

# Minimum benefit plan for the elderly

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While the Social Security program has greatly reduced poverty rates among those over age 65, there are still a substantial number of older Americans living in poverty. Those who are single, female, or African American are more likely to be poor in old age. We propose a targeted benefit to provide a minimally adequate income to the elderly, to be administered through the Social Security system. This plan would substantially reduce poverty among older adults at a relatively modest cost to the federal government.

## Poverty among older adults

Social Security has reduced elderly cash income poverty rates from just under 40 percent in the late 1950s to around 9 percent in 2016.<sup>1</sup> Still, that leaves nearly one in ten older adults living in poverty. In addition, particular subgroups face substantially higher poverty rates. For example, single older adults are three times as likely to be poor as married older adults.<sup>2</sup> Older women are almost twice as likely to be poor as older men, and black older adults have triple the poverty rate of white older adults. Those who fall in all three disadvantaged groups, single black older women, have a poverty rate of almost 30 percent.

## Current Social Security program

There are currently two ways that older adults can qualify for Social Security benefits: as retired workers, or as spouses of retired workers. To qualify for retired worker benefits, or Old Age Social Insurance, individuals must have achieved a minimum level of quarterly earnings over a total of 40 quarters, or 10 years. To be eligible for spousal benefits, an individual must be of retirement age (which is currently undergoing a gradual increase from 65 to 67) and have been married for at least 10 years to a qualifying worker. The amount of the spousal benefit is half of their current or former partner's retired worker benefit. If an individual meets the criteria for spousal benefits but their partner is deceased, their survivor benefit is the entire amount of their

late partner's retired worker benefit. While an individual who is eligible for a spousal or survivor benefit may also be eligible for a retired worker benefit based on their own earnings, they will only receive one benefit, whichever is larger.

The great majority of people receiving spousal or survivor benefits are women. While a larger number of women qualify for retired worker benefits in their own right now than in the past, many of these women instead receive spousal or widow benefits because their earnings are much lower than their husbands' earnings; thus, the benefit payment based on their spouse's earnings is higher than that based on their own. In fact, the proportion of women receiving benefits based on their husband's earnings is the same as it was over 50 years ago, about two-thirds.<sup>3</sup>

Women's earnings are lower than men's because they are less likely to be employed, less likely to work full time, and earn less when they are employed. While the spousal and survivor benefits do offset lower lifetime earnings for many women, they do so only for those who marry, and who stay married for at least 10 years. Black women and poor women have been less likely to benefit from spousal or survivor benefits, and changes in marriage trends are exacerbating these differences. Among women born in the 1960s, around 80 percent of white and Hispanic women will qualify for spousal or widow benefits when they reach retirement age, compared to only 50 percent of black women.

Retired worker benefits are calculated as a proportion of past earnings, and that proportion declines as earnings rise, helping to narrow the gap between lower and higher earnings. However, the existence of spousal and survivor benefits dilutes the extent to which lower-income workers benefit from proportionally larger payments. For example, a widow whose husband earned an average of \$60,000 per year would receive a \$1,200 monthly survivor benefit. In contrast, a widow who earned an average of \$30,000 per year, and whose husband also earned an average of \$30,000, (making their average household annual earnings \$60,000, the same as the first couple), would receive only an \$800 benefit. In this case, her own retired worker benefit and her widow benefit would each be \$800, but she would only receive one of the two benefits. Married couples where both partners earn the same amount are most affected by the difference in how the two benefits are calculated. Because black married women are more likely to work than are white married women, and because black married couples are more likely than white married couples to have similar earnings between spouses, black families are disproportionately affected by this difference.<sup>4</sup>

## A (new) Minimum Benefit Plan

We believe that the most effective way to reduce poverty among older Americans is to provide a targeted minimum benefit through the Social Security system. While the Supplemental Security Income Program (SSI, which provides monthly stipends to low-income individuals who are either older than 64 or disabled), does currently offer a means-tested minimum benefit, there are two primary reasons why this program does not offer sufficient income security to the elderly. First, the payments are very low, with about 80 percent of all SSI recipients remaining well below the poverty line.<sup>5</sup> Second, only about half of those eligible for SSI receive it, partly because of a cumbersome administrative structure.<sup>6</sup>

We argue for a new Minimum Benefit Plan to be administered within the Social Security system. This benefit would be large enough to bring recipients up to 100 percent of the poverty line, and would be expected to have a high take-up rate. To receive a Minimum Benefit Plan payment, individuals would need to meet all existing requirements for Social Security retired worker benefits, including having at least 10 years of earnings, with a residency requirement. Individuals who had resided in the United States for at least 20 years after the age of 18 would receive the full amount needed to raise their income to the poverty line, while those who had lived here for a total of between 10 and 20 years would have their payment pro-rated. Eligibility would be based on poverty lines adjusted for marital status, so single individuals would be eligible if their income fell below the poverty line for a one-person household, while married individuals would be eligible if their joint income fell below the poverty line for a two-person household. Minimum Benefit Plan payments would be combined with regular Social Security payments in a single monthly payment. Eligibility would be determined through the tax system, similar to the way the Earned Income Tax Credit (EITC) is currently administered, so individuals would need to file an income tax form in order to qualify. We would expect take-up for the Minimum Benefit Plan to be similar to the 80 percent take-up rate for the EITC. Importantly, like the EITC, Minimum Benefit Plan payments would not count as income for eligibility determinations in programs like Medicaid and the Supplemental Nutrition Assistance Program (SNAP). If this were not the case, a recipient's Minimum Benefit Plan amount could be more than offset by income losses due to loss of other program eligibility.

We estimate that implementation of this Minimum Benefit Plan would raise total Social Security spending by approximately \$9 billion dollars, or 1 percent of current Social Security expenditures. This cost estimate reflects some offset in lower spending on the SSI program (which would remain in place), since some individuals would be able to leave that program for the more generous Minimum Benefit Plan.

## How would the Minimum Benefit Plan affect poverty among older adults?

The Minimum Benefit Plan is modeled on two successful income support programs: the EITC in the United States, and the Canadian Guaranteed Income Supplement. In order to estimate the poverty-reducing effects of the Minimum Benefit Plan for older Americans, we used data from the Current Population Survey. We found that the overall poverty rate for those aged 65 and older would be cut approximately in half, from 8.6 percent to 4.4 percent. Some poor elderly individuals would not be eligible for the Minimum Benefit Plan, including those who did not have 10 years of earnings, or had not resided in the United States for long enough. Among those who were eligible for the benefit, the proportion of poor older adults in poverty would drop by almost 90 percent, while the proportion in deep poverty (below 50 percent of the poverty line) would go to zero.

Approximately 7 percent of current Social Security recipients would be expected to receive a payment under the Minimum Benefit Plan, with an average payment of \$3,600 per year, an increase of about 40 percent in annual income. The subgroups of older adults with higher poverty rates (such as those who are single, female, or black) would be more likely than others to receive a payment, and would receive a larger payment on average. For example, around 15 percent of black older adults would be expected to receive a payment with an average benefit of \$3,801; only about 5 percent of white elderly individuals would receive a payment, averaging \$3,296.

The Minimum Benefit Plan would build on the Social Security system, a popular and effective social policy program, to lower poverty and increase economic security among older adults. Although older adults as a whole have a relatively low poverty rate compared to other age groups, some subgroups such as black single women have very high poverty rates. This benefit would be tightly targeted to ensure that only those who are below the poverty line would benefit. ■

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<sup>1</sup>J. Marchand, and T. Smeeding. 2016. "Poverty and Aging" in *The Handbook of the Economics of Population Aging, Volume 1B*, eds. J. Piggott and A. Woodland (New York: Elsevier, 2016), pp. 905–950.

<sup>2</sup>T. Renwick and L. Fox, "The Supplemental Poverty Measure: 2015" *Current Population Reports*, P60-258, U.S. Bureau of the Census, Washington, DC, September 2016.

<sup>3</sup>Social Security Administration, "Social Security Administrative Statistical Supplement," 2015, Tables 5.A14 and 5.A15.

<sup>4</sup>C. Goldin, "Female Labor Force Participation: The Origin of Black and White Differences, 1870 and 1880," *The Journal of Economic History* 37, No. 1 (1977): 87–108.

<sup>5</sup>Center on Budget and Policy Priorities, "Introduction to the Supplemental Security Income (SSI) Program," 2014. <http://www.cbpp.org/sites/default/files/atoms/files/1-10-11socsec.pdf>

<sup>6</sup>U.S. House Ways and Means Committee, *Green Book*, 2004.