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SOCIAL SECURITY OPTIONS FOR REDUCING  
POVERTY AMONG OLDER WOMEN

Theresa J. Devine

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Papers in this series are preliminary and are circulated to stimulate discussion and critical comment. The author prepared this paper while she was a principal analyst at the Congressional Budget Office. She is now at the Office of the Public Advocate, One Centre Street, 15th Floor, New York, New York 10007. These papers are not subject to CBO's formal review and editing processes. The analysis and conclusions expressed in them are those of the author and should not be interpreted as those of the Congressional Budget Office or the Office of the Public Advocate for the City of New York. Any reference to this paper in other publications should be cleared with the author. Papers in this series can be obtained by sending an email to [techpapers@cbo.gov](mailto:techpapers@cbo.gov).

## **ABSTRACT**

This paper examines changes in Social Security that have been proposed as ways to reduce poverty among elderly women. For each option, the paper asks three questions: How much would the option reduce elderly poverty? How much would the option cost? How would the option affect the relationship between payroll taxes and benefits? In general, the proposed changes in Social Security present trade-offs: the broader the target group and the greater the benefit or income guarantee, the larger the expected impact of an option on elderly poverty. But these features would also raise program costs and weaken the link between payroll taxes and benefits. Some options would also provide significant assistance for people who are not poor, while providing little to those most in need.

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## INTRODUCTION

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Elderly women currently have much higher poverty rates than either older men or younger women. For all women age 65 and older, the poverty rate was 12.8 percent in 1998—nearly twice the poverty rate for older men. For older women who lived alone, the poverty rate was 21.4 percent.

Several changes in Social Security benefits have been proposed to alleviate this poverty among elderly women. Indeed, most major discussions of fundamental Social Security reform have included such proposals. This paper examines these proposed changes in Social Security using three measures:

- How much would the option reduce elderly poverty?
- How much would the option cost?
- How would the option affect the relationship between payroll taxes and benefits?

The reasons for the first two measures are clear, given the policy goals of poverty reduction and efficiency. The third measure reflects concern about what proposed changes would do to Social Security's status as a social insurance program and incentives to work.

In general, the proposed changes in Social Security provisions present trade-offs: the broader the target group and the greater the benefit or income guarantee, the larger the expected impact of a policy on elderly poverty. But these features would also raise program costs and weaken the link between payroll taxes and benefits. Some options would provide significant assistance for people who are not poor, while providing little to those most in need. The proposal that could be expected to be most effective in reducing poverty and also most target-efficient—means-tested minimum benefits—would weaken the link between benefits and payroll taxes significantly for some workers.

The paper also considers proposals other than changes in Social Security to reduce elderly poverty. Chief among these is expansion of the federal Supplemental Security Income (SSI) program, the means-tested cash assistance program for the elderly, blind, and disabled. Under current rules, the federal SSI program guarantees an income level for the elderly that is less than the poverty line (with Social Security benefits and other cash income counted toward the income guarantee), and few states provide large enough supplements to make up the difference. Raising SSI benefits, the seemingly natural solution to elderly poverty, has its own limitations, however. Evidence suggests that because many elderly people who are eligible for SSI payments do not participate, the effects of this policy could be sharply limited.

The paper is organized as follows: The first section summarizes and describes the income and poverty status of older women today, how current Social Security rules affect their status, and how other factors could affect the financial status of older women in the future. The next sections turn to Social Security and SSI proposals that proponents present as ways to alleviate elderly poverty. The paper concludes with a brief discussion of how the introduction of individual accounts and other changes in Social Security could affect poverty among the elderly.

Note that the Social Security and SSI options considered here are targeted at the population age 65 and older, and only changes in Old-Age and Survivors Insurance (OASI) and SSI benefits for the aged are considered. In Social Security, the age 65-plus population represents about 70 percent of all beneficiaries. In SSI, this age group represents about 30 percent of all recipients.<sup>1</sup> The paper does not address the possible complications that these restrictions could cause for implementation.

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1. See Social Security Administration, *Annual Statistical Supplement to the Social Security Bulletin*, 1999, Tables 5.A6, 5.A10, and 7E.1.

## POVERTY AMONG OLDER WOMEN

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Many older women are poor, despite the existence of Social Security and SSI (see Table 1). The poverty rate for all women age 65 and older was 12.8 percent in 1998—a level comparable to the overall poverty rate for the United States that year (12.7 percent), but nearly twice the poverty rate of 7.3 percent for older men.<sup>2</sup> Overall, about 2.4 million women age 65 and older were poor in 1998.

Some groups of older women face significantly greater risk of poverty than others. The oldest old are much more likely to be poor than younger women. Women who are not currently married are more likely to be poor than women who are married with spouse present (see Table 2). Widows (who represented 45 percent of all women age 65 and older in 1998) had a poverty rate of 16.8 percent. Other unmarried women had even higher poverty rates. Married women, in contrast, had a poverty rate of 4.7 percent. Poverty rates for older women also vary systematically with living arrangements. Older women who lived alone or with nonfamily were more than twice as likely to be poor as women who lived with family members other than a husband, and they were more than four times as likely to be poor as the older women who lived with husbands.

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2. These poverty statistics use the official poverty definition of the Census Bureau: total cash family income (excluding capital gains and other lump sums) below the poverty threshold relevant for a person's family; the threshold depends on family size and age composition. For 1998, the thresholds were \$7,818 for one person age 65 or older and \$9,862 for a couple with one spouse age 65 or older.

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TABLE 1. POVERTY RATE BY SEX AND AGE, 1998 (in percent)

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Age	Women	Men
55 to 59	10.2	8.2
60 to 64	11.8	8.2
65 to 69	10.1	6.9
70 to 74	11.3	7.2
75 to 79	14.1	7.8
80 to 84	15.0	7.2
85 and Over	17.5	7.6
Total Age 65 and Over	12.8	7.3
Total Age 75 and Over	15.1	7.6

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SOURCE: March 1999 Current Population Survey.

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TABLE 2. POVERTY RATES OF WOMEN AGE 65 AND OLDER,  
BY MARITAL STATUS AND LIVING ARRANGEMENT, 1998

	Percentage in Category	Percentage in Poverty
<b>Marital Status</b>		
Married	42	4.7
Widowed	45	16.8
Divorced	7	22.7
MSA/Separated <sup>a</sup>	3	30.6
Never Married	4	24.2
<b>Living Arrangement</b>		
Alone	40	21.4
Spouse	36	4.6
Spouse and Family	6	5.4
Family	16	10.4
Nonfamily <sup>b</sup>	2	28.2
All Women Age 65 and Older	100	12.8

SOURCE: March 1999 Current Population Survey.

- a. MSA denotes married with spouse absent.  
b. Nonfamily denotes other unrelated persons.

Note that some people have challenged the validity of the official poverty definition, which is the one used in this paper. Some argue that counted income should include the value of in-kind government benefits (including health care coverage), asset values, and capital gains. The rental value of housing equity, in particular, is often mentioned in discussions of elderly poverty. Counting these resources could reduce measured elderly poverty significantly. Some also propose new poverty thresholds that are based on current consumption patterns and alternative adjustments for family size. These changes could raise measured poverty rates for some groups, while lowering rates for others. At present, the debate about poverty measurement remains active.<sup>3</sup>

Note also that this paper (like the official poverty statistics) uses data from the March 1999 Current Population Survey (CPS), another target of criticism. While the March CPS provides extensive income information for a large sample of households in the United States, the CPS data also have potentially important limitations for measuring income and poverty for the elderly. First, the CPS sample excludes the institutionalized population, which the Census Bureau estimated to be 7.6 percent of women age 65-plus and 4.2 percent of men age 65-plus in 1995. It is not clear how the official definition of poverty might be applied to the

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3. See Constance F. Citro and Robert T. Michael, Editors, *Measuring Poverty: A New Approach*, Washington, D.C.: National Academy Press, 1995; U.S. Department of Commerce, Bureau of the Census, *Experimental Poverty Measures: 1990-1997*, P60-205, 1999; Thomas Corbett, "Poverty: Improving the Measure after Thirty Years," *Focus*, Vol. 20, No. 2, Spring 1999; Kelly Olsen, "Application of Experimental Poverty Measures to the Aged," *Social Security Bulletin*, 2000.

institutionalized population. Second, comparisons of CPS income data and administrative data suggest that Social Security, SSI, other government transfers, and other nonwage income are significantly underreported in the CPS.<sup>4</sup> Taken alone, such underreporting of income will bias poverty rates upward.

### How Social Security Affects Older Women's Poverty Status

Social Security makes a major contribution to the economic well-being of older women, but it is not designed to eliminate poverty across the board. Social Security provides retired worker benefits based primarily on a person's labor force attachment and does not specifically disadvantage women relative to men. Indeed, because of their longer lives and lower lifetime earnings, today's older women have benefited more than their male counterparts from Social Security's progressive benefit schedule, auxiliary benefits for spouses and survivors, and inflation-protected lifetime annuity payouts (see Appendix A).

Social Security is the most important source of income for older women. Nearly all women age 65 and older received some income from Social Security in 1998, and Social Security was the largest component of family income for a majority

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4. See Daniel H. Weinberg, Charles T. Nelson, Marc I. Roemer, and Edward J. Welnaik, Jr., "Fifty Years of U.S. Income Data from the Current Population Survey: Alternatives, Trends, and Quality," *American Economic Review*, Vol. 89, No. 2, 18-21.

of beneficiaries (see Table 3). Some people emphasize that the generosity of the Social Security program allows many older women to live on their own.<sup>5</sup>

Most older women have little income based on their own earnings from sources other than Social Security, however, so they tend to rely more heavily than older men on their Social Security benefits. Only 41 percent of all women age 65 and older reported any family income from pensions in 1998, and many of the women with pension income received small amounts (see Table 3). Asset income was received by a large percentage of older women, but most amounts were small.<sup>6</sup> Paid employment was an important source of family income for some older women, but these were primarily women who lived with husbands or other family members. SSI provided only limited support (see Appendix C).

Older women who live alone are particularly dependent on Social Security, and many of these women receive low benefits (see Table 4). In part, this reflects the marital status of older women who live alone. A divorced woman who spent at least 10 years in a marriage is eligible for auxiliary Social Security benefits based on her former spouse's earnings, but these benefits are just one-half the size of her ex-husband's full benefits while her ex-husband is alive. Women who have never

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5. See *Economic Report of the President*, February 1999, Box 4-6, page 154.

6. Asset income should not be confused with conversion of assets to cash, or with capital gains and losses (that is, changes in asset values realized when assets are sold). The March 1999 Current Population Survey used here (and by the Census Bureau for the official measurement of poverty in the United States) does not collect data on gains or losses from the sale of assets.

TABLE 3. FAMILY INCOME FROM ALTERNATIVE SOURCES,  
WOMEN AGE 65 AND OLDER, 1998

	Percent of Women with Family Income from Source	Women with Family Income from Source	
		Mean Percentage from Source	Median Amount from Source (in dollars)
Social Security	92	59	10,900
Earnings	30	52	20,000
Pension and Other			
Retirement	41	31	8,000
Assets	67	18	2,200
SSI and Other Cash			
Public Assistance	6	34	3,200
All Other	14	23	4,300
Total Income			21,900

SOURCE: March 1999 Current Population Survey.

NOTE: SSI = Supplemental Security Income.

TABLE 4. FAMILY INCOME FROM ALTERNATIVE SOURCES,  
WOMEN AGE 65 AND OLDER WHO LIVE ALONE, 1998

	Percent of Women with Family Income from Source	Women with Family Income from Source	
		Mean Percentage from Source	Median Amount from Source (in dollars)
Social Security	94	70	8,900
Earnings	12	43	8,400
Pension and Other Retirement	28	30	4,600
Assets	62	20	1,600
SSI and Other Cash Public Assistance	7	43	2,200
All Other	17	29	4,300
Total Income			12,500

SOURCE: March 1999 Current Population Survey.

NOTE: SSI = Supplemental Security Income.

married can have low retired worker benefits due to low lifetime earnings, and they are not eligible for any auxiliary benefits. For women who remain married until widowhood, income from sources other than Social Security often declines or stops when their husbands die, and family-level Social Security benefits can drop by one-third to one-half (see Appendix A).<sup>7</sup> The likelihood of living alone also rises with age, while assets and other sources of income tend to decline with age.

There are also some older women who lack any claim to Social Security benefits. In 1998, more than one out of five poor women age 65 and older reported no family income from Social Security (see Table 5). These women may be ineligible because of limited attachment to the labor force and marriages that lasted less than 10 years. Immigrants may have insufficient covered earnings for eligibility, due to late arrival in the United States. Others could be ineligible because of limited Social Security coverage; although nearly all jobs are covered today, many jobs were not covered in the past.<sup>8</sup> Some women may also postpone the start of their benefits, despite currently low income.

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7. See, for example, Karen C. Holden and Cathleen Zick, "The Impact of Widowhood in the 1990s: Evidence from the Survey of Income and Program Participation," paper presented at the Annual Meetings of the Population Association of America, 1997.

8. The Social Security Administration estimates that 96 percent of all jobs are now covered. Workers without coverage include some federal civilian workers who were hired before 1984, some state and local workers covered by public sector retirement plans, and some household, farm, and other self-employed workers who do not meet earnings requirements. All industry and commerce workers are covered, regardless of earnings amounts. See the *Social Security Bulletin, Annual Statistical Supplement*, 1999, Table 2.A, Introduction.

TABLE 5. FAMILY INCOME FROM ALTERNATIVE SOURCES,  
POOR WOMEN AGE 65 AND OLDER, 1998

Income Source	All Women			Women with Family Income from Source	
	Percent with Family Income from Source	Percentage of Family Income from Source		Mean Percentage from Source	Median Amount from Source (in dollars)
		50+	90+		
Social Security	78	72	51	88	6,000
Earnings	10	4	2	53	3,000
Pension and Other Retirement	9	3	2	46	2,000
Assets	25	4	2	20	300
SSI	20	7	5	47	2,200
Other Cash Public Assistance	2	--	--	20	1,200
All Other Cash	5	1	1	34	1,600
Total Cash Income					6,700

SOURCE: March 1999 Current Population Survey.

NOTE: SSI = Supplemental Security Income; -- = less than 0.5 percent.



In sum, the current Social Security program contributes significantly to the income and well-being of nearly all older women today. But Social Security has no explicit shield from poverty for beneficiaries, and some women receive no Social Security benefits at all. SSI fills in some of the remaining gap for some older women, but only a limited part. Only a few states guarantee cash incomes at the poverty line for SSI recipients (see Appendix C).

### Prospects for the Future

The continued rise in women's labor force participation and earnings will undoubtedly improve the financial status of many older women in the years ahead. But high levels of poverty for elderly women could persist nonetheless.

The movement of women into the paid labor force has been dramatic since World War II. Women born since 1950, in particular, have been much more likely to stay employed during their childbearing years than women born before them. Employment at older ages has jumped as well. By 1998, the labor force participation rate for women age 16-plus was 60 percent, up from 33 percent in 1948.

At the same time, however, a large minority of women have little or no attachment to the labor market at any given point in time. One out of four women age 18 to 64 did no work for pay in 1998. Forty-one percent of working women in

that age group worked less than full-time year-round. Women with young children continue to work less for pay, on average, than women their age without children. Increases in women's labor force participation between birth cohorts have also tapered off significantly, suggesting that the long-term upward trend in women's participation could be ending—with rates for female labor force participation still much lower than men's.<sup>9</sup>

Women's earnings have also grown sharply, but they remain substantially lower than men's earnings at every age, on average. For full-time wage-and-salary workers age 16 and older, median weekly earnings of women equaled three-quarters of men's in 1998. For all workers age 18 to 64 (that is, including part-time, part-year, and self-employed workers), women's median annual earnings were 60 percent of men's in 1998 (see Table 6). Although 23 percent of all wives age 18 to 64 earned more than their husbands in 1998, most wives earned much less than their husbands (see Table 7). On average, all wives age 18 to 64 earned 31 percent of couples' earnings that year.

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9. See Theresa J. Devine, "Women and Social Security Reform," paper presented at the annual meeting of the American Economic Association, January 2000.

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TABLE 6. MEDIAN ANNUAL EARNINGS BY AGE AND SEX, 1998 (in dollars)

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Age	Male	Female	Female/Male Ratio
<b>All Workers</b>			
18 to 24	10,000	7,480	.75
25 to 34	27,000	18,720	.69
35 to 44	35,000	20,000	.57
45 to 54	38,000	23,000	.61
55 to 61	35,000	20,000	.57
62 to 64	27,000	14,900	.55
Total, 18 to 64	30,000	18,000	.60

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SOURCE: March 1999 Current Population Survey.

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TABLE 7. WIFE'S SHARE OF COUPLE'S EARNINGS, BY WIFE'S AGE, 1998

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Age	Wife's Share of Couple's Earnings			Mean Percentage
	No Earnings	30 Percent or More	50 Percent or More	
18 to 24	26	39	17	26
25 to 34	25	45	20	29
35 to 44	23	45	21	30
45 to 54	22	47	26	34
55 to 61	40	41	29	32
62 to 64	61	30	25	26
Total, 18 to 64	27	44	23	31

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SOURCE: March 1999 Current Population Survey.

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Overall, the data on women's earnings and employment suggest that the percentage of women collecting their own retired worker benefits will rise sharply above today's percentage if current benefit rules are still in effect.<sup>10</sup> But the data on the division of earnings within couples also suggest that a large majority of ever-married women will also collect survivor benefits based on their husbands' earnings records—and those survivor benefits will not be affected by women's higher earnings.

Pension income will also be higher for older women in the future. The increase in women's employment will mean more pension income based on women's own earnings. Moreover, more widows will probably collect survivor pension benefits based on their husbands' employment, because spousal consent is now required when married pension holders request single-life annuity payouts of defined benefit pensions.<sup>11</sup> Note, however, that existing evidence also suggests that more than half of all older women will have no pension income from any source. Women with low incomes when young will be the least likely to receive pension income when old.

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10. According to the Social Security Administration, 88 percent to 90 percent of women age 25 to 49 were fully insured in 1998, where full insurance means that the person has one quarter of coverage for each year between age 21 and their current age (up to 61). Full insurance rates for women age 50 and older were lower—ranging from a low of 66 percent for women age 75-plus to a high of 84 percent for women age 50-54. But these rates have also crept upward over time. See the *Social Security Bulletin, Annual Statistical Supplement*, 1999, Table 4.C5.
  11. Under the Employee Retirement Income Security Act of 1974, any pension plan with an annuity payment option must have a *joint and survivor* annuity (with a 50 percent minimum survivor payment) as its default payment plan for participants who have been married at least one year; under the Retirement Equity Act of 1984, any alternative arrangement requires signatures from both spouses.

Changes in women's marital histories could also have some bearing on older women's economic status in the future. The Social Security Administration and others predict that a growing percentage of women will reach old age without marrying.<sup>12</sup> Like today's older women who have not married, these women will probably have more education, more labor market experience, and higher lifetime earnings, on average, than women who have married. But tomorrow's older women who have not married are also more likely than their counterparts today to be single mothers with low lifetime earnings. The larger number of women in this low-earner category could raise the poverty rate for never-married older women from a level that is currently quite high.

The Social Security Administration and others also predict that more older women will be divorced from marriages that have lasted fewer than 10 years (the number now required for auxiliary benefits), but these women will remain a small percentage of all older women. Moreover, because divorced women work and earn more than other women, on average, divorced women are likely to have lower poverty rates than other women who are ineligible for auxiliary benefits.

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12. Analysts at the Social Security Administration predict that 7.7 percent of women born between 1946 and 1964 will not marry by age 62, up from 3.8 percent of the 1926-30 female birth cohort at age 62. See Table 1 in Barbara Butrica, Lee Cohen, and Howard Iams, "Introduction and Findings from the MINT Project," a paper presented at the "New Developments in Retirement Research" First Annual Joint Conference for the Retirement Research Consortium, Washington, D.C., May 20-21, 1999.

In sum, women will probably reach old age in the future with more years of labor market experience, greater lifetime earnings, and fewer years of marriage experience, on average, than today's older women. But the lifetime employment and earnings of many women will be low, and most women will probably spend most of their adult lives in marriage. All of this suggests that older women's economic status will still vary widely—and that significant poverty could persist for older women.<sup>13</sup>

## POLICY OPTIONS IN SOCIAL SECURITY

Because Social Security is the main source of income for older women today—with nearly all older women receiving some benefits, and some women relying exclusively on this income—proposals to alleviate elderly poverty have centered on raising Social Security benefits (see Table 8).

Proposals fall into two general categories: raise minimum benefits for retired workers, and raise benefits for certain groups of beneficiaries. Minimum benefit proposals have included a flat minimum equal to the poverty line, a benefit formula based on years of covered earnings, and means-tested minimum benefits. Targeted benefit proposals would take a variety of approaches to raising the benefits of

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13. The Modeling Income in the Near Term (MINT) team at SSA, which uses Social Security-covered earnings records and survey data, predicts that poverty rates for the elderly will be close to current levels in 2020. See the MINT Presentation to the 1999 Technical Panel of the Social Security Advisory Board.

TABLE 8. OPTIONS FOR REDUCING ELDERLY POVERTY

Proposed Benefit Rule	Expected Outcomes		
	Poverty Reduction	Hypothetical One-Year Cost	Potential Effect on Benefit-Earnings Link
Social Security Minimum Benefit Proposals			
Poverty Line Minimum Benefit for Families of Retired Workers	All beneficiaries & their families moved out of poverty	\$26 billion <sup>a</sup>	Weakens link for low-wage workers
Years-Based Minimum Benefit Formula Example: 60% of one-person poverty line for 20 years of covered earnings, plus 2% of poverty line per additional year, with highest minimum equal to poverty line	Modest (Few women & few low-wage men have 40 years of covered earnings)	\$2 billion <sup>b</sup>	Weakens link slightly for low-wage workers
Means-Tested Poverty Line Minimum Benefit for Families of Retired Workers	All poor beneficiaries & their families moved out of poverty	\$5 billion <sup>a</sup> (no asset test)	Weakens link for low-wage workers
Social Security Targeted Proposals			
Surviving Spouses Example: 75% Rule, which gives minimum benefit equal to 75% of benefit couple would have received if both spouses were alive	Modest (Increase for widows depends on couple's earnings)	\$12 billion <sup>b</sup>	Strengthens link for spouses with lower earnings than their spouses'
Surviving Spouses Example: Cost-neutral transfers of benefits from couples to their surviving spouses	Modest (Increase for widows depends on couple's earnings; couples & divorced spouses lose)	None because of policy design	Negligible effect <sup>c</sup>
Very Old Beneficiaries Example: 5% benefit increase at age 85	Modest (Younger poor women unassisted)	\$2 billion <sup>b</sup>	Negligible effect

Proposed Benefit Rule	Expected Outcomes		
	Poverty Reduction	Hypothetical One-Year Cost	Potential Effect on Benefit-Earnings Link
Divorced Spouses Example: Earnings sharing during each marriage, regardless of marriage length	Modest (Some divorced women would get small increments and some would get less)	Uncertain without more detailed proposal	Could weaken link for some and strengthen link for others
Unpaid Caregivers Example: Reduce years of earnings in benefit calculation	Modest (Survivor benefits unaffected; credit rises with earnings in counted years)	Uncertain without more detailed proposal	Weakens link for care-givers
SSI Proposals			
Poverty Line Minimum Benefit for Families of Poor Elderly People	All elderly moved out of poverty if all poor elderly participate; all SSI participants & their families otherwise	\$9 billion if all poor elderly participate; about \$1.2 billion if only 1998 SSI recipients participate <sup>a,d</sup>	Weakens link for low-wage workers

<sup>a</sup>This hypothetical one-year cost estimate is not an official Congressional Budget Office (CBO) cost estimate. This estimate is based on a rough policy description and income and program participation data from the March 1999 Current Population Survey. Complexities of implementation and changes in beneficiary behavior and cash income from sources other than Social Security and SSI are ignored, and no adjustments are made for changes in spending on Food Stamps, Medicaid, and other in-kind benefits. All estimates in the table are provided to illustrate relative costs of the proposed changes.

<sup>b</sup>This hypothetical one-year cost estimate is not an official CBO cost estimate. This estimate is based on a rough policy description, a 75-year cost estimate of the proposed change from the Office of the Actuary for the 1994-1996 Advisory Council on Social Security, and current administrative data on taxable payroll. Complexities of implementation and changes in beneficiary behavior and cash income from sources other than Social Security and SSI are ignored, and no adjustments are made for changes in spending on Food Stamps, Medicaid, and other in-kind benefits. All estimates in the table are provided to illustrate relative costs of the proposed changes.

<sup>c</sup>Because any of the transfer proposals would be forced saving with actuarial adjustment for delayed receipt of benefits, the expected value of lifetime benefits for a couple would be unaffected by the transfers. Thus, the benefit-earnings link should be unaffected.

<sup>d</sup>Differences between the March 1999 CPS and administrative data suggest that this \$1.2 billion cost increase for the proposal for current beneficiaries could be too low. See text for discussion.



surviving spouses, very old beneficiaries, divorced spouses, and unpaid caregivers. None of these policies, as proposed, would be restricted to female beneficiaries. Nonetheless, all of these policies would benefit women more than men, on average, because women typically earn less, live longer, and devote more time to unpaid care of family members than men do.

This section evaluates these proposed changes in Social Security benefits using three criteria: First, how much would the option reduce elderly poverty? Second, how much would the option cost? Third, how would the option affect the link between Social Security benefits and payroll taxes for individuals and couples?

Note that the hypothetical one-year cost estimates presented here are not official Congressional Budget Office (CBO) cost estimates. They are based on rough policy descriptions and incomplete data, and complexities of implementation and behavioral responses are generally ignored. Changes in the costs of Food Stamps, Medicaid, and other in-kind benefits are also ignored. The cost estimates in this paper are intended to illustrate the relative costs of alternative proposals.

The bottom line of this analysis is that the proposed changes in Social Security benefits present trade-offs: The broader the target group and the higher the benefit or income guarantee, the larger the expected impact of a policy on elderly

poverty. But these features would also add to program costs and weaken the tax-benefit link.

### Minimum Benefit Proposals

Social Security currently provides minimum benefits for retired workers, but the minimum benefit amounts are significantly less than the one-person poverty line (see Appendix B).<sup>14</sup> To receive a retired worker benefit equal to the one-person poverty line (\$7,818 in 1998), a person retiring at the normal retirement age (NRA) of 65 in 1998 needed average indexed annual earnings in his or her top 35 years equal to \$14,057. To put this amount in perspective, note that only half of all women age 35 to 44 earned more than \$14,057 in 1998; of all men age 35 to 44, one in five earned less.

One straightforward approach to reducing poverty would be an increase in the minimum retired worker benefit to the one-person poverty line. A poverty-line minimum benefit for retired workers would directly protect all insured workers from poverty. Under current auxiliary benefit rules, the policy would also protect the spouses and survivors of insured workers. The minimum survivor benefit would rise to the one-person poverty line. The minimum couple benefit would be 150 percent

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14. Minimum benefits are now based on benefit formulas that depend on a worker's earning history. A dollar minimum benefit was repealed for new beneficiaries in 1981.

of the one-person poverty line, while the two-person poverty line would be 126 percent of the one-person poverty line.

Alternatively, because poverty is measured at the family level, the minimum family Social Security benefit might be set equal to the family-level poverty line. Although the poverty-line minimum benefit would move all Social Security beneficiaries out of poverty, it would cost much more than the poverty gap for the elderly and their family members (that is, the sum of differences between total cash family income and the family poverty line for all poor families with elderly Social Security beneficiaries). Sixty-eight percent of the women age 65-plus and 80 percent of the men age 65-plus who would have received higher benefits under this proposal in 1998 were not actually poor. Family income from other sources kept these beneficiaries out of poverty. Adults and children not otherwise eligible for Social Security would also have income gains under this family-based proposal.

Data on family-level Social Security benefits from the March 1999 Current Population Survey suggest that the net cost of a family-level minimum benefit policy for beneficiaries age 65-plus would have been roughly \$26 billion in 1998. This was about eight percent of total spending on Old-Age and Survivors Insurance (OASI) benefits that year, and over five times the poverty gap for Social Security beneficiaries age 65-plus and their families (that is, the sum of differences between

total cash family income and the family poverty line for all poor families with elderly Social Security beneficiaries).

The CPS data show that 6.7 million women age 65-plus and 3.2 million men age 65-plus had family Social Security benefits under the poverty line appropriate for their family size in 1998, and that the total gap between family Social Security benefits and family poverty lines for these families was \$30 billion.<sup>15</sup>

Partially offsetting this amount would be a reduction in federal spending on SSI. At present, federal SSI guarantees income levels below the poverty lines for individuals and couples, so an increase in the minimum Social Security benefit would make most Social Security beneficiaries ineligible for SSI (see Appendix C).<sup>16</sup> For example, an elderly person with a monthly Social Security benefit of \$400 and no other income in 1998 would have been eligible for an SSI benefit equal to \$114 [ $\$494 - (\$400 - \$20)$ ], where \$20 is the amount of unearned income excluded from SSI payment calculations. With the Social Security benefit set equal to the poverty line (\$651.50 per month in 1998), this same individual would not be eligible for any SSI.

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15. Of the total estimated cost, \$12 billion would have been spent on elderly persons who lived alone, with a spouse but no other family members, or with nonfamily, and \$18 billion would have been spent on families of elderly people who lived with other family members.
16. In the simulation presented here, family Social Security benefits are raised to the family poverty line for every beneficiary age 65 or older, regardless of the beneficiary's age when he or she started benefits. If the minimum benefit was reduced to reflect benefit receipt before the normal retirement age, however, some beneficiaries could have family incomes below the poverty line and below the eligibility income level for SSI.

Data from the March 1999 CPS show that families with OASI income received about \$3.6 billion from federal and state SSI programs.<sup>17</sup>

Spending on Food Stamps, Medicaid, and other means-tested government assistance could also decline if the minimum benefit proposal was in place. The \$26 billion estimate does not reflect those savings on in-kind benefits.

Benefits Based on Years with Covered Earnings. One concern about a poverty-line benefit guarantee is its potential effect on the link between payroll taxes and benefits. A worker would get no additional benefits for increases in lifetime covered earnings between the level required for the poverty-line benefit (10 years at \$2,800 per year, using 1998 dollars and program parameters) and the 35-year average annual earnings currently required for a poverty-line benefit (\$14,057 using 1998 parameters). Auxiliary benefits would add to that range. Those changes would blunt the financial incentives for work, especially among low-wage older workers.

To maintain a tighter link between work and benefits, several proposals use a minimum benefit formula based on the number of years with covered earnings. The National Commission on Retirement Policy (NCRP) proposed a formula that

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17. Social Security Administration data indicate that 61 percent of all SSI beneficiaries age 65-plus in federally administered SSI programs in December 1998 received Social Security. See *Social Security Bulletin, Annual Statistical Supplement*, 1999, Table 7.D2. The March 1999 CPS shows that three-fourths of all female SSI recipients age 65-plus received Social Security. Note that the minimum Social Security benefit would also reduce state spending on SSI (see Appendix C).

would give workers with 20 years of covered earnings a minimum benefit equal to 60 percent of the one-person poverty line, and then increase this amount by 2 percent of the poverty line for each additional year of covered earnings up to the full poverty line. The earnings required for one year's credit would have been \$2,800 in 1998, the amount required by current rules. Members of the 1994-1996 Advisory Council on Social Security, the Task Force on Women of the Gerontological Society of America (Gerontological Society), and others have proposed similar formulas for minimum benefits.

This work-based minimum benefit provision would have a modest effect on poverty among older women. First, because most older women would have far fewer than 40 years of covered earnings, most women would be eligible for minimum retired worker benefits that were much lower than the poverty line. Only one-fourth of new female retired worker beneficiaries in 1993 had at least 35 years of covered earnings, and nine percent had 40 or more. Moreover, just 31 percent of all new male retired worker beneficiaries in 1993 had 40-plus years of covered earnings—suggesting that years of covered earnings could remain far short of 40 years for many men and many women for several decades to come.<sup>18</sup>

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18. See the memorandum on "Distribution of Retired Worker Awards by Number of Years of Earnings" from Seung H. An, Office of the Actuary, August 25, 1997.

Second, because many of the women who did have many years of work experience would also have relatively high lifetime earnings, many of the women who would be eligible for a poverty-line minimum benefit would also be eligible for a much larger retired worker benefit. Third, although the minimum benefit provision could raise the incomes of some poor widows by raising the benefits of their husbands, many of the husbands with very low lifetime earnings would also get small benefit increases because they too would have fewer than 40 years of covered earnings.

Because the minimum benefit based on years of covered earnings would affect relatively few beneficiaries, its costs would be relatively low. Related estimates from the Office of the Actuary suggest that the provision would add about \$2 billion to the one-year cost of Social Security.<sup>19</sup> Like the more general minimum benefit policy, this change would also result in lower spending on SSI, Food Stamps, and Medicaid, but the limited number of people affected would limit this cost reduction. In general, the impact on poverty and program costs of an experience-based minimum benefit policy would be larger when the earnings required for a

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19. The Office of the Actuary of the Social Security Administration expresses the costs of proposals as the percentage increase in the payroll tax necessary to cover the change in benefits over a 75-year period. The Office of the Actuary estimated that this proposal for minimum benefits for OASI would cost about 0.0439 percent of taxable payroll over the 1999-2073 period. According to the office's year-by-year estimates, however, costs would not rise until the end of the first decade, and they would then rise steadily through 2073. The amount of \$2 billion was therefore obtained by multiplying the projected total change in the annual balance for the year 2037 (0.2334 percent) by 0.3 (the proportion of the long-term change attributed to OASI, with the remaining 0.7 spent on disability insurance) and \$3 trillion (the approximate value of taxable payroll). The long-term cost estimates for the minimum benefit were prepared by the Office of the Actuary as part of its estimate of the cost of the *21st Century Retirement Act* (H.R. 4824). Reported taxable earnings appear in the *Annual Statistical Supplement to the Social Security Bulletin*, 1999, Table 4.B1.

year's credit toward the benefit are lower, the number of years required for the lowest level of the benefit is lower, and the benefit schedule provides larger amounts at every experience level. But features such as these would also push up program costs and reduce the connection between Social Security benefits and payroll taxes—and maintaining a stronger work incentive is the main purpose of a years-based formula.

Means-Tested Minimum Benefits. Any policy that guarantees a larger minimum Social Security benefit will raise the incomes of some people who would not be poor without the new minimum. For this reason, the Gerontological Society and others have proposed that minimum benefits be means-tested.

One set of proposals would make the minimum benefit conditional on low family income, but not require an asset test. With the minimum benefit equal to the family poverty line, the additional cost of the income-based minimum benefit would be the current poverty gap for Social Security recipients (that is, the sum of differences between total cash family income and the family poverty line for all poor families with elderly Social Security beneficiaries). Data on family incomes from the March 1999 CPS show that the poverty gap for the 2.3 million poor families with Social Security beneficiaries age 65-plus was about \$5 billion in 1998. The cost of SSI payments that are now counted in beneficiaries' family incomes (about \$3.6 billion, according to CPS data) would also shift from the SSI program to the Social Security program because Social Security would substitute for these benefits, but this



shift would not cause an increase in total federal spending.<sup>20</sup> Food Stamp and Medicaid spending would go down, partly because higher incomes would reduce eligibility and benefit amounts and partly because of reduced SSI eligibility. Medicaid eligibility is automatic for most SSI recipients. Income-tested minimum benefits could raise administrative costs significantly, however, because income tracking and periodic recalculation of benefits would be required.<sup>21</sup>

By design, income-tested benefits with a poverty-line minimum level would lift all poor elderly Social Security beneficiaries out of poverty. Children and adults who would not otherwise be covered by Social Security would also move out of poverty under the proposal. At the same time, however, the use of an income test but no asset test could also allow people with low incomes but substantial wealth to get higher benefits under the proposed rule. Moreover, income-tested minimum benefits would weaken the link between benefits and payroll taxes for workers with low family income from sources other than their own earnings. This weakened tax-benefit link could discourage low-wage workers, and workers with minimal attachment to the labor market for other reasons, from working. On balance, the

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20. Because the new Social Security benefits would replace some state SSI supplements, there could be some shift of expense from the states to the federal government, but it would probably be relatively small. The federal share of SSI payments for the elderly far exceeds the states' shares.

21. Administrative costs for the federal SSI program, which has an income test and an asset test to determine eligibility and benefits, were about \$350 per recipient in 1998 according to data provided by the Social Security Administration. In contrast, the Social Security Administration reports administrative costs of approximately \$80 per beneficiary for Old-Age, Survivors, and Disability Insurance (OASDI) for 1998. The higher administrative costs for SSI partly reflect the fact that 80 percent of SSI recipients receive benefits because they are disabled or blind, as compared with 14 percent of OASDI beneficiaries. See *Social Security Bulletin, Annual Statistical Supplement, 1999*, p. 13 and Table 7.A1.

introduction of means-testing for minimum benefits would shift Social Security further away from its role as an earnings-based insurance program and closer to a welfare program.

### Proposals Targeted to Specific Groups

Several proposals would raise benefits for specific groups of beneficiaries based on a presumption of low income for the group. These groups include surviving spouses, unpaid caregivers, the very old, and divorced spouses of retired workers. In general, the design of such targeted policies involves trade-offs: The smaller the target group, the fewer needy people likely to get assistance. But the larger the target group, the greater the number of non-needy likely to get assistance and the greater the cost of the policy.

Special Provisions for Surviving Spouses. Because widows represent a majority of poor older women (59 percent of poor women age 65-plus in 1998), several proposals to reduce elderly poverty focus strictly on raising survivor benefits.<sup>22</sup> One approach would raise the survivor benefit from its current level to a percentage of the total amount that the couple would have received if both spouses had lived. A

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22. Estimates of the number of older widows include an unknown number of divorced women with deceased ex-husbands who call themselves widows when surveyed. See David A. Weaver, "The Accuracy of Survey-Reported Marital Status: Evidence from Survey Records Matched to Social Security Records," ORES Working Paper Number 80, Social Security Administration, Office of Research, Evaluation, and Statistics, January 1999. Unfortunately, the CPS does not show which women who call themselves widows are really divorced, or which divorced women have deceased ex-husbands but still call themselves divorced. Length of past and current marriage is also unknown.

second approach would cut the benefit for a couple and then raise the benefit for that couple's surviving spouse by the amount of the couple benefit cut and an actuarial adjustment.

*75 Percent Rule Benefit.* One option suggested by members of the 1994-1996 Advisory Council on Social Security is the 75 percent rule: a survivor would be eligible for a minimum benefit equal to 75 percent of the amount that the couple would have received if both spouses had lived. A surviving spouse could receive this 75 percent rule benefit, the current survivor benefit (equal to the deceased spouse's retired worker benefit), or the survivor's own retired worker benefit, whichever was highest. Estimates from the Office of the Actuary for the 1994-1996 Advisory Council suggest that the 75 percent rule would raise benefit costs by about \$12 billion.<sup>23</sup>

The feature of the 75 percent rule most emphasized by proponents is its potential effect on the link between survivor benefits and payroll taxes for second earners within couples. The 75 percent rule would improve work incentives for

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23. The Office of the Actuary estimated that this 75 percent rule (phased in gradually over the 1998-2037 period) would cost 0.39 percent of taxable payroll over the 1998-2072 period. This 0.39 percent was multiplied by \$3 trillion, the approximate value of total taxable earnings, to get \$12 billion. See estimate F10, Appendix III, *Report of the 1994-1996 Advisory Council on Social Security*, Volume I, p. 236. More recently, the Office of the Actuary has made estimates of variations on the initial proposal. With the survivor benefit capped at the level of a retired worker benefit for a worker with 35 years at the maximum level of covered earnings (i.e., the maximum retired worker benefit) and full implementation in 2000, the office estimated an increase in the 75-year actuarial balance of 0.46 percent; for the same rule with a 10-year phase-in, it estimated an increase of 0.33 percent in the long-term actuarial balance. See Stephen C. Goss, "Estimated Long-Range OASDI Financial Effects of Provisions to Increase Benefits Paid to a Widow(er)—INFORMATION," memorandum, May 28, 1999.

second earners relative to the incentives provided by current rules because it would allow earnings of a couple's low earner to raise the benefits of the couple's survivor. Indeed, among couples with the same combined level of covered lifetime earnings, larger benefits increases would go to the survivors of couples with more equal earnings between husbands and wives. At present, a low earner's additional payroll taxes can raise a couple's old-age benefits only while both spouses are alive.<sup>24</sup>

The 75 percent rule benefit would also exceed the benefit provided by current rules for nearly all widows and thus reduce the size of the income drop faced by the vast majority of women at widowhood. Because the amount of the benefit increase for a survivor would depend directly on the lifetime earnings of the survivor and his or her spouse, however, the 75 percent rule would probably have only a modest effect on elderly poverty. Widows of low-income couples would probably gain little, while widows of high-income couples could gain a lot.<sup>25</sup> Moreover, some of the gains for

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24. Note that the low earner's Social Security payroll taxes currently count toward the level of the low earner's own Social Security disability benefits and toward the benefits of the low earner's survivors.

25. Estimates by Iams and Sandell of the Social Security Administration suggest that the 75 percent rule would have reduced the poverty rate for widow beneficiaries age 62-plus by about 15 percent in 1992. See Howard J. Iams and Steven H. Sandell, "Cost-Neutral Policies to Increase Social Security Benefits for Widows: A Simulation for 1992," *Social Security Bulletin*, Vol. 61, No. 1, 34-43, 1998.

To limit the costs of the 75 percent rule and the gains from the rule to the least needy, some people suggest that the new benefits should be capped at the amount of the average primary insurance amount for all retired workers collecting benefits in the year before benefits begin. Estimates of the Office of the Actuary suggest that this cap could reduce the cost of the proposal by about 80 percent. Note, however, that this cap would also lessen the work incentives of the 75 percent rule for second earners within couples, a feature emphasized by proponents of the original rule. See Stephen C. Goss, "Estimated Long-Range OASDI Financial Effects of Provisions to Increase Benefits Paid to a Widow(er)—INFORMATION," memorandum, May 28, 1999.

low-income beneficiaries would be offset by the loss of SSI, Food Stamps, Medicaid, and other means-tested benefits.

A second problem with the 75 percent rule—and any other benefit rule targeted only at surviving spouses—is that it would neglect poor couples and poor women who either never married or divorced after fewer than 10 years of marriage. In 1998, 41 percent of all poor older women (nearly a million women) were not widows, and this percentage is expected to grow.

*Transfers from Couples to Their Surviving Spouses.* To raise Social Security benefits for survivors without raising total benefit costs, some people have proposed a transfer of benefits from couples to their surviving spouses. Under these proposals, the benefits of a couple's surviving spouse would be raised by the sum of a cut in the couple's benefit and an actuarial adjustment for delayed receipt of the benefits. The Social Security Administration estimates that each dollar cut in the couple benefit would result in a \$1.45 increase in the survivor benefit.<sup>26</sup>

Analysts have considered three approaches to calculating the benefit transfer: a transfer of part of the spouse's benefit, a transfer of part of the low earner's retired

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26. See, for example, Richard V. Burkhauser and Timothy Smeeding, "Social Security Reform: A Budget Neutral Approach to Reducing Older Women's Disproportionate Risk of Poverty," Policy Brief 2, Center for Policy Research, The Maxwell School, University of Syracuse, Syracuse, New York, 1994; Steven H. Sandell and Howard M. Iams, "Reducing Women's Poverty by Shifting Social Security Benefits from Retired Couples to Widows," *Journal of Policy Analysis and Management*, Volume 16, Number 2, 279-297, 1997.

worker benefit, and a transfer of part of the couple's combined benefit. The choice from that set would influence who would receive higher or lower benefits than current rules provide (see Appendix D). But none of those three transfer policies would have a major impact on elderly poverty. The increase in a survivor's benefits would depend directly on the lifetime earnings of one or both spouses in a couple, so survivors of low-income couples would tend to gain less than survivors of couples with high earnings. Some gains for low-income beneficiaries would also be offset by a loss of SSI, Food Stamps, Medicaid, and other means-tested benefits. Some low-income couples and divorced beneficiaries could actually wind up in poverty because of their benefit cuts.

Special Rules for the Very Old. Some groups have proposed greater benefits for people beyond a certain age. The Gerontological Society has suggested a minimum benefit equal to the poverty line for beneficiaries who are age 80 and older. The 1994-1996 Advisory Council on Social Security considered a 5 percent increase in benefits starting at age 85.

Proponents of these policies argue that very old women are less likely than younger women to have asset or spouse income, and that their decisions about employment and savings are less likely to be affected by more generous benefits. An age-based policy would also require no extra information collection, so it could have lower administrative costs than some of the other proposed targeting strategies.

Not all older women who would benefit from an age-based policy would be poor, however, and younger people with very low incomes would not be helped at all. Although the poverty rate for women age 85 and older was 17.4 percent in 1998, poor women age 85-plus represented just 15 percent of the 2.4 million women age 65 and over who were poor.<sup>27</sup> Forty-four percent of all poor women age 65-plus were under age 75 that year. In general, the higher the threshold age, the greater the number of elderly poor people left without protection—but the lower the threshold age, the greater the number of non-needy beneficiaries likely to gain from an age-based minimum benefit policy.<sup>28</sup>

Special Rules for Divorced Women. Because a growing proportion of women are expected to reach old age either divorced after marriages of less than 10 years (the minimum length required for auxiliary benefits) or divorced with their former spouses still alive, and because divorced older women currently have high poverty rates, some people have proposed that new rules either replace or supplement the current rules for divorced spouse and survivor benefits.

The Gerontological Society of America, Steuerle and Bakija, and others have suggested that auxiliary benefits for each spouse be based on the length of a marriage

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27. Recall that the data used here exclude the institutionalized population, and the proportion of the population institutionalized gets larger as the population ages.

28. Also note that a benefit increase equal to some percentage of a person's basic benefit amount will give bigger dollar increases to people who have larger basic benefits, relative to those with lower basic benefit amounts.

according to some sort of earnings sharing rule (that is, creditable earnings would be split during and perhaps after marriage).<sup>29</sup> With any budget-neutral rule for earnings sharing, however, someone's payment would be reduced in order to raise the payment of someone else. If earnings credits were shared among all spouses, for example, more surviving former spouses would be eligible for some auxiliary benefits, but the amounts of these benefits could be significantly lower than the amounts that current rules would provide. Thus, the proposal could move some former spouses into poverty.

Credits for Caregivers. Because the low lifetime earnings of many older women reflect time devoted to unpaid care for children and other family members, some have proposed that a Social Security earnings credit be awarded for caregiving as a way to boost the incomes of older women. A variety of arrangements have been proposed, including a reduction in the number of years used to compute retired worker benefits and a simple lump sum credit for each year of care, each care recipient, or each caregiver (see Appendix E).

In practice, caregiving policies such as those would probably have little effect on elderly poverty. Relatively affluent women would probably get the biggest boosts in their retired worker benefits because they would be in the best position to take

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29. See Eugene Steuerle and Jon M. Bakija, *Retooling Social Security for the 21st Century: Right and Wrong Approaches to Reform*, Washington, D.C.: Urban Institute Press, 1994.



significant time off from paid employment. And even those women who did get big boosts in their retired worker benefits would probably receive only modest increases in their lifetime benefits, on average. Most of those women would collect their husbands' benefits when widowed—and relatively few husbands would probably collect care-giver credits.

## ALTERNATIVE PROPOSALS FOR POVERTY REDUCTION

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Proposed changes in Social Security present policymakers with fundamental trade-offs. Means-tested Social Security benefits promise the largest impact on poverty at the lowest cost per person lifted out of poverty. But means-tested benefits would also sever the relationship between benefits and payroll taxes for workers with low lifetime earnings, and this break could challenge the status of Social Security as a social insurance program. Another approach would be to strengthen Supplemental Security Income, a program that specifically targets the poor.

### Supplemental Security Income

Expansions of the SSI program could be part of the effort to reduce poverty among the elderly (see Appendix C). Proposed options include an SSI income guarantee

equal to the poverty line, larger exclusions from countable income, and greater asset exclusions.

SSI strategies have certain advantages over Social Security options for reducing poverty among the elderly. SSI could be made available to all poor elderly people, including those who received no Social Security income. In 1998, this group represented more than one out of five of all poor women age 65 and older (see Table 3). Distribution of benefits based strictly on need could also mean lower costs than the other Social Security options discussed above, except for the Social Security proposal that would mimic SSI.

Weighing against these arguments, however, is evidence that SSI has limited effectiveness in reducing poverty due to low take-up rates. Several studies have found that only half of all eligible persons age 65 and older participate in SSI.<sup>30</sup> These studies also find that many factors contribute to this low participation rate, including incomplete or incorrect information about SSI, a burdensome application process, asset and income disclosure requirements, the modest size of SSI payments for many eligibles, and the stigma associated by some with welfare receipt. Such low take-up rates could limit the effectiveness of new SSI provisions as ways to reduce elderly

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30. Studies based on different data sets for different years all report estimates of about 50 percent for SSI participation rates for persons age 65 and older who are eligible for SSI. See, for example: Enrique Lamas, Judith Eargle, and Patricia Ruggles, "Estimating Eligibility and Participation in the AFDC and SSI Programs," *1992 Proceedings of the Social Statistics Section, American Statistical Association*, August 1992, and "Eligibility and Participation in Means-Tested Assistance Programs," paper presented at the 1993 meetings of the American Statistical Association; Kathleen McGarry, "Factors Determining Participation of the Elderly in Supplemental Security Income," *Journal of Human Resources*, Volume 31, No. 2, 331-358.

poverty. SSI expansions could also involve significant administrative costs and reduce incentives to work and save.

Poverty-line Income Guarantee. In 1998, the federal income guarantee for an individual SSI recipient was 76 percent of the one-person poverty line for the aged; for a couple, the guarantee was 90 percent of the two-person poverty line for the aged. The Gerontological Society and others have suggested that the federal SSI income guarantee be raised to the poverty line as an alternative to the income-tested Social Security benefits discussed above.

The cost of this poverty-line income guarantee would depend on the response of elderly people to the higher benefits. If there were no changes in SSI participation or any action that might affect eligibility for the program, the cost to the SSI program would be the sum over all elderly SSI recipients of the gap between their families' total cash income (including their federal SSI income but excluding any state SSI income that brought their total income to the poverty line) and their family poverty lines.

Data on family income from the March 1999 Current Population Survey indicate that the cost of filling the poverty gap for SSI recipients would have been about \$1.2 billion, but there are several reasons to believe that the provision would cost considerably more. First, the CPS shows 1.8 million SSI participants for all of

1998, while administrative records show 2 million for November 1998 alone.<sup>31</sup> Accounting for this undercount would raise the cost to slightly more than \$1.3 billion, assuming that the missing observations would receive the same monthly SSI payment. A second problem is the inclusion of state SSI supplements in family income; federal SSI payments would replace these state supplements under the proposal and thus raise costs above \$1.3 billion.

If SSI participation rose to 100 percent, the cost would be significantly higher. If SSI completely filled the poverty gaps for all poor elderly people in 1998, the cost would have been \$9 billion. This cost exceeds the estimated cost of the poverty-line income-based benefit for Social Security recipients that same year because this SSI proposal would cover the 0.7 million families of poor elderly people who reported no family income from Social Security in 1998.

Larger Income Exclusion. Under current rules, up to \$20 of Social Security benefits or other unearned monthly income is excluded from income when SSI payments are calculated. The Gerontological Society and others have suggested that this unearned income exemption be raised from \$20 so that total income could reach the poverty line. In 1998, for example, this proposal would have raised the unearned income

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31. Researchers at the Census Bureau report that total SSI income reported in the CPS accounted for 89 percent of their benchmark for 1990 and 100.5 percent of their benchmark for 1996, with both benchmarks based on SSI administrative records. For Social Security, they report that CPS amounts equaled 93 percent of their benchmark for 1990 and 94 percent for 1996. See Daniel H. Weinberg, Charles T. Nelson, Marc I. Roemer, and Edward J. Welnaik, Jr., "Fifty Years of U.S. Income Data from the Current Population Survey: Alternatives, Trends, and Quality," *American Economic Review*, Vol. 89, No. 2, 18-21.

exemption from \$20 to \$158 for an individual; the poverty line was \$651.50 per month and the maximum benefit was \$494. A disadvantage of this option is that it would favor SSI recipients with Social Security benefits and other unearned income over others. SSI recipients with no income from other sources would gain nothing.

Larger Asset Allowance. The 1992 SSI Modernization Project Commission, the Gerontological Society, and others have suggested that the asset limit be raised to \$10,000. Proponents argue that the low limits now in effect (\$2,000 for individuals and \$3,000 for couples, with no indexation) discourage savings. Like larger income exemptions, however, a larger asset allowance would favor SSI recipients with more resources over those with less.

#### ADDITIONAL CHANGES IN SOCIAL SECURITY AND OTHER PROGRAMS

Debate over fundamental restructuring of Social Security is likely to intensify in the coming years. If a privatization proposal was adopted, it would create new opportunities and new challenges for reducing elderly poverty. Less global policy changes in Social Security and other federal programs would also raise new issues in that regard.

## Social Security Reform

Most attention has focused on the possible consequences of introducing individual accounts to Social Security. In addition, both scheduled and proposed increases in the benefit eligibility age, changes in the benefit cost-of-living index, and other changes being debated could result in significant changes in the economic status of the elderly.

Individual Accounts. Certain characteristics of an individual accounts program could have a major impact on the financial status of many older women. Among these features would be annuitization requirements for accounts at retirement, provisions for survivors, and any changes in the level and distribution of defined benefits that accompany the individual accounts.

Annuitization requirements for account balances at retirement would be very important for many women. Because women live longer than men, on average, mandatory annuities with unisex prices would serve to transfer income from men to women. Lump sum distributions could reduce women's lifetime benefits relative to the amount they would receive with mandatory annuities.

Restrictions on the transfer of account balances to surviving spouses could also have a major impact on the financial status of many widows. As discussed

above, women have generally benefited more than men from the current program's combination of individual-based payroll taxes and family-based benefits. Women have collected nearly all auxiliary benefits to date, and the data for younger women today suggest that this pattern would continue if current rules remained in effect. To encourage protection of widows, members of the 1994-1996 Advisory Council and others have suggested mandatory annuitization of all individual accounts, with spousal consent required for all married workers who request single-life annuities.

Rules for account distribution after divorce might also be introduced. Under the current program, the number of aged spouses or survivors collecting on the account of an individual insured worker has no effect on amounts received by the worker or any current or former spouse. With individual accounts, additional people collecting from one worker's account would certainly lower the average amount received by each person.

Because low-wage workers will not have sizable account balances under most proposals, many decisions about specific rules for individual accounts might have a small effect on their lifetime incomes. However, because workers with low earnings are the main beneficiaries of the progressive structure of defined benefits in the current system, they could be affected significantly by any changes in the defined benefit formulas. Specific policies, such as a more progressive defined benefit

schedule, would have to be developed if average defined benefits are to be reduced without reducing benefits for low-income individuals.

Raising the Benefit Eligibility Age. Under current law, the eligibility age for full defined benefits (called the normal retirement age, or NRA) is scheduled to rise from age 65 to age 67 between 2000 and 2022. The earliest eligibility age (EEA) is scheduled to stay at 62, but the permanent cut in monthly benefits for entitlement at age 62 will rise from 20 percent to 30 percent. Members of the Advisory Council and others have suggested that this scheduled increase in the NRA be accelerated and that further changes in the NRA be linked to a mortality index.

Because most retired workers begin collecting benefits before the NRA, any increase in the NRA would lower potential retired worker benefits and could substantially reduce auxiliary benefits for spouses and survivors. Recall that a benefit equal to the one-person poverty line started at the NRA in 1998 would have required average indexed annual earnings of \$14,057. With the NRA equal to 65 and a 20 percent cut in the monthly benefit if started at age 62, a poverty-line benefit would have required average annual indexed earnings of \$20,164. With the NRA at 67 and a 30 percent cut for starting benefits at 62, required earnings would have been \$24,527. Thirty-five percent of women age 35 to 44 and 66 percent of men age 35 to 44 had earnings that high in 1998.



If an insured worker started benefits before reaching the new NRA, his or her survivor would be eligible for smaller auxiliary benefits. Moreover, these auxiliary benefits could be further reduced if the spouse or survivor had not reached the NRA when benefits started.

Some members of the Advisory Council also proposed an increase in the eligibility age for survivor benefits from 60 to 62, but this change would probably affect a relatively small group. In 1998, 18 percent of all women age 60 to 62 were widowed. Moreover, those widows who are in poorest health could still qualify as disabled widows.

Adjustments to the Cost-of-Living Index. Under current law, Social Security benefits are indexed to the Consumer Price Index (CPI) to protect beneficiaries against inflation. This provision is particularly important for those who live long lives because the purchasing power of their benefits would decline continuously if there was no indexation, and a longer life would mean a larger drop. In turn, this provision is more important for women than men, on average, because women tend to live longer.

## Other Programs

Changes in the eligibility and benefit rules for Social Security and SSI are not the only policy options available to policymakers for improving the well-being of the elderly.

Policymakers could adjust the differential treatment of home equity versus other assets in the asset tests for means-tested transfer programs, for example. At present, home equity is not counted, but financial assets are. This preferential treatment of home equity could discourage older people from obtaining reverse mortgages, which would raise their income flows, or from selling their homes and living off the proceeds.

Special policies for low-wage workers might be developed, as well. Social Security payroll tax credits might be added to the Earned Income Tax Credit (EITC) income received by low-income workers today, for example. As it stands, EITC income represents a large percentage of current income for many low-income families, but payroll taxes are not paid on EITC income and it will not be counted toward Social Security benefits. Particularly for never-married mothers, counting this income could boost Social Security benefits significantly.

## APPENDIX A. THE CURRENT SOCIAL SECURITY PROGRAM

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Social Security is a social insurance program that covers almost all workers and their families today. People's Social Security benefits depend on their own lifetime earnings, their marital history, their spouses' earnings if they have married, and the ages that both spouses begin collecting benefits. These factors determine whether a person receives a benefit as a retired worker, a spouse, or both, and the amount of the monthly payment.<sup>32</sup>

### Retired Worker Benefits

Eligibility for a retired worker benefit requires 40 quarters of coverage (QC), where one QC is defined as covered earnings above an indexed amount in a calendar year (\$700 in 1998), and up to four QCs may be awarded for a single year.

The amount of the retired worker benefit is based on a worker's top 35 years of indexed covered earnings. Specifically, a worker's average indexed monthly earnings (AIME) are converted to a primary insurance amount (PIA) using a progressive formula, and this PIA is the basis for his or her benefit. In 1998, the PIA for a newly qualified retired worker equaled 90 percent of the first \$477, 32 percent

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32. OASI rules are identical for men and women; references to women's benefits here reflect the focus of the paper on high levels of poverty among older women.

of the next \$2,398, and 15 percent of that part of the AIME above \$2,875.<sup>33</sup> Benefits therefore rise with lifetime covered earnings, but by less than dollar for dollar. Annual earnings and the benefit formula are both indexed up to the year that a worker reaches age 60 using an index of national wage growth, and the CPI-W is used to index benefits after age 62. Social Security benefits are inflation-protected life annuities.

A worker is eligible for his or her full retired worker benefit at the normal retirement age (NRA), which is 65 and 2 months for individuals turning 62 in 2000, but scheduled to rise gradually to 67.<sup>34</sup> Alternatively, a worker can collect a permanently reduced benefit if he or she starts collecting benefits between the earliest eligibility age (EEA) and the NRA; the EEA is now 62 and not scheduled to change. The benefit reduction is intended to equate the expected value of lifetime benefits started before the NRA and the expected value of lifetime benefits started at the NRA. Likewise, the delayed retirement credit (DRC) raises the monthly benefit amount if benefit receipt is postponed by a worker who is fully insured, over the NRA, and under age 70. The monthly benefit can also go up permanently if post-entitlement earnings raise a worker's AIME, and it can drop temporarily if post-entitlement earnings exceed the earnings test threshold. Federal income tax can also

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33. See the *Social Security Bulletin, Annual Statistical Supplement*, 1999, Table 2.A11.

34. The Social Security Administration distinguishes between the terms eligible and entitled. When an eligible worker starts to collect benefits, the worker is called entitled.

be owed on a portion of Social Security benefits if income from other sources is sufficiently high.

### Auxiliary Benefit Rules for Spouses and Survivors

A married, widowed, or divorced woman may be eligible for an auxiliary benefit based on her husband's earnings history, regardless of her eligibility for a retired worker benefit.

If a woman's husband is alive and entitled to a retired worker benefit, she is eligible at the NRA for a spouse benefit equal to 50 percent of his PIA. Between the EEA and NRA, she can also collect a spouse benefit, but this early receipt reduces her monthly benefits thereafter.

If a woman's husband is deceased, she is eligible at the NRA for a survivor benefit equal to her husband's retired worker benefit—after adjustment for his early or delayed retirement, but no less than 82.5 percent of the amount her husband would have received if he started his benefits at the NRA. At age 60, a widow is eligible for a reduced benefit. If disabled, she can start benefits at age 50.<sup>35</sup>

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35. Benefits are also available for a surviving spouse before age 60 if she is caring for the deceased worker's child who is under 16.

Spouse and survivor benefits are available to an insured worker's former spouse if the former spouse was married to the insured worker for at least 10 years and is not remarried when she applies for benefits. If the woman has been divorced for at least two years or she was entitled to a spouse benefit at the time of her divorce, she is eligible for spouse benefits when her husband is eligible for benefits, even if he has not yet claimed benefits.

### Dual Entitlement

When a beneficiary is eligible for both her own retired worker benefit and either a spouse benefit or a survivor benefit, she can receive the larger of the two amounts. If a woman's spouse or survivor benefit exceeds the amount of her own retired worker benefit, the Social Security Administration (SSA) calls her “dually entitled” and records her benefit in two distinct parts: her retired worker benefit and an auxiliary benefit equal to the difference between her spouse or survivor benefit and her retired worker benefit.

If a dually entitled woman collects only her own age-reduced retired worker benefit before she reaches the NRA, her survivor benefit is not actuarially reduced for her early entitlement. She can collect her full survivor benefit at the NRA. Alternatively, a widow can collect an age-reduced survivor benefit as early as age 60

and then shift to her own retired worker benefit at the EEA or later if her own benefit exceeds the auxiliary benefit.

### Beneficiary Status of Older Women

In 1998, 63 percent of all female beneficiaries age 62-plus still received auxiliary benefits based on their husbands' earnings in 1998—nearly the same level as in 1960.<sup>36</sup> Although 64 percent of all female beneficiaries age 62 and older collected retired worker benefits based on their own earnings records, up from 43 percent in 1960, the percentage of women entitled only to their own retired worker benefits dropped slightly. Women's dual entitlement to both retired worker and auxiliary benefits rose sharply.

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36. See the *Social Security Bulletin, Annual Statistical Supplement*, 1999, Table 5.A14.

## APPENDIX B. MINIMUM BENEFITS UNDER CURRENT LAW

Current rules provide minimum benefit levels in two ways. First, the minimum earnings required for eligibility for a retired worker benefit imply a minimum amount for Social Security benefits. Steady real earnings for 40 quarters of coverage at the 1998 threshold amount (\$700 per quarter, or \$2,800 per year) imply a primary insurance amount (PIA) of \$60 (in 1998 dollars), for example. Current rules also provide a special minimum benefit for workers who have many years of low covered earnings.

The special minimum benefits are based on a "special minimum PIA" formula—an indexed dollar amount multiplied by the number of years in excess of 10 that a worker has covered earnings above a designated threshold, up to a maximum of 20 years. In 1998, the special earnings threshold was \$7,605, and the special PIA amount per year was \$28.37 in December 1998.<sup>37</sup> Thus, the special minimum PIA at the normal retirement age was \$28.37 for a worker with 11 years above the threshold and \$567.30 for a worker with 30 years above the threshold. Like standard benefits, the monthly benefit based on the special minimum PIA is reduced if started before the normal retirement age, but delayed retirement credits are not added to the special minimum.

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37. See the *Social Security Bulletin, Annual Statistical Supplement*, 1999, Table 2.A12.



In December 1998, about 105,000 women collected special minimum benefits as retired workers (less than 1 percent of the 13.3 million females who collected retired worker benefits), and fewer than 15,000 women collected auxiliary benefits based on the special minimum PIA.<sup>38</sup>

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38. See the *Social Security Bulletin, Annual Statistical Supplement*, 1999, Tables 5.A7 and 5.A8.

## APPENDIX C. SUPPLEMENTAL SECURITY INCOME (SSI)

Federal SSI uses nationally uniform rules to provide cash payments to people who are at least age 65, blind, or disabled and who have low incomes and assets. In 1998, the maximum monthly federal SSI payments were \$494 for an individual living independently and \$741 for a couple, but actual benefits are lower for many recipients. If a recipient lives in someone else's household for a full calendar month and also receives food from that person, the benefit is reduced by one-third. Benefits are also reduced dollar for dollar for unearned income (including Social Security) above \$20, and by 50 cents for each dollar of labor market earnings above \$65. SSI eligibility also requires that a person or couple pass an asset test. Excluding a primary residence, partial value of an auto, life insurance with a face value of \$1,500 or less, and most personal belongings, assets must be valued at less than \$2,000 for individuals and less than \$3,000 for couples.<sup>39</sup>

Many states supplement federal SSI payments. In January 1999, 43 states and the District of Columbia provided supplements that ranged between a few dollars and hundreds of dollars.<sup>40</sup> In December 1998, about 44 percent of all 1.4 million aged

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39. Maximum SSI benefit levels are indexed by the same percentage and at the same time as Social Security, but the amounts of other income and earnings exempted and asset thresholds are not indexed.

40. See *State Assistance Programs for SSI Recipients, January 1999*, Social Security Administration, Office of Policy, Office of Research, Evaluation, and Statistics, Publication Number 13-11975.

SSI recipients received both federal and state SSI payments, and about 10 percent received only state SSI.<sup>41</sup> Most SSI participants are also eligible for Medicaid.

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41. See the *Annual Statistical Supplement to the Social Security Bulletin*, 1999, Table 7.A3.

## APPENDIX D. PROPOSALS TO TRANSFER BENEFITS TO SURVIVORS

Analysts have considered three approaches to transferring benefits from a couple with two living spouses to its surviving spouse: transfer part of the spouse auxiliary benefit, transfer part of the retired worker benefit for the spouse with lower earnings, and transfer part of the couple's combined benefit.<sup>42</sup> By design, none of these approaches would raise total benefit costs. All would be forced saving. The choice from this set would influence who would receive higher or lower benefits than current rules would otherwise provide.

### Transfer Part of the Spouse Benefit

Currently, the spouse of a retired worker is eligible for an auxiliary benefit equal to one-half of the retired worker's benefit. This option would cut the potential auxiliary benefit for the spouse from 50 percent to 25 percent of the retired worker's benefit and then use the savings from this cut (if any) to raise benefits for the couple's surviving spouse. This policy would have its largest effects on one-earner couples and couples with very different earnings. Low earners in these couples would collect a larger spouse benefit under current rules, so more benefits would be transferred to

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42. See, for example, Richard V. Burkhauser and Timothy Smeeding, "Social Security Reform: A Budget Neutral Approach to Reducing Older Women's Disproportionate Risk of Poverty," Policy Brief 2, Center for Policy Research, The Maxwell School, University of Syracuse, Syracuse, New York, 1994; Steven H. Sandell and Howard M. Iams, "Reducing Women's Poverty by Shifting Social Security Benefits from Retired Couples to Widows," *Journal of Policy Analysis and Management*, Volume 16, Number 2, 279-297, 1997.

the surviving spouses. Spouses with primary insurance amounts (PIAs) equal to one-half or more of their spouses' PIAs would receive no spouse benefits before widowhood, so their benefits both before and during widowhood would be left unchanged by this transfer rule.

#### Transfer Part of the Low Earner's Retired Worker Benefit

A second option would transfer the difference, if positive, between 50 percent of the high earner's PIA (i.e., the amount of the spouse benefit) and 100 percent of the low earner's PIA. In direct contrast to the spouse benefit transfer, this option would not affect the benefits of one-earner couples or couples with a dually entitled spouse. This policy would only transfer benefits for those couples in which neither spouse qualified for any part of a spouse benefit—that is, couples in which each spouse would collect the amount of his or her own retired worker benefit while both spouses were alive under current law. Among couples with the same level of combined lifetime earnings, the amount transferred would be largest for couples in which husbands and wives had equal lifetime earnings.

### Transfer Part of the Couple's Benefit

A third proposal would transfer a percentage of a couple's combined benefit to its surviving spouse. Relative to the above two options, this approach would have the advantage of raising benefits for all surviving spouses, not just some. The disadvantage of this option is that it would cut benefits for all intact couples and all divorced beneficiaries with living former spouses.<sup>43</sup>

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43. Research by Sandell and Iams suggests that all three transfer policies would have had a significant but small effect on poverty among female beneficiaries in 1990. Their results suggest that the couple benefit transfer might have a larger impact on elderly poverty than the other two options because it would shift fewer couples into poverty, but they do not consider the policy's effects on poverty among divorced women.

## APPENDIX E. PROPOSALS FOR CARE-GIVING CREDITS

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Because many women reduce their paid employment to provide unpaid care for children, parents, and other family members, many people have proposed that Social Security earnings credits be awarded to caregivers as a way to raise older women's incomes and reduce elderly poverty. As proposed, however, most provisions for care-giving credits would not have a significant effect on elderly poverty. Indeed, those with the least need could gain the most from the care-giving credits.

First, most of the proposed care-giving credit policies would have their largest impacts on the primary insurance amounts (PIAs) of people with the highest potential earnings. Some proposals would reduce the number of years of earnings used to calculate a worker's PIA from its full number (now 35 years) by the number of years devoted to caregiving, for example, or by a specified number of years for each care recipient or caregiver. This shortened computation period, as the Social Security Administration calls it, would be equivalent to substituting average earnings in high-earnings years for zeros and low earnings in the credit years. Thus, workers with high wages who reduced their paid hours of work for any reason or who experienced significant earnings growth over their lifetimes would gain more from the shortened computation period than workers with low wages or flat lifetime earnings profiles.

An alternative approach would count earnings in all years in the numerator when calculating average lifetime earnings but reduce the denominator for years of care-giving time. Like counting earnings for fewer years, this approach would also favor high-wage workers over low-wage workers. But among women with similar hourly earnings, this policy would have a greater effect on the PIAs of women who worked more rather than less.

A third alternative would simply set a dollar amount for the child care credit. In contrast to the above credit proposals, this option would favor workers with low potential earnings.

Under any of those approaches, however, even workers with large boosts to their PIAs would probably realize limited benefit gains when they were most in need. Under current auxiliary benefit rules, the credits would have no effect on women's survivor benefits if they had lower lifetime covered earnings than their spouses—and the spouses of high earners would be in the best position to reduce their employment to provide unpaid care.

Given these potential problems with earnings credits for caregiving, some people have suggested that caregivers instead be given the opportunity to pay extra payroll taxes later in life. While this policy would limit work disincentives and spending on the non-needy, as intended, this sort of catch-up contribution policy



might also have little effect on elderly poverty. Extra payroll contributions might raise a woman's PIA, but it might leave her spouse and survivor benefits unchanged.

The precise consequences of a care-giving policy would depend partly on whom the policy targeted. The policy might apply only to mothers who reduced their paid hours of employment to provide child care or elder care. But that approach would require monitoring, which could be cumbersome and costly. Alternatively, the credits might be awarded to low earners within couples with children. These are the two cases typically referenced. In principle, however, a care-giving policy could also apply to other groups of potential caregivers, such as single parents, legal guardians, and adults who care for parents and other family members.<sup>44</sup>

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44. For additional discussion of care-giver credits, see Howard M. Iams and Steven H. Sandell, "Changing Social Security Benefits to Reflect Child-Care Years: A Policy Proposal Whose Time Has Passed?" *Social Security Bulletin*, Vol. 57, No. 4, Winter 1994.