

Workers with Low Social Security Benefits: Implications for Reform

Melissa M. Favreault

As proposals to close Social Security's long-term funding gap gain attention, it's important to understand why some older Americans end up with low Social Security retirement benefits. Proposals that consider up-to-date information about whom the current system fails to shield from poverty or near-poverty and how these groups may change in coming decades stand a better chance of reducing beneficiary need in retirement. With the recent recession creating economic hardship for many American families and battering government budgets at all levels, Social Security's resources must be targeted efficiently.

Social Security has substantially reduced need among older Americans. Between 1959 and 2008, the poverty rate for adults age 65 and older fell from 35 to 10 percent (DeNavas-Walt, Proctor, and Smith 2009). Average Social Security benefits have increased relative to the poverty level over the past 35 years because wages, which determine Social Security benefits, have grown about 1 percentage point faster on average than prices each year (figure 1). By 1982, men's average retired worker benefit equaled the poverty level for an individual, and by 2009 it exceeded 1.4 times the individual poverty level.¹ Women's average retired worker benefit has also grown relative to the poverty level, although it reached the individual poverty threshold only in 2007.

However, benefit levels vary widely, and many receive limited Social Security payments. In 2009, about 36 percent of retired workers and nondisabled widows received benefits that fell below the individual poverty level (Favreault 2010).

This brief identifies the characteristics of Social Security beneficiaries age 64 to 73 with family benefits below the poverty level in 2003. We focus on these relatively young retirees because older beneficiaries provide less useful information about how the system should be reformed for future generations, given the rapid change in women's work histories and the growth of the Social Security system. We identify factors associated with low benefits, describe how they are changing, and discuss what this implies for future Social Security adequacy and reform proposals. Data come from the Health and Retirement Study, a large survey of older Americans with matches to administrative benefits and earnings records. Favreault (2010) provides additional details.²

Older Americans with limited Social Security benefits share a number of characteristics. They are disproportionately women, racial minorities, and unmarried. Many spent time out of the labor force caring for young children. Less-educated workers are also very vulnerable, sometimes even when they have worked long careers.

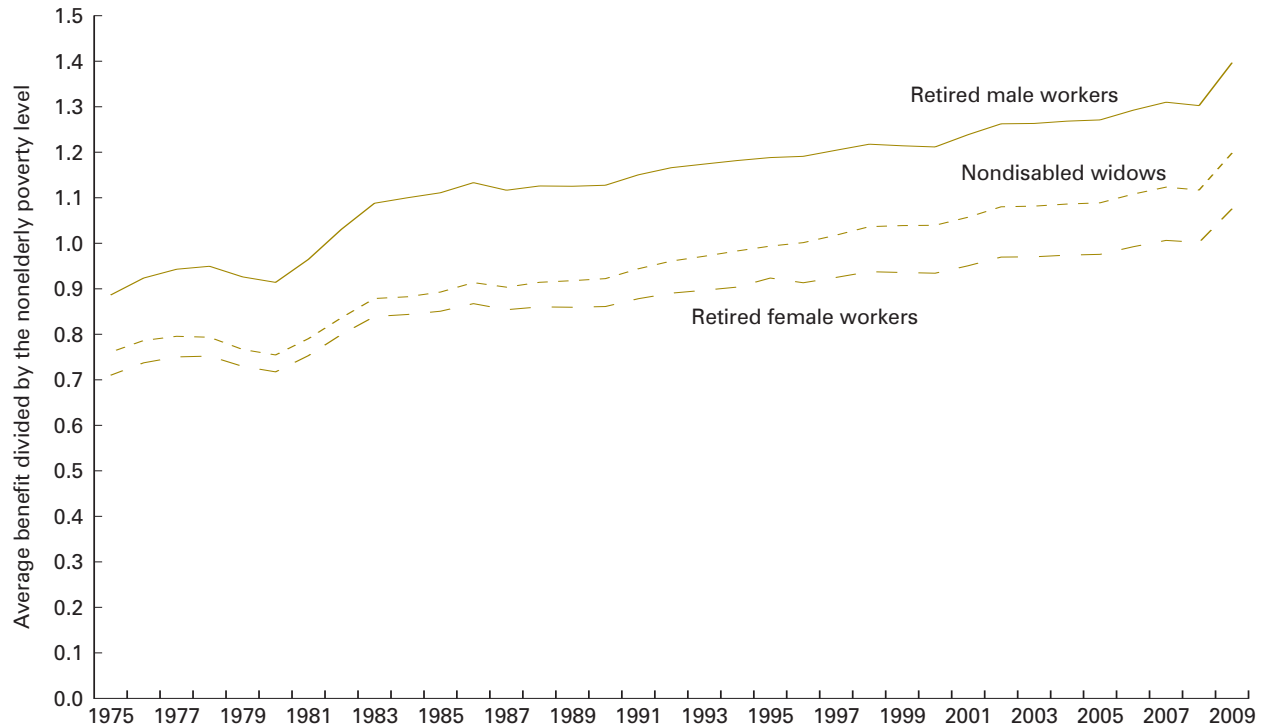
Factors Associated with Low Social Security Benefits

Low Social Security benefits are strongly related to individual characteristics and earnings histories. These associations suggest possible ways of shoring up Social Security and adopting other policies to help low-wage, low-skilled workers achieve more success in the labor market and greater security in retirement.

Individual Characteristics

About 21 percent of Americans age 64 to 73 received sub-poverty family Social Security

FIGURE 1. Average Social Security Benefits as a Share of the Poverty Level, by Type of Benefit, 1975–2009



Source: Author’s calculations from U.S. Census Bureau (2010) and Social Security Administration (2009), tables 5.C2 and 5.F6.

Notes: Based on annualized December benefits. Because December benefits reflect the benefits that will be paid in the next calendar year, the year represented along the horizontal axis is the year in which the benefits are paid (evaluated against the nonelderly poverty level that same year).

benefits in 2003 (figure 2). Sub-poverty benefits are much more prevalent among racial and ethnic minorities, women, and those with limited education. For example, 43 percent of African Americans and 53 percent of Hispanics born out-

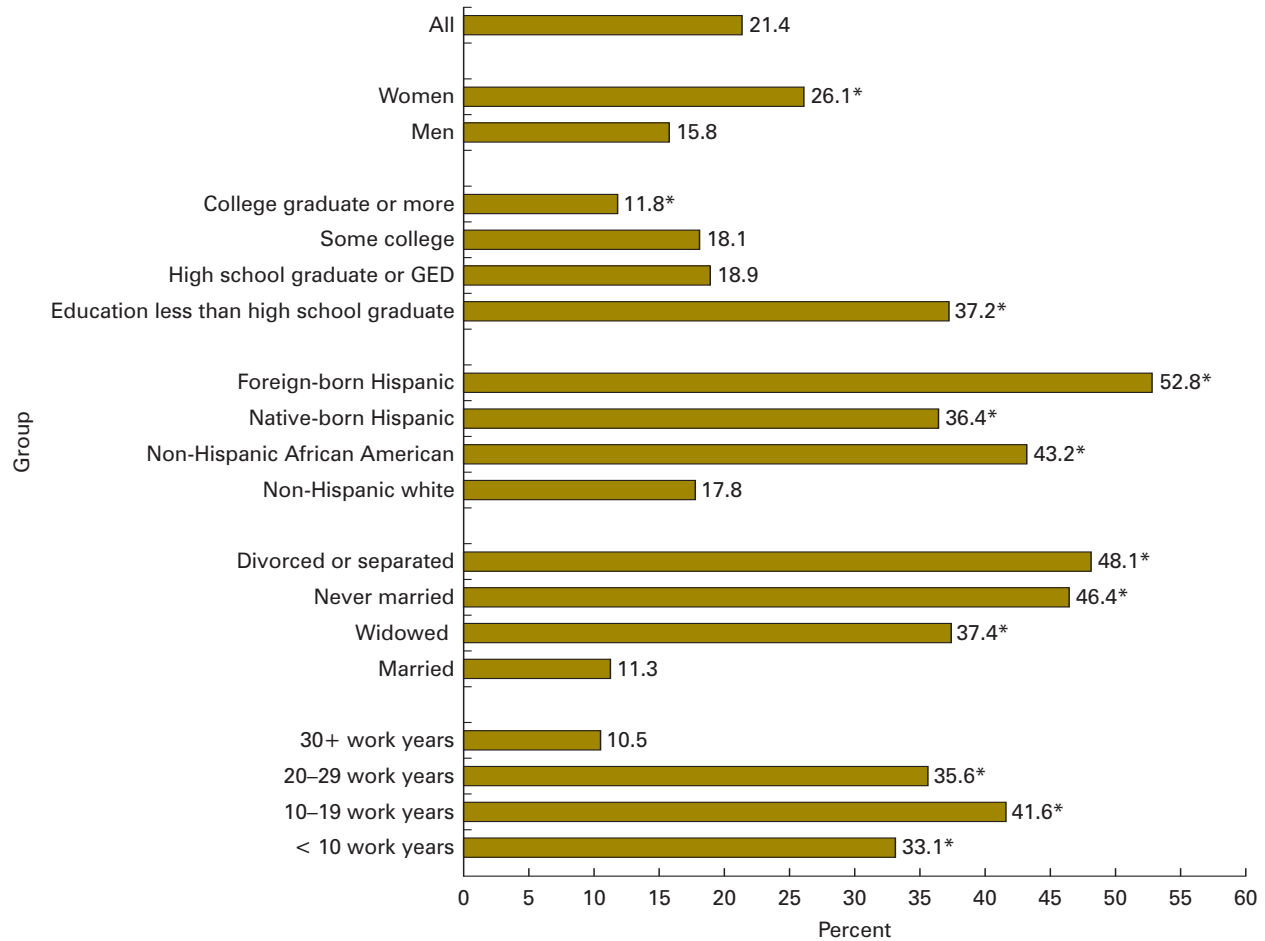
side the United States (but who immigrated before age 38) received Social Security benefits that fell below the poverty level in 2003. Slightly more than one-quarter of women have limited benefits, compared with about one-sixth of men.

BOX 1. How Social Security Works

In return for payroll tax contributions, Social Security provides inflation-protected benefits for retired and disabled workers and their dependents and survivors. Benefit levels depend on many factors. When computing benefits, annual covered earnings are capped at the taxable maximum (the point after which neither workers nor employers contribute payroll tax on earnings, set at \$106,800 in 2010), averaged over 35 years, and then replaced using a progressive formula. Survivor or disability benefits can be based on fewer years for workers who die or become disabled early in their careers. Workers who first claim benefits early receive actuarial reductions, while those who wait until after the full retirement age to claim receive delayed retirement credits.

Widow(er)s are eligible for a benefit equal to their deceased spouse’s full benefit. People with lower earnings than their spouses can often receive benefits equal to half their spouse’s benefit (while the spouse is still alive), as long as their marriages last at least 10 years. Like retired worker benefits, both spouse and survivor benefits are reduced when beneficiaries claim early.

FIGURE 2. Social Security Beneficiaries Age 64 to 73 Receiving Family Benefits Less than the Poverty Level, by Selected Demographic Characteristics, 2003



Source: Author’s estimates from Health and Retirement Study (HRS) matched to summary earnings record, detailed earnings file and master beneficiary record.

Notes: Sample excludes workers with at least 5 years uncovered employment since 1981 and immigrants who spent 20 or more adult years outside the United States. Estimates are weighted using HRS respondent weight for 2004. Social Security benefits rely on self-reported data for those without administrative matches. For married people, we combine own and spouse benefit when both are beneficiaries and information is non-missing and compare to the poverty level for a couple. For age-eligible spouse nonclaimants with earnings histories, we compute the benefit to which s/he would be entitled if claiming this year. If a spouse has missing information, then we compare to the poverty level for an individual. For partial-year beneficiaries (because of midyear claiming or the retirement earnings test), we fill in zero months with an estimated benefit based on months in which full benefit was paid. Social Security benefits for family members other than spouses are not included. Percentages may not sum to 100 because of rounding.

* group’s mean differs significantly from the reference group mean, typically the mode (for example, high school graduates and married people), at at least the $p < 0.05$ level.

Beneficiaries who did not complete high school are about three times as likely to receive sub-poverty benefits as college graduates.

Marital status is closely related to benefit levels. Nearly half (46 percent) of claimants who have not been married at least once for 10 or more years—the minimum qualifying duration

for Social Security spousal benefits in case of divorce—have low family benefits, compared with just more than a fifth (19 percent) of those with long marriages. Adults not currently married have a much higher risk of low benefits than married beneficiaries. Widow(er)s are somewhat less likely to have below-poverty-level benefits

than those who never married or divorced, but all three groups face significant risk.

Home owners are significantly less likely to receive below-poverty family Social Security benefits than those who do not own a home, as are those with poor health (Favreault 2010). This underscores the multidimensional nature of economic vulnerability.

Employment Histories

Sub-poverty benefit risk declines significantly with work years (figure 2). We define a work year as having at least four covered quarters of earnings (equal to \$4,480 annually in 2010). The risk of a less-than-poverty-level benefit drops from 42 percent for those with 10 to 19 work years to only 10 percent for those with 30 or more covered years. The exception to this pattern is that those with fewer than 10 work years are less likely to receive very low benefits than those with more work years. This group consists of spouse- and survivor-only beneficiaries (who qualify for benefits based on a spouse's earnings rather than their own) and disabled workers with disability onset at a young age.

These findings suggest that although Social Security relates worker benefits to earning histories, some significant disparities can arise between workers and low- or nonworking spouses (especially those who are married to higher-earning workers). While most beneficiaries who worked fewer than 20 years have family benefits that exceed the poverty level, an important minority of those who worked a full career do not.

Long-Term Workers with Low Benefits

Beneficiaries with long work histories who still have low benefits are of special policy interest, so we explore their characteristics further (figure 3). Those with less than high school educations are about twice as common in the sample of those who have worked at least half-time, half-year at the minimum wage for 35 or more years without earning a poverty-level benefit than in the overall beneficiary sample. African Americans are three

and a half times more prevalent in the long-career, low-benefit sample than in the beneficiary population as a whole. These without a marriage that lasted long enough to qualify them for Social Security spouse or survivor benefits are also three times more prevalent in our sample of long-term workers with low benefits. These low-benefit workers are concentrated by occupation, with disproportionate shares having held service or operator positions or having worked in farming, forestry, or fishing as their longest job.

Caregiving, Uncovered Employment, and Claiming Histories

Older Americans who spent time outside the labor force to care for children are likely to receive only limited Social Security benefits. About a third of those who took five or more years off to care for children have low benefits, compared with about one-sixth of those who never left the labor force as caregivers (figure 4).³

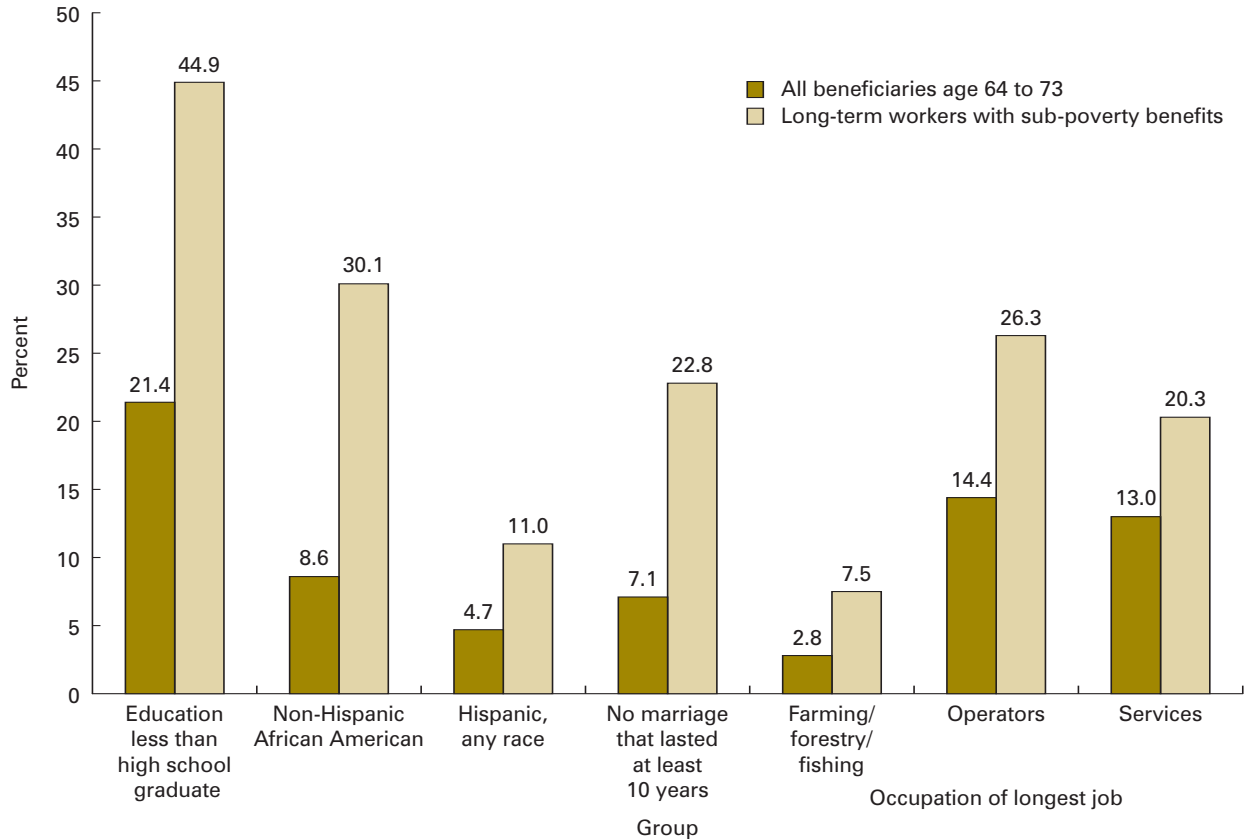
Early claiming and work in employment that Social Security does not cover are also strongly associated with low-benefit risk. Over 24 percent of those who claim at age 62 or younger have family benefits below the poverty level, compared with 14 percent for those claiming at age 65 and older. About 39 percent of those with one to four uncovered years have low benefits, compared with only 20 percent of those who worked only in covered jobs. (Recall that our sample excludes those with five or more years of uncovered employment.)

Beneficiaries who become severely disabled and collect Disability Insurance (DI) benefits are more likely to have benefits that are less than the poverty threshold than those who claim retirement benefits without ever receiving DI (35 percent versus 20 percent).

Projected Trends in Risk Factors

The Social Security beneficiary population will continue to change in coming decades. Several trends will likely reduce the fraction reaching retirement with low Social Security benefits. For

FIGURE 3. Selected Groups Overrepresented among Those with Benefits below the Poverty Level and Substantial Numbers of Work Years, 2003



Source: Author’s estimates from Health and Retirement Study (HRS) matched to summary earnings record, detailed earnings file, and master beneficiary record.

Notes: Sample excludes workers with at least 5 years uncovered employment since 1981 and immigrants who spent 20 or more adult years outside the United States. Estimates are weighted using HRS respondent weight for 2004.

example, the older population is now better educated than in the past, and more women will reach retirement with extensive work histories (Favreault and Steuerle 2008); both these changes will increase payouts. Wage growth will also likely boost future benefit levels.

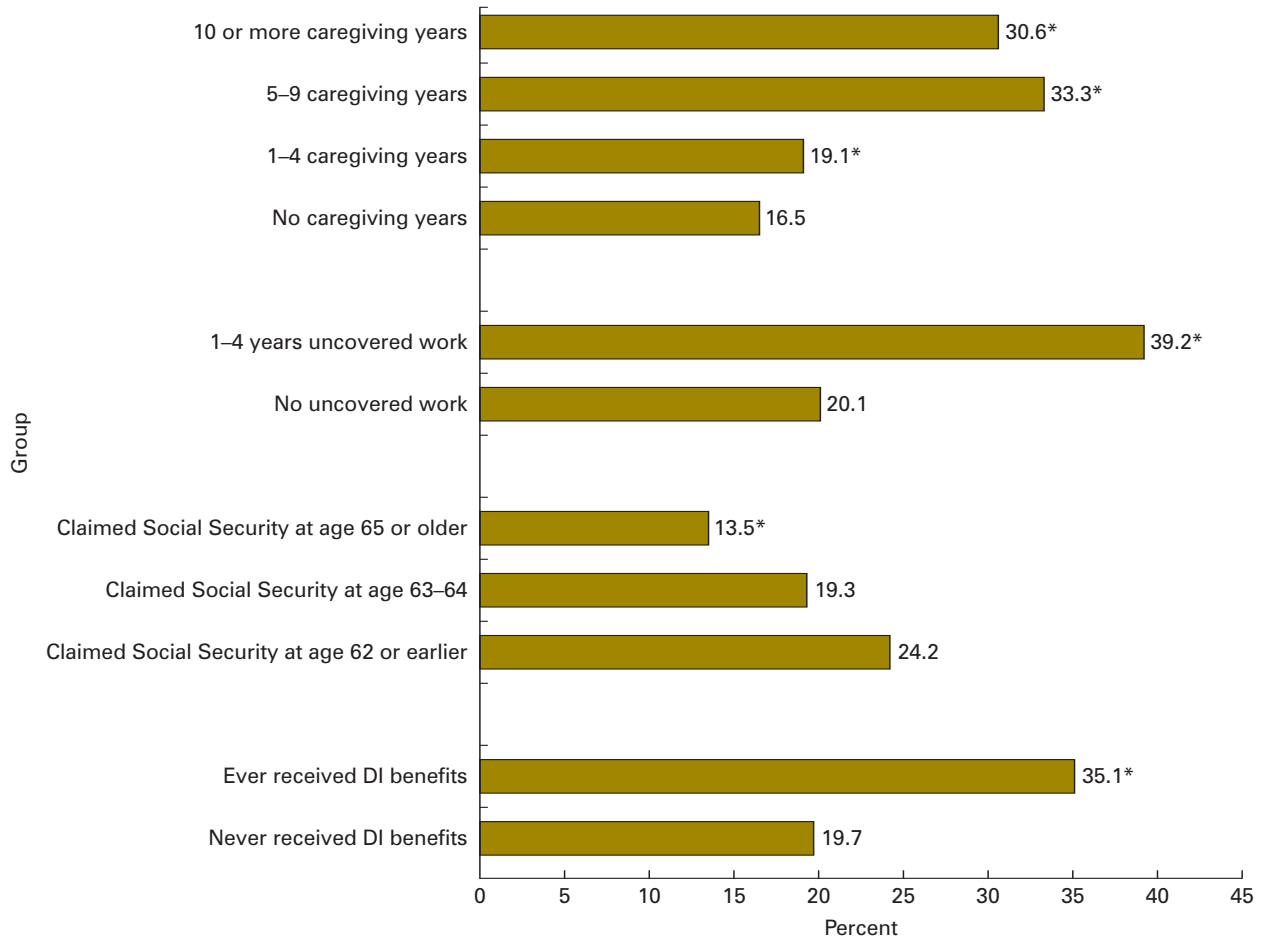
Other changes, however, could offset some of these improvements. Declining marriage rates will reduce the share of retirees with spouses and the associated financial protection, and increased levels of single parenthood often imply concentrated caregiving responsibilities that can inhibit career growth. High immigration levels throughout the 1990s and early 2000s, coupled with changes in immigrants’ characteristics (including education levels), could also slow reductions in

beneficiary poverty risk. Programmatic changes like the continued increase in the age at which retirees may claim full benefits could also erode progress in poverty reduction, as could future changes to address the program’s financing deficit. Working longer could help many future beneficiaries offset these reductions.

Policy Implications

Intermittent work histories—including work interruptions for caregiving and unemployment—and relatively early labor force withdrawal are dominant factors in explaining poverty risk among Social Security beneficiaries. Low-wage, less-educated workers are far more vulnerable to

FIGURE 4. Percent with Social Security Benefits of Less than Poverty, 2003, by Caregiving, Uncovered Work, and Benefit Claiming Histories



Source: Author’s estimates from Health and Retirement Study (HRS) matched to summary earnings record, detailed earnings file, and master beneficiary record.

Notes: See figure 2 notes for additional information about the sample and methods. Reference groups for the significance tests are no caregiving years, no uncovered work, age 62 Social Security claimants, and those who never received DI.

* group’s mean differs significantly from the reference group mean at at least the $p < 0.05$ level.

unemployment and disability than for those entering the labor force with more advantages.

A two-pronged approach that addresses both early life circumstances that lead to intermittent work histories and Social Security enhancements would most effectively reduce retirement vulnerability for these groups. Work supports, such as subsidized child care and paid leave, would increase parents’ work continuity, and investments in adult education and training could promote wage growth (Zedlewski, Chaudry, and Simms

2008). The earned income tax credit can draw more low-wage workers into the labor force. Together, these policies could help low-wage workers earn higher Social Security benefits when they reach retirement.

Social Security enhancements to aid beneficiaries with intermittent histories would include caregiver credits or a minimum benefit that integrated caregiving, unemployment, and disability credits (for example, National Academy of Social Insurance 2009). One rationale for implementing

caregiver credits is that raising the next generation of workers is vital for our economy and Social Security's fiscal health, so the program should better recognize caregivers' contributions to the system, as many other countries' pension plans do (Herd 2009). Another possibility would be a caregiver benefit—rather than work history credits—based on the poverty threshold (National Academy of Social Insurance 2009). More generous minimum benefits—even without caregiver adjustments—could also help this population as long as the work requirements were not too stringent (see, for example, Favreault, Mermin, and Steuerle 2006). When considering expanding minimums or other broad-based benefit expansions, however, program interactions must be considered.

Some workers with long-term low lifetime earnings (for example, those who worked over 30 years at earnings equivalent to at least half-time, half-year at the minimum wage) do not qualify for a Social Security benefit that would keep them out of poverty. This important subgroup of at-risk beneficiaries clearly does not represent the majority of beneficiaries at risk of poverty—at most, they represent about a quarter (see Favreault 2010, table 2).

To meet the needs of these long-term, low-wage workers, policymakers could adjust Social Security's bend points or replacement percentages, perhaps while adjusting for career length to maintain good work incentives; create a new minimum benefit tied to work years; or adjust the special minimum benefit under current law so it provides a level of support greater than the poverty level (see, for example, National Academy of Social Insurance 2009).

Other aspects of Social Security could also improve benefit adequacy. For example, some propose shoring up benefits for widows, reducing the marriage duration requirement from 10 to 7 years, or increasing the replacement percentage for divorced spouses. Others argue that delays in Social Security benefit claiming could increase benefit adequacy.

Beefing up the social assistance safety net, particularly the Supplemental Security Income

(SSI) program, could also address the needs of those with limited work histories. Given the diverse factors and histories associated with low-benefit receipt, working on multiple fronts to shore up Social Security and SSI will likely be necessary to ensure that the program continues to meet the needs of American families in coming decades.

Notes

1. These calculations use the nonelderly poverty level set by the Census Bureau, as a significant fraction of Social Security's beneficiary population is younger than age 65. Also, because the nonelderly level is higher than the elderly level and the official poverty threshold often understates needs (Citro and Michael 1995), the nonelderly level may more accurately estimate older Americans with insufficient benefits.
2. The analysis excludes beneficiaries with at least five years of earnings in uncovered government employment since 1981 and immigrants who arrived in the United States after age 38. Many in both groups are likely to receive substantial retirement income from sources outside Social Security. Favreault (2010) provides sensitivity analyses of various sample choices.
3. This estimation is based on a narrow definition of caregiving: whether a beneficiary did not have any earnings at the same time that a child age 5 or younger was present in the home.

References

- Citro, Constance F., and Robert T. Michael. 1995. *Measuring Poverty: A New Approach*. Washington, DC: National Academies Press.
- DeNavas-Walt, Carmen, Bernadette D. Proctor, and Jessica C. Smith. 2009. *Income, Poverty, and Health Insurance Coverage in the United States: 2008*. Current Population Report P60-236. Washington, DC: U.S. Census Bureau.
- Favreault, Melissa M. 2010. "Why Do Some Workers Have Low Social Security Benefits?" Washington, DC: The Urban Institute.
- Favreault, Melissa M., and C. Eugene Steuerle. 2008. "The Implications of Career Lengths for Social Security." Working Paper 2008-05. Boston: Center for Retirement Research at Boston College.
- Favreault, Melissa M., Gordon B. T. Mermin, and C. Eugene Steuerle. 2006. "Minimum Benefits in Social Security: Design Details Matter." Older Americans' Economic Security Brief 10. Washington, DC: The Urban Institute.

Herd, Pamela. 2009. "Women, Public Pensions, and Poverty: What Can the United States Learn from Other Countries." *Journal of Women, Politics, and Policy* 30(2/3): 301–34.

National Academy of Social Insurance. 2009. *Strengthening Social Security for Vulnerable Groups*. Washington, DC: National Academy of Social Insurance.

Social Security Administration. 2009. *Annual Statistical Supplement, 2008 to the Social Security Bulletin*. Washington, DC: Social Security Administration.

Zedlewski, Sheila, Ajay Chaudry, and Margaret Simms. 2008. "A New Safety Net for Low-Income Families." Washington, DC: The Urban Institute. <http://www.urban.org/url.cfm?ID=411738>.

About the Author

Melissa M. Favreault is a senior research associate in the Urban Institute's Income and Benefits Policy Center.

Acknowledgments

This brief was funded by a generous grant from the Rockefeller Foundation. The author is grateful to Richard W. Johnson, C. Eugene Steuerle, and Sheila R. Zedlewski for valuable comments on an earlier draft.

THE RETIREMENT POLICY PROGRAM

<http://www.retirementpolicy.org>

The Retirement Policy Program addresses how current and proposed retirement policies, demographic trends, and private-sector practices affect the well-being of older individuals, the economy, and government budgets.

Copyright © June 2010

The views expressed are those of the author and do not necessarily reflect those of the Urban Institute, its trustees, or its funders. Permission is granted for reproduction of this document, with attribution to the Urban Institute.

The Urban Institute

2100 M Street, NW • Washington, DC 20037-1231 • (202) 833-7200 • paffairs@urban.org • <http://www.urban.org>