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Social Security: Minimum Benefits

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Summary

Social Security's minimum benefit provision, the Special Minimum Primary Insurance Amount (PIA), is an alternative benefit formula that increases benefits paid to workers who had low earnings for many years and to their dependents and survivors. The Special Minimum PIA is based on the number of years a person has worked, whereas the standard benefit formula is based on a worker's average lifetime earnings. The worker receives the higher of the two benefits.

However, the Special Minimum PIA has virtually no effect on the benefits paid to today's new retirees. Under current law, it grows with price levels, whereas the standard benefit is linked to wages. Because wages generally grow faster than prices, the Special Minimum PIA affects fewer beneficiaries every year. In 2013, about one out of every 1,500 Social Security recipients qualified for the minimum benefit, and the provision resulted in only about \$20 million of the more than \$800 billion in Social Security benefit outlays. The Social Security Administration (SSA) estimates that provision will have no effect on workers turning 62 in 2019 or later.

Social Security has had a minimum benefit provision since 1939. Originally, the minimum benefit was a fixed-dollar amount. Congress created the Special Minimum PIA in 1972 in response to concerns that the fixed-dollar minimum provided a windfall to people who had worked only a few years in Social Security-covered employment. The Special Minimum PIA may be paid to workers with more than 10 years in Social Security-covered employment. The Special Minimum benefit amount paid to a retired worker is based on, and rises with, the number of years worked in covered employment.

Some recent proposals would reinstitute a minimum benefit. This renewed interest has been sparked by Social Security proposals that would reduce the regular benefit and by concern over poverty rates among beneficiaries who had low wages throughout their careers.

Increases in Social Security benefits targeted at people with greater need could be implemented in various ways. For example, a new minimum benefit provision could be introduced, the standard benefit could be increased for people who worked for many years at low earnings, or a fixed dollar-benefit could be introduced. Similar provisions could also be introduced through other programs, such as Supplemental Security Income (SSI).

Contents

- Introduction 1
- Determining Regular Social Security Retirement Benefits 1
- Determining the Special Minimum PIA Benefit Amount 2
 - Years of Coverage 2
 - Special Minimum PIA Initial Monthly Benefit Amounts 2
 - Benefits for Family Members 4
 - Potential Adjustments to the Special Minimum PIA Benefit Amount 4
 - Dually Entitled Beneficiaries 5
- The Special Minimum PIA Has Little Effect on Current Beneficiaries 5
- History of the Social Security Minimum Benefit Provision..... 6
 - Original Structure of the Social Security Minimum Benefit (1939 to 1981)..... 6
 - The Special Minimum PIA (1973 to the Present) 7
- Arguments For and Against a Minimum Benefit Provision 8
 - Arguments for a Minimum Benefit Provision..... 8
 - Arguments for Phasing Out the Social Security Minimum Benefit 9
- Criteria for Evaluating Minimum Benefit Proposals..... 10
 - To What Extent Does the Benefit Reduce Poverty?..... 10
 - Should the Benefit Grow with Prices or Wages? 10
 - What Years of Coverage Requirements Should a Minimum Benefit Have?..... 10
 - Interactions Between Social Security Minimum Benefits and Supplemental Security Income..... 11
 - Other Considerations..... 12
- Minimum Benefit Options and Estimated Effects..... 13
 - Options Based on Number of Years of Work 13
 - Options to Enhance the Standard Social Security Benefit 15
 - A Fixed-Dollar Benefit..... 15
- Alternative Strategies for Addressing Poverty Among Long-Term Low-Wage Workers..... 16

Tables

- Table 1. Special Minimum PIA Monthly Benefit Amounts, 2014 3
- Table 2. Number of Special Minimum PIA Beneficiaries and Average Increase in Monthly Benefit, June 2013 6

Introduction

Social Security’s minimum benefit provision, the Special Minimum Primary Insurance Amount (PIA), is an alternative benefit formula that increases benefits paid to workers who had low earnings for many years and to their dependents and survivors. Unlike the standard Social Security benefit formula, which is based on a worker’s average lifetime earnings, the Special Minimum PIA is based on the number of years a person has worked.

This paper explains how the Special Minimum PIA functions under current law and presents arguments for and against expanding it. It then discusses criteria for evaluating proposals for change and describes some specific options for increasing benefits paid to people with low earnings or low income.

Determining Regular Social Security Retirement Benefits

To compute the regular Social Security retirement benefit (known as the regular “primary insurance amount,” or PIA), a worker’s highest 35 years of earnings are converted into current-dollar terms by indexing each year of earnings to historical wage growth. The highest 35 years of indexed earnings are divided by 35 to determine career-average annual earnings and then divided by 12 to determine the worker’s average indexed monthly earnings (AIME). If a worker has fewer than 35 years of earnings in covered employment, years of no earnings are entered as zeros.

Next, the standard Social Security benefit formula is applied to the worker’s AIME. Two dollar thresholds, known as “bendpoints,” are used to divide the worker’s AIME into three segments; in 2014, the two bendpoints are \$816 and \$4,917. Next, three factors—90%, 32%, and 15%—are applied to the three different segments of the worker’s AIME to compute the basic monthly benefit. Because the lower factors apply to people with higher earnings, the benefit formula is progressive. That is, it replaces a higher percentage of the pre-retirement earnings of workers with low career-average earnings than for workers with high career-average earnings. For details, see CRS Report R43542, *How Social Security Benefits Are Computed: In Brief*, by Noah P. Meyerson.

Social Security also provides auxiliary benefits to eligible family members of a retired, disabled, or deceased worker. Benefits payable to family members are equal to a specified percentage of the worker’s PIA. For example, a spouse’s benefit is equal to 50% of the worker’s PIA and a widow(er)’s benefit is equal to 100% of the deceased worker’s PIA. For more information on auxiliary benefits, see “Benefits for the Worker’s Family Members” in CRS Report R42035, *Social Security Primer*, by Dawn Nuschler.

Determining the Special Minimum PIA Benefit Amount

Unlike the regular benefit, the Special Minimum PIA benefit is based only on the number of years spent in Social Security-covered employment. Beneficiaries receive the higher of the two amounts.

Years of Coverage

A “year of coverage” for the purposes of computing the Special Minimum PIA is a year during which the worker earns more than a specified threshold. Since 1991, the annual threshold for a year of coverage under the Special Minimum PIA has equaled 15% of the “old law” contribution and benefit base.¹ The “old law” contribution and benefit base is indexed to increases in the national average wage. As a result, year of coverage thresholds for the Special Minimum PIA are effectively indexed to wage growth. The 2014 threshold is \$13,050.

The year of coverage thresholds create a “cliff” effect. If a worker’s earnings in a year are even one dollar short of the threshold for that year, a year of coverage is not credited.

Special Minimum PIA Initial Monthly Benefit Amounts

The Special Minimum PIA depends only on a worker’s years of coverage. A worker must have at least 11 years of coverage to be eligible for the benefit. For those with 11 years, the Special Minimum PIA monthly benefit is \$39.30. It increases by about \$41 for each additional year of coverage (see **Table 1**).² (For each additional year of coverage, the actual increase in the PIA is not exactly \$41 because of the cumulative impact of annual rounding.) For example a person with 30 years of coverage would qualify for an initial monthly Special Minimum PIA benefit of \$804.00 (before potential adjustments, as will be discussed below).

¹ From 1951 through 1978, the threshold equaled 25% of the Social Security contribution and benefit base, and from 1979 through 1990, it was 25% of the “old law” contribution and benefit base. The Social Security contribution and benefit base is the annual limit on the amount of a worker’s earnings that are subject to the Social Security payroll tax in a given year. The same annual limit applies when these earnings are used in a benefit computation. For earnings in 2014, the current-law contribution and benefit base is \$117,000. The “old law” contribution and benefit base is the base in effect before the 1977 Social Security Amendments (P.L. 95-216). In 2014, the “old law” contribution and benefit base is \$87,000. For a historical series of the year of coverage amounts and the “old law” contribution and benefit base, see Social Security Administration, “Old-law Base and Year of Coverage,” at <http://www.socialsecurity.gov/OACT/COLA/yoc.html>.

² For additional details on how the Special Minimum PIA is computed, see Social Security Administration, *Program Operations Manual System*, RS 00640.075, at <http://policy.ssa.gov/poms.nsf/links/0300640075>.

Table I. Special Minimum PIA Monthly Benefit Amounts, 2014

Number of Years of Coverage	Monthly Primary Insurance Amount
11	\$59.80
12	80.20
13	121.20
14	161.90
15	202.40
16	243.60
17	284.40
18	325.30
19	366.10
20	407.10
21	448.00
22	488.60
23	530.10
24	570.90
25	611.50
26	653.00
27	693.40
28	734.30
29	775.20
30	816.00

Source: Social Security Administration, <http://www.socialsecurity.gov/cgi-bin/smt.cgi>.

The Special Minimum PIA benefit amounts are indexed to *price* inflation, in contrast to regular Social Security benefits, which are indexed to *wage* inflation.³ Wages generally grow faster than prices, so regular benefits have grown faster than Special Minimum PIA benefits. As a result, a worker's regular benefit is now almost always higher than the Special Minimum PIA benefit.

After the initial year of benefit receipt, the same Social Security cost-of-living-adjustment (COLA) applies to both the Special Minimum PIA benefit and regular benefits.⁴

³ Congress did not originally provide for updating the initial benefit table for wage or price inflation when it created the Special Minimum PIA in 1972. The law originally set the monthly benefit equal to \$8.50 per year of coverage, effective in January 1973. Subsequent legislation increased that amount to \$9.00 per year of coverage in March 1974. The Social Security Financing Amendments of 1977 (P.L. 95-216) further increased the rate to \$11.50 per year of coverage effective in January 1979 and also indexed benefit levels in future years to price inflation. Also see 42 U.S.C. 415(a)(1)(C)(i).

⁴ See CRS Report 94-803, *Social Security: Cost-of-Living Adjustments*, by Gary Sidor.

Benefits for Family Members

Monthly benefit rates for dependents and survivors are figured as a percentage of the worker's Special Minimum PIA, not to exceed the family maximum amount (described below). The computation of auxiliary benefits uses the same rates that are used for regular benefits. For details, see "Benefits for the Worker's Family Members" in CRS Report R42035, *Social Security Primer*, by Dawn Nuschler.

Potential Adjustments to the Special Minimum PIA Benefit Amount

Various provisions may cause a worker's monthly benefit payment to differ from the PIA. Some of the provisions apply to both the regular PIA and the Special Minimum PIA, and some adjustments differ.

Four provisions affect both the regular benefit and the Special Minimum benefit:

- *Actuarial benefit reduction*. The provision reduces monthly benefits below the PIA for people who claim benefits before the full retirement age (FRA).⁵
- *Retirement earnings test (RET)*. The RET reduces current benefits for beneficiaries who are younger than the FRA and have earnings that exceed a specified dollar amount.
- *Government pension offset (GPO)*. The GPO reduces benefits for people who have pensions from employment that is not covered by Social Security, but who are entitled to Social Security spouse or survivor benefits based on a spouse or deceased spouse's work record in Social Security-covered employment.⁶
- *Family maximum benefit*. The maximum total benefit that can be received by all members of a family varies from 150% to 188% of the retired or deceased worker's PIA, even if the sum of the benefits for the individuals in the family would be greater.⁷

Two provisions affect regular benefits but do not affect Special Minimum benefits:

- *Delayed retirement credit (DRC)*. The DRC increases regular benefits for workers who start receiving benefits after reaching the FRA.⁸ It does not apply to Special Minimum benefits.⁹

⁵ Although workers can claim Social Security retirement benefits as early as age 62 (the early eligibility age, or EEA), the full amount of a worker's PIA is paid at the worker's full retirement age (FRA). For more information on the retirement age, see CRS Report R41962, *The Social Security Retirement Age: In Brief*, by Gary Sidor.

⁶ Email correspondence with Social Security Administration staff on October 14, 2010. For additional information on the GPO, see CRS Report RL32453, *Social Security: The Government Pension Offset (GPO)*, by Gary Sidor.

⁷ For more information on the maximum family benefit, see "Table 3. Social Security Benefits for the Worker's Family Members" in CRS Report R42035, *Social Security Primer*, by Dawn Nuschler.

⁸ The DRC is 8% per year for workers born in 1943 or later. The DRC for workers born earlier is available at Social Security Administration, "Delayed retirement credit," at http://www.ssa.gov/oact/quickcalc/early_late.html#drcTable.

⁹ Social Security Administration, *Program Operations Manual System*, Section RS 00605.075.

- *Windfall elimination provision (WEP)*. A regular benefit may be reduced under the WEP if the worker is entitled to a pension based on employment in certain federal, state, or local government positions that are not covered by Social Security.¹⁰ It does not apply to Special Minimum benefits.¹¹

Dually Entitled Beneficiaries

Some beneficiaries are entitled to Social Security benefits based both on their own work and on a spouse's work. When a beneficiary's retired-worker benefit is higher than the spousal or survivor benefit, the beneficiary receives only the retired-worker benefit. But when the beneficiary's retired-worker benefit is lower than the spousal or survivor benefit, the person is referred to as "dually entitled" and receives a payment equal to the spousal or survivor benefit. (Technically, the payment consists of the retired-worker benefit plus the difference between the retired-worker benefit and the full spousal or survivor benefit.)

Many workers—primarily women—who qualify for the Special Minimum PIA based on their own work are dually entitled and receive a benefit amount that is equal to the higher spouse or survivor benefit. Therefore, although they technically receive the Special Minimum benefit, the provision has no effect on their benefits.

The Special Minimum PIA Has Little Effect on Current Beneficiaries

The Special Minimum PIA has only a minimal effect on current benefits, because the standard benefit is almost always greater than the special minimum benefit. Only about 35,000 of the 54 million Social Security beneficiaries were affected by the Special Minimum PIA in June 2013, and it increased their average benefit by just \$46 per month (see **Table 2**).¹² That is, the special minimum benefit was, on average, \$46 larger than the standard benefit those beneficiaries were entitled to. SSA projects that the provision will have no effect on people turning 62 in 2019 or later.

Almost 75% of the affected beneficiaries were workers, and about 20% were widows. Spouses and child beneficiaries accounted for the remainder. Most workers who qualify for the special minimum PIA are women.

¹⁰ See CRS Report 98-35, *Social Security: The Windfall Elimination Provision (WEP)*, by Gary Sidor.

¹¹ Social Security Administration, *Program Operations Manual System*, Section RS 00605.360.C.3.c, at <https://secure.ssa.gov/apps10/poms.nsf/lnx/0300605360>.

¹² See Table 3 of Craig A. Feinstein, *Diminishing Effect of the Special Minimum PIA*, Social Security Administration, Actuarial Note No. 154, November 2013, at http://www.ssa.gov/oact/NOTES/pdf_notes/note154.pdf. Technically, about 60,000 people receive the Special Minimum PIA, but many of them are dually entitled workers whose total benefits are not affected by the provision. See Social Security Administration, *Annual Statistical Supplement, 2013*, Table 5.A8, at <http://www.socialsecurity.gov/policy/docs/statcomps/supplement/2013/5a.html#table5.a8>.

Table 2. Number of Special Minimum PIA Beneficiaries and Average Increase in Monthly Benefit, June 2013

Beneficiary Type	Number of Beneficiaries	Average Monthly Benefit Increase
Worker	25,333	\$51.28
Spouse	1,526	25.04
Child	1,199	29.67
Widow	6,673	36.03
All Beneficiaries	34,731	46.45

Source: Craig A. Feinstein, *Diminishing Effect of the Special Minimum PIA*, Social Security Administration, Actuarial Note No. 154, November 2013, Table 3.

Since 1999, the provision has benefited only newly entitled beneficiaries whose regular benefit is subject to the WEP.¹³ As explained above, the WEP can reduce regular benefits but does not reduce Special Minimum benefits. The Special Minimum helps only individuals whose regular benefit (reduced by the WEP) is less than the Special Minimum benefit (not reduced by the WEP).

History of the Social Security Minimum Benefit Provision

Original Structure of the Social Security Minimum Benefit (1939 to 1981)

Congress first created a Social Security Minimum Benefit provision in 1939,¹⁴ when it established a Minimum Benefit of \$10 per month. (At the time, \$10 was the lowest monthly benefit amount payable under the benefit calculations used that year.)

From 1939 to 1981, the Minimum Benefit provided a minimum benefit to anyone with low average earnings in Social Security-covered employment. Unlike the current Special Minimum PIA, the law did not require any number of years of work or any level of earnings. The Minimum Benefit applied both to people with long careers with low annual earnings and to people with shorter careers with higher annual earnings.¹⁵

Successive legislation periodically raised the original \$10 monthly dollar amount in increments until 1975, when Minimum Benefit amounts for newly entitled beneficiaries were tied to increases in the consumer price index.¹⁶ Also starting in 1975, a cost-of-living adjustment (COLA) was provided for Minimum Benefits following the initial year of benefit entitlement.

¹³ See Table 5 of *Diminishing Effect of the Special Minimum PIA*.

¹⁴ P.L. 76-379, the Social Security Amendments of 1939.

¹⁵ For example, it benefited people with a sporadic attachment to the workforce and people who entered Social Security-covered employment for a few years after retiring from employment that was not covered by Social Security.

¹⁶ P.L. 92-603, Social Security Amendments of 1972, as amended by P.L. 92-233, Social Security Benefits Increase (continued...)

The Social Security Financing Amendments of 1977 (P.L. 95-216) fixed the initial Minimum Benefit at the amount in effect in December 1978—\$122 per month—for beneficiaries newly entitled in January 1979 or later. Annual COLAs continued to be provided to beneficiaries following the first year of benefit receipt.

The House Ways and Means Committee Report to accompany the bill to freeze the benefit (H.R. 9346, which became P.L. 95-216) contained this rationale:

Increasingly, the minimum benefit is being paid to people who did not, during their working years, rely on their covered earnings as a primary source of support. Such people include, for example, workers whose primary work was in non-covered employment subject to a staff retirement system—such as Federal civilian employees. In December 1975, about 45% of civil service retirement annuitants were receiving Social Security benefits, more than a quarter of whom were receiving the minimum.... Because of the characteristics of people getting the minimum, it has been characterized as being a ‘windfall’ to people who have not worked regularly under the program.¹⁷

The Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35) eliminated the original Minimum Benefit structure for all current and future beneficiaries effective January 1, 1982. The bill was enacted into law on August 13, 1981, but public outcry led to reconsideration. Subsequently, in December 1981, Congress passed legislation to restore the original Minimum Benefit structure for people who became eligible for Social Security benefits before January 1, 1982.¹⁸ That law eliminated the original Minimum Benefit structure for all beneficiaries who attained the age of 62, became disabled, or were eligible for survivor benefits based on the death of a family member after December 1981.¹⁹

The Special Minimum PIA (1973 to the Present)

The Special Minimum PIA was enacted in 1972²⁰ at the same time as the Supplemental Security Income (SSI) program²¹ and was designed to help reduce dependence on SSI by people who worked in Social Security-covered employment for many years. The provision took effect in January 1973. The Special Minimum PIA operated alongside the original Minimum Benefit until the end of 1981, when the latter was phased out. When both provisions were in effect, beneficiaries received the higher of the benefits.

(...continued)

Act of 1973.

¹⁷ U.S. Congress, House Committee on Ways and Means, *Report to Accompany H.R. 9346, the Social Security Financing Amendments of 1977*, 95th Cong., 1st sess., October 12, 1977, pp. 31-32.

¹⁸ P.L. 97-123, the Highway Revenue Act of 1981.

¹⁹ An exception was made for certain members of religious orders who took a vow of poverty and were newly entitled to benefits through December 1991, provided that the religious order had elected coverage before December 29, 1991. The original Minimum Benefit was eliminated for members of religious orders effective January 1992. See Social Security Administration, *Program Operations Manual System*, Section RS 00605.100.

²⁰ P.L. 92-603, the Social Security Amendments of 1972.

²¹ For more information, see CRS Report 94-486, *Supplemental Security Income (SSI)*, by William R. Morton.

Unlike the original Minimum Benefit, the Special Minimum PIA did not help people who had paid Social Security payroll taxes for only a few years.²²

Special Minimum PIA initial benefits were indexed to price inflation in 1977.²³ In contrast, the thresholds for determining a year of coverage under the Special Minimum PIA are indexed to growth in national average wages, which historically have risen faster than prices.

For a detailed legislative history of the Special Minimum PIA, see Kelly A. Olsen and Don Hoffmeyer, “Social Security’s Minimum Benefit,” *Social Security Bulletin*, vol. 64, no. 2 (2001/2002), pp.4-6, at <http://www.ssa.gov/policy/docs/ssb/v64n2/v64n2p1.pdf>.

Arguments For and Against a Minimum Benefit Provision

Arguments for a Minimum Benefit Provision

With the effective elimination of the Special Minimum PIA, many policy makers and analysts have suggested creating a new minimum benefit. A minimum benefit within Social Security could be a suitable way to reward long-term, low-wage work without subjecting beneficiaries to means testing, which is often cumbersome to administer and which may make beneficiaries feel stigmatized.

Some argue that a minimum benefit remains necessary because many elderly Social Security beneficiaries, especially elderly women, are poor or near poor. In 2012, about 7% of Social Security beneficiaries aged 65 or older had family incomes below the poverty threshold and about 13% of beneficiaries aged 65 or older had family incomes below 125% of the poverty threshold. (The comparable figures for non-beneficiaries are 20% and 24%, respectively.) About 9% of female beneficiaries aged 65 or over had family incomes below the poverty line, compared with about 4% of male beneficiaries in this age group.²⁴ Some research suggests restructuring the Social Security minimum could be more effective in alleviating poverty than certain reforms to the SSI program, although a combination of both programs could be useful in the event that Social Security benefits are greatly reduced in the future.²⁵

Some view minimum benefits as a way to reward long-term, low-wage work with a Social Security benefit that is at or above the poverty threshold.²⁶ Restructuring the Social Security minimum benefit to provide a benefit at or above the poverty threshold (e.g., 120% of the poverty

²² U.S. Congress, Senate Finance Committee, *Report to Accompany H.R. 1, The Social Security Amendments of 1972*, 92nd Cong., 2nd sess., September 26, 1972, pp. 153-155.

²³ Social Security Financing Amendments of 1977. The 1977 Amendments also indexed benefit levels after eligibility to inflation.

²⁴ Social Security Administration, *Income of the Population 55 or Older, 2010*, Washington, DC, March 2012, Table 11.1, at http://www.socialsecurity.gov/policy/docs/statcomps/income_pop55.

²⁵ Paul S. Davies and Melissa M. Favreault, *Interactions Between Social Security Reform and the Supplemental Security Income Program for the Aged*, Center for Retirement Research, Boston, MA, February 2004.

²⁶ See, for example, Peter A. Diamond and Peter R. Orszag, *Saving Social Security: A Balanced Approach* (Harrisonburg, VA: Brookings Institution, 2004), p. 102.

threshold) for long-term workers would more generously reward long-term participation in the workforce.

Others view a restructuring of minimum benefits as potentially helpful in the context of legislation that reduces Social Security benefits or exposes them to market risk. Several recent proposals that would reduce regular Social Security benefits have included minimum benefit guarantees.²⁷

A minimum benefit could be designed to reduce poverty rates among older beneficiaries more efficiently than existing Social Security spousal and survivor benefits.²⁸ This is partly because a redesigned minimum benefit could reach women who do not qualify for Social Security spouse or survivor benefits because they never married or because they divorced before reaching 10 years of marriage.²⁹ Because of changing marriage and work patterns, the number of women eligible for spousal and survivors benefits is declining, making this a more important consideration.³⁰

Arguments for Phasing Out the Social Security Minimum Benefit

One argument for allowing the Special Minimum PIA to phase out is that minimum benefits cannot be accurately targeted to the working poor. Because SSA does not collect information on earnings per hour or on the number of hours worked, it is impossible to distinguish between people who had low annual earnings because they worked few hours at higher wages and those who worked many hours at lower wages. People with high annual but low lifetime earnings may be seen as having chosen their low earnings by working less than others.

Another argument is that means-tested programs, such as SSI, are a more appropriate way to supplement the incomes of people with very low incomes and assets. Means testing can help target transfers to those who are in greatest financial need. Some research suggests, however, that means testing can harm incentives for work and saving because SSI's asset limits are currently quite low.³¹ Another consideration is that Social Security is available to retired workers earlier than SSI. Retired workers can claim Social Security benefits starting at the age of 62 while SSI is available to aged beneficiaries starting at age 65. Finally, SSI is generally insufficient to move recipients above the federal poverty level.

²⁷ See, for example, National Commission on Fiscal Responsibility and Reform, *The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform*, December 2010, p. 51, at http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12_1_2010.pdf, and The (Rivlin-Domenici) Debt Reduction Task Force, Bipartisan Policy Center, *Restoring America's Future*, November 2010, p. 80, at <http://bipartisanpolicy.org/sites/default/files/files/BPC%20FINAL%20REPORT%20FOR%20PRINTER%2002%2028%2011.pdf>.

²⁸ Melissa M. Favreault, Gordon B.T. Mermin, and C. Eugene Steuerle, *Minimum Benefits in Social Security*, The Urban Institute, Washington, DC, August 2006, p. 9. See also Pamela Herd, "Ensuring a Minimum: Social Security Reform and Women," *The Gerontologist*, vol. 45, no. 1 (2005), pp. 12-25.

²⁹ Divorced spouses qualify for spouse or survivor benefits based on the ex-spouse's work record if the marriage lasted at least 10 years.

³⁰ U.S. General Accountability Office, *Trends in Marriage and Work Patterns May Increase Economic Vulnerability for Some Retirees*, GAO-14-33, February 26, 2014, at <http://www.gao.gov/products/GAO-14-33>.

³¹ See "How Much Does SSI Affect People's Work and Saving?" in Congressional Budget Office, *Supplemental Security Income: An Overview*, December 2012, pp.10-12, at <http://www.cbo.gov/sites/default/files/cbofiles/attachments/43759-SupplementalSecurity.pdf>.

Criteria for Evaluating Minimum Benefit Proposals

There are a number of possible criteria to consider when evaluating proposals for a minimum benefit.

To What Extent Does the Benefit Reduce Poverty?

One possible goal of a minimum benefit would be to reduce poverty. The Special Minimum PIA was not linked to poverty, and many people who receive it still have family income below the federal poverty threshold. The maximum benefit for people entitled in 2014 is \$816 a month, or \$9,792 a year, which is below the federal poverty guideline for a single person of \$11,670.³² Proposed minimum benefit levels are often expressed as a percent of the federal poverty guidelines³³ or as a percentage of a new poverty measure that is in line with the recommendations of the National Academy of Sciences.³⁴

Should the Benefit Grow with Prices or Wages?

In addition to setting a benefit level when a minimum benefit was first implemented, policy makers would have to decide how a minimum benefit would grow each year. As noted above, the effect of the Special Minimum PIA has essentially ended because it is linked to prices and regular Social Security benefits are linked to wages, which generally grow faster than prices. If the goal of a minimum benefit were to ensure a certain purchasing power, it could be indexed to prices. Under current law, the maximum SSI monthly benefit—which now effectively functions as the minimum benefit for most Social Security beneficiaries—grows with prices. However, if the goal of a minimum benefit were to provide beneficiaries with an income that grew at about the same rate as workers' income, it could be linked to wage levels.³⁵

What Years of Coverage Requirements Should a Minimum Benefit Have?

To target the benefit at people with many years of work, many proposals would link minimum benefit levels to the number of years a person has worked in Social Security-covered employment. Many recent minimum benefit proposals would require that the worker have 30 years of Social Security-covered earnings to qualify for the full minimum

³² U.S. Department of Health and Human Services, *2014 Poverty Guidelines*, at <http://aspe.hhs.gov/poverty/14poverty.cfm>.

³³ U.S. Department of Health and Human Services, *2012 Poverty Guidelines*, at <http://aspe.hhs.gov/poverty/12poverty.shtml>.

³⁴ Laura Sullivan, Tatjana Meschede, and Thomas M. Shapiro, "Enhancing Social Security for Low-Income Workers: Coordinating an Enhanced Minimum Benefit with Social Safety Net Provisions for Seniors" in *Strengthening Social Security for Vulnerable Groups*, ed. National Academy of Social Insurance (Washington, DC, 2009), pp. 27-30.

³⁵ See, for example, The (Rivlin-Domenici) Debt Reduction Task Force, Bipartisan Policy Center, *Restoring America's Future*, November 2010, p. 80, at <http://bipartisanpolicy.org/sites/default/files/files/BPC%20FINAL%20REPORT%20FOR%20PRINTER%2002%2028%2011.pdf>.

benefit.³⁶ These work tenure requirements are intended to reward long-time attachment to the workforce.

A number of proposals would also provide a lower minimum benefit for people with 10 or 20 years of covered earnings. Lowering the required number of years of coverage would allow the minimum benefit to reach more workers, including more part-time and part-year workers. Women are more likely than men to work few years.³⁷

Lowering the required number of years of coverage could, however, arguably, result in inadequate benefits for people with years of coverage at the lower bound of 10 or 20 years. A lower years-of-coverage requirement also raises questions about work incentives. Finally, in conjunction with a lower years-of-coverage requirement, the Windfall Elimination Provision or a similar policy could be applied to the minimum benefit provision to prevent a windfall to people with pensions from non-covered employment.

Some have suggested counting quarters of coverage, instead of years of coverage as under the Special Minimum PIA, to make it easier for workers to qualify for the minimum benefit or to reach higher benefit levels. (Eligibility for regular benefits is based in part on a worker's quarters of coverage. Workers earn up to four quarters of coverage. In 2014, each \$1,200 earns one quarter of coverage; the dollar amount grows each year with average wages.) A variation on this type of reform would be to count partial years of coverage (i.e., if a person earned 50% of the coverage threshold, they would accrue half a year of coverage). One study looked at combining a quarterly coverage threshold with lowering the dollar amount of the coverage threshold (on an annualized basis). The study found that this reform would reach more workers than allowing partial years of coverage.³⁸

Another possible reform would be to extend the years of coverage included for benefit determination beyond the current 30 years, for example to 35 or 40 years. This type of reform would reward additional years of work. Implemented together with wage indexation of the minimum benefit, this reform would slightly increase the share of benefits going to people with the most (35 or more) work years compared with current law.³⁹

Interactions Between Social Security Minimum Benefits and Supplemental Security Income

If the Social Security minimum benefit is redesigned to be more generous or reach more people, it would be necessary to address interactions between Social Security benefits and eligibility for other programs targeted at low-income individuals, most importantly the SSI. There would also be interactions with Medicaid, the Supplemental Nutrition Assistance Program (SNAP), and the Low Income Home Energy Assistance Program (LIHEAP).

³⁶ See the options described in Social Security Administration, Provisions Affecting Level of Monthly Benefits, Options 5.1-5.7, at <http://www.ssa.gov/OACT/solvency/provisions/benefitlevel.html#B5>.

³⁷ Melissa M. Favreault, Gordon B.T. Mermin, and C. Eugene Steuerle, *Minimum Benefits in Social Security*, The Urban Institute, Washington, DC, August 2006, Table 4, at <http://www.urban.org/publications/411406.html>.

³⁸ Christina Smith FitzPatrick, Catherine Hill, and Leslie Muller, *Increasing Social Security Benefits for Women and Men with Long Careers and Low Earnings*, National Women's Law Center, 2003.

³⁹ Melissa M. Favreault, Gordon B.T. Mermin, and C. Eugene Steuerle, *Minimum Benefits in Social Security*, The Urban Institute, Washington, DC, August 2006, p. 17.

SSI is available to people with low incomes and very limited resources. If a Social Security beneficiary also receives SSI, there is often no advantage to an increase in Social Security benefits, because SSI benefits will be reduced by an equal amount. Specifically, a person's "countable" income is subtracted from the total of the SSI federal benefit rate (\$721 per month in 2014 for an individual living independently) plus any state supplement. Countable income equals all unearned income, including Social Security benefits, in excess of \$20.

If a Social Security benefit is increased above the SSI federal benefit rate, affected beneficiaries' total income will increase, but they may be at risk of losing Medicaid eligibility. If countable income exceeds the base SSI benefit, then SSI eligibility is suspended. After 12 consecutive months of suspension, the person is formally terminated from the SSI program.⁴⁰ If a person loses SSI eligibility, he or she may, depending on the state, also lose Medicaid eligibility. Section 1619(b) of the Social Security Act protects Medicaid eligibility for people who lose their SSI eligibility due to earned income only. There is no protection for those who lose eligibility based on unearned income, such as Social Security benefits.

Some analysts have proposed that people who become ineligible for SSI due to an increased special minimum benefit remain eligible for Medicaid. Another possible remedy would be to increase the dollar amount of the Social Security benefit that is disregarded in determining SSI eligibility.⁴¹

Other Considerations

Some proposals would combine a years-of-coverage requirement with credits for a limited number of years of care-giving, unemployment, or poor health in the definition of a "year of coverage."⁴² Providing those credits would require documentation of qualifying activities, which could increase Social Security's administrative costs.

Another important consideration is how disabled workers would be affected. Under Social Security Disability Insurance (SSDI) program rules, eligible disabled workers may receive benefits based on shorter work histories than retired workers; minimum benefit proposals could also treat disabled beneficiaries differently.

Minimum benefit proposals are often structured to avoid conferring windfalls on people without a strong attachment to Social Security-covered employment. Such people may include recent

⁴⁰ SSI eligibility is also based on a resource test. Generally, an SSI recipient's assets are limited to no more than \$2,000, and couples' assets are limited to no more than \$3,000 (a home, car, and household items are not counted). SSI's low resource test thresholds (which are not indexed to inflation) may discourage workers from saving.

⁴¹ Robert Greenstein and Eileen Sweeney, *Proposed Improvements in Social Security's Minimum Benefit and Widow's Benefit Could Harm Some of the Nation's Poorest People*, Center on Budget and Policy Priorities, Washington, DC, June 27, 2005. See also Laura Sullivan, Tatjana Meschede and Thomas M. Shapiro, "Enhancing Social Security for Low-Income Workers: Coordinating an Enhanced Minimum Benefit with Social Safety Net Provisions for Seniors" in *Strengthening Social Security for Vulnerable Groups*, ed. National Academy of Social Insurance (Washington, DC, 2009).

⁴² Melissa M. Favreault, *A New Minimum Benefit for Low Lifetime Earners*, The Urban Institute: Retirement Policy Program, Washington, DC, March 2009, at http://www.nasi.org/sites/default/files/research/Melissa_Favreault_January_2009_Rockefeller.pdf. See also National Academy of Social Insurance, *Fixing Social Security: Adequate Benefits, Adequate Financing*, Washington, DC, October 2009, at http://www.nasi.org/sites/default/files/research/Fixing_Social_Security.pdf, p. 11.

immigrants or people who worked most of their careers in non-covered state or local government employment.

Another question is whether spouses would be entitled to auxiliary benefits based on a worker's minimum benefit. If policy makers wished to allow that but wanted to limit outlays, a limit could be placed on the couple's total benefit.

Minimum Benefit Options and Estimated Effects

There have been numerous proposals for minimum benefits. Most fall into three categories:

- A benefit based on the number of years of work, similar to the Special Minimum PIA,
- A percentage increase in the regular benefit based on the number of years of work, or
- A fixed-dollar amount.

SSA's Office of the Chief Actuary, the Congressional Budget Office (CBO), and SSA's Office of Retirement Policy have all published detailed analyses of the effects of various minimum benefit options.⁴³

Options Based on Number of Years of Work

One approach would be to reconfigure the Special Minimum PIA. Like the Special Minimum, the benefit would be based on the computed number of years of work, which would be defined as taxable earnings above a threshold. A beneficiary would receive the minimum benefit if it was higher than the standard benefit.

For example, the National Academy of Social Insurance developed an option that would provide beneficiaries who worked for 30 years with a benefit equivalent to 125% of the poverty line. A year of work was defined as earning four quarters of coverage. The minimum benefit would phase down proportionally for workers with less than 30 years but more than 10 years of earnings. SSA's Office of the Chief Actuary estimated that when fully phased in, this provision would increase total benefits by almost 2%. (A variation of this option would count up to eight years of care for children under the age of 5 as years of coverage and would increase total benefits by slightly more than 2%.)⁴⁴

SSA's Office of Retirement Policy found that in 2050, the option (without an adjustment for childcare years) would increase benefits for 16% of beneficiaries and for a third of the poorest

⁴³ Social Security Administration, Provisions Affecting Level of Monthly Benefits, Options 5.1-5.7, at <http://www.ssa.gov/OACT/solvency/provisions/benefitlevel.html#B5>; Congressional Budget Office, *Social Security Policy Options*, July 2010, pp.28-30, at <http://www.cbo.gov/publication/21547>; and Social Security Administration, Office of Retirement Policy, Policy Option Projections, "Reconfigure the minimum benefit," at <http://www.ssa.gov/retirementpolicy/projections/benefit-formula.html>.

⁴⁴ Social Security Administration, Office of the Chief Actuary, Provisions Affecting Level of Monthly Benefits, Options 5.2 and 5.3, at <http://www.ssa.gov/OACT/solvency/provisions/benefitlevel.html#B5>.

fifth of beneficiaries.⁴⁵ Of those affected, about 40% would have their benefit increase by more than a fifth.

Similar provisions to reconfigure the Special Minimum PIA were included in proposals developed by the Commission on Fiscal Responsibility and Reform and the (Rivlin-Domenici) Debt Reduction Task Force. The Fiscal Commission proposed redefining a year of coverage as a year in which four quarters of coverage are earned and setting the minimum PIA for workers with 30 years of coverage equal to 125% of the monthly poverty level. That benefit level would have been indexed to prices for eight years and then to wages.⁴⁶ The Rivlin-Domenici task force proposed defining a year of coverage as a year in which a worker either earned 20% of the old law maximum or had a child in care, setting the minimum PIA for 30 years of coverage equal to 133% of the poverty level, indexing benefits to wages, and limiting benefits to workers with more than 19 years of coverage.⁴⁷

CBO analyzed a substantially similar proposal and found that it would increase total benefits by about 4%. According to the CBO estimate, the option would increase scheduled benefits for the poorest fifth of workers born in the 2000s by about 30%, and in 2040 it would increase retirement benefits for about half of new workers.⁴⁸

A variation on this approach would be a minimum benefit that depended both on the number of years of work and a worker's average earnings, as measured by the average indexed monthly earnings (AIME). For example, an option proposed by Representative Paul Ryan in 2010 as part of H.R. 4529 would have set a minimum benefit equal to 120% of the federal poverty level for a worker whose AIME was below that of a lifelong, full-time minimum wage worker and who had 30 or more years of earnings.⁴⁹ As with the Special Minimum PIA, the minimum benefit would decline for workers with fewer years of earnings; those with fewer than 20 years would be ineligible. But in addition, the benefit would decline as average earnings increased, and a worker whose AIME exceeded twice that of a lifelong, full-time minimum wage worker would also be ineligible for the minimum benefit. The budgetary effect of the provision would be relatively

⁴⁵ Social Security Administration, Office of Retirement Policy, Policy Option Projections, Reconfigure the minimum benefit, at <http://www.ssa.gov/retirementpolicy/projections/benefit-formula.html>.

⁴⁶ See National Commission on Fiscal Responsibility and Reform, *The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform*, December 2010, p. 51, at http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12_1_2010.pdf, and Social Security Administration, Office of the Chief Actuary, Provisions Affecting Level of Monthly Benefits, Option 5.4, at <http://www.ssa.gov/OACT/solvency/provisions/benefitlevel.html#B5>.

⁴⁷ See the (Rivlin-Domenici) Debt Reduction Task Force, Bipartisan Policy Center, *Restoring America's Future*, November 2010, p. 80, at <http://bipartisanpolicy.org/sites/default/files/files/BPC%20FINAL%20REPORT%20FOR%20PRINTER%202028%2011.pdf>, and Social Security Administration, Office of the Chief Actuary, Provisions Affecting Level of Monthly Benefits, Option 5.5, at <http://www.ssa.gov/OACT/solvency/provisions/benefitlevel.html#B5>.

⁴⁸ Congressional Budget Office, *Social Security Policy Options*, July 2010, Option 23, p. 29, at <http://www.cbo.gov/publication/21547>.

⁴⁹ Social Security Administration, Office of the Chief Actuary, Provisions Affecting Level of Monthly Benefits, Option 5.1, at <http://www.ssa.gov/OACT/solvency/provisions/benefitlevel.html#B5>.

small. Total outlays would increase by no more than ½% in any year, according to SSA.⁵⁰ Median benefits for the poorest fifth of workers would increase by about 6%, according to CBO.⁵¹

Options to Enhance the Standard Social Security Benefit

Under the Special Minimum PIA and the options described in the previous section, people receive either the standard benefit or the minimum benefit, whichever is higher. An alternative approach would be to begin with the standard benefit for everyone, but to increase it by a certain percentage for a targeted population.

CBO analyzed an option that would increase the standard benefit for low-wage workers by up to 40%. Workers with at least 35 years of work and whose AIME was less than that of a 30-year full-time minimum wage worker would receive a 40% increase. Benefits would be increased by a smaller percentage for workers with at least 20 years of work and below-average lifetime earnings.⁵² That option would increase total benefits by about 7%. Median benefits would increase for the poorest fifth of workers by about 24%. The option would increase benefits for more than half of workers because it would help everyone whose lifetime earnings was below that of someone who worked for 35 years at the average wage in the economy.

A Fixed-Dollar Benefit

A simple but less targeted approach would be to set a minimum dollar Social Security benefit. The benefit could be paid only to people who qualify for benefits under current law, or it could be expanded to all elderly and disabled people.⁵³ Such a policy would be similar to SSI, but it would not necessarily be limited to people with low income and assets. If the benefit were set at or above the poverty threshold, elderly poverty would be greatly reduced.

However, a universal benefit is not well-targeted: It would increase benefits for some people who already had relatively high non-Social Security income. For example, an SSA analysis based on 1996 data found that about a sixth of Social Security beneficiaries had benefits lower than the maximum SSI benefit level, which was \$470 a month for a single person in 1996 and is currently \$721 a month.⁵⁴ (That share is almost certainly lower now because average Social Security benefits have increased faster than SSI benefits.) However, about 80% of retired-workers whose

⁵⁰ The effect on benefits would grow as the policy was phased in. Because the policy would grow the minimum benefit with prices, the minimum benefit would grow more slowly than the regular benefit, so its effects would diminish in importance over time as the Special Minimum PIA did.

⁵¹ Congressional Budget Office, *Social Security Policy Options*, July 2010, Option 24, p. 29, at <http://www.cbo.gov/publication/21547>.

⁵² Congressional Budget Office, *Social Security Policy Options*, July 2010, Option 25, pp. 29-30, at <http://www.cbo.gov/publication/21547>; The concept was originally described in President's Commission to Strengthen Social Security, *Strengthening Social Security and Creating Personal Wealth for All Americans*, December 21, 2001, at <http://www.ssa.gov/history/reports/pcsss/reports.html>.

⁵³ For example, a "Resident Minimum" proposal would provide a minimum benefits to all elderly but also eliminate spousal benefits; see Pamela Herd, "Ensuring a Minimum: Social Security Reform and Women," *The Gerontologist*, vol. 45, no. 1 (2005), pp. 12-25.

⁵⁴ Kalman Rupp, Alexander Strand, Paul Davies, and Jim Sears, "Benefit Adequacy Among Elderly Social Security Retired-Worker Beneficiaries and the SSI Federal Benefit Rate," *Social Security Bulletin*, Vol. 67 No. 3, 2007, at <http://www.ssa.gov/policy/docs/ssb/v67n3/v67n3p29.html>.

Social Security benefit was below the maximum SSI benefit level were *not* poor. In 1996, setting a minimum Social Security benefit equal to the SSI benefit would have increased total Social Security outlays by about 2%.

Alternative Strategies for Addressing Poverty Among Long-Term Low-Wage Workers

Instead of implementing a minimum benefit, low-wage workers could be assisted through other approaches, including changes to the standard benefit formula, other changes to the Social Security benefit rules, or a separate program.

The standard Social Security could be made more progressive. Such a change could be designed to redistribute benefits to people with lower lifetime earnings in a way similar to the way that a standard, wage-indexed minimum benefit would.⁵⁵

Some proposals would address poverty among long-term, low-wage workers and their dependents by targeting benefit increases to single or divorced women or to people who live into advanced old age. For example, the length-of-marriage requirement for divorced women could be lowered from 10 years to 5 or 7 years. Caregiver credits or “drop-out” years could be entered into the Social Security benefit formula for workers who take career breaks to care for a child or other relative. Another proposal would increase the Social Security survivor’s benefit to 75% of the couple’s combined benefit; some versions of this proposal would offset costs by lowering the spousal benefit received while both members of the couple are alive.⁵⁶ Proposals to increase benefits for aged women are generally motivated by equity and adequacy considerations rather than financing considerations and may add to system costs.

A goal of increasing federal support for poor aged and disabled people could be implemented outside of Social Security. For example, increases in federal SSI outlays would help many of the same beneficiaries affected by a minimum Social Security benefit, but people with little or no work history would also benefit. A new program could also be established. For example, the Senior Income Guarantee (SIG) would provide benefits at 75% of the poverty threshold for people at or above the full retirement age who have 10 years in Social Security-covered work and 40 years of residence in the United States and lesser benefits for those with shorter work histories or fewer years of residence.⁵⁷ Benefit and eligibility standards would be less strict than for SSI; for example, asset tests would be more generous.

⁵⁵ Melissa M. Favreault, Gordon B.T. Mermin, and C. Eugene Steuerle, *Minimum Benefits in Social Security*, The Urban Institute, Washington, DC, August 2006, p. 17.

⁵⁶ For more information, see CRS Report R41479, *Social Security: Revisiting Benefits for Spouses and Survivors*, by Dawn Nuschler, and U.S. Government Accountability Office, *Social Security: Options to Protect Benefits for Vulnerable Groups When Addressing Program Solvency*, GAO-10-101R, December 7, 2009.

⁵⁷ Timothy M. Smeeding and R. Kent Weaver, *The Senior Income Guarantee (SIG): A New Proposal to Reduce Poverty Among the Elderly*, Center for Retirement Research at Boston College, CRR WP 2001-12, Boston, MA, December 2002, http://crr.bc.edu/working_papers/the_senior_income_guarantee_sig_a_new_proposal_to_reduce_poverty_among_the_elderly.html.