

## **Social Security Administration: Financial Eligibility Model (FEM)**

*The FEM is a flexible tool of evidence-based decision-making in SSI program policy that has also been used to analyze Medicare buy-in programs and the Medicare Part D Low Income Subsidy.*

### **Lead Agency:**

Social Security Administration

### **Agency Mission:**

To advance the economic security of the Nation's people through compassionate and vigilant leadership in shaping and managing America's Social Security programs.

### **Principal Investigator:**

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### **General Description:**

The Financial Eligibility Model (FEM) was developed by researchers at the Social Security Administration (SSA) as a flexible tool of evidence-based decision-making in Supplemental Security Income (SSI) program policy. SSI provides a minimum income guarantee for elderly and disabled persons with limited resources. SSI helps many older people to escape poverty and to gain access to public health insurance coverage. In December 2006, roughly 2 million people aged 65 and over received SSI payments. For some elderly individuals, SSI is the main source of cash benefits. For others it supplements Social Security benefits. In most cases SSI beneficiaries are categorically eligible to receive Medicaid.

The FEM was designed to assist policy makers in evaluating whether SSI is reaching the target population and whether the program can be improved by changing program rules. The FEM uses a representative sample of older persons in the United States from the Survey of Income and Program Participation matched to SSA administrative records. An innovative aspect of the FEM is its ability to analyze tradeoffs between program cost and program outcomes, such as poverty reduction. For example, it allows for the comparison of the poverty-reducing effects of alternative policy modifications on the basis of a given budget scenario.

One analysis using the FEM found that changing the Federal benefit rate, the general income exclusion, and the asset threshold appear to be roughly equally effective in reducing poverty among the elderly on a cost-equivalent basis, whereas relaxing the earned income exclusion would be less effective (Davies, Rupp, and Strand, 2004). Another analysis assessing Social Security minimum benefit proposals found that

simplified administrative procedures to establish eligibility for minimum benefits may result in poor targeting and substantial additional program costs (Rupp, Davies, and Strand, 2007). In a third analysis, Strand and Rupp (2007) found that the relationship between Social Security and SSI needs to be explicitly considered in assessing the potential effects of alternative reform scenarios. Analysts also use the FEM to study eligibility for Medicare buy-in programs and the Low Income Subsidy (LIS) under the Medicare Part D prescription drug benefit program.

***Excellence:***                   What makes this project exceptional?

This project is exceptional, because it provides a versatile tool for assessing various policy options to improve an important program, SSI, for older people with limited income and resources. It supports the analysis of program design options in a manner that provides a credible, unbiased, and nonpartisan foundation for evidence-based decision-making. It is adaptable to various budget realities, such as budget-neutral approaches to improving the target-effectiveness of the program. The project also is exceptional, because it has demonstrated adaptability to newly emerging policy issues with potentially large effects on the economic well-being of older people, such as the introduction of the LIS program under Medicare Part D or Social Security reform options.

***Significance:***                   How is this research relevant to older persons, populations and/or an aging society?

This project is of major significance for developing policy options to reduce poverty and improve various aspects of economic well-being in an era of limited resources and demographic pressures on the safety net for older people. The FEM allows for identifying low-cost or budget-neutral approaches to reduce poverty among the elderly. It also allows policy makers to assess the pros and cons of alternative approaches regardless of their political orientation in an objective manner. The FEM is significant for elderly people, because about 2 million elderly individuals with low income and resources currently benefit from the SSI program. Ignoring SSI in discussing policy options for related programs such as Social Security, Medicaid, and Medicare could lead to adverse effects on the well-being of the elderly. SSI reform options also are relevant because of changing realities, such as increased reliance on individual retirement accounts and other defined contribution plans in retirement security. Without attention to the equitable treatment of defined contribution pension assets, access to the SSI program among older people with low income and assets might be adversely affected in the future. The FEM provides an opportunity to address issues of this kind in a budget-neutral or low-cost manner.

***Effectiveness:***                   What is the impact and/or application of this research to older persons?

The project is highly effective in that it provides an opportunity for policy makers to explore budget-neutral or low-cost options to improve targeting in SSI and related

programs. Policy makers need to reassess program policies continuously as our economy and society go through rapid changes. They need to have tools to assess policy options in an objective and balanced manner. The FEM provides an important tool for considering the role of SSI in assessing various Social Security options, an important area for the economic well-being of the elderly in the future that previously has been neglected in Social Security reform discussions and assessments.

***Innovativeness:*** Why is this research exciting or newsworthy?

This research is innovative, exciting, and newsworthy for several reasons. It provides an excellent example of a unified framework for assessing important aspects of program design, such as outreach, targeting, distributional effects on the economic well-being of the elderly, administrative complexity, and program cost. The researchers developed an innovative metric of “cost-equivalent” comparisons that facilitates the fair comparison of policy and program design options. The project provides a tool for assessing complex program interactions between critical public programs for the elderly, such as SSI, Social Security, Medicaid and Medicare. It also provides an innovative tool for assessing the interactions between program design and broader trends in the economy and society, such as changing marital patterns and shifts in pension systems from defined benefit to defined contribution plans. Using evidence from the FEM is useful for developing consensus among policy makers of differing political persuasion about cost-effective ways of improving the effectiveness of SSI and other programs, and debunking – positive or negative – myths and exaggerations about potential effects of program reform that do not hold up under the closer scrutiny provided by FEM-based policy evaluation applications