

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

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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 ¹ | 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 ¹ | 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 ² | 14,453 | 2,100 | 14,116 | 2,132 | 145.27 | 151.00 | 5.73 |

¹ Includes transitionally insured workers.

² 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 ¹ | Minimum benefit amount | | Maximum benefit amount | | | | Year attained age 65 ¹ | Minimum benefit amount | | Maximum benefit amount | | | |
|-----------------------------------|-------------------------------|--|-------------------------------|---------|--|----------|-----------------------------------|-------------------------------|--|-------------------------------|---------------------|--|--------|
| | Payable at time of retirement | Payable effective December 1988 ² | Payable at time of retirement | | Payable effective December 1988 ² | | | Payable at time of retirement | Payable effective December 1988 ² | Payable at time of retirement | | Payable effective December 1988 ² | |
| | | | 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 | ³ 55.00 | 221.50 | ³ 156.00 | ³ 161.60 | 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 | ⁴ 170.30 | 221.50 | ⁴ 679.30 | ⁴ 679.30 | 884.20 | 884.20 |
| 1958 | 30.00 | 221.50 | 108.50 | 108.50 | 558.50 | 558.50 | 1983 | ⁴ 166.40 | 201.50 | 709.50 | 709.50 | 859.90 | 859.90 |
| 1959 | 33.00 | 221.50 | 116.00 | 116.00 | 558.50 | 558.50 | 1984 | ⁴ 150.50 | 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 | ... | ... |

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

⁴ Derived from transitional guarantee computation based on 1978 primary insurance amount (PIA) table.
⁵ 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.

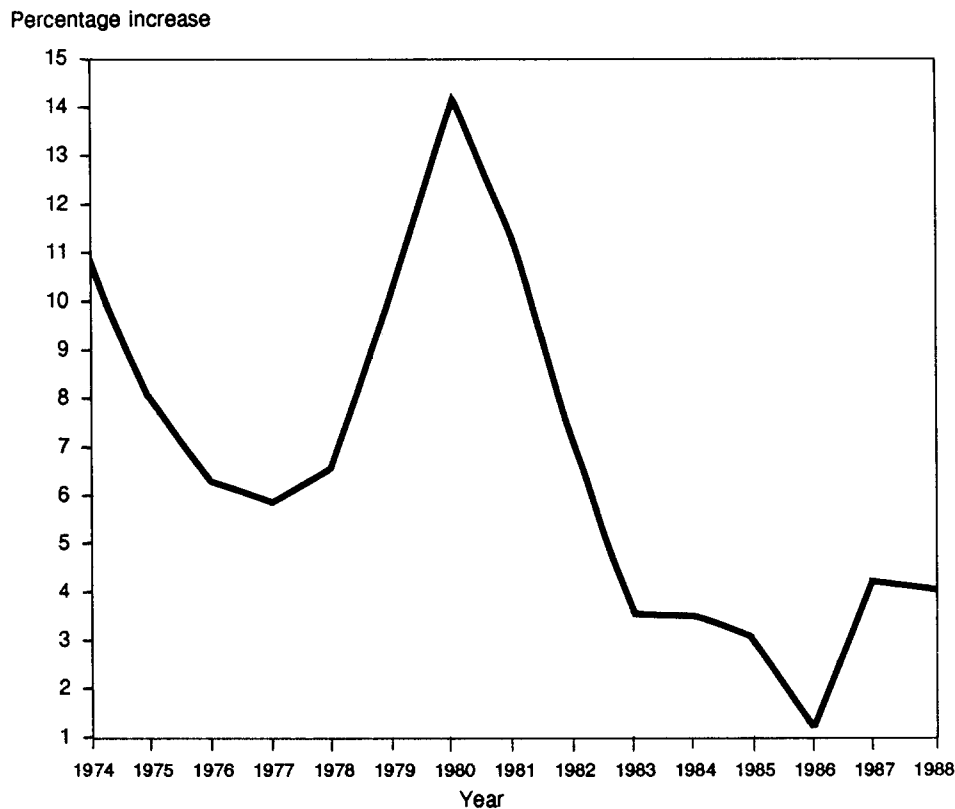
Table 4 shows examples of benefits payable, based on the worker's earnings history, for various family groups. The earnings used in the examples range from those of a hypothetical worker who earned the Federal minimum wage in all the years of the computation

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, 1974-88¹



¹ 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 ¹ | 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 |

¹ Ratio of average annual wage 2 years before year of eligibility to 1977 wages.

² 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 ¹ | 75 percent of average wage ² | Average wage ² | 150 percent of average wage ² | Maximum creditable wage ³ |
| Retired-worker families ⁴ | | | | | |
| 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: ⁴ | | | | | |
| 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 ⁴ | 522.00 | 649.00 | 790.00 | 984.00 | 1,048.00 |
| Survivor families ⁵ | | | | | |
| 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: ⁵ | | | | | |
| 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 |
| Disabled-worker families ⁶ | | | | | |
| 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 ⁷ | 665.90 | 830.20 | 1,010.80 | 1,279.30 | 1,391.60 |
| Monthly benefit amount for— | | | | | |
| Disabled worker age 50: ⁶ | | | | | |
| 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 |

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

² Average annual wage (see table 3).

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

⁴ Assumes maximum reduction and no prior period of disability.

⁵ 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.

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

⁷ 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.