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Low-Wage Earners: Options for Improving Their Retirement Income

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Until recently, the Social Security reform debate has focused primarily on restoring long-term solvency to the program. The development of a non–Social Security surplus in the federal budget has made room in the debate for a discussion of initiatives to reduce poverty among elderly individuals, including low-wage earners, their spouses, and survivors. In December 2000 the White House estimated that the non–Social Security surplus would be approximately $2.4 trillion over a ten-year period; in January 2001 the Congressional Budget Office projected a non–Social Security surplus of $3.1 trillion. In reality, the amount of the surplus that will be available for new initiatives is significantly lower and closer to $2 trillion.[1] This lower level of available funds makes clear the need to set priorities for the use of the surplus and make hard choices about which initiatives should be funded. One of these priorities should be the reduction of poverty among elderly people.

Social Security has been accurately credited with being highly effective in reducing poverty among the elderly. The program is responsible for removing more people from poverty than all other government programs combined. Yet the labor experiences of some individuals place them at risk of being poor when they grow old, even after receiving Social Security. People of color, women, and other low-wage earners are among those at risk.

I wish to thank Wendell Primus, director of the Income Security Division at the Center on Budget and Policy Priorities, for his ideas and insights in developing this chapter and Bob Greenstein, executive director, for his thoughtful review and comments. I greatly appreciate the work of Lynette Rawlings and Allen Dupree, who provided extensive assistance in analyzing the data. This paper was written and presented prior to the enactment of the Economic Growth and Tax Relief Reconciliation Act of 2001 that costs more than $1.7 trillion from 2001 to 2011, including interest payments, and consumes the majority of the eleven-year non–Social Security surplus.

1. Greenstein (January 4, 2001, pp. 1, 2).

In 1998 the poverty rate for individuals age sixty-five and older declined from approximately 46 percent before Social Security to 12 percent after the receipt of Social Security (and other social insurance benefits).[2] About 3.8 million seniors were poor after receiving Social Security.[3] Those at greatest risk of experiencing poverty during their old age include unmarried women, African Americans, and Latinos. Twenty percent of elderly unmarried women were in poverty in 1998. This rate equals the poverty level for children in this country. The proportions of Latino and African American elders who were impoverished were even greater, at 24 percent and 30 percent, respectively.

Improvements can be made within Social Security to reduce poverty further among elderly individuals in these and other communities. Social Security alone, however, cannot compensate completely for the labor-market factors that result in lower retirement income for people of color and women. A three-pronged approach is needed to raise the income levels of low-income seniors. In addition to improvements in Social Security, changes also are needed in the Supplemental Security Income (SSI) program—a means-tested program that serves the elderly, blind, and disabled. An initiative also is needed to help low-wage workers accumulate retirement savings on top of Social Security.

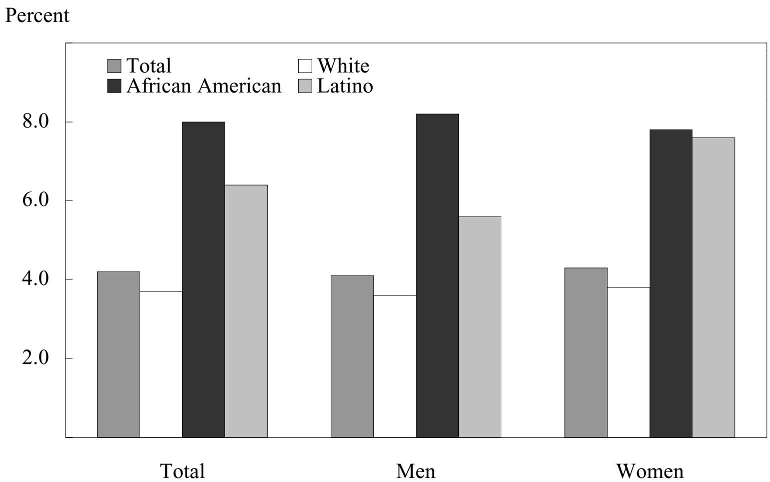
At Risk: African Americans, Latinos, and Women—Their Working and Senior Years

Social Security benefits are driven by a worker's earnings history. A worker's level of attachment to the labor market and the wages earned each year will determine whether the worker will be eligible for Social Security and the amount of benefits the worker will receive. On average, people of color and women have had different work experiences than white men. In comparison to white workers and men as groups, African American, Latino, and female

2. It is important to note that the measure of poverty used throughout this report, unless otherwise specified, differs from the official poverty measure. In this report, the phrase "before (or without) Social Security" means the poverty rate was determined by counting only income from social insurance such as federal pensions and unemployment insurance benefits, not Social Security or any means-tested benefits. The phrase "after Social Security" means income from social insurance and Social Security was counted; benefits from means-tested programs were not. By contrast, the official poverty measure counts all cash income, including all government cash benefits. Benefits not in the form of cash (for example, food stamps) are not counted.

3. Using the official poverty measure, about 3.4 million elderly individuals were poor in 1998. Eighteen percent of elderly, unmarried women, 26 percent of elderly African Americans, and 21 percent of elderly Latinos were poor compared to 8 percent of white elderly.

Figure 4-1. *Unemployment by Race, Ethnicity, and Gender, 1999*



Source: U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*, January 2000, table 5, p. 172.

workers are more likely to experience unemployment, hold part-time positions because they are unable to find full-time jobs, and work in relatively low-paid occupations.

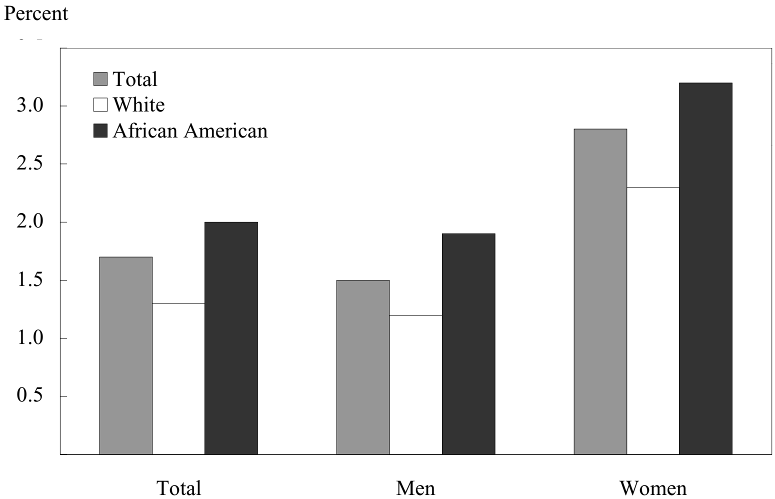
Unemployment and Involuntary Part-Time Employment

The unemployment rate for the overall civilian noninstitutionalized population was lower in 2000 than it had been in thirty years.[4] Unemployment rates for African American workers were the lowest since 1969. These lower rates are good news and, if sustained, will contribute to higher retirement incomes for workers, especially younger workers, who are able to reap the benefits of reduced joblessness.

Individuals for whom a substantial proportion of their employable years has already passed, however, will have their retirement income determined primarily by past employment experiences. Moreover, even with today's low unemployment rates, unemployment is more widespread among people of color than among non-Latino whites (hereafter referred to as whites). The unemployment rate for non-Latino African Americans (hereafter referred to as African Americans) in 1999 was nearly two times greater than that of white workers (see figure 4-1). The jobless rate for Latino workers, although substantially lower

4. *Budget of the United States Government, Fiscal Year 2001* (2000, p. 23).

Figure 4-2. *Involuntary Part-Time Workers as a Percentage of Employed Persons, by Race, Ethnicity, and Gender, 1999*



Source: U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*, January 2000, table 5, p. 172 and table 8, p. 175.

than that of African Americans, was more than one and one half times higher than the rate for white workers. White and African American women experienced unemployment at rates similar to their male counterparts, while Latinas were more likely to experience unemployment than Latino men.

Workers who are looking for employment and are unable to find full-time positions may be forced to settle for part-time jobs. Such positions are sometimes referred to as *involuntary part-time jobs*. Figure 4-2 indicates that African Americans, both men and women, are more likely to be employed as involuntary part-time workers than whites. Some 2.3 percent of employed African American men are involuntary part-time workers compared to 1.2 percent of employed white men. Similarly, 3.2 percent of employed African American women are involuntary part-time workers compared to 1.9 percent of employed white women. Unfortunately, these data are not available for Latino workers.

Occupations and Earnings

The occupations in which people of color and women are overrepresented tend to be less well paid in comparison to other occupations. African American and Latino workers made up 11.3 percent and 10.3 percent, respectively, of people employed in 1999.[5] African Americans made up a disproportionate share of people employed in service occupations (18.3 percent) and of operators, fabricators, and laborers (15.7 percent). By contrast, African Americans accounted for only 8 percent of managerial and professional occupations. (It should be noted that there are exceptions, such as social work. African Americans made up 24.2 percent of the workers in this profession.)

Latino workers constituted 15.2 percent of those employed in service occupations and 16.6 percent of operators, fabricators, and laborers. Latinos also were disproportionately represented in the farming, forestry, and fishing occupations (23.1 percent). Latinos made up 12.8 percent of workers in the overall category of precision production, craft, and repair occupations, but some of the specific occupations within this category had a much larger share of Latino workers. For example, Latino workers accounted for 32.2 percent of the drywall installers and 20.4 percent of the concrete finishers (African Americans represented 25.2 percent of the concrete finishers). Conversely, Latino workers made up only 5 percent of managerial and professional occupations.

Women accounted for 46.5 percent of people employed in 1999. However, they made up the majority of workers in the technical, sales, administrative, and support occupations (63.8 percent) and service occupations (60.4 percent).

The median weekly earnings for service occupations, in which people of color and women were overrepresented, was $336 in 1999, compared to $797 for managerial and professional jobs (see table 4-1). The lowest paid field was farming, forestry, and fishing, in which Latino workers have a disproportionately high representation.

Given this distribution of workers across occupations, it is not surprising that the median earnings for people of color were lower than those of white workers. In 1999 median weekly earnings were $573 for white full-time workers, $445 for African American full-time workers, and $385 for full-time Latino workers (see table 4-2).

For each group, the wages of full-time women workers were substantially less than the wages their male counterparts received. Women of color had the lowest earnings. Latinas earned 55 percent of the wages earned by white men, and African American women earned 64 percent. By comparison, white women earned 76 percent, African American men earned 77 percent, and Latino men earned 64 percent. The wages of women of color represented a

5. U.S. Department of Labor, Bureau of Labor Statistics (2000, tables 10 and 11, pp. 177–83).

Table 4-1. *Earnings by Occupation*
U.S. dollars

Occupation	*Median weekly earnings*
Total	549
Managerial and professional speciality	797
Technical, sales, and administrative support	488
Service occupations	336
Precision production, craft, and repair	594
Operators, fabricators, and laborers	429
Farming, forestry, and fishing	331

Source: U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*, January 2000, table 39, pp. 213–18.

larger share of their male counterparts' wages than the wages for white women represented of white men's wages. African American women and Latinas received median earnings equal to 84 percent and 86 percent of median earnings for African American and Latino men, respectively. These figures reflect the higher earnings of white men compared to the earnings of people of color, for both men and women, and also compared to the earnings of white women.

Impact of Employment Experience on Retirement Income for People of Color

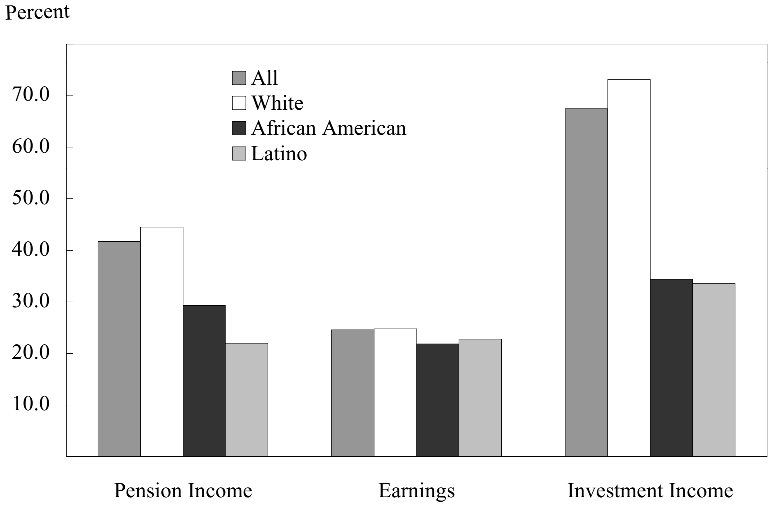
One cumulative effect for people of color of higher unemployment and heavier concentration in lower-paying jobs is lower retirement income. African Americans and Latinos who are age sixty-five and older are much less likely to have income from pensions and investments than white elders. Social Security, consequently, is a key source of retirement income for African Americans and Latinos. The program is particularly beneficial to these com-

Table 4-2. *Median Weekly Earnings for Full-Time Workers, by Race, Ethnicity, and Gender, 1999*
U.S. dollars

Workers	*Total*	*White*	*African American*	*Latino*
Total	549	673	445	385
Men	618	638	488	406
Women	473	483	409	348

Source: U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*, January 2000, table 37, p. 212.

Figure 4-3. *Percentage of Elderly and Their Spouses with Income from Specified Sources, by Race and Ethnicity, 1994–98*



Source: These data are the result of analyses by the Center on Budget and Policy Priorities using 1994–98 Current Population Survey data collected by the Bureau of the Census.

munities because it is designed to ameliorate some of the negative effects of the labor market for low-wage workers.

Low-wage and part-time workers are less likely to have pension coverage, and when they retire they are less likely to have pension income. Given the higher concentration of people of color in low-wage and part-time jobs, the probability that these workers will have pension income when they grow old is lower than that of elderly white people. A recent study by the General Accounting Office found that employees with lower wages are much less likely to have pension coverage than those who are more highly paid.[6] The findings showed that in 1998 some 81 percent of employees earning less than $20,000 lacked pension coverage, more than twice the rate for employees with incomes of $20,000 or more (34 percent). The study also found that 79 percent of part-time workers and workers who were employed for part of the year lacked pension coverage, nearly double the proportion of full-time employees without coverage (40 percent). Figure 4-3 indicates that, upon reaching age sixty-five or older, only 29.3 percent of African Americans and 22 percent of Latinos received pension income during 1994–98 compared to 41.7 percent of white elders.

6. General Accounting Office (2000, pp. 13, 14).

The modest average wage levels offered by the occupations in which African American and Latino workers are overrepresented make it harder for these low-wage earners to set aside savings and investments for retirement. As shown in figure 4-3, the proportion of white elders who receive income from investments (including interest, dividends, and rent) during the 1994–98 period was more than twice as great as the proportion of elderly people of color.

Some elderly also have income from earnings. The average share of elderly with earnings is approximately the same across racial and ethnic groups.

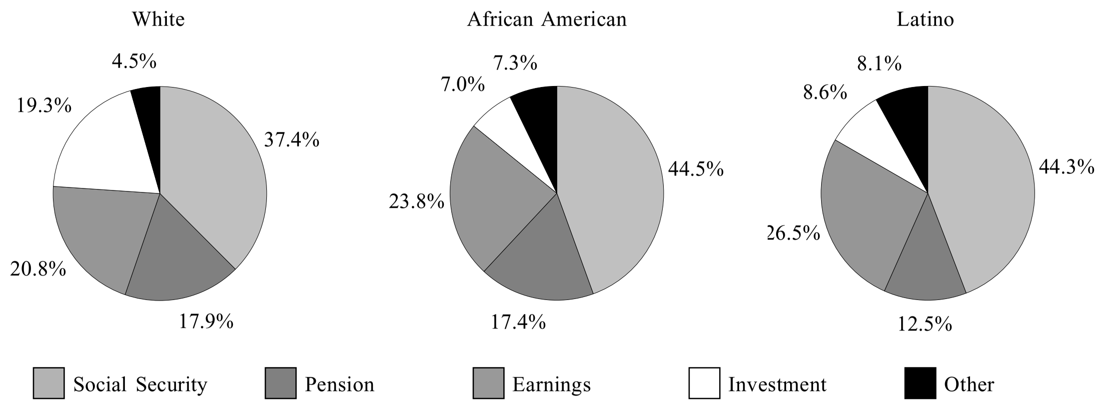
The lower probability that elderly people of color will receive pension or investment income relative to elderly white people places greater importance on Social Security as a foundation for retirement income. Not surprisingly, Social Security made up a larger share of income for elderly people of color than for elderly white people. From 1994 to 1998 both African American and Latino seniors relied on Social Security for approximately 44 percent of their total income, while white elders and their spouses received about 37 percent of their total income from Social Security (see figure 4-4).

Unlike other sources of retirement income, Social Security is designed to help compensate for some of the employment experiences that impact low-wage workers. It does this through a progressive benefit formula that helps low-wage workers in two ways. First, the benefit formula provides low-wage workers with Social Security benefits that equal a substantially higher percentage of their preretirement earnings than is the case for high-wage workers. Social Security replaces 56 percent of the average lifetime earnings for low-wage workers, compared to 28 percent for workers with earnings equal to at least the maximum wage subject to payroll tax.[7] The second way the benefit formula is made progressive is through the determination of a worker's average lifetime wage. (The average lifetime wage is the amount of earnings to which the progressive formula is applied.) In determining the average lifetime wage, the forty years in which workers had their highest earnings are reviewed and the five lowest years of earnings (including years with no earnings) are eliminated. Since people of color are more likely to experience unemployment and involuntary part-time employment, the elimination of the five lowest years helps to raise the average earnings figure used to compute their Social Security benefits.

The employment experiences of people of color and the consequent impact of these experiences on retirement income result in a substantially higher probability of poverty for elderly African Americans and Latinos compared to

7. *The 2000 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (2000, table III.B.5, p. 185).

Figure 4-4. *Share of Income from Specific Sources, by Race and Ethnicity, 1994–98*



Source: These data are the result of analyses by the Center on Budget and Policy Priorities using 1994–98 Current Population Survey data collected by the Bureau of the Census.

Table 4-3. *Poverty Rates among the Elderly before and after Social Security, 1998*
Percent

	White	*African American*	*Latino*
Before Social Security	44.6	63.2	54.9
After Social Security	8.9	29.9	23.9
Reduction in poverty	35.7	33.3	31.0

Source: These data are the result of analyses by the Center on Budget and Policy Priorities using 1998 Current Population Survey data collected by the Bureau of the Census.

Note: The measures of poverty in this figure differ from the official poverty measure, which lists rates as 8.2 percent for elderly whites, 26.1 percent for elderly African Americans, and 21 percent for elderly Latinos after Social Security. Reduction in poverty is the difference between the before and after entries.

the white elderly. Social Security, and its progressive benefit formula in particular, ameliorate the adverse effects of higher unemployment, lower wages, greater susceptibility to unreported earnings, lower rates of pension coverage, and lower levels of savings and investments. However, Social Security alone cannot fully offset the combination of these factors.

Table 4-3 illustrates that, before Social Security is counted, some 44.6 percent of white elderly individuals had income below the poverty line in 1998, as compared to 63.2 percent of African American elderly people and 54.9 percent of the Latino elderly. Social Security greatly reduces poverty for all three groups, cutting the proportion of elderly people who are poor by more than half for each group. A large proportion of each group is lifted out of poverty by Social Security, but approximately 30 percent of elderly African Americans and 24 percent of Latino elders remain poor.

Impact of Employment Experience on Retirement Income of Women

Women are more likely than men to be poor as they grow older. Without Social Security, 51.4 percent of women age sixty-five and older would have been poor in 1998, compared to 39.7 percent of elderly men.[8] As a result of receiving Social Security benefits, the proportion of the elderly living in poverty was reduced to 14 percent for women and approximately 8.4 percent for men. Social Security greatly reduced poverty for both genders, but the percentage of women remaining in poverty was nearly twice the percentage of elderly men.

8. These data are the result of analyses by the Center on Budget and Policy Priorities using 1999 Current Population Survey data collected by the Bureau of the Census.

Figure 4-5. *Percentage of Elderly Women and Their Spouses with Income Specified Sources, by Marital Status, 1994–98*

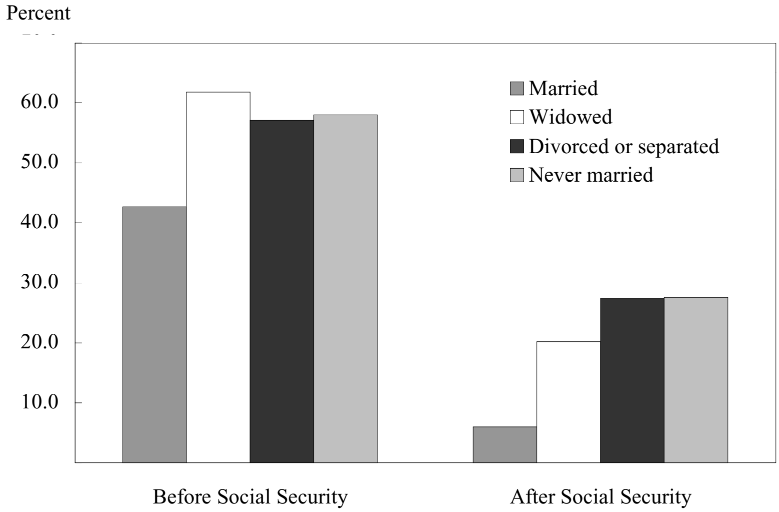
Source: These data are the result of analyses by the Center on Budget and Policy Priorities using 1994–98 Current Population Survey data collected by the Bureau of the Census.

Not only does financial well-being vary by gender, but the financial well-being of women also differs markedly by marital status, race, and ethnicity. Among elderly women, unmarried women are at greater risk financially largely because they are less likely to receive income from pensions, earnings, or investments than married women. Married women have access to their husbands' income from pensions, earnings, and investments in addition to their own income from these sources.[9] Figure 4-5 shows the percentage of elderly women who received retirement income from each of these sources during the period from 1994 to 1998. Some 51.6 percent of married women and their spouses had pension income, while only 21.4 percent of widows, 27.1 percent of divorced or separated women, and 38.9 percent of never married women had pension income.

The receipt of earnings and investment income by elderly women also varies by marital status. Figure 4-5 shows that elderly married women were

9. For the purposes of this chapter, the income of individuals age sixty-five and older and the income of their spouses (where relevant) are included, whether or not the spouse also is sixty-five or older. Counting the income of non-elderly spouses better captures the total cash income available to the elderly. See also Butrica, Iams, and Sandell (1999, p. 21).

Figure 4-6. *Proportion of Poor Elderly Women, by Marital Status, 1994–98*



Source: These data are the result of analyses by the Center on Budget and Policy Priorities using 1994–98 Current Population Survey data collected by the Bureau of the Census.

Note: The measures of poverty in this figure differ from the official poverty measure. The poverty rates "before Social Security" were determined by counting only income from social insurance, such as federal pensions and unemployment insurance benefits, but not Social Security or any means-tested benefits. The poverty rates "after Social Security" were determined by counting income from social insurance and Social Security; benefits from means-tested programs were not counted. By contrast, the official poverty measure counts all cash benefits. Benefits not in the form of cash (for example, food stamps) are not counted.

more likely to have income from earnings than elderly women who were widowed, divorced or separated, or never married. Elderly married women were much more likely to have investment income than any other group. Women of every marital status were more likely to have investment income than earnings or pensions.

Given the lower rate of receipt of income from pensions, earnings, and investments by elderly unmarried women compared to elderly married women, one might expect unmarried women to have a higher incidence of poverty than married women. Figure 4-6 illustrates that this is the case. Before counting Social Security, 61.8 percent of elderly widows were poor during the period from 1994 to 1998, as were 57.1 percent of divorced and separated women, and 58 percent of women who never married. By comparison, 42.7 percent of married women were poor before receiving Social Security.

Social Security reduced poverty substantially for women of every marital status. Figure 4-6 shows that the program lowered poverty rates for married women to just 6 percent and cut the percentage of women in poverty by more than half for each unmarried category. (Using the official poverty measure, poverty rates were 18.6 percent for elderly widows, 23.9 percent for divorced and separated women, 24.7 percent for never-married women, and 5.1 percent for married women.)

Several components of the Social Security system help to remove women from poverty. The progressive benefit formula favors women because they have lower lifetime earnings than men, on average, due to a combination of labor-market factors. Women are disproportionately represented among low-wage workers. While women accounted for about 48 percent of all workers in 1996, they made up 58 percent of minimum-wage workers.[10] Women also were more likely to be part-time workers. In 1999 some 62 percent of all part-time workers were women.[11] Women also spent twelve fewer years in the labor market than men, on average. This absence from the labor market often reflects time spent caring for family members.[12] The progressive benefit formula helps to counteract the effect of these employment experiences by replacing a larger share of preretirement earnings for women than men, on average. In December 1997 women received 53 percent of all Social Security retirement and survivors benefits but paid only 38 percent of payroll taxes.[13]

Women also are assisted more than men by the annual cost-of-living adjustment (COLA). Social Security benefits are increased each year to keep pace with inflation. The COLA is particularly important for women because they have a longer average life span than men. A sixty-five-year-old woman is expected to live to eighty-four, while a sixty-five-year-old man's anticipated life span is eighty.[14] Unlike most other sources of income for women, which dwindle as they grow older, Social Security benefits rise each year to maintain their purchasing power.

Auxiliary Social Security benefits, including spouse and survivors benefits, provide another fundamental source of protection for many married and widowed individuals, typically women. An elderly married woman can receive either a benefit based on her own earnings history or a spouse benefit equal to 50 percent of her husband's benefit, whichever is larger. (If the husband were the lower-wage earner, he would qualify for the spouse benefit instead of the

10. Mishell, Bernstein, and Schmitt (2000, table 2.41, p. 189).

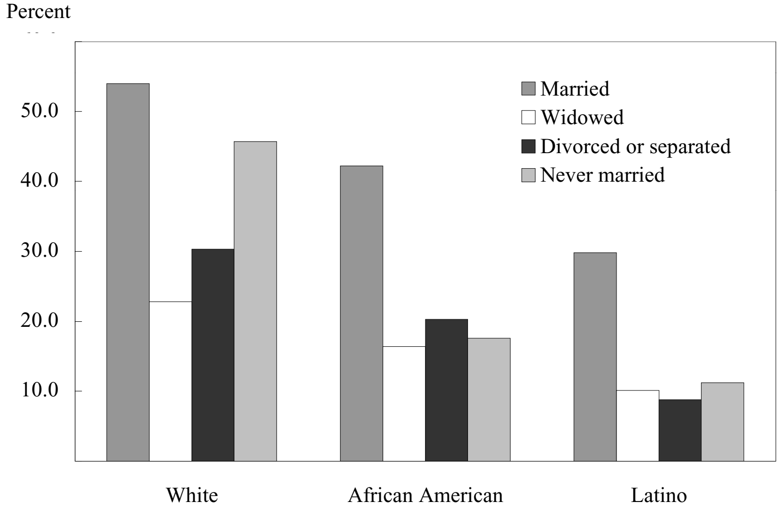
11. U.S. Department of Labor, Bureau of Labor Statistics (2000, table 22, p. 198).

12. National Economic Council Interagency Working Group on Social Security (1998).

13. Porter, Larin, and Primus (1999, p. 25).

14. Centers for Disease Control (1997, table 6-1, p. 7).

Figure 4-7. *Percentage of Elderly Women and Their Spouses Receiving Pension Income, by Race, Ethnicity, and Marital Status, 1994–98*



Source: These data are the result of analyses by the Center on Budget and Policy Priorities using 1994–98 Current Population Survey data collected by the Bureau of the Census.

wife.) An elderly woman who outlives her husband can receive a survivors benefit that is based on her own earnings history or she can receive an amount equal to 100 percent of her deceased husband's benefit, if that is greater than the benefit based on her own earnings.

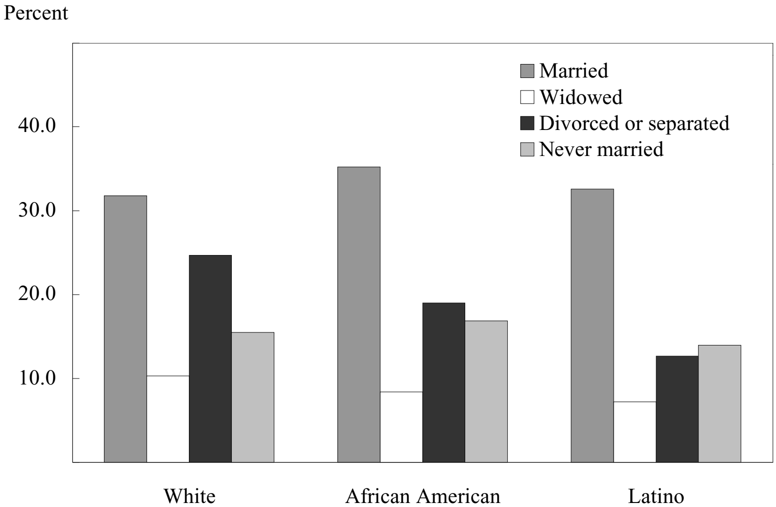
Social Security is favorable to women across marital categories, but it is most advantageous to married women. The Social Security income a married couple receives is at least 150 percent of the benefit for the higher earner.

Elderly Women of Color

In addition to examining the financial well-being of elderly women by marital status, it is important to examine this population by race and ethnicity. When this is done, it becomes clear that women of color are some of the elderly individuals at greatest risk of having insufficient retirement income.

The proportion of women with pension income varies by race, ethnicity, and marital status within each racial or ethnic group (see figure 4-7). Elderly white women were the most likely to receive pension income in 1994–98, followed by African American women and Latinas. Married women had the highest rate of pension income regardless of race or ethnicity. (If a married

Figure 4-8. *Percentage of Elderly Women and Their Spouses Receiving Income from Earnings, by Race, Ethnicity, and Marital Status, 1994–98*



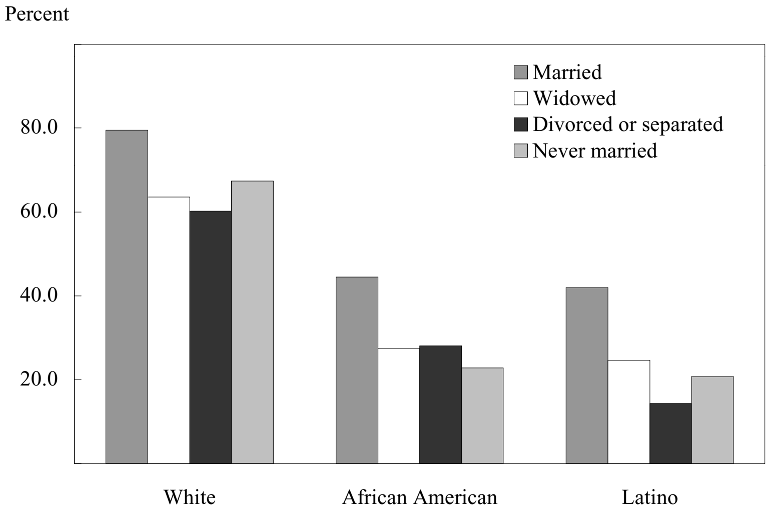
Source: These data are the result of analyses by the Center on Budget and Policy Priorities using 1994–98 Current Population Survey data collected by the Bureau of the Census.

woman does not have pension income, but her husband does, his pension income counts as income for her.) Among elderly white women, widows lagged behind women in all other marital categories in receipt of pension income. For African Americans and Latinas, the percentages of widows, divorced or separated women, and never-married women who received pension income were about the same.

Income from earnings was received by a comparable proportion of white, African American, and Latina women within most marital categories (see figure 4-8). That is, the percentage of married women with income from earnings was similar for whites, African Americans, and Latinas. (Income from earnings for married women includes their husbands' earnings. Women who do not work will have earnings income counted if their husbands have earnings.) The same was true for widows and never-married women. There was greater variation among divorced or separated women; the percentage of such women with income from earnings was only about half as high among elderly Latinas as among elderly white women.

Receipt of income from investments—income from interest, dividends, and rent—varied markedly by race and ethnicity, as well as marital status (see

Figure 4-9. *Percentage of Elderly Women and Their Spouses Receiving Investment Income, by Race, Ethnicity, and Marital Status, 1994–98*



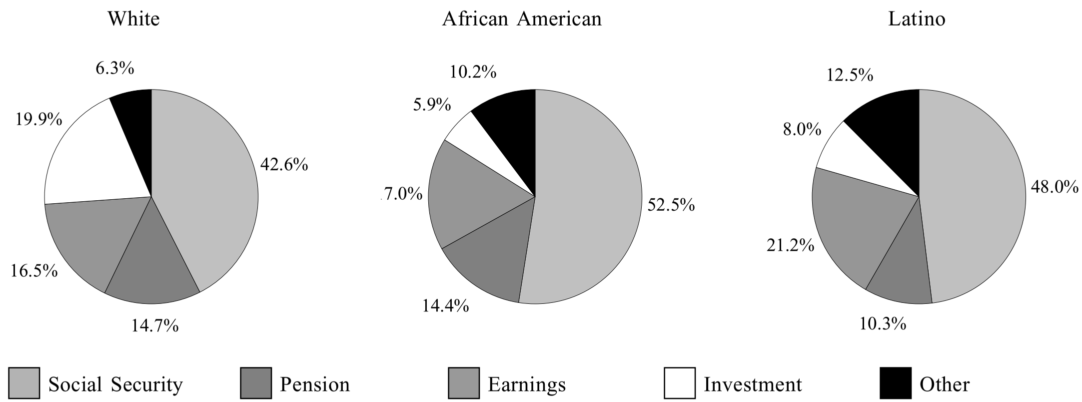
Source: These data are the result of analyses by the Center on Budget and Policy Priorities using 1994–98 Current Population Survey data collected by the Bureau of the Census.

figure 4-9). Elderly white women were much more likely to have investment income than African Americans or Latinas. In addition, the proportion of elderly married women who had investment income was notably higher than the proportion of unmarried or separated women. (If a married woman does not have investment income of her own, but her husband has investment income, then her husband's income is counted as her investment income.) The likelihood of having investment income ranged from nearly 80 percent for elderly, married, white women to less than 20 percent for divorced or separated Latinas.

Social Security is by far the most prevalent source of income for women compared to other sources of funds. Figure 4-10 shows that from 1994 to 1998 Social Security accounted for an average of 42.6 percent of the income for elderly white women and their spouses, 52.5 percent of the income of African American women and their spouses, and 48 percent of the income of Latinas and their spouses. For each of these groups, the share of income received from Social Security was almost twice as great as the share of income from any other source.

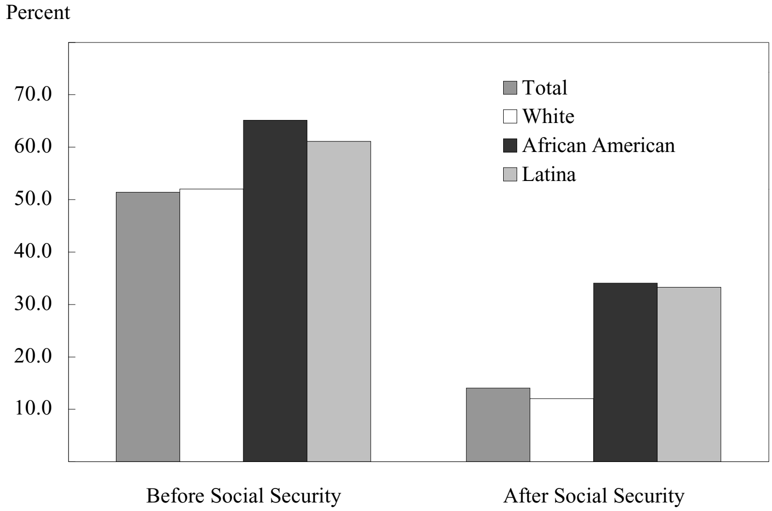
The relatively lower rates and levels of income received from pensions, earnings, and investments by elderly women of color coincide with higher

Figure 4-10. *Average Share of Elderly Women's Income from Specific Sources, by Race and Ethnicity, 1994–98*



Source: These data are the result of analyses by the Center on Budget and Policy Priorities using 1994–98 Current Population Survey data collected by the Bureau of the Census.

Figure 4-11. *Percentage of Poor Elderly Women, by Race and Ethnicity, 1994–98*



Source: These data are the result of analyses by the Center on Budget and Policy Priorities using 1994–98 Current Population Survey data collected by the Bureau of the Census.

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rates of poverty compared to elderly white women. Before receiving Social Security, 52 percent of elderly white women were poor during the period from 1994 to 1998, compared to 65.1 percent of African American women and 61.1 percent of elderly Latinas (see figure 4-11).[15] Social Security benefits reduce poverty by nearly 50 percent for African American women and Latinas and by substantially more than that for white women. However, the proportion of elderly women remaining in poverty was nearly three times greater for African Americans (34.1 percent) and Latinos (33.3 percent) than for whites (12.1 percent). (Using the official poverty measure, poverty rates were 30.3 percent, 27.2 percent, and 11.1 percent for elderly African American women, Latinas, and white women, respectively.)

15. These data are the result of analyses by the Center on Budget and Policy Priorities using 1994–98 CPS data collected by the Bureau of the Census.

Need for Improvement in Retirement Income for Low-Wage Earners

The previous sections illustrate that poverty among the elderly may be related to a number of employment experiences and to an individual's gender and marital status. The varied paths that may lead workers or spouses to poverty in the later years of their life suggest that several improvements are needed to enhance the economic status of the aged poor. Several proposals to reduce elderly poverty by improving Social Security and SSI and by facilitating the accumulation of retirement savings by low- and moderate-wage earners are examined in the remainder of this chapter.

Improvements in Social Security should be made within the larger context of extending the solvency of the program. Otherwise, program improvements would exacerbate the program's long-term financing problems. The existence of a non-Social Security budget surplus can help in this regard if a portion of that surplus is transferred to Social Security, but there is a finite amount of resources available to enhance the financial well-being of the elderly. Thus improvements in one aspect of Social Security may require trade-offs in another area. Hard choices are likely to be required in determining how best to make changes in Social Security.

Options for Improving Social Security

A number of proposals have been advanced for improving the Social Security program to enhance the financial well-being of elderly individuals who are susceptible to poverty. The first proposal would assist elderly widows (or widowers) by increasing the survivors benefit they receive. While this has been a popular proposal, it does not affect the financial circumstances of individuals who have never married or were married for less than ten years. Other methods of reducing poverty through Social Security also are needed. One approach is to design an effective minimum benefit. A well-designed minimum benefit has the potential to reach a sizeable proportion of workers who would otherwise be poor, regardless of their marital status.

Increase the Survivors Benefit for Elderly Widows

One of the points in a woman's life when she may become more susceptible to poverty is upon the death of her husband, because her income is likely to decline. Under current law, a married couple may receive 100 percent of the higher earner's benefits plus a spouse benefit equal to 50 percent of the higher earner's benefit. Alternatively, the spouse may receive benefits based on his or her own earnings history if this would result in benefits higher than the spouse benefit.[16] Under current law, a woman whose husband dies receives 100 percent of her own benefit or 100 percent of the deceased spouse's benefit, whichever is higher.

The decline in Social Security benefits after the death of a spouse can be substantial. For example, Mr. and Mrs. Jones both worked and had earnings histories that were comparable in terms of years worked and wages received. When they retired, they received 100 percent of Mr. Jones's benefit plus 100 percent of Mrs. Jones's benefit, based on her own earnings record. Mr. Jones received a Social Security benefit of $1,000 per month, and Mrs. Jones received $950 per month. Upon Mr. Jones's death, Mrs. Jones began receiving 100 percent of Mr. Jones's benefit, or $1,000, since it was higher than her own benefit. But she no longer received her previous benefit of $950. Social Security income to her household was reduced 49 percent.

On first glance, one might conclude that a reduction of almost 50 percent is appropriate since these benefits would provide for the needs of only one person rather than two. But this is not the case. Although some of Mrs. Jones's household expenditures will decline, such as food and clothing, others may not. Housing and utility expenses would not necessarily change much after her husband died, unless she moved to accommodations with a lower cost. Similarly, other expenses (for example, property taxes) are fixed regardless of the number of people living in the household.

A goal of strengthening the Social Security system should be to limit the reduction in benefits to a percentage comparable to the percentage that living expenses decline when a spouse dies. One method of approximating the change in the cost of living between a one-person elderly household and a two-person elderly household is to use the difference in the amount of income needed by each type of household to reach the official poverty line. The poverty line for an elderly one-person household equals 79 percent of the poverty level for an elderly two-person household.[17] Richard Burkhauser and Timothy Smeeding examined survivors benefits and recommended that these benefits should equal 75 percent of the poverty line for a two-person elderly household.[18]

16. The calculation of the spouse benefit also takes into account a woman's earnings history. If a spouse has an earnings history, his or her benefits are calculated based on this history and if the resulting amount is less than 50 percent of the primary worker's benefit, the spouse's benefit is "topped up" to an amount equal to 50 percent of the primary worker's benefit.

17. Dalaker and Naifeh (1998).

18. Burkhauser and Smeeding (1994, p. 12).

Based on this research, a majority of members of the 1994–96 Advisory Council on Social Security recommended that the elderly survivors benefit be raised to an amount equaling 75 percent of the *combined* benefits received by the couple prior to the death of one spouse.[19] Another way of saying this is that the surviving spouse's benefit should not be reduced by more than 25 percent of the couple's combined benefit. Following the preceding example, when Mr. Jones dies, Mrs. Jones would receive 75 percent of the combined benefit of the couple, or $1,463—that is, 0.75 × ($1,000 + $950)—rather than the $1,000 she would receive under present law. In this case the benefit is 46 percent larger than it would be under current law.

Increasing the Social Security benefit for widows, while helpful, would not be sufficient by itself to adequately reduce poverty among the elderly. Receipt by a surviving widow of 75 percent of the Social Security benefit that the couple was receiving will remove some widows from poverty but leave many other low-income beneficiaries below the poverty line. Women who never marry or were married for less than ten years, as well as various other low-wage earners—including many African American and Latino men—would not be assisted by this change.

Moreover, raising the survivors benefit without making additional improvements for other beneficiaries would create inequities.[20] Benefits would rise for surviving spouses who may not have worked or may have had brief work histories. For instance, an affluent married woman who did not work outside the home would receive an increased survivors benefit when her husband died. By contrast, a never-married woman or a woman married less than ten years who worked outside the home for low wages all her adult life would not gain from an improvement in the survivors benefit. Unless the increased survivors benefits are restricted to low- and moderate-wage earners, fairly well-to-do spouses who have not worked outside the home would receive an increase in benefits while low-wage workers who never married or were married less than ten years would not be aided.

Additional steps are needed to raise the income of poor, single elderly women and other low-wage earners. The long-term fiscal imbalance in Social Security places constraints, however, on the number and magnitude of the enhancements that can be made. If additional steps are to be taken to raise the benefit levels of other elderly individuals who are at risk of poverty, the

19. *Report of the 1994–1996 Advisory Council on Social Security, Volume I: Findings and Recommendations* (1997).

20. Urban Institute (2000, p. 14).

improvements in survivors benefits should be targeted to those who are financially vulnerable.

Design an Effective Social Security Minimum Benefit

One method of improving benefits for low-wage earners that is not dependent on a worker's marital status is the addition of an effective minimum benefit. Prior to 1982, a minimum benefit was paid to workers with low-earnings histories. This minimum exceeded what they would have received under the regular benefit formula.

Not all workers who have low earnings records are low-wage earners, however. There are many reasons workers may have low earnings records. Some types of workers who may have low earnings records include:

—workers who held minimum-wage jobs their entire careers

—domestic workers, farm workers, and other workers who have not received credit for all their earnings because employers (or the workers, if self-employed) failed to report them

—state and local workers who received most of their earnings in non-Social Security-covered employment but also were employed for a modest number of years in the private sector

—individuals who did not work much but are well off, such as spouses of high-wage earners

Although the minimum benefit was intended for workers who had low wages, it did not distinguish well between low-wage earners and individuals who were relatively well off and had low earnings records due to other factors. For this reason, and to reduce program costs, the minimum benefit was eliminated in January 1982 for workers who initially became eligible for Social Security after December 1981.[21] What remains is a small special minimum benefit.

The special minimum benefit was designed for low-wage workers with steady work histories.[22] The special minimum is intended to provide these workers with a higher monthly benefit than they would receive under the regular benefit formula. The regular benefit formula is computed by selecting the thirty-five years in which workers had their highest earnings, adjusting the wages in previous years for increases in average wages in the U.S. economy in subsequent years, and determining the average annual wage over these thirty-five years. (Workers who had fewer than thirty-five years of earnings covered by Social Security will have zeros added for the years in which they were not

21. Social Security Administration (1997, § 716).

22. For a more extensive discussion of the special minimum benefit, see Olsen and Hoffmeyer (forthcoming).

covered.) This annual average wage then is divided by 12 (for the twelve months in the year) to get the worker's average indexed monthly earnings (AIME). The Social Security benefit formula is applied to the AIME to determine the monthly Social Security benefit that workers will receive if they begin to draw benefits at the full benefit age, now sixty-five years and four months. This monthly benefit amount is known as the worker's primary insurance amount (PIA). In 2000 the PIA was determined by taking 90 percent of the first $531 a month of the AIME, 32 percent of the AIME between $532 and $3,202 (if the worker's AIME exceeds $531), and 15 percent of any amount above $3,202 in the worker's AIME.[23]

The special minimum benefit calculation can result in a higher benefit level for low-wage earners than the workers would receive under the formula just described. To qualify for the special minimum benefit, workers must meet certain criteria. They must have earned an annual amount equal to at least 15 percent of the "adjusted maximum taxable wage" in at least ten years;[24] in 2000 workers had to earn $8,055 to pass this threshold.[25] If this requirement is met, workers would receive about $29 per month for each year they worked (and earned at least the required amount) above the ten-year minimum, up to a maximum of $580 per month.[26] (Those who worked twenty or more years beyond the ten-year threshold would qualify for a special minimum benefit of $580 a month, which is the sum of $29 per year paid for each of the twenty years exceeding the ten-year threshold.) This maximum amount is lower than the 1998 poverty threshold for individuals age sixty-five and older. The annualized benefit amount is $6,960, which was substantially lower than the 1998 poverty line of $7,818.

Relatively few workers qualify for the special minimum benefit. In 1998 only 154,043 people—or 0.35 percent of all Social Security beneficiaries—received the special minimum benefit.[27] This provision is not making a substantial contribution to reducing poverty among the elderly. A number of proposals have been offered to improve or replace the special minimum benefit.

23. These dollar amounts are indexed to the Consumer Price Index and are increased annually. See *The 2000 Annual Report of the Board of Trustees* (2000, p. 204).

24. The adjusted maximum taxable wage is what the annual maximum wage subject to the payroll tax would have been in the absence of statutory increases in the maximum under amendments enacted in 1977. See Social Security Administration (1999, table 2.A12, p. 48).

25. *The 2000 Annual Report of the Board of Trustees* (2000, p. 205).

26. *The 2000 Annual Report of the Board of Trustees* (2000, p. 205).

27. Social Security Administration (1999, table 5A8, p. 197; table 5A1, p. 181).

Wendell Primus of the Center on Budget and Policy Priorities has developed an alternative minimum benefit proposal designed to improve benefits for steady minimum-wage earners without paying an unintended bonus to individuals who are not low income but have low levels of Social Security–covered earnings.

The calculation for the Primus minimum benefit proposal would substitute the benefit formula's multiple replacement rates of 90 percent, 32 percent, and 15 percent with a single replacement rate of 75 percent. (The regular benefit formula would not change for workers who do not qualify for the minimum benefit.) The 75 percent rate would be applied to a special AIME calculated solely for the purposes of determining the minimum benefit. Under the alternate AIME, the amount of earnings that would be counted for any month would be capped at an amount equal to 45 percent of the AIME for a worker who earned the average wage throughout his or her work life. In 1998 this amount was $973 per month. Regardless of how much a worker earned in a month, only up to $973 would be counted when calculating the alternative AIME. Thus the largest amount that could be paid through the minimum benefit formula would be $730 a month, or 75 percent of $973. If the minimum benefit formula results in a higher benefit than the regular formula, the worker would receive the minimum benefit amount. If the minimum benefit formula led to a lower benefit than the regular benefit formula yields, the worker would receive the regular benefit.

The Primus proposal can best be understood by comparing the work histories and benefits of two types of workers. (See box 4-1.) Ms. Hudson worked for thirty-five years at minimum-wage jobs and earned a total of $374,500 over this period. Under current law, her benefit would be $562 per month. By contrast, she would receive $669—or a 19 percent increase—under the Primus proposal. Mrs. Cleary worked for ten years and received above-average wages. Her total earnings also were $374,500. But the amount that she earned each month—$3,121—exceeded the cap on earnings that qualify for inclusion in the minimum benefit formula. Only $973 per month (45 percent of the average wage worker's AIME) would be counted when computing her special AIME. This would yield a minimum benefit of $209 per month. Since this amount is lower than the benefit of $562 per month that Ms. Cleary would receive using the regular benefit formula, her benefits would be calculated under the regular benefit formula. (See box 4-1.)

This approach should reduce poverty without undermining the link between work history and benefit levels. The PIA for workers who earned the minimum

28. Social Security Administration (1999, table 2.A26, p. 71).

Box 4-1. *Primus Proposal Is Targeted to Low-Wage Steady Workers*

—*Ms. Hudson: Steady Minimum-Wage Worker*

—Ms. Hudson earned $10,700 per year for 35 years, or $374,500.

—Her average indexed monthly earnings (AIME) would be $892 per month [($374,500 / 35 years) / 12 months].

—Her 1998 primary insurance amount under the regular formula would be $562 per month (90 percent of the first $477 per month and 32 percent of the remaining $415 per month).

—Under this minimum benefit proposal, she would receive $669 per month (75 percent of $892). This is a 19 percent increase over the current formula.

Ms. Cleary: Above-Average-Income Worker with Few Years of Employment

—Ms. Cleary earned $37,450 per year for 10 years, or $374,500.

—The amount of earnings used in the formula to get the special AIME for minimum benefit purposes is capped at 45 percent of the AIME of the average wage earner. The AIME of the average wage earner was $2,163 in 1998. The cap is $973 per month (45 percent of $2,163).

—Only $973 would be counted for each month worked. The rest of the earnings are above the threshold and are not counted for purposes of this minimum benefit.

—Her total countable earnings over her 10 years of work would be $116,676.

—Her special AIME for minimum benefit purposes would be $278 per month [($116,676 / 35 years) / 12 months].

—Her benefit calculated under the minimum benefit proposal would be $209 (75 percent of $278). Since this amount would be less than her benefit amount based on the current formula, she would get the current benefit, or $562.

wage throughout their work lives was $623 in 1998.[28] This equals $7,476 per year, or 4 percent less than the poverty line of $7,818 for a person sixty-five or older in 1998. The largest minimum benefit for a worker under this proposal would be $8,760, which exceeds the poverty line by 12 percent. At the same time, this amount is well below the average wage earner's PIA of $11,772 per year.[29] It is likely that many low-wage earners receiving the minimum benefit would get less than $8,760, since low-wage earners are more likely to experi-

29. Social Security Administration (1999, table 2.A26, p. 71).

ence bouts of unemployment and may have fewer than thirty-five years of employment. Workers who have worked more or earned higher wages and paid more in payroll taxes would still receive substantially higher benefits than those receiving the minimum benefit.

The proposal also channels the increased benefits to steady low-wage earners by capping the level of earnings a worker can have and still qualify for this minimum benefit. A worker with an earnings record equal to that of a minimum-wage worker, but with substantially fewer years of work, would not get an increased benefit under this proposal.

This proposed minimum benefit formula is a substantial improvement over the current special minimum benefit. Furthermore, it targets limited resources to steady-wage earners most likely to be in poverty by directing the increased benefits to low-wage earners and disqualifying workers who have low levels of earnings covered by Social Security but are not really low-wage workers. At the same time, the design of the proposal maintains the link between work history and benefits.

The drawback of this proposal is that workers with the lowest earnings would not be affected. That is, workers with AIMEs that do not exceed the threshold for the 90 percent replacement rate would continue to get the regular benefit. These workers could include individuals with several bouts of unemployment and domestic workers or farm workers with unreported earnings.

Additional Changes Needed

Increasing the elderly survivors benefit and establishing an effective minimum benefit should improve the economic status of a sizeable number of impoverished African American and Latino seniors, as well as unmarried women of all racial and ethnic backgrounds. Even with such changes, however, a considerable number of the elderly—especially elderly people of color, women, and other low-wage earners—will remain poor. Additional changes within the Social Security program may not prove feasible, given the long-term fiscal imbalance the program faces. Fortunately, Social Security is not the only program upon which seniors can rely. The SSI program also is available to low-income elders. The next section presents proposals that would further reduce elderly poverty by making improvements in that program.

Improvements Needed in the Supplemental Security Income Program

In addition to enhancing Social Security benefits to improve the economic status of elderly people of color and women with low incomes, there are other steps that can be taken that will not cause Social Security costs to rise. Rather than relying solely on Social Security to improve the financial well-being of elderly people who remain in poverty, adjustments can be made in the SSI program. Established through legislation proposed by President Richard Nixon and enacted in 1972, the SSI program is a means-tested, federally administered program that provides cash benefits for low-income aged, blind, and disabled individuals. Certain changes in SSI could improve the income of elderly individuals with very low incomes without exacerbating the long-term financial imbalance in Social Security.

There is a second reason to modify the SSI program. If surviving spouse benefits are improved and minimum benefits are established in Social Security, as recommended earlier, some widows who would have been eligible for SSI under the current Social Security rules would be made ineligible as a result of their increased Social Security income. Each additional dollar of Social Security income received by SSI participants results in a dollar reduction in their SSI benefits. For some SSI participants, the increased Social Security benefit would push their income over the SSI income eligibility limit. This is of particular importance because Medicaid eligibility for the elderly is tied to receipt of SSI in most states. (In some states, Medicaid eligibility criteria are more restrictive than SSI eligibility rules. States also have the option of setting eligibility criteria that are more liberal than SSI eligibility rules.) Thus a widow whose Social Security benefit rises as a result of an increase in the surviving spouse benefit might lose SSI eligibility and, as a result, also lose her Medicaid coverage. Adjustments should be made in the SSI program to address unintended interactions resulting from improvements in Social Security.

Finally, changes in SSI are needed in the rules governing the type and amount of assets that an individual may own and still be eligible for the program. There is a need to both modernize the requirements for the assets that individuals may own and adjust the asset limits for inflation.

Fortunately, the Social Security Administration (SSA) released a report in 2000 that does an excellent job of describing the components of SSI that are used to determine program eligibility and benefit levels.[30] The report demonstrates that several components of the SSI eligibility and benefit structure have eroded because they have not adequately kept pace with inflation. The SSA report presents options for modernizing the program in these areas along with cost estimates. Some of the information in the SSA report is incorporated in this section.

30. Social Security Administration (2000, p. 9).

SSI's General Income Exclusion

While some elderly women become poor as the result of an event such as the death of their husbands, a study by Sharmila Choudhury and Michael Leonesio of the Social Security Administration showed that the most important determinant of poverty among elderly women is their poverty status *prior to reaching old age*.[31] Women who experience spells of poverty at younger ages are more likely to be poor when they get older. Women who did not experience poverty are not likely to become poor when they are elderly, even after a catastrophic event. This research suggests that women who have been in the labor market but earned low wages and were poor prior to retirement are more likely to be in poverty when they are elderly. Similarly, women who were married to men with low wages may be at greater risk of poverty when they grow old.

The SSI program assists elderly and disabled men, women, and children who are susceptible to poverty. To be eligible for the program, an individual must be at least sixty-five years old, blind, or disabled. Nearly one-third of SSI beneficiaries were sixty-five or older in 1998.[32] Program eligibility is also based on income and asset limits. SSI is intended to be a "program of last resort," and nearly all other income that an applicant receives is considered before SSI eligibility is determined.[33] Under the rules governing the federal SSI program, individuals and couples are eligible for federal SSI benefits if their countable incomes fall below the maximum monthly federal SSI benefit, which is $530 for individuals and $798 for couples in 2001.

Not all income is counted in determining SSI eligibility. Twenty dollars per month of income is excluded.[34] This is called the general income exclusion (GIE) and was originally intended to reward *past* work by ensuring that beneficiaries receiving Social Security income would have a higher total income than beneficiaries without income from Social Security.[35] An additional $65 of *earned* income plus 50 percent of any remaining earnings also are excluded. This is called the earned income exclusion and is intended to encourage *current* work by providing a higher total income to low-income beneficiaries with earnings.

By way of example, an elderly individual whose only source of income is a Social Security benefit of $450 a month would be eligible for an SSI benefit of

31. Choudhury and Leonesio (1997).

32. Social Security Administration (1999, table 7.E4, p. 303).

33. Committee on Ways and Means (1998).

34. Income from other federally funded means-tested programs is not excluded. See Social Security Administration, *Income and Resource Exclusions, op. cit.,* p. 8.

35. Social Security Administration (2000, p. 9).

$100. (The Social Security benefit of $450 minus the $20 GIE equals $430. When the $430 is subtracted from the SSI maximum benefit of $530, the remaining $100 is the SSI benefit amount.) In 1998 some 61 percent of elderly SSI beneficiaries received Social Security retirement benefits and, consequently, received the $20-a-month general income exclusion.[36]

The SSI program is an important source of income for the elderly, but the program can be made more effective in reducing poverty by increasing this GIE. The $20 GIE was established when the original SSI law was enacted in 1972. It has not been adjusted since then to keep pace with inflation. The SSA's recent report states:

> The $20 GIE amount as enacted in 1972, is now worth $5 [in 2000 dollars]. Therefore its significance as recognition of past work is substantially reduced. As a result, the value of SSI benefits has declined for many beneficiaries. In 1974, the $20 exclusion represented over 14 percent of the $140 Federal benefit rate (FBR) for an individuals. The Federal benefit rate is the maximum SSI benefit level. By contrast the $20 exclusion is less than 4 percent of the current $512 FBR for an individual.[37]

The consequence of maintaining such a low GIE is that retirees who worked steadily but earned low wages could have a combined Social Security and SSI benefit that is only slightly larger than the SSI benefit they would have received if they had not worked at all. For example, Ms. Harris worked hard all her adult life but earned the minimum wage throughout her work life (see box 4-2). The jobs she held were physically arduous, and she retired at age sixty-two in 1998. Ms. Harris's only source of income was Social Security until she turned sixty-five and became eligible for SSI benefits. Her Social Security benefit is $539 in 2001.[38] Therefore, she receives an SSI benefit of $11 per month, making her total income $550. Had Ms. Harris not worked at all and had no Social Security income, she would have received an SSI benefit of $530. Her hard work reaped *only $20 more per month* than not working, and her income level fell well below the poverty threshold. This is inconsistent with the bipartisan goals of encouraging and rewarding work.

36. Social Security Administration (2000, p. 8).

37. Social Security Administration (2000, p. 8).

38. In 1998 Ms. Harris would have received a Social Security benefit of $498. Her benefit would increase annually as a result of the cost of living adjustment and would be approximately $539 in 2001. See Social Security Administration (1999, table 2.A.26, p. 71).

Box 4-2. *Effect of the Low Supplemental Security Income General Income Exclusion on Total Income*

Ms. Harris, a minimum-wage worker, retired at sixty-two and began to receive Social Security benefits. At age sixty-five, she became eligible for SSI.

Social Security benefit	$539
SSI general income exclusion	– 20
Adjusted gross income	$519
Maximum SSI benefit	$530
Adjusted gross income	–519
SSI benefit	$ 11
Social Security benefit	$539
SSI benefit	+ 11
Total income	$550

If Ms. Harris had not worked at all, she would have received a benefit of $530 from SSI.

A principle that has enjoyed bipartisan support is that individuals who work should not be poor and those who work should be significantly better off than those who do not. Toward that end, Presidents Reagan, Bush, and Clinton and members of Congress have successfully pursued the development and improvement of programs such as the earned income tax credit to increase the income of the working poor. In that same vein, individuals who have worked hard but received low wages for the better part of their working lives—and individuals (typically women) who have taken time out of the labor market or worked part time to raise children or care for an infirm elderly relative—should not be consigned to a life of poverty in their later years.

One means of raising the level of income for individuals with a history of low wages is to increase the GIE.[39] Raising the GIE would reduce the amount of Social Security income counted in determining SSI eligibility and benefits. Consequently, SSI benefits for poor Social Security beneficiaries would rise. If the GIE were adjusted to account for inflation since 1972, the updated amount would be approximately $80.[40] A GIE of this level would substantially improve

39. Social Security benefits make up 91 percent of the unearned income received by SSI participants to which the general income exclusion is applied. Other sources of unearned income include veterans benefits, railroad retirement, black lung benefits, employment pensions, workers' compensation, and support from absent parents. See Committee on Ways and Means (1998, p. 300).

40. Congress passed legislation in 1972 that established the SSI program and designated 1974 as the initial year of benefit payments. Congress also established a cost-

the financial well-being of low-income elderly individuals. According to the SSA report:

> Such an increase would enable those SSI beneficiaries who are also receiving Social Security benefits and other unearned income to retain more of their SSI benefit, and would restore the exclusion to its original congressional intent by more tangibly rewarding past work.[41]

The $80 general income exclusion also would preserve SSI eligibility and, therefore, Medicaid coverage for some elderly women if the Social Security survivors benefit were increased (see box 4-3).

Beyond raising the GIE from $20 to $80 per month, the GIE should be automatically indexed to the Consumer Price Index (CPI) to prevent future erosion of the exclusion by inflation. Adjusting the GIE for inflation each year would make the treatment of the exclusion consistent with the treatment of the SSI maximum benefit.

The SSA report estimates that the cost of increasing the $20 GIE to $80 to compensate for erosion of the exclusion since 1972 would be $1.9 billion in 2001 and $20.7 billion over a ten-year period (see table 4-4). The cost of both increasing the exclusion to $80 and indexing it for inflation would be $24 billion over the next ten years. These costs will be reduced considerably if an increase in the GIE is coupled with an improvement in the Social Security survivors benefit. Improvement of the survivors benefit, by itself, will reduce the SSI costs.

In addition to this cost, Medicaid costs will rise as the number of newly eligible SSI participants rises, since SSI participants are categorically eligible for Medicaid in most states. No official cost estimates are currently available, but for the purpose of this analysis, estimates have been generated based on Medicaid costs for aged, blind, and disabled enrollees.[42] The federal share of the Medicaid cost for acute care would be approximately $1.75 billion per year if the SSI improvement were made by itself without an accompanying im-

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of-living adjustment for SSI benefits, so that maximum benefit levels rise each year in tandem with the Consumer Price Index. No similar adjustments were made for the general income exclusion. Comparable treatment of benefit levels and the general income exclusion would require an adjustment in the GIE to reflect inflation since 1972. See Social Security Administration (1999, table 2.B1, p. 90). See also Social Security Administration (2000, pp. 4, 8–9).

41. Social Security Administration (2000, p. 9).

42. Estimates were derived using data provided by the Urban Institute on 1997 Medicaid costs for aged, blind, and disabled enrollees who were receiving cash assistance.

Box 4-3. *Example of Social Security's Impact on Supplemental Security Income and Medicaid Eligibility*

Mrs. Carver is the widow of a minimum-wage worker who retired at age sixty-two. When the Carvers turned sixty-five, they became eligible for SSI and had the following income:

Social Security benefit	$791
SSI benefit	+ 25
Total income	$816

When Mr. Carver died, the following adjustments were made to Mrs. Carver's income:

Social Security benefit	$539
SSI benefit	+ 11
Total income	$550

If Mrs. Carver received a Social Security survivors benefit equal to 75 percent of what the couple would have received, she would receive a $593 Social Security benefit, but she would become ineligible for SSI and consequently could lose Medicaid coverage. By contrast, if the SSI general income exclusion were raised to $80, Mrs. Carver would maintain her eligibility for SSI and Medicaid, and she would have a larger total income bringing her closer to the poverty line (although she still would be below it).

Social Security benefit	$593
SSI general income exclusion	– 80
Adjusted gross income	$513
Maximum SSI benefit	$530
Adjusted gross income	–513
SSI benefit	$ 17
Social Security benefit	$593
SSI benefit	+ 17
Total income	$610

provement in Social Security benefits.[43] (The Medicaid cost estimate provided here is intended only to give a sense of the magnitude of the costs and should not be interpreted as an exact cost level.) The Medicaid cost would be lower if improvements in the Social Security survivors benefits also were made.

43. Acute care includes costs for inpatient and outpatient care, physicians, lab work, x-rays, prescriptions, and payments to managed care providers. Medicaid also covers long-term care, but these costs are not included in this estimate.

Table 4-4. *The Supplemental Security Income Cost of Increasing the General Income Exclusion*
Billions of U.S. dollars

Options	*2001*	*2001–05*	*2001–10*
Increase the GIE to $80	1.9	10.4	20.7
Increase the GIE to $80 and index to CPI	1.9	11.2	24.0

Source: Social Security Administration, *Report on Supplemental Security Income: Income and Resource Exclusions and Disability Insurance Earnings-Related Provisions*, March 2000, p. 60.

The cost of raising the GIE would need to be weighed against other demands on the budget. (As noted, the cost of improvements to the SSI program will not impact the solvency of Social Security. SSI is funded through general revenue.) If cost proves to be a barrier, the GIE could be raised from its current level of $20 to a level of less than $80.

Raise the Asset Limit for SSI

In general, eligibility for the SSI program is limited to individuals with no more than $2,000 in assets and couples with no more than $3,000. Some assets—such as the beneficiary's home, reasonably valued household goods and personal items, a car used for employment or to obtain medical care or transport a disabled individual, and life insurance with a face value of less than $1,500—are not counted.

The limits for countable resources for SSI have eroded since the program's inception because they have not kept pace with inflation. The limits were set at $1,500 for individuals and $2,250 for couples in 1972, when legislation establishing the program was passed. These limits took effect in 1974, when the program was implemented. In 1984 Congress enacted legislation that raised the thresholds, based on the schedule shown in table 4-5.

There has not been an increase in the SSI resource limits in more than a decade, although the cost of living climbed approximately 38 percent between 1989 and 2000. An adjustment could be made in one of two ways. The resource limit could be increased by a flat amount, as was done in the past. Alternatively, the asset limit could be increased each year based on the change in the CPI. This would be consistent with the treatment of SSI benefits, which are updated using the CPI. If these thresholds were adjusted to reflect inflation since 1989, the resource limit for individuals would rise to $2,845 in 2001, and the limit for couples would be $4,268. Adjusting for inflation since 1989 would not entirely correct for inflation that occurred since the asset limits were first established in 1972. If the thresholds were adjusted for inflation since 1972, the asset limit for

Table 4-5. *Schedule of Increases in the Supplemental Security Income Asset Limits Enacted in 1984*

Effective Date	*Individual*	*Couple*
January 1, 1987	$1,800	$2,700
January 1, 1988	1,900	2,850
January 1, 1989, and thereafter	2,000	3,000

Source: Social Security Administration, *1997 Social Security Handbook* (U.S. Government Printing Office, 1997), § 2167.

individuals would be $5,959 in 2001, and the limit for couples would be $8,939.[44]

The Social Security Administration's report on income and resource exclusions shows that increasing the resource limits to $3,000 for individuals and $4,500 for couples would cost only a relatively small amount—$7 million in 2001, $65 million over the next five years, and $152 million over the next ten years (see table 4-6). Increasing the resource limit to $6,000 for individuals and $9,000 for couples would cost $89 million in 2001, $814 million over the next five years, and $1.8 billion over the next ten years. (This does not include increased costs in Medicaid.)

Excluding Defined Contribution Plan Balances from the SSI Asset Test

Defined contribution plans, or retirement plans that are based on contributions of workers and employers to individual accounts, represent a rapidly growing share of employer-sponsored pension plans. These accounts also may be part of forthcoming Social Security and pension reform legislation. Such legislation could take the form of retirement savings accounts (RSAs) outside the Social Security system, as proposed by the Clinton administration, or individual accounts that replace a portion of Social Security, as proposed by several members of Congress and President George Bush.[45] If such accounts are created, Congress and the president should exempt balances in individual accounts from counting as assets in SSI and other means-tested programs.[46]

44. These estimates are based on the CPI-U-XI (Consumer Price Index experimental series created by the Bureau of Labor Statistics, U. S. Department of Labor) rather than the CPI. The CPI-U-X1 more accurately captures changes in living costs and mortgage rates prior to 1983. See U.S. Census Bureau (1999, Appendix D).

45. Retirement savings plans and individual accounts are discussed in more detail in the next section.

46. See also Greenstein (2000). Larin and Primus (1999).

Table 4-6. *Supplemental Social Income Asset Limit Options*
Millions of U.S. dollars

Limit Options	*2001*	*2001–05*	*2001–10*
$3000/$4,500	7	65	152
$6,000/$9,000	89	814	1,800

Source: Social Security Administration, *Report on Supplemental Security Income: Income and Resource Exclusions and Disability Insurance Earnings-Related Provisions*, March 2000, p. 60.

Otherwise such accounts can have the perverse effect of making low-income workers and retirees ineligible for SSI, Medicaid, and food stamps.

This is not simply a problem that would arise if the federal government established new forms of individual retirement accounts and failed to exempt them from asset tests. The problem already exists with regard to employer-provided, defined contribution pension plans such as 401(k) plans. Assets in these plans are counted as assets in SSI in most states, in Medicaid. Low-income individuals with such accounts generally are ineligible for means-tested benefits unless they deplete their accounts prematurely. This problem has its origins in the 1970s, when the primary asset limits in the major means-tested benefit programs were developed. At that time, employer-sponsored, defined contribution plans were rare, especially for low-wage workers. (Most workers with pension coverage participated in defined benefit plans.) The asset tests in most means-tested benefit programs were designed to exclude "inaccessible" resources and count "accessible" resources. Pension benefits that workers have accrued in defined benefit plans are considered "inaccessible," but amounts in defined contribution plans—which feature individual accounts—are generally considered accessible even if there is a penalty for early withdrawal.

In recent years, an increasing number of employers either replaced defined benefit plans with defined contribution plans or established defined contribution plans where they previously had no plan. Women have been expanding their participation in the labor market at the same time that employers have been instituting defined contribution plans. As the number of low-income workers with defined contribution plans grows, an increasing number of workers may lose eligibility for means-tested benefits if account balances are counted as assets.

Because defined benefit pension funds are not accessible, while withdrawals generally can be made from defined contribution plans, current law discriminates against low-income workers whose employers participate in a defined contribution retirement plan, as compared to workers whose employers provide a defined benefit plan. It also discriminates against retirees whose employers offered defined contribution rather than defined benefit plans. Low-income workers with defined contribution accounts generally must withdraw most or all of their accounts and spend those assets down, regardless of any early withdrawal penalty or tax consequences, before they can qualify for means-tested programs such as SSI and Medicaid.

Failure to exclude amounts in such accounts from asset tests in means-tested programs would create a perverse incentive for poor elderly individuals to withdraw funds from their retirement accounts prematurely and spend them; only then would they be eligible for SSI and Medicaid. Moreover, nonelderly workers who experienced temporary periods of need, such as during a recession, would be forced to liquidate and spend the retirement savings they had managed to accumulate—and often to pay substantial early withdrawal and often tax penalties—to be eligible for Medicaid during the economic downturn. Some workers who were hard-pressed during a downturn—and withdrew most of the funds in their retirement accounts because they could not receive means-tested assistance until the accounts were spent down and consequently could not meet current needs without drawing on their retirement funds—can reach retirement with little left in their accounts.

Forcing low-income workers and retirees to deplete their savings before they can access means-tested benefits runs counter to efforts to encourage low-income workers to save for retirement and does not represent sound policy. Federal policy ought to encourage low-income workers to build retirement savings. It should encourage low-income retirees to withdraw funds from their retirement accounts gradually over their remaining years (rather than in a lump sum) so that sufficient funds remain to avert severe poverty when they become old. This is particularly important for reducing high rates of poverty among elderly women, since women have longer life expectancies than men.

There still is a small enough number of low-wage workers with defined-contribution plans that these aspects of the asset rules of means-tested programs are not invoked much. Not many people lose mean-tested benefits for this reason. As a result, making this change should have little cost in the next five or ten years.

Congress and the Bush administration could address these problems through changes in asset rules in means-tested programs to treat defined-contribution accounts in the same manner as defined-benefit plans. If an individual (whether a retiree or a younger household) withdraws funds from a tax-deferred retirement account, the amounts withdrawn should be counted as income. But amounts not withdrawn should not be considered an asset for means-tested program eligibility purposes. Such an approach is important if new forms of individual accounts (whether in the form of RSAs or other individual accounts within Social Security) and employer-sponsored, defined contribution plans are to help low-income workers save for retirement and to enable low-income retirees to have adequate income that lasts into very old age.

Facilitate Savings for Retirement by Low- and Moderate-Wage Workers

In examining the economic status of low-wage earners—especially elderly people of color and women—one might be misled to a conclusion that these communities would fare better under a system of partially or fully privatized individual accounts in lieu of a portion or all of Social Security. Under such a system, some or all of a worker's payroll tax contributions would be diverted from the Social Security Trust Funds, where they currently flow, into a private retirement account that may be invested in stocks or bonds. Such a conclusion would be faulty, however, and would place elderly African Americans, Latinos, and women in more precarious financial circumstances by undermining the valuable protections that Social Security accords them. Under an individual account system, workers would get back the retirement savings they contribute plus earnings *or losses*. These accounts would not have the internal redistribution provided by Social Security's progressive benefit formula that helps to compensate for the labor market experiences of people of color and women.

Rather than weakening or withdrawing resources from the Social Security program, reform proposals should build on the existing program by creating vehicles outside the Social Security system that would facilitate additional retirement savings for low- and moderate-wage workers. One possible alternative is something like the retirement savings accounts plan proposed by President Clinton in his fiscal year 2001 budget. This proposal was targeted to low- and middle-income workers who might otherwise have insufficient retirement savings of their own.

The "three-legged stool" is an often-cited metaphor for the type of retirement package that individuals should have. Social Security, pension income, and personal savings are the three legs of the stool that would provide the elderly with a reliable stream of income upon which they could depend. Earlier sections of this chapter showed that people of color and unmarried women are less likely to have sufficient savings than white elderly individuals and married women. In 1999 President Clinton proposed the creation of universal savings accounts (USAs) to promote personal savings by workers, in addition to Social Security. Congress did not act on the USA proposal, and Clinton introduced a revised version of this plan—the retirement savings accounts—in his 2001 budget.[47]

47. White House, Office of the Press Secretary (2000). See also *Budget of the United States Government* (2000); Orszag and Orszag (2000).

Under the RSA plan, a worker between the ages of twenty-five and sixty who earns at least $5,000 a year could contribute up to $1,000 per year into an RSA account. Contributions by workers would be matched by the federal government on a progressive basis. Individuals (as distinguished from couples) with annual earnings of $12,500 or less would receive a $2 federal match for each $1 of the first $100 they save. These matching amounts would phase out for individuals with incomes between $12,500 and $40,000. In addition, workers would receive a $1 match for every $1 of the next $900 they contribute. This match also would phase out for individuals earning between $12,500 and $40,000. Couples earning $25,000 or less could contribute up to $2,000 a year. They would receive a $2 match for each $1 of the first $200 they save, and a $1 match for the next $1,800. The match for couples would be phased out for those with earnings between $25,000 and $80,000.

Workers would be given the option of having their accounts maintained by their employers—like 401(k)s—or placed in private financial institutions—like IRAs. Similar to IRAs and 401(k)s, RSAs could be invested in a broad range of investment vehicles, with the contributions being tax deductible. Withdrawals from these accounts could be made only after five years and only to pay for medical care, to purchase a home, to pay for college, or for retirement purposes.

Most current federal incentives to save are linked to the income tax system, but low-wage earners are less likely to benefit from those saving incentives. Treasury data show that two-thirds of existing pension tax subsidies go to families in the top 20 percent of the income distribution, while just 12 percent go to families with incomes in the bottom 60 percent of the distribution.[48] RSAs would help address this imbalance.

The argument could be made that low-wage earners have the least ability to put aside money and therefore would be the least able to take advantage of the RSA plan, despite the progressive match. However, data on participation rates in 401(k) plans among low- and moderate-wage workers show that a relatively large share of these workers participate in the plans if offered the chance.[49] The data indicate that 44 percent of workers earning $10,000 to $15,000 in 1993 who were offered the opportunity to participate in a 401(k) plan chose to participate. Only 21 percent of these workers were offered 401(k) plans, however, so the overall participation rate was only 9 percent.

The Clinton administration estimated the RSA plan could benefit 76 million individuals.[50] Twenty-five-year-old workers who contributed the maximum of

48. White House (2000, p. 5).

49. Orszag and Greenstein (2000). See also U.S. Department of Labor (1994, table C7).

50. White House (2000, p. 1).

$1,000 per year and received the maximum federal match each year for forty years could accumulate $266,000 by age sixty-five. With these savings workers could purchase an annuity upon retirement that would provide them with $24,000 in retirement income each year. The administration estimated in 2000 that the RSA plan would cost $54 billion over ten years.

Unlike the individual accounts under many Social Security privatization proposals, the RSA plan would supplement Social Security. None of the payroll tax reserves going to the trust funds would be diverted, and transition costs would not be created. Therefore, guaranteed Social Security benefits would not need to be reduced (or payroll taxes increased) more than would otherwise be necessary in order to shift resources from Social Security to private accounts. Instead, the RSA plan would leave the Social Security system intact and build on it.

Conclusion

The Social Security program has been a constant upon which most workers have been able to depend to receive income for themselves and their families when they retire, become disabled, or die. The program has been one of the nation's most effective defenses against poverty. As the country moves forward toward reforming Social Security, it is important that solutions be adopted to reduce poverty further among those who still are vulnerable in their old age.

There are limits to what Social Security can and should be expected to do to reduce poverty. There is a role for programs such as SSI and a need to find ways to facilitate savings among low- and moderate-wage earners. There also are steps that should be taken early in individuals' lives to assist them in obtaining better-paying jobs. These improvements are beyond the scope of this discussion.

This chapter considers steps to alleviate poverty among seniors who remain at risk. Increasing the elderly survivors benefit would reduce the number of widows who fall into poverty. Implementing an effective minimum benefit also would help aid other low-income elderly unmarried women (and men).

Improvements in the SSI program would target elderly individuals and couples with the lowest incomes. Adjusting the GIE and asset limits for inflation and excluding defined contribution plan balances from the asset test would modernize the SSI program and increase the number of poor elderly who benefit from the program.

Finally, a federally matched retirement savings plan targeted to low- and moderate-wage earners has the potential to place many such workers in better financial positions as they grow old.

There is a price tag for these proposals. A short time ago, the solutions proposed here would not have been fiscally viable. The emergence of budget surpluses has given policymakers the financial wherewithal to move from discussing poverty among the elderly to taking greater action to reduce it.[51]

Priorities for the budget surplus must be set, and tough choices must be made about uses of the surplus. The options within this chapter must compete with an array of other proposals, including large tax cuts that disproportionately accrue to those on the high end of the income spectrum. These tax cuts could consume most or all of the available non-Social Security, non-Medicare surpluses. There is also a need to balance funding for program initiatives intended to address the needs of the nonelderly population with money spent on the elderly. Within that balance, there should be room to make more secure those low-income individuals who face poverty in their old age.

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51. The need for improvements in SSI, initiatives to enhance retirement savings outside Social Security, and additional resources to fund a long-term solvency package for Social Security that includes program improvements, underscores the problem with the magnitude of the tax cut enacted this year. The need for such improvements also indicates the importance of scaling back elements of the tax cut that were disproportionately targeted to the wealthy and that have not yet taken effect, in order to free up funds for other national priorities, including reducing elderly poverty.

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