A REVISED MINIMUM
BENEFIT TO BETTER MEET
THE ADEQUACY AND EQUITY
STANDARDS IN SOCIAL SECURITY

Executive Summary

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In this report we evaluate a revised minimum benefit in the Old Age and Survivor Insurance (OASI) program to project its effectiveness in bringing the lowest-income beneficiaries above the federal poverty threshold. While not a new idea, the revised minimum benefit is the reform that can make the greatest difference in meeting a key objective of the Social Security program: reducing economic insecurity among older Americans.

We argue that this measure is needed because substantial numbers of Social Security recipients now live in poverty, and factors that produce economic insecurity seem likely to persist for the foreseeable future.

The OASI program’s core principles, implicit in the Social Security Act of 1935, involve protecting older Americans from economic insecurity (adequacy) while rewarding workers’ contributions to the system (equity). Balancing these two principles is an ongoing policy challenge. Although OASI has significantly reduced poverty among older Americans, substantial numbers of older retirees live in poverty. Higher proportions of racial and ethnic minorities are poor, more women than men are poor, and economic risk rises with age, with unmarried people especially vulnerable. Persistent inequalities by race, ethnicity, and gender, as well as the changing features of work (e.g., shorter job tenure, greater prevalence of contract work, and irregular work schedules), mean ongoing risks of poverty for some retirees.

Social Security has already experimented with minimum benefits, suggesting a willingness of policy makers and the public to protect vulnerable older individuals from poverty. An initial minimum benefit was replaced when it seemed to favor retirees with low lifetime labor force participation, and a special minimum benefit ceased serving the target population of low-wage earners in the 1990s, when the wage-indexed regular benefit surpassed the value of the price-indexed minimum. In this revised minimum
benefit, we seek to avoid these issues by indexing the benefit level to wages instead of the official poverty threshold alone and by linking eligibility to a retiree’s age and years of covered labor force participation.

Under the revised minimum benefit, the share of the population living in poverty falls from 9.1 percent in 2015 to 3.9 percent in 2065.

We propose that retirees with 80 or more quarters of covered employment (i.e., the equivalent of 20 or more years) and household income totaling less than 125 percent of the federal poverty threshold be eligible for a supplement that raises their income to that level. For workers with 40 to 79 quarters of covered employment, the qualifying income level and supplement is set at 112 percent of the poverty threshold and at age 80 will be moved to the 125 percent threshold. Retired workers are not eligible for the revised minimum until they reach the full retirement age. We assume no change to other elements of Social Security eligibility: no change in the early and full retirement ages, no change in the spousal benefit, no change in years of covered employment required for benefit eligibility, and no change in the formula by which the regular OASI benefit is calculated.

We propose two measures to offset the cost of the revised minimum benefit. One is to assess some employers an increased share of the Federal Insurance Contributions Act (FICA) tax, raising their obligation from 6.2 percent to 8 percent of employee compensation. The employer would contribute the extra 1.8 percentage points for any employee for whom the employer pays the FICA tax but does not contribute at least 3 percent of the employee’s earnings to a qualified pension plan. Otherwise, the employer would continue to pay the 6.2 percent rate.

A second measure is to raise the annual individual earnings subject to the Social Security tax. As of 2017, that amount rises proportionally with annual average national earnings. We propose raising the taxable earnings base to 3 times the average annual earnings and also assessing the FICA tax on all earnings greater than 10 times the national average. Earnings between those thresholds would not be subject to the FICA tax.

We use the Urban Institute’s DYNASIM microsimulation model to project how the revised minimum benefit would affect lifetime low earners, key demographic groups, and succeeding birth cohorts over 50 years, from the baseline in 2015 to 2065. The revised minimum benefit has a cumulative effect in reducing poverty over that period, although changes in average annual payments remain modest for some individuals. The highest gains in poverty reduction and average OASI payments are predictably experienced by those with the lowest lifetime earnings and those at highest risk for being poor: the oldest retirees, women, the unmarried, and racial and ethnic minorities.

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Across marital groups, never-married retired workers receive the largest percentage increase in per capita net income, with a 3.9 percent increase in 2025 rising to 10.1 percent by 2065. Divorced beneficiaries also fare well under the revised minimum benefit, with an increase of 3.1 percent by 2025 and 6.9 percent by 2065. Widowed persons would have increases from 1.9 percent in 2025 to 6.3 percent by 2065.

Some of the largest gains in income under the proposed policy change occur for the oldest retired workers. While 62- to 69-year-olds see an average income rise of 1.2 percent and 70- to 74-year-olds see an increase of 3.9 percent, retired workers ages 80 to 84 see an income increase of 7.7 percent and those 85 and older are projected to see an increase of 10.0 percent.

Women benefit to a greater extent than do men from the revised OASI option. The increase in average income begins modestly for women in 2025, with a 1.6 percent raise, but grows to nearly 5 percent by 2065. Men, meanwhile, are projected to experience increases from 1.1 percent in 2025 to 3.9 percent by 2065.

Among racial and ethnic groups, White non-Hispanics see the smallest gain, with a 3.4 percent increase between 2015 and 2065. Older Black non-Hispanic individuals see the largest increase, 8.3 percent, followed by Hispanics, with 5.6 percent.

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Although the projected increases in income for various demographic groups and the decline in poverty among older individuals suggest a new minimum benefit could succeed in improving benefit adequacy, the equity principle cannot be ignored. We also examined the return in benefits to retirees relative to their contributions via the FICA tax for several successive birth cohorts. Across all birth cohorts, the bottom two earnings quintiles fared best, with benefit levels expected to exceed taxes paid into the Social Security system; however, all birth cohorts in the top three earnings quintiles are estimated to receive less in Social Security benefits than they paid in taxes. The top earnings quintiles across all birth cohorts are expected to experience a return of about half their lifetime contributions. Even so, their average annual OASI benefits are expected to be 125 percent higher in dollars than those received by the lowest quintile. More important, they will also enjoy sizeable advantages in income and assets held in retirement accounts.
The simulation of the revised minimum benefit suggests that the proposal enhances the financial security of vulnerable groups of retirees. Although the share of FICA taxes increases for the highest earners, implementation of the minimum benefit does not substantially alter the absolute financial advantage in income and assets of upper-income retirees.