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June 27, 2005

PROPOSED IMPROVEMENTS IN SOCIAL SECURITY'S MINIMUM BENEFIT AND WIDOW'S BENEFIT COULD HARM SOME OF NATION'S POOREST PEOPLE

Proposals Would Have Unintended Side-Effect Unless Accompanied by a Change in the SSI Program

By Robert Greenstein and Eileen Sweeney

There appears to be broad consensus across the political and ideological spectrums in support of two Social Security reforms that would assist low-income beneficiaries — strengthening Social Security's minimum benefit and increasing what is sometimes referred to as the program's "widow's benefit." Most Social Security proposals, including those advanced by President Bush, would strengthen the minimum benefit so people with at least 20 years of earnings covered by Social Security would be assured of receiving a Social Security benefit equal to at least 60 percent of the poverty line, and those with at least 30 or 35 years of covered earnings would receive a benefit equal to at least 100 percent (or, under some proposals, 120 percent) of the poverty line. Most proposals also would strengthen the widow's benefit, so that widows (and widowers) with low- or moderate-incomes would be assured of receiving a benefit equal to at least 75 percent of the combined benefit that both spouses were receiving before the decedent's death.

These reforms would generally be beneficial for low- and moderate-income beneficiaries. Yet they also would have an unintended side-effect that would make some very poor and vulnerable beneficiaries worse off and do them significant harm.

The Unintended Side-Effect

The Supplemental Security Income program was proposed by and created under President Richard Nixon to provide a floor under poor Americans who are elderly or have serious disabilities. Nearly 2.5 million SSI beneficiaries — including a majority of beneficiaries aged 65 and older — are people who also receive Social Security but whose Social Security checks are small and leave them well below the poverty line. Other SSI beneficiaries are people who do not currently qualify for Social Security. SSI brings the income of its beneficiaries to about 75 percent of the poverty line for individuals and 90 percent for couples. In most states, enrollment in SSI also qualifies an individual or couple for health insurance through Medicaid.

Under the SSI benefit structure, the first $20 a month in Social Security benefits (or other unearned income, such as veterans' benefits) is disregarded in determining SSI eligibility and benefit levels. Every dollar of Social Security benefits beyond that counts — and results in a dollar-for-dollar reduction in SSI benefits.

For low-income people who are elderly or disabled and qualify for both Social Security and SSI, each dollar that their Social Security benefit would rise due to an improvement in the minimum benefit or the widow's benefit thus would trigger a reduction of one dollar in their SSI benefit. If the increase in their Social Security benefits lifted them slightly above the SSI income limit, they would lose SSI altogether. In a majority of states, that could make them ineligible for Medicaid.

In other words, due to the offsetting reduction in SSI benefits, measures to strengthen Social Security's minimum benefit or its widow's benefit would cause a substantial number of elderly and disabled people to end up with only a small net increase in cash income, while being made ineligible for Medicaid. As a result, they would be harmed rather than helped. The loss of Medicaid coverage — and the ensuing increases in out-of-pocket health care costs they would face — would significantly outweigh the modest increases in cash income they would obtain.

A Remedy for This Problem

Fortunately, there are ways to address this problem. On several previous occasions when a modification to Social Security would have caused low-income individuals to become ineligible for SSI — and consequently to lose Medicaid coverage — Congress enacted measures under which the affected people were "deemed to be receiving SSI for Medicaid purposes." This enabled the affected individuals to retain their Medicaid coverage.[1] A similar measure could be enacted here.

Such a measure might, however, have a serious limitation. The measure would need to protect not only people *currently* receiving SSI and Medicaid who otherwise would lose their Medicaid coverage, but also low-income people in the same situation who become elderly or disabled in the future. Several of the "SSI deeming" measures now in place do this. But it may prove more difficult to do it in this case. For an SSI deeming measure to achieve this goal, Social Security Administration officials or state officials would need to be able to determine the portion of an individual's Social Security benefit that was due to the improvements in the minimum benefit and/or the widow's benefit, and to subtract that amount from an individual's income to determine if the individual would have qualified for SSI in the absence of those changes in Social Security. Such a rule might prove overly complicated to apply to low-income people who become elderly or disabled in the future.

Another avenue is available that would be simpler to apply to future beneficiaries. Policymakers could combine a measure to maintain (or "grandfather") Medicaid coverage for *current* SSI recipients who would lose SSI eligibility as a result of these Social Security improvements with a measure that increases the amount of an individual's Social Security benefit that is disregarded in determining SSI eligibility and benefit levels. Such an increase is long overdue, anyway, and would be important for other policy reasons, as well.

Currently, $20 a month in unearned income, including income from Social Security, is disregarded when SSI eligibility and benefit levels are computed. This results in the combined

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[1] The Centers for Medicare and Medicaid Services at the U.S. Department of Health and Human Services has issued a pamphlet explaining these rules. See CMS, "Groups Deemed to be Receiving SSI for Medicaid Purposes," June 12, 2002, available at http://www.cms.hhs.gov/Medicaid/eligibility/ssideem.pdf.

benefits of someone who receives both Social Security and SSI being $20 a month higher than the benefits of someone who receives only SSI. This $20 "disregard level" was set by the Nixon Administration and Congress in 1972, when SSI was created, to ensure that SSI recipients who had worked extensively and thus qualified for Social Security, but received low Social Security benefits, were better off than SSI recipients who lacked a significant work history.

However, this $20 disregard level has never been adjusted for inflation in the 33 years since 1972. It has eroded substantially in value as a result. Raising the $20 level to make up for all or a significant part of its decline in value, and adjusting it for inflation in the future so it does not erode again, would yield a double benefit.

- First, doing so would substantially reduce the number of low-income elderly people and people with disabilities made ineligible in the future for SSI and Medicaid as a result of any improvements made in Social Security's minimum benefit or widow's benefit. With a larger disregard, more of these people would retain a small SSI benefit and thus retain Medicaid coverage.

- Second, this modification in SSI would address a problem SSI already faces. Due to the failure to adjust the $20 disregard level for inflation over the past three decades, there is now little difference between the combined Social Security and SSI benefits received by low-income people who have substantial work histories and the SSI benefits provided to people without such work histories.

  This problem was highlighted in a Social Security Administration report issued several years ago.[2] The report noted that the disregard is now worth only about one-fourth as much as when it was enacted in 1972. SSA explained: "The $20…amount as enacted in 1972, is now worth $5 [i.e., by 2000, it was equal to only $5, measured in 1972 dollars]. Therefore its significance as recognition of past work is substantially reduced." SSA pointed out that when the SSI program began, the $20 exclusion resulted in benefits being *14 percent* higher for people who received both Social Security and SSI as a result of their work histories than for people receiving SSI only. Today, by contrast, the difference in benefits between these two groups is negligible — *less than 3.5 percent* — and is narrowing further with each passing year due to the failure to adjust the $20 exclusion level for inflation. The SSA report noted that increasing the $20 exclusion to make up for the ground lost to inflation "would restore the exclusion to its original congressional intent by more tangibly rewarding past work." Doing so, and also adjusting the exclusion for inflation in the future, would assure that the original congressional intent was maintained over time.

Conclusion

If and when Social Security legislation begins to move, it is likely to include measures to strengthen Social Security's "minimum benefit" and "widow's benefit." Such measures are laudable. They need to be accompanied, however, by measures to maintain Medicaid eligibility for people who otherwise would lose it as a result of these improvements and by an increase in the amount of the Social Security benefit that is disregarded in determining eligibility and benefits under SSI. Otherwise, significant numbers of current and future low-income Social Security beneficiaries will be harmed by measures that are intended to help them.

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[2] Social Security Administration, *Report on Supplemental Security Income: Income and Revenue Mechanisms and Disability Insurance – Related Provision*, March 2000.