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Attaining more complete coverage under social security: The 1983 amendments

by Karen C. Holden

Karen C. Holden, a research affiliate of the Institute, has recently coedited, with Richard V. Burkhauser, an Institute monograph on future directions for the social security system (*A Challenge to Social Security: The Changing Roles of Women and Men in American Society* [New York: Academic Press, 1982]).

The social security amendments of 1983 (P.L. 98-21), though intended primarily to reduce the short-term deficit projected by the OASDI Trustees,¹ also served to move the system a step closer to its ultimate goal: assuring that no elderly person is so little protected in old age as to face

abject poverty while preventing persons from receiving more than their fair share from the system.

To illustrate how the 1983 changes in the act move toward this goal, this article focuses on two of the amendments—one mandating coverage for previously noncovered government workers, the other requiring a study of earnings sharing, a system by which the yearly covered earnings of married couples are totaled and divided in two in determining the social security earnings records of each.² These two amendments, the one providing virtually complete coverage for workers, the other exploring a means for providing coverage to nonworking dependents in their own right, may make it possible to eliminate the inequities that have arisen from less than universal coverage.

The first part of this article deals with the coverage of workers: how this coverage has expanded, the types of inequities that have existed, and the ways in which they have been dealt with. The second part looks at dependents' benefits, the inequities inherent in their use, and the solutions and problems raised by a system of earnings sharing.

Coverage of workers

Although the 1935 Social Security Act limited Old Age Insurance (OAI) coverage to a select group of workers, the original proposals for legislation had recommended universal coverage of all workers.³ Subsequent amendments expanded this coverage. In 1950 farm and domestic employees, most self-employed persons other than farmers and professionals, and Americans employed abroad were compulsorily covered. In that same year state and local government employees not under another retirement system were allowed elective coverage, as were employees of nonprofit organizations. In 1954 farm and professional self-employed (except lawyers, dentists, and doctors) were compulsorily covered, and state and local government employees under a retirement system were granted elective coverage. Later amendments have included other employee groups—uniformed armed services, the remaining self-employed, ministers. Coverage by social security had grown from approximately 55 percent of all civilian workers in 1939 to approximately 96 percent prior to the most recent coverage changes.

In 1982, the single largest group of workers not covered by OASDI were government employees—all federal civil service workers and those employees of state and local government units that had either never elected OASDI coverage or had withdrawn from it. The amendments now require coverage of all federal workers hired after December 31, 1983, and prohibit the withdrawal of state and local government units from the system. In addition, employees of nonprofit corporations for whom coverage had been elective must now be covered.

Coverage gaps and resulting inequities

As a social insurance system, OASDI seeks to prevent the old-age dependency that would burden other public support systems and to assure that those least likely to have private income support to replace income in old age, or upon disability, are adequately protected. Thus, unlike private pension programs, OASDI benefits are graded such that earnings of low-wage earners are replaced at a higher percentage than are earnings of high-wage earners.⁴

Coverage gaps, however, create situations in which OASDI protection is not available to many low-income workers. And inequities arise because a nonuniversal earnings-related system with graded benefits cannot differentiate between those persons in need of OASDI protection because of lifelong low earnings and those persons whose

lifetime covered earnings are low because they have spent many years employed in noncovered work.

Noncovered employees may be truly disadvantaged by lack of participation in social security. Many such workers may not work long enough in noncovered employment to qualify for retirement benefits from these other plans,⁵ and the survivor, disability, and health insurance benefits provided by most public employee plans are typically less generous than those provided to beneficiaries eligible for OASDI benefits.⁶

Long-term public employees may, on the other hand, receive unintended bonuses from OASDI because the benefit formula will treat high-wage workers who had short periods of covered work as if they were lifetime low-wage earners.⁷ Therefore, public employees who work for only a short period in employment covered by social security will reap proportionately more generous rewards, even though they are collecting a pension for government work, than will workers who spend their entire work life under social security.

Strategies to adjust benefits for workers not covered exclusively by OASDI

To eliminate the inequitable treatment of workers not covered throughout their working lives by OASDI, three types of changes have been made: (1) the system moved toward universal coverage of all workers; (2) earnings records were adjusted to reflect actual lifetime earnings of persons who have spent part of their lives not covered by OASDI; and (3) benefits were adjusted to reflect income from pensions earned when not covered by OASDI (pension offsets). As mentioned earlier, the 1983 amendments represent the near completion of the move to universal coverage of all employees.⁸

In addition the bill lowers social security benefits for workers with fewer than 30 years of OASDI coverage if they become eligible for both OASDI benefits and a pension from noncovered work after 1985.⁹ While this reduction in benefits is targeted on workers receiving pensions from two systems, and will eliminate their windfalls, some workers may actually find their OASDI benefits reduced by the receipt of another pension that is of lower *lifetime* value than the lost OASDI benefits. This is because differences in postretirement inflation adjustments provided by OASDI and the other pension (state pensions typically have low caps on pension increases tied to inflation) and differences in the payment of dependents' benefits (in state and federal pensions, spouse benefits are typically not paid, and survivor benefits are less generous) may mean that the real value of the government pension will fall over time and that survivor and spouse benefits based on the worker's OASDI benefits will be sharply reduced.¹⁰

Coverage of dependents

In 1939 the Advisory Council on Social Security recommended the payment of additional old-age benefits to dependent wives and widows of retired workers,¹¹ extending social security coverage by special payment provisions rather than by the granting of independent earnings records. This process of granting benefits to nonworking groups also expanded. From coverage only of spouses and widows 65 and older, it was extended to cover younger widows if they had dependent children and—under certain conditions—widowers, women between 62 and 65, divorced wives, divorced husbands, and disabled spouses.

The 1983 amendments further expand coverage by liberalizing the treatment of divorced spouses. No longer are the benefits of these nonworkers dependent upon the work behavior of their ex-spouses. For persons reaching eligibility age after June 1983 and whose ex-spouses are fully insured for OASDI benefits, spouse benefits are payable even if the insured worker continues to work.

Inequities resulting from dependents' benefits

Legislative adjustments have countered some of the inequities in benefits for dependents of covered workers. The 1977 social security amendments required spouse and survivor benefits paid by OASDI to be offset by the amount of any retired-worker pension payable from noncovered work, thus eliminating the treatment of spouses working in noncovered governmental employment as if they were nonworking dependents.¹² These offsets were akin to the dollar-for-dollar reductions in spouse and survivor benefits paid to beneficiaries also eligible for OASDI benefits based on their own earnings records. The 1983 act reduces the pension offset to just two-thirds of the noncovered pension amount for those eligible for a pension after June 1983. Again, due to differences in inflation adjustment provisions between OASDI and other pensions, workers facing such an OASDI benefit offset may find lifetime income reduced below that which they would have otherwise received from OASDI alone.

Many inequities remain. Nonworking spouses at present have limited protection under OASDI against the risk of their own death. They are eligible for social security health insurance coverage (HI, popularly known as Medicare) only upon reaching age 65 and becoming eligible for OASDI spouse benefits. Disability benefits are not provided to spouses or survivors of insured workers with the single exception of benefits paid to disabled widows and widowers between 50 and 59 years of age. Private insurance coverage of death, disability, and medical care for nonworkers is often inferior to or more costly than that provided by social security.¹³ And homemakers who do not conform to the stereotype of the lifetime marriage—or at least some intact marriage at age 65—may find themselves with limited old-age income.

On the other side of the ledger are homemakers who receive windfall gains because of the spouse benefit. This benefit (generally equal to one-half the worker's benefit) was originally designed to raise the income of needy elderly couples, but now primarily subsidizes the home work of women in better-off economic units, since the spouse's benefit is directly proportional to the worker's benefit.¹⁴

Furthermore, the spouse and survivor benefits result in different OASDI benefits paid to two-worker and one-worker families and to married and single wage earners, even though lifetime OASDI-covered earnings and hence payroll taxes paid may have been identical in all units (see Table 1). How earnings are divided between a couple, as well as the total amount earned, is at present a key factor in determining the size of the OASDI benefit received by the couple.

Table 1
Unreduced Monthly OASDI Benefits of Single Workers
and of Two-Earner Couples

	Couples				
	(A)	(B)	(C)	(D)	(E)
<i>Average Indexed Monthly Earnings of</i>					
Spouse 1	\$ 0	\$ 500	\$ 750	\$1,000	\$1,250
Spouse 2	2,500	2,000	1,750	1,500	1,250
<i>Benefits of</i>					
Couple	1,237	1,124	1,093	1,093	1,093
Single earner with earnings equal to spouse 2	825	749	707	627	547

Note: Assumptions are that both spouses reach age 62 in 1983. Bend points (levels at which calculations of monthly benefit change) are for 1983. Combined Average Indexed Monthly Earnings of couple = \$2,500.

Strategies to adjust spouse and survivor benefits

To eliminate inequities for spouses and survivors, the same three approaches discussed earlier (coverage expansion, adjustment in earnings record, and pension benefit adjustments) are also feasible. As mentioned above, some adjustments in benefits have already been enacted. The 1983 amendments go one step further in mandating a study of the feasibility, effects, and costs of earnings sharing—the provision of an earnings history for women during marriage that they take with them upon divorce. If earnings sharing were adopted, it would be the last step in universalizing social security, by turning dependent spouses into workers within marriage with their own earnings record. By granting independent protection to both marriage partners, it would remove the need for special benefit provisions for nonworking spouses and survivors.

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How earnings sharing works

In earnings sharing, the combined covered earnings of a married couple would be split equally for OASDI administrative purposes regardless of the actual distribution of earnings. A single-earner couple with one partner earning \$30,000 would be treated identically to a couple in which each partner earns \$15,000. Each member of the two couples would have OASDI earnings of \$15,000 credited his/her earnings record.¹⁵ Benefits upon death, retirement, or disability would be based upon each individual's earnings record. No additional spouse benefits would be provided to a nonworking spouse. Divorce would leave each partner with a share in OASDI credits accumulated during that marriage and eliminate the current sharing of post-marriage earnings by a divorced spouse, who now receives benefits based on those earnings. Indeed, the treatment of long-divorced spouses as part of a continuing economic unit is one of the more archaic features of OASDI.

Earnings sharing as a method of extending benefits to homemakers maintains the earnings-related nature of OASDI benefits, but divides these earnings 50-50 between a couple, rather than at the current 100-0 ratio in the case of a one-earner couple. OASDI protection is thus extended to nonworking spouses during the working-age years, not merely granted at time of benefit receipt, conditional upon another's work behavior.

Earnings sharing would allow homemakers to have a source of independent economic support whether or not a marriage terminated. Justification for such a change is based on the view that economic resources acquired during marriage should be shared equally. It could be argued, therefore, that OASDI would only be reflecting and conforming to the trend toward community property and away from the view of individual rights to own-earned property.

Effects of earnings sharing on benefits

Earnings sharing is not an alternative to the present system of calculating benefits; it is simply an alternative form of coverage for nonworkers. Earnings sharing implies nothing about how benefits should be calculated from these earnings records in order to provide adequate income to the elderly.

Studies of earnings sharing indicate that if it were introduced into the current system, the costs of paying benefits to retired workers and their survivors or spouses would be no higher, although some single-earner couples who now receive substantial spouse benefits would lose, and some two-earner couples would be better off.¹⁶ The graded benefit formula would continue to assure higher earnings replacement rates to low-wage workers and to couples. Unmarried earners obviously could not "split" earnings,

whereas a married couple with earnings identical to that of a single earner would split and, under the graded benefit formula, receive higher benefits than would the unmarried earner. However, one could also argue that this is consistent with the supposition that married couples have greater income needs, a supposition which is the basis for dependent benefits.

Disability coverage would be one of the greatest insurance gains for homemakers from earnings sharing. At the same time, the determination of disability and additional costs of payments for nonworkers are perhaps the most difficult problems raised by earnings sharing. Disability protection under earnings sharing could increase the number of potential cases significantly and raise the disability costs of the system.¹⁷ In part the costs would be offset by the reduction in protection to the primary earner, whose disability benefit would be based only on his or her share of the split earnings. A family losing the breadwinner's wages would therefore find only half the earner's lost wages considered in the calculation of disability benefits, whereas a family losing the services of a nonworker could actually be better off financially as a result.

Two approaches have been proposed to address this problem, neither of which is entirely satisfactory. Legislation could be written maintaining the current system in the case of disability. Thus, marriages which terminated after the working spouse became disabled would leave the other spouse without an earnings record. Spouses of disabled workers would be treated differently and less favorably than other nonworking spouses. In addition, disability after divorce would still result in lower earnings replaced by OASDI than might be necessary for the disabled worker.

A second approach suggests that spouses of disabled workers could enter the work force and supplement these lower benefits.¹⁸ Such an argument, however, does not take into account the probable low wages and lack of job opportunities for older persons after years out of the work force.

Toward universal coverage by OASDI

Ironically, only the recent public furor over OASDI costs was able to lead to legislation closing the remaining major coverage gaps that had resulted in the overpensioning by OASDI of some retirees and the underpensioning of others. By mandating coverage for previously noncovered government workers, the 1983 amendments do away with a number of the inequities caused by the incomplete coverage of the work force. By introducing pension offset provisions, these amendments begin immediately to address the problem of the receipt of unintended bonuses by some beneficiaries. The long-term effects on the income of retirees will depend on what adjustments will be made by the Federal Civil Service Pension System to account for OASDI coverage and the changes in lifetime income that

workers who are entitled to both OASDI benefits and a pension from noncovered work will suffer due to the pension offset provision in the 1983 law.

The earnings sharing scheme, now under study, would be a further step toward a universal system. It would reduce windfall gains to certain one-earner couples while protecting against death, disability, and old age those persons who choose to remain out of the work force during part of their married life. This change in the system does not imply higher program costs, since while some workers would clearly gain, others would lose. The literature indicates that most losers under earnings sharing have relatively high incomes.¹⁹

Earnings sharing does not commit us to a specific benefit formula. Once introduced it would still leave open the way to introducing other incremental or radical changes in the OASDI system that would better achieve the desired mix of replacement, insurance, and redistributive goals in a truly universal system. ■

¹Board of Trustees, Federal Old Age and Survivors Insurance and Disability Trust Funds, *1982 Annual Report* (Washington, D.C.: GPO, 1982).

²Provisions of the 1983 act not discussed here include (1) delaying the annual cost-of-living adjustment in benefits from July to January; (2) making half of the benefits received by higher-income beneficiaries subject to income tax; (3) gradually raising the normal retirement age early in the next century; and (4) calling for earlier implementation of scheduled increases in the payroll tax.

³Arthur J. Altmeyer, *The Formative Years of Social Security* (Madison, Wis.: University of Wisconsin Press, 1966).

⁴For workers reaching age 62, or dying, or becoming disabled in 1983, the Primary Insurance Amount (PIA—the monthly amount payable to a worker who begins to get benefits at age 65) is 90 percent of the first \$254 in Average Indexed Monthly Earnings (AIME) plus 32 percent of the next \$1528 in AIME plus 15 percent of AIME above \$1782. The dollar “bend points”—the AIME levels at which the coefficient used in the calculation changes—(\$254 and \$1782 in 1983) rise with average earnings.

⁵Sylvester J. Schieber, “Universal Social Security Coverage and Alternatives: The Benefits and Costs,” in Colin Campbell, ed., *Controlling the Cost of Social Security* (Lexington, Mass.: Lexington Press, forthcoming); U.S. Senate, Special Committee on Aging, *State and Local Government Terminations of Social Security Coverage* (Washington, D.C.: GPO, 1980).

⁶Disability coverage may be lost by persons shifting from noncovered to covered work, since for some period of employment they may meet neither OASDI nor the other plan’s eligibility requirements. Most federal workers do qualify for Medicare, because of some periods of covered work. This is not true, however, for a minority who never become eligible for OASDI benefits.

⁷Schieber, “Universal Social Security Coverage”; Robert Dalrymple, Susan Grand, and Duke Wilson, “Civil Service Retirement System Annuitants and Social Security,” *Social Security Bulletin*, Feb. 1983, pp. 39-59. The provision in the 1983 amendments subjecting half of the benefits of higher-income beneficiaries to the income tax will reduce this inequity, as will the changes discussed below.

⁸The 1983 amendments did not mandate strict universal coverage. Those state and local government employee groups that had already withdrawn from the system, or had active applications for withdrawal pending on the effective date of the act, will remain outside the OASDI system. Their members will continue to be treated as low-income workers if eligible for benefits, although these benefits may be reduced by taxes and offset provisions.

⁹Beginning in 1985 OASDI beneficiaries with fewer than 30 years of covered work will have their PIA recalculated if they are also eligible for a pension from noncovered work. They will then have OASDI benefits based on this new and lower PIA. The new PIA will be the higher of (1) the PIA calculated with the 90 percent factor in the first bracket reduced to as low as 40 percent, depending on the year of eligibility and years of OASDI coverage, and (2) the PIA as calculated according to the old law minus 50 percent of the uncovered pension.

¹⁰For example, consider a person eligible for a government pension equal to his or her PIA calculated without any adjustment for noncovered work. Assume further that the government pension has no inflation adjustment provisions and that the higher social security benefit results from the 50 percent pension offset provision. At age 65 the retiree will receive the noncovered pension plus half the PIA calculated under current provisions. If inflation held steady at 10 percent per year, the OASDI benefit would rise, but within seven years the (unadjusted) uncovered pension would be equal to half its initial value. In that year the retiree’s real income would be no higher than if only OASDI benefits had been paid. Further price increases would reduce the retiree’s real income below the real value of the unreduced OASDI benefits alone.

¹¹In general equal to 50 percent and 100 percent respectively of the worker’s benefit.

¹²This offset is also charged on divorced spouses, who may be receiving relatively low pensions from noncovered work due to late entry in the labor force.

¹³Schieber, “Universal Social Security Coverage.”

¹⁴Karen C. Holden, “Supplemental OASI Benefits to Homemakers through Current Spouse Benefits, A Homemaker Credit, and Child-Care Drop-Out Years,” in Richard V. Burkhauser and Holden, eds., *A Challenge to Social Security: The Changing Roles of Women and Men in American Society* (New York: Academic Press, 1982).

¹⁵Thus all couples in Table 1 would have benefits equal to and divided as couple E.

¹⁶Burkhauser, “Earnings Sharing: Incremental and Fundamental Reform,” in Burkhauser and Holden, eds., *Challenge to Social Security*.

¹⁷William G. Johnson and William B. Burfield, “Disability Insurance under Proposed Reforms,” in Burkhauser and Holden.

¹⁸Burkhauser, “Alternative Social Security Responses to the Changing Roles of Women and Men,” in Campbell, ed., *Controlling the Cost*.

¹⁹Burkhauser, “Earnings Sharing.”