

Notes and Brief Reports

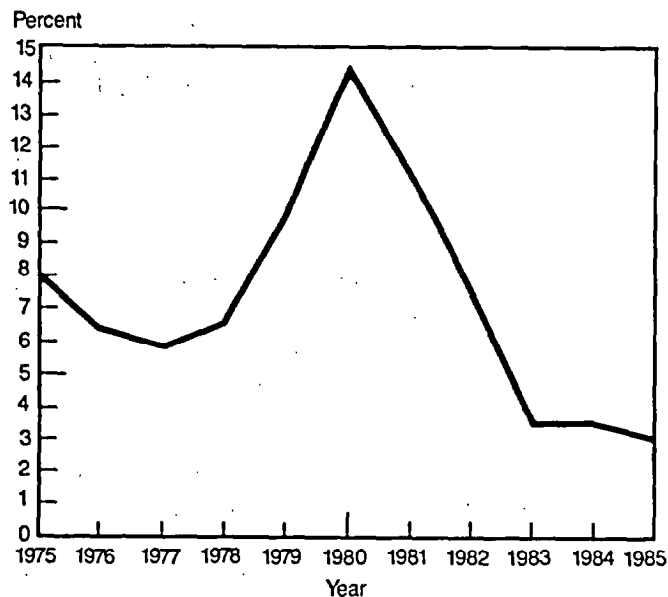
Effects of the OASDI Benefit Increase, December 1985*

In December 1985, a 3.1-percent cost-of-living adjustment went into effect for beneficiaries under the old-age, survivors, and disability insurance (OASDI, or social security) program. This increase, which was payable on January 3, 1986, was the lowest since automatic adjustments were instituted in 1975. Chart 1 shows that, during the period 1975-84, OASDI beneficiaries received increases ranging from 3.5 percent in 1983 and 1984, to 14.3 percent in 1980. A person receiving a social security benefit of \$300 in May 1975 would have seen it rise to \$644.60 if he or she were still entitled in December 1985.

Automatic benefit increases are initiated whenever the Consumer Price Index (CPI) for Urban Wage Earners and Clerical Workers for the third calendar quarter of a year exceeds the CPI for the base quarter by

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Chart 1.—Social security cost-of-living increases, 1975-85¹



¹ During the period 1975-82, the adjustments were effective in June, but the month was changed to December for 1983 and subsequent years under the Social Security Amendments of 1983. In all cases, the increases were payable the following month.

at least 3 percent. The base is defined as either the third calendar quarter of the last year in which there was an automatic adjustment or any quarter in which a general benefit increase was effective. The 1983 Amendments to the Social Security Act introduced the "stabilizer" provision as an exception to the CPI method, to be used whenever the ratio of combined OASDI trust fund assets to estimated expenditures for the year falls below 15 percent for years 1984-88 and 20 percent thereafter. This provision requires that the benefit rise be based on the lower of the increase in prices, as measured by the CPI, or the increase in average wages, as measured for the contribution and benefit base and other automatic wage adjustments in the OASDI program. Because the ratio for 1985 was 17.7 percent, the cost-of-living increase was based on the CPI.

As can be seen in table 1, the December 1985 cost-of-living increase resulted in a rise of \$476 million in total monthly OASDI benefits payable to 37 million beneficiaries. Retired workers and their dependents accounted for 73 percent of the rise, disabled workers and their dependents accounted for 9 percent, and survivors accounted for 18 percent.

As a result of the December 1985 increase, average monthly benefits payable to retired workers rose to \$538.16 for men and \$411.99 for women—representing increases of \$16.14 and \$12.37, respectively. Average benefit payments for disabled workers increased to \$534.14 for men (up \$16.17) and \$381.23 for women (up \$11.54). Average increases for dependents of retired and disabled workers ranged from \$4.11 for spouses of disabled workers to \$7.38 for spouses of retired workers. Among survivor beneficiaries, average benefit increases ranged from \$9.92 for children to \$12.90 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. Retired workers entitled at age 65 and disabled workers at any age may receive a monthly benefit equal to the PIA. A retired worker may elect to receive benefits as early as age 62, but the PIA will be reduced 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 equal to the full PIA, provided that the deceased spouse did not receive reduced benefits. Bene-

Table 1.—Monthly cash benefits in current-payment status before and after the December 1985 benefit increase, by type of beneficiary and reduction status

Type of beneficiary and reduction status	Total number	Total benefit amount ¹ (in thousands)		Average benefit			
		Before increase	After increase	Amount		Increase	
				Before increase	After increase	Amount	Percent
All beneficiaries	36,984,363	\$15,384,872	\$15,861,313	...	...	...	3.1
Retired workers, spouses, and children	25,881,983	11,197,463	11,543,911	...	...	...	3.1
Retired workers	22,362,295	10,378,492	10,699,644	\$464.11	\$478.47	\$14.36	3.1
Men	11,781,860	6,150,348	6,340,580	522.02	538.16	16.14	3.1
Benefits actuarially reduced	7,138,431	3,325,412	3,428,152	465.85	480.24	14.39	3.1
Benefits not actuarially reduced	4,643,429	2,824,936	2,912,427	608.37	627.21	18.84	3.1
Women	10,580,435	4,228,144	4,359,064	399.62	411.99	12.37	3.1
Benefits actuarially reduced	7,528,052	2,716,579	2,800,714	360.86	372.04	11.18	3.1
Benefits not actuarially reduced	3,052,383	1,511,565	1,558,350	495.21	510.54	15.33	3.1
Spouses	3,062,099	731,271	753,859	238.81	246.19	7.38	3.1
Children	457,589	87,700	90,408	191.66	197.57	5.91	3.1
Disabled workers, spouses, and children	3,910,072	1,416,788	1,461,132	...	...	...	3.1
Disabled workers	2,657,714	1,247,299	1,286,245	469.31	483.97	14.66	3.1
Men	1,785,623	924,891	953,781	517.97	534.14	16.17	3.1
Women	872,091	322,407	322,464	369.69	381.23	11.54	3.1
Spouses	306,240	39,404	40,662	128.67	132.78	4.11	3.2
Children	946,118	130,085	134,225	137.49	141.87	4.38	3.2
Survivors	7,160,331	2,766,334	2,851,853	...	...	...	3.1
Widows and widowers ²	4,854,541	2,026,543	2,089,161	417.45	430.35	12.90	3.1
Widowed mothers and fathers	371,316	119,590	123,297	322.07	332.05	9.98	3.1
Children	1,924,884	616,684	635,769	320.37	330.29	9.92	3.1
Parents	9,590	3,517	3,626	366.74	378.08	11.34	3.1
Special age-72 beneficiaries ³	997	4,287	4,417	...	...	...	3.0

¹ Totals may not add due to rounding.

² Includes disabled widows and widowers.

³ Authorized by 1966 legislation for persons aged 72 or older not insured under the regular or transitional provisions of the Social Security Act.

fits received between ages 60 and 65 are subject to a reduction of 19/40 of 1 percent for each month of early entitlement (a maximum reduction of 28.5 percent). Other dependents and survivor beneficiaries are entitled to set proportions of the PIA, subject to a family maximum. Effective December 1985, the highest PIA for a worker who retired at age 65 and who did not have a prior period of disability is \$739.40. Minimum and maximum benefits payable to workers who retired at age 65 during the period 1940-85 are shown in table 2.

Workers who attained age 62, became disabled, or died before 1979 have their PIA's computed from their average monthly wage (AMW), which is based on the individual's actual earnings or self-employment income. The 1977 Amendments to the Social Security Act introduced the indexing concept. This method, which applies to workers first eligible in 1979 or later, requires that the worker's earnings be 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)—to obtain the PIA. For workers who attained age 62, became disabled, or died in 1985, the formula is as follows:

Ninety percent of the first \$280 of AIME, plus 32 percent of AIME in excess of \$280 through \$1,691, plus 15 percent of AIME in excess of \$1,691.

The above result is rounded down to the lower \$0.10

(if not a multiple of \$0.10). The 3.1-percent cost-of-living increase is then applied and the amount is rounded again to the lower \$0.10 to obtain the December 1985 PIA.

The figures \$280 and \$1,691 are known as the "bend points." The bend points, which vary from year to year, are computed by obtaining the ratio of average wages (as provided by the Internal Revenue Service) 2 years before the current year to the 1977 average wage, multiplying the result by the 1979 bend points, and then rounding to the nearest dollar. The 1985 bend points were derived by dividing \$15,239.24 (the 1983 average wage) by \$9,779.44 (the 1977 average wage), which yields a ratio of 1.558294, and multiplying that ratio by the 1979 bend points of \$180 and \$1,085 (table 3).

Table 4 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 \$676 through \$3,225, the AIME based on maximum earnings in 1984 and 1985. This 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. A worker who became entitled to benefits at age 62 in 1985 and who earned the minimum hourly wage for 40 hours per week during all of his or her working years will have an AIME of \$676. Retired workers whose earnings each year were equal to the national average wage or maximum creditable wages under the social security program will have AIME's of \$1,272 and \$1,929, respectively. An AIME of \$3,062

Table 2.—Minimum and maximum monthly retired-worker benefits payable to individuals who retired at age 65, 1940–85

Year of attainment of age 65 ¹	Minimum benefit		Maximum benefit ³				Year of attainment of age 65 ¹	Minimum benefit		Maximum benefit ³			
	Payable at the time of retirement	Payable effective December 1985 ²	Payable at the time of retirement		Payable effective December 1985 ²			Payable at the time of retirement	Payable effective December 1985 ²	Payable at the time of retirement		Payable effective December 1985 ²	
			Men	Women	Men	Women				Men	Women	Men	Women
1940.....	\$10.00	\$201.90	\$41.20	...	\$390.40	...	1963.....	\$40.00	\$201.90	\$122.00	\$125.00	\$534.90	\$547.60
1941.....	10.00	201.90	41.60	...	390.40	...	1964.....	40.00	201.90	123.00	127.00	539.50	556.70
1942.....	10.00	201.90	42.00	...	395.10	...	1965.....	44.00	201.90	131.70	135.90	539.50	556.70
1943.....	10.00	201.90	42.40	...	395.10	...	1966.....	44.00	201.90	132.70	135.90	543.50	556.70
1944.....	10.00	201.90	42.80	...	399.50	...	1967.....	44.00	201.90	135.90	140.00	556.70	585.40
1945.....	10.00	201.90	43.20	...	399.50	...	1968.....	⁴ 55.00	201.90	⁴ 156.00	⁴ 161.60	565.20	585.40
1946.....	10.00	201.90	43.60	...	404.30	...	1969.....	55.00	201.90	160.50	167.30	581.70	606.30
1947.....	10.00	201.90	44.00	...	408.00	...	1970.....	64.00	201.90	189.80	196.40	597.90	619.00
1948.....	10.00	201.90	44.40	...	408.00	...	1971.....	70.40	201.90	213.10	220.40	610.20	630.60
1949.....	10.00	201.90	44.80	...	412.00	...	1972.....	70.40	201.90	216.10	224.70	619.00	643.30
1950.....	10.00	201.90	45.20	...	417.20	...	1973.....	84.50	201.90	266.10	276.40	634.90	659.60
1951.....	20.00	201.90	68.50	...	417.20	...	1974.....	84.50	201.90	274.60	284.90	654.90	679.70
1952.....	20.00	201.90	68.50	...	417.20	...	1975.....	93.80	201.90	316.30	333.70	679.70	717.00
1953.....	25.00	201.90	85.00	...	460.90	...	1976.....	101.40	201.90	364.00	378.80	723.80	753.40
1954.....	25.00	201.90	85.00	...	460.90	...	1977.....	107.90	201.90	412.70	422.40	771.40	789.40
1955.....	30.00	201.90	98.50	...	460.90	...	1978.....	114.30	201.90	459.80	...	811.50	...
1956.....	30.00	201.90	103.50	...	486.70	...	1979.....	121.80	201.90	503.40	...	834.10	...
1957.....	30.00	201.90	108.50	...	508.90	...	1980.....	133.90	201.90	572.00	...	862.30	...
1958.....	30.00	201.90	108.50	...	508.90	...	1981.....	153.10	201.90	677.00	...	892.90	...
1959.....	33.00	201.90	116.00	...	508.90	...	1982.....	⁵ 170.30	201.90	⁵ 679.30	...	805.60	...
1960.....	33.00	201.90	119.00	...	521.70	...	1983.....	⁵ 166.40	183.70	709.50	...	783.50	...
1961.....	33.00	201.90	120.00	...	525.80	...	1984.....	⁵ 150.50	160.50	703.60	...	750.70	...
1962.....	40.00	201.90	121.00	\$123.00	530.60	\$539.50	1985.....	(6)	(6)	717.20	...	739.40	...

¹ Assumes retirement at beginning of year.

² The final benefit amount payable after supplementary medical insurance premium or any other deduction is rounded to next lower \$1.

³ Benefits for both men and women shown in men's column except where women's benefit appears separately. Assumes no prior period of disability.

⁴ Effective for February 1968.

⁵ Derived from transitional guarantee computation based on 1978 PIA table.

⁶ Minimum PIA has been eliminated for workers who attain age 62 in 1982 or later. (The minimum is retained until 1991 for members of religious orders who are under a vow of poverty, provided that the order had elected social security coverage before December 29, 1981.)

Table 3.—Average annual wage, ratio,¹ and bend points, 1977–86

Item	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Average wage	\$9,779.44	\$10,556.03	\$11,479.46	\$12,513.46	\$13,773.10	\$14,531.34	\$15,239.24	\$16,135.07	(2)	(2)
Ratio .....	...	...	...	1.079410	1.173836	1.279568	1.408373	1.485907	1.558294	1.649897
PIA bend points:										
1.....	...	...	\$180	\$194	\$211	\$230	\$254	\$267	\$280	\$297
2.....	...	...	1,085	1,171	1,274	1,388	1,528	1,612	1,691	1,790

¹ Ratio of average annual wage 2 years prior to year of eligibility to 1977 wages.

² Not available.

was selected since that is the highest AIME obtainable in 1985 by an individual who became disabled in 1985 and

whose AIME is based on 2 years of maximum earnings in 1983 and 1984.

Table 4.—Monthly benefit amounts for selected beneficiary families with first eligibility in 1985, by average indexed monthly earnings (AIME), effective December 1985

Beneficiary family	Average indexed monthly earnings of insured worker				
	¹ \$676	¹ \$1,272	¹ \$1,929	² \$3,062	³ \$3,225
Primary insurance amount	390.40	587.00	762.10	937.20	962.50
Maximum family benefit	611.60	1,071.80	1,333.50	1,640.10	1,684.30
Disability maximum family benefit ⁴	585.60	880.50	1,143.10	1,405.80	...
Disabled worker:					
Worker alone	390.00	587.00	762.00	937.00	...
Worker, spouse, and 1 child	584.00	879.00	1,142.00	1,405.00	...
Retired worker claiming benefits at age 62: ⁵					
Worker alone	312.00	469.00	609.00	...	...
Worker with spouse claiming benefits at—					
Age 65 or older	507.00	762.00	990.00	...	...
Age 62 ⁵	458.00	689.00	894.00	...	...
Widow or widower claiming benefits at—					
Age 65 or older ⁶	390.00	587.00	762.00	...	...
Age 60 (or age 50 if disabled)	279.00	419.00	544.00	...	...
One surviving child	292.00	440.00	571.00	702.00	721.00
Widow or widower aged 65 or older and 1 child	611.00	1,027.00	1,333.00	1,639.00	1,683.00
Widowed mother or father and 1 child	584.00	880.00	1,142.00	1,404.00	1,442.00
Widowed mother or father and 2 children	609.00	1,071.00	1,332.00	1,638.00	1,683.00

¹ AIME's of \$676, \$1,272, and \$1,929 are examples for retired workers who became entitled to benefits at age 62 in 1985 and who had various levels of earnings. An AIME of \$676 would be the AIME for a hypothetical worker who earned the minimum wage for a 40-hour work-week for all 29 years used in the computation. AIME's of \$1,272 and \$1,929 are AIME's for retired workers who earned the average and maximum wages, respectively. These AIME's are also possible for disabled and deceased workers.

² Maximum AIME possible for new disabled-worker beneficiaries. Possible only in cases where an individual became disabled in 1985 and whose AIME is based on 2 years of maximum earnings in 1983 and 1984.

³ Maximum possible in survivor cases. Possible only in survivor cases in which the worker dies at a young age and had his or her AIME calculated based on 2 years of maximum earnings (1984 and 1985).

⁴ 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 85 percent of the worker's AIME (or 100 percent of the PIA, if larger) or 150 percent of the PIA.

⁵ Assumes maximum reduction.

⁶ 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.

Social Security Related Legislation in 1985*

During the first session of 99th Congress (January 3–December 20, 1985) the President signed into law several bills relating to programs administered by the Social Security Administration. Relevant changes in the new laws include the following:

Public Law 99-177 (enacted on December 11, 1985) provides increases in the Statutory Limit on the Public Debt and Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman-Hollings Amendment). Title II of the new law, "Deficit Reduction Procedures" (generally referred to as the Gramm-Rudman-Hollings Amendment) amended the Congressional Budget and Impoundment Control Act of 1974 to require annual reductions in Federal budget deficits—as shown in both presidential and congressional budgets—in each fiscal year over the period 1986-91 sufficient to eliminate the projected deficit by the end of this period.

- If targeted reductions in the deficit in a fiscal year are not met (either enacting spending reduc-

*This note is adapted from *Legislation of Interest to SSA During the 99th Congress, First Session* (Legislative Report No. 1), Office of Legislative and Regulatory Policy, Social Security Administration, 1986. The full report also contains sections on the significant non-enacted bills relating to social security and supplemental security income, a comparison of provisions in the Reconciliation Bill (H.R. 3128), and a listing of hearings at which Social Security Administration or other Administration witnesses testified.

tions or tax increases), a system of automatic spending cuts—equally divided between defense and domestic programs—is triggered.

—The President is required to implement broad spending reductions ("sequesters") in Federal programs sufficient to meet the targets.

—Congress is prohibited from overriding a presidential sequester order in any manner that would cause the deficit-reduction target for the year not to be met.

—Social security benefits (including cost-of-living adjustments), interest payments on the national debt, payments under the supplemental security income (SSI) and aid to families with dependent children (AFDC) programs, and certain other programs for the poor are exempt from the sequestration process. Medicare is subject to limited cuts under the new law.

—Legislation affecting social security is not in order under the rules of the House or Senate when budget reconciliation is being considered. (Nothing precludes Congress from enacting legislation affecting social security and SSI outside the reconciliation process.)

—The Social Security Administration's (SSA's) administrative expenditures are not exempt from the sequestration process.

- Trust fund receipts and expenditures would be