Expanding Social Security:
A Strategy to Strengthen Retirement Security for Vulnerable Populations and Future Generations

By Leah Smith

Social Security is a federal program of social insurance that helps protect and support American workers and their families by providing income benefits when a worker has retired, died, or become disabled. In 2014, beneficiaries included 42 million retirees and their dependents, 6 million survivors of deceased workers, and 11 million disabled workers and their dependents.1 One of the most effective anti-poverty programs in the United States, Social Security is financed by workers and employers and has wide public support.

This fact sheet focuses on the old-age component of Social Security, which protects American retirees and their dependents. It then examines various proposals for reform and identifies public policy solutions for expanding Social Security to better protect retirees and their families, especially in financially vulnerable populations.

FACTS AT A GLANCE:

2/3 of American seniors rely on Social Security benefits for most of their income.

$20,000 The average amount working-age African American households have saved for retirement. On average, White households have $112,000 saved while Latino households have just $18,000.

77% of respondents to a national survey agree it is critical to preserve Social Security benefits for future generations.
Wide Public Support

Social Security is a popular program throughout the United States. Many national surveys have shown wide support for the program, even if it means increasing taxes on wages and earnings. Among the key findings:

- A National Institute on Retirement Security survey determined that 73 percent of Americans think it is a mistake to reduce benefits for current retirees, and 69 percent oppose reducing benefits for future retirees.²
- A National Academy of Social Insurance survey found that 77 percent of respondents agree it is critical to preserve benefits for future generations, even if it means increasing the payroll taxes paid by working Americans.³
- A Pew Research Center poll determined that 56 percent of people are opposed to raising the eligibility age for Social Security, and a Kaiser poll found that 58 percent are opposed to any reduction in the program.⁴

Critical to Retirement

Social Security has helped provide economic security for Americans in retirement since 1935. The program makes up an average of 52 percent of household income for those who are 65 and older, continuing to be the largest piece of household income for retirees.⁵ Sixty-five percent of aged beneficiaries receive at least half of their income from Social Security.⁶

Retirement security can be considered a “three-legged stool.” To be financially secure in retirement, people need to be able to rely on three forms of support: Social Security benefits, employer retirement plans, and asset ownership and other savings. Social Security is the largest and most stable of the three and, for most people, has become a “single pillar” retirement system because the other two forms are becoming less reliable or have been out of reach for lower-earning households working in jobs that do not offer retirement plans.⁷,⁸ Individuals cannot outlive Social Security benefits, and payments are adjusted each year to account for cost-of-living increases.⁹

Social Security is the only guaranteed source of income that many people will have in retirement, if they become disabled, or in case of their parents’ or spouses’ death. As Americans age, they are more likely to depend on the program as their primary reliable form of income, with 34 percent of people age 65 through 69—and nearly three-fifths (59 percent) of people age 80 and above—depending on benefits for 50 percent or more of their income.¹⁰

With the retirement age increasing to 67 and health care costs rising, future retirees will receive lower benefits than those currently in retirement.¹¹ About half of current

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retirees stopped working earlier than planned because of unexpected events, such as health emergencies or unemployment. In addition, employer-based defined-benefit plans are slowly being eliminated and replaced with defined contribution plans or a hybrid of the two. This shift places risk and complicated financial decisions on the employee, and creates insecurity because such plans no longer provide a lifelong, steady income stream, but rather a source of money that might run out.

The situation is starker for those who are even more vulnerable—low-income workers, who have continued to struggle to achieve financial stability due to stagnant wages. Real wages, which take inflation into account, have been flat since the 1970s (and even falling during some periods). For example, the average hourly wage for non-management private-sector workers for September 2014 was $20.67, which has about the same purchasing power as the $4.03 hourly wage recorded in January 1973. Additionally, a majority of American workers (57 percent) have an employer that does not offer a retirement plan, which means that they are left on their own to find and manage retirement savings vehicles without their employers’ assistance.

Financial stability is often out of reach for families who have to choose between saving for retirement and using the money to get through unexpected economic challenges. With a typical working family having just a few thousand dollars in retirement savings, coupled with the fact that four out of five families have less than their annual income saved for retirement, the United States has a retirement savings deficit of at least $6.8 trillion.

People in their 20s to early 40s have accumulated less wealth compared to their parents at similar ages. The median retirement account balance for working-age households is $2,500, when those without retirement accounts are included. For those near retirement, the median account balance is $14,500, and for those between ages 55 through 65, 62 percent have saved less than one year of their annual income.

Of Vital Importance to People of Color

While Social Security has proven to be one of the most effective anti-poverty programs in the country, keeping more than 27 million Americans out of poverty in 2012, it is especially important to people of color. Social Security has a progressive benefit formula that allows workers who make lower wages to get a benefit that is higher relative to their incomes. This is of vital importance to African American and Latino workers because, in the course of their careers, they are more likely to be financially insecure.

African American and Latino workers are more likely than White workers to be unemployed. For example, the African American unemployment rate (9.2 percent)
is twice the rate for Whites (4.4 percent) and slightly higher than the Latino rate (6.4 percent). Furthermore, communities of color are more likely to work in jobs that do not offer retirement savings plans. While 62 percent of White workers have access to employer-based retirement plans, only 54 percent of African Americans, 38 percent of Latinos, and 54 percent of Asian Americans have access to such plans.

People who have less money coming in also have less from which to save for emergencies and retirement. While working-age White households have an average of $112,000 saved for retirement, the average retirement savings of people of color are less than a fifth of that: African American households have about $20,000 and Latino households have about $18,000. By the time workers reach their 30s and 40s, White workers have accumulated about 3.5 times as much wealth as people of color, and by the time workers reach their 60s, White families have accumulated about seven times as much wealth. A typical White family close to retirement has almost $30,000 saved for retirement, while the typical African American or Latino family has no dedicated savings for retirement at all.

Compared to White workers, African American workers are less likely to anticipate retiring and less likely to have enough money for basic needs and health care costs for the remainder of their lives. Forty-six percent of African Americans say they would like to save for retirement but they do not have enough money to do so, while 9 percent of African American men and 5 percent of African American women say they are saving a lot for retirement.

**Is Social Security Doomed?**

Social Security is completely funded by a dedicated payroll tax that is allocated into stand-alone trust funds, which means that no general revenue funds are spent on the program. All of the expenses of the program, including administrative costs, are paid by the trust funds. Retirement and survivor benefits come from the Old Age and Survivors Insurance (OASI) Trust Fund, while disability benefits come from the Disability Insurance (DI) Trust Fund. These trust funds are independently financed and therefore not subject to the overall budgetary requirements of the federal government.
from the Disability Insurance (DI) Trust Fund. For every dollar a worker pays into the program, 85 cents is put into the OASI trust fund and 15 cents is put in the DI trust fund. The two funds are distinct from one another, but are sometimes referred to together as “the Social Security trust fund.”

Workers who have contributed to Social Security through their payroll taxes for at least 10 years are eligible to receive retirement benefits. The more money a worker puts into the system (up to a maximum taxable amount of $118,500), the more benefits he or she will receive. Everyone who pays in will have some degree of security and be able to receive benefits during planned, and often unplanned, life events.

Some people worry that Social Security is going broke and that future generations will not receive any benefits, but this is not the case. According to the 2015 Trustees Report, the $2.8 trillion currently in the trust funds is projected to grow to $2.9 trillion by 2019, and then be drawn down until 2034, when there will be a long-term shortfall. At that point, Social Security will cover about 79 percent of scheduled benefits.

Social Security is not going broke. If the program remains unchanged, beneficiaries will receive full benefits until 2034 and most of their benefits thereafter. But there are many ways that Social Security can be strengthened to ensure that Americans will continue to receive full benefits beyond 2034 and that vulnerable groups are better protected.

Policy Recommendations for Expanding Social Security

There are many ways to improve and expand Social Security so that the program can better protect financially vulnerable workers and their families. The program was created so that the nation could guarantee a basic standard of living to its people. The United States
can afford to fund its priorities and should make the expansion of this program a priority so it can fulfill the role it was created to play, especially for the most vulnerable.

Most recommendations below are excerpted from Plan for a New Future: The Impact of Social Security Reform on People of Color, a report of the Commission to Modernize Social Security. The Commission is composed of experts representing African American, Asian American and Pacific Islander, Latino, and Native American communities, and was convened in 2011 by Global Policy Solutions and the Insight Center for Community Economic Development.

**Increasing the Special Minimum Benefit** to 125 percent of the poverty threshold would protect the most financially vulnerable workers. The special minimum benefit would be increased for workers who have paid into Social Security for at least 30 years and claim benefits at the full retirement age. This increase is crucial because these workers are less likely to have private retirement accounts or discretionary income.

**Providing a dependent care credit** would help workers who spend part of their lives caring for children and disabled or elderly dependents. The time these workers spend out of the workforce can result in lower benefits, which decreases their economic security. A dependent care credit for up to five years could be set at one-half of the average wage.

**Creating a structural-unemployment credit,** similar to the dependent-care credit, would help those individuals affected by stagnating wages, structural unemployment and underemployment. These workers are typically forced to leave the labor force through no fault of their own and face a disadvantage due to the Social Security retirement formula. Like the dependent-care credit, this credit would last up to five years and could be set at one-half of the average wage.

**Reinstating the student benefit** is critical to the economic security of children with parents who are retired, deceased, or disabled. Social Security provides these children benefits until age 19 if they are still in school, or age 18 otherwise. Before 1981, the benefits supported children of workers until age 22 if they were in college or vocational school. When the benefit could last until age 22, it was shown to be particularly helpful to children of low-income and racial and ethnic minority families.

**Increasing benefits by a uniform amount** equal to 5 percent of the average benefit is another way to expand benefits to protect workers, especially those who are near retirement and do not have the time to replace savings lost in the recent recession.

**Increasing revenue** has also been proposed as a method for reforming Social Security. One option is to eliminate the cap on payroll contributions and count the earnings towards benefits with a flatter formula. The cap is indexed to keep up with the growth of average worker earnings, but it has not kept up with the rapid growth of earnings at the top. A new formula could replace a smaller part of the earnings above the old cap so that Social Security would not have to pay very high benefits to the top earners. Other options involve including all new state and local workers in the Social Security system and slowly raising the payroll tax by 1/20th of 1 percent per year for 20 years.

**Some Proposals Would Harm Beneficiaries**

Although we generally assume that politicians and policymakers mean well, some proposals for modifying Social Security are misguided and would actually harm beneficiaries. The following are among these ideas:

**Raising the retirement age** is often suggested as a way to reform Social Security and make the program solvent. This idea assumes that people can work longer because average life expectancy is rising in the United States, but it ignores the fact that life expectancy is different for various groups. Low-
income workers, those without a high school degree, and racial and ethnic minority groups who have lower life expectancies, as well as those who work in labor-intensive occupations, will have a harder time working longer.

Reducing the cost-of-living adjustment (COLA) by a set amount annually, or adjusting the formula so that it pays less, are two changes that could help Social Security reach solvency. However, these solutions underestimate the amount of money workers will need in retirement and significantly cut benefits, which would especially affect women and people of color because women, on average, live longer than men and because women and people of color, in general, hold lower-income jobs.

Price-indexing benefits, or indexing benefits to a combination of prices and wages, is sometimes suggested as a way to change the benefit formula for middle- and higher-income workers. This would translate to a large benefit cut for those making at or above $24,000 per year and lower the purchasing power and economic security of most beneficiaries.

Conclusion

Social Security is fundamental to keeping Americans economically secure in retirement, particularly for people of color. With so many Americans relying on the program, it is clear that Social Security should be improved and expanded. Policies to expand the program should benefit those who are most financially vulnerable, such as lifetime low-wage workers, caregivers, and students whose parents are retired, deceased or disabled. There are many options for raising revenue to provide for these policy priorities, including raising the cap on taxable income. Policymakers should not raise the retirement age, reduce the cost-of-living adjustment, or price index benefits, all of which would hurt American families.
Works Cited


15. Ibid.


19. Ibid.


28. Ibid.


34. Ibid.


