

Guaranteed Income: SSI and the Well-Being of the Elderly Poor

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Abstract

Discussions of changes in the Social Security program must necessarily consider the impact of such changes on the well-being of the poor elderly. Under the current system, the financial needs of this population are met by the Supplemental Security Income (SSI) program. SSI has done much to improve situation of the poorest elderly but surprisingly, many of those eligible for benefits are not enrolled in the program. This paper examines the correlates of participation in SSI for a sample of eligible individuals and uses the results to simulate the effect of changes in eligibility criteria on participation and on costs. It finds that providing an income guarantee for elderly individuals that is equal to the poverty line would increase outlays directed towards the elderly by 83 percent, or 3.6 billion dollars based on 1997 payments. Although large, this figure represents just 12.4 percent of total SSI expenditures when payments to the blind and disabled are included. Modifications to SSI that increase income disregards, eliminate the asset test or base income eligibility solely on Social Security income would be less costly, but would also provide less relief to the poor. In addition, all programs, including the current system, could have substantially greater effects on poverty if participation rates were increased.

Social Security has done much to improve the well-being of the elderly and in particular, the well-being of the poorest among the old. In 1960 approximately 35 percent of those age 65 and over lived in poverty; today that figure is below 11 percent. Much of this decline has been attributed to increases in Social Security. Social Security has also improved the lives of our elderly citizens by other measures. In 1960, 40 percent of elderly widows lived with their children, but by 1990 less than 20 percent did so. This shift towards independent living has been viewed as a positive outcome of the increased income of the elderly. Labor force participation among older male workers has also fallen to roughly in half of its 1960 rate, a phenomenon that has again been attributed, by some authors, to the growth in Social Security.

Despite these gains, there remains a sizable fraction of the population for whom Social Security and other retirement resources do not provide an adequate standard of living. For these individuals benefits are available from the Supplemental Security Income Program (SSI). SSI provides a guaranteed income for all those age 65 and over, as well as the blind and the disabled. Conditional on sufficiently low assets, there should be no elderly individual with income below \$484 (in 1997 dollars) or married couple with income below \$726. It is unclear how well SSI functions in reaching the elderly poor, or what changes might be made to increase the well-being of its target population. As the nation considers changes in Social Security, concurrent changes in SSI might be well-advised. Successful linkage of the two programs and implementation of any changes, requires a clear understanding of the current system and an investigation of the costs and consequences of such changes.

In this paper I first describe the SSI program in its current form, focusing exclusively on the benefits and regulations applicable to the elderly. I use data from the Asset and Health Dynamics Study to examine the behavior of a population of elderly individuals with respect to the program guidelines and then discuss what modifications to the SSI program might be introduced and how these changes would alter poverty rates and program costs.

1 Description of the SSI program

1.1 Program Overview¹

The Social Security Act of 1935 established a mechanism whereby the federal government would assist states in providing cash assistance to the poor; for the poor elderly this assistance came from state-run Old Age Assistance (OAA) programs. In 1972 legislation was passed that replaced these state-run plans with the federal Supplemental Security Income Program, administered by the Social Security Administration (SSA).² In contrast to the state programs which typically assessed individual need on a case by case basis, the federal SSI program provides a guaranteed income to all eligible individuals. In 1997 the income guarantees were \$484 per month for a single individual living in his own home, and \$726 for a couple. These amounts are reduced by one-third if the recipient(s) lives in someone else's home, and are adjusted yearly for inflation. For individuals with no other income the income guarantee is the actual benefit they receive from SSI. For those with other sources of income, the SSI benefit is the difference between their countable income and the income guarantee. Countable income is distinct from current income in that the SSI program disregards some portion of a potential recipient's income. The most important of the disregards, as measured on a monthly basis, are the first \$20 of unearned income (most likely Social Security benefits), the first \$65 of earned income, and one-half of other earned income.³ Because of the disregards, those eligible for SSI can have income somewhat above the guarantee, but no participant should have income below this legislated amount.

There is also an asset test required for participation in SSI. To be eligible for benefits individuals must have countable assets of less than \$2000 and couples must have less than \$3000. With respect to the determination of countable assets, the disregards are substantial. Most importantly, an owner occupied home regardless of value and a car worth less than \$4500 are excluded.⁴

In addition to the federal program, states have the option of offering supplemental benefits. With these supplements, the benefits available to individuals can vary substantially across states.

¹The information in this section is drawn primarily from the Social Security Administration (1997, 1999).

²The SSI program also took the place of the state run assistance programs of Aid to the Blind, and Aid to the Permanently and Totally Disabled.

³If there is less than \$20 unearned income, additional earned income can be disregarded. Other disregards are irregularly or infrequently received income of less than \$20 per month, home energy assistance payments, the value of food stamps, tuition benefits, and disaster relief.

⁴Other exclusions are life insurance with a face value of less than \$1500, burial plots, and household furnishings of less than \$2000.

For example, the income guarantee for a couple living in California in 1997 was \$1,122.20 (\$396.20 above the federal level), while in New York the income guarantee for a couple was \$828.50. If states choose to follow the same eligibility guidelines as the federal program with respect to such issues as the determination of countable income and assets, the Social Security Administration will administer the state supplemental program on behalf of the state.⁵ If a state is willing to administer its own program it is free to alter the eligibility requirements as it wishes, including imposing more (or less) stringent income and asset tests and providing supplemental benefits to only a subset of the population eligible for SSI (e.g. those with specific medical needs). In 1997, 26 states offered supplements to elderly individuals (or couples) living independently, and a total of 44 states offered at least some form of supplemental benefits, including payments aimed specifically at the blind or disabled, or at those elderly with particular medical needs.

The federal portion of SSI is much larger than the state supplemental programs. In December of 1997, 742,834 elderly people received a benefit from the federal SSI program alone, 508,540 received both the federal and state benefits, and 110,976 received assistance from only a state supplemental program. The average payment from the federal SSI program was \$235.45 and the average state benefit was \$114.35.

Those eligible for SSI are also likely to be entitled to benefits from other programs. SSI recipients are eligible for food stamps in all states except California.⁶ Also, SSI recipients in most states are categorically eligible for Medicaid and need file no other application to receive these benefits.⁷ Medicaid itself represents a substantial financial transfer and therefore makes participation in the SSI program much more valuable.⁸

Despite these potential benefits, the majority of SSI recipients remain poor. In 1997 the federal income guarantees were \$484 of a single individual and \$726 for a couple. Because the poverty lines in that year (on a monthly basis) were \$641.5 and \$809.33 the federal portion of SSI does not have much effect on poverty rates. However, the supplemental programs in some states are sufficiently

⁵Prior to the Omnibus Budget Reconciliation Act of 1993 the SSA paid the cost of administering these state supplemental programs. Currently however, states pay a per-check fee for the service.

⁶California incorporates the value of foodstamps into its monthly benefit.

⁷Forty states used SSI program guidelines to determine Medicaid eligibility. The additional states used somewhat more restrictive criteria.

⁸This link between Medicaid and SSI may also make SSI enrollment more likely if those receiving medical care at hospitals or elsewhere are offered assistance in enrolling in SSI so that the accompanying Medicaid benefits ensure that the provider is reimbursed.

generous that they guarantee incomes above the poverty line. Income guarantees in 1997 were above the poverty level for singles in 3 states, and for couples in 11 states. Taking into account the various income disregards, it is also possible for individuals in other states to have total incomes above the poverty line, even though the guarantees themselves are not sufficiently high. I examine this issue further in section 2.4.

1.2 Participation in SSI

One of the more surprising aspects of SSI is that many of those who are entitled to benefits are not enrolled in the program. Several earlier studies have demonstrated that only slightly more than one-half of those who appear to be eligible for SSI are actually receiving benefits (Menefee et al. 1981, McGarry 1996). These participation rates are lower than those found for the former Aid to Families with Dependent Children program (AFDC) but higher than participation rates in the food stamp program (Fraker and Moffitt, 1988).

Several hypotheses to explain this non-participation have been offered in the literature. (See Warlick 1979 for a detailed discussion of the various arguments.) It has been proposed that those who do not participate are not aware of the program or that the process of applying for benefits is too challenging either physically or intellectually. Alternatively, it has been suggested that the stigma attached to the receipt of welfare outweighs the value of the benefits (Moffitt, 1983). Below I investigate the correlates of non-participation for a sample of SSI-eligible individuals.⁹ When considering the effectiveness of the SSI program in achieving its goal of a guaranteed minimum income, one must keep in mind these low participation rates. Similarly, analyses of the effect of changes in the SSI program must account for both changes in eligibility and changes in participation.

2 Microdata Analysis

2.1 AHEAD Data

Understanding the distributional aspects of the SSI program and its potential to affect the well-being of the elderly poor requires individual level data. Here I use the Asset and Health Dynamics Study (AHEAD) to address these issues.¹⁰ AHEAD provides a nationally representative sample of the population born in 1923 or earlier and their spouses. The respondents were first interviewed

⁹Menefee et al. (1981), Warlick (1982), Coe (1985) and McGarry (1996) address this issue in detail.

¹⁰A detailed description of the survey is available in Soldo et al. (1997).

in 1993 when the age eligible portion of the sample was approximately 70 years old and over. The entire sample consists of 8222 individuals in 6048 households.¹¹ The analyses presented here will use the household as the unit of observation. AHEAD is virtually ideal for this study because it contains a large sample of individuals nearly all of whom meet the age requirements for SSI eligibility, as well as information on income and assets, by source, allowing for accurate determination of eligibility.¹² This project also draws on a supplemental restricted use data file that contains geographic identifiers for the respondents. Because SSI benefits can vary widely across states this information is necessary if potential benefits are to be properly imputed.

2.2 Eligibility

I determine eligibility for federal SSI benefits using the specific rules of the program as they existed in 1993, including both the income and asset tests (Social Security Administration, 1993). The federal guarantees in that year were \$422 and \$633 for singles and couples. I then calculate the amount of a state supplement to which the family unit (single individual or married couple) would be entitled based on the state of residence and the guidelines of the SSI program particular to that state. The calculation of countable income is based on reports of monthly income in AHEAD, subtracting the appropriate disregards for earned and unearned income. If income varies over months within a given year, then monthly income will provide a better indicator of current eligibility than income measured on an annual basis. In addition to the standard disregards for earned and unearned income, I exclude transfers received from family members or other individuals because it is unlikely that these transfers are received with sufficient regularity to be reported to the government and included in countable income.

With respect to calculating asset eligibility, I am again able to follow the program guidelines nearly exactly. I exclude the value of the home, up to \$1500 in life insurance, and up to \$4500 in vehicle equity (the limit on the value of a car).¹³

¹¹Included in these numbers are 189 spouses below age 65 who would not themselves be eligible for SSI, regardless of income. Because federal law requires that a portion of the income of an age-ineligible spouse be deemed to the SSI applicant, it is important that these individuals be kept in the sample and their incomes known.

¹²Some earlier studies of participation in welfare programs did not have asset information and imputed asset eligibility based on income from assets.

¹³With respect to the exclusion of a car I am unable to identify precisely its actual value. AHEAD obtains the value of all vehicles (cars, boats, motorcycles, etc.) in a single question. The respondent may therefore own more than one car, or may own other vehicles which would be included in countable assets, although this is unlikely for those with little in the way of other assets or income. The survey also does not ask about the value of household furnishings so

Table 1 compares income and asset eligibility. As is evident in the table, the income limits are much more likely to be binding than are the asset limits. Twenty-nine percent of the sample has countable assets below the SSI limits, while only 13 percent have incomes that are sufficiently low. Combining the two criteria, 8.6 percent of family units are eligible for benefits from federal and/or state SSI programs.

The characteristics of the subsample who is income eligible, but not asset eligible, deserves further mention. Seventy-three percent of these units have incomes below the poverty line, and at least in that sense seem to merit assistance, yet their wealth holdings prevent them from receiving any benefits. The assets of this group are relatively high, although they are skewed dramatically. The mean non-housing wealth is \$99,235, and the median is \$22,000. Including the value of a home raises the mean and median net worth to \$172,914 and \$90,000.

The state supplemental programs play a large role in increasing eligibility relative to the federal program. The second panel of table 1 highlights the effect by reporting the proportion of the sample eligible for SSI based on federal guarantees alone. Here the fraction income-eligible falls from 12.9 when state supplements are included to 9.4 percent, and the fraction eligible after both the income and asset tests falls to 6.7 percent. The state supplemental programs thus serve to increase the eligible population by nearly 30 percent.

SSI regulations exclude the value of a home from countable assets largely because it was feared that many elderly might face enormous economic hardship rather than sell a family home. The recent increase in the availability of reverse annuity mortgages and home equity loans, and the run up in housing values may lead to a call for the inclusion of this asset. If the value of a home is included in countable assets, the fraction with assets below the SSI limits falls from 29 to 15 percent and only 5.3 percent of the sample is eligible for SSI based on both income and asset criteria.

As an alternative to including the value of a home in the asset test, applicants could be required to obtain a reverse annuity mortgage, thus increasing their monthly incomes. Approximating the stream of income from such a program rather than including the net value as part of assets has a slightly smaller impact on eligibility, decreasing the eligible population to 7.4 percent of the sample.¹⁴

these are presumed to be less than the \$2000 limit allowed under SSI and not included as part of countable assets.

¹⁴This calculation follows the U.S. Bureau of the Census procedure to measure poverty with imputed income from home ownership included in the definition of income. The Census Bureau imputes the income stream from home

2.3 Characteristics of Participants

When examining actual participation for the families in the sample, I find the same low participation rates observed in other studies. Participation status is unknown for 11 of the 674 eligible units. Of the remaining 663 units, 389 report that they are receiving benefits. When appropriately weighted these numbers imply a participation rate of 56.6 percent.¹⁵ Perhaps surprisingly this rate is nearly identical to the 55 percent participation rate found in 1973 and 1974 Survey of Low-Income Aged and Disabled (Menefee et al., 1981) and the 56 percent participation rate in the 1984 Survey of Income and Program Participation (McGarry, 1996).

Table 2 presents the means of several variables used in the subsequent analysis. I report the statistics separately for three distinct groups: those who are ineligible for SSI, those who are eligible and receiving benefits, and those who are eligible but not collecting these benefits.¹⁶ The ineligible subsample is obviously better off in virtually every dimension than either of the other two groups, and these mean values are reported mainly for purposes of comparison. Mean income for this group, exclusive of SSI, is \$1,912 per month and their net worth is \$194,649, or \$118,728 when housing wealth is excluded. The average number of years of schooling (using the level of schooling of the male for couples) is 11.3 and 8 percent are nonwhite.

While none of those who are eligible for SSI benefits is well-off, those who are actually receiving benefits are in substantially worse financial straits than those who are not. The participants have average monthly pre-SSI income of \$286, compared to \$447 for those not receiving benefits. This lower income corresponds to a higher expected benefit for the participants than for the eligible non-participants, \$224 compared to \$167. This calculated benefit agrees quite well with the SSI income reported by recipients: The mean value of SSI actually received is \$235 (compared to the mean calculated benefit of \$224) and the correlation between the calculated and reported amounts is 0.79.¹⁷ When reported SSI benefits are added to the income of the participants their incomes

ownership as the expected return that would be obtained if home equity were invested in an interest bearing account. In my calculations I assume a return of 3 percent.

¹⁵AHEAD oversampled individuals in heavily black and Hispanic neighborhoods so weighting is necessary to achieve population representative statistics.

¹⁶Among the ineligible population, 1.5 percent report income from SSI. Some of these individuals are likely misclassified due to reporting error, but others may actually be receiving benefits to which they are not entitled. The Social Security Administration has estimated that 4 percent of those receiving benefits are actually ineligible (Social Security Administration, 1982).

¹⁷The calculated amount is on average lower than the reported amount because individuals may receive higher than predicted state benefits because of special needs. For example, in California the guarantee for a individual needing

actually exceed those of the eligible non-participants, with an average monthly income that is \$67 greater. SSI thus makes a substantial difference in the economic well-being of these individuals.

With respect to asset levels, those who are receiving benefits have substantially lower net worth, \$11,746 versus \$32,486, and a lower probability of home ownership than eligible non-participants. For both groups, non-housing wealth is nearly non-existent. The mean for participants is \$339 while for non-participants it is actually negative.¹⁸ These means stand in sharp contrast to mean (non-housing) wealth reported earlier for those who are income but not asset eligible; the mean for those household units is \$99,235.

Participants are more likely to be nonwhite, have approximately two fewer years of schooling on average, and are much more likely to report being in poor health, 36 versus 21 percent, than eligible non-participants. There is also a large difference across groups in marital status; 16 percent of the participants are married compared to 25 percent of the non-participants.¹⁹

Perhaps surprisingly, living arrangements for the two groups of eligibles are similar, although both are substantially less likely to live independently and more likely to live with children than are those ineligible for benefits.

2.4 SSI and Poverty

As a target for gauging the economic well-being of the elderly one might wish to measure the effectiveness of the program in reducing poverty. The final two rows of table 2 report the poverty rates for the three groups. Examining first the situation without SSI, if SSI is excluded from income, 94 percent of those who are eligible for benefits are poor compared to 86 percent of the eligible non-participants. If the actual SSI benefits received are included in the measure of income the poverty rate of SSI recipients falls from 94 percent to 78 percent. The SSI program, and in particular the state supplements, are thus having some effect on the poverty rate of the elderly.²⁰

"nonmedical out-of-home care" is \$116 more per month than someone who does not. In Connecticut, individuals may receive additional benefits to pay for such items as meals-on-wheels programs (\$73.50 per month for one meal a day). I account for these extra payments where the data permit me to do so (such as an extra payment to those not having kitchen facilities in California), but in most cases I am unable to assess these special needs and err consistently on the side of lower benefits, and use the state income guarantees for those living independently.

¹⁸The negative mean value is the result of one observation with (non-housing) debt of \$100,000. If this observation is eliminated the mean for this subsample is \$793.

¹⁹The majority of those who are not married are widowed women. Sixty-eight percent of the unmarried participants and 64 percent of the unmarried eligible non-participants are widows.

²⁰It should also be noted that 10 percent of those who are ineligible for SSI have incomes below the poverty line. Sixty percent of this group are ineligible because of asset holdings. Of the remaining units, 73 percent live in states that do not provide supplemental benefits except perhaps in cases of special needs, indicating that their incomes fall

Although the effect on the poverty rate may not be large, SSI does have a significant effect on the incomes of those below the poverty line. One common measure of the total amount of poverty is the "poverty gap." The poverty gap is defined as the total dollar amount needed to raise all incomes to the poverty line. As shown in table 3, if SSI is excluded from income the poverty rate for this sample is 16.9 percent²¹ and the poverty gap is \$219,596.²² There are 1249 families in my sample of 6048 that are in poverty, so these figures imply that a monthly transfer of \$176 per impoverished household would be need to eliminate poverty. Considering the federal program alone, if all those who are eligible for benefits are assigned their expected amount, the fraction with incomes below the poverty line falls only slightly but the poverty gap falls by 33 percent. Adding potential state benefits decreases the poverty rate to 15.6 percent, and the poverty gap falls even further for a total decline of 40 percent. Even with the relatively low level of take-up among eligibles, the reduction in the poverty gap is substantial. Using current reciprocity patterns (i.e. eligible non-participants receive zero benefits) and actual benefits, the poverty rate is just 1 percentage point lower than without SSI, but the poverty gap is 30 percent smaller than the no-SSI value. These figures provide a clear indication of both the ability and potential of SSI to reach the poor elderly.

Figure 1 illustrates the change in the distribution of income graphically. The sample used in the figure is the population with income below the poverty line in the absence of SSI. The horizontal axis measures the ratio of income to the poverty line in 10 percent intervals, and the vertical axis measures the fraction of the population in each interval. The dark bars depict the distribution exclusive of SSI, while the light bars show the expected distribution if all eligible units were to enroll in the program. The largest change comes in the bottom of the distribution. In the absence of SSI 11.5 percent of the percent of this sample would have incomes equal to less than 10 percent of the poverty line. For single individuals this interval corresponds to monthly incomes of less than \$58, indicating that they have virtually no income other than SSI.²³ With full participation,

between the federal benefit guarantees and the poverty line.

²¹The poverty rates presented here are somewhat higher than published poverty rates of the elderly for two reasons. First, for those elderly living with individuals other than a spouse, the income of these other individuals is not included in my measure of total income (nor is their presence included in the determination of the poverty line). Second, the sample is representative of those age 70 and over. Poverty increases sharply with age after 65.

²²If population weights are used to inflate this figure to the population of for which AHEAD is representative (singles born in 1923 or before and couples with at least one spouse of that age) the poverty gap is \$602,742,940.

²³One would expect that if SSI were not available, some of those currently receiving benefits would find other sources of income. They may receive greater transfers from family and friends or may obtain a job. Others however, would have no alternative means of support.

the fraction with incomes this low decreases to just 1.3 percent.²⁴ There is also a sharp change in the interval corresponding to incomes between 70 and 80 percent of the poverty line. Federal SSI guarantees are equal to 73 percent of the poverty line for singles and 87 percent for couples. Because the majority of those eligible for benefits are single, a substantial fraction of the population has their income increased to the 70-80 percent interval (although not to exactly 73 percent of the poverty line because of the income disregards).

2.5 Correlates of non-participation

Given the potential for improvement in their financial status, one might question the decision made by the eligible non-participants. Certainly the benefit to which the non-participating units are entitled is lower than that of the participants, (\$167 versus \$224) but it is still substantial, equal to 37 percent of their current income. This choice is even more puzzling when one considers the relative stability of the income of the elderly, and the likelihood that eligibility will remain unchanged for many years. Over a lifetime the foregone benefits could represent a substantial sum.

To understand better the choice of non-participation, and to assess how participation rates would change in response to changes in benefits, I estimate a probit model for the probability of enrolling in SSI conditional on eligibility. The choice of explanatory variables is dictated by the explanations for non-participation offered previously in the literature as summarized in section 1.2. The coefficient estimates are reported in table 4.²⁵

As was noted in the table of means, participation appears to be based largely on need and this result is borne out in the regressions. The magnitude of the expected benefit, which is inversely related to pre-SSI income, has a positive and significant effect on the likelihood of participating. An increase of \$100 in the benefit increases the probability of enrolling in the SSI program by 7.3 percentage points. Home ownership has a relatively large effect on participation, lowering the probability by 10 percentage points. The effect of net worth is smaller but is also significantly negative. Being married is associated with a lower probability of participation, a surprising result since holding the expected benefit and net worth constant, married couples have fewer resources

²⁴All 12 of those who remain in this lowest decile are ineligible for SSI because of the asset test.

²⁵The sample size is reduced relative to table 2 (from 663 to 645) because of missing values on some of the regressors. The participation rate for this regression sample is 57.7. The remainder of the paper will use a sample restricted to those with reported values for the regression variables because non-missing values on these variables are needed to calculate the predicted probability of participation.

per person and ought to be more in need of assistance.

One of the explanations frequently offered for non-participation is that individuals do not know about the program (Daponte et al., 1999). The results here contradict this hypothesis. If there were informational barriers one would expect those with more schooling to be more knowledgeable, as might those living in a urban area. But here both effects are associated with significant reductions in participation. Furthermore, a primary method for informing people about SSI is through their receipt of Social Security. Those receiving Social Security are therefore more likely to have been informed about the program, but there is no effect on participation.²⁶

The effect of poor health is large and significant. Individuals in poor health are 12 percentage points more likely to be enrolled. This large difference may come about through the interaction of Medicaid and SSI. As discussed previously, SSI participants are categorically eligible for Medicaid in most states, increasing the incentive to enroll in SSI for those with medical expenses. Furthermore those having sought medical treatment may have been encouraged to enroll in SSI by the healthcare provider, in order to obtain medical coverage.

These results are consistent with earlier studies. While the decision to forego SSI benefits remains a puzzle, there does seem to be strong evidence that enrollment is related to need, both in terms of the magnitude of the expected benefit and other factors that proxy financial well-being. This relationship is consistent with the hypothesis that there is a stigma associated with the receipt of welfare benefits that increases the cost of enrolling (Moffitt, 1983). Only those with benefits larger than this fixed cost choose to enroll. In the following section I use these estimates to analyze the effect of changes in program parameters on enrollment and program expenses.

3 Possible Changes in SSI

A restructuring of the Social Security system will likely lead to changes in the population eligible for SSI, and perhaps in the parameters of the SSI program itself. In this section I explore the potential effects of various changes in SSI guidelines on both eligibility and participation. I look first at the elimination of the asset test, then at the effects of increasing the income disregards and the income guarantees, and finally at a simplification of the determination of countable income. In

²⁶The stability of the participation rate over the first 20 years of the program also calls into doubt the role of informational barriers.

all cases I consider only changes to the federal program and assume that states do not alter their benefit schedules or eligibility criteria in response. The results of these simulations are reported in table 5.

Because actual benefits and participation are not observed with the simulated changes in benefits, the comparisons use the calculated benefits and imputed probabilities of participation based on the estimated coefficients of the probit model. I estimate the total cost of each of the alternatives by weighting each eligible unit's expected benefit by its calculated probability of participating and summing these weighted amounts.²⁷ The first row of table 5 reports the results of this exercise for the current system. For the eligible population the empirical model predicts a participation rate of 57.8 percent, nearly identical the observed rate of 57.7 percent. The average benefit for all 645 eligible units is \$192, and the weighted sum of these benefits is \$62,481.

3.1 Eliminating the asset test

In simplifying eligibility guidelines one change that might be considered is an elimination of the asset test. It is often argued that asset tests discourage savings, and one might wish to encourage individuals to save as much as possible to finance their old age. Furthermore, the asset test represents an additional administrative burden and given the strict income limits and low participation rate, may not actually result in large changes in the participating population. Using the AHEAD data it is possible to simulate the effect of this change on program participation. It is a relatively straightforward exercise to calculate the increase in eligibility—the number of families whose countable income is below the guarantees but who have assets about the limit.²⁸ However, one also needs to determine what fraction of the newly eligible would choose to enroll in the program. The estimated effects from table 4 can be used to predict the increase in participation for these household units given their observable characteristics.

If the asset test were eliminated entirely the eligible population in AHEAD would increase by 137 units, an increase of 21 percent.²⁹ These newly eligible are better off than those who were eligible under the old rules and are therefore less likely to enroll. Their mean benefit is also

²⁷This figure is calculated as $\sum_i (P_i \times \text{Benefit}_i)$ where P_i is the probability an eligible unit participates and Benefit_i is the benefit to which it is entitled.

²⁸Here I consider eliminating the asset test for the federal program only. I assume that states maintain their current limits.

²⁹Note that this number differs from table 1 primarily because I assume that the individual states do not change their programs and keep in place any asset tests.

somewhat lower than that of the initially eligible sample, \$165 compared to \$192. The average probability of participating for the newly eligible is just 26.8 percent, a good deal lower than the participation rate of those who were eligible initially. This low rate is in large part the result of the strong negative relationships between net worth and home ownership, and participation. Based on the weighted sum of probabilities ($\sum_i P_i$) the expected increase in the participating population is just 35 households, a 9 percent increase over the 384 enrolled with the asset test in place.

Given expected benefits and the estimated probability of participation, the increased cost associated with eliminating the asset test can also be calculated. The cost for those initially eligible does not change since neither their probability of enrolling in SSI nor their expected benefits change. The cost for the newly eligible is \$6455 for a total expected outlay (exclusive of administrative expenses) of \$68,936. Because there necessarily exist some costs associated with the enforcement of the asset test that are eliminated with this change, and conversely, increases in administrative expenses with the increased number of participants, the net effect is indeterminate.

These calculations (and those that follow) assume that there is no change in the behavior of those initially eligible for benefits. If the elimination of the asset test alters the desirability of enrollment, there will be changes in participation beyond those forecasted here. For example, individuals may falsely believe that they are ineligible for SSI because they own a home. Eliminating the asset test might well reduce the prevalence of this misconception, changing the effect of home ownership on the participation decision. Similarly, some may view the asset test as an invasion of privacy and refuse to apply if they need to provide such information. Again in this case, elimination of the asset test would increase enrollment beyond those who are newly eligible.

3.2 Increasing unearned income disregard

The federal income guarantees are indexed to the consumer price index (CPI), and have increased every year since the program's inception. However, the income disregards have never been increased, and remain at the initial levels—the first \$65 of earned income and half of the remainder, and the first \$20 of unearned income. One change in SSI that has been mentioned among policy makers is an increase in the \$20 disregard for unearned income. The figure that has been mentioned is a disregard for unearned income of \$75 per month.³⁰ If the federal program were changed so as

³⁰I thank Robert Schoeni for bringing this to my attention.

to incorporate this larger disregard, but all other aspects (including state programs) remained the same, a greater number of individuals would be eligible for the program. Furthermore, the benefits of many of those initially eligible would increase.³¹

With this change the number of eligible units increases to 742 (row 3). The expected benefit for the group of newly eligibles is however small, averaging just \$31 per month, and the average probability of participating is 48.8 percent. The expected cost of benefits for the newly eligible is just \$1161.

In the case of eliminating the asset test, the cost of the expanded program was just these payments to the newly eligible. Here, however, there is an added cost from the increase in benefits for those initially eligible. Those who were participating initially see their benefits increase from \$220 to \$245 on average, increasing outlays to this group. In addition, those who were initially eligible but not participating will see an increase in their potential benefits from \$152 to \$178. This increase may induce some to enroll in SSI. Using the predicted probabilities of participation consistent with the new benefit levels, the cost of providing benefits to all those initially eligible rises from \$62,481 to \$70,588. And the total outlay for the new program increases to \$71,749.

3.3 Raising guarantees to the poverty line

Several states offer supplements to SSI which effectively raise the incomes of the elderly to slightly above the poverty line. In considering plans to reduce or eliminate poverty among the elderly, one obvious solution is to raise the federal income guarantee to the poverty line. This proposal has been discussed several times in the past (Zedlewski and Meyer, 1989) and continues to receive mention among policy makers. For those who live in states with guarantees above the poverty lines, the increase in federal benefits would result in no change in their incomes—a greater fraction of their benefit would be paid for by the federal government, and a smaller fraction by the state, but there would be no increase in the total received. Those in less generous states, however, could see a sizable increase in their monthly benefits, and some of those initially eligible but not enrolling at current benefit levels, may find participation a more appealing option with the greater guarantees. At the same time, increasing the federal guarantees would also make more individuals eligible for the program and increase participation along this avenue.

³¹Benefits would not change for those with less than \$20 in unearned income, or for those in states with generous guarantees.

Increasing the federal guarantees to the poverty line— \$577.50 per month for a single individual and \$728.33 for a couple in 1993—with no change in state programs, increases the eligible population by a large amount, 252 household units or 39 percent. The expected benefit for this group of newly eligibles is \$74 and their predicted participation rate is 49.6 percent. Given the relatively low benefits to which they are entitled, the additional outlay of SSI benefits for this group of newly eligible is just \$7,572.

Average benefits for those who were initially eligible (both the participants and non-participants) increase sharply from \$192 to \$309, and the probability of participating increases to nearly 64 percent. The cost of this change is great; the total increase in payments to the elderly increases to \$114,232, an increase of 83 percent, with the majority of the expenditures going to those initially eligible.

3.4 Using Social Security income

The final alternative I investigate is to base eligibility and benefits on Social Security income alone, eliminating income disregards, and conferring eligibility on those with Social Security income, rather than countable income, below the guarantee levels. This procedure would likely reduce the effort required of both the Social Security Administration and the applicants because Social Security benefits are readily observable to the SSA, and need not be reported or verified. The obvious drawback of this procedure is that individuals with low Social Security benefits, but with substantial other income, could qualify for SSI.³² Furthermore, since participation in SSI is far from certain, it may well be that many of those with other income sources will not choose to apply for benefits.

The cost of this change would obviously depend on the level of Social Security that is chosen to be the cut-off for eligibility. In the AHEAD sample, the maximum Social Security benefits received by singles and couples eligible for *federal* benefits under current rules are \$441 and \$644.³³ Given that many are likely to have some income from sources other than Social Security, a reasonable choice of income limits might be to use the 90th percentiles— \$418 for singles and \$620 for couples.

³²One would imagine that there are relatively few individuals with assets below the SSI limits and with substantial pension or other income.

³³Because some states (notably California) have guarantees that are significantly higher than the federal levels, the maximum Social Security benefits among all eligibles (state and federal) are much higher at \$897 and \$1180 for singles and couples.

Using these amounts as income guarantees, with no income disregards, results in a net increase in the eligible population of 77 units or 19 percent, with a small number of those initially eligible for benefits becoming ineligible due to the elimination of income disregards and the slightly lower guarantee level. The total cost of this method, \$68,553, is similar to the current program and to that obtained with the elimination of the asset test. In addition, virtually the same people benefit from the two methods of calculating benefits; 93 percent of those eligible initially are still eligible. The correlation between the expected benefit levels for those eligible under both scenarios is 0.96 with mean benefits under the Social Security based program that are \$9 lower on average.

All these simulations are based on the assumption that the participation decision does not change when benefit formulas change. In this case in particular, the assumption may be invalid. One might imagine that if benefits were tied directly to low Social Security rather than to generally low income, the program might be viewed less as a welfare program and more as a supplement to Social Security itself, and participation rates could increase across the board.

3.5 The effects on poverty

Table 3 reported the potential for SSI to reduce the poverty rate and the poverty gap. While the reduction in the poverty rate due to SSI participation is small, the reduction in the poverty gap is large, equal to a 30 percent decrease with current reciprocity patterns and a potential decline of 40 percent with full participation. Table 6 shows the effects of the hypothesized changes to the SSI program on poverty rates and the poverty gap. I calculate these values both under the assumption that all eligible individuals enroll in SSI, and using predicted probabilities of participation to simulate the expected effect with less than full participation. If all eligible individuals were to enroll in SSI, and each received the benefit I calculated for them, the poverty rate would be 15.4 percent and the poverty gap would be \$122,932.³⁴ Taking into account the less than full participation, the poverty rate is 16.0 percent and the poverty gap is \$146,125.

Of the four alternative changes to SSI, only raising benefits to the poverty line has an noticeable effect on poverty rate, and even its effect is largely limited to the case where participation is

³⁴For comparison with the simulations, this calculation uses predicted participation probabilities and the calculated benefits. These figures differ from those in table 3 because the sample used here is limited to those with non-missing data on the regression variables. The sample size is therefore smaller and the poverty gap correspondingly lower. Measured on a "per impoverished unit" basis, the gap of \$122.932 showed here is equal to \$109 per household, and the \$131,385 in table 3 is equal to \$105.

universal. With federal guarantees raised to the poverty line and 100 percent enrollment, the poverty rate falls to 7.9 percent;³⁵ with predicted participation it falls to just 14.7 percent. The poverty gap, however, falls substantially even with less than full participation, decreasing by 30 percent relative to the current program with partial participation and by 42 percent with complete participation.³⁶ Other changes in SSI have small effects on poverty and reductions in the poverty gap of 4 to 6 percent with predicted participation. The poverty gap actually increases with the move to a Social Security based system, as some of the payments are made to those with incomes above the poverty line.

4 Discussion and Conclusions

The proposed privatization of Social Security raises a host of concerns over the best way to implement such a change. Chief among these concerns is how to provide for those elderly who reach old age with insufficient resources. When considering the needs of the elderly poor and possible methods to alleviate their poverty, it is instructive to examine the features of the existing SSI program and its success in improving the well-being of its target population. This paper has addressed these issues.

In its current state, the SSI program has done much to improve the lot of the poorest elderly. While not eliminating poverty among the elderly, it has succeeded in raising the incomes of many of the poorest by a substantial amount. Under the current system, the poverty gap for the elderly (the amount of money needed to increase the incomes of all poor individuals to the poverty line) is 30 percent lower than it would be in the absence of SSI. Furthermore, for those enrolled in the program, SSI provides 42 percent of total monthly income, on average. However, the *potential* for SSI to assist the elderly poor is even greater. Only 57 percent of those who appear to be eligible for benefits are actually enrolled in the program. If the participation rate were increased to 100 percent, the poverty gap could be reduced by an additional 10 percentage points. While no single cause is obviously responsible for this low level of participation, enrollment is positively correlated with the magnitude of the expected benefit and negatively related to other measures of financial

³⁵Most of those remaining in poverty despite the increase in the guarantees have asset levels above the limits, and the remainder live in the household of another so their benefits are reduced by one-third.

³⁶This decrease is relative to the current status of the program which itself is responsible for a 30 percent reduction in the poverty gap relative to the situation with no SSI.

well-being.

The paper explores the effects of several possible changes to the current SSI program. In simulating the changes in participation and costs, I control for the probability that eligible individuals may not enroll in the program. These simulations indicate that guaranteeing all elderly an income equal to the poverty line is potentially costly, increasing the current benefit outlay to the elderly by 83 percent. Based on 1997 figures, this change results in an additional expenditure of 3.6 billion dollars. However, because SSI payments to the elderly are dwarfed by those to the disabled, in relationship to the total cost of the SSI program this change is relatively small, equal to an increase in benefit outlays of just 12.4 percent. Possible changes to SSI that increase income disregards, eliminate the asset test, or base eligibility on Social Security benefits have relatively small cost increases, and correspondingly smaller improvements in the well-being of the elderly poor. Furthermore, because participation rates typically hover around 60 percent, changes that guarantee universal participation will have the greatest cost and yield the greatest improvements in the financial situation of the poor elderly.

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Figure 1: Distribution of Income

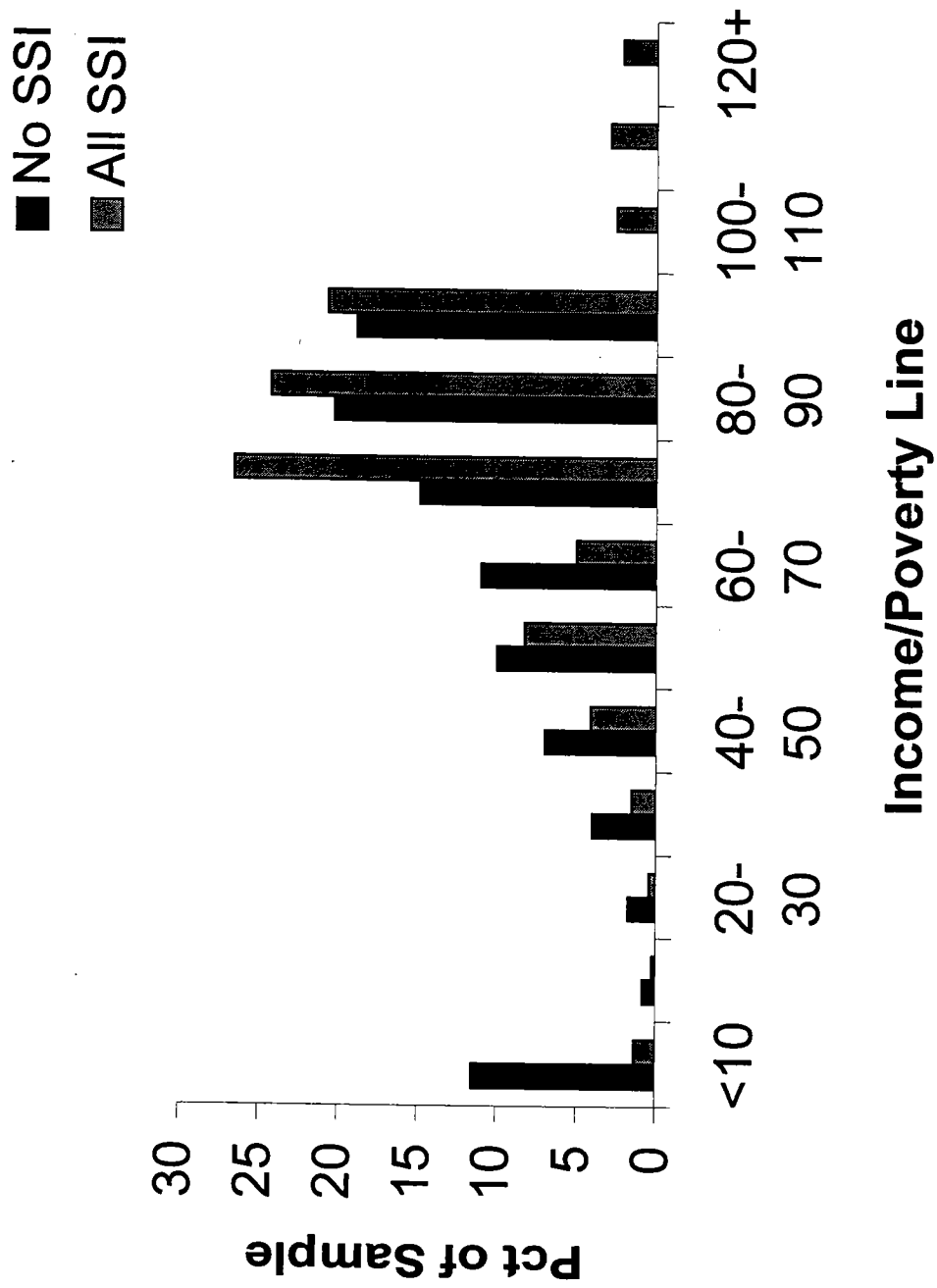


Table 1
Income and Asset Eligibility
Weight Percent of Total
(unweighted number of family units)

Income Test	Asset Test		
	Inelig	Elig	Total
<i>Eligibility using federal and state criteria</i>			
Ineligible	66.48 (3694)	20.64 (1427)	87.12 (5121)
Eligible	4.30 (253)	8.58 (674)	12.88 (927)
Total	70.78 (3947)	29.22 (2101)	100 (6048)
<i>Using federal criteria only</i>			
Ineligible	68.04 (3776)	22.57 (1546)	90.61 (5322)
Eligible	2.74 (171)	6.65 (555)	9.93 (726)
Total	70.78 (3947)	29.22 (2101)	100 (6048)
<i>Including net value of home in assets</i>			
Ineligible	77.58 (4458)	9.54 (663)	87.12 (5121)
Eligible	7.58 (514)	5.30 (413)	12.88 (927)
Total	85.16 (4972)	14.84 (1076)	100 (6048)
<i>Including income from home services</i>			
Ineligible	70.19 (3911)	22.42 (1589)	92.61 (5500)
Eligible	0.58 (36)	6.81 (512)	7.39 (548)
Total	85.16 (3947)	14.84 (2101)	100 (6048)

Table 2
Means of Variables used in the Analyses

	Not Eligible		Eligible			
	Mean	Std Err	Participating		Not Participating	
	Mean	Std Err	Mean	Std Err	Mean	Std Err
<i>Income variables:</i>						
Pre-SSI income (monthly)	1912	41.0	286	11.1	447	21.4
Calculated SSI benefit	0.0	0.0	224	9.6	167	10.2
Reported SSI income	3.09	0.5	235	9.7	0.0	0.0
Total income incl. SSI	1914	41.0	514	8.5	447	21.4
Has Social Security income	0.98	0.002	0.73	0.023	0.87	0.021
Has labor earnings	0.11	0.004	0.010	0.005	0.046	0.013
<i>Asset variables:</i>						
Net worth	194,649	5611	11,746	1302	32,486	3203
Net worth excluding housing	118,728	4732	339	70	-536 [†]	690
Own home (0/1)	0.75	0.006	0.32	0.02	0.51	0.03
Value of home (positive)	102,636	2455	35,812	3088	46,580	4508
<i>Demographic variables:</i>						
Age (of male in couple)	77.46	0.08	78.98	0.35	78.35	0.45
Schooling (of male in couple)	11.3	0.05	6.4	0.21	8.3	0.25
Nonwhite (of male in couple)	0.08	0.004	0.37	0.03	0.28	0.03
Poor health (head or spouse)	0.14	0.005	0.35	0.02	0.21	0.02
Married (0/1)	0.41	0.007	0.16	0.02	0.25	0.03
<i>Living Arrangements:</i>						
Lives alone (or w/ spouse)	0.77	0.006	0.60	0.03	0.61	0.03
Live with kids	0.18	0.006	0.32	0.03	0.33	0.03
Live with others	0.07	0.004	0.11	0.02	0.08	0.02
<i>Poverty rates:</i>						
Poor in absence of SSI	0.10	0.004	0.94	0.12	0.86	0.02
Poor with actual SSI benefit	0.10	0.004	0.78	0.02	0.86	0.02
Number of observations	5374*		389*		274*	

[†] Negative mean wealth is due to one outlier (see text).

* Numbers of observations differs for some variables due to missing values.

Table 3
Poverty with and without SSI

Income measure	Poverty Rate	Poverty Gap	
		Poverty Gap*	Percent Reduction
No SSI	16.9	219,596	—
All potential federal benefits paid	16.7	146,615	33.2
All potential benefits paid	15.6	131,385	40.2
Current reciprocity patterns and benefits	15.9	154,604	29.6
The poverty gap is the total amount needed to increase all incomes to the poverty line.			

Table 4
Probit Estimates of the Probability of Participating in SSI
conditional on being eligible for federal benefits

	Coeff	Std Err	Deriv
Potential benefit (100s)	0.153	0.045	0.073
Net worth (10,000s)	-0.084	0.023	-0.040
Own home (0/1)	-0.216	0.161	-0.103
Married (0/1)	-0.508	0.160	-0.242
Years of schooling (male in couple)	-0.051	0.014	-0.025
Nonwhite (male in couple)	0.028	0.109	0.013
Poor health (either spouse)	0.253	0.122	0.121
Receives Social Security (0/1)	-0.009	0.192	-0.004
Earnings (100s)	-0.001	0.002	-0.000
Number of children	0.050	0.019	0.024
Urban resident (0/1)	-0.262	0.124	-0.125
Number of observations		645	
Mean of Dependent Variable		0.595	
Regression also includes indicators of missing income and missing home ownership.			

Table 6
Impact of Alternative Eligibility Guidelines for SSI
on the Poverty Gap

	100 Percent Participation		Predicted Participation	
	Poverty Rate	Poverty Gap	Poverty Rate	Poverty Gap
Current Program*	15.4	122,932	16.0	146,125
No Asset test	15.3	101,577	16.0	139,670
Increase unearned disregard to \$75	15.3	108,908	15.6	137,164
Guarantee raised to the Poverty line**	7.9	71,035	14.7	100,583
Social Security based eligibility guarantee equal 90 % of maximum SS	15.1	125,379	15.9	147,474

*Using calculated benefits and predicted participation. Values differ from tables 3 because the sample size is reduced due to missing obs on regression variables.

** Poverty rate and poverty gap are non-zero due to asset test, and reduction for living in another's home.