

# **Social Security Reform: Possible Effects on the Elderly Poor and Mitigation Options**

*This report analyzes the projected effects of four possible options to mitigate the effects of Social Security (SS) benefit reductions on elderly poverty. The four options examined are (1) a poverty-line SS minimum benefit; (2) a sliding-scale SS minimum benefit; (3) a poverty-line Supplemental Security Income (SSI) benefit; and (4) a poverty-line SSI benefit with liberalized eligibility.*

## **Lead Agency:**

Congressional Research Service

## **Agency Mission:**

The Congressional Research Service provides, exclusively to the United States Congress, objective, non-partisan assessments of legislative options for addressing the public policy problems facing the nation.

## **Principal Investigator:**

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## **General Description:**

*Social Security Reform: Possible Effects on the Elderly Poor and Mitigation Options*

This report analyzes the projected effects of four possible approaches to mitigating the effects of Social Security benefit reductions on elderly poverty in 2042, the first full year of projected trust fund insolvency. The options are compared to a *payable baseline*, which assumes current-law benefits would need to be cut across the board to balance Social Security's annual income and spending at the point of insolvency. The four options examined are (1) a poverty-line Social Security minimum benefit; (2) a sliding-scale Social Security minimum benefit; (3) a poverty-line SSI benefit; and (4) a poverty-line SSI benefit with liberalized eligibility.

Major findings include the following:

- Each of the four options would reduce elderly poverty compared to the payable baseline — ranging from a negligible reduction in the elderly poverty rate for the option to create a sliding-scale Social Security minimum benefit to a reduction of three percentage points for the poverty-line SSI benefit with liberalized eligibility.

- The elderly poverty rate under all of the options would be higher than under the current law *scheduled baseline*, which assumes the current benefit formula can be maintained with no reductions.
- The SSI options examined would target the additional spending more efficiently toward the poor elderly than would the Social Security options.
- The Social Security options examined would reduce the incomes of some elderly because of interaction effects; the SSI options would not create such interactions.

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

This program uses a microsimulation model to simulate the impact of alternative Social Security reform proposals on the elderly poor. This research can be distinguished from other research as it focuses on the poor elderly specifically and is able to simulate the interaction of Social Security and Supplemental Security Income (SSI). Most other research has focused on only the effects of Social Security on the low, median and high-wage earner. This information should help policymakers identify any potential unintended consequences through the interaction of these effects.

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

The Social Security system faces a long-term financing problem. The Social Security Trustees project cash-flow deficits beginning in 2017 and trust fund insolvency in 2041. Many recent proposals to improve system solvency would reduce Social Security benefits in the future. Benefit reductions could affect the low-income elderly, many of whom rely on Social Security benefits for almost all of their income. Such potential benefit reductions could lead to higher rates of poverty among the elderly compared to those projected under the current benefit formula. Because the low-income elderly are especially vulnerable to benefit reductions, many recent Social Security reform proposals have included minimum benefits or other provisions that would mitigate the effect of benefit cuts on the elderly poor. This report is significant in that it quantifies the effect of four possible options for mitigating the effect of Social Security reform on the elderly poor.

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

Congress will be faced with the addressing Social Security reform in the next few years and will be looking at many options. Since Social Security has played a unique role in reducing elderly poverty over time, the findings from this research can inform policymakers as they consider reforming the program.

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

When discussing changes to public policy, it is important to keep in mind the possible unintended consequences of potential changes. This research uses a microsimulation model and provides an advantage in that it can identify unexpected interactions between policy options and existing program rules. Social Security is a complex program, and changes to its structure could lead to unexpected results-both within Social Security and in the relationship of Social Security to Supplemental Security Income (SSI). In the most extreme case, an increase in Social Security benefits could actually make some low-income beneficiaries worse off because they would lose eligibility for other programs as a result.