



**Wider  
Opportunities  
for Women**

## Elder Economic Security Initiative: Policy Recommendations

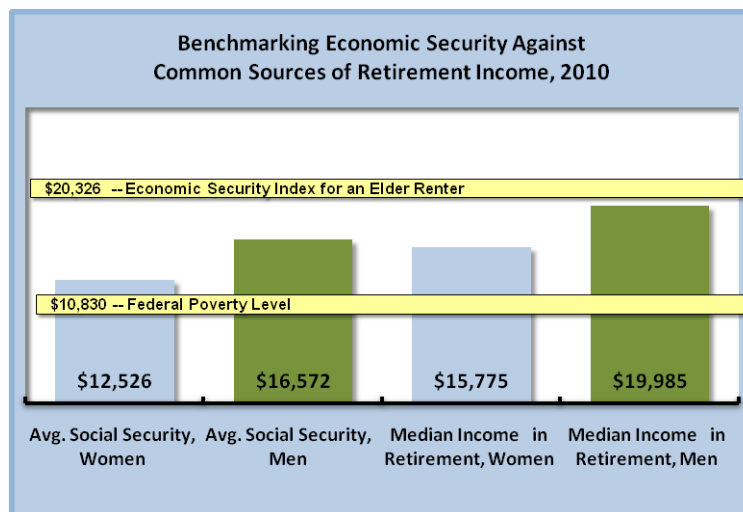
### Strengthening Social Security

#### *Building Economic Security for Today and for Future Generations*

Social Security provides income protection to Americans of all ages, shielding most of them from living below the poverty line while providing an opportunity to preserve wealth and maintain a strong middle class. Though never intended to be the sole source of retirement income, Social Security provides more than 90% of income to three out of ten retired elders.

According to national averages, the Elder Economic Security Standard™ Index (Elder Index) demonstrates that Social Security income alone provides anywhere from 61% to 82% of an elder's economic security, depending on housing and health status. Even for elders with additional sources of income, such as savings, individual retirement accounts and/or pensions, average median income can fall short of economic security in retirement, particularly among women.

The current economic downturn created a fiscal predicament. While Social Security played no role in creating the nation's debt, this national promise to America's workers is being marketed as a remedy to the nation's economic ills. Wider Opportunities for Women (WOW) believes changes to Social Security should do no harm to those for whom it provides a financial lifeline and that its original intent, as income insurance for all American workers and families, should be maintained.



To this end, Wider Opportunities for Women recommends:

- 1. Lift the tax cap** - Social Security taxes earnings up to a certain level—\$106,800 in 2010—with the earnings cap indexed to wage growth. When the cap was originally put in place, Social Security covered 90% of all US earnings. An increased concentration of wealth at the top has pushed a growing share of earnings above the ceiling, so Social Security now covers only 83% of US earnings. Lifting the cap, while

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giving commensurate benefit hikes to high-income taxpayers once they retire, would cover 39% of the Social Security Administration's (SSA) projected shortfall in revenues over the next 75 years. Removing the cap without raising those benefits could actually produce a surplus in the system over the same period—even if the economy creeps along as the SSA predicts it will<sup>i</sup>.

*WOW recommends* a gradual reset to the cap, over a 10-year period, to cover 90% of earnings in a way that recognizes the increase of paying higher taxes without eliminating the solvency benefit of having raised the cap<sup>ii</sup>.

- 2. Treat all salary reduction plans the same** - In 1983, Congress exempted contributions to 401(k) plans from income tax, but these dollars are subject to deductions for Social Security and Medicare. According to the National Academy of Social Insurance, "Since 1983, salary reduction plans for other purposes – such as medical spending accounts, dependent care accounts and commuting costs – have become more widespread<sup>iii</sup>."

*WOW recommends* treating all salary reduction plans equally in order to close the estimated Social Security shortfall over the next 75 years by 13%.

- 3. Provide Credit for Caregiving** - Today, adult children may spend more years caring for an elder than a child. Over 44 million Americans, or an estimated 21% of all US households, provide care for an adult family member or friend age 18 and older<sup>iv</sup>. Informal caregiving improves quality of life for children, persons with disabilities and frail elders; and, often times, provides the basis for sustaining an individual's health, well-being and economic security. Unfortunately, providing care usually imposes costs, both direct and indirect, on caregivers that weaken their own economic security. Workers, most often women, who have more than five years of low or no earnings due to unpaid caregiving, are penalized by a reduction in Social Security benefits.

*WOW recommends* crediting caregiving years in the Social Security record. Amend Title II (Old Age, Survivors and Disability Insurance) of the Social Security Act with respect to determining the amount of monthly benefits. Implement a formula for crediting caregiving hours in the form of wages on the Social Security record during each month that an individual was engaged for at least 80 hours of providing care to a dependent relative without monetary compensation for up to five years of such labor<sup>v</sup>.

- 4. Raise the Minimum Benefit** - Social Security provides a floor for all workers called the "special minimum benefit," the intent of which was to provide a minimum level of income security in old age. Currently, the special minimum benefit is woefully inadequate when compared to what we know it takes to make ends meet in retirement, as measured by the Elder Index. A more adequate floor is particularly important for older women because women disproportionately occupy the lowest wage

## WHAT IS THE ELDER ECONOMIC SECURITY STANDARD INDEX?

Developed by the Gerontology Institute at the University of Massachusetts Boston and WOW, the Elder Index is a new geographically-based measure of income adequacy for elders that incorporates essential costs, including housing, health care, transportation and long-term care.



occupations and, due to cycling in and out of the workforce to care for children and elder relatives, many women do not have wages that increase at the rates men do when steadily pursuing their career paths. As a result, women are more likely than men to draw upon the special minimum benefit when they are no longer able to work<sup>vi</sup>.

WOW recommends the Elder Index be used to help design a minimum benefit that would retain the linkage between benefits and work effort while recognizing caregiving throughout one's work history, and index the minimum benefit for inflation to keep the promise to elders for a basic level of economic security.

- 5. Update the Consumer Price Index (CPI) to Reflect Elders' True Costs** - Currently Social Security benefits are adjusted each year through the CPI to keep up with the cost of living. The CPI uses a representative basket of goods and services to determine if there ought to be an annual increase in benefits<sup>vii</sup>. An ongoing debate continues as to how accurately this measure accounts for the spending patterns of older retirees. The methodology for the CPI ought to be re-visited to reflect elders' true expenses. WOW's Elder Index offers a useful starting point for this analysis. The Elder Index uses cost data from federal and state sources to assemble a realistic household budget, which includes expenses such as housing, transportation, food and health care. Such a measure can be utilized to account for cost of living issues specific to older workers<sup>viii</sup>.

WOW recommends using a measure that best reflects the true cost-of-living for seniors, based on the Elder Index or a similar tool, to determine cost of living adjustments to Social Security.

## Conclusion

As Congress and the Administration take on the nation's deficit, they ought to consider the real, day-to-day struggles of our nation's workers, families and elders. Responsible decision-making must strike a balance that safeguards and strengthens Social Security while at the same time ensuring long-term stability.

<sup>i</sup> *Lift the Social Security Cap -- It Won't Hurt, But It Will Help* by John Miller April 24, 2008. <http://www.alternet.org/economy/83193/?page=2>

<sup>ii</sup> *An Analysis of Eliminating the Cap on Earnings Subject to the Social Security Tax & Related Issues* by Citizens for Tax Justice November 30, 2006. <http://www.ctj.org/pdf/socialsecuritytaxearningscapnov2006.pdf>

<sup>iii</sup> *Strengthening Social Security for the Long Run* by Janice M. Gregory, Thomas N. Bethell, Virginia P. Reno, and Benjamin W. Veghte November 2010. [http://www.nasi.org/sites/default/files/research/SS\\_Brief\\_035.pdf](http://www.nasi.org/sites/default/files/research/SS_Brief_035.pdf)

<sup>iv</sup> *Caregiving in the US* by National Alliance for Caregiving & AARP April 2004. <http://www.caregiving.org/data/04finalreport.pdf>

<sup>v</sup> Such as that provided under the H.R. 769: Social Security Caregiver Credit Act of 2009 in the 111<sup>th</sup> Congress <http://www.govtrack.us/congress/bill.xpd?bill=h111-769>

<sup>vi</sup> Changes to Social Security could have unintentional effects on some low-income workers, making them worse off because they could lose eligibility for other programs as a result. When calculating impact of the special minimum benefit, the Index can be utilized to ensure no negative effect on the financial well-being of working individuals and their families occurs.

<sup>vii</sup> The **Consumer Price Indexes (CPI)** program produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services <http://www.bls.gov/cpi/>

<sup>viii</sup> *Are Seniors Getting Shafted on Social Security?* by Luke Mullins U.S. News and World Report. <http://money.usnews.com/money/retirement/articles/2010/05/20/are-seniors-getting-shafted-on-social-security.html>

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