STATEMENT OF

ALICE M. RIVLIN, DIRECTOR
CONGRESSIONAL BUDGET OFFICE

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Mr. Chairman, I am happy to appear today to discuss the effects of eliminating the Social Security minimum benefit. The three topics I plan to cover are:

- o Recent changes in the minimum benefit,
- o Who will be affected by its elimination, and
- o What will be the net budgetary effect of eliminating this benefit--particularly taking into account resulting increases in federal expenditures for other programs.

In general, Social Security benefits are based on workers' average monthly earnings in covered employment over specified portions of their working lives. The minimum benefit provision results in higher monthly payments to persons with very low average earnings than would be payable if the benefits were based on the regular benefit formula. The minimum primary insurance amount (PIA) was set at a level of $10 a month in the original Social Security Act, and has been increased many times, reaching $122 a month in 1979. The minimum benefit that is actually paid can differ from the minimum PIA, however, because of cost-of-living adjustments, actuarial reductions for early retirement, increases for delayed retirement, or the effects of the earnings test. In other words, these factors affect benefits based on the minimum PIA just as they do other Social Security benefits.

RECENT CHANGES IN THE MINIMUM BENEFIT

In the 1977 amendments to the Social Security Act, the Congress froze the minimum PIA at $122 for all persons first becoming eligible for benefits in 1979 or later. Inflation and

rising real wage levels were expected to result in a gradual phasing out of the effect of the minimum benefit for new beneficiaries. Between 1979 and 1983, however, the minimum PIA is somewhat higher for retired workers who apply for benefits after they turn 62. For such persons, the $122 PIA is increased by the amount of the cost-of-living adjustments that occurred between the years in which they turned 62 and the years in which they first receive benefits. Any actuarial reductions are then applied. For example, a 65-year-old retired worker who starts receiving the minimum benefit now would get $170.30 a month. The Social Security Administration estimates that the average amount paid to recipients of the minimum is $145 a month.

The Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35) repeals the minimum benefit provision of the Social Security Act. Persons who initially become eligible for benefits after October 1981 will no longer be eligible for the minimum, but they will receive instead the benefits to which they are entitled under the regular formula. For persons first becoming eligible in October 1981 or earlier, Social Security benefits will be recalculated using the benefit formula in effect at the time of initial entitlement. These amounts will then be increased to reflect cost-of-living adjustments since that year. These changes will first affect benefit checks in April 1982.

The House has passed a bill (H.R. 4331) that would restore the minimum benefit provision that was eliminated in the Reconciliation Act. The Senate has referred the measure to its Committee on Finance.

WHO WOULD BE AFFECTED?

About three million people, or 9 percent of all Social Security beneficiaries, now receive the minimum benefit. Not surprisingly--because the minimum goes to people whose average earnings in covered employment were low--most recipients of the minimum benefit are older than the general Social Security recipient population, and the great majority are women. About 23 percent of retired workers receiving the minimum benefit are at least 80 years old, compared with 16 percent of all retired workers. Approximately three-quarters of those receiving the minimum benefit are women, compared with about 60 percent of all beneficiaries.

More than half of all recipients of the minimum benefit--about 1.7 million persons--will experience no loss of income with the elimination of this entitlement. Among those people not affected are one million retired workers who, as spouses, are also entitled to benefits that are larger than the minimum. Such recipients now receive the larger amounts and will continue to do so. The Social Security Administration's actuaries estimate that

another 200,000 minimum benefit recipients are actually entitled on the basis of their earnings records to benefits that equal the minimum, so these individuals will experience no change in benefits. An additional 500,000 recipients who now also receive Supplemental Security Income (SSI) will get automatic increases in their SSI benefits that will exactly offset the reductions in their Social Security benefits.

Of the three million recipients of the minimum benefit, however, 1.3 million will receive less income because of the repeal. These people make up a diverse group including individuals with substantial incomes from other sources, as well as those with few, if any, additional financial resources. Approximately 360,000 of them receive some income from annuities based on noncovered employment. Some of these people (many federal retirees, for example) are relatively well off, but others receive only very small annuities. In fact, since most state and local government pensions are not fully indexed to keep pace with inflation, older retirees are more likely to have small annuities. Approximately 500,000 additional beneficiaries appear to have sufficient assets or incomes from other sources (such as private pensions or spouses' earnings) to disqualify them for SSI. Again, some of these persons have comfortable incomes, while others have incomes close to the poverty level. Finally, the Social Security Administration estimates that 500,000 present recipients have very low incomes--low enough to qualify for SSI--but do not currently participate in that program.

An important question is how large the benefit reductions will be for these 1.3 million beneficiaries. Reductions will range from very small sums to more than $100 per month, and they are expected to average about $50 a month. Unfortunately, almost nothing is known about the characteristics of the population who will experience the larger reductions.

NET BUDGETARY IMPACT

The Congressional Budget Office has estimated that repeal of the minimum benefit provision will reduce federal outlays by $0.65 billion to $1.0 billion in fiscal year 1983. This total results from a $1.4 billion reduction in Social Security benefits, offset by $0.4 billion to $0.75 billion in additional outlays for the SSI and Medicaid programs.

Increased SSI outlays will consist of $335 million in greater benefits for people currently receiving SSI and $40 million to $315 million for those who will begin to participate in SSI as a result of the reduction in their Social Security benefits. The new participants in SSI will include some people who will become eligible for SSI when their Social Security benefits decline. Most of them, however, will be persons who are currently eligible for SSI but not participating in that program who will be prompted to do so by the reduction in their Social Security benefits.

Changes in the participation rate of people previously eligible for SSI are very difficult to project, but such changes have an important effect on the size of the increase in outlays for SSI. As noted earlier, about 500,000 persons are in this category, and estimates of the proportion that will now participate range from 5 percent to 40 percent.

In most states, SSI participation automatically also qualifies persons for assistance under the Medicaid program, which provides substantial supplementary health-care coverage to low-income elderly persons who are already enrolled in Medicare. Increased federal outlays for Medicaid will also reduce the net savings from eliminating the minimum Social Security benefit. The Congressional Budget Office estimates that, in fiscal year 1983, repeal of the minimum benefit will increase federal Medicaid outlays by $15 to $110 million, depending on changes in SSI participation rates.

State budgets will also be affected by elimination of the minimum benefit because of the likely increases in SSI participation and Medicaid costs. A majority of the states now supplement federal SSI payments; thus, to the extent that SSI rolls grow, state outlays for SSI will rise. Similarly, outlays for Medicaid--of which the states pay roughly half--will increase along with the growth in SSI participation.

The question of whether the minimum benefit should be repealed is clearly a complex and difficult one. Proponents of repeal argue that the benefit was originally designed as an administrative convenience and later evolved as a floor for the incomes of elderly persons. Since there is now a separate program to meet this need--SSI--and since the minimum benefit goes to individuals at all income levels, it can be argued that there is little reason to retain it at a time when most categories of federal spending are being cut. Advocates for retaining the gradual phase-out of the minimum benefit for new beneficiaries, which was adopted in the 1977 amendments, argue that many current recipients who would be adversely affected are poor and in need of SSI benefits but will refuse to apply for them because they carry the onus of "welfare." Moreover, even those recipients who are not eligible for SSI may find it difficult to adjust to a sudden and unanticipated decline in income.

SUMMARY

In summary, people receiving the minimum benefit are not representative of all Social Security recipients. They are disproportionately likely to be women and to be over 80 years old. Depending on the extent of increased participation in the SSI program, between 1.1 million and 1.3 million of the people now receiving the minimum benefit will experience a loss in income with its elimination. In fiscal year 1983, repealing the minimum

benefit will increase federal SSI expenditures by $0.4 billion to $0.65 billion, and it could increase federal Medicaid costs by up to $0.1 billion. Consequently, although the savings to the Social Security system itself will be about $1.4 billion in fiscal year 1983, the net budgetary savings will be considerably less, between $0.65 billion and $1.0 billion.