

OIG

Office *of the* Inspector General

SOCIAL SECURITY ADMINISTRATION

*Informational Report*

## Lump-sum Death Benefit

*A-08-16-50108 | July 2016*

**OIG** Office of the Inspector General  
SOCIAL SECURITY ADMINISTRATION

**MEMORANDUM**

**Date:** July 1, 2016

**Refer To:**

**To:** The Commissioner

**From:** Acting Inspector General

**Subject:** Lump-sum Death Benefit (A-08-16-50108)

The attached final report presents the results of the Office of Audit's review. This report conveys information related to the lump-sum death benefit.

If you wish to discuss the final report, please call me or have your staff contact Rona Lawson, Assistant Inspector General for Audit, at 410-965-9700.

  
Gale Stallworth Stone

Attachment

# Lump-sum Death Benefit

## A-08-16-50108



July 2016

Office of Audit Report Summary

### Background

The Social Security Administration (SSA) makes a one-time, lump-sum death payment to a surviving spouse or dependent child(ren) after an insured worker's death. Generally, SSA pays the surviving spouse who was living in the same household with the worker when he/she died. If there is no eligible surviving spouse, SSA pays the lump-sum death payment to the worker's dependent child(ren).

As of the date of this review, the maximum death payment an insured worker's family could receive was \$255, which has remained the same for decades.

### Findings

From 2010 through 2014, SSA paid over \$1 billion in lump-sum death benefits to the survivors of over 4 million deceased workers. Although SSA does not track the costs of administering the lump-sum death benefit program, it has completed administrative cost estimates for proposed lump-sum death benefit legislation and other inquiries using the best available information, including knowledge from subject matter experts. As such, SSA estimates that it spends about \$10 million, annually, to administer the lump-sum death benefit program. SSA projects the amount of lump-sum death benefit costs will increase as the number of baby boomer deaths increases.

Over the years, various proposals would have changed or eliminated the lump-sum death benefit. For example, two Presidential budgets, Congress, and the Advisory Council on Social Security proposed either changing, eliminating, or modifying the lump-sum death benefit.

While we are not making any recommendations regarding changes to the current lump-sum death benefit, we believe the information discussed in this report may be useful to SSA and the Congress in future discussions.

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## ABBREVIATIONS

|        |                                 |
|--------|---------------------------------|
| H.R.   | House of Representatives        |
| OIG    | Office of the Inspector General |
| SSA    | Social Security Administration  |
| U.S.C. | United States Code              |

## BACKGROUND

The Social Security Administration (SSA) makes a one-time, lump-sum death payment to a surviving spouse or dependent child(ren) after an insured worker's death. Generally, SSA pays the surviving spouse who was living in the same household with the worker when he/she died. If there is no eligible surviving spouse, SSA pays the lump-sum death payment to the worker's dependent child(ren). As of the date of our review, the maximum death payment an insured worker's family can receive was \$255, which has remained the same for decades. SSA does not make a death payment if the deceased worker has no eligible survivors.

Section 203 of the *Social Security Act of 1935*<sup>1</sup> originally provided for a lump-sum death benefit payment for deceased wage earners that guaranteed some return for the contributions of insured workers. Over the years, eligible recipients have changed as well as the amount recipients are paid.<sup>2</sup> For example, the lump-sum death benefit was once linked to burial expenses and is often still referred to as a "funeral benefit." Early in SSA's history, survivor benefits were not part of insured workers' benefits. Instead, SSA paid a lump-sum benefit if a worker died. This allowed families who otherwise would not have received benefits to receive a limited benefit. When Congress expanded the Social Security program to add survivor benefits, the lump-sum death benefit became payable only if survivor benefits were not paid on the deceased worker's record. The survivor benefit restriction was later dropped so the survivor benefits would not need to be diverted to cover burial expenses. Today, the lump-sum death benefit has no legal connection to burial expenses.

## NUMBER OF DEATH BENEFIT PAYMENTS AND TOTAL SPENDING

As shown in Table 1, SSA paid over \$1 billion in lump-sum death benefits to survivors of over 4 million deceased workers from 2010 through 2014. Although SSA does not track the costs of administering the lump-sum death benefit program, it has completed administrative cost estimates for proposed lump-sum death benefit legislation and other inquiries using the best available information, including knowledge from subject-matter experts. As such, SSA estimates that it spends about \$10 million, annually, to administer the lump-sum death benefit program.<sup>3</sup>

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<sup>1</sup> Revisions to the *Social Security Act* moved the lump-sum death benefit section from the original *Social Security Act of 1935* § 203 to the current version of the *Social Security Act* § 202(i).

<sup>2</sup> *Social Security Act* § 202(i), 42 U.S.C. § 402(i).

<sup>3</sup> SSA's \$10-million annual administrative cost estimate does not account for (1) an increase in the number of lump-sum death benefit payments in the outyears, (2) potential processing cost increases, and (3) any potential systems enhancements that could reduce costs. As such, this annual estimate could be slightly higher or lower in the outyears.

**Table 1: 5-Year Cost Data for Lump-sum Death Benefits**

| Calendar Year | Deaths Eligible for Lump-sum Benefit | Lump-sum Death Benefit Payments (Millions) |
|---------------|--------------------------------------|--|
| 2010          | 821,913                              | \$203                                      |
| 2011          | 826,906                              | 204  |
| 2012          | 812,479                              | 200  |
| 2013          | 815,194                              | 201  |
| 2014          | 804,887                              | 199  |
| <b>Total</b>  | <b>4,081,379</b>                     | <b>\$1,007</b>                             |

Source: SSA, Office of the Chief Actuary

On average, SSA paid about \$201 million in lump-sum death benefits to over 816,000 survivors, annually, from 2010 through 2014.

SSA projects the amount of lump-sum death benefit costs will increase as the number of baby boomer<sup>4</sup> deaths increases. As shown in Table 2, SSA projects lump-sum death benefits to increase from \$200 million in 2015<sup>5</sup> to \$217 million in 2024.

**Table 2: Projected Future Cost of Lump-sum Death Benefits**

| Calendar Year | Deaths Eligible for Lump-sum Benefit | Lump-sum Death Benefit Payments (Millions) |
|---------------|--------------------------------------|--|
| 2015          | 811,056                              | \$200                                      |
| 2016          | 817,965                              | 202  |
| 2017          | 824,931                              | 203  |
| 2018          | 831,666                              | 205  |
| 2019          | 838,951                              | 207  |
| 2020          | 846,656                              | 209  |
| 2021          | 854,762                              | 211  |
| 2022          | 863,441                              | 213  |
| 2023          | 872,478                              | 215  |
| 2024          | 881,945                              | 217  |
| <b>Total</b>  | <b>8,443,851</b>                     | <b>\$2,082</b>                             |

Source: SSA, Office of the Chief Actuary projections prepared for the 2015 Old-Age, Survivors and Disability Insurance Trustees Report

<sup>4</sup> A baby boomer is a person born in the United States generally between 1946 and 1965.

<sup>5</sup> Actual costs for Calendar Year 2015 were not available at the time of our review.

## PROPOSALS TO CHANGE OR ELIMINATE THE LUMP-SUM DEATH BENEFIT

According to the Congressional Research Service, “. . .[o]ver the years, various proposals would have changed or eliminated the death benefit.”<sup>6</sup> For example, the 1979 Advisory Council on Social Security recommended that SSA increase the lump-sum death benefit to three times the primary insurance amount<sup>7</sup> but no more than \$500.<sup>8</sup> However, President Carter’s Fiscal Year 1980 budget described the lump-sum death benefit as “largely an anachronism” and proposed replacing it with a similar benefit that would be paid only if the deceased or surviving spouse is eligible for Supplemental Security Income, a program that provides cash payments to aged, blind, or disabled persons with limited income and assets.<sup>9</sup>

President Bush’s Fiscal Year 2007 budget proposed eliminating the lump-sum death benefit, arguing that it “. . . no longer provides meaningful monetary benefit for survivors.”<sup>10</sup> In 2007<sup>11</sup> and 2009,<sup>12</sup> the Congressional Budget Office stated that eliminating lump-sum death payments to survivors of beneficiaries who die after September 30, 2009 would reduce outlays by almost \$1 billion through 2014.

Some congressional proposals would have expanded eligibility or increased the lump-sum death benefit. For example, in 2007, Congress proposed expanding eligibility for the benefit to insured workers upon their uninsured spouse’s death.<sup>13</sup> In 2010, proposed legislation would have increased the benefit from \$255 to \$332,<sup>14</sup> and the *Benefit Adjustment of Social Security Income Compensation Act of 2010* would have increased it to 47 percent of the worker’s primary insurance amount.<sup>15</sup> The most recent bill, H.R. 1109, *Social Security Lump-Sum Death Benefit Improvement and Modernization Act of 2015*, suggested an increase from \$255 to \$1,000.<sup>16</sup>

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<sup>6</sup> Congressional Research Service, *Social Security: The Lump-Sum Death Benefit* (R43637), p. 3, July 2014.

<sup>7</sup> Primary insurance amount is the benefit a person would receive if he/she elects to begin receiving retirement benefits at his/her normal retirement age.

<sup>8</sup> 1979 Advisory Panel on Social Security, *Social Security Bulletin, Volume 43*, p. 9 and 14, February 1980.

<sup>9</sup> Office of Management and Budget, *Budget of the United States Government, Fiscal Year 1980*, p. 253, January 1979.

<sup>10</sup> Executive Office of the President of the United States, *Budget of the United States Government, Fiscal Year 2007*, p. 290.

<sup>11</sup> Congress of the United States, Congressional Budget Office, *Budget Options*, p. 222, February 2007.

<sup>12</sup> Congress of the United States, Congressional Budget Office, *Budget Options, Volume 2*, p. 150, August 2009.

<sup>13</sup> H.R. 341, 110th Cong. § 1 (2007).

<sup>14</sup> H.R. 6388, *Social Security Death Benefit, Increase Act of 2010*, 111th Cong. § 2 (2010).

<sup>15</sup> H.R. 5001, *Benefit Adjustment of Social Security Income Compensation Act of 2010*, 111th Cong. § 4 (2010).

<sup>16</sup> H.R. 1109, *Social Security Lump-Sum Death Benefit Improvement and Modernization Act of 2015*, 114th Cong. § 2 (2015).

SSA officials have stated that the Agency has no position on eliminating or changing the lump-sum death benefit.

## SUMMARY

SSA paid over \$1 billion in lump-sum death benefits to survivors of over 4 million deceased workers from 2010 through 2014. In addition, SSA estimates it spends about \$10 million, annually, to administer the lump-sum death benefit program. SSA projects the amount of lump-sum death benefit costs will increase as the number of baby boomer deaths increases.

Over the years, various proposals would have changed or eliminated the lump-sum death benefit. For example, two Presidential budgets (for Fiscal Years 1980 and 2007), Congress (2007, 2009, 2010, and 2015), and the Advisory Council on Social Security proposed either changing, eliminating, or modifying the lump-sum death benefit.

While we are not making any recommendations regarding changes to the current lump-sum death benefit, we believe the information discussed in this report may be useful to SSA and the Congress in future discussions.



Rona Lawson  
Assistant Inspector General for Audit

# *APPENDIX*

## Appendix A – SCOPE AND METHODOLOGY

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To conduct this review, we:

- Reviewed relevant laws, regulations, and reports related to the lump-sum death benefit.
- Obtained recent and projected lump-sum death benefit statistics for Calendar Years 2010 through 2024.
- Discussed lump-sum death benefit information with Social Security Administration officials.
- Reviewed congressional and Agency proposals to eliminate or change the lump-sum death benefit.

We conducted our review in Birmingham, Alabama, from January to March 2016. We conducted our review in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*.

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