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# Notes and Brief Reports

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## Effects of OASDI Benefit Increase, December 1984\*

In 1984, for the second consecutive year, beneficiaries under the old-age, survivors, and disability insurance (OASDI, or social security) program received a 3.5-percent cost-of-living increase. This increase, effective in December, was reflected in benefit checks issued on January 3, 1985.

Automatic cost-of-living increases were instituted in 1975 by legislation enacted in 1972 and 1973. This legislation provided for a benefit-rate increase whenever the Consumer Price Index (CPI) for the first calendar quarter of a year exceeded the CPI for the base quarter by at least 3 percent. Through 1983, the base was defined as either the first calendar quarter of the last year in which there was an automatic adjustment or any quarter in which a general benefit increase was effective.

The Social Security Amendments of 1983, in addition to changing the effective month for automatic increases from June to December, changed the computation period for calculating increases from the first to the third calendar quarter. This provision went into effect with the 1984 increase. The 1983 benefit increase, originally scheduled for June, was delayed for 6 months, but was based on the first quarter calculating period.

The 1983 amendments also introduced, for the first time, a "stabilizer" provision relating cost-of-living increases to trust fund assets. This provision, effective in 1984, required that the benefit rise be based on the lower of the increase in prices, as measured by the CPI, or the increase in average wages, as measured for the contribution and benefit base and other automatic wage adjustments in the social security program. This method is used whenever the ratio of combined OASDI Trust Fund assets to estimated expenditures for the year falls below a predetermined level. That level has been set at 15 percent for years 1984-88 and 20 percent thereafter. The 1983 amendments also contained a provision to compensate beneficiaries for reduced increases in earlier years whenever the ratio of assets to outlays reaches 32 percent.<sup>1</sup> Since the 1984 ratio was 25 percent, the "stabilizer" provision did not affect the December benefit increase.

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<sup>1</sup> For a detailed summary of the 1983 amendments, see John A. Svahn and Mary Ross, "Social Security Amendments of 1983: Legislative History and Summary of Provisions," *Social Security Bulletin*, July 1983, pages 3-48.

The initial effects of the cost-of-living increase can be demonstrated by comparing the monthly benefits payable to beneficiaries immediately before and after the increase. Table 1 presents such data for the various types of beneficiaries as well as for the total beneficiary population. The December 1984 cost-of-living increase resulted in a rise of \$506 million in total monthly benefits payable to the 36.4 million persons receiving OASDI benefits at that time. Retired workers and their dependents accounted for 72 percent of the increase, disabled workers and their dependents accounted for 9 percent, and survivors accounted for 18 percent.

As a result of the December 1984 benefit increase, average monthly benefits payable to retired workers rose to \$517.50 for men (up \$17.46) and to \$396.46 for women (up \$13.40). Average benefits for disabled workers were \$519.10 for men and \$371.29 for women—increases of \$17.67 and \$12.60, respectively. Average increases for dependents of retired and disabled workers ranged from \$4.59 for spouses of disabled workers to \$7.98 for spouses of retired workers. Among survivor beneficiaries, average benefit increases ranged from \$10.57 for children to \$13.91 for widows and widowers.

Social security benefits are based on a worker's primary insurance amount (PIA). The PIA is derived from the individual's average monthly wage (AMW) or average indexed monthly earnings (AIME), depending on the year of eligibility—the year in which the worker attained age 62, became disabled, or died. The 1977 Amendments to the Social Security Act introduced the indexing concept. This method, applicable to workers first eligible after 1978, requires that the worker's earnings be indexed to reflect average wage levels in the economy during his or her working years before the averaging of earnings takes place. Workers who attained age 62, became disabled, or died in 1984, have their PIA's computed using the following formula:

Ninety percent of the first \$267 of AIME, plus 32 percent of AIME in excess of \$267 through \$1,612, plus 15 percent of AIME in excess of \$1,612.

The above result is rounded down to the lower \$0.10 (if not a multiple of \$0.10). The 3.5-percent cost-of-living increase is then applied and the amount is rounded again to the lower \$0.10 to obtain the December 1984 PIA.

**Table 1.**—Monthly cash benefits in current-payment status before and after the December 1984 benefit increase, by type of beneficiary and reduction status

Type of beneficiary and reduction status	Total number	Total benefit amount <sup>1</sup> (in thousands)		Average benefit			
		Before increase	After increase	Amount		Increase	
				Before increase	After increase	Amount	Percent
All beneficiaries . . . . .	36,419,833	\$14,482,113	\$14,988,470	...	...	...	3.5
Retired workers, spouses, and children . . . . .	25,352,100	10,491,583	10,858,155	...	...	...	3.5
Retired workers . . . . .	21,829,557	9,710,963	10,050,292	\$444.85	\$460.40	\$15.55	3.5
Men . . . . .	11,531,906	5,766,371	5,967,710	500.04	517.50	17.46	3.5
Benefits actuarially reduced . . . . .	6,847,858	3,060,003	3,166,765	446.86	462.45	15.59	3.5
Benefits not actuarially reduced . . . . .	4,684,048	2,706,369	2,800,944	577.78	597.98	20.20	3.5
Women . . . . .	10,297,651	3,944,591	4,082,583	383.06	396.46	13.40	3.5
Benefits actuarially reduced . . . . .	7,278,762	2,525,182	2,613,566	346.92	359.07	12.15	3.5
Benefits not actuarially reduced . . . . .	3,018,889	1,419,409	1,469,017	470.18	486.61	16.43	3.5
Spouses . . . . .	3,042,342	694,629	718,893	228.32	236.30	7.98	3.5
Children . . . . .	480,201	85,991	88,970	179.07	185.28	6.21	3.5
Disabled workers, spouses, and children . . . . .	3,834,898	1,345,843	1,393,382	...	...	...	3.5
Disabled workers . . . . .	2,602,150	1,183,324	1,224,994	454.75	470.76	16.01	3.5
Men . . . . .	1,751,157	878,080	909,025	501.43	519.10	17.67	3.5
Women . . . . .	850,993	305,244	315,969	358.69	371.29	12.60	3.5
Spouses . . . . .	306,089	38,717	40,121	126.49	131.08	4.59	3.6
Children . . . . .	926,659	123,802	128,267	133.60	138.42	4.82	3.6
Survivors . . . . .	7,192,084	2,639,408	2,731,472	...	...	...	3.5
Widows and widowers <sup>2</sup> . . . . .	4,771,616	1,902,795	1,969,158	398.77	412.68	13.91	3.5
Widowed mothers and fathers . . . . .	383,132	118,774	122,932	310.01	320.86	10.85	3.5
Children . . . . .	2,026,852	614,156	635,570	303.01	313.58	10.57	3.5
Parents . . . . .	10,484	3,683	3,812	351.32	363.62	12.30	3.5
Special age-72 beneficiaries <sup>3</sup> . . . . .	40,751	5,279	5,461	...	...	...	3.4

<sup>1</sup> Totals may not add due to rounding.

<sup>2</sup> Includes disabled widows and widowers.

<sup>3</sup> Authorized by 1966 legislation for persons aged 72 or older not insured under the regular or transitional provisions of the Social Security Act.

For workers first eligible in 1978 or earlier, the PIA was determined by calculating the AMW on the basis of the actual earnings reported by employers or by individuals as self-employment income and then finding the corresponding PIA from a table. The PIA could also be calculated by means of a formula. The 1977 amendments included a transitional guarantee provision applicable to workers nearing retirement age when the amendments were enacted. In general, it permitted workers who attained age 62 from January 1979 through December 1983 to have their PIA's computed on the AMW basis, using the December 1978 PIA table, if this resulted in a higher amount than under the AIME calculation.<sup>2</sup>

Generally, retired workers who become entitled at age 65 and disabled workers entitled at any age may receive a monthly benefit equal to the PIA. A retired worker may receive benefits as early as age 62, but the benefit is reduced 5/9 of 1 percent for each month of entitlement before age 65 (a maximum reduction of 20 percent). Widows and widowers entitled at age 65 may also receive a benefit equal to the full PIA, provided that the deceased spouse did not receive reduced benefits. The

benefit is subject to a reduction of 19/40 of 1 percent for each month of entitlement between ages 60 and 65 (a maximum reduction of 28.5 percent). Other dependents and survivor beneficiaries are entitled to set proportions of the PIA, subject to a family maximum.

Table 2 shows examples of benefits payable to various types of beneficiaries and family groups at selected AIME levels. The AIME's used in the table range from \$100 through \$3,062—the AIME based on maximum earnings in 1983 and 1984. This maximum AIME is only possible in survivor cases in which the worker dies at a young age and has the minimum 2 years of earnings required in the computation. An AIME of \$2,837 was also selected since that is the highest AIME obtainable in 1984 by a person who becomes disabled in 1984 and whose AIME is based on 2 years of maximum earnings in 1982 and 1983. AIME's of \$1,900, \$2,200, \$2,500, \$2,837, and \$3,062 are generally not possible for retired workers first eligible in 1984. AIME's of \$267 and \$1,612 were also selected since they are the "bend points" defining the brackets in the formula for beneficiaries becoming eligible in 1984.

Effective December 1984, the highest PIA for a worker who retired at age 65 and who did not have a prior period of disability is \$728.20. Minimum and maximum benefits payable to workers who retired at age 65 during the period 1940-84 are shown in table 3.

<sup>2</sup> See John Snee and Mary Ross, "Social Security Amendments of 1977: Legislative History and Summary of Provisions," *Social Security Bulletin*, March 1978, pages 3-20, for a description of the 1977 amendments and the various benefit computations introduced.

**Table 2.—Examples of monthly cash benefit awards for selected beneficiary families with first eligibility in 1984, by average indexed monthly earnings, effective December 1984**

Beneficiary family	Average indexed monthly earnings of insured worker										
	\$100	\$267	\$600	\$1,000	\$1,300	\$1,612	\$1,900	\$2,200	\$2,500	\$2,837	\$3,062
Primary insurance amount . . . . .	\$93.10	\$248.70	\$358.90	\$491.40	\$590.70	\$694.10	\$738.80	\$785.40	\$832.00	\$884.30	\$919.20
Maximum family benefit . . . . .	139.70	373.00	544.40	904.70	1,063.80	1,214.10	1,292.40	1,373.90	1,455.40	1,546.90	1,608.10
Disability maximum family benefit <sup>1</sup> . . . . .	93.10	248.70	527.80	737.10	886.10	1,041.20	1,108.20	1,178.10	1,248.00	1,326.40	...
<b>Disabled worker:</b>											
Worker alone . . . . .	93.00	248.00	358.00	491.00	590.00	694.00	738.00	785.00	832.00	884.00	...
Worker, spouse, and 1 child . . . . .	93.00	248.00	526.00	735.00	884.00	1,040.00	1,106.00	1,177.00	1,248.00	1,326.00	...
<b>Retired worker claiming benefits at age 62:<sup>2</sup></b>											
Worker alone . . . . .	74.00	198.00	287.00	393.00	472.00	555.00	...	...	...	...	...
Worker with spouse claiming benefits at—											
Age 65 or older . . . . .	120.00	322.00	466.00	638.00	767.00	902.00	...	...	...	...	...
Age 62 <sup>2</sup> . . . . .	108.00	291.00	421.00	577.00	693.00	815.00	...	...	...	...	...
<b>Widow or widower claiming benefits at—</b>											
Age 65 or older <sup>3</sup> . . . . .	93.00	248.00	358.00	491.00	590.00	694.00	738.00	785.00	832.00	884.00	919.00
Age 60 (or age 50 if disabled) . . . . .	66.00	177.00	256.00	351.00	422.00	496.00	528.00	561.00	594.00	632.00	657.00
1 surviving child . . . . .	69.00	186.00	269.00	368.00	443.00	520.00	554.00	589.00	624.00	663.00	689.00
Widow or widower aged 65 or older and 1 child . . . . .	138.00	372.00	544.00	859.00	1,033.00	1,214.00	1,292.00	1,373.00	1,454.00	1,545.00	1,608.00
Widowed mother or father and 1 child . . . . .	138.00	372.00	538.00	736.00	886.00	1,040.00	1,108.00	1,178.00	1,248.00	1,326.00	1,378.00
Widowed mother or father and 2 children . . . . .	138.00	372.00	543.00	903.00	1,062.00	1,212.00	1,290.00	1,371.00	1,455.00	1,545.00	1,608.00

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

<sup>2</sup> Assumes maximum reduction.  
<sup>3</sup> A widow(er)'s benefit amount is limited to the amount the spouse would have been receiving if still living, but not less than 82 1/2 percent of the PIA.

**Table 3.—Minimum and maximum monthly retired-worker benefits payable to individuals who retired at age 65, 1940–84**

Year of attainment of age 65 <sup>1</sup>	Minimum benefit		Maximum benefit <sup>3</sup>				Year of attainment of age 65 <sup>1</sup>	Minimum benefit		Maximum benefit <sup>3</sup>			
	Payable at the time of retirement	Payable effective December 1984 <sup>2</sup>	Payable at the time of retirement		Payable effective December 1984 <sup>2</sup>			Payable at the time of retirement	Payable effective December 1984 <sup>2</sup>	Payable at the time of retirement		Payable effective December 1984 <sup>2</sup>	
			Men	Women	Men	Women				Men	Women	Men	Women
1940	\$10.00	\$195.90	\$41.20	...	\$378.70	...	1963	\$40.00	\$195.90	\$122.00	\$125.00	\$518.90	\$531.20
1941	10.00	195.90	41.60	...	378.70	...	1964	40.00	195.90	123.00	127.00	523.30	540.00
1942	10.00	195.90	42.00	...	383.30	...	1965	44.00	195.90	131.70	135.90	523.30	540.00
1943	10.00	195.90	42.40	...	383.30	...	1966	44.00	195.90	132.70	135.90	527.20	540.00
1944	10.00	195.90	42.80	...	387.50	...	1967	44.00	195.90	135.90	140.00	540.00	567.80
1945	10.00	195.90	43.20	...	387.50	...	1968	<sup>4</sup> 55.00	195.90	<sup>4</sup> 156.00	<sup>4</sup> 161.60	548.30	567.80
1946	10.00	195.90	43.60	...	392.20	...	1969	55.00	195.90	160.50	167.30	564.30	588.10
1947	10.00	195.90	44.00	...	395.80	...	1970	64.00	195.90	189.80	196.40	580.00	600.40
1948	10.00	195.90	44.40	...	395.80	...	1971	70.40	195.90	213.10	220.40	591.90	611.70
1949	10.00	195.90	44.80	...	399.70	...	1972	70.40	195.90	216.10	224.70	600.40	624.00
1950	10.00	195.90	45.20	...	404.70	...	1973	84.50	195.90	266.10	276.40	615.90	639.80
1951	20.00	195.90	68.50	...	404.70	...	1974	84.50	195.90	274.60	284.90	635.30	659.30
1952	20.00	195.90	68.50	...	404.70	...	1975	93.80	195.90	316.30	333.70	659.30	695.50
1953	25.00	195.90	85.00	...	447.10	...	1976	101.40	195.90	364.00	378.80	702.10	730.80
1954	25.00	195.90	85.00	...	447.10	...	1977	107.90	195.90	412.70	422.40	748.30	765.70
1955	30.00	195.90	98.50	...	447.10	...	1978	114.30	195.90	459.80	...	787.10	...
1956	30.00	195.90	103.50	...	472.10	...	1979	121.80	195.90	503.40	...	809.10	...
1957	30.00	195.90	108.50	...	493.60	...	1980	133.90	195.90	572.00	...	836.40	...
1958	30.00	195.90	108.50	...	493.60	...	1981	153.10	195.90	677.00	...	866.10	...
1959	33.00	195.90	116.00	...	493.60	...	1982	<sup>5</sup> 170.30	195.90	<sup>6</sup> 679.30	...	781.40	...
1960	33.00	195.90	119.00	...	506.10	...	1983	<sup>5</sup> 166.40	178.20	709.50	...	760.00	...
1961	33.00	195.90	120.00	...	510.00	...	1984	<sup>5</sup> 150.50	155.70	703.60	...	728.20	...
1962	40.00	195.90	121.00	\$123.00	514.70	\$523.30							

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

<sup>2</sup> The final benefit amount payable after SMI premium or any other deduction is rounded to next lower \$1.

<sup>3</sup> Benefits for both men and women shown in men's column except where women's benefit appears separately. Assumes no prior period of disability.

<sup>4</sup> Effective for February 1968.

<sup>5</sup> Benefits for persons who attained age 62 before 1982 were derived from

transitional guarantee computation based on 1978 PIA table. The minimum PIA has been eliminated for workers who attain age 62 in 1982 or later. (The minimum is retained until 1991 for members of religious orders who are under a vow of poverty, provided that the order had elected social security coverage before December 29, 1981.)

<sup>6</sup> Derived from transitional guarantee computation based on 1978 PIA table.