

# A Targeted Minimum Benefit Plan: A New Proposal to Reduce Poverty among the Elderly

Social Security has been the United States' most effective antipoverty policy, reducing elderly poverty rates from nearly 40 percent in the late 1950s to single digits today. Yet, economic insecurity is still a common experience for many older people.

Approximately 9 percent of older adults fall below the poverty line; however, poverty rates that include the costs of medical care increase it to nearly 14 percent. Subgroups face even higher poverty rates – women are nearly twice as likely to be poor as are men, and nearly 30 percent of black older adult women live below the poverty line.

In light of concerns about both program costs and benefit adequacy, the authors propose a minimum benefit plan (MBP). Modeled after the Canadian minimum benefit for the elderly, the MBP would provide a cost-effective method for reducing elder poverty to very low levels.

Benefit determination for the proposed MBP would be similar to that under the U.S. Earned Income Tax Credit (EITC), with application via the filing of a 1040 Income Tax Return.

A key element of this plan, unlike other minimum benefit proposals, is that the benefit would not count toward income eligibility thresholds for other social programs. Consequently, any increases in income associated with the minimum benefit would ensure that older adults don't lose their eligibility for other critical programs, such as Medicaid, which 1 in 5 older people use to supplement Medicare benefits.

If older adults lost their Medicaid eligibility, for most, the increase in their out-of-pocket medical care costs and lost

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benefits would likely surpass the increase in income that came from the minimum benefit.

The authors ran two simulations, both setting the MBP at \$1,000 per month for a single person and \$1,600 per month for a couple.

The first MBP plan tops up the Old Age Survivor Benefit when all sources of income are below the poverty line until the total income is at the poverty line. The second plan allows the beneficiary to exclude \$2,400 per year of other incomes, such as pensions, property income, or earnings. The net cost of the two plans is \$9.3 billion to \$10.8 billion per year.

The MBP also tightly targets benefits to those with the lowest incomes – taking into account family and personal income resources. In addition, the plan ensures that those most economically vulnerable – typically those who have not had consistent labor force participation – are protected. ♦

## The Authors

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## About the Project

AARP selected this proposal for further development and financial support through its Policy Innovations Challenge.



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## Impact and Implications

Approximately 7 percent of Social Security recipients are projected to receive the minimum benefit plan (averaging approximately \$3,600).

Not surprisingly, women as compared to men (8.4 percent vs. 6.3 percent), unmarried as compared to married individuals (12.9 percent vs 2.9 percent), black and Hispanic Americans as compared to whites (15.7 percent vs. 12.7 percent vs. 5.6 percent), and those with low educational attainment would be far more likely to receive the benefit.

Generally, these groups (with the exception of married individuals) receive larger social program benefits as well, reflecting their greater economic need.

The cost of the plan would be less than 1.5 percent of current Old Age, Survivor and Disability Insurance (OASDI) benefits.