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Maintaining and Improving Social Security for Direct Care Workers

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Introduction

America's more than three million direct care workers (DCWs)—a category that includes nursing assistants, home health aides, and personal and home care aides—play a crucial role in maintaining the health and economic security of elderly retirees and people with disabilities. Yet, they are among the most poorly compensated and economically insecure workers in the United States.

Only about one in every four direct care workers have employer-provided retirement benefits. 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.

Some recent proposals to cut Social Security would put the retirement security of direct care workers—and millions of other workers in poorly compensated jobs—at risk. Instead of cutting Social Security benefits, the federal government should strengthen Social Security in ways that increase retirement security, particularly for retirees who have worked in poorly compensated jobs and typically have little or no retirement savings outside of Social Security.

This brief provides direct care workers and their allies with information they can use to become engaged in efforts to maintain and strengthen Social Security.[1] After providing background on how Social Security works and why today's direct care workers can count on it being there for them when they retire, it details some troubling recent proposals that would cut Social Security benefits. The final section way to improve Social Security and increase the retirement security of direct care workers.

Direct Care Jobs Are among the Fastest Growing Jobs, but are Poorly Compensated

Direct care workers include more than 3.2 million workers who are nursing assistants, home health aides, and personal and home care aides. Direct care jobs generally do not require a four-year college degree. However, as **Table 1** shows, about 60 percent of direct care workers between the ages of 25-44 have attended some college or have a college degree.

The care occupations generally pay much less than median earnings. Table 1 shows that all of the major care occupations pay only about half of what typical jobs pay. The DCW 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.[2]

1 For more on Social Security and poorly compensated workers generally, see Fremstad (2011).
2 For more on the demographics of the direct care workforce, see Paraprofessional Healthcare Institute (2011).

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

	Median Earnings as a Ratio 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%

Source: Median earnings are for full-time wage and salary workers. Data is 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.

According to projections by the Bureau of Labor Statistics, the number of direct care jobs will grow by nearly 35 percent between 2008 and 2018—adding more than 1.1 million jobs.[3] Direct care jobs will grow faster than for any other occupations among the top 20 occupations with the largest job growth over this period. The greatest growth will be in home health aides and personal/home care aides, who are the most poorly compensated direct care workers and the least likely to have retirement benefits.

Direct Care Workers Less Likely to Have Retirement Benefits than Most Workers

In 2010, only about one in every four workers in direct care occupations participated in an employment-based pension or retirement plan, compared to about half of all workers (see **Table 2**). The share of DCWs with retirement benefits differs significantly by specific occupational category and industry. Nursing and home health care aides are about twice as likely to have retirement benefits as personal and home care aides. Direct care workers in nursing care facilities—who are mostly nursing aides—are most likely to have retirement benefits. By contrast, only about 6 percent of DCWs working in private households have retirement benefits.

3 CEPR calculation from Bureau of Labor Statistics (2010a), Table 1.4.

TABLE 2
Direct Care Workers with Retirement Benefits, 2002-2010

	Share of Direct Care Workers Participating in Employer-Based Pension or Retirement Plan (%)
By Occupation	
Nursing, Psychiatric, and Home Health Care Aides	28.5
Personal and Home Care Aides	13.8
By Industry	
Nursing Care Facilities	33.3
Home Health Care Services	23.0
Private Households	5.8

Source: CEPR Analysis of CPS March, 2003-2011.

These figures do not tell us anything about the quality of the retirement benefits received by direct care workers who have them. 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.[4]

Data isn't available on retirement-plan type among direct care workers with retirement benefits, but it seems likely that the vast majority of them have defined contribution plans. Most workers in poorly compensated jobs (in any occupation) 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).[5]

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.[6] 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.[7]

How Social Security Works

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

4 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.
5 Source: Bureau of Labor Statistics (2010b) and (2011).
6 Bureau of Labor Statistics (2010b), Table 8.
7 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.

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.[8] By comparison, only about one-third of elderly persons received income from pensions and about half received income from assets.[9]

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.[10] Social Security is particularly important for workers who received modest compensation for the work they did during their working years (see **Table 3**). These workers are less likely to have pensions or other substantial assets that they can depend on to supplement their incomes in retirement.

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

	First Quintile: Money Income Under $12,082	Second Quintile: $12,082 and $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	80.7%	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 in 2011 (this taxable amount is adjusted each year to reflect inflation)[11]. Employers pay an equal percentage for each of their workers into the fund (again, only on income below $106,800).[12]

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)

8 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.
9 Ibid.
10 Social Security Administration (2010), Table 9.A1.
11 In 2012, the maximum taxable earnings amount will increase to $110,100
12 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.

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.[13] 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).[14] 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.

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.[15] 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.[16]

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.

13 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 quarters vary by age.

14 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).

15 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.

16 A complication here is that lifetime Social Security are affected by factors other than income, including longevity, marital status, and disability status. The first two 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).

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 (see **Table 5**). 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.

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

Year of Birth	Full Retirement Age	Months between Age 62 and Full Retirement Age	At Age 62: A $1000 retirement benefit would be reduced to:	The retirement benefit is reduced by	A $500 spouse's benefit would be reduced to	The spouse's benefit is reduced by
Before 1938	Age 65	36 months	$800	20%	$375	25%
1938-1942	Age 65 + 2 months for every year that year of birth is after 1937	38 - 46 months	Between $791 and $758 (benefit decreasing as birth year increases)	about 21%-24%	$370-$354	about 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 months	Between $741 and $708 (benefit decreasing as birth year increases)	about 25-29%	$345-329	30.1% to 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

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 years 1943 to

1953. 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.[17]

How Will Direct Care Workers and Other 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.

The Urban Institute found that about 21 percent of Social Security beneficiaries receive Social Security benefits that fall below the poverty line.[18] The following groups are disproportionately represented among beneficiaries receiving sub-poverty benefits:[19]

- 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 6** below shows, these same groups are disproportionately represented among both direct care workers and poorly compensated workers. For example, women are almost 90 percent of direct care workers, and about 66 percent of sub-poverty beneficiaries of Social Security.

Direct care workers retiring over the next several decades are likely to depend even more on Social Security for basic retirement security than their predecessors. 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).

17 See http://www.socialsecurity.gov/pubs/ageincrease.htm.

18 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.

19 Favreault (2010), Table 1.

TABLE 6
Workers Doing Poorly Compensated Work, Direct Care Workers, and Retirees with Inadequate Social Security Benefits Have Similar Characteristics

	All Working Adults		All Direct Care Workers (Nursing Assistant, Home Health Aide, and Personal Care Aide)	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%	100%	21%	100%
Men	19.7%	40.1%	11%	15.8%	33.9%
Women	28.5%	58.1%	89%	26.1%	66.1%
Less than High School	60.4%	21.4%	n.a.	37.2%	37.3%
High School Diploma	35.3%	39.2%	n.a.	18.9%	35.3%
Some College	22.9%	26.9%	n.a.	18.1%	17.2%
College degree	8.2%	12.4%	n.a.	11.8%	10.2%
White	18.4%	53.4%	47%	17.8%	71.0%
Black	33.2%	13.9%	30%	43.2%	17.4%
Hispanic	43.1%	28.2%	16%	44.0%	9.6%
Asian	21.8%	4.3%	7%		

Source: First two columns (Working Adults) 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. Direct care worker data is from Paraprofessional Health Institute (2011). The last two columns are from Table 1 in Favreault (2010). Data are for 2003.

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.[20] 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.

20 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).

Today's Direct Care Workers Can Count 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.[21] 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.[22] 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.[23]

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. 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.[24]

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. 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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21 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).

22 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).

23 Congressional Budget Office (2011).

24 See Reno, Bethell, and Walker (2011).

Some Proposed Changes to Social Security Would Reduce the Retirement Security of Direct Care Workers

Two commonly discussed proposals to cut Social Security benefits are particularly troubling 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.

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.[25]

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 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.[26] 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.[27]

Reducing the Cost-of-Living Adjustment for (COLA) 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

25 See Gregory, Bethell, Reno, and Veghte (2010).
26 Baker and Rosnick (2010).
27 Rho (2010).

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, 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.[28] 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 calculated 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.[29] 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 developed a separate experimental price index for the elderly. This index is projected to increase at a faster rate than the current CPI-W.

Reforms that Would Increase the Retirement Security of Direct Care 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 DCWs and other poorly compensated workers receive for the services they provide. 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.

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.[30] The plan would

28 Rosnick (2011).
29 Veghte, Reno, Bethell, and Walker (2011).
30 Rockeymoore and Lui (2011).

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 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.[31] The plan proposes an increase in 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.[32]

- *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.[33]

- *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.[34]

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. These measures include:

- *Eliminating the cap on Social Security payroll contributions.* CMSS proposes eliminating the current cap on Social Security payroll contributions. 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

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31 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.
32 For more on redesigning the minimum benefit, see Favreault (2008).
33 Most wealthy nations provide caregiving credits of some sort. See Fultz (2011).
34 For more on this proposal, see Entmacher (2008).

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.

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.

Conclusion

We should strengthen Social Security in ways that increase the retirement security of direct care workers and other middle- and working-class Americans. 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 for direct care workers and other poorly compensated workers.

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