Some Americans may get hundreds of dollars more in Social Security benefits under Biden's proposed change

Alessandra Malito

President-elect Joe Biden has plans to expand Social Security — and in some cases, the benefit retirees receive.

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In the campaign proposal of what he'd do for older Americans as president, Biden said he would improve Social Security, take the program off the path of insolvency, provide a higher benefit for the oldest beneficiaries and eliminate penalties for teachers and public-sector workers who may face eligibility issues.

Biden also said he would implement a minimum benefit for Americans who worked for 30 years — at least 125% of the poverty level. "No one who has worked for decades and paid into Social Security should have to spend their retirement in poverty," his campaign site said.

Whether this proposal would be passed, or how soon, is yet to be seen. Biden may have a hard time with passing legislation if the Republicans keep control of the Senate. Still, there's a chance both Democrats and Republicans will agree on this particular provision, said Dean Baker, senior economist at the Center for Economic and Policy Research. "I would think there's at least a possibility," he said.

Americans who worked low-paying jobs their whole lives would see the greatest benefits to a provision like this, said Nancy Altman, president of Social Security Works, which advocates for expanding the program.

Social Security is in need of fixing, experts say. The trust funds that support the program are expected to be depleted in the next 15 years, in which case beneficiaries would receive approximately 80% of what they're owed.

The pandemic will likely speed up that timeline, said Jagadeesh Gokhale, director of special projects for the Penn Wharton Budget Model, a nonpartisan research-based initiative that analyzes public policy.

The minimum benefit is not a new concept. The idea, known as a "special minimum benefit," was first enacted in the early 1970s to "provide adequate benefits to long-term low earners," according to the Social Security Administration.
But the current law is outdated, Altman said. The standard Social Security benefit is indexed to wages, whereas the special minimum benefit is indexed to the average price of goods. Because average wages tend to outgrow average prices, each year the number of eligible beneficiaries for the special minimum benefit gets smaller. "In a way, it's updating the minimum," she said.

Biden's plan would increase the minimum benefit for eligible beneficiaries. Under the current law, the full Special Minimum Benefit was $886.40 in 2019; under Biden's proposal, it would have been $1,301, according to the Penn Wharton Budget Model.
The cost of this proposal should be minimal, considering the number of people affected by this provision is limited because of the restrictions for who qualifies. "In terms of overall budget, it isn't that much money," Baker at the Center for Economic and Policy Research said.

*** Opinion: Social Security lets you change your mind

Alicia H. Munnell

Trading lower benefits today for higher benefits later is always a good idea

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A reporter asked me recently what options workers have if they claim Social Security benefits and then change their mind. COVID-19 could cause such a sequence as people fearful of the virus gain confidence in an effective vaccine. I wasn't sure about the answer and had to do a little checking.

The answer varies depending on whether the worker is above or below the full retirement age — currently 66.

Those who have reached the full retirement age, but are not yet 70, can ask Social Security to "suspend" their monthly benefit payments. By doing so, they will earn a delayed retirement credit for each month of suspension, which will result in higher benefits once they choose to resume payments. If they have not already restarted their benefits sooner, benefit payments will automatically begin again at age 70.

Those who have not reached age 66 have two options. In the first 12 months after becoming entitled to benefits, workers can simply cancel their application and repay any benefits received to date. This process is called a "withdrawal." Workers are limited to one withdrawal per lifetime.

The second option for those who are returning to the labor force is the earnings test. Under this test, which is applied automatically, monthly benefits are reduced to the extent that workers' earnings exceed annual thresholds. In 2020, a beneficiary is subject to a reduction of $1 in benefits for every $2 of earnings above $18,240, and $1 for every $3 of earnings above $48,600. The $18,240 and $48,600 are adjusted each year to keep pace with national wage growth.

The most important, and least understood, aspect of the earnings test is that Social Security recomputes the monthly benefits for those affected when they reach their full retirement age. (The earnings test was eliminated for those over the full retirement age in 2000.) The subsequent increase in monthly benefits allows workers to recoup benefits "lost" because of the earnings test. So the earnings test is not a "tax"; it is a mechanism that allows workers to shift benefits from a period when they are earning money to a time when they are more likely to be retired.

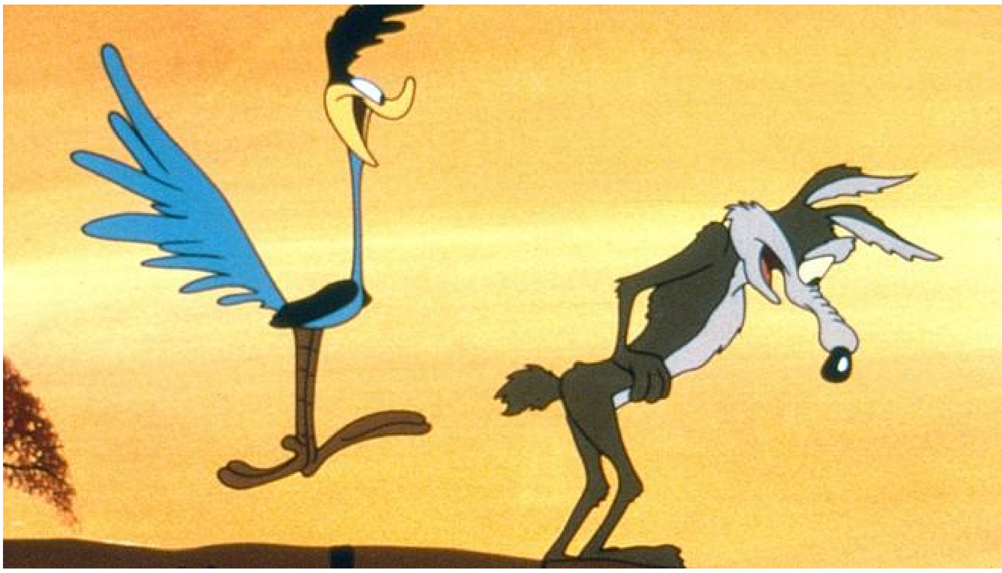
The bottom line is that people have a number of options if they claim and then change their mind. If they go back to work, the earnings test takes care of things automatically — cutting benefits in the short term and raising them later. If people change their mind because they realize they have enough money to get by, they can withdraw their application before age 66 or suspend the benefits after 66.

It is worth considering these options, because Social Security benefits are actually adjusted. As a result, the monthly amount of benefits claimed at 70 is 76% greater than those claimed at 62. Given that Social Security benefits are paid for life and are adjusted each year for inflation, the more of this type of monthly income the better.

*** Opinion: This is what your Social Security check will look like next year — and why

Mark Hulbert

Straight talk about COLA



Warner Bros/Courtesy Everett Collection

You think the presidential contest is controversial? Try discussing Social Security's cost-of-living adjustment.

I should know, because a year ago I devoted a column to discussing the pros and cons of various ways of calculating Social Security's COLA. In response I got more angry emails than to virtually any other column I'm written over the last two decades.

Perhaps foolishly, I am focusing on this topic again. The occasion is last month's announcement that Social Security's COLA for next year will be 1.3%.

Many reacted with immediate outrage to the announcement. As usual, however, the controversy created more heat than light.

Let me start with the complaint articulated by one national organization that advocates for Social Security reform: "Next year, seniors will receive a meager 1.3% Social Security cost-of-living adjustment (COLA), the lowest since 2017…The average Social Security beneficiary will see a paltry $20 month more in benefits in 2021. This COLA is barely enough for one prescription copay or half a bag of groceries."

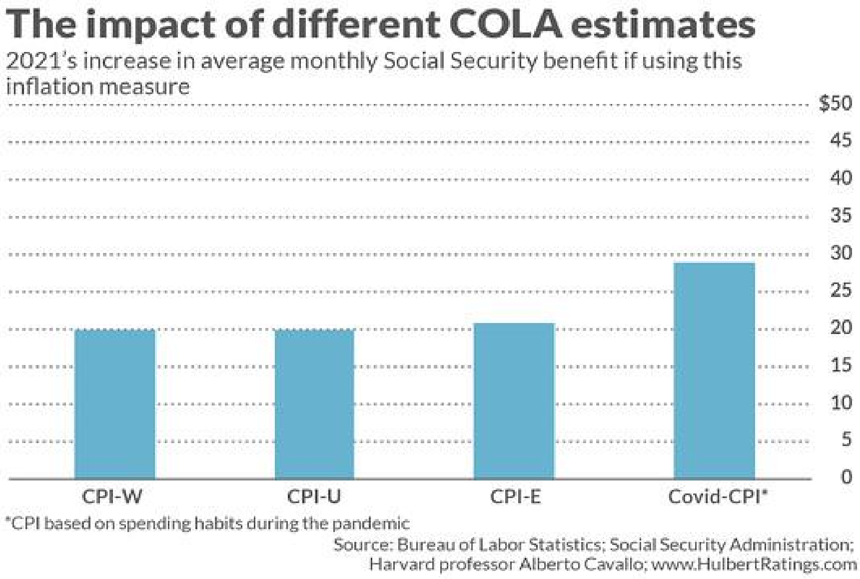
This complaint reflects the all-too-common confusion of the nominal and real (between unadjusted and inflation-adjusted amounts). The reason that the COLA for next year is the lowest since 2017 is that inflation also is the lowest it's been since 2017. On an inflation-adjusted basis, next year's COLA is no better or worse than in prior years.

To illustrate, consider 1980, when the Social Security COLA was 14.5%. Those complaining that next year's COLA is too low presumably would have been overjoyed then. But their delight would have been an indication of what economists call "inflation illusion," since inflation at that time also was running in the double digits. On an inflation-adjusted basis, Social Security beneficiaries that year were no better off than they will be in 2021.

CPI-E vs. CPI-W

To be sure, a legitimate argument can be made that the inflation measure the Social Security Administration (SSA) uses to calculate the COLA underestimates the true inflation faced by retirees. But it's important to put that argument in context.

Currently the SSA bases the COLA on trailing-year changes in what's formally known as the "Consumer Price Index for All Urban Wage Earners and Clerical Workers" — and informally known as CPI-W. It is similar, but not identical, to the better-known CPI that gets the headlines each month in the financial press — the "Consumer Price Index for All Urban Consumers" (or CPI-U). Historically the CPI-W has risen faster than the CPI-U, but it didn't over the last 12 months (as you can see from the accompanying chart).



Many urge the SSA to use a different inflation measure known as the Consumer Price Index for the Elderly, or CPI-E. The organization I quoted earlier argues that "the current COLA formula — the CPI-W — is woefully inadequate for calculating the true impact of inflation on seniors' pocketbooks. It especially misrepresents the rising costs that retirees pay for expenses like health care, prescription drugs, food, and housing. We support the adoption of the CPI-E (Consumer Price Index for the Elderly), which properly weights the goods and services that seniors spend their money on."

Yet next year's COLA would have been barely different had the SSA relied on the CPI-E instead of the CPI-W: 1.4% instead of 1.3%. That would translate into a $21 monthly increase for the average Social Security beneficiary instead of $20.

Nor is this small difference all that unusual. Over the last 20 years, the CPI-E has risen at an annualized rate that is just 0.14 of an annualized percentage higher than the CPI-W. And there have been six years since 1999 in which the CPI-E rose by less than the CPI-W.

To chain or not to chain

It would take an act of Congress for the SSA to begin using the CPI-E for its COLA calculations instead of the CPI-W, and many in Congress have proposed such a change. But retirees and soon-to-retirees might want to be careful opening up that can of worms. That's because other changes have also been proposed to how inflation gets adjusted — and, if adopted, some of those other changes would reduce the COLA.

One of those proposals is to use what's known as a chained version of the CPI rather than an unchained version. The difference has to do with how consumers react to a higher price for something they otherwise would buy. Rather than pay it, they often will substitute something of lesser cost. The unchained CPI does not take this substitution effect into account, while the chained version does.

According to some estimates I've seen, moving to the chained version would decrease the COLA by more or less the same amount by which it would be increased by a move to the CPI-E from the CPI-W. So if both proposed COLA-calculation changes are made simultaneously—moving to a chained CPI-E from an unchained CPI-W—the net effect could very well be insignificant.

The COVID-CPI

I should also acknowledge the evidence that, during the current pandemic in particular, the Consumer Price Index is significantly understating inflation. To understand that evidence, recall that the CPI is calculated based on consumer spending habits. Any changes in those habits that have taken place since the pandemic began in March would not yet be reflected in those calculations.

Alberto Cavallo, a Harvard Business School professor, calculates that the CPI would be 0.6 percentage point higher if those changes were reflected.

That is significant. But, again, context is important. Notice from the accompanying chart that this higher inflation estimate would translate into a $29 monthly increase in the average Social Security payment in 2021 — $9 a month more than what is currently slated to take place.

The real issue

The real question in this debate is not how the COLA is calculated but whether Social Security benefits are high enough in the first place. If people felt that they were, then my hunch is that the debate about the COLA would fade away.

Be my guest if you want to engage in a discussion about how high Social Security benefits should be. It's an important and complex discussion.

Just don't use a methodological and statistical discussion about inflation adjustment as a proxy for this larger question.

Mark Hulbert