

IN-BRIEF: Social Security Reform and Its Effects on Participation in the SSI Program

Introduction

Social Security (Old Age, Survivors and Disability Insurance--OASDI) plays a critical role in the income security of workers and their families. Social Security insures citizens against certain predictable risks by pooling those risks across the population and financing the insurance collectively. The program today pays benefits to more than 47 million retired and disabled workers, their families, and the families of deceased workers.

Supplemental Security Income (SSI), while administered by the Social Security Administration (SSA), has an entirely different focus. SSI was designed to reduce poverty, by providing basic support to the aged, blind, and disabled. Unlike Social Security benefits that are funded through payroll taxes and paid based on contributions of workers and their employers, federal SSI benefits are funded through general revenues and based on an individual's need.

Today, Social Security faces the financial challenges associated with an aging society and will require adjustments to ensure that it remains strong for future generations. Numerous options and combinations of options for reform have been proposed. Many entail some reduction in benefits for future beneficiaries. It is logical to assume that if future low-income workers fall below the SSI thresholds due to reduced Social

Security benefits, they would be eligible to receive SSI. The study "Social Security Reform and Its Effects on Participation in the SSI Program," provides useful information on the effect of changes to the Social Security program on SSI.

Methodology

Melissa M. Favreault, Jillian A. Berk, and Karen E. Smith of the Urban Institute use the Institute's Dynamic Simulation of Income Model (DYNASIM) to examine the likely impact of the SSI program on the U.S. income distribution in coming decades and then to gauge the effects on SSI of five Social Security reform proposals that would reduce guaranteed benefits.

The reforms include:

- a shift from wage to price indexing of the formula for calculating initial benefits;
- a decrease in the cost-of-living adjustment (COLA);
- the elimination of the hiatus for raising the full benefit age that exists in current law for the 1943 to 1954 cohorts and subsequent indexing of the full benefit age to life expectancy;
- the components of the above bullet and an increase in the early eligibility age to 64; and
- an increase in the number of computation years in the benefit formula from 35 to 38.

The study discusses both aggregate and distributional consequences of the various policy changes for the future beneficiary population, and focuses on effects in the year 2024. (This is the point at which the reforms have had the chance to phase into effect.) Effects on both the federal program and, with some simplifying assumptions, effects on state supplements to SSI are considered.

Findings

The study underlines the importance of Social Security in reducing poverty. The findings show the substantial effects of the reforms on Social Security and thus total incomes, especially under the two indexing reform options—moving from wage to price indexing and decreasing the COLA. These reforms lead to significant increases in poverty and especially near-poverty among the aged and disabled relative to current law.

Not all the options modeled show clear cut gains or losses. Some show a complex mix of results. Take, for example, raising the age of retirement as described in Option 4--eliminating the hiatus for raising the full benefits age, subsequent indexing of the full benefit age to life expectancy, and increasing the early entitlement age to 64. The study finds that 26 percent of the population comprising SSI and Social Security beneficiaries have lower 2024 OASDI benefits—a loss averaging over \$300 per month. At the same time, 36 percent have increased benefits. This is because the actuarial reduction for retiring early is lessened and more than

offsets the reduction in benefits from increasing normal retirement age. However, these increases are much smaller on average—about \$96 per month.

From the SSI perspective, the research shows that while the percentage of the population receiving SSI should decline over the next twenty years, the SSI population itself will remain extremely vulnerable, characterized by low education, high likelihood of disability, and limited earnings capacity/history.

A surprising finding from the analysis is how little SSI actually does to cushion vulnerable members of the population under the five reform options, even in the face of large Social Security benefit cuts. The authors then examine why SSI reaches so few Social Security beneficiaries who have experienced these cuts. They find that the SSI asset test has a major impact because of the low thresholds--\$2,000 for individuals and \$3,000 for couples. When they used the model to increase the SSI asset test, benefits reached substantially more people.

Conclusions

This research provides not only useful information about five solvency options, but also it underscores the importance of conducting thoughtful, in-depth analysis of proposed Social Security reform options and their impact on various income groups before changes are made.

Source: Melissa M. Favreault, Jillian A. Berk, and Karen E. Smith, The Urban Institute, *Social Security Reform and Its Effects on Participation in the SSI Program*. Prepared for AARP's Public Policy Institute, October 2004. A copy of the full report can be obtained at www.aarp.org/ppi or by writing for PPI Issue Paper #2004-18, AARP Public Policy Institute, AARP, 602 E Street NW, Washington, DC 20049. © 2004 AARP.