The Distributional Aspects of Social Security and Social Security Reform

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to be eligible for benefits are actually enrolled in the program. If the participation rate of the current program were increased to 100 percent, the poverty gap could be reduced by an additional 11 percentage points.

This chapter explores the effects of several possible changes to the current SSI program. In simulating the changes in participation and costs, I control for the probability that eligible individuals may not enroll in the program. These simulations indicate that guaranteeing all elderly an income equal to the poverty line is potentially costly, increasing the current benefit outlays to the elderly by 62 percent with an asset test in effect, and by over 90 percent with the concurrent elimination of the asset test. Based on 1993 figures, this change results in an additional expenditure of approximately $5 billion dollars for the entire age-eligible population. However, because SSI payments to the elderly are dwarfed by those to the disabled, these changes are equal to increases of just 22 percent relative to the total payments in the SSI program. Other changes examined here have smaller cost increases, and correspondingly smaller improvements in the well-being of the elderly poor. Furthermore, because participation rates typically hover around 60 percent, the greatest costs and the greatest improvements in financial well-being will come from programs that also encourage higher rates of participation.

References


Comment

Bruce D. Meyer

This chapter provides an excellent background on the Supplemental Security Income (SSI) program. It also provides a nice description of who re-
ceives SSI and how the benefits affect their income and poverty rates. The simulations of possible program expansions are well chosen and extremely useful. I will first summarize some of the key facts and findings in the chapter, then offer some caveats and discuss how the underreporting of SSI affects the results in the chapter. I will then offer some possible extensions to the analyses in the chapter.

There are a few main facts that are important to know about SSI. First, spending on the SSI aged is small, about $4.4 billion in 1997. Second, the typical maximum benefit is not especially high. The maximum monthly federal benefit, called the guarantee amount, was $484 for a single individual and $726 for a couple in 1997. There are state supplements to these benefits in many states. Third, average monthly benefits are much lower than the maximum benefit, due to deductions for other income and earnings. The average federal monthly payment was $235, while the average state monthly payment was $114.

The chapter features several key findings. First, there is substantial SSI nonparticipation. Only 56 percent of eligibles participate, though I believe this number is a sharp underestimate, for reasons I give below. The characteristics of eligible nonparticipants are mostly sensible. They tend to be eligible for lower benefits and to be healthier. They also are more educated and more likely to receive social security. This last result does not accord with the idea that those who are more likely to be informed are more likely to participate. Second, SSI substantially reduces poverty. SSI reduces the poverty rate among the elderly from 17.2 percent to 16.2 percent in the sample in the paper. More importantly, it creates a 29 percent reduction in the poverty gap (the amount of money needed to raise everyone to the poverty line), a much better measure of the effect on the poor. Third, SSI expansions would reduce poverty further at a fairly low cost. Raising the maximum benefit, the guarantee, to the poverty line along with eliminating asset limits for benefit receipt is the most extensive expansion considered. In 1993 this change would have raised the guarantee for a single individual from $422 per month to $577, and for a couple from $633 to $728. This reform would reduce the poverty rate another 5.4 percentage points and the poverty gap by just under 37 percent, at a cost of $5.6 billion.

Many of my earlier comments are reflected in McGarry's revisions to this chapter. However, there remain several key issues that have not been completely addressed. First, when extrapolating the results from the Asset and Health Dynamics (AHEAD) study sample to the aged SSI population in general, it would be useful to know how well the sample represents the aged SSI eligible population. The degree of confidence we have in the estimates would be greater if there were more discussion of this issue in the chapter. There are several reasons to be concerned that the sample is not very representative: There are indications of problems with the sample weights, and the sample frame seems to exclude most of the younger aged, those sixty-five to seventy, and persons in nursing homes.

Second, the underreporting of SSI receipt has serious consequences for the chapter's analyses yet is discussed only briefly. At least 20 percent of social insurance or welfare program recipients typically fail to report receipt in household surveys. This is not analogous to Planck's constant or Avogadro's number, but it is a reasonable rule of thumb. It appears that SSI reporting in the AHEAD data is no exception.

What, then, is the evidence of underreporting of program receipt in household data? Typically, one compares the weighted counts of recipients in a household survey to the totals from administrative sources. Bavier (1999) finds that about 19 percent of Aid to Families with Dependent Children (AFDC) recipients do not report receipt in the Survey of Income and Program Participation (SIPP), and over 20 percent do not report in the Current Population Survey (CPS). Hutchens (1981) reports that at least 38 percent of unemployment insurance (UI) recipients fail to report receipt in the CPS. Underreporting of UI receipt of almost this magnitude could also be inferred by the difference between take-up rates calculated using the survey and administrative data in the papers cited in Meyer (1995). Finally, it appears that this pattern holds for SSI, as Giannarelli and Wheaton (2000) find approximately 25 percent underreporting of SSI dollars in the CPS.

We turn now to the question of whether there is underreporting of SSI in AHEAD. McGarry finds a take-up rate of 56 percent in AHEAD. The 1998 Green Book reports the ratio of SSI recipients sixty-five and older (from administrative data) to the number of poor sixty-five and older (derived from survey data) to have been 0.56 in 1993 (U.S. House of Representatives 1998, 307). This number surely dramatically underestimates the participation rate, as many poor individuals and couples will not meet the SSI asset and income tests. To determine what fraction of the poor are in fact SSI eligible, table 2.5 of the chapter provides estimates. The chapter's estimate of the number of additional people eligible for SSI if the asset test were eliminated and the guarantee were raised to the poverty line is almost exactly what we need to calculate what fraction of the aged poor are in fact currently SSI eligible. Table 2.5 indicates that the number of eligibles would rise by 104 percent if the guarantees were raised to the poverty line and the asset test eliminated. Thus, taking this calculation from the chapter at face value implies that only about half of the poor are eligible for SSI and that the 56 percent take-up rate is really over 100 percent (which is possible given some noncompliance, i.e., ineligible recipients)! Now, a take-up rate of over 100 percent is clearly an overestimate, because some SSI recipients in very generous states are nonpoor, and because applying the 104 percent number from table 2.5 ignores that there are small income disregards in the SSI formula. Nevertheless, the upward biases in this alternative take-up calculation are probably not very large. The true take-up rate is probably far above the 56 percent figure reported in the chapter.

McGarry reports a similar underreporting calculation in note 17 of the
chapter. Rather than adjust the number of poor to obtain just the eligibles, she calculates the ratio of the number of reported recipients to the number of poor in the AHEAD data. She finds a ratio of 0.28, which is exactly half the 0.56 reported in the Green Book. Again, this number suggests that SSI receipt is sharply underreported in the AHEAD data.

What are the implications of the true participation rate's being much higher than the 56 percent reported in the chapter? First, this information means that the problem of nonparticipation is much less severe, and that outreach efforts are less important to boost takeup rates. Second, the calculated effects of the current SSI program on the poverty rate and poverty gap are much larger than indicated in this chapter because many poor recipients are not reporting receipt. Third, the effects on poverty of expansions of the SSI program would also be bigger. Fourth, one should substantially revise the interpretation of the probit participation model results. The probit coefficients reflect the likelihood of reporting participation conditional on participating as much as they reflect the probability of participating conditional on eligibility.

Finally, there is a separate problem with the estimates of total budgetary costs of possible reforms that I now discuss. I would like to emphasize that I have confidence in only the third set of cost columns in table 2.6, labeled "SSA Age 65+.” The other columns mistakenly extrapolate from cost figures that do not include the blind and disabled aged SSI recipients, even though they are included in the AHEAD data. As reported in the chapter notes, the total number of blind and disabled recipients is approximately 43 percent as large as that of the aged, so this is no small omission.

I close with a few comments regarding possible extensions of the chapter. It would be interesting to modify the simulations to include the Medicaid and food stamp costs and benefits that will generally accompany SSI eligibility. If additional people are made SSI eligible, they will generally become eligible for these other programs. Another interesting reform to consider would be federally provided benefits that reflect state living costs. The possibility of such benefits that would differ across states is discussed for welfare payments in National Research Council (1995).

It would also be interesting to know in more detail who receives SSI and how changes in Social Security would affect who receives it. In order to answer these questions, it would be useful to study why people are eligible for SSI. Are they nonimmigrants who are physically impaired, but not disabled enough to qualify for Disability Insurance (DI)? What fraction are disabled individuals are without a sufficient work history to qualify for DI? How would changes in DI eligibility rules affect the size of this population? What fraction are immigrants who have been in the country only a few years? What fraction are immigrants who have been in the country a long time, but have only a short work history? I ask these questions because the 1998 Green Book indicates that one-third of aged SSI recipients are blind or disabled and that 32.1 percent were aliens in 1995.

Other questions raised by this chapter include how Social Security reform proposals that change the number of quarters for eligibility affect SSI enrollment, costs, and poverty. Finally, what are the savings and work disincentives of the SSI program?

References


Discussion Summary

Martin Feldstein highlighted the very limited current spending on impoverished elderly and the relatively small cost of moving this group up to the poverty line. Christina Paxson commented about the incentive changes created by increasing the size of SSI benefits. If benefits are sufficiently generous, people may decide to spend down their assets in order to qualify for benefits. Paxson also questioned the political feasibility of changing SSI for the elderly and leaving SSI for the young disabled untouched. This is particularly important because 85 percent of SSI expenditures are for the young disabled. The author confirmed that changing benefits for everyone eligible for SSI would be quite expensive, but indicated that changes to SSI for the elderly could be tied to changes in the Social Security system without disturbing the rest of the SSI program.

Charles Blahous felt that the paper provided evidence supporting the inclusion of stronger minimum benefit guarantees as part of Social Security instead of SSI. It seems that benefits are more likely to reach the intended recipients through OASDI and that using OASDI will remove the incentive to retire early because the minimum benefit guarantees could be actuarially adjusted. Certainly, the stigma issues associated with applications for SSI benefits would be eliminated. The author replied that the decision to replace SSI with minimum benefits in the Social Security sys-