

Supplemental Security Income (SSI) Simplification – 2014**

**This is a legislative proposal SSA is drafting related to SSI simplification. It deals with simplification of in-kind support and maintenance policy and resources policy. Cost estimates are still being developed. This is the only simplification effort that is currently being worked on and Susan Wilschke, Deputy Associate Commissioner, ORDES, is leading this effort.

Background

The SSI program is the nation's largest needs-based cash assistance program, providing monthly benefits to aged, blind, and disabled individuals with limited income and resources. In FY 2012, we paid more than \$52 billion to over 8 million SSI recipients.

The statutory framework of SSI makes the program difficult to administer. Eligibility and payment amount must be determined on a monthly basis, and program rules are complicated and time consuming to administer. The SSI program uses an extensive set of rules covering income, resources, living arrangements, and for beneficiaries under age 65, a disability requirement to determine eligibility. The complexity of the program results in payment errors and burdensome requirements on the public.

History of SSI Simplification Proposals

Simplification has been a goal since the beginning of the SSI program. The first major review of the program began in 1975. Since then, the complexity of the SSI program has continued to prompt frequent reviews and simplification efforts. Over the years, we have conducted major analyses of SSI policy areas that are frequently criticized for their complexity.

Our efforts have led to some SSI program simplification. For example, in recent years we published regulations simplifying the definition of in-kind support and maintenance (ISM), the automobile resource exclusion, and the household goods and personal effects resource exclusion. However, we have found it difficult to implement large-scale changes that would fundamentally simplify the SSI program and reduce improper payments without greatly increasing program costs or outlays.

In considering ways to simplify the SSI program, we must consider how policy alternatives would affect benefit adequacy, benefit equity, and program integrity. Tension exists between program simplification and these objectives. Any option to simplify the program will involve tradeoffs. For example, all major proposals require legislation and many would greatly increase program costs. Efforts to constrain those cost increases involve redistributing benefits among recipients, which results in making some recipients better off and others worse off. While there are various obstacles that hinder simplification efforts, the two primary obstacles are the difficulty in obtaining comprehensive legislative changes to the Social Security Act and the significant program costs that many simplification efforts require.

Proposals Not Considered in This Paper

We have considered some large scale proposals that we are not including in this paper. We are not including these proposals due to the considerable cost associated with the proposals or because we are pursuing the proposals via another avenue. These proposals include: strictly raising the resource limit, eliminating the twenty-dollar general income exclusion and eliminating ISM outright. All three of these proposals are very expensive. Another proposal that we are not considering in this paper is batch wage verification with private entities. The Agency is currently pursuing this proposal under a separate initiative.

SSI Simplification Proposals

We continue to review and analyze two of the most promising areas of simplification: resources and in-kind support and maintenance (ISM). We are focusing on these two areas because they are complex and because they are among the leading causes of overpayments. Specific proposals that would simplify our treatment of resources and ISM are outlined below. These proposals would simplify the program and provide additional opportunities to reduce improper payments. A final proposal would combine aspects of both for comprehensive, research-driven SSI reform.

RESOURCES

Resources are cash or other property that an individual may convert to cash and use for support and maintenance. Under current law, individuals are limited to \$2,000 in countable resources and couples to \$3,000. These limits have not changed since 1989. Generally, an individual (or couple) with countable resources in excess of the statutory limit is not eligible for SSI or Federally administered state supplementary payments.

Proposal 1 – Increase the resource limit and offset costs by eliminating certain end of life exclusions

This proposal increases the SSI resource limit while offsetting costs by repealing the life insurance and burial fund exclusions. Moreover, the proposal simplifies the SSI program, could increase program integrity by reducing improper payments, and may produce administrative savings by eliminating complicated end-of-life resource development. However, this proposal requires a legislative change to the Social Security Act. In addition, the burial fund exclusion has become a popular exclusion among Congress, advocates and the funeral directors lobby. Under this proposal, we would also need to consider horizontal equity as the Medicare Part D Prescription Drug low-income subsidy (LIS) provides a \$1,500/\$3,000 burial fund exclusion based on the SSI program exclusion. Although this proposal would make our resources policy easier for the public to understand, some individuals with excluded life insurance policies and burial funds could become ineligible for SSI due to excess resources and conditional benefits would likely not apply to those who become ineligible. This proposal could also affect the recipient's eligibility for Medicaid and other needs-based programs. Finally, additional analysis is needed to verify the extent to which elimination of these end-of-life exclusions would allow for an increased resource limit.

Proposal 2 – Maintain the current resource limits, but exclude pension funds held in IRS-recognized defined contribution retirement accounts from resource counting until age 65, or other age deemed appropriate

This proposal, while requiring legislative changes to the Social Security Act, offers some opportunity to improve benefit adequacy. Additionally, the proposal simplifies the program by bringing our policy for recipients' in-line with the policy for deems. Generally, retirement funds are a countable resource and require administrative development to determine fund accessibility and value. Limiting the exclusions to IRS-recognized retirement accounts provides for inherent, accepted limits on contributions, penalties and the time to retain funds.

However, program costs are expected to increase as individuals who are currently ineligible for SSI benefits gain eligibility because of the expanded exclusion. Additionally, a new administrative workload would be required to ensure that all beneficiaries with excluded accounts are subject to redetermination. Using established IRS policy to determine the excludability of applicable retirement funds simplifies SSA implementation and execution of the proposed policy. However, limiting the scope of the exclusion to IRS defined funds has the mitigating effect of limiting the exclusion of retirement funds to those who are working, or have previously worked and contributed to an employment-based fund. Additionally, a firm, age-based breakpoint after which the exclusion does not apply may result in a required spend-down of resources prior to the account becoming a countable resource.

IN-KIND SUPPORT AND MAINTENANCE (ISM)

ISM is unearned income in the form of food or shelter, or both. We currently follow a complex body of policies and procedures to develop ISM for SSI applicants and recipients. ISM is a major source of improper payments, is confusing to recipients, and is expensive and difficult to administer. We reduce SSI benefits by one-third of the Federal benefit rate (FBR) for recipients who live in another person's household and receive ISM. Benefits are reduced up to one-third of the FBR plus \$20 for recipients who live in their own household and receive ISM.

Proposal 3 – SSI Benefit Restructuring (ISM)

This proposal eliminates ISM, but introduces a concept called "benefit restructuring" to maintain the cost-neutrality of the proposal. Only individuals who live alone would get benefits based on the full FBR. SSI recipients (including children) who live with another adult would have their benefits reduced by seven percent (the lowest possible reduction that we believe would make this proposal cost-neutral). Those living in institutions, group homes, or foster care would be unaffected.

The proposal would provide significant simplification of the program and reduce improper payments. However, eliminating ISM requires legislative changes to the Social Security Act. Additionally, this proposal would reduce benefits for about three million SSI recipients, increase the number of recipients who fall below the Federal poverty level, and some current recipients would become ineligible for SSI. In terms of program costs, this proposal is cost neutral.

Proposal 4 – Flat Rate ISM

This proposal eliminates ISM, maintaining cost-neutrality. It also yields distributional/poverty effects that are fully consistent with program objectives, unlike Benefit Restructuring.¹ Under Flat-

¹ For a distributional analysis of Benefit Restructuring, see "Simplifying the Supplemental Security Income Program: Options for Eliminating the Counting of In-Kind Support and Maintenance" (Balkus, Sears, Wilschke, and Wixon, *Social Security Bulletin*, 2008)

Rate ISM, there would be two flat-rate percentage reductions in the FBR – a larger reduction when the recipient lives with family and a smaller reduction when the recipient lives with a roommate. Recipients living alone would have benefit increases and only such recipients would get benefits based on the full FBR (closing loopholes in current policy). Those living in institutions, group homes, or foster care would be unaffected.

Flat-Rate ISM is like Benefit Restructuring in several respects. (1) Flat-Rate ISM would greatly simplify current ISM policy, significantly reducing costs of: administering ISM, error payments, and recovering overpayments. (2) It would also close loopholes in current ISM policy. (3) It would require legislative changes. (4) It would reduce benefits for about three million recipients. However, under Flat-Rate ISM – unlike Benefit Restructuring – poverty would definitely be reduced for recipients living alone and may be reduced for SSI recipients overall.

COMPREHENSIVE REFORM

Proposal 5 – Combined Resources Reform

This proposal builds on the flat-rate proposal discussed above and adds sliding scale benefit reductions for multi-recipient households. Those recipients who live with nuclear family members (parents, adult children, adult siblings) are assumed to receive a higher level of support from within the household and so require lower SSI benefits. To account for economies of scale, with every additional SSI recipient in the household, the total SSI benefit received by the household would increase, but by a smaller amount for each additional recipient in the household. Preliminary estimates show that such multi-recipient reform will substantially reduce current program outlays. We propose to use most of the program savings to increase the resource limits. Depending on the savings from multi-recipient reform, we will comprehensively review the exclusions to countable resources and, when possible, eliminate them to simplify and streamline the resources test.

This proposal would greatly simplify current ISM policy, significantly reducing costs of: administering ISM, error payments, and recovering overpayments. Because family relationships are more stable and verifiable than the details of the household budget, the determination of benefit reductions will be simplified and error payments will be reduced and loopholes in current ISM policy would be closed. The proposal would increase equity by treating all closely related recipients the same when it comes to benefit calculations, whether married or not. It would increase benefit adequacy for those living alone, who are by far the poorest of the SSI population with poverty rates of 80-90%, and improve adequacy for all SSI beneficiaries by increasing the resources limit. However, the proposal would require legislative changes to the Social Security Act.

Recommendations and Conclusion

The agency has proposed a number of promising ideas over the years, but we have been unable to implement major simplification efforts because they require comprehensive legislation, tend to be very expensive, and because they frequently have adverse effects on some current recipients. Despite these obstacles, we feel that any of the four proposals in this paper are worthy of serious consideration, either individually or combined, as a means to simplify the SSI program. While these proposals require updated cost estimates and additional analysis, they would simplify the SSI

program and reduce improper payments while potentially avoiding prohibitive increases in program costs.

DRAFT - Do Not Disseminate