

CHAPTER 19

GLOSSARY OF TERMS

Actuarial reduction - The reduction in a Social Security benefit when taken before age 65. The reduction is permanent and is designed to provide, on the average, the same value (taking into account interest) of total lifetime benefits as would have been payable if the benefits had started at age 65. At age 62, the benefit for a worker is reduced by 20 percent.

Aged beneficiary - A person getting benefits based on age (rather than based on, say, disability or on caring for a child beneficiary). In general, "aged" as used in this sense means age 62 or older in the case of a worker or spouse (or dependent parent) or age 60 or older in the case of a widow(er).

Allowance - The granting of an application for disability benefits.

Annual exempt amount - Amount of earnings a beneficiary can have in a year and still receive all of his or her benefits for that year. For beneficiaries under age 65, the amount is \$4,080 for 1981 and will be automatically adjusted, based on increases in general earnings levels in the future. For beneficiaries age 65 or older, the amount is \$5,500 in 1981 and \$6,000 in 1982, with automatic adjustments as wages rise thereafter (also see earnings test).

Assets test - (Sometimes called means test) A financial standard used to limit eligibility for certain government programs. In Supplemental Security Income, for example, eligibility is limited to persons with \$1,500 or less in assets (\$2,250 for couples); some assets are not counted in making this determination, such as the value of a home.

Assignment - An agreement by a physician to be paid directly under Medicare's Supplementary Medical Insurance and to accept this reimbursement as payment in full for services rendered to the beneficiary, along with the prescribed cost-sharing payment from the beneficiary.

Average Indexed Monthly Earnings (AIME) - The earnings used to determine the Primary Insurance Amount, on which benefits for a worker and family will be based. Earnings for each year after 1950 are updated (indexed) to the indexing year (the second year before the year the worker becomes 62 or, if earlier, becomes disabled or dies) to take account of the increase in average wages since the year they were earned. Earnings for the indexing year and subsequent years are used at their actual values. Then, the highest years of indexed earnings for a specified number of years are selected and averaged to yield the AIME.

Carrier - A private or semi-public insurance organization (such as a Blue Shield organization) which handles claims under Medicare Supplementary Medical Insurance from physicians, independent laboratories, and certain other types of providers of health services not reimbursed by intermediaries.

Cash benefits - Benefits such as Social Security retirement benefits, survivor benefits, disability benefits, unemployment compensation, Supplemental Security Income, and Aid to Families with Dependent Children, aimed at replacing prior income or earning power and, paid directly to the beneficiary (instead of to those rendering services to the beneficiary).

Child-care year - A year of low earnings due to the responsibility of caring for a child under a certain age. Under the Commission's proposals for changing Social Security benefits, such a year can be counted as a "year of coverage" in determining the benefit amount under the special-minimum benefit provision.

Cohort - A group of persons which shares a common characteristic, such as persons who reach 62 in a certain calendar year or persons who become disabled in a certain calendar year.

Consumer Price Index (CPI) - An index published by the Bureau of Labor Statistics, Department of Labor, which measures average changes in prices of goods and services. Two CPI's are published--a CPI for All Urban Consumers and a revised CPI for Urban Wage Earners and Clerical Workers. The Social Security Act provides for automatic increases in benefits based on increases in the latter CPI.

Contractor - An organization which assists the Federal government in operating the Medicare and Medicaid programs. (See carrier and intermediary.)

Coordinated plan - A pension plan that is combined with Social Security in order to give the beneficiaries an agreed-upon level and/or type of benefits. Many State and local government pension plans are coordinated with Social Security.

Coverage - The inclusion of workers under a social insurance system, such as Social Security, for the purposes of benefits and taxes.

Coverage agreement - Voluntary arrangements between the Federal government and State and local governments, nonprofit organizations or American companies whose foreign subsidiaries employ U .S. citizens, with regard to the coverage of their employees under Social Security and Medicare Hospital Insurance.

Covered employment - All work covered by law under Social Security and Medicare Hospital Insurance (see noncovered employment).

Covered earnings - Earnings that are subject to the payroll tax and are credited for benefit purposes.

Delayed-retirement credit - An increase in benefits for a worker who delays retirement beyond age 65. The credit is measured in terms of the number of months after age 65 and up to age 72 for which the worker was eligible for, but did not receive, retirement benefits. The credit is 1/4 of 1 percent per month of the worker's Primary Insurance Amount for workers reaching age 62 after 1978.

Disallowance (also denial) - Denial of an application for disability benefits.

Dropout year - A year of low earnings which can be disregarded in computing a beneficiary's average earnings for Social Security purposes.

Dual beneficiaries - See dual entitlement.

Dual entitlement - Entitlement to a benefit as a spouse or survivor, as well as to a benefit based on one's own earnings. In such cases, the spouse or survivor benefit is payable only to the extent that it exceeds the person's benefit as a worker.

Earned income disregard - An amount of wage or salary income that does not count in determining eligibility for benefits under the Supplemental Security Income program's income test. The current figure is \$65 per month, plus one-half of all other earnings (see also general income disregard).

Earned income tax credit - A portion of earned income that low-income taxpayers with children (defined in 1980, as those making less than \$10,000) can take as a credit on their income taxes.

Earnings base - The maximum amount of annual covered earnings on which employees, employers, and self-employed people pay Social Security and Hospital Insurance taxes and which can be counted in figuring Social Security benefit amounts. The base is \$29,700 for 1981.

Earnings credits - Amounts of covered earnings from work appearing on the Social Security Administration's records that are used to determine an individual's entitlement to Social Security and Medicare Hospital Insurance benefits and to compute the amount of the OASDI benefit.

Earnings record - A record kept by the Social Security Administration of each worker's covered wages and self-employment income, by year, which is used as the basis for computing Social Security eligibility and benefits.

Earnings test - The provision that requires a person's Social Security benefits to be reduced by \$1 for each \$2 of earnings over the annual exempt amount (see annual exempt amount). The test is not applied once a beneficiary reaches 72 (70 beginning in 1982).

Eligibility - The state of meeting all of the requirements for a particular Social Security benefit except filing and approval of an application.

Entitlement - The state of meeting all of the requirements for a particular Social Security benefit, including the filing and approval of an application.

General income disregard - An amount of income accruing to the beneficiary from any source that is not counted in computing the monthly payment under the Supplemental Security Income program.

Hospital Insurance - Part A of Title XVI I I of the Social Security Act, which provides insurance for hospital, skilled nursing facility, and home health services costs to workers and beneficiaries insured under Social Security and their spouses aged 65 and over (and also for disabled Social Security beneficiaries who had been on the benefit roll for at least 24 months).

Impairment - A physical or mental condition, determinable by a physician, which may or may not be severe enough to cause partial or total inability to perform substantial services in gainful employment.

Income replacement - See replacement rate.

Income test (sometimes called means test) - The requirement in public assistance programs that makes people eligible for payments or medical-care expense reimbursement only if their incomes (and, sometimes, assets) are less than a specified amount.

Indexing - Updating data for past periods to some recent date by the application of a formula. In Social Security, a number of components are updated by indexing, including earnings used in the benefit computation, benefits paid to persons on the roll, the base to which the payroll tax is applicable, and the exempt amount under the earnings test (see Average Indexed Monthly Earnings).

Individual Retirement Account - A plan providing retirement benefits for employees who do not have an employer-sponsored pension plan.

Initial benefit - The first monthly payment made to a Social Security beneficiary.

Insured status - A requirement for entitlement to Social Security retirement, disability, and survivor benefits. A person is insured if he or she has the required number of quarters of coverage, based on his or her earnings credits (see earnings credits and quarters of coverage).

Currently insured: Six quarters of coverage during the 13-quarter period ending with the quarter of the worker's death or, if earlier, the quarter in which the worker became entitled to a disabled worker's benefit.

Fully insured: One quarter of coverage for each calendar year elapsing after 1950 (or, if later, after the year a worker reaches 21) and up to the year the worker reaches 62, or dies, or is disabled, whichever occurs earlier. The minimum requirement is 6 quarters of coverage; the maximum requirement is 40 quarters of coverage.

Insured in event of disability: A worker is insured in event of disability if he or she is fully insured and has at least 20 quarters of coverage during the 40-quarter period ending with the quarter of disablement. (A person disabled because of blindness needs only fully insured status.) Workers disabled before age 31 have an alternative requirement which is less stringent.

In order to establish eligibility for retirement and survivor benefits, a worker only needs to be fully insured. However, lump-sum death benefits and survivor benefits to children and widows or widowers with young children in their care may be paid even if the worker is only currently insured.

Integration - As used in connection with private pension plans, the development of the provisions of the plan so that, in combination with Social Security, the combined benefit will constitute approximately the same percentage of salary for persons with the same length of service, regardless of salary level.

Intermediary - A private or semi-public insurance organization (such as a Blue Cross organization) which handles claims under Medicare Hospital Insurance from hospitals, skilled nursing facilities, and home health agencies.

Keogh plan - A plan providing retirement benefits for self-employed persons which is purchased on an individual, voluntary basis from private organizations, and which allows certain tax deferments. Named for former Congressman Eugene Keogh, who sponsored the legislation.

Lifetime-reserve Days - A provision under Medicare Hospital Insurance which permits an individual who has used all of the 90 days of hospital benefits in a spell of illness to have up to 60 more days of benefits, subject to daily coinsurance of 50 percent of the inpatient initial deductible (\$204 in 1981). Any such days used in a previous spell of illness reduce the 60 days available in the current one.

Maintenance of effort - A requirement in connection with public assistance programs that, after a Federal program is introduced or is liberalized, the state must continue to expend funds or to provide services at the same level (or higher) as it had done previously.

Maturity - The time when young workers who entered the system when the Social Security program first covered most of the population (the early 1950's) will have been receiving benefits for many years, thus making the full cost of Social Security apparent.

Maximum family benefit - The maximum monthly amount that can be paid on a worker's earnings record. Whenever the amount of benefits payable on an earnings record exceeds the maximum, each family or survivor benefit is proportionately reduced to bring the total within the maximum. (Benefits for divorced spouses and surviving divorced spouses are excluded from this limit.)

Medical standards for disability - Physical condition and medical history standards used in determining whether an applicant is disabled, for purposes of establishing a "period of disability." A medical impairment is one that results from anatomical, physiological, or psychological abnormalities which are demonstrable by medically acceptable clinical and laboratory diagnostic techniques.

Medically needy - Persons whose assets or income are too high to qualify for Supplemental Security Income or Aid to Families with Dependent Children but who would qualify for it if permitted to spend-down to Medicaid eligibility levels by documenting incurred medical expenses (see spend-down provision). Some States include such persons in their Medicaid programs.

Medicare - The health insurance portion of the Social Security Act (Title XVI II), which provides Hospital Insurance in its Part A and Supplementary Medical Insurance in its Part B.

Minimum benefit, regular - The lowest benefit payable (before any reductions or deductions) to a retired or a disabled worker, or to the sole survivor of a worker. The minimum benefit is frozen at \$122 for new beneficiaries. However, after a person begins to get benefits based on the minimum (or reaches age 65, if earlier), his or her benefit will be increased for cost-of-living increases.

Noncoordinated government pension plan - A Federal, State, or local government retirement program not integrated with Social Security-- i.e., without an offset or reduction for the receipt of Social Security benefits.

Noncovered employment - All paid work not covered by law under Social Security or Medicare Hospital Insurance (primarily most Federal civilian employment, some State and local government employment, and some employment for nonprofit organizations).

Normal retirement age - The age at which, when the retirement benefit is initially claimed, it is not subject to an actuarial reduction or increase (under present law, age 65). (See actuarial reduction)

Nursing home - An institution providing custodial care (i.e., care which can be provided by persons without professional skills or training, such as help in walking, bathing, getting in and out of bed, dressing, and eating) or skilled nursing care.

Old-Age, Survivors, and Disability Insurance (OASDI) - Title II of the Social Security Act, the cash benefits portion of the program.

Past-service credits - As used in connection with private pension plans, the counting of service rendered to the employer before the plan became effective in the determination of benefit eligibility and amounts.

Portability - A worker's ability to take pension credits earned on one job to another job in a different company, industry, or area of the country.

Primary Insurance Amount (PIA) - The amount on which all monthly OASDI benefits are based. A worker's PIA is derived from Average Indexed Monthly Earnings by applying it in a weighted benefit formula. Such formula for persons reaching age 62 in 1981 (or dying or becoming disabled before age 62 in 1981) is 90 percent of the first \$211 of AIME, plus 32 percent of the next \$1,063 of AIME, plus 15 percent of AIME in excess of \$1,274. For subsequent years' cohorts, the dollar figures are changed to reflect the relative

changes in nationwide average wages. A worker's disability benefit or old-age benefit at age 65 is equal to 100 percent of PI A. Other benefits are various percentages of the worker's PIA. (See weighted benefit and cohort)

Prospective reimbursement - A procedure whereby providers of health care and health insurance carriers agree in advance on what the fee for certain health care services will be. Currently used primarily in efforts to contain hospital costs.

Provider - Persons or organizations, such as physicians, hospitals, skilled nursing facilities, and home health agencies, who can receive Medicare payments.

Quarters of coverage - The measure used to determine if a person has enough earnings credits to be insured for Social Security benefits (see earnings credits and insured status).

In general, for years before 1978, a wage earner acquired one quarter of coverage for each calendar quarter in which he or she was paid \$50 or more in covered wages. A self-employed person acquired 4 quarters of coverage for each year in which net income from self-employment was \$400 or more. Beginning in 1978, a worker acquires 1 quarter of coverage (up to a maximum of 4) for each \$250 of earnings paid in a year; the dollar measure is automatically increased each year to take account of increases in average wages (in 1979, \$260; in 1980, \$290; and in 1981, \$310).

Reconsideration - In disability determinations, the process by which an initial decision made in a State Disability Determination Unit is reviewed on the record by other employees of that agency, with an eye toward judging its correctness.

Replacement rate - The worker's benefit (or the family benefit) as a percentage of prior earnings. If a worker earned \$500 a month before retirement and receives a benefit of \$350, his or her replacement rate is 70 percent.

Generally, it is the relationship between the benefit payable for the first month of entitlement and gross taxable earnings for the year before entitlement. However, in some contexts, it may be the relationship between the benefit and (1) net earnings from the prior year or (2) average indexed earnings. (In other contexts, the benefits payable for the first full year of entitlement are used as the numerator.)

Retirement test - See earnings test.

Right of nomination - Refers to the right of hospitals and other health care providers under HI to nominate a public or private organization to serve as an intermediary between themselves and the Federal government for the purpose of payment and accounting. Blue Cross organizations, for example, are often fiscal intermediaries.

75-Year valuation period - The period used in the projection of cost estimates for the OASDI program. Cost estimates include both actual and potential assets and liability; number of covered workers and beneficiaries; and amounts of covered payroll, contribution or tax income, interest income, benefit disbursements, administrative expenses, and balance in the fund.

Skilled nursing facility - An institution having a physician, registered professional nurse, or medical staff which can provide skilled nursing care and rehabilitation services, as well as other health-related services for persons requiring such care or rehabilitation (see nursing home).

Special minimum benefit - A benefit based on the number of years a person has worked under Social Security rather than on his or her average earnings. This benefit is designed to help those who have worked for long periods at low wages and is paid only if it is higher than the worker's benefit based on the regular benefit formula. It is based on a flat amount (currently, \$14.50) per "year of coverage" in excess of 10 years, but not over 30 years.

A "year of coverage" is one with earnings of at least 25 percent of the earnings base for the year (but, for 1979 and after, the earnings base which would have resulted if the 1978 base had been automatically adjusted, and not subject to ad hoc increases in 1979-81; such hypothetical base for 1981 is \$22,200).

Spend-down provision - The procedure by which a person whose income or assets exceeds the maximum allowable for Medicaid eligibility may deduct the part of his or her income or assets spent for medical care, and then becomes eligible for Medicaid.

State supplementation - The payments to SSI recipients by States in addition to the Federal payments (done either on a voluntary basis or, as for some recipients, mandatorily).

Substantial gainful activity (SGA) - Remunerative work that is substantial, as determined by the amount of money earned. If a disabled person engages in SGA, his or her benefits are denied or terminated. SGA involves the performance of significant physical or mental duties, or both, which are productive in nature and may entail either full-time or part-time work.

Supplementary Medical Insurance - Part B of Title XVI of the Social Security Act, which provides voluntary medical insurance (primarily for the cost of physician services) to residents of the U.S., aged 65 or over, even those not eligible for Social Security. It also insures disabled Social Security beneficiaries who have been on the benefit roll for at least 24 months.

Survivor - An immediate relative of an insured worker (a wife, child, or parent) who lives longer than the worker and thus receives a portion of the benefits, either immediately or upon reaching a prescribed age, that would have been paid the worker if he or she were retired or disabled.

Taxable payroll - Total earnings that are subject to OASDI and HI taxes, adjusted to reflect the lower tax rates on self-employment, tips, and multiple-employer excess wages. The long-range cost of the program or of changes therein is usually expressed as a percentage of average taxable payroll and is comparable to the combined employer/employee tax rate scheduled in the law. Taxable payroll is estimated at \$1.13 trillion for 1980 and \$1.26 trillion for 1981. One percent of taxable payroll in 1980 was \$11.3 billion.

Trial work period - A period of time during which a disability beneficiary continues to receive full benefits even though working. This is done to permit beneficiaries to work long enough to test their ability to work without losing benefits.

Vesting - The establishment of eligibility for, or the right to the eventual receipt of, benefits under a pension plan.

Wage indexing - See Average Indexed Monthly Earnings.

Weighted benefit - One which replaces a larger percentage of pre-retirement earnings for people with lower earnings than it does for people with higher earnings. This is done in the Social Security program.