Surviving spouse's benefits in private pension plans

Most private pension plans offer a lifetime minimum annuity to surviving spouses of about two-fifths of a worker's accrued benefits; however, many spouses may receive a smaller share, or may not be covered, according to a BLS analysis of plans in 1981

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When an active worker or retired employee dies, what benefits does the spouse receive from employer contributions to a private pension plan? While the Bureau of Labor Statistics has no data on actual annuity payments and the number of beneficiaries receiving them, a representative sample of medium and large companies shows that, as required by law, the plans offer a surviving spouse a lifetime annuity. However, both eligibility requirements for this benefit and the size of monthly payments depend on when death occurs. If death is before retirement, the spouse usually is eligible for an annuity if the employee had sufficient age and service to qualify for early retirement benefits; the size of the annuity depends on the pension the worker would have received if he or she had opted for early retirement.[1] (See chart 1.) If the employee had retired, the typical plan would provide for a spouse's annuity equal to about two-fifths of the worker's accrued benefits.

A few pension plans offer "death benefits," as well as annuities. While annuities provide a lifetime income, death benefits are paid either in a lump sum or for a specified number of months. The most common lump-sum payment is $1,000; monthly death benefits most often are paid for 5 years. However, if death occurs after retirement, the number of monthly payments to the spouse is reduced by the number of pension payments already received by the retiree.

This article is based on data from the Bureau's 1981 survey of employee benefits in large and medium firms.[2] A sample of 1,505 establishments across most private industries yielded data on the detailed provisions in 914 pension plans. Results of this survey provide representative data for 21.5 million employees in 43,325 establishments. Eighty-four percent of the employees were covered by private pension plans—79 percent were under plans fully paid for by their employer, and 5 percent paid part of the cost.

ERISA requirements

Spouse benefit provisions of private pension plans reflect the influence of the Employee Retirement Income Security Act of 1974 (ERISA). Pension plans are not required by law, but once established, ERISA requires that they provide for annuities to spouses of deceased employees. The requirements differ for death before and after retirement.

Pension plans must now include a "postretirement" annuity arrangement which pays a surviving spouse regular income equal to at least half of the pension paid to the retiree. To do this, the plan may reduce the pension paid to the retiree. This reduced annuity is called a "joint-and-survivor annuity." A married worker must be given an opportunity not to participate in a joint-and-survivor annuity—that is, not to accept a reduced annuity. However,

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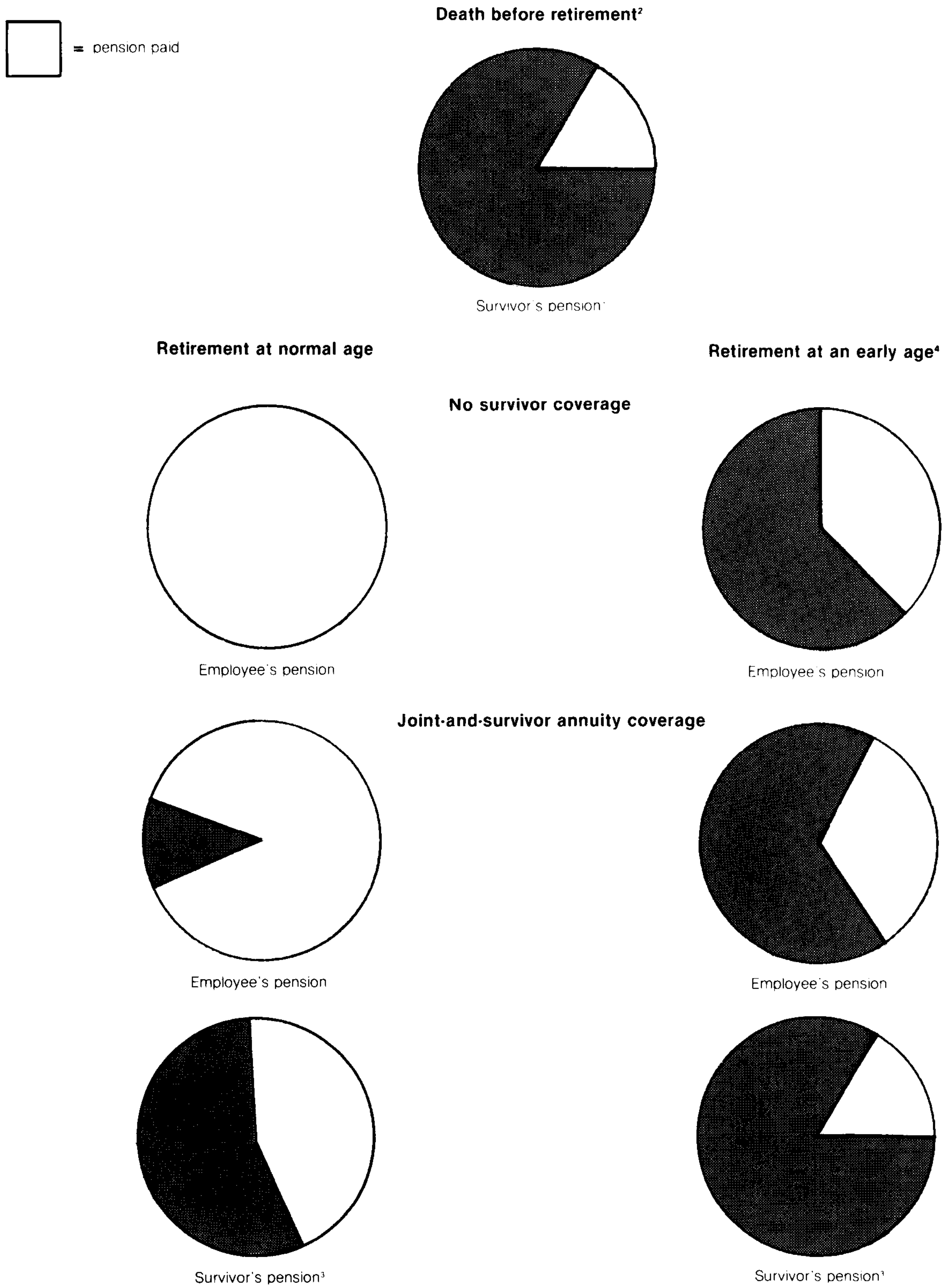
Chart 1. Proportion of normal pension typically paid under various options[1]



[1] A "normal" pension is that paid to an employee who retires at a plan's normal age and who elects not to take the joint-and-survivor annuity option. This is the maximum pension available to the employee for a specific length of service. This chart compares the amount typically paid under other options with this normal pension.

[2] Assumes employee dies 10 years before normal retirement age with 30 years of service and is eligible for survivor coverage.

[3] Paid to spouse after death of employee, based on 50-percent option.

[4] Assumes employee retires 10 years before normal retirement age with 30 years of service and pension is reduced 5 percent for each year.

if the participant fails to elect another form of annuity, the joint-and-survivor option automatically becomes effective. Under plans which do *not* reduce the retiree's annuity as the price of continuing payments to a surviving spouse, the survivor may be paid less than 50 percent of the retiree's annuity *provided* the rate does not produce a smaller proportion of the retiree's unreduced pension than that which would be achieved by a 50-percent joint-and-survivor option.

Prior to enactment of ERISA, most plans provided survivor annuities only if the employee voluntarily chose the option at a specified time, such as 1 year before retirement. If a retiree did not act, the surviving spouse was not eligible for an annuity. Also, ERISA prohibits discontinuance of payments if a spouse remarries—a frequent provision before the law's passage.

If an employee dies before retirement, ERISA requires that a "preretirement" survivor annuity be available if the pension plan gives employees the option of retiring before the normal retirement age with a reduced lifetime annuity. A preretirement spouse's annuity must be available if a deceased worker was eligible for early retirement, was within 10 years of the plan's normal retirement age, and had been married at least 1 year. The minimum annuity is the amount the spouse would have received if the worker had retired just before death with early retirement benefits and had elected a joint-and-survivor option. (The normal retirement age is the point at which the employee could retire and immediately receive a pension without reduction due to age. The normal pension is the annuity available at normal retirement age if the joint-and-survivor annuity is waived.)

The 1974 law has had a significant effect on potential protection accorded spouses of active workers. In the summer of 1970, 36 percent of 149 major pension plans provided for annuities to survivors of active workers[3]; virtually all pension plans studied in the 1981 survey offered a preretirement spouse annuity.[4]

Survivors of retirees

As required by the Employee Retirement Income Security Act, all of the pension plans studied provided for annuities to survivors of retirees. More than 90 percent offered these postretirement spouse benefits in the form of joint-and-survivor annuities.[5] (See table 1.) While ERISA requires a plan to have a spouse annuity which pays at least 50 percent of the retiree's pension, other percentages also may be available. For example, 68 percent of the plans provided multiple joint-and-survivor options ranging from 25 to 100 percent of the pension paid prior to the retiree's death, with at least one option of 50 percent or more.

The smaller the percentage option selected, the less the reduction in the retiree's pension. For example, a 25-percent survivor benefit would require a relatively small reduction in the retiree's pension. (A few plans provided the 25-percent survivor benefit with no reduction in the retiree's pension.) Multiple options thus provide alternatives which might meet the needs of a married couple for either a higher immediate benefit to the retiree and spouse or a higher benefit later to the surviving spouse. The former alternative might be suitable if an employee is in good health or if the spouse has a separate pension. While the 100-percent survivor benefit would require a greater reduction for the retiree, it might be a more desirable choice for an employee in poor health or with alternative income sources.

Table 1. Provision for postretirement survivor annuity in private pension plans, medium and large firms, 1981

Annuity	Plans	
	Number	Percent
Total	914	100
Joint-and-survivor annuity[1]	856	94
Surviving spouse receives: 50 percent of joint-and-survivor annuity	202	22
More than 50 percent of joint-and-survivor annuity	33	4
Retiree's choice of multiple joint-and-survivor options[2]	621	68
Share of retiree's pension[3]	34	4
Joint-and-survivor annuity plus portion of retiree's pension	24	3

[1]An annuity that provides income during the lifetime of both the retiree and the surviving spouse. The accrued pension will be reduced at retirement because of the longer time that payments are expected to be made. Upon the retiree's death, all or part of the reduced pension is continued to the surviving spouse for life.

[2]Includes at least one option that continues 50 percent or more of the retiree's reduced pension to the surviving spouse.

[3]These plans do not require a reduction of retiree's accrued pension when employee and spouse are the same age. Under their provisions, the spouse receives an average of 49 percent of the accrued pension. For 2 out of 3 plans in this group, the retiree's or spouse's benefit is reduced if there is significant age difference.

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

Although ERISA allows for a reduction in the retiree's pension to finance the survivor's annuity, 4 percent of the plans studied offered the survivor benefit without this reduction. Generally, these plans were in effect prior to the law's enactment and were continued because their provisions met or exceeded ERISA standards. Another small group of plans (3 percent) gave spouses a portion of the retiree's pension plus a joint-and-survivor benefit calculated on the balance of the pension.[6]

As discussed earlier, a joint-and-survivor annuity adjusts the retiree's pension downward to provide a lifetime benefit to the surviving spouse. Pension payments expected to be made during the lifetime of the retiree and the surviving spouse approximate the plan's total payments in a straight-life annuity to a single person.

If an employee in a plan with joint-and-survivor protection does not waive this coverage, the employee's pension is automatically reduced at retirement to allow for the spouse's benefit. The reduced pension is calculated in the following manner. An employee's accrued pension is first determined as if it were payable only during his or her lifetime. (The benefit formula usually calls for multiplying the number of years of service by either a percent of earnings or a flat dollar amount.) The accrued pension benefit is then adjusted to pay for the survivor annuity. This adjustment takes account of the age and sex of the employee and spouse in 55 percent of the plans, and age alone in 45 percent. However, a recent Supreme Court decision prohibits discrimination in pension annuity payments based on sex. As a result, pension plans now may have to eliminate consideration of sex when adjusting the accrued pension to pay for a spouse's annuity.[7]

Actuarial and arithmetic adjustments. Of plans that made an adjustment, 8 percent used an arithmetic reduction method. Under this method, retirees retain a somewhat larger share of accrued pensions than under an actuarially reduced annuity. An arithmetic reduction is determined mainly by the difference in age of the retiree and spouse. A basic reduction, such as 10 percent, is taken to pay for a 50-percent spouse annuity if the spouse is at least as old as the employee; an additional reduction, such as 0.5 percent, commonly is applied for each year of age difference if the spouse is younger. Some plans use the same arithmetic reduction for all retirees with the joint-and-survivor option if the age difference is less than 10 years. Actuarial reductions, found in 92 percent of the plans with adjustments, are more closely linked to life expectancies of the employee and spouse; formulas are based on such factors as age and sex of the employee and spouse.[8]

Summaries of pension plan provisions illustrate the effects of actuarial and arithmetic adjustments. An airline's pension plan provides an example of the 50- and 100-percent joint-and-survivor options, with actuarial adjustments varying by age and sex.[9] The following tabulation shows the percent of the employee's normal, straight-life pension that is paid in a joint-and-survivor annuity while both retiree and spouse are alive and after the retiree dies. It assumes retirement at age 65.[10]

	Percent of normal pension paid under—			
	50-percent option		*100-percent option*	
	Employee	*Surviving spouse*	*Employee*	*Surviving spouse*
Employee age 65 and—				
Wife age:				
65	85.5	42.75	74.7	74.7
60	81.9	40.95	69.3	69.3
Husband age:				
65	93.3	46.65	87.5	87.5
60	90.6	45.30	82.9	82.9

When a male employee and his spouse are both age 65 at retirement, the 50-percent option reduces the benefit to 85.5 percent of his computed normal pension; this provides the wife with an annuity of half that amount after his death. If the 100-percent option is elected, the employee's benefit is reduced an additional 10.8 percentage points (to 74.7 percent) to provide the wife with the same annuity as the retiree's after his death. However, if the wife is 5 years younger, the employee's benefit is further reduced by 3.6 percentage points under the 50-percent option and 5.4 percentage points under the 100-percent option. In the same plan, the corresponding pensions for a female employee are larger because of the shorter life expectancy of men. In other words, the husband is less likely to outlive his wife and thus receive a spouse's pension.

After the retiree's death, the spouse continues to receive the same monthly annuity under the 100-percent option, but half of the monthly annuity under the 50-percent option. Because the normal pension was reduced to pay for the spouse's benefit, a wife who is 5 years younger than an employee retiring at age 65 with the standard 50-percent joint-and-survivor option can expect a spouse's benefit of 40.95 percent of the normal pension. A surviving husband, under similar conditions, would receive 4.35 percentage points more.

A large manufacturing company plan, with a 55-percent joint-and-survivor option, provides a typical example of an arithmetic adjustment varying only by age. When both the employee and spouse are age 65, the employee's pension is reduced by 10 percent to provide the spouse with an annuity of 55 percent of the reduced pension. Thus, the 55-percent option would yield a spouse annuity equal to 49.5 percent of the employee's normal, straight-life pension (90 percent × 0.55). However, if the spouse's age is less than that of the employee, the employee's pension is reduced an additional 0.5 percentage point for each year the spouse is younger than age 65. Therefore, a spouse 5 years younger than the employee would receive 48.125 percent of the employee's normal, straight-life pension (87.5 percent × 0.55). This plan's arithmetic adjustment is less than what would be required actuarially; on average, retired couples taking the joint-and-survivor option can expect to collect slightly more over their lifetimes than if they refuse the option.

Restoration to full pension. Under most plans, the retiree's benefit is permanently reduced to provide a spouse's benefit—even if the spouse dies first. Only about 3 percent of plans with joint-and-survivor benefits provided for a "pop-up" or restoration of all or part of the amount of reduction. Most of these restorations followed the pattern negotiated by the United Auto Workers, in which the "pop-up" benefit consists of a restoration to 100 percent of the straight-life annuity upon the spouse's death. Other plans provided a schedule of restorations based on the length of time between retirement and death of the spouse, for example, complete restoration if the spouse's death is within 1 year of retirement, but decreasing the restored amounts over the next 3 years until a 25-percent restoration is reached.

Survivors of active workers

Annuity provisions for spouses of employees who die while still at work differ from those applicable to survivors of retired employees. A pension plan's preretirement spouse's benefit gives a surviving husband or wife a part of the annuity earned by an active employee at the time of death. Although provision for this benefit was found in virtually all of the plans studied (909 of 914 plans), survivors were protected only if the employee had attained the required age and had the necessary length of service at the time of death (and had elected this coverage if, as described below, there was an extra employee cost for this protection). In most plans, employees had to qualify for early retirement (generally age 55 with 10 or 15 years of service) before their spouses were eligible for survivor's coverage. However, minimum age requirements at times were more liberal than for early retirement.

The following tabulation shows the number and percent of plans and the minimum age requirement for active workers before surviving spouses could receive benefits:

	Number	*Percent*
Plans specifying a minimum age requirement	909	100.0
Younger age than for early retirement	198	21.7
Same age as for early retirement	688	75.6
Older age than for early retirement	19	2.1
No provision for early retirement	4	.4

A plan with more liberal age requirements than for early retirement may, nevertheless, require the same length of service as for early retirement. For example, a plan may provide a spouse's pension if death occurs at any age with 10 years of service, although early retirement is at age 55 with 10 years of service. A small number of plans had age requirements for the spouse's benefit more stringent than those for early retirement. These plans permitted retirement more than 10 years before the normal age but limited the spouse's annuity coverage to persons whose age was within 10 years of normal retirement, as allowed by ERISA.

Method of calculating benefits. The basis for determining the amount of the preretirement spouse's annuity differed substantially among plans. (See table 2.) The dominant method, found in 73 percent of the plans, was derived from the joint-and-survivor mode of payment. Three-fifths of the plans provided the spouse with 50 percent of the early retirement joint-and-survivor annuity. Although the reduction for early retirement varied widely, a reduction of 4 to 6 percent a year was common. Thus, the accrued pension of an employee who dies 10 years before normal retirement could be reduced by 40 to 60 percent before the spouse's benefit is computed. The net effect of (1) fewer years of service due to an early death, (2) reduction in benefits due to extended years of payment associated with early retirement, (3) a further reduction because of the joint-and-survivor-based annuity, and (4) taking half of the resultant benefit as the survivor's share leaves the spouse with a small portion of the normal straight-life pension. Ten percent of the plans gave the spouse more than 50 percent of the early retirement joint-and-survivor annuity, with 6 percent providing all of the reduced benefit. Another small group of plans (4 percent) with joint-and-survivor-based annuities made no reduction for early receipt of benefits, even if the employee died prior to the normal retirement age.

The airline plan discussed earlier is an example of a plan giving the spouse 50 percent of the early retirement joint-and-survivor annuity for which the employee was eligible on the date of death. This plan's early retirement formula reduces benefits arithmetically for each year that retirement precedes age 62, using three age brackets and reductions ranging from 2.4 percent to 6.6 percent per year. For example, an employee's early retirement benefit at age 55 is 59.8 percent of the pension payable at age 62 with the same years of service. This pension is further reduced by 10.1 percent to pay for the joint-and-survivor option. As a result, an employee retiring at age 55 with a 50-percent joint-and-

Table 2. Provision for preretirement survivor annuity in private pension plans, medium and large firms, 1981

Annuity[1]	Plans: Number	Plans: Percent
Total	914	100
Preretirement survivor annuity provided	909	99
Joint-and-survivor-type annuity[2]	667	73
Based on early retirement benefit[3]	634	70
Surviving spouse receives:		
50 percent of employee pension	547	60
At additional employee cost[4]	198	22
51 to 99 percent of employee pension	35	4
At additional employee cost[4]	2	([5])
100 percent of employee pension	52	6
At additional employee cost [4]	5	1
Based on normal retirement benefit[6]	33	4
Surviving spouse receives:		
50 percent or less of employee pension	33	4
At additional employee cost[4]	9	1
Portion of accrued employee benefit	228	25
Reduced for early retirement	121	13
Unreduced for early retirement	88	10
Based on service projected to normal retirement age	19	2
Other annuity[7]	14	2
No preretirement survivor annuity provided[8]	5	1

[1]Many plans offer an elective preretirement spouse option. If the elective provision was the only option, it was tabulated; if it was in combination with an automatic pretirement spouse option, only the automatic provision was tabulated.

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

[7]Includes annuity based on a percent of average monthly earnings, or a flat dollar amount.

[8]A preretirement survivor annuity is required by ERISA only if plans allow the payment of retiree benefits prior to the plan's normal retirement age.

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

survivor annuity would receive a pension equal to 59.8 percent × 0.899, or 53.7 percent of the accrued pension. Therefore, if that active employee died at age 55, the spouse's monthly annuity would be half of 53.7 percent, or 26.9 percent of the straight-life pension that the employee had accrued, and a smaller percent of the normal pension. This benefit would be further adjusted up or down for any differences in ages between employee and spouse.

One-fourth of the plans provided a preretirement survivor benefit calculated as a portion of the employee's accrued pension benefit, but with no reduction for joint-and-survivor coverage. These plans, however, varied in method of determining accrued pension benefits. The largest group reduced the employee's accrued benefit for early retirement, as if retirement had occurred on the date of death. Another group made no reduction for early retirement and computed benefits as if the employee qualified for normal retirement benefits on the date of death. A few plans based benefits on the years of service the employee would have accumulated had he or she lived to normal retirement age.

The more generous methods of determining accrued benefits, however, typically used smaller percentages to calculate the spouse's share of the pension. Formulas based on the employee's actual years of service, reduced for early retirement, on average, paid spouses 55 percent of the accrued employee benefit. Those based on actual years of service but with no early retirement reduction averaged 53 percent, while formulas that projected service to the normal retirement age averaged 46 percent. Nevertheless, the surveyed plans with more liberal approaches to calculating accrued benefits generally provided higher annuities to the spouse. Except for employees who die within a year or two of normal retirement age, the effect of higher calculated accrued benefits outweighed the relatively small reductions in the spouse's share of employee pensions.

Plans paying a designated portion of the accrued employee benefit to the surviving spouse also were less likely to adjust the benefit because of differences in age between the employee and spouse. While the joint-and-survivor-based formulas almost always reduced the pension actuarially for even small differences in age, two-fifths of the plans with other formulas made no adjustment at all. Many of the remainder used an arithmetic approach, reducing the payment by less than the actuarial techniques; frequently, these plans only made a reduction if the age difference was more than 3 to 5 years.

Twenty-one percent of the plans studied offered a second method of calculating preretirement survivor's annuities. In a limited number of plans (3 percent), spouses who qualified under the second formula received an annuity equal to the sum of the amounts calculated under both formulas. In the majority of cases, the secondary method of calculation was an alternative formula, to be used if it offered a higher benefit than the primary formula. In some cases, the alternative formulas were in effect prior to enactment of ERISA and provided a higher benefit to persons with longer service. Other alternative formulas offered a higher benefit at employee cost as a substitute for the automatic coverage.[11]

Some examples of alternative preretirement spouse benefit provisions are:

- Instead of automatic 50-percent joint-and-survivor-based coverage, an employee may choose and pay for a larger portion of his or her accrued benefit.
- When an employee reaches a specified age such as 60, the spouse's annuity is computed based on a normal, rather than early, retirement formula.
- Surviving spouses of employees covered by the pension plan prior to enactment of ERISA in 1974 may choose a formula based on the employee's accrued pension.
- When an employee dies with few years of service, the surviving spouse receives a minimum annuity of 20 percent of the last month's pay.

The first three examples are common; the fourth is rare.

Cost to employees. Under ERISA, the cost of the preretirement survivor annuity may be borne by participants; the pension benefit they would otherwise have received at early or normal retirement may be reduced for each year spouse's protection is in effect. When this charge is levied, coverage is not automatic. In this instance, unlike postretirement survivor annuities, workers desiring the coverage must elect it. Plans may require a choice no later than 2 years prior to its effective date, thus avoiding disproportionate use by employees with terminal illnesses.

Twenty-four percent of the plans levied this charge; they permanently reduced the pension benefits ultimately paid to either a surviving spouse or retiree if preretirement survivor protection was elected by the employee. A typical cost is 0.6 percent of accrued benefits for every year the survivor annuity provision is in effect prior to the employee's death or retirement. If an employee who chose to provide preretirement survivor coverage at age 55 retires at age 65, the pension is automatically reduced by 6 percent (10 × 0.6 percent). If the employee dies at age 60 with the survivor provision in effect, the spouse's pension is reduced by 3 percent.

Lump-sum and limited payments

As noted, substantially all of the pension plans studied provided for both preretirement and postretirement lifetime survivor annuities. A minority of the plans (27 percent) included death benefit provisions for surviving spouses—lump-sum payments and monthly payments for a limited time period. Twelve percent of the plans gave death benefits to spouses of active workers; 21 percent covered those of retired workers. Plans negotiated under collective bargaining agreements, which accounted for nearly a third of the sample, had death benefit provisions more frequently than nonnegotiated plans. (See table 3.) For active workers, ne-

Table 3. Collective bargaining status of private pension plans with death benefits, medium and large firms, 1981

Benefit	Covered by collective bargaining agreements		Not covered by collective bargaining agreements	
	Number	Percent	Number	Percent
Postretirement plans	282	100	632	100
Death benefits	99	35	89	14
In addition to survivors' annuities	31	11	45	7
In lieu of survivors' annuities	68	24	44	7
No death benefits	183	65	543	86
Preretirement plans	282	100	632	100
Death benefits	50	18	58	9
In addition to survivors' annuities	13	5	14	2
In lieu of survivors' annuities	37	13	44	7
No death benefits	232	82	574	91

gotiated plans were twice as likely to have this benefit (18 compared with 9 percent); the ratio was even higher for retired workers (35 compared with 14 percent).

The majority of plans with death benefits offered such benefits as alternatives to an annuity—9 percent of the plans gave this option to spouses of deceased active workers and 12 percent to survivors of retirees. (See table 4.) A few examples are:

- The surviving spouse of a worker eligible for early retirement benefits can choose either a small monthly annuity for life or a much larger monthly payment for 5 years.
- The surviving spouse of a worker not yet eligible for early retirement automatically receives the death benefit.
- The surviving spouse of a retiree who waived a joint-and-survivor annuity still receives a lump-sum benefit.

The remaining plans with death benefits provided such benefits in addition to an annuity—persons not eligible for an annuity receive only the death benefit. Three percent of the plans studied provided both a death benefit and an annuity for preretirement, and 8 percent provided for postretirement benefits. The majority of these plans paid a lump sum.

Table 4. Type of benefit in private pension plans with death benefits, medium and large firms, 1981

Benefit	Preretirement benefit		Postretirement benefit	
	Number	Percent	Number	Percent
Total plans	914	100	914	100
Plans with death benefits	108	12	188	21
Death benefits in addition to survivor annuity	27	3	76	8
Lump sum	22	2	53	6
Specified period of monthly benefits[1]	5	([2])	23	3
Death benefit in lieu of survivor annuity	81	9	112	12
Lump sum	39	4	16	2
Specified period of monthly benefits[1]	42	5	96	11
Plans without death benefits	806	88	726	79

[1]For the postretirement benefit, the number of annuity payments already received by the employee is counted in the specified period, potentially leaving the spouse with no death benefit. For the preretirement benefit, the value of the monthly payments may be taken in a lump sum in a minority of plans.

[2]Less than 0.5 percent.

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

Eligibility for benefits. Death benefit eligibility requirements differed for deaths before and after retirement. Spouses usually qualified for a postretirement death benefit if the retiree had met the plan's minimum requirements for a pension. Three percent of the plans, however, had a more restrictive requirement; they specified minimum age and service requirements, commonly age 55 with 10 years of service. (These plans did not contain a minimum normal retirement age, allowing retirement at any age after, for example, 30 years of service.)

Age and service eligibility requirements for preretirement death benefits varied widely; most plans paid benefits to a surviving spouse even if the employee did not meet requirements for providing a survivor annuity. Frequently, the death benefit was paid regardless of age or years of service. The following tabulation shows age and service eligibility requirements for preretirement death benefits:

	Number	*Percent*
Total	108	100
Less age or service or both than for earliest pension	81	75
No requirement	38	35
With requirement	43	40
Same age and service as for earliest pension	17	16
More age or service or both than for earliest pension	10	9

Plans with lower age and service requirements than those for the earliest pension most frequently provide a death benefit if the employee dies after 10 years of service, regardless of age.

Amount of benefits. The value of the death benefits differed sharply among the plans in the sample. Most of the lump-sum benefits were specified as flat dollar amounts. The most common amount was $1,000, although some plans paid as much as $10,000. The amount varied by type of benefit, averaging slightly higher for preretirement than for postretirement death benefits, and higher for benefits in addition to, rather than in lieu of, survivor annuities. Not all plans specified a flat lump-sum amount: a few called for paying a specified amount for each year of service, averaging $48 per year (or less than $1,000 for 20 years of service). Eight plans provided a percent of average annual earnings, typically 35 percent (for example, $5,250 for average earnings of $15,000).

If, instead of lump-sum payments, death benefits are distributed in the form of monthly payments, each payment is larger than that provided by a survivor's annuity; monthly death benefits equal the full monthly pension payment to which an active worker or retiree was entitled. However, monthly death benefits are paid for a limited period. Among the plans surveyed, surviving spouses of active workers receive the payment for an average of 71 months. Survivors of retirees also receive payments for an average of 71 months when the monthly payment is offered in lieu of a spouse's annuity, but 66 months when it is in addition to an annuity. For retirees, however, the number of monthly pension payments that have been made during the retiree's lifetime was deducted from the specified number of death benefit payments. Thus, if the retiree lives longer than the specified period and the death benefit was chosen in lieu of an annuity, the spouse would receive no payment. If the death benefit is in addition to the spouse's annuity, the survivor's payment is not reduced to the spouse's share of the worker's pension until all of the specified death benefit payments have been made.

Other survivor's benefits

Although only a minority of the pension plans provided lump-sum or monthly death benefits, most of the firms covered by the study provided similar protection to survivors of active workers through life insurance. In 1981, 96 percent of the employees in these firms had a life insurance policy paid at least in part by the employer—81 percent had plans fully paid by the employer. Three-fifths of the employees with life insurance had coverage based on earnings—benefits usually equaled one or two times earnings. Most of the remaining employees had a flat dollar amount of life insurance, seldom over $15,000 and frequently under $5,000. Production workers were more likely than white-collar employees to have flat dollar coverage. Retirees also frequently had employer-provided life insurance coverage. Three-fifths of the employees were in life insurance plans that continued to provide coverage after retirement, although almost always for a reduced amount.[12]

Social security is another source of income for many surviving spouses. If there are no dependent children, a surviving spouse age 65 or older can receive 100 percent of the employee's social security benefits. Benefits may begin as early as age 60, but are reduced 5.7 percent for each year under age 65. Because social security does not pay dual benefits, survivors may not draw on their own accounts and also receive survivor's benefits from the system, but must choose one of the payments. Regardless of age, a surviving spouse with dependent children can receive 75 percent of the employee's social security benefit until the youngest child reaches age 18 or marries. Each dependent child also receives 75 percent of the employee's benefit to age 18, or 22 if in school, subject to family maximums. Benefits are curtailed if the spouse remarries.[13]

Added protection proposed

Since the enactment of the Employee Retirement Income Security Act of 1974, all private pension plans have included some type of provision for survivor's benefits. All plans now offer postretirement survivor protection and nearly all offer preretirement protection. But the surviving spouse can lose these benefits if: (1) the active worker dies prior to reaching eligibility for the spouse's benefit, (2) the active employee had not elected a preretirement spouse's annuity offered at additional employee cost, (3) the couple does not meet the 1-year marriage requirement, or (4) the joint-and-survivor annuity was waived by the employee at retirement.

A bill approved by the Senate in 1983 would provide added protection for surviving spouses of retirees by prohibiting the employee from waiving a joint-and-survivor annuity option unless the spouse approved.[14] The 21-percent of the plans studied that provide postretirement death benefits partially fill the gap left by a waiver of the spouse's annuity, but the degree of protection may be limited. This bill also affects survivors of active employees: a key provision would require the payment of survivor's benefits to a spouse if a worker age 45 had at least 10 years of service. However, in some cases, only a small vested pension may have accrued and, after actuarial adjustment, a surviving spouse would receive minimal monthly payments. □

———*FOOTNOTES*———

[1] The Employee Retirement Income Security Act of 1974 (ERISA) requires that if an employee made contributions to a pension plan, the plan must provide for returning the participant's accumulated contributions, with interest, if death occurs before retirement.

[2] The survey is conducted in a sample designed to represent all private sector establishments in the United States, excluding Alaska and Hawaii, employing at least 50, 100, or 250 workers, depending on the industry. Industry coverage includes mining; construction; manufacturing; transportation, communications, electric, gas, and sanitary services; wholesale and retail trade; finance, insurance, and real estate; and selected services. For additional details on the survey, see *Employee Benefits in Medium and Large Firms, 1981*, Bulletin 2140 (Bureau of Labor Statistics, 1982). See also Robert Frumkin and William Wiatrowski, "Bureau of Labor Statistics takes a new look at employee benefits," *Monthly Labor Review*, August 1982, pp. 41–45.

[3] Derived from pension plan summaries in *Digest of Selected Pension Plans*, 1970 Edition (Bureau of Labor Statistics, 1971).

[4] *Employee Benefits*, table 41. ERISA is not the only source of legal requirements concerning survivor benefits. Internal Revenue Service rulings limit favorable tax treatment to pension plans in which death benefits are incidental to their primary purpose. For additional detail, see Everett T. Allen, Jr., Joseph V. Melone, and Jerry S. Rosenbloom, *Pension Planning*, 4th Edition (Homewood, Ill., Richard D. Irwin, Inc., 1981), pp. 83–89; and Dan M. McGill, *Fundamentals of Private Pensions*, 4th Edition (Homewood, Ill. Richard D. Irwin, Inc., 1979), pp. 124–26 and 149–61.

[5] It should be noted that some pension plans provide benefits to both the spouse and minor children or, in the absence of a spouse, to minor children or other dependents. Such benefits for children generally end at age 18 or 21.

[6] These plans, found in the steel industry, provide the survivor with 50 percent of the retiree's pension less 50 percent of the spouse's social

security benefit, plus an amount equivalent to a 50-percent spouse benefit based on a joint-and-survivor annuity computed on the remaining half of the retiree's pension. Minimum payments are provided for the latter calculation.

[7] In a July 1983 decision (*Nathalie Norris vs. State of Arizona*), the Supreme Court prohibited employer-provided pension plans from adjusting annuity payments on the basis of sex. Although this decision requires use of a single actuarial table to compute unreduced monthly annuities for male and female employees, its rationale may also apply to annuity reductions to pay for survivor benefits. See "Developments in Industrial Relations," *Monthly Labor Review*, September 1983, p. 36.

[8] Efforts to eliminate consideration of sex in actuarial adjustments involves the three branches of government. In addition to the recent Supreme Court decision, there have been proposals for legislative changes. For example, a bill which prohibits sex discrimination in both pensions and insurance has been reintroduced in the House of Representatives; a counterpart bill has been reintroduced into the Senate. The U.S. Department of Justice recently stated in a brief filed with the Supreme Court that pension benefits based on sex are discriminatory.

[9] Summary plan descriptions used here for illustrative purposes are available from the Labor Department's Labor Management Services Administration file in Washington, D.C., in accordance with the requirements of ERISA. The plans used here were current as of March 1982.

[10] Employees in the plan can retire with unreduced benefits at age 62. However, age 65 is used in the example for comparison with the subsequent summary of a plan from a manufacturing firm.

[11] Tabulations of the types of secondary formulas and their age and service requirements are available from the authors.

[12] *Employee Benefits*, tables 1, 28, 29, 30, and 31.

[13] For a more detailed description of social security's survivor benefits see *Social Security Programs in the United States* (SSA) 73-11915 (U.S. Department of Health, Education, and Welfare, Social Security Administration, 1973).

[14] This proposed bill, "The Retirement Equity Act," H.R. 2769, would place several more stringent requirements on pension plans. In addition to those mentioned in this article, the bill addresses such topics as eligiblity for participating in a pension plan, vesting, and breaks in service.

The future of marriage

If women move into the labor force in increasing numbers and gain a more favored position in the occupational structure, this will tend to undermine the traditional division of labor within the household and the interdependence this specialization implies. Marriages based on economic considerations alone will give way. The utilitarian basis of marriage will be eroded, and love, companionship, and perhaps children, will become the only reasons for maintaining a particular relationship. These marriages are likely to be less stable than marriages in the past, although those that do endure will probably provide greater satisfaction to the participants than economically motivated and socially constrained alliances.

—KRISTIN A. MOORE AND ISABEL V. SAWHILL,
"Implication of Women's Employment for Home and Family Life,"
in Patricia Voydanoff, ed., *Work and Family: Changing Roles of Men and Women* (Palo Alto, Calif., Mayfield Publishing Co., 1984), p. 156.