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MODERNIZING SOCIAL SECURITY: MINIMUM BENEFITS

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Introduction

Social Security offers a minimum benefit to retired workers with very low career earnings. However, the current level of this benefit is not enough, by itself, to prevent poverty even for full-career workers, and it is withering away due to a design flaw. As a result, many policy experts support redesigning the minimum benefit.

Virtually all experts agree that full-career workers should get a benefit that keeps them out of poverty. Some also support broadening eligibility for the minimum benefit by reducing the earnings level needed to build up qualifying credits. Others would take the opposite tack, narrowing eligibility by raising the number of years needed for a full or partial benefit.

This *brief* is the final one in a series on modernizing Social Security to account for changing social, economic, and demographic circumstances. The discussion proceeds as follows. The first section provides the basics on Social Security benefits for low earners. The second section introduces the key design elements of the current minimum benefit. The third section reviews several reform proposals. The fourth section assesses the reforms based on three criteria: targeting efficiency, administrative feasibility, and cost offsets. The final section concludes that an enhanced minimum benefit has wide appeal and could substantially reduce poverty risk, with the breadth of the impact dependent on how eligibility is determined.

Social Security Benefits for Low Earners

This section describes Social Security's current provisions for low earners, particularly the minimum benefit, and explains the rationale for a new minimum benefit to help reduce poverty.

Provisions for Low Earners

Social Security's standard benefit formula that applies to all workers provides low-income workers with higher benefits relative to their earnings than middle- and high-income workers. It also limits the number of years of earnings counted in the benefit formula to 35, which helps those who do not have a longer work history. However, these provisions do not ensure a specific minimum standard of living, which is particularly important for low-income retirees who are

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heavily dependent on Social Security. For this reason, the program includes a minimum benefit (technically called the "special minimum benefit") that was originally intended to provide a floor for those who would otherwise receive very low benefits under the standard formula.[1]

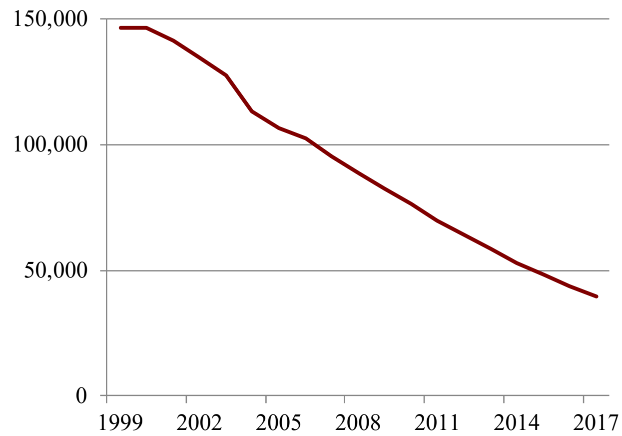
The Current Minimum Benefit

To be eligible for the minimum benefit, a person must have worked at least 11 years with earnings at or above a set amount. In 2019, this earnings threshold is $14,805, which is higher than the level required to qualify for earnings credits under the standard Social Security benefit formula.[2] The annual monthly minimum benefit for an eligible worker retiring in 2019 with an 11-year work history is $500; the amount rises proportionately for each additional year worked, reaching the full minimum benefit of about $10,500 at 30 years. As with standard Social Security benefits, the minimum benefit is reduced if claimed before the full retirement age (FRA).[3] A key design difference between the minimum and standard benefits is that the minimum benefit amount is based strictly on the number of years worked rather than being linked to each worker's lifetime earnings.

For individuals who are eligible for the minimum benefit, Social Security automatically computes whether they would receive more under this benefit or the standard benefit and awards them the higher amount. Strikingly, the number of workers who receive the minimum benefit has been plummeting (see Figure 1), and the Social Security actuaries project that the program will have *no new beneficiaries* at all beginning this year.[4] The main reason is simple – the initial benefit level is indexed to prices while standard Social Security benefits are indexed to average wages. Since prices generally rise more slowly than wages, the minimum benefit level has been gradually sinking below the standard benefit level for a growing percentage of workers.

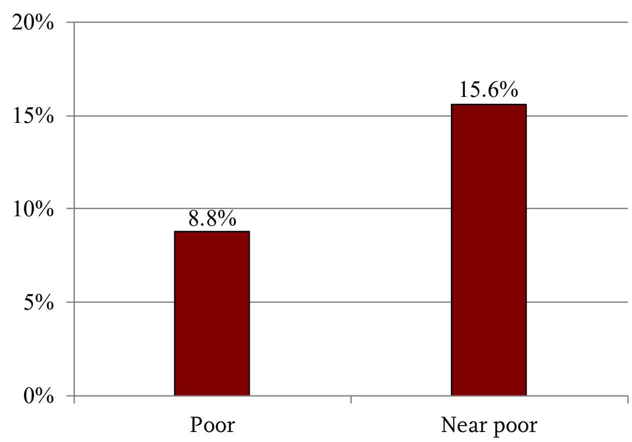
This trend would not be a concern if low earners received enough from the standard benefit to avoid poverty, but many do not. For example, the Social Security actuaries analyze benefits for hypothetical individuals at different levels of lifetime earnings. A "very low earner" retiring at age 65 in 2017 would have an average Social Security benefit of just over $9,000 per year, well below the Census Bureau's poverty threshold of $11,756 for a single person age 65 or over.[5] Not surprisingly, then, 8.8 percent of all households receiving Social Security worker benefits were in poverty in 2017 and an additional 15.6 percent had incomes of less than 125 percent of the poverty level (see Figure 2). And these numbers are for the standard poverty measure, which many believe understates the problem.[6] So, while the current minimum benefit is going away, the need for an adequate floor of protection is not.[7]

Figure 1. Number of Social Security Beneficiaries Receiving the Minimum Benefit, 1999-2017



Source: U.S. Social Security Administration (2000-2018).

Figure 2. Percentage of All Households Receiving Social Security Worker Benefits by Poverty Status, 2017



Note: Near poor is defined as a household with less than 125 percent of the poverty level.
Source: U.S. Census Bureau, *Current Population Survey* (2018b).

Reforming the Minimum Benefit

Proposals to improve the minimum benefit tend to be a staple element of Social Security reform packages from bipartisan commissions, policy analysts, and legislators. The main objectives are to provide a larger, more stable, benefit level and to target specific types of low earners. To achieve these objectives, reformers use one or more levers that affect the minimum benefit's design (see Table 1).

Table 1. Minimum Benefit Design and Effects of Potential Changes

Program levers	Current policy	Most likely change	Effect of change
To raise benefits			
Full benefit amount	$10,470	Raise amount	Higher benefits now
Indexation of benefits	Index to prices	Index to wages	Higher benefits later
To change eligibility			
Years for full benefit	30 years	Increase years	Fewer get full benefit
Years for any benefit	11 years	Increase years	Fewer get partial benefit
Earnings threshold	$14,805	Reduce threshold	More qualify for a benefit

Sources: U.S. Social Security Administration (2018a); and authors' analysis.

The first two program levers in Table 1 affect the amount of the minimum benefit.

- *Full benefit amount.* Raising the initial full benefit amount increases benefits across the board, as those with a partial benefit would get a corresponding boost.

- *Indexation of benefits.* Changing the indexation of the initial benefit from price growth to wage growth would make the benefit more generous over time relative to the poverty level.

The other three program levers affect who is eligible to receive a full or partial benefit.

- *Years needed for full benefit.* Requiring more years for a full benefit would mean fewer people qualify. By itself, it would also reduce benefit amounts as recipients would get a smaller benefit for any given number of years of work below the new threshold. At the same time, such a change could boost work incentives.

- *Years needed for any benefit.* Requiring more years for a partial benefit would make it harder for those with shorter careers to qualify, but could also enhance work incentives.

- *Earnings threshold.* Reducing the threshold needed to earn each year of eligibility would make it easier to qualify for a benefit. This change could reduce work incentives.

Specific Reform Proposals

Policy experts from across the political spectrum have introduced proposals to reform the minimum benefit over the past two decades. This activity reflects widespread agreement that, due to the functional demise of the current minimum benefit, a new benefit is necessary to help protect long-career workers with low earnings from poverty.

This analysis looks at five proposals, which cover a range of options. The sponsors and years introduced are: Sen. Bernie Sanders and Rep. Peter DeFazio (2017);[8] Rep. Sam Johnson (2016); the Commission on Retirement Security and Personal Savings convened by the Bipartisan Policy Center (BPC) (2016); Rep. Paul Ryan (2010); and the National Academy of Social Insurance (NASI) (2009).[9]

Raising Benefits

Four of the five proposals would substantially raise the full benefit, with three of them (Sanders/DeFazio, NASI, and Ryan) increasing it to 120-125 percent of the poverty level for an individual, and Johnson increasing it to a higher level.[10] The BPC proposal takes a different design approach; its benefit would be an add-on supplement to the standard Social Security benefit – phased out as the standard benefit rises.

All proposals, except for Ryan's, would index initial benefits to average wages, which would correct the design limitation that has led the current minimum benefit to become nearly obsolete.

Changing Eligibility

The Johnson proposal would increase the number of years needed for a full benefit from 30 to 35. By setting a higher bar for receiving a full benefit, this specific provision would offset a modest portion of the Johnson proposal's increase in the full benefit amount.

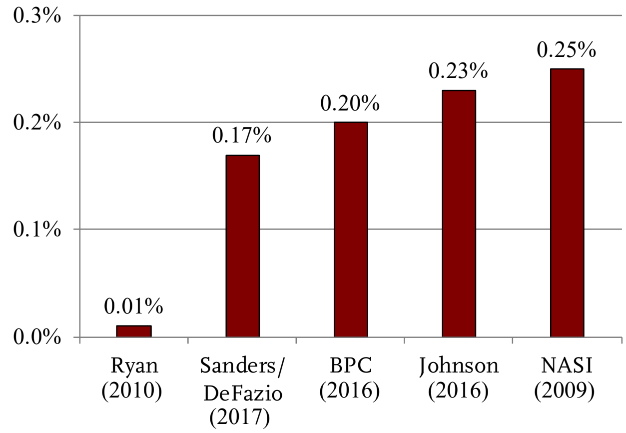
The Ryan plan would narrow eligibility by limiting its benefit increase to those with more than 20 years of earnings. This provision would effectively mean that – going forward – workers with 20 or fewer years of earnings would no longer be eligible for any minimum benefit as the current program (which allows eligibility starting at 10 years) has nearly disappeared already.[11]

Both the Sanders/DeFazio and NASI plans would expand eligibility by reducing the threshold needed for a year of earnings credit from $14,805 to the $5,440 amount used for the standard Social Security formula. The BPC plan similarly expands eligibility by automatically making its minimum benefit available to low earners who qualify for the standard Social Security benefit. The Johnson plan would move in the same direction, but less dramatically, by adopting an earnings threshold for the minimum benefit of $10,875 in 2018.[12]

Effect on Costs

Despite differences in the details, the costs for the proposals are broadly similar, ranging from 0.17 percent to 0.25 percent of taxable payroll over Social Security's 75-year horizon (see Figure 3). The exception is the narrowly structured Ryan plan, which has virtually no cost because eligibility is limited and the benefit level is not indexed to wages. The NASI and Sanders/DeFazio plans are nearly identical except that the NASI plan includes a caregiver credit, which adds to its cost. The Johnson proposal, with the highest minimum benefit level, also has the highest cost among the four proposals that do not have a caregiver credit.

Figure 3. Cost of Minimum Benefit Proposals as a Percentage of Taxable Payroll, Over 75 Years



Note: Estimates reflect assumptions from the *2018 Social Security Trustees Report*, which may differ from estimates when the proposals were initially introduced.
Source: U.S. Social Security Administration (2018b).

Assessments of Reform

Several studies have assessed how reforming the minimum benefit would affect the number of eligible individuals and reduce poverty. Many of these studies were conducted a decade or more ago, but – given the general consistency in reform proposals over time – their findings still broadly apply. The consensus is that raising the minimum benefit amount and/or indexing it to wages would substantially expand the number of recipients and reduce poverty rates.[13] And switching the earnings threshold to the lower level used for standard Social Security benefits would significantly increase the number of individuals eligible for a full or partial minimum benefit.[14] Studies have also found that reforming the minimum benefit would be a more effective anti-poverty tool than the current spousal benefit or a reformed widow benefit, partly because the growing number of low-income workers who spend most of their adult lives single are not eligible for family benefits.[15]

Targeting, Administration, and Offsets

Targeting concerns have been raised about the minimum benefit dating back to the program's original 1939 structure, which was thought to provide "windfall" benefits to those with very little attachment to Social Security.[16] The main issue today seems to be not whether a new minimum benefit can be well targeted to its intended recipients, but how broadly to define the intended recipients. Should benefits be more concentrated on those who work full time for many years or should a significant minimum benefit also be accessible to those with lower earnings and shorter labor force histories?

Administrative complexity is not likely to be a significant concern as most of the proposals have a structure similar to the current minimum benefit. The Social Security Administration would not need to collect new data on beneficiaries and it already has a system for determining whether individuals are eligible. The BPC plan has a different design, which might require a more involved communications outreach effort to explain the new benefit, but it too should not require any new data collection and could actually simplify the administrative process for determining eligibility by eliminating the current "years worked" requirement.

The final question is how to pay for a new minimum benefit. Using the Sanders/DeFazio proposal as an example, its cost could largely be covered by making the spousal benefit more progressive. Specifically, this offset proposal would limit the spousal benefit to the amount received by the spouse of a worker at the 75th percentile of earners. An additional offset that would cover the remaining costs could come from reducing benefits for higher earners by lowering the 15-percent factor applied to earnings over $5,583 per month to 5 percent. (This offset provides enough savings to also cover the costs of a caregiver credit, as noted in a previous *brief* in this series.)[17]

Conclusion

A broad consensus exists for reforming Social Security's minimum benefit. Reformers have suggested various ways to ensure that a new minimum benefit would keep at least full-time, full-career workers above the traditional poverty level. The main difference in the proposals revolves around who should be eligible for a minimum benefit. The narrower reforms tilt more toward workers with longer careers and *relatively* higher earnings while broader reforms would make it easier for those with shorter careers and lower earnings to qualify. In any case, reforming the minimum benefit would clearly succeed in reducing poverty risk for some older Americans.

Endnotes

1 Social Security's original minimum benefit was established in 1939, and a new version of the benefit was introduced in 1972.

2 To earn a year of wage credits under the standard benefit formula, a worker needs to make just $5,440 in 2019 (or $1,360 per quarter). The minimum benefit's higher threshold for coverage credits may seem counterintuitive, but it reflects policymakers' intent to direct this benefit toward regular, full-time workers with low earnings rather than sporadic or part-time workers; see Olsen and Hoffmeyer (2001/2002).

3 Unlike the standard benefit, the minimum benefit amount is not increased for those who claim later than the FRA.

4 The number of beneficiaries actually receiving higher benefits due to this provision is even lower than shown in Figure 1, because some people who qualify for a minimum benefit on their own earnings record receive a higher spousal benefit under the standard benefit calculation (see Li 2018).

For the actuaries' projections of the year in which the minimum benefit will have no new beneficiaries, see Feinstein (2013).

5 The Social Security benefit estimate is from Clingman, Burkhalter, and Chaplain (2018). The poverty threshold is from the U.S. Census Bureau (2018a).

6 Given concerns about the official poverty measure, the Census Bureau introduced a Supplemental Poverty Measure (SPM) in 2011; see Bridges and Gesumaria (2016) for a thorough comparison. In 2017, the SPM for households 65+ was 14.1 percent while the official poverty rate was 9.2 percent (Fox 2018).

7 Shelton (2014) provides a good example of how the minimum benefit is disappearing.

8 A very similar minimum benefit provision was also included in separate 2017 bills by Rep. Al Lawson and Rep. John Larson.

9 Many others proposed reforms to the minimum benefit in the 1990s and early 2000s – e.g., Diamond and Orszag (2004) – that are broadly similar in structure to some of the recent proposals.

10 The Johnson plan would tie the minimum benefit level to the Social Security Administration's Average Wage Index (AWI), with a full minimum benefit equal to 35 percent of the AWI in 2017 (or about $17,600).

11 A new proposal from several poverty experts offers a very different approach to the number of years needed for eligibility; it would provide access to a full minimum benefit guarantee (equal to the poverty level) to anyone with at least 10 years of covered earnings under Social Security. See Herd et al. (2018).

12 Some proposals would also expand eligibility for specific groups. The Ryan and Johnson plans would ease requirements for the disabled, and the NASI plan would add caregiver credits. For a full discussion of caregiver credits, see the companion *brief* in this series (Munnell and Eschtruth 2018).

13 See Favreault, Mermin, and Steuerle (2006) for an in-depth analysis of minimum benefit effects. For more evidence of expanded eligibility, see Fitzpatrick, Hill, and Muller (2003) and Sandell, Iams, and Fanaras (1999).

14 Springstead, Whitman, and Shoffner (2014).

15 Regarding spousal benefits, see Herd (2005). Regarding widow benefits, see Favreault, Sammartino, and Steuerle (2002), and Favreault and Sammartino (2002). Regarding SSI, see Davies and Favreault (2004).

16 The 1939 benefit design was criticized for poor targeting due to a very low bar for eligibility, allowing many people with just a few years of coverage under Social Security and many years in non-covered employment (such as public sector workers) to claim the minimum benefit. In 1972, policymakers created a new minimum benefit with stricter eligibility criteria, which remains in place today. In 1981, the 1939 provision was eliminated. For more details on the legislative history of the minimum benefit, see Li (2018) and Olsen and Hoffmeyer (2001/2002).

17 Any interaction effects among the various benefit provisions are not included in these cost estimates. The caregiver credit *brief* is Munnell and Eschtruth (2018).

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