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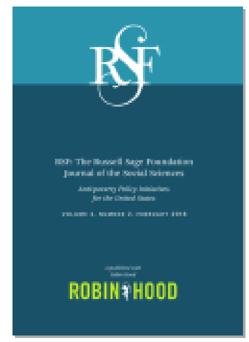

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A Targeted Minimum Benefit Plan: A New Proposal to Reduce Poverty Among Older Social Security Recipients

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In recent years, the big news in Social Security reform has been the program's fiscal concerns. 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. This minimum benefit plan would provide a cost-effective method for reducing elder poverty to very low levels. A key element is that the benefit would not count toward income eligibility thresholds for other social programs. Other aspects include an income-tested benefit that would bring beneficiaries to 100 percent of the poverty threshold; application by filing of a 1040 income tax return; and setting of benefit levels and distribution through the Social Security Administration.

Keywords: elderly, poverty, social security, income guarantee

In recent years, the big news in Social Security reform has been the program's fiscal concerns. Beneath the headlines, however, large pockets of poverty remain, particularly among those who are single, women, and black people. 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. This proposal would provide a minimum benefit to Social Security beneficiaries that increases their

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household income to 100 percent of the poverty level. This minimum benefit plan (MBP), modeled after the Canadian minimum benefit for the elderly (the Guaranteed Income Supplement or GIS) with benefit determination akin to the United States' Earned Income Tax Credit (EITC), would provide a cost-effective method for reducing old-age poverty among Social Security recipients to historically low levels.

THE RISK FOR POVERTY AND ECONOMIC SECURITY AMONG THE AGED

Although Social Security has been the United States' most effective anti-poverty policy, reducing elderly cash income poverty rates from nearly 40 percent in the late 1950s to around 9 percent today, problems with income security among older adults remain (Marchand and Smeeding 2016). Social Security provides a guaranteed monthly income for most, but economic insecurity is still a common experience for many older Americans. Approximately 9 percent of older adults fall below the poverty line, though poverty rates that take the costs of medical care into account are closer to 14 percent (Renwick and Fox 2016). Moreover, subgroups face even higher poverty rates. The poverty rate for single older adults is three times as high as for married older adults (Proctor, Semega, and Kollar 2016). For example, 4 percent of married adults versus 15 percent of single older adults fall below the official poverty line. Older 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 versus 6 percent). Particularly striking is that nearly 30 percent of single black older women live below the poverty line; the rate for comparable white women is 13 percent (Proctor, Semega, and Kollar 2016).

Labor force participation, and therefore earnings, are limited for older people for a wide variety of reasons. Older adults face health problems, both physical and cognitive, that may limit their ability to participate in the labor force (Zajakova, Montez, and Herd 2014). They also face widespread age discrimination. We generally expect older people to exit the labor force, which is part of the reason that Social Security exists in the first place. Social Security recognizes the specific economic vulnerabilities associated with aging (Quadagno 1984). The broader rationale for protecting vulnerable old adults, which formed the justification for the New Deal, is that freedom from economic insecurity is a basic social right in a functioning democracy (Marshall 1950). The question becomes, how best to meet this social right?

CURRENT OLD AGE SOCIAL INSURANCE PROGRAM ANTI-POVERTY ISSUES

Social Security has been extraordinarily successful at protecting older adults from economic insecurity and poverty. Indeed, Social Security is the most successful anti-poverty policy ever implemented in the United States. Poverty rates declined from nearly 40 percent in the 1950s to under 10 percent today among those age sixty-five and older, largely as a function of more generous income protections offered to successive generations by Social Security (Englehart and Gruber 2004; Center for Budget and Policy Priorities 2015). Indeed, poverty rates among older adults today that exclude Social Security income would be about 40 percent (Center for Budget and Policy Priorities 2015). Nonetheless, Social Security is ineffective at protecting certain older Americans from poverty and income insecurity, notably black single women.

Social Security has a dual eligibility structure; recipients may qualify for benefits as either retired workers or as spouses of retired workers. Individuals quality for retired worker benefits, or Old Age Social Insurance (OASI), by having a minimum level of earnings over forty quarters, or a total of ten years of earnings. Benefit size is then based on the highest thirty-five years of earnings over one's work life. Individuals may also qualify for spousal and survivor benefits based on having been married to a qualifying worker for at least ten years. At the full retirement age, they can receive a spousal benefit that is 50 percent of the value of their current or previous partner's benefit. The survivor benefit, should that partner die, is equivalent to 100 percent of the deceased's benefit. Although individuals may be eligible for both benefits, they only receive one, whichever is the larger.

Spousal and survivor benefits are predominantly received by women. Although 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' (Sass 2016). Just as in 1960, nearly two-thirds of women today draw on benefits based on their spouse's earning's record—though a growing faction of these women are dually entitled (Social Security Administration 2015). Dually entitled means that though women qualify for spousal-survivor benefits and worker benefits, they draw on the spousal and widow benefits because these benefits are higher than their worker benefits (Social Security Administration 2015; Herd 2005b).

Women's earnings continue to lag men's because they have lower levels of labor force participation and lower earnings. Gender differences in earnings continue to be linked to gender discrimination in the labor force, chronic shortages of high-quality, affordable, flexible child care, and women's ongoing disproportionate responsibility for providing care for both children and older adults (Budig and England 2001; Kahn, García-Manglano, and Bianchi 2014). About 60 percent of mothers who had a child in the last year were in the labor force (Kaestner, Lubotsky, and Qureshi 2016). Moreover, the trend since 2000 has been upward, especially during the Great Recession, in the fraction of stay-at-home mothers (Cohn, Livingston, and Wang 2014). Although men do more of the housework and childcare than in previous generations, women still spend about twice as much time on childrearing activities as men do (Bianchi, Robinson, and Milkie 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 white men, black women earn 89.9 percent of black men and Hispanic women earn 89.0 percent of Hispanic men (Herd 2005b; IWPR 2016).

Accordingly, while the features of spousal and survivor benefits offset risks disproportionately faced by women, this protective feature of the program only helps those who marry—for a minimum of ten years. Historically, these benefits have been 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, but 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. Around 7 percent of white women in this cohort will never marry, versus 36 percent of black women (Goldstein and Kenney 2001). Younger cohorts of women are also far more likely to divorce. Divorced women need a ten-year marriage to qualify, but fewer than 50 percent of marriages will meet this criterion in future cohorts (Haider, Jacknowitz, and Schoeni 2003). The result is that among women born in the 1960s, the proportion of white and Hispanic women who reach old age qualified for spouse or widow benefits will hover just above 80 percent, versus 50 percent of black women (Harrington Meyer, Wolf, and Himes 2006).

Spousal and survivor benefits are less progressive than worker benefits and reduce the overall progressivity of the program (Gustman, Steinmeier, and Tabatabai 2011; Harrington Meyer 1996; Herd 2005b). With worker benefits, the lower an individual's average lifetime earnings, the higher the percentage of earnings the benefit replaces. If one person within a married couple earns $6,000 a month across his life, he would have a benefit that replaces 31 percent of this level ($1,866 a month). If his wife had not worked, her spousal benefit would increase the total household replacement rate 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). Although still progressive, the latter couple sees no benefit from spousal benefits despite their greater labor force participation and lower incomes.

Survivor benefits especially penalize dual-earner couples, who now make up the majority of families. In 2015, just over 60 percent of married couples with children under eighteen were both employed, versus less than 33 percent in 1950 (Bureau of Labor Statistics 2016). The problem for dual-earner couples is 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 survivor 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 disproportionately harmful to black families. Historically, black married women have been more likely to work than white women (Goldin 1977). Moreover, black households remain more likely than white households to have more similar earnings between spouses (Winslow-Bowe 2009). The married couples with the more equivalent earnings pay the highest dual-earner penalty.

Social Security is generally understood as one leg of a three-legged stool. The importance of Social Security income has been increasing as the other two legs, private pensions and private savings, have become more wobbly and unequal. Whereas Social Security continues to be based on collective risk, private pensions are increasingly based on individual risk and responsibility (Harrington Meyer and Herd 2007). 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. 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 almost exclusively providing defined benefit plans. By 2013, 70 percent of private-sector employees pension participants were in defined contribution plans (EBRI 2015). Employer-provided pensions now place risk almost entirely on individuals. 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 poor luck can decimate individuals' retirement income.

Moreover, private pension coverage is on the wane. A mixture of "alternative work engagements," such as contractual labor, the decline in jobs covered by unions, and the growing number of low-wage jobs, has led to a decline in employer pension support (Katz and Kreuger 2016; Harrington Meyer and Herd 2007).[1] The fraction of full-time workers in the public and private sector offered pensions has fallen from 74 percent in the late 1970s to 64 percent in 2012 (Munnell and Bleckman 2014). In the private sector, only 43 percent of all full- and part-time employees are offered pensions and about 37 percent actually participate. Finally, the Great Recession put all forms of savings at risk. Moreover, many participants gut their private pensions. Even with the penalty for early withdrawal, the proportion of individuals taking early withdrawals from defined contribution plans rose from 13.3 to 15.4 percent between 2004 and 2010 (Argento, Bryant, and Sabelhaus 2015).

The third leg of the stool, private savings have always been the most unstable. Private savings, which are organized around individual risk and responsibility, ebb and flow with changes in the economy. Generally, most Americans have more debt than savings, and in recent years private savings have been at record lows (Harrington Meyer and Herd 2007). Workers in jobs with less income, hours, benefits, and stability are least likely to be able to save. Older women, blacks and Hispanics, and single persons find it particularly difficult to save for old age.

Although Social Security still provides some floor, the lack of a more traditional income

1. Katz and Kreuger define alternative work arrangements as temporary help agency workers, on-call workers, contract workers, and independent contractors or freelancers (2016). 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.

guarantee within the program, 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.

ADDRESSING THE POLICY PROBLEM

A new minimum benefit has become one of the most common proposals to address both general poverty among the elderly, 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, we review some common alternative policy options. We argue that each of these options has important negative features and that an MBP would more effectively reduce old-age poverty.

Earnings Sharing

Periodically, policy analysts renew attention to earnings sharing as a mechanism to address weaknesses with spousal and survivor benefits. Given that decisions about who should work and who should stay home to care for children or frail 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; Congressional Budget Office 1986; Burkhauser 1982). Although 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, while 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 after he is dead (Smeeding, Estes, and Glass 1999; Hurd and Wise 1997; Burkhauser and Smeeding 1994). The U.S. Government Accountability Office (GAO 2007) recently explored giving spouses just 33 percent or giving widows 112.5 percent. Although such proposals show some redistribution of resources to lower-income women, they do not provide any economic security for women who have not met the marriage requirements for spousal and survivor benefits, who are often the women 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 because of the care they have provided for children, the disabled, or frail older relatives. 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 thirty-five 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 childcare; others include care for older people (Herd 2006; 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 the prior alternatives already detailed.

WHY CURRENT MINIMUM BENEFITS ARE FAILING OLDER AMERICANS

The United States currently has a means-tested minimum benefit program, Supplemental Security Income (SSI), the benefit has some serious shortcomings that prevent it from effectively protecting the income security of the oldest Americans (Center on Budget and Policy Priorities 2014). In combination with Supplemental Nutrition Assistance Program (SNAP, formerly Food Stamps) benefits and minimal Social Security benefits, SSI would lift a single person with no other income to only 85 percent of the poverty threshold, and a couple to 101.8 percent. However, 80 percent of SSI beneficiaries are single, so most have incomes well below the poverty line (Center on Budget and Policy Priorities 2014). SSI counts all unearned income, including Social Security benefits, interest on savings, and dividend income, at a 100 percent marginal tax rate over and above the $20 per month income exclusion, whereas 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. They 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 (Center on Budget and Policy Priorities 2014).

Additionally, SSI take-up rates are quite low: between 40 percent and 60 percent of those who are eligible do not even apply for benefits (Center on Buget and Policy Priorities 2014; McGarry 2000; McGarry and Schoeni 2015; Smeeding 1999). Overall, just 60 percent of poor elderly Americans receive SSI benefits (U.S. House Ways and Means Committee 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 (Center on Budget and Policy Priorities 2014; Hubbard, Skinner, and Zeldes 1995). In short, SSI does not provide 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.

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, however. 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 low take-up rates. In contrast, Social Security has nearly 100 percent take-up. Because our MBP requires meeting the forty quarters of earnings eligibility criteria for Social Security, SSI should continue to play a valuable role as the ultimate backstop for the poor (and frequently disabled) elderly, 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 elder income poverty. In fact, a new program that drew seniors from SSI to a more generous income benefit could be partially funded by a reduction in SSI benefits for the aged.

Although most are unaware of it, the Social Security program has a special minimum benefit, but the rules are so restrictive that, in 2014 for example, only fifty-three thousand beneficiaries, or far less than 1 percent, received it. In short, it requires many years of low earnings and the benefits linked to it are quite low. 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 twelve 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. Craig Feinstein (2013) points out that, as a consequence, it is exceedingly and increasingly rare for people to qualify or benefit from the special minimum benefit.

A NEW OPTION FOR THE UNITED STATES: A MINIMUM BENEFIT PLAN

To reduce poverty among the elderly, we argue for a new minimum benefit within Social Security that expands benefits and eligibility standards much less strict than they are today, but still ensures that only the poorest individuals receive it.

The models for our proposal are the Canadian GIS and the United States' EITC. Canada has managed to achieve much greater poverty reduction among seniors while spending much less on social retirement programs than other rich countries, though slightly more than the United States. The reason is that Canada spends its public pension money differently. In particular, it spends a great deal on the near-universal Old Age Security and income-tested GIS programs, and apply no asset test and only a relatively simple annual application process (which permits an income test integrated with income tax filing). Over 90 percent of the eligible Canadian elderly participate in GIS (Battle 1997), compared to about 50 percent elder participation in SSI in the United States (U.S. House Ways and Means Committee 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. 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.

Features of the Targeted Minimum Benefit Plan

This section details four features of the MBP proposal: eligibility, benefit levels and income exclusions, administrative structure and take-up, linking to other programs, and funding and costs. Before we detail the specifics of our policy proposal in each of these sections, we highlight key issues in these categories, such as the logic for including or excluding asset tests or whether to require individuals to reapply for the benefit every year.

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. Should the MBP include an asset test? No. Evidence is widespread 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 discourage an asset test for the following reasons. First, it negatively affects savings. Second, it would substantially increase the administrative cost and complexity of managing the program. Third, asset income would be included in total income eligibility. Last, the EITC provides a precedent for not including an asset test.

Should the MBP require beneficiaries to meet the ten-year earning requirement? Yes. Approximately 2 percentage points of the poverty rate among the elderly include those who do not qualify for Social Security (Whitman, Reznik, and Shoffner 2011). If this were a requirement, these individuals would have access to SSI, but would not benefit from the MBP. We believe it is important to integrate the new MBP into the existing Social Security program, which entails abiding by the existing eligibility criteria. This choice has two justifications. First, it maintains employment incentives within Social Security. The second, and more important, reason to keep the ten-year eligibility requirement is that it strikes between the equity and adequacy that have always existed within the program. Maintaining a focus on equity has been key to Social Security's political resilience, and related success, because individuals feel that these benefits are "earned" (Harrington Meyer and Herd 2007). Maintaining the link between employment and the Social Security minimum benefit, then, is likely important to maintain the political resilience of the program.

Our proposal is that the MBP would be payable at the Social Security normal retirement age, which is currently undergoing a gradual increase from sixty-five to sixty-seven. Eligibility would require at least twenty years of residency in the United States as well as the standard 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.

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*). Should the MBP include set-asides and phase-outs? Yes. 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 seniors with low earnings histories to continue working at least part-time to improve their living standards. Further, having seniors 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 Social Security.

We would also discourage employment tests beyond the ten-year or forty-quarter work history requirement. Many minimum benefit proposals are premised on linking the number of earnings years to benefit size, that is, forty years of earnings being required to receive a 100 percent poverty level benefit (Herd 2005a). The problem, however, is that the people who most need a generous minimum have had numerous labor force exits (Favreault 2010). Individuals at the bottom of the labor market are the first to be laid off during recessions and have no mandatory paid sick leave; in the United States, 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. We note that though some might be concerned that the MBP could negatively affect labor force incentives, the reality is that younger people know little about how the program works and therefore are unlikely to change for employment based on programmatic rules. Indeed, a recent American Association of Retired Persons survey found that just 9 percent of consumers understood how the benefits work (AARP 2015). Moreover, individuals who qualify for this benefit rely almost completely on Social Security for their income. They tend to have almost no savings, so we anticipate this benefit would not meaningfully influence savings either.

We propose that the MBP should offer a minimum benefit guarantee of 100 percent of the poverty line. It would include 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 ten 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 twenty years as residents of the United States since turning eighteen. For those who have not lived in the country that long, the income guarantee amount would be prorated based on the percentage of years that they have done so. The benefit would be adjusted based on marital status. The MBP would ensure income to 100 percent of the official poverty line for single and married couple recipients.

Administrative Structures and Take-Up

The program's administrative and eligibility structure, including how administrative practices influence take-up, is a third critical aspect of safety net pension programs. Take-up is affected by the stigma attached to the program; the accessibility of the program, including ease of application and reapplication; whether government mounts strong outreach efforts to ensure that all eligible persons enroll; and, assuming eligibility, the level of benefits expected (McGarry 2000; Moynihan, Herd, and Harvey 2014; Herd et al. 2013). As noted, only 40 percent to 60 percent of the eligible elderly apply for SSI, versus 90 percent or more for the Canadian system and around 80 percent for the EITC.

A key administrative issue for the MBP regards the frequency of eligibility redetermination. Should the beneficiaries be required to reapply for the benefit on an annual basis? No. The justification for annual enrollment is to ensure that only those eligible receive the benefit and that they are receiving the proper amount. The problem, however, is that this additional layer of administrative burden will likely lead some of those eligible to not receive the benefit. Particularly at very low income levels, it is rare for there to be a meaningful income change. 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.

In our proposal, MBP payments would be combined with the Social Security benefit check in a single monthly payment. Eligibility redetermination should generally be automatic and assessed through the income tax system. Thus, every elderly person needs to file an income tax return to qualify—akin to the way that the EITC is currently administered, though we will not require that individuals refile the 1040 once they are deemed eligible for the benefit—unless they have a change in income. Given that only about half of all OASI recipients file income taxes, nonprofit and elder advocacy groups would need to help elders file a simple 1040, much the same way that Volunteer Income Tax Assistance 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 by all older adults, the key information on other income sources and liquid asset levels being sent from the Internal Revenue Service (IRS) to the Social Security Administration (SSA) automatically. Essentially, the IRS would provide SSA with the information needed to determine the benefit size. In effect, the MBP check would simply "top up" the OASI check to the determined percentage of the poverty level—adjusting for other sources of income. 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

A fourth important aspect of safety net pension programs is how they influence eligibility to other safety net programs, such as reduced-cost medical care or housing benefits. First, some programs allow for an automatic "passport" to eligibility to other programs. For example, those eligible for SSI are automatically eligible for Medicaid. This is sometimes done when eligibility rules align between two programs. It can prove decidedly beneficial because it reduces administrative burdens for beneficiaries and increases take-up rates. Should the MBP include such an automatic passport to programs like Medicaid? No. Although we support automatic passports, we do not include them because the eligibility rules for the MBP do not align with those for other safety net programs. Eligibility rules would need to be changed in other programs for an automatic passport to be implemented.

Second, should the MBP benefit count as income toward eligibility for programs such as Medicaid or SNAP? No. Indeed, cash income from the EITC benefit does not count toward income thresholds for programs like Medicaid and SNAP. Under prior minimum benefit proposals, the additional income would count toward eligibility for other safety net programs. This raised some thorny issues given that one in five older adults uses Medicaid to supplement their Medicare benefits. Without Medicaid, out-of-pocket costs could eat up nearly 50 percent of their income (Kaiser Family Foundation 2014). Without this provision, the MBP would likely make many beneficiaries worse off than had it never existed because their out-of-pocket health-care spending would mostly consume or exceed the increase in income associated with the MBP.

Our proposal includes no automatic passport from the MBP to other social welfare programs. Income from the MBP will also not count as income to eligibility for other programs. That said, we are concerned about the potential administrative barriers that might arise for people who have received SSI and would now receive the MBP. The delinking of the Temporary Assistance to Needy Families program from Medicaid during the 1996 welfare reform led to significant reductions in participation in the Medicaid program (Ellwood and Ku 1998). Given that the federal government is already coordinating closely with states regarding state-level Medicaid eligibility via the Affordable Care Act health insurance exchanges, individuals below income Medicaid eligibility levels could receive—at a minimum—notifications that they may be eligible for Medicaid as well as 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.

A final issue with a targeted MBP regards funding and costs. The MBP could be financed by general revenue or trust funding. 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 partly financed by general revenue, 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 elderly women and low earners accrue more complete lifetime work histories, the MBP outlays and participants will fall, as GIS outlays have in Canada (Myles 2000).

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, like 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 mean 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.

SIMULATING THE BENEFIT COSTS AND DISTRIBUTION OF WHO BENEFITS

In addition to providing a general sense of the financial cost of this proposal, we also consider its effect on older adults' economic well-being. We do so in two ways. First, we evaluate the magnitude of the benefit for varying subgroups of older adults, which was on average $3,400 a year for recipients, or a roughly a 40 percent increase in income. The implications of this policy for improvements in economic well-being among older adults are quite large. Second, we consider changes in poverty rates associated with the policy change.[2] We highlight changes in poverty based on the official poverty measure employed by the federal government. The use of the supplemental poverty measure to analyze the policy impact of the MBP would produce relatively significant measurement error. The appendix details why changes in the official poverty measure provide a more robust estimate with considerably less measurement error.

In terms of overall costs, the proposal is estimated to raise spending on Social Security by approximately $9 billion, or 1 percent of total expenditures on Social Security, specifically the Old Age Insurance portion of the program. Over time, the costs would increase because of the rising number of individuals on the program. However, because the benefit is pegged to the official poverty line, which rises based on consumer inflation rather than wages, spending on the minimum benefit as a fraction of overall spending on Social Security would fall over time. The calculation of the Social Security benefit is linked to wages rather than consumer inflation.

Table 1 provides an overview of the distribution of who would receive the MBP, as well as average benefit sizes. Overall, 6.6 percent of Social Security recipients are projected to receive the benefit. The average benefit size would be approximately $3,600. Not surprisingly, women relative to men (7.4 percent to 5.6 percent), unmarried women relative to married women (11.6 percent to 1.9 percent), black and Hispanic Americans relative to whites (14.1 percent to 11.4 percent to 4.9 percent) and those with low edu-

2. These were estimated using the Urban Institute's Dynamic Simulation of Income Model (DYNASIM) (for details, see http://www.urban.org/policy-centers/cross-center-initiatives/program-retirement-policy/projects/dynasim-projecting-older-americans-future-well-being, accessed November 17, 2017). DYNASIM was designed to simulate changes to retirement policies specifically. It does not incorporate potential behavioral responses to those policies.

Table 1. People Older Than Sixty-Five Receiving the MBP and Average Benefit, 2017

	Percent Receiving Benefits	Average Annual Benefit for Recipients
All	0.066	$3,601
Sex		
Women	0.074	3,734
Men	0.056	3,384
Race-ethnicity		
Hispanic	0.114	4,230
Non-Hispanic black	0.141	3,801
Non-Hispanic white	0.049	3,296
Non-Hispanic other	0.082	3,945
Marital status and sex		
Unmarried women	0.116	3,715
Unmarried men	0.111	3,037
Married women	0.019	3,896
Married men	0.031	3,950
Age		
65–69	0.048	3,562
70–74	0.056	3,689
75–79	0.062	3,567
80–84	0.079	3,420
85–89	0.094	3,426
90+	0.141	3,965
Education		
Less than high school diploma	0.129	4,053
High school diploma	0.083	3,482
Some college	0.061	3,141
College graduate	0.039	3,541
More than college	0.018	2,534

Source: Authors' compilation based on DYNASIM model.

cational attainment would be far more likely to receive the benefit. Generally, these groups (with the exception of married individuals) also received larger benefits as well, reflecting their greater economic need. For example, the average benefit for women is $3,734 versus $3,384 for men and $3801 for black recipients versus $3,296 for white recipients.

The distribution of benefits by educational attainment further clarifies that those most disadvantaged are most likely to benefit from the policy. Although 2 to 4 percent of those with college degrees would benefit, 13 percent of those without a high school diploma would receive this benefit. Indeed, in analyses not presented here, more than 90 percent of beneficiaries do not have a college degree. Moreover, the benefit size varies by educational attainment; the small fraction of beneficiaries with more than a college degree receive a benefit that is 40 percent smaller than do those beneficiaries without a high school degree.

Finally, what are the implications for poverty rates? These were calculated from the Current

Population Survey (CPS).[3] The poverty rate among those age sixty-five and older dropped from 8.6 percent to 4.4 percent. Not all individuals sixty-five and older living below the poverty line were eligible for the benefit. For example, if a person had not lived in the United States for long enough or did not have ten years of earnings, they were not eligible. On the whole, however, the MBP was effective at reducing poverty among those eligible; the official poverty rate among MBP recipients after the reform dropped by nearly 90 percent, while deep poverty (below the 50 percent threshold) disappeared.

CONCLUSION

Social Security is arguably the most popular and effective U.S. social welfare policy. Nonetheless, a new minimum benefit plan would markedly lower poverty and increase economic security among older adults in a way that is efficient in its targeting.[4] One might question the spending of additional resources on older adults, given their relatively lower poverty rates compared with other groups. But this aggregate focus on all older adults ignores high levels of poverty among subgroups, such as a 30 percent poverty rate among black older single women. Moreover, the tight targeting of this benefit ensures that only the poorest will actually benefit from the proposal, and that they will see an approximate 40 percent increase in their income.

Several features of this plan distinguish it from prior proposals to include a minimum benefit in Social Security. First, it most tightly targets benefits to those with the lowest incomes—taking into account family income resources. Prior proposals have not taken total family or household income resources into account, weakening their targeted nature. Further, unlike some proposals that required many years of work, this minimum ensures that many of those most economically vulnerable—which are typically those who have not had consistent labor force participation (Favreault 2010, forthcoming)—are protected. The policy, however, because it applies only to those eligible for Social Security, will not benefit all older adults who fall below the poverty threshold. Indeed, although the MBP cuts the poverty rate in half, about 4 percent of older adults remain below the line. Most of this group do not have enough earnings years to qualify or have not lived long enough in the United States either to qualify for the benefit or to receive the maximum. For them, the Supplemental Security Income program will remain a critical source of protection.

The second key distinguishing feature of this proposal is that it is sensitive to program interactions, especially Medicaid. For many older adults, any income gains associated with a minimum benefit would likely be offset if they lost access to Medicaid, which provides substantial reductions in their out-of-pocket health costs.

The issues with program interactions, however, point to a critical issue with this proposal in terms of implementation. Many individuals who had received SSI in the past but who would receive the MBP instead would no longer automatically be eligible for Medicaid. They would need to apply for Medicaid separately. This could reduce the fraction of those eligible for Medicaid who actually receive these benefits. These individuals could face increased economic insecurity as a result. Although it is not feasible to implement an automatic passport

3. We generally note that the CPS, relative to estimates derived from DYNASIM, includes more measurement error. DYNASIM is based on data from the Survey of Income and Program Participation. First, the CPS is not as effective as the SIPP in its inclusion of social welfare program data, which is problematic for older adults because of their higher reliance on these programs (Czajka and Denmead 2008). Second, the CPS is also specifically problematic for older adults generally because of how it collects income related to pensions, which likely leads to underreporting of income among the elderly.

4. Aged poverty elimination would not be possible with mechanisms tied strictly to Social Security eligibility. Kevin Whitman, Gayle Reznik, and David Shoffner describe the characteristics of non-beneficiaries of Social Security ages sixty-two to eighty-four in 2010 (2011). This group is largely late-arriving immigrants and people with little work history. Those who do not receive Social Security have markedly high poverty rates and are often depend heavily on their family members' incomes.

between the MBP and Medicaid because the eligibility criteria are different, a guiding principle in implementing MBP is to use administrative mechanisms to reduce the potential for this unintended consequence. For example, 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 already did so in the Affordable Care Act health insurance exchanges. They could use the information to notify individuals—and even states—of the possibility that beneficiaries may be Medicaid eligible, along with information regarding how to enroll.

More generally, the effectiveness of the MBP proposal will hinge on take-up. As noted, take-up rates in the SSI program, which involves a far more complicated eligibility process with lower benefit levels, are 50 to 60 percent. Around two-thirds of older adults currently file taxes—and those whom this benefit targets are more likely to be nonfilers (Mortenson et al. 2009). A strong informational campaign would be needed to get all older adults to file a return so that they could become eligible. Given the ease of the tax forms for those with limited incomes, the take-up success of the EITC in the United States, and the nearly 100 percent take-up of the GIS in Canada (where tax filing is mandatory for social retirement recipients), we anticipate that, with effective outreach, the policy will benefit the large majority of those eligible for the benefit.

Last are the 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 when exit is not allowed, such as in the United States. The limitation of this policy, which is that it does not reach a fraction of vulnerable individuals without the required earnings history, is a trade-off to ensure that this proposal does not cross that 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 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.

APPENDIX

The supplemental poverty measure is different from the official poverty measure in terms of how it defines income. Income includes benefits such as housing supports and food stamps, but is subtracted by expenses, such as out-of-pocket health-care costs and work-related expenses. The supplemental poverty measure has been critical because the official poverty measure does not include benefits such as SNAP or the EITC. For changes to those policies, if you want to assess the impact of policy change on poverty, it does require the use of this alternative supplemental poverty measure. For changes to Social Security, however, because it is counted as income in the official poverty measure, it is easy to assess change in poverty with the official measure.

The use of the supplemental poverty measure for older adults is, however, problematic because of measurement issues. The SPM is especially vulnerable to measurement error because it requires precise estimates of each element of resources gained or resources used—from housing subsidies and food stamps to out-of-pocket health-care expenditures. The two largest value factors that could bias these estimates are out-of-pocket medical costs (MOOP) and housing subsidies. MOOP, which are substantially higher for older adults, and housing subsidies, from which older adults disproportionately benefit, are especially vulnerable to measurement error (Congressional Budget Office 2015; van Dalen et al. 2014). Average MOOP expenditures for older adults are approximately $4,700 annually and average housing subsidies about $4,400 annually (Kaiser Family Foundation 2014; Meyer and Mittag 2015). The inclusion of medical out-of-pocket costs raises poverty levels among older adults by 5 to 6 percentage points, or 50 percent. Research provides a cautionary perspective on the general quality of self-reported health-care data for older adults given their especially high usage, costs, and cognitive functioning issues older adults are more likely to face (van Dalen et al. 2014).[5]

The housing subsidy also poses a problem. Recent estimates are that 35 percent of those receiving housing subsidies do not report them in the CPS (Meyer and Mittag 2015). Moreover, questions remain about the measurement error in the value of these resources, even among those who report that they receive them (Meyer and Mittag 2015). Given that 1.9 million older adults received housing subsidies and 4.2 million older adults live below the poverty line, this would indicate that around 15 percent of those living below the official poverty line, and thus eligible for the benefit, would not have the housing subsidy included in supplemental poverty estimates (Congressional Budget Office 2015). A good proportion of those remaining in poverty, according to the supplemental poverty estimate, would therefore actually be above the supplemental poverty level if housing subsidies were properly measured.

To clarify precisely how poorly measured housing and health-care costs might affect the SPM estimates for the MBP, we provide an illustrative example. If the official poverty threshold is $12,000, an individual whose income is $8,000 will receive a $4,000 Social Security benefit increase. If their MOOP are $5,000 and the housing subsidy is worth $2,000, they would be poor under the supplemental poverty threshold prior to the reform, but in many cases (depending on factors such as where they live, as mentioned earlier) be lifted out of poverty by the $4,000 income supplement. Undercounting the housing support or overcounting MOOP, however, would lead one to believe that the policy had not moved that individual above the supplemental poverty threshold. We focus on this interaction because it is precisely older adults with more health problems who are likely to end up in concentrated older adult housing (not institutions) where things like home health care can be provided more efficiently (Congressional Budget Office 2015). Consequently, the changes in the official poverty measure provide a more robust estimate with considerably less measurement error.

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