Revitalizing Social Security:
Effectively Targeting Benefit Enhancements for Low Lifetime Earners and the Oldest Old

Statement of
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EXECUTIVE SUMMARY

Mr. Chairman and members of the committee: Thank you for the opportunity to testify. I will focus on four key points:

- First, Social Security benefits for long-term, low-wage workers are modest and need to be increased.
- Second, there are many ways to bolster benefits for low-income retirees. Each has strengths and weaknesses. The technical details of each proposal will thus determine its effectiveness.
- Third, any Social Security reform package will include multiple provisions that interact with each other. So certain provisions to help low-earners may be more or less desirable depending on other components of the package.
- Finally, some low-income older and disabled Americans are beyond the reach of Social Security. To help them, Congress should consider expanding SSI, the Supplemental Security Income program.

My first point is about the need to reduce poverty risk by shoring up Social Security for long-term, low wage workers.

About 10 percent of Americans age 65 and older live in poverty, and many more have incomes that leave them just barely above the poverty line.

Low-wage workers' Social Security benefits are modest, both compared to benefits in other developed countries and compared to basic needs. For example, someone who spent 35 years working full-time at the minimum wage who retired at 62 would receive a Social Security benefit equal to only 83 percent of the poverty level.

Many low lifetime earners don't even get that much. Many drop out of the labor force for a time or work only part time, often to care for children, disabled family members, and frail parents. Also, recessions hit them especially hard, and they are more likely than others to become disabled.

This leads to my second point: We can bolster benefits for these vulnerable earners in different ways, with varied strengths and weaknesses.

Let me start with minimum benefits because of their prominence in reform packages. They are highly cost-effective, and directly address the problem of wage stagnation that has hurt less-educated workers in recent decades.

Our models show that within 5 to 10 years of enactment, certain minimums could lift tens of thousands of Social Security beneficiaries out of poverty. By mid-century, they could help almost a million people every year.

Minimum benefits with stricter work years definitions would have smaller effects, but would cost less and maintain Social Security benefits' strong ties to time in the labor force.

That is the challenge in designing a minimum benefit: the better it is at alleviating poverty, the worse it sometimes is at rewarding work. Really large minimum benefits could weaken the relationship between taxes paid and benefits received. Given the fiscal challenges ahead, Social Security must continue to reward long-time workers.

Another interesting Social Security adequacy proposal would ***increase benefits at older ages, say when folks are in their 80s and older, through a longevity insurance bonus or index.*** This addresses the risk that people might outlive their assets. Such benefits would be targeted toward a time of life when work ability is most limited and would ensure that older seniors' incomes kept up with standards of living for workers. But some of these benefits would go to well-off seniors who don't need extra help. Without caps, then, longevity benefits may be less effective at reducing poverty than other equally costly approaches.

Proposed spouse and survivor benefit changes often try to increase the program's fairness—for example, making benefits more equal for single- and dual earner-married couples. A challenge for these proposals is that trying to make benefits fairer for some couples often makes benefits less fair for unmarried workers who paid the same payroll taxes. Some of these proposals are also fairly costly—caps can help.

Caregiver credit options try to deal with most of the limitations of spouse and survivor benefits. They could effectively serve many single parents, who now often fall through the cracks. Like minimum benefits, they also tend to be quite cost-effective and are very progressive.

But, they're not always fair for caregivers who earn more than the credit level. And they're hard to administer.

So, details matter. Without careful design, large vulnerable groups could be left out, diversity within groups may be overlooked, and benefit improvements could become less effective over time.

My third point is that in any Social Security reform package, provisions are going to interact.

Sometimes people say that solving Social Security's financing needs is just an arithmetic problem—we just need to raise some taxes and cut some benefits.

But different tax increases and benefit cuts affect workers and beneficiaries very differently. For example, reductions to cost-of-living adjustments would affect the oldest-old more than other beneficiaries.

I've simulated many Social Security packages in which the impact of an adequacy adjustment that appeared to be highly effective in isolation has been largely wiped out by other elements in the package.

That’s why it’s critical to look at packages in totality—the whole is often quite different from the sum of its parts.

My final point is that Social Security can’t do it all.

SSI was designed to aid those with limited work histories. It has languished over the past 35 years, and needs to be updated if it’s to play more of a role in reducing need among rapidly aging baby boomers. For example, increasing SSI’s asset test would be an especially cost-effective way to alleviate poverty among older women. Given the increasing share of defined contribution employer-provided pensions, Congress could reconsider the way SSI treats these types of pensions.

Thank you. I welcome questions and discussion.

FULL TESTIMONY

Mr. Chairman and members of the committee: Thank you for the opportunity to testify today about ways to shore up Social Security for lower-wage workers. My name is Melissa Favreault, and I am a senior research associate at the Urban Institute.

As policymakers think about bolstering the Social Security system's finances, it would also make sense to think about benefits for lower-income workers. Let me lay out the relative merits of several alternative, potentially complementary strategies for improving Social Security benefits for long-term low-wage workers and the oldest old retirees. These include minimum benefits, formula adjustments, special longevity insurance benefits, and enhanced noncontributory (spouse, child, survivor) benefits. Each approach has strengths and weaknesses, and each targets a different group of beneficiaries. Some benefit changes are highly skewed, with a small number of beneficiaries experiencing huge changes; others offer smaller benefit changes for more people. The Urban Institute research findings that I will outline highlight these disparate effects.

Social Security Has Been Tremendously Successful

Social Security plays a vital role for aged and disabled Americans and their dependents and survivors. As the program approaches its 75th birthday (next August), there is much to celebrate. Poverty rates for adults age 65 and older have declined markedly over the past half century, falling from 35.2 percent in 1959 to 9.7 percent in 2007 (DeNavas-Walt, Proctor, and Smith 2008).[1] Reductions in poverty among the oldest old have been particularly impressive.

Social Security is near universal, with over 90 percent of those 65 and older receiving benefits from the program, and it remains the bedrock of the retirement system for most older Americans. On average, households with Social Security beneficiaries age 65 and older received about 64 percent of their income from the program in 2006 (Social Security Administration 2009b, table 9.A1). About 60 percent of the households in the lowest fifth of the income distribution receive all of their income from Social Security (Social Security Administration 2009b, table 9.A4). Even in the middle fifth of the income distribution, more than three quarters of households receive at least half their income from Social Security.

The program is also highly efficient, with overall administrative expenses of less than one percent of benefits paid (Social Security Administration 2009a, tables 4.A1-4.A3).[2]

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[1] Research by Englehardt and Gruber (2004) suggests that the decline in elderly poverty is in part directly attributable to Social Security.

[2] Administrative expenses are about 0.63 percent of benefit payments for Old-Age and Survivor Insurance benefits, and about 2.57 percent of payments for Disability Insurance benefits, which require more careful screening and evaluation. Combined, expenses are about 0.95 percent of payments.

Social Security Should Better Reflect Americans' Current Home and Work Lives

However, these successes should not foster complacency. Aged poverty of almost 10 percent is worrisome, and substantial fractions of the aged have resources that place them just barely above the poverty line, so they are still economically vulnerable even if not poor by official standards. Moreover, aged poverty levels are substantially higher under alternative poverty measures, like those developed by the National Academy of Sciences that better reflect older adults' health care spending (Zedlewski 2009).

Arguably, several aspects of the Social Security program have failed to keep up with changes in our economy and society. As Congress aims to shore up the program's finances, it is an excellent time to consider modernizing other aspects of the program. As important as Social Security has been and continues to be for older Americans, it should better fit with the ways that Americans live and work today. Notable changes include the following:

- Stagnating wages, especially for less educated earners, that make it difficult for some workers to save for retirement or even to keep up with basic living expenses;
- Increased life spans, plus increased healthy life spans for many, that improve opportunities for long and productive careers but also raise the risk of outliving one's assets without careful planning;
- Rapid changes in family structure that increase the odds of entering retirement without a partner, and thus without an important form of financial protection;
- Related changes in women's work that highlight questions about how to equitably treat workers—including unmarried parents—who have taken time out of the labor force to raise children or care for frail parents;
- Changing employer-provided benefits, including the shift from defined benefit to defined contribution employer pensions that reduce the share of retirement income received as predictable, monthly payments; and
- Relatively high levels of immigration and a rapidly changing immigrant population, with special needs and risks.

Low Lifetime Earners Remain Economically Vulnerable in Retirement

Social Security benefits for long-term, low-wage workers are relatively modest under current law, both compared to workers' basic needs and compared to benefits in comparably wealthy countries (Aaron 2009; OECD 2007; Thompson and Carasso 2002). Thus the case for shoring up Social Security benefits for vulnerable populations is strong.

With 40 full-time work years at the minimum wage, a worker claiming benefits at age 62 could expect to receive a Social Security benefit equal to about 83 percent of the federal poverty level (FPL). (In 2007, the FPL corresponded to about $829 per month, or about $9,994 per year for a person age 65 or over and living alone. For those younger than age 65, the corresponding figures are $898 and $10,787.) With 30 years of full-time work, the same worker could expect a benefit about 78 percent of FPL, again assuming Social Security claiming at age 62.

Outcomes are even worse for the many workers who are not able to work a full 35 to 40 years and who are often forced to work part-time. For numerous reasons, the work histories of most low-lifetime earners include years out of the labor force (Favreault and Steuerle 2008). Caregiving responsibilities are a big part of the story, with some workers, especially women, forced to interrupt their careers to care for children, disabled family members, and frail parents. Additionally, recessions tend to hit certain groups harder than others, with younger workers and people of color, especially men, more likely to become unemployed and spend more time out of work. The incomes of lower-wage families tend to take longer to recover from a recession (see, for example, Acs 2008). Further, disability is more prevalent among low-wage workers with limited education. Recent estimates of the experiences of Americans ages 51 to 61 from the Health and Retirement Study (HRS) show that just more than 40 percent of respondents develop a serious medical condition over a 10-year period, about a third experience work limitations, and about one fifth are laid off (Johnson, Mermin, and Uccello 2005). Racial and ethnic minorities and those with less education are more likely than others to experience these shocks (Johnson et al. 2005, table 4). Research suggests that labor market discrimination based on age and race has declined, but has not yet disappeared (Favreault 2008).

Partly because of career interruptions and reduced wages, about a third of retired workers in recent years received Social Security benefits of less than the poverty threshold for a single aged person including about 18 percent of men and 45 percent of women (author's calculations from Social Security Administration 2009a).[3] After taking all income sources and living arrangements into effect, Social Security beneficiary poverty rates at ages 55 and older in 2006 were about 9.9 percent for women and 4.2 percent for men (Social Security Administration 2009b).[4] But, again, near poverty rates reveal that many non-poor beneficiaries face considerable risk: 17.1 percent of women and 9.1 percent of men receiving Social Security have incomes of less than 125 percent of the poverty level.

Minimum Benefits Are One Prominent Approach to Shoring up Social Security

These economic challenges faced by many low-income beneficiaries have prompted analysts and policymakers from both parties to propose adding minimum benefits to Social Security. (Technically, the program already includes a minimum benefit, called the Special Minimum Primary Insurance Amount, but it now covers so few people that it is essentially ineffective.[5])

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[3] Estimates should be interpreted conservatively, as they are sensitive to a number of issues, including whether one uses an aged or non-aged poverty threshold, the number of months one assumes that benefits are received, and other factors.

[4] These are lower than the overall aged poverty numbers cited above, since many of the most vulnerable do not receive Social Security benefits. I discuss the SSI program, which reaches some of the aged and disabled who do not qualify for Social Security benefits, below.

[5] In December 2007 about 95,500 persons (less than 0.2 percent of the OASDI caseload) received benefits based on the special minimum PIA (Social Security Administration 2009a, tables 5.A1 and 5.A8). Olsen and Hoffmeyer (2001/2002) and Fitzpatrick, Hill, and Muller (2003) provide detail on the special minimum. Analyses suggest the special minimum will be irrelevant for new beneficiaries by 2013 (Feinstein 2000). Special minimum coverage has declined largely because its parameters are indexed to prices rather than wages.

Several proposals would enhance minimum benefits. These proposals vary widely in their goals, their larger contexts (some appear as part of packages that would integrate personal accounts, others do not), and in the ways they would enhance benefits for long-term low-wage workers and other vulnerable populations. While some would shore up Social Security' existing special minimum PIA benefit (for example, Sullivan, Meschede, and Shapiro 2008, Reno 2009, Rep. Ryan 2008), others would create a new minimum benefit (for example, Reps. Kolbe-Stenholm 2002, Rep. Kolbe-Boyd 2005, National Commission on Retirement Policy 1998), and still other approaches would fall somewhere between the two (for example, Diamond and Orszag 2003, Sen. Graham 2003, President Bush's Social Security Commission 2001). The broad support for minimum benefits indicates both the perceived importance of these types of enhancements and the potential for reaching common ground on improving the adequacy of Social Security benefits.

Urban Institute Projections Suggest that Minimum Benefits Could Remove Hundreds of Thousands of Beneficiaries from Poverty at Relatively Modest Cost

The Urban Institute has developed a detailed projection model to forecast Social Security benefits into the distant future and to assess the effects of alternative proposals. We have used this model to simulate a wide range of Social Security policy options including a substantial number of alternative types of minimum benefits.

Our analyses using this model show that minimum benefits can reduce poverty among Social Security beneficiaries in a cost-effective way.[6] For example, one simulation measures the impact of instituting a generous version of the minimum benefit that was incorporated in the National Commission on Retirement Policy plan (and later included in Kolbe-Boyd and Kolbe-Stenholm). It would pay benefits equal to 60 percent of the poverty threshold to retirees with 20 years of work, and the minimum would increase to 120 percent of the poverty threshold for those with 40 years of work.[7] Assuming that the benefit grows with average wages, we conclude that within 5 years of inception (2015 for a plan implemented next year) the benefit would lift 125,000 Social Security beneficiaries out of poverty. This figure would grow to about 700,000 by 2030 and would approach one million (930,000) by 2050.[8]

Enhancing the existing special minimum PIA benefit, which defines a work year more stringently (see figure 1), so that it provides a maximum benefit (for those with 30 or more work years) equal to 125 percent of the poverty threshold, would have lesser effects on poverty. But while it would remove fewer beneficiaries from poverty—about 120,000 in 2050, for example,

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[6] Given the complexity of each of the proposals (starting period, phase-ins, treatment of those receiving benefits from DI, design and implementation of caps, and other considerations), I do not provide precise projections of the simulated effects of various proposals but instead focus on qualitative assessments of some of the relative effects, strengths, and weaknesses. More detailed analyses that include benefit projections with more detailed descriptions about assumptions are cited in the text where possible.
[7] A work year would be defined as earnings of at least four covered quarters, with partial years countable.
[8] These projections rely on assumptions of the 2008 Trustees report, so do not incorporate the effects of the current recession. Projections also assume minimal behavioral response. Details of the minimum benefit are highly stylized, rather than ideal. All projections should be interpreted cautiously given these limits and the tremendous uncertainty associated with long-run modeling.

assuming the special minimum benefit grows with average wages—it would also cost far less. It would have another appealing feature too: it maintains a virtually identical pattern of Social Security benefits by number of years worked as current law.

In both of these cases, our models indicate that most of the new benefits would go to those in the bottom fifth of the lifetime earnings distribution. So money is well spent. Also, some of these resources go to individuals whose incomes remain just below poverty. So the projections of the number of individuals removed from poverty understate the degree to which severe need would be alleviated.

These projections are from simulations that add minimum benefits to Social Security as scheduled under current law without any other changes, so they would increase costs. We have examined minimum benefits in many other circumstances, for example while holding total program expenses constant. We find that minimum benefits could markedly reduce projected poverty and near poverty among Social Security beneficiaries in these types of packages (Favreault 2008). We have also simulated packages that included minimum benefits that would reduce overall Social Security expenditures to help close the program's fiscal shortfall while at the same time still reducing beneficiary need (Favreault, Mermin, and Steuerle 2007).

A Minimum Benefit's Effectiveness at Reducing Need Depends on Technical Features

Our results show that in designing benefit enhancements like these, the details matter (see, for example, Favreault, Mermin, and Steuerle 2006, 2007 for further discussion). The specific type of minimum benefit—whether it's an extension of the existing special minimum PIA or a new element altogether—shape its costs, effectiveness at alleviating poverty and near poverty, and the distribution of winners and losers within and across generations. Some key features include the following:

- The benefit level, for example how quickly in rises with work;
- The choice of whether and how (by growth in wages or growth in prices) to adjust the benefit level after initially setting it;
- The benefit's eligibility criteria (often expressed in terms of work or service years);
- The definition of a work year;
    - Does it consider provision of care as creditable toward benefits?
    - Are partial years permissible?
- Whether it confers rights to spouse and/or survivor benefits;
- The treatment of time in employment not covered by Social Security because of, for example, employment in uncovered government work or time outside of the United States (for example in cases of relatively late-career immigration).

This latter point is important because of Social Security's progressive benefit formula. Some workers may appear relatively vulnerable when considering only their earnings covered by Social Security, but actually have considerable resources derived from other sources (Brown and Weisbrenner 2008, General Accounting Office 1979, Gustman and Steinmeier 1998). Social Security includes provisions that prevent treating workers with pensions from uncovered employment as low lifetime earners. Designers of minimum benefits (and other benefit enhancements) should be able to similarly insure that adequacy benefits are well-targeted toward those who need them by including analogous features.

There Are Tradeoffs between Keeping Costs Low, Reaching the Most Vulnerable, and Maintaining Work Incentives and Equity for Workers with Long Careers

Undoubtedly, part of the strong political support that Social Security has enjoyed results from the close relationship that exists between payroll taxes paid and benefits received in retirement and disability.[9] While the program has a number of redistributive elements (for example, a progressive benefit formula, partial taxation of benefits through the personal income tax system, and non-contributory benefits for dependent children, spouses, and survivors), consensus appears to be broad that Social Security currently incorporates an acceptable level of redistribution.

Minimum benefits, and many of the other enhancements I discuss next, could alter this relationship if they were substantial in size. This could be problematic for several reasons: There are important tradeoffs between efficiently targeting the most vulnerable and maintaining work incentives and equity for other workers. When workers who work for long periods get lower "returns" to their Social Security contributions, they may ultimately elect to work less. Workers who pay a lot more in payroll taxes may withdraw their political support from the program. Careful design can help to mitigate these concerns. None of the minimum benefits discussed here increase adult benefits by more than two percent at any point over the 75-year horizon.[10]

Social Security Adequacy Adjustments Other than Minimum Benefits Can Also Reduce Poverty, Often with Different Strengths and Weaknesses

While minimum benefits have received a lot of attention, they are not the only means for targeting vulnerable Social Security beneficiaries.

Formula adjustments: Social Security's benefit formula for workers is based on the highest 35 years of a worker's earnings, and replaces higher shares of earnings at lower lifetime earnings levels (figure 2). Some have proposed changing the Social Security benefit formula, for example by adding a new bend point or increasing the replacement rates for the lowest lifetime earners (for example, Hartmann and Hill 1999).

In previous research, we have found that benefit formula adjustments can be about as effective at reducing poverty and near poverty in a reduced Social Security system as minimum benefits, but that the latter tend to keep benefits more closely tied to time in the labor force (Favreault, Mermin and Steuerle 2007). Policymakers should consider this difference if choosing between these alternatives.

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[9] Franklin Delano Roosevelt famously said that payroll taxes would keep other politicians from scrapping his Social Security program (DeWitt 2005, citing Gullick).

[10] We defer to the Office of the Chief Actuary of the Social Security Administration for detailed costs estimates on these options.

Increased benefits at older ages: Some have proposed adding a longevity insurance benefit enhancement to Social Security for the oldest old (Turner 2008, Reno 2009; see also appendix in Social Security Advisory Council 1994–1996). This could take the form of a benefit boost at some point in later life (say, age 85). It could be granted to all who survive until that age (for example as a flat sum or a percentage increase in benefits), or it could be targeted toward those with relatively low benefits (for example, an enhanced benefit capped at the benefit for an average wage worker).

One rationale for providing some form of longevity bonus is that the oldest old are typically far less able to work than younger beneficiaries. A second rationale is that at older ages, other sources of income besides Social Security may have eroded in value. For example, many households will find that they are less able to meet expenses because their employer-provided pensions are not, like Social Security, indexed for inflation. Other reasons a longevity benefit might make sense is that some Americans lack financial knowledge and sophistication and may plan poorly for a long retirement. Specifically, they may fail to properly estimate how long they are likely to live and how high necessary expenditures, like health care costs, may be in their retirement. Factors like these contribute to the fact that the poverty rate in 2006 was about 2.5 percentage points higher for those beneficiaries ages 80 and older than for those between ages 65 through 69 (10.7 versus 8.2 percent) (Social Security Administration 2009b, table 11.2). Insuring against longer than average life expectancy would be one way to help those who find themselves strapped by health or long-term costs late in life.

On the other hand, longevity-based adjustments could end up subsidizing relatively well-off beneficiaries. Mortality rates are much lower among those with higher lifetime earnings and in wealthier communities, and this gap may be increasing (Singh and Siahpush 2006). So, within gender, the oldest old are disproportionately high-earners. While, as just noted, the oldest old have markedly higher poverty rates than other Social Security beneficiaries, this gap has narrowed considerably over the last few decades and may continue to decline. Social Security's increased maturity (and coverage of an increased share of the workforce) and protections in legislation like the Retirement Equity Act (under ERISA), which requires spouses to sign off on decisions about survivor benefits in defined benefit pension plans, have no doubt played a role in reducing poverty among the oldest old.

To prevent unintended redistribution toward well-off workers, longevity enhancements could target lower lifetime earners. Given that there is no clear age when other retirement income sources drop off (and for many workers, they never do), a continuous rather than sudden increase in benefits, for example gradually increasing benefits from ages 85 to 90 rather than instituting a sharp benefit increase at a single age, would likely make for a stronger policy. Developers of this type of benefit might consider indexing it for life expectancy increases—with changes estimated well in advance—rather than permanently setting ages in the legislation.

The costs and distributional effects of any longevity enhancements would of course depend on these choices.

Spouse and survivor benefit adjustments: An extensive literature addresses how Social Security spouse and survivor benefits shape program adequacy and equity by gender, marital status, and family earnings patterns and how changes to these benefits might increase beneficiary adequacy and reduce poverty. These alternatives have been prominent in adequacy debates, though often their primary aim is to improve fairness (for example, between married people and single people, between spouses when a marriage ends in divorce, between married couples with the same total earnings but different shares earned by each spouse). Proposals range from major structural changes like earnings sharing to more incremental extensions or modifications of existing benefits. Urban Institute research on these types of alternatives has been extensive (for example, Favreault and Sammartino 2002; Favreault, Sammartino, and Steuerle 2002; Favreault and Steuerle 2007).

Earnings sharing received a great deal of attention in the 1980s, but discussion of the option remained relatively dormant because of complications revealed then (see Ross and Upp 1993) until fairly recently. The more recent research on this topic suggests that transitioning to an earnings sharing approach would still pose great challenges (Favreault and Steuerle 2007; Iams, Reznick, and Tamborini 2009). The effects of an earnings sharing proposal would depend greatly on the details of the policy. Broadly speaking, while equity may increase on many dimensions under earnings sharing, maintaining adequacy would require very careful design, perhaps with significantly increased costs.

Caregiver credits could be awarded independently of other changes to Social Security's spouse and survivor benefits, or they could be part of a shift toward greater marriage neutrality to make the program fairer for parents who never married (see, for example, Favreault 2008; Herd 2005). Legislators have expressed some interest in proposals that include caregiver credits (Lowey 2009). Distributional estimates typically reveal such adjustments to be very progressive.

One particularly prominent benefit increase proposal would increase survivor benefit to two thirds to three quarters of the combined worker benefits of the two spouses, sometimes with a corresponding reduction in spouse benefits to finance the higher widow(er)s benefits, and sometimes with a cap on the benefit increase (for discussion, see, for example, Burkhauser and Smeeding 1994; Entmacher 2008; Graham 2003; Hurd and Wise 1991; Iams and Sandell 1998; Reno 2009; Sandell and Iams 1997; Social Security Advisory Council 1994–1996). Such increases are geared at preventing standards of living from falling rapidly upon widowhood and aim to address inequities such as the preferential treatment single-earner couples receive relative to dual-earner couples who pay the same amount in payroll taxes. Other proposed increases in non-contributory benefits could include extending coverage for certain benefit types that exist under existing rules to address cliffs in benefit eligibility. Examples include reducing the minimum marriage duration for spouse and survivor benefits from 10 years to 7 years[11] (for example, Hartmann and Hill 1999) or allowing students to continue to receive children's benefits after age 19 (Reno 2009). Distributional estimates of both types of options reveal that they would reduce poverty.

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[11] Given that approximately 63 percent of marriages that end in divorce do so before the 10 year eligibility threshold for Social Security, this would provide a way to compensate a spouse who may have taken many years of the labor force to raise children but who is not entitled to a spouse or survivor benefit.

However, many will fall through the cracks if spouse and/or survivor benefit enhancements are the primary mechanism for addressing needs among long-term, low-wage retirees. Marriage rates are down, marriage is often delayed, nearly half of marriages end in divorce, and nearly 40 percent of births occur outside of marriage, so many caregivers do not qualify for these types of benefits. Without other adjustments, shoring up spouse or survivor benefits also increases the gap between the returns that married and single people receive from the program. At present, poverty rates among never married older women are higher than those of widows (Social Security Administration 2009b).

Given these important demographic and economic patterns, targeting is an especially important issue for auxiliary benefit adjustments. Cost and distributional estimates suggest that enhanced survivor benefits would be more costly than the most generous minimum benefits we simulate, but less effective at reducing poverty. Caps on the survivor benefits—for example at the benefit an average wage history would generate—reduce the costs markedly with virtually no change in poverty reduction, and they would also lead to more evenly distributed benefit increases by race/ethnicity. Increasing eligibility for divorced spouse and widow(er) benefits would be less costly than a survivor benefit increase, but not as effective as marriage-neutral adjustments, like a minimum benefit or caregiver credit, of comparable cost at reducing poverty.

Supplemental Security Income is an Additional (or Alternative) Lever

Social Security is not the only possible mechanism for bolstering retirement incomes of lower lifetime earners. The Supplemental Security Income (SSI) program, sometimes referred to as the program of last resort, was designed to aid those with less significant work histories. As such, it may be an appropriate vehicle for improving the economic well-being of a subset of the vulnerable. SSI has, however, languished over the last 35 years, and will not be able to play a more significant role in reducing need among the rapidly aging baby boomers without updating that will incur costs.

For example, SSI's asset test has not been updated in 20 years, since 1989. (SSI's asset test excludes a home, a vehicle if used for employment or medical appointments, household goods and personal effects, plus modest burial funds, but includes virtually all financial assets, including the balances of retirement accounts.) Had these figures merely kept up with inflation since 1989, they would be set at $3,450 for an individual and $5,145 for a couple (rather than the present levels of $2,000 and $3,000 for singles and couples, respectively). The amount of earnings that an SSI beneficiary can keep without a reduction in his or her benefit (the "earned income exclusion") and the amount of other income he/she can keep from any other source (the "general income exclusion"), including Social Security benefits, are still set at the level established when the program began in 1974. Had they kept up with inflation, they would now be more than quadruple their current monthly levels of $65 and $20, respectively.

Cost and distributional research suggests that increases in SSI's asset test would be an especially cost-effective approach for alleviating poverty among older women (Rupp, Strand, and Davies 2003). Increasing the exclusions would also help, but they are somewhat less cost-effective. Given the increasing share of employer-provided pensions that are defined contribution pensions, SSI's treatment of workers' resources could be changed so that holdings in defined contribution pension plans could be evaluated based on the income streams they could generate, rather than strictly as assets (Parent 2006). SSI's complex regulations on in-kind support and maintenance (ISM) for those who live in another's home also deserve reconsideration (Balkus et al. 2008).[12]

There are tradeoffs between using Social Security and SSI to reduce need among the aged and disabled eligible for relatively low Social Security benefits. Means tested assistance programs like SSI may carry stigma, and they are often not well understood. As a result, SSI participation rates are much lower than participation rates in social insurance programs like Social Security (for example, Davies et al. 2002). Means tested programs can also be quite costly to administer and frustrating to beneficiaries and administrators alike. In contrast, Social Security has low administrative costs and provides easy access to benefits.

The choice between increasing Social Security benefits for low-income individuals and SSI improvements also has important implications for Medicaid eligibility (for discussion, see, for example, Sullivan, Meschede, and Shapiro 2008, Smeeding and Weaver 2001). Policymakers may need to avoid the potential loss of Medicaid benefits from higher Social Security benefits. On the other hand, spillover costs to Medicaid programs could be significant with SSI expansion.[13]

Groups with Relatively High Proportions of Vulnerable Beneficiaries are often Very Diverse

Because certain groups, for example unmarried women, African-Americans and Latinos, those who live alone, and the oldest old, tend to have much higher rates of aged poverty than the aged as a whole and the general Social Security beneficiary population, there may be some temptation to target new resources toward these populations. This can sometimes lead one to overlook the tremendous diversity within these groups.

When weighing the merits of alternative approaches to shoring up Social Security (or SSI) adequacy, it may thus be helpful to ask a few important questions. First, if a proposal does target a narrow group, does it appropriately take diversity into account? When developing benefit enhancements, design elements like caps and tests for need or work history can help to insure that resources are well-targeted so that those who are not needy do not receive a large share of new benefits unless there is some compelling other reason (like fairness) to target them. Second, does the supplement (or package of changes) leave out any large vulnerable group? Third, are there any differences in life-course patterns across groups that may lead the proposal to have disparate effects? While in the past Social Security had some regulations that were different for

[12] While the intention of these regulations is to insure that those who do not need support do not receive SSI, they serve to deter individuals from giving to (or seeking support from) friends and family, are often poorly targeted, plus difficult and expensive to administer.

[13] See, for example, Congressional Budget Office 2003, for a case in which increased Medicaid costs would dwarf the costs in added cash payments from SSI for an SSI expansion through a liberalized approach to counting certain resources toward program eligibility and benefits.

men than for women, today the rules are all gender neutral, though gender still indirectly shapes how the program treats men and women. This occurs, for example, because of the way it pays benefits in the form of life annuities. Social Security rules are not, however, marriage neutral, so it is valuable to consider potential disparities that could arise because of differences in marriage patterns by race and lifetime earnings.

Given Social Security's long-term imbalance, it is important to target adequacy enhancements carefully. There is no right answer on which of the adjustments that would improve adequacy for lower lifetime earners is the best. Best depends on how one weights various criteria. Legislators need to weigh these difficult tradeoffs between poverty reduction and work incentives, between universality and simplicity in administration and keeping costs low, and between recognizing the work efforts of those who worked continuously and protecting those who become unable to work because of a lay-off or disability, to name just a few.

The Broader Context: Financing Adequacy Adjustments

Because of the focus of today's hearing, I have stressed Social Security design issues rather than financing. It's worth briefly pointing out, as noted earlier, that our previous research, and the literature more broadly, both indicate that many of the adequacy adjustments that we have discussed could be partially or fully self-financed. For example, benefit increases in later life could be financed by modest reductions earlier in retirement, when other sources of income are higher and work ability is greater. Similarly, survivor benefit increases could be financed by reductions in spousal benefits earlier in life. Minimum benefit costs could be offset by caps on or reductions in non-contributory benefits that are not currently need-based.

Of course, additional revenues, either from new payroll taxes, expansion of the contribution and benefit base (the "taxable maximum"), expansion of the personal income taxation of OASDI benefits, or new sources not previously earmarked for Social Security could also be used to make Social Security more adequate. (SSI costs have historically been funded through general revenues rather than Social Security taxes, so it seems likely that any SSI enhancements would continue to be funded this way.)

The Broader Context: Adequacy Adjustments Could Interact with Solvency Adjustments

Social Security's long-term financing issues are well-known, documented each year in the Report of the program's Trustees. This year's Trustees Report indicates a 75-year deficit equivalent to just about 2 percent of payroll (Board of Trustees 2009). If action were taken today, this would translate into a permanent payroll tax increase of 2.01 percent, an across-the-board benefit reduction of 13.3 percent, general revenue transfers of $5.3 trillion in present value, or some equivalent combination of tax increases, benefit reductions, and financial transfers. This may appear to be a relatively manageable sum, albeit one that would call for considerable sacrifice. But it's worth emphasizing that the longer we defer action on correcting this imbalance, the larger sacrifices would become and the more limited our ability to share the sacrifices across generations. Delays in addressing current long-run imbalances also could mean that retirees, near-retirees, and other workers would have less opportunity to adjust their expectations and plans.

Legislators should bear in mind the larger context of Social Security adjustments to bring the system into long-term balance when designing ways to improve Social Security for the vulnerable. Some of these adjustments may be more desirable or pressing than others, depending on what form solvency adjustments to Social Security take, as different tax increases and benefit cuts affect workers and beneficiaries differently. For example, the case for increased longevity insurance may be more compelling if another change has disparate impacts by age, like research has shown a reduction to the cost-of-living adjustment would.

So, again, attention to design details and interactions is critical for Social Security reform and the prospects of the millions who depend on this program.

Conclusions

Because Social Security is a near-universal and highly efficient program, it has tremendous potential for further reducing need among workers and their dependents in old age and disability. Our research suggests that there are ways to beef up benefits for long-term, low-wage workers and reduce poverty and near poverty at relatively modest cost while maintaining the strong connection between Social Security benefits and work. While balancing competing goals will be a huge challenge for policymakers, the opportunities for improving the program are too valuable to bypass.

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Figure 1. Comparing Alternative Work Years Thresholds for Potential Minimum Benefits (as a percent of the Average Wage Index)

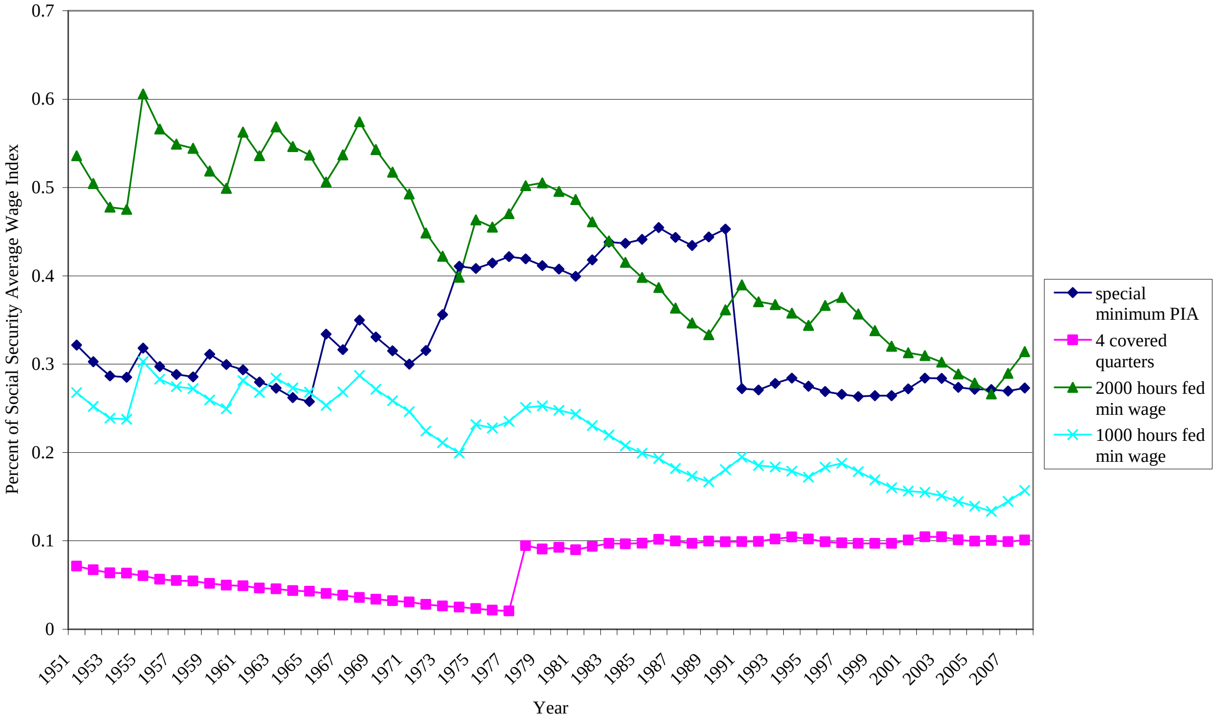

Figure 2. Social Security Benefit Formula, 2009 (with Replacement Percentages (in circles) and Bend Points)