Some Social Security reform proposals, such as two of the three offered by the President's Commission to Strengthen Social Security, would modify and strengthen Social Security's special minimum benefit provision, which is intended to enhance benefits for low earners and is phasing out under current law. In order to inform policymakers as they continue to deliberate the provision's future, this article presents the most recent and comprehensive history and analysis available about the special minimum benefit.

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Social Security's Special Minimum Benefit

*by Kelly A. Olsen and Don Hoffmeyer**

Summary

Social Security's special minimum primary insurance amount (PIA) provision was enacted in 1972 to increase the adequacy of benefits for regular long-term, low-earning covered workers and their dependents or survivors. At the time, Social Security also had a regular minimum benefit provision for persons with low lifetime average earnings and their families. Concerns were rising that the low lifetime average earnings of many regular minimum beneficiaries resulted from sporadic attachment to the covered workforce rather than from low wages. The special minimum benefit was seen as a way to reward regular, low-earning workers without providing the windfalls that would have resulted from raising the regular minimum benefit to a much higher level. The regular minimum benefit was subsequently eliminated for workers reaching age 62, becoming disabled, or dying after 1981.

Under current law, the special minimum benefit will phase out over time, although it is not clear from the legislative history that this was Congress's explicit intent. The phaseout results from two factors: (1) special minimum benefits are paid only if they are higher than benefits payable under the regular PIA formula, and (2) the value of the regular PIA formula, which is indexed to wages before benefit eligibility, has increased faster than that of the special minimum PIA, which is indexed to inflation. Under the Social Security Trustees' 2000 intermediate assumptions, the special minimum benefit will cease to be payable to retired workers attaining eligibility in 2013 and later. Their benefits will always be larger under the regular benefit formula.

As policymakers consider Social Security solvency initiatives—particularly proposals that would reduce benefits or introduce investment risk—interest may increase in restoring some type of special minimum benefit as a targeted protection for long-term low earners. Two of the three reform proposals offered by the President's Commission to Strengthen Social Security would modify and strengthen the current-law special minimum benefit. Interest in the special minimum benefit may also increase because of labor force participation and marital trends that suggest that enhancing workers' benefits may be a more effective means of reducing older women's poverty rates than enhancing spousal or widow's benefits.

By understanding the Social Security program's experience with the special minimum benefit, policymakers will be able to better anticipate the effectiveness of other initiatives to enhance benefits for long-term low earners. This article

presents the most recent and comprehensive information available about the special minimum benefit in order to help policymakers make informed decisions about the provision's future.

Highlights of the current special minimum benefit include the following:

- **Very few persons receive the special minimum benefit.** As of December 2001, about 134,000 workers and their dependents and survivors were entitled to a benefit based on the special minimum. Of those, only about 79,000 received a higher total benefit because of the special minimum; the other 55,000 were dually entitled. (In effect, when persons are eligible for more than one type of benefit—that is, they are dually eligible—the highest benefit payable determines total benefits. If the special minimum benefit is not the highest benefit payable, it does not increase total benefits paid.)
- **As of February 2000, retired workers who were special minimum beneficiaries with unreduced benefits and were not dually entitled were receiving, on average, a monthly benefit of $510 per month**. That amount is approximately $2,000 less than the annual poverty threshold for an aged individual.
- **Special minimum benefits provide small increases in total benefits.** For special minimum beneficiaries who were not dually entitled as of December 2001, the average special minimum monthly PIA was just $39 higher than the regular PIA.
- **Most special minimum beneficiaries are female retired workers.** About 90 percent of special minimum beneficiaries are retired workers, and 77 percent of those retired workers are women.
- **The special minimum benefit has never provided poverty-level benefits.** Maximum payable special minimum benefits (unreduced for early retirement) equal 85 percent of the poverty level for aged persons, down from 96 percent at the provision's inception.

Major public policy considerations raised by this analysis include the following:

- **Social Security benefits alone do not protect all long-term low earners from poverty.** Low earners with 30 years of earnings equal to the annual full-time minimum wage who retired in selected years from 1982 to 2000 received benefits that were 3.9 percent to 20.1 percent below the poverty threshold, depending on the year they retired. For 40-year earners, the range was 3.9 percent to 15.3 percent below poverty. Furthermore, in 1993, 29.2 percent of retired-worker beneficiaries who were poor had 30 or more years of coverage.
- **The size of the universe of persistently low earners with significant attachment to the covered workforce is unknown.** Available research that examines two 28-month periods suggests that only 4 percent to 6 percent of full-time, full-period earners had below-minimum wages for more than 12 consecutive months.
- **Targeting enhanced benefits only toward long-term, regular workers who are low earners is difficult under the current Social Security program.** All else being equal, if total wage-indexed lifetime covered earnings are the same for both a full-career low earner and for a high earner who has worked only occasionally, then their Social Security benefits will be identical. Social Security has no information on number of hours worked, hourly wages, or other information that could distinguish between two such persons.

Introduction

The special minimum primary insurance amount (PIA) was enacted in 1972 to increase the adequacy of Social Security benefits for regular, long-term covered workers with low earnings and their dependents or survivors. At the time, Social Security also provided a regular minimum benefit for workers with low lifetime average earnings and their families. Policymakers were becoming increasingly concerned that the low lifetime earnings of many regular minimum beneficiaries resulted from sporadic attachment to the covered workforce, not to low wages. The special minimum was seen as an alternative means of rewarding regular, low-earning workers without creating the windfalls that would have resulted from increasing the regular minimum benefit to a much higher level than would have otherwise occurred under the 1972 act (Myers 1993, 252). The provision of a regular minimum benefit was subsequently eliminated for workers who reached age 62, became disabled, or died after 1981.

The special minimum benefit was designed to phase out over time, although it is not clear from the legislative history that Congress explicitly intended it to do so. The benefit phases out for two reasons: (1) special minimum benefits are paid only if they are larger than benefits payable under the regular PIA formula, and (2) the value of the regular PIA formula, which is indexed to wages earned before a worker is eligible for benefits, has increased faster than that of the special minimum PIA, which is indexed to inflation. As wages continue to grow faster than inflation, the phase-out will continue.[1]

Decreasing Number of Special Minimum Beneficiaries

In 1973, 204,392 Old-Age, Survivors, and Disability Insurance (OASDI) beneficiaries were entitled to a benefit based on the special minimum PIA (about 0.7 percent of all OASDI beneficiaries). By December 2001, that number had fallen to 134,430—about 0.3 percent of all OASDI beneficiaries (see Chart 1). Of those, only about 79,000 received a higher overall benefit; the other 55,000 also qualified for higher benefits as a spouse or widow(er) on another person's record. In effect, only the higher of the two benefits is paid, so entitlement to the special minimum does not result in an increase in total benefits for those so-called dually entitled beneficiaries.[2]

Of the approximately 4.2 million new beneficiaries in 2001, only 1,122 were special minimum beneficiaries.[3] Under the Social Security Trustees' 2000 assumptions, the special minimum benefit will phase out completely for retired workers attaining age 62 in 2013 or later.

Interest in Special Minimum Benefit as a Policy Issue

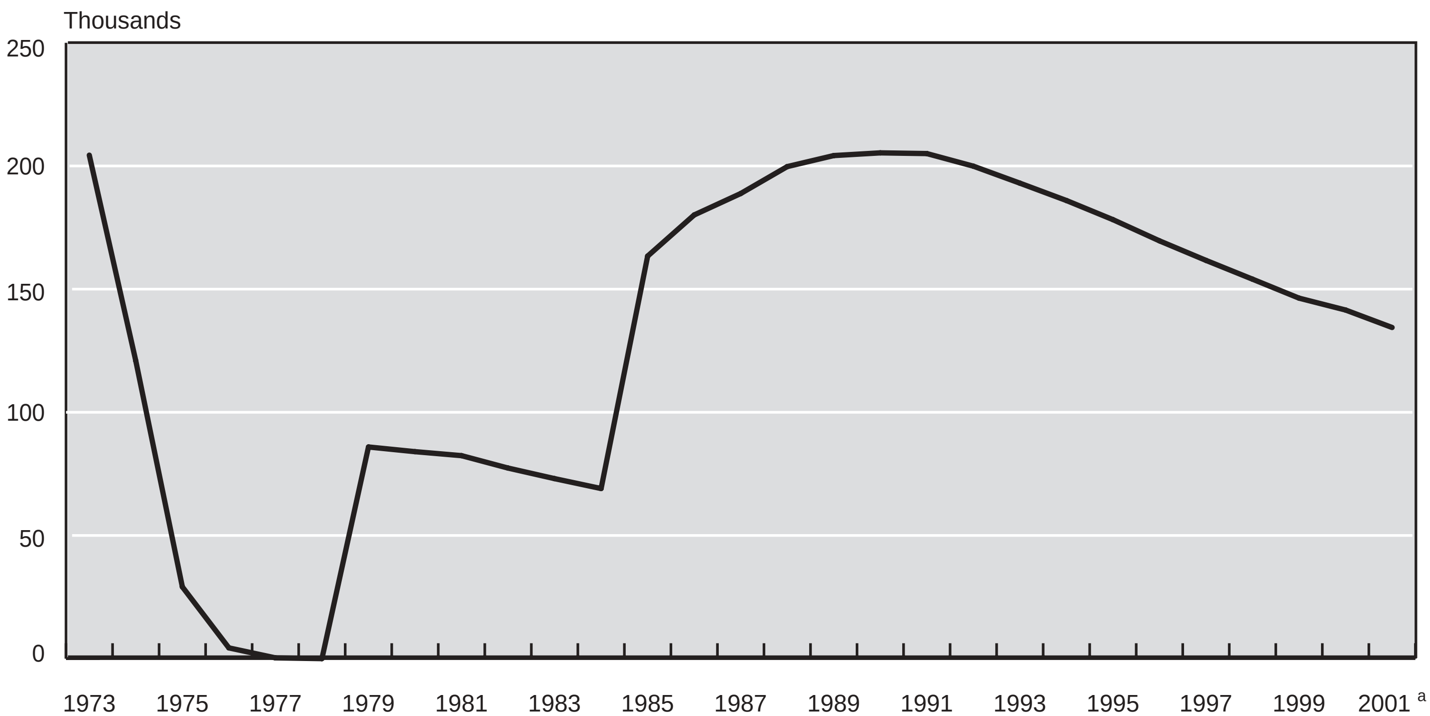
Despite the fact that the special minimum benefit has been phasing out, policymakers may renew their interest in this type of benefit for a number of reasons. First, restoring a special minimum benefit for workers may be seen as an option for protecting older women from poverty. Recent research on labor force participation and marital patterns suggests that fewer women will receive spousal or widow's benefits and that more will have significant work histories of their own (Butrica, Sandell, and Iams 1999). However, because women's average earnings are still below those of men, women are at greater risk of experiencing poverty in old age.[4]

Policymakers may also renew their interest in the special minimum if they view solvency legislation as an opportunity to improve benefits for Social Security beneficiaries who live in poverty despite having a significant work history. That may be especially likely if legislation involves explicit benefit reductions or exposing benefits to investment risk.

This article:

- Describes how the special minimum benefit works and discusses its legislative history,
- Analyzes how the special minimum benefit's design and known beneficiary characteristics relate to its intentions of enhancing benefit adequacy and preventing windfalls, and
- Discusses arguments for and against preserving or expanding the special minimum benefit in light of this information.

Chart 1.
Number of special minimum beneficiaries in current-pay status, December 1973–2001



SOURCE: Social Security Administration, *Annual Statistical Supplement, 1984/1985–2001*.

a. The number for December 2001 is based on a match of beneficiaries in current-pay status as of December 2001 to the Master Beneficiary Record in January 2002.

Description and Legislative History

This section describes how the special minimum benefit works and discusses its legislative history, in terms of benefit adequacy, equity, and why it is phasing out. We examine the special minimum benefit's intended target group, how adequacy is defined (or not defined) by those who designed the special minimum benefit, and how benefit equity played a part in that design. Finally, we discuss how legislators have historically disagreed about whether the special minimum benefit should be allowed to phase out and when it is expected to phase out under current law.

Special Minimum Benefit Computation

Special minimum benefits are awarded only if amounts are higher than benefits computed under the regular PIA formula. A worker's earnings are taken into account under the special minimum benefit only to determine if an individual has met the earnings threshold for a year of coverage (YOC). The YOC earnings threshold is a dollar amount that is based on a percentage of the "old-law" contribution and benefit base in effect before the 1977 amendments.[5] The YOC threshold amounts are updated annually with the growth in real wages.[6] In 2002, the YOC threshold is 15 percent of $63,000 or $9,450. Table 1 shows special minimum PIAs and their corresponding maximum family benefit amounts by YOCs for benefits payable in December 2001and later. This information is updated every year by increasing the PIA and maximum family benefit amounts by the amount of the cost-of-living adjustment (COLA), effective as of the month in which a COLA is made. Note that total benefits received by the family cannot exceed the family maximum amount.

Legislative History

Although policymakers generally agreed that the special minimum benefit was intended to increase benefit adequacy for long-term, regular low earners, its exact target group and the definition of benefit adequacy have differed throughout its legislative history and remain ambiguous.

Benefit Adequacy. In 1972, the Senate Committee on Finance indicated that Congress:

- Intended that full-time, full-career minimum wage earners would be helped by the special minimum benefit,
- Perceived that the need for increased benefit adequacy stemmed from the below-poverty-level Social Security benefits received by those workers, and
- Defined benefit adequacy as freedom from welfare dependence.

The Committee (1972, 7) stated:

> A worker retiring in 1972 who has worked all his life at the Federal minimum wage applicable during his employment would be eligible for a monthly benefit of about $160 today. Under the committee bill, his benefit would be increased 25 percent to $200, well above the poverty level. Thus the committee bill would achieve the original aim of the Social Security Act of 1935, to provide regular long-term workers with an income that would free them from dependency on welfare.

Although full-time, full-career ("all his life") minimum-wage earners are named above, it appears that Congress did not attempt to limit the special minimum benefit to workers with the traditional definition of career earnings, or 40 years. In 1972, when the special minimum benefit was created, Congress predicted that it would "generally not be payable to workers with less than 23 years of covered employment since these workers [would]

Table 1.
Special minimum PIA and maximum family benefit payable in December 2001 (in dollars)

Years of coverage	Primary insurance amount	Maximum family benefit
11	30.10	45.80
12	61.00	92.20
13	92.10	138.50
14	122.70	184.60
15	153.50	230.70
16	184.40	277.40
17	215.40	323.90
18	246.30	370.10
19	277.10	416.40
20	307.90	462.60
21	339.00	509.30
22	369.60	555.40
23	400.90	602.40
24	431.80	648.40
25	462.60	694.20
26	493.80	741.50
27	524.40	787.50
28	555.30	833.70
29	586.10	880.30
30	617.00	926.20

SOURCE: *Federal Register* , 2001, Notices, vol. 66, no. 207, October 25, p. 54047.

generally qualify for higher regular benefits" (Senate Committee on Finance and House Committee on Ways and Means 1972). Arguably, Congressional awareness that the special minimum would not be payable to workers with fewer than 23 YOCs indicates that low-wage earners with more than 23 YOCs fell within the special minimum benefit's target group.

Since the special minimum benefit was intended to provide regular long-term workers with an income that would free them from dependency on welfare, one might conclude that it was designed to reduce poverty. That rationale also might explain why the maximum special minimum benefit payable (that is, to workers with 30 YOCs) at the program's inception nearly equaled the poverty threshold (96 percent) for aged individuals.

The 1975 Advisory Council on Social Security (p. 32) suggested an alternative definition of adequacy, which was related to "reasonable" replacement rates. The Council characterized the special minimum benefit as a temporary measure that should phase out as the regular benefit formula becomes "sufficient to provide earnings replacement that is reasonably related to . . . pre-retirement standard of living."

Preventing a Windfall. Robert J. Myers (1993, 252), former Chief Actuary of the Social Security Administration (SSA), recalls that "it was argued that [the regular minimum benefit] should . . . be above the poverty level [so] people could live on it."[7] However, "many, if not most, persons getting the regular minimum did so because they were only intermittently in covered employment and often [had] other pension income from noncovered employment."

Policymakers were concerned that liberal eligibility requirements for Social Security created regular minimum benefit windfalls for persons who had little connection with the covered workforce. According to a report by the Senate Committee on Finance (1972, 153), such windfalls occurred when:

- ". . . an individual spent most of his [or her] working career in employment not covered under social security but instead covered by another public pension system (such as employment in the Federal civil service, under a state retirement system not linked to social security, or as a policeman or fireman)."
- A woman spent "most of her adult life not working but . . . had some earnings under social security." That woman will "ordinarily receive wife's or widow's benefits based on her husband's earnings under social security; however, if she receives another public pension because he never worked under social security, she will probably be receiving the minimum benefit even though his pension may be substantial."

In 1972, members of the Committee on Finance reasoned that "it would be appropriate in increasing benefits to distinguish between individuals whose low average earnings result from only slight connection with covered employment and those individuals who worked for years at low wages." They therefore rejected raising the regular minimum benefit and decided instead to establish a special minimum benefit.

Phaseout of Special Minimum Benefit. Although not made explicit in its legislative history, the special minimum benefit will not necessarily be a permanent part of Social Security. When the special minimum was created by the 1972 amendments, the benefit was calculated using a table that was not updated for future wage or price increases, and benefits after receipt were explicitly excluded from the automatic COLA provision that those amendments established for regular benefits (Senate Committee on Finance 1972, 155). (COLAs were, and continue to be, automatically applied to regular Social Security benefits to maintain the purchasing power of benefits over time.) By the end of the 1970s, very few people were receiving a benefit based on the special minimum (see Chart 1).

The Social Security Financing Amendments of 1977 provided for an ad hoc increase in special minimum benefit levels and indexed the benefit to inflation, both after (as is the case with regular benefits) and before receipt. Those actions immediately increased the number of beneficiaries receiving the special minimum. However, the gradual phaseout of the special minimum benefit continues because regular Social Security benefits have grown—and are expected to continue to grow—faster than the special minimum. Regular benefits grow faster because they are linked to increases in economy-wide wages before benefit receipt, and wage increases have outpaced—and are expected to continue to outpace—inflation. Between 1979, when the current-law regular benefit formula came into effect, and 2002, the regular PIA formula increased by 229 percent, and the special minimum PIA increased by 168 percent.

After special minimum benefits were enacted in 1972, some members of Congress immediately began to introduce bills to apply COLAs to them.[8] In addition, policymakers have periodically considered expanding the provision in terms of eligibility and benefit amounts. In opposition to expanding and preserving the special minimum PIA, the 1975 Advisory Council characterized it as an anomaly in a program designed to replace lost earnings, since the special minimum benefit is not related to wages but to length of time in covered employment.

Despite such objections, Congress enacted legislation that has prolonged the special minimum benefit's existence. For example, fewer than 1,000 beneficiaries received a special minimum benefit in 1977, preceding that year's Social Security amendments. Also, eliminating the regular minimum benefit during the early 1980s may have increased the number of special minimum beneficiaries, as some persons no longer eligible for regular minimum benefits may have become eligible for special minimum benefits.[9] Furthermore, Congress liberalized eligibility for special minimum benefits in 1990 by prospectively decreasing the earnings threshold required for a year of coverage from 25 percent to 15 percent of the old-law contribution and benefit base (Public Law 101-508, sec. 5122).

The number of YOCs needed to qualify for a special minimum benefit has increased from 23 years when the provision was enacted to 29 years for persons attaining eligibility today. Because wages have grown faster than prices, individuals need more YOCs to obtain a special minimum benefit that is higher than the regular benefit they would otherwise receive. Under the Social Security Trustees' 2000 intermediate assumptions, for persons becoming eligible in 2008, the regular benefit formula will always produce higher benefits than the special minimum formula when the person has fewer than 30 YOC s. At that rate, the special minimum benefit will disappear entirely for workers attaining age 62 in 2013 and later.

In 2001, 35 percent fewer individuals were receiving a benefit based on the special minimum PIA than in 1973 despite a 52 percent growth in the total number of Social Security beneficiaries over the same period. Not surprisingly, special minimum benefits currently are payable in less than 0.03 percent of annual new OASDI benefit awards, and declines even over the past few years are apparent from the Social Security Administration's beneficiary records. In 1997, 1,925 new OASDI beneficiaries received a special minimum benefit, compared with 1,365 in 1999 and 1,122 in 2001. Special minimum beneficiaries as a group therefore tend to be older than other beneficiaries (see Chart 2).[10]

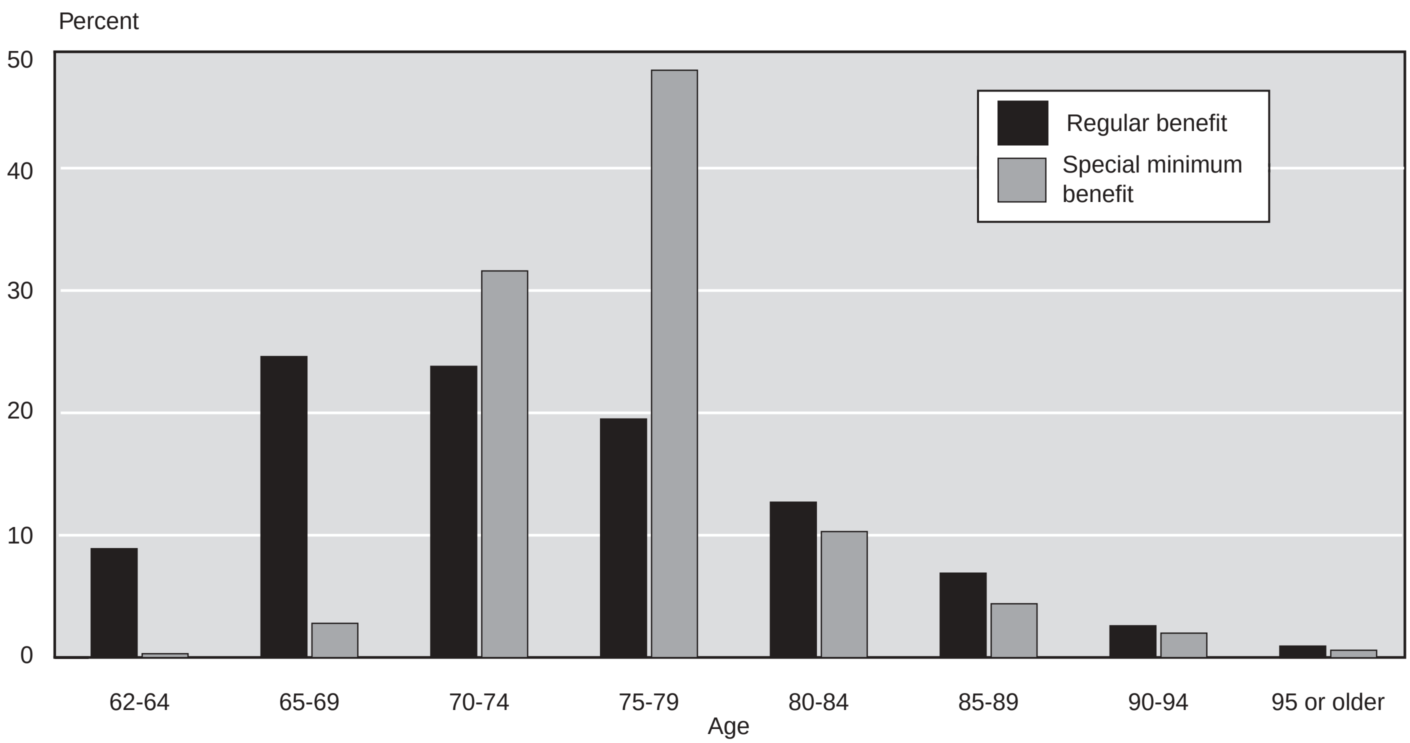
Analysis of Policy Design vs. Outcomes

In this section, we examine benefit amounts, beneficiary characteristics, and benefit design against the special minimum benefit's policy goal of increasing benefit adequacy for long-term, regular low earners without providing windfalls for persons with little or sporadic attachment to the covered workforce.

Adequacy

This section discusses the adequacy of the regular PIA compared with that of the special minimum PIA. Specifically, we answer seven questions. Although some questions appear to be similar, they demonstrate different aspects of the special minimum benefit. For example,

Chart 2.
Age distribution of all retired-worker beneficiaries, by benefit type, 1999



SOURCE: Unpublished tabulations, Office of Research, Evaluation, and Statistics, Office of Policy, Social Security Administration.

some questions address actual benefits for all special minimum beneficiaries, whereas others address benefits payable to the target group. Some address who is considered a special minimum beneficiary, which is sometimes different from having a larger total benefit payment based on a special minimum PIA. These questions are:

- Who is included in the universe of special minimum beneficiaries?
- Does the special minimum benefit prevent reliance on means-tested benefits among its beneficiaries?
- How many special minimum beneficiaries receive higher overall benefits because of the special minimum, and how much higher are those benefits?
- What portion of its target universe is the special minimum benefit reaching?
- How do special minimum benefits relate to the poverty threshold?
- Do special minimum PIAs help their target group?
- Does the special minimum benefit's target group need special minimum benefits, or are regular benefits adequate?

Who is included in the universe of special minimum beneficiaries? Since the beginning of the 1990s, most special minimum beneficiaries (about 90 percent) have been retired workers, and about three-quarters of those retired workers have been women.[11] As explained above, to receive the special minimum benefit retired workers must have at least 23 years of covered employment.

As of December 2001, 134,430 persons were entitled to a benefit based on the special minimum PIA: 89.9 percent were retired workers; 5.6 percent were nondisabled widow(ers); and the remaining 4.5 percent qualified as disabled workers, spouses, disabled widow(er)s, widowed mothers and fathers, and children (see Table 2). Overall, 78.9 percent of special minimum beneficiaries were women.

The YOC threshold was set to target persons with significant attachment to the workforce. However, we do not know how many special minimum beneficiaries were persistently low earners versus higher earners who chose to work part time or only occasionally. For example, one worker may earn the 2002 YOC threshold of $9,450 for 20 hours of work per week, and another may earn that same amount for 40 hours of work per week. A third may have earned that amount over 3 months, and a fourth over 12 months. Despite their very different earnings patterns, all would receive a YOC for 2002 and would have identical earnings information on their Social Security records, which do not contain information on number of hours worked, hourly wages, and so on. In fact, no data source with a representative sample of special minimum beneficiaries links earnings to labor force attachment over long periods of time.

Table 2.
Average monthly benefit and average primary insurance amount for special minimum beneficiaries, by type of benefit, December 2001

Type of benefit	Special minimum beneficiaries: Number	Special minimum beneficiaries: Percent	Average monthly benefit (dollars)	Average special minimum PIA (dollars)
Total [a]	134,430	100	608.08	$533.61
Retired worker	120,866	89.9	633.13	530.94
Disabled worker	12	b	536.00	537.27
Disabled widow(er)	211	0.2	362.14	573.09
Spouse	4,026	3.0	210.16	516.35
Of a retired worker	4,026	3.0	210.16	516.35
Of a disabled worker	. . .	. . .	. . .	. . .
Nondisabled widow(er)	7,496	5.6	486.52	577.66
Widowed mothers and fathers	46	b	374.16	572.03
Children	1,773	1.3	349.03	563.46
Of a retired worker	530	0.4	208.65	522.18
Of a disabled worker	3	b	205.33	617.00
Of a deceased worker	1,240	0.9	409.38	580.97

SOURCE: Unpublished tabulations by the Social Security Administration based on 100 percent special minimum file, 2002.

NOTES: The average monthly benefit amount and the primary insurance amount (PIA) can differ for several reasons. For example, a worker may be dually entitled and receiving an actual benefit that is higher than his or her PIA. Alternatively, the special minimum PIA can be higher than the actual benefit payable if the worker claims benefits before the age of full benefit eligibility. In some cases, the maximum family benefit provision may limit the average monthly benefits of dependents and survivors.

. . . = not applicable.

a. Includes beneficiaries who are dually entitled (55,193) and those who are not dually entitled (79,237).

b. Less than 0.05 percent.

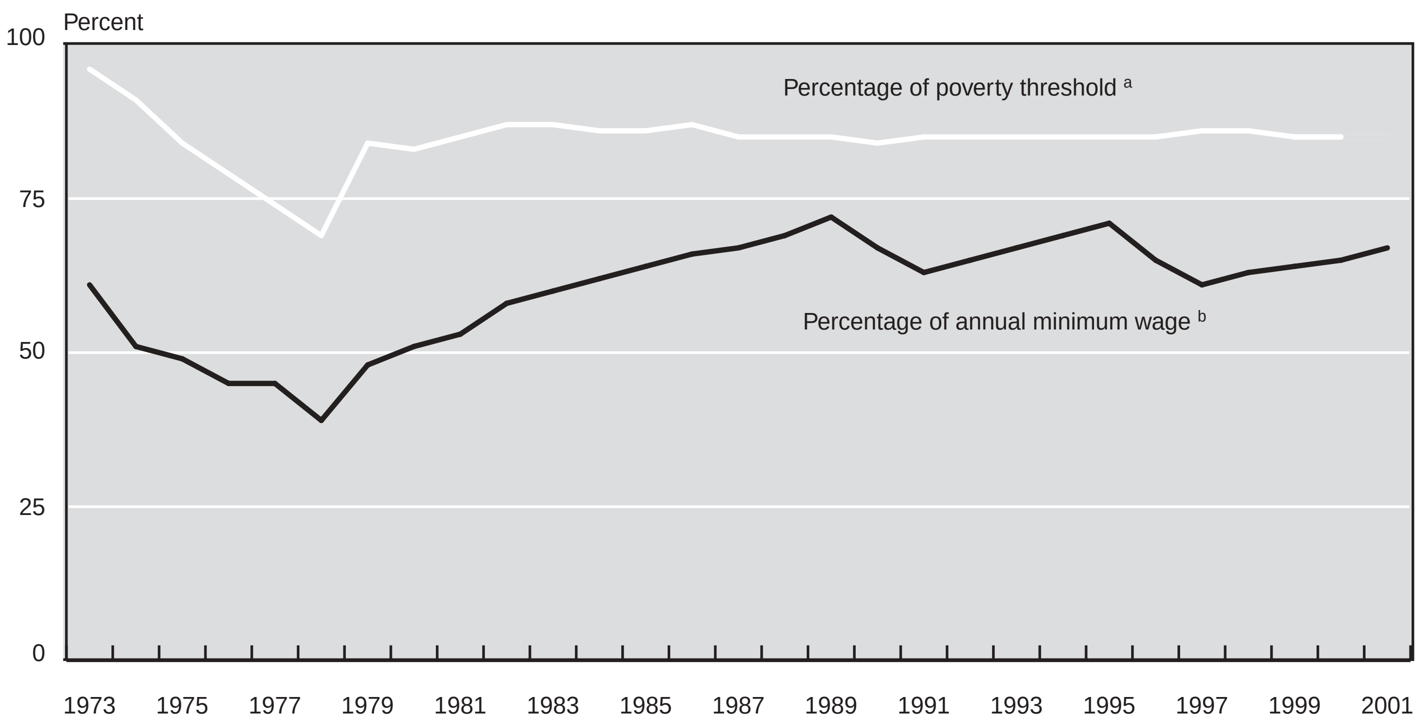
Does the special minimum benefit prevent reliance on means-tested benefits among its beneficiaries? Recall from above that one of the special minimum benefit's legislative goals was to avoid dependence on means-tested programs (that is, freedom from dependence on welfare). To determine whether the special minimum benefit has met that goal, we looked at the percentage of beneficiaries who rely on SSI, which provides a means-tested benefit. Unpublished tabulations of SSA's administrative data revealed that about 6 percent of special minimum beneficiaries also receive SSI, compared with 5 percent of all Social Security beneficiaries (Social Security Administration 2001, 30). Unfortunately, whether the 94 percent of special minimum beneficiaries do not rely on SSI because of the special minimum benefit is unknown, given current data limitations.[12] In addition, the issue of whether the special minimum benefit prevents dependence on SSI is somewhat clouded by the portion of eligible persons who do not receive SSI (see Davies 2000).

We can determine, however, that the maximum payable special minimum benefit clearly lifts its recipients above the SSI income threshold (that is, the threshold below which they would be eligible for SSI). Since 1979, as long as Social Security plus any other income does not exceed roughly 80 percent of the poverty threshold, the person may be eligible for SSI.[13] If Social Security benefits do not exceed 80 percent, then some SSI benefits may be payable. Chart 3 shows that the *maximum* special minimum benefit payable has stayed at about 85 percent of the poverty threshold since 1979 and has therefore lifted its recipients above the income threshold for SSI. However, *average* special minimum benefit levels are well below 80 percent of the poverty level.

Who receives higher overall benefits because of the special minimum benefits, and how much higher are they? Although over 134,000 persons were entitled to a benefit based on the special minimum as of December 2001, just 59 percent who receive it—or about 79,000 persons—are not dually entitled and are paid a higher Social Security benefit as a result. About 66,000 of the 79,000 are retired workers (60 percent of them are women).[14]

For special minimum beneficiaries who were not dually entitled as of December 2001, the average special

Chart 3.
Primary insurance amount for a worker with the maximum special minimum benefit, as a percentage of the poverty threshold and of the annual minimum wage, 1973–2001



SOURCE: Authors' calculations.

a. The poverty threshold for 2001 is a preliminary estimate per www.census.gov/hhes/poverty/01prelim.html.

b. The annual minimum wage is based on authors' calculations using hourly minimum wage and effective date (Social Security Administration, *Annual Statistical Supplement, 2000,* p. 122) and assuming 2,080 hours worked per year.

minimum monthly benefit was just $38 (7.5 percent) higher than the regular PIA (see Table 3). The difference for retired-worker beneficiaries who were dually entitled was slightly lower at $36.90, and the dollar (but not percentage) difference for their counterparts who are not dually entitled is slightly greater at $39.10. However, because most take an early retirement benefit, the differences between regular and special minimum benefits payable are even smaller than the differences in PIAs.

Given that women are more likely to be dually entitled beneficiaries than are men—and therefore are less likely to obtain a higher benefit as a result of being a special minimum beneficiary—we compared the gender composition of the 66,000 retired workers who are not dually entitled with that of the 121,000 retired special minimum beneficiaries. Table 4 shows that the 66,000 have a somewhat different gender composition than the 121,000. Women account for 77.4 percent of special minimum retired workers but just 60.0 percent of those who are not dually entitled. Therefore, the special minimum still disproportionately benefits women, although not as much in actual dollar terms as is suggested by data that do not consider dual entitlement.

What proportion of its target universe is the special minimum benefit reaching?

Although we know that some long-term workers are poor, meaningful assessment of whether the special minimum benefit is helping "enough" of them is difficult, if not impossible, because of uncertainty about the size of the target universe and how it might have changed over time.[15] However, given that low earnings are correlated with low labor force attachment (for example, see Hungerford 2000 and Gustman and Steinmeier 2001), the portion of workers who are regular, long-term low earners may be very small. That is, persons with low lifetime earnings are more likely to spend time outside the labor force (for example, because of unemployment, seasonal work, temporary work, child-rearing, and other factors) than are those with higher lifetime earnings. That likelihood is supported by Ryscavage's (1996) analysis that examines two 28-month periods and suggests that only 4 percent to 6 percent of full-time, full-period earners have wages equal to less than the minimum wage for more than 12 consecutive months.

Under the regular benefit formula, a year of low earnings may depress career average earnings and affect one's Social Security benefit. In a sense, using YOCs to

Table 3.
Difference between the average special minimum PIA and the average regular PIA for special minimum beneficiaries, by type of benefit and dual entitlement status, December 2001 (in dollars)

Type of beneficiary	Special minimum PIA	Regular PIA	Difference
All special minimum beneficiaries	533.61	495.84	37.77
Retired workers	530.94	492.83	38.11
Dually entitled	519.21	482.31	36.90
Not dually entitled	540.76	501.66	39.10

SOURCE: Unpublished SSA tabulations from a 100 percent beneficiary sample, 2002.

Table 4.
Average monthly benefit and average primary insurance amount for all beneficiaries and for retired workers with benefits based on the special minimum primary insurance amount, by sex and dual entitlement status, December 2001

Sex	Number	Percent	Average monthly benefit amount (dollars)	Average primary insurance amount (dollars)
		All beneficiaries		
Total	134,430	100.0	608.08	533.61
Women	106,003	78.9	649.85	538.11
Men	28,427	21.1	452.34	516.85
		All retired workers		
Total	120,866	100.0	633.13	530.94
Women	93,563	77.4	684.62	535.53
Men	27,303	22.6	456.66	515.20
		Not dually entitled		
Subtotal	65,757	100.0	473.43	540.76
Women	39,479	60.0	490.12	558.37
Men	26,278	40.0	448.35	514.31
		Dually entitled		
Subtotal	55,109	100.0	823.74	519.21
Women	54,084	98.1	826.64	518.85
Men	1,025	1.9	670.28	538.12

SOURCE: Unpublished SSA tabulations based on a 100 percent special minimum file, 2002.

establish benefits rather than career average earnings protects low earners from having years of low earnings reduce their benefits. However, using YOCs, which are set at a specific dollar threshold, can disadvantage low earners whose income does not meet the threshold for that year (perhaps missing by as little as one dollar). The special minimum benefit does not give partial credit for earnings below the YOC threshold and, therefore, produces a "cliff effect" for beneficiaries with earnings at the margin of any given YOC.[16]

How do special minimum benefits relate to the poverty threshold for unrelated aged individuals? As of February 2000, retired-worker special minimum beneficiaries with unreduced benefits who were not dually entitled were receiving, on average, a monthly benefit of $510, compared with about $438 for their counterparts with actuarially reduced benefits.[17] Therefore, on average, those who do not take an actuarial reduction will receive annual benefits of over $6,000 in 2000, which is roughly 25 percent less than the poverty threshold for aged individuals. In comparison, their counterparts who are receiving an actuarially reduced benefit will receive annual special minimum benefits equal to roughly one-third less than that threshold.

The fact that the special minimum provision yields benefits that are about 25 percent below the poverty level is not surprising given the declining relationship between the maximum payable special minimum benefit and the poverty threshold for aged individuals. When the special minimum benefit began, the maximum payment to individuals was 96 percent of the poverty level for aged individuals (see Chart 3). However, the ratio of the maximum special minimum benefit payable to that poverty threshold declined steadily until it equaled 69 percent in 1978. Ever since the Social Security amendments of 1977 increased special minimum benefits in 1978 and provided for their indexation by inflation, the maximum special minimum benefit payable to individuals has equaled only around 85 percent of the poverty threshold for aged individuals.

How do special minimum PIAs compare with regular PIAs specifically for their target group? Above, we examined how benefits relate to the poverty threshold for all special minimum beneficiaries and discussed why those persons may not be in the target universe. To assess the adequacy of the special minimum benefit, it may be fairer to examine benefits for persons whom the provision was designed to reach as opposed to all special minimum beneficiaries. Although the target group is less than 100 percent certain, we chose one group that has been historically referenced as the target group for the special minimum benefit—lifetime minimum-wage earners.

To assess the special minimum benefit's utility for that target group, we computed PIAs under the regular and special minimum formulas for hypothetical workers turning age 65 in selected years from 1982 to 2000.[18] We found that the special minimum benefit largely did not affect them. In no cases were 30-year minimum-wage earners eligible for a higher special minimum benefit, and in only one case was a full-career minimum-wage earner eligible. In that case (1985), the special minimum PIA was just 1.8 percent higher than the regular PIA.[19]

For the hypothetical examples, we begin with workers turning age 65 in 1982 and later, because the current average indexed monthly earnings (AIME) benefit formula did not apply before then for 65-year-olds. The first hypothetical worker spends only the maximum number of years in the workforce that could be credited for a YOC (30 years, as in Table 1). One could argue that policymakers, by setting the YOC limit at 30, implied that persons with 30 YOCs had a significant work history.

The second hypothetical worker is based on the definition of "full career" as having earnings from ages 22 to 64. Reports by the Committee on Finance specifically mention full-career earners as a target group for the special minimum benefit. For both the 30-year and full-career hypothetical workers, we assume that annual earnings are equal to the full-time minimum wage.

For the selected years from 1982 to 2000, the special minimum benefit has not provided higher benefits than the regular benefit formula for workers with 30 years at the annual minimum wage (see Table 5). The value of the special minimum and regular PIAs also shows relatively abrupt changes from year to year.

The special minimum PIA amounts were higher for the full-career workers because they have more YOCs. However, even though their special minimum PIAs were higher, the special minimum benefit would have produced a higher PIA in only one of the selected years. Like the results for 30-year workers, the value of the special minimum benefit is not consistent from cohort to cohort, primarily because of the ad hoc nature of increases in the minimum wage.[20] Hence, based on this analysis, the special minimum benefit helps regular long-term low earners (defined as those earning the minimum wage for their careers) very little and—if it helps at all—it does so inconsistently from one cohort to another.

Are regular Social Security benefits adequate for career minimum-wage earners? Given that the special minimum benefit generally did not increase benefits for the target group of hypothetical workers for whom we computed benefits, we examined whether those workers would have needed a special minimum benefit or whether the regular benefit payable was adequate. To assess the adequacy of the regular benefits those workers would have received, we compared their regular PIAs with the poverty threshold.

We found that the regular formula would produce PIAs that are below the poverty level for the hypothetical full-time minimum-wage workers. For 30-year annual full-time minimum-wage workers, the regular PIA was from 3.9 percent (1982) to 20.1 percent (2000) below the poverty threshold. For full-career workers, the regular PIA was from 3.9 percent (1982) to 15.3 percent (1985) lower than the poverty threshold. In 2000, the full-career worker's regular annual PIA would be 8.6 percent under the (estimated) poverty threshold. It is not surprising, then, that as of 1993, of the 9 percent of retired-worker beneficiaries (excluding dually entitled) who were poor, 29.2 percent had work histories of 30 years or more (Table 6).[21] To put these statistics into perspective relative to all retired-worker beneficiaries, consider that those at or below the poverty threshold with 30 or more years of covered work represent 2.6 percent of all retired-worker beneficiaries (excluding those who are dually entitled).

Preventing a Windfall

To meet the objective of preventing persons without extensive years of covered work at low earnings from becoming eligible for a special minimum benefit, the coverage requirement for that benefit was set at a minimum of 11 years. However, as noted above, the special minimum benefit computation would produce higher payments than the regular benefit formula only for persons with at least 23 years of coverage.

Congress decided that the earnings required to obtain a year of coverage for the special minimum should be high enough to exclude people whose living did not depend on work in covered employment, yet low enough to include most people who were regular full-time workers in covered employment. As a result, many workers have earnings under the YOC threshold in any given year, and they therefore do not receive a YOC credit toward the special minimum benefit for that year. In 1997, 26 percent of workers with covered earnings earned less than the threshold amount. Of the 26 percent, 57 percent were women, and 37 percent were under age 22.[22] Since 1991, the amount of annual earnings needed to obtain a YOC has been about two-thirds of one year's full-time earnings at the minimum wage (based on tabulations of the data in Chart 4).[23]

Some analysts have suggested that the special minimum benefit's target group should include low earners who work part time. However, even persons who are part-time low earners may not be largely disadvantaged as a group. Of those who worked part time at some point during 1998, 9 percent indicated that they worked part time only because they could not find full-time work, compared with 53 percent who said they worked part time because they only wanted part-time work.[24] If some persons in the 9 percent have identical earnings to some in the 53 percent, they are indistinguishable from one another in their earnings records. So, if the special minimum benefit targeted part-time low earners, perhaps by lowering the YOC threshold, it would also be likely to affect some of those who work part time at low earnings by choice.

Table 5.
Difference between the primary insurance amount based on the special minimum benefit and the regular benefit formula for hypothetical workers turning age 65 after 30 years and after a full career of earning the full-time minimum wage, selected years 1982-2000

Year worker turns age 65	Annual primary insurance amount (dollars)[a] Regular	Special minimum	Difference Dollars	Percent
		After 30 years		
1982	4,447.00 [b]	4,022.70	-424.30	-9.5
1985	4,352.80	4,224.00	-128.80	-3.0
1988	4,876.20	3,874.40	-1,001.80	-20.5
1991	5,515.30	3,609.80	-1,905.50	-34.5
1994	5,720.50	3,951.10	-1,769.40	-30.9
1997	6,314.60	4,283.00	-2,031.60	-32.2
2000	6,526.50	4,539.60	-1,986.90	-30.4
		After full career		
1982	4,447.00 [b]	4,022.70	-424.30	-9.5
1985	4,368.40	4,445.40	77.70	1.8
1988	4,960.40	4,840.00	-120.40	-2.4
1991	5,910.10	5,551.40	-358.70	-6.1
1994	6,487.90	6,077.70	-410.20	-6.3
1997	7,233.00	6,591.10	-641.90	-8.9
2000	7,550.70	6,987.50	-563.20	-7.5

SOURCE: Authors' calculations.

NOTE: Full-time (40 hours per week, 52 weeks per year) minimum-wage earner for 30 years immediately before age 65, or for full career from ages 22 to 64.

a. January through December, with inflation increases taken into account.
b. Based on the transition benefit formula in the 1977 amendments.

The 59 percent of special minimum beneficiaries who receive higher payments because of the special minimum benefit (that is, who are not dually entitled) are primarily retired workers who could be receiving a windfall. The reason is that the offset provision for noncovered pensions (that is, the windfall elimination provision, or WEP) that Social Security applies to regular benefits does not affect special minimum benefits. In other words, a provision for reducing special minimum PIAs does not exist for workers with noncovered pensions, and special minimum benefits are awarded if they are higher than the benefits payable under the regular formula after the WEP has been applied.

Given that the special minimum benefit has always required at least 23 YOCs, it seems unlikely that persons who worked a career in noncovered employment would have also participated in the covered workforce enough to earn 23 YOCs. Nonetheless, in February 2000, 8,643 (or 12 percent) of the 73,267 retired-worker special minimum beneficiaries who were not dually entitled had income from noncovered pensions.[25]

Table 6.
Distribution of retired-worker beneficiaries who are poor, by number of years of coverage, 1993

Years of coverage	Percentage at or below 100 percent of poverty level
30 or fewer	70.7
0–10	23.4
11–20	24.4
21–30	22.9
Over 30	29.2
31–40	18.8
41 or more	10.4

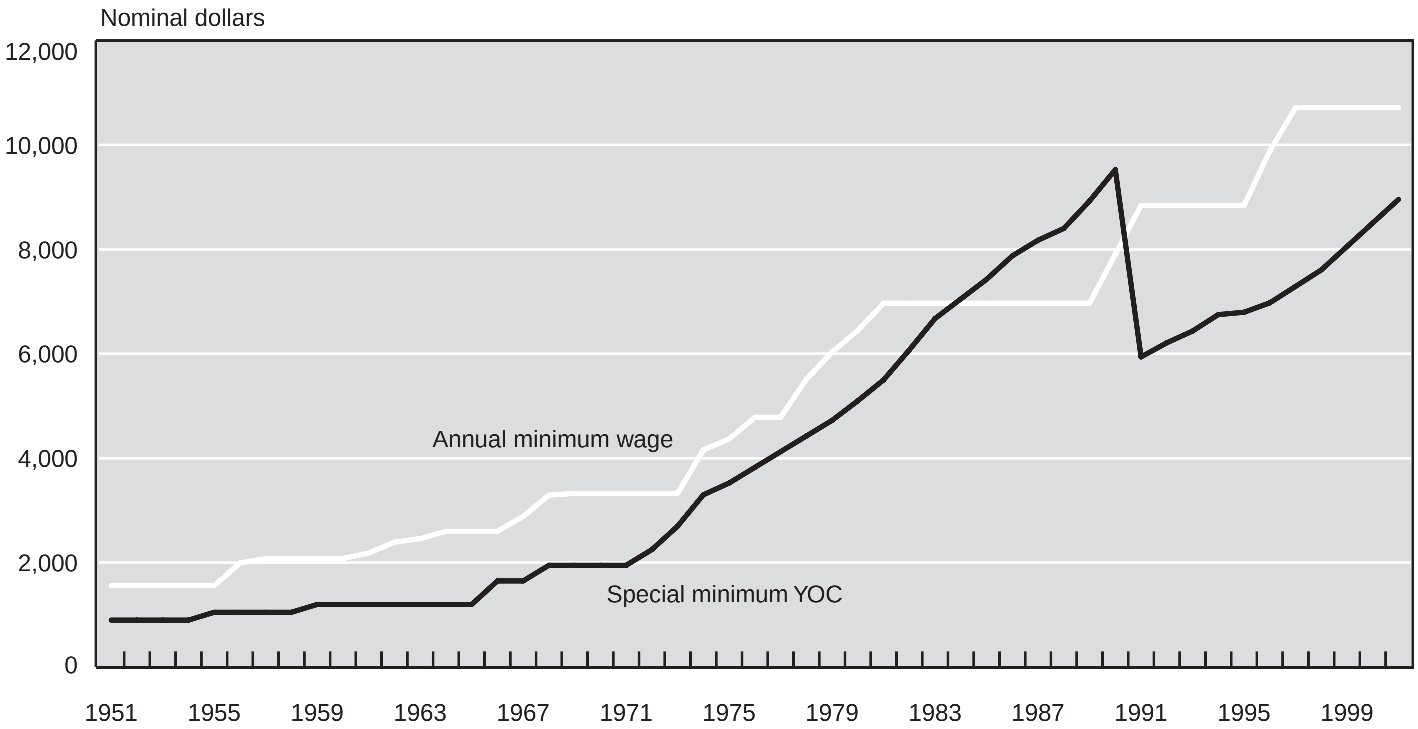
SOURCE: Unpublished tabulations by David Weaver, Division of Economic Research, Office of Research, Evaluation, and Statistics, Office of Policy, based on the March 1994 Current Population Survey matched to Social Security administrative records.

NOTE: Data do not include dually entitled beneficiaries. Numbers do not total 100 percent because of rounding.

Policy Implications

Policymakers will need to decide whether to enhance and preserve the special minimum benefit or allow it to phase out of the Social Security program. Some policymakers have argued that the special minimum benefit unfairly awards different Social Security benefits to persons with

Chart 4.
Annual earnings needed to qualify for special minimum year of coverage (YOC) vs. annual earnings at minimum wage by year, 1951–2001



SOURCE: Annual minimum wage is based on authors' calculations using hourly minimum wage and effective date (Social Security Administration, *Annual Statistical Supplement, 2000*, p. 122) and assuming 2,080 hours worked per year.

identical lifetime covered earnings solely on the basis of their different labor force or earnings patterns. As a result of the design of the special minimum benefit, one worker can have high enough annual earnings to receive the YOCs needed to receive a special minimum benefit, whereas another may have earned the same amount over a greater number of years (but not enough during particular years to receive enough YOCs) and would receive a lower, regular benefit.

A possible option for policymakers concerned about providing different Social Security benefits to workers with identical lifetime earnings would be to allow the special minimum to phase out so that all workers with equal lifetime earnings are treated equally. Persons with that view might argue that the redistributive regular benefit formula that applies to all workers is the proper place for helping low earners within the Social Security program and that welfare programs like Supplemental Security Income are the proper means of supplementing regular Social Security benefits, when needed. They might also argue that because the Social Security program does not keep track of earnings per hour or labor force attachment, it is unable to target the working poor—without also inadvertently raising benefits for persons who have low lifetime earnings by choice—as efficiently as means-tested programs, which tend to collect more personal information about beneficiaries. They might further argue that Social Security should not become more progressive, perhaps fearing that additional progressivity will undermine medium- and higher-income participants' support of the program by giving more "welfare" features. Finally, they might argue that the fact that low-income, long-term workers tend to have less access to pension coverage and savings—and therefore need to rely more on Social Security—is a problem better alleviated through other courses of action. For example, they may believe that creating retirement savings opportunities for those workers would be a better solution than changing Social Security to accommodate that special group.

Others may be concerned less with disparities in benefits awarded to persons with identical lifetime earnings, or that medium- and high-income participants will show less support for the program, than with the fact that persons who work many years at low earnings are not provided with a poverty-level Social Security benefit. Those policymakers may want to reward work by, for example, raising the value of the special minimum PIAs by wage-indexing them, setting them to the poverty threshold, or extending coverage beyond 30 years (say, to 35 years). To do so without providing a windfall to those with pensions from noncovered employment, a provision to eliminate a windfall might be applied to special minimum benefits.

Policymakers could also liberalize eligibility for the special minimum benefit by reducing the threshold for a YOC so as to capture more low earners, especially those who may have worked more sporadically than others and would not have been able to accumulate a sufficient number of YOCs. For example, more part-time or intermittently employed workers would become qualified for the special minimum benefit, which would be more consistent with the types of labor force patterns seen among low earners than the regular, full-time, steadily employed workers who make up the special minimum's current target universe.

Notes

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[1] The 2001 Trustees' Report (p. 83) uses an ultimate consumer price index (CPI) increase of 3.3 percent annually for its inflation assumption and an ultimate average annual real wage increase of 4.3 percent for its wage growth assumption under the intermediate set of projections.

[2] Technically, a person entitled to a retired-worker's benefit, for example, and also a higher benefit as a spouse or widow(er) on another record receives a retired-worker's benefit (which may or may not be based on the special minimum) and an additional amount equal to the excess of the full spouse's or widow(er)'s benefit over the retirement benefit.

[3] Unpublished tabulations based on 100 percent beneficiary file, 2002.

[4] In 1999, among persons aged 65 or older, the poverty rate was ll.8 percent for women and 6.9 percent for men (U.S. Census Bureau 2000).

[5] A year of coverage is credited for 1937-1950 by dividing total earnings for that period by $900. For 1951-1978, the threshold was 25 percent of the contribution and benefit base. For 1979-1990, the threshold was 25 percent of what the contribution and benefit base would have been without the increases made by the 1977 amendments (the old-law base). For years after 1990, the threshold is 15 percent of the old-law base.

[6] The old-law contribution and benefit base increases in the same manner as the regular wage base. It is announced by the Social Security Administration in the *Federal Register* at the same time as the cost-of-living adjustments and the average wage indexes.

[7] The regular minimum benefit provided a minimum PIA from which to compute retirement, disability, or survivors benefits as long as insured-status requirements were met and no matter how low the average monthly earnings were.

[8] See, for example, H.R. 9447, H.R. 11374, H.R. 9791, H.R. 8810, and S. 650 of the 94th Congress (1975-1976), available at http://thomas.loc.gov.

[9] Although data from the 1980s that would prove this hypothesis is limited, supporting evidence includes the fact that no changes to the special minimum benefit were made during this time and that the number of special minimum beneficiaries increased sharply after the elimination of the regular minimum benefit for new eligibles.

[10] The concentration of beneficiaries in the 74–79 age range corresponds with the dramatic increase in the special minimum beneficiary population in the mid-1980s, when persons in that age group would have reached benefit eligibility as retired workers.

[11] Women tend to benefit disproportionately from the special minimum benefit because they tend to have lower earnings than men. Women also account for 98 percent of dually eligible special minimum beneficiaries—a group that represents 41 percent of all special minimum beneficiaries (as of December 2001).

[12] The current universe of special minimum beneficiaries is too small to be represented in any database that includes information about countable resources or income from sources other than Social Security—information that is needed to ascertain who would qualify for SSI in the absence of the special minimum benefit. Furthermore, SSA's special minimum beneficiary records do not include information on total income or resources.

[13] Combined SSI and Social Security benefits could not exceed 81 percent of the poverty threshold for an aged individual in 1974 and could not exceed 79 percent in 1997. The decline in that percentage is attributable to the fact that the SSI program's general income exclusion is not indexed and therefore declines in real value over time.

[14] The remaining 13,000 are primarily spouses of retired workers, aged widows, and surviving children.

[15] Data limitations prevent us from knowing how many special minimum beneficiaries would be in poverty without the additional benefit they receive from the special minimum provision. Also, it is not possible to know either the percentage of beneficiaries with income below poverty who receive the special minimum benefit or the percentage of those who receive the special minimum benefit who are poor.

[16] Declining earnings patterns over a lifetime may be more prevalent, especially among lower-income men, than some analysts have thought to be the case and may affect years of coverage. See Hungerford (2000).

[17] Unpublished tabulations by the Office of Research, Evaluation, and Statistics, Office of Policy, based on a 100 percent beneficiary file, February 2000.

[18] We computed benefits for years 1982, 1985, 1988, 1991, 1994, 1997, and 2000, assuming that the hypothetical workers earned the annual minimum wage (for each year) for the 30 years immediately preceding age 65 or for a full career with earnings from ages 22 to 64.

[19] Note that the special minimum benefits shown in these examples do not correspond in all instances to the benefit level at 30 YOCs shown in Chart 4. That is because not all minimum-wage earners with 30 years of work earned 30 YOCs (the threshold for YOCs exceeded the annual, full-time minimum wage for years 1984 to 1990).

[20] Some of the inconsistencies shown in Table 5 occurred because the threshold for a YOC exceeded the annual, full-time minimum wage from 1984 to 1990 (see Chart 4). (The minimum wage is increased only on an ad hoc basis through legislation and is not automatically updated annually.) Hence, the hypothetical minimum-wage earners were not given credit for a YOC from 1984 to 1990. To ascertain the effect that not giving YOC credit for annual, full-time minimum-wage earnings from 1984 to 1990 has had on differences between regular and special minimum benefits, we performed separate calculations in which we treated earnings equal to the full-time minimum wage during those years as creditable for a YOC. We also controlled for the fact that the AIME formula used in calculating regular Social Security benefits included less than 35 years of earnings before 1991. However, neither of those calculations—individually or combined—caused the value of the special minimum benefit payable to be consistent on a year-to-year basis for new retirees.

[21] The most recent March Current Population Survey, matched to Social Security administrative records, was released in 1994 and contains 1993 data. This data set is the most up-to-date source of cross-tabulating poverty status by Social Security earnings records.

For purposes of this analysis, poverty incidence among this group is taken as evidence that regular and special minimum Social Security benefits are not bringing these persons above the poverty threshold. However, note that poverty thresholds are determined by family composition. Although Social Security benefits may be successful in providing a beneficiary with an income above the poverty threshold for a single individual, it may not be sufficient to raise his or her family income above the applicable family threshold. Moreover, poverty in retirement does not necessarily indicate a history of low earnings during one's career.

[22] Unpublished tabulations based on SSA administrative data.

[23] Based on a 40-hour work week and 52 weeks of employment. From 1984 through 1990, the amount needed to earn a year of coverage under the special minimum benefit exceeded the annual minimum wage by 1 percent to 28 percent, depending on the year. Legislation in 1990, which changed the definition of a YOC, was intended to "make it possible once

again for a minimum-wage earner to earn years of coverage toward the special minimum" (House of Representatives 1990).

[24] Authors' tabulations, 1999 Current Population Survey, March Supplement.

[25] Unpublished SSA administrative data.

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