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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

The Lump Sum Death Benefit--Should It Be Changed?

Since 1940, the Social Security Administration has paid more than $6 billion in lump sum death benefits. These payments are made to the surviving spouse (in the same household) or the person responsible for the funeral expenses of an insured worker.

The original concept was to guarantee that individuals covered by Social Security would receive some return on their contributions. Since then, however, the concept has been changed to providing a modest payment toward illness and burial expenses.

GAO believes that data in this report will be useful to the Congress in considering several proposals to eliminate or alter the lump sum death benefit.

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This report discusses a benefit of the Social Security program which, upon the death of an insured worker, provides a lump sum payment to his or her spouse, dependent, or estate. We made this review to assess the impact of changes to the present lump sum death benefit proposed by the 1979 Advisory Council on Social Security and by the Department of Health and Human Services, and to provide data on possible alternatives to these proposals.

We are sending copies of this report to the Director, Office of Management and Budget, and to the Secretary of Health and Human Services.

Elmer B. Staats
Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

THE LUMP SUM DEATH BENEFIT--SHOULD IT BE CHANGED?

D I G E S T

The original concept of the lump sum death benefit was to provide a return on the Social Security contributions of wage earners. However, the concept has been changed to include a modest payment toward the costs associated with death. (See pp. 2 and 3.)

Social Security has paid more than $6 billion in lump sum death benefits since 1940, the first year payments were made. In fiscal 1978, about 1.3 million lump sum death benefit payments were made totaling about $332 million. Average payment in 1978 was $254.

Various proposals have been made to eliminate, or in some way alter, the current benefit. One proposal by the Department of Health and Human Services 1/ would significantly reduce the cost of the lump sum death benefit payment, while another by the Advisory Council on Social Security would significantly increase the cost. (See pp. 5 to 7.)

GAO assessed the impact of proposed changes and developed data for possible alternatives. In reviewing a random sample of lump sum death benefit claims during fiscal year 1978, GAO found that in 86 percent of the cases average benefits exceeded average employee contributions. In over three-fourths of the cases, benefits received were about 15 times more than contributions.

1/Effective May 4, 1980, a new Department of Education was established. Before that date, activities discussed in this report were the responsibility of the Department of Health, Education, and Welfare.

The lump sum death benefit, however, was the only benefit received on behalf of about 14 percent of deceased workers because the primary beneficiary died before receiving any Social Security benefits and had no eligible survivors at the time of death. (See pp. 7 to 9.)

Looking at the lump sum benefit in terms of its original objective--a return on the workers' investment (contributions) in the system--GAO's data show that an overwhelming majority of the beneficiaries or their survivors receive average benefits well in excess of the average contribution.

The matters discussed in this report should be useful to the Congress in considering proposals to eliminate or alter the lump sum death benefit. (See p. 11.)

The Acting Inspector General of the Department of HHS informed GAO that the Department had reviewed our draft report and had no comments.

Contents

ABBREVIATIONS

GAO	General Accounting Office
HHS	Department of Health and Human Services
SSA	Social Security Administration
SSI	Supplemental Security Income

CHAPTER 1

INTRODUCTION

The Social Security Act (42 U.S.C. 301 et seq.), enacted in 1935, is one of the world's largest insurance programs. Nine out of 10 American workers--more than 110 million people--pay social security taxes. Social Security's purpose is to provide an income for the taxpayer and his or her dependents when the taxpayer's earnings are curtailed or stopped due to disability, retirement, or death.

In recent years the financial stability of the Social Security trust funds has been seriously impaired. In December 1977, the Congress enacted the Social Security Amendments of 1977 (Public Law 95-216). These amendments attempted to (1) maintain the trust funds on a sound financial basis and (2) strengthen the funds' short- and long-range financial stabilities. The social security tax rate and contribution base for both employees and employers were increased.

The Congress has acted to assure that funds are available to finance benefits and that these funds are used for meeting social security's basic purpose. In February 1979, the Chairman of the Subcommittee on Oversight, House Committee on Ways and Means, noted:

> "* * * It is time to reassess the purpose of the Social Security system and to set a course for the future that will meet critical needs within affordable costs. A first step is to review the entire Social Security system to identify the programs that are most needed and prune away those that deliver small marginal benefits at a very large cost or those that depart too dramatically from the basic purpose of the system * * *."

According to the act, when an insured worker dies, a lump sum payment is made to his or her surviving spouse who was living in the same household. Payment is made to the person who paid the burial expenses if there is no surviving spouse living in the same household. The person responsible for burial expenses may authorize payment directly to the funeral home.

Since 1940, the Social Security Administration (SSA) has paid over $6 billion in lump sum death benefits. Lump sum death benefits of approximately $332 million in fiscal year 1978 were made on the accounts of about 1.3 million deceased workers and averaged about $254 per deceased worker. Total lump sum death payments were $321 million in fiscal year 1977 and $337 million in fiscal year 1976.

BACKGROUND

The Social Security Act of 1935 provided for a lump sum death benefit payment for deceased wage earners that guaranteed some return for the contributions of insured workers and helped meet the expenses of their final illnesses and deaths. Subsequent amendments revised the benefit formula and eligibility requirements and limited the amount that could be paid.

The Department of Health and Human Services (HHS) 1/ budget proposals for fiscal year 1980 called for eliminating lump sum death benefits under the Social Security program, but with modifications to the Supplemental Security Income (SSI) program to ensure payments at the time of death to persons most in need. HHS estimated that this change would result in savings to the trust funds of about $221 million in 1980 and about $370 million in 1984.

The 1979 Advisory Council on Social Security recommended that the lump sum death payment be retained and that the ceiling be increased. This proposal would approximately double the present annual costs.

LEGISLATIVE HISTORY OF THE LUMP SUM DEATH BENEFIT

The lump sum death benefit was part of the original Social Security Act of 1935. The payment was to consist of 3-1/2 percent of the wages subject to social security tax earned by the individual after December 31, 1936, and before he or she reached age 65. If the individual died after receiving any benefits, an amount equal to less than 3-1/2 percent of wages earned after 1936 was to be paid to the deceased individual's estate--the amount being the difference

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1/Effective May 4, 1980, a new Department of Education was established. Before that date, activities discussed in this report were the responsibility of the Department of Health, Education, and Welfare.

between 3-1/2 percent of wages earned after 1936 and the total old-age benefits received at time of death.

Since the original act did not provide survivors' benefits, the act provided for a return on the wage earner's investment in the Social Security program by paying the estate of the deceased individual.

The 1939 amendments to the Social Security Act expanded the program to provide benefits for survivors and dependents of deceased wage earners. Additionally, changes were made to the original lump sum provision. The 3-1/2-percent maximum lump sum death benefit payable to a deceased worker's estate was eliminated. In its place, the amendment provided for a payment of six times the worker's primary insurance amount--the amount of monthly benefit payable to the insured. This lump sum death benefit, however, was contingent on the insured worker leaving no dependent or survivor who was eligible to collect survivors' benefits in the month of the wage earner's death. 1/

The 1950 amendments brought about a major change concerning the lump sum death benefit. They provided for a lump sum death benefit payment, even if eligible dependents were receiving secondary benefits--benefits paid to dependents or survivors of the wage earner. The 1950 amendments also changed the amount of the benefit to three times the worker's primary insurance amount.

In legislating the 1950 amendments, the Congress changed the lump sum benefit payment from the original concept of a return on individual contributions to one of providing a modest benefit payment for such expenses as the last illness and the burial of the deceased worker.

The 1954 amendments maintained the benefit at three times the primary insurance amount with a maximum of $255.

PURPOSE AND SCOPE OF REVIEW

Our review was directed primarily toward an analysis of who benefited from the lump sum death benefit payment and a comparison of the total benefits paid to the wage earner,

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1/An eligible survivor can be a dependent spouse living in the same household at the time of death, a child, or in some cases, the parents or grandchildren of the deceased.

dependents, and survivors with the amount of contributions made by the wage earner to the Social Security program. We reviewed the legislative history of certain sections of the Social Security Act, as amended, and interviewed officials of SSA and the National Association of Funeral Directors.

Our work was performed at the SSA headquarters in Baltimore, Maryland, and at SSA's Northeast Program Service Center in Rego Park, New York.

Using SSA's central computer files in Baltimore, we selected for review a random sample of cases involving the payment of lump sum death benefits during fiscal year 1978. (See app. I for discussion of sampling methodology.)

CHAPTER 2

SHOULD THE LUMP SUM DEATH BENEFIT BE CHANGED?

Proposals have been made to change the amount of the lump sum death benefit. Those who favor an increase in the lump sum death benefit argue that it now covers only a fraction of the cost of a funeral. This means that a large financial burden is placed on a surviving spouse at a time when he or she is least able to bear it.

Those who oppose an increase argue that the amount of the lump sum death benefit has never been related to the needs of a surviving family and that it should not be. They contend that the various benefit payments available to surviving persons provide enough money for those needs.

HHS PROPOSAL FOR A SUBSTITUTE DEATH PAYMENT

In January 1979, HHS proposed eliminating the lump sum death benefit from the Social Security program. However, a similar benefit, under the SSI program, equal to the maximum monthly Federal SSI payment, would be made to certain surviving spouses. Unlike the present social security payment, the proposed SSI payment of about $208--as of July 1979--would be increased as prices rise.

In the first full year following these changes, approximately 1.3 million people under Social Security would be affected, while about 30,000 SSI recipients would receive the new payment.

At the time of the proposal, HHS estimated that these changes would result in the following net savings:

	Fiscal year 1980	Fiscal year 1984
	(millions)	
Savings to the trust funds	$227	$378
Cost to the SSI program (appropriated funds)	6	8
Net savings to the Government	$221	$370

According to HHS, dropping the benefit from the Social Security program and establishing a modified death benefit under the SSI program would target Federal financial resources more efficiently by restricting the death benefit to people who are most in need of the payment. HHS recognized that the proposed change would eliminate the only return on social security taxes payable for some deceased single workers. HHS believes, however, that all workers who contributed to the Social Security system received a major return in the form of protection. During their lifetime, workers were protected for themselves, and/or their eligible dependents, against the loss of earnings due to disability, retirement, or death. It is HHS' view that the social security lump sum death benefit is not earnings related and does not seem particularly appropriate under the earnings-related social security program. The proposal for a death benefit under the SSI program provides for payment to people who are most in need of the payment.

SOCIAL SECURITY ADVISORY COUNCIL PROPOSAL

The 1979 Advisory Council on Social Security, appointed pursuant to section 706 of the Act, completed its study of the program in December 1979. A narrow majority of the council recommended that the lump sum death payment under the Social Security program be retained and that the ceiling on the amount paid ($255) be increased to three times the primary insurance amount--the amount of the monthly benefit payable to the insured--but no more than $500. It is estimated that, if this proposal were adopted, it would cost an additional $330 million for 1982.

The council believes that the lump sum death benefit provides valuable assistance at a time of special financial need. The monthly survivors' benefits under Social Security are designed to meet regular recurring costs, while the lump sum death payment is designed to meet the expenses of a final illness and funeral. The council concluded that the present $255 payment is inadequate for this purpose, and the majority of the council recommended an increase in the maximum amount payable. Although these payments would be important for most families protected by Social Security, the council considered them especially important for those who have little or no financial reserve from which to pay funeral expenses or meet the costs of a final illness. The council also believes that there is no more reason to meet the universal need for protection against the costs of a last illness and funeral entirely through means-tested programs than there is to meet other risks covered by Social Security in this way.

A substantial minority of the council favored HHS' general approach but held that the amount paid under the SSI program should be higher than proposed--perhaps three times the maximum monthly Federal SSI benefit, or $625. This minority believes that the current $255 payment is too small to be of much help to those without other resources. Also, they believe that too frequently the present payment goes to persons who do not really need it. The minority view is that a preferable strategy would be to increase the size of the payment so that it offered significant help to those who needed it, but at the same time to restrict eligibility to those with the most limited financial resources.

GAO ANALYSIS

Using SSA's data files in Baltimore, we reviewed a random sample of 1,078 fiscal year 1978 applications for lump sum death benefit payments which revealed the following:

	All cases	On Social Security rolls	Not on Social Security rolls
Number of cases in sample (note a)	1,078	822	256
Percent	100.0	76.3	23.7
Average age at death (years)	68	74	50

a/Appendix I describes how the 1978 sample was selected. Because we did not use all of the cases in our sample, it was necessary to make certain assumptions as to whether those not used were on the Social Security rolls. Accordingly, the estimated lump sum death benefits paid include a minimum and maximum amount.

Most of the people receiving lump sum death benefits in fiscal year 1978 were paid regular monthly benefits totaling far in excess of the wage earners' contributions. However, some people received only the lump sum death benefit from SSA. The following analysis discusses cases involving individuals on the Social Security rolls (receiving monthly benefits) and individuals not on the rolls (before receipt of monthly benefits) at the time of death.

	All cases		On Social Security rolls		Not on Social Security rolls			
					With survivors		Without survivors	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Average lifetime contribution	1,078	$ 1,853	822	$ 1,491	103	$3,729	153	$2,534
Average benefits paid before death (note a):								
Primary			822	18,608	-	-	-	-
Dependents			262	8,156	-	-	-	-
Average total before death			822	$21,207	-	-	-	-
After death (note a):								
Survivors			204	b/4,364	103	b/7,173	-	-
Average benefits paid	1,078	$17,683	822	$22,290	103	$7,173	153	$ -
Average ratio of total benefits received to contributions made	1,078	9.5:1	822	14.9:1	103	1.9:1	153	-

a/Retirement insurance benefits are not paid for the month of death. However, survivors benefits, generally higher than spouses or dependents benefits, are payable beginning with the month of death.

b/These amounts have been paid to survivors from month of death through July 1979.

In 822 (76.3 percent) of the 1,078 cases, lump sum death benefit payments were paid on behalf of deceased individuals who were receiving social security benefits at time of death; in 103 (9.5 percent), the payments went to survivors after the death of the primary beneficiary; and in 153 (14.2 percent), only the lump sum death benefit was paid because the primary beneficiary died before receiving any benefits and had no eligible survivors at the time of death.

Benefits paid for persons on the Social Security rolls at time of death

For the 822 cases (76.3 percent of the sample) on the Social Security rolls at time of death, the average contribution was about $1,491 and ranged from about $11 to $7,597. The average benefit received, including that paid to dependents and survivors, was $22,290, or almost 15 times the average contribution made, and ranged from 0.1 to 1,741 times the contribution made. The total benefits received ranged from $363 to $105,501. The average age at death was 74 years.

We estimate that lump sum death benefits paid for all persons on the Social Security rolls at time of death were between $210 million and $267 million in fiscal year 1978.

<u>Benefits paid for persons not on Social Security rolls at time of death</u>

There were 256 cases (23.7 percent of the sample) where the primary beneficiary died before receiving Social Security benefits. The average age at death was 50 years.

<u>Beneficiaries with eligible survivors</u>

Of the above 256 cases, there were 103 (9.5 percent of the total sample) with eligible survivors. The average contribution was $3,729 and ranged from $100 to $7,667. The average benefits received by the survivors, as of July 1979--a period averaging about 16 months--was $7,173 or almost twice the total average contribution made and ranged from 0.1 to 35.5 times the contribution made. Additionally, most of these cases remained in payment status after July 1979. The total benefits received ranged from about $334 to $17,371.

We estimate that lump sum death benefits paid for all persons not on the Social Security rolls at time of death with eligible survivors were between $26 million and $83 million in fiscal year 1978.

<u>Beneficiaries with no eligible survivors</u>

There were 153 cases (14.2 percent of the total sample) where the only benefit received from SSA as of July 1979 was the lump sum death benefit because the primary beneficiary died before receiving Social Security benefits and had no eligible survivors. The average contribution was about $2,534 and ranged from about $30 to $7,655.

We estimate that lump sum death benefits paid for all persons not on the Social Security rolls at time of death and having no eligible survivors were between $39 million and $74 million in fiscal year 1978.

CHAPTER 3

CONCLUSIONS AND OBSERVATIONS

Social Security's lump sum death benefit has cost in excess of $6 billion since 1940, the first year payments were made. At that time, this was an important benefit because there was no provision for survivors' benefits. It provided funds for the deceased wage earners' survivors, dependents, or estate toward the costs that arise at the time of death.

Subsequent amendments provided for benefits to survivors and dependents of deceased wage earners. In 1950, the intent of the lump sum payment was changed from the original concept of a return on an individual's contribution to the Social Security program to one of providing a modest payment for expenses of the last illness and burial of the deceased worker.

In dealing with the seriously impaired financial stability of the Social Security trust funds, the Congress in recent years has amended the act to maintain and strengthen the short- and long-range financial position of the trust funds.

If the Congress had accepted the HHS proposal of eliminating the current lump sum death benefit under the Social Security program and establishing a modified death benefit under the SSI program, the net savings to the Federal Government would be an estimated $221 million in fiscal year 1980, increasing to $370 million in fiscal year 1984. However, most individuals currently insured for this benefit would no longer be eligible.

Adopting the Advisory Council's recommendation of retaining the payment under the Social Security program and increasing the lump sum death benefit ceiling to three times the primary insurance amount with a maximum of $500 would cost the Social Security trust funds an additional $330 million in 1982, which would about double the current annual cost.

Our analysis showed that over 76 percent of the beneficiaries in our sample were on the Social Security rolls when they died and they or their survivors and dependents had received benefits averaging almost 15 times the wage earners' average contributions. Additionally, almost 10 percent of the beneficiaries in our sample were not on the Social Security rolls when they died, but they had eligible survivors who, as of July 1979--a period of 16 months--had received benefits averaging almost twice the average contribution.

Looking at the lump sum death benefit in terms of its original objective--a return on the workers' contributions to the system--our data show that an overwhelming majority of the beneficiaries or their survivors receive average benefits well in excess of the average contribution.

While we are not making any recommendations regarding changes to the current provision, we believe that the information discussed in this report should be useful to the Congress in considering proposals to eliminate or alter the lump sum death benefit.

AGENCY COMMENTS

By letter dated June 5, 1980, the Acting Inspector General of HHS notified us that HHS officials had reviewed our draft report and had no comments. (See app. II.)

HOW THE FISCAL YEAR 1978

LUMP SUM DEATH BENEFIT

SAMPLE WAS SELECTED

In selecting a random sample of lump sum death benefit payments made in fiscal year 1978, we took a 0.3-percent sample of the July 1979 SSA Master Beneficiary Record file, but we did not test its accuracy. This file consisted of 70,408,171 accounts. The sample was selected based on the last three digits of the social security number being 339, 539, and 939. This resulted in a sample of 211,187 accounts. From this sample, all accounts ending in 539 were selected to determine if a lump sum death payment had been made in fiscal year 1978--a 0.1-percent sample of the 1.3 million lump sum death benefit payments in fiscal year 1978.

We analyzed 1,078 (83 percent) of the 1,300 accounts we initially planned to use. There were 222 accounts that we did not use because the records did not include the necessary lump sum payment data. Most of these 222 were accounts (1) where partial benefits were paid on the account of the primary beneficiary and additional benefits were paid to the dependent on his or her own account--commonly referred to as dual entitlement--and (2) which SSA did not convert during an automatic data processing systems change in 1978.

We discussed this matter and our methodology with SSA officials. Based on a sensitivity analysis, the 222 accounts would not significantly change the dollar amounts or ratios shown in the table on page 8, which are subject to a maximum relative sampling error of 18.4 percent with a 95-percent confidence level as shown below.

	All cases		On Social Security rolls		Not on Social Security rolls: With survivors		Not on Social Security rolls: Without survivors	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Average lifetime contribution	1,078	$ 1,853	822	$ 1,491	103	$3,729	153	$2,534
Error rate--percent		6.3	3.3	7.3	18.4	13.2	14.7	15.4
Average benefits received	1,078	$17,683	822	$22,290	103	$7,173	153	$ -
Error rate--percent		4.8	3.3	4.0	18.4	11.0	14.7	-
Average ratio of total benefits received to contributions made	1,078	9.5:1	822	14.9:1	103	1.9:1	153	-
Error rate--percent		8.6	3.3	8.3	18.4	14.0	14.7	-

Also, the average ages at death, as shown on page 7, are subject to a maximum relative sampling error of 3.6 percent.

DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20201
JUN 5 1980

Office of Inspector General

Mr. Gregory J. Ahart
Director, Human Resources
Division
United States General
Accounting Office
Washington, D.C. 20548

Dear Mr. Ahart:

The Secretary asked that I respond to your request for comments on the draft report, "The Lump Sum Death Benefit Today--Should It Be Changed?".

Concerned Department officials have reviewed the report and have no comment to make at this time.

Thank you for giving us this opportunity to review the report before its final publication.

Sincerely,

Richard B. Lowe III

Richard B. Lowe III
Acting Inspector General

Enclosure

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