From Alan:

Henry: I am totally in favor of the Board issuing a statement (if it can be agreed upon by Board members) recommending raising the asset limits for SSI and raising the earned-income disregard for SSI. I concur that we should not include any numbers in our recommendations. I also concur in your suggestion to drop Box 1. I assume that means you are also in favor of dropping the proposal about defined contribution plans for which box 1 is the explanation. I also would recommend we drop the proposal on defined contribution plans.

I think both OACT and CBO would provide 10-year cost estimates for the SSI provisions we are recommending. But you are right that it is CBO's estimates that would be used for Congressional budget enforcement actions. Also, to the likely extent that the pay-fors come from programs other than SSI, CBO would be the sole cost estimator.

Please let me know if I can be of any further help.

Alan

Alan Cohen
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-----Original Message-----
From: Henry Aaron <HAARON@brookings.edu>
To: Alan Cohen <cohena12@cs.com>; Claire.Green <Claire.Green@ssab.gov>; bbk <bbk@barbarakennellyassociates.com>; bernie <bernie@disabilityrightsmt.org>; drhardy <drhardy@att.net>; jgokhale <jgokhale@wharton.upenn.edu>; Kathleen Elliott Yinug <KYINUG@brookings.edu>; lanhee <lanhee@stanford.edu>
Sent: Thu, Apr 9, 2015 9:59 am
Subject: RE: Message from Henry and draft document on increasing asset limits in SSI program

Alan,

In my draft, I was careful not to propose any particular number as a recommendation. It was my impression that we agreed that the asset test should go up—although I may have misread Jagadeesh's reaction and shall pursue that with him—but we did not discuss, and I was and am sure that we would not agree on how much. That is why I left the number blank. The specific numbers that I did include simply showed what the original numbers would be today if they had been indexed to the CPI; I did not intend them as recommendations and if they came across as such, my wording was poorly chosen.

On selecting specific numbers for both the asset ceiling and the earnings disregard, I am not sure that it is a good idea for us to try. I don't think that the seven of us will agree on specific numbers. However, if we are agreed that one or both should be increased, that is worth saying anyway. I am not sure that we need to have an actuary's cost estimate (or is it CBO's, as this is not a trust fund issue, but rather a budget matter?), as any actual proposal would be arrived at by members of Congress and their staffs based on considerations that are well above our pay grade. The central point—if, in the end, there is indeed agreement among us—would be that one or both of the asset limit and the earnings disregard should be increased.

On box 1, my purpose was simply to indicate that an asset disregard might be age scaled and how that might be done. Whether that is even a good idea is debatable, as there are motives for saving other than preparing for retirement that have nothing to do with age and that might undergird a judgment about what the asset limit should be. Rather than spend a lot of time on box 1, it might be best simply to drop it.

As this last sentence indicates, I am not interested in defending any particular element of the draft that I circulated, but rather in determining whether there is common ground that would permit us to speak with one voice on raising the asset limit.

Hank

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 (STET) 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, for example on the benefit side of the budget. 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 the aged and people with disabilities who have very low incomes and minimal or no assets. Inflation has eroded access to this program in a number of ways, and the law actively discourages these 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 of the program 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. However, the asset limit has not changed since 1989—it remains $2,000 for single persons and $3,000 for couples. Thus, these limits have experienced nominal increases of 33 percent and 50 percent, respectively, over the 40-plus years since the program began, while 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

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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), and 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 individuals or families with little or no income have to use up all or nearly all of the savings they have, even if that savings is a lesser amount --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 the program 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. In whatever manner such earnings are found, monthly benefits then must be adjusted. Furthermore, the low

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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 at least simplify (STET) administration a little 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. Therefore, the Board unanimously recommends that the earnings disregard be increased by xxxxxx.

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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. We do understand that the measures necessary to make the overall 'package' deficit neutral will influence judgments on the desirability of the proposal.

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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 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.

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This framework 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) (STET) 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.

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