

Tackling old-age poverty in a contributory pension program

Dalmer D. Hoskins
U.S. Social Security
Administration

Note

The following views and opinions are solely those of the author and do not reflect those of the U.S. Social Security Administration or the U.S. Government

Issues:

- Can contributory pension programs balance both income replacement and adequacy?
- Can contributory pension programs be integrated with non-contributory old-age benefit programs?
- How can contributory pension programs address pockets of poverty in high-income countries?

Issues:

- Are there tools in a contributory pension system to address the particular problem of women and poverty?
- Are there lessons from the U.S. experience for the design of a universal old-age income security system?

Historical perspective of old-age income security in the U.S.

“Be careful what you wish for”

OASDI: A social security success story

- Social security has helped reduce poverty among the elderly from over 30% in 1935 to less than 10% today
- America's only portable pension program covering virtually the entire workforce
- Major source of income for 54% of couples and 72% of nonmarried beneficiaries
- Enjoys strong political support from the electorate

Poverty persists among older Americans:

- African Americans: 24%
- Hispanics: 19%
- Unmarried older women: 17%
- 85 and older: 13%

Supplemental Security Income (SSI)

- Adopted in 1972 (Nixon Administration) as part of welfare reform
- Means-tested universal minimum for aged, disabled and blind
- Integrated with social security program (2 out of 3 SSI beneficiaries are dual eligible)
- Federal benefit established to overcome local disparities
- SSI benefit indexed to inflation (currently \$637 for individual; \$956 for couple)

Intended and unintended consequences of SSI:

- Disabled became $\frac{3}{4}$ of the beneficiary population, particularly youth with mental disabilities
- Program cost has remained stable (approximately .32% of GNP) but benefits never exceeded 75% of the poverty threshold
- Benefits indexed for inflation but resource restrictions unchanged for nearly 20 years (\$2,000 for individual; \$3,000 for couple)

Intended and unintended consequences:

- Women constitute nearly 70% of aged SSI beneficiaries
- Outreach efforts pursued but take-up rate among elderly estimated at only 60%
- SSI eligibility now linked with myriad of other social protection benefits (Medicaid, food stamps, housing, rehabilitation, etc.)
- Administration of targeted benefit: costly and complicated

Did we get what we wished for?

- In the context of social security reform, how can benefits be cut and still protect low-income beneficiaries?
- How can the contributory old-age pension program be adapted to improve the safety net?

Make the benefit formula more progressive

- Not considered a viable option in the U.S. context since current formula is weighted in favor of low-income earners:

Lowest-income earners: up to 90% replacement

Average-income earners: approx. 39%

Reintroduce/enhance minimum benefits

- Minimum benefit abolished in 1981
- New minimum: tied to number of years of work rather than earnings, e.g.:
 - 100% of poverty threshold after 20 years of work or 120% after 30 years
- Negative consequence: flatter benefit structure and less political support?
- Wage-indexing or inflation indexing?

Improve survivor benefits

- Retiree household income declines by 30-50% on death of spouse
- Optimum target: 80% of previous household income for survivor
- Widows constitute over 55% of poor older women
- Negative: leaves out single parents, divorced and never married

Restructure SSI or Introduce Senior Income Guarantee

- Introduce a new pillar similar to Canada's OAS: based on 40 years of residency
- Flat rate equal to 75-100% of poverty threshold
- Not means-tested but income tested with income-tax claw back
- Ensure that benefit is not solely inflation indexed but also wage indexed.

Possible lessons:

- Should the aged be singled out for a special universal benefit?
- Does reliance on price indexing of benefits undermine safety net intent of universal benefit?
- Administration of means-tested benefit continues to raise issues about program integrity

Lessons:

- To what extent does design of universal old-age income security need to reflect the gender issue: poverty in old-age is overwhelmingly female
- What option or mix of options (benefit formula, minimum benefit, survivor benefits, mean-tested supplement) achieves the best “bang for the buck”?