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INTERACTIONS BETWEEN SOCIAL SECURITY REFORM AND THE SUPPLEMENTAL SECURITY PROGRAM FOR THE AGED

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Due in large part to the impending retirement of the baby boom cohort, the Social Security program under current law is projected to face benefit obligations in excess of tax receipts by 2018. Program actuaries project that the trust fund balance will be depleted in 2042 (Board of Trustees 2003). Analysts and legislators have put forth numerous proposals to return the Social Security program to long-term solvency, but most of those proposals ignore the interactions between Social Security reform and the Supplemental Security Income program (SSI), which is a means-tested program for elderly individuals and couples with low incomes and limited assets. Only a handful of recent papers have begun to consider the income support features of SSI as an integral part of Social Security reform (Favreault, Berk, and Smith 2003; Koenig et al 2003; Rupp, Strand, and Davies 2003). This paper explicitly considers interactions between potential Social Security reforms and the elderly component of the SSI program. Using a microsimulation model – the Social Security Administration’s Modeling Income in the Near Term – we simulate six reform options that consist of changes to the Social Security system and/or changes to the SSI program. The common element of each reform package is a reduction in Social Security benefits by the percentage necessary to approach 75-year solvency. We then add options for:

- creating a minimum Social Security benefit;
- increasing the SSI federal benefit rate;
- increasing the SSI general income exclusion; and
- increasing the SSI asset threshold.

We compare the effects of the simulated reforms on the elderly population in 2022, specifically focusing on changes in benefit receipt patterns, poverty rates, and winners and losers from each reform option.

Our analyses show that the current SSI program will shield only a fraction of elderly individuals from Social Security benefits cuts required to bring the system into long-term fiscal balance. This reflects projected future declines in the percentage of elderly individuals who receive SSI benefits, as well as the failure of SSI eligibility parameters to keep pace with inflation. In simulations in which the SSI general income exclusion is increased to its inflationadjusted level, the proportion of elderly individuals who receive SSI increased, the percentage of elderly individuals who received larger SSI benefits increased, and the average benefit gain increased. Corresponding effects for increasing SSI federal benefit rate were somewhat stronger. The option that increases the SSI asset threshold produced the strongest results among the SSI options considered. Although poverty rates among the elderly were not substantially reduced, the income of concurrent Social Security-SSI recipients and SSI-only recipients was markedly increased relative to the Social Security benefit cut reform. The reform options that included a Social Security minimum benefit, however, produced the strongest results across the board,

even when designed in a cost-neutral fashion. Our conclusions are of course limited to the set of Social Security and SSI reform options that we simulate, and thus should be used cautiously.

This study raises the question of whether it is preferable to meet the needs of the low-income elderly through the Social Security program or through a means-tested social welfare program like SSI. The Social Security minimum benefit plans that we simulated are more effective at reducing poverty among the elderly than the SSI reform options that we simulated, and are better targeted if the goal is to offset lost income due to Social Security benefit cuts. In addition, minimum benefits can be designed to be cost neutral to the Social Security trust fund. Nevertheless, the SSI program is critical to the income security of many low-income elderly individuals. It may be the case that some combination of Social Security minimum benefits and SSI reform would be desirable to protect lower income elderly beneficiaries from across-the-board benefit cuts. The highly stylized minimum benefits options in this paper are tied to work history, thus leaving open the possibility that those Social Security beneficiaries with the lowest incomes and the shortest work histories will fall through the cracks. For those individuals, the SSI program, whether reformed or in its current state, will remain a vital source of support.

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