

THE CENTURY FOUNDATION

Idea Brief

A NEW MINIMUM BENEFIT FOR SOCIAL SECURITY APRIL 2004

THE IDEA

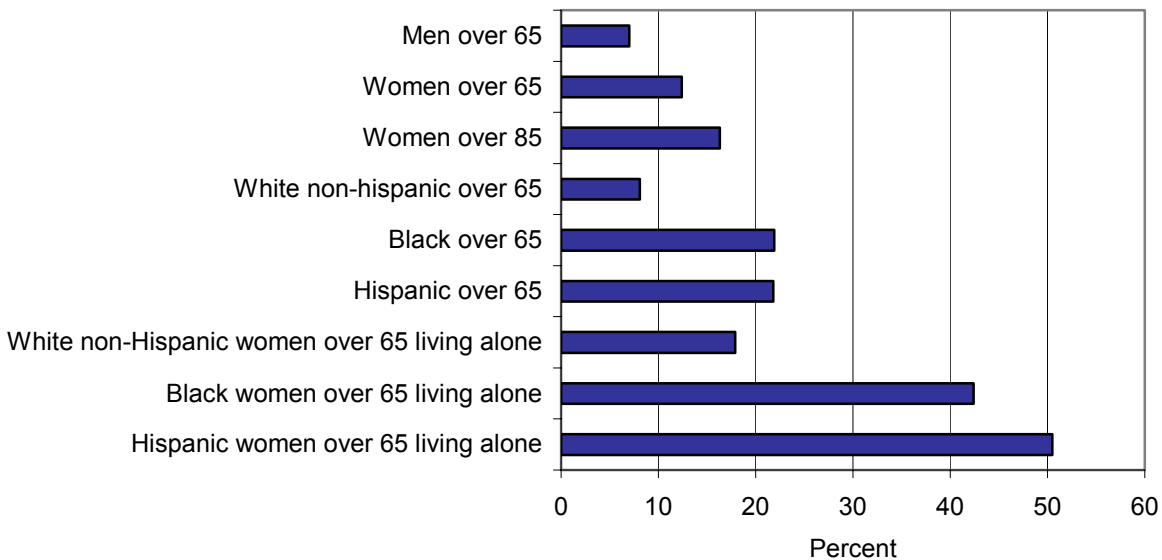
To lift the remaining elderly poor out of poverty, the New Minimum Social Security Benefit would increase payments to households that are heavily dependent on Social Security and that have income below the poverty line.

THE PROBLEM

Although Social Security has substantially reduced poverty among the elderly—from nearly a third in 1950 to about 10 percent today—disturbing pockets of poverty remain:

- The poverty rate for the elderly black and Hispanic population is over twice the rate for non-Hispanic whites.
- The poverty rate is higher for women than for men, and poverty increases with age. For example, 18 percent of nonmarried elderly women are poor, with another 10 percent near poor, or under 125 percent of the poverty level.¹

Poverty Rates Among Various Groups of Elderly People, 2001



Source: U.S. Census Bureau, Current Population Survey, March 2002

The Century Foundation conducts public policy research and analyses of economic, social, and foreign policy issues, including inequality, retirement security, election reform, media studies, homeland security, and international affairs. The foundation produces books, reports, and other publications, convenes task forces, and working groups and operates eight informational Web sites. With offices in New York City and Washington, D.C., The Century Foundation is nonprofit and nonpartisan and was founded in 1919 by Edward A. Filene.

There are several reasons why some of the elderly remain in poverty despite Social Security:

- Some retirees earned low wages during their working years; since past earnings determine benefit levels, they receive relatively small payments from Social Security.
- Others, most commonly women, may have withdrawn from the paid labor force for a time to raise children, or they may have divorced before their spouses' rights were established. Since benefits are calculated on the basis of each retiree's earnings over the course of thirty-five years, those who were absent from the paid workforce for long stretches are entitled only to relatively small payments.
- For people who live to a very old age, the wages they or their spouses earned during their working lives, which might have been good at the time, may be far below current wages, resulting in a low benefit.

HOW THE PLAN WOULD WORK

Poverty among the elderly could be reduced dramatically, with few side effects and at very manageable cost, by reintroducing a broad-based minimum Social Security payment. It might work as follows:

Every household's benefits would be calculated under the existing Social Security formula.

Households of retirees who are at or beyond the full retirement age, who receive 75 percent or more of their income from Social Security and have total income below the poverty line (as screened by the IRS) would receive the New Minimum Social Security Benefit, equal to poverty-line income.

This minimum benefit would be available regardless of gender or marital status. In restricting it to poor households that receive at least 75 percent of their income from Social Security, the minimum payment would be confined to households with a work or marital history that already entitles them to Social Security. The plan would not expand eligibility for Social Security. Rather, it would guarantee that every household that is heavily dependent on Social Security, under existing eligibility rules, receives at least poverty-line income.² Most of the elderly poor do depend heavily on Social Security. In 2001, the poorest 20 percent of the elderly received 82 percent of their income from Social Security.

Most income supplementation schemes create difficulties through their incentive effects. They may encourage people to work less, to migrate, or to change their family status. A targeted population might grow simply because it attracts new members as a program is made available to it. It is therefore difficult to simply fill the poverty gap for working households.

Retired households are different. The only way retirees could change their eligibility for Social Security would be to behave differently during many years of their working lives. The New Minimum Benefit would be available only to households already heavily dependent on Social Security. Since the New Minimum Benefit would raise household income to no more than 125 percent of the poverty line (a household that was receiving 75 percent of its income from Social Security and was just below the poverty line would now receive 100 percent of the poverty line from

¹ Income of the Population 55 or Older: 2001, Social Security Administration, 2003.

² It is important to integrate any changes in the Social Security system with other government programs such as Medicaid.

Social Security, plus the 25 percent from other sources), there is limited opportunity for manipulation. It is possible that a household might reduce its outside income to become eligible for the New Minimum Benefit, but even with the new minimum benefit, household income still would be very low.

Nevertheless, by means-testing the New Minimum Benefit, this proposal would place an added enforcement burden on the IRS as well as create an incentive to underreport non-Social Security income. The advantages and disadvantages of the plan are in some ways comparable to those presented by the Earned Income Tax Credit, though it would affect far fewer households than the EITC and involve much less money. Like the EITC, the benefit could be paid as a tax refund or in monthly installments with an annual reconciliation.

Several other ideas for minimum benefits have been proposed. Eugene Steuerle frequently has emphasized the importance of securing the minimum Social Security benefit in order to strengthen the social safety net. Wendell Primus, of the [Center on Budget and Policy Priorities](#), and Dean Baker of the [Center for Economic and Policy Research](#) each have proposed revisions to the replacement rate and income thresholds under which all Social Security benefits are calculated. This approach would avoid a means test, but it would extend higher benefits to many households that would not otherwise be in poverty, so it is more costly than a system that increases benefits only for those households that would be in poverty absent the increase.

Peter Diamond and Peter Orszag recently have called for a new minimum benefit like the minimum benefit proposed by the President's Commission to Strengthen Social Security. The Diamond-Orszag proposal would guarantee 60 percent of poverty income to a worker with 20 years of covered earnings, rising to 100 percent of the poverty line for workers with 35 years of covered earnings. This proposal avoids means testing, but it has a very heavy work history requirement (a worker is eligible for Social Security with 10 years of covered earnings). If the goal is to end poverty among the old, the Diamond-Orszag proposal is weak medicine.

THE COST

The cost of the New Minimum Benefit depends on the number of households that are eligible and the gap between their current Social Security benefits and the poverty line. Exact information is available for neither of these data. We do know, however, that a rough approximation of the poverty gap for all elderly Americans is on the order of \$6 billion. Because most households receive some Social Security, and because the poorest 40 percent of households receive 80 percent of their incomes from Social Security, we expect that most poor elderly households will be covered by the New Minimum Benefit. So the cost of greatly reducing poverty among retired American workers would be on the order of \$6 billion per year, less than 2 percent of existing Social Security benefits.

MORE INFORMATION

The Century Foundation Social Security Web site, www.socsec.org, is an excellent starting point. See especially the series of briefs detailing how Social Security is particularly important for African Americans, Latinos and women.

The Social Security Administration offers a useful [history](#).

Saving Social Security: A Balanced Approach, Peter Diamond and Peter Orszag, Brookings Institution Press, 2004.

The Older Women's League (OWL) has a succinct review of [poverty among elderly women](#).

The [Center for Budget and Policy Priorities](#) has prepared a careful state by state exploration of the effects of the current Social Security system on poverty among the elderly.

Eugene Steuerle of the Urban Institute [first suggested the idea of a minimum Social Security benefit](#) of the sort incorporated in the Kolbe-Stenholm proposal.

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