NATIONAL ACADEMY OF SOCIAL INSURANCE

Social Security and the Gap in Retirement Wealth

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On the rise since the late 1970s, inequality in income and wealth among Americans are today at historically high levels.[1] Compounding these broader economic disparities are persistent racial and ethnic gaps in income and wealth. Together, these inequalities have led to significant gaps in retirement wealth among Americans. As policymakers weigh Social Security reforms, it will be critically important to take into consideration the growing inequality in the distribution of retirement wealth.

Background

Social Security and retirement wealth

Economists traditionally measure wealth as personal assets (including income, in addition to the value of savings and other wealth components) minus debt, but exclude Social Security wealth – that is, the value of the benefits workers can expect to receive from the program. Yet Social Security's combined life insurance, disability insurance, and joint and survivor annuities are frequently the largest financial assets Americans have.

Social Security, pensions, and savings comprise the three primary components of retirement wealth.[2] Traditional pensions, which promise employees a lifetime joint and survivor annuity after retirement – or in some cases, optionally, a lump sum – have been steadily declining since the early 1980s.[3] This is due in part to a shift in employment mix toward firms with industry, size, and union status historically associated with low pension coverage rates. Traditional pensions are being replaced by defined contribution plans – voluntary plans to which the worker contributes income pre-tax, often structured with no employer match or contribution.

Traditional pensions and employer-sponsored retirement savings plans have a variety of strengths and weaknesses. None of these private-sector vehicles have proven as effective as Social Security in providing retirement security to low- and middle-income households and households of color.

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[1] Emmanuel Saez and Thomas Piketty, 2003, "Income Inequality in the United States, 1913-1998," Quarterly Journal of Economics, 118(1), 2003, 1-39: Tables and figures updated to June 2014. 2015. http://eml.berkeley.edu/~saez/TabFig2014prel.xls; Thomas Piketty and Gabriel Zucman, "Capital is Back: Wealth-Income Ratios in Rich Countries 1700-2010. http://gabriel-zucman.eu/capitalisback/

[2] Housing assets also play a role, but will not be discussed here.

[3] "Pension Participation of All Workers, by Type of Plan, 1989-2013," 2013, Center for Retirement Research, http://crr.bc.edu/wp-content/uploads/1012/01/Pension-coverage1.pdf.

[4] Edward N. Wolff, 2015, "U.S. Pensions in the 2000s: The Lost Decade?" Review of Income and Wealth 61:4.

Social insurance is particularly valuable to low-income households and people of color

> ***Social insurance programs have unique advantages over individual savings in protecting workers against risks to their economic and health security – particularly for low- and moderate-income households, who are disproportionately people of color.***

Social insurance programs like Social Security, Medicare, and Unemployment Insurance have unique advantages over individual savings in protecting workers against risks to their economic and health security – particularly for low- and moderate-income households, who are disproportionately people of color.[5,6]

Universal coverage

Private retirement accounts have been unable to deliver retirement security to most Americans. The latest data from the Federal Reserve Board's Survey of Consumer Finances reveal that, in 2013, fewer than half (49.2 percent) of American households had any assets in private retirement accounts – the lowest figure since the 1990s.[7] The typical working-age household has been able to accumulate only $2,500 in private retirement savings – and the typical household nearing retirement (aged 55-64) only $14,500; more than half (62 percent) of households nearing retirement have retirement savings that are lower than their annual income.[8] Moreover, among those nearing retirement, only four in ten Black- and three in ten Latino-headed families owned a 401(k) or IRA-style retirement account in 2013, compared with nearly two-thirds of White families.[9]

Social Security, by contrast, provides near-universal coverage. This was not always the case. Prior to the 1950 and 1954 Amendments to the Social Security Act, the program excluded domestic and agricultural workers as well as migrant workers – groups that were disproportionately African-American and Latino.[10] Since then, however, Social Security coverage has been gradually extended to cover virtually all those in paid employment, with the exception of some state and local government workers. That said, more

[5] Rebecca Tippett, Avis Jones-DeWeever, Maya Rockeymoore, Darrick Hamilton, and William Darity, 2014, "Beyond Broke: Why Closing the Racial Wealth Gap is a Priority for National Economic Security," Center for Global Policy Solutions, http://globalpolicysolutions.org/resources/beyond-broke-report/.

[6] Nancy Altman and Eric Kingson, 2015, Social Security Works!: Why Social Security Isn't Going Broke and How Expanding It Will Help Us All, New York: The New Press; National Academy of Social Insurance, 2008, Social Security: An Essential Asset and Insurance Protection for All. https://www.nasi.org/research/2008/report-social-security-essential-asset-insurance-protection.

[7] The Board of Governors of the Federal Reserve System, 2013 Survey of Consumer Finances.

[8] Nari Rhee and Ilana Boivie, 2015, "The Continuing Retirement Savings Crisis," National Institute on Retirement Security, http://laborcenter.berkeley.edu/pdf/2015/RetirementSavingsCrisis.pdf. Among the minority of households who do have private retirement savings, the median household headed by a person aged 55-64 had a combined 401(k)/IRA balance of only $103,200 – enough to purchase an inflation-indexed joint-and-survivor annuity at 65 of just under $500/month.

[9] Authors' calculations using data from The Board of Governors of the Federal Reserve System, 2013 Survey of Consumer Finances.

[10] David Stoesz, 2016, "The Excluded: An Estimate of the Consequences of Denying Social Security to Agricultural and Domestic Workers," CSD Working Paper No. 16-17, Center for Social Development, http://csd.wustl.edu/Publications/Documents/WP16-17.pdf.

work is required to improve employer reporting of domestic and agricultural workers, who are still disproportionately Latino.

Social Security has proven to be a far more effective tool for asset building among low- and middle-income households than private retirement accounts.

Mandatory contributions build assets

Low-income households, who are disproportionately households of color, have less disposable income to save for retirement than higher-earning households, making them less likely to contribute to voluntary retirement accounts. Compounding this barrier to voluntary savings, the incentives to save in the 401(k)/IRA system, as well as the availability of private pension plans like 401(k)s, are skewed toward higher earners. Social Security contributions are mandatory, both for employees and their employers. Due to its universal coverage and its mandatory contributions and employer matches, as well as its much lower administrative costs, Social Security has proven to be a far more effective tool for asset building among low- and middle-income households than private retirement accounts.

Pays out more when need is greater

Because Social Security is insurance that pools risk, it pays out more when certain defined risks occur. Hence, Social Security provides wealth when it is most needed. For example:

- If seniors live to 100, their Social Security benefits continue to fund this longevity, whereas they would likely outlive their 401(k)/IRA holdings. Most workers rely increasingly on Social Security as they age into their 80s and 90s.[11]
- When a worker retires, if his or her spouse is also retired, an additional spousal benefit of up to 50 percent of the worker's benefit may be available.
- For workers with lower earnings, Social Security wealth is higher relative to contributions; that is, benefits replace a larger share of prior earnings.
- If a worker becomes disabled at a young age, Social Security wealth in the form of Disability Insurance is there to cover her. Once she reaches retirement age, her disability benefits convert to retirement benefits and take the place of the retirement benefits she was unable to accrue due to her inability to work.
- If the worker dies prematurely, leaving a spouse and/or children behind, Social Security wealth provides survivors' benefits.

These advantages are magnified for low- and moderate-income workers, who are disproportionately people of color.

[11] SSA, Office of Research, Evaluation, and Statistics, 2016, Income of the Population 55 or Older, 2014, Table 8.A1, https://www.ssa.gov/policy/docs/statcomps/income_pop55/2014/sect08.pdf.

Predictable and secure

Social Security benefits are not exposed to the ups and downs of the stock market. Because these benefits are backed by the full faith and credit of the U.S. government, Social Security wealth is more secure than private retirement wealth. Moreover, savings are less effective than insurance for events that can be projected by actuaries for groups, but are unknowable for individuals. While actuaries can with reasonable accuracy project how many of today's 21-year-olds will survive until retirement age and how long members of that cohort will survive beyond that point, that information is unknowable for any particular 21-year-old. That is another reason that insurance, in the form of Social Security, is a better vehicle for ensuring secure retirements than individual savings.

More redistributive than other vehicles for building retirement wealth

As long as income inequality persists, inequality in retirement wealth will persist. Nonetheless, one of Social Security's core objectives is to provide at least a minimally adequate monthly income in retirement even for those with low lifetime earnings. As noted above, the system achieves this by means of a weighted benefit formula: the benefits of lower-income workers replace a larger share of their prior earnings than for higher-income workers.

The Gini coefficient is a widely used measure of inequality, whereby higher values indicate greater inequality, and lower values less. By this measure, Social Security is a far more egalitarian vehicle for wealth building than the private retirement account system or the housing market. In 2010, the Gini coefficient for Social Security wealth among 47-64 year-old households was 0.31, compared to 0.76 for pension/IRA wealth.[12] Evidence is mixed on the extent to which Social Security is progressively redistributive over a lifetime, particularly in light of the tremendous rise in income inequality since the 1970s and the increasing correlation of life expectancy with income.

[12] Edward N. Wolff, 2015, "U.S. Pensions in the 2000s: The Lost Decade?" Review of Income and Wealth 61:4, 10.1111/roiw.12123.
[13] See, for example, Bipartisan Policy Center Commission on Retirement Security and Personal Savings, 2016, "Securing Our Financial Future: Recommendations for Retirement Security and Personal Savings," http://cdn.bipartisanpolicy.org/wp-content/uploads/2016/06/BPC-Retirement-Security-Report.pdf.

No leakage or fees, and optimal decumulation

Another advantage of Social Security wealth compared to general retirement savings is that the assets cannot "leak out" over time through borrowing, ad-hoc withdrawals, or lump-sum payments at retirement – which many financial and policy analysts consider to be a highly problematic feature of many employer-based and traditional retirement plans.[13]

Social Security wealth constitutes the vast majority of retirement wealth for most low- and middle-income households.

Policy Challenges

Low- and middle-income households have little retirement wealth other than Social Security

Social Security constitutes the vast majority of retirement wealth for most low- and middle-income households. This is partly a result of their low earnings history[14] and partly because they are less likely to have inherited wealth, retirement accounts, and other financial assets than higher-income families.[15,16] Moreover, other than the wealthiest households, Social Security is a significant part of the retirement wealth of even upper-income households.

Social Security and broader retirement wealth can be estimated in a variety of ways and the estimates can vary considerably based on the method and data set chosen. However, two key metrics provide insight into the role Social Security plays in the retirement wealth gap: the ratio of Social Security to other forms of retirement wealth and the ratio of retirement wealth across wealth groups.

The best source of data on Social Security and other retirement wealth for workers aged 47-64 is the Survey of Consumer Finances (SCF).[17] Social Security wealth can be defined as equal to the present value of expected Social Security retirement benefits over a worker's (or couple's) lifetime. The sum of traditional pensions, 401(k)-style plans, and assets in Individual Retirement Accounts (IRAs) can be termed collectively "pension/IRA wealth." These two forms of wealth are compared in Figure 1, on the following page.

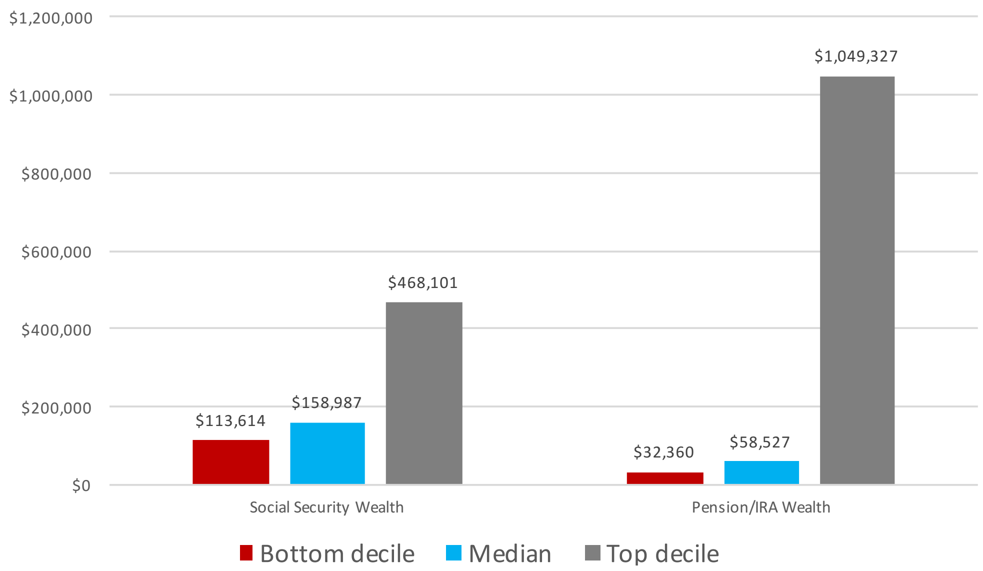
[14] Social Security Administration, 2016, "Fact Sheets for Demographic Groups," https://www.ssa.gov/news/press/factsheets/demographic.htm.

[15] The Board of Governors of the Federal Reserve System, 2013 Survey of Consumer Finances, "Table 6: Family holdings of financial assets, by selected characteristics of families and type of asset."

[16] Jeffrey P. Thompson and Gustavo A. Suarez, 2015, "Exploring the Racial Wealth Gap Using the Survey of Consumer Finances," Federal Reserve Board of Governors, https://www.federalreserve.gov/econresdata/feds/2015/files/2015076pap.pdf.

[17] Edward N. Wolff first uses regression analysis to estimate people's covered earnings through retirement. He then uses the imputed earnings histories to calculate the mortality-adjusted present value of Social Security wealth for current workers. The Survey of Consumer Finances asks current workers detailed questions about past, present, and future pensions. Wolff then uses this information, along with estimates of future earnings, to calculate the mortality-adjusted present value of pension/IRA wealth for current workers. For a more detailed account of his methodology, see Section III of Edward N. Wolff, 2015, "U.S. Pensions in the 2000s: The Lost Decade?" Review of Income and Wealth 61:4.

Figure 1. Social Security and Pension/IRA wealth for households aged 47-64 by income, 2013



Source: Edward N. Wolff's unpublished estimates from 2013 Survey of Consumer Finances.
Note: Income deciles split the population into ten equal parts. The wealth figures here are the average for the bottom and top ten percent of households aged 47-64.

The differences are substantial. Among pre-retired households in the 47-64 age group, the typical household, or what economists call the "median" or "the 50th percentile," has $159,000 in Social Security wealth – 1.4 times that of the typical bottom decile household ($113,600). The average top-decile household has $468,100 – 2.9 times that of the median household. However, the gap in pension/IRA wealth is much larger. The median household holds $58,500 in pension/IRA wealth – 1.8 times that of households in the bottom decile ($32,400) – while the average top decile household's $1,049,200 is almost 18 times that of the median household. Social Security thus helps to mitigate inequality in the distribution of retirement wealth.

Households of color have little wealth other than Social Security

The gap in overall wealth between racial groups is also stark. The net worth of the typical (median) White household in 2013 was 13 times that of the typical Black household – $141,900 versus $11,000 – and 10 times that of the typical Hispanic household, which held $13,700. Between 1983 and 2013, the gap in wealth between Whites and African-Americans increased, with White wealth rising from 10 to 13 times that of Blacks while the gap between Whites and Latinos did not diminish.

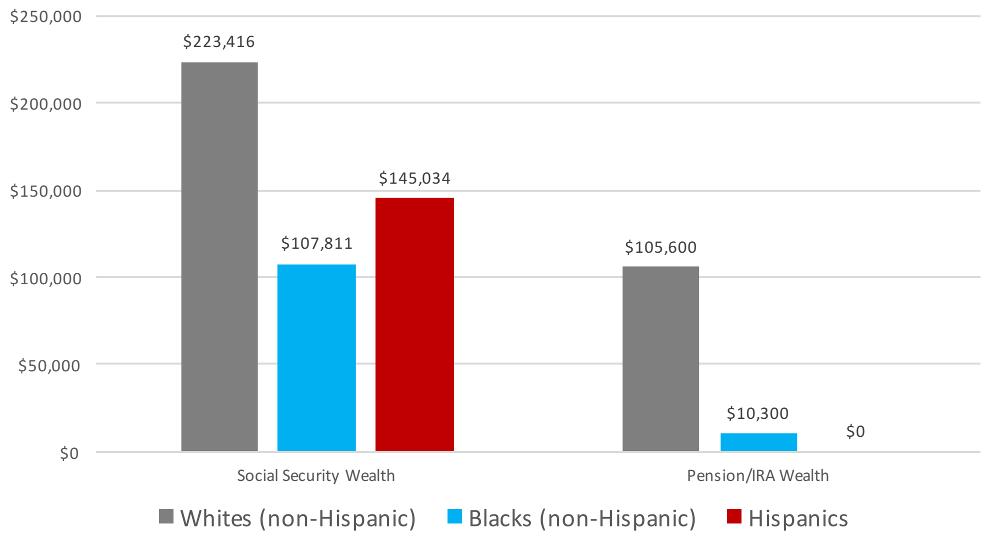
[18] Rakesh Kochhar and Richard Fry, 2014, "Wealth Inequality Has Widened along Racial, Ethnic Lines since End of Great Recession," Pew Research Center, http://www.pewresearch.org/fact-tank/2014/12/12/racial-wealth-gaps-great-recession/.

The result is that households of color are far more dependent on Social Security than their White counterparts. This reflects, in part, the fact that they are less likely to possess inherited wealth, are less likely to work for employers who offer retirement accounts, and have historically suffered discrimination in housing markets.[19] It also reflects lower earnings, which makes it harder for them to save for retirement.[20] Indeed, Social Security's role in mitigating inequality in retirement wealth is even more pronounced for people of color.

The typical (50th percentile) White (non-Hispanic) household aged 47-64 has $223,416 in Social Security wealth (Figure 2, below). This is one-and-a-half times that of the typical Latino household ($145,034) and more than twice that of the typical Black household ($107,811). The racial gap in pension/IRA wealth is much larger, however. The typical White household aged 47-64 holds $105,600 in pension/IRA wealth – more than 10 times that of the typical Black household ($10,300) – while the typical Latino household holds no pension/ IRA wealth whatsoever.

The typical White household aged 47-64 holds $105,600 in pension/ IRA wealth – more than 10 times that of the typical Black household ($10,300) – while the typical Latino household holds no pension/ IRA wealth whatsoever.

Figure 2. Social Security and Pension/IRA Wealth for Median Households Aged 47-64, by Race/Ethnicity, 2013



Source: Edward N. Wolff's unpublished estimates from 2013 Survey of Consumer Finances.

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[19] The Board of Governors of the Federal Reserve System, 2013 Survey of Consumer Finances, "Table 6: Family holdings of financial assets, by selected characteristics of families and type of asset."

[20] Social Security Administration, "Fact Sheets for Demographic Groups," https://www.ssa.gov/news/press/factsheets/demographic.htm.

Wage stagnation and inequality harm retirement preparedness

Stagnant earnings for most workers,[21] growing debt obligations,[22] and rising living costs, especially for healthcare,[23] have limited the income that workers of all racial groups can save for retirement. After three decades of no growth in the aggregate income of the bottom 90 percent of Americans,[24] experts are now projecting that a majority (52 percent) of workers will suffer a decline in living standards in retirement[25] – and close to two-thirds if one also takes into account retiree health care costs.[26]

Retirement risk shift toward individuals

Given the difficulty of accumulating other forms of retirement wealth and the increasingly critical role of Social Security, it is cause for concern that Social Security benefits are actually less generous than they were three decades ago. The 1983 Social Security Amendments scheduled long-term benefit cuts that are still phasing in. The cumulative effect of these cuts is that by 2050, benefits will be 24 percent lower, on average, than they would have been otherwise. Net Social Security benefits will be cut even more, given that Medicare Part B and D premiums, typically deducted from Social Security checks, are likely to increase.

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[21] Social Security Advisory Board, 2015, "2015 Technical Panel on Assumptions and Methods," p. 59 ("Compensation Share of GDP"), http://www.ssab.gov/Portals/0/Technical%20Panel/2015_TPAM_Final_Report.pdf?ver=2015-09-24-113145-693.

[22] Robert B. Reich, 2011, "Hearing on the Endangered Middle Class: Is the American Dream Slipping Out of Reach for American Families?" Testimony for the United States Senate Committee on Health, Education, Labor and Pensions, May 12, 2011 , http://www.help.senate.gov/imo/media/doc/Reich.pdf.

[23] Gary Burtless and Sveta Milusheva, 2012, "Effects of Employer Health Costs on the Trend and Distribution of Social-Security-Taxable Wages," The Brookings Institution, https://www.brookings.edu/wp-content/uploads/2016/06/0509_health_wages_burtless.pdf.

[24] Thomas Piketty and Emmanuel Saez, 2003, "Income Inequality In The United States, 1913–1998," Quarterly Journal Of Economics 118(1), http://eml.berkeley.edu/~saez/pikettyqje.pdf. This refers to 90 percent of aggregate income growth, not 90 percent of earners. From 1948-79, the average annual income of all Americans grew by $22,004; from 1979-2012, it grew by $9,442. These averages mask distributional inequality; from 1979-2012, the aggregate income of the bottom 90 percent actually declined.

[25] Of today's working-age households, 52 percent are projected to fall more than 10 percent below the replacement rate required to maintain their pre-retirement standard of living. For a fuller explanation of the National Retirement Risk Index, see Alicia H. Munnell, Wenliang Hou, and Anthony Webb, 2014, "NRRI Update Shows Half Still Falling Short," Center for Retirement Research, http://crr.bc.edu/briefs/nrri-update-shows-half-still-falling-short/. The 52 percent figure is based on data from the 2013 Federal Reserve Board Survey of Consumer Finances.

[26] Before the Great Recession, the Center for Retirement Research estimated the share at risk of downward social mobility to be 43 percent prior to health and long-term care costs, and 61 percent with health and long-term care costs added: Alicia H. Munnell, Anthony Webb, Dan Muldoon, Francesca N. Golub-Sass, and Mauricio Soto, "Health Care Costs Drive up the National Retirement Risk Index," Center for Retirement Research, http://crr.bc.edu/briefs/health-care-costs-drive-up-the-national-retirement-risk-index/. In 2012, CRR updated its estimate prior to accounting for health and long-term care costs from 43 to 53 percent but did not update the share at risk after adding these costs. It is reasonable to assume that this figure would be around two-thirds: Alicia H. Munnell, Anthony Webb, and Francesca N. Golub-Sass, 2012. "The National Retirement Risk Index: An Update," Center for Retirement Research, http://crr.bc.edu/briefs/the-national-retirement-risk-index-an-update/.

[27] Virginia P. Reno, 2013, "Cutting Benefits Doesn't Strengthen Social Security: Americans Prefer to Improve and Pay for It," submitted to the Subcommittee on Social Security of the House Committee on Ways and Means, https://www.nasi.org/sites/default/files/research/Reno_Ways_and_Means_comments_benefit_cuts_Aug_2013.pdf. The measures which, taken together, are cutting Social Security benefits by 24.2 percent by 2050 consist of an increase in the retirement age (a roughly 13.3 percent cut), taxation of Social Security benefits (a 9.5 percent cut), and a permanent delay of the COLA from July to December (a 1.4 percent cut).

At the same time, within employment-based retirement plans, risk has been transferred from employers to workers.[28] In 1979, 38 percent of private-sector workers participated in a defined benefit pension plan that guarantees a retirement annuity for life. Today, only 14 percent do – and this decline is expected to continue.[29] Pensions have been replaced by individual accounts in defined contribution (DC) plans – chiefly 401(k)s and IRAs – that carry no commitments with regard to retirement security. The individual account model benefits higher earners more than low- and moderate earners, in three ways. First, higher earners (and Whites) are more likely to work for employers who sponsor retirement plans.[30] Second, the private-account model subsidizes individual savings through the tax code, whereby generally the higher one's income and marginal tax rate, the larger the subsidy – thus aggravating income inequality. Third, higher earners are more likely to be able to take advantage of the tax incentives because they have more disposable income.

Private account wealth is far less equally distributed than traditional pensions or Social Security wealth

Social Security wealth is much more equally distributed than individual retirement savings in 401(k)-style plans or IRAs – what might be called "DC plan wealth." The top decile of wealth holders own 21.9 percent of all Social Security wealth – but 62.3 percent of individual retirement savings and 78.9 percent of all net worth. The top one percent own only 2.5 percent of Social Security wealth – but 12.1 percent of individual retirement savings and 37.6 percent of net worth.

The imbalance is even more dramatic when one looks at the lower levels of wealth distribution. The bottom 20 percent collectively account for negative 0.7 percent of all net worth and the bottom half 0.0 percent. For these working households, Social Security wealth is especially important. While the bottom quintile of wealth holders account for just 0.5 percent of individual retirement savings, they claim 11.3 percent of Social Security wealth; the bottom half collectively control 1.8 percent of private retirement savings but 29.6 percent of Social Security wealth.

As traditional defined benefit pensions and Social Security have been replaced by defined contribution plans, DC plans have not picked up the slack for the bottom two-thirds or so of the income spectrum. Among households aged 47 to 64, the bottom 20 percent of wealth holders claim 6.4 percent of traditional pension wealth – but only 0.5 percent of DC plan wealth.

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[28] Jacob S. Hacker, 2006, The Great Risk Shift: The New Economic Insecurity and the Decline of the American Dream, Oxford: Oxford University Press.

[29] Employee Benefit Research Institute, n.d., "What are the trends in U.S. retirement plans?," FAQs About Benefits—Retirement Issues, https://www.ebri.org/publications/benfaq/index.cfm?fa=retfaq14.

[30] Craig Copeland, 2014, "Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2013," EBRI Brief No. 405, Figures 1 and 2, pp. 9-11.

In contrast, the top decile of wealth holders claim 24.9 percent of assets in traditional pensions – but 62.3 percent of the value of DC plan wealth. Although the distribution of traditional pension wealth is still not progressive, lower-income groups would have been much better served by the retention of traditional defined benefit pensions plans and increased Social Security wealth.

Policy Options

Social Security faces challenges to both its long-term funding (for more on Social Security's financing challenges, see Section 1.a of this *Report*) and the adequacy of the benefits it provides. In addressing the one problem, policymakers must take care not to aggravate the other. Policymakers have a range of remedies available to them that, taken together, could address solvency while also reducing gaps in retirement wealth among Americans. The following are a list, by no means exhaustive, of some of these options.

I. Revenue options

Eliminate Social Security tax cap and credit contributions toward benefits

Social Security's revenue base could be broadened to encompass more of the earnings of high-income participants. This would simultaneously reduce the harm to Social Security's finances that has resulted from growing income inequality, and provide revenue to extend system solvency or fund targeted benefit expansions. Currently, earnings above $127,200 are not subject to Social Security payroll tax. The payroll tax cap was eliminated for Medicare Part A (Hospital Insurance) in 1994 without any public backlash or clearly discernable impact on the economy. Indeed, by helping to shore up Social Security's finances and fund expanded benefits, eliminating the cap would stimulate economic growth by shifting income from high earners to seniors and people with disabilities, who have a higher marginal propensity to consume.

The payroll tax cap was eliminated for Medicare Part A (Hospital Insurance) in 1994 without any public backlash or clearly discernable impact on the economy.

Incorporate high earners' investment income into Social Security

Both to mitigate income inequality and help Social Security keep pace with overall income growth, the investment income of high earners could be incorporated into the program's contribution and benefit base.[31] The Affordable Care Act set the precedent for subjecting investment income

[31] For Social Security, incorporation of investment income is more complicated than for Medicare. Medicare gives everyone the same benefit, whereas in the Social Security system, benefit levels are related to contributions. On labor income, employers and employees

to social insurance contributions with its Medicare Net Investment Income Tax (NIIT), which levies a 3.8 percent tax on the unearned income of those with modified adjusted gross income (MAGI) above $200,000 ($250,000 for couples).[32]

II. Benefit options

Strengthen the minimum benefit

A special minimum benefit was added to Social Security in the 1970s to ensure that low-paid workers who work at least 30 years receive a benefit that provides a basic level of adequacy. Because the minimum benefit is currently not adjusted for wage growth, however, it no longer fulfills this purpose, and many long-term low-paid workers receive a Social Security benefit that still leaves them in poverty. There are a variety of proposals to update the minimum benefit to address this problem.[33] These proposals would set the benefit to the poverty level but index it to wage growth in the future to prevent it from deteriorating over time.

Grant caregivers partial Social Security earnings credits

The aging of the Boomer generation and an impending gap in the availability of paid caregivers is creating a crisis for many working households – and for society as a whole.[34] Social Security caregiver benefits would improve the economic security of individuals who temporarily leave the workforce to provide care for a family member. (For more on caregiving, see Section 5 of this *Report*.) One approach would be to grant Social Security earnings credits to workers who take time off to care for a child under the age of six[35] or an ailing family member of any age. If earnings in a given year fell below a certain amount – for example, 50 percent of the average wage – the worker

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each pay a 6.2 percent contribution, known as FICA (after the Federal Insurance Contributions Act of 1935); the self-employed pay the entire 12.4 percent rate (the self-employed can deduct the employer half as a business expense, however). For high earners' investment income to count fully toward benefits, it would have to be subject to FICA at the 12.4 percent rate, since, in the case of investment income, there is no employer to pay half. One way to incorporate high earners' investment income into the Social Security contribution and benefit base, then, would be to subject this income to the combined 12.4 percent FICA rate. This is already done in the case of self-employment (Form C) earnings. That would represent a very large increase in the levies on high earners' investment income, however. A more moderate approach would be to subject high earners' investment income to half the total FICA rate – 6.2 percent – and, accordingly, count half of this income toward Social Security benefits. Such a proposal could be structured similarly to the Medicare NIIT (taxation of net investment income, owed by those with MAGI above $200,000 [$250,000]).

[32] These threshold amounts are not indexed for inflation and hence will capture an ever larger segment of the top of the income distribution over time. The tax is equal to 3.8 percent of the lesser of either 1) a household's net investment income or 2) its MAGI (which includes investment income) in excess of the $200,000/$250,000 threshold. MAGI includes wages, salaries, other compensation, dividend and interest income, business and farm income, realized capital gains, and income from a variety of other activities. Net investment income includes interest, dividends, capital gains, nonqualified annuities, royalties and rents, and passive income from businesses, including those trading financial instruments or commodities. Mark P. Keightly, 2012, "The 3.8% Medicare Contribution Tax on Unearned Income, including Real Estate," Congressional Research Service, http://www.law.umaryland.edu/marshall/crsreports/crsdocuments/R41413_05182012.pdf.

[33] See, for example, Laura Sullivan, Tatjana Meschede, and Thomas Shapiro, 2009, "Increasing the Social Security Special Minimum Benefit and Updating SSI," National Academy of Social Insurance, https://www.nasi.org/discuss/2009/03/increasing-social-security-special-minimum-benefit-and; Bipartisan Policy Center Commission on Retirement Security and Personal Savings, "Securing Our Financial Future: Recommendations for Retirement Security and Personal Savings," June 9, 2016. http://cdn.bipartisanpolicy.org/wp-content/uploads/2016/06/BPC-Retirement-Security-Report.pdf; and SSA, Office of the Chief Actuary, 2016, "Individual Changes Modifying Social Security," Provision B5, https://www.ssa.gov/oact/solvency/provisions/index.html.

[34] Donald Redfoot, Lynn Feinberg, Ari Houser, 2013, "The Aging of the Baby Boom and the Growing Care Gap: A Look at Future Declines in the Availability of Family Caregivers," American Association for Retired Persons, http://www.aarp.org/home-family/caregiving/info-08-2013/the-aging-of-the-baby-boom-and-the-growing-care-gap-AARP-ppi-ltc.html.

[35] SSA, Office of the Chief Actuary, 2016, Provision B7.3.

would be credited with additional earnings to bring her or his earnings up to 50 percent of the average wage for the purpose of calculating Social Security benefits. Caregiver credits could be limited to a maximum of five years.

Caregiving supports would likely reduce the racial wealth gap. Social Security benefits are based on the individual's top 35 earnings years. Roughly the same proportion of White and Black Americans – approximately one-fifth of each demographic – are engaged in providing care for a family member.[36] But people of color are disproportionately lower earners and less likely to have a total of 35 earnings years. Therefore, caregiving years are more likely to add zeros to their earnings records, lowering their Social Security benefits.

Women disproportionately assume caregiving responsibilities: the latest time-use survey by the U.S. Department of Labor shows that women spend more than twice as much time as men caring for household members and more than 1.5 times as much maintaining the household.[37] Women of color are doubly burdened by the gender and racial gap in retirement wealth. (For more on women's retirement security, see Section 1.c of this *Report*.) Caregiver credits would therefore be particularly effective at reducing the retirement wealth gap experienced by one of society's economically most vulnerable subgroups.

Strengthen benefits for low- and moderate-income workers

Access to traditional pensions has been steadily declining and the vast majority of low- and middle-income workers have been unable to accumulate sufficient retirement account savings. Expanding Social Security benefits for these workers would bolster wealth-building among low-income workers in general and people of color in particular.

There are three ways to do this, two of which involve modifying the benefit formula.[38] The first step in calculating an individual's Social Security benefit is to determine his or her career average monthly earnings (Average Indexed Monthly Earnings, or AIME), adjusted for wage inflation. Next, a benefit formula is applied to determine the Primary Insurance Amount (PIA) – the benefit an individual would receive if he or she began receiving benefits at the Full Retirement Age. The formula is progressive: the PIA is the sum of 90 percent of the worker's career average monthly earnings up to $856 (the first bend point in 2016); 32 percent of the amount between $857 and $5,157 (the second bend point); and 15 percent of average earnings above $5,157, up to the taxable maximum of $9,875.

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[36] American Psychological Association, 2016, "Cultural Diversity and Caregiving," http://www.apa.org/pi/about/publications/caregivers/faq/cultural-diversity.aspx.

[37] U.S. Department of Labor, 2016, "American Time Use Survey Tables," Washington, DC: U.S. Department of Labor Bureau of Labor Statistics, http://www.bls.gov/news.release/atus.t01.htm: Table A-1.

[38] SSA, Office of the Chief Actuary, 2016, Provisions B1, B2, B3.

One way to improve benefits for low- and moderate-income earners would be to increase the PIA factor applied to the portion of career average monthly earnings below the first bend point above the current 90 percent. This would increase benefits for everyone, but workers with the lowest average earnings – including women and people of color – would see the largest percentage increase. A second way to improve benefits would be to raise the first bend point so that more earnings are multiplied by the highest PIA factor (currently 90 percent). This would increase benefits for all individuals with career average earnings above $856 per month – but the largest percentage increase would go to workers with the lowest average earnings.

Reinstate student benefits

Under current rules, the child of a deceased or disabled parent may qualify to receive Social Security benefits based on that parent's work record – but not beyond high school. Until 1983, benefits continued until age 22, provided the child attended college or vocational school. One proposal would restore the age limit to 22.[39] Studies have shown that this change could boost college attendance rates among Black and low-income students.[40] Since higher educational attainment is associated with higher earnings and greater wealth-building capacity, extending student benefits could increase opportunities for wealth-building among these groups.

Update survivors benefits

Social Security provides survivor benefits to widows and widowers age 60 or older and households with school-aged children or dependent elderly parents. For couples where only one spouse worked, the surviving spouse receives 100 percent of her deceased partner's retirement benefit. However, for couples with similar earnings histories, the surviving spouse can lose up to half of the couple's combined Social Security income, even though the household's living costs decline much less sharply – a situation Social Security's architects could not have anticipated 80 years ago. Households that rely on Social Security for most of their income are particularly hard hit by this situation.

One proposal to modernize survivors benefits would better serve dual-earning couples by providing surviving spouses 75 percent of the sum of the survivor's and deceased worker's retirement benefits, with the total survivors benefit not to exceed the benefit an average earner would receive.[41]

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[39] SSA, Office of the Chief Actuary, 2015, "Individual Changes Modifying Social Security," Provision D1; Bipartisan Policy Center Commission on Retirement Security and Personal Savings, "Securing Our Financial Future: Recommendations for Retirement Security and Personal Savings," June 9, 2016. http://cdn.bipartisanpolicy.org/wp-content/uploads/2016/06/BPC-Retirement-Security-Report.pdf
[40] Alexander Hertel-Fernandez, 2010, "A New Deal for Young Adults: Social Security Benefits for Post-Secondary School Students," National Academy of Social Insurance, https://www.nasi.org/research/2010/new-deal-young-adults-social-security-benefits-post; Susan M. Dynarski, 1999, "Does Aid Matter? Measuring the Effect of Student Aid on College Attendance and Completion," National Bureau of Economic Research, Working Paper No. 7422, http://www.nber.org/papers/w7422.
[41] SSA, Office of the Chief Actuary, 2015, "Individual Changes Modifying Social Security," Provision D4.

black women are less likely to qualify for spousal benefits than their White or Hispanic counterparts, though about 50 percent would still benefit from this change. Because married black women contribute a larger share of family income than married women in other groups, the change would be particularly beneficial to them.

Conclusion

Sharpening divisions in income and wealth over the past four decades, layered over a long-existing racial gap in income and wealth, pose profound threats to retirement security for today's workers. Retirement security – and indeed, retirement itself – are becoming increasingly difficult to achieve for low- and middle-income workers. Social Security substantially reduces the gap in retirement wealth in America. As policymakers approach the next round of Social Security legislation, they should keep in mind the impact long-term trends in the distribution of market income have on workers' retirement preparedness, the impact of inherited wealth inequality, and the risk shift in our retirement system. Targeted reforms along the lines outlined here could reduce gaps in retirement wealth.