A Targeted Minimum Benefit Plan (MBP):
A New Proposal to Reduce Poverty Among the Elderly

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Executive Summary

In recent years, the big news in Social Security reform has been the program's fiscal concerns. Beneath the headlines, however, large pockets of poverty remain among elderly Americans, particularly among women. And things may worsen due to the effects of the current economic tsunami on savings, incomes and housing values. In light of concerns about both program costs and benefit adequacy, we propose an effective and relatively inexpensive targeted program to provide a minimally adequate floor to old-age income through the Social Security system.

This minimum benefit plan (MBP), modeled after the Canadian minimum benefit for the elderly and the United State's Earned Income Tax Credit (EITC), could provide a cost-effective method for reducing elder poverty to very low levels. Canada has managed to achieve much greater poverty reduction among seniors while spending much less on social retirement programs than other rich countries (and slightly more than the United States). The most similar U.S. welfare policy to the Canadian benefit and our proposed benefit, in terms of administration and benefit application procedures, is the EITC. The EITC delivers income supplements to poor working Americans. It has no asset tests. Further, individuals apply for EITC benefits through the tax system on a basic 1040 form. The ease of EITC eligibility and application procedures means that around 80 percent of those eligible actually receive benefits. Our plan would have a similar result. This is a substantial improvement over the current minimum benefit through the Supplemental Security Income (SSI) program, which has a 50 percent take-up rate.

There are four features to our targeted minimum benefit plan. The first feature is the program's *eligibility requirements,* which may include income, asset, residency, work history, and citizenship tests. We would discourage an asset test for the following reasons: (1) It negatively impacts savings; (2) It would substantially increase the administrative cost and complexity of managing the program; (3) Asset income would be included in total income eligibility; and (4) The EITC provides a precedent for not including an asset test. Under our proposal, the MBP would be payable at the Social Security normal retirement age, which is currently undergoing a gradual increase from 65 to 67. Eligibility would require at least 20 years of residency in the United States in addition to benefit eligibility for OASI.

The second feature is its *benefit levels and income exclusions* (*set-asides and phase-outs).* Higher benefit levels obviously lead to greater expenditures but less poverty. A more generous phase-out range, for example, allowing individuals to exclude half of all earnings or income from savings, also leads to higher expenditure levels because the program reaches a broader clientele higher in the income distribution. However, they also may provide added incentives for low-income workers to save, if only modestly, for retirement, and for seniors with low earnings histories to continue working at least part-time in order to improve their living standards. Our recommendation is that the MBP should offer a minimum benefit guarantee of a high percentage of the poverty line. There would be a general income exclusion, or set aside, of $125 per month for all other income sources (earnings, pensions, property income). A full minimum guarantee should be available to those who have spent at least 20 years as residents of the United States since attaining 18 years of age and having 40 quarters of payroll tax coverage (to be OASI eligible). For those who have not lived here that long, the income guarantee amount would be pro-rated based on the percentage of years that they have lived in the United States.

The third feature is the *administrative structure and take-up*. The program's administrative and eligibility structure and the way that impacts the percentage of those who are eligible who actually get benefits, is a third critical aspect of safety-net pension programs. Take-up is affected by (1) the stigma attached to the program; (2) the accessibility of the program, including ease of application and re-application; (3) whether or not government mounts strong

outreach efforts to ensure that all eligible persons enroll; and (4) the level of benefits expected once we ascertain eligibility (McGarry 2000). Under our proposal, MBP payments would be combined with the OASI benefit checks in a single monthly payment once eligibility was verified. Eligibility redetermination should generally be automatic and assessed annually through the income tax system. Thus, every elderly person needs to file an income tax return to qualify —akin to the way that the EITC is currently administered. Except in unusual circumstances, when a person's income changes sharply, benefit amounts will be adjusted automatically based on the immediately previous year's income tax returns. Simple (EZ-1040-A) income tax forms would have to be filed by all elderly, with the key information on other income sources and liquid asset levels sent from IRS to SSA automatically—or administered by IRS. In effect, the MBP check would simply "top up" the OASI check to the determined percentage of the poverty level (with adjustments for other sources of income). We expect that the income tax form qualification process will raise MBP participation to 80 percent or above, based on the Canadian experience and the EITC in the United States.

The fourth important aspect of safety-net pension programs is whether they provide an *automatic passport* to other benefits, such as reduced cost medical care or pharmaceutical coverage, housing benefits, etc. Under our proposal there would be no automatic passport from the MBP to Medicaid as there is with SSI, but persons who would otherwise be eligible for Medicaid (that is, who meet SSI asset tests), should not be barred from receiving Medicaid because they receive a MBP benefit that puts them above SSI income limits. Indeed, EITC benefits do not impact Medicaid eligibility.

The final issue with a targeted MBP regards funding and costs. The MBP could be general revenue financed or trust fund financed. The virtues of general revenue finance are that it relieves any MBP-induced pressure on the Trust Fund balance, and it does not raise payroll tax contributions to fund a program targeted only to the otherwise poor. We propose that the MBP be funded through general revenues, similar to Medicare Part B. However, we want to be clear that the MBP is a part of Social Security, like Medicare Part B, which is also funded out of general revenues and is a part of Medicare. To address cost issues with this new program, we also propose a gradual reduction in auxiliary spousal benefits. This would not likely produce negative impacts for the poorest because they would end up qualifying for the MBP.

Introduction

In recent years, the big news in Social Security reform has been the program's fiscal concerns. Beneath the headlines, however, large pockets of poverty remain, particularly among older women. In light of concerns about both program costs and benefit adequacy, we propose an effective and relatively inexpensive targeted program to provide a minimally adequate floor to old-age income through the Social Security system. This minimum benefit plan (MBP), modeled after the Canadian minimum benefit for the elderly and the United State's Earned Income Tax Credit (EITC) could provide a cost effective method for reducing elder poverty to very low levels.

Poverty Among the Aged

Though Social Security has been the United States' most effective antipoverty policy, reducing elderly poverty rates from nearly 40 percent in the late 1950s to around 9 percent today, problems with income security among the elderly remain. Many older Americans who have escaped poverty have not moved very far from the official poverty line. If one looks at figures for 125 percent of the poverty level, those aged 65 and older have a poverty rate of 16.1 percent compared to 14.6 percent for those aged 18 to 64. Further, there are large pockets of poverty among subgroups of older Americans. Women are nearly twice as likely to be poor as are men. Unmarried older Americans face particularly harsh risks. While less than 2 percent of white married elderly women are poor, nearly 40 percent of black elderly women living alone are poor (US Census 2008).

Moreover, the current economic crisis has devastated savings, house values and incomes from many pensions. Younger elderly are responding by increasing take-up of OASI at younger ages and by increasing work effort. Most of these younger elderly are not poor in any case. But older women living alone are not in a good position to increase work effort or savings and will be harder hit in terms of poverty increases when the 2008 and 2009 poverty tallies are complete.

Current OASI Program Antipoverty Issues

One of the main reasons why older women face higher poverty rates is their remaining responsibility for raising children, which negatively impacts their earnings and their ultimate Social Security benefits. Only 55 percent of mothers who had a child in the last year were in the labor force (Dye 2005). And though men do more of the housework and child care than previous generations, women still spend about twice as much time on childrearing activities compared to men (Bianchi et al. 2006). In short, the Social Security worker benefit cannot adequately protect many women because their labor force and earnings are negatively impacted by their caregiving. The gender wage gap, around 76 cents on the dollar, is parallel to the gender Social Security benefit gap, which is also around 76 cents on the dollar (Herd 2005a).

While in more recent cohorts growing percentages of women qualify for worker benefits, they are still just as likely as their mothers were to draw on their spousal and widow benefits because their earnings are generally much lower than their husband's earnings. Just as in 1960, nearly two-thirds of women today draw on benefits based on their spouse's earning's record. A spouse can receive a benefit worth 50 percent of her husband's worker benefit and as a survivor she receives a benefit worth 100 percent of her deceased husband's worker benefit. Dually entitled means that while women qualify for spousal/widow benefits and worker benefits, they draw on the spousal and widow benefits because they are higher than their worker benefits (Herd 2005a).

A significant problem with Social Security is that it was once the case that almost all women who provided care for children, and thus had a limited Social Security benefit, could instead receive Social Security spousal and survivor benefits. Spousal and survivor benefits, however, will not protect a growing number of women because of declining marriage rates. In particular, the retreat from marriage has been concentrated among black women and women with low educational attainment. The percentage of women born between 1960 and 1964 who will never marry is 5.4 percent for college graduates and about 12 percent for non-college graduates. The race differences are even more striking. While around 7 percent of white women will never marry, 36 percent of black women in this cohort will never marry (Goldstein and Kenney 2001). Younger cohorts of women are also far more likely to divorce. Divorced women need a 10-year marriage to qualify, but fewer than 50 percent of marriages will meet this criterion in future cohorts (Haider et al. 2003). The result is that among women born in the 1960s, the proportion of white and Hispanic women that reach old age qualified for spouse or widow benefits will hover just above 80 percent, while 50 percent of black women will qualify (Harrington Meyer et al. 2006).

Even among those who qualify for spousal and survivor benefits, the benefits are less progressive than the worker benefit and reduce the overall progressiveness of the program (Harrington Meyer 1996; Herd 2005a). With the worker benefit, the lower an individual's average lifetime earnings, the higher the percentage of earnings the benefit replaces. Someone earning $6,000 a month across his life would have a benefit that replaces 31 percent of this level ($1,866 a month). The added spousal benefit makes this rise to 47 percent. Contrastingly, a couple who each earned an average of $1,000 monthly would have benefits that replace 68 percent of prior earnings (for a household total of $1,258). While still progressive, this latter couple sees no benefit from spousal benefits despite their greater labor force participation and lower incomes.

A final problem with spousal and survivor benefits is that they penalize dual-earner couples, who compose the majority of families. In 2007, nearly two-thirds of couples with children under the age of 18 were both employed, compared to less than one-third in 1950. The problem for dual-earner couples can be illustrated in the following example. In one couple, each spouse earns $30,000 a year for a combined average annual lifetime income of $60,000. The other couple is a one-earner household with a total income of $60,000. The woman in the one-earner household would receive a $1,200 widow benefit. The woman in the two-earner couple, as a widow, would receive only an $800 benefit. Her widow benefit is $800 and her worker benefit is also $800, but she receives just one of the two benefits.

Addressing the Policy Problem

A new minimum benefit has become one of the most common proposals to address general poverty among the elderly as well as the weaknesses of spousal and survivor benefits. Before discussing minimum benefits in the current policy context and our proposed minimum benefit proposal, however, there are a few alternative policy options that should be noted. We feel that each of these options has important negative features that would be better met by the MBP.

Earnings Sharing

Periodically, policy analysts renew attention to earnings sharing. Given the notion that decisions about who should work and who should stay home to care for children or frail older parents may be made as a couple, then perhaps rewards via Social Security should be reaped as a couple. Thus both persons in a marriage should receive credit for half of each year's earnings for Social Security for the duration of the marriage (Favreault and Steuerle 2007; CBO 1986; Burkhauser 1982). While these proposals reduce gender inequality, they do not redistribute toward women who have few or no years married. They do not address poverty for the growing share of women who spend all or most of their adult lives single.

Increasing Survivor Benefits

Currently, spouse beneficiaries receive 50 percent of their spouse or ex-spouse's benefit, and widows receive 100 percent of that benefit. Concerned about poverty among widows, many policy analysts have proposed giving less to the couple while the husband is alive and more to the widow once he is dead (Smeeding, Estes, and Glass 1999; Burkhauser and Smeeding 1994). The U.S. GAO (2007) recently explored giving spouses just 33 percent and/or giving widows 112.5 percent. While such proposals show some redistribution of resources to lower income women, they do not provide any economic security for women who have not met the marriage requirements for spouse and widow benefits, who are often the women most in need of economic assistance.

Care Credits

Some policy analysts favor care credits as a way to provide economic reward for those who either take time out of the labor force or have low earnings due as they provide care for children, the disabled, or frail older relatives. Early options included adding more drop-out years to the benefit formula, or even permitting caregivers to drop all zero year earnings from the benefit formula, so that those who opted out of work to care for family members could drop more than the currently allowed five years (Herd 2006). Such proposals do not take into account those with reduced wages due to care work, thus more recent proposals provide a credit for earnings that were in fact not, or only partially, earned. Some provide credit only for child care, while others include care for older people (Herd 2006; U.S. GAO 2007). The main problem with care credit proposals, however, is that they are not particularly effective at targeting the poorest beneficiaries and substantially improving their incomes (Herd 2006).

Why Current Minimum Benefits Are Failing Older Americans

While the United States does have a means tested minimum benefit, the Supplemental Security Income Program (SSI), the benefit has some serious problems that prevent it from effectively protecting the income security of the oldest Americans. In combination with Supplemental Nutrition Assistance Program (SNAP, formerly Food Stamps) benefits and very minimal Social Security benefits, SSI would lift a single person with no other income to only 85 percent of the United States poverty standard, while a couple would be lifted to 101.8 percent of that standard.[1] However, 80 percent of SSI beneficiaries are single, so most SSI beneficiaries have incomes well below the poverty line. SSI counts all unearned income (for example, Social Security benefits and interest on savings and dividend income) at a 100 percent marginal tax rate over and above the $20 per month income exclusion, while earned income is subject to a 50 percent tax rate, with additional exclusions for work expenses. SSI also has asset tests. In 1972, when SSI was created, asset limits were set at $1,500 for individuals and $2,250 for couples. In 1989, they were raised to $2,000 for individuals and $3,000 for couples and have not been raised since. If these guidelines had kept pace with inflation since 1989, they would be more than three times the size of the current levels at $7,652 for individuals and $11,478 for couples.[2]

The problem with SSI is its low take-up rate: between 40 percent and 60 percent of those who are eligible do not even apply for benefits. Overall, just 60 percent of poor elderly Americans receive SSI benefits (U.S. House Ways and Means Committee Green Book 2004). Eligible poor elderly Americans who do not apply are unaware of the benefits, put off by the cumbersome eligibility forms, or too stigmatized by the process. Another reason for low take-up is that older Americans must apply separately for SSI. This additional administrative layer, alongside a complicated application due to factors like asset tests, reduces take-up. In short, SSI has not been an effective minimum benefit. The asset guidelines and the complicated administrative structure reduce the program's effectiveness at improving the income security of the poorest older Americans.

While some have argued for the improvement of SSI benefits rather than the creation of a minimum benefit within Social Security, there are two reasons why this strategy would be problematic. First, the administrative structure of the program, including complicated eligibility procedures and an application process separate from Social Security, makes it very difficult for the program to be effective. The administrative structure is in large part responsible for the low take-up rates. Contrastingly, Social Security has nearly 100 percent take-up. Second, individuals would be required to have at least 10 years of earnings to qualify for a minimum benefit within Social Security, whereas altering SSI would provide increased benefits for all individuals regardless of employment history, thus dramatically increasing the cost of the policy change.

The implication of this analysis is that SSI is probably at or near its political and financial limits as a vehicle to further reduce poverty among the elderly. SSI should continue to play a valuable role as the ultimate backstop for the destitute (and frequently disabled) elderly, especially those in need of nursing home care or other Medicaid financed care, but its expansion may not be the best way to create a substantial reduction in elder income poverty. In fact, a new program that drew seniors from SSI to a more generous income benefit could be partially funded by a reduction in SSI benefits for the aged.

In addition to SSI, there is a special minimum benefit currently within the Social Security program that we should note. But in 2001, for example, only 79,000 beneficiaries, or far less than 1 percent of beneficiaries, received it. In short, it requires many years of low earnings and the benefits linked to it are quite low. Few people actually have consistent numbers of work years with very low earnings. Approximately 4 percent to 6 percent of full-time earners had below minimum wages for more than 12 consecutive months (Olsen and Hoffmeyer 2002). Thus, few people qualify or benefit from the special minimum benefit.

Options for the United States: A New Minimum Benefit Plan (MBP)

If SSI does not have a great potential for further reducing poverty among the elderly, what is to be done? We argue for a new minimum benefit within Social Security that has benefits and eligibility standards much less strict than they are today, and without an automatic passport to Medicaid benefits.

The model for our pension proposal is the Canadian Guaranteed Income Supplement (GIS) and the United States' Earned Income Tax Credit (EITC). Canada has managed to achieve much greater poverty reduction among seniors while spending much less on social retirement programs than other rich countries (and slightly more than the United States). The reason is that Canada spends its public pension money differently. In particular, Canada spends a lot on the near-universal Old Age Security and income-tested GIS programs, with no asset test and a relatively simple annual application process (which permits an income test integrated with income tax filing). Over 90 percent of the eligible Canadian elderly participate in GIS (Battle

1997, 2001), compared to about 50 percent elder participation in SSI in the United States (U.S. House Ways and Means 2004; McGarry 2000; Smeeding, 1999).

The most similar U.S. welfare policy to the Canadian GIS, in terms of administration and benefit application procedures, is the Earned Income Tax Credit (EITC). The EITC delivers income supplements to poor working age Americans. The EITC has no asset tests. Further, individuals apply for EITC benefits through the tax system on a basic 1040 form. The ease of EITC eligibility and application procedures means that around 80 percent of those eligible actually receive benefits. This is a substantial improvement over SSI's 50 percent take-up rate.

Features of the Targeted Minimum Benefit Plan (MBP)

1. The first feature of a targeted minimum is the program's *eligibility requirements*, which may include income, asset, residency, work history, and citizenship tests. There is widespread evidence that liquid asset tests in the United States reduce savings (Hubbard, Skinner, and Zeldes 1995; Powers 1998; Neumark and Powers 1998). The Canadian GIS and the EITC have no asset test. We would discourage an asset test for the following reasons: (1) It negatively impacts savings; (2) It would substantially increase the administrative cost and complexity of managing the program; (3) Asset income would be included in total income eligibility; and (4) The EITC provides a precedent for not including an asset test.

   Our Proposal:

   The MBP would be payable at the Social Security normal retirement age, which is currently undergoing a gradual increase from 65 to 67. While we would not recommend an asset test, if one were included it should be relatively high and should be indexed to inflation. Eligibility would require at least 20 years of residency in the United States as well as meeting normal OASI eligibility tests.

2. A second critical feature of a targeted program is its *benefit levels and income exclusions* (*set-asides and phase-outs).* Higher benefit levels obviously lead to greater expenditures but less poverty. A more generous phase-out range—for example, allowing individuals to exclude half of all earnings or income from savings—also leads to higher expenditure levels because the program reaches a broader clientele higher in the income distribution. However, they also may provide added incentives for low-income workers to save, if only modestly, for retirement, and for seniors with low earnings histories to continue working at least part-time in order to improve their living standards. Further, having seniors continue to work improves the overall financial strength of the program. Similar incentives may be created by excluding or "setting aside" some fixed amount of other retirement income. For instance, the SSI program allows eligible beneficiaries to "set aside" up to $20 per month ($240 per year) of other retirement income, like OASI. We would also discourage employment tests beyond the 10 year/40 quarter work history requirement. Many minimum benefit proposals are premised on linking the number of earnings years to benefit size (i.e., 40 years of earnings leads to a 100 percent poverty level benefit). The problem, however, is that the people who most need a generous minimum have had numerous labor force exits. Individuals at the bottom of the labor market are the first to be laid off during recessions, with no mandatory paid sick leave; in the U.S., they lack job protection if they or their children get sick, and more generally limited educational attainment puts them in employment categories that provide limited

long-term job protection. All of these factors make it difficult to generate a continuous and consistent stream of earnings years across the life course.

Our Proposal:

As noted above, eligibility standards (including asset and income tests and phase-out ranges) have a major impact on both the cost of a program and its effectiveness in reducing poverty. The MBP should offer a minimum benefit guarantee of a high percentage of the poverty line. There would be a general income exclusion, or set-aside, of $125 per month for all other income sources (earnings, pensions, property income). Those achieving eligibility for Social Security, which requires at least 10 years of earnings, would be eligible for the full minimum benefit. A full minimum guarantee should be available to those who have spent at least 20 years as residents of the United States since attaining 18 years of age and having 40 quarters of payroll tax coverage (to be OASI eligible). For those who have not lived here that long, the income guarantee amount would be pro-rated based on the percentage of years that they have lived in the United States.

3. *Administrative Structures and Take-up*—The program's administrative and eligibility structure and the way that it impacts the percentage of those who are eligible who actually get benefits, is a third critical aspect of safety-net pension programs. Take-up is affected by (1) the stigma attached to the program; (2) the accessibility of the program, including ease of application and re-application; (3) whether or not government mounts strong outreach efforts to ensure that all eligible persons enroll; and (4) the level of benefits expected once we ascertain eligibility (McGarry 2000). The fact that less than 55 percent of the pre-transfer elderly poor received SSI benefits in 1996 suggests that low take-up is a problem (U.S. House Ways and Means 2004). And in fact, only 40 percent to 60 percent of the eligible elderly apply for SSI, compared to 90 percent or more for the Canadian system and around 80 percent for the EITC. There are also serious problems of SNAP take-up among the eligible elderly even though elder SSI recipients have an option to convert food stamps to cash in order to avoid stigma.

   Our Proposal:
   MBP payments would be combined with the OASI benefit checks in a single monthly payment. Eligibility redetermination should generally be automatic and assessed annually through the income tax system. Thus, every elderly person needs to file an income tax return to qualify—akin to the way that the EITC is currently administered. Except in unusual circumstances, when a person's income changes sharply, benefit amounts will be adjusted automatically based on the immediately previous year's income tax returns. Simple (EZ-1040-A) income tax forms would have to be filed by all elderly, with the key information on other income sources and liquid asset levels sent from IRS to SSA automatically—or administered by IRS. In effect, the MBP check would simply "top up" the OASI check to the determined percentage of the poverty level (with adjustments for other sources of income). We expect that the income tax form qualification process will raise MBP participation to 80 percent or above, based on the Canadian experience and the EITC in the United States.

4. A fourth important aspect of safety net pension programs is whether they provide an *automatic passport* to other benefits, such as reduced-cost medical care or

pharmaceutical coverage, housing benefits, etc. Passporting may provide additional incentives to qualify for, and then to take up, safety net pension benefits even if asset tests are severe and bureaucratic barriers are high. On the other hand, strong passporting effects may also make governments reluctant to expand eligibility for a safety net pension program because they fear that doing so would lead to run-away program costs in both sets of programs. The link between SSI for the aged and Medicaid benefits is especially important because SSI carries with it an automatic "passport" to Medicaid eligibility. A substantial expansion of SSI eligibility to the elderly with low lifetime earnings, while maintaining the automatic passport to Medicaid, would have substantial cost implications both for the federal government and the states.

Our Proposal:
There should be no automatic passport from the MBP to Medicaid as there is with SSI, but persons who would otherwise be eligible for Medicaid (that is, who meet SSI asset tests), should not be barred from receiving Medicaid because they receive a MBP benefit that puts them above SSI income limits. Indeed, EITC benefits do not impact Medicaid eligibility. Separate Medicaid eligibility determination on a medical-needs basis would be expected, as is the case today for most elder Medicaid recipients. Low-income elders can still receive the Qualified Medicaid Beneficiary (QMB) benefit, which pays the premium and deductibles for Medicare, hospital, and doctor care from state Medicaid funds, but full Medicaid qualification would require separate application (U.S. House Ways and Means 2004). SNAP benefits would operate in the same way, totally independent of the MBP. To the extent that higher MBP benefits reduced SNAP or SSI outlays, the MBP would be, on net, a less expensive program.

5. A final issue with a targeted MBP regards funding and costs. The MBP could be general revenue financed or trust fund financed. The virtues of general revenue finance are that it relieves any MBP-induced pressure on the trust fund balance, and it does not raise payroll tax contributions to fund a program targeted only to the otherwise poor. Just as Medicare Part B is in part general revenue financed, the MBP would rely on general revenues to top up benefits paid from the OASI trust fund to poverty line income levels. Moreover, as more elderly women and low earners accrue more complete lifetime work histories, the MBP outlays and participants will fall, as have GIS outlays in Canada (Myles 2000). The budgetary cost of the MBP is difficult to estimate for many reasons. Participation rates (e.g., filing of income tax forms) would be difficult to estimate without experience with a system like the one proposed here. That said, we do believe that a targeted minimum benefit, focused on income rather than years of earnings, is the most efficient approach. It will most dramatically improve the income of the neediest at the lowest cost.

Our Proposal:
We propose that the MBP be funded through general revenues, similar to Medicare Part B. However, we want to be clear that the MBP is a part of Social Security, like Medicare Part B, which is also funded out of general revenues and is a part of Medicare. To address cost issues with this new program, we also propose a gradual reduction in auxiliary spousal benefits. This would not likely produce negative impacts for the poorest Americans because they would end up qualifying for the MBP. The likely individual receiving a reduction in Social Security benefits with the elimination of spousal benefits is the spouse of a relatively high earner who herself had a relatively limited earnings

history.[1]

Conclusion

A new Minimum Benefit Plan in Social Security could dramatically lower poverty among United States seniors, in a way that is affordable and politically viable. There is a good likelihood that this proposal could be cost-neutral once accounting for declines in SSI expenditures (both administrative costs and benefit costs) and potentially the phasing out of spousal benefits. In addition, current work requirements for low-income men and women and the added years of OASI coverage that come from greater market work effort (some of it also tied to the EITC) should increase future OASI eligibility and may even then reduce the cost of the MBP Although adding a new tier of benefits further complicates the panoply of United States policies toward the aged, that fact has political virtues as well—it gives politicians the opportunity to claim credit for creating a new program that will reduce poverty among a politically popular clientele at a relatively low cost and without a new bureaucracy to create another new program.

While we believe that this plan is the correct level of redistribution, there are political and financial limits to redistribution within a mature contributions-financed, earnings-related pension program. Building in too much redistribution is likely to lead to exit by upper-income contributors, where it is permitted (as with the State Second Pension in the United Kingdom), or to declining political support for the pension system among high-earners where exit is not allowed, such as in the United States. We do not believe, however, that this proposal crosses the line. Most of the world's largest and most effective poverty reducing welfare states now include income tested minimum benefits. Sweden, Canada, Finland, Norway, and numerous other countries with very low poverty rates, have successfully implemented and maintained targeted minimum benefits at modest cost. We can learn from them and add our own, U.S.-style plan.

1 Over 98 percent of spousal beneficiaries are women.

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