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Direct Care Alliance, Inc.

Caring for Caregivers in Retirement: Social Security Works for Direct Care Workers

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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. Social Security is particularly important for workers, such as most direct care workers, who received modest compensation for the work they did during their working years.

While about one-half of all workers have employer-provided retirement benefits, only about one-quarter of direct care workers have them. As a result, they are less likely than most workers to have pensions or other substantial assets that they can depend on to supplement their incomes in retirement. Retirement plan coverage is even lower among in-home direct care workers.

Modest but Crucial Benefits

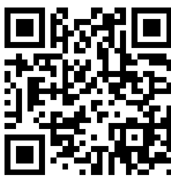
Social Security benefits are modest for most retired workers: less than $15,000 a year for the average retired worker today, and typically several thousand dollars less for poorly compensated workers. Yet, most Social Security beneficiaries depend on Social Security for more than half their income.

Funded by Workers' Contributions

Workers and their employers pay for Social Security. Workers pay 6.2 percent of their wage income (below $110,100) into the Social Security Trust Fund. Employers also pay 6.2 percent for each of their workers into the fund. Self-employed workers pay both of these shares themselves, that is, 12.4 percent of their earnings.[1]

Social Security is an Earned Benefit

In general, to be eligible for Social Security benefits upon retirement, a worker generally needs to have accumulated at least 40 "credits" based on their earnings over their lifetime. A worker can earn up to four credits a year. In 2012, workers earn one credit for each $1,130 in earnings (the



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threshold is higher for certain household workers).

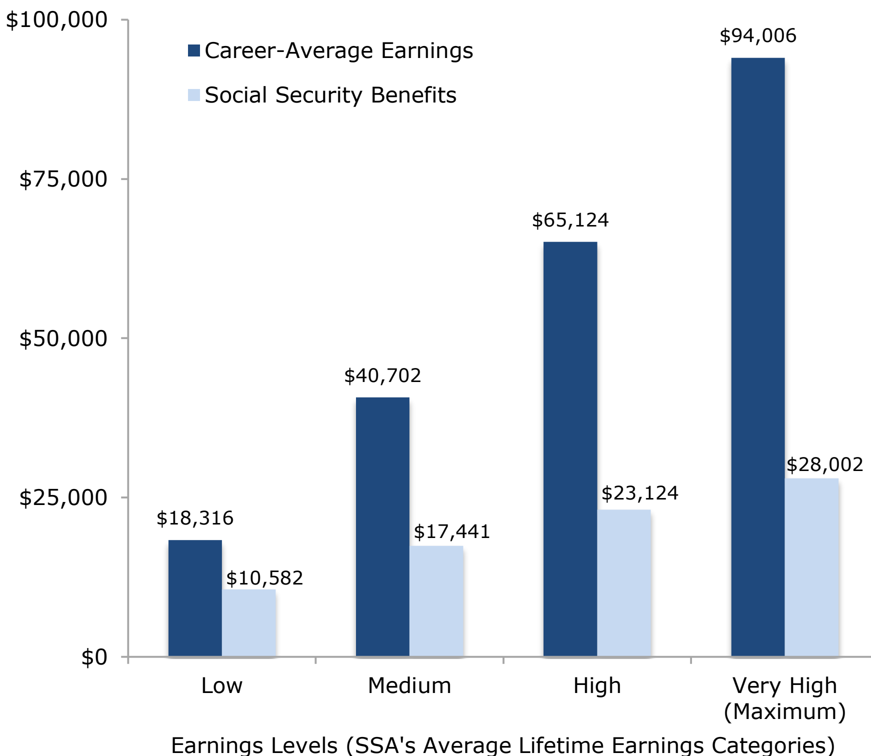
If a worker is eligible for Social Security, the amount of benefits they are eligible for depends on their average yearly earnings during the 35 years in which they earned the most (their "highest earnings years"). If they worked less than 35 years, these years with no earnings are included (as many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

Someone retiring today will receive initial benefits equal to roughly the sum of: 1) 90 percent of their first $9,200 of average lifetime earnings, 2) 32 percent of their earnings up to about $55,500, and 3) 15 percent of their remaining earnings, up to the taxable maximum. 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.

Figure 1 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.

FIGURE 1
Social Security Benefits for Workers Retiring at Age 65 in 2015, by Earnings Level



Source: 2012 Social Security Trustees Report, Table V.C.7.

How Retirement Age Affects Benefits

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 by two months for each year after 1937 up to age 67. The full retirement age is now 67 for people born after 1959. Increasing the retirement age to 70, as some have proposed, would cut benefits substantially for most current workers.

Today's Workers Can Count on Social Security Being There for Them

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. 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. Current projections suggest that Social Security will be able to continue paying full benefits without even drawing on these surplus funds until 2020. After that, payments from current workers and the surplus funds will be sufficient to pay full scheduled benefits to retirees until sometime in 2033.

After that point, 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 2033, the funding will be sufficient to pay roughly 75 percent of promised benefits for retirees. Moreover, according to the National Academy of Social Insurance, 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.

The bottom line is that Social Security is not facing a crisis that requires cuts in benefits for workers who are already struggling. Pundits and others who claim that it is are often more interested in downsizing Social Security than in its long-term fiscal solvency.

Proposed Social Security Cuts Would Harm Workers

Two commonly discussed proposals to cut Social Security benefits are particularly troubling for direct care workers: 1) increasing the full retirement age above age 67; and 2) reducing the annual cost-of-living adjustment (COLA) to Social Security benefits.

One proposal would increase the normal retirement age by two months each year beginning in 2013 and continuing until it reaches 70 for workers reaching age 62 after 2035. Increasing the retirement age would result in reduced Social Security benefits for most current workers. For example, workers between the ages of 40-44 in 2007 would experience a 10-percent reduction in benefits.

Similarly, reducing Social Security COLAs, although often presented as a technical change, would result in significant cuts in benefits over time, particularly for women.
An example of the impact of cutting the COLA is provided by recent experience. From the third quarter of 2008 to the third quarter of 2011, the inflation measure currently used to adjust Social Security benefits rose by 3.6 percent. 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 alternative inflation measure some have proposed, 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 alternative measure.

Strengthen—Don't Cut—Social Security

Social Security should be improved for all workers, and especially for workers in poorly compensated jobs who face the greatest risks in retirement.

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. The plan would improve the Social Security program for working- and middle-class retirees, including direct care workers. Major elements of the plan include:

An Across-the-Board Increase in Social Security Benefits: At less than $15,000, 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. The plan proposes increased benefits for all retirees by a uniform amount equal to 5 percent of the average benefit – about a $740 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.

Crediting Unpaid Care Work: Many women (and some men) spend part of their 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.

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.

The Commission has also proposed a set of measures, similar to those developed by the National Academy of Social Insurance, that would pay for these reforms and close the currently projected long-term actuarial deficit.

Resources

Fremstad, Shawn. 2011. "Maintaining and Improving Social Security for Direct Care Workers." Washington, DC: Center for Economic and Policy Research.
http://www.cepr.net/documents/publications/ss-direct-care-workers-2011-11.pdf

The Commission to Modernize Social Security. 2011. "Plan for a New Future: The Impact of Social Security Reform on People of Color."
http://www.insightcced.org/New_Future_Social_Security_Commission_Report_Final.pdf

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1 There is a payroll tax cut for workers in 2012, so that workers pay 4.2 percent, and self-employed workers pay 10.4 percent, of their earnings.