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Social Security: The Lump-Sum Death Benefit

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Summary

When a worker who is insured by Social Security and living with a spouse dies, the spouse is entitled to a lump-sum death benefit of \$255. If there is no such spouse, the payment can be made to a surviving child who is receiving or is eligible to receive benefits based on the deceased person's work. In the majority of deaths, however, no payment is made.

The death benefit used to be a more important part of Social Security, but the payment has been fixed at \$255 for the past four decades, during which inflation has eroded its value. At the same time, the real value of other Social Security benefits has increased. Total federal spending on lump-sum death benefits is now about \$200 million, only 0.03% of the total Social Security benefits.

Although the benefit was once linked to burial expenses and is sometimes still referred to as a "funeral benefit," it no longer has any legal connection with funeral expenses.

Some proposals would have targeted the death benefit to those with the greatest need, increased the benefit, or eliminated it.

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Introduction

Following the death of a worker beneficiary or other insured worker, Social Security makes a one-time payment of \$255 to the surviving spouse or, if there is no spouse, to surviving dependent children.¹ In 2012, such payments were made for about 770,000 deaths, for a total of about \$200 million in benefit payments. The death payment was capped at \$255 in 1954 and since 1982 all payments have equaled \$255, so the real (inflation-adjusted) value of the benefit now declines each year.

History of the Lump-Sum Death Benefit

Survivors' benefits were not included in the original Social Security Act of 1935, but the program did include a lump-sum benefit that would be paid if a worker died before the retirement age of 65.² That provision provided some benefits to families who otherwise would have paid Social Security taxes but received no benefits. The benefit equaled 3.5 percent of the worker's covered earnings—those earnings that were subject to the Social Security payroll tax. Those payments were made from 1937 through 1939.

When monthly survivors' benefits were added to the program in 1939, a limited version of the lump-sum death benefit was retained. It was paid only in cases when no survivors' benefits were paid on the basis of the deceased worker's earnings record. When made, the payment equaled six times the primary insurance amount (PIA). The PIA generally equals the monthly benefit amount that a worker would have received.³ The payment was made to a family member or to an individual who helped pay for the funeral.

In 1950, eligibility for the payment was expanded to include cases where survivors' benefits were also paid "so that survivors' benefits need not be diverted for payment of burial expenses of an insured worker."⁴ The benefit was therefore paid in nearly every death of a worker who was insured by Social Security. The 1950 legislation also sharply increased the PIA (and therefore increased regular monthly benefit levels). In order to maintain the value of the lump-sum benefit, the formula was changed to equal three times the PIA, rather than six times.

The 1954 Social Security Amendments kept the formula of three times the PIA but capped the benefit at \$255, which was approximately the maximum benefit under the 1950 law. By 1974, the minimum PIA was \$85, or one-third of the \$255 cap, so the minimum lump sum benefit was also \$255. As a result, nearly all lump-sum benefits have been \$255 since. Because some payments are based on PIAs from earlier years, some payments were slightly lower. In 1974, the average payment was \$254.64, and it has been \$255.00 since 1982.⁵ Currently, the payment may be lower

¹ An insured worker is one who has worked enough in employment subject to Social Security payroll taxes to qualify for benefits.

² This section is based primarily on Larry DeWitt, *The History & Development of the Lump Sum Death Benefit*, Social Security Administration, Historian's Office, Research Note #2, June 1996, Updated September 7, 2006, at <http://www.ssa.gov/history/lumpsum.html>.

³ For background on Social Security benefit rules, see CRS Report R42035, *Social Security Primer*, by (name redacted)

⁴ U.S. Congress, Conference Committee, *Social Security Act Amendments of 1950*, conference report to accompany H.R. 6000, 81st Cong., 2nd sess., H.Rept. 2771 (Washington, DC: GPO, 1950), p. 107, at <http://ssa.gov/history/pdf/Downey%20PDFs/Social%20Security%20Amendments%20of%201950%20Vol%203.pdf>.

⁵ See Social Security Administration, *Annual Statistical Supplement*, 2013, Table 6.D9: Number and average amount of lump-sum death payment awards, 1940–2012, at <http://www.ssa.gov/policy/docs/statcomps/supplement/2013/> (continued...)

if the deceased was covered by a foreign system with which the United States has an agreement to integrate benefits, known as a totalization agreement.⁶

Finally, in 1981, eligibility for the lump-sum payment was restricted to limited categories of survivors. That change reduced the number of payments made by nearly half, from 1.55 million in 1980 to 800,000 in 1982.

Current Eligibility Rules

If a surviving spouse is living with the worker at the time of death, the benefit is paid to the spouse. If there is no such spouse, the benefit is paid to a spouse or child who is receiving or is eligible to receive monthly benefits on the worker's record. If the deceased does not have any survivors in those categories, no death benefit is paid. If there are multiple eligible children, the benefit is split evenly among them.

Number of Benefit Payments and Total Spending

In 2012, the Social Security Administration paid \$200 million in lump-sum benefits for 769,988 deaths.⁷ Because the \$255 payment was split between multiple recipients in some cases, the agency made a total of 805,911 payments. The number of payments is projected to remain at about the same level in coming years, so total spending will also remain at approximately the same dollar level.

For most deaths, no lump-sum death benefit is paid. A benefit is paid for about 38% of deaths of insured workers.

The real value of the death benefit has declined dramatically since it was introduced. For example, in 1954, the average nominal benefit was \$208, which would have been equivalent to \$1,740 in 2012 dollars. In recent decades, inflation has caused the real value of the \$255 payment to continue to decline, as shown in **Figure 1**.

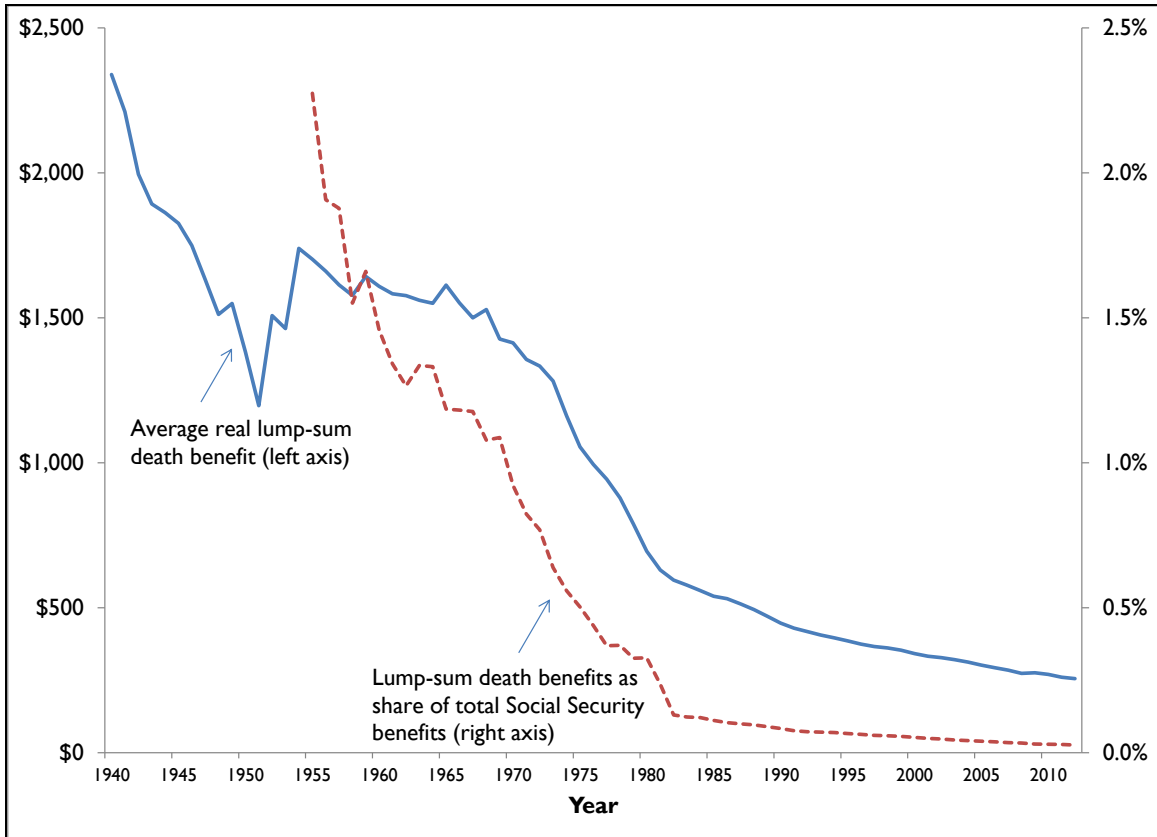
Total spending on the benefit as a share of total Social Security benefits has declined even faster than the real value of the benefit, because monthly benefit payments are linked to national wage levels. In the 1960s, the lump-sum benefit accounted for more than 1% of Social Security benefit outlays, but that share has declined steadily, to only 0.03% in 2012. Under current law, the share will continue to decline as spending on the lump-sum death benefit remains generally constant but spending on other benefits continues to increase steadily.

(...continued)

6d.html#table6.d9.

⁶ Social Security Administration, Program Operations Manual System, *GN 01701.220: Lump-Sum Death Payment (LSDP) in Totalization Claims*, at <http://policy.ssa.gov/poms.nsf/lnx/0201701220>.

⁷ *Annual Statistical Supplement*, 2013, Tables 4.A5 and 6.D9.

Figure I. The Diminishing Significance of the Lump-Sum Death Benefit

Source: CRS, based on Social Security, 2013 Statistical Supplement, Tables 6.D9 and 4.A5

Notes: Real value of the average benefit is shown in 2012 dollars, based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

The Social Security Administration (SSA) estimated in 2006 that the annual administrative costs of the lump-sum death benefit were \$15 million.⁸ That estimate has not been updated, but the costs are unlikely to have changed significantly.

Proposals to Change or Eliminate the Lump-Sum Death Benefit

Over the years, various proposals would have changed or eliminated the death benefit. In 1979, President Carter's budget described it as "largely an anachronism" and proposed replacing it with a similar benefit that would be paid only if the deceased or the surviving spouse were eligible for Supplemental Security Income, a program that provides cash benefits to aged, blind, or disabled

⁸ Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2007*, February 2006, p.290, at <http://www.gpo.gov/fdsys/pkg/BUDGET-2007-BUD/pdf/BUDGET-2007-BUD-29.pdf>.

persons with limited income and assets.⁹ Under that proposal, only about 30,000 recipients would have received a benefit each year.¹⁰

The 1979 Advisory Council on Social Security recommended that the benefit be increased to three times the PIA, but no more than \$500. The Council found that the 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.”¹¹ (In 1980, the average cost of a funeral was about \$1,800; in 2012, it was about \$7,000.¹²) A significant minority of the Council favored the Carter proposal of targeting the benefit to those with the greatest need, but with a higher benefit of perhaps \$625.

President Bush’s 2006 budget proposed eliminating the benefit, arguing that it “no longer provides meaningful monetary benefit for survivors” and that it results in high administrative costs.¹³ The \$15 million estimated administrative cost was about 7% of benefit outlays. Administrative costs for the entire Social Security program are less than 1% of benefit outlays.

Some proposals would have increased the benefit. For example, in the 110th Congress, H.R. 341 proposed expanding eligibility for the benefit to insured workers upon the death of their uninsured spouses. In the 111th Congress, the Social Security Death Benefit Increase Act of 2010 (H.R. 6388) would have increased the benefit from \$255 to \$332, and the BASIC Act (H.R. 5001) would have increased it to 47% of the worker’s PIA.

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⁹ Office of Management and Budget, *The Budget of the United States Government, Fiscal Year 1980*, January 1979, p.253, at http://fraser.stlouisfed.org/docs/publications/usbudget/bus_1980.pdf.

¹⁰ General Accounting Office, *The Lump Sum Death Benefit—Should It Be Changed?*, HRD-80-87, August 8, 1980, p.5, at <http://www.gao.gov/assets/140/130061.pdf>.

¹¹ 1979 Advisory Panel on Social Security, *Social security financing and benefits*, December 1979, pp.173-175.

¹² National Funeral Directors Association, “Statistics,” accessed July 2, 2014, at <http://nfda.org/media-center/statistics.html>.

¹³ Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2007*, February 2006, p.290, at <http://www.gpo.gov/fdsys/pkg/BUDGET-2007-BUD/pdf/BUDGET-2007-BUD-29.pdf>.

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