Maintaining and Improving Social Security for Poorly Compensated Workers

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November 2011

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Acknowledgments

The author thanks Dean Baker, Alan Barber, Leonila Vega, David Ward, and Kris Warner for their comments on previous drafts of this paper.

Introduction

Millions of American workers are poorly compensated for the work they do. This is not because they do not work hard or deserve adequate compensation. Rather, it is due to a political failure to ensure that increases in economic growth and productivity over the last several decades have been fairly distributed. One consequence of this failure is that many working-class Americans do not enjoy the living standards they deserve either during their working years or when they retire. Without the earned benefits provided by Social Security, along with Medicare and related health insurance benefits for the elderly, these workers would see their already modest living standards in old age fall even further below typical ones.

The federal government should strengthen Social Security in ways that increase the retirement security of middle- and working-class Americans. Particular attention should be paid to improving the living standards in retirement of workers in poorly compensated jobs, who typically have little or no retirement savings outside of Social Security. Some recent proposals to cut Social Security would put the retirement security of workers in poorly compensated jobs at further risk. While it would be wise to shore up the long-term finances of Social Security, this can be done without cutting benefits for working- and middle-class retirees. Finally, it is important to remember that Social Security by itself cannot be the sole vehicle for addressing an economy that is out of balance. We need to do much more improve job quality in the United States by ensuring that poorly compensated workers get a better deal.

This report examines the essential role that Social Security plays in bolstering the retirement security of poorly compensated workers.

- **Part I** reviews compensation trends. Despite healthy economy-wide productivity growth, workers in middle-wage and low-wage jobs have seen little improvement in their wages over time. The collapse of the housing bubble has left many poorly compensated workers who are near retirement age with little or no wealth to rely on in retirement.

- **Part II** provides background on how Social Security works and why workers in poorly compensated jobs can count on it being there for them when they retire.

- **Part III** discusses ways to increase the retirement security of poorly compensated workers.

- **Part IV** reviews some troubling recent proposals that would cut Social Security benefits.

I. Economic Trends: Poor Compensation on the Rise, Despite Long-Term Growth in Workers' Productivity and Educational Attainment

Over the last several decades, the size of the economy per person (real GDP per capita), productivity, education levels, and use of new technologies in the workplace have increased substantially.

- Real GDP per capita—the size of the economy per person after adjusting for inflation—in 2010 was 82 percent higher than it was in 1973 ($42,205 in 2010 versus $23,200 in 1973).

- Productivity—the amount that workers produce per hour of work—has nearly doubled since 1973. Economists attach enormous importance to productivity growth because it is the main long-run determinant of living standards. In an economy with rapidly rising productivity growth, the population can experience rapid increases in income, or leisure time, or some combination of the two. If the benefits of productivity growth are broadly shared, then the whole society can benefit.[1]

- Between 1973 and 2009, the share of Americans age 25 or older completing high school increased from 60 percent to 87 percent and the share completing four or more years of college increased from 12.6 percent to 30 percent.

- In less than a generation, computers have become ubiquitous in the workplace. In the most recent federal survey, nearly 60 percent of all workers age 25 or older used a computer at work.[2] The percentage has likely increased since this survey was conducted in 2003. Moreover, computer use is not limited to workers holding a college or advanced degree. In fact, a majority of the workers who use a computer at work—some 37 million—have less than a four-year college degree.

Given these impressive increases in the basic inputs—labor productivity and human capital—that produce economic growth, it would be reasonable to assume that the wages and conditions of workers across the board have improved considerably over the last few decades. Unfortunately, while workers with already-high wages have seen big gains, those in middle- and low-wage jobs have experienced little improvement.

Low-Wage Work: Prevalence and Trends

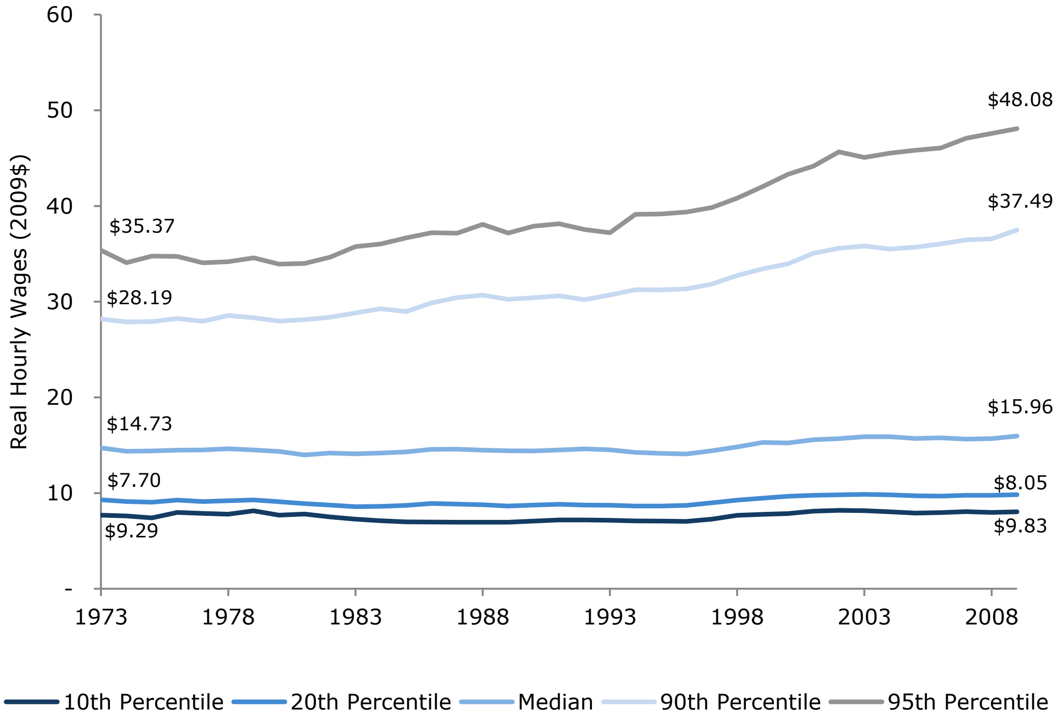
Figure 1 shows the trend in real wages by selected wage deciles between 1973 and 2009. For the typical worker, one in the precise middle of the wage distribution, the hourly wage grew modestly, going from $14.73 in 1973 to $15.96 in 2009, for a raise in real dollar terms of $1.23 over 36 years, or 8.4 percent. Workers at the 20th percentile saw even smaller gains—only $0.54 cents or about 5.8

1 For more on recent trends in productivity growth in the U.S. and other OECD countries since 1980, see Baker and Rosnick (2007).

2 Bureau of Labor Statistics (2005), Table A.

percent over the entire period. By contrast, those workers in the top tenth saw much larger gains. The gain along for workers at the 95th percentile—$12.70 or nearly 36 percent—exceeds the entire wage of all workers in the bottom 30 percent.

FIGURE 1
Wages by Selected Wage Deciles, 1973-2009



Source: Economic Policy Institute analysis of U.S. Census Bureau, Current Population Survey, Outgoing Rotations Group.

If the wages for the majority of the work force had risen at the same rate as the wages for the 90th percentile, the typical worker would have earned $19.59 an hour in 2009 rather than $15.96, and a 10th percentile worker would have earned $10.24 an hour rather than $8.05.

How many workers are poorly compensated? One common standard, used by the Organization for Economic Co-operation and Development (OECD), with 30 member countries including the United States, and many researchers, defines a poorly compensated or "low-wage" job as one that pays less than two-thirds of the median wage. The Russell Sage Foundation recently used this standard for their major comparative study of low-wage work in the United States and Europe.[3]

In 2010, a worker in the United States is poorly compensated according to this standard if they are paid less than $11.61 an hour. Paul Osterman of MIT has found that 24 percent of workers fell

3 Gautié and Schmitt (2010). The researchers found that in 2005, about one-quarter of U.S. workers were in low-wage jobs, a higher percentage than any of the five other nations in the study. At the low end, only about 8.5 percent of workers in Denmark and 11 percent in France held low-wage jobs (p. 37). This data may actually understate the problem of low-wage work in the United States compared to the other countries. Higher wage inequality in the United States means that the average U.S. wage is 29 percent above the median, compared to 12 to 13 percent in Denmark, Germany, and the Netherlands, and the United Kingdom and France in between (p. 84).

below this standard in 2010.[4] In addition, the vast majority of them did not receive key employee benefits—just over two-thirds (67.5 percent) did not receive employer-paid health insurance, and more than three-quarters (77.5 percent) were not included in an employer pension plan.

Economists have also looked at trends in poorly compensated jobs over time. Economist David Autor has documented a sharp polarization in job opportunities over the last two decades.[5] Between 1979 and 2007, the share of both low-skill and high-skill jobs has increased, while the share of middle-skill jobs has declined. Looking ahead, we should be concerned about the continuation of this trend. According to the Bureau of Labor Statistics, more than one-third of jobs that are projected to be created in the occupations with the largest job growth over the next decade will pay very low wages.[6]

Similarly, John Schmitt of the Center for Economic and Policy Research has looked at job quality trends by examining changes in the share of "good" and "bad" jobs. He defines good jobs as ones that pay wages that will produce at least a moderate income for a full-time worker (about $17 per hour in 2006, the median male wage in 1979), and also provide health and retirement benefits. Bad jobs are ones that meet *none* of these three standards. Schmitt found that about 23.1 percent of jobs were good jobs in 2006 (before the Great Recession), while 29 percent were bad jobs. The remaining 48 percent fell in-between, meeting only one or two of the three criteria.[7]

The share of good jobs was lower in 2006 than in 1979—again despite overall economic growth and increases in productivity as well as increases in educational attainment and workers' experience levels over this period. Schmitt also found that this is evident across all levels of educational attainment. Although the decline in the share of workers with good jobs is particularly pronounced among those with less than a high school education, it is also found among workers with some college and with a college degree.[8]

An Example of Today's Poorly Compensated Working Class: Workers in "Care" Occupations

Workers in care occupations provide a concrete example of workers in essential but inadequately compensated jobs who rely on Social Security when they retire. Some 4.5 million workers are employed in two major "care" occupations—childcare workers and direct care workers.[9]

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4 Osterman and Shulman (2011), p. 8. A related version of this definition—modified to account for unequal pay between men and women—defines a poorly compensated job as a job that pays below two-thirds of the male median wage. Using this standard, Heather Boushey, myself, and others found that about one-in-three workers were poorly compensated. Looking at the trends in low-wage work by gender using this standard, the share of men in low-wage jobs was slightly higher in the mid-2000s than in 1979, while the share of women in low-wage jobs has declined from over half to just over one-third. See Boushey et al. (2007).

5 Autor (2010).

6 Author's calculation from Bureau of Labor Statistics (2010b), Table 1.4. As used by BLS, "very low wages" are wages in the bottom quarter of the wage distribution.

7 Schmitt (2007).

8 Schmitt (2005).

9 These are not the only care occupations, but they do capture much of the poorly compensated care workforce. Paula England and her colleagues define care work as "occupations in which workers are supposed to provide a face-to-face service that develops the human capabilities of the recipient." England, Budig, and Folbre (2002). A somewhat different definition, used by Razavi and Staab (2010) also includes domestic workers.

Direct care workers include more than 3.2 million workers who are nursing assistants, home health aides, and personal and home care aides.[10] While these workers play a crucial role in maintaining the health and economic security of elderly retirees and people with disabilities, they are among the most poorly compensated and economically insecure workers in the United States. When these workers themselves retire or become disabled, many of them will rely almost exclusively on modest Social Security benefits to keep a roof over their heads and meet other basic living expenses.

Another 1.3 million care workers provide child care, mostly for pre-school aged children of working parents. Recent research has stressed the importance of investing in early childhood development for future economic growth and productivity.[11] Unfortunately, the compensation provided to the workers who, aside from parents themselves, can most influence that development in no way reflects the real social value of the services these workers can provide.

Care jobs generally do not require a four-year college degree. However, as **Table 1** shows, substantial percentages of workers in the care occupations have some college or a college degree, including almost half of child care workers and about one-third of direct care workers.

The care occupations generally pay much less than median earnings. Table 1 also shows that all of the major care occupations pay only about half of what typical jobs pay. The care workforce is almost exclusively female, and African-Americans are considerably overrepresented in these low-paying occupations—particularly in nursing and home health occupations, where they are employed at three times their rate in the overall work force.

All of these major care occupations are on the Bureau of Labor Statistics' list of the 23 occupations with the largest projected job growth by 2018. Overall, these care occupations are projected to grow by nearly 1.3 million jobs between 2008 and 2018, a 28 percent increase.[12]

TABLE 1
Earnings, Characteristics, and Educational Attainment of Workers in Major Care Occupations

	Median Earnings as a Percent of Median Earnings for All Occupations	Percent of Workers by Characteristic				Percent of Workers Aged 25-44 by Educational Attainment		
		Women	Black	Asian	Latino	High School or Less	Some College	College or Higher
Nursing, Psychiatric, and Home Health Aides	58	88.2	34.6	4.0	14.7	55.3	37.3	7.4
Personal and Home Care Aides	54	86.1	23.8	6.4	17.6	58.5	31.9	9.6
Child Care Workers	54	94.7	16.0	3.4	19.1	47.7	37.8	14.5

Source: Median earnings are for full-time wage and salary workers, from Bureau of Labor Statistics, Employment and Earnings, January 2011, Table 39, Current Population Survey. Data for percent of workers by characteristic is from Table 11 in same publication. Data for educational attainment is from Occupational Projections and Training Data, 2008-2009 Edition, February 2008.

10 For more on direct care workers, see Paraprofessional Health Institute (2011).
11 See, e.g., Calman and Tarr-Whelan (2005).
12 Author's calculation from Bureau of Labor Statistics (2010b), Table 1.4.

Employer-Sponsored Retirement and Disability Benefits

There are two basic types of employer-provided retirement benefits: defined benefit plans and defined contribution plans, such as 401(k)s. Defined benefit plans pay a guaranteed benefit upon retirement based on salary and years of service, making them the least risky for workers. When 401(k) plans were initially authorized by the federal government in 1978, they were intended to give workers a savings vehicle to *supplement* their defined benefit retirement plans. Over time, however, 401(k)s have ended up largely replacing defined benefit plans with no overall gain in the share of Americans with access to employer-provided retirement benefits.[13]

Workers in low-end jobs are less likely to have access to either type of retirement plan. As **Table 2** shows, less than half of low-wage workers (here, workers with wages that put them in the bottom quartile of the wage distribution) have access to a retirement plan through their employer.

TABLE 2
Employer Provided Retirement and Insurance Benefits by Wage Quintile and for Bottom Decile, 2011

		All	Top Quarter	Third Quarter	Second Quarter	Bottom Quarter	Bottom Decile
Retirement	Access	68%	88%	78%	70%	41%	29%
	Participation	55%	81%	67%	54%	23%	12%
Life and Disability Insurance (Participation)	Life Insurance	59%	82%	73%	62%	26%	14%
	Short-Term Disability (2010)	36%	49%	44%	36%	17%	13%
	Long-Term Disability (2010)	32%	53%	40%	29%	8%	4%

Source: Bureau of Labor Statistics, National Compensation Survey: Employee Benefits in the United States, March 2011 and March 2010.

Most low-wage workers with access to a retirement plan have access to a 401(k) or other defined contribution plan (37 percent) rather than a defined benefit plan (only 10 percent). Nearly all of the low-wage workers with access to a defined benefit plan participate in it, while only about half of low-wage workers with access to a defined contribution plan participate. This low participation rate is due in part to a requirement—which exists in about half of the low-wage jobs that provide defined contribution plans—that employees contribute.[14] Low-wage jobs are more likely to require employee contributions even though the jobs themselves often pay too little for workers to meet basic living expenses.[15]

In addition, low-wage workers are about half as likely to have employer-provided life insurance or disability insurance as workers overall. For example, only about one-quarter of low-wage workers have life insurance through their employer, compared to 60 percent of all workers.

13 For more on 401(k) plans, see Davis, Kazzi, and Madland (2010) and Hiltonsmith (2010). As Hiltonsmith details, defined contribution plans expose workers to many risks that are not present in defined benefit plans, including the possibility of outliving retirement savings, losing them in the stock market, and high fees.
14 Bureau of Labor Statistics (2010a), Table 8.
15 A related factor depressing participation is the requirement that employees "opt in" to defined contribution plans. Research suggests that participation could be increased by automatic enrollment of new workers.

Recent Declines in Assets Leave Poorly Compensated Workers More Vulnerable

The bursting of the housing bubble—and the extended economic downturn that followed in its wake—has increased the economic insecurity of most Americans. Especially for Americans who had hope to retire soon, the risks of having little or no savings to draw on in retirement, beyond Social Security, have increased.

In a recent study, the Pew Foundation found that the median net worth of all households fell by 29 percent between 2005 and 2009, from $96,894 to $70,000.[16] Minority households experienced disproportionately large declines. Among Latinos and African Americans, who already had limited assets, the declines were 66 percent and 53 percent respectively. In 2009, the median net worth for typical African American and Latino households was only about $6,000.

Other research has found that low-income families have experienced substantial declines in wealth. For example, a Federal Reserve study found that among families in the bottom quintile of the income distribution, the typical decline in wealth between 2007 and 2009 was 18.3 percent.[17]

II. The Essential Role of Social Security: A Basic Foundation for the Retirement Security of Poorly Compensated Workers

Social Security provides the basic foundation for the economic security of retired workers, workers who become disabled before retiring, and the children and spouses of workers who die or become disabled. In 2010, about 54 million people received Social Security, including about 10.2 million who received disability insurance benefits and 6.4 million who received survivors' benefits. Among Americans age 65 or older, nearly 90 percent currently receive Social Security benefits.[18] By comparison, only about one-third of elderly persons receive income from pensions and about half received income from assets.[19]

How Social Security Works

Social Security benefits are modest for most retired workers: about $14,000 a year for the average retired worker today, and typically several thousand dollars less for poorly compensated workers. Yet, most Social Security beneficiaries depend on Social Security for more than half their income.[20] Social Security is particularly important for workers who received modest compensation for the work they did during their working years. These workers are less likely to have pensions or other substantial assets that they can depend on to supplement their incomes in retirement (see **Table 3**).

16 Kochhar, Fry, and Taylor (2011).
17 Bricker et al. (2011).
18 Purcell (2009). In 2008, 86 percent of elderly persons received Social Security benefits and 89 percent of households with an elderly householder (or spouse of a householder) received them.
19 Ibid.
20 Social Security Administration (2010), Table 9.A1.

TABLE 3
Importance of Social Security Benefits for Low and Middle-Income Retirees, by Income Quintile

	First Quintile: Under $12,082	Second Quintile: $12,082 to $19,877	Middle Quintile: $19,877 to $31,303
Average Proportion of Total Money Income from Social Security	93.4%	86.9%	69.9%
Percentage of Elderly Beneficiary Units that Receive 90% or more of Total Money Income from Social Security	80.0%	61.7%	28.1%
Number of Elderly Beneficiary Units (Millions)	4.2	5.5	5.4

Source: Social Security Administration (2010), Table 9.A4. SSA excludes units with zero or negative income. Income in this table is limited to "money income" and excludes lump-sum pension payments, capital gains, and in-kind benefits.

Workers and their employers pay for Social Security. Workers pay 6.2 percent of their wage income into the Social Security Trust Fund. Workers only pay this tax on their annual income that is below $106,800 (this figure is for 2011, the taxable amount is adjusted each year for inflation).[21] Employers pay an equal percentage for each of their workers into the fund (again, only on income below $106,800).[22]

Self-employed workers pay both of these shares themselves, that is, 12.4 percent of their earnings. However, they receive two income tax deductions that effectively reduce the amount they pay: 1) their net earnings from self-employment are reduced by half of their total Social Security tax; and 2) they can deduct half of their Social Security tax (this deduction is taken from gross income in determining adjusted gross income).

In general, to be eligible for Social Security benefits when she or he retires, a worker generally needs to have accumulated at least 40 "credits" based on their earnings over their lifetime.[23] A worker can earn up to four credits a year. In 2011, workers earn one credit for each $1,120 in earnings (the threshold is higher for certain household workers).[24] So, a worker would need to earn at least $4,480 in 2011 to receive all four credits for this year.

If a worker is eligible for Social Security, the amount of benefits they are eligible for depends on their average yearly earnings during the 35 years in which they earned the most (their "highest earnings years"). If they worked less than 35 years, these years with no earnings are included (as many as are necessary to complete the 35-year earnings history) in calculating their benefits.

21 In 2012, the maximum taxable earnings amount will increase to $110,100.
22 In addition, workers and employers each pay 1.45 percent of earnings (a total of 2.9 percent) for Hospital Insurance under Medicare (Part A). These contributions are not subject to the cap.
23 The rules are different for disability and survivor's benefits. If a worker dies before obtaining 40 credits, their surviving spouse and children may be eligible for benefits if the worker had earned at least 6 credits in the three years before they died. For disability benefits, the necessary credits vary by age.
24 A household worker needs to earn at least $1,700 from an employer to receive a credit. This can disadvantage household workers with multiple employers. For example, a household employee who worked for three employers and was paid $900, $1,000 and $1,700 respectively (a total of $3,600) would receive only one Social Security credit with $1,700 posted to his or her Social Security record (Social Security Administration, 2011b).

Someone retiring today will receive initial benefits equal to roughly the sum of: 1) 90 percent of their first $9,000 of average lifetime earnings, 2) 32 percent of their next $55,000, and 3) 15 percent of their remaining earnings, up to the taxable maximum.[25] After a beneficiary's initial benefits are determined, they are adjusted each year to keep pace with overall inflation.

The formula for setting Social Security benefits results in workers with higher lifetime earnings receiving higher benefits than workers with lower lifetime earnings. However, the benefits received by workers with lower lifetime earnings generally amount to a higher percentage of their lifetime earnings.[26]

Table 4 shows the annual benefit amounts for workers with what the Social Security Administration (SSA) describes as "low," "medium," "high," and "very high" lifetime earnings who retired at age 65 ("very low" is not calculated by Social Security). A worker in SSA's low lifetime earnings category is someone who earned roughly $18,600 on average (put in terms of today's wages) during the 35 years in which her or his earnings were highest.

TABLE 4
Social Security Benefits by Average Lifetime Earnings Category

Earnings Level	Career-Average Earnings	Percent of Workers in Each Level			Social Security Benefits		Benefits as a Percentage of Career-Average Earnings	
		Men	Women	All	Retire at 65 in 2015	Retire at 66 in 2016	Retire at 65 in 2015	Retire at 66 in 2016
Very Low	$10,333	10.5	28.4	18.9	n.a.	n.a.	n.a.	n.a.
Low	$18,600	14.0	32.1	22.5	$10,454	$11,201	56	60
Medium	$41,334	28.6	28.0	28.3	$17,238	$18,464	42	45
High	$66,135	31.2	10.1	21.3	$22,839	$24,469	35	37
Very High (Max)	$94,276	15.7	1.4	9.0	$27,659	$29,797	29	32

Sources: Social Security Administration (2011a), Table VI.F.10 and Social Security Administration (2011c).

Workers may start receiving retirement benefits from Social Security as early as age 62 or as late as age 70. Early retirement results in lower monthly benefits, while later retirement results in higher monthly benefits. However, the total amount of benefits received in retirement will generally be about the same.

For people born before 1938, Social Security's "normal" or "full retirement age" is 65. In 1983, the full retirement age was increased for people born after 1937. The full retirement age is now 67 for people born after 1959. For people born between 1938 and 1944, the full retirement age is 65 plus 2 months for each year after 1937. So, for example, the full retirement age for a person born in 1938 is 65 and 2 months. The age for full benefits is frozen at 66 for people born between the years1943 to

25 Wages generally increase over time. To account for this change when benefits are calculated, Social Security adjusts a worker's earnings by adjusting them for the change in average wages between when the worker earned the works and when the worker begins claiming benefits.

26 A complication here is that lifetime Social Security are affected by factors other than income, including longevity, marital status, and disability status. The first factors tend to reduce the progressivity of Social Security, the last to increase it. See, e.g., Favreault and Mermin (2008, p. 11) and Cohen, Steuerle, and Carasso (2003).

1954. For those born in 1955 to 1959, it rises again at the rate of 2 months per year, hitting 67 for a person born in 1960.[27]

TABLE 5
Impact of Early Retirement on Benefits by Year of Birth

			At Age 62			
Year of Birth	Full Retirement Age	Months between Age 62 and Full Retirement Age	A $1000 retirement benefit would be reduced to:	Retirement benefit reduced by	A $500 spouse's benefit would be reduced to	Spouse's benefit reduced by
Before 1938	Age 65	36	$800	20%	$375	25%
1938-1942	Age 65 + 2 months for every year that year of birth is after 1937	38-46	Between $791 and $758 (benefit decreasing as birth year increases)	~ 21-24%	$370-$354	~ 26-29%
1943-1954	Age 66	48	$758	24.2%	$350	30%
1955-1959	Age 66 + 2 months for every year that year of birth is after 1954	50-58	Between $741 and $708 (benefit decreasing as birth year increases)	~ 25-29%	$345-329	30.1-34%
After 1960	Age 67	60	$700	30%	$325	35%

Source: SSA, Retirement Benefits by Year of Birth, http://www.socialsecurity.gov/retire2/agereduction.htm

Today's Workers Can Depend on Social Security Being There When They Retire

Social Security benefits are largely funded on a "pay-as-you-go" basis. That is, benefits for current retirees are largely paid for by contributions from current workers. Some people point to this pay-as-you-go financing structure and claim that the retirement of the baby boomer generation will trigger a crisis in Social Security.[28] This is simply untrue. To ensure that Social Security had sufficient resources to pay for the retirement of the baby boomer generation, changes were made to Social Security in the 1980s to create a surplus in the Social Security Trust Fund.[29] Current projections suggest that Social Security will be able to continue paying full benefits without even drawing on these surplus funds until 2023. After that, payments from current workers and the surplus funds will be sufficient to pay full scheduled benefits to retirees through the year 2038.[30]

In 2039, Social Security's funding is projected to fall somewhat below the level needed to pay full scheduled benefits. This doesn't mean, however, that Social Security benefits will stop, even if no changes are made. Instead, Social Security benefits would continue at a reduced level. The current estimate is that without any changes to the program between now and 2038, the funding will be sufficient to pay roughly 80 percent of promised benefits for retirees.

27 See http://www.socialsecurity.gov/pubs/ageincrease.htm.
28 For example, Governor Rick Perry recently claimed that "…Social Security is bankrupt and is a Ponzi scheme and if you've got a young 20-something-year-old, they know for a fact that they're not ever going to see that." Baugh (2010).
29 These changes will ultimately lower Social Security benefits for retirees by an average of 19 percent. They include an increase in the full-benefit retirement age from 65 to 67; taxing part of Social Security income, and delaying a scheduled cost-of-living adjustment for six months. See Reno, Bethell, and Walker (2011).
30 Congressional Budget Office (2011).

If the current estimate of a shortfall in funding turns out to be accurate, the changes that would be needed to maintain Social Security benefits at their current promised level are fairly modest and could be accomplished in a progressive fashion without benefit cuts. For example, according to the National Academy of Social Insurance, three common-sense measures would reduce the shortfall by more than half:[31]

- *Restoring the cap on earnings subject to Social Security contributions so that it once again covers 90 percent of earnings.* The current cap—at $106,800 in 2011—currently falls short of this standard because the 6 percent of workers who earn more than the cap have received a disproportionate share of the benefits from long-term economic growth.

- *Covering all newly hired state and local government employees who are not already covered by Social Security.* About one-fourth of public employees, most of whom are state and local government employees, are not covered by Social Security.[32] These employees do not pay Social Security payroll taxes, but many still benefit from it in various ways. The 1994-1996 Social Security Advisory Council proposed covering all public employees primarily on fairness grounds, explaining that "there is an element of unfairness … where practically all contribute to Social Security, while a few benefit both directly and indirectly but are excused from contributing to the program."[33]

- *Treating contributions to all salary reduction plans as covered earnings for Social Security.* Currently employees only pay FICA taxes on contributions to 401(k), 403(b), and 457 retirement plans. Contributions to other flexible spending accounts—including for health care, dependent care, parking, and certain commuting costs—are not covered.[34]

Any remaining shortfall can be closed in a variety of ways, including very gradual increases in the FICA rate and raising funds through progressive taxes, such as the estate tax or a financial speculation tax, on wealth that is not currently part of the FICA revenue base.

The bottom line is that Social Security is not facing a crisis that requires cuts in benefits. Pundits and others who claim that it is are often more interested in downsizing Social Security than in its long-term fiscal solvency. This is not to say that nothing should be done to strengthen Social Security. The types of progressive reforms that should be considered include: 1) measures that increase the funding available for Social Security benefits in the long run without cutting benefits for middle- and low-income workers; and 2) reforms that provide greater retirement security for workers who were poorly compensated during their working lifetimes and for workers who spend time outside the compensated workforce providing care to family members. These are described in greater detail later in this report.

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31 Reno, Bethell, and Walker (2011).
32 Government Accountability Office (2007).
33 Ibid.
34 More generally, there are good policy reasons to eliminate or scale back tax breaks for flexible spending accounts. The bulk of the tax benefits they provide go to high-income workers and they introduce excessive complexity that undermines that tax system. See, e.g., Maag (2010) and Marr and Cox (2009).

How Will Poorly Compensated Workers Fare in Retirement?

Retirees with low lifetime earnings—typically because they worked in poorly compensated jobs, and/or spend substantial time during their working years providing uncompensated care to their children or others—are at considerable risk of ending up with inadequate incomes when they retire. For example, a poorly compensated worker retiring today who works steadily throughout her or his adult years will likely be eligible for modest Social Security benefits in the range of roughly $9,000 to $10,000 a year. Poorly compensated workers who do not work steadily throughout their career—including those who spend time outside of the compensated labor force caring for their children or other dependents—may earn considerably less than this amount.

Researchers sometimes judge minimum income adequacy using the federal poverty line. The poverty line is widely recognized as antiquated, in large part because it has only been updated for inflation since the 1960s, and not for real increases in mainstream living standards.[35] When the official poverty line was first instituted, it was equal to about 50 percent of the typical (median) family of four's income. Public opinion surveys conducted two decades later found that most Americans thought than an income equal to this same proportion of typical income was needed to avoid poverty.[36] Today, however, the federal poverty line has declined to approximately 28 percent of median income. In other words, to be considered poor today, families must have incomes that fall much farther below mainstream incomes than 40 years ago.

Using the extremely conservative measure of income adequacy that today's poverty line represents, the Urban Institute found that about 21 percent of Social Security beneficiaries receive Social Security benefits that fall below that line.[37] (The official poverty rate among the elderly is lower than this—about 9 percent in 2010—because some elderly people with sub-poverty Social Security benefits have other sources of income that lift them above the poverty line.) The following groups are disproportionately represented among beneficiaries receiving sub-poverty benefits:[38]

- women (66% compared to 54% of all beneficiaries),
- retirees without education beyond high school (72% compared to 62% of all), and
- members of racial or ethnic minority groups (29% compared to 15% of all).

As **Table 5** shows, these same groups are disproportionately represented among poorly compensated workers. For example, women are about 60 percent of poorly compensated workers, and about 66 percent of sub-poverty beneficiaries of Social Security.[39]

35 For more on the limitations of the current framework for understanding and measuring poverty in the United States, see Fremstad (2010).

36 Vaughan, (2004).

37 Favreault (2010), Table 5. This study looks specifically at Social Security beneficiaries who were age 64 to 73 in 2004. People in this age range who do not qualify for Social Security (typically because they haven't worked for 10 years, and were never married to a worker who met this requirement) are excluded.

38 Favreault (2010), Table 1.

39 Women generally have less income in old age than men, largely because their Social Security income is less than men's and they are less likely to have pensions or other retirement savings than men. In addition, women tend to live longer their men. As a result, they are more likely to become disabled and require long-term care, and also to outlive their spouses.

TABLE 5
Workers Doing Poorly Compensated Work and Retirees with Inadequate Social Security Benefits Have Similar Characteristics

	Working Adults		Social Security Beneficiaries (ages 64-73)	
	Percent of Adult Workers who are Poorly Compensated, by Characteristic	Percent of Poorly Compensated Workers, by Characteristic	Percent of Beneficiaries with Sub-Poverty Benefits, by Characteristic	Percent of Sub-Poverty Beneficiaries, by Characteristic
All	24	100	21	100
Men	19.7	40.1	15.8	33.9
Women	28.5	58.1	26.1	66.1
Less than High School	60.4	21.4	37.2	37.3
High School Diploma	35.3	39.2	18.9	35.3
Some College	22.9	26.9	18.1	17.2
College degree	8.2	12.4	11.8	10.2
White	18.4	53.4	17.8	71.0
African American	33.2	13.9	43.2	17.4
Hispanic	43.1	28.2	44.0	9.6
Asian	21.8	4.3	n.a.	n.a.

Source: First two columns are from Table 1.1 in Osterman and Shulman (2011). The data are for 2010. Poorly compensated adults have jobs with wages that pay below two-thirds of the median wage. The second two columns are from Table 1 in Favreault (2010). Favreault does not provide statistics for Asian Americans.

Poorly compensated workers retiring over the next several decades are likely to depend even more on Social Security for basic retirement security than their predecessors. As noted in the previous section, the enormous destruction of family wealth associated with the collapse of the housing bubble has left tens of millions of workers approaching retirement with virtually no wealth to support them in retirement other than Social Security. Few workers who have spent their careers in poorly compensated jobs are likely to have sufficient savings in defined contribution plans to provide a significant amount of retirement income (and defined benefit plans are rare in care occupations).

Some workers with low lifetime earnings will have adequate income when they retire. However, this is not the case for most workers who are poorly compensated. When researchers at the Urban Institute projected retirement incomes at age 67 for baby boomers with "low-lifetime earnings"—which they defined as earnings in the bottom 20 percent of the earnings distribution—they found that about two-thirds will have low incomes when they retire.[40] For this group of low-income retirees, the typical income from all sources in retirement will be about $9,000 (in 2005 dollars), with about $5,100 coming from Social Security. Compared to higher-income retirees, low-income retirees at age 67 are more likely to be black or Latino, less likely to have a college degree, and more likely to have household income from work.

40 This estimate is for boomers with average shared lifetime earnings between 22 and 62 at or below the 20th percentile of the distribution, where shared earnings are half the couple's earnings in years when married and the individuals full earnings in years when single. Butrica and Toder (2008) and Butrica, Toder, and Toohey (2008).

III. Reforms that Would Increase the Retirement Security of Poorly Compensated Workers

Social Security should be improved for all workers, and especially for workers in poorly compensated jobs who face the greatest risks in retirement. In addition, although beyond the scope of this brief, it is important to increase the compensation—including both wages and benefits—that poorly compensated workers receive for the services they provide.[41] Increasing workers' wages would increase the amount of Social Security benefits they are eligible for when they retire, and increase their ability to save part of their earnings for retirement.

Improving Social Security for Poorly Compensated Workers

Earlier this year, the Commission to Modernize Social Security (CMSS), a group of experts convened by the Insight Center for Community Economic Development and Global Policy Solutions, developed a plan that would both extend Social Security's long term solvency and modernize the program to meet the needs of an increasingly diverse society.[42] The plan would improve the Social Security program for working- and middle-class retirees, including poorly compensated workers in both groups. Major elements of the plan include:

- *An Across-the-Board Increase in Social Security Benefits:* At roughly $14,000, the average Social Security benefit is only about 30 percent above the poverty line. It falls considerably below other measures of what it takes to make ends meet.[43] The plan proposes increased benefits for all retirees by a uniform amount equal to 5 percent of the average benefit— about a $700 annual increase for beneficiaries today.

- *An Increase in the Special Minimum Benefit for Long-Term Low-Wage Workers*: Although Social Security has had a minimum benefit provision of some sort since 1939, the value of the minimum benefit, last adjusted in 1972, has withered away over time. As a consequence, according to Social Security projections, no one who becomes eligible for Social Security in 2013 or later will benefit from the current provision. To ensure that workers who have spent most of their careers in poorly compensated jobs have adequate income in retirement, the CMSS plan would ensure that workers who have worked at least 30 years would receive benefits equal to 125 percent of the poverty threshold when they retire at the full retirement age.[44]

- *Crediting Unpaid Care Work*: Many women (and some men) spend part of working years caring for their children and/or elderly parents. Despite the social value of this care, Social Security provides no credit for it. CMSS recommends providing at least five years of dependent care credits through Social Security.[45]

41 For more on this topic, see, e.g., Osterman and Shulman (2011) and Peck and Traub (2011).
42 Rockeymoore and Lui (2011).
43 For example, the Elder Security Standard developed by Wider Opportunities for Women and researchers at the University of Massachusetts-Boston finds that a person over 65 living alone in the United States on average needs between $16,000 and $20,400 depending on their housing costs and other circumstances.
44 For more on redesigning the minimum benefit, see Favreault (2008).
45 Most wealthy nations provide caregiving credits of some sort. See Fultz (2011).

- *Reinstating the Post-Secondary Student Benefit:* Between 1965 and 1983, children who were receiving Social Security's Benefits—due to a parent's death, disability, or retirement—could continue to receive benefits until age 22 if they were enrolled in post-secondary education. Research has found that student beneficiaries were more likely to come from low-income and minority families, and to have had parents who had been in blue-collar jobs.[46] Since then, post-secondary education has become even more important for one's long-term prospects while the cost of obtaining it has become less affordable.

- *Increasing the Survivor's Benefit for Widowed Spouses*: About 40 percent of elderly women with incomes below the poverty line in 2010—about 8.7 million women—were widows. When their spouse dies, many married women see their Social Security benefits decline by as much as 50 percent. The income they need for an adequate living as a one-person household, however, is unlikely to decline by this much. The poverty guideline for a one-person family in 2011, for example, is only 25 percent lower than the guideline for a two-person family. The survivor's benefit for widowed spouses should be increased to ensure that they receive at least 75 percent of the benefit amount they received when their spouse was still alive.[47]

The Commission has also proposed a set of measures, similar to those proposed by NASI and noted earlier in this report, that would pay for these reforms and close the currently projected long-term actuarial deficit. These measures include:

- *Eliminating the cap on Social Security payroll contributions.* CMSS proposes eliminating the current cap on Social Security payroll contributions. In exchange, workers with earnings above the cap would receive higher Social Security benefits based on a new bracket for earnings above the cap. Currently, Social Security pays 15 percent of averaged indexed monthly earnings between $4,482 and $8,900 and nothing on income above $8,900. If the cap on payroll contributions is lifted, and benefits are paid at 3 percent of averaged indexed monthly earnings above $8,900, nearly all of Social Security's projected actuarial deficit would be eliminated. (According to the most recent report of Social Security's Board of Trustees, the current projected deficit is 2.22 percent of "taxable payroll," that is, the covered earnings on which Social Security contributions are assessed; eliminating the cap in this fashion would produce income equal to 2.17 percent of taxable payroll).

- *Treating contributions to all salary reduction plans as covered earnings for Social Security.* This would produce income equal to .25 percent of taxable payroll

- *Slowly raising Social Security's payroll tax over the next twenty years by 1/40th of one percent each year.* This would produce income equal to 1.39 percent of taxable payroll.

- *Including all new state and local workers in Social Security.* This would produce income equal to .17 percent of taxable payroll.

46 For more on this research and the student benefit generally, see Hertel-Fernandez (2010).
47 For more on this proposal, see Entmacher (2008).

Overall, these measures produce income equal to 3.98 percent of taxable payroll. After paying both for the benefit improvements proposed by CMSS and covering the projected actuarial deficit, a cushion of .34 percent of taxable payroll would remain.

Modernizing Supplemental Security Income

Especially for poorly compensated workers with limited work histories, Supplemental Security Income provides an important source of basic support in old age. In 2010, about two million Americans age 65 and older received SSI. A little over half of them (about 56 percent) also received Social Security benefits, but at such a low level that they remained eligible for SSI benefits.[48] Nearly three out of every four elderly SSI beneficiaries are women.

Unlike Social Security, SSI is means-tested, meaning that elderly beneficiaries must have both very low incomes and very limited assets to qualify for assistance. Some very-low-income seniors are ineligible for SSI benefits at age 65 because they have modest assets on which they can draw, but become eligible in later years when their resources have been used for basic living expenses and health care.

According to the legislative history, SSI was "designed to provide a positive assurance that the Nation's aged, blind, and disabled people would no longer have to subsist on below poverty-level incomes." While this was the intent, the maximum value of the current SSI benefit for an individual —currently only $674 a month for an individual with no other income— is too modest by itself to assure that people who are elderly or have disabilities live above the poverty line.

SSI needs to be modernized, particularly by increasing the adequacy of the benefit and easing restrictions on asset ownership and working. Despite a growing recognition among policymakers and analysts that savings and assets play an important role in economic security, the SSI limits on allowable savings are considerably more restrictive than Congress intended when it established the program. Beneficiaries cannot have more than $2,000 in countable assets ($3,000 for a couple), including savings accounts and most retirement accounts. These limits have not been adjusted since 1989, and the adjustments made at that time compensated only in part for the effects of inflation over the program's first decade and a half. Similarly, SSI rules that completely exclude $20 of unearned income and the first $65 of earned income when calculating eligibility and benefits each month have not been updated for inflation (half of any remaining earned income above this amount is also disregarded).[49]

Incentives for Retirement Savings

A discussion of ways to increase retirement savings outside of Social Security is beyond the scope of this report, but it is worth noting that the federal tax code currently provides considerable subsidies—nearly $135 billion in income tax deferrals in 2011—to workers who put aside money for retirement.[50] These subsidies largely benefit higher-income workers. Almost 90 percent of federal

48 Social Security Administration (2011a), Table V.F1.

49 An exception is the income exclusion for students with disabilities, which is currently $1,640 per month and is updated annually for inflation.

50 Office of Management and Budget (2011), Table 17-1.

subsidies for retirement savings go to families with incomes in the top 40 percent of the income distribution.[51]

The one retirement incentive that is structured to provide an incentive for moderate-income families, the Saver's Credit,[52] is relatively modest in size and not available to workers who have no federal income tax liability. It accounts for less than 1 percent of federal tax expenditures on retirement savings. Congress should increase the Saver's Credit and make it "refundable," that is, available to all workers regardless of federal income tax liability. President Obama has proposed reforming the Saver's Credit to ensure that all low- and moderate-income workers receive a matching payment equal to half of the first $1,000 they save each year.

IV. Proposed Changes to Social Security that Would Harm Poorly Compensated Workers

In 2005, then-President George W. Bush proposed several changes to Social Security that would have resulted in substantial cuts in Social Security for most retirees. The proposal proved widely unpopular and was not adopted. Over the last few years, there has been a renewed push in policy circles to cut Social Security. Two commonly discussed proposals are particularly troubling for workers in poorly compensated jobs: 1) increasing the full retirement age above age 67; and 2) reducing the annual cost-of-living adjustment to Social Security benefits.

Variants of both of these proposals are included in the Social Security plan of U.S. Representative Paul Ryan (R-WI), currently the Chairman of the House Budget Committee. A third commonly discussed proposal, means-testing Social Security benefits in some fashion, would be less likely to result in immediate cuts in benefits for low-income retirees, but could undermine Social Security over time in ways that would be quite harmful for low-income retirees.

Increasing the Normal Retirement Age for Social Security

Various proposals have been made to cut benefits by increasing the normal retirement age. Increasing the normal retirement age has the effect of cutting annual benefits regardless of the age at which they are claimed. According to calculations made by the National Academy of Social Insurance, increasing the normal retirement age by one year results in a 5 to 7 percent cut in benefits.[53]

As noted above, Social Security's normal retirement age is already increasing for all workers born in 1938 or later. For all workers born after 1960, the normal retirement is set to increase to age 67. One proposal would increase the normal retirement age by two months each year beginning in 2013 and

51 Urban-Brookings Tax Policy Center Microsimulation Model (version 1006-2).
52 The Saver's Credit is a tax credit that workers may claim when they file their federal income taxes. To qualify, workers must contribute to a retirement savings plan, such as an IRA or 401(k), and have incomes below certain levels that vary by filing status: married couples filing jointly must have incomes below $55,000, heads of households must have income below $41,625, and other taxpayers must have incomes below $27,750. The maximum saver's credit is $1,000.
53 See Gregory, Bethell, Reno, and Veghte (2010).

continuing until it reaches 70 for workers reaching age 62 after 2035. The Center for Economic and Policy Research has estimated the effect of increasing the retirement age in this manner for current workers between the ages of 40 and 60. Increasing the retirement age would result in reduced Social Security benefits for all of these workers, with the largest losses for those workers currently in their 40s.[54] For example, workers between the ages of 40-44 in 2007 would experience a 10-percent reduction in benefits.

An increase in the current normal retirement age would be particularly harmful for workers in jobs that are physically demanding or involve difficult working conditions. These workers have less ability to continue working in their 60s than workers in office jobs and other less demanding conditions. Older workers in poorly compensated jobs are much more likely to have physically demanding jobs than better compensated workers. For example, about 63 percent of older workers in the bottom wage quintile have difficult working conditions compared to only about 25 percent in the top quintile.[55]

Reducing the Cost-of-Living Adjustment (COLA) for Social Security Benefits

Social Security benefits are currently adjusted each year using the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), a general measure of inflation faced by workers. Various proposals have been made to cut Social Security benefits by using a measure of inflation that rises at a slower rate than the CPI-W. The most commonly proposed alternative index, the Chained Consumer Price Index (C-CPI-U) shows an annual rate of inflation that averages approximately 0.3 percentage points less than the CPI-W.

A reduction in Social Security's cost-of-living adjustment would have an immediate effect on current beneficiaries. While the amount of such a cut may seem small when considered initially, the cumulative impact of such a reduction becomes large over time. For example, if the COLA is cut by 0.3 percent annually, after 10 years, a retiree will receive benefits that are almost 3 percent lower than they would have been without the COLA reduction; after twenty years, the reduction would be almost 6 percent, and so on. Women as a group will be disproportionately affected by a COLA reduction because they live longer than men.

An example of the switch is provided by recent experience. As David Rosnick notes, from the third quarter of 2008 to the third quarter of 2011, the CPI-W rose by 3.6 percent.[56] As a result, for a retiree receiving $1,115 in Social Security benefits per month, the Social Security COLA will add $482 to annual benefits in 2012. If the COLA had been calculating using the lower C-CPI-U, Social Security beneficiaries would receive only a 2.8 percent COLA next year. Over time, these smaller COLAs would add up. Compared with current law, a retiree who received $878 per month in 2001 would, in 2012, see her or his annual benefit decrease by $462 (3.3 percent) under the chained CPI.

The technical argument made by proponents of reducing Social Security's current COLA is that the index they prefer better measures consumers' ability to respond to price changes by shifting their purchases across major spending categories.[57] However, it is not clear that people who are elderly and disabled are able to make these kinds of spending shifts. The Bureau of Labor Statistics has

54 Baker and Rosnick (2010).
55 Rho (2010).
56 Rosnick (2011).
57 Veghte, Reno, Bethell, and Walker (2011).

developed a separate experimental price index for the elderly. This index is projected to increase at a faster rate than the current CPI-W.

Means-Testing Social Security

A third common proposal to reduce benefits involves effectively "means-testing" them in some way, typically by making changes that sharply reduce benefits for middle- and higher-income retirees. Means-testing proposals are often coupled with changes that would increase benefits for some low-income retirees.

However, supporters of increased benefits for low-income retirees should be wary of means-testing as a mechanism to increase the long-term financial solvency of Social Security or to increase benefits at the lower end. Social Security currently enjoys broad and strong political support because it pays benefits to nearly all retirees, regardless of income. If benefits were substantially cut for middle-income retirees, this support could be undermined in ways that are harmful for lower-income retirees in the long run.

Means-testing could be designed in a way that is limited to beneficiaries with high incomes. However, the vast majority of Social Security benefits are paid to seniors with relatively low and moderate-incomes. Individual retirees with incomes over $100,000 ($200,000 for a couple) account for only 2.3 of Social Security benefits.[58]

Conclusion

The federal government should strengthen Social Security in ways that increase the retirement security of middle- and working-class Americans. Particular attention should be paid to improving the living standards in retirement of workers in poorly compensated jobs, who typically have little or no retirement savings outside of Social Security. Some recent proposals to cut Social Security would put the retirement security of workers in poorly compensated jobs at further risk. While it would be wise to shore up the financing of Social Security over the long term, this can be done without cutting benefits for workers who have not received their fair share of long-term economic growth. Finally, it is important to remember that Social Security by itself cannot be the sole vehicle for addressing an economy that is out of balance. We need to do much more to improve job quality in the United States by ensuring that poorly compensated workers get a better deal than the poor one they have been getting.

58 Baker and Rho (2011).

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