More than 80 years after the passage of the Social Security Act, poverty and near-poverty persist among older Americans. In 2016, among all persons aged 65 and older, an estimated 4.5 million were officially poor, representing 9.3% of older adults. Poverty rates are higher among older minority groups: 7.9% among Whites, but 18.7% among African Americans, 21.3% among American Indians/Alaska Natives, 17.4% among Hispanics, and 11.8% among Asians (U.S. Census, 2017). Poverty is higher for older women than for men, including among racial and ethnic minorities, and its incidence rises with age. Further, financial need exists despite Social Security. In 2016, 74.4% of persons aged 65 and older who were living alone and in poverty received Old Age and Survivor Insurance (OASI) benefits, as did 60.1% of poor, multiperson families in which the household head was aged 65 or older (Social Security Administration, 2017). Poverty is higher for older women than for men, including among racial and ethnic minorities, and its incidence rises with age. Further, financial need exists despite Social Security. In 2016, 74.4% of persons aged 65 and older who were living alone and in poverty received Old Age and Survivor Insurance (OASI) benefits, as did 60.1% of poor, multiperson families in which the household head was aged 65 or older (Social Security Administration, 2017).

These figures reference official poverty thresholds that are widely regarded as an outdated measure of economic insecurity (e.g., Blank & Greenberg, 2008). Since 2010, the Census Bureau has also reported a Supplemental Poverty Measure, designed to be a more accurate gauge of economic well-being. By this measure, older adult poverty is higher: 14.0% in 2016 for all persons aged 65 and older (Fox, 2017).

While the Supplemental Poverty Measure is not used to set policy, it does provide evidence of need, as do other indices, such as the Elder Economic Security Standard Index (Mutchler, Li, & Xu, 2016) or Smeeding’s (2016) proposed poverty threshold of half the median national household income, a measure used for international comparison. According to the latter, the United States has one of the highest poverty rates among older persons in upper-income countries: 20.9% in 2015. That figure compares unfavorably with such countries as Canada (10.7%), France (3.1%), the Netherlands (3.7%), Spain (5.9%), and the United Kingdom (13.8%; Organisation for Economic Co-operation and Development, 2018).

New Social Risks and Economic Insecurity in Old Age

Devised in the 1930s as the keystone in a social policy structure meant to protect workers and their families against financial risk, Social Security never covered all social groups adequately. Today, it is ill-equipped for the “new social risks” (Hacker, 2004) that have emerged in recent decades.
These risks include a societal landscape in which half of today’s workers lack access to retirement savings vehicles, while others are challenged to save enough through self-managed, defined-contribution accounts. Because of technological changes, an increasingly global economy, and other factors, workers face greater job instability than previous cohorts. Nationally, incomes have stagnated in recent decades, except in the uppermost tier of earners. Many adults experienced setbacks during the Great Recession of 2007–2009 (loss of jobs, homes, savings) that can have long-lasting consequences. These challenges and more are exacerbated for disadvantaged groups—racial/ethnic minorities, lower-income households, women, those with less education—and people in poorer health. Together, they contribute to an overall rise in inequality that can become magnified over time. Future cohorts of retirees may face greater insecurity if the distribution of retirement income becomes increasingly unequal, as some foresee (Crystal, Shea, & Reyes, 2017; Johnson, 2016, 2018).

What links these multiple sources of risk is social policies’ lag in lessening their impact (Bonoli, 2006). Given the lack of private-sector initiatives adequate to meet these challenges, retirees of the future are likely to be even more dependent on Social Security than are current cohorts (Munnell, Hou, Webb, & Li, 2016), making program adjustments to meet increased need imperative. One possible policy solution is a newly-designed minimum benefit for eligible retired workers whose income from all sources fails to meet a minimally adequate standard.

How Does a Minimum Benefit Work?

There is now a minimum OASI benefit, and has been one since the earliest days of the program. However, by the 1970s, concerns grew that large shares of these benefits were going to two groups perceived as less deserving: (a) retirees with short records of covered employment but with full pensions from state and local jurisdictions not covered by Social Security (so-called double-dippers), and (b) “homemakers supported by their spouses’ incomes” (Staats, 1979, p. i).

In 1977, Congress froze the value of the original minimum benefit, and eliminated it four years later for new beneficiaries. It was replaced by a new “special minimum benefit,” intended for retirees with 11 or more years of qualified earnings whose Social Security benefit fell below the poverty level. The special minimum benefit was inflation indexed, and over the years its value declined relative to regular Social Security benefits, which are indexed to wages (and which tend to increase more rapidly than prices). Gradually, the pool of beneficiaries shrank, and since 1998 no new beneficiaries have been assigned the special minimum, which would be smaller than the regular benefit they would be entitled to (Social Security Administration, 2014).

Design for a New Minimum Benefit in Social Security

Our proposed policy links a new minimum benefit to a percentage of the federal poverty threshold and a retiring worker’s years of covered employment. Recognizing the limitations of the official poverty measure, but also its established use in policy making, we propose that eligible retirees with 20 or more years of covered employment and household incomes totaling less than 125% of the poverty threshold would receive a benefit raising their income to that level. For workers with 10–19 years of covered employment, the qualifying household income level and supplement would be set at 112% of the poverty threshold. At age 80, all low-income beneficiaries would be moved to the 125% benefit level in recognition of the financial challenges accompanying advanced age.

These two thresholds were proposed for analytic simplicity, but in practice benefits could be stepped so as to reward each added year of covered employment. They might start at 110% of poverty for workers with the fewest years of covered employment, rising to 125% in increments of 1–2% per year of additional employment, as others have suggested (e.g., Favreault, 2009).

Financing a New Minimum Benefit

Two strategies could help pay for the new minimum benefit. One would raise some employers’ share of the Old Age, Survivors, and Disability Insurance (OASDI) tax from the current 6.2% to 8.0% of employee earnings. Employers would pay at the higher rate for any employee for whom they did not contribute at least 3% of earnings to a qualified pension plan.

Second, we propose modifying the calculation of the taxable earnings base, the ceiling above which OASDI taxes are not collected. Adjusted each year proportionally to the change in average national earnings, in recent years the taxable base has been equal to approximately 2.5 times average annual earnings. We recommend formally linking the base to 3.0 times average national earnings. Under this suggestion, for example, in 2015 the OASDI tax would have been assessed on all earnings up to $144,295 instead of the actual $118,500. In addition, all earnings of 10 or more times the national average would be subject to the OASDI tax, in response to long-term disproportionate growth at the highest levels of the income distribution.

The DYNASIM Analysis

The Urban Institute’s Dynamic Simulation of Income Model (DYNASIM) was used to model the impact of adopting our proposed minimum benefit as part of the OASI program. Briefly, DYNASIM draws on detailed population data to estimate how societal or policy changes can affect various demographic groups well into the future: here, from a 2015 baseline to 2065. The simulation assumed that the
Social Security Trust Fund will have sufficient assets to pay beneficiaries in full through the simulation period without other changes to eligibility criteria or benefit formulas. For a detailed description of DYNASIM, see Favreault, Smith, and Johnson (2015); further discussion of the assumptions governing the simulations appears in Johnson and Johns (2018).

The following summary of the DYNASIM projections focuses on economic impacts for demographic groups identified by income, age, gender, marital status, and race/ethnicity. Overall, the results suggest that the proposed new minimum benefit could increase economic security for vulnerable groups.

**Income Change by Quintile**

The purpose of the revised benefit would be to improve the income security of Social Security beneficiaries with the lowest income. Thus, as Figure 1 shows, individuals in the lower two income quintiles would experience the greatest benefit. By 2025, the lowest income group would see an average income increase of 20.8%, one that would keep rising each decade, to 61.1% by 2065. The second quintile would also see an income increase, but a smaller one, from 2.9% in 2025 to 14.0% by 2065. The remaining three quintiles would see negligible rises: less than 3% across the 50-year span of the simulation.

**Income Change by Age**

Figure 2 shows mean per capita net cash incomes rising for each age group from age 62 to ages 85 and over. Younger OASI beneficiaries would see the lowest level of increase over the 50-year period ($613, or 1.2%): not surprising, because our benefit is not available until the full retirement age of 66 or 67. People aged 85 and older would see the largest increase, to $3,377 (10.0%).

**Income Change by Gender**

Under the revised minimum benefit, women show slightly higher projected percentage increases in income, although both genders would evidence a modest but steady rise over the 50-year period. The expected rise is smaller for men, from 1.1% in 2025 to 3.9% by 2065, while for women the increase would begin in 2025 at 1.6% and rise to 4.9% by 2065.

**Income Change by Marital Status**

Here, the simulation shows the greatest benefit by 2065 to beneficiaries who never married (10.1%), those who are divorced (6.9%), and widows (6.3%). Married individuals would see barely any increase; just 1.7% by 2065, with marriage itself serving as a buffer against financial hardship.

**Income Change by Race and Ethnicity**

The four racial and ethnic groups analyzed are all projected to experience steady net gains in mean per capita income. As Figure 3 shows, White non-Hispanics would see the smallest gain, with an increase of $1,644 (3.4%) over the 50-year simulation period. Black non-Hispanic...
older adults would see the largest increase, at $2,917 (8.3%), followed by the group “other” ($2,042, or 5.1%) and Hispanics ($1,893, or 5.6%).

Impact on Poverty

One key finding is that the share of the older population living in poverty would fall from 9.1% in 2015 to 3.9% in 2065. Without the new minimum benefit, the simulation projects that poverty would also decline, to 5.7% by 2065.

Social Security Benefits Relative to OASI Taxes

It is important to consider the return to retirees relative to what they will have contributed to Social Security in payroll taxes. Here, the simulation predicts that benefits for the bottom two earnings quintiles will exceed the taxes they paid into Social Security. However, retirees in the third, fourth, and fifth earnings quintiles are estimated to see negative returns: that is, to receive less in Social Security benefits than they paid in taxes into the system. The disparity is particularly noticeable for the top earnings quintile, which is projected to receive annual benefits averaging about 125% more than those in the lowest quintile, and about 30% more than those in the second quintile.

Other Retirement Financial Assets

In addition to Social Security, retirees depend on personal resources for their income security. Table 1 shows substantial differences by lifetime earnings quintile in estimated retirement assets, which include individual retirement accounts and employer defined-contribution plans. Again, persons in the lowest quintile are at a substantial disadvantage: only 25–30% will have any of these assets, and over the 50 years of the simulation, that minority is projected to see gains of about $2,500 in asset value, to $13,860. Over the same period, more than 90% of individuals with retirement assets in the top earnings quintile will achieve a 2065 average of $545,493. Put another way, their assets are predicted to average 39 times those of the minority in the bottom quintile who possess any retirement assets. These figures again predict heavy dependency on Social Security for tomorrow’s lower-income workers.

The retirement assets of high-earning individuals are predicted to average 39 times those of the minority in the bottom quintile who possess any retirement assets.

Net Cash Income

Finally, Table 2 displays projected differences in individual net cash income by income quintile for the 2015–2065 period. In 2015, the top quintile has an income that is 8.6 times that of the lowest quintile, an advantage that widens slightly across the period. This estimate also shows that, while lower-income groups are favored relative to the higher-income quintiles for indicators such as the return on OASI taxes paid or in income gains from the new minimum benefit, the higher-income quintiles would continue to experience a large advantage in absolute economic well-being.
Summary and Conclusion

The DYNASIM data provide evidence that a revised minimum benefit in Social Security may enhance the financial security of certain vulnerable groups of retirees. The data show an expected reduction in poverty among the older population, and lower-income groups would see substantial extra income. As years go on, older retirees would receive higher benefits, women would do slightly better than men, and the unmarried would be helped more than marriage partners. Racial and ethnic minorities would show income gains. Lower-income groups would also receive more value in Social Security benefits than they had contributed in payroll taxes.

While vulnerable groups might be better off relative to their status at the 2015 baseline, the revised minimum benefit would do little to alter the substantial absolute advantage in income and assets accruing to upper-income retirees. Indeed, DYNASIM assumes that the disparities in assets and income now apparent among socioeconomic groups in the United States will widen over the coming decades.

An analysis using simulated data has obvious limitations. While it is useful for predicting the impact of a single intervention in a complex, dynamic policy world that is temporarily held constant, we know that real-world events will look far different, especially over a 50-year time horizon. Other changes will need to be made to Social Security to achieve other objectives, including the long-term stability of the Trust Fund. Increases in the taxable earnings threshold, which we propose drawing on to help finance the new minimum benefit, might be needed for different priorities. The measure could also face difficult political challenges, depending on the overall climate in which Social Security reforms are being considered.

Nevertheless, the simulated data clearly show that a revised minimum benefit could aid in alleviating economic insecurity among a wide range of population groups. For that reason, it is worth continuing to analyze possible designs and funding mechanisms and promote awareness among policymakers of the minimum benefit’s possibilities.

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References


