A TARGETED MINIMUM BENEFIT PLAN (MBP):
A New Proposal to Reduce Poverty Among Older Americans

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This paper represents the views of the authors and does not necessarily reflect the views or policy of AARP or the opinions or policy of any agency of the federal government nor of any of the educational and research institutions that sponsor their work. An extended version of this proposal and analysis is forthcoming in RSF: The Russell Sage Foundation Journal of the Social Sciences.
ABSTRACT

In recent years, the big news in Social Security reform has been the program’s level of fiscal stability. Beneath the headlines, however, large pockets of poverty remain among older Americans, particularly women and black Americans. In light of concerns about both program costs and benefit adequacy, we propose an effective and relatively inexpensive targeted program to provide a minimum income guarantee through the Social Security system. This minimum benefit plan (MBP), modeled after the Canadian minimum benefit for older individuals with benefit determination akin to the United States’ Earned Income Tax Credit (EITC), could provide a cost-effective method for reducing poverty among older Americans. Canada has achieved much greater poverty reduction among older individuals while spending much less on social retirement programs than other rich countries—and slightly more than the United States. A key element to this plan, unlike other proposed Social Security minimum benefit proposals, is that the benefit would not count towards income eligibility thresholds for other social programs, such as Medicaid and the Supplemental Nutrition Assistance Program (SNAP). Other aspects of this plan include: 1) an income-tested benefit that would bring individuals/married couples to 100 percent of the poverty threshold; 2) application via the filing of a 1040 Income Tax Return; and 3) benefit levels and distribution via the Social Security Administration.
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INTRODUCTION

In recent years, the big news in Social Security reform has been the program’s level of fiscal stability. Beneath the headlines, however, large pockets of poverty remain, particularly among older women. In light of concerns about both program costs and benefit adequacy, we propose an effective and relatively inexpensive targeted program to provide a minimum income guarantee through the Social Security system. This minimum benefit plan (MBP), modeled after the Canadian minimum benefit for older individuals (the General Income Supplement or GIS) with benefit determination akin to the United States’ Earned Income Tax Credit (EITC), could provide a cost-effective method for reducing poverty among older Americans.
THE RISK FOR POVERTY AND ECONOMIC SECURITY AMONG THE AGED

Although Social Security has been the United States’ most effective anti-poverty policy, reducing poverty rates among older individuals from nearly 40 percent in the late 1950s to around 9 percent today, problems with income security among older adults remain. While Social Security provides an income floor, economic insecurity is still a common experience for many older Americans. This is especially true for subgroups who face even higher poverty rates. The poverty rate for single older adults is three times as high as for married older adults (Proctor et al., 2016). For example, 4 percent of married adults versus 15 percent of single older adults fall below the official poverty line. Women are nearly twice as likely to be poor as are men. Black older adults are three times as likely to be poor as white older adults (18 percent compared to 6 percent). Particularly striking is that nearly 30 percent of single black older adult women live below the poverty line; the rate for comparable white women is 13 percent (Proctor et al., 2016).
CURRENT OLD AGE SECURITY INCOME PROGRAM

ANTIPOVERTY ISSUES

To a great extent Social Security has been extraordinarily successful at protecting older adults from economic insecurity and poverty. Indeed, Social Security is the most successful antipoverty policy ever implemented in the United States; no other policy has so dramatically decreased poverty. Poverty rates declined from nearly 40 percent in the 1950s to under 10 percent today among those aged 65 and older, largely as a function of more generous income protections offered to successive generations by Social Security (Englehart et al., 2002; CBPP, 2015). Indeed, poverty rates among older adults today that exclude Social Security income would be about 40 percent compared to under 10 percent (CBPP, 2015).

But the program does have some important weaknesses in terms of its ability to protect older Americans from poverty and income insecurity. The first issue revolves around spousal and survivor benefits. Individuals who have been married for at least 10 years can qualify for Social Security based on marital status. At the full retirement age, they can receive a spousal benefit that is 50 percent of the value of their married partner’s benefits. The survivor benefit when the partner dies is equivalent to 100 percent of the deceased’s benefit.

Spousal and survivor benefits are predominantly received by women. While in more recent cohorts growing percentages of women qualify for worker benefits (benefits based on their own employment and earnings), they are still just as likely as their mothers were to draw on their spousal and widow benefits because their earnings are generally much lower than their husbands’ earnings (Sass, 2016). Just as in 1960, nearly two-thirds of women today draw on benefits based on their spouse’s earning’s record—although a growing fraction of these women are dually entitled (Social Security Administration, 2015). Dually entitled means that while women qualify for spousal/widow benefits and worker benefits, they draw on the spousal and widow benefits because these benefits are higher than their worker benefits (Herd 2005a).

The reasons why women’s earnings continue to lag men’s are still rooted in their lower levels of labor force participation and earnings—a function of both gender discrimination in the labor force, structural limitations that impede labor force
participation among those with children, and women’s ongoing disproportionate responsibility for providing care for both children and older adults (Budig and England, 2001; Kahn et al., 2014). About 60 percent of mothers who had a child in the last year were in the labor force (Kaestner et al., 2016). Moreover, there has been an upward trend since 2000, especially during the Great Recession, in the fraction of stay-at-home mothers (Pew, 2014). Though men do more of the housework and child care than in previous generations, women still spend about twice as much time on childrearing activities compared to men (Bianchi et al., 2006). The long term implications for cumulative lifetime earnings—and thus subsequent Social Security benefits earnings linked to earnings—is large. White women earn 82.5 percent of what white men earn, black women earn 89.9 percent of what black men earn, and Hispanic women earn 89.0 percent of what Hispanic men earn. (Herd, 2005a; IWPR, 2016).

Even among those who qualify for spousal and survivor benefits, the benefits are less progressive than the worker benefit and reduce the overall progressivity of the program. So while the features of spousal and survivor benefits offset these risks disproportionately faced by women, this protective feature of the program only helps those who marry—for a minimum of 10 years. It is important to note that, historically, these benefits have been somewhat less helpful to black and poor women given their greater propensity to be employed and lesser propensity to marry compared to white women. Dramatic changes in marriage trends are further reducing the effectiveness benefits for all women, especially for black women and women with low educational attainment. The percentage of women born between 1960 and 1964 who will never marry is 5.4 percent for college graduates and about 12 percent for non-college graduates. The race differences are even more striking. While around 7 percent of white women will never marry, 36 percent of black women in this cohort will never marry (Goldstein and Kenney, 2001). Younger cohorts of women are also far more likely to divorce. Divorced women need a 10-year marriage to qualify, but fewer than 50 percent of marriages will meet this criterion in future cohorts (Haider et al., 2003). The result is that among women born in the 1960s, the proportion of white and Hispanic women that reach old age qualified for spousal or widow benefits will hover just above 80 percent, while just 50 percent of black women will qualify (Harrington Meyer et al., 2006).

Even among those who qualify for spousal and survivor benefits, the benefits are less progressive than the worker benefit and reduce the overall progressivity of the program (Gustman, Steinmeier, and Tabatabai, 2011; Harrington Meyer, 1996; Herd, 2005a). With the worker benefit, the lower an individual’s average lifetime earnings, the higher the percentage of earnings the benefit replaces. Someone earning $6,000 a month across his life would have a benefit
that replaces 31 percent of this level ($1,866 a month). The added spousal benefit makes this rise to 47 percent. In contrast, a couple who each earned an average of $1,000 monthly would have benefits that replace 68 percent of prior earnings (for a household total of $1,258). While still progressive, this latter couple sees no benefit from spousal benefits despite their greater labor force participation and lower incomes.

A final problem with spousal and survivor benefits is that they penalize dual-earner couples, who now compose the majority of families. In 2015, just over 60 percent of married couples with children under the age of 18 were both employed, compared to less than one-third in 1950 (Bureau of Labor Statistics, 2016). The problem for dual-earner couples can be illustrated in the following example. In one couple, each spouse earns $30,000 a year for a combined average annual lifetime income of $60,000. The other couple is a one-earner household with a total income of $60,000. The woman in the one-earner household would receive a $1,200 widow benefit. The woman in the two-earner couple, as a widow, would receive only an $800 benefit. Her widow benefit is $800 and her worker benefit is also $800, but she receives just one of the two benefits.

The dual earner couple penalty is one that is disproportionately harmful to black families. Historically, black married women have had a greater likelihood of working as compared to white women (Goldin, 1977). Moreover, black households remain more likely than white households to have more similar earnings between spouses (Winslow-Bowe, 2009). Married couples with the most equivalent earnings pay the highest dual earner penalty.

The second problem Social Security has developed is a function of dramatic changes to the sources of income for older adults. The composition of retirement income has shifted over the past thirty years from a mixed portfolio of individual and collective risk to one dominated by individual responsibility and risk. Indeed, the structure can no longer be portrayed as the traditional three-legged stool—Social Security, employer-provided pensions, and personal savings—with varying degrees of risk, balanced in favor of collective risk. In the past, both the Social Security leg and the employer-pension leg pooled risk across all beneficiaries, with the government and employers, respectively, assuming responsibility. The personal-savings leg posed the most risk to the individual, but it represented only a third of the structure.

Now, however, the balance has changed. Unlike in the past, when most employer-provided pensions were in the form of defined benefit plans, managed by employers with defined benefits regardless of changing economic conditions, today most employment-related pensions are in the form of defined contributions, which are managed by the employee. In the 1970s, approximately one-quarter of private sector employees participating in an employer sponsored
pension plan participated in a defined contribution plan—and these individuals were largely concentrated among small employers with large employers nearly exclusively providing defined benefit plans. By 2013, 70 percent of private sector employee pension participants were in defined contribution plans (EBRI, 2015). Thus, the employer provided pension leg now places the risk on the individual, just as the personal savings leg does. The value of this type of pension, like the value of personal savings, is linked to the ups and downs of the stock market and the individual’s ability to invest those resources wisely. Poor decisions, or simply bad luck, can decimate individuals’ retirement income.

Moreover, as “alternative work engagements”1 rapidly expand in the “gig” economy, employer pension support is dropping (Katz and Krueger, 2016; Harrington Meyer and Herd, 2007). The fraction of workers offered pensions has fallen from 74 percent in the late 1970s to 64 percent in 2012 (Munnell and Bleckman, 2014). Finally, the Great Recession put all forms of savings at risk. Even with the penalty for early withdrawal, the percent of individuals taking early withdrawals from defined contribution plans rose from 13.3 to 15.4 percent between 2004 and 2010 (Argento et al., 2014).

While Social Security still provides some floor, the lack of a more traditional income guarantee, which would provide a flat income payment to protect against poverty, weakens the program’s ability to provide improved protections against the new financial risks older adults are facing.

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1 Katz and Krueger (2016) define alternative work arrangements as temporary help agency workers, on-call workers, contract workers, and independent contractors or freelancers. Their data show that the percentage of workers engaged in alternative work rose from 10.1 percent in February 2005 to 15.8 percent in late 2015.
ADDRESSING THE POLICY PROBLEM

A new minimum benefit has become one of the most common proposals to address general poverty among older individuals, as well as the weaknesses of spousal and survivor benefits (Congressional Research Service, 2014). Before discussing minimum benefits in the current policy context and our proposed minimum benefit proposal, however, there are a few alternative policy options that should be noted. We feel that each of these options has important negative features that would be better met by our proposed minimum benefit plan.

EARNINGS SHARING

Periodically, policy analysts renew attention to earnings sharing as a mechanism to address weaknesses with spousal and survivor benefits. Given the notion that decisions about who should work and who should stay home to care for children or older parents may be made as a couple, then perhaps rewards via Social Security should be reaped as a couple. Thus, both persons in a marriage should receive credit for half of each year’s earnings for Social Security for the duration of the marriage (Iams, Reznik, and Tamborini, 2010; Favreault and Steuerle, 2007; CBO, 1986; Burkhauser, 1982). While these proposals reduce gender inequality within married couples, they do not address poverty for the growing share of women who spend all or most of their adult lives single.

INCREASING SURVIVOR BENEFITS

Currently, spouse beneficiaries receive 50 percent of their spouse or ex-spouse’s benefit, and widows receive 100 percent of that benefit. Concerned about poverty among widows, many policy analysts have proposed giving less to the couple while the husband is alive and more to the widow once he is dead (Smeeding, Estes, and Glasse, 1999; Hurd and Wise, 1997; Burkhauser and Smeeding, 1994). The U.S. Government Accountability Office (2007) recently explored giving spouses just 33 percent and the worker benefit, but then giving widows 112.5 percent of the worker benefit. While such proposals show some redistribution of resources to lower-income women, they do

Many policy analysts have proposed giving less to the couple while the husband is alive and more to the widow once he is dead.
not provide any economic security for women who are not eligible for spousal and survivor benefits. These are the women, however, most in need of economic assistance.

CARE CREDITS

Some policy analysts favor care credits as a way to provide an economic reward for those who either take time out of the labor force or have low earnings due to the care they have provided children, the disabled, or older relatives and those with disabilities. Early options included adding more drop-out years to the benefit formula, or even permitting caregivers to drop all zero year earnings from the benefit formula, so that those who opted out of work to care for family members could drop more than the currently allowed five years from the 35-year earnings benefit calculation (Herd, 2006).

Such proposals do not take into account those with reduced wages due to care work, thus more recent proposals provide a credit for earnings that were in fact not, or only partially, earned. Some provide credit only for child care, while others include care for older people (Herd, 2006; U.S. GAO, 2007). The main problem with care credit proposals, however, is that they are not particularly effective at targeting the poorest beneficiaries and substantially improving their incomes (Herd, 2006), though they are relatively more effective than many of the alternatives.
WHY CURRENT MINIMUM BENEFITS ARE FAILING OLDER AMERICANS

While the United States does have a means-tested minimum benefit, the Supplemental Security Income Program (SSI), the benefit has some serious problems that prevent it from effectively protecting the income security of the oldest Americans (CBPP, 2014). In combination with Supplemental Nutrition Assistance Program (SNAP, formerly Food Stamps) benefits and very minimal Social Security benefits, SSI would lift a single person with no other income to only 85 percent of the United States poverty standard, while a couple would be lifted to 101.8 percent of that standard. However, 80 percent of SSI beneficiaries are single, so most SSI beneficiaries have incomes well below the poverty line. SSI counts all unearned income (for example, Social Security benefits and interest on savings and dividend income) at a 100 percent marginal tax rate over and above the $20 per month income exclusion, while earned income is subject to a 50 percent tax rate, with additional exclusions for work expenses. SSI also has asset tests. In 1972, when SSI was created, asset limits were set at $1,500 for individuals and $2,250 for couples. In 1989, they were raised to $2,000 for individuals and $3,000 for couples and have not been raised since. If these guidelines had kept pace with inflation since 1989, they would be more than three times the size of the current levels at $7,652 for individuals and $11,478 for couples.

The problem with SSI is its low take-up rate: between 40 percent and 60 percent of those who are eligible do not even apply for benefits (CBPP, 2014; McGarry, 2000; McGarry and Schoeni, 2015; Smeeding, 1999). Overall, just 60 percent of poor older Americans receive SSI benefits (U.S. House Ways and Means Committee Green Book, 2004). Eligible poor older Americans who do not apply are unaware of the benefits, put off by the cumbersome eligibility forms or too stigmatized by the process. Another reason for low take-up is that older Americans must apply separately for SSI. This additional administrative layer, alongside a complicated application due to factors such as asset tests, reduces take-up (CBPP, 2014; Hubbard, Skinner, and Zeldes, 1995). In short, SSI has not been an effective minimum benefit. The asset guidelines and the complicated
administrative structure reduce the program’s effectiveness at improving the income security of the poorest older Americans.

While some have argued for the improvement of SSI benefits rather than the creation of a minimum benefit within Social Security, this strategy would be problematic. In short, the administrative structure of the program, including complicated eligibility procedures and an application process separate from Social Security, makes it very difficult for the program to be effective. The administrative structure is, in large part, responsible for the participation rates. Contrastingly, Social Security has nearly 100 percent take-up. Because our MBP requires meeting the 40 quarters of earnings eligibility criteria for Social Security, SSI should continue to play a valuable role as the ultimate backstop for destitute (and frequently disabled) older individuals, especially those in need of nursing home care or other Medicaid financed care, but its expansion may not be the best way to create a substantial reduction in income poverty among older Americans.

In addition to SSI, there is a special minimum benefit currently within the Social Security program that we should note—but in 2014, for example, only 53,000 beneficiaries, or far less than 1 percent of beneficiaries, received it. In short, it requires many years of low earnings and the benefits linked to it are limited. Few people actually have consistent numbers of work years with very low earnings. Approximately 4 percent to 6 percent of full-time earners had below minimum wages for more than 12 consecutive months (Olsen and Hoffmeyer, 2002). Moreover, parameters in the minimum benefit calculation grow with Social Security’s cost-of-living adjustment rather than with wages, as other Social Security benefits do. Feinstein (2013) points out that, as a consequence, it is exceedingly and increasingly rare for people to qualify for or benefit from the special minimum benefit. In recent years, the only people who have qualified have been individuals who would have received reduced Social Security benefits because of a government pension and their family members (Feinstein, 2013).
OPTIONS FOR THE UNITED STATES: A NEW MINIMUM BENEFIT PLAN (MBP)

If SSI does not have a great potential for further reducing poverty among older Americans, what is to be done? The model for our pension proposal is the Canadian Guaranteed Income Supplement (GIS) and the United States’ Earned Income Tax Credit (EITC). Canada has managed to achieve much greater poverty reduction among older individuals while spending much less on social retirement programs than other rich countries—and only slightly more than the United States. The reason is that Canada spends its public pension money differently. In particular, Canada spends a lot on the near-universal Old Age Security and income-tested GIS programs, with no asset test and a relatively simple annual application process that permits an income test integrated with income tax filing. Over 90 percent of eligible older Canadians participate in GIS (Battle, 1997, 2001), compared to about 50 percent of eligible older-Americans participating in SSI (U.S. House Ways and Means, 2004; McGarry, 2000; McGarry and Schoeni, 2015; Smeeding, 1999).

The most similar U.S. welfare policy to the Canadian GIS, in terms of administration and benefit application procedures, is the Earned Income Tax Credit (EITC). The EITC delivers income supplements to poor working age Americans. The EITC 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 means that around 80 percent of those eligible actually receive benefits (Jones, 2014). This is a substantial improvement over SSI’s 50 percent take-up rate.
PROPOSED FEATURES OF THE TARGETED MINIMUM BENEFIT PLAN (MBP)

ELIGIBILITY

The first feature of a targeted minimum is the program’s eligibility requirements, which may include income, asset, residency, work history, and citizenship tests. There is widespread evidence that liquid asset tests in the United States reduce savings (Hubbard, Skinner, and Zeldes, 1995; Powers, 1998; Neumark and Powers, 1998). The Canadian GIS and the EITC have no asset test. We would discourage an asset test for the following reasons: (1) it negatively impacts savings; (2) it would substantially increase the administrative cost and complexity of managing the program; (3) asset income would be included in total income eligibility; and (4) the EITC provides a precedent for not including an asset test.

Our Proposal

The MBP would be payable at the Social Security normal retirement age, which is currently undergoing a gradual increase from 65 to 67. Eligibility would require at least 20 years of residency in the United States as well as meeting normal Old-Age & Survivors Insurance (OASI) eligibility tests. Moreover, eligibility would be based on income adjusted for marital status as linked to poverty income thresholds. Single individuals would qualify if their income fell below 100 percent of the poverty level for a single person household. Married individuals would qualify if their income fell below 100 percent of the poverty level for a two person household. We will require that both individuals in the married couple be of eligibility age for Social Security to top up income to the two person household level.

BENEFIT LEVELS AND INCOME EXCLUSIONS

A second critical feature of a targeted program is its benefit levels and income exclusions (set-asides and phase-outs). Higher benefit levels obviously lead to greater expenditures but less poverty. A more generous phase-out range—for example, allowing individuals to exclude half of all earnings or income from savings—also leads to higher expenditure levels because the program reaches a broader clientele higher in the income distribution. However, they also may provide added incentives for low-
income workers to save, if only modestly, for retirement, and for older individuals with low earnings histories to continue working at least part-time in order to improve their living standards. Further, having older individuals continue to work improves the overall financial strength of the program. Similar incentives may be created by excluding or setting aside some fixed amount of other retirement income. For instance, the SSI program allows eligible beneficiaries to set aside up to $20 per month ($240 per year) of other retirement income, like OASI. We would also discourage employment tests beyond the 10 year/40 quarter work history requirement. Many minimum benefit proposals are premised on linking the number of earnings years to benefit size (i.e., 40 years of earnings leads to a 100 percent poverty level benefit). The problem, however, is that the people who most need a generous minimum have had numerous labor force exits (Favreault 2010, forthcoming). Individuals at the bottom of the labor market are the first to be laid off during recessions, with no mandatory paid sick leave; in the U.S., they lack job protection if they or their children get sick, and more generally limited educational attainment puts them in employment categories that provide limited long-term job protection. All of these factors make it difficult to generate a continuous and consistent stream of earnings years across the life course. Adjusting minimum benefits for caregiving and unemployment would be one strategy for improving their reach (Favreault, 2009).

Our Proposal

As noted above, eligibility standards (including asset and income tests and phase-out ranges) have a major impact on both the cost of a program and its effectiveness in reducing poverty. The MBP should offer a minimum benefit guarantee of 100 percent of the federal poverty level. There would be a general income exclusion, or set-aside, of $125 per month for all other income sources (earnings, pensions, property income). Those achieving eligibility for Social Security, which requires at least 10 years of earnings, would be eligible for the full minimum benefit. A full minimum guarantee should be available to those who have spent at least 20 years as residents of the United States since attaining 18 years of age and having 40 quarters of payroll tax coverage (to be OASI eligible). For those who have not lived here that long, the income guarantee amount would be pro-rated based on the percentage of years that they have lived in the United States. The benefit would be adjusted based on marital status. The MBP would ensure income to 100 percent of the poverty line for single and married couple households. Allowing individuals to exclude half of all earnings or income from savings leads to higher expenditure levels because the program reaches a broader clientele higher in the income distribution.
ADMINISTRATIVE STRUCTURES AND TAKE-UP

The program’s administrative and eligibility structure and the way that it impacts the percentage of those who are eligible who actually get benefits, is a third critical aspect of safety-net pension programs. Take-up is affected by (1) the stigma attached to the program; (2) the accessibility of the program, including ease of application and re-application; (3) whether or not government mounts strong outreach efforts to ensure that all eligible persons enroll; and (4) the level of benefits expected once we ascertain eligibility (Herd and Moynihan, forthcoming; McGarry, 2000). As already noted, only 40 percent to 60 percent of eligible older individuals apply for SSI, compared to 90 percent or more for the Canadian system and around 80 percent for the EITC. There are also serious problems of SNAP take-up among eligible older individuals even though older SSI recipients have an option to convert food stamps to cash in order to avoid stigma.

Our Proposal

MBP payments would be combined with the OASI benefit checks in a single monthly payment. Eligibility redetermination should generally be automatic through the income tax system. Thus, every older person needs to file an income tax return to qualify—similar to the way that the EITC is currently administered. Since only about half of all OASI recipients file income taxes, nonprofit and aging advocacy groups would need to help older individuals file a simple 1040, much the same way that Volunteer Income Tax Assistance (VITA) sites have helped low income families with children to apply for and claim their benefits from the EITC. Simple (EZ-1040-A) income tax forms would have to be filed, with the key information on other income sources and liquid asset levels sent from IRS to SSA automatically—or administered by IRS. In effect, the MBP check would simply “top up” the OASI check to the determined percentage of the poverty level (with adjustments for other sources of income). Once older adults qualify for the credit, however, they will no longer need to refile the 1040, except in unusual circumstances, when a person’s income changes sharply. This provision is key to reducing any administrative burden that could hinder participation among older adults (Herd and Moynihan, forthcoming). Because older adults’ income is unlikely to increase, we do not anticipate meaningful overpayments resulting from this provision. We expect that the income tax form qualification process will raise MBP participation to 80 percent or above, based on the Canadian experience and the EITC in the United States, including recent experience with the stimulus payments during the Great Recession.

Linking to Other Social Safety Net Programs: Another important aspect of safety net pension programs is how they connect to other safety net programs, such as reduced-cost medical care or pharmaceutical coverage, housing benefits, etc. The first issue is whether they provide an “automatic passport” to these programs.
On the one hand, passporting may provide additional incentives to qualify for, and then to take up, safety net pension benefits even if asset tests are severe and bureaucratic barriers are high. On the other hand, strong passporting effects may also make government reluctant to expand eligibility for a safety net pension program because it fears that doing so would lead to run-away program costs in both sets of programs. The link between SSI for the aged and Medicaid benefits is especially important because SSI carries with it an automatic “passport” to Medicaid eligibility. A substantial expansion of SSI eligibility to older adults with low lifetime earnings, while maintaining the automatic passport to Medicaid, would have substantial cost implications both for the federal government and the states, thus is outside the scope of this proposal.

The second issue is whether income supplements from one safety net program affect eligibility to other safety net programs. For example, eligibility for additional cash income from the EITC does not count towards income thresholds for programs like Medicaid and SNAP. Under prior minimum benefit proposals, the additional income would count towards eligibility for other safety net programs. This raised some thorny issues given that 1 in 5 older adults uses Medicaid to supplement their Medicare benefits. Without Medicaid, their out-of-pocket costs could eat up nearly 50 percent of their income (KFF, 2016).

Our Proposal
There should be no automatic passport from the MBP to Medicaid as there is with SSI, but persons who would otherwise be eligible for Medicaid (that is, who meet SSI asset tests) should not be barred from receiving Medicaid because they receive a MBP benefit that puts them above SSI income limits. Separate Medicaid eligibility determination on a medical-needs basis would be expected, as is the case today for most older Medicaid recipients. Low-income older individuals can still receive the Qualified Medicaid Beneficiary (QMB) benefit, which pays the premium and deductibles for Medicare, and hospital and doctor care from state Medicaid funds, but full Medicaid qualification would require separate application (U.S. House Ways and Means, 2004). SNAP benefits would operate in the same way, totally independent of the MBP.

The delinking of Temporary Assistance for Needy Families (TANF) from Medicaid during the 1996 welfare reform led to significant reductions in participation in the Medicaid program.
federal government is already coordinating closely with states regarding state level Medicaid eligibility via the ACA Health Care Exchanges, individuals below income Medicaid eligibility levels could receive—at a minimum—notifications that they may be eligible for Medicaid along with information as to how to apply for the Medicaid program. All individuals should receive an annual accounting of the size of the MBP so that they have documentation if needed for application to other social welfare programs.

FUNDING AND COSTS

A final issue with a targeted MBP regards funding and costs. The MBP could be general revenue financed or trust fund financed. The virtues of general revenue finance are that it relieves any MBP-induced pressure on the trust fund balance, and it does not raise payroll tax contributions to fund a program targeted only to the otherwise poor. Just as Medicare Part B is, in part, general revenue financed, the MBP would rely on general revenues to top up benefits paid from the OASI trust fund to poverty line income levels. Moreover, as more older women and low earners accrue more complete lifetime work histories, the MBP outlays and participants will fall, as have GIS outlays in Canada (Myles, 2000).

Our Proposal

We propose that the MBP be funded through general revenues, similar to Medicare Part B. However, we want to be clear that the MBP is a part of Social Security, as Medicare Part B, which is also largely funded out of general revenues, is a part of Medicare. To address cost issues with this new program, we also propose a gradual reduction in auxiliary spousal benefits. This would not likely produce negative impacts for the poorest Americans because they would end up qualifying for the MBP. The likely individual receiving a reduction in Social Security benefits with the elimination of spousal benefits is the spouse of a relatively high earner who herself had a relatively limited earnings history.
In order to evaluate the relative costs and benefits of this proposal, the Urban Institute, utilizing its DYNASIM model (for further details see: http://www.urban.org/policy-centers/cross-center-initiatives/program-retirement-policy/projects/dynasim-projecting-older-americans-future-well-being), conducted a simulation to evaluate how much the proposal would cost, as well as its influence on the economic security of older adults. DYNASIM was designed to simulate changes to retirement policies specifically. It does not incorporate potential behavioral responses to those policies.

In terms of overall costs, in its first years of implementation it is expected to be around $20 billion or 1.7 percent of current Social Security expenditures. Over time, the cost would decline to around less than 0.01 percent in 2089—largely due to the fact that the benefit, linked to the poverty level, is indexed to inflation rather than wages. The 75-year actuarial deficit would rise from 13.68 percent to 13.81 percent.

The impacts on beneficiaries, particularly those with low incomes, are significant. Figure 1 shows how the MBP compares to the current program in terms of its influence on poverty. 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

![Figure 1. Poverty Rate among Individuals Age 62 and Older in Selected Years by Option](chart.png)
4.5 percent in 2035. Figure 2 demonstrates that these changes are concentrated among those aged 69 and older, largely because the benefit does not begin until age 67. Most strikingly, in terms of the redistributive implications, Figure 3 demonstrates that 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.

Figure 4 shows the effect of our policy on poverty rates by marital status. Our policy has the greatest reduction on poverty (8 percentage points) for those never married, followed by those

**FIGURE 2.** Change in Poverty Rate for Minimum Benefit Option Compared to Current Law among Individuals Age 62 and Older by Age in Selected Years

![FIGURE 2](image)

**FIGURE 3.** Percent Change in Average Per Capita Net Cash Income among Individuals Age 62 and Older by Shared Lifetime Earnings in Selected Years

![FIGURE 3](image)
divorced (5.6 percentage points), widowed (2.7 percentage points), and married (1.5 percentage points). The relatively smaller reduction for widows may reflect that this pool of beneficiaries, many of whom are formerly married women, were less likely to meet the 40 quarter work eligibility requirement for the benefit. Finally, Figure 5 shows the effect of our policy on poverty rates along racial/ethnic lines. By 2025, poverty rates among black and Hispanic beneficiaries will drop by 6 percentage points, though it is worth noting that because Hispanics have a larger poverty rate to start with, the relative change in poverty is much larger among black Americans. This difference likely reflects the implications of the residency requirement with greater numbers of Hispanics not meeting this requirement.

While the proposal produces significant declines in poverty, it is important to note the long term limitation of this approach. In short, as wages rise, the relative value of this benefit declines over time. This is why the benefit becomes less costly over time, but in relative terms also becomes less effective at assuring income security among older adults. As Figure 1 shows, by 2065 the difference in projected poverty rates between current law and our proposal diminishes over time, and equals 1.6 percentage points in 2065.
**FIGURE 5.** Poverty Rate among Individuals Age 62 and Older in Selected Years by Race/Ethnicity and Policy Option, 2025

<table>
<thead>
<tr>
<th>Race/Ethnicity</th>
<th>Current Law</th>
<th>Minimum Benefit Option</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>4.7%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Black</td>
<td>13.1%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>20.8%</td>
<td>14.9%</td>
</tr>
</tbody>
</table>
CONCLUSION

A new Minimum Benefit Plan in Social Security could markedly lower poverty among older Americans in a way that is affordable and politically viable. Although adding a new tier of benefits further complicates the panoply of United States policies toward the aged, that fact has political virtues as well—it gives politicians the opportunity to claim credit for creating a new program that will reduce poverty among a politically popular clientele at a relatively low cost and without a new bureaucracy to create another new program.

There are a few features of this plan that distinguish it from prior proposals to include a minimum benefit in Social Security. First, it is the plan that most tightly targets 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, weakening their targeted nature. Further, unlike some prior minimum benefit proposals that require many years of work, this minimum ensures that those most economically vulnerable—which are typically those who have not had consistent labor force participation (Favreault 2010, forthcoming)—are protected.

The second key distinguishing feature of this proposal, as compared to prior proposals to integrate a minimum benefit into Social Security, is that it is sensitive to program interactions, especially with Medicaid. Nearly 1 in 5 older Americans use Medicaid to provide supplementary insurance for their Medicare benefits. Older adults with Medicaid coverage spend $3000 less annually in out-of-pocket health care expenditures than individuals who have to purchase private supplemental coverage (Kaiser Family Foundation, 2014). If an individual gains even $2000 in additional income from a minimum benefit, but loses their Medicaid coverage, they may actually come out behind.

The issues with program interactions do point to a critical issue with this proposal.

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2 Aged poverty elimination would not be possible with mechanisms tied strictly to Social Security eligibility. Whitman, G. L. (Re011) describe the characteristics of non-beneficiaries of Social Security ages 62 to 84 in 2010. This group is comprised largely of late-arriving immigrants and people with little work history. Those who do not receive Social Security have very high poverty rates, and are often very dependent on their family members’ incomes.
The federal government could use data from income tax returns to assess the likelihood of eligibility for state level Medicaid programs. Indeed, the federal government is already doing this in the ACA health care exchanges. They could use this information to notify individuals—and even states—of the possibility that beneficiaries may be Medicaid eligible, along with information regarding how to enroll. One reason why this may pose less of a problem than it did with TANF, however, is older adults generally have far more interaction with the health care system, which does significant amounts of work in facilitating enrollment in Medicaid.

A final issue to think through is whether the benefit would create any harmful incentives. First, would it create an employment disincentive? We expect either no or a very limited effect. The benefit does require 10 years of earnings to achieve eligibility for OASI. Second, there is little evidence that younger individuals have the working knowledge of the Social Security program that is necessary to understand how to maximize their benefits in such a fashion to lead to reduced labor force participation. Finally, could this benefit create a marriage penalty, negatively altering the labor force participation within a married couple? While there is evidence that the EITC does produce a slight disincentive for married women to work, the degree of lifetime labor force participation planning that would be required to maximize the much smaller poverty level benefit proposed here makes this type of gaming unlikely.

As already noted, another implementation issue regards the potential impediment created by requiring the use of a 1040 tax form to determine eligibility, given that many older adults do not file taxes. First, we’d note that this form is far easier than the eligibility procedures to access more traditional poverty based benefits, including SSI. Second, given the record of high take-up with the EITC, we expect that high levels of outreach can ameliorate barriers to access. Finally, we will not require that individuals re-file the 1040 once they are deemed eligible for the benefit—unless they have a change in income. Particularly at very low income levels among older adults, it is rare for there...
to be a meaningful income change from year to year. Given the increasing risk for serious health and cognitive declines, we believe this provision is critical to ensure those who need this benefit the most will continue to receive it.

While we believe that this plan provides a reasonable level of redistribution, there are political and financial limits to redistribution within a mature contributions-financed, earnings-related pension program. Building in too much redistribution is likely to lead to exit by upper-income contributors, where it is permitted (as with the State Second Pension in the United Kingdom), or to declining political support for the pension system among high-earners where exit is not allowed, such as in the United States. We do not believe, however, that this proposal crosses the line. Most of the world’s largest and most effective poverty reducing welfare states now include income tested minimum benefits. Sweden, Canada, Finland, Norway, and numerous other countries with very low poverty rates have successfully implemented and maintained targeted minimum benefits at modest cost. We can learn from them and add our own, U.S.-style plan.
REFERENCES


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