Social Security

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The jewel in the crown of the Social Security program is its largest component, officially titled Old-Age Benefits but known to most of us simply as Social Security.

Unemployment Insurance (UI) and Social Security were the centerpieces of the Social Security Act that Congress enacted and President Roosevelt signed in 1935.[1] In signing the law, FDR articulated in a few short paragraphs its historic uniqueness, its extraordinary value, and its real limitations:[2]

> Today a hope of many years' standing is in large part fulfilled. The civilization of the past hundred years, with its startling industrial changes, has tended more and more to make life insecure. …
>
> This social security measure gives at least some protection to thirty millions of our citizens who will reap direct benefits through unemployment compensation, through old-age pensions ....
>
> We can never insure one hundred percent of the population against one hundred percent of the hazards and vicissitudes of life, but we have tried to frame a law which will give some measure of protection to the average citizen and to his family against the loss of a job and against poverty-ridden old age.
>
> This law, too, represents a cornerstone in a structure which is being built but is by no means complete. …
>
> If the Senate and the House of Representatives in this long and arduous session had done nothing more than pass this Bill, the session would be regarded as historic for all time.

Today, we take Social Security for granted. The magnitude of its achievement is not well understood. The data make clear, however, that the Social Security program has dramatically reduced the official poverty rate for seniors. According to an analysis by the Center on Budget and Policy Priorities, Social Security benefits reduced the number of officially impoverished seniors (65 and over) in 2015 by 15.1 million. Without Social

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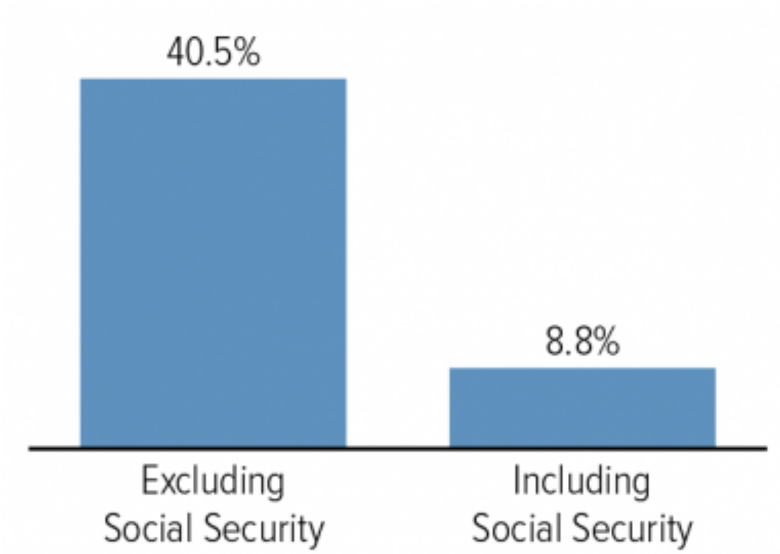
[1] Unemployment Insurance comprised Titles III and IX of the Social Security Act. Title II of the Social Security Act created the Federal Old-Age Benefits program, while Title VII created the Social Security Board. https://www.ssa.gov/history/briefhistory3.html

[2] Franklin D. Roosevelt, "Statement on Signing the Social Security Act," August 14, 1935, http://www.presidency.ucsb.edu/ws/?pid=14916

Security, the official poverty rate for seniors in 2015 would have been 40.5%. Because of Social Security, it was 8.8%.[3]

Seniors in Poverty in 2015



Other studies have reached similar conclusions. Following is a sample:

- The National Bureau of Economic Research reported that increases in Social Security benefits between 1967 and 2000 explained the entire drop in official poverty among seniors (65 and older) during that period from 30% to 13%.[4]

- The University of Wisconsin-Madison Institute for Research on Poverty (IRP) estimated for 2014 that, if the elderly (65 and over) had depended solely on "market income," 50.1% would have been poor based on IRP's version of a Supplemental Poverty Measure (SPM). Thanks overwhelmingly to Social

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[3] Kathleen Romig and Arloc Sherman, Center on Budget and Policy Priorities," Social Security Keeps 22 Million Americans Out of Poverty: A State by State Analysis," October 25, 2016, https://www.cbpp.org/research/social-security/social-security-keeps-22-million-americans-out-of-poverty-a-state-by-state. In addition to the 15.1 million seniors aged 65 and over that Social Security lifted out above the official poverty line in 2015, the program also enabled 5.9 million adults between 18-64 and 1.1 million children under age 18 to get above the official poverty line.
[4] National Bureau of Economic Research, "Social Security and Elderly Poverty," http://www.nber.org/aginghealth/summer04/w10466.html

Security, however, the elderly's official poverty rate in 2014, again applying the same SPM, was 8.3%.[5]

The good news, in short, is that the Social Security program has dramatically reduced poverty among seniors. Without it, something over 40%-50% of the nation's seniors (65 and older) would be poor, depending on whether we use the official poverty line (which underestimates senior poverty) or the more realistic Supplemental Poverty Measure. Because of Social Security, a much smaller share of seniors are poor, no matter which way poverty is defined.

The bad news, of course, is that millions of American seniors *remain* poor despite the pensions they get from Social Security. According to the Census Bureau, in 2016 a total of 4.6 million seniors (65 and older)—9.3% of the 49.3 million total of U.S. seniors—had incomes below the official poverty line.[6] In addition, many seniors above the official poverty line in 2016—$11,511 for a single person, and $14,507 for a couple—were not much above it. Nearly 7.0 million seniors, 14.2% of the total, had household incomes below 125% of the official poverty line.[7] Just under 9.9 million, 20% of the total, fell below 150% of the official poverty line.[8]

When we switch from using the official federal poverty line to the Supplemental Poverty Measure, the count of seniors who live in poverty increases substantially. In 2016, compared to 9.3% of elderly persons (65 and over) who were officially poor, 14.5%—nearly half as many—had incomes (including both cash and non-cash resources) below the SPM.[9] Moreover, as the book has repeatedly emphasized, we should view the poverty line—both its official version and the more accurate SPM—as boundaries between penury and want, not as the threshold to the minimal income needed to maintain a decent living standard in the eyes of most Americans. If we apply to seniors the annual income threshold of $27,500 that more realistically corresponds for a single adult to the minimally adequate income that American told Gallup is enough for a four-person family

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[5] Timothy M. Smeeding and Katherine A. Thornton, Institute for Research on Poverty, University of Wisconsin-Madison, "Wisconsin Poverty Report: Poverty Levels Flat on Average But More Diverse Within State in 2014," June 2016, Table 4, p. 8, https://www.irp.wisc.edu/research/WisconsinPoverty/pdfs/WI-PovertyReport2016.pdf. "Market income" includes earnings, investment income, private retirement income, child support, and other forms of private income

[6] Jessica L. Semega, Kayla R. Fontenot, and Melissa A. Kollar, U.S. Census Bureau, "Income and Poverty in the United States: 2016, *Current Population Reports*, P60-259, September 2017 Table 3, p. 13, https://census.gov/content/dam/Census/library/publications/2017/demo/P60-259.pdf

[7] *Id.*, Table 5, p. 17

[8] *Id.*

[9] Liana Fox, U.S. Census Bureau, "The Supplemental Poverty Measure: 2016," *Current Population Reports*, P60-261, September 2017, Figure 1, p. 1, https://www.census.gov/content/dam/Census/library/publications/2017/demo/p60-261.pdf

to “get by”(as explained in Appendix I), the number of seniors who subsist on an inadequate income will exceed 20% or 25% of all persons 65 and older.

Improving Social Security

As Franklin Roosevelt acknowledged when he signed the Social Security Act in 1935, Social Security is not perfect. It was not originally intended to “insure one hundred percent of the population against one hundred percent of the hazards and vicissitudes of life.” Its more limited aim was to provide the vast majority of seniors with “at least some protection … against poverty-ridden old age.”

Surely, over 80 years later in a vastly wealthier nation, we can now do better by America’s seniors. Most have worked for decades. As workers, they have given up 6.0% of every dollar earned to finance Social Security. Most economists believe that workers also “paid” through diminished wages for their employers’ 6.0% share of Social Security taxes. The nation’s seniors are not just workers who paid taxes. They are our parents and grandparents, our aunts and uncles, our mentors and teachers.

Already, Congress has established the principle that the Social Security program should guarantee qualifying seniors with a minimum payment that is higher than the “normal” formula would otherwise provide. Workers with between 11-29 years of coverage receive a pro-rated “special minimum benefit,” while those with 30 years or more get the full “special minimum benefit.” According to the Social Security Administration: “The special minimum benefit is a special minimum primary insurance amount (PIA) enacted in 1972 to provide adequate benefits to long-term low earners. The first full special minimum PIA in 1973 was $170 per month. Beginning in 1979, its value has increased with price growth and is $804 per month in 2013.”[10]

There are three compelling reasons Congress should provide all seniors (65 or older) who qualify for Social Security with a minimum monthly payment that is well above the poverty line.

First and most importantly, we owe America’s retired seniors an adequate retirement income that lets them live in comfort. They have worked 10 years (40 quarters) to even qualify for Social Security.[11] Most have worked far more. The program should be modified to lift them all well above the poverty line, and raise those who have worked the most to between 75%-90% of the amount that Americans say is the least needed to “get by.”

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[10] Social Security Administration, Office of Retirement Policy, “Special Minimum Benefit,” May 2014, https://www.ssa.gov/retirementpolicy/program/special-minimum.html

[11] Social Security Administration, “How You Earn Credits,” Publication No. 05-10072, January 2017, p. 2, https://www.ssa.gov/pubs/EN-05-10072.pdf. Workers born before 1929 need fewer years of work.

Second, the program's current "special minimum benefit" is inadequate. It does not apply to seniors who qualify for Social Security but have fewer than 11 years of coverage. It pays a tiny amount—as little as $40.80 per month—to those with less than 30 years of work. Even for those who worked three decades or more, the special minimum benefit as of 2017 stands at only $848.80 per month.[12] That translates into $10,186 per year, which is $2,000 shy of the 2017 official federal poverty line of $12,060 for a single person (regardless of age). The current minimum benefit is additional thousands of dollars below the minimally adequate level that Americans have identified as enough to "get by."

Finally, the Social Security Administration projects that soon—as early as 2018—the existing "special minimum payment" will disappear. In the early 1990s, about 200,000 retirees got it. By 2010, the number had dropped to about 75,000. Like the Cheshire Cat's smile, the program is gradually fading away. The reason is technical.[13] As the program disappears, we should be concerned that its underlying principle—that is: Social Security should pay a minimum that is higher than the "normal" formula generate—will also disappear. Before it is too late, the principle of a minimum payment should be re-embraced, with the smallest payment set well above the poverty line and larger amounts set in relation to years of work.

The bottom line is this: Social Security should be modified to guarantee that all retirees, if 65 and older and qualifying for benefits, receive a minimum payment that significantly exceeds the official federal poverty line. Those who have worked the longest should get a minimum payment that is between 75%-90% of the amount that Americans say is the least needed to "get by."

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[12] Social Security Administration, "Special Minimum Benefits," *Automatic Increases*, November 27, 2017, https://www.ssa.gov/cgi-bin/smt.cgi

[13] *Id*. "Fewer new beneficiaries are receiving the price-indexed special minimum PIA because wage growth typically exceeds price growth, thus, their wage-indexed regular PIA is usually higher. … 2018 is projected as the last year a new beneficiary could theoretically be awarded a special minimum PIA that is higher than his or her regular PIA … The value of the regular PIA has held constant while the value of the special minimum PIA has declined relative to the average wage. … he value of the regular PIA has risen while the value of the special minimum PIA has held constant relative to the poverty threshold."