A VANISHING BENEFIT

WHY SOCIAL SECURITY'S SPECIAL MINIMUM BENEFIT IS FADING AWAY

NATIONAL INSTITUTE ON
Retirement Security
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ISSUE BRIEF

A Vanishing Benefit:

Why Social Security's Special Minimum Benefit is Fading Away

Overview

The "special minimum benefit" (SMB) is an alternative method of calculating Social Security retirement benefits. Initially enacted through legislation in 1972, it was designed with the purpose of paying adequate retirement income to primary beneficiaries, dependents, and survivors by setting a benefit "floor" for lifetime low-income earners. Unlike the standard benefit formula, the special minimum benefit was indexed to prices, not wages.[1]

Today, the standard benefit formula almost always awards a higher dollar amount than the special minimum benefit formula and the SMB has limited applicability. Indexed to price levels, rather than earnings, the special minimum benefit impacts fewer beneficiaries every year due to a decrease in value over time.[2] When it is claimed, the full benefit amount no longer fulfills the goal it was meant to achieve because it no longer exceeds the federal poverty threshold.

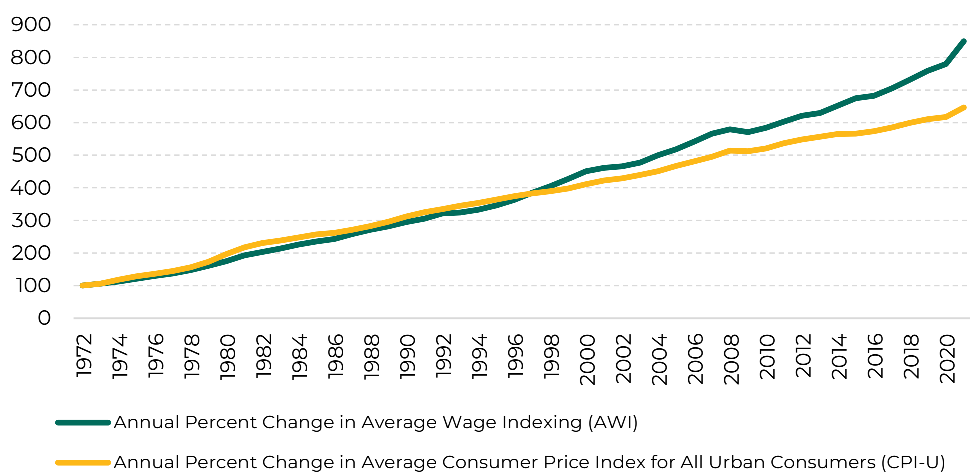
Eligibility

Eligibility for the SMB is determined by the following factors:

- **At least 11 years of covered employment**. One year of covered employment is currently defined as earnings equal to or greater than 15 percent of the "old-law" contribution and benefit base within a calendar year. This amount varies. In 2021, earnings were required to meet or exceed $15,930.[3]
- If dually eligible for benefits, **the special minimum benefit must represent the higher benefit payable** for the total benefit award.[4]
- Awarded to **primary beneficiaries as well as their dependents and survivors**.

Cumulative Change in Wage and CPI-U Indexing, 1972-2020

Index: 1972 = 100



Source: Social Security Administration & Federal Reserve Bank of Minneapolis

Key Facts

The special minimum benefit is an alternative Social Security formula that was initially passed by Congress in 1972 to set a benefit "floor" and protect workers from experiencing severe poverty in retirement.

To be eligible, workers must have a record of 11 years or more of covered employment and must not be qualified for another Social Security benefit of a higher value.

Over time, indexing of the special minimum benefit formula combined with economic changes has made the policy ineffective at reducing poverty as intended.

Because the indexing was based on prices instead of wages, participation in the program has diminished and soon no new retirees will qualify for the benefit.

Fixing the minimum benefit would help to reduce financial insecurity among seniors by providing adequate benefits for workers with lifetime low income who may not otherwise be able to continue employment past the standard retirement age.

History of the Special Minimum Benefit

The Social Security Amendments of 1972 established the SMB to ensure retirement income adequacy for lifetime low-income earners. The policy intention was to raise benefits and create an inflation-proof "floor" to protect these workers from experiencing severe poverty in retirement. Policymakers took the rising cost of living into account and indexed benefits to prices for automatic adjustment.[5]

The SMB replaced the existing regular minimum benefit that was in place at the time. When lifetime low income was due to sporadic income, rather than consistently low income, it could create a mathematical "windfall" in the standard formula.[6] The SMB eliminated this windfall and is based exclusively on the number of years the beneficiary has worked.

Decreasing Relevance

Because wages have generally risen faster than inflation, the special minimum benefit is essentially being mathematically phased out of existance and no longer serves its intended purpose. Between 1973-1981, a period of extraordinarily high inflation, prices generally rose faster than wages. From 1982-2020, wages generally rose faster than prices. (Figure 1) Because the SMB is adjusted to price changes, the value relative to replacing income for retirees has dwindled.

The number of beneficiaries who qualify for the SMB as their highest Social Security benefit based on a record of covered earnings has decreased significantly, declining by 92 percent over the last 30 years. The Social Security Administration estimates that it will soon have no new recipients and it will be impossible for new retirees to qualify for this benefit.[7]

The standard benefit is the most generally applicable Social Security formula and it is indexed to average wages. All Social Security recipients are eligible for the standard benefit, and they may be eligible for additional or alternative benefits as well. In these cases, each formula is applied, and the highest benefit is awarded.

The benefit floor established by the special minimum benefit has been eliminated by indexing to prices. If inflation remains consistent with this historical precedent, the minimum benefit will continue to lose value in the future with the price-indexing approach.

Implications for Elder Poverty

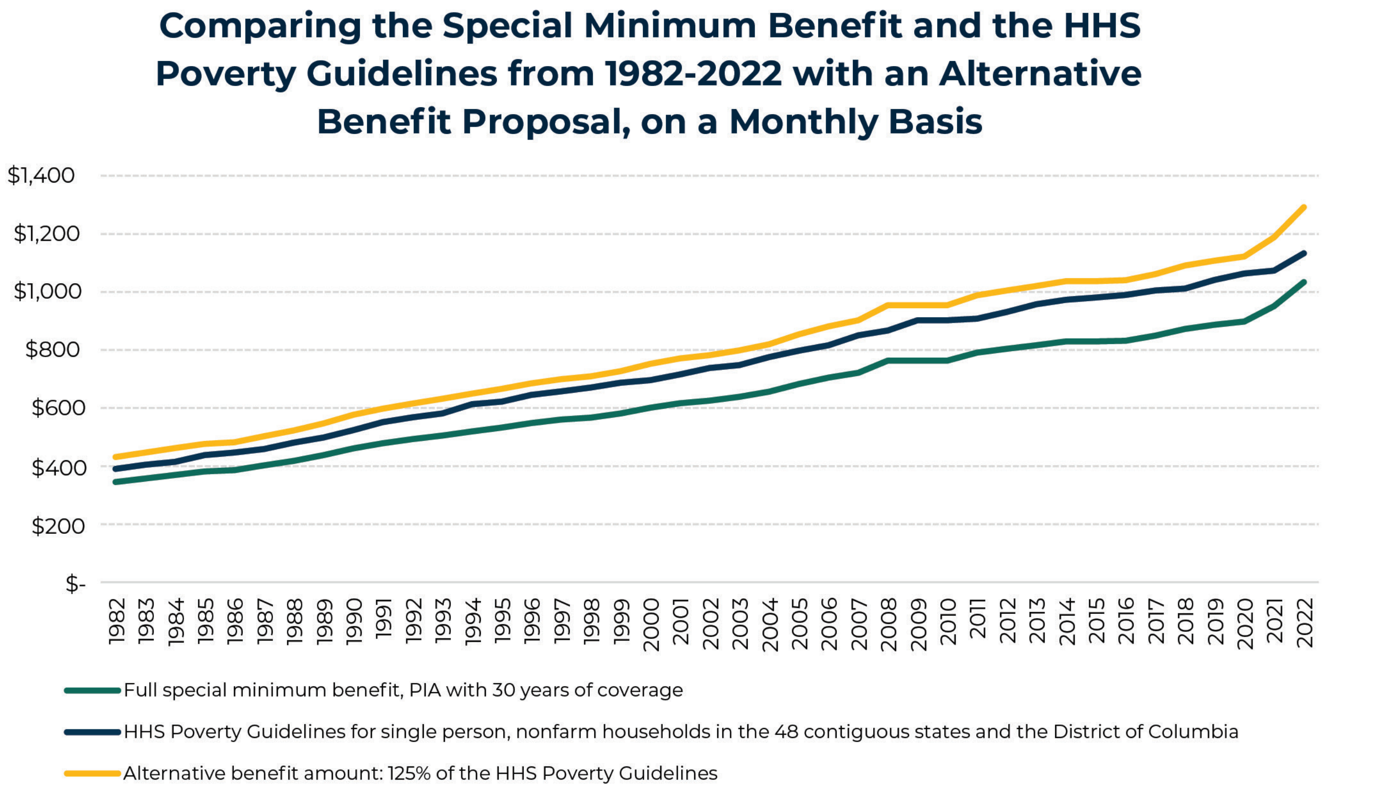
The diminishing participation and erosion of value of the special minimum benefit impacts retirement income adequacy and elder poverty. Today, the full SMB award is below the Department of Health and Human Services' poverty guideline for a single person household. This means that the benefit "floor" is no longer in place. The poverty guidelines are income-based and do not take consumer debt into account. They represent a survival lifestyle where meeting basic needs such as housing, food, and healthcare can be a significant challenge, especially considering the subsistence lifestyle represented by the Federal Poverty Level (FPL) of only $13,590 for a single person or $18,310 for a couple in 2022.[8]

Social Security benefits overall are very effective in mitigating elder poverty. A National Bureau of Economic Research study found that a $1,000 increase in Social Security benefits is associated with a 2-3 percent decrease in poverty rates for elderly households across income levels.[9] More than 16 million adults avoid financial insecurity each year because of their Social Security benefits, but the program's effectiveness in this area would be improved by correcting the indexing that was established in different economic times.[10]

Retirees without adequate retirement savings or resources are more likely to continue working past their full retirement age to meet basic expenses, if they are able to do so. However, this is not always a worker's choice, as about half of workers retiring between 2014-2018 did so involuntarily. [11] Fixing the SMB is important because it would help to reduce elder poverty for people who may not be able to continue working past their "normal" retirement age.

Solutions

There are a number of proposals to address the eroding value of the SMB, many of which focus on reconfiguring the benefit's indexing method. One often-cited approach would be to set the Primary Insurance Amount (PIA) to 125 percent of the FPL for workers with 10-30 years of



Source: Social Security Administration & United States Department of Health and Human Services

coverage.[12] An estimated five percent of the current population of Social Security beneficiaries likely would see a benefit increase under the 125 percent of FPL proposal. A significant percentage of Hispanic or Latino beneficiaries as well as disabled beneficiaries likely would see an increase in benefits under this proposal.[13] Figure 2 above shows how this alternative proposal compares to the current special minimum PIA and the federal poverty line. Correcting the indexing to stop the erosion of value of the special minimum benefit should be included as part of any legislation to shore up the Social Security trust fund and expand benefits.

Conclusion

Congress will be forced to address Social Security's financing in the coming years as the Social Security trust fund is projected to be depleted in the 2030s. Various proposals already exist to expand and/or modify Social Security benefits. Whenever Congress does act to pass major Social Security legislation, it should fix the indexing of the special minimum benefit. Establishing a true floor to prevent elder poverty would do much to improve retirement security for low-income Americans.

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