SSAB STATEMENT ON THE SSI ASSET TEST AND EARNINGS DISREGARD

Two principles of public policy command broad agreement across the political spectrum. First, inflation should not raise real tax burdens or cut benefits for retirees and individuals with disabilities. Second, people should be encouraged to save for future needs if they can afford to do so. Tax law, which took effect in 1986, automatically adjusts personal exemptions, the standard deduction, and the width of tax brackets to prevent inflation from raising real income tax burdens. Since 1975 Social Security benefits have been automatically adjusted for inflation. Numerous laws defer tax on saved income. Since 2002 a tax credit, worth as much as $1 for each $2 saved, provides low-income taxpayers an additional incentive to save.

Yet current law fails to apply those same principles under Supplemental Security Income or SSI, the program that provides financial cash assistance to people with very low incomes and minimal or no assets. Inflation has eroded access to this program, and the law actively discourages low income households from saving.

SSI took effect in 1974. Since then, the monthly payment amount for those who qualify has been adjusted for inflation. But other key provisions have not been adjusted for inflation fully or at all. When the program initially took effect, only individuals with assets worth less than $1,500 and couples with assets worth less than $2,500 were eligible. Congress raised asset limits incrementally each year in 1985, 1986, 1987, 1988, and 1989. The asset limit has not changed since 1989—it remains $2,000 for single persons and $3,000 for couples, representing nominal increases of 33 percent and 50 percent, respectively, over the 40-plus years since the program began. But prices since 1974, as measured by the Consumer Price Index, have risen 476.1 percent. Had the initial asset limits been adjusted for inflation, single persons with assets up to $7,142 and couples with assets up to $11,903 would be eligible to receive benefits.

Other developments have tightened the asset test still more. In 1974, most retirement plans were defined-benefit plans under which workers were eligible to receive benefits only when they reached a certain age and had met other conditions. Calculating the value of these claims many years before eligibility is always difficult and sometimes impossible. The problem is that the ultimate value of the pension depends on future earnings and duration of service up to retirement itself, neither of which can be reliably known in advance. Furthermore, people usually cannot get their hands on defined-benefit pensions until they actually retire. So, Congress decided that defined-benefit pensions should be excluded from the asset test—along with certain other assets, such as one's home, a car used for essential purposes, funds for burial, and a few other items.

Fast forward to 2015. Defined-benefit pensions are fast disappearing. In their place are so-called defined-contribution plans—401ks, individual retirement accounts (IRAs), health savings accounts (HSAs). People can usually cash out these plans if they leave a job and sometimes even if they don't. For that reason, Congress decided that the account value—less any taxes due—should count toward the asset test. What this means is that a worker with a given amount of potential retirement income who once would have qualified for SSI no longer does. It also means that in order to qualify for SSI an individual or a family with little or no income has to use up all or nearly all of the savings they have, even if that savings is less—adjusted for inflation—than they could have retained when Congress established the program.

We members of the bipartisan Social Security Advisory Board unanimously recommend that two changes be made to the SSI program.

First, the amount of allowable assets should be restored to the real, inflation-adjusted, level that Congress set up in 1974, $7,142 for individuals and $11,903 for couples in 2015, and that these amounts be indexed for future inflation.

Second, we also recommend that a certain amount of savings in tax-sheltered savings accounts be excluded from assets to which the asset test is applied. [Precisely what this exclusion should be is a matter of judgment and we do not propose a specific number. One possible approach is described in box 1.]

Inflation has eroded the level of SSI benefits in other ways that have had the deleterious side effect of substantially complicating and raising the cost of administration. In 1974, Congress allowed workers to earn $65 a month without suffering any reduction in SSI benefits. Benefits were to be lowered by half of any earnings above that level. That $65 exclusion has never been changed. Inflation has cut the real value of that exclusion by nearly 80% percent. Put the other way around, if the earnings disregard had been inflation adjusted, it would now be $310 per month. The failure to adjust the earnings disregard means that recipients are supposed to report even tiny earnings. When they don't, administrators must try to find them in order to avoid benefit overpayments, which are costly and difficult to recover. However such earnings are found, monthly benefits then must be adjusted. Furthermore, the low earnings level at which benefits are reduced mutes incentives to return to work.

SSI is a far more costly program to administer than either of the other programs administered by the Social Security Administration (SSA): Disability Insurance and Old-age and Survivor Insurance. The agency spent $5.1 billion to pay $56 billion in SSI benefits to a monthly average of 5 million SSI recipients in 2014. By comparison, SSA spent $5.7 billion to pay fifteen times as much in retirement, survivors, and disability benefits ($753 billion) to twelve times as many (59 million) pensioners. Many factors in addition to the need to track small earnings and adjust benefits based on small changes in earnings contribute to the high administrative costs of the SSI program. Raising the earnings disregard would marginally simplify administration by sparing the agency and recipients the need to spend time reporting small earnings, unearthing unreported or under-reported earnings, and adjusting benefit payments. Even more important, it would provide incentives for SSI recipients to go back to work when they can.

We understand that these changes would increase spending under the SSI program. We recognize that Congressional budget rules require that increases in spending must be paid for with cuts in other spending or increases in revenues. This note does not examine what those 'pay-fors' should be. Finally, we understand that the measures necessary to make the overall 'package' deficit neutral will influence judgments on the desirability of the proposal.

BOX 1

The amount of retirement saving one could have and still be eligible for SSI might be linked to the amount of retirement income that the asset would generate. For example, $10,000 will buy a twenty-year annuity, protected against inflation, of about $52 a month, assuming a 2 percent interest rate. [A 2 percent rate is much higher than the current yield on inflation-protected 20-year Treasury bonds (TIPs), which is well under 1 percent.] Based on a 2 percent annual real rate of return, a person aiming to accumulate $10,000 at age 65, would need to have $$8,203 at age 55, $6,730 at age 45 and $5,521 at age 35.

This approach could be applied to determining the retirement assets that people of various ages could have and retain eligibility for SSI. The steps are: 1) set an annuity income target for age 65; 2) translate that income flow into a capital sum that would generate such an income flow; 3) based on a person's age, determine the capital sum at that age that will grow into the target amount at age 65.