

# **Restoring Old Age Income Security for Low Wage Single Workers**

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## **Introduction**

Social Security is often, and rightly, praised as the most successful social program ever enacted in the United States, providing guaranteed retirement income for most older Americans and lifting more than half of them out of poverty altogether. Yet there are substantial portions of the elderly population that will increasingly find themselves at risk of extreme poverty in old age over the next three decades despite Social Security's guaranteed income support, both because of the low levels of Social Security's benefits, and because of the increasing gaps in sources of retirement income other than Social Security.

Social Security's benefit structure is based in large part on two fundamental concepts: a right to benefits based on earnings in work covered by Social Security (the "earned right"); and benefit amounts designed to provide an adequate floor of income in retirement to workers who can be presumed, because of the level of their pre-retirement earnings, to need greater than proportional benefits ("presumptive need"). However, workers with a lifetime of low earnings, particularly single, widowed and early divorced (i.e. those with marriages that lasted less than 10 years) women, who are unlikely to have substantial sources of income in old age other than Social Security, are not served well by the existing benefit formula. Members of this group may not qualify for SSI old age assistance based on income and resource levels, but are nonetheless in danger of having inadequate income and resources as they age.

What makes the inadequacies of Social Security so critical for this group of beneficiaries in the future is that based on current trends, two legs of the traditional "three-legged stool" model of retirement income policy –private pensions and personal savings and investments – have been greatly weakened over the last two decades, and will be even less reliable in the future. As for the currently most reliable leg of the retirement security, Social Security, while benefits can be relied on, they may be even more inadequate in the future for this group than they are currently, in light of the increase in the age for full retirement benefits that was enacted in 1983. Workers born in 1938 and later are already seeing gradually increasing reductions in benefits, up to a maximum 30% reduction in benefits for those born in 1960 and later, if they retire before the age for full benefits.

While the age increase applies to all workers, its impact will fall especially harshly on low income workers who cannot wait until 66 or 67, because of ill health or unemployment, to

start drawing retirement benefits. The increase in the retirement age was enacted as an intentional benefit cut for future beneficiaries in order to resolve the long term financing deficit, but even at the time, public and some Congressional debate focused on the predictable negative effects on low wage workers who could not afford to wait longer to retire.<sup>1</sup>

When Social Security was originally enacted, it was not intended to provide for the whole retirement income for beneficiaries, an assumption that has served as a defense throughout the program's history to charges that benefits at the low end of the income scale are inadequate. However, policymakers assumed, particularly in the post-war expansion of Social Security in the 1950's and 60's, that working people would continue to achieve increased access to private pensions and, in addition, would be increasingly able to save for old age on their own, to supplement the relatively low level of Social Security benefits. (Root, Simon)

These assumptions are no longer operable. The private pension system has been transformed into an ad hoc collection of voluntary individual employee savings plans; formerly lifetime working class jobs such as those with the auto or steel industries are increasingly insecure and unlikely to last for a whole career; family support for elderly parents is becoming more difficult as adult children struggle financially; and the prevalence of divorce rates means Americans, are more likely to be struggling alone in old age.

One group particularly at risk is single beneficiaries, especially women, who have worked a whole career at very low wages, and either never married or were married but divorced before meeting the minimum years of marriage requirement to be eligible for divorced spouse benefits on their former spouse's earnings record. These retired workers are less likely to have family support networks to make up any gaps in income, and thus have less capacity to handle economic emergencies such as catastrophic medical expenses. This group can also be expected to increase in size in the future given continued high divorce rates and growing numbers of workers reaching old age without ever having married, or without a marriage that lasted 10 years or more.

Social Security is the only program that can be modified and expanded (and financed) to address the income gaps resulting from three major sources of financial insecurity in old age for these low wage workers: the erosion of private pensions; the increased reduction in benefits taken before age 66 and eventually age 67; and the hazards of outliving savings and other equity accumulation intended to supplement individual Social Security benefits. However, the earnings based benefit system is not immediately amenable to targeting based on need or other characteristics. Thus, any new benefit or supplement to existing benefits aimed at a vulnerable

group will almost certainly result in some additional benefits paid to some workers who meet the criteria of the program, but are not necessarily in need of financial help. This is the kind of tradeoff already present in the Social Security benefit structure at the top end of the benefit structure; the question is whether there is enough tolerance for additional benefits to those that may not need them, at the low end of the benefit scale.

## **Background**

First, the decline of employer provided pensions over the last quarter century means that low wage workers, particularly single (either never married, or divorced or widowed) working women, who have no partners to share financial burdens, will be very vulnerable to financial disaster in old age. (Munnell, Golub-Sass, et al, Jan. 2007) In the immediate post-World War II era, defined benefit pension plans were the dominant retirement plan model, particularly for large unionized companies employing large numbers production workers in skilled jobs, such as the automakers, the steel industry, etc.) (Munnell, Sundén, 2001) The pattern of the last twenty years is very different; employers are now increasingly offering 401(k) plans, which are essentially tax advantaged employee savings programs, with some optional contribution from employers, rather than traditional defined benefit pension plans that provide secure benefits for the worker's lifetime. (Purcell and Whitman 2006). Low wage workers of course have the lowest margin of income available for deferral into such plans, after paying for current needs, and thus have relatively small accumulations in their retirement accounts.

Since 1979, pension participation (including coverage but not actual participation in §401(k) plans) has declined for men at all earnings levels from 55% to 45%, while it has increased for women from 36% to 42%. The increase for women appears to have been a result of increasing participation and earnings in the paid labor force over the period. However, regardless of the year involved, pension participation for the lowest earners lags far behind that of the highest earners. For example, in 1979, among men, 69% of the highest 20 percent of earners participated in pensions, compared to only 22% of the lowest quintile; by 2004, the comparable figures were 67% for the highest earners, compared to 13% for the lowest. For women, the comparable figures were 65% highest, 6% lowest in 1979, 67% highest, 10% for lowest earners. (Munnell and Perun, 2006) It is important to remember also that these figures represent the maximum possible levels of pension coverage, as the percentages are of employees covered by all plans, including 401(k) plans but who are not necessarily participating or deferring any substantial amounts.

Moreover, even for workers at earnings above the lowest levels, accumulated amounts in 401(k) plans are hardly sufficient to finance a secure retirement, particularly given the volatility of the stock market. In a Fidelity study released in August, 2008, before the market collapse of September and October, the average balance in §401(k) plan accounts was \$68,200. (Fidelity Investments Report, 2008) Previous studies focusing on lower wage workers indicate that workers making less than \$50,000 per year are least likely, along with younger workers, to participate in §401(k) plans, and thus amounts held in accounts for lower wage workers are likely to be far less than the average figure. (Holden and Vanderhei, 2006)

Second, the retirement age increase legislated in 1983 is now starting to take full effect, as the age for receiving full retirement benefits has reached (and will stay at) 66 for workers who reach age 62 in 2005 through 2016. After that, the second part of the phase-in of the increase in full retirement age begins, so that for workers who reach age 62 in 2022 and later, the age for full benefits rises to 67. Benefits are still available to all retired workers beginning at age 62, but after the full phase in of the retirement age increase, a worker taking benefits at age 62 will see a 30 percent reduction in their benefit level.

**Table 1– Full retirement age and maximum reduction of retired-worker benefits, by year of birth**

Year of birth	Year of attainment of age 62	Year of attainment of age 65	Full retirement age	Maximum reduction months	Maximum reduction at age 62
1935	1997	2000	65 years	36	0.2000000
1936	1998	2001	65 years	36	0.2000000
1937	1999	2002	65 years	36	0.2000000
1938	2000	2003	65 years and 2 months	38	0.2083333
1939	2001	2004	65 years and 4 months	40	0.2166667
1940	2002	2005	65 years and 6 months	42	0.2250000
1941	2003	2006	65 years and 8 months	44	0.2333333
1942	2004	2007	65 years and 10 months	46	0.2416667
1943-1954	2005-2016	2008-2019	66 years	48	0.2500000
1955	2017	2020	66 years and 2 months	50	0.2583333
1956	2018	2021	66 years and 4 months	52	0.2666667
1957	2019	2022	66 years 6 months	54	0.2750000
1958	2020	2023	66 years and 8 months	56	0.2833333
1959	2021	2024	66 years and 10 months	58	0.2916667
1960 or later	2022 and later	2025 and later	67 years	60	0.3000000

SOURCES: Table 2.A17.1 of 2007 Statistical Supplement, ORDP, ORES Social Security Act of 1935 (the Act), as amended through December 31, 2006.

While the decision to take retirement benefits earlier than 66 or 67 is assumed by policymakers to be mainly a matter of choice, for many career low wage workers, ill health or unemployment may force a decision to take reduced benefits. Moreover, the initial reduction in PIA will produce lower cost of living increases calculated on the reduced PIA, thus further reducing total lifetime benefits beyond the initial 30% reduction.

Moreover, the vicissitudes of volatile stock and housing markets have in many cases eroded the value of whatever investments such workers were able to make. The current steep decline in housing values will have repercussions far into the future for working people whose major form of accumulated equity is most often represented by their home. One study estimates that families in the 45 to 54 age group will have 34.6% less household wealth in 2009 than that age group had in 2004, and those in the 55-64 age group will have 43.9% less, if housing prices drop only 10% more from their March 2008 levels (a fairly conservative assumption.) (Baker and Rosnick, July 2008) The use of accumulated housing equity can be a last resort for the elderly needing additional income for medical or other needs; the drop in housing values, which may not be recouped for several years, could represent a serious reduction in the financial security of lower and average income beneficiaries.

Finally, all of these financial trends can be expected to make even worse the already precarious financial situation of single worker beneficiaries, both those who were never married, and those married so short a time that they are not eligible for benefits based on their former spouse's earnings record. The percentage of the age 65 and older population who have never married is expected to rise from 4% in 2003 to 6% by 2040. (Tamborini, 2007) Using U.S. Census Bureau data, Tamborini estimates that in 2000, 4.3 percent of women and 4.4 percent of men age 65 or older were never married, but in the age 45 to 64 age group, 6.8 percent of women and 8.1 percent of men were never married. These figures, of course, do not include divorced women and men who constitute another 7.5 and 6.7 percent respectively of the 65 and older population. While some of these divorced people had long marriages during which they accumulated both property and benefit rights based on their marital relationship, many marriages last too short a time for any additional benefits to accrue to the divorced spouses. The percentage of the age 65 and older population facing old age on their own with no financial resources beyond their own individual earnings and savings is therefore probably higher than the figures for just the 'never-married' group.

The importance of the growing numbers of workers entering retirement and old age alone lies in their markedly higher chances of living in poverty. The poverty rate for elderly persons

who have never married is more than four times the rate for married couples, and twice the overall national average.

Notably, the never-married have the largest share of persons aged 65 or older in poverty (21.9 percent) compared with 4.5 percent of married persons, 14.5 percent of widowed persons, 17.3 percent of divorced persons and 9.8 percent overall. ....Elderly poverty rates differ not only across marital subgroups but also by sex. Particularly striking, the poverty rate for elderly never-married women was more than four times that of their elderly married counterparts as of 2004 (21.3 percent and 4.4 percent respectively); and among elderly unmarried women, a larger share of never-married women experienced poverty (21.3 percent) compared with the shares of divorced (20.7 percent) and widowed (15.4 percent) (Tamborini, 2007).

However, Tamborini points out that the elderly never-married group is not homogeneous, and not all of them are at risk in old age. While 30 percent of the never-married men and 34.9 percent of never-married women have total annual cash income below \$10,000, 16.5 percent and 11.3 percent of never-married men and women, respectively, have incomes of \$40,000 or more each year.

Nonetheless, clearly at least a substantial part of this group is at a high risk for financial disaster in old age. For one thing, as a group, unmarried persons (whether never married or widowed) over age 65 are as a group more likely to rely on Social Security as their sole or primary source of income. In 2002, for example, almost 21 percent of nonmarried persons age 65 and older had no income other than Social Security, compared to 9.9 percent of married couples; another 18 percent of nonmarried persons had other income of less than \$2,000 per year, compared to 8.9 percent of married couples. (2004 Green Book Table A-8)

In addition to entering retirement in a precarious financial condition, low wage workers are in severe danger of outliving their financial resources other than Social Security. In particular, because of their normally longer lifespans, women, who as a group have lower levels of pension income and lower levels of savings and investments than men in general, have a greatly increased risk of reaching their 80's with insufficient resources to adequately supplement their Social Security benefits, just at the time of their life when their health costs and need for assistance in daily living are likely to increase. (Lynn and Adamson, 2003; Dahleen) Moreover, while needs-based programs are available to help in providing for low-income elderly persons, the role of the largest such program, Supplemental Security Income (SSI), has gradually declined

as Social Security benefits have increased since the 1970's, and as SSI eligibility requirements have remained extremely stingy. (2007 Annual Statistical Supplement, SSA, ORES, Table )

Bolstering Social Security is the most efficient and effective path to providing greater income security for this at-risk group, even though it is not possible or desirable to target them by gender or income level within the non-means-tested framework of social insurance. It is possible, however, to improve the program's adequacy through changes in the benefit formula and additions to benefits targeted at groups that we can predict will be in greatest need, without requiring contemporaneous proof of need, a step that would be anathema both to the target group and to the basic principles of social insurance.

### **Present Law Benefit Formula and Structure**

Social Security benefits are weighted in favor of low wage workers, but the overall benefit level even for those getting the most weighting is so low that low wage workers who retire dependent solely or primarily on Social Security for retirement income are likely to have insufficient income for their old age. There are several elements of the benefit calculation that produce higher proportionate benefits for lower wage than higher wage workers – the benefit base which limits the amount of earnings on which benefits are calculated, so that wages over \$102,000 (for 2008) are not reflected in average benefits; the omission of the 5 lowest years of earnings (the dropout years) in calculating the career average earnings level, so that the effect of any periods of unemployment on the ultimate average earnings amount is somewhat limited; the provision of spousal and family benefits without diminution of the basic worker's benefit; and the structure of the benefit formula itself, which gives a much higher percentage of lowest earnings than of higher.

However, these weighting provisions do little to overcome the low overall benefit level, which is a product of, among other things, deliberately low replacement rate targets even for low wage workers. Moreover, for the specific group of retirees this paper focuses on - single worker beneficiaries with a life history of low wages – spousal and auxiliary benefits are irrelevant, and if their wages have not varied much over their careers, the 5 dropout years are not likely to significantly improve their ultimate benefit. These workers are also most likely to have the lowest level of non-Social Security resources such as private pensions, relatively liquid assets like savings or stock portfolios, or illiquid assets like homes or other property when they enter retirement. Moreover, as we have recently seen in the dynamics of both stock market and housing values, the income security provided by the value of such assets available can fluctuate

greatly over time, even to the point of disappearing, as has been the recent case for many elderly individuals who have lost their homes in foreclosure. (Shelton)

Finally, once a beneficiary enters active benefit status, the basic benefit level is essentially fixed. While benefits are indexed every year to the CPI, providing an increase that is intended to keep beneficiary spending power constant, beneficiaries receive no increase beyond the yearly COLA, other than any increase resulting from additional earnings after initial benefit payments have begun. As is the case in any pension scheme, the longer a beneficiary lives and relies on that fixed income, the further behind productivity increases in the general economy her benefit will be. In other words, price indexing may keep purchasing power of a given benefit relatively constant, but the level of that benefit will nonetheless fall behind economy-wide increases in the standard of living generally. To some extent, this result is inevitable and to be expected as people stop working in paid employment – but it also means that they are especially vulnerable to financial shortfalls in the event of serious or catastrophic events, such as changes in medical conditions, or housing situations.

### **Benefit Formula Features**

The initial amount from which all Social Security benefits are calculated is the Primary Insurance Amount (PIA), which is based on the worker's average indexed monthly earnings (AIME), the average of the highest 35 years of indexed earnings. This indexing is based on increases in average wages during the period of the earnings history, indexed to the level of wages in the second calendar year before the year in which the workers is first eligible for benefits (becomes disabled, dies or reaches age 62.) The PIA is calculated by dividing the worker's AIME into three brackets and multiplying each bracket amount by its own PIA factor (for 2008, these amounts are 90% for AIME up to \$711, 32% of AIME from \$711 up to \$4288, and 15% of the remaining portion of the AIME) that are set in law for each bracket. As a result of these factors, the formula is mildly progressive, in that lower wage workers receive a benefit that replaces a higher proportion of career-average earnings than do high-wage workers.

The dollar amounts that define the boundaries of the brackets, called bend points, also increase each year by the rate of growth of the national average wage index. Once the initial PIA is calculated, all benefits, including the worker's benefit subject to reductions for early retirement or increases due to delayed retirement, and any auxiliary benefits to dependents, are based on it. Once benefits begin to be paid, they are increased each year according to increases in the Consumer Price Index, under a specific formula set in law.



One additional feature of the current benefit structure is specifically designed to help workers with long histories of covered earnings and extremely low AIME's, the "special minimum benefit", which provides an alternative benefit computation, producing a minimum benefit that is payable to workers whose PIA under the regular formula is less than the special minimum benefit. This provision is essentially ineffectual in improving benefits for career low wage workers, as the special minimum formula factors are price indexed, while the AIME factors are indexed to increases in average wages. As a result, the lowest possible benefits under the regular formula have steadily increased at a faster rate than the special minimum benefit; fewer than 100,000 worker beneficiaries currently receive the special minimum as their only Social Security benefit, and under current economic assumptions, the special minimum will cease to provide any additional benefits to new beneficiaries after 2013. (Olsen and Hoffmeyer, 2001)

Some characteristics of the current benefit formula make the weighting in the calculation of the PIA only mildly effective in improving benefit adequacy for long time low wage worker beneficiaries. First, and most important, the first PIA bend point is set at an extremely low level – 90% of \$711 is still only \$639.90, an extremely low amount that comprises three-quarters of the total PIA (\$829.20) for a lifetime minimum wage worker in 2006, over half the total PIA (\$1130.10) for a worker with 75% of average wages over her career and almost half the total PIA (\$1375.70) for a worker making average wages for an entire working life. This is to some extent an apples and oranges comparison, as the most recent average PIA amounts available are from 2006, not 2007, but the comparison still conveys the very low level of benefits available to career low wage workers.

Moreover, if a career minimum wage worker were forced by circumstances of job loss or health to retire at age 62, and thus take a reduced benefit, their PIA would be further reduced. Ninety percent of a paltry amount is a frail foundation for benefit adequacy, even for workers at wages well above the minimum for their careers. In many ways, all workers at earnings below the maximum – or, at the very least, at or below average wages – can be said to be at great risk from severe poverty in old age.

Second, the AIME calculation itself smoothes out the ups and downs of the worker's earnings record, so that workers with high earnings in some years, even with more years of zero earnings beyond the 5 dropout years, may end up with a higher AIME than a steady worker at minimum wage or just above for a whole career. This effect was what led Congress in 1983 to enact the windfall benefit formula, to limit the Social Security benefits payable to government

workers with relatively short earnings records under Social Security, whose Federal, state or local pension from employment not covered by Social Security was intended to provide benefits equal to what Social Security and a private pension would have together provided.

However, this issue is not limited to government workers with public pensions – any worker with a less than lifetime career of very high earnings over a few years looks, under the AIME formula, like a career low earner when the few years are averaged out over 30 years. As a result, many low wage workers with sporadic careers or long periods out of the paid labor force for care giving to children or parents are probably aided by the current 30 years of averaging. But the career low earner who has never had any other means of support (for example, a life time waitress or custodial worker), and has worked steadily for 25 to 30 years with no breaks, has no high years to balance off low years of earnings. As a result, one of the elements of the current formula designed to aid many categories of low income workers does little or nothing for steady low wage workers who get really no benefit from 30 years of averaging.

Finally, the amount of the initial benefit is indexed to increases in prices over the beneficiary's lifetime, but the only way to increase the benefit amount beyond the COLA is for the beneficiary to accumulate additional years of earnings in retirement at high enough wages to replace one or more earlier, lower years of wages. If a beneficiary lives a relatively short time after retirement, or has no catastrophic health or other expenses requiring larger than normal expenditures, the cost of living increases in Social Security benefits may be adequate to keep spending power constant. However, for life time low wage beneficiaries who are most likely to have few income or equity resources other than Social Security, the margin of financial security is extremely narrow.

Moreover, even for those beneficiaries with more than minimal additional income sources, longevity can produce serious financial challenges, since almost all other sources of regular income – such as pensions and annuities – are not indexed to inflation, and Social Security typically increases as a proportion of total income as recipients age into their 80s and beyond.. Moreover, the reliance on Social Security as retirees age seems to be increasing – in 1975, those 85 and older relied on Social Security for 52.4 percent of their total income, compared with 34.5 percent for the age 65-69 group, 45.9 percent for those 70-74, 48.9 percent for those 75-79, and 50.8 percent for those 80-84. In 2005, the reliance on Social Security for the 85 and older group had increased to 55.3 percent; all other groups experienced a slight decrease – for example down to 30.3% for the 65-69 group, whose reliance on earnings

correspondingly increased from 31.7 percent in 1975 to 40.9 percent in 2005. (EBRI Notes, May 2007, Figure 5, p. 5)

Clearly, however, over a retirement lifetime, Social Security takes on increasing importance as a source of income, from about 30 percent of total income at retirement to well over 50 percent by age 85. Life expectancy is expected to continue to increase, for both sexes, and thus there are likely to be increasing numbers of beneficiaries for whom Social Security, even in combination with other income sources, will gradually become inadequate.

### **Proposals for Improving Benefits for Career Low Wage Worker Single Beneficiaries**

The weighted benefit structure is consistent with Social Security's most important operating principles, as stated above – benefits are an earned right, based on past earnings and presumptive future need - in providing higher than proportional benefits to lower wage workers who can be presumed to rely more heavily on Social Security for income maintenance in old age. My proposals are consistent with these fundamental principles of Social Security, in that each proposal is an amendment to the current benefit formula or structure that provides increased benefits under the governing principle of presumed need and a relationship to past earnings. However they are also all targeted, to one degree or another, on an extremely vulnerable subset of the beneficiary population – workers, very likely women, who have worked in very low wage jobs their entire working career and who will rely primarily on Social Security for income support in old age.

I propose two possible improvements: first, a change to the basic benefit formula to increase the bend point factors only for single worker benefits based on an entire working life of covered earnings; and second, a supplemental benefit for the “super-old” single elderly who entered retirement with career low wages. While these proposals require neither means testing, nor gender discrimination, they nonetheless achieve targeted improvements for elderly poor women, primarily because of the historically low wages of women compared to men.

#### **A. Supplemental PIA Bend Point Increase**

##### **Description**

My first suggested approach to improving benefit adequacy, specifically for the vulnerable group of single retirees with career low earnings, is to change the benefit formula for this category of low wage workers, similar to the way the now almost obsolete special minimum benefit targets workers with low PIAs under the normal formula. However, instead of a new

minimum benefit, I propose an increase in future initial benefit levels for low wage workers that is still tied to their individual earnings records, through an alternate formula only for single worker beneficiaries with a career of low wages.

This alternate formula would apply to certain workers with at least 30 years of covered employment whose AIMEs are less than some multiple of the first bend point – somewhere between 150% to 300% of the first bend point; for workers in this category who are eligible only for single worker benefits (i.e. with no spousal or other auxiliary benefits payable on the earnings record), the first ‘bend point’ in the PIA formula would be increased by 50%. In order to prevent workers eligible for this alternate benefit from receiving benefits higher than workers with slightly higher AIMEs would receive under the regular formula, the alternate benefit would be capped so as not to exceed the regular benefit payable to a single worker with an AIME of whatever the initial bend point multiple is under the supplemental formula.

### **Illustrative Examples**

The examples and tables that follow are based on using 300% as the ceiling, to show the upper limit of the number of beneficiaries that might be affected by the proposal.

A has an AIME of \$1400 –

A’s regular benefit equals 90% of \$711 = \$640 plus 32% of \$689 = \$220 = \$ 860

A’s supplemental PIA is based on increasing the first bend point by 50% which would be \$1061

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A’s supplemental PIA would equal 90% of \$1061 = \$955 plus 32% of \$340 = \$109 = \$1064

A would see an increase of \$204 in her basic monthly benefit, if no further limit were imposed.

B has an AIME of \$2000 – slightly less than 300% of the first bend point.

B’s regular PIA equals 90% of \$711 = \$640 plus 32% of \$1289 = \$412 = \$ 1052

B’s supplemental PIA would equal 90% of \$1061 = \$955 plus 32% of \$939 = \$300 = \$1255.

B would see a \$203 increase in her basic monthly benefit if no further limit were imposed

C has an AIME of \$2133, exactly 300% of the first regular bend point and is therefore not eligible for the alternate benefit.

C’s regular PIA – 90% of \$711 = \$640 plus 32% of \$1422 = \$455 = \$1095

Because it would be inappropriate for alternate benefits to exceed the regular benefits payable to beneficiaries at the point of ineligibility for the alternate benefit, C’s \$1095 PIA amount would serve as a cap on the supplemental PIAs for to A and B. Even with the cap, however, A’s supplemental PIA would be unchanged; B’s supplemental PIA would be limited to \$1095, giving her a monthly increase of \$43.

An important comparison for the results of the supplemental PIA formula is to family benefits payable on comparable levels of AIMEs. Because only single worker beneficiaries

would be eligible for the supplemental PIA , if a worker's earnings record were also to support a spousal or other auxiliary benefit, that worker's PIA would not be calculated under the alternate formula. Because a worker and spouse benefit together comprise 150% of the worker's PIA, the supplemental PIA formula for a single worker could never exceed the family PIA paid to another worker and spouse based on the same earnings record.

### **Effective Date**

The effective date for this proposal presents special problems, in that one cohort of beneficiaries would have higher benefits on attainment of eligibility after the provision takes effect than similarly situated workers becoming eligible before the effective date. The most expensive and administratively cumbersome approach would be to make the special benefit adjustment retroactive, applicable to all low AIME career single beneficiaries. That approach, in addition to raising the costs of additional benefits, would require the Social Security Administration to review all existing beneficiaries, recalculate their PIAs, and adjust their benefits accordingly, which is probably possible but very burdensome and administratively expensive. From a programmatic perspective, however, adjusting current low benefit levels would be desirable, given the very low current benefits currently being paid to this group.

However, if, as is likely, a prospective effective date is necessary for cost or administrative reasons, it is advisable to avoid a "cliff" or "notch" benefit differential. However, a very extended effective period, such as the 20 year phase in period devised for the retirement age increase enacted in 1983, is probably not necessary, given the restricted number of beneficiaries affected, and given that benefit increases do not raise the kind of concerns among beneficiaries that benefit reductions do. Even so, a gradual effective date schedule will help avoid what could be perceived as inequitable differences in benefits between similarly situated groups of beneficiaries.

One possible phase in approach would be to make 5 incremental increases of 10% in the first PIA bend point for the target group over a 10 year period, each increment applicable for two years of newly eligible beneficiaries. This phase in period would begin in 2012, and thus the end of the phase in would be timed to coincide with the end of the next segment of the phase-in of the increase in retirement age which begins in 2017 and ends in 2022. Since the increase in the retirement age is one principal reason the special benefit increase is needed for low AIME beneficiaries, a phase-in effective schedule that parallels the final schedule of retirement age benefit cuts is both logical and politically defensible.

## **Discussion**

This proposal can be thought of as a more effective way to satisfy the goals of the current special minimum benefit, that will effectively phase out by 2013. It is similarly designed to provide higher benefits for very low wage, long career workers, but is more narrowly targeted to one of the most vulnerable segments of the beneficiary population and one most negatively affected by the increase in the age for full benefits – beneficiaries receiving only single worker benefits. Because the proposed effective date phase in would parallel the retirement age increases, the impact of the increase in PIA would gradually offset the benefit reductions associated with beginning benefits before the new full age of retirement, as well as improving benefit adequacy for those who can stay employed until their age for full benefits. The supplemental PIA formula would also be far more effective than the current special minimum in lifting beneficiaries above poverty level in its current form.

The age cohort that would be initially affected by the special benefit formula, from the beginning of the phase-in, would be workers becoming first eligible for benefits – i.e., attaining age 62 - in 2012 and later, meaning workers born in 1950 and later, in the first quarter of baby boom generation birth years forward. This is the generation for whom the retirement age was raised, the generation that has in effect advance financed the system through higher than pay as you go taxes since 1990, and the generation first experiencing the loss of employer-provided pensions, the widespread decline in home values fairly close to retirement age, and decline in real wages for most segments of the economy.

### **Effect on Career Low Wage Workers**

The examples given above give some indication of the magnitude of benefit increases resulting from application of the supplemental PIA at various hypothetical PIA levels under current law. While it is not possible given information currently available to precisely estimate how many current beneficiaries were life time low wage workers, it is possible to develop some data on single worker beneficiaries with PIAs low enough to trigger the supplemental formula. The following table assumes a 300 percent of the first bend point AIME level for eligibility for the supplemental PIA formula, and compares current law PIAs to the possible supplemental PIAs that would result, tabulated by averages at each age in retirement. Not all of these beneficiaries would have the thirty years of covered employment necessary to be eligible for the supplemental formula, so this table represents the upper limit of possible beneficiaries of the proposal.

**TABLE 2. NUMBERS OF SINGLE WORKER BENEFICIARIES WHOSE PIA'S WOULD INCREASE UNDER THE SUPPLEMENTAL FORMULA**

Age	All Retired Workers				Men				Women			
	Number	AIME	APIA	SAPIA	Number	AIME	APIA	SAPIA	Number	AIME	APIA	SAPIA
Total	5,011,899	2,153	1,069.30	--	2,689,249	2,842	1,288.70	--	2,332,650	1,359	815.20	1,005.60
65-69	1,876,580	2,684	1,239.40	--	1,102,487	3,312	1,440.30	--	774,093	1,791	953.30	1,143.84
65	141,577	2,809	1,279.50	--	83,713	3,450	1,484.20	--	57,864	1,883	983.40	1,173.28
66	459,653	2,809	1,279.30	--	270,846	3,439	1,481.00	--	188,807	1,905	990.00	1,180.32
67	431,537	2,699	1,244.00	--	253,302	3,323	1,443.70	--	178,235	1,658	960.60	1,101.28
68	424,620	2,633	1,222.90	--	248,365	3,285	1,425.20	--	176,255	1,813	937.90	1,150.88
69	419,193	2,541	1,193.60	--	246,261	3,161	1,392.10	--	172,932	1,658	911.00	1,101.28
70-74	1,466,574	2,121	1,059.30	--	815,961	2,745	1,258.90	--	650,613	1,339	809.00	999.20
70	405,750	2,430	1,158.20	--	239,676	3,024	1,348.00	--	166,074	1,574	884.20	1,074.40
71	412,821	2,328	1,141.50	--	244,277	2,961	1,328.00	--	168,544	1,534	871.30	1,061.60
72	241,504	1,731	955.50	1,124.64	124,467	2,416	1,153.50	--	117,037	1,138	744.90	934.88
73	208,652	1,795	940.90	1,145.12	107,182	2,369	1,138.60	--	101,470	1,099	732.10	922.40
74	197,847	1,738	936.60	1,126.88	100,359	2,365	1,137.30	--	97,488	1,092	729.90	920.16
75-79	778,762	1,632	902.80	1,092.96	387,434	2,289	1,112.60	--	391,328	983	695.10	884.70
75	180,485	1,676	916.80	1,107.04	91,089	2,308	1,119.00	--	89,396	1,032	710.80	999.36
76	170,794	1,639	905.00	1,095.20	85,660	2,273	1,107.70	--	85,134	1,002	701.00	989.76
77	152,229	1,593	890.10	1,080.48	75,238	2,249	1,100.20	--	76,991	951	684.80	855.90
78	144,797	1,628	901.40	1,091.68	70,943	2,303	1,117.40	--	73,854	980	694.00	882.00
79	130,457	1,614	897.10	1,087.20	64,504	2,309	1,119.30	--	65,953	935	679.70	841.50
80-84	469,692	1,520	866.90	1,057.12	231,756	2,221	1,091.10	--	264,936	907	670.70	816.30
80	119,595	1,569	882.40	1,072.80	58,665	2,260	1,103.80	--	60,930	902	669.20	811.80
81	111,714	1,605	894.10	1,084.32	53,381	2,310	1,119.80	--	58,333	958	687.60	862.20
82	99,427	1,494	858.50	1,048.80	45,596	2,202	1,085.00	--	53,831	894	666.70	804.60
83	87,368	1,446	843.10	1,033.44	39,311	2,139	1,064.90	--	48,057	879	661.60	791.10
84	78,588	1,441	841.50	1,031.84	34,803	2,134	1,063.20	--	43,785	890	665.30	801.00
85-89	264,230	1,491	857.50	1,047.84	109,324	2,179	1,077.80	--	154,906	1,005	702.10	892.32
85	71,253	1,425	838.50	1,026.72	30,790	2,128	1,061.30	--	40,463	901	668.90	810.90
86	61,192	1,397	827.60	1,017.76	25,615	2,085	1,047.70	--	35,577	902	669.00	811.80
87	49,271	1,461	847.90	1,038.24	20,251	2,143	1,066.10	--	29,020	983	695.60	884.70
88	44,594	1,591	889.70	1,079.84	17,887	2,268	1,106.20	--	26,707	1,138	744.70	934.88
89	37,920	1,674	916.30	1,106.40	14,781	2,392	1,145.80	--	23,139	1,217	769.80	960.16
<90	129,061	1,703	925.50	1,115.68	42,287	2,421	1,152.20	--	86,774	1,358	815.00	1,005.28

AIME=Derived from Table 5.B2 (pg. 5.35 in the Annual Statistical Supplement, 2007) using the Bend Points for 2006.

APIA=Average Primary Insurance Amount (found in Table 5.B2)

SAPIA=The APIA under the proposed supplemental formula (Using the 2006 bend points)

This table does not filter out beneficiaries with fewer than 30 years of covered employment, a requirement of the proposal, as the data was not available to do so.

Possibly the most striking result in the table above is the increase in women's benefits compared with the lack of increase in men's, based on average AIMEs and PIAs in each age group. The use of average AIMEs for each category undoubtedly masks the presence of individual male beneficiaries who would receive the supplemental PIA; moreover, since the table is based on the upper limit of an AIME of 300% of the first bend point, a lower percentage cutoff would most likely result in improved benefits for more equal numbers men as well as women. Nonetheless, the table demonstrates the degree of targeted benefit improvement for single

women that is possible through use of a benefit formula increase applicable to all long term, low wage single workers.

### **Possible Critiques**

The first general critique of a supplemental PIA formula is that it would constitute a distortion of the PIA formula, which has always been the building block of the Social Security benefit structure – the chromosome, as it were, from which all variations on the basic individual worker benefit (reduced for early retirement, multiplied by a fraction for the various auxiliary benefits, etc) are built. From this traditional perspective, establishing an alternate PIA for the purpose of calculating a benefit for a select group of beneficiaries would represent an unwarranted distortion of the Social Security program's fundamental structure.

However, the benefit structure looked at as a whole quite obviously targets various specific groups that are deemed to need additional benefits, even though they are calculated as percentages or multiples of the worker's PIA. Moreover, the current special minimum benefit is at least one precedent for a separate PIA calculation aimed at a specific subset of covered workers with low lifetime earnings; the supplement PIA formula can be argued to be a more flexible and more adequate substitute for the currently phasing out minimum benefit.

One effect of the supplemental PIA formula would be to flatten out benefit levels for low AIME beneficiaries near the level of the first bend point test for special benefit eligibility, similar to the effect of the current special minimum benefit, or any type of minimum benefit scheme. However, each beneficiary's supplemental PIA would still be based on her own earnings record, up to the capped level, and the additional benefit amounts would vary accordingly, thus arguably aligning more closely than a dollar minimum benefit amount would to the earnings based principle of Social Security's benefit structure.

The restriction of the supplemental PIA to single worker only benefits creates an implementation question, as it is not necessarily clear, when a worker reaches age of eligibility, whether a spouse will eventually draw benefits based on that worker's record. Under the current system, there is no need to determine whether a worker applying for initial benefits is married unless the spouse is also applying for benefits as well. Also, a worker might marry after she enters benefit payment status, to a spouse who might have benefits on his or her own earnings record, or who might eventually be eligible to spousal benefits on the worker's earnings record. This problem demonstrates the difficulty of targeting benefits in Social Security to workers



according to any characteristic other than their individual earnings record (in the manner of the current special minimum benefit, for example.)

Nonetheless, it is possible to construct an administrative sequence that should maintain the targeted character of the supplemental PIA on single beneficiaries only, albeit perhaps at the price of additional administrative intake steps. First, upon initial application for benefits, a worker whose AIME would otherwise entitle her to the supplemental PIA (i.e. an AIME of less than 300% of the first PIA bend point) could be required to inform the Social Security Administration whether she is currently married (indeed, this information may already be gathered at that point.) In many cases, the question would not have to be asked; for example, if the worker's spouse is already eligible for benefits, the system would already screen for the appropriate level of benefits for both family members, spousal or worker or a combination.

Second, if a worker receiving the supplemental PIA benefit were to marry after beginning receipt of benefits, the adequacy rationale for her eligibility would be undercut, to some extent. If the new spouse were also eligible for Social Security benefits, there would automatically be a recalculation by SSA to determine whether the family benefit, of a worker benefit plus spousal benefit equal to 50% of the worker benefit, would be higher than each worker receiving his or her own worker benefit alone. The supplemental PIA would very likely give some spouses a higher PIA on their own record than the spousal benefit from the spouse's record, and thus the supplemental PIA would continue to be paid, even though the recipient is no longer a single beneficiary. However, the number of instances where a single retiree worker already eligible for the supplemental PIA marries another beneficiary whose benefits and other income take the combined income of the couple substantially above the poverty level are likely to be quite small, and therefore it may not be worth constructing another administrative screening process to prevent this situation from arising.

A similar issue would arise in connection with surviving spouse benefits – generally equal to 100% of the deceased worker's PIA – which might be lower than a supplemental PIA based on the surviving spouse's own earnings record. An expansion of the proposal to cover such surviving spouses would make this proposal substantially more costly, and less targeted on single workers. However, since the AIME on which such an supplemental PIA would be calculated would have been indexed only up to wage levels in the year of the spouse's initial eligibility for benefits (generally age 62) the survivor's benefit might well still be higher.

Nonetheless, the focus of this proposal is to help workers with essentially no backup who are likely to have few other resources – a single worker with no spouse or former spouse,

generally will have less access to savings or family support from children. Expansion of the supplemental PIA to surviving spouses would dilute the targeted relief argument; on the other hand, surviving spouses are also among the poorest segments of the Social Security beneficiary population, and any increase in the benefit due them after the death of a spouse would at least partially offset the reduction in the survivor's standard of living that so frequently results from the reduction in benefits from 150% of PIA to 100 % of the deceased spouse's PIA.

### **Political and Administrative Feasibility**

Setting aside the overall political obstacles to any increase in Social Security benefits in an era of continuing efforts to scale back the benefits the system now provides, the alternative PIA proposal can be defended as consistent with Social Security's mission and program on several policy and political grounds. First, it is an earnings-based approach that operates as an additional element of the already existing benefit formula so that the distinctions between beneficiaries affected by the supplement and those receiving a regular PIA calculation are blurred, thus allowing financial aid without stigma. Second, the timing of implementation allows the supplement to offset decreases in benefits resulting from retirement age increase benefit cuts for those who can least afford such benefit reductions but are most likely to be forced to stop working before age 66 or 67. Third, the supplement to a small degree makes up for the long standing gap between minimum wage and regular wage increases, and for the decades long failure of real wage growth, all of which has depressed the earnings records of low wage workers. (Yellen; Uchitelle)

As for administrative feasibility, without analysis by SSA's operating staff, it is difficult to accurately assess administrative difficulties the proposal might pose for the agency. However, the initial screening of workers eligible for the supplemental PIA, along with the recalculation of the PIA, should not pose extraordinary administrative burdens.

### **Cost Estimates**

Accurate cost estimates as a percent of payroll of course require estimating by the SSA Office of the Actuary. One advantage of using the benefit formula itself to address the problem of poverty in old age among single low wage workers is that the formula changes are easily adjusted to lower the costs of the proposal. For example, instead of 300% of AIME as the threshold requirement, the eligibility limit could be set at 200% or 250%, which would lower the

numbers of eligible beneficiaries. Alternatively, the PIA multiplier could be set at some percentage less than 50% to produce a lower supplemental PIA, if lower costs were sought. Other possible modifications to reduce the costs of the supplement could include increasing the numbers of years of covered employment required to qualify, from 30 years to 35 years, for example. Conversely, the proposal is easy to modify to expand protection to a larger group of low income beneficiaries, by shortening the covered employment requirement, or allowing beneficiaries who are eligible for survivor benefits that would be lower than the beneficiary's own benefit based on the supplemental formula.

### **Conclusion**

The supplemental PIA provides a targeted solution to the problem of insufficient income for a select group of beneficiaries that is consistent with the basic principles of Social Security. It also provides a more effective substitute for the present law special minimum benefit that is projected to essentially phase out by 2013, and, because the supplemental PIA tracks the worker's earnings record, it fits well as a part of the benefit formula that reflects lifetime earnings. Because it fits so easily into Social Security's already existing benefit structure, it's difficult to compare with any other country's approach to providing adequately for the particular segment of the beneficiary population, but clearly increasing the basic benefit for this category of beneficiaries would go some way toward closing the adequacy gap in the US system. Moreover, providing increased guaranteed benefits for .

### **B. Age-Based Supplement**

The lingering fear of many elderly people is that their income and resources will run out before they die; sadly, this fear is realistic for many who enter retirement with low Social Security benefits and few other resources to supplement them. Even if income is adequate at the beginning of retirement, by the time the retiree reaches age 85, the combination of static or even declining levels of income from pensions and investments, and increasing medical and care needs, means many of these "old-old" beneficiaries will face serious income shortfalls.

#### **Description**

As a companion proposal to the supplemental PIA, I propose a special benefit increase for the oldest single beneficiaries with life time low wages. While the supplemental PIA proposal would almost certainly, because of cost, have to be effective on a prospective basis only, the age based supplemental payment could be made to beneficiaries in current pay status,

because of the lower numbers of those eligible and the limited length of time for payment of the benefit.

This proposal would provide an increase in monthly benefits of 10% of PIA beginning at age 85 for beneficiaries receiving a worker-only benefit that is based on at least 30 years of covered employment and that is less than 75% of the average worker-only benefit in payment status during the prior year. Unlike the supplemental PIA, the test for eligibility would be based on actual benefit levels, which would reflect reductions for taking retirement before full retirement age, in order to provide some additional income help to beneficiaries who may have been required by health or unemployment, or other circumstances, to take early benefits.

Of course, using benefit levels as the criterion for providing the supplement is not a guarantee that the recipient is actually poor – in some cases, these beneficiaries may have substantial other resources, such as inheritances, savings or investments. However, it is consistent with the Social Security system's underlying premise of presumptive need based on past earnings levels to not require actual demonstration of need for application of the age based supplemental benefit. The dual requirements of a very low benefit level and a long earnings history should be strong indicators of a precarious financial situation in extreme old age.

### **Illustrative Examples**

The initial step is to determine eligibility for the supplement – attainment of age 85, currently drawing benefits as a single worker beneficiary, or as a surviving spouse, and with a benefit amount at or below 75% of the average worker-only benefit. In 2006, there were just over 3.5 million beneficiaries age 85 and older – the average monthly benefit for that group was approximately \$1,050. (Statistical Supplement 2007) These average benefit amounts are mildly inflated by the double-indexed benefit amounts payable to beneficiaries who became eligible for benefits between 1973 and 1978; in 2006, that group would have been between 90 and 95 (although there are likely many younger surviving spouses of this group still drawing benefits on those pre-notch earnings histories) . Nonetheless, these numbers indicate the universe of possible beneficiaries and the dimensions of the benefit amounts that would be affected by the proposal. If 75% of the average benefit were equal to about \$780, then a supplement of up to \$78.00 (monthly) would be paid to probably no more than (and probably substantially fewer than) 2 million beneficiaries in current pay status immediately. The eligibility cutoff could be adjusted depending on costs and desired extent of coverage.

## **Effective Date**

Because of the relatively small numbers of beneficiaries affected, I would propose to make this provision effective immediately upon enactment to all beneficiaries in current pay status who fit the eligibility requirements, and then add each new group of beneficiaries as they attain age 85. The supplement payment could be made to coincide with the annual COLA, or in a separate month, whichever would be administratively easier. If the new benefit were first made payable beginning in 2012, the first year of the suggested phase in of the PIA supplement proposal, the age-based supplement could be packaged with it as part of a larger, more comprehensive effort to improve Social Security for the most at risk – and, based on the system’s ‘earned right’ philosophy, most deserving – beneficiaries.

## **Discussion**

The poverty rate amongst the oldest old is higher than for the rest of the Social Security beneficiary population, but has dropped steadily, as has the poverty rate of the elderly generally, over the last 30 years, primarily because of indexing of Social Security benefits beginning in 1973. Nonetheless, in 2004, according to a CRS study, 12% of women age 65 and older were in poverty, as were 25% of African-Americans and almost 20% of Hispanics age 65 and older. The elderly most likely to be in poverty are women, in general, minorities, and people over 80:

Married couples, who often have more than one source of income, had a poverty rate of only 4.5% in 2004. In contrast, 16.2% of unmarried individuals age 65 and older had incomes less than the official poverty threshold in 2004. The oldest Americans had the highest poverty rates. Eleven percent of individuals age 80 and older were poor in 2004 compared to 9% of individuals between the ages of 65 and 69. Nearly half of all Americans age 80 and older had family incomes of less than twice the poverty threshold in 2004. (Purcell and Whitman, 2006)

This proposal is aimed at compensating for the exhaustion of non-Social Security resources for the oldest segment of the beneficiary population. Again, it is targeted at career low wage workers who are single, and whose benefit is, even with the impact of the cost of living increases during retirement, likely to become inadequate to meet growing expenses of assistance in daily living and other types of care. Because the target group, “old-old” single elderly are less likely to have children or other family to provide daily care, housing support, and mobility assistance, they require additional cash benefits to help defray the costs of paying for care of all sorts. A ten percent increase in benefits for beneficiaries in this age group and at this level of

benefits provides a supplement that could make a critical difference in meeting monthly expenses and being able to age in place.

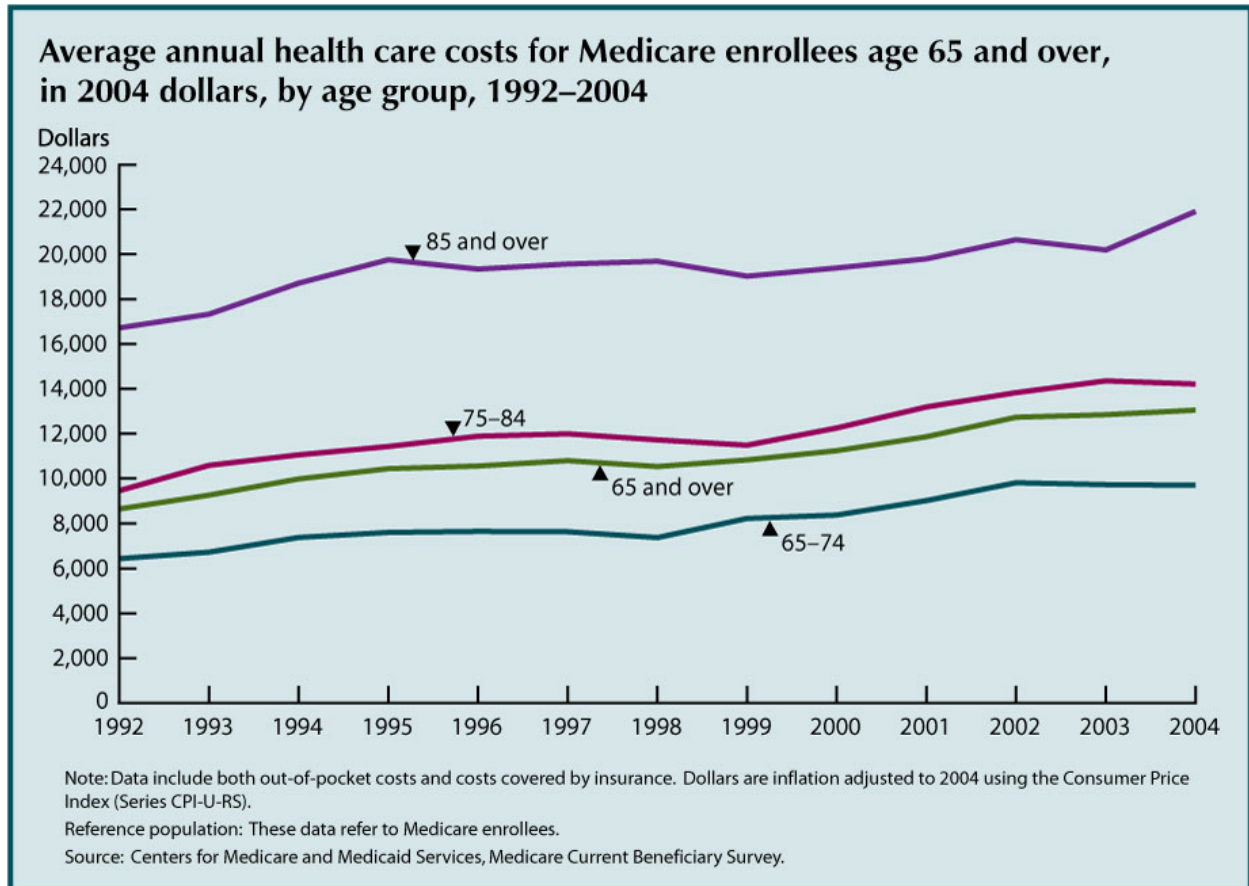
The problem of dwindling resources for the oldest Social Security beneficiaries is made worse by increasing longevity for people over age 65. In 1950, life expectancy at age 65 was 13.9 years for the population generally, and 15 years for white women, 14.9 for African-American women. By 2005, these numbers had risen to 18.7 for the population generally and for African-American women, and 20 years for white women. A similar, perhaps more marked, increase is in life expectancy at age 75, which has increased for the population as a whole from 10.4 years in 1980 to 12 years in 2005; for white women, the increase was from 11.5 in 1980 to 12.8 in 2005, and for African-American women from 10.7 in 1980 to 12.3 in 2005. (CDC, NCHS, 2006) While longer lives should always be considered good news, they also require greater resources to meet increasing health and care needs; the need is particularly great given the sizeable increases just in the last 25 years for those age 75 and older – these Americans now are expected to live to 87, far longer than most of them probably anticipated they would live when they stopped working.

### **Possible Critiques**

The first potential problem connected with an age-based supplement is the difficulty of increasing benefits in the middle of the benefit stream for only one category of beneficiary, those 85 and older. While it is defensible from the perspective of the needs of this group, Social Security has typically not provided a special or separate benefit for a specific group of beneficiaries demarked by age or any other factor. Certainly granting a supplement to all current beneficiaries age 85 and older would defuse the “notch” issues, but questions would still be raised about the propriety of creating another strictly “adequacy” focused benefit (like spousal and family benefits) within the earnings based program. The response to this critique, one that applies to any proposal for very aged beneficiaries, is that a supplement is the most efficient way to reach a group with an almost certain need for additional income and which would be very difficult to reach with any other program, particularly one requiring demonstration of need in order to qualify for benefits.

A second likely critique is the seeming arbitrariness of awarding a supplemental benefit to those aged 85 and older – why not 84 or 86? There is not much response to this, as a line for an age-based benefit would have to be drawn at one age or another, and there is no question that there are beneficiaries in great need on each side of whatever age line is chosen. Probably the

best answer is that age 85 is a point when most elderly start to need, even if they are in good health, more daily assistance that must be paid for if there is no family to meet the need. (Federal Interagency Forum on Aging-Related Statistics (2008)). The following chart shows one aspect of increased needs starting in the mid-80's for many elderly – increased health care costs.



As this chart shows, while medical costs begin to rise quickly after age 75, the dimension of costs for those 85 and older is dramatically higher, and the disparity is growing. In 1992, those age 85 and over had about \$10,000 a year more in medical costs than those age 65-74; by 2004, that difference had grown to \$13,000. While much of these costs are probably for custodial care, they also include higher drug and other expenses for non-custodial elderly persons, expenses that the age-based supplement could significantly help defray.

Moreover, since this supplement would be restricted to unmarried beneficiaries, it is more likely that its recipients would have a weaker support network of family than other categories of beneficiaries. This inescapable arbitrariness would be exacerbated if the age based supplement could not be extended to all current beneficiaries meeting the benefit level requirements.

A third issue would be whether it is more appropriate for elderly people in this income range to receive the additional income they need from SSI rather than Social Security. There may well be some beneficiaries who qualify for the age based supplement who are already dually entitled to SSI, with the result that the additional Social Security benefit would simply reduce or eliminate the SSI benefit, and produce no net additional income. However, this offset effect is unlikely to affect large numbers of the beneficiaries in this age and income group. As of December 2006, for example, only 1.4 percent of all Social Security beneficiaries were receiving SSI benefits for the aged, and only 506,000 beneficiaries age 65 and older were receiving SSI aged benefits. (SSA Annual Statistical Supplement, 2007, Table 3.C6.)

### **Political and Administrative Feasibility**

The aged based supplemental benefit is less seamlessly combined with Social Security's basic benefit formula than the PIA supplement because it would begin to be paid as a benefit increase in most cases years after the beneficiary is already in payment status. However, a supplement for the very elderly is very defensible on grounds of adequacy and efficiency. Almost all 85 year old beneficiaries at the eligibility level for this benefit are likely to be in great need of additional income, and it is simply impractical to require such elderly people to go through an income and resource test to qualify for needs-based benefits such as SSI if they have never done so before. Moreover, since there are very low resource as well as income limits for SSI recipients, relatively small amounts of savings could disqualify beneficiaries in this category in any event.

### **Cost Estimates**

Again, accurate cost estimate of the age based supplement as a percent of payroll would have to be calculated by SSA's Office of the Actuary. However, given the parameters of the proposal, the details (exact amount of supplement as percentage of PIA, age of eligibility, etc.) can be relatively easily adapted to meet cost constraints.

### **International Comparisons**

As I alluded to earlier, the U.S. Social Security system is so unlike the social security systems of most other industrialized countries that there is really no international analogue to proposals to augment or redesign the benefit formula. However, the financial well being of older women, the primary focus of these proposals, is a concern in most industrialized countries, and



there are various strategies in use in other countries that might be comparable to the age based supplement payment. Clearly, elderly women in the United States are at a disadvantage in terms of income security and wealth when compared to their counterparts in other wealthy countries; in several recent studies comparing single elderly women living alone in the U.S. to their counterparts in other wealthy countries, American single elderly women are consistently the poorest of the groups, and poorer in comparison with other groups in their own country. (Smeeding, et al, Feb. 2008).

Much of the difference appears to come from the greater reliance on asset wealth – attributable mainly to high levels of home ownership – in the U.S. to support elderly people in old age, and comparatively less reliance on public income transfers, particularly in the arena of medical care and health care systems generally. Reliance on home and other asset values, of course, is a questionable strategy, given the fluctuation in values of those assets over time, and particularly during the old age of the individuals relying on those values for income security. As a result, in other wealthy economies, there does not appear to be as much need to supplement the income of the very old and poor, as they have more access to publicly provided health care and less hesitation about using income tested benefits provided by their governments.

### **Financing Options**

Without accurate cost estimates of these proposals, it is not feasible to develop a precise proposal for either raising the additional revenue needed or offsetting the proposals' cost with spending reductions elsewhere. Nonetheless, the ongoing policy and political debate over financing future projected shortfalls in Social Security as currently constituted has generated a plethora of financing proposals, usually including some combination of benefit reductions and increased revenue. The usual underlying concern of such proposals has been to balance the financing requirements of the system against the perceived need to not “excessively” tax high wage workers, who receive lower than proportional benefits already, and who might rebel against higher taxes for little return on those payments.

Of course, that perspective is only valid if the “return” is defined strictly in terms of each individual's own Social Security benefit payments, a perspective that, while dominant in the economic analysis of Social Security over the last 40 years, is too narrow to adequately capture all the purposes and benefits of the system. The value to high income and asset taxpayers of the social stability that Social Security provides is incalculable, and also completely ignored in the typical economic analysis of the system. It is past time to begin thinking more broadly about

Social Security financing generally, in the context of providing more redistribution in the interests of promoting the general, rather than the individual, welfare of taxpayers as a whole.

Since these proposals are designed to improve the economic situation of poor and at risk of being poor elderly persons, the financing scheme should also not require sacrifices from other beneficiaries who are themselves not without risk of poverty in old age depending on the performance of investments and other income sources. The biggest available source of additional funds for Social Security is in wages above, or otherwise excluded from, the current payroll tax base, and in income tax revenue which has never been used as a stand alone revenue source for Social Security.

I suggest in the context and interest of making Social Security more progressive and adequate for single low wage career workers, that necessary financing should come from taxing wages and income that have not been subject to payroll taxes before. One example is nonqualified deferred compensation that currently largely escapes payroll taxes because it is above the Social Security contribution and benefit base. The payroll tax system follows the income tax system in its treatment of deferred compensation – it is not treated as either income or wages until the amounts are actually received by the taxpayer, and usually, even when it is received, the amounts received are part of income well above the wage base.

One way to capture nonqualified deferred compensation as part of the financing base for Social Security would be to assess an income tax surtax on any amount of that income, at the time of deferral rather than of receipt, up to, for example, twice the current wage base of \$102,000, that would be dedicated to Social Security financing. Imposing a tax at the time of deferral, of course, flies in the face of the fundamental income tax cash accounting principle of constructive receipt, which provides that no amounts promised, but not yet secured or received, should be taken into income until they are actually or constructively received. A ‘mere promise to pay’ does not trigger constructive receipt of income for cash method taxpayers, and therefore this proposed surtax would violate that fundamental income tax timing principle. On the other hand, almost all deferred compensation arrangements are virtually guaranteed to eventually produce income for the executive to whom it is promised, and the arrangements are widely used as a way to avoid current income taxation.

A surtax could capture however much revenue is deemed required to finance the additional benefits of either the PIA supplemental formula or the age based supplemental benefit, depending on the tax rate used. The use of income tax revenues to finance Social Security has been, in my view, illogically excluded from most financing discussions over the last decades,

despite the fact that the original designers of Social Security always intended for general revenues to be used by the time the system started paying benefits to a generation that had paid payroll taxes for an entire career. This proposal would be one small step in the direction of re-opening that discussion. If it were not acceptable to tax nonqualified deferred compensation in particular, a general income tax surtax, earmarked specifically for financing of these special benefit supplements, could be an effective alternative.

## **Conclusion**

This paper proposes two changes to the Social Security benefit structure that target specific needy groups without requiring means testing or breaching gender neutrality. The supplemental PIA proposal focuses on a group of elderly I believe will be increasingly at risk of severe poverty – workers, primarily women, who enter retirement after a lifetime of low wages either never having married or having been married for too short a time to be eligible for a spousal benefit based on their ex-spouse’s earnings record. These workers are very unlikely to have accumulated significant private sources of retirement income, either as pensions or private savings, and because of their marital status, are also less likely to have family support to help with the increasing health and daily living assistance needs. While this proposal would have to be phased in over several years to avoid “notch” issues, it could eventually provide a substantial increase in monthly income for single women retirees that would help meet those needs.

The age-based benefit supplemental benefit addresses the need of another group chronically at great risk of poverty in extreme old age – unmarried retirees age 85 and older. This proposal seeks to mitigate the impact of increasing medical and other costs for the oldest old, targeted on those with lifetime low earnings that have led to a low benefit in retirement. While the arbitrary nature of age-based eligibility is unavoidable in this proposal, Social Security itself is based on arbitrary age-based eligibility rules, and thus an age based supplement can be seen as not necessarily inconsistent with the program’s basic structure.

These proposals are based on the fundamental Social Security principle that benefits should be tied to earnings covered by Social Security without requiring demonstration of current need. It is essential that the public debate about Social Security return to how the program can best be used to solve critical issues of poverty and economic security for the elderly and the disabled. Social Security is a necessity, not an option, and a tool to resolve problems, not the problem itself. These proposals I hope will be part of a conversation changer about using the program to further improve economic security, rather as a source of worry and threat of insecurity for older Americans.

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## Notes

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<sup>1</sup> A reasonably good discussion of the opposition to raising the retirement age in the Social Security Amendments of 1983 can be found in *SOCIAL SECURITY: VISIONS AND REVISIONS*, Andrew Achenbaum (1986, The Twentieth Century Fund), Chapters 3 and 4.