SOCIAL SECURITY POLICY INNOVATION CHALLENGE

Executive Summary Compendium

AARP Public Policy Institute
FOREWORD

Social Security is the foundation of financial security for American families when workers retire or face career-ending disability, or when families suffer the death of a working parent or spouse. Yet benefits are modest, and the program was created in the context of much different demographic and economic trends than those that prevail today. As our nation looks to the future of Social Security, the goals must be to keep what works, make improvements where needed, and take the steps to achieve long-term financial stability.

In 2016, AARP launched its Innovation Challenge to identify policy solutions to strengthen Social Security. AARP received an overwhelming number of responses to the Challenge from thought leaders across the country. After a review by AARP staff for technical compliance, applications that met the innovation criteria were shared with an expert panel for blind review. The panel included the directors of the Retirement Research Centers at the University of Michigan, Boston College, and the National Bureau of Economic Research. The panel reviewed proposals based on quality of analysis, clarity of presentation, level of innovation, scope or significance of population impacted, impact on solvency and/or adequacy, and diversity and mix of ideas.

AARP selected five policy innovations from 15 authors, awarding each winning team $30,000 to develop its innovation proposal; these proposals are highlighted in the forthcoming pages. Authors worked with the Urban Institute to assess the financial and distributional impact of the policy proposals. The blind review also surfaced two additional proposals coauthored by AARP staff that were deemed poised for further development. These ideas have been developed and modeled, but no AARP staff members received financial support for their work.
This compendium features the executive summaries of each of the seven winning ideas. AARP is committed to investing in the surfacing and development of policy innovations but does not necessarily support any of the policy proposals identified as innovative. Full versions of the papers will be published on AARP’s website.

AARP would like to thank Urban Institute for all of its help modeling the potential impacts of these innovations using data from the 2015 Social Security Trustees Report. Karen Smith, Melissa Favreault, and the rest of their team spent long hours depicting all of the possible outcomes of these innovations, and we appreciate all of their hard work.

These papers represent the views of the authors and do not necessarily reflect the views of any of the organizations with which they are affiliated.
## CONTENTS

**Foreword**  

---

**Catch-Up Contributions: An Equitable and Affordable Solution to the Retirement Savings Crisis**  
Teresa Ghilarducci, Michael Papadopoulos, Wei Sun, and Anthony Webb  

---

**Evaluating Lump Sum Incentives for Delayed Social Security Claiming**  
Olivia S. Mitchell, Raimond Maurer, and Tatjana Schimetschek  

---

**Supplemental Transition Accounts for Retirement: A Proposal to Increase Retirement Income Security and Reform Social Security**  
Gary Koenig, Jason J. Fichtner, and William G. Gale  

---

**A Revised Minimum Benefit to Better Meet the Adequacy and Equity Standards in Social Security**  
Kimberly J. Johnson and Elizabeth Johns  

---

**A Targeted Minimum Benefit Plan: A New Proposal to Reduce Poverty among the Elderly**  
Pamela Herd, Melissa Favreault, Timothy Smeeding, and Madonna Harrington Meyer  

---

**More Retirement Stability in an Unstable World: Expanding Qualifying Credit Options for Social Security Benefits**  
Christian Weller and Darrick Hamilton  

---

**Social Security Lifelong Learning Benefits**  
Debra Whitman, Marc Freedman, and Jim Emerman
CATCH-UP CONTRIBUTIONS: AN EQUITABLE AND AFFORDABLE SOLUTION TO THE RETIREMENT SAVINGS CRISIS

Wei Sun, Associate Professor of Economics, Renmin University, Beijing

Social Security replacement rates are projected to fall in coming decades due to the increase in the full retirement age (which is equivalent to a 13.3 percent cut in benefits to a worker retiring at age 65), increasing Medicare Part B and D premiums, and increased taxation of benefits. The cut in benefits will impose hardship on low-wage workers, who are often ineligible to participate in employer-sponsored pension plans and have few financial assets. Workers in their 50s may be particularly hard hit, as they would often need to save implausibly large shares of their incomes to achieve replacement rates that would permit them to maintain their preretirement standard of living.

To address the needs of these two overlapping groups—low-wage workers and workers in their 50s with no or inadequate pension wealth—we propose a system of cost-neutral voluntary Social Security “catch-up” contributions starting at age 40 or 50 that would use the progressivity of the Social Security benefit formula to target low-wage workers.

Under current law, households are not permitted to purchase additional Social Security benefits. Policy analysts have proposed allowing households to purchase additional benefits at retirement, but these proposals have failed to gain traction because of concerns that (a) purchasing additional benefits would do nothing to help those most in need—that is, households with no annuitizable wealth—and (b) Social Security would suffer from adverse selection, with low-mortality households being disproportionately likely to participate.

We propose catch-up contributions of 1.86 percent of salary starting at age 40 or 3.1 percent of salary at age 50, comprising 30 percent and 50 percent of existing contributions, respectively. To avoid the
possibility that the policy could increase age
discrimination, the employer contribution
would not be increased. Further, we included
mechanisms to address characteristics
specific to low-wage workers. Although 50
is an age at which an individual’s awareness
of retirement increases, low-wage workers
often exit the labor market at relatively
young ages and experience earnings declines in their
50s; thus, both scenarios
could harm these workers’
ability to capture the benefits
of catch-up contributions.
We therefore investigated
whether allowing people
to participate from age 40
might yield better outcomes
for vulnerable populations.

Participants’ earnings would
be adjusted proportionately so that, in the
age-50 scenario, a worker with earnings of
$50,000 would be credited with a $25,000
supplement in his or her record of taxable
earnings (50 percent of $50,000), and a worker
with earnings of $200,000 would be credited
with a supplement of $63,600 (50 percent
of the 2017 taxable maximum of $127,200).
Average indexed monthly earnings and
primary insurance amount would be based
on earnings inclusive of the supplement
so that low earners would receive a higher
return on their catch-up contributions.

We first report the impact for very low,
low, medium, high, and maximum lifetime
earners retiring in 2016, assuming that they
had been eligible to participate throughout
their careers. Maximum earners would have
enjoyed the largest increase in benefits,
$345 a month, compared with $66 and
$119 a month for very low and low earners,
respectively. But very low and low earners
would have enjoyed larger increases in
replacement rates, 7.2 percentage points
each, compared with 3.8 percentage points
for maximum earners. Thus, although
the program would have significantly
increased the Social Security replacement
rates of low earners, the replacement
rates remain short of the levels that would
maintain their preretirement standard of
living. Catch-up contributions are not a
substitute for expansion and reform of
employer-provided retirement plans.

Very low lifetime earners would have enjoyed
the highest rate of return on catch-up
contributions, 3.59 and 4.60 percent for men
and women, respectively, compared with
minus 0.23 percent and minus 0.94 percent,
respectively, for maximum earners; however,
rate-of-return calculations ignore the
value of the longevity insurance provided
by Social Security. Taking account of the
value of longevity insurance, and assuming
that workers were able to invest in a risk-
free asset yielding a 3 percent real return,
well above current rates, we calculate that
maximum earning men and women would
have been willing to pay as much as 4.60 and
4.85 percent of salary, respectively, for access
to catch-up benefits, substantially more

Maximum earners
would have enjoyed
the largest increase in
benefits, $345 a month,
compared with $66 and
$119 a month for very
low and low earners,
respectively.
than the 3.1 percent contribution. Thus, the program is one that targets low-wage workers while remaining attractive to higher earners.

We use the Dynamic Simulation of Income Model, or DYNASIM, to project how the program affects succeeding birth cohorts, assuming introduction in 2017. Given that prototypical households have positive willingness to pay, we assume universal participation. The impact of catch-up contributions increases over time, but even by 2055, catch-up contributions starting at age 50 result in only a modest 1.9 percentage point decline in the share of individuals over 62 who are poor or near poor (defined as having per-capita incomes of less than 200 percent of the federal poverty level of $24,120 in 2017). This modest decline in poverty reflects the small impact of catch-up contributions on the Social Security benefits of the bottom quintile of households by shared lifetime earnings. Starting contributions at age 40 results in similar poverty reductions, although the phase-in period is longer.

Next, we use the DYNASIM model to project the impact of catch-up contributions on the solvency of the Social Security program. Over a 25-year horizon, the reform narrows the actuarial shortfall from 1.45 percent to 0.93 percent of payroll, reflecting additional payroll tax receipts that are not matched by additional benefit payments. The program postpones exhaustion of the Trust Fund from 2034 to 2037. Over a 75-year horizon, the reform is almost exactly actuarially neutral.

We evaluate the merits of a default versus a mandate. A default might be more politically acceptable because contributions might then be perceived not as a tax increase but as the purchase of valuable future benefits. A mandate, meanwhile, eliminates the risks of opt-outs by vulnerable groups and conversely of opt-outs by high earners that might adversely affect the sustainability of the program and precipitate a contribution death spiral. A mandate avoids both of these risks and would also be within the spirit of Social Security and other social insurance programs that use mandates to both broaden the risk pool and protect against adverse selection.
EVALUATING LUMP SUM INCENTIVES FOR DELAYED SOCIAL SECURITY CLAIMING

Olivia S. Mitchell, The Wharton School of the University of Pennsylvania
Raimond Maurer, Goethe University of Frankfurt, Ralph Rogalla School of Risk Management, Insurance, and Actuarial Science, St. John’s University, The Peter Tobin College of Business
Tatjana Schimetschek, Goethe University of Frankfurt

Using behavioral parameters suggested by our research and simulated by the Dynamic Simulation of Income Model (DYNASIM) team at the Urban Institute, we evaluate the potential impact of a lump sum reform for delayed Social Security claiming. First, we demonstrate that the lump sum delayed benefit plan does not dramatically change solvency outcomes for either the payable or the scheduled benchmarks. Thus, the proposed reform does not rectify the solvency problem facing Social Security nor does it worsen it materially. Second, we find that the differences in projected poverty fractions are remarkably small and may even be overestimated. Third, we present other distributional analyses that show income increases, but the changes are small relative to both scheduled and payable benchmarks. Fourth, we give asset projections that show that the lowest- and middle-income groups accumulate higher nest eggs under the lump sum delayed benefit plan. This is a positive result inasmuch as lower-paid individuals are more likely to value the additional assets in retirement. Accordingly, the lump sum reform we have outlined here has positive distributional consequences overall without costing the system more money.

CURRENT SOCIAL SECURITY POLICY AND THE LUMP SUM POLICY ALTERNATIVE

Under the current Social Security rules, an eligible individual can claim retirement benefits as early as age 62 or defer them as late as age 70. The monthly benefit paid for life depends on his or her earnings history and claiming age, with a reduction if the individual claims before the full retirement age (FRA), and an additional increment for deferring claiming after the FRA. (An individual’s FRA depends on his or her year of birth and currently ranges from 66 to 67.) For someone born in 1960 or later, for example, deferring the benefit from age 62 to the FRA of 67 would entitle him or her to an increase in monthly benefits of...
around 43 percent. In particular, delaying claiming to age 70 implies a 77 percent increase in lifetime monthly benefits.

The lump sum policy we explored involves a policy innovation for Social Security that induces later claiming among a large fraction of the population. Rather than cutting benefits, however, our reform offers people an incentive to delay claiming their Social Security benefits. Specifically, someone willing to defer claiming beyond the early retirement age would receive—at his or her eventual claiming age—a monthly benefit as of age 62 for the remainder of his or her life plus a lump sum reflective of the additional benefit otherwise gained by delaying claiming. In other words, retirees would still receive their age 62 (reduced) benefits at the delayed claiming age but in addition would get from Social Security a substantial immediate payout at that age, which will encourage them to claim later. Moreover, at least some older individuals would work longer, which would delay the date when they start withdrawing money from their savings, thus preserving more for later in retirement.

The particular alternative considered in the simulation analysis allowed people to claim their early Social Security benefits at age 62 with the early retirement reduction factor applied as under current rules, or else to delay claiming by a year or more all the way up to age 70. At each later claiming age, the retiree would be entitled to his or her age 62 benefit from the later age onward, plus a lump sum. In the Urban Institute simulations, the entire lump sum amounts were assumed to be deposited into nontaxable Roth accounts which, after retirement, were invested in 10-year US Treasury bonds earning a 3 percent real return. After retirement, households were assumed to spend down their retirement assets (including the Roth accounts) using the DYNASIM approach to spend-downs. The Roth investment earnings and withdrawals were excluded from taxable income but were assessed for Supplemental Security Income (SSI) eligibility. Any remaining lump sums at the first retiree’s death would be made available to the surviving spouse, if any. The lump sum delayed benefit plan was simulated incorporating the delayed claiming patterns derived from the survey evidence we cite. Inasmuch as we found that similar changes in work and claiming patterns obtained when lump sum payments were reduced by 13 percent, the actual simulations implemented that reform.

RESULTS

The DYNASIM simulations of the lump sum reform for delayed Social Security claiming suggest several key conclusions. First, the similarities between the projections confirm that the lump sum delayed benefit reform does not dramatically change system solvency outcomes versus the payable or scheduled benchmarks. In other words, while the reform does not by any means rectify the
Social Security system’s solvency problem, it does not make solvency materially worse. Second, the differences in projected poverty fractions are remarkably small and may even be overestimated, since the Roth account payout rates assumed by the DYNASIM model are not conventional annuity payout rates. Third, other distributional analyses show that incomes increase, but the changes are relatively small relative to the payable benchmark. Changes are even smaller for the scheduled benchmark. Fourth, the asset projections show that the lowest- and middle-income groups accumulate higher nest eggs under the lump sum delayed benefit reform. This is a positive result inasmuch as lower-paid individuals are more likely to value the additional assets in retirement. Accordingly, the lump sum plan we have outlined here has positive distributional consequences overall without costing the system substantially more money.
Social Security’s inflation-protected lifelong benefits are critical for old-age economic security. These benefits will become even more important in the decades ahead because of rising life expectancies and the shift away from traditional pensions to 401(k)-type plans. Social Security could do more to improve older Americans’ financial security by facilitating later claiming of benefits. Between the ages of 62 and 70, monthly Social Security benefits increase by about 7 percent to 8 percent for each one-year delay in claiming. This increase is reflected in higher monthly benefits for the life of the beneficiary and can also result in higher benefits for surviving spouses.

We propose establishing mandatory add-on savings accounts, which we call Supplemental Transition Accounts for Retirement (START), to provide workers and their spouses the necessary income to delay claiming Social Security benefits. The accounts would be funded by employees, employers, and a government contribution for low-income households fully paid for with revenue from taxing START distributions. Each worker would be required to exhaust START assets before receiving Social Security benefits. STARTs would mitigate the effects of actuarial reductions for claiming early and could allow workers to gain additional monthly Social Security benefits through delayed retirement credits.

Beneficiaries could begin to receive monthly START benefits at the earliest eligibility age but would not be required to do so. The amount of monthly START benefits payable under the proposal would be limited to the Social Security benefits that the beneficiary would have received under current-law claiming rules. At full retirement age (age 67 for people born in 1960 or after) and up to age 70, beneficiaries could use START assets without restriction (e.g., taking a lump sum). At age 70,
account holders with START assets would be required to take a full lump-sum distribution, or roll the balance into a retirement account or a beneficiary’s START. Any money remaining in a START at the time of the account owner’s death would go to a designated beneficiary.

FUNDING
START contributions would be required for all workers who have taxable earnings covered under Social Security and who have not reached their full retirement age (FRA); required contributions would not apply to earnings beginning on January 1 in the year the worker reaches FRA. To enable younger workers to take advantage of compounding of interest and earnings, there would not be a minimum age requirement.

Each worker and employer would contribute 1 percent of earnings (2 percent combined), up to the annual maximum subject to Social Security payroll tax ($127,500 in 2017), to the worker’s START. The self-employed would make required contributions as both employer and employee. For married couples, total contributions would be split equally between each spouse’s START. Employee contributions would be after-tax and employer contributions would be pretax.

The Social Security Administration (SSA) would enroll all Social Security-covered workers in START. START contributions would be collected in the same way and under the same schedule as payroll taxes.

The federal government would contribute to the STARTs of low-income workers. The maximum government contribution would be 1 percent of earnings for married couples filing jointly with adjusted gross income (AGI) less than $40,000, single filers with AGI less than $20,000, and head of household filers with AGI less than $30,000. The government contribution would be phased out over an AGI range of $10,000, $7,500, and $5,000 for joint filers, head of household filers, and single filers, respectively. For example, the government contributions for joint filers with AGI of $42,500 would be 0.75 percent and with AGI of $45,000 would be 0.5 percent.

Workers in low-income households would receive a total START contribution of up to 3 percent of earnings. The government contribution would be treated like an employer contribution and would not be included in current taxable income.

ACCOUNT STRUCTURE AND ADMINISTRATIVE CONSIDERATIONS
STARTs would be professionally managed in a pooled account with an emphasis on keeping administrative fees as low as possible. An independent board would serve as the fiduciary. The board would select the private investment firm(s) responsible for managing START assets and set the investment
guidelines for the pooled assets. Individuals would not be allowed to select investments.

Because STARTs would be integrated with Social Security, SSA can take advantage of existing program systems and benefit from economies of scale in administrating these accounts. SSA’s tasks would include maintaining account records, such as tracking individual account balances and transactions, and educating participants about STARTs.

RESULTS
The Urban Institute analyzed our proposal using its dynamic simulation model DYNASIM. The simulation results reported below are based on the conservative assumption that employees reduce their workplace retirement plan contributions to zero or by the amount of their START contributions, whichever change is smaller. Under the alternative assumption of no savings offset, the increases in income are larger, in particular for higher earners, than those shown below.

The Urban Institute’s analysis revealed the following:

• The proposal is fully funded by employee and employer contributions and by crediting the Social Security trust funds with the revenue from taxing START distributions. This last item more than offsets the cost of government contributions, thereby reducing Social Security’s 75-year actuarial deficit by about 12 percent, based on the Urban Institute’s modeling assumptions using data from the 2015 Social Security Trustees Report.

• STARTs would reduce poverty significantly for people ages 62 and over under current law’s scheduled benefits: from 7.4 percent to 7.0 percent in 2045 and from 5.6 percent to 5.0 percent in 2065. STARTs would reduce poverty by even more under the payable benefits scenario (i.e., benefits would be limited to Social Security tax revenue once the trust funds are exhausted in 2034): from 10.4 percent to 9.0 percent in 2045 and from 8.1 percent to 6.3 percent in 2065. See figure 1.

• STARTs would raise the net per-capita cash income the most for older Americans with the lowest lifetime earnings: by 10 percent, on average, and 15 percent at the median in 2065 compared to scheduled benefits under current law. In part, this result reflects lower-income households’ greater reliance on Social Security benefits, which in many cases is their only source of income. See figure 2.

• Among those ages 62 and older, START would raise income the most for the age groups 70–74 and 75–79: about 8 percent, on average, in 2065. The increases for those age groups represent the most accurate picture of the full potential of our proposal on economic security at older ages, given that individuals in those birth cohorts would have participated in START over their whole careers.
START OUTCOMES

Supplemental Transition Accounts for Retirement would provide the necessary bridge to allow individuals to delay claiming Social Security benefits. And it would do so without limiting access to essential income at early retirement ages. The result would be higher monthly Social Security benefits and income—on average, about 5 percent to 7 percent overall and 10 percent for the lowest-income workers—that cannot be outlived or eroded by inflation.

FIGURE 1. Poverty Rates for People Ages 62 and Older in Selected Years

Source: Urban Institute analysis of START proposal using DYNASIM.

FIGURE 2. Percent Change in Average Per Capita Net Cash Income among Individuals Ages 62 and Older by Shared Lifetime Earnings in Selected Years

Source: Urban Institute analysis of START proposal using DYNASIM.
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 to the official poverty threshold alone and by linking eligibility to a retiree’s age and years of covered labor force participation.

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.

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.
9.1 percent in 2015 to 3.9 percent in 2065. Individuals in the bottom shared-income quintile see an average income increase of 16.4 percent by 2025 and 33.9 percent by 2065. By contrast, the top quintile experiences an average increase of less than 1 percent over the same time period.

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.

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.

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.
In recent years, the big news in Social Security reform has been the program’s fiscal problems. Beneath the headlines, however, large pockets of poverty remain among older Americans. The poverty rate for single older adults is three times higher than that for married older adults. Women are nearly twice as likely to be poor as men. Black older women are three times as likely to be poor as White older women. Social Security’s central weakness is that it does not adequately protect those groups, especially women, who have lower lifetime earnings due to factors ranging from caregiving responsibilities to ongoing labor market discrimination. Moreover, given large shifts toward more unstable forms of retirement income—including the rise of defined contribution plans and the decline in employer-financed pensions—the role that Social Security plays in ensuring a minimum level of retirement income has become more important over time. In light of concerns about both program costs and benefit adequacy, we propose an effective and relatively inexpensive targeted program to provide a minimally adequate floor to old-age income through the Social Security system.

POLICY APPROACH

Current Policy

There are two mechanisms by which Social Security has protected individuals with lower lifetime earnings. The first mechanism is through spousal and survivor benefits, which are nearly exclusively received by women (among older adults). These require 10 years of marriage and provide a benefit of 50 percent of the worker benefit while she or he is alive and 100 percent of the benefit when the worker is deceased. While providing significant protection, these benefits do have substantial issues when it comes to
ensuring benefit adequacy. Large declines in marriage and the increase in divorces are reducing the effectiveness of these benefits for all women—but especially for Black women and women with low educational attainment. Indeed, among women born in the 1960s, the proportion of White and Hispanic women who will reach old age and qualify for spouse or widow benefits will hover just above 80 percent, while 50 percent of Black women will qualify. Even among women who receive these benefits, the spousal and survivor benefits are far more regressive than are the worker benefits.

The second mechanism is through a minimum benefit, which can be achieved either through a special minimum benefit or Supplemental Security Income (SSI). Both of these options were designed to protect the low-income elderly population, but each has serious shortcomings. The special minimum benefit requires a long, low earnings history, but few people qualify for this due to a design flaw. SSI was designed to provide a safety net for poor elderly, blind, and disabled people. However, federal SSI benefits are below the poverty line (though some states supplement them), and only a few thousand dollars are allowed in savings. Further, only about half of those eligible for SSI receive benefits.

**Proposed Policy**

A minimum benefit plan (MBP), modeled after the Canadian minimum benefit for the elderly and the United States’ Earned Income Tax Credit (EITC), could provide a cost-effective method for reducing elder poverty to very low levels. Canada has managed to achieve much greater poverty reduction among seniors while spending much less on social retirement programs than other industrialized countries (and slightly more than the United States). The US welfare policy most similar to the Canadian benefit and our proposed benefit, in terms of administration and benefit application procedures, is the EITC. The EITC delivers income supplements to poor working Americans. It has no asset tests. Further, individuals apply for EITC benefits through the tax system on a basic 1040 form. The ease of EITC eligibility and application procedures mean that around 84 percent of those eligible receive benefits. Our plan would yield a similar result.

There are four features to our targeted MBP. The first feature is the program’s eligibility requirements. Under our proposal, the MBP would be payable at Social Security’s full retirement age, which is currently undergoing a gradual increase from 65 to 67. Eligibility would require benefit eligibility for Old-Age and Survivors Insurance (OASI). The second feature is its benefit levels and income exclusions. Our recommendation is that the MBP should offer a minimum benefit guarantee of 100 percent of the poverty line.
and that there would be a general income exclusion, or set aside, of $125 per month for all other income sources (earnings, pensions, property income). The third feature is the **administrative structure and take-up**. Under our proposal, MBP payments would be combined with the OASI benefit checks in a single monthly payment once eligibility was verified. Every older person would need to file an income tax return to qualify—akin to the way that the EITC is currently administered. Eligibility redetermination should generally be automatic. After initial eligibility, given the lack of large income changes for low-income older adults, eligibility would not be reassessed again unless the recipient had a large change in income. The fourth feature involves another important aspect of safety net pension programs—that is, whether they provide an **automatic passport** to other benefits, such as reduced-cost medical care, housing benefits, and so forth. Under our proposal, while there would be no automatic passport from the MBP to other social welfare programs, given differing eligibility criteria, the MBP would not count toward income eligibility limits for other benefit programs such as Medicaid (also similar to the EITC).

A few features of this plan distinguish it from prior proposals to include a minimum benefit in Social Security. First, this plan most tightly ties benefits to those with the lowest incomes—taking into account family income resources. Prior proposals have not taken into account total family/household income resources, thus weakening their targeted nature. Second, unlike some prior minimum benefit proposals that require many years of work, this MBP ensures that those most economically vulnerable—typically those who have not had consistent labor force participation—are protected.

The third distinguishing feature of this MBP is that it is sensitive to program interactions. This is especially a concern in terms of Medicaid. Nearly one in five older Americans use Medicaid to provide supplementary insurance for their Medicare benefits. Older adults with supplemental Medicaid coverage spend $3,000 less annually in out-of-pocket health care expenditures as compared with individuals who purchase private supplemental coverage. A gain of even $2,000 in additional income from a minimum benefit, if it results in the loss of Medicaid coverage, would leave a beneficiary worse off.

**HOW WOULD THE MINIMUM BENEFIT PLAN INFLUENCE ADEQUACY AND SOLVENCY?**

The program would substantially improve benefit adequacy in a tightly targeted fashion. Individuals eligible for Social Security would, for the first time, be guaranteed an income of 100 percent of the poverty level. Because
this income would not influence other program eligibility, such as for Medicaid, poor older adults would experience real improvements in their overall economic security. In the first 20 years of the program’s implementation, the poverty rate among older adults would drop from 7.9 percent to 5 percent in 2025 and to 4.5 percent in 2035. Most strikingly, as figure 1 shows, in terms of the redistributive implications, the income of those in the bottom quintile of the lifetime earnings distribution would rise by nearly 10 percent, or approximately $1,000 annually, while those with higher income would receive little to no benefit. Program costs are estimated to be 1.2 percent to 1.5 percent of current OASI expenditures; however, there are ways to offset these costs via other options, such as phasing out spousal benefits or making slight adjustments in the primary insurance amount bend points.

**FIGURE 1.** Percent Change in Average Per Capita Net Cash Income among Individuals Age 62 and Older by Shared Lifetime Earnings in Selected Years

Source: Urban Institute analysis of START proposal using DYNASIM.
Social Security has gained in importance in a world of increasingly volatile incomes. Social Security benefits stabilize retirement incomes, especially for people who experience earnings fluctuations and unemployment spells during their careers. As a result, retirement incomes vary less than do people’s earnings during their careers. Yet the need for further stabilization of retirement incomes has only increased as earnings, work schedules, and expenses have become more unsound.

The volatility can be addressed by first looking to its sources as well as identifying groups most impacted by that fluctuation. Since the mid-1980s, income inequality has increased due to such factors as more caregiving responsibilities in an aging society, the growth in single-headed households, longer unemployment spells, and, for some, less labor market mobility—and the resulting stagnant wages. Moreover, increased labor market uncertainties—such as the ones associated with caregiving responsibilities, potential unemployment spells, and unstable jobs—adversely hamper people’s ability to save. That impact is more pronounced for individuals from marginalized or stigmatized groups based on race, ethnicity, and gender, whose jobs tend to be more precarious. Moreover, assortative networking suggests that, relative to their more affluent peers, less well-off marginalized groups will have more intense familial caregiving and financial responsibilities, due to friends and kin with greater need. This altruistic giving serves to exacerbate wealth gaps across such groups.

In short, people need more responsive Social Security retirement benefits to partially offset the increase in earnings and expense volatility. Through policies that account for various forms of earnings shocks, people could avoid losing all of their retirement benefits when they experience such blows. We, therefore, propose three changes to Social Security...
benefit calculations that directly address these challenges. All three of our proposed changes would make it easier for people to earn credit toward Social Security benefits.

POLICY SOLUTIONS

Caregiving Credit

First, we propose that workers earn credits for caring for a family member or friend. A worker can earn credits toward Social Security benefits for caring for another person at least 20 hours per week. This includes children up to the age of 10 years as well as ailing family members and friends. Caregivers would receive up to three years’ worth of credit. For married couples, each spouse could qualify for the maximum years of credits, although only one spouse could receive the credit in a given time period. Caregivers would be credited time at the amount of 60 percent of the average wage index (AWI), currently $49,121 for 2016, as long as they earned 60 percent or less of the AWI.

People who already receive Social Security retirement benefits would also see a benefit from caregiving. The Social Security Administration would recalculate their monthly benefits by replacing past zero earnings years with earnings equal to 60 percent of the AWI during that year or, for those who have no zero earnings years, increase their average indexed monthly earnings, which determines the amount of benefits a person receives, by one-thirtieth. Either approach would permanently increase retirement benefits in annual steps, after caregiving is completed.

Receiving a caregiving credit would require that the Social Security Administration receive documentation (detailed in the paper) that an individual performed in that role. In all instances, caregivers would collect and retain the required paperwork, similar to documentation for business expenses claimed on tax returns. To minimize the burden on caregivers, tax forms would include a brief line for individuals to confirm they were a caregiver for a specified amount of time during a given tax year.

Credit while Unemployed

Second, we also propose that workers get credits toward Social Security benefits while receiving unemployment insurance (UI) benefits. Each unemployed worker could receive credit toward Social Security benefits based on Social Security’s AWI—specifically, 60 percent of AWI—and the length of time during which he or she was unemployed, up to six months for each eligible unemployment
A worker would receive up to three years’ worth of credit toward Social Security benefits while receiving UI benefits. Unemployment insurance agencies would report names and length of unemployment to the Social Security Administration.

**Credit during Job Training**

Third, we propose to give workers credit for time spent participating in unpaid or low-paid training programs, such as Jobs Corp. Workers would receive credit equal to substantial earnings, equal to $22,050 in 2016, for the time they spent in training. Accredited job training programs would report those periods to the Social Security Administration. Workers would earn up to three years’ worth of credits for job training.

Our paper discusses a number of additional implementation issues related to the newly created ways people could earn credits. These issues include maximum number of years, automatic adjustments of indexed earnings, time frame for implementation, and revenue sources for the new benefits.

**POLICY IMPACT**

Our paper shows that poor and near-poor taxpayers could see substantial increases in benefits from our credits, even after taking into account the effect of higher revenues on their existing government benefits. The simulation results suggest that our proposed changes would make Social Security more progressive. Breaking down the relative benefit gains by benefit levels shows this point clearly. Our innovations result in the largest benefit gains for women, communities of color, and people with less than high school degrees at the 10th percentile of the benefit distribution. Women at that benefit level would experience a 2.0 percent increase; divorced people, an increase equal to 4.7 percent; African Americans, a 2.3 percent gain; and those without a high school degree, a 3.1 percent uptick (table 1). These increases are higher than those for men, married people, Whites, and college graduates at this income level. They are also higher than the relative gains expected at other income levels (table 1)—that is, our innovations are not only well targeted, they also improve a key feature of Social Security: its progressiveness.

Obviously, people also need contemporaneous assistance to improve their economic security while they experience income volatility. Our proposals are complements (not substitutes) to improve contemporaneous benefits such as paid family leave, stronger unemployment insurance benefits, and expanded public-sector infrastructure jobs. Moreover, policy makers should also consider pursuing other targeted Social Security benefit improvements, such as a more effective minimum benefit that could boost benefits for the lowest-income earners. Our proposals, while targeted and effective, should be seen only as part of a larger agenda to improve the economic security of Americans in general and vulnerable populations specifically.
### TABLE 1. Percent Change in Per Capita Annuity Income among People Age 62 and Older by Selected Characteristics for 2065

<table>
<thead>
<tr>
<th>CHARACTERISTIC</th>
<th>MEAN</th>
<th>PERCENTILE</th>
<th>PERCENTILE</th>
<th>PERCENTILE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>5TH</td>
<td>10TH</td>
<td>25TH</td>
</tr>
<tr>
<td>All</td>
<td>0.2%</td>
<td>2.3%</td>
<td>1.8%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Women</td>
<td>0.2%</td>
<td>1.6%</td>
<td>2.0%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Men</td>
<td>0.1%</td>
<td>1.4%</td>
<td>2.4%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Less than H.S.</td>
<td>0.5%</td>
<td>0.0%</td>
<td>3.1%</td>
<td>4.1%</td>
</tr>
<tr>
<td>High school</td>
<td>0.2%</td>
<td>0.5%</td>
<td>2.6%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Some college</td>
<td>0.2%</td>
<td>1.5%</td>
<td>0.6%</td>
<td>0.5%</td>
</tr>
<tr>
<td>At least college</td>
<td>0.1%</td>
<td>1.1%</td>
<td>0.4%</td>
<td>0.2%</td>
</tr>
<tr>
<td>White</td>
<td>0.1%</td>
<td>1.5%</td>
<td>0.8%</td>
<td>0.4%</td>
</tr>
<tr>
<td>African-American</td>
<td>0.2%</td>
<td>0.3%</td>
<td>2.3%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>0.2%</td>
<td>0.0%</td>
<td>1.9%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Other</td>
<td>0.2%</td>
<td>4.9%</td>
<td>4.1%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Married</td>
<td>0.2%</td>
<td>3.2%</td>
<td>1.9%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Widowed</td>
<td>0.2%</td>
<td>2.8%</td>
<td>1.6%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Divorced</td>
<td>0.3%</td>
<td>7.8%</td>
<td>4.7%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Never married</td>
<td>0.2%</td>
<td>1.7%</td>
<td>4.6%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Bottom quintile of lifetime earnings distribution</td>
<td>0.9%</td>
<td>0.0%</td>
<td>5.1%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Second quintile of lifetime earnings distribution</td>
<td>0.3%</td>
<td>1.3%</td>
<td>0.5%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Third quintile of lifetime earnings distribution</td>
<td>0.2%</td>
<td>0.3%</td>
<td>0.4%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Fourth quintile of lifetime earnings distribution</td>
<td>0.1%</td>
<td>0.3%</td>
<td>0.1%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Top quintile of lifetime earnings distribution</td>
<td>0.0%</td>
<td>0.1%</td>
<td>0.2%</td>
<td>0.1%</td>
</tr>
</tbody>
</table>

Notes: Estimates based on Urban Institute’s DYNASIM3 model. See text for innovation specifics.
Social insurance has historically served to mitigate risks in the life of the worker. At the start of the Social Security system, our nation was worried about the risk of our workers dying in poverty, so we created retirement benefits. Then policy makers were concerned about the risks facing the spouses and children of our workers when they died, so they introduced spousal and survivor benefits. In later years Congress enhanced Social Security with cost-of-living adjustments and disability benefits to confront two additional risks: that inflation might reduce the spending power of a person’s retirement income and that physical and mental difficulties might prevent a person from earning a decent living throughout his or her life.

Today’s risks are different. Automation is reducing the need for certain types of workers, and entire industries have seen sharp dips in demand for workers for tasks that can now be accomplished by robots. A 2016 Pew Research Center survey found that while employment rose 68 percent between 1980 and 2015 in jobs requiring an average or above average level of preparation (i.e., education and job training), jobs dependent on physical skills increased only 18 percent in the same time window. The impact could be most significant for those in low-wage jobs; the US Council of Economic Advisers forecasts that 83 percent of jobs paying under $20 an hour could become automated in the coming decades.

Today’s workers will also live longer and work later in life than prior generations; in the past 12 years, the number of Americans working beyond age 65 has more than doubled. Yet it is not realistic to expect that workers will continue to do the same job or even work in the same industry throughout a 40- to 50-year career—assuming that the industry the workers entered upon completion of their education even still exists. Today someone working at age 70 entered the workforce when the workplace resembled Mad Men; the changes in the interim, meanwhile—from who is in the workforce, to the types of jobs they are doing, to the employers themselves—have been significant. Only 12 percent of companies on the Fortune 500 list in 1955 remained there in 2014; the rest have gone
bankrupt, merged, or fallen behind. So, while it is hard to fathom what the workplace will look like in the next several decades, it is safe to say that employees will increasingly need to learn new skills to adapt to rapid shifts in our economy based on technological advances and other structural shifts.

Our proposal is aimed at mitigating these new risks facing today’s workers by promoting lifelong learning and retraining. Social Security Lifelong Learning Benefits would allow workers who have paid into the system and earned credit for at least 10 years to obtain Social Security benefits while they go to school. These Lifelong Learning Benefits would be limited to a two-year period while workers pursue full-time educational courses to get additional tools they need to thrive in today’s economy. The formula for these benefits would be calculated in the same manner as Social Security disability benefits, meaning that an average benefit would be a bit more than $14,000 per year. Similar to those receiving disability benefits, a person obtaining Lifelong Learning Benefits would be subject to an earnings test, meaning that person could not receive benefits if he or she earned more than the threshold monthly amount, which in 2017 is $1,170. Most people ages 30 and over who return to school today do not actually obtain an additional degree but spend roughly a year obtaining new skills or a certificate. This proposal would use existing infrastructure developed by the Department of Veterans Affairs in administering the post-9/11 GI Bill to ensure that students were obtaining a high-quality education from a reputable educational institution. Although this program would not provide tuition support, and many participants would likely have to take out student loans to return to school, the two-year cap and that the majority of those returning to school today are in their 30s should give participants ample time to both repay student loan debt and earn a higher income that would offset their brief time away from the workforce.

Our proposal features two financing options, one aimed at paying for itself and one aimed at minimizing added risks for workers. Under the first option (the Delay Option), workers who claimed preretirement education benefits would see their early eligibility age (EEA) and full retirement age (FRA) adjusted upward by the number of months they received the benefit. A worker born in 1960 or later who took the benefit for the full two years would thus have an EEA of 64 instead of 62 and an FRA of 69 instead of 67. This would have the effect of reducing future benefits by a roughly equivalent value to the amount taken preretirement. However, the additional education is likely to lead to higher earnings and high retirement benefits. Individuals who took the education benefit and later qualified for disability benefits would be held harmless so that the reduction in years of earnings would not count against their benefits.
Under the second option (the No Delay Option), workers who claimed preretirement education benefits would see no change in their retirement age or any other benefits.

Urban Institute analysts projected the impacts of both the Delay Option and the No Delay Option—for Lifelong Learning Benefits projected to start in 2019. Using data and earnings records for workers between 1968 and 2013, the researchers found that fewer than 1 percent of all people ages 30 to 64 returned to school each year during that period. To analyze these proposals, Urban projected this same low rate of workers returning to school, estimating no more than 750,000 annual participants during any of the years between 2019 and 2087.

Neither the Delay nor the No Delay Option would have a pronounced effect on the solvency of Social Security due to the small number of estimated participants. In fact, both proposals would very marginally improve solvency. The model also finds that both options would increase average income for participants over age 62, but those gains are not uniform and are larger for younger people, men, and those with higher education prior to using the credit. Our proposal has little effect on reducing poverty. This is not surprising, since 96 percent of people who return to school as adults have at least a high school diploma and more than three-quarters of people have at least some college education. Individuals with less than high school degrees, who are at particularly high risk of poverty, historically represent less than 1 percent of today’s returning students. That being said, it is certainly possible we could see an increase in reeducation among all economic backgrounds in the workforce because of the added financial support available to those seeking additional skills.

Several other potential benefits of this program cannot be examined with this model. Workers with more education and training may be able to transition into less physically demanding jobs or jobs with more flexible hours, potentially allowing them to stay in the workforce into their 60s and 70s. Working longer affords these workers opportunities to put more money away for retirement, enhance their Social Security benefits by claiming later, and potentially leave their savings relatively untouched. Both options would increase retirement saving compared with current law, but the aggregate differences are small. Median retirement account assets among all individuals ages 62 and older in 2065 would increase 3 percent, and average retirement account balances would increase by 1 percent. Importantly, the model predicts roughly 2 percent of all Americans would delay claiming beyond age 62, a larger than expected impact given less than 1 percent of the working population is forecasted to take advantage of these new benefits.

The Social Security program has shown throughout its history that it is capable of adapting and changing with the times to address new risks.
This proposal addresses the changing job market and economy as well as increasing longevity in the workforce by building in the ability for workers to get income replacement as they gain new skills or education. While it slightly improves solvency even if workers’ later benefits are not reduced, it does not make the Social Security system solvent beyond 2033, so it would need to be packaged with responsible reform efforts that shore up the long-term financing of the program. That said, the Social Security program has shown throughout its history that it is capable of adapting and changing with the times to address new risks. As we debate the future of the program, it is imperative that we also discuss these new risks—and how innovations such as Lifelong Learning Benefits can mitigate those risks and protect tomorrow’s workers.

**FIGURE 1.** Projected Retirement Claiming Ages for People Born 1980 to 1989