Strengthening Social Security for Vulnerable Groups

NATIONAL ACADEMY OF·SOCIAL INSURANCE

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The National Academy of Social Insurance (NASI) is a nonprofit, nonpartisan organization made up of the nation's leading experts on social insurance. Its mission is to promote understanding of how social insurance contributes to economic security and a vibrant economy. Social insurance encompasses broad-based systems for insuring workers and their families against economic insecurity caused by loss of income from work and the cost of health care. NASI's scope covers social insurance such as Social Security, Medicare, workers' compensation, and unemployment insurance, and related public assistance and private employee benefits.

The Academy convenes steering committees and study panels that are charged with conducting research, issuing findings, and, in some cases, reaching recommendations based on their analysis. Members of these groups are selected for their recognized expertise and with due consideration for the balance of disciplines and perspectives appropriate to the project.

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The Academy is grateful to members of the advisory committee who volunteered their individual expertise to the project: **Lily Batchelder** (New York University School of Law); **Barbara Bovbjerg** (Government Accountability Office); **Paul Davies** (Social Security Administration); **Lawrence Johnston** (U.S. House of Representatives); **Eric Kingson** (Syracuse University); **Alice Wade** (Social Security Administration); and **Debra Bailey Whitman** (U.S. Senate Special Committee on Aging). All advisory committee members are members of the National Academy of Social Insurance.

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Introduction

Declining home values, lost savings, and corporate pressures to cut pension costs are undermining retirement security for seniors. At the same time, job losses, pay cuts, and mortgage foreclosures are jeopardizing workers' dreams of a secure retirement. The recent stock market collapse has resulted in the loss of $2 trillion in private retirement funds. In light of the current financial crisis, Social Security is more important than ever.

Hidden in the shadows of the unemployment and home foreclosure figures of the Great Depression were elderly parents dependent on their adult children for support. When those children lost their jobs, seniors lost this support. When those children lost their homes, so did their parents who generally resided with them. Thanks to Social Security, this is one problem the country does not now face.

By exposing the profound vulnerability of rank and file Americans to the risks of a market economy, the financial crisis points to the need to address the adequacy of Social Security to help retirees and families offset losses elsewhere. A window exists to shape public policy to strengthen Social Security to better meet the needs of elders, people with disabilities, and working families in the 21st century.

This project identifies ways to enhance economic security for American workers by improving Social Security benefits for vulnerable groups. The project receives financial support from the Rockefeller Foundation's Campaign for American Workers Initiative. The $70 million Foundation initiative supports the development of new rules and new tools for the 21st century economy through innovative products and policies to increase economic security within the U.S. workforce, particularly among poor and vulnerable workers.

"In the 1930s, the Rockefeller Foundation played a key role in conducting the research that informed Franklin D. Roosevelt's administration on social insurance policy," said Darren Walker, vice president of Foundation Initiatives for the Rockefeller

Foundation, in announcing this project in July, 2008. "We're proud to support NASI in their effort to develop a new generation of innovations that provide social security in the 21st century. Given the recent down-turn in the economy, it is even more critical that we find solutions that provide security for America's workers now."

SOCIAL SECURITY BENEFITS

Social Security provides bedrock economic security for seniors. Almost all elders receive it. While the average retirement benefit was $1,081 a month in 2008, benefits account for more than half the total income of two out of three beneficiary couples and unmarried individuals age 65 and older. Social Security lifts 13 million elders out of poverty. Without Social Security, nearly one in two seniors would be poor; with Social Security less than one senior in ten is poor. In addition to keeping seniors out of poverty, the benefits are the main source of income for middle and upper-middle-income elders with total incomes below $50,000. Benefits are particularly important to communities of color. Almost 80 percent of African-American beneficiaries age 65 and older get half or more of their income from Social Security. These benefits are also extremely important to women. Social Security is the sole source of support for almost one-quarter of unmarried (including divorced and widowed) women, age 65 or older. For African-American women the percentage is almost 40 percent.

Social Security also provides critical life insurance and disability protection for working families. These risks are more prevalent than many realize. Social Security actuaries estimate that about 39 percent of young men and 31 percent of young women will die or become disabled before reaching retirement age. For an illustrative young family – a 30-year-old worker earning $27,000 - $33,000 a year with a spouse and two young children – disability and life insurance protection are each valued at over $450,000. These protections give children an important stake in Social Security. About 6.5 million children under age 18 receive part of their family income from Social Security. The benefits lift 1.3 million children out of poverty and reduce the depth of poverty experienced by another 1.5 million children.

Social Security has virtually all the features that pension experts find desirable in a retirement plan. It covers nearly everyone and is fully portable between jobs. Its retirement benefits are pegged to pre-retirement wages, last for life, keep up with the cost of living, and continue for widowed spouses. Coverage is automatic and workers face no investment risk. Social Security provides family life insurance and disability protection. And it is remarkably efficient, using less than 1 percent of income for administration. In brief, Social Security gives employers what they often want (freedom from financial risk and fiduciary obligations to their workers) and gives workers and families what they need (economic security).

Social Security will become less adequate in coming decades because Medicare premiums (which are deducted from Social Security benefits) will take a bigger bite out of benefits[1] and because the scheduled increase in the Social Security full-benefit age (that has already started to take effect) is essentially an across-the-board benefit cut.

SOCIAL SECURITY FINANCES

While many federal spending decisions are made annually, and most people consider five or ten years to be long term, Social Security's long term stretches over 75 years. Social Security has its own dedicated revenues. Workers pay 6.2 percent of their wages up to a cap ($106,800 in 2009) and employers pay a matching amount. Any funds that are not needed to pay benefits are invested in special Treasury securities that earn interest for the Social Security funds. A long tradition of fiscal responsibility sets a goal that funds will be in balance for 75 years. Social Security trustees update their assessment of the funds each year. The 2008 trustees report shows that:

- Social Security has been running surpluses for the past 20 years and will continue to run surpluses through 2026 – that is, tax revenue plus interest on reserves will exceed benefits each year. Reserves will grow to about $5.5 trillion by the end of 2026.

- After 2026, reserves will be drawn down gradually to pay benefits. By 2041, reserves will be depleted. New revenues coming into the system then will cover about 78 percent of benefits due.

Modest changes – revenue increases, benefit cuts, or both – could put the system in balance for the full 75-year projection period. Solvency plans that reduce benefit outlays call for raising the eligibility age for retirement benefits, lowering benefits for new retirees, or lowering the cost-of-living increases for those receiving benefits. Proposals to raise revenues include lifting the cap on earnings subject to Social Security taxes, dedicating other federal revenues to Social Security, or raising the Social Security tax rate that workers and employers pay.

ABOUT THIS PROJECT

In May 2008, the Academy issued a national request for analytical policy papers on one or more specific policy proposals to strengthen Social Security for a particular vulnerable population group. To open the way for fresh ideas, the request for proposals was sent to 4,000 persons interested in Social Security policy. NASI received a large number of excellent applications from scholars and analysts from such varied disciplines as political science, law, actuarial science, sociology, social work, economics, psychology and philosophy. This project supported twelve scholars with grants of $30,000 each. Full papers from the scholars are available on NASI's website at www.nasi.org.

NASI President Margaret Simms selected a panel of seven experts to advise the project. The Academy is grateful to members of the advisory committee who volunteered their time and expertise to the project: **Lily Batchelder** (New York University School of Law); **Barbara Bovbjerg** (Government Accountability Office); **Paul Davies** (Social Security Administration); **Lawrence Johnston** (U.S. House of Representatives); **Eric Kingson** (Syracuse University); **Alice Wade** (Social Security Administration); and **Debra Bailey Whitman** (U.S. Senate Special Committee on Aging). All advisory committee members are members of the National Academy of Social Insurance.

The advisory committee thoroughly reviewed the applications and selected the twelve awardees. The committee and the awardees met to discuss the first drafts of the papers in October 2008, and final papers were submitted in November. This synthesis report is being released during a roundtable session at NASI's 2009 policy conference *Social Insurance, Fiscal Responsibility and Economic Growth* in January 2009.

SUMMARY OF THE POLICY PROPOSALS

The twelve policy proposals bring a broad range of ideas. Some target specific issues, such as protecting benefits from garnishment by creditors, easing barriers in navigating the disability claims process when applicants have the double burden of homelessness and serious mental illness, enforcing Social Security wage-reporting rules for employers of farm workers, and easing the work requirement for retirement benefits. Other proposals would increase benefits for targeted groups, such as widowed spouses, long-service, low-paid workers, people who have spent time out of the workforce because of childcare or eldercare responsibilities, beneficiaries who live to advanced ages, and older workers with occupational disabilities. Modifying Social Security in one or more of these ways would improve retirement security. The authors were not required to provide cost estimates or impact analysis beyond what could be done in the limited time available for this project. These proposals are those of the authors and do not reflect a position of NASI, its Board, its funders, or the project's advisory committee.

Widespread economic insecurity brings Social Security back on center stage in a new and important way. In addition to simply closing its projected long-range deficit, the current crisis makes clear the importance of addressing the adequacy of Social Security benefits in light of the financial distress families and retirees are experiencing. The work of these scholars is an important start.

PROTECTING SOCIAL SECURITY BENEFITS FROM GARNISHMENT

Because Social Security and Supplemental Security Income (SSI) benefits are essential to meet basic needs, the Social Security Act protects the benefits from garnishment or attachment by creditors. Nevertheless, when benefits are deposited in a bank account, beneficiaries may find that their accounts have been temporarily frozen, or worse, permanently garnished at the behest of a creditor under provisions of state law. Because the government encourages direct deposit, over 80 percent of Social Security and SSI recipients receive their benefits electronically. In *Safer than the Mattress*, John Infranca proposes a five-part legislative and administrative policy solution to ensure that Social Security and other exempt federal benefits remain safe from garnishment, attachment, and freezes when they are deposited in a bank.

HELPING HOMELESS INDIVIDUALS WITH SERIOUS MENTAL ILLNESS GET DISABILITY BENEFITS

Social Security and SSI disability benefits are often the main sources of stable income for people who have serious mental illness. Individuals who are homeless face particular barriers in navigating the application process. They typically lack a mailing address, transportation, and a treatment history from accepted medical sources (physicians or licensed psychologists). In *Improving Social Security Disability Programs for Adults Experiencing Long-term Homelessness*, Yvonne Perret and Deborah Dennis propose three strategies to address these barriers: (a) expand the acceptable medical sources to include professions likely to be available in publicly funded health and mental health care systems; (b) use SSA's presumptive eligibility for SSI disability benefits for people with schizophrenia who are homeless for at least six months; and (c) modify the administrative process to accommodate homeless individuals consistent with SSA's Homeless Plan of 2002.

STRENGTHENING SOCIAL SECURITY WAGE REPORTING FOR FARM WORKERS

Farm workers are at risk of not having their work count toward Social Security benefits because their employers may erroneously classify them as independent contractors or simply fail to pay Social Security taxes and report wages. In *Strengthening Social Security for Farm Workers: The Fragile Retirement Prospects for Hispanic Farm Worker Families*, Barbara Robles supports legislation introduced in the 110th Congress, along with stronger enforcement of existing laws, to strengthen wage reporting. She notes that the changes would increase tax receipts and benefit the Latino farm worker population by increasing their Social Security benefits, providing better access to the Earned Income Tax Credit, and easing the burden on adult children of farm workers who have the triple burden of school debt, raising children and supporting aging parents.

REDUCING ELIGIBILITY REQUIREMENTS FOR RETIREMENT BENEFITS

To qualify for Social Security retired-worker benefits, individuals must have worked at least 40 calendar quarters (ten years) in jobs covered by Social Security. In *The Effects of Reducing Eligibility Requirements for Social Security Retirement Benefits*, Andrew Biggs examines the impact of eliminating the 40-quarters eligibility requirement. A small group of individuals (about 6 percent of those born in 1950) would gain eligibility for Social Security retired-worker benefits. The increases in benefits would often substitute for means-tested SSI benefits. Much of the new benefits would flow to immigrants who are not otherwise eligible for Social Security.

IMPROVING BENEFITS FOR WIDOWED SPOUSES OF LOW-EARNING COUPLES

Social Security is especially important to older women, particularly widows. Most poor elderly women are widows. Social Security survivor benefits help to bridge the transition to widowhood, but the benefits are less adequate when both the husband and wife had worked at low pay. In *Strengthening Social Security Benefits for Widow(er)s: The 75 Percent Combined Worker Benefit Alternative*, Joan Entmacher proposes to increase benefits for widowed spouses of low-earning dual-earner couples. The new widowed-spouse benefit would be 75 percent of the combined retired-worker benefits of the husband and the wife, but would be capped to not exceed the benefit for one person who had earned the average wage over a career.

INCREASING THE SOCIAL SECURITY SPECIAL MINIMUM BENEFIT AND UPDATING SSI

A special minimum benefit was added to the Social Security program in 1974, but few receive it today because it does not keep up with wage growth. In *Enhancing Social Security for Low-Income Workers: Coordinating an Enhanced Minimum Benefit with Social Safety Net Provisions for Seniors*, Laura Sullivan, Tatjana Meschede and Thomas M. Shapiro examine ways to update the special minimum benefit so that individuals with 30 years of work covered by Social Security would receive benefits that meet the updated poverty measure of the National Academy of Sciences, which is about 125 percent of the current official poverty threshold. They also propose to update SSI to reflect inflation since the program began – that is, increase the asset limit for individuals from $2,000 to $6,700 and increase the general income exclusion from $20 to $89.

A NEW SOCIAL SECURITY MINIMUM BENEFIT FOR LOW LIFETIME EARNERS

Despite a lifetime of hard work, many workers end up poor or near poor in retirement. In *A New Minimum Benefit for Low Lifetime Earners*, Melissa Favreault examines a new minimum benefit that targets workers with long careers and low lifetime earnings, along with a modest credit that compensates for up to three years of low (or no) earnings due to caregiving, unemployment, or poor health. The benefit at the full retirement age would pay 60 percent of the poverty threshold for a worker with 20 years of Social Security covered work and increase to 110 percent of the poverty threshold for a worker with 40 years of work. Caregiver credits would be available only in years when a child is under age 4 and only to one parent. The credit would be 60 percent of the average wage in the first such year, 50 percent in the second year and 40 percent in the third year.

A SOCIAL SECURITY SUPPLEMENT FOR LOW-INCOME WORKING PARENTS

Social Security provides benefits for spouses and widowed spouses, but does not provide credit for raising children. A growing portion of retiring women will not qualify for spousal benefits because they are divorced (with less than 10 years of marriage) or never married, yet will have earnings records that are limited because of time spent caring for their children. In *Crediting Care in Social Security: A Proposal for an Income-Tested Care Supplement*, Pamela Herd proposes to supplement Social Security benefits for retirees who have raised one or more children. The supplement would be an additional 75 percent of the worker's benefit (80 percent if two or more children were raised) but would be capped to not push the retiree's household income above 125 percent of the poverty threshold. The benefit and income testing would be administered through individual tax returns, similar to the Earned Income Tax Credit.

INCREASING SOCIAL SECURITY BENEFITS FOR FAMILY ELDER CAREGIVERS

Informal care provided by family members improves quality of life for frail elders, allows them to remain in the community instead of in nursing homes, and saves Medicaid dollars. Providing the care also imposes opportunity costs on caregivers that weaken their own retirement security. In *Retirement Security for Family Elder Care Givers*, Shelley I. White-Means and Rose M. Rubin propose to provide up to four years of Social Security credit to individuals who provide care to elders. The elders must be certified to need levels of care that would qualify for Medicaid coverage. The value of the credit would be the caregiver's average wage in the three years before caregiving interrupted earnings. The authors suggest the credit could be financed based on the reduction in public spending for nursing home care.

INCREASING SOCIAL SECURITY BENEFITS FOR LOW-WAGE SINGLE RETIREES

Single retirees (that is, never married, divorced or widowed) are at high risk of being poor in old age. The decline in private pensions, rising out-of-pocket health costs, and declining housing values can be expected to make the already precarious financial situation of unmarried retirees even worse. In *Restoring Old Age Income Security to Low-Wage Single Workers*, Patricia Dilley proposes a change to the basic Social Security retired-worker benefit formula that would increase benefits for single retirees with at least 30 years of covered employment and low lifetime earnings. A second change would target single beneficiaries over age 85. Those who had at least

30 years of covered work, and received relatively low benefits (less than 75 percent of the average benefit), would receive a 10 percent benefit increase at age 85.

INCREASING SOCIAL SECURITY BENEFITS AT ADVANCED AGES

People who live into their 80s and 90s face a growing risk of becoming poor. They rely more and more on Social Security because their other sources of income decline as they age: private pensions, if received, are eroded by inflation; income from work is very rarely an option; and financial assets may have been spent. In *Longevity Insurance, Strengthening Social Security at Advanced Ages*, John Turner proposes increasing benefits at age 82 (about the average life expectancy at age 65) for beneficiaries with low Social Security benefits and long work histories. This longevity insurance would improve financial security for individuals who live longer than the average life span.

EASING THE IMPACT OF INCREASING THE RETIREMENT AGE: OCCUPATIONAL DISABILITY

Legislation in 1983 increased from 65 to 67 the age at which Social Security pays full retirement benefits. The change lowers retirement benefits at each age they are claimed. Disabled-worker benefits remain unreduced, but are not available to individuals who fail to meet a strict test – “inability to engage in any gainful activity” – yet are unable to continue in their jobs. In *Strengthening Social Security for Workers in Physically Demanding Jobs*, Eric Klieber proposes a benefit for such individuals based on an occupational disability test – “inability to perform the essential duties of one’s current occupation.” Making such an occupational disability benefit available at age 62 could protect recipients from retired-worker benefit reductions (or part of such reductions) due to increasing the full benefit age.

1 Medicare premiums rise with the cost of health care, while Social Security benefits keep up with the overall cost of living. Because health cost increases outstrip overall inflation, Medicare premiums will grow faster than Social Security benefits.

Safer than the Mattress?:

A policy to ensure that Social Security and other exempt federal benefits remain safe from garnishment, attachment, and freezes when deposited in a bank account

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Social Security benefits often play an essential role in enabling a beneficiary to meet his or her basic needs. A brief interruption in access to these funds can cause substantial hardship, rendering it difficult—if not impossible—to purchase food, pay rent, and provide for basic medical needs. Recognizing these dangers, the Social Security Act exempts Social Security benefits and Supplemental Security Income (SSI) from attachment or garnishment by creditors. Benefits remain exempt from seizure by a creditor even when they are deposited in a bank account.

Unfortunately, low-income recipients of Social Security, SSI, and other federal benefits routinely discover that these funds, which they believed were safely deposited in a bank account, have been temporarily frozen or, even worse, permanently garnished at the behest of a judgment creditor. Creditors with a judgment against a debtor serve a garnishment order, in accordance with state law, commanding a bank to attach, or freeze, the debtor's funds. State procedures typically require a bank to freeze these funds for a period of time, during which an account holder may be able to assert that the funds are exempt from garnishment under federal law, and as such must be released. If an exemption is not timely asserted, the funds are transferred to the judgment creditor. However, hardships can occur even when the money in an account is *not* completely removed and transferred to the judgment creditor. In the time it may take a benefit recipient to challenge an attachment—the act, also known as a freeze, through which a bank holds funds and restricts an account holder from making a withdrawal—the individual may be unable to satisfy basic needs.

In the past decade increasing numbers of Social Security beneficiaries have begun receiving their benefits through direct electronic deposit. Federal policy encourages the use of direct deposit by benefit recipients. As of June 2008, over eighty percent of Social Security and SSI recipients receive their benefits electronically. By avoiding paper checks, direct deposit saves the federal government significant amounts of money. For benefit recipients, however, direct deposit remains both a blessing and a curse. It allows individuals to quickly access their funds, encourages the use of banking services, and enables beneficiaries to avoid check-cashing fees. At the same time, direct deposit renders a recipient's money, once it is deposited in a bank account, more readily accessible to judgment creditors and their lawyers. Debt collectors are now able to electronically serve a large number of national banks in hopes of finding an account in the debtor's name at any one of those banks. Despite this danger, direct deposit can still prove helpful to debtors. These deposits—which are electronically coded—render it easier to identify the source of bank funds. This can be especially important in the context of commingled accounts, which contain both exempt benefits and funds from some other, non-exempt source.

This paper proposes actions by Congress and the relevant federal agencies to ensure that the protections provided by the Social Security Act are not undermined by state garnishment and attachment procedures. Numerous states have already attempted to strengthen these protections, through legislation and changes in the court rules governing garnishments. Although state efforts to protect Social Security benefits have achieved some success, continued reliance on a patchwork of state regulations will produce inconsistent results. Recipients of Social Security and other exempt federal benefits should not enjoy or be denied the protection provided in federal law depending upon their state of residence. This situation demands a federal response, which will further the policy goals that underpin the exemption statutes and ensure consistent protections nationwide. This paper offers a five-part policy proposal:

First, and most simply, the relevant benefit agencies and the Treasury Department, which disburses electronic payments, must ensure that electronic deposits are clearly and uniformly coded and identifiable as exempt when they arrive in a recipient's bank account. Improved coding will enable financial institutions to streamline the process of identifying exempt funds.

Second, Congress—not the federal benefit or financial agencies—must implement an automatic exemption system, modeled on systems already introduced in California, Connecticut, and New York. Under this system, when an account regularly receives electronic deposits of exempt benefits, a fixed amount of money in the account will be automatically protected from attachment or garnishment. This automatic exemption amount should equal twice the amount of the last deposit of exempt funds. Banks would be required to refuse to freeze this amount of funds, guaranteeing that recipients of electronically deposited exempt benefits retain uninterrupted access to a portion of their funds sufficient to meet their basic needs.

Third, Congress should mandate the use of a uniform accounting method—the first in, first out method—for resolving issues involving commingled funds. Although most benefit recipients will have the full amount of money in their account protected by the automatic exemption, some will have additional funds. These funds may or may not represent exempt benefits, rather than some other source of money. There are a number of accounting methods that can be used to determine the status of these funds. A uniform method will ensure that benefit recipients are treated equally nationwide and allow banks, creditors, debtors, and, when necessary, courts to more efficiently and effectively resolve commingling issues.

Fourth, legislation should limit the number of times an account may be frozen and implement a system to ensure compliance with this provision.

Fifth, banks that act in good faith to comply with the federal law should be protected from any potential liability to either the judgment creditor or the account holder. At the same time, banks that fail to adequately fulfill their responsibilities, under the new provisions, to examine an account and apply an automatic exemption, should face penalties. Absent a mechanism to ensure compliance, an automatic exemption system will fail to protect benefits.

By carefully examining the lessons gleaned from past efforts, the concerns of diverse stakeholders, and practical considerations regarding implementation, this paper provides a blueprint to guide the development of a federal response that will ensure the protection of exempt benefits. The response proposed will further the goals of the Social Security Act by protecting the benefits of many of the most vulnerable Social Security recipients.

Improving Social Security Disability Programs for Adults Experiencing Long-Term Homelessness

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Since the early 1980s, homelessness has become an increasingly significant social problem demanding local, state, and federal attention and resources.[1] The major cause of homelessness is the lack of affordable housing, but the situation for many people is more complex (National Alliance to End Homelessness 2007). Federal funding for public and low-income housing was cut significantly during the Reagan years, and state psychiatric hospitals closed or reduced their censuses at greater rates. Funds for community-based treatment and housing for people leaving these facilities were not forthcoming, and many persons with serious mental illnesses became homeless as a result.

Lacking income and health insurance, many homeless persons with mental illnesses and/or co-occurring substance use disorders are unable to exit homelessness on their own. About 25 percent of people who are homeless have serious mental illnesses, including diagnoses of chronic depression, bipolar disorder, schizophrenia, schizoaffective disorders, and severe personality disorders (National Alliance to End Homelessness 2008). It is difficult to determine the proportion of people in specific diagnostic categories because people who are homeless often receive treatment only in acute or emergency situations, making accurate and consistent diagnoses a challenge. People with mental illness are estimated to comprise 10 percent of the population that has been homeless a year or longer and consume approximately 50 percent of all homeless emergency services (Culhane et al. 2007; McNiel and Binder 2005; Burt et al. 2001; Metraux et al. 2001).

Income is essential to gain housing. For people who are disabled due to a serious mental illness, Social Security disability benefits (SSDI) and Supplemental Security Income (SSI) are the primary sources of stable income (Schoeni and Koegel 1998).[2,3] People recovering from long-term homelessness also typically need supportive services and physical and behavioral health care. SSDI, which provides Medicare after a two-year wait, and SSI, which makes Medicaid available to recipients in most states, provide the health insurance needed to pay for treatment and other supports (Burt and Sharkey 2002; Fawcett 2002; Rosenheck et al. 2000).

Access to these benefits for people who are homeless is fraught with such difficulty that many eligible people do not apply, are denied benefits for technical reasons, or wait years for resolution of their cases. The difficulties inherent in navigating the SSDI/SSI application process are both individual and systemic. Individual challenges arise from the nature of homelessness itself, with its impact on keeping appointments, having transportation, and being able to meet other basic needs. The inability to meet these needs makes it more difficult for these individuals to get to Social Security Administration (SSA) offices and/or to obtain required documentation. Systemic obstacles include not being able to access needed medical care or the documentation required for the disability review in the application process; the fact that SSA communicates by mail; the need for a lengthy appeals process before being approved; and a lack of information about how to address this process among community providers who assist persons who are homeless.

In response to these individual and system-level challenges, the authors propose three strategies that would improve the processing of applications and potentially avoid the need for lengthy appeals. These include: (1) expanding the list of acceptable medical sources; (2) adding a presumptive disability category for SSI for people with schizophrenia who are homeless for at least 6 months, and (3) refining or modifying processes to more effectively address the unique needs of adults who are homeless.

For purposes of disability determination, the Code of Federal Regulations that mandates SSA policy requires that evidence of one's impairment must come from an "acceptable medical source." SSA regulations state: "Acceptable medical sources are (1) licensed physicians; (2) licensed or certified psychologists; (3) licensed optometrists; (4) licensed podiatrists; and (5) qualified speech-language pathologists (Code of Federal Regulations 2007). For SSA to add a profession to the list of acceptable medical sources, that profession must show that it "adhere[s] to consistent educational training requirements; [has] national standardization of licensing or certification requirements in these jurisdictions; and show[s] consistency in the scope of practice and degree of supervision required" in all 50 states, the District of Columbia, and the U.S. Territories (Karman 2008).

Expanding the list of acceptable medical sources to include certified nurse practitioners, certified physician assistants, and licensed clinical social workers would enhance homeless individuals' ability to obtain the diagnostic information required for applications. These practitioners are generally more readily accessible in the publicly funded health and mental health care systems. Each of these professions has requirements comparable to SSA's currently acceptable medical sources, and this change would more accurately reflect the reality of who is providing most of the primary and behavioral health care in the United States, particularly in the publicly funded health and behavioral health systems.

Presumptive disability (PD) is possible under the SSI, but not the SSDI, program. It can be authorized at the local SSA office for a limited list of disabilities.[4] Presumptive disability provides six months of SSI payments, virtually immediately after application, while the application is processed through usual channels. Currently, the SSA offices cannot approve presumptive disability for people who have schizophrenia and who have been homeless for at least six months. These individuals can be granted benefits through normal channels, but they rarely have the extensive medical documentation needed for approval. Unlike other psychiatric diagnoses, making a diagnosis of schizophrenia includes a specific durational component. Long-term homelessness, in and of itself, is indicative of functional impairment. Together, a diagnosis of schizophrenia and long-term homelessness meet the disability criteria of a diagnosed impairment that has lasted at least 12 months along with functional limitations on the ability to perform substantial gainful activity.

Lastly, process strategies such as tracking residential status of SSI/SSDI applicants, flagging applications from applicants who are homeless, assigning these applicants to SSA staff who specialize in homelessness, and training SSA staff on the impact of homelessness and mental illness would enhance the service SSA provides to this vulnerable population. These recommendations are also consistent with the SSA Homeless Plan developed in 2002, which recognizes that this is a unique population that deserves special consideration and assistance.

In summary, these policy changes would make it possible for applicants who are homeless to access benefits more quickly and to begin their recovery from homelessness and illness. Long-term homelessness is debilitating, traumatic, and all consuming. Without intervention, it leads to hopelessness, poor health, and death. Implementing strategies to address these impacts are essential to save lives and reduce unnecessary suffering.

1 Estimating the number of people who are homeless is difficult as definitions of homelessness across federal agencies are inconsistent, and finding everyone who is homeless for an accurate count is challenging. According to the Third Annual Homelessness Assessment Report to Congress, an estimated 2.5 to 3.5 million people were homeless in 2007. Two-thirds of those interviewed for the report said that the reason they were homeless was related to a mental illness and/or a substance use problem (US Department of Housing and Urban Development 2008).

2 Supplemental Security Income is not a Social Security benefit, but the Social Security Administration administers the program.

3 To obtain Social Security disability insurance benefits, an individual must be unable to engage in any substantial gainful activity for reasons of physical or mental impairment that can be expected to result in death or to last for at least 12 months.

4 Medical conditions that qualify for an award of PD include amputation of a leg at the hip, total deafness or blindness, Amyotrophic Lateral Sclerosis (Lou Gehrig's disease), and Down Syndrome, among others.

Strengthening Social Security for Farm Workers:
The Fragile Retirement Prospects for Hispanic Farm Worker Families

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Social Security proposals that aim to improve retirement benefits for vulnerable workers usually focus on changing the benefit formula or adding an enhanced minimum benefit. In contrast, this paper focuses on a group of workers who frequently do not receive Social Security retirement benefits because they are often erroneously classified as independent contractors. Correcting the misclassification of United States agricultural workers would increase taxes coming into Social Security, thereby improving trust fund financing, and would enhance retirement security for this group.

The 2006 gross output of the U.S. farm sector was $255 billion. In 2007, the Bureau of Labor Statistics reported 2.1 million agriculture and related industries workers in the United States (U.S. Census Bureau 2007). In the broad agricultural sector, 20.3 percent of workers were Hispanic. More specifically, 28.8 percent of crop production workers and 37.1 percent of support activities workers were Hispanic. Agricultural sector workers reported an average of 49.1 hours worked per week compared to 42.7 hours for all other industries. Of the 426,000 Hispanic farm workers in 2007, 93 percent were of Mexican descent. In 2006, approximately 31 percent of the Hispanic agricultural work force was 55 years and older (U.S. Census Bureau 2007).

Misclassification of workers or employees in the hired farm laborer occupation category has grown rapidly in the last 25 years. A worker is considered misclassified as an independent contractor (self-employed) when he or she should be treated as a wage or salaried employee. Employers are not required to pay Social Security taxes, withholding taxes, unemployment insurance, workers compensation, and pension and health benefits for workers classified as independent contractors (Kelsay et al.

2006). Of the 2.1 million U.S. agricultural workers in 2007, just under 41 percent were classified as self-employed (U.S. Census Bureau 2007).

There are several different approaches used to ascertain employee versus independent contractor status in the agricultural sector. For example, worker classification rules differ for federal tax purposes versus labor enforcement laws, such as the Migrant and Seasonal Agricultural Worker Protection Act (MSPA)[1] and the Fair Labor Standards Act (FLSA). Increasing use of crew bosses as mediators and facilitators creates additional worker-categorization confusion.

Worker misclassification is especially rampant in low-skill, low-wage occupations. In the agricultural sector, with its dual migratory stream of farm workers and place-based seasonal farm workers, complexity of worker movement coupled with worker reluctance to challenge crew bosses and farm owners (due to short harvest seasons and fear of job loss) contributes to non-enforcement of employee status rules. The result is that significant numbers of farm workers are left with no Social Security benefits at the end of their working years (Bowe 2003; St. George 1992).

The rise of strong agribusiness lobbying efforts has created a lack of will among key oversight agencies (state and federal) tasked with ensuring that agricultural sector employers withhold payroll taxes and report Social Security wages. Despite the passage of MSPA in 1983, and its subsequent amendment in 1997, we continue to see a high degree of cash-based work compensation with no or minimal wage reporting in this sector. Additionally, the use of crew-bosses and labor contractors to hire farm workers insulates the farm owner or corporate agribusiness from the repercussions of immigration law violations and Internal Revenue Service (IRS) sanctions (Rucklehaus and Goldstein 2002). Over time, as the number of workers in the agricultural sector has declined and the use of crew-bosses and independent contractors has increased, farm operators often prefer to litigate given the low penalties for violations.

The misclassification of "independent business person" has yearly tax consequences and substantial retirement security repercussions for farm workers. Social Security benefits do not accrue and/or the benefits do not reflect the full working career. Unfortunately, we do not have any state-by-state assessments of state and federal revenue losses from the contingent worker and independent contractor misclassification of farm laborers.

Worker misclassification has not been addressed at the federal level despite the growing consequences for federal social insurance programs and federal revenue losses. Pending Congressional legislation addresses the issue of worker misclassification and protects employee status in specific sectors and industries, particularly those industries with low-skill, low-wage occupations.[2] Passage of this legislation would allow both the IRS and the Department of Labor (DoL) to audit and levy penalties, which would increase tax compliance and recapture payroll taxes.

The Hispanic farm worker population would benefit in three significant ways from passage of legislation that correctly places the responsibility of worker misclassification on the employer, accompanied by rigorous enforcement: (1) wage-reporting allows Hispanic farm worker tax filers to claim and participate in the Earned Income Tax Credit by establishing a paper-trail of earnings, (2) Social Security payroll taxes would reflect the full amount of yearly farm worker wages leading to an increased retirement benefit and (3) children of farm workers that are first-generation college-educated would not have the triple burden of school debt, family formation and total financial support of parents.

In addition to improving regulation and enforcement, more research is needed to better understand how currently-retired farm workers are faring. Future research should include a more comprehensive approach to life-cycle social and economic characteristics of agricultural workers. In order to fully ascertain the retirement status of America's agricultural laborers, and Hispanic farm workers in particular, we should undertake:

- An IRS audit that captures industry specific worker misclassification (both intentional and unintentional);
- A cost-analysis study of the amount of state and federal revenue lost due to worker misclassification that includes the impact on state and federal worker benefits programs as well as an estimate of affected farm workers;
- An ethnographic survey of farm worker home-base communities in an ongoing five or ten year cycle similar to Griffith and Kissam (1995) that trace the linkages of farm worker markets (demand) to farm worker labor force supply in order to assess family economic mobility and elder well-being; and
- A baseline study that links race/ethnicity and gender with occupation (former occupation) and Social Security retirement benefits in order to fully document which workers retiring from which industry receive the full benefits of program coverage.

The retirement status of Latino farm workers is fragile and will continue to remain unstable for this particular vulnerable population in the next decade if no corresponding policy emerges that enforces proper classification of workers and wage reporting to the IRS and to the Social Security Administration. And, without a better understanding of the actual number of former farm workers now in retirement, we cannot know how this population fares today.

1 MSPA was designed to provide migrant and seasonal farm workers with protections concerning pay, working conditions, and work-related conditions, to require farm labor contractors to register with the U.S. Department of Labor, and to assure necessary protections for farm workers, agricultural associations, and agricultural employers (Runyan 1992).

2 Pending legislation includes HR 6111, the Employee Misclassification Prevention Act sponsored by Representative Rob Andrews, and HR 5804, the Taxpayer Responsibility, Accountability, and Consistency Act sponsored by Representative Jim McDermott.

The Effects of Reducing Eligibility Requirements for Social Security Retirement Benefits

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The Social Security program pays retirement, disability and survivors' benefits to eligible workers and their families. Under current law, eligibility for Social Security retirement benefits requires 40 quarters (roughly 10 years) of earnings in covered employment. The 40-quarters eligibility requirement can be seen as regressive. Individuals with fewer than ten years of covered employment have among the lowest lifetime earnings in the retiree population, yet they are entitled to no benefits despite paying taxes for up to 10 years. Despite having the lowest lifetime earnings, these individuals also have the lowest ratios of Social Security benefits to taxes.

While individuals with less than 40 quarters of coverage may receive benefits based on the earnings record of an eligible spouse[1], a small number of unmarried individuals fail to qualify for retirement benefits due to a short earnings record. These non-qualified individuals often depend on Supplemental Security Income (SSI) for support in retirement. SSI, a means-tested welfare program, provides income assistance to the elderly, blind and disabled. For 2008, maximum monthly SSI benefits are set at $637. Importantly, SSI recipients also automatically become eligible for Medicaid health insurance.

While a valuable backstop, SSI has several important limitations. To qualify, individuals must have less than $2,000 in liquid assets, a means test which may prevent some individuals who fail to reach the 40-quarters requirement from receiving SSI. Second, unlike Social Security, SSI reduces benefits on a roughly 1-for-2 basis for any earnings the individual may have, which discourages individuals from remaining in the workforce. Third, SSI benefits to the aged are not available until age sixty-five, while Social Security benefits are available as early as age sixty-two.

Reducing or eliminating the 40-quarters requirement to qualify for Social Security retirement benefits may reduce individuals' dependency on SSI for retirement income, thereby improving incentives to work and accumulate assets (since Social Security benefits are based on the level of earnings while working).

While reducing or eliminating the 40 quarters of covered work requirement could make benefits available to very low lifetime earners, it would also extend benefits to individuals whose primary earnings were derived from employment not covered by Social Security. Approximately 96 percent of the workforce is employed in Social Security covered positions. Of the remaining 4 percent, the vast majority are employees of state and local governments who are not covered by Social Security. These individuals often appear "poor" from the point of view of Social Security, even if they have lifetime earnings that place them comfortably in the middle class. These individuals could receive windfalls if other corrective actions were not taken. However, application of the existing Windfall Elimination Provision (WEP) and Government Pension Offset (GPO) could help correct for any imbalances in relative benefit generosity directed toward state/local government employees.

Using GEMINI, a microsimulation model of the Social Security population developed by the Policy Simulation Group, Inc. (PSG), this policy proposal's effect on benefit eligibility and benefit levels are analyzed, assuming the 40-quarters eligibility requirement is eliminated beginning in 2009. Benefits are analyzed for the 1950 birth cohort, who will become eligible for retirement benefits in the 2010s. A second PSG model, PENSIM, is utilized to assist in modeling the WEP and the GPO provisions for individuals receiving pension benefits from non-covered employment.

Eliminating the 40-quarters eligibility requirement would increase benefits (that is, either make individuals newly eligible or increase benefit amounts) for approximately 5.8 percent of individuals in the 1950 birth cohort. These benefit increases would be concentrated in the bottom three deciles of lifetime earnings, where 15 percent of individuals would receive increased benefits. Average benefit increases for affected individuals in the bottom three deciles of earnings would be around $2,400 per year. Due to the relatively small number of affected individuals, increases in total system costs would be modest. The 75-year actuarial deficit would increase from 1.70 percent of taxable payroll under current law to around 1.79 percent of payroll.

Benefit increases are concentrated among immigrants, whose shorter periods in the labor force increase the likelihood of not satisfying the current 40-quarters eligibility requirement.[2] Individuals who immigrated to the U.S. after age 25 constitute around 22 percent of the population of retirees in the 1950 birth cohort. Around 20.6 percent of immigrants would receive increased benefits due to this provision, while only 1.5 percent of native born and pre-age 25 immigrants would be eligible for increased benefits.[3]

Increases in benefits are almost evenly divided among males and females. Around 51 percent of those receiving increased benefits are female, while 49 percent are male. The largest group of beneficiaries by marital status is the divorced, 13.3 percent of whom receive higher benefits through this provision; 7.5 percent of single individuals, 5.9 percent of married, and 3.5 percent of widowed individuals also receive increased benefits.

Increased Social Security retirement benefits could potentially prohibit individuals from receiving SSI, which could then put at risk these individuals' eligibility for means-tested assistance programs such as Medicaid and Food Stamps. In most cases, however, increased Social Security benefits would substitute for SSI rather than eliminate it, so that most recipients would not automatically lose eligibility for means-tested assistance. While increased Social Security benefit eligibility could increase individuals' overall retirement incomes, they would still be subject to SSI earnings and asset rules at the margin.

This is a modest proposal, with modest improvements in benefits coming at a modest cost to the program. For a limited number of individuals, new eligibility for Social Security or increased benefit amounts could be sufficient to take them off the SSI program. While this would improve their incentives to work and save, it could also potentially cost them eligibility for means-tested assistance such as Medicaid and Food Stamps. In most cases, however, increased Social Security benefits would substitute for SSI rather than replace it. Eliminating the 40-quarters eligibility requirement for retirement benefits would be politically controversial, as much of the new benefits would flow to immigrants not otherwise eligible for Social Security. However, these new benefits would not be welfare, but be based on the earnings of individuals who otherwise would not receive anything in return for their contributions to the program. Thus, this proposal is not out of step with Social Security's traditional role as an "earned" social insurance benefit based on work and contributions. The effects of eliminating the 40-quarters eligibility requirement would be increased if combined with other proposals to enact stronger minimum Social Security retirement benefits.

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1 Spouses are eligible for an auxiliary benefit equal to 50 percent of the benefit of the primary earner, even if the spouse did not have 40 quarters of coverage.

2 For these purposes, "immigrants" are considered to be anyone who immigrated to the United States after age 25; individuals arriving in the U.S. prior to age 25 are considered as native born.

3 In large part, this division between immigrants and native-born is common sense: if current law Social Security is restricted to those with at least 10 years of employment, individuals who entered the U.S. labor force later in life are less likely to achieve that labor force experience than those who spent a full working lifetime here.

Strengthening Social Security Benefits for Widow(er)s:
The 75 Percent Combined Worker Benefit Alternative

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Social Security is the largest source of retirement income for most Americans, but it is especially important to older women and to widows in particular. Social Security provides 58 percent of the income of widows 65 and over, compared to 39 percent for all individuals and couples 65 and over (Social Security Administration 2006). Women also rely on Social Security's spouse and survivor benefits far more than men. Although the number of women receiving benefits entirely on their own work records has increased in the past decade, more than half of all women age 62 and older receiving Social Security receive benefits, at least in part, as a spouse or surviving spouse, compared to about two percent of men (Tamborini and Whitman 2007). Yet, even with Social Security, the poverty rate for women 65 and older was 12 percent in 2007, over 80 percent higher than the poverty rate for men 65 and older (6.6 percent) (U.S. Census Bureau 2008). A majority of poor elderly women – 55 percent – are widows (U.S. Census Bureau 2008), and widows are projected to remain the largest group of poor elderly women by marital status for decades to come (Smith 2002, 2003).

In addition to the factors affecting women's economic security generally, such as lower wages, time out of the labor force for caregiving, fewer assets and longer life spans (Government Accountability Office 2007; Finkle et al. 2007), there are particular reasons for widows' economic vulnerability (see Karamcheva and Munnell 2007). Income generally declines sharply at widowhood. If the couple was receiving Social Security benefits, those benefits – which provide most of the income for low- and moderate-income households – drop substantially (Reno and Lavery 2007). The decline in the widow(er)'s benefit as a share of the couple's combined benefit is between 33 percent and 50 percent, assuming both spouses claim benefits at full retirement age (FitzPatrick and Entmacher 2000).[1] While the cost of maintaining a household declines when there is one less person to support, it does not fall by half or even one third. Using the Census Bureau's poverty thresholds as a guide, a one-person elderly household needs 79 percent of the income of a two-person household to maintain the same standard of living.

Other sources of income often decline at widowhood. If the deceased spouse was working, those earnings are lost. If the deceased spouse was receiving a pension, the income to the survivor may disappear entirely or be cut in half (the 1984 Retirement Equity Act establishes a 50 percent survivor annuity as the default choice for married workers, unless the spouse waives this right in exchange for a higher payment to the pension holder while both are alive), adding to widows' poverty (Holden and Zick 2000). Lower-income couples are less likely than higher-income couples to take a reduced annuity to provide a survivor benefit for a spouse (Smith et al. 2007).

Widow(er)s also are at economic risk because assets may be depleted by the medical and other expenses incurred prior to the death of the spouse (Holden and Zick 2000; McGarry and Schoeni 2005). The time demands and stress of caregiving also may affect the surviving spouse's employment and health.

This paper presents a proposal to improve Social Security benefits for widows, the largest group of poor elderly women. However, the proposal should be considered as part of a broader package of reforms because the improvement in the widow(er)'s benefit will not assist the growing proportion of economically vulnerable women who never married or whose marriages did not last ten years—disproportionately African American women (Harrington et al. 2006).

This proposal would allow a surviving spouse to receive the higher of the current law widow(er)'s benefit or a new alternative benefit. The new alternative benefit would be calculated as 75 percent of the sum of the deceased spouse's worker benefit, computed as if he or she had claimed benefits at full retirement age, and the benefit which the surviving spouse had earned as a worker, reduced for the number of months the surviving spouse claimed worker benefits prior to full retirement age. Benefits for surviving divorced spouses with a qualifying marriage would be calculated in the same way. To limit the cost and target the benefits of the proposal to those with lower earnings, the alternative benefit would be capped at the level of the benefit of a worker who had earned the average wage over a career.

The proposal is based on a concept – calculating the widow(er)'s benefit as a fraction of the couple's combined benefits – that has been part of Social Security reform discussions for more than a decade. However, there are two distinctive features of this proposal.

First, the 75 percent calculation is based on the combined *worker* benefits of each spouse, not including any amount received as a spouse's benefit by the lower-earning spouse. Using only the worker benefits in the alternative calculation increases the effectiveness of this proposal in reducing the disparity in widow(er)'s benefits between single- and dual-earner couples with equal combined earnings and contributions to Social Security, improving benefit equity as well as the adequacy of benefits for eligible widow(er)s. (Individuals who rely entirely or heavily on the spouse's benefit who do not receive an increase under the proposal would continue to receive their current-law benefit.)

Second, the value of the benefit of the deceased spouse used in the 75 percent calculation would not be reduced because the deceased spouse claimed benefits before full retirement age. This avoids the reduction in the widow(er)'s benefit that occurs under current law because of the deceased spouse's retirement decision. It is more consistent with the way the reduction in the current law spouse's benefit for early claiming is determined. And, it increases the effectiveness of the proposal in improving the adequacy of benefits for lower earners and their surviving spouses, because lower earners are more likely to claim benefits early.

The potential beneficiaries of this proposal are surviving spouses in dual-earner, low- to moderate-income couples. A majority of women in the future, although a smaller percentage than today, will have marital histories that will qualify them for a widow's benefit (Tamborini and Whitman 2007). Because of the increased labor force participation among married women, most women in the future will have high enough Social Security benefits on their own work records to potentially qualify for an increase under this proposal (Favreault and Sammartino 2002). The surviving spouse in couples whose earnings are more nearly equal would receive the greatest increase in benefits. Some data suggest that this feature of the proposal could particularly benefit couples with lower incomes, and Black and Hispanic couples (Hayghe 1993; Winkler 1998; U.S. Census Bureau 2008). The large majority of beneficiaries of this proposal are likely to be women, although the tiny proportion of men who currently qualify for a widower's benefit is also likely to increase.

The proposal would not be difficult to implement, because Social Security already collects all the information needed to calculate benefits under the proposal, and beneficiaries would automatically receive the higher of the two benefits. The cost (and benefits) of the proposal could be adjusted in a number of ways, including by setting the cap at different levels.

The many positive features of Social Security and the heavy reliance of lower-income retirees, including widows, on Social Security income make strengthening Social Security benefits a highly effective strategy for improving the economic security of vulnerable people. Improving the adequacy and equity of the widow(er)'s benefit is one important component of a package of reforms to increase retirement security in an environment of increased economic risk.

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1 For example (assuming all benefits in these examples were claimed at full retirement age): Mr. A received a worker benefit of $1,000 per month. Mrs. A received a benefit as a dually entitled spouse equal to 50% of his, $500 per month (comprised of her own worker benefit of $300 plus a spouse's benefit top-up of $200), giving the couple $1,500 in combined benefits. At widowhood, Mrs. A is entitled to a benefit as a dually entitled widow equal to 100% of her husband's benefit, $1,000 (comprised of her own worker benefit of $300 plus a widow's benefit top-up of $700), which represents two-thirds of the couple's $1,500 combined benefits. (If Mr. A was the surviving spouse, he also would receive a benefit of $1,000, solely as a worker, similarly representing two-thirds of their combined benefits as a couple.) Mr. B received a worker benefit of $900; Mrs. B received a worker benefit of $600, for combined benefits of $1,500. Mrs. B does not receive a spouse's benefit, because her $600 worker benefit exceeds the $450 benefit she is entitled to as a spouse. At widowhood, Mrs. B receives a benefit of $900 (comprised of her own $600 worker benefit and a widow's benefit top-up of $300), which represents 60% of their combined benefits. (If Mr. B was the survivor, he would continue to receive his $900 worker benefit, similarly representing 60% of their combined benefits as a couple.) Mr. C and Mrs. C, whose lifetime earnings were equal, each received a worker benefit of $750, for combined benefits of $1,500. Neither receives a spouse's benefit. At widowhood, Mrs. C will not receive a widow's benefit, because her husband's benefit does not exceed her own worker benefit. The $750 benefit she continues to receive solely as a worker represents 50% of the couple's $1,500 combined benefits.

Enhancing Social Security for Low-Income Workers: *Coordinating an Enhanced Minimum Benefit with Social Safety Net Provisions for Seniors*

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Income and asset inequalities throughout the life course (such as access to higher education, well-paying employment, and employment benefits) shape retirement resources. Those with fewer economic means or asset-building opportunities in early adulthood and middle age will face greater financial challenges in old age and have to rely more heavily on the social safety net. Bolstering the special minimum benefit in Social Security, and coordinating this policy change with adjustments and reforms of other programs that affect low-income seniors, will serve to enhance the economic security of millions of retirees throughout the United States.

This policy paper proposes three spheres of reform that will strengthen the economic security of older Americans, particularly those who worked in low-wage occupations. First, it builds upon the existing Social Security special minimum benefit for low-income workers by tying this minimum to a modernized poverty measure. Second, the analysis reveals how program interactions must be considered to ensure that economic security is strengthened for the beneficiaries of the new minimum. Third, an examination of current asset limits for means-tested programs suggests that asset limit modifications would further enhance the economic security of low-income beneficiaries.

Almost 30 percent of retired-worker beneficiaries living in poverty have at least 30 years of covered work (Olsen and Hoffmeyer 2002). Given the existing formulas, low-income workers with earnings at or close to the federal minimum wage who experienced average wage growth across their careers receive benefits at age 62 below the poverty line (Diamond and Orszag 2004). Thus, existing policies fail to meet the needs of many older Americans who have contributed to the Social Security system meaningfully throughout their working years in low-wage work. Those with low-wages and less than 35 years of covered work are particularly vulnerable to having low Social Security benefits.

The existing special minimum benefit, which offers an alternative benefit formula for long-term workers with low levels of wages across many years, has the potential to reduce poverty among the elderly while rewarding significant numbers of working years. The maximum value of the special minimum benefit brings beneficiaries to about 86 percent of the poverty level, while those with less than 30 years of contributions receive even less (Olsen and Hoffmeyer 2002).

Since the special minimum benefit provided close to poverty level benefits at its establishment in 1974 (Olsen and Hoffmeyer 2002), this paper proposes eventually tying the benefit formula to our best current estimates for poverty thresholds using the National Academy of Sciences (NAS) recommendations for establishing a modernized poverty measure (Citro and Michael 1995; Garner and Short 2008). To meet basic income needs, a comparison using the NAS poverty thresholds suggests that the maximum special minimum benefit level should be set to 125 percent of the current federal poverty threshold. In the longer term, federal adoption of a new poverty threshold based on NAS recommendations could serve to guide the level of the maximum special minimum benefit. This new special minimum benefit level must also be indexed to wages, rather than prices, in order for it to retain its value compared to Social Security regular benefits, which are indexed to wages and reflect societal increases in standards of living.

Increased income due to a higher special minimum benefit could potentially lead to the loss of Supplemental Security Income (SSI) eligibility for those whose incomes would rise above the income threshold for this means-tested program.[1] Since Medicaid eligibility is tied to SSI eligibility, an increase in income due to the special minimum benefit could harm many low-income seniors by making them ineligible for SSI and, therefore, health insurance protection through Medicaid. Policymakers must pay special attention to interactions between these two programs.

An exclusion should be adopted to ensure that those who become ineligible for SSI due to an increased special minimum benefit would retain Medicaid eligibility. In order to be effective, this exception would need to apply to both those who lost eligibility for SSI due to the implementation of a new special minimum benefit as well as future applicants who may be ineligible for SSI and Medicaid due to the minimum benefit but who would otherwise be eligible.

Concurrently, policymakers should increase the SSI general income exclusion that allows dual Social Security and SSI beneficiaries to benefit from their payroll tax contributions by excluding some Social Security income from counting against their SSI benefits. At a minimum, policymakers should make certain that the value of the SSI general income exclusion is increased to $89, from its current level of $20, to equal its purchasing power in 1974 when the program was established. Annual indexing of the SSI income exclusions is a sensible measure to guarantee that the value of the exclusion is protected from further erosion.

Policymakers should review the effectiveness and goals of mechanisms that target programs to low-income seniors. An increase in the special minimum benefit could provide higher benefits to retirees who are not economically vulnerable, such as those who worked in jobs not covered by Social Security (primarily state and local government workers). The Social Security system already includes a Windfall Elimination Provision (WEP) that reduces Social Security benefits for workers who receive pensions from work in which they did not contribute to Social Security. While use of provisions to limit windfalls among persons with access to multiple pensions has a reasonable place in the design of progressive programs such as Social Security, policymakers should also carefully review other design features of our social policy system for seniors that aim to target benefits, particularly asset limits.

Asset limits in means-tested programs for low-income seniors should not make seniors more vulnerable by limiting their capacity to maintain a reasonable amount of savings for unexpected financial costs and emergencies. Today, the SSI resource (asset) limits are $2,000 for an individual and $3,000 for a couple and have not been adjusted for inflation since 1989. Congress should raise the federal asset limits to $6,700 for individuals and $10,000 for couples to equal the initial indexed value of SSI asset limits established in 1974. These limits should be indexed to inflation to ensure that a family's ability to save is not limited over time.

Any responsible discussion of programmatic changes to Social Security and other social programs for seniors—particularly changes that involve increasing benefits—must address the program's financial sustainability. As part of a broader effort to bring long-term financial solvency to Social Security, this paper recommends tying the level of taxable earnings for the Social Security payroll tax to 90 percent of wages. This strategy would raise substantial revenue and help to ensure that the tax base for Social Security does not shrink as a percent of wages, as it has in recent years due to growing wage inequality.

Several proposals in the paper to improve eligibility and program rules largely represent efforts to reestablish past standards for the programs and coordinate across programs, rather than add unprecedented new costs. While more analysis of trade-offs will be important, the proposed policy changes should be adopted within an overall effort to address long-term shortfalls in Social Security financing as well as overall budget challenges.

Through an enhancement of the Social Security special minimum benefit and a modernization and coordination of program rules for other programs affecting low-income seniors (particularly SSI and Medicaid), policymakers can do much to improve the wellbeing of low-income seniors.

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1 Over one million Americans age 65 and older receive both Social Security and SSI, over a quarter million more than the number of beneficiaries who receive only SSI (SSA 2008).

A New Minimum Benefit for Low Lifetime Earners

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Despite working hard and playing by the rules over long periods, many workers end up poor in retirement. In 2006, about 45.3 percent of women and 18.6 percent of men received retired worker benefits that did not exceed the aged poverty threshold for an individual (author's calculations, Social Security Administration [SSA] 2008: Table 5.B9).

To inform choices about how to design a minimum benefit, it helps to consider why workers reach later life not qualifying for a benefit that reaches the poverty level or some other income adequacy threshold. Low skill, low wages, and intermittent work histories (due to caregiving or health or unemployment shocks) each suggest different design approaches for Social Security adjustments like a minimum benefit. While low wages are one component of the problem of inadequate benefits, intermittency and caregiving arguably have larger effects. This suggests that minimum benefits that target only very long-term, low-wage workers would have limited effectiveness at alleviating poverty.

We propose a new, enhanced minimum benefit for Social Security that targets workers with long careers with low lifetime earnings, along with a modest credit that compensates workers for up to three years out of the labor market due to caregiving, unemployment, or poor health.[1] Combining these two elements means that the proposal provides work incentives, yet also recognizes the realities facing low-wage workers, many of whom have had intermittent work careers.

The generosity of the proposed minimum benefit varies based on the total number of years that an individual has worked in Social Security-covered employment. It starts at 60 percent of the poverty threshold for a worker with twenty years of Social

Security-covered earnings (the minimum required work years to receive a boost from the minimum) and increases to a maximum of 110 percent of poverty for those working 40 or more years.[2]

The caregiving and health credits, which are based on the average wage, count toward the work years required by the minimum benefit. Caregiver credits would only be available in calendar years in which a child is age 4 or under (typically not yet eligible for school), and only one parent per child could claim the supplement in any given year. The first-year child care supplement equals the maximum of actual earnings or 60 percent of the average wage, declining to 50 percent of the average wage in the second year, and 40 percent in the third. For the unemployed and those with health problems, the first supplement year is similarly higher than the supplement for subsequent years. The rationale for the declining credit level in the second and third credit years is to minimize any disincentives to work that the credit might provide, recognizing that longer breaks from the labor force can often lead to greater reductions in a worker's lifetime wages. We propose a maximum of 3 *total* unemployment and health credits, payable only from age 25 onward (caregiver credits would not be age restricted).

We prorate the number of credits for which one is eligible based on time of residence in the United States (for immigrants) and time of disability onset (for those who qualify for disabled worker benefits). We present both wage- and price-indexed versions of the minimum benefits, and also contrast our base minimum benefit with an alternative that starts at a lower benefit level but increases faster with each additional year of service. The proposed change takes effect for those first qualifying for benefits in 2010 and later.

To demonstrate the plan's potential effectiveness, we present results from simulations of several versions of the proposal using DYNASIM, the Urban Institute's dynamic microsimulation model of the U.S. population. Our results suggest that the proposal could help to remove hundreds of thousands of American workers from poverty at relatively modest cost.

These reforms redistribute income toward historically vulnerable populations. We see that under all of the options, the fraction of benefits that never married parents and less educated workers receive increases relative to current law in both 2030, twenty years after implementation, and 2050, when the changes are fully phased in. For women, the highest relative increases in benefit fractions occur with implementation of the caregiver credit on its own. For less educated workers, disability credits provide an additional tilt in distribution of benefits in the group's direction. Adding the minimum benefit to the credits tilts redistribution toward men relative to women under all four minimum benefit options, while the credits remain more favorable to women.

We then consider alternative ways of financing the credits and the minimum benefits. We find that relatively modest reductions to current law spouse benefits could, on their own, finance the caregiver credit. When combined with disability credits and a minimum benefit, the caregiver credits become more costly, especially if the minimum benefit is indexed to keep up with wages instead of prices. Deeper cuts in the spouse benefit could offset these increased costs, as could modest increases in the Social Security wage and benefit base (the "taxable maximum").[3] When the minimum benefit and care credits are financed, the tradeoffs associated with their introduction become more obvious. These tradeoffs include reduced returns to payroll tax contributions for moderate- and high-earners, especially those who have more education or, in some cases, longer earnings histories.

Of course, the larger context in which we propose these changes is one of serious financial challenge for the Social Security system. We thus recommend further, more rigorous analyses to optimize the proposed components so that they maximize the overall poverty reduction effect while minimizing any work disincentives.

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1 Both retired and disabled workers are eligible for the minimum benefit.

2 These percentages of poverty that the minimum provides are based on claiming benefits at Social Security's normal retirement age.

3 The "taxable maximum" is the level of annual wages subject to Social Security taxes. In 2009, both employees and employers will pay Social Security taxes on employees' wages up to $106,800.

Crediting Care in Social Security:
A Proposal for an Income-Tested Care Supplement

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A key challenge facing Social Security in the twenty-first century is the revolution in families and the workplace. Social Security's "breadwinner" benefit structure best addresses income risks faced by those who have consistent lifetime work histories (through contributory worker benefits) or by individuals who get married, stay married, and do no paid work (through noncontributory spousal and widows' benefits) (Herd 2006; Herd 2005a; Herd 2005b; Herd 2002; Smeeding, Estes, and Glasse 1999; Steuerle, Spiro, and Carasso 1999; Harrington Meyer 1996). Most women, however, fit neither model.

While most people think Social Security benefits are based only on work, 40 percent of new beneficiaries receive benefits not as workers but as wives and widows of workers.[1] A wife receives a benefit that is 50 percent of her living husband's worker benefit. If he dies, she receives his full benefit. (If she is eligible for both a worker benefit through her own work record and the spouse benefit, she receives the higher of the two.) Divorced women are also eligible for spousal and survivors' benefits if they were married at least ten years. While individuals are able to qualify for Social Security retirement benefits through their marital status, they do not receive credit through Social Security for raising children.

Of concern is a growing number of women whose Social Security worker benefits and retirement savings are limited by childrearing and a wage gap that remains 76 cents on the dollar, but they cannot count on spousal and survivor benefits to offset the risk of living in poverty in old age. In short, declining marriage rates are reducing the number of women eligible for spousal and survivor benefits. Among women born in the 1960s, around 80 percent of white and Hispanic women will reach old age qualified for spouse or widow benefits. Black women in particular will be less able to rely on these benefits. Only about 50 percent of black women born in the 1960s will qualify in old age (Harrington Meyer et al. 2006).

Many single mothers will also not qualify for spousal and survivor benefits once they reach Social Security eligibility. But these are the very women who are most vulnerable to poverty. Single mothers are 55 percent more likely to be poor in old age compared to married mothers. And these women comprise a growing share of the population. Households headed by single mothers have risen from 10 percent of households in 1970 to 25 percent of households by 2005 (Johnson and Favreault 2004).

To address these problems, I propose an income-tested care supplement for Social Security retiree beneficiaries. Like a strong minimum benefit, this proposal improves benefits for very vulnerable aged beneficiaries, but it does so by linking benefits to a societal contribution, raising children. In short, it balances the goals of adequacy (protecting the poor) and equity (matching contributions to benefits), both critical program goals.

The proposal draws on the politically popular Earned Income Tax Credit (EITC) as a model. The EITC is an income subsidy for poor working-age adults with children.[2] The EITC links its benefits to both the number of children one has and employment, it is not asset tested, and it is administered through the tax system. As earnings rise, the value of the EITC rises, but the credit is capped at a certain earnings level. In 2006, the maximum benefit for a single person with one child was $2,747 for those with annual earnings between $11,500 and $14,500. The maximum benefit brought these families to approximately 125 percent of the poverty level.

This proposal—an income-tested care supplement for aged Social Security beneficiaries —is a variant of the EITC. The first part of the proposal is to phase out spousal benefits. This would help fund the care credit. Of course, it is not required to eliminate these benefits. The second part of the proposal is the creation of an income-tested care supplement. Retirees would be eligible for a supplement to their worker benefit if they had raised children. For those raising one child, the size of the supplement would be 75 percent of the retired caregiver's worker benefit; for two children the supplement would be 80 percent of the retired caregiver's worker benefit.

For example, at age 67, an unmarried worker with lifetime annual earnings of $15,000 would receive a monthly Social Security retirement benefit valued at approximately $776. If this person had raised a child, s/he would then be eligible for a maximum $582 monthly benefit supplement (75 percent of the original worker benefit). The total benefit, however, would be income tested. If the income-tested care supplement pushed household income above 125 percent of the poverty line, the supplemental benefit would be reduced so that household income did not exceed 125 percent of the poverty threshold. Thus, the income-tested care supplement would be $259 for a total benefit of $1,035 (125 percent of poverty for a single individual aged 65 and over in 2007). The income cutoff would be indexed to wages, like the worker benefit.

If an eligible married couple had children, both individuals would be eligible for the care supplement, but the combined household benefit would be income tested. Because just 4 percent of married couples over age 65 fall below the poverty level, this will not be a large issue. In the case where both parents are alive but living apart, both would be eligible for the credit, though the credit remains income tested. The benefit, and the income testing, would all be done through individuals' tax returns.

Similar to the EITC, the value of the income-tested care supplement rises as individual earnings rise. The advantage to this is that it tightens the link between benefits and earnings thereby encouraging employment. The downside to this is that by emphasizing equity, there is some sacrifice to adequacy. About 10 percent of women in future cohorts (those retiring after 2020) will not benefit because they will not have 40 quarters of earnings to qualify for the worker benefit (Herd 2005a). To the extent that these women are more likely to be poor, this is clearly problematic. And for those with very limited earnings' histories, the benefit will not likely bring them above the poverty line. Currently, about 11 percent of retired women workers becoming eligible for Social Security retirement benefits in 2006 had monthly benefits below $500 (Social Security Administration 2007). Those with benefits much below this level will not be brought up to the poverty line, though of course they will still have a substantial increase in income.

How does this proposal compare to other approaches to fix spousal and survivor benefits? First, reforms that attempt to simply fix spousal and survivor benefits, but do not expand coverage to unmarried women, fail to protect the most vulnerable beneficiaries. Examples of these kinds of proposals include raising the spousal benefit, the survivor benefit or reducing the number of years of marriage for eligibility. Second, care credits, which would substitute years of earnings in the calculation of the worker benefit for those raising children, would benefit women broadly, but would not raise income significantly for the poorest beneficiaries. And third, generous minimum benefits, while effective at reducing poverty, may still provide significant benefits to well-off married women.

One thing that all of these proposals have in common is that they are based on equity principles, in addition to adequacy principles. The minimum benefit proposals all require many years of employment, typically 20-30 years, albeit at low earnings.

The care credits are based on the premise that people are contributing to society by having and raising children. The income-tested care supplement combines these two contributions. It rewards both employment and childrearing. In sum, this income-tested care credit proposal most efficiently targets benefits towards the most vulnerable aged Social Security beneficiaries.

It is important, however, to consider the impact of the income-tested care credit in relation to other programs that are designed to reduce poverty. The two most relevant means-tested programs are Medicaid and the Supplemental Security Income (SSI) program. Poor elderly beneficiaries frequently rely on Medicaid to supplement the nearly half of medical care expenses that Medicare fails to cover. Increases in income would push many of these individuals above the eligibility line for Medicaid. Around 10 percent of elderly Medicare beneficiaries rely on Medicaid as a supplement; this percentage would be much higher among those who qualify for the income-tested care supplement. If they were pushed off of Medicaid, these retirees' out-of-pocket health care expenditures would rise significantly, which would erode the income gains that come from the care supplement. Consequently, legislation would have to include measures to prevent the care supplement from being included in the eligibility formula for Medicaid.

The income-tested care supplement would likely reduce the number of individuals relying on SSI for income support. SSI is an income- and asset-tested program for the elderly, blind and disabled. About 6 percent of those over the age of 65 receive SSI benefits. The federal maximum SSI benefit is set at 76 percent of the poverty level. Though about half of states supplement the benefit, none bring the benefit above the poverty line. SSI faces the same obstacles other traditional means-tested programs face in that only about half of those eligible actually receive benefits. Nonetheless, SSI provides an important safety net for those with very limited lifetime earnings. This will remain the case with the income-tested care supplement because the supplement is linked to prior earnings; those with almost no earnings will not benefit significantly from the credit and will likely continue to rely largely on SSI.

One final key issue that will need to be resolved regarding the eligibility parameters is what kind of caregiving will qualify. This proposal only covers those who have children, but it could cover those who care for older people or for those with significant disabilities. Covering these groups, however, does complicate the ability to validate eligibility.

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1 Men are eligible for these benefits as well, but around 98 percent of spousal and widow beneficiaries are women (Harrington Meyer 1996)

2 There is a small benefit for those without children, but the benefit is really targeted at individuals with children.

Retirement Security for Family Elder Caregivers with Labor Force Employment

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The economic value of care provided by family caregivers to frail elders has been estimated to range from $45 billion to $200 billion annually (Wolff and Kasper 2006). This informal caregiving both enhances quality of life for frail elders and permits them to continue living in the community rather than in nursing homes. However, in-home elder caregiving generates large opportunity costs to caregivers as they are forced to curtail or stop employment due to their caregiving activities.

The problem we address is the deleterious impact on retirement financial security and Social Security benefits from reduction in work effort due to elder caregiving. This opportunity cost of elder caregiving may encompass reduction from full-time to part-time employment, withdrawal from the labor force, or reduction in employment mobility and promotion. Given the growing numbers of elderly in the United States, elder care responsibilities are likely to force increasing numbers of caregivers, particularly women, to retire early or to shift from full-time to part-time employment (Johnson and Lo Sasso 2006).

Elder caregiving may impoverish the caregiver by diminishing both current earnings and future Social Security benefits. Caregivers spend about four years providing help to frail elders (National Governors' Association 2003; Johnson 2007). No existing public policy takes full account of the demands and financial ramifications of caregiving. Thus, all too often, the reward for providing care that saves substantial federal and state dollars is impoverishment of the caregiver. Most, but not all, of this impact is incurred by women (Denton and Boos 2007).

Wakabayashi and Donato (2005) found that the most substantial cost of informal caregiving is incurred by women who were older and had fewer skills. They found significant reductions in hours worked and earnings among women who initiated caregiving. Further, once caregiving ended, these women were unable to recover from their earnings losses. Wakabayashi and Donato (2006) concluded that caregiving in earlier life raises the likelihood of later poverty and reduces economic well-being in retirement due to reduced work and earnings and declining health. It appears that many women caregivers, due to their caregiving responsibilities and costs incurred, are unable to prepare for their own retirement.

Employers, as well as employees, bear a large financial burden from personal caregiving due to turnover or replacement costs for employees who quit, costs of absenteeism or partial absenteeism, and costs of work interruptions for eldercare crises. The Metropolitan Life Insurance Company (1997) calculated that the cost of lost productivity due to elder caregiving incurred by businesses was almost $11.5 billion in 1996, which would be about $15.7 billion in 2008 dollars.

The target population of this proposal is caregivers who are or have been employed in the labor force. In 2004, over 34 million adults, or 16 percent of the adult U.S. population, provided care to frail persons age 50 and over. These caregivers are primarily daughters or daughters-in-law (36 percent), sons (16 percent), or spouses (28 percent) (Johnson 2007). Wakabayashi and Donato (2006) found that caregivers who stop working had a 13 percent chance of living in poverty compared to a 3 percent chance among non-caregivers who stopped working.

Gaps in employment or reduced hours due to caregiving will lower Social Security benefits. Almost ten years ago, MetLife determined that the average Social Security benefit lost due to elder caregiving was $25,494 (MetLife 1999).

We propose that the Social Security system recognize the value of caregiving that replaces (or substantially postpones) costly nursing home care for elderly parents or other elderly relatives. The criteria for authorizing caregivers to qualify for the Social Security caregivers' credit would be based on the three most intense levels of caregiving (Levels III, IV, and V) in the Burden of Caregiving Index of the National Alliance for Caregiving and AARP (NAC-AARP 1997). Need for this level of care must be physician certified. The maximum time period for such Social Security credit would be four years, and the wage basis for the value of the Social Security credit would be the average wage, or self-employment income, earned by the caregiver for the previous three years. These data are readily available in the worker's Social Security record. Thus, we propose using the individual worker's own opportunity cost to calculate the value of the Social Security credit allocated for elder caregiving.

Using the MetLife Social Security Tool (MetLife 2008), we estimate that the typical caregiver would receive $1,105 monthly without the credit and $1,149 with the credit. This caregiver would see an increase in Social Security benefits of $528 a year, or a lifetime increase of $8,448. Married caregivers would see a lifetime increase in Social Security benefits of $8,064 and single caregivers would receive $13,632 more.

These credits could be financed based on the reduction in expenditures for nursing homes. More than 1.6 million Americans are now nursing home residents costing over $115 billion annually; Medicaid covers 44 percent of this cost (McNabney et al. 2007). The possibility of reducing the institutionalization of higher functioning nursing home residents clearly exists with adequate home or community-based caregivers.

If the proposed legislative change in Social Security is accomplished, then the growth of Medicaid expenditures for nursing homes will be slowed. We estimate that the nursing home cost reduction due to caregiving would be approximately $20.8 billion annually or a total of $83.5 billion over four years of delayed nursing home entry due to caregiving. This cost saving would be projected to grow with increases in the number of elderly persons. An alternative financing approach might be to raise or remove the cap on covered Social Security taxable earnings.

Since family care is less expensive than nursing home care, both states and the federal government would benefit by reductions in institutionalization of the elderly. The major way this can be achieved is by encouraging and subsidizing family members who participate substantially in elder care. Since state and federal taxpayers benefit from reductions in government expenditures due to reducing nursing home use, it is reasonable for national policies to promote and pay for Social Security caregiving credits. The total cost of these marginal Social Security benefits will be offset by the significant reduction of nursing home costs, so that net expenditures for caregiving for the elderly decline. And since older persons clearly express their preference to remain in their communities, our proposed Social Security policy presents a "win-win" situation for elderly persons, their caregivers (whose financial security in retirement is bolstered), and taxpayers.

Restoring Old Age Income Security for Low-Wage Single Workers

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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 who will increasingly find themselves at risk of extreme poverty in old age 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.

One group particularly at risk of poverty in old age is single beneficiaries, especially women, who have worked a whole career at very low wages and either never married or were divorced after less than 10 years (the minimum years of marriage required for divorced persons to qualify for Social Security spousal and widows' benefits). 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 the growing numbers of workers reaching old age who have never married or whose marriages lasted less than 10 years.

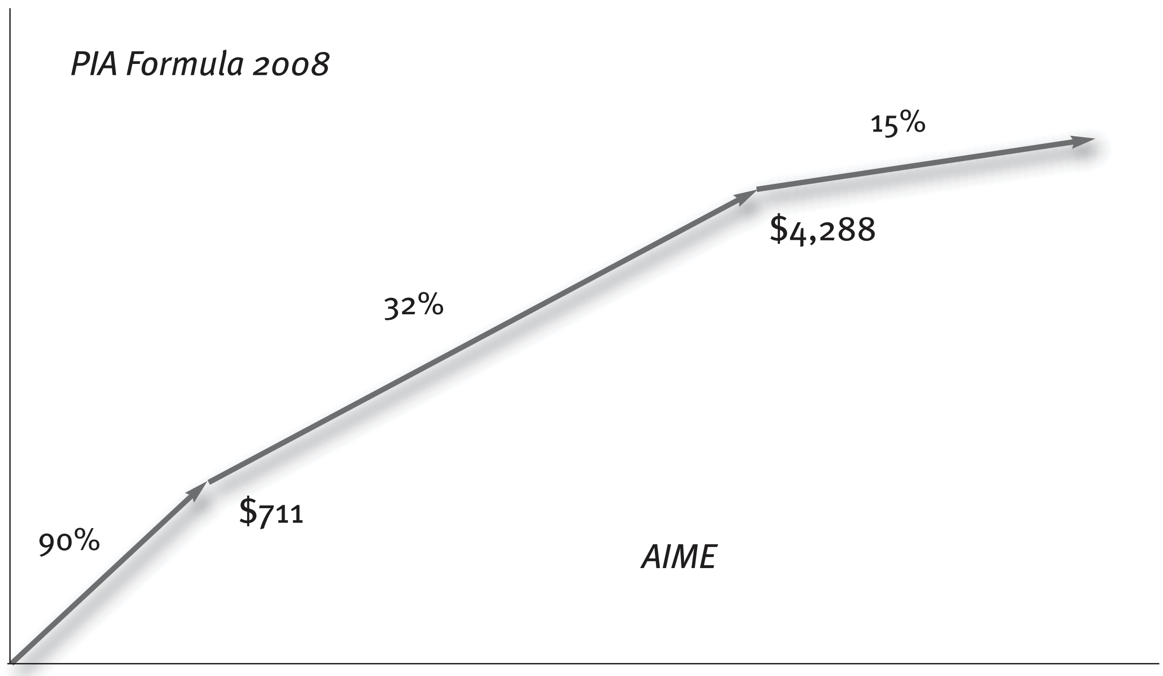
The decline of employer-provided pensions over the last quarter century means that low-wage workers, particularly single (either never married, or divorced or widowed) working women will be very vulnerable to financial disaster in old age. Pension participation for the lowest earners lags far behind that of the highest earners. 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.

The retirement age increase legislated in 1983 is starting to take effect, and after the full phase in of the retirement age increase, a worker taking benefits at age 62 will see a 30 percent reduction in his/her benefit level compared to if he/she had waited to claim benefits until the full retirement age. Moreover, the current steep decline in housing values will have repercussions far into the future for working people whose major form of equity is most often represented by their homes. All of these financial trends can be expected to make the already precarious financial situation of single worker beneficiaries even worse.

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. In addition to entering retirement in a precarious financial condition, low-wage workers are in danger of outliving their financial resources other than Social Security. 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 in their lives when their health costs and need for assistance in daily living are likely to increase.

The initial amount from which all Social Security benefits are calculated is the Primary Insurance Amount (PIA), which is based on a worker's average monthly earnings. The highest 35 years of lifetime earnings are indexed to the level of wages in the second calendar year before the year in which the worker is first eligible for benefits, creating the worker's Average Monthly Indexed Earnings (AIME). 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 percent of AIME up to $711, 32 percent of AIME from $711 up to $4288, and 15 percent of the remaining portion of the AIME).[1] This PIA, subject to reductions for early retirement or increases due to delayed retirement, is the basis for workers' monthly Social Security benefits. Social Security benefits increase each year by the rate of inflation.

One additional feature of the current benefit structure is specifically designed to help workers with long histories of low wages. The "special minimum benefit" uses an alternative benefit formula. This formula is essentially ineffectual in improving benefits for career low-wage workers because 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).

I propose two improvements: first, a change to the basic benefit formula to increase the bend point factors for single workers with 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.

My first suggested approach to improving benefit adequacy is to change the benefit formula for single retirees with career low earnings who are ineligible for spousal or widows' benefits. This alternate formula would apply to single workers with at least 30 years of Social Security-covered employment whose AIMEs are less than a set multiple of the first bend point, say between 150 percent to 300 percent. For example, if the limit were set at 300 percent of the first bend point, single beneficiaries with AIMEs under $2,133 (300 percent of $711) would qualify for the alternate benefit in 2008. The first 'bend point' in this new PIA formula would be increased by 50 percent.

This proposal would be phased in over a 10-year period, 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 schedule that parallels the final schedule of retirement age benefit cuts is both logical and politically defensible.

As a companion proposal to the supplemental PIA, I propose a special benefit increase for the oldest single beneficiaries with lifetime low wages. While the supplemental PIA proposal would almost certainly have to be effective on a prospective basis only (because of cost), the age-based supplemental payment could be made to beneficiaries in current pay status due to 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 percent 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 percent 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 benefits before full retirement age. This would help beneficiaries who may have been required by health or unemployment, or other circumstances, to take early benefits.

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 in old age. 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.

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 public debate about Social Security return to how the program can best be used to solve critical issues of poverty and economic insecurity for the elderly and the disabled. Social Security is a necessity, not a luxury, and it is a tool to resolve problems, not the problem itself. These proposals I hope will be part of a conversation changer about using the Social Security program to further improve economic security, rather than as a source of worry and threat to security for older Americans.

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1 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.

Longevity Insurance:
Strengthening Social Security at Advanced Ages

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While Social Security provides guaranteed lifetime benefits, the benefits are insufficient for most people to maintain their pre-retirement standard of living. Low-income retirees at age 62 tend to rely largely on Social Security, but other retirees generally have other sources of retirement income. However, as people grow older, especially those living past their life expectancy, the risk of having exhausted other sources of income grows.

People in their 80s and older who receive low Social Security benefits and who have exhausted other sources of income are a vulnerable group. Few are able to work to supplement their Social Security income. As a matter of national policy, it is desirable that people in this age group, often called the old-old, are able to live with sufficient resources to enjoy the last years of their lives with dignity.

The target population for this Social Security reform proposal is people age 82 or older. The proposal focuses further on people with low Social Security benefits and long work histories. Age 82 is chosen as approximately the average life expectancy at age 65 (Centers for Disease Control 2007). Women outnumber men by roughly two to one in this age group (U.S. Census Bureau 2003). This age group is growing rapidly in part because of improvements in life expectancy.

Elderly poverty is high among this age group – a third higher than for people age 65-69 (Whitman and Purcell 2006). Older women are particularly at risk of being poor in old age. Women age 80 and older had a poverty rate of 14 percent in 2004, and 25 percent had income below 125 percent of the poverty line. By comparison, women ages 55 to 60 had rates of poverty of 10 percent to 13 percent (Social Security Administration 2006).

People in this age group are at risk of falling into poverty or financial distress even if they had not been poor earlier in life and they have greater difficulty leaving poverty than people at younger ages (Lee and Shaw 2008). Though each successive generation presumably has greater resources, some data suggest that the problem of elderly poverty, or at least elderly financial distress, may be growing over time. While the bankruptcy rate for persons under age 55 fell over the period 1991 to 2007, it more than quadrupled for people ages 75 to 84 (Sedensky 2008).

This proposal improves economic security for people who are 82 and older by adding longevity insurance to the insurance protection Social Security currently provides. Longevity insurance is a special type of deferred annuity. Annuities are financial instruments that pay a stream of benefits over time. Much of the utility value to retirees of annuitization comes from insuring against the possibility of running resources down to a low level if one lives to be older than expected. An advantage of this type of annuity is that retirees may be able to consume more of their nonannuitized resources in their sixties and seventies, knowing that they have longevity insurance that protects them if they live longer than expected.

Longevity insurance benefit payments can be structured in different ways, at different costs, and with different sets of goals being served. Benefits can be universal or they can be targeted. Universal benefits provide longevity insurance without regard for need, whereas targeted benefits take need into account. Targeted benefits can be provided at lower total cost. Within those two categories of eligibility, benefits can be based on Social Security benefit levels, years of contributions to Social Security, or age, or the benefits can be flat, providing the same amount for everyone who qualifies. For example, if the benefit is universal, everyone age 82 and older could receive the same flat amount. Alternatively, everyone age 82 could receive the same amount, but the amount could increase slightly more than the rate of inflation for subsequent years of life. If the benefit is targeted, it could be based on having worked a minimum number of years, with the benefit amount increasing based on the number of years worked. While many options would provide longevity insurance in different ways, this proposal takes a targeted approach due to cost considerations.

The longevity insurance benefit proposed here is a delayed annuity paid as an enhanced Social Security benefit starting at age 82. Qualifying persons receiving a Social Security benefit below a set minimum level would have their benefit raised at that age.

The level of benefits provided by longevity insurance under this approach would be based on quarters of contributions to Social Security. A minimum of 20 years (80 quarters) of contributions would be required. At that level, a benefit of 70 percent of the poverty level for a single or married person, depending on the Social Security benefit he or she currently receives, would be provided. For each additional four quarters, the benefit would increase by 1.5 percent, so that someone who had worked 40 years (160 quarters) would receive a benefit equal to 100 percent of the poverty level. There would be no maximum number of quarters, so that someone who had worked 45 years would receive a benefit equal to 107.5 percent of the poverty level.

The benefit eligibility conditions are designed to exclude people with low benefits for reasons other than a full career with low earnings. Recipients receiving benefits from pension plans in non-Social Security-covered employment in federal, state, or local governments would be excluded. Thus, people would be excluded who were affected by the Government Pension Offset (GPO), which reduces the spouse's benefit for spouses who have a government pension and were not covered by Social Security, and the Windfall Elimination Provision (WEP), which reduces the Social Security benefit for persons who have a government pension and were not covered by Social Security.

This benefit formula supports the principle that Social Security rewards work. It also establishes the principle that a poor person who has worked at least 40 years is guaranteed at least a poverty level benefit in advanced old age. Thus, a poor person who has worked for many years and has contributed to Social Security is guaranteed a minimum level of income, and the dignity associated with that, in advanced old age.

People with low lifetime earnings, and thus low Social Security benefits, however, tend to have more years of zero earnings than people with higher lifetime earnings and, thus, some people with low benefits would not qualify. People in the lowest quintile of family lifetime earnings have on average 9.1 years of zero earnings, compared to 2.4 years in the second lowest quintile (Sarney 2008).

In addition to serving as an enhanced insurance benefit, longevity insurance can simplify the problem retirees face of how to plan asset decumulation in old age. Some retirees have difficulty planning how to spend down their financial resources because of the uncertainty of age at death. A longevity insurance benefit simplifies that problem. Instead of planning for an uncertain period, retirees can plan for the fixed period from their retirement to the date at which they start receiving the longevity insurance benefit.

Longevity insurance can be an important component of a package to restore Social Security solvency. Future public policy changes likely will reduce the level of Social Security old-age benefits as part of a package to restore solvency. Most reform packages that cut benefits would raise elderly poverty (Sarney 2008). To offset that effect there will be a need to increase the level of some benefits for vulnerable groups. That goal could be achieved by providing longevity insurance benefits. As an alternative, survivors' benefits could be raised, but that would be less targeted and it would thus be more expensive to achieve the same results. Another alternative would be to raise minimum benefits, with the benefits being available at an earlier age, such as age 62. As life expectancy continues to increase, age 62 has become a relatively young age compared to expected age at death. Further, providing minimum benefits at an earlier age than the longevity insurance benefit would more likely reduce the labor supply of older workers. Longevity insurance would be better targeted by age and would typically not negatively impact the decision to work.

The proposed longevity insurance would address the problem of poverty among the oldest retirees by providing guaranteed minimum benefits to individuals age 82 and older. If future policy solutions to address Social Security's long-term financial shortfall cut benefits across the board, a Social Security longevity benefit could help reduce the effects of those cuts on the program's oldest, and poorest, beneficiaries. In recognition of this new insurance protection, Social Security OASI would be renamed Old-Age, Survivors and Longevity Insurance (OASLI). The renaming would inform people about the benefit and would help people focus on and better understand the economic risk of living longer than normal life expectancy.

Strengthening Social Security for Workers in Physically Demanding Occupations

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Social Security's expected outgo over the next 75 years exceeds expected income by 1.7 percent of taxable payroll.[1] This financial imbalance can be addressed by increasing Social Security's income from taxation, either from the current payroll tax or some other revenue source, or by cutting benefits.

If it should become necessary to cut benefits, actuaries and economists knowledgeable about Social Security have made an excellent case that raising the full retirement age (FRA), the age at which unreduced benefits are paid to non-disabled workers, should be part of any package of benefit cuts. The 1983 amendments to the Social Security law raised the FRA from age 65 to age 67 in incremental steps scheduled to end in 2022. Raising the FRA further responds directly to past and expected future increases in the longevity of American workers.

However, good arguments have also been made against raising the FRA. Increases in longevity have not been uniform across the population, but have been much greater among workers in the upper half of the income spectrum compared to those in the lower half. Many workers in the lower half of the income spectrum work in physically demanding occupations and many of these workers have health conditions that prevent them from continuing to work even though they do not qualify for Social Security disability benefits. These workers are particularly vulnerable to increases in the FRA, since they may be forced to retire early with greatly reduced benefits or endure periods during which they are neither able to work nor eligible for Social Security benefits.

Uccello (1998) found that 18 percent of retirees aged 55 to 61, and 14 percent of retirees aged 62 to 64, could not have continued working for health reasons but did not have a condition severe enough to qualify for disability benefits. Workers in occupations deemed more physically demanding constitute a disproportionately high number of retirees at earlier ages, and the proportion of workers in more physically demanding occupations decreases with age, particularly after age 65. This study was carried out when the FRA was 65. Since then, due to the 1983 amendments to the Social Security Act, the FRA has risen to age 66, and it is scheduled to rise further to age 67 for workers born in 1960 or later. The rise in the normal retirement age lowers benefits at each age benefits are claimed between ages 62 and 70. While these benefit reductions affect all workers not eligible for disability benefits, they can have a greater impact on workers unable to continue working for health reasons because these workers: (a) may have less opportunity to plan for an earlier than expected retirement; (b) may have less ability to save for retirement while working due to lower than average income; and (c) may have to bear additional costs owing to their health condition. Uccello concludes "many blue collar workers and others in more strenuous occupations may be adversely affected by a higher retirement age."

From its inception, Social Security has included elements of individual equity and social adequacy. In this context, individual equity means basing a covered worker's benefit on the worker's earnings history, and hence on the contributions made by the worker and on his behalf. Social adequacy means basing a covered worker's benefit on the worker's financial need. Raising the FRA with no compensating change to the system would shift the balance between individual equity and social adequacy by reducing the adequacy of benefits for a significant segment of the covered population. A compensating change to the system, which restores some of the benefit adequacy lost through raising the FRA, can bridge the gap between those for and against raising the FRA.

This proposal adds a new second tier disability benefit that provides a benefit amount that is between the current unreduced Social Security disability benefit and the reduced early retirement benefit. This new benefit is based on a less strict definition of disability than that which applies to the current disability benefit. To qualify for a disability benefit under current law, a worker must be "totally disabled," i.e., unable to "engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment." Many older workers, particularly those in physically demanding jobs, cannot continue working for health reasons but cannot qualify for Social Security disability benefits. This situation could be ameliorated by an "occupational" disability benefit that provides unreduced benefits at age 65 and reduced benefits as early as age 62 if a worker is unable to perform the essential duties of his or her current occupation. Workers meeting this occupational disability test would be protected from benefit reductions due to the increase in the FRA from age 65 to age 67. Implementing this benefit in the context of a further increase in the FRA would insulate these workers from additional benefit reductions.

Setting the age at which workers could qualify for the occupational disability benefit is a matter of judgment. One could argue for freezing the age 66 FRA that applies to workers reaching age 62 currently, so that qualifying workers would be protected against further increases in the FRA. Alternatively, the occupational disability benefit could incorporate the full schedule of increases in the FRA under current law, so that this benefit would take effect only if and when further increases are adopted in future legislation. The occupational disability benefit could even provide unreduced benefits before age 65, for example, at age 62. Adopting the retirement age structure for old age benefits under the law in effect before the 1983 amendments seems a reasonable compromise.

While an occupational disability benefit would protect one particularly vulnerable group of workers from the effects of an increase in the FRA, it would not answer directly all the objections to raising the FRA. In a public program where benefit eligibility and amount are determined by objective criteria, it is not possible to exactly meet the needs of all participants. Adding an occupational disability benefit in the context of an increase in the FRA preserves the balance between individual equity and social adequacy better than other proposed alternatives for increasing revenues or cutting benefits to address Social Security's long-term financing shortfall. Further, since workers qualifying for occupational disability benefits are expected to come mostly from the lower half of the income spectrum –workers who are typically in poorer health than higher earners – the benefits would address the issue of lower longevity among these workers.

It is expected that an occupational Social Security disability benefit would be adopted in the context of an increase in the FRA. Thus, the cost of adding this benefit would not be an additional cost to the system, but a reduction in the cost savings derived from increasing the FRA. If one goal of a package of proposed Social Security amendments is to achieve actuarial balance, a package that includes an occupational disability benefit such as described above would require higher tax increases and/or greater benefit reductions in other areas than a package not including such a benefit.

Adding an occupational disability benefit in the context of an increase in the FRA, while not answering all the objections to raising the FRA, preserves the balance between individual equity and social adequacy better than other proposed alternatives for cutting benefits.

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1 This means that a payroll tax increase of 0.85 percent both for employees and employers would close the long-term financing shortfall. The author is not suggesting such a tax increase.

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Appendix A: Advisory Committee Biographies

Lily Batchelder is Assistant Professor of Law and Public Policy at the New York University School of Law. Batchelder joined the NYU faculty from Skadden, Arps, Slate, Meagher & Flom, where she focused on tax aspects of transactional matters and tax policy issues arising before the Treasury Department, IRS and Congress. She has worked as a client advocate at Neighbors Together in Brooklyn, New York and subsequently joined its board of directors. Batchelder was the director of community affairs for a New York state senator and managed his re-election campaign. She has served as a research associate with the New America Foundation and as a Wiener Fellow at the Wiener Center on Social Policy at Harvard University's John F. Kennedy School of Government. She served as a panel member for the National Academy of Social Insurance study *Uncharted Waters: Paying Benefits from Individual Accounts in Federal Retirement Policy*. A member of the National Academy of Social Insurance since 2005, she received her J.D. from Yale Law School.

Barbara Bovbjerg is Director of Education, Workforce, and Income Security Issues at the U.S. Government Accountability Office, where she oversees analytic work for the Congress on retirement income and disability issues. Prior to this, she served as Assistant Director of Budget Issues for the U.S. General Accounting Office, Director of Citywide and Special Issues Analysis for the District of Columbia Office of the Budget, Research Associate in the Public Finance Center of the Urban Institute and Financial Analyst in the Office of Institutional Analysis of Cornell University. A member of the National Academy of Social Insurance since 2002, Bovbjerg received her M.R.P. from Cornell University.

Paul Davies is the Director of the Division of Policy Evaluation (DPE) in the Social Security Administration's Office of Research, Evaluation, and Statistics. He recently served as the Director of the Division of SSI Statistics and Analysis and was formerly an economist in DPE. Davies' research focuses primarily on the Supplemental Security Income (SSI) and Disability Insurance (DI) programs, and specifically examines SSI eligibility and participation, the effects of SSI policy options on poverty, the provision of SSI benefits to children with disabilities, and interrelationships between SSI and DI. He was co-Project Officer for the National Survey of SSI Children and Families and was a member of DPE's Financial Eligibility Modeling team. Davies has published papers in *Research in Labor Economics*, the *Journal of Gerontology: Social Sciences*, the *Journal of Aging and Social Policy*, and the *Social Security Bulletin*. A member of the National Academy of Social Insurance since 2006, Davies holds an M.A. and Ph.D. in economics from the University of Colorado at Boulder.

Lawrence Johnston is Senior Counsel at the Office of the Legislative Counsel in the U.S. House of Representatives, where he has worked for over twenty-five years. Johnston has been the primary drafter of Social Security legislation relating to old-age, survivors, and disability insurance for the U.S. House of Representatives since 1983. He has played a primary role in historic legislation, including the Social Security Amendments of 1983, the Disability Insurance Reform Act of 1984, the Social Security Independence and Program Improvements Act of 1994, and the Ticket to Work and Work Incentives Improvement Act of 1999. He also drafts in the area of employee benefits law under the Employee Retirement Income Security Act of 1974, having been a principal drafter of the ERISA provisions contained in the Multiemployer Pension Plan Amendments Act of 1980 to the most recent legislation popularly known as the Patients' Bill of Rights. A member of the National Academy of Social Insurance since 1998, Johnston received his law degree from Northwestern University.

Eric Kingson is Professor of Social Work and Public Administration at Syracuse University. He has held prior academic appointments at the Boston College Graduate School of Social Work and the University of Maryland School of Social Work and Community Planning. He directed the Emerging Issues Program of the Gerontological Society of America, and served as policy advisor to the 1982–1983 National Commission on Social Security Reform and the 1994 Bipartisan Commission on Entitlement and Tax Reform. Kingson is primary author of *Ties That Bind: The Interdependence of Generations* and *Social Security and Medicare: A Policy Primer* (with Ed Berkowitz), and coeditor (with James H. Schulz) of *Social Security in the 21st Century*. Kingson served as co-chair of the Academy's 11th Annual Conference, *Social Security and Medicare: Individual vs. Collective Risk & Responsibility*. He currently serves on the Advisory Board of The Journal on Social Security, Pensions, and Retirement Income of the Social Insurance Research Network (SIRN). A founding member of the National Academy of Social Insurance, Kingson served on its board from 1986 to 1995. He received his Ph.D. from the Florence Heller Graduate School for Advanced Studies in Social Welfare at Brandeis University.

Alice Wade is Deputy Chief Actuary for Long-Range Estimates in the Social Security Administration. Wade's duties include being key executive and principal expert for long-range actuarial studies and for analyses and estimates. Before joining SSA, she served at the Actuarial Research Corporation on various health care issues. From

1978 until 1983, she worked at Meidinger Inc. as an actuarial pension consultant. Wade is author of many population projection papers, including *Actuarial Tables Based on U.S. Life Tables: 1989-91* and *Introduction to Continuance Tables*. A member of the National Academy of Social Insurance since 2000, Wade received her Masters in mathematics from the Virginia Commonwealth University.

Debra Bailey Whitman is the Staff Director of the U.S. Senate Special Committee on Aging. Previously, Whitman was the Specialist in the Economics of Aging at the Congressional Research Service where she also directed its Aging Initiative. In this capacity she provided members of Congress and their staff with research and advice regarding the economic impacts of current policies affecting older Americans as well as the distributional and intergenerational effects of legislative proposals. Additionally, Whitman worked at the Social Security Administration where she conducted research on savings and retirement, helped to establish the Retirement Research Consortium and served as the founding Editor of the Perspectives section of the *Social Security Bulletin*. She has also served for two years as a Brookings LEGIS Fellow to the Senate Health, Education, Labor and Pensions Committee, where she worked on health policy for Senator Edward M. Kennedy. A member of the National Academy of Social Insurance since 2006, Whitman holds a Masters and Doctorate in economics from Syracuse University.

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