced old-age benefit) is further reduced if initial eligibility occurs before her sixty-fifth birthday.

In the process of simplification, the proposal for an attainment-month concept was eliminated. Computation and recomputation of the wife's benefit were based on the period before her attainment of age 65, regardless of her husband's age. If, for example, the wife is aged 63 and the husband is aged 62, the reduction factor is based on 24 months, rather than 36 months as under the attainment-month concept.

Although these two changes—eliminating the attainment-month concept and reducing the old-age benefit independently when qualification occurs after qualification for the wife's benefit—may appear to be a major liberalization and a sacrifice of actuarial-equivalence principles, most of the shift occurs only in theory or is of relatively small magnitude. First, few persons will retire only because they can claim reduced benefits; the claim will usually be made because no employment is available. Second, wives are seldom older than their husbands, and the provisions concerning such wives will affect only a few cases. Third, few women become entitled to old-age benefits after claiming wife's benefits; when they do, the wife's benefit is seldom payable.

The simplification made it possible in the 1961 amendments to correct the inequities that developed under the 1956 amendments and to extend early retirement provisions to men as well as to women. At the same time this complex subsection of the act was both clarified and shortened.

The principle of reducing the old-age benefit independently of the wife's benefit when the latter involved earlier entitlement was extended to affect future benefits for those on the rolls on the effective date (August 1, 1961). In the typical case this extension was to the beneficiary's advantage. For example, if a woman first became entitled to wife's benefits at age 63 in January 1959 and her husband's old-age benefit was $80, her wife's benefit was reduced from $40 to $33.40. If in January 1960 she became entitled to an old-age benefit on her own earnings record of $50 before reduction, the benefit would first be reduced by $6.60 (the reduction in the wife's benefit based on a 24-month factor) and then by 60 cents (the reduction in the $10 excess of the unreduced old-age benefit over the wife's unreduced benefit, based on the 12-month factor), making a total reduction of $7.20. With the August benefit, the reduction in her old-age benefit becomes only $3.30 (based on a 12-month factor).

Addition of Saving Clause

It was intended by Congress that any change should result in a liberalization. Almost any situation can arise, however, in a program as vast as old-age, survivors, and disability insurance. One situation would have resulted in a deliberalization. Under the old law a woman could have applied for wife's benefits at age 62 and become eligible 1 month later for a smaller old-age benefit (for which she was not eligible at age 62). The old-age benefit was reduced by the dollar amount computed for reduction in the wife's benefit. If her husband had applied for an old-age benefit but actually continued to work for several years and had sufficiently high earnings, then the woman would have received old-age benefits in a reduced amount, but her wife's benefit would have been withheld because of the earnings test. When she reached age 65, the reduction was recomputed and she received full benefits from that time on, thus negating the effect of a reduction in her old-age benefit intended to continue throughout her lifetime. If there were no saving clause, her old-age benefit would be recomputed and reduced to reflect the period that she received it before age 65.

The saving clause was inserted in the 1961 amendments to prevent an adverse effect on current beneficiaries. The situation cannot arise for future applicants.

ILLUSTRATIVE BENEFITS

Table 1 shows the benefits payable for retirement in 1961, at ages 65 and 62, based on various earnings records. The table makes clear the differences, resulting solely from a difference in computation-point age, between the amounts payable to men and to women with the same earnings records. These benefits are based on earnings after 1950 and, of course, might be affected by substantial earnings before 1951.

TABLE 1.—Illustrative monthly benefits for retirement in 1961 [1]

Period and annual amount of credited earnings	Total amount of credited earnings	Monthly amount of old-age benefits payable to—			
		Man aged 65	Man aged 62	Woman aged 65	Woman aged 62
	Case 1 (3 years of maximum earnings)				
1955-57, maximum [2]	$12,600	$86.00	$55.20	$116.00	$68.80
	Case 2 (5 years of maximum earnings)				
1956-60, maximum [2]	22,200	120.00	72.80	120.00	96.00
	Case 3 (10 years of maximum earnings)				
1951-60, maximum [2]	40,800	120.00	92.80	120.00	96.00
	Case 4 (5 years of level earnings)				
1956-60,[3] $1,200	6,000	59.00	32.00	59.00	47.20
1956-60,[3] $2,400	12,000	84.00	54.40	84.00	67.20
1956-60,[3] $3,600	18,000	105.00	64.80	105.00	84.00
1956-60,[4] $4,200	21,000	116.00	70.40	116.00	92.80
	Case 5 (10 years of level earnings)				
1951-60, $1,200	12,000	59.00	47.20	59.00	47.20
1951-60, $2,400	24,000	84.00	67.20	84.00	67.20
1951-60, $3,600	36,000	105.00	84.00	105.00	84.00

[1] Assumes no earnings in 1961.
[2] Maximum creditable earnings base was $3,600 for 1951-54, $4,200 for 1955-58, and $4,800 for 1959-60.
[3] Same benefits would result for any 5 years in the period 1951-60.
[4] Same benefits would result for any 5 years in the period 1955-60.

In Case 1—an extreme example—the beneficiary has only 3 years of earnings during the period most advantageous to a woman attaining age 65 in 1961. The woman's average monthly wage computed for the 3 years ending with 1957, the year before she attains age 62, is $350, which produces an old-age benefit of $116. A man the same age with the same earnings record must use 5 years in the computation of the average monthly wage, to produce an old-age benefit of $86. The benefit to the woman retiring at age 65 is 35 percent higher than that payable to the man with the same earnings record. If both attain age 62 in 1961, her advantage is lessened. She must use 5 years and he must use 8 years, and her benefit is only 25 percent higher.

When earnings have fluctuated considerably, and particularly when there have been years with no covered earnings, the difference in computation-point age materially affects the amount of the old-age benefit. Case 2 shows that a woman who received the maximum creditable earnings during the 5 years 1956-60 may retire in 1961 at age 62 and receive an old-age benefit of $96—32 percent more than the man with the same earnings record, retiring at the same age, who receives only $72.80.

Case 3 shows the benefits when earnings have been at the maximum creditable amount in all 10 years, $3,600 in 1951-54, $4,200 in 1955-58, and $4,800 in 1959-60. There is no difference between the benefits payable to a man and a woman aged 65, and she receives only 3 percent more than the man when both retire at age 62.

When earnings have been level for 5 years (Case 4), there is no difference in the benefit amount for men and women retiring at age 65 in 1961; however, there is marked difference for retirement at age 62, since the man must spread his 5 years of earnings over 8 computation years and only 5 years are required for the woman.

In current retirement cases in which an individual has had about the same earnings in all years since 1950, lowering the computation-point age has little effect on the amount of the benefit. As shown by Case 5, there is no difference between the man's and the woman's benefit if earnings have been identical in each of the 10 years.

The foregoing analysis is directed toward the effect of the existence of two computation-point ages, 62 and 65. Discussion is limited to the effect at age 62, when the reduction is 20 percent, since any intermediate ages can be treated by linear interpolation and would produce values proportionately related to those for ages 62 and 65.

Attention is therefore directed to the differences growing out of the computation-point age. The cases shown in table 1 were selected deliberately to present some extreme values, because there may well be criticisms that the actuarial reduction provisions show unfair discrimination in favor of women. Before considering the basis of the difference and the validity of these charges, the ultimate effect of these provisions should be considered.

Table 2 depicts the results for retirement in 1999, when current provisions of the law have been in effect during the career working life and particularly when the maximum earnings of $4,800 may have been credited in every working year.

Here the differences in benefits payable to men and women with the same earnings record and retiring at the same age are considerably less than those shown in table 1. The woman receives only about 5 percent more for the unusual (at least as far as men are concerned) cases without earnings in at least 40 years out of the potential working lifetime of 45 or more years. When there are earnings in 40 or more years, very little difference exists between the benefits for men and women with the same earnings record. Thus this differential diminishes as the system matures.

The existence of the apparent discrimination in the benefit treatment of men and women can be easily explained, if not completely justified. When the provisions for women were enacted, it was deemed that the added cost in terms of percentage of payroll necessary for the long-range financing of the program could be absorbed. The added cost of a similar provision for men, estimated at a level cost of $\frac{1}{10}$ of 1 percent of payroll, was carefully weighed in the light of other liberalizations offered for consideration, such as an increase in the minimum benefit and an increase in the widow's benefit. Other needs appeared to have higher priority, and Congress was willing to enact the provisions for a lower retirement age for men only on the condition that they involved no cost to the system.

TABLE 2.—Illustrative monthly benefits for retirement in 1999

Period and annual amount of credited earnings	Total amount of credited earnings	Monthly amount of old-age benefits payable to—			
		Man aged 65	Man aged 62	Woman aged 65	Woman aged 62
Annual credited earnings of $4,800:					
10 years	$48,000	$62.00	$49.60	$66.00	$52.80
20	96,000	86.00	68.80	90.00	72.00
30	144,000	109.00	87.20	114.00	91.20
35	168,000	120.00	96.00	127.00	101.60
40	192,000	127.00	101.60	127.00	101.60
Annual credited earnings of $3,600:					
10 years	36,000	46.00	36.80	50.00	40.00
20	72,000	75.00	60.00	78.00	62.40
30	108,000	92.00	73.60	96.00	76.80
35	126,000	100.00	80.00	105.00	84.00
40	144,000	105.00	84.00	105.00	84.00

Furthermore, the discrimination is less marked than might appear from some of the examples given. In the first place, women usually have lower earnings than men and usually spend fewer years in the labor market. More important, many women never receive an old-age benefit based on their own earnings since they are eligible for a larger benefit as wife or widow. No serious consideration was given to eliminating this advantage for women in view of the fact that deliberalization would result.