

# Notes and Brief Reports

## Effects of OASDI Benefit Increase, June 1978\*

Social Security checks delivered to beneficiaries in the first week of July 1978 reflected the fourth automatic cost-of-living increase in cash benefits under legislation enacted in 1972 and 1973. The 6.5-percent increase, which became effective in June, applied to benefits for all persons on the social security benefit rolls at the end of May, except those receiving benefits under the "special minimum PIA" provision.

Automatic increases are initiated whenever the Consumer Price Index (CPI) of the Bureau of Labor Statis-

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tics for the first calendar quarter of a year exceeds by at least 3 percent the CPI for the base quarter, which is either the first calendar quarter of the preceding year or the quarter in which an increase was legislated by Congress. In this case, the base quarter was the first quarter of 1977. The size of the benefit increase is determined by the actual percentage rise of the CPI during the quarters measured.

## Benefit Amounts

Average monthly benefit amounts payable at the end of May 1978 both before and after the 6.5-percent increase are shown in table 1. The new rates meant an increase of \$474 million per month for the 34.2 million persons receiving benefits at that time.

**Table 1.**—Monthly cash benefits in current-payment status at end of May 1978 and under new rates effective June 1978 and average increase, by type of beneficiary and reduction status

Type of beneficiary and reduction status	Total number	Total benefit amount (in thousands)		Average benefit amount		Average benefit increase	
		Old rate	New rate	Old rate	New rate	Amount	Percent
All beneficiaries	34 216 815	\$7,250 018	\$7 724 384				6.5
Retired workers and dependents	21 546 522	4 804 406	5 118 231				6.5
Retired workers	17 913 175	4 374 322	4 660 031	\$244 20	\$260 15	\$15 95	6.5
Men	9 733 192	2 630 100	2 801 797	270 22	287 86	17 64	6.5
Benefits actuarially reduced	5,218 725	1,295 629	1,380 348	248 27	264 50	16 23	6.5
Benefits not actuarially reduced <sup>1</sup>	4 514 467	1 334 471	1 421 449	295 60	314 87	19 27	6.5
Women	8 179 983	1 744 222	1 858 234	213 23	227 17	13 94	6.5
Benefits actuarially reduced	5 541 155	1 101 350	1,173 433	198 76	211 77	13 01	6.5
Benefits not actuarially reduced <sup>1</sup>	2 638 828	642 872	684 801	243 62	259 51	15 89	6.5
Wives and husbands	2 944 924	363 363	387 131	123 39	131 46	8 07	6.5
Benefits actuarially reduced	2 026 823	241 483	257 308	119 14	126 95	7 81	6.5
Benefits not actuarially reduced <sup>1</sup>	918 101	121 880	129 823	132 75	141 40	8 65	6.5
Children	688 423	66 721	71 069	96 92	103 24	6 32	6.5
Disabled workers and dependents	4 907 821	924 837	985 695				6.6
Disabled workers	2 866 324	767,147	817 462	267 64	285 20	17 56	6.6
Men	1,946 095	568 260	605 539	292 00	311 16	19 16	6.6
Women	920 229	198 887	211 923	216 13	230 29	14 16	6.6
Wives and husbands	495 144	39 315	41 948	79 40	84 72	5 32	6.7
Children	1 546 353	118 375	126 285	76 55	81 67	5 12	6.7
Survivors of deceased workers	7 616 270	1 509 421	1 608 361				6.6
Widows and widowers nondisabled	4 016 078	903 766	963 216	225 04	239 84	14 80	6.6
Benefits actuarially reduced	2 077 972	453 878	483 695	218 42	232 77	14 35	6.6
Benefits not actuarially reduced <sup>1</sup>	1 938,106	449 888	479 521	232 12	247 42	15 30	6.6
Widows and widowers disabled	128 244	19 943	21 253	155 51	165 72	10 21	6.6
Widowed mothers and fathers	572 620	99 255	105 728	173 34	184 64	11 30	6.5
Children	2 881 537	482 914	514 390	167 59	178 51	10 92	6.5
Parents	17,791	3 543	3 774	199 14	212 12	12 98	6.5
Special age 72 beneficiaries	146 202	11 354	12 097				6.5
Primary	144 166	11 274	12 012	78 20	83 32	5 12	6.5
Wives	2 036	80	85	39 30	41 85	2 55	6.5

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

**Table 2.—Examples of monthly cash benefit awards to selected beneficiary families under the Social Security Act, effective June 1978**

Beneficiary family	Average monthly earnings of insured worker													
	\$76 or less	\$100	\$200	\$300	\$400	\$550	\$650	\$750	\$900	\$1 100	\$1 175	\$1 275	\$1,375	\$1,475
Retired worker claiming benefits at age 65 or disabled worker														
Worker alone	\$121 80	\$156 70	\$222 40	\$278 10	\$336 00	\$415 30	\$476 50	\$510 10	\$553 40	\$608 20	\$627 50	\$651 50	\$674 10	\$695 40
Worker with spouse claiming benefits at—														
Age 65 or over	182 70	235 10	333 60	417 20	504 00	623 00	714 80	765 20	830 10	912 30	941 30	977 30	1 011 20	1 043 10
Age 62	167 50	215 50	305 80	382 50	462 00	571 10	655 30	701 50	761 00	836 30	862 90	895 90	927 00	956 20
Worker, spouse and 1 child	182 70	235 10	333 60	456 10	612 70	751 60	833 70	892 70	968 30	1 064 00	1 098 00	1 140 00	1 179 60	1 216 90
Retired worker claiming benefits at age 62														
Worker alone	97 50	125 40	178 00	222 50	268 80	332 30	381 20	408 10	442 80	486 60	502 00	521 20	539 30	556 40
Worker with spouse claiming benefits at—														
Age 65 or over	158 40	203 80	289 20	361 60	436 80	540 00	619 50	663 20	719 50	790 70	815 80	847 00	876 40	*904 10
Age 62	143 20	184 20	261 40	326 90	394 80	488 10	560 00	599 50	650 40	714 70	737 40	765 60	792 20	817 20
Widow or widower claiming benefits at—														
Age 65 or over <sup>1</sup>	121 80	156 70	222 40	278 10	336 00	415 30	476 50	510 10	553 40	608 20	627 50	651 50	674 10	695 40
Age 60	87 10	112 10	159 10	198 90	240 30	297 00	340 70	364 80	395 70	434 90	448 70	465 90	482 00	497 30
Disabled widow or widower claiming benefits at age 50	61 00	78 50	111 30	139 20	168 10	207 80	238 30	255 20	276 80	304 20	313 80	325 90	337 10	347 80
1 surviving child	<sup>2</sup> 121 80	<sup>2</sup> 121 80	166 80	208 60	252 00	311 50	357 40	382 60	415 10	456 20	470 70	488 70	505 60	521 60
Widow or widower aged 65 and over and 1 child <sup>1</sup>	182 70	235 10	333 60	456 10	588 00	726 80	833 70	892 70	968 30	1 064 00	1 098 00	1 140 00	1 179 60	1 216 90
Widowed mother or father and 1 child	182 70	235 10	333 60	417 20	504 00	623 00	714 80	765 20	830 20	912 40	941 40	977 40	1 011 20	1 043 20
Widowed mother or father and 2 children	182 70	235 10	333 60	456 10	612 70	751 60	833 70	892 70	968 30	1 064 00	1 098 00	1 140 00	1 179 60	1 216 90
Maximum family benefits	182 70	235 10	333 60	456 10	612 70	751 60	833 70	892 70	968 30	1 064 00	1 098 00	1 140 00	1 179 60	1 216 90

<sup>1</sup>Widow s or widower s benefit limited to amount spouse would have been receiving if still living but not less than 82½ percent of the PIA

<sup>2</sup>Sole survivors

NOTE The higher monthly earnings shown in column headings on the right are not in general possible now since earnings in some of the earlier

years—when the maximum amount creditable was lower—must be included in the average Therefore the benefit amounts shown in these columns are not generally currently payable (Effective June 1978 the highest average monthly earnings possible for a worker retiring at age 65 is \$688)

As a result of the general benefit-rate increase, the average monthly benefit for retired workers amounted to \$287 86 for men (up \$17 64) and \$227 17 for women (\$13 94 more) The average amount for disabled workers rose to \$311 16 for men and \$230 29 for women—increases of \$19 16 and \$14 16, respectively The average benefit increase for entitled dependents ranged from \$5 12 for children of disabled workers to \$8 07 for wives and husbands of retired workers Among survivors of deceased workers, average benefit increases were highest for nondisabled widows and widowers (\$14 80) and lowest for disabled widows and widowers (\$10 21)

Social security benefits are based on a worker's primary insurance amount (PIA), which is related by law to the average monthly earnings (AME) on which social security contributions have been paid <sup>1</sup> The full PIA is payable to a retired worker who becomes entitled to benefits at age 65 and to an entitled disabled worker at

any age Spouses and children of retired or disabled workers and survivors of deceased workers receive set proportions of the PIA subject to a family maximum amount The PIA is calculated by applying varying percentages to succeeding parts of the AME Whenever a cost-of-living benefit increase is implemented, these percentages are changed to reflect the percentage increase in benefits With the benefit increase for June 1978, the PIA is now based approximately on the following 10-part formula

155 38% of the first \$110 of AME, plus 56 51% of the next \$290 of AME, plus 52 80% of the next \$150 of AME, plus 62 09% of the next \$100 of AME, plus 34 53% of the next \$100 of AME, plus 28 78% of the next \$250 of AME, plus 25 92% of the next \$175 of AME, plus 24 01% of the next \$100 of AME, plus 22 56% of the next \$100 of AME, 21 30% of the next \$100 of AME, subject to a minimum PIA of \$121 80 for AME's of \$76 or less

The maximum family benefit amount effective for June 1978 is based approximately on the following formula

For AME's of less than \$628 the maximum amount is equivalent to 151 9% of the first \$436 of AME, plus

75 9% of the next \$191 of AME, subject to a minimum of \$150% of the PIA For AME's of \$628 or more, the maximum is 175% of the PIA

Table 2 shows examples of monthly benefits effective in June 1978 for various family groups at selected AME levels Benefits shown for AME's of \$1,100 or more are not generally payable now because current AME's are based in part on earnings for earlier years, when the maximum amounts creditable for social security purposes were lower <sup>2</sup> Table 3 shows that the highest PIA in June 1978 for a worker who retired at age 65 in that year was \$489 70, this figure was based on an AME of \$688

### Actuarially Reduced Benefits

The 1977 amendments introduced a change in the method of computing benefit increases for persons with actuarially reduced benefits Previously, the general rate of increase was applied to the PIA and the resulting amount was reduced by a smaller percentage than that for the original reduction because the individual was then closer to age 65 than when reduced benefits were elected The increase was not reduced at all if the person had already attained age 65 Thus, the percentage increase in benefits for a person with reduced benefits would be higher than the percentage increase in the CPI The number of persons who elect reduced benefits is substantial Higher percentage increases for these individuals produced rises in the average benefit for all beneficiaries of 6 2 percent in June 1977 and 6 7 percent in June 1976, though the specified increases in those years were 5 9 percent and 6 4 percent, respectively <sup>3</sup> Among disabled widows and widowers—the group subject to the largest actuarial reduction—the increases averaged 7 0 percent in June 1977 and 7 5 percent in June 1976

Henceforth, under the new procedure, the increase calculated for the PIA is reduced by the original reduction factor and, consequently, the percentage increase in the benefit amount is the same as the percentage increase in the CPI The application of this provision resulted in an overall average benefit increase of 6 54 percent in June 1978—about the same as the percentage

<sup>2</sup> Maximum creditable earnings for social security purposes were \$3,000 in 1937-50, \$3,600 in 1951-54, \$4,200 in 1955-58, \$4,800 in 1959-65, \$6,600 in 1966-67, \$7,800 in 1968-71, \$9,000 in 1972, \$10,800 in 1973, \$13,200 in 1974, \$14,100 in 1975 \$15,300 in 1976, \$16,500 in 1977, and \$17,700 in 1978 The 1977 amendments provide that the maximum creditable amounts will increase to \$22,900 in 1979, \$25,900 in 1980, and \$29,700 in 1981 After 1981, the maximum will be automatically adjusted to keep up with average wage levels

<sup>3</sup> Barbara A Lingg, "Effects of OASDI Benefit Increase, June 1977," *Social Security Bulletin*, December 1977, pages 29-33, and Barbara A Lingg, "Effects of OASDI Benefit Increase, June 1976," *Social Security Bulletin*, December 1976, pages 32-34

**Table 3.**—Minimum and maximum monthly retired-worker benefits payable to individuals who retired at age 65, 1940-78

Year of attainment of age 65 <sup>1</sup>	Minimum benefit		Maximum benefit			
	Payment at the time of retirement	Payable effective June 1978	Payable at the time of retirement		Payable effective June 1978	
			Men <sup>2</sup>	Women	Men <sup>2</sup>	Women
1940	\$10 00	\$121 80	\$41 20		\$235 60	
1941	10 00	121 80	41 60		235 60	
1942	10 00	121 80	42 00		238 50	
1943	10 00	121 80	42 40		238 50	
1944	10 00	121 80	42 80		241 10	
1945	10 00	121 80	43 20		241 10	
1946	10 00	121 80	43 60		244 00	
1947	10 00	121 80	44 00		246 30	
1948	10 00	121 80	44 40		246 30	
1949	10 00	121 80	44 80		248 70	
1950	10 00	121 80	45 20		251 80	
1951	20 00	121 80	68 50		251 80	
1952	20 00	121 80	68 50		251 80	
1953	25 00	121 80	85 00		278 10	
1954	25 00	121 80	85 00		278 10	
1955	30 00	121 80	98 50		278 10	
1956	30 00	121 80	103 50		293 80	
1957	30 00	121 80	108 50		307 10	
1958	30 00	121 80	108 50		307 10	
1959	33 00	121 80	116 00		307 10	
1960	33 00	121 80	119 00		314 90	
1961	33 00	121 80	120 00		317 30	
1962	40 00	121 80	121 00	\$123 00	320 20	\$325 60
1963	40 00	121 80	122 00	125 00	322 90	330 50
1964	40 00	121 80	123 00	127 00	325 60	336 00
1965	44 00	121 80	131 70	135 90	325 60	336 00
1966	44 00	121 80	132 70	135 90	328 00	336 00
1967	44 00	121 80	135 90	140 00	336 00	346 00
1968	55 00	121 80	156 00	161 60	341 10	353 20
1969	55 00	121 80	160 50	167 30	351 10	365 90
1970	64 00	121 80	189 80	196 40	360 80	373 50
1971	70 40	121 80	213 10	220 40	368 30	380 70
1972	70 40	121 80	216 10	224 70	373 50	388 20
1973	84 50	121 80	266 10	276 40	383 10	398 00
1974	84 50	121 80	274 60	284 90	395 30	410 20
1975	93 80	121 80	316 30	333 70	410 20	432 70
1976	101 40	121 80	364 00	378 80	436 90	454 70
1977	107 90	121 80	412 70	422 40	465 60	476 50
1978	114 30	121 80	459 80	459 80	489 70	489 70

<sup>1</sup> Assumes retirement at beginning of year

<sup>2</sup> Represents benefit for both men and women until 1962

<sup>3</sup> Effective for February 1968

increase in the CPI If this change had not been enacted, total monthly benefits payable the first month the increase was payable would have been greater than \$7,724 million, the amount actually paid If higher increases for those with actuarially reduced benefits had lifted the average rise for all beneficiaries to 6 75 percent, for example, the June benefits would have amounted to \$7,739 million, or \$15 million more a month

### Benefits Under Special Minimum Provision

The special minimum PIA, initiated in January 1973, was designed to help persons with many years of work

**Table 4.**—Beneficiaries with special minimum PIA, at end of specified month, 1973–78

Specified month	Number of beneficiaries	Average		
		Special minimum PIA	Regular PIA	Monthly amount
December 1973	204 392	\$162 61	\$154 78	\$139 61
May 1974	217 475	170 37	165 73	148 10
June 1974	117 120	175 42	167 04	148 43
May 1975	125 175	175 52	167 21	146 16
June 1975	27 803	176 91	170 94	147 21
May 1976	29 444	176 88	170 76	146 85
June 1976	4 296	178 20	173 58	147 02
May 1977	4 090	178 17	173 51	152 53
June 1977	309	178 34	172 70	154 76
May 1978	378	178 36	173 48	155 25
June 1978	19	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )

<sup>1</sup>Data not available

in covered employment at low earnings. Unlike the regular PIA, the special minimum PIA is not related to the worker's AME but to the number of years of earnings in covered employment.

While the regular PIA registered a cumulative increase of 43.9 percent from January 1973 through June 1978, the special minimum PIA rose only from a range of \$85–\$170 in January 1973 to \$90–\$180 in March 1974 and, not being subject to automatic cost-of-living increases, remained in that range throughout the rest of the period. As a consequence, the special minimum PIA, which is used only when it is greater than an individual's regular PIA, gradually lost its advantage for long-term, low-paid workers. Special minimum benefits were converted to regular benefits and the number of beneficiaries with the special minimum PIA dropped sharply with each benefit increase—from 217,475 in May 1974 to 117,120 in June 1974, to 27,803 in June 1975, to 4,296 in June 1976, and to 309 in June 1977 (table 4). After the June 1978 increase, only 19 persons with the special minimum PIA remained on the rolls.

The 1977 amendments introduced two relevant changes. First, the special minimum PIA will be increased, effective January 1979, to a maximum of \$230 a month. Second, it will be affected in the future by the same automatic cost-of-living increases as are applied to regular benefits.

## Social Security Abroad

### Recent Social Security Developments in Japan\*

Social security programs in Japan, like those in other developed countries, have been caught in a conflict

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between (1) the desire to improve benefits and create a more equitable system and (2) the impact of the recent recession and inflation. Unforeseen demographic factors have played a role as well. These forces have affected the solvency of various programs. They have also contributed to the mixture of contractions and expansions reflected in recent developments. Later retirement age, accelerated benefit increases, larger deficits in many programs, changing trends in voluntary contributions, extending unemployment benefits, and health insurance retrenchments.

### Background

Japan was the first Asian country to establish a comprehensive social insurance system. Health insurance for employees of large corporations was adopted in 1922, followed by national health insurance in 1938, seamen's insurance in 1939, and employees' pension insurance in 1941. In 1959, with a view to establishing universal medical care and a pension for the whole nation, the national health insurance program was amended and a national pension program was introduced to include those not covered by existing health or pension programs.

Japan has two major national programs for old-age, survivor, and disability insurance. The employees' pension covers regular wage and salary workers (the equivalent of general social security programs in other countries). The national pension is a catchall program for all other economically active Japanese who have never participated in the employees' pension system.<sup>1</sup> Farmers were added in 1970.

Under the national pension program, in addition to the compulsory contributory pension, a means-tested pension covers the following groups: Widowed mothers and guardians, public assistance recipients, disability beneficiaries, victims of natural disasters, transitional beneficiaries who had made no contributions or who did not meet the qualifying conditions in 1959 when the system was instituted, and those permanently exempted because of low income.

A number of pension programs, separate from the employees' pension and the national pension, exist for special groups such as civil servants, agriculture workers, seamen, and private schoolteachers. The accompanying table gives, for 1977, an indication of the number of persons covered under the various programs and the number of persons receiving benefits in each of the programs.

Although every Japanese citizen is now covered by some type of social insurance or welfare program, contribution rates and benefit levels vary widely for the

<sup>1</sup>See *Social Security Programs Throughout the World, 1977* (Research Report No. 50), Office of Research and Statistics, Social Security Administration, 1978.