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# NEW WHITE HOUSE DOCUMENT SHOWS MANY LOW-INCOME BENEFICIARIES WOULD FACE SOCIAL SECURITY BENEFIT CUTS UNDER PRESIDENT'S PLAN

by Jason Furman

The President's Social Security proposals have been widely reported as protecting benefits for the bottom 30 percent of the population, people earning less than $20,000 today. A document that the White House gave reporters in a press briefing on May 4, however, contains charts showing the bottom 20 percent of beneficiaries *losing* benefits, on average, under its plan.[1]

- The document shows that average Social Security benefits for the bottom quintile of beneficiaries aged 62 to 76 in 2050 would be $866 a month under the current benefit structure, but $822 a month under the President's plan.
- This represents an average benefit reduction of $528 a year.

As it turns out, the sliding-scale benefit reductions that the President has proposed protect the *retirement* benefits of the lowest 30 percent of wage-earners. A substantial number of other low-income beneficiaries, however, would be subject to benefit reductions. The affected low-income individuals are members of the following beneficiary categories:

- *Elderly widows with low incomes* who receive a Social Security benefit based on their deceased husband's earnings record. If the husband was not in the bottom 30 percent of wage-earners, the widow's benefits would be reduced. (In total, four million widows aged 65 or older receive survivors benefits; this figure includes widows at all income levels.[2])
- *Divorced elderly spouses with low incomes* who receive a Social Security spousal benefit based on their former spouse's earnings record. (To qualify for these benefits, the spouse must have been married for at least ten years and not be remarried.) If the ex-spouse was not in the bottom 30 percent of wage-earners, the divorced spouse's benefits would be reduced, even if she herself was in the bottom 30 percent of the earnings distribution.
- *Children with low incomes whose parent has died* and who receive Social Security survivor benefits. This group includes children under age 18, children

[1] White House, "Interpreting the Benefit Estimates for the Pozen Provision," May 2005. For further analysis of this White House document, see Jason Furman, "White House Distortions Mask Social Security Benefit Reductions," May 6, 2005.

[2] Social Security Administration, Annual Statistical Supplement, 2004, Table 5.F13.

under age 19 who are in school full time, and adult children who became disabled before age 22. Here, as well, if the deceased parent was not in the bottom 30 percent of the wage distribution, the survivors benefits would be reduced. (In total, two million children receive survivors benefits.[3])

It also may be noted that the White House document that show an average reduction of $528 in 2050 significantly understates the size of the reduction. This understatement occurs for two reasons:

- The White House document includes only beneficiaries *aged 62 to 76* in 2050. It does not include low-income children and surviving parents whose Social Security survivor benefits would be reduced. Nor does it include low-income elderly widows over 76 whose benefits would be adversely affected.

- Under the White House proposal for sliding-scale benefit reductions, the reductions grow larger with each passing year. Those who begin to draw benefits

**Three Examples of How Vulnerable Low-income Beneficiaries Would be Affected**

- **Survivor benefits for families with young children.** An average earner (making about $35,000 annually) dies at age 40 in 2045, leaving behind his wife and two young children aged 4 and 7. Under the President's plan, this family would get a benefit reduction of 16 percent, or $4,400 per year. This family would get about $50,000 less in total over the course of its receipt of survivors benefits. [a] With only one surviving parent, the family could well be in the bottom fifth of the income distribution.

- **Benefits for elderly widows.** Two people are married: an average-earning husband and a wife who made much less. They retire together in 2045 and are subject to a 16 percent benefit reduction as a result of the sliding-scale provision, which reduces their benefits by nearly $5,000 annually. They are not in the bottom 30 percent of beneficiaries. The husband dies, however, and the spouse falls into low-income status. She receives a reduced survivors benefit — 16 percent below the current scheduled survivors benefit.

- **Benefits for divorced spouses.** A woman is married for 30 years but then becomes divorced. She spent much of this time raising her family, rather than in the paid workplace. As a result, she has very low career earnings, and when she retires in 2045, she would be entitled to a relatively low Social Security benefit based on her own work history. Instead, she receives a $13,000 annual benefit based on her ex-husband's work history.[b] Because she is in the bottom 30 percent of career earnings, the sliding-scale benefit proposal would protect the benefit based on her own work history. But this is irrelevant to her because she is not collecting benefits based on her own earnings record. Instead, her benefit is reduced by about 25 percent, to about $10,000 a year.

[a] The total benefit is expressed in present value terms. This is the amount of money that, with interest, would equal the total survivor benefits this family would receive.

[b] Social Security rules allow women (or men) who have been married for more than ten years to choose between collecting a benefit based on their own earnings history or 50 percent of the benefit based on their spouse's — or ex-spouse's — work history.

[3] *Ibid*., Table 5.A1.4.

in 2050 would be subject to larger reductions than those who began to draw benefits in 2040, and so on. By presenting only average benefit levels in 2050 for all beneficiaries aged 62 to 76 in 2050, the White House includes large numbers of beneficiaries who began drawing benefits in the 2030s or early 2040s. This materially lowers the average benefit reduction. Had the White House presented information on all people beginning to receive Social Security in 2050, the average benefit reduction for the bottom 20 percent would have been significantly larger.