

## Note

### Effects of the Social Security Benefit Increase, December 1988

by Joseph Bondar\*

On January 3, 1989, Social Security beneficiaries received a 4.0 percent cost-of-living adjustment (COLA). This adjustment, which was effective for December 1988, resulted in a \$728 million increase in the monthly benefits payable to 38.6 million persons receiving Social Security benefits (table 1). Retired workers and their dependents received 73 percent of the benefit increase; disabled workers and their dependents received 9 percent; and survivors accounted for the remaining 18 percent. In 1987, the increase in benefits payable to the 38.2 million beneficiaries amounted to \$710 million based on a 4.2 percent COLA (chart 1).

Benefit increases are initiated when the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the third calendar quarter of a year exceeds the CPI for the base quarter by at least 1/10 of 1 percent. The base quarter is defined as either the third calendar quarter of the last year in which an automatic adjustment occurred or any quarter in which a general benefit increase was effective. In 1987, the CPI's for each of the months in the base quarter were 112.7, 113.3, and

113.8, which averaged 113.3 for the quarter. The corresponding CPI's for 1988 were 117.2, 117.7, and 118.5, which averaged 117.8. When that 117.8 average is divided by 113.3 (the 1987 average), the result is an increase of 4.0. Before 1986, benefit increases were "triggered" only when the rise in the CPI was at least 3 percent. The provisions of Public Law 99-509 enacted on October 21, 1986, eliminated this "trigger" requirement, thereby allowing benefit increases of less than 3 percent.

As a result of the December 1988 benefit increase, monthly benefits payable to retired workers rose by an average of \$23.40 for men and \$17.94 for women, resulting in average benefits of \$604.85 and \$462.02, respectively. Average monthly benefits for disabled workers were \$586.97 for men (up \$22.92) and \$416.36 for women (up \$16.09). Average increases for dependents of retired and disabled workers ranged from \$5.29 for spouses of disabled workers to \$10.69 for spouses of retired workers. Among survivor beneficiaries, average increases were \$19.24 for widows and widowers and \$14.10 for children.

Social Security benefits are based on a worker's primary insurance amount (PIA). The PIA is based on the individual's covered earnings averaged over his or her working

\*Division of Statistics Analysis, Office of Research and Statistics, Office of Policy, Social Security Administration.

lifetime. Retired workers entitled at age 65 and eligible disabled workers at any age may receive a monthly benefit equal to their PIA. A retired worker may elect to receive benefits as early as age 62, but the PIA will be reduced 5/9 of 1 percent for each month of entitlement before age 65 (with a maximum reduction of 20 percent). Widows and widowers entitled at age 65 may also receive a benefit equal to the full PIA, provided the deceased spouse had not already received reduced benefits. Benefits are payable to a widow or widower

at age 60 (age 50 if disabled) but are reduced 19/40 of 1 percent for each month of entitlement before age 65—up to a maximum reduction of 28.5 percent. Other dependents and survivor beneficiaries are entitled to set proportions of the worker's PIA, subject to a family maximum amount. The maximum monthly benefit payable in December 1988 was \$872.10 for a worker who attained age 65 in that year and retired without having a prior period of disability. Minimum and maximum benefits payable to

workers who retired at age 65 during the period 1940-89 are shown in table 2.

Primary insurance amounts for workers who attained age 62, became disabled, or died before 1979 are computed from the average monthly wage (AMW), which is based on the individual's actual earnings or self-employment income. The Social Security Amendments of 1977 introduced wage indexing. This method of calculating PIA's, applicable to the wages of workers first eligible for benefits in 1979 or later, requires

**Table 1.—Monthly benefits in current-payment status before and after December 1988 benefit increase, by type of beneficiary, sex, and reduction status**

[Amounts in thousands]

Type of beneficiary, sex, and reduction status	November 1988		December 1988		Average benefit amount		
	Total number	Benefit amount	Number	Benefit amount	November 1988	December 1988	Increase
All beneficiaries.....	38,627,435	\$17,963,840	38,627,019	\$18,691,340	...	...	...
Retired workers, spouses, and children..	27,376,690	13,225,887	27,375,814	13,759,405	...	...	...
Retired workers.....	23,852,382	12,308,171	23,858,226	12,806,481	\$516.01	\$536.77	\$20.76
Men <sup>1</sup> .....	12,490,400	7,262,544	12,486,962	7,552,745	581.45	604.85	23.40
Benefits actuarially reduced.....	7,913,599	4,125,045	7,923,185	4,297,110	521.26	542.35	21.09
Benefits not actuarially reduced... ..	4,576,652	3,137,477	4,563,632	3,255,612	685.54	713.38	27.84
Women <sup>1</sup> .....	11,361,982	5,045,627	11,371,264	5,253,736	444.08	462.02	17.94
Benefits actuarially reduced.....	8,225,401	3,290,462	8,235,125	3,427,403	400.04	416.19	16.16
Benefits not actuarially reduced... ..	3,134,752	1,754,809	3,134,352	1,825,971	559.79	582.57	22.78
Spouses.....	3,091,090	822,992	3,086,022	854,644	266.25	276.94	10.69
Children.....	433,218	94,724	431,566	98,280	218.65	227.73	9.08
Disabled workers, spouses, and children..	4,071,740	1,615,633	4,074,300	1,682,887	...	...	...
Disabled workers.....	2,826,174	1,438,323	2,830,284	1,498,637	508.93	529.50	20.57
Men.....	1,874,907	1,057,554	1,876,878	1,101,675	564.06	586.97	22.92
Women.....	951,267	380,769	953,406	396,962	400.28	416.36	16.09
Spouses.....	282,418	37,605	280,821	38,878	133.15	138.44	5.29
Children.....	963,148	139,705	963,195	145,373	145.05	150.93	5.88
Survivors.....	7,164,552	3,120,221	7,162,789	3,246,918	...	...	...
Widows and widowers, nondisabled....	4,922,681	2,329,291	4,925,699	2,426,056	473.18	492.53	19.36
Widows and widowers, disabled.....	103,429	34,602	103,123	35,892	334.54	348.05	13.51
Widowed mothers and fathers.....	320,324	113,214	317,761	116,902	353.44	367.89	14.46
Children.....	1,810,906	640,144	1,809,061	665,007	353.49	367.60	14.10
Parents.....	7,212	2,970	7,145	3,061	411.75	428.42	16.67
Special age-72 beneficiaries <sup>2</sup> .....	14,453	2,100	14,116	2,132	145.27	151.00	5.73

<sup>1</sup> Includes transitionally insured workers.

<sup>2</sup> Authorized by 1966 legislation for persons aged 72 or older not insured under regular or transitional provisions of the Social Security Act.

**Table 2.—Minimum and maximum monthly retired-worker benefits payable to individuals retiring at age 65, 1940-89**

Year attained age 65 <sup>1</sup>	Minimum benefit amount		Maximum benefit amount				Year attained age 65 <sup>1</sup>	Minimum benefit amount		Maximum benefit amount			
	Payable at time of retirement	Payable effective December 1988 <sup>2</sup>	Payable at time of retirement		Payable effective December 1988 <sup>2</sup>			Payable at time of retirement	Payable effective December 1988 <sup>2</sup>	Payable at time of retirement		Payable effective December 1988 <sup>2</sup>	
			Men	Women	Men	Women				Men	Women	Men	Women
1940	\$10.00	\$221.50	\$41.20	\$41.20	\$428.40	\$428.40	1985	44.00	221.50	131.70	135.90	592.10	611.00
1941	10.00	221.50	41.60	41.60	428.40	428.40	1986	44.00	221.50	132.70	135.90	596.50	611.00
1942	10.00	221.50	42.00	42.00	433.60	433.60	1967	44.00	221.50	135.90	140.00	611.00	642.60
1943	10.00	221.50	42.40	42.40	433.60	433.60	1968	<sup>3</sup> 55.00	221.50	<sup>3</sup> 156.00	<sup>3</sup> 161.60	620.30	642.60
1944	10.00	221.50	42.80	42.80	438.30	438.30	1969	55.00	221.50	160.50	167.30	638.40	665.30
1945	10.00	221.50	43.20	43.20	438.30	438.30	1970	64.00	221.50	189.80	196.40	656.20	679.40
1946	10.00	221.50	43.60	43.60	443.60	443.60	1971	70.40	221.50	213.10	220.40	669.70	692.10
1947	10.00	221.50	44.00	44.00	447.80	447.80	1972	70.40	221.50	216.10	224.70	679.40	706.00
1948	10.00	221.50	44.40	44.40	447.80	447.80	1973	84.50	221.50	266.10	276.40	696.90	723.90
1949	10.00	221.50	44.80	44.80	452.10	452.10	1974	84.50	221.50	274.60	284.90	718.80	746.00
1950	10.00	221.50	45.20	45.20	457.90	457.90	1975	93.80	221.50	316.30	333.70	746.00	787.00
1951	20.00	221.50	68.50	68.50	457.90	457.90	1976	101.40	221.50	364.00	378.80	794.40	826.90
1952	20.00	221.50	68.50	68.50	457.90	457.90	1977	107.90	221.50	412.70	422.40	846.70	866.40
1953	25.00	221.50	85.00	85.00	505.80	505.80	1978	114.30	221.50	459.80	459.80	890.70	890.70
1954	25.00	221.50	85.00	85.00	505.80	505.80	1979	121.80	221.50	503.40	503.40	915.50	915.50
1955	30.00	221.50	98.50	98.50	505.80	505.80	1980	133.90	221.50	572.00	572.00	946.50	946.50
1956	30.00	221.50	103.50	103.50	534.20	534.20	1981	153.10	221.50	677.00	677.00	980.00	980.00
1957	30.00	221.50	108.50	108.50	558.50	558.50	1982	<sup>4</sup> 170.30	221.50	<sup>4</sup> 679.30	<sup>4</sup> 679.30	884.20	884.20
1958	30.00	221.50	108.50	108.50	558.50	558.50	1983	<sup>4</sup> 166.40	201.50	709.50	709.50	859.90	859.90
1959	33.00	221.50	116.00	116.00	558.50	558.50	1984	<sup>4</sup> 150.50	176.00	703.60	703.60	823.90	823.90
1960	33.00	221.50	119.00	119.00	572.50	572.50	1985	(5)	(5)	717.20	717.20	811.60	811.60
1961	33.00	221.50	120.00	120.00	577.00	577.00	1986	(5)	(5)	760.10	760.10	834.20	834.20
1962	40.00	221.50	121.00	123.00	582.20	592.10	1987	(5)	(5)	789.20	789.20	855.10	855.10
1963	40.00	221.50	122.00	125.00	587.00	601.00	1988	(5)	(5)	838.60	838.60	872.10	872.10
1964	40.00	221.50	123.00	127.00	592.10	611.00	1989	(5)	(5)	899.60	899.60	...	...

<sup>1</sup> Assumes retirement at beginning of year.  
<sup>2</sup> Final benefit amount payable after supplementary medical insurance (SMI) premium or any other deduction is rounded to next lower \$1.  
<sup>3</sup> Effective for February 1968.

<sup>4</sup> Derived from transitional guarantee computation based on 1978 primary insurance amount (PIA) table.  
<sup>5</sup> Minimum PIA eliminated for workers who attained age 62 in 1982 or later. (Minimum is

retained until 1991 for members of religious orders under a vow of poverty, provided that the order elected Social Security coverage before December 29, 1981.)

that earnings be indexed to reflect changes in average wage levels in the economy before the averaging of earnings takes place. A formula is then applied to the result—average indexed monthly earnings (AIME)—to obtain the PIA. For workers who attained age 62, became disabled, or died in 1988, the formula is:

- 90 percent of the first \$319 of AIME, plus
- 32 percent of AIME in excess of \$319 through \$1,922, plus
- 15 percent of AIME in excess of \$1,922.

The amount that results from this calculation is rounded down to the lower \$0.10 (if it is not a multiple of \$0.10). The 4.0 percent cost-of-living increase is then applied and the amount is rounded again to the lower \$0.10 to obtain the December 1988 PIA.

The percentages listed in the above formula—90, 32, and 15—remain constant from year to year. The figures \$319 and \$1,922 are known as the bend points. The comparable bend points in effect for 1989 are \$339 and \$2,044 (table 3). The bend points are computed by obtaining the ratio of average wages in the economy 2 years before the current year to the 1977

average wage, multiplying the result by the 1979 bend points, and rounding to the nearest dollar. The 1988 bend points were derived when the 1986 average wage (\$17,321.82) was divided by the 1977 average (\$9,779.44), resulting in a ratio of 1.771249. That ratio was then multiplied by \$180 and \$1,085—the 1979 bend points.

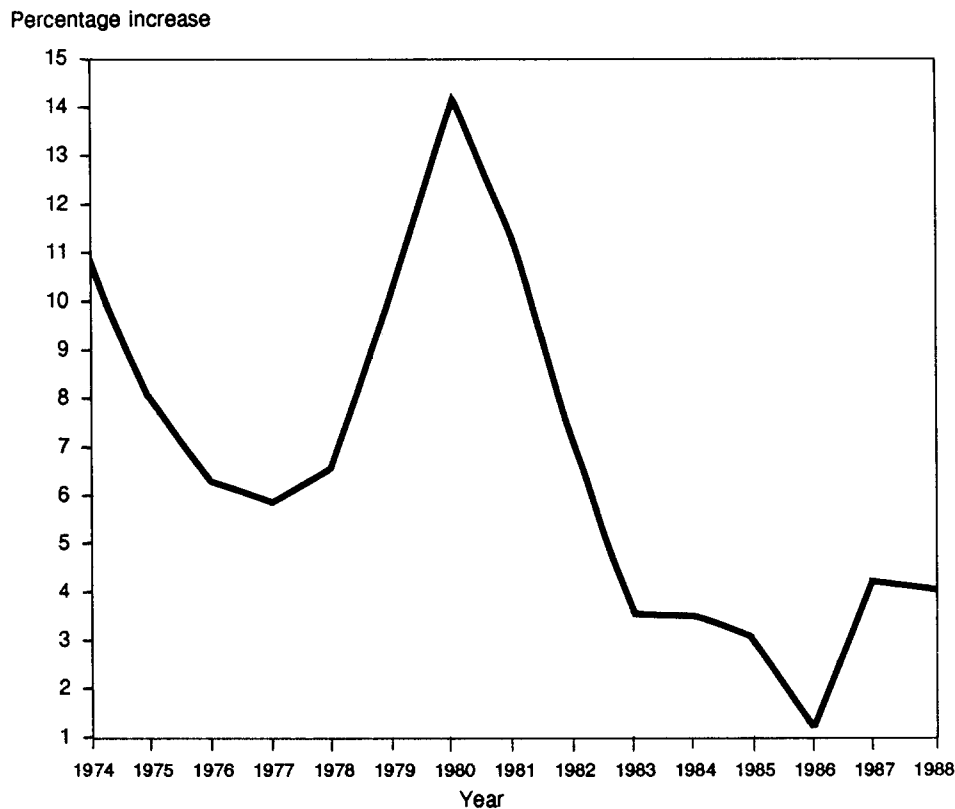
Table 4 shows examples of benefits payable, based on the worker's earnings history, for various family groups. The earnings used in the examples range from those of a hypothetical worker who earned the Federal minimum wage in all the years of the computation

to those of a worker who earned maximum creditable wages in that period. Family benefits for workers who earned the average wage in all computation years, 75 percent of the average, and 150 percent of the average are also shown. In 1988, a worker who retired at age 62 and earned the minimum hourly wage for a 40-hour workweek during all of his or her working years has an AIME of \$759 and a primary insurance amount of \$445. After applying the 20-percent reduction for early retirement, the monthly benefit is \$356.

A worker with maximum earnings will have an AIME of \$2,311, which is three times that of a minimum wage earner. The benefit, however, would be \$714, which is only twice that of the minimum wage earner. These ratios differ because the PIA computation is weighted to replace a greater portion of a low-wage-earner's preretirement income.

In addition to the cost-of-living adjustment, which is indexed to increases in the CPI, other items are adjusted to reflect wage increases. These items include the contribution and benefit base, the amount of earnings required to obtain a quarter of coverage (QC), the exempt amounts for earnings after age 62, and the bend points used in the benefit formula (discussed above). The contribution and benefit base of \$48,000 for 1989 was obtained by dividing the average wage for 1987 (\$18,426.51) by the 1986 average wage (\$17,321.82), multiplying the result by the 1988 base of \$45,000, and rounding the result to the nearest multiple of \$300. The amount of wages required for a QC's credit in 1989 (\$500) is determined by multiplying \$250 (the QC

**Chart 1.—Cost-of-living adjustments, 1974-88<sup>1</sup>**



<sup>1</sup> For 1974-82, adjustments effective in June; 1983-88 adjustments effective in December.

**Table 3.—Average annual wage, contribution and benefit base, ratio, and bend points, 1974-89**

Year	Average wage	Contribution and benefit base	Ratio <sup>1</sup>	PIA bend points	
				1	2
1974.....	\$8,030.76	\$13,200	...	...	...
1975.....	8,630.92	14,100	...	...	...
1976.....	9,226.48	15,300	...	...	...
1977.....	9,779.44	16,500	...	...	...
1978.....	10,556.03	17,700	...	...	...
1979.....	11,479.46	22,900	...	\$180	\$1,085
1980.....	12,513.46	25,900	1.0794105	194	1171
1981.....	13,773.10	29,700	1.1738361	211	1274
1982.....	14,531.34	32,400	1.2795682	230	1388
1983.....	15,239.24	35,700	1.4083731	254	1528
1984.....	16,135.07	37,800	1.4859072	267	1612
1985.....	16,822.51	39,600	1.5582937	280	1691
1986.....	17,321.82	42,000	1.6498971	297	1790
1987.....	18,426.51	43,800	1.7201915	310	1866
1988.....	(2)	45,000	1.7712487	319	1922
1989.....	(2)	48,000	1.8842091	339	2044

<sup>1</sup> Ratio of average annual wage 2 years before year of eligibility to 1977 wages.

<sup>2</sup> Not available.

requirement in 1978) by the ratio of the 1987 average wage to the 1976 average wage (\$250 x (\$18,426.51/\$9,226.48)) and rounding the resulting amount to the nearest multiple of \$10. Similarly, the exempt amounts in 1989 for workers who continue to

work beyond age 62 are derived by multiplying the monthly exempt amount in the previous year by the ratio of the 1987 wage to the 1986 wage and rounding the result to the nearest multiple of \$10. Thus, the exempt amount for workers aged 62-64 is the product of \$510 (the

1988 exempt amount) and 1.0637745 (\$18,426.51/\$17,321.82) which equals \$540 monthly and \$6,480 annually. For workers aged 65-69 the exempt amount is equal to \$700 multiplied by 1.0637745 or \$740 monthly and \$8,880 annually.

**Table 4.—Monthly benefits for selected beneficiary families with first eligibility in 1988, by average indexed monthly earnings for selected wage levels, effective December 1988**

Beneficiary family	Worker with annual earnings equal to—				
	Federal minimum wage <sup>1</sup>	75 percent of average wage <sup>2</sup>	Average wage <sup>2</sup>	150 percent of average wage <sup>2</sup>	Maximum creditable wage <sup>3</sup>
<b>Retired-worker families<sup>4</sup></b>					
Average indexed monthly earnings.....	\$759.00	\$1,084.00	\$1,446.00	\$1,964.00	\$2,311.00
Primary insurance amount.....	445.00	553.10	673.60	838.50	892.70
Maximum family benefit.....	693.90	988.20	1,230.10	1,467.80	1,562.70
Monthly benefit amount for—					
Retired worker claiming benefits at age 62: <sup>4</sup>					
Worker only.....	356.00	442.00	538.00	670.00	714.00
Worker with spouse claiming benefits at—					
Age 65 or older.....	578.00	718.00	874.00	1,089.00	1,160.00
Age 62 <sup>4</sup> .....	522.00	649.00	790.00	984.00	1,048.00
<b>Survivor families<sup>5</sup></b>					
Average indexed monthly earnings.....	\$723.00	\$1,087.00	\$1,450.00	\$2,175.00	\$3,010.00
Primary insurance amount.....	432.90	554.10	674.90	871.50	1,001.70
Maximum family benefit.....	661.10	990.70	1,231.80	1,525.50	1,753.40
Monthly benefit amount for—					
Survivors of worker deceased at age 40: <sup>5</sup>					
1 surviving child.....	324.00	415.00	506.00	653.00	751.00
Widowed mother or father and 1 child.....	648.00	830.00	1,012.00	1,306.00	1,502.00
Widowed mother or father and 2 children.....	660.00	990.00	1,230.00	1,524.00	1,752.00
<b>Disabled-worker families<sup>6</sup></b>					
Average indexed monthly earnings.....	\$756.00	\$1,085.00	\$1,447.00	\$2,056.00	\$2,536.00
Primary insurance amount.....	443.90	553.40	673.90	852.90	927.70
Maximum family benefit, disability <sup>7</sup> .....	665.90	830.20	1,010.80	1,279.30	1,391.60
Monthly benefit amount for—					
Disabled worker age 50: <sup>6</sup>					
Worker only.....	443.00	553.00	673.00	852.00	927.00
Worker, spouse, and 1 child.....	665.00	829.00	1,009.00	1,278.00	1,389.00

<sup>1</sup> Federal minimum wage (currently \$3.35 per hour) x 2,080 hours per year = annual earnings.

<sup>2</sup> Average annual wage (see table 3).

<sup>3</sup> Maximum amount of wages that can be credited to a worker's Social Security record.

<sup>4</sup> Assumes maximum reduction and no prior period of disability.

<sup>5</sup> Assumes deceased worker began to work at age 22, died at age 40, had no earnings in 1988, and had no prior period of disability.

<sup>6</sup> Assumes worker began to work at age 22, became disabled at age 50, and had no prior period of disability.

<sup>7</sup> The 1980 Amendments to the Social Security Act provide for different family maximum amounts for disability cases. For disabled workers entitled after June 1980, the maximum is the smaller of (1) 85 percent of the worker's average indexed monthly earnings (or 100 percent of the primary insurance amount (PIA), if larger), or (2) 150 percent of the PIA.