Survivor income benefits provided by employers

Plans that protect against loss of family income when an employee dies can be divided into two groups: those that provide regular payments over time and those that make an immediate lump-sum payment

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As the twentieth century comes to a close, more Americans are living longer, making the 65 and older age group the most rapidly growing segment of the population. Common among this group are widows or widowers, many of whom experience a drastic cut in income when their spouses die. In fact, many widows are left below the poverty level when their husbands' income sources are cut off at death. One report estimated that 32 percent of nonhousing wealth and most of job-related pensions disappear during the 2-year interval in which the husband dies, and that 75 percent of poor widows were not poor when their husbands were alive.[1]

Certainly, many families are faced with a sudden change in lifestyle when the primary wage earner dies prematurely without making appropriate arrangements to replace lost income. Indeed, the proportion of women in the work force and the average income of working women has risen significantly in recent years, so that the death of either working spouse can seriously affect family income.

In light of these realities, employers offer a wide variety of benefit plans that are designed, at least in part, to protect survivors. Such benefits can be divided into two groups: those designed to provide a stream of future periodic income and those designed to provide an immediate single lump-sum payment. Many of these plans have coordination provisions, designed to avoid duplicate payments, thereby limiting the total benefit received.

This article focuses on the range of benefit protection available, methods used to coordinate benefits, and the ultimate amount of benefits received. Examples of individual plan features and how benefits are coordinated are also provided. Data are based on results from the Bureau of Labor Statistics 1989 Employee Benefits Survey, which covered full-time employees in medium and large private establishments.[2]

Data on plan incidence reveal the variety of available plans and the consequent importance of coordination features. The following tabulation indicates the percent of full-time employees participating in benefit plans that often include survivor protection:

Benefit	*Percent of employees participating*
Life insurance	94
Survivor income insurance protection	7
Long-term disability insurance	45
Defined benefit pension	63
Defined contribution plans	48
Paid vacations	97
Paid annual sick leave	56

Periodic income benefits

Defined benefit pension plans. A major benefit available to an employee's survivors comes from defined benefit pension plans, which covered 63 percent of full-time workers in medium and large establishments in 1989.[3] For retired married couples, the standard benefit is the quali-

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fied joint and survivor annuity—an annuity that will provide income for the remainder of the lives of both spouses. The employee pays for this spousal protection through a reduction in basic retiree benefits. Upon the death of the retired employee, the surviving spouse receives all or a portion of the periodic benefit for life.

Table 1 shows that nearly three-fifths (62 percent) of pension plan participants were given several options, usually 50, 67, or 100 percent of the basic pension, to select as survivor amounts. An additional one-quarter (23 percent) were in plans that had only a 50-percent joint and survivor benefit—the minimum legal standard—available for the surviving spouse.

In addition, if a worker covered by a defined benefit pension plan dies prior to retirement, protection must be made available to the surviving spouse. This protection, known as a qualified preretirement survivor annuity, commonly takes the form of a 50-percent joint and survivor annuity; the employee usually does not have to pay an additional cost for this benefit. (See table 2.) When an extra cost is imposed, it is assessed as a reduction in the amount the employee would have received had he or she retired the day before death. A common way of computing the extra cost is by multiplying the reduction factor by the number of years the preretirement survivor coverage was in effect and then multiplying that amount by the joint and survivor pension amount. For example, assume that the deceased employee would have received a joint and survivor pension of $500 a month at his or her early retirement date, and the spouse was covered by a preretirement survivor benefit for 15 years prior to retirement. The plan states that the pension will be reduced by .25 percent for each year the plan was in effect. After the reduction—.0025 x 15 x $500 = $18.75—the employee's benefit amount would be $481.25 a month. Based on this figure, the survivor would receive a benefit of $240.63 a month, in accordance with the 50-percent survivor provision.

Another way of providing survivor benefits in defined benefit pension plans is to pay a portion of the accrued annuity that would have been paid to the employee had he or she retired the day before death. In this case, no reduction in the employee's benefits is imposed to account for providing survivor protection. Therefore, benefits computed in this manner are larger than those computed as a qualified joint and survivor annuity or a qualified pretirement survivor annuity.

Table 1. **Full-time workers participating in defined benefit pension plans,[1] by type of postretirement survivor annuity, medium and large firms, 1989**

[In percent]

Type of annuity for surviving spouse	All participants
Total	100
Spouse's share of joint-and-survivor annuity[2] only	90
50 percent of retiree's pension	23
51-99 percent of retiree's pension	3
100 percent of retiree's pension	2
Alternative percentages at retiree's option[3]	62
Spouse's share of joint-and-survivor annuity plus portion of retiree's pension	1
Portion of retiree's accrued pension only	9

[1] Excludes supplemental pension plans.

[2] An annuity that provides income during the lifetime of both the retiree and the surviving spouse. The accrued pension will usually be actuarially reduced at retirement because of the longer length of time that payments are expected to be made. Employees and their spouses are required to waive the spouse annuity in writing if they desire a pension during the employee's lifetime only or another option offered by the plan, such as guarantee of payments for a specified period.

[3] Alternate percentages were usually 50, 67, or 100 percent.

NOTE: Because of rounding, sums of individual items may not equal totals.

Survivor income insurance plans. A second periodic benefit, available to 7 percent of employees in medium and large establishments in 1989, is a survivor income insurance plan. Such plans provide monthly benefits to surviving spouses and children. Benefits are generally a flat dollar amount, for example, $200 per month, or a percentage of the worker's final earnings, such as 20 percent for the spouse, and 10 percent for each child. Survivor income insurance plans are further divided into two groups: transition benefits—those that last for a limited period, commonly 24 months; and bridge benefits—those that last for longer periods, usually until a specific event occurs. Bridge benefits typically cease when the surviving spouse dies, attains a specified retirement age, or remarries. After the surviving children reach a given age, benefits usually cease.

Social Security. A major benefit available to most workers is Social Security, which provides survivor income for widows, widowers, and dependent parents, children, and grandchildren. Officially known as Old-Age, Survivors, and Disability Insurance, Social Security provides monthly payments designed to replace part of a worker's income for the surviving family members. These benefits are paid in monthly allotments, ranging from 71½ percent of the primary insurance amount (the employee's standard benefit amount under Social Security) for a 60-year-old surviving spouse to 100 percent for a surviving spouse age 65 or older. During 1988, Social Security payments were made to 7.2 million survivors of deceased workers.[4]

A worker earns Social Security credits based on the number of years employed. These credits are used to determine benefit amounts. Benefits for dependents of fully-insured workers—those who had at least one quarter of work experience coverage for each year after age 21 and before the year in which they attained age 62 or became disabled—are available to numerous eligible survivors.[5] In 1988, nearly one-fifth of the more than 38 million persons receiving monthly Social Security benefits were survivors of deceased workers. The average monthly benefit amount in 1988 for nondisabled widows and widowers was $499; for surviving children, the amount was $367.[6] The beneficiary can also receive a lump sum of $255 if he or she was living with the worker at the time of the worker's death.

Lump-sum benefits

Life insurance. Life insurance is the traditional means of providing financial support for survivors following a worker's death. Such insurance provides a lump sum to the designated survivor, typically soon after death. This payment is often used to pay current bills, including funeral expenses, home mortgages, and other obligations that must be met. The remainder, if any, may be used to replace lost income through the purchase of some type of income generating instrument, such as an annuity, or through liquidation of the sum over a period of time.

Benefit amounts based on a multiple of earnings averaged 1.5 times annual salary in 1989. However, these payments may be insufficient for the remainder of a survivor's life. Life insurance plans usually base lump-sum payments on a multiple of earnings or a flat dollar amount. (See table 3.)

The average life insurance benefit available in 1989 to plan participants with 20 years of service, based on annual earnings, was as follows:

Annual earnings	*Average life insurance benefit*
$15,000	$20,539
25,000	31,957
35,000	41,605
45,000	50,429

Table 2. **Percent of full-time participants in defined benefit pension plans by type of preretirement survivor annuity, medium and large firms, 1989**

[In percent]

Type of annuity for surviving spouse[1]	All participants
Total	100
Equivalent of joint-and survivor annuity[2]	73
Based on early retirement[3]	72
50 percent of employee pension	62
At extra employee cost[4]	8
51-99 percent of employee pension	5
At extra employee cost[4]	(5)
100 percent of employee pension	2
At extra employee cost[4]	(5)
Alternative percentages of pension at employee's option[6]	3
At extra employee cost[4]	(5)
Based on normal retirement[7]	1
Portion of accrued employee benefit	25
Reduced for early retirement	12
Unreduced for early retirement	12
Based on service projected to normal retirement date	2
Other annuity[8]	2

[1] Excludes supplemental pension plans.

[2] The spouse annuity is computed as if the employee had retired with a joint-and-survivor annuity. That is, the accrued pension is first reduced because of the longer length of time that payments were expected to be made to both the retiree and the surviving spouse. The spouse's share is then the specified percent of the reduced amount.

[3] Survivor annuity is based upon the benefit the employee would have received if early retirement had occurred on the date of death.

[4] Plan reduces the accrued employee pension benefit for each year survivor protection is in force.

[5] Less than 0.5 percent.

[6] Alternative percentages were usually 50 or 100 percent.

[7] Survivor annuity is based on the benefit the employee would have received if eligible for normal retirement on the date of death.

[8] Includes annuity based on a dollar amount formula or percent of earnings.

NOTE: Because of rounding, sums of individual items may not equal totals.

Long-term disability insurance. Disability benefits are not commonly considered sources of survivor income. However, long-term disability insurance plans, which typically replace a percentage of earnings (commonly 50 or 60 percent) for permanently disabled workers, do in fact provide survivor protection. Forty-five percent of full-time employees in medium and large establishments had long-term disability insurance coverage in 1989; 28 percent of these participants were in plans that provided survivor benefit protection upon the death of the disabled employee.[7] (See table 4.)

Survivor benefits from long-term disability insurance plans typically are either lump-sum or periodic payments. The most common benefit is a lump-sum payment, usually equal to 3 times the monthly long-term disability benefit the disabled worker was receiving. Alternatively, the plan may provide the employee's beneficiary a periodic payment equal to the employee's monthly benefit for a specified period, generally not more than 6 months. (See table 4.)

Defined contribution plans. Other benefit plans which are not specifically intended to provide survivor income, but may include survivor protection, are defined contribution plans. Among several types of such plans are: savings and thrift plans, deferred profit-sharing plans, money purchase plans, and employee stock ownership plans. Nearly all of these plans are financed primarily by employer contributions to accounts that are set up for eligible employees. (However, for savings and thrift plans, employees generally make regular contributions to the accounts on a pretax basis, with the employer matching all or a portion of the employee's contributions and adding this amount to the employee's account.) When an employee dies, his or her survivors receive all of the contributions that were made to the plans, and any employer contributions in plans in which the employee was vested.[8] This entire amount is usually paid to the survivor in a lump sum, although the plan may offer the option of receiving periodic payments for a fixed period or for life.

Table 3. **Full-time workers participating in life insurance plans, by method of payment, medium and large firms, 1989**

[In percent]

Method of payment	All participants
Total	100
Multiple of earnings	59
Less than 1.0	2
1.0	28
1.1 to 1.9	6
2.0	18
Greater than 2.0	5
Flat dollar amount	29
Less than $5,000	3
$5,000–$9,999	8
$10,000–$14,999	10
$15,000–$19,999	3
$20,000 or more	5
Dollar amount varies by earnings	9
Dollar amount varies by years of service	2

NOTE: Because of rounding, sums of individual items may not equal totals.

Unused paid leave. Although paid leave benefits, such as vacations and sick leave plans, are usually consumed by active workers, provisions for carry over of unused leave could in fact provide another lump-sum source for survivors of deceased employees. In 1989, nearly one-third of employees in medium and large firms were allowed to carry over at least some of their unused vacation days into the next year. These accumulated days would, upon the death of the employee, be paid to the survivor in a lump sum. Similarly, one-fifth of employees in annual sick leave plans (with fixed number of days allowed per year) could cash in accumulated sick leave days at the end of the leave year or at termination of employment. Sick leave plans, however, may allow only a fraction of the actual value of the unused days to be cashed in.

Private–public comparisons. The 1987 Employee Benefits Survey in State and local governments revealed that survivor benefits provided through defined benefit pensions, life insurance, and unused paid leave for full-time employees in State and local governments are similar to those of employees in medium and large establishments in private industry. By contrast, survivor income insurance benefits, defined contribution plans, and survivor benefits from long-term disability insurance plans were less common for employees in State and local governments, compared with their counterparts in medium and large private establishments.

Coordination of benefits

Many times, an employee's survivors will have more than one type of benefit available to them. In this case, there is some precedence of benefits. Foremost is life insurance; if this is present, the survivors will receive it no matter what other benefits are available. Similarly, because they are set by law and cannot be changed, survivor benefits from a defined benefit pension plan will always be paid.

Despite this guarantee of payment, defined benefit pensions are often coordinated with Social Security benefits. To prevent a duplication of benefits received, for example, the amount of the payment a survivor receives from a pension plan may be reduced (or offset) by a portion of the amount being paid by Social Security. In these instances, the Social Security offset is generally applied as soon as the pension survivor benefit commences.[9]

Coordination of benefits often occurs when survivor income insurance plans (transition and bridge benefits) exist. Although payment of these benefits depends upon the individual plans, there is almost always a provision stating that, if an individual is receiving benefits from other sources, there will be offsets to the survivor income plan to avoid overlapping payments. For example, an employee's survivor income insurance benefits may be offset by benefits from the employee's defined benefit pension plan or Social Security survivor benefits, or both.

Coordination features can limit or reduce aggregate benefits that may seem generous when the plans are viewed independently. The following examples illustrate the variations in survivor income that the combination of benefits can yield:

Example 1. The eligible survivor (usually surviving widow or widower) will receive a monthly transition benefit for up to 24 months. The monthly transition benefit of $400 is reduced to $225 if or when the eligible survivor is entitled to Social Security benefits, either as an employee or a survivor.

Example 2. The eligible surviving spouse and children of a deceased employee under age 65 are entitled to a monthly survivor income insurance benefit equal to 50 percent of the deceased employee's base monthly salary. However, the amount of the survivor benefit will be reduced by monthly Social Security survivor benefits. In addition, payment from the company's life insurance plan is treated as if it were used to purchase an annuity—an insurance policy designed to pay a periodic payment for life. This life insurance annuity equivalent amount is also offset from the survivor income insurance benefit.

Assuming the deceased employee's final monthly earnings were $2,000, the survivor income insurance benefit would be $1,000. Allowing for offsets of Social Security survivor benefits of $790 a month and monthly life insurance annuity payments of $160 a month (based on a $32,000 life insurance benefit), the survivor income insurance benefit would be reduced to $50 a month. However, the plan specifies a minimum survivor income amount of $100.

Total survivor income in this example would be $1,050, composed of $790 from Social Security, $160 from the life insurance annuity, and $100 from the survivor income insurance plan.

Table 4. **Full-time workers participating in long-term disability insurance plans, by provision for survivor benefits, medium and large firms, 1989**

[In percent]

Type of payment for surviving spouse	All participants
Total	100
With survivor benefits	28
Lump-sum payment	19
3 times monthly benefit	18
Other	1
Percent of monthly benefit[1]	8
Less than 100 percent	1
100 percent	7
Other benefit[2]	1
No survivor benefits	71
Benefit not determinable	1

[1] Benefits are payable for a limited time period, typically 6 months.

[2] Includes plans that pay any unpaid balance of an accrued benefit to a survivor.

NOTE: Because of rounding, sums of individual items may not equal totals.

Example 3. Effective 4 years after the employee's death, the eligible spouse will receive a monthly benefit equal to 25 percent of the employee's base salary less any pension benefit payable. Payments continue until the date the employee would have turned age 65, spouse remarries, or spouse dies. Survivor income insurance payments stop on the day the employee would have been 65 if the employee had less than 5 years of service at the time of death. If the employee had 5 or more years of service, payments continue in a different amount—equal to the benefit the spouse would have received if the employee had worked to age 65 and retired under a 50-percent joint and survivor allowance.

Other survivor benefits

The Railroad Retirement System, like the Social Security program, provides monthly benefits to survivors of insured workers. Survivor annuities are payable to widows and widowers, children, and other dependents if the deceased employee had at least 10 years of railroad service and had worked for a railroad in at least 12 of the 30 months immediately preceding the time of death. Railroad Retirement annuities of widows and widowers may be reduced for receipt of any Social Security payments based on his or her own earnings. A lump-sum death benefit is payable to survivors of an insured employee if there is no survivor immediately eligible for an annuity upon the employee's death.

When a deceased railroad employee is uninsured, work credits are transferred to the Social Security system and survivor benefits come under the jurisdiction of the Social Security Administration.

Veterans and military survivor benefits are payable to surviving spouses and children if the service person or veteran dies as a result of injury or disease that was sustained or aggravated as a result of active duty training or from a disability that is compensable under laws administered by the Department of Veterans Affairs. The amount paid to survivors depends on the last military pay rate of the deceased; payments continue for the life of the spouse. Survivors of veterans and other military personnel may also receive life insurance benefits, ranging from $10,000 to $250,000.

Workers' compensation programs provide survivor benefits if a worker dies from a job-related injury or illness. These benefits are State-administered. There are 35 different State job programs among the 50 States that provide either weekly or monthly death benefits to spouses and children. These benefits, which vary by State, are generally related to the level of the employee's compensation and are graduated according to the number of survivors. In most cases, benefits cover a surviving spouse until death or remarriage. In the case of dependent children, benefits continue to age 18, or in some States, to age 25 if the child is a full-time student. The amount of State benefits paid to survivors varies from a common standard of $66^2/_3$ percent of weekly earnings to a high of 90 percent of weekly earnings, typically limited by a dollar maximum amount. The surviving spouse and dependents in the State of Georgia, for example, would receive $66^2/_3$ percent of the deceased employee's weekly salary; however, the maximum weekly payment that could be made to the surviving spouse or spouse and children would be $175. The minimum payment, for the spouse only, would be $25. Lump-sum benefits may also be paid for burial expenses.

Survivors' benefits under company compensation plans are subject to changing laws, worker demands, and employer innovations. Even the nature of the benefits is changing—for example, various educational benefits, covering both high school and college expenses, are becoming available to a deceased worker's children.[10] These changes indicate the varied approaches employers take to provide for the families of deceased workers. □

Footnotes

[1] Michael D. Hurd and David A. Wise, *The Wealth and Poverty of Widows*, Working Paper No. 2325 (Cambridge, MA., National Bureau of Economic Research, 1987).

While pension plans usually provide survivor benefits, not all workers are covered by pension plans and many of the survivors are not entitled to pension benefits based on their own work experience.

[2] This annual survey provides data on the incidence and characteristics of employee benefits provided to employees in private industry and in State and local governments. Data used in this article cover employees in establishments with 100 workers or more and located in the 48 contiguous States and the District of Columbia. The survivor benefits included in the survey are those financed at least in part by employers. For more information see *Employee Benefits in Medium and Large Firms, 1989*, Bulletin 2363 (Bureau of Labor Statistics, 1990), and *Employee Benefits in State and Local Governments 1987*, Bulletin 2309 (Bureau of Labor Statistics, 1988). Data for small private establishments are not yet available.

[3] A defined benefit pension plan specifies the formula for computing an employee's periodic pension benefit, typically based on salary and years of service. Such plans are required by law to include certain survivor protection. For more information, see Donald Bell and Avy Graham, "Surviving spouse's benefits in private pension plans," *Monthly Labor Review*, April 1984, pp. 23-31.

[4] See *Social Security Bulletin* (U.S. Department of Health and Human Services, Social Security Administration, July 1989), p. 6.

[5] Eligible survivors include widows or widowers age 65 (or age 60 if reduced benefits are elected) who were still married to the deceased employee at the time of death; disabled widows or widowers age 50 or older; dependent parents age 62 or older; widows or widowers at any age if caring for a child under 16 or disabled; children or grandchildren under age 18, or 19 if the dependent is in school; and children or grandchildren if the dependent was disabled before age 22 and remains disabled. In addition, surviving divorced spouses are eligible at age 60 or older (50 if disabled) if married to the deceased employee for 10 years.

[6] See *Fast Facts & Figures About Social Security, 1989* (U.S. Department of Health and Human Services, Social Security Administration, June 1989), pp. 12-13.

[7] For additional information on long-term disability insurance, see Diane B. Hill, "Employer-sponsored long-term disability insurance," *Monthly Labor Review*, July 1987, pp. 16-22.

[8] Vesting is a guaranteed right to future benefits. A variety of vesting schedules may be employed, although legal restrictions exist on the length of time an employee must wait until fully vested. For more information, see Avy D. Graham, "How has vesting changed since passage of Employee Retirement Income Security Act?," *Monthly Labor Review*, August 1988, pp. 20-25.

[9] For a comprehensive analysis of pension formulas integrated with Social Security, see Donald Bell and Diane Hill, "How Social Security payments affect private pensions," *Monthly Labor Review*, May 1984, pp. 15-20.

[10] "Educational Assistance for Children," *Spencer's Research Reports*, September 1989, pp. 321.2–.7.