

# Notes and Brief Reports

## Effects of OASDI Benefit Increase, June 1981\*

Beneficiaries of the Old-Age, Survivors, and Disability Insurance (OASDI) program received an 11.2-percent cost-of-living increase in benefits effective June 1981. This increase, the seventh automatic increase since 1975, was reflected in benefit checks issued early in July.

Automatic benefit increases are tied by statute to rises in the Consumer Price Index (CPI). They are initiated whenever the CPI for the first quarter of the year exceeds the CPI for the base quarter by at least 3 percent. The base is defined as either the first quarter of the last

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year in which there was an automatic adjustment or any quarter in which a general benefit increase is effective. The June 1981 increase was based on the percentage rise in the CPI in the first quarter of 1981 over the first quarter of 1980.

## Benefit Amounts

The initial effects of the 11.2-percent cost-of-living increase can best be demonstrated by comparing the monthly benefit amounts payable to beneficiaries immediately before and after the increase. Table 1 presents such data for various types of beneficiaries as well as for the total beneficiary population. The cost-of-living increase resulted in a rise of \$1.2 billion in total monthly benefits payable to 35.8 million persons receiving OASDI benefits at the end of May 1981. Retired workers and their auxiliaries accounted for 68 percent of the

**Table 1.**—Monthly cash benefits in current-payment status before and after the June 1981 benefit increase and average increase, by type of beneficiary and reduction status

Type of beneficiary and reduction status	Total number	Total benefit amount (in thousands)		Average benefit			
		Before increase	After increase	Amount		Increase	
				Before increase	After increase	Amount	Percent
All beneficiaries . . . . .	35,836,171	\$10,829,180	\$12,045,690	...	...	...	11.2
Retired workers, spouses, and children . . . . .	23,380,830	7,400,323	8,230,720	...	...	...	11.2
Retired workers . . . . .	19,716,509	6,784,541	7,545,723	\$344.10	\$382.71	\$38.61	11.2
Men . . . . .	10,529,767	4,042,858	4,496,349	383.95	427.01	43.06	11.2
Benefits actuarially reduced . . . . .	5,973,095	2,102,950	2,338,953	352.07	391.58	39.51	11.2
Benefits not actuarially reduced <sup>1</sup> . . . . .	4,556,672	1,939,908	2,157,396	425.73	473.46	47.73	11.2
Women . . . . .	9,186,742	2,741,682	3,049,373	298.44	331.93	33.49	11.2
Benefits actuarially reduced . . . . .	6,390,518	1,761,892	1,959,711	275.70	306.66	30.96	11.2
Benefits not actuarially reduced <sup>1</sup> . . . . .	2,796,224	979,790	1,089,662	350.40	389.69	39.29	11.2
Wives and husbands . . . . .	3,000,445	520,704	579,244	173.54	193.05	19.51	11.2
Children . . . . .	663,876	95,078	105,753	143.22	159.30	16.08	11.2
Disabled workers, spouses, and children . . . . .	4,674,366	1,258,244	1,400,650	...	...	...	<sup>2</sup> 11.3
Disabled workers . . . . .	2,839,416	1,055,122	1,174,134	371.60	413.51	41.91	<sup>2</sup> 11.3
Men . . . . .	1,913,677	780,926	869,060	408.08	454.13	46.05	<sup>2</sup> 11.3
Women . . . . .	925,739	274,196	305,074	296.19	329.55	33.36	<sup>2</sup> 11.3
Wives and husbands . . . . .	453,226	49,538	55,268	109.30	121.94	12.64	<sup>2</sup> 11.6
Children . . . . .	1,381,724	153,584	171,248	111.15	123.94	12.79	<sup>2</sup> 11.5
Survivors of deceased workers . . . . .	7,697,043	2,161,847	2,404,576	...	...	...	11.2
Widows and widowers, nondisabled . . . . .	4,307,391	1,346,491	1,497,824	312.60	347.73	35.13	11.2
Widows and widowers, disabled . . . . .	125,265	25,617	28,495	204.50	227.48	22.98	11.2
Widowed mothers and fathers . . . . .	553,513	135,300	<sup>3</sup> 150,470	244.44	<sup>3</sup> 271.84	<sup>3</sup> 27.40	11.2
Children . . . . .	2,696,698	650,504	<sup>3</sup> 723,411	241.22	<sup>3</sup> 268.26	<sup>3</sup> 27.04	11.2
Parents . . . . .	14,176	3,935	<sup>3</sup> 4,376	277.57	<sup>3</sup> 308.69	<sup>3</sup> 31.12	11.2
Special age-72 beneficiaries <sup>4</sup> . . . . .	83,932	8,766	9,744	...	...	...	11.2

<sup>1</sup> Includes transitionally insured beneficiaries.

<sup>2</sup> Reflects workers' compensation offset provision. Since the amount of the offset generally remains constant, net increases in benefits exceed the cost-of-living increase. For example, a beneficiary with a PIA of \$200 before the cost-of-living increase and an offset of \$100 receives a benefit of \$100 before the increase and \$122.40 [ $\$200 \times 1.112 - \$100$ ] afterwards, or a net increase of

22.4 percent. Auxiliaries are similarly affected except their benefits are offset first. Thus, their percentage increases are even greater than that of the worker.

<sup>3</sup> Estimated.

<sup>4</sup> Authorized by 1966 legislation for persons aged-72 and over not insured under the regular or transitional provisions of the Social Security Act.

increase, disabled workers and their auxiliaries for 12 percent, and survivors for 20 percent.

As expected, average monthly benefits payable to workers and/or their auxiliaries increased by roughly the same percentage as the cost-of-living increase. Average monthly benefits payable to retired workers were \$427.01 for men and \$331.93 for women—increases of \$43.06 and \$33.49, respectively. Benefit payments to male disabled workers increased \$46.05, raising their average amount to \$454.13. For female disabled workers the average increase was \$33.36, resulting in an average monthly benefit amount of \$329.55. Increases for auxiliaries of living workers ranged from \$12.64 for spouses of disabled workers to \$19.51 for spouses of retired workers. Among survivor beneficiaries, average benefit increases ranged from a low of \$22.98 for disabled widows and widowers to a high of \$35.13 for non-disabled widows and widowers. The above increases resulted in average benefits of \$227.48 for the former and \$347.73 for the latter.

Social Security benefits are based on a worker's Primary Insurance Amount (PIA). In almost all instances, the PIA is derived from the individual's covered earnings averaged over his or her working lifetime. The full PIA is payable to a retired worker who becomes entitled to benefits at age 65 or to a disabled worker at any age. A retired worker may receive benefits as early as age 62

but his or her PIA is subject to a reduction of 5/9 of 1 percent for each month of entitlement before age 65. Widows and widowers entitled at age 65 also receive a benefit amount equal to the full PIA, provided that the deceased spouse did not receive a retirement benefit before age 65. A widow(er)'s benefit is subject to a reduction of 19/40 of 1 percent for each month of entitlement between the ages of 60 and 65 (maximum reduction of 28.5 percent) and a disabled widow(er)'s benefit is subject to an additional reduction of 43/240 of 1 percent for months before age 60 (maximum reduction of 50 percent). Other auxiliaries of retired, disabled, and deceased workers are entitled to set proportions of the PIA, subject to the family maximum.

Before 1979, a worker's PIA was determined by calculating his or her Average Monthly Earnings (AME) for a specified number of highest earning years and then finding the corresponding PIA from a table. The 1977 Amendments to the Social Security Act introduced a new method for computing the PIA for workers who attain age 62, become disabled, or die in 1979 or later whereby 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

**Table 2.**—Examples of monthly cash benefit awards for selected beneficiary families with first eligibility in 1981, by Average Indexed Monthly Earnings, effective June 1981

Beneficiary family	Average indexed monthly earnings of insured worker											
	\$135 or less <sup>1</sup>	\$211	\$400	\$550	\$750	\$900	\$1,100	\$1,274	\$1,475	\$1,908	\$2,033	\$2,316
Disabled worker:												
Worker alone . . . . .	\$135.70	\$211.20	\$278.50	\$331.90	\$403.00	\$456.40	\$527.60	\$589.50	\$623.10	\$695.30	\$716.20	\$763.30
Worker, spouse, and 1 child <sup>2</sup> . . . . .	135.70	211.20	378.10	497.80	604.50	684.60	791.30	884.30	934.70	1,042.90	1,074.20	1,145.00
Retired worker claiming benefits at age 62:												
Worker alone . . . . .	108.60	169.00	222.80	265.60	322.40	365.20	422.10	471.60	498.50	556.30	573.00	610.70
Worker with spouse claiming benefits at—												
Age 65 or over . . . . .	176.50	274.60	362.10	431.60	523.90	593.40	685.90	766.40	810.10	904.00	931.10	992.40
Age 62 . . . . .	159.60	248.20	327.40	390.10	473.60	536.40	620.00	692.70	732.20	817.10	841.60	897.00
Widow or widower claiming benefits at—												
Age 65 or over <sup>3</sup> . . . . .	135.70	211.20	278.50	331.90	403.00	456.40	527.60	589.50	623.10	695.30	716.20	763.30
Age 60 . . . . .	97.10	151.10	199.20	237.40	288.20	326.40	377.30	421.50	445.60	497.20	512.10	545.80
Disabled widow or widower claiming												
benefits at age 50 . . . . .	67.90	105.60	139.30	166.00	201.50	228.20	263.80	294.80	311.60	347.70	358.10	381.70
1 surviving child . . . . . <sup>4</sup>	135.70	158.40	208.90	249.00	302.30	342.30	395.70	442.20	467.40	521.50	537.20	572.50
Widow or widower aged 65 or over and 1												
child . . . . .	203.50	316.90	417.70	536.40	705.30	798.70	923.30	1,031.70	1,090.50	1,216.80	1,253.40	1,335.80
Widowed mother or father and 1 child . . . . .	203.50	316.80	417.70	498.00	604.60	684.60	791.40	884.40	934.80	1,043.00	1,074.40	1,145.00
Widowed mother or father and 2 children . . . . .	203.50	316.90	417.70	536.40	730.00	843.80	939.10	1,032.20	1,091.00	1,217.40	1,253.90	1,336.50
Disability maximum family benefit <sup>2</sup> . . . . .	135.70	211.20	378.10	497.80	604.50	684.60	791.30	884.30	934.70	1,042.90	1,074.20	1,145.00
Maximum family benefit . . . . .	203.50	316.90	417.70	536.40	730.00	843.80	939.10	1,032.20	1,091.00	1,217.40	1,253.90	1,336.50

<sup>1</sup> The PIA's of workers whose AIME's are \$135 or less are frozen at \$122. Following specific guidelines, the current cost-of-living increase may be added to the minimum PIA as well as to the benefit amount of certain beneficiaries.

<sup>2</sup> The 1980 Amendments to the Social Security Act provide for different family maximum amounts for disability cases for those who become entitled to disability benefits beginning with July 1980. For disability beneficiaries with an AIME on June 1981 of \$230 or less, the family maximum is equal to the PIA. If

the AIME is \$231 through \$496, the PIA is equal to 85 percent of AIME plus the cost-of-living increase; if the AIME is greater than \$496, the maximum is equal to 150 percent of the PIA.

<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 82 1/2 percent of the PIA.

<sup>4</sup> Sole survivor.

**Table 3.—Minimum and maximum monthly retired-worker benefits payable to individuals who retired at age 65, 1940–81<sup>1</sup>**

Year attained age 65 <sup>2</sup>	Minimum benefit		Maximum benefit <sup>3</sup>			
	Payable at retirement	Payable effective June 1981	Payable at retirement		Payable effective June 1981	
			Men	Women	Men	Women
1940	\$10.00	\$170.30	\$41.20	.....	\$329.30	.....
1941	10.00	170.30	41.60	.....	329.30	.....
1942	10.00	170.30	42.00	.....	333.30	.....
1943	10.00	170.30	42.40	.....	333.30	.....
1944	10.00	170.30	42.80	.....	336.90	.....
1945	10.00	170.30	43.20	.....	336.90	.....
1946	10.00	170.30	43.60	.....	341.00	.....
1947	10.00	170.30	44.00	.....	344.20	.....
1948	10.00	170.30	44.40	.....	344.20	.....
1949	10.00	170.30	44.80	.....	347.50	.....
1950	10.00	170.30	45.20	.....	351.90	.....
1951	20.00	170.30	68.50	.....	351.90	.....
1952	20.00	170.30	68.50	.....	351.90	.....
1953	25.00	170.30	85.00	.....	388.70	.....
1954	25.00	170.30	85.00	.....	388.70	.....
1955	30.00	170.30	98.50	.....	388.70	.....
1956	30.00	170.30	103.50	.....	410.50	.....
1957	30.00	170.30	108.50	.....	429.20	.....
1958	30.00	170.30	108.50	.....	429.20	.....
1959	33.00	170.30	116.00	.....	429.20	.....
1960	33.00	170.30	119.00	.....	440.00	.....
1961	33.00	170.30	120.00	.....	443.40	.....
1962	40.00	170.30	121.00	\$123.00	447.40	\$455.00
1963	40.00	170.30	122.00	125.00	451.20	461.90
1964	40.00	170.30	123.00	127.00	455.00	469.50
1965	44.00	170.30	131.70	135.90	455.00	469.50
1966	44.00	170.30	132.70	135.90	458.30	469.50
1967	44.00	170.30	135.90	140.00	469.50	483.40
1968	<sup>4</sup> 55.00	170.30	<sup>4</sup> 156.00	<sup>4</sup> 161.60	476.70	493.60
1969	55.00	170.30	160.50	167.30	490.60	511.30
1970	64.00	170.30	189.80	196.40	504.20	521.90
1971	70.40	170.30	213.10	220.40	514.60	531.90
1972	70.40	170.30	216.10	224.70	521.90	542.50
1973	84.50	170.30	266.10	276.40	535.40	556.20
1974	84.50	170.30	274.60	284.90	552.40	573.20
1975	93.80	170.30	316.30	333.70	573.20	604.60
1976	101.40	170.30	364.00	378.80	610.40	635.30
1977	107.90	170.30	412.70	422.40	650.50	665.70
1978	114.30	170.30	459.80	.....	684.20	.....
1979	121.80	170.30	503.40	.....	703.40	.....
1980	133.90	170.30	572.00	.....	727.10	.....
1981	153.10	170.30	677.00	.....	752.90	.....

<sup>1</sup> Based on AIME method.

<sup>2</sup> Assumes retirement at beginning of year.

<sup>3</sup> Benefit for both men and women is shown in men's column, except where benefits shown separately. A assumes no prior period of disability.

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

age 62, became disabled, or died in 1981, the formula is as follows:

90 percent of the first \$211 of AIME, plus 32 percent of AIME in excess of \$211 through \$1,274, plus 15 percent of AIME in excess of \$1,274.

The 11.2-percent cost-of-living increase is then added to the above result. Table 2 shows examples of benefits payable to various types of beneficiaries and family groups at selected AIME levels.

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 attain age 62 from January 1979 through December 1983, had some covered earnings before 1979, and were not eligible for a disability benefit before 1979. It guarantees the worker a benefit amount derived from his or her AME 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 never applied for them.<sup>1</sup>

Effective June 1981, the highest PIA for a worker who retired at age 65 and who did not have a prior period of disability is \$752.90, based on an AME of \$846.<sup>2</sup> Minimum and maximum benefits payable to workers retiring at age 65 during the period 1940–81 are shown in table 3.

<sup>1</sup> For a more complete discussion and analysis of the computation methods, see Steven F. McKay, **Computing a Social Security Benefit After the 1977 Amendments** (Actuarial Note No. 100), Office of the Actuary, Social Security Administration, February 1980, and Steven F. McKay and Bruce D. Schobel, **Effects of the Various Social Security Benefit Computation Procedures** (Actuarial Note No. 86), Office of the Actuary, Social Security Administration, July 1981.

<sup>2</sup> The AME method is applicable because the worker attained age 62 before 1979.

## Gifts to the Trust Funds\*

A small number of persons each year—grateful for benefits they or their relatives have received and/or worried about the solvency of the trust funds—give money to the Social Security system. Money gifts or bequests may be accepted by the Managing Trustee for deposit in any one or more of the four Social Security trust funds: Old-Age and Survivors Insurance (OASI), Disability Insurance (DI), Hospital Insurance (HI), and Supplementary Medical Insurance (SMI).

Acceptance of these gifts is authorized by section 201(i) of the Social Security Act. It specifies that the gifts must be unconditional, except that the donor may designate to which fund the gift should be donated. If no fund is designated, the gift is credited to the OASI Trust Fund. The section was added to the Act by the 1972 amendments. Before then, bequests naming Social Security or a trust fund as a beneficiary could not be accepted. Occasionally, this caused problems in the final settlement of estates.

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