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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 Supplement Security Income program (SSI). SSI has done much to improve situation of the poorest elderly but has the potential to do more. This paper examines that potential. One of the most surprising aspect of the program is that many of those eligible for benefits are not enrolled. Here I examine the correlates of participation for a sample of eligible individuals and use the results to simulate the effect of changes in eligibility criteria on participation and on costs. The largest expansion considered in the paper, providing an income guarantee for all elderly individuals that is equal to the poverty line, increases payments directed towards the elderly by 90 percent, to just over 8 billion in 1993 dollars. Although large, this $8 billion is less than half of the expenditures for the SSI disabled population in that year. 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. Importantly, all programs, including the current system, could have substantially greater effects on poverty if participation rates were increased.

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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 many researchers, 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 monthly income below $484 (in 1997 dollars) or married couple with income below $726. In reality, however, many of the poor are not enrolled in SSI and subsist on incomes below these levels. In order to improve the well-being of the elderly it is therefore imperative that we first understand how SSI functions and what changes might be made to improve the financial situation of the eligible 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. Furthermore, analyses of the impact of Social Security reforms on the well-being of the poorest among the elderly strongly depend on the interaction of the two programs.

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 hypothesize what modifications to the SSI program might be introduced and how these changes would alter poverty rates and program costs. I then discuss the relationship between Social Security and SSI and how the characteristics of the SSI program would alter the distributional impact of various Social Security reforms.

1 Description of the SSI program

1.1 Program Overview[1]

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 the income guarantee and their countable income. Countable income is distinct from current income in that the SSI program disregards some portion of a potential recipient's income. The disregards vary by income source. The most important of these, 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. In 1997, 26 states offered supplements to elderly individuals (or couples) living independently

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

[2]The 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.

[3]If 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.

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

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 with particular medical needs. With these supplements, the benefits available to individuals can vary substantially across states. 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 supplemental program on behalf of the state. 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).[5]

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.

Despite these potential benefits, the majority of SSI recipients remain poor. In 1997 the poverty lines for elderly singles and couples were $641.5 and $809.33 per month, somewhat above the federal SSI guarantees. Because of the existence of income disregards, particularly the larger disregard for earned income, some of those receiving SSI will have their incomes increased above the poverty line by the federal benefit. However, for the most part, the federal SSI program will have little effect on poverty rates. In contrast, the supplemental programs in some states are sufficiently generous that they do guarantee income above the poverty line. Income guarantees in 1997 were above the poverty level for singles in 3 states, and for couples in 12 states. In addition, when the income disregards are taken into account, individuals in many other states may also have their total incomes raised beyond the poverty line. I examine this issue further in section 2.4.

[5] In 1997, 27 state administered their own supplemental programs, 11 states had programs that were administered by the Social Security Administration, 5 reported both levels of administration and one supplemental program was administered at the county level (7 states had no optional supplemental program).

[6] California incorporates the value of food stamps into its monthly benefit.

[7] Forty states used SSI program guidelines to determine Medicaid eligibility. The remaining states used different criteria.

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 (AFDC) program (Fraker and Moffitt, 1988) and roughly comparable with more recent evidence on participation in the food stamp program (Blank and Ruggles, 1996).[8]

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 briefly 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 on the distribution of income and program costs must account for both changes in eligibility and changes in participation.

2 Microdata Analysis

2.1 AHEAD Data

I use data from the Asset and Health Dynamics Study (AHEAD) to analyze the distributional aspects of the SSI program and its potential to affect the well-being of the elderly poor.[10] AHEAD provides a nationally representative sample of the population born in 1923 or earlier and their spouses. The respondents were first interviewed in 1993 when the age eligible portion of the sample was approximately 70 years old or over. The entire sample consists of 8222 individuals in 6048

[8] Fraker and Moffit estimated much lower food stamp participation rates than did Blank and Ruggles, 38 percent versus approximately 60 percent.

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

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

households.[11] The analyses presented here will use a single individual or married couple as the unit of analysis and I will refer to each observation as a family unit.[12] AHEAD is 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 detailed information on income and assets that allows for accurate determination of eligibility based on the income and asset criteria.[13] This project also draws on a supplemental restricted use data file that contains geographic identifiers for the AHEAD respondents. Because SSI benefits can vary widely across states this information is necessary if potential benefits are to be properly imputed. Below I note the difference in eligibility when state programs are ignored.

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.[14] 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. In addition to the standard disregards, 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

[11] Included in these numbers are 189 spouses below age 65 who would not themselves be eligible for SSI, regardless of income. However, 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.

[12] In some cases there are other individuals present in the household, these could be children, other relatives, or non-relatives. The SSI program does not count the income of these other individuals when determining the benefit to which the eligible unit is entitled, but the income guarantees are reduced by one-third if the potentially eligible unit lives in the household of another. In my calculation of benefits I too impose this one-third reduction. In all other respects I ignore these other individuals; I do not count their income when considering the poverty status of the individual or couple, nor do I use their presence to determine the appropriate poverty line.

[13] Many earlier studies of participation in welfare programs did not have asset information and imputed asset eligibility based on income from assets.

[14] A portion of the AHEAD sample was interviewed in 1994. Because the income measures refer to the preceeding month, I use 1994 SSI rules for all those interviewed after January 1994. The federal guarantees in 1994 were $446 and $669 (Social Security Administration, 1994).

vehicle equity (the limit on the value of a car).[15]

Table 1 compares income and asset eligibility. The first panel reports the percent of the sample that is eligible for either federal or state SSI based on the application of the income and asset tests alone and jointly. It is apparent from these numbers that 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 12.8 percent has income that is sufficiently low. Combining the two criteria, 8.75 percent of family units are eligible for benefits from federal and/or state SSI programs.

The characteristics of the 4 percent of the sample who are income eligible but not asset eligible merit discussion. Seventy-nine percent of these units have incomes below the poverty line (not shown), and in that sense seem to merit assistance, yet their wealth holdings prevent them from receiving any benefits. Thus, even if the income guarantees were raised to the poverty line and all eligible individuals participated in SSI, a fraction of the population would remain poor, at least until their assets were depleted. The wealth holdings of this group of income eligibles/asset ineligibles are relatively high: mean wealth is $168,486 ($103,756 if housing wealth is excluded). Only 9 percent of this subsample have countable assets less than twice the limits set by SSI while 23 percent have countable assets of over $100,000. Thus the asset test does serve to limit the participation of those who can finance a some consumption with current wealth.

The state supplemental programs play a large role in increasing eligibility relative to the federal guidelines. 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 12.8 when state supplements are included to 9.9 percent; and the fraction eligible after both the income and asset tests falls to 7 percent. The state supplemental programs thus serve to increase the eligible population by 24 percent.

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

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 685 eligible units. Of the remaining 674 units, 392 report that they are receiving benefits. When appropriately weighted these numbers imply a participation rate of 55.9 percent.[16] Surprisingly this rate is 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).[17]

Table 2 presents the means of several variables used in the subsequent analyses. I examine the characteristics of 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.[18] The ineligible subsample is obviously better off in virtually every dimension than either of the other two groups, and their mean values are reported mainly for purposes of comparison. Mean income for this group, exclusive of SSI, is $1,915 per month and their net worth is $195,142, or $118,952 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 7 percent are nonwhite.

While none of those 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 $288, compared to $429 for those not receiving benefits. This lower

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

[17] It is possible that participation is under represented due to misreporting of the receipt of SSI benefits in the AHEAD data as has been observed with other welfare programs in different data sets, c.f. Bavier (1999). It is difficult to assess the extent of misreporting but there are several reasons to believe it does not alter the conclusion that a large fraction of eligible individuals fail to enroll. First, enrollment figures are far below those predicted by the Social Security Administration from its data (Kennedy, 1982). Second, consistent with the results of survey data, outreach studies have found large numbers of eligible non-participants but have had little success in increasing enrollment (Comptroller General, 1976). And finally, if the total benefits reportedly received in the AHEAD data are inflated to represent the population age 65 and over, and compared to published figures on total payments to the elderly, the numbers are similar (see table 6). It is also worth noting that the participation rate found here is nearly identical to that found with the SIPP (McGarry, 1996), a survey that is know to have unusually accurate reporting of income sources, in particular SSI income (Kalton, et al., 1986). To the extent that SSI benefits are under-reported, the participation rate is an underestimate of the true probability of taking-up the program and costs and enrollment figures will also be biased downward.

[18] Among the ineligible population, 1.3 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).

income corresponds to a higher expected benefit for the participants than for the eligible non-participants, $223 compared to $156. This calculated benefit agrees well with the SSI income reported by recipients: The mean value of SSI actually received is $236 and the correlation between the calculated and reported amounts is 0.74.[19] When reported SSI benefits are added to the income of the participants their incomes actually *exceed* those of the eligible non-participants, with an average monthly income that is $88 greater. SSI thus makes a large difference in the economic well-being of these individuals.

With respect to asset levels, those who are receiving benefits have substantially lower net worth than eligible non-participants, $11,696 versus $28,155, and a lower probability of home ownership. For both groups, non-housing wealth is nearly non-existent. Mean wealth, excluding housing wealth, is $341 for participants, while for non-participants it is actually negative (the medians are both zero).[20] 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 $103,756.

The Social Security program is typically viewed as providing nearly universal coverage, and in fact, 95 percent of the ineligible sample is receiving Social Security benefits. However, many of the participants are not; only 72 percent of this subsample reported receiving Social Security in the previous month. One possible explanation for the lack of benefits is the immigrant status of this population. Whereas 92 percent of the ineligible sample was born in the United States, only 75 percent of the eligible participants and 79 percent of the eligible non-participants were born here. There is also a substantial difference across groups in the age at arrival for those who did immigrate, increasing from 24 years old among the ineligibles to 43 years old among the eligible participants. This late arrival suggests that many of those eligible for SSI may not have a sufficient earnings history to qualify for Social Security benefits and may have low benefits if they do qualify.[21]

[19]The calculated amount is on average lower than the reported amount because individuals may receive higher than predicted state benefits due to special needs. For example, in California the guarantee for an individual needing "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 using the state income guarantees for those living independently, err consistently on the side of lower benefits.

[20]The 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 $694.

[21]Differences in immigration status by group are not due to a correlation between differences in levels of state supplemental benefits and the regional distribution of immigrants. The same pattern is evident if only federal eligibility is used.

There is also a substantial difference across groups in marital status; 16 percent of the participants are married compared to 22 percent of the non-participants. The majority of those who are not married are widowed women. Fifty-seven percent of the participants and 51 percent of the eligible non-participants are widows.

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 22 percent, than eligible non-participants. Perhaps surprisingly, living arrangements for the two groups of eligibles are similar although participants somewhat more likely to live with others. Both groups 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 discussed previously, the levels of the federal guarantees relative to the appropriate poverty lines indicate that the effect of SSI on the poverty rate itself is likely to be small, even if the program has a large effect on the well-being of the elderly poor. One common measure of the degree 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 the entire sample is 17.2 percent[22] and the poverty gap, weighted to represent the total for the relevant U.S. population, is $7.45 billion.[23]

The second row of the table considers the effects of the federal program alone. If all those who are eligible for federal benefits are assigned their expected amount, the fraction with income below the poverty line falls only slightly but the poverty gap declines by 34 percent. Adding potential state benefits for all eligible units (row 3) decreases the poverty rate to 15.9 percent, and the poverty gap falls even further for a total decline of 40 percent. Even with the relatively low level of take-up

[22]The 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 include in my measure of total income (nor is their presence included in the determination of the appropriate poverty line). I do so in order to measure well-being while abstracting from the decision to co-reside. Obviously one of the ways poverty among the elderly can be reduced is through an increase in the number co-residing with children or others. It is not clear that the introduction of the depend relationship improves the well-being of the elderly person. The second reason for the high poverty rate is that the sample is representative of those age 70 and over. Poverty increases sharply with age after 65.

[23]I remind the reader that the AHEAD sample is representative of the non-institutional population age 70 and over and their spouses. In section 3.2 I discuss one method of inflating these figures to represent the values for the population age 65 and over.

among eligibles, the reduction in the poverty gap is substantial. As shown in the final row, using current recipiency 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 nearly 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.[24]

Figure 1 illustrates graphically the change in the distribution of income for the poor. 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 (0–10, 10–20,...90-100) and the vertical axis measures the fraction of the sample in each interval. The dark bars depict the distribution if SSI is excluded from income, while the light bars show the expected distribution if all eligible units were to enroll in the program. The largest change comes in the very bottom of the distribution. In the absence of SSI 11.5 percent of this poverty 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; for couples the interval corresponds to income less than $73.[25] With 100 percent participation, the fraction with incomes this low decreases to just 1.3 percent.[26] There is also a sharp change in the fraction of the sample with 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 benefits to which the non-participating units are entitled are lower than those of the participants, ($156 versus $223 on average) but they are still substantial, equal to 36 percent of average income. The choice is even more puzzling when one

[24]It should be noted that if SSI benefits are under-reported than the effect of the current program on poverty is understated.

[25]One would expect that if SSI were not available, other behaviors would change. Some individuals may save or work more prior to retirement, some may postpone retirement and some may receive greater transfers from family and friends. Others however, would have no alternative means of support.

[26]All 12 family units who remain in this lowest decile are ineligible for SSI because of the asset test.

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 large 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 underlying theoretical model assumes that eligible units will enroll in SSI ($P_i = 1$) if the gain from the program (G_i) is greater than the associated costs (C_i). Thus

$$P_i = \begin{cases} 1 & \text{if } G_i - C_i > 0 \\ 0 & \text{otherwise.} \end{cases}$$

G_i depends in large part on the magnitude of the expected benefit (B_i), but may vary with characteristics of the individual such as health status. The variables used to measure G_i and C_i follow directly from the explanations for non-participation offered previously in the literature as summarized in section 1.2. The coefficient estimates for the reduced form specification are reported in table 4.

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 6.8 percentage points. Home ownership also has a large effect on participation, lowering the probability by 12.7 percentage points. As demonstrated above, net worth consists primarily of the value of a home. Its effect in the regression is smaller than that of the variable indicating ownership, but it significantly reduces the probability of enrolling. Being married is associated with a significantly lower probability of participation, a surprising result because holding the expected benefit and net worth constant, married couples have fewer resources per person and ought to be more in need of assistance.[27]

One of the explanations frequently offered for non-participation in welfare programs 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. Here both effects are associated

[27] SSI benefits and wealth are measured for the family unit. They are not scaled to be a per person measure.

with significant reductions in participation.[28] 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.

The effect of poor health is large and significant.[29] Those 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. The link between Medicaid and SSI may also make enrollment more likely if those having received medical treatment for a prior illness were encouraged to enroll in SSI by the healthcare provider, ensuring that the provider was reimbursed by the accompanying Medicaid benefits.

The results in table 4 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, as measured 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. It also indicates that modifications to the SSI program that increase potential benefits or decrease the stigma associated with recipiency will increase the probability with which eligible households enroll and therefore increase the number of participants beyond that projected from a simple increase in eligibility.

3 Possible Changes in SSI

A restructuring of the Social Security system may induce corresponding changes in the parameters of the SSI program. In this section I explore the potential effects of various changes in SSI guidelines on eligibility, costs, and poverty. 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 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 tables 5-8.

[28] Schooling likely also proxies differences in lifetime income not captured by the income and asset variables.

[29] Age was initially controlled for in the regression but it had no effect on participation when income, assets, and health were included.

Because actual benefits and participation are not observed with these simulated changes, the comparisons presented here use the calculated benefits and probabilities of participation imputed from 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.[30] This cost is an underestimate of the true cost of the aged portion of the SSI program for several reasons. Most importantly, the sample in this paper excludes eligible individuals age 65-69 unless they are married to age eligible persons, and also excludes those in nursing homes. (The population age 65-69 is approximately 48 percent of that age 70 and over and approximately 4 percent of the elderly are in nursing homes.) Secondly, as noted in footnote 19, my estimate of the expected benefit is biased downward because I cannot calculate the value of payments made for special needs. Finally, there are some in the sample whom I determine to be ineligible for benefits who are actually receiving payments from the SSI program. These amounts are not included in the calculations based on predicted benefits and participation. For similar reasons the number of eligible and participating family units is not representative of all those who would be eligible in the U.S. population. Because of these limitations I first report changes in eligibility, participation, and costs in percentage terms (table 5) and then adjust the baseline estimates for these biases and present estimated costs and participation levels for the population age 65 and over (table 6).

3.1 The effects on eligibility and participation

The first row of table 5 reports benefits and participation under the current system. For the eligible population the empirical model predicts a participation rate of 56.7 percent, nearly identical to the observed (weighted) rate of 55.9 percent.[31] The average calculated benefit for all 685 eligible units is $195 (the average of $223 and $156 in table 2).

Eliminating the asset test: In redesigning eligibility guidelines one change that might be considered is an elimination of the asset test. It is often argued that such tests discourage savings, whereas an important goal of retirement policy is likely to be the encouragement of individual savings as

[30] This figure is calculated as $\Sigma_i(P_i \times Benefit_i)$ where P_i is the probability an eligible unit participates and $Benefit_i$ is the benefit to which it is entitled.

[31] The mean of the dependent variable in table 4 differs from 55.9 because it is not weighted by sampling probabilities.

a means of old age support. 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 and costs. 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 above the limit.[32] However, one also needs to determine what fraction of the newly eligible would choose to enroll in the program. I do so using the estimated effects from table 4 and the observable characteristics of each family unit.

With the elimination of the asset test those eligible for SSI under the current program experience no change in eligibility or benefits and therefore no change in participation. The total number of eligible family units however increases by 32.5 percent. Because income and asset holding are positively correlated the newly eligible have higher incomes and therefore lower expected benefits than those eligible initially, $177 compared to $195. Given the positive relationship between benefits are participation, and the negative relationship between net worth and enrollment, the newly eligible also have a substantially lower probability of enrolling in SSI than do those eligible under current rules. The probability of participating in SSI for the newly eligible is just 24.6 percent compared to 56.7 for the initial sample. Based on the weighted sum of probabilities ($\Sigma_i P_i$) the expected increase in the participating population is 14.1 percent.

Using the expected benefits and the estimated probability of participation for each newly eligible unit to predict the additional cost associated with the expansion, I find that payments (exclusive of administrative expenses) increase by 11.7 percent.[33]

Increasing unearned income disregard: The federal income guarantees are indexed for inflation, and have increased every year since the program's inception. The asset limits have also grown

[32]Here I consider eliminating the asset test for the federal program only. I assume that states maintain their current restrictions. The change in eligibility predicted here thus differs from that in table 1 where the asset test is eliminated at both levels.

[33]These calculations (and those that follow) assume that the decision making process does not change with the program expansions (i.e. that the estimated effects in table 4 remain valid). 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 unpleasant requirement and refuse to apply for benefits 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.

over time. However, the income disregards have never been increased and remain at their 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 discussed is a disregard of $75 per month.[34]

In the case of eliminating the asset test, the effects are felt only among the newly eligible. Here, however, there is both an increase in benefits among those previously eligible and an increase in the number eligible. Overall, the average benefit for the initially eligible subsample increases from $195 to $221: those who were already participating initially see their average benefits increase from $223 to $249 and those who were eligible but not participating see an increase in their average benefits from $156 to $183 (break-down by subgroup not shown). This increase in potential benefits will induce some of the eligible non-participants to enroll in SSI and the average probability of participating for the entire eligible population increases slightly from 56.7 to 58.0 percent. The increase in benefits and participation leads to an increase of 13 percent in costs for this group alone.

In addition to these changes, there is an increase of 14.2 percent in the number of eligible units. However, the expected benefit for the group of newly eligibles is small, averaging just $29 per month. Because of this low benefit, their average probability of participating is 49.1 percent, and the cost arising from the increase in eligiblity is equal to just 1.6 percent of initial spending. Combining the additional costs for each group, the total increase in costs for this expansion is 14.5 percent over the initial amount.

Raising guarantees to the poverty line: Several states offer supplements to SSI which effectively raise the incomes of the participating population 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 this level. This proposal has been discussed several times in the past (Zedlewski and Meyer, 1989) and continues to be mentioned by policy makers. For those who live in states with guarantees above the poverty lines, the increase in federal benefits results in no change in their incomes—a greater fraction of their benefit will be paid for by the federal government, and a smaller

[34]I thank Robert Schoeni for bringing this discussion to my attention.

fraction by the state, but there will be no increase in the total received. In contrast, those in less generous states could see a sizable increase in their monthly benefits, and some of those initially eligible but not enrolling at current levels may now find participation to be a more appealing option. At the same time, increasing the federal guarantees will also make more individuals eligible for the program and will increase participation along that avenue.

Increasing the federal guarantees to the poverty line—$577.50 per month for a single individual and $728.33 for a couple in 1993[35]—with no change in state programs, results in a sharp increase the average benefits for those who were initially eligible, from $195 to $288, and the probability of participating in SSI increases to 61 percent. The cost of this change is great, equal to 52 percent of initial expenditures.

Increasing benefits also has a large effect on the number of eligible units, increasing the eligible population by 36 percent. However, as was the case when increasing the disregard, the expected benefit for the newly eligible is small, equal to $71, and their predicted participation rate is 47.3 percent. Given the relatively low benefits to which they are entitled, the expected additional outlay of SSI benefits for this group of newly eligible is just 10 percent of initial spending. The total increase in costs for this expansion is therefore equal to 62 percent of initial expenditures with the vast majority of the increase accruing to those who were initially eligible.

This simulation assumed that the asset test remained in effect. The fifth row of table 5 reports the results of the same increase in income guarantees accompanied by an elimination of the asset test. This combination ensures that virtually all elderly will have the opportunity to increase their incomes above the poverty line.[36]

Those who were intially eligible for SSI are unaffected by the additional elimination of the asset test and the increases in benefits and costs for this group are the same as in the previous example (row 4). However, eliminating the asset test dramatically increases the eligible population, more than doubling its size. Following this change in eligibility, the participating population increases by 72 percent, 34 percentage points above the increase with no change in the asset test. Corresponding to the large increases in benefits and participation there is a sharp increase in costs. In

[35]$592.33 and $747.25 in 1994.

[36]It is possible that those who live with others and who have the guarantees reduced accordingly could remain poor.

this expansion expected payments increase by 92 percent.[37]

Using Social Security income: The final alternative I investigate is basing 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 administrative effort for both the Social Security Administration (SSA) and the applicants because Social Security benefits are readily observable by SSA and need not be reported or verified.[38] The drawback is that individuals with low Social Security benefits, but with substantial other income, could qualify for SSI, although with the asset test in place this group would be expected to be small.

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* SSI benefits under current rules are $441 and $644.[39] Because many family units are likely to have some income from sources other than Social Security, a reasonable choice of income limits might be the 90th percentiles— $418 for singles and $620 for couples.[40] Using these amounts as income guarantees, with no income disregards, results in a net increase in the eligible population of 9.6 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.[41] Expected participation increases by the somewhat smaller amount of 6.2 percent. The total cost of this method is similar to the current program, with an increase in expenditures of 5 percent.

As noted earlier, 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 not

[37]These figures reflect the percentage increases in the combined payments of the federal and state programs. Because the simulations assume that state programs are unchanged, in many cases the increase in the federal benefits will simply replace state spending. The percentage increase in federal costs is therefore larger than the overall increase. When gurarantees are raised to the poverty line and the asset test remains in place, my calculations predict an increase in federal spending of 95 percent. If the asset test is eliminated, federal spending increases by 133 percent.

[38]Adminstrative expenses for the SSI program are actually larger than for the OASDI program (Social Security Administration, 2000). However, much of these costs are likely due to the disabled portion of the SSI program not from the benefits going to the eligible elderly.

[39]Because 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.

[40]In this simulation guarantees for 1994 are set by increasing the 1993 amounts to account for inflation.

[41]Ninety-one percent of the initially eligible remain eligible under the new rules.

be valid. 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.[42]

3.2 Costs of changes

The increases in expected payments and the increases in the number of participating family units associated with each of these changes have thus far been expressed as percentage increases relative to the current program. Of particular relevance to policy makers and researchers is the cost of the SSI program for the entire elderly population. As noted above, the AHEAD sample does not provide such an estimate. By making some assumptions, however, it is possible to inflate the baseline amounts calculated from the AHEAD data to approximate the values for the population age 65 and over. I make these adjustments in the first row of table 6 and then apply the estimated percentage increases for each hypothesized change (from table 5) to estimate the effects of the program expansions.

In the first row of table 6 I present the costs and the number of participating units for the current program using three different measures. In the first set of columns I use the population weighted sums of observed benefits and participants for the AHEAD sample, $2.78 billion and 1.04 million participating units.[43] These figures are the totals relevant for the non-institutional population age 70 and over and their spouses. The numbers do not include the population age 65-69 which is approximately 48 percent as large as that age 70 and over, nor do they include the approximately 4 percent of elderly who live in nursing homes.[44] In column 2 I incorporate these omitted segments of the elderly population by simply multiplying the numbers in the first set of columns by 1.54 (1.48×1.04). This procedure yields a total cost of $4.28 billion in 1993 dollars and a total enrolled population of 1.6 million family units.[45] As an alternative estimate (column 3), I use published figures from the Social Security Administration (SSA) for SSI benefits to aged

[42]The role of stigma, and indeed non-participation itself, could be eliminated in its entirety if the level of Social Security income were the only earnings test, the asset test were eliminated, and no application for SSI was required.

[43]Using reported benefits and recipiency corrects for any biases in my estimates based on calculated benefits and predicted probabilities.

[44]If SSI benefits are under-reported then this figure is a downward biased estimate of the true cost of the program. Similarly, calculations of the increase in enrollment and costs are also likely to be incorrect.

[45]Inflating the AHEAD numbers by 48 percent "over-corrects" for the omitted population because spouses of age eligible respondents who are 65-69 are already included in the sample. The 65+ estimates are further biased upward if one assumes that the younger elderly are better off than older cohorts due to differences in lifetime wealth and the predictions of the lifecycle hypothesis, and therefore less likely to be in need of SSI or to be receiving benefits.

individuals in 1993 (Social Security Administration, 1999). The reported values, $4.25 billion and 1.46 million, compare well with the inflated AHEAD numbers.[46]

The subsequent rows in the table provide cost and participant projections for each of the changes discussed in the previous section. As is evident from the percentage increases reported earlier, neither the elimination of the asset test nor the increase in the income disregard result in a substantial increase in costs or in the number enrolled. The 12-15 percent increases in costs shown in table 5 correspond to $500 to $600 million dollars when inflated to represent the population age 65 and over, while the increases in the participating population are approximately 200,000 units (rows 2 and 3 of table 6).

The dramatic 92 percent cost increase associated with the poverty line guarantee and no asset test increases costs by approximately $4 billion and increases the number of enrolled families by just over 1 million. Even with this large expansion, the total cost of the program remains below $9 billion.[47] This cost is best interpreted relative to other government programs: In 1993 total payments to the disabled segment of the SSI population were nearly $20 billion, payments to families in the Aid to Families with Dependent Children Program (AFDC) were nearly $23 billion, and payments to food stamp beneficiaries were $22 billion.[48]

3.3 The effects on poverty

How much do these expansions actually benefit the elderly poor? Table 3 reported the potential for the current SSI program to reduce the poverty rate and the poverty gap. While the reduction in the poverty rate due to SSI was small, the reduction in the poverty gap was large, equal to a 30 percent decrease with current recipiency patterns. Table 7 shows the effects of the hypothesized changes to the SSI program on these measures. Using calculated benefits and predicted participation for the current program, the poverty rate is 16.7 percent and the poverty gap is $5.34 billion.[49]

[46]The SSA estimate does not include those elderly who originally received benefits as blind or disabled persons and who remain classified as such. Also, although benefits are reported as the average per family unit, the number of recipients is listed as the number of *individuals* receiving benefits not the number of units. I calculate the latter by dividing total benefits (measured yearly) by average monthly benefits received (multiplied by 12).

[47]The 4.25 billion in costs reported in column 3 of table 6 represents federal costs of 3.1 billion and state costs of 1.15 billion. Applying the 95 and 133 percentage increases in federal spending (see footnote xx) to the $3.1 billion in expenditures yields total federal costs for the two poverty line expansions of $6.04 billion and $7.2 billion.

[48]It should be noted, however, that the increases in costs described here are limited to the direct cost of benefits from the SSI program. Because SSI receipients are likely to be categorically eligible for both food stamps and Medicaid, the true increase in costs may be much larger.

[49]For comparison with the simulations, this calculation uses the calculated benefits (rather than reported) and predicted participation probabilities. The values reported in table 6 therefore differ slightly from those calculated

Neither eliminating the asset test nor raising the disregard have a measurable effect on the poverty rate and the reductions in the poverty gap associated with these changes are approximately 5–6 percent.

Of all the changes to SSI that have been discussed here, only the changes that raise benefits to the poverty line have a noticeable effects on the poverty rate, and even these effects are small due to the low participation rates. If federal guarantees are raised to the poverty line the poverty rate (row 4) falls from 16.7 to 16.4 percent. With a concurrent elimination of the asset test, poverty falls by only an additional 0.1 percentage points. In each of these cases, however, there is a large decline in the poverty gap. When the asset test is left in place, the poverty gap falls by 25 percent, and it falls by 37 percent with the additional elimination of the asset test.

As shown in the final row, there is no change in the poverty rate with eligibility based on Social Security, but the poverty gap actually increases. This increase is because some SSI benefits in this regime accrue to those with incomes above the poverty line and therefore have no effect on the poverty gap, while some individuals with incomes below the poverty line lose their benefits. It is important to note that these declines are measured relative to the current program which in and of itself provides a 30 percent reduction relative to situation without SSI. (As shown in table 3, the poverty rate with no SSI is 17.2 percent and the poverty gap is $7.45 billion.)

3.4 Characteristics of the newly eligible

The preceding tables report the changes in participation, costs, and poverty associated with various changes in the parameters of the SSI program. Each of these changes will benefit a somewhat different subset of individuals. Table 8 presents the means of the regression variables for the newly eligible units under each of these scenarios. For comparison, the means of those initially eligible are reported in the first column.

By definition, those who become eligible when the asset test is eliminated have substantially higher levels of assets than those who are initially eligible. In this case the mean value of wealth (including housing wealth) for the newly eligible is $185,278, nearly ten times that of the initial sample. This high wealth level is responsible for the low predicted probability of participating in

based on observed benefits and participation shown in the final row of table 3 ($5.3 billion). Note also that these numbers are not inflated to account for the age restrictions on the AHEAD sample. The reader can scale these numbers by 1.54 if such an estimate is desired.

SSI (24.6 percent) seen in table 5. The newly eligible are also twice as likely to own a home and to be married, and have over three more years of schooling on average.

In contrast, when the unearned income disregard is raised (scenario 2), those who become eligible must still meet the asset test and mean assets are not changed noticeably. In fact, the population of newly eligibles is quite similar to those initially eligible. The largest differences are in the probability of receiving Social Security and of reporting positive earnings. Because nearly all those without Social Security are likely to be eligible for SSI benefits with the initial (lower) disregard, and because increases in the unearned income disregard act to increase the amount of Social Security that is excluded from countable income, virtually all of the newly eligible, 99 percent, are receiving Social Security.

Raising the benefit guarantees to the poverty line will again have little effect on asset levels, but will allow those with greater incomes to qualify for benefits. Thus, as shown in the column for scenario 3, while the newly eligible population is again nearly certain to have Social Security benefits, and has a much higher level of earnings, assets are only slightly above those for the initially eligible subsample.

Eliminating the asset test along with the increase in the benefit guarantees again results in a newly eligible population with substantial net worth. The mean value of assets for this group is $100,010. The newly eligible are substantially more likely to own a home, have more schooling, and are less likely to be nonwhite or in poor health. They are also more likely to have Social Security income and income from earnings.

Finally, if Social Security income alone is used in determining eligibility, many of those with substantial labor earnings will be entitled to benefits. Because individuals can have unlimited labor earnings and still qualify for benefits there is also a very large difference in the fraction with earnings, 2 versus 15 percent, and in mean earnings (over positive values) which increase from $179 to $597 per month.

4 Relationship between SSI and Social Security

As plans to reform Social Security are discussed, and their effects on the well-being of the population analyzed, it is important to keep in mind the potential interactions with SSI. One feature of the SSI program that has important consequences for the role of Social Security in affecting the welfare

of the elderly poor is the implicit tax on benefits. Because the benefit from SSI is equal to the difference between the income guarantee and countable income, any increase in unearned income (above the $20 disregard) reduces the SSI benefit dollar-for-dollar. Thus, for SSI participants, an additional dollar of Social Security income serves only to reduce the SSI benefit by one dollar with no change in the total income of the recipient. Social Security payroll taxes paid by those eventually collecting SSI are therefore in some sense "wasted" because they realize no real benefits from the Social Security program itself.

One implication of this 100 percent tax is that those who expect to receive SSI should begin collecting Social Security at the earliest age of eligibility. There is no advantage to postponing retirement from age 62 to age 65 (or greater) since the higher benefit associated with later retirement does not result in an increase in income. With such a postponement, the individual simply loses the stream of benefits from age 62 to age 65 with no offsetting increase in income after age 65. Because of this effect, changes in the normal retirement age for Social Security that leave unchanged the age for early retirement will have no effect on the decision by future SSI recipients of when to collect benefits. Furthermore, changes in Social Security benefit levels, with no changes in the structure of SSI, will have no effect on the incomes of the majority of SSI recipients.

A popular proposal for reforming Social Security is a move to a system of individual retirement accounts. (See Feldstein and Samwick, 1998 for a discussion of such a plan, and Feldstein and Liebman, this volume, for estimates of its distributional effects.) Such a system would replace (at least part of) Social Security payroll taxes with contributions invested in private sector financial instruments to be used to finance a worker's retirement. There are several avenues along which SSI would affect the operation and the redistributional aspects of such a system, depending on the requirements to annuitize account balances, the type of annuities available, and the provisions for leaving bequests.

First, as in the current system, those who expect to have balances low enough to qualify for SSI, regardless of the annuity type chosen, have little incentive to save because their total income will be determined exclusively by the SSI guarantees. Since savings rates are likely to be mandatory, this effect will show up as a work disincentive, similar to in the current program. Along the same lines, if investments in individual retirement accounts are self-directed, those who expect to be eligible for SSI have an incentive to take inordinate risks with their portfolios because they will be unlikely

to realize any benefit from savings with moderate returns and will be unaffected by losses.

There is also the question of the treatment of account balances. If individuals were permitted to retain the balance in an account after age 65, in lieu of immediate mandatory annuitization, some provision for these balances would be necessary in the SSI asset test. One would not wish to disqualify from SSI all those with more than $2000 in such an account, since such sums are small relative to the stream of Social Security benefits permitted under the current system. The accounting of these balances would be especially important for the disabled who may qualify for benefits from SSI long before age 65, but might be disqualified if balances in retirement accounts were included in countable assets.

A system of mandatory annuitization would raise different concerns, with implications for the choice of annuity types and death benefits. Brown (1999) shows that under a single life annuity with no bequests, there is a sizable redistribution of wealth from those with short life expectancies (the poor) to those with long life expectancies (the rich). The magnitude of this redistribution is lessened if annuities have survivorship benefits. For those who will be eligible for SSI, the 100 percent tax on SSI benefits associated with an increase in annuity income means that differences between joint and single life annuities will be unimportant in most cases. If both the couple and the surviving spouse will be eligible for SSI, then changes in the magnitude of the annuity payment, arising from changes in the survivorship option, will alter the fractions of income coming from SSI and Social Security annuities, but will have no effect on total income. Regardless of the annuity policy, total income will be equal to the SSI guarantee.

A similar result follows for the choice of period certain annuities. Period certain annuities guarantee payment for a certain number of years even if the annuitant dies before the end of that time. If the annuitant does die before all guaranteed payments are paid, the remaining benefits are paid to his heirs. To finance this potential payout, payments during life from these period certain annuities are reduced relative to what they would be with a straight life annuity. Brown shows that these period certain annuities reduce the redistribution of resources from short–lived to long–lived individuals because they effectively increase the number of years of benefits for those with high mortality rates. Including SSI in such a calculation reinforces this effect. If the annuitant is eligible for SSI, the reduction in annuity payments needed to finance the period certain option will not reduce his income. And, should he die before the end of the period, he will leave wealth to heirs at

no cost to himself.

In addition to the choice of single or joint life, and straight life or period certain annuities, individuals may be able to choose an annuity with a bequest option. This type of annuity would have the same effect on the redistribution of resources as a period certain annuity. If given the option, an annuitant eligible for SSI who cares at least somewhat about his heirs will accept a reduction in the current flow of payments in order to guarantee a bequest, because he will not experience a corresponding reduction in actual income, SSI payments making up the difference.

As this discussion illustrates, the distributional effects of alternative Social Security reforms can depend heavily on the interactions with SSI, and the details of any reform proposals need to consider the potential spill-over effects.

5 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 56 percent of those who appear to be eligible for benefits are actually enrolled in the program. If the participation rate of the current program were increased to 100 percent, the poverty gap could be reduced by an additional 11 percentage points.

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 outlays to the elderly by 62 percent with an asset test in effect, and by over 90 percent with the concurrent elimination of the asset test. Based on 1993 figures, this change results in an additional expenditure of 2.7 to 4 billion dollars for the entire age eligible population. However, because SSI payments to the elderly are dwarfed by those to the disabled, these changes are equal to increases of just 11 to 16 percent relative to the total payments in the SSI program. Other changes that are examined here have smaller cost increases, and correspondingly smaller improvements in the well-being of the elderly poor. Furthermore, because participation rates typically hover around 60 percent, the greatest costs and the greatest improvements in financial well-being will come from programs that also encourage higher rates of participation.

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

Income Test	Asset Test		
	Inelig	Elig	Total
Eligibility using federal and state criteria			
Ineligible	66.75	20.47	87.23
	(3709)	(1416)	(5125)
Eligible	4.02	8.75	12.77
	(238)	(685)	(923)
Total	70.78	29.22	100
	(3947)	(2101)	(6048)
Using federal criteria only			
Ineligible	67.93	22.18	90.11
	(3769)	(1520)	(5289)
Eligible	2.85	7.04	9.89
	(178)	(581)	(759)
Total	70.78	29.22	100
	(3947)	(2101)	(6048)

Percentages are weighted figures.
Numbers of family units are unweighted.

Table 2
Means of Variables used in the Analyses

	Not Eligible		Eligible			
			Participating		Not Participating	
	Mean	Std Err	Mean	Std Err	Mean	Std Err
Income variables:						
Pre-SSI income (monthly)	1915	41.0	288	11.1	429	19.6
Calculated SSI benefit	0.0	0.0	223	9.6	156	9.9
Reported SSI income	2.91	0.5	236	9.9	0.0	0.0
Total income incl. SSI	1918	41.0	517	9.5	429	19.6
Has Social Security income	0.95	0.003	0.72	0.023	0.83	0.022
Has labor earnings	0.11	0.004	0.010	0.005	0.044	0.012
Asset variables:						
Net worth	195,142	5620	11,696	1285	28,155	2896
Net worth excluding housing	118,952	4741	341	70	-606†	667
Own home (0/1)	0.74	0.006	0.32	0.02	0.50	0.03
Value of home (positive)	102,877	2457	35,315	3016	57,709	4226
Demographic variables: (for male in couples)						
Born in the U.S.	0.92	0.004	0.75	0.02	0.79	0.02
Age at immigration (if not native born)	24.3	0.83	43.3	2.30	36.6	3.26
Age	77.44	0.08	78.88	0.35	78.67	0.44
Schooling	11.3	0.05	6.4	0.21	8.2	0.25
Nonwhite	0.07	0.004	0.38	0.03	0.28	0.03
Poor health (head or spouse)	0.14	0.005	0.36	0.02	0.22	0.02
Married (0/1)	0.41	0.007	0.16	0.02	0.22	0.03
Widowed (female)	0.39	0.007	0.57	0.03	0.51	0.03
Living Arrangements:						
Lives alone (or w/ spouse)	0.78	0.006	0.65	0.03	0.66	0.03
Live with kids	0.16	0.005	0.26	0.02	0.28	0.03
Live with others	0.07	0.004	0.11	0.02	0.08	0.02
Number of observations	5363*		392*		282*	

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

* Numbers of observations differs for some variables due to missing values. Participation status is missing for 11 eligible households and they are excluded from the table.

Table 3
Poverty with and without SSI

Income measure	Poverty Rate	Poverty Gap	
		Poverty Gap* (in billions)	Percent Reduction
No SSI	17.2	7.45	–
All potential federal benefits paid	17.0	4.91	34.1
All potential benefits paid	15.9	4.43	40.5
Current recipiency patterns and benefits	16.2	5.30	28.9

The poverty gap is the total amount needed to increase all incomes to the poverty line. Figures are weighted to represent national yearly totals for the AHEAD sample.

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)	0.146	0.043	0.068
Net worth (10,000s)	-0.068	0.022	-0.032
Own home (0/1)	-0.271	0.156	-0.127
Married (0/1)	-0.435	0.156	-0.203
Years of schooling (male in couple)	-0.047	0.013	-0.022
Nonwhite (male in couple)	0.054	0.106	0.025
Poor health (either spouse)	0.251	0.117	0.117
Receives Social Security (0/1)	-0.061	0.190	-0.028
Earnings (100s)	-0.081	0.219	-0.038
Number of children	0.051	0.018	0.024
Urban resident (0/1)	-0.283	0.112	-0.132
Number of observations		674	
Mean of Dependent Variable		0.582	

Regression includes indicators for missing values of some variables and a constant term.
Observations with missing values of the dependent variable are excluded.

Table 5
Impact of Alternative Eligibility Guidelines for SSI: Mean Benefits and Participation Rates

Plan	Initially Eligible			Newly Eligible			Percent Increase in		
	Avg Benefit	Prob of Participating	% inc Costs†	Avg Benefit	Prob of Participating	% inc Costs†	Elig Units	Participating Units	Total Costs
Current Program	195	56.7	–	–	–	–	–	–	–
No Asset test	195	56.7	0.0	177	24.6	11.7	32.5	14.1	11.7
Unearned disregard equals $75	221	58.0	13.0	29	49.1	1.6	14.2	14.6	14.5
Guarantee raised to Poverty line with asset test	288	61.2	52.4	71	47.3	10.0	36.1	38.2	62.4
Guarantee raised to Poverty line no asset test	288	61.2	52.4	144	35.2	39.8	103.8	72.4	92.1
Social Security based eligibility	201	57.8	-5.8	140	42.4	10.9	9.6	6.2	5.0

Benefits are determined by state and federal program parameters using reported values of income and assets.
Participation probabilities are calculated using estimates in table 4 and observed characteristics.
†Increases in costs are calculated as the expected additional benefits paid to each group under each expansion relative to total payments under current rules.

Table 6
Impact of Alternative Eligibility Guidelines for SSI: Estimates of Total Cost and Participation
(costs in billions of 1993 dollars, participation in million of units)

	(1) AHEAD Age 70+		(2) AHEAD Age 65+		(3) SSA Age 65+	
	Total Costs	Num of Units	Total Costs	Num of Units	Total Costs	Num of Units
Current Program	2.78	1.04	4.28	1.60	4.25	1.46
No Asset test	3.11	1.19	4.79	1.83	4.75	1.67
Unearned disregard equals $75	3.18	1.19	4.90	1.83	4.87	1.67
Guarantee raised to poverty line with asset test	4.51	1.44	6.95	2.21	6.90	2.02
Guarantee raised to poverty line no asset test	5.34	1.79	8.22	2.76	8.16	2.52
Social Security based eligibility	2.92	1.10	4.49	1.70	4.46	1.55

(1) Estimates from reported SSI benefits in AHEAD correspond to the non-institutional population born in 1923 or earlier (and their spouses).
(2) Estimates from previous column multiplied by 1.54 to include costs for those age 65-69 and in nursing homes.
(3) Costs based on published figures for total SSI benefits paid to the elderly in 1993. Participating population determined by dividing yearly costs by average benefits. SSA figures do not include expenses for the elderly orginally classified as disabled or blind, and remaining so.

Table 7
Impact of Alternative Eligibility Guidelines for SSI
on the Poverty Gap

	Poverty Rate	Poverty Gap (in billions)	Poverty Gap Percent Reduction
Current Program	16.7	5.34	–
No Asset test	16.7	5.09	4.7
Increase unearned disregard to $75	16.7	5.03	5.8
Guarantee raised to the Poverty line asset test remains	16.4	4.02	24.7
Guarantee raised to the Poverty line no asset test	16.3	3.37	36.9
Social Security based eligibility guarantee equal 90 % of maximum SS	16.6	5.45	-2.1

All calculations use calculated benefits and predicted participation rates.

Table 8
Means of Regression Variables for Newly Eligible
Under Alternative Changes in the SSI program

	Initally Eligible	Scenario (1)	(2)	(3)	(4)	(5)
Potential benefit	195	177	21	71	144	140
Net worth	19,028	185,278	16,346	24,043	100,010	31,342
Own home (0/1)	0.40	0.82	0.42	0.55	0.68	0.61
Married (0/1)	0.19	0.43	0.13	0.11	0.22	0.26
Years of schooling (male in couple)	7.17	10.43	7.23	8.03	9.43	9.42
Nonwhite (male in couple)	0.33	0.14	0.25	0.27	0.16	0.23
Poor health (either spouse)	0.30	0.17	0.29	0.28	0.20	0.17
Receives Social Security (0/1)	0.80	0.90	0.99	0.99	0.96	0.90
Number with earnings	0.02	0.04	0.09	0.07	0.05	0.15
Earnings (if positive)	179	62	30	188	222	597
Number of children	3.3	2.6	2.8	3.0	2.6	3.0
Urban resident (0/1)	0.70	0.61	0.66	0.67	0.66	0.67
Number of observations	685	178	96	246	607	125

Scenario (1) corresponds to the elimination of the asset test.
Scenario (2) corresponds to raising the disregard for unearned income to $75.
Scenario (3) corresponds to raising guarantees to the poverty line with an asset test.
Scenario (4) corresponds to raising guarantees to the poverty line with no asset test.
Scenario (5) corresponds to using only SS income to determine eligibility.

Figure 1: Distribution of Income