

# Options for Reforming the Special Minimum Benefit

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# Overview

- Social Security has improved the economic security of elderly women, but it could do more.
- Could target benefit improvements to low-wage workers by reforming the Special Minimum Benefit (SMB).
- Presentation describes current situation and demonstrates effect of changing SMB eligibility requirements.

# The Special Minimum Benefit

- Enacted in 1972 to raise benefit levels for low-wage, long service workers.
- Paid only if it is higher than what the worker would receive from the regular benefit formula.
- At least eleven years are needed to be eligible.
- Monthly benefit equals about \$30 for every year in excess of 10 years, up through 30 years, for a total of 20 years included. (Maximum equals about \$600.)
- Unlike the regular formula, there is a set monetary award for each year of coverage.
- Worker must have earned at least \$8,505 to qualify for a year of coverage. (Prior to 1991, threshold much higher.)

# Issues of interest with regard to the current SMB

- As the special minimum benefit is indexed to inflation and the regular formula is indexed to wages, the relative value of the minimum benefit has been dropping – expected to be obsolete for workers reaching age 62 in 2013.
- Has “cliffs”: if earn even \$1 less than earnings threshold, receive no credit toward SMB.
- Provides a maximum benefit equal to only about 79 percent of the poverty line.
- Three times as many women as men receive SMB (total recipients = 130,000).

# If we changed the definition of a “year of coverage” would more workers be eligible?

This analysis determined how many earners in the lower half of the earnings distribution would have at least 25 years of coverage under current law and different options for defining a “Year of Coverage.”

- **Option 1:** change the definition of a year of coverage by applying current (lower) earnings threshold retrospectively. For the years 1951-1990, the amount of earnings needed to count toward one’s benefit would be lowered by about 60 percent.
- **Option 2:** Option 1 + count partial years of coverage. Thus if one earned 50 percent of threshold for a year of coverage, one would receive half a year of coverage.
- **Option 3:** Similar to option 2 but with a lower earnings threshold. Worker receives one quarter of SMB coverage for every quarter of Social Security coverage earned.

# Findings

Table 1. Minimum Benefit Eligibility for Male and Female Workers with Below Median AIME with 25+ years of earnings. Number of all workers in category, and percent of all workers (15,437,399 in cohort) using different rules for defining coverage, 1930-1938 birth cohorts. Numbers in thousands.				
	Present Law	Option 1	Option 2	Option 3
All Workers with Below Median AIME, with 25+ years	921 6%	1,483 10%	2,059 13%	2,187 14%
Female Workers, with Below Median AIME with 25+ years	608 4%	1,008 7%	1,432 9%	1,539 10%
Male Workers, with Below Median AIME with 25+ years	313 2%	474 3%	627 4%	648 4%

# Findings

Table 2. Minimum Benefit Eligibility for Workers with Different Levels of Formal Education and Below Median AIME with 25+ years of earnings. Number of all workers in category, and percent of all workers (15,437,399 in cohort) using different rules for defining coverage, 1930-1938 birth cohorts. Numbers in thousands.

	Present Law	Option 1	Option 2	Option 3
All Workers with Below Median AIME, with 25 years +	921 6%	1,483 10%	2,059 13%	2,187 14%
Workers with less than a high school degree, with below median AIME and 25+ years	283 2%	438 3%	594 4%	604 4%
Workers with a high school diploma only and/or some college, with below median AIME and 25+ years	571 4%	985 6%	1,284 8%	1,374 9%
Workers with a college degree, with below median AIME and 25+ years	66 < 1%	108 1%	180 1%	209 1%

# Conclusions

- Can increase the number of people potentially eligible for the SMB by changing the way a year of coverage is defined.
- Particularly important to women who are more likely than men to have low lifetime earnings.
- SMB could include child care years for a targeted group of lower earners.
- Limiting factor for reforming the SMB is cost.
- Reform of the SMB needs to take into account Social Security benefit interaction with SSI/Medicaid.