American Academy of Actuaries

Social Security and The Financially Disadvantaged

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Executive Summary

Social Security has helped to dramatically decrease the poverty rate for people 65 and older. Yet today, about 9% of retirees remain in poverty, many of whom rely on Social Security for most or all of their income. This issue brief discusses why this federal program has not lifted all its beneficiaries out of poverty and strategies to help it do so.

The American Academy of Actuaries Social Security Committee is aware that the Social Security program will face severe financial shortfalls that must be addressed. Some current proposals call for increasing the retirement age or reducing benefits; however, these would adversely impact many people in poverty. The issue brief suggests modifications to the program that might prevent this outcome.

The primary reasons Social Security benefits may not be sufficient are:
1) low lifetime earnings (or not having a full working career with covered earnings) that Social Security uses to determine benefits;
2) family compositions have evolved from those prevalent when Social Security was enacted; and
3) emergence of a large gig economy that has resulted in a higher proportion of part-time and temporary employment.

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The issue brief discusses proposals to address these issues but acknowledges that Social Security cannot address all the drivers of low Social Security benefits and poverty challenges beneficiaries face. The proposals include, but are not limited to:

1. Incorporating a more progressive Social Security benefit structure, such as by changing the earnings replacement rate for those earning up to the Federal Poverty Level (FPL) from 90% to 100%;
2. Providing caregiver earnings credits equal to half the Social Security average wage index for up to five years to people who suspend or limit their paid employment to care for family members;
3. Providing a widowed spouse with a minimum survivor benefit of at least 75% of the combined Social Security benefit the couple received before the surviving spouse became widowed;
4. Introducing earnings sharing (which would help separated or divorced spouses); a married couple's earnings would be added together and split evenly each year to determine their Social Security benefit. The spousal-dependent benefit would be reduced or eliminated, saving more than the cost of increased benefits to the lower-earning spouse;
5. Relaxing the disability definition for older age people by replacing the "inability to engage in <u>any</u> job" definition of disabled with "inability to do <u>one's</u> job" (reflecting the fact that retraining may not be feasible for older adults). Other disability-related proposals include shortening the requirement that people contribute to Social Security for at least five years in the last 10 to be disability insured and eliminating a five-month waiting period to qualify for benefits in exchange for a 6% actuarial reduction in benefits;
6. Restoring benefits of those enrolled in college through age 22 and extending dependent benefits to children living with family members who receive Social Security benefits;
7. Encouraging immigrants and part-time, temporary, and gig workers to report and pay taxes on their earnings to increase the amount of their Social Security benefits; and
8. Enhancing Supplemental Security Income (SSI) that pays 25% less than the FPL and increases only by the rate of inflation, as well as eliminating its marriage penalty as it provides a lower benefit to married couples than two single people. In addition, many people who earn less than the FPL aren't eligible for SSI benefits due to complex and outdated rules, including allowing $2,000 in assets (excluding home and auto ownership) for individuals and $3,000 for married couples; one approach would exclude an indexed $50,000 in retirement assets at initial eligibility determination and increase the cutoff point for other assets to $10,000 ($20,000 for married couples).

The issues discussed in the issue brief are covered in depth in the Academy's 2023 monograph, Social Security and Financially Disadvantaged Groups.

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AMERICAN ACADEMY *of* ACTUARIES

Issue Brief

Social Security and The Financially Disadvantaged

Social Security has helped to dramatically decrease the poverty rate for people 65 and older. Yet today, about 9% of retirees remain in poverty[1], many of whom rely on Social Security for most or all their income. This issue brief discusses why their Social Security benefits have not lifted them out of poverty and how this could be addressed.

The primary reason for small Social Security benefits is lower levels of earnings, which are used to determine benefits. It can also be due to not having a full working career, which Social Security deems to be sufficient credits earned over 35 years of working. Other reasons include family compositions that differ from those prevalent when Social Security was enacted and the emergence of a gig economy that has led to more part-time and temporary employment. The Social Security benefit formula was designed when the male one-breadwinner family was the norm, marriage rates were higher, and divorce rates were lower.[2] However, times have changed. More people are single or find themselves single through divorce, separation, or death of a spouse. Among married couples today, the income levels of both spouses are more often closer to each other.[3]

This issue brief also reviews proposals that address these issues of low earnings, partial careers, and changing family composition. In addition, some Social Security reform proposals address its financial problems by increasing the retirement age or reducing benefits in ways that can adversely impact people with small benefits. We identify modifications to these proposals to avoid increasing the number of people in poverty and note that Social Security cannot eliminate poverty by itself.

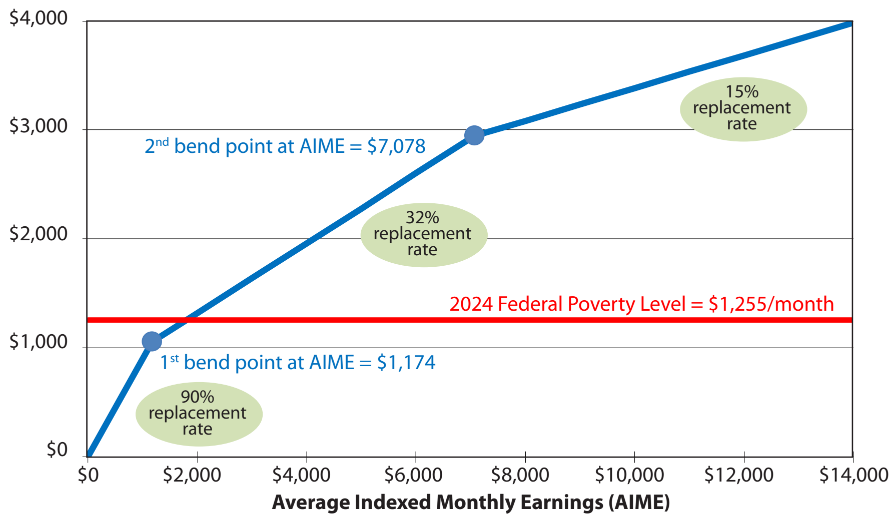
For a more in-depth look at this subject, please read the 2023 American Academy of Actuaries monograph entitled Social Security and Financially Disadvantaged Groups. This monograph discusses racial and ethnic minorities, LGBTQ people, single people, and people without full careers in Social Security (e.g., caregivers, people with disabilities, immigrants, and the incarcerated). The Academy's 2017 paper, Women and Social Security, covers related territory.

1 See U.S. Census Bureau's Current Population Survey and our 2023 monograph's Chapter 2 (which includes other poverty measures).
2 "Marriage Rates in the United States, 1900–2018" and "Divorce: More than a Century of Change, 1900-2018"
3 Pew research says "Egalitarian marriages, defined as those in which each spouse earns between 40% and 60% of the couple's joint earnings, increased from 11% to 29% from 1972 to 2022."

Social Security Benefits can be less than the federal poverty level (FPL)

Social Security provides benefits to retired and disabled workers, their dependents, and survivors, based on the workers' Average Indexed Monthly Earnings (AIME) using their 35 highest years of covered earnings.[4]

Figure 1: Monthly Benefit at Normal Retirement Age
(using the formula for someone newly eligible to retire in 2024)



No COLAs were added to the 2024 formula so it can be compared with the 2024 Federal Poverty level.

People with greater earnings pay more in payroll taxes and receive more in benefits than those with lower earnings (see the blue line in Figure 1). Even though everyone pays the same payroll tax rate on earnings up to the taxable maximum, Social Security provides proportionately more benefits for low-income people than high-income people. Those who earn around the Federal Poverty Level (FPL) – the red line – receive a retirement benefit replacing about 90% of their AIME. In contrast, those earning the maximum taxable amount only have about 25% of their earnings replaced.[5]

Even though the benefit formula is progressive, people whose average earnings were less than the poverty level will receive Social Security benefits that are also less than the poverty level. They are also likely to have:

- little or no retirement savings,
- less inheritances (and less wealth[6]),
- less pension income or retirement savings from employment (and thus be more reliant on Social Security), and
- more debt and higher expenses (e.g., for banking, medical costs, and caregiving).

4 Using earnings up to the taxable maximum ($168,600 in 2024) indexed up to age 60 using the national average wage index (AWI).
5 This demonstrates the interaction of Social Security's two fundamental principles of Individual Equity and Social Adequacy discussed in the Academy's *Individual Equity and Social Adequacy* issue brief. The 2024 benefit formula equals 90% of the first $1,174 of AIME, plus 32% of the next $5,904 of AIME, plus 15% of any AIME over $7,078. The $1,174 and $7,078 wage-indexed amounts are known as *bend points*. Social Security has a special minimum benefit of $12,798/year for someone with 30 years of covered earnings, but very few people will receive it in the future. Annual cost-of-living adjustments (COLAs) are provided to beneficiaries. The formula is discussed further in the Academy issue brief *Social Security Reform: Benefit Formula Options*.
6 For example, the median wealth of African American baby boomers is only 6% of white Americans.

The following four sections discuss ways to address the concerns of those who are financially disadvantaged as a result of the Social Security benefit formula.

1. People with Low Earnings

The following four options describe methods to help people with low earnings.

- President Franklin Delano Roosevelt and the drafters of the original Social Security bill felt that Social Security benefits also had to be equitable for higher-paid workers.[7] For this reason, benefits are determined based on one's earnings history rather than being a flat dollar amount to everyone. A **Flat Benefit** has been recommended by groups such as the Heritage Foundation;[8] it could also result from the combination of two proposals.[9] Although Social Security could gradually transition to a flat benefit slightly above the federal poverty level for all and end up with about the same total cost, according to our estimates, this would entail large benefit reductions for most people. In addition, the fact that Supplemental Security Income (SSI) has not been updated in 35 years suggests that a flat benefit program may not be practical in the United States.

- **Enhance Social Security's Minimum Benefit:** There have been two recent proposals in this area. The 2022 Republican Study Committee suggested increasing the minimum to about $25,000 per year for someone with 40 years of employment and Rep. Larson (D-CT), Ranking Member of the House Social Security Subcommittee, proposed in the Social Security 2100 Act a minimum of $19,000 for someone with 30 years of covered work.[10] The following are observations regarding these proposed approaches:
    a. An Urban Institute study[11] found that these minimum benefits do not provide much help, because retirees with small benefits often do not have a 30- or 40-year earnings history and thus would not receive the full minimum benefit. The minimum in the Social Security 2100 Act is only half the poverty level for someone with 18 years of coverage. In addition, under both proposals many people would not receive the minimum benefit due to the high earnings needed to qualify for it.

7 See the section containing the word "equitable" in this Social Security document.
8 "Gradually Shift Social Security to a Flat Benefit."
9 The combination of Price Indexing proposed in 2001 by the President's Commission to Strengthen Social Security for people with earnings above the 30th percentile plus the special minimum benefit proposed by the Republican Study Committee in 2022 would gradually create a flat benefit as used in certain other countries.
10 The minimum in the Social Security 2100 Act would be indexed by the AWI to keep up with wages. The earnings required to count a year in 2024 is $18,765. The Republican 2022 provision would require $13,695 to count a year. The 2024 minimum under Larson would be 125% of the FPL and would phase in from $0 for someone with 10 Years of Coverage (YOC). The Republican Study Commission minimum would be 40% of the AWI and phase in from 15% of AWI for someone with 15 years of coverage.
11 "How Can Changes to Social Security Improve Benefits for Black and Hispanic Beneficiaries?" by the Urban Institute.

b. In the Social Security 2100 Act, a person earning enough to be eligible for the minimum benefit ($18,765/year in 2024) would receive the same benefit as someone earning $30,000. The Republican Study Committee minimum has similar concerns. Both proposals would not meet Social Security's individual equity principle (i.e., those who contribute more, get more), and both would remove the incentive to report one's earnings once meeting the minimum for receiving credit for that year.
c. The two problems in (b) could be remedied by using a more progressive PIA benefit formula. Increasing the 90% replacement rate to 100% and increasing the first bend point to $18,765 would produce a similar benefit to the Social Security 2100 Act minimum after 30 years. A 100% replacement rate may be justifiable as low-income people often need this amount to maintain their standard of living into retirement, as they may not have had to pay any taxes while working. For some, their health insurance costs could increase if their employer had paid most or all of them.
d. Retirees with significant employer-provided retirement benefits or wealth do not need minimum benefits. However, adding a means test to Social Security would make the program more administratively expensive[12] and is inconsistent with other features of Social Security, which provide benefits irrespective of wealth. Providing minimum benefits through Supplemental Security Income could avoid these problems and cost much less due to its means test.
e. The cost of these minimum benefits can be fully offset, for example, by decreasing benefits for those at higher income levels.

- **Increase Social Security's Progressivity:** As noted in the Minimum Benefit section, the Social Security benefit formula could be more progressive by increasing the 90% replacement rate to 100%. Congress could also raise the first bend point in the PIA formula to the Federal Poverty Level (FPL) or 125% of it so that retirees up to that level are helped. One approach to pay for this would be to decrease the 32% and 15% replacement rates applied to earnings above the first bend point. An Urban Institute paper noted that this greater progressivity would narrow Social Security disparities more than other options they considered. According to their paper, SSI would still need to be enhanced to ensure a person's income was at least equal to the FPL.

12 SSI has 12% of the beneficiaries, but 70% of the administrative costs of OASDI.

- **Enhance Supplemental Security Income:** In 2024, SSI pays $11,316 per year to people who are disabled, blind, or over 65 if they meet certain poverty-related criteria. About 83% of SSI recipients are disabled, as most people over age 65 get Social Security benefits that totally offset their SSI benefits. This benefit is about 25% less than the federal poverty level (FPL) and increases only by inflation.[13] Also, since the married-couple benefit is 25% less than what two single people would get, those on SSI lose benefits if they marry. In addition, many people with income below the FPL do not receive SSI benefits due to its complex and outdated rules, including an asset means test that hasn't been updated since 1989 ($2,000 in assets excluding one's home and auto for an individual; $3,000 if married).

  A Brookings proposal[14] excludes an indexed $50,000 in retirement assets at the initial eligibility determination[15] and increases the asset cutoff to $10,000 for other assets. The cutoff for married people would be $20,000, so people do not lose their benefits if they marry. Doubling the cutoff for married couples eliminates this marriage penalty and can contribute to greater family stability. Under current SSI rules, the benefit is reduced by 100% of unearned income received (including Social Security benefits) over $20 per month and 50% of earned income over $65 per month. These cutoffs act the same as 100% and 50% tax rates. This proposal would increase the $65 exclusion to $200 and offset the benefit by only 40% of the Social Security benefit above $65.

2. People Without Full-Length Working Careers

Because Social Security determines benefits using a person's 35-year average earnings, workers with fewer years of covered employment will have some zero years in the numerator of the average earnings formula. With enough zero years, their benefit can be less than the poverty level. One approach to enhancing their benefits would be to reduce the 35 years in the average earnings calculation. However, this would conflict with (a) the individual equity principle (that more years of work should result in greater benefits) and (b) our increasing retirement ages, working lifetimes, and longevity. Alternatively, the number of years needed could be reduced for certain qualifying circumstances. Other possible approaches include the ideas in the prior section on small benefits and those in the Academy issue brief *Individual Equity and Social Adequacy*.

13 Since the FPL is increased by only the inflation rate, some academics feel that it is no longer adequate. The authors of "How strong is the Social Security safety net?" use their "Elder Index" to assess economic security and find that the average Social Security benefit is inadequate in every county in the United States. It would have to increase by wage inflation to keep up with the average worker.

14 Per Brookings paper "Increasing SSI benefits is more effective." The current SSI income exclusion rules are here.

15 Brookings says one's assets should impact only the initial determination, so that benefits will not stop every time the stock market does well. Also, if the $50,000 amount is doubled upon marriage, then benefits would not end when someone marries.

Financially disadvantaged individuals who did not have full careers include many in the following groups.

- **Disabled people** of working age have a higher poverty rate (25% in 2019) than other people of working age (10%).[16] Social Security accommodates those who are disabled by reducing the 35 years in the average earnings calculation by the number of years disabled. This increases their average earnings and thus their benefits. Other reasons for the high poverty rates of disabled people include: (1) they may not be disability insured,[17] (2) they may not have yet met the 5-month waiting period to qualify for disability benefits, (3) they do not meet the restrictive definition of disability,[18] or (4) they had low earnings histories before they became disabled.

  The poverty rate for disabled people aged 65+ is a much lower 13%, because concerns (1) to (3) are no longer relevant after their Normal Retirement Age. However, their poverty rate is still higher than the 9% for people aged 65+, possibly because they had lower earnings, in which case the above suggestions for a more progressive benefit formula may be appropriate.

  One way to reduce these higher poverty rates is addressed in a bill by Senators Stabenow (D-MI) and Collins (R-ME), which allows disabled people to eliminate their waiting period if they are willing to have their benefits actuarially reduced by 6%.[19] Other ways include shortening the 5-year work requirement to be disability insured or relaxing the "inability to engage in any job" definition of disabled to "inability to do one's job" at older ages when it is more difficult to train for or perform a new job. These proposals are discussed in the Academy's 2023 monograph.

- **Those with Physically Challenging Jobs:** More than ten million older workers are in jobs that are physically challenging[20] who consequently may be forced to retire earlier than is financially desirable. These workers are disproportionately low earners and are predominantly workers of color. Among workers aged 58+ in 2014, over 40% of white people had physically challenging jobs. In contrast, the corresponding percentage was 50% for Asian and African Americans and over 60% for Hispanic Americans.[21] Improving benefits at the low end would improve the financial security of such workers. A recent National Association of Social Insurance report provides four reform options that would benefit this group:

16 For people of working age, we found poverty rates for ages 25 to 55 from the Census Bureau.
17 Someone is disability insured if they contributed to Social Security for at least five years in the last 10 (fewer years if under age 31).
18 Social Security defines disability as the inability to engage in *any* substantial gainful activity by reason of any medically determinable physical or mental impairment(s) which can be expected to result in death or to last for a year.
19 It could increase administrative costs due to more applications from people who would have otherwise been healthy after five months. The disabled person would still have to have a disability that is expected to be "permanent."
20 Bucknor, Cherrie, and Dean Baker. (2016). "Still Working Hard: An Update on the Share of Older Workers in Physically Demanding Jobs." Center for Economic and Policy Research. March.
21 Bucknor, Cherrie, and Dean Baker. (2016). Ibid. Automating the physically demanding parts of these jobs would also help.

1. raising the minimum benefit, as it has fallen behind due to increasing only by inflation,
2. creating a bridge benefit payable until full retirement age to supplement the early retirement benefit at ages 62 to 66 while using a less restrictive eligibility definition than used for social security disability benefits,[22]
3. revising the Social Security Earnings Test for those applying for early retirement benefits to use a higher earnings threshold and smaller early retirement reduction percentage, and
4. allowing workers to claim partial early retirement benefits (with appropriate actuarial reductions) by letting them set the share of early benefits they wish to claim and permitting the worker to stop and start them upon request.[23]

- **Family Caregivers** often reduce, suspend, or retire from their paid employment, which can reduce their AIME and thus, their Social Security benefits. Proposals to offset these lower earnings include providing childcare earnings credits (just for determining the AIME) equal to half the Social Security average wage index for up to five years for parents who stay home to care for their children under age six.[24] This would particularly benefit women who provide most of the caregiving. Hispanic and African Americans are especially likely to serve as primary caregivers for their grandchildren, so any childcare credit proposal might consider whether to also apply it to grandparents.

  These proposals would also reduce the high (17%) poverty rate for children, as discussed in the Academy's 2023 monograph (pages 36-37). Other proposals include (1) restoring children's benefits while in college through age 22 and (2) extending dependent benefits to children living with grandparents or other relatives who receive Social Security benefits. Other approaches outside Social Security that would help include increasing the Child Tax Credit and the Earned Income Tax Credit (EITC). These ideas would also help reduce the poverty rates of single mothers who, on average, have an extremely high poverty rate (36%).

- **Immigrants** aged 65 and over had a poverty rate in 2019 of 15% compared to 9% for all Americans aged 65 and over. The poverty rate is 20% for retirees who immigrated to the United States in the past 20 years, but only 10% for those who immigrated in the 1950s and 1960s. The smaller Social Security benefits[25] and higher poverty rates in retirement are partly due to their having only a partial work history covered by Social Security. More can be found on immigrants in the Academy's 2023 monograph (page 33).

22 Weller, Vallas, and Lessing (2019). "Bridge Benefit for Older Workers."
23 Bauer, Elizabeth. (2019). "Social Security Early Commencement Benefits."
24 See the bottom of page 3 in this letter to the National Academy of Social Insurance.
25 Tables A.1 and B.1 of SSA paper "Social Security as a Retirement Resource for Near-Retirees, by Race and Ethnicity, Nativity, Benefit Type, and Disability Status."

One way to address the smaller benefits for immigrants who work in the informal economy is to encourage those who are citizens or have green cards to report their earnings and pay taxes on them to Social Security so they can receive greater Social Security benefits (which can be worth up to three times their contributions). Paying the tax does not reduce their income, as they get their Social Security taxes back (and more if they have children) through the refundable Earned Income Tax Credit).[26] In addition, their Social Security benefit can be improved if there is a Totalization Agreement between the United States and their country of origin.

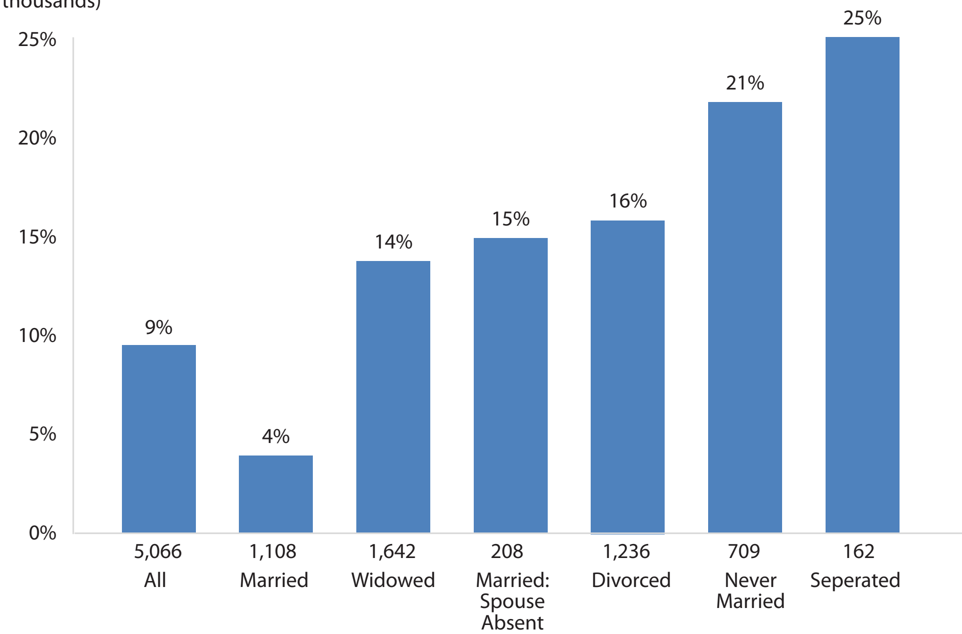
- **Part-time, Temporary, and Gig Workers without a traditional full-time job** may have lower AIMEs and thus smaller Social Security benefits.[27] These workers could be further encouraged to report their earnings and pay Social Security taxes on them to improve their eligibility and provide larger Social Security benefits. More States with portable IRA savings programs would also be helpful.[28] If they worked less due to unemployment, their Unemployment Compensation and SSI benefits could be subjected to Social Security payroll tax.

3. Single People: Two Is More Efficient Than One

Partly because it is more affordable for people to live together and share costs than to live separately, poverty rates are higher for single people (Figure 2). In addition, it is increasingly common for spouses to have similar earnings levels. If they each receive, say, $10,000 per year from Social Security, their total income of $20,000 would exceed the poverty level for two. However, upon divorce, separation, or death of a spouse, their income would drop by half to $10,000, which is less than the poverty level for one person.[29] Eliminating marriage penalties in poverty programs and tax law would help. Approaches that Social Security can use to address this situation are discussed below.

26 Figure 1 in this 2021 Tax Policy Center paper shows how much people can get from the EITC.
27 Table I on page 10 of the 4/29/24 Congressional Research Service paper "Poverty in the United States in 2022" shows that 31% of people in families with no full-time workers are in poverty versus 3% for all others.
28 See American Academy of Actuaries issue brief *Retirement and GIG Workers*.
29 The official poverty measure does not consider the impact of cohabitation, tax credits, non-cash government benefits, child support, necessary expenses like health care, and geographic cost differences, all of which affect economic well-being. The Supplemental Poverty Measure (SPM) developed to address these concerns, has much lower poverty rates for children (mostly due to including child tax credits, child support, school lunches, and the Supplemental Nutrition Assistance Program, formerly known as the Food Stamps Program). However, it has higher rates of poverty for adults, especially older people, mostly due to reflecting higher out-of-pocket medical costs. Poverty rates are also lower when reflecting the ability to consume out of wealth (i.e., a person who has adequate wealth to provide for their needed consumption). "Economic Well-Being at Older Ages" found that consumption-based poverty rates were much lower for elderly women, because they may have resources that can be used for consumption. Consumption-based rates were not used as they were not available (Academy's 2023 monograph Chapter 2).

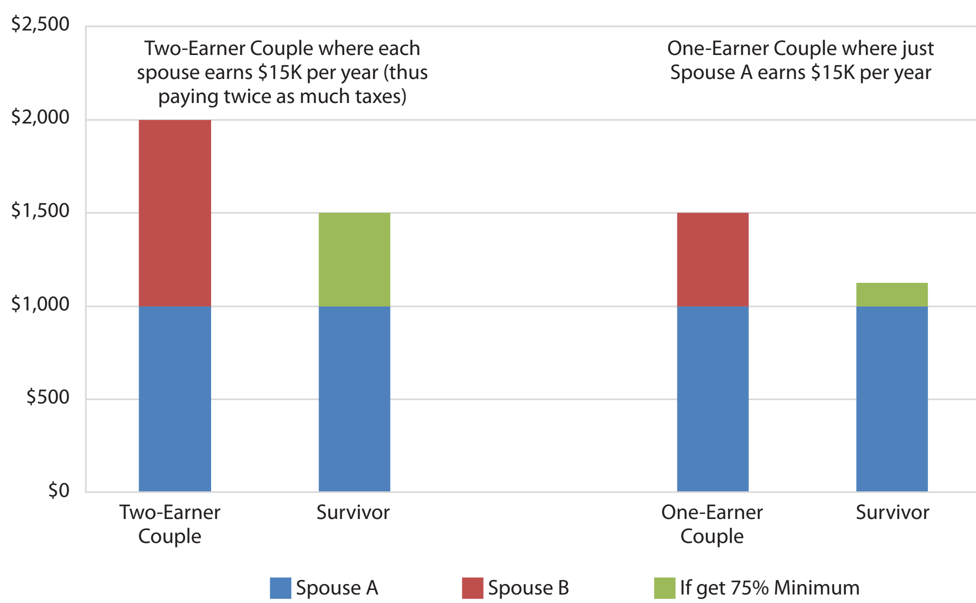
Figure 2: Poverty Rates by Marital Status or people age 65 and older
(number in poverty in thousands)



Source: 2019 American Community Survey (using www.census.gov/mdat)

A proposal for widowed people provides the surviving spouse with a minimum benefit of at least 75% of their combined Social Security benefit when both were alive. Some proposals cap the minimum benefit at the amount the average person receives. This is both progressive and less expensive. Figure 3 shows its impact.

Figure 3: Monthly Social Security Benefits for Couples in Proposal with 75% Minimum Survivor Benefit



The cost of increasing survivor benefits can be offset by reducing the 50% dependent spousal benefit to 33%. Proponents justify this change because one-earner families (who typically have higher incomes) receive the 50% dependent spousal benefit for no additional charge, and they have much lower poverty rates than single people, who have some of the highest poverty rates.[30] When Social Security was created in the 1930s, male-earner married couples predominated and almost everyone received this benefit. Due to the evolution in family structures, such a change will not be as disruptive now. Where lower-income families receive the spousal dependent benefit, this could be tempered by providing a floor on the 33% dependent spouse benefit. A more progressive benefit formula could also help them, along with all single people. More details on this provision can be found in the Academy's 2023 monograph (page 39). It would reduce the poverty rates of affected survivors, who account for the largest marital status category in poverty (about 1,642 million in 2019, shown in Figure 2).

Earnings sharing proposals help divorced and separated people: Under earnings sharing, a married couple's earnings would be added together and split evenly each year to determine their Social Security benefit. It would entail more administrative effort from employers, as they would need to maintain and provide the Social Security number of a worker's spouse.[31] An SSA study of earnings sharing[32] indicated that this proposal would reduce costs, because its provision reducing or eliminating the spousal dependent benefit would save more than the cost of increased benefits to the lower-earning spouse.[33] Other observations include:

a. Earnings sharing makes more sense for people who have been married more than once. Instead of receiving a benefit based on the lifetime earnings of just their highest-earning spouse, their benefit could be based on the earnings shared from all their spouses, even if married for less than ten years.
b. The net result could be smaller benefits for the higher-earning spouse and more for the lower-earning spouse (possibly enough to exceed the poverty level), but with relatively little change in total benefits.[34]

30 In addition, high-income married people generally live longer than average, so they are expected to receive their benefits for a longer period. They also can delay commencement of their initial benefit by living off their assets until age 70, which provides the maximum value of their Social Security benefits for people who live longer than average. To illustrate, married one-earner couples making $100,000/year receive on average about 125% of what they contributed to Social Security, which is higher than for most single people and dual-earning couples.

31 After a transition, it may be administratively simpler if workers name their spouse annually. This would eliminate the need (a) to identify the spouse at each paycheck and (b) to share earnings with multiple spouses in the same calendar year. Couples who are not married could designate their partner if desired and allowed (which would also benefit LGBTQ couples who are afraid to marry due to discrimination). The rules would need to allow earnings sharing to end upon divorce or separation.

32 "Earnings Sharing in Social Security: Projected Impacts of Alternative Proposals Using the MINT Model"

33 Further details can be found in the Academy's 2023 monograph (pages 40-41).

34 The total benefit while both are living could be the same, if both working spouses' AIMEs were in the same replacement rate and the lower-earning spouse did not receive any of the 50% spousal dependent benefit under the current rules. One-earner couples (even low-income ones) could see a benefit reduction because they would lose all the spousal benefits (so proposals may want to consider keeping the dependent spouse benefit for low-income people). If the couple had high earnings, they would not gain anything from the 75% survivor minimum benefit due to being limited to an average benefit.

4. People with Shorter Lifespans

The Academy's 2023 monograph shows that higher mortality is experienced by certain racial minorities, people with lower incomes, and those in lower socioeconomic counties. People with shorter life spans may not get their money's worth from Social Security if they receive Social Security benefits for only a few years. That also applies to people with less education, single people, those in physically demanding jobs, people with disabilities, the urban poor, and those who live in rural areas and on reservations.

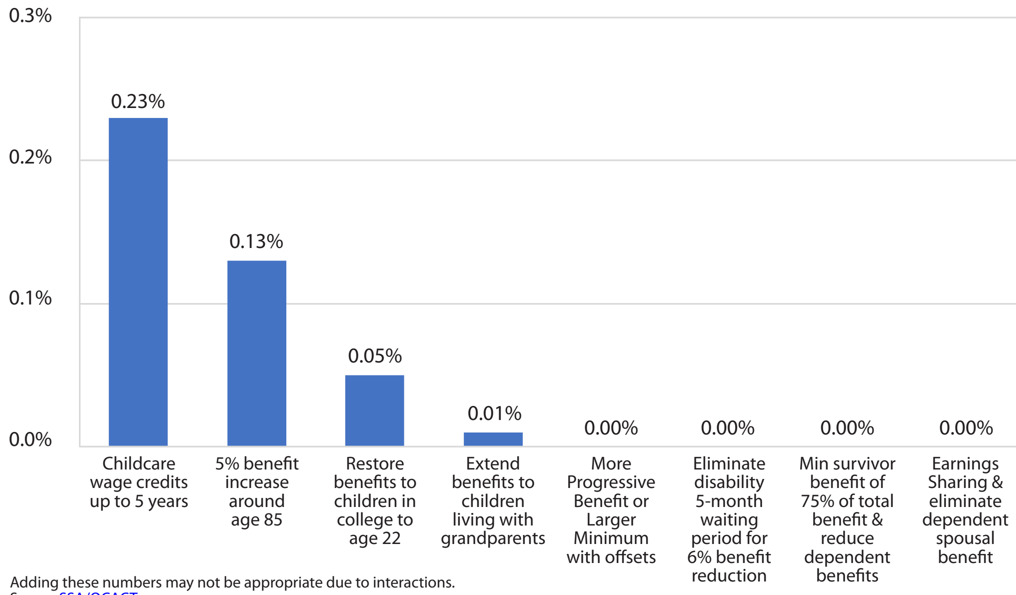
Nonetheless, these people may receive more value through disability, dependent, and survivor benefits than the average person. When these benefits are included, they can have a better expected money's worth, as discussed in the Academy's 2023 monograph (pages 5-11). This is especially true when using differentiated disability rates (as a function of AIME), as illustrated in SSA's 2024 Actuarial Note on Money's Worth, because low-income people also have higher disability rates. In any case, a more progressive benefit formula would improve their money's worth.

Possible ways to overcome this concern for people without dependents or survivors include (a) adding their unreturned contributions into their estate (as in the original Social Security) and (b) improving health and education outcomes for low-income people and others in lower socioeconomic groups (which is outside the scope of Social Security). Since higher levels of marriage and intact families could help, eliminating marriage penalties in SSI and the tax system would be beneficial.

Cost Impacts

One consequence of increasing benefits is that they also increase the cost of Social Security, as shown in Figure 4. The cost of the improvements in this issue brief may need to be offset through other changes to Social Security.

Figure 4: Cost of Provision over 75 years
(as a percent of taxable payroll)

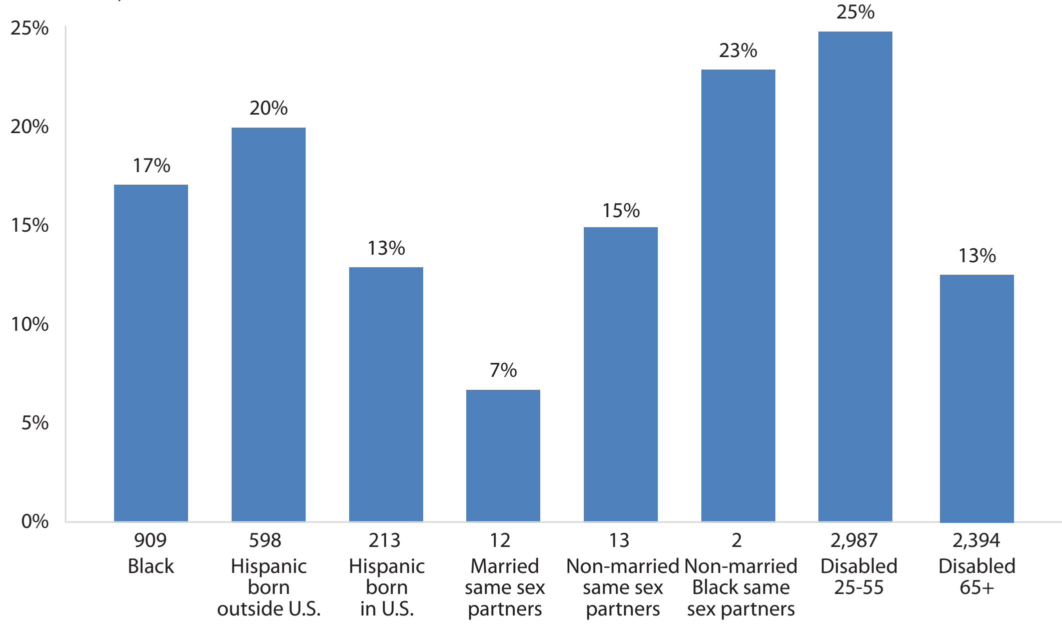


Adding these numbers may not be appropriate due to interactions.
Source SSA/OCACT

Examples of Groups with a Relatively High Proportion of Financially Disadvantaged People

Changes to Social Security suggested above, such as the minimum survivor benefit and earnings sharing, would decrease the high poverty rates of not only the 3 million widowed, divorced, and separated spouses aged 65+ in poverty, but also the poverty rates for many women and the financially disadvantaged groups shown in Figure 5. For comparison, white Americans 65+ have a poverty rate of only 7% (3% if married). Similarly, a more progressive benefit formula and the changes suggested above for workers who do not have full careers (e.g., family caregivers, incarcerated, and disabled) would reduce the poverty rates for many in those groups.

Figure 5: Poverty Rates for people age 65 and over
(number in poverty in thousands)



Source: [2019 American Community Survey]

Children of cohabiting partners (35%), Poverty rates for 65+: White (7%), Asian (13%), White Married (3%), Women (11%); Children of single moms (38%)

Racial and Ethnic Minorities: The Academy's 2023 monograph (pages 19-26) discusses the financial difficulties of many members of these groups in more detail.[35] All of the prior suggestions would reduce the poverty rates in these groups.

Single People: Increasing benefits for single people would create a marriage penalty and provide an incentive not to marry. However, all the prior suggestions above would reduce the high 21% poverty rates for single people 65+, as shown in Figure 2.

The Oldest Old: Increasing Social Security benefits by 5% starting around age 85 has been proposed.[36] However, there is nothing special happening at age 85, while automatic COLA increases are responsive to their increased costs due to inflation. As noted in the Academy's 2023 monograph (page 17), the higher poverty rates at 85+ are more due to a higher proportion of widowed, separated, and divorced people at these ages. Concerns for these groups could be addressed by the proposals for larger minimum survivor benefits and earnings sharing. The benefit increase around age 85 may have been proposed because the frequency and expenditures of hospitalization and long-term care services are greater for people 85+, and LTC is mostly not covered by Medicare. However, giving a 5% boost to everyone aged 85+ may not be the most efficient solution, as it would also go to married people 85+ who have a poverty rate of only 6%. It is more efficient to provide

35 See also papers presented at the Pension Research Conference on Diversity, Inclusion, and Inequality: Implications on Retirement Income Security and Policy.

36 See section B.6 of this SSA Office of the Chief Actuary webpage for the organization that proposed such provisions.

medical and long-term care directly to low-income people who need it through health care or related programs, rather than through a small increase in Social Security benefits to everyone over age 85.

LGBTQ People aged 65+: As noted in the Academy's 2023 monograph (page 27), the poverty rate for *non-married* same-gender couples (15%) is twice that of *married* same-gender couples. Many LGBTQ couples do not marry because it is still legal in most states to discriminate against them in areas such as adoption, housing, and accommodations,[37] so including LGBTQ people in the federal Civil Rights Act could further reduce their poverty rates. In addition, the poverty rate of people who are in more than one minority group is even higher, as shown in Figure 5 for unmarried same-gender couples who are also African American.

Other Actions to Help the Financially Disadvantaged

There are several actions other than adjusting Social Security benefits that can assist the financially disadvantaged, some of which are indicated above. Other possible actions include:

- Enhance information relating to Social Security eligibility and benefits[38], including:
  - Communicating the large value gained by reporting all income and contributing to Social Security, for low-income people employed in the underground or gig economy.
  - Communicating the financial value of working longer and delaying commencement of Social Security retirement benefits, if reasonably healthy.
  - Communicating verbally with low-income people and those who speak limited English in their preferred language.

- Make Social Security staff and information more accessible. This is especially relevant to those with low income and those in rural areas to facilitate the application process for SSI and DI benefits.[39]

37 See this study by AARP on the discrimination faced by older LGBTQ+ adults.
38 Sources for this communication include the Social Security Administration, the Internal Revenue Service, and other private and public sector entities.
39 As noted in this report of the Social Security Advisory Board on the indigenous populations and this Urban Institute report.

Changes to Social Security That Could Negatively Impact the Financially Disadvantaged

Social Security needs reform (e.g., benefit reductions and/or tax increases) to continue paying scheduled benefits beyond the mid-2030s. Reform is especially important to the financially disadvantaged, as Social Security may provide all or most of their income. In this section, we provide ways to reduce the adverse effects of individual reforms on the financially disadvantaged.

Reducing Benefits[40] or **Raising the Normal Retirement Age**[41] (equivalent to reducing Old Age benefits) could encourage some people to work longer, thus helping the economy and Social Security's financial position. However, it would also disproportionately hurt those with lower incomes who are more likely to be in ill health, have shorter lifespans, and have physically demanding jobs, especially those not in a position to train for a less physically demanding occupation. Modifications to reduce the effects on these people follow.

One modification might be to relax the definition of disability from "inability to perform any job" to "inability to perform one's current job" at older ages or to reduce the penalty for claiming Social Security retiree benefits prior to the normal retirement age for certain classes of partially disabled people.

Another modification would be to offset the impact of increasing the retirement age for people below the poverty level. For example, raising it to age 68 could be offset for them by increasing the 90% replacement rate in the benefit formula to 97%. This offset would gradually decrease for people with larger incomes, especially if the 32% and 15% marginal replacement rates were reduced to offset the cost of increasing the 90%. Unlike a reduction in the benefit formula, increasing the retirement age does not reduce disability benefits, which is important for people with disabilities.

Increase Social Security's Income.[42] Raising the payroll tax *rate* affects low-income people,[43] while (a) increasing the taxable maximum or (b) increasing the rate of return on Social Security's assets[44] would not affect them and would reduce the need for more benefit reductions. Proponents of raising the taxable maximum point out that 90% of

40 See the Academy's issue brief *Social Security Reform: Benefit Formula Options*.

41 See the Academy's issue brief *Raising the Social Security Retirement Age*. The primary rationale for increasing the retirement age is longer expected average longevity. However, this has not been universal; for example, figure E.1 in this Society of Actuaries paper (page 45) shows that life expectancy has not improved much for women in the lowest income quintile over the last four decades.

42 Discussed in the Academy's issue brief *Social Security Reform: Taxation Options*.

43 Raising the payroll tax rate can be offset by increasing the Earned Income Tax Credit for people in poverty, but our current tax laws phase it out, creating a large 16% (or 21%) additional marginal tax bracket on low-income people just above poverty.

44 A diversified portfolio like those held by private-sector pension plans would yield a higher return on average, but would add risk and governance issues. That could be avoided by increasing the returns on their Treasuries by say 2% or 3%, which could compensate Social Security for Congress' restrictions on its investments to only government bonds.

all earnings were taxed in 1983, while only about 82% are taxed in 2024. That happened because people above the maximum had larger increases in earnings than those below the maximum. If the taxable maximum had been raised in the past to maintain the 90% coverage of earnings, it would have delayed the depletion of the trust funds expected in the 2030s.

Recent proposals to reduce or eliminate taxes on tips, overtime pay, and Social Security benefits would accelerate the depletion of the trust funds and reduce Social Security benefits. In contrast, eliminating or reducing taxes on Social Security benefits would only help higher-income people, because those taxes are only incurred for those above a certain amount of income.

Reduce Cost-of-Living Adjustments. Proposals to reduce cost-of-living adjustments (COLAs) by using a chained CPI would reduce annual COLAs by about 0.3% each year. This reduction is intended to better reflect that people substitute less expensive goods for more expensive ones when prices increase.[45] However, since the effect of this chained CPI would compound each year, future benefits could be almost 10% lower after 30 years of retirement. This would not have a large adverse effect on people with shorter lifespans, but would adversely affect those with longer longevity, and thus would especially increase the poverty rates of older women, Asian Americans, Hispanics, and immigrants.

This proposal would impact all current retirees and reduce Social Security's financial shortfall by about 18%. Surveys show that many people believe current retirees should share in the cost of reform, because their poverty rates are currently lower than those of working age. Implementing a chained-CPI approach also means other reform measures would not need to be as severe. Combining this proposal with a proposal to use the CPI-E, which uses a typical basket of goods and services purchased by the elderly, would reduce the impact of using the chained CPI by about two-thirds.

To eliminate poverty among the elderly, action in areas other than Social Security is needed

Many drivers of low incomes and consequential small Social Security benefits are outside the scope and reach of Social Security. They include improving educational and healthcare services in inner cities, rural areas, and reservations (which would need state and/or federal funding to improve). A poor education can lead to increased unemployment and lower-paying jobs, which results in smaller Social Security benefits

45 Those in institutions, like nursing homes, cannot substitute cheaper products for more expensive ones, so the chained CPI would not be as accurate for them.

and less savings.[46] Other drivers include a lack of good-paying job opportunities, discrimination, lower rates of marriage,[47] a lack of access to affordable childcare, poorer health,[48] shorter life spans, inadequate savings and retirement planning, and family fragmentation.

Figure 6 shows that poverty rates are much worse for people without a bachelor's degree and people who are not married. Marriage can help share expenses and diversify the risk of losing a job, becoming disabled, or being incarcerated. With irregular job histories and lower earnings, such people may receive small Social Security benefits. If not married, they will not receive Social Security's spousal benefits (or other advantages of marriage such as those in tax law). Those with higher educational attainment and those who are married also enjoy greater longevity and healthier lives than peers without these advantages, per the CDC's National Center for Health Statistics Supplemental Tables I-6 and I-7.

Figure 6. Poverty Rates for People Aged 65 and Over
(using 2019 CPS)

Group	Bachelor's	No Bachelor's	Married	Not Married
White	4%	10%	4%	14%
Black	8%	19%	7%	23%
Hispanic	7%	19%	11%	24%
Asian	7%	16%	8%	20%
Indigenous	9%	16%	7%	22%
Disabled	7%	14%	6%	18%
Immigrants	9%	17%	10%	21%
All	**5%**	**11%**	**4%**	**16%**

Other areas that could help the financially disadvantaged include:

a. increasing the amount and availability of other sources of pension income and wealth for those with low incomes, as discussed in the Senate HELP Committee's paper "A Secure Retirement for All" and the American Academy of Actuaries' policy paper "Improving Retirement Outcomes,"
b. improving access to health care (such as through enhancements to Medicaid or Medicare that can help lower-income beneficiaries with their Part B premium payments and other out-of-pocket health care expenses),

46 2014 SSA Research and Statistics note on African Americans (below Table 6): 38% of African American beneficiaries over age 61 never completed high school vs 22% of *all* beneficiaries over age 61. This education gap is shrinking for younger African Americans: 27% of those aged 25–61 never completed high school vs 24% of *all* beneficiaries aged 25-61.
47 For example, the 2019 ACS shows that 34% of African Americans are married compared with 53% of the total population.
48 Mortality differentials pre-65 were cut in half over the past 30 years, particularly in areas such as cancer, homicide, AIDS, and causes originating in the fetal or infant period, according to NBER paper "Inequality in Mortality between African and White Americans by Age, Place, and Cause, and in Comparison to Europe, 1990-2018."

c. improving quality education in K-12 for low-income children (which may require more state and federal support, as poor inner-city and rural schools often rely on the low tax bases of their low-income constituents),
d. eliminating marriage penalty rules that discourage marriage,
e. reducing discrimination against people in financially disadvantaged groups, and
f. improving EITC and child tax credits.

Conclusions

Social Security's progressive benefit formula (and its survivor, disability, and child benefits) helps the financially disadvantaged, which is why it has been referred to as the "Great Equalizer."[49] Nevertheless, several areas remain where relatively minor changes in the benefit formula can further help the financially disadvantaged. The possible changes discussed here (e.g., a more progressive benefit, caregiver earnings credits, a minimum survivor benefit, earnings sharing, a relaxed definition of disability at older ages, shorter vesting and waiting periods for disability benefits, allowing workers to partially retire and set their percentage retired, children's benefits paid through college, improved reporting of earnings, improvements to SSI, etc.) help address the needs of those who are financially disadvantaged as a result of the Social Security benefit formula.

Since Social Security is often the most important source of retirement income for low-income people, this issue brief also provides ways to modify reforms that adversely impact them (e.g., offset the impact of an increased retirement age on low-income people by increasing the benefit formula at the low end). In addition, Social Security cannot by itself eliminate poverty among the elderly, so changes in other areas are also needed to offset the financial disadvantages noted in this issue brief.

49 Per the Center for Retirement Research at Boston College and this blog on a Wharton Pension Research Council website.