

STRENGTHEN SOCIAL SECURITY

...don't cut it.

Restoring Minimum Wage Would Strengthen Social Security Protections for Low-Wage Workers and Improve System Finances

The federal minimum wage¹ is lower today than it was in 1968: \$7.25 today vs. \$9.39 (in today's dollars) then.² This 23 percent decline in the purchasing power of the minimum wage over the past four decades is part of the broader decline of the wages of the bottom fifth of earners: their share of the total income pie has declined by 24 percent since 1968.³ At the same time, the nation as a whole has become much wealthier: average wages have increased in real terms by 24 percent over this span.⁴ Restoring the minimum wage to near its 1968 level and then indexing it to inflation, as The Fair Minimum Wage Act of Sen. Tom Harkin (D-Iowa) and Rep. George Miller (D-Calif.) proposes to do,⁵ would be an important first step toward restoring some balance to the distribution of income gains in this country. It would also strengthen low-wage workers' retirement security, and improve Social Security's finances in the process.

Decline of Minimum Wage Has Increased Inequality

Studies show that the erosion of the real value of the minimum wage since 1968 has contributed significantly to income inequality, explaining a majority of growth in inequality among the bottom half of earners since 1979.⁶ Moreover, the fruits of overall economic growth have been going less and less to workers in the form of wages, and more and more to very high earners, directly and indirectly, in the form of non-wage compensation and profits. Overall, these forces – together with rising health care costs – have reduced the share of GDP subject to Social Security payroll taxes from 42 percent in 1983 to 37 percent today.⁷ This weak and unequal wage growth has caused about a third of Social Security's projected long-term funding shortfall.⁸

Restoring the Minimum Wage Would Improve Social Security's Finances

Restoring the minimum wage, and indexing it to inflation, would improve Social Security's finances⁹ by increasing the wages of the 28 million workers directly affected, who would pay payroll taxes on an estimated \$35 billion in additional earnings by 2016.¹⁰ Restoring the minimum wage would also percolate up the income scale.¹¹ A study of Britain's experience found, for example, that the National Minimum Wage introduced there in 1999 has had "spillover effects" on wages throughout the bottom quarter of the earnings distribution, reducing wage inequality.¹²

Some are concerned that employers faced with a higher minimum wage might respond by reducing hours and/or laying off employees. Yet the classic empirical study in this field refutes this claim, and the balance of research since then also suggests minimal employment effects.¹³ Overall, when one also takes into account the greater demand fostered by these increased wages as they are spent on goods and services, economists expect restoration of the minimum wage to **create** 85,000 net new jobs by 2016.¹⁴

Furthermore, a stronger minimum wage would:

- **Reduce Elderly Poverty and Raise the Floor of Retirement Security**

Today, 15.1 percent of seniors live in poverty (according to the most up-to-date measure, the Supplemental Poverty Measure, or SPM, which takes into account all income and health-care costs),¹⁵ and nearly half (48.0 percent) are economically vulnerable (living within 200 percent of the SPM).¹⁶ Projections of the future retirement income of today's workers suggest that even larger shares of tomorrow's retirees will live in poverty or be economically vulnerable in retirement.¹⁷ Unlike most developed countries, the United States has no universal subsistence-level Social Security benefit,¹⁸ but merely pays a sub-poverty-level stipend – Supplemental Security Income (SSI) – to the 2.8 percent of elderly who are most destitute.¹⁹ Unlike SSI, Social Security's benefits are based on wages earned over a lifetime of work. Since one out of three seniors rely on Social Security for virtually all of their income, the two ways to increase retirement security in America are (1) for workers to earn higher wages over their working careers, and (2) to make Social Security's benefits more generous.

- **Reward Hard Work with Greater Retirement Security**

A core American value is that people who work hard and play by the rules should not have to live – or retire – in poverty. The proposed increase in the minimum wage would empower workers to provide for their own retirement security through work. Since benefits are directly related to career average earnings, more earnings would yield higher benefits. Today, a lifetime minimum-wage worker with a 40-year work history receives a Social Security benefit of only \$686/month if (s)he retires at 62, as most workers – often for health reasons – do, or \$916/month if (s)he waits to retire until age 66;²⁰ in both cases, this retirement income is below the poverty level.²¹ Each additional dollar in wages increases a worker's Social Security benefits.²² Moreover, restoring the minimum wage might enable poor working families to put aside at least some amount of money for retirement outside of Social Security.

- **Reduce Taxpayer Subsidies of Low-Wage Employers**

A full-time minimum-wage worker earns \$15,080 per year.²³ Because minimum-wage workers do not earn a living wage, most have to rely on taxpayer-funded public assistance programs to make ends meet. A recent study of the fast-food industry found that a majority (52 percent) of front-line fast food workers – who earn a median wage of \$8.69, well below the \$10.10 rate proposed in The Fair Minimum Wage Act – are enrolled in Medicaid, food stamps, Temporary Assistance to Needy Families (TANF), the Earned Income Tax Credit (EITC), or other public assistance programs.²⁴ The cost of these taxpayer subsidies of private employers – often quite profitable ones – is \$7 billion/year. If minimum wage workers could earn a living wage, taxpayers would be spared some of this expense. Over the long term, outlays for SSI would be reduced as well.

- **Enhance Disability, Life, Unemployment Insurance Protections of Low-Income Families**
Social Security provides not only retirement, but also disability and life insurance protections. As with Social Security retirement benefits, its disability and survivors benefits are based on career average wages; higher wages lead to higher benefits. Unemployment insurance benefits are also proportional to previous earnings. All of these insurance protections, which are designed to replace lost income for a family when a breadwinner is unable to work, would be enhanced by a higher minimum wage. Since nearly 9 in 10 (88 percent) of those who would be affected by The Fair Minimum Wage Act are adults (age 20+), and more than a quarter (26 percent) have children,²⁵ restoring the minimum wage would significantly strengthen the economic security of America's low-income families.

Conclusion

Over the last four decades, income inequality has been eating away at the American social fabric, and weakening Social Security's finances. It is a core American value that those who work hard and play by the rules not be left to live or retire in poverty. For this reason, nearly 7 in 10 Americans support raising the minimum wage.²⁶ They believe that government has a role to play in shaping the rules of the game so that hard work is rewarded with a degree of economic security and dignity. In an economy in which adults and parents are increasingly reliant on low-wage jobs, restoring the minimum wage is a modest but critical step toward lifting low-income families out of poverty and enhancing their retirement security, as well as their life, disability, and unemployment insurance protections. No other anti-poverty policy targeting low-wage workers has these ancillary social insurance benefits. And contrary to such policies, raising the minimum wage not only spares taxpayers any additional expense, it would actually reduce government subsidies of low-wage employers, and modestly improve Social Security's finances in the process.

¹ Twenty-one states and the District of Columbia have minimum wages that are higher than the federal one, and 11 of these are indexed to inflation. But the majority of states do as little or less than the federal government to ensure a decent wage floor: 10 states have either no minimum wage or one lower than the federal rate, and 19 have a minimum wage equal to the federal minimum wage. National Conference of State Legislatures, "State Minimum Wages," accessed November 10, 2013. <http://www.ncsl.org/research/labor-and-employment/state-minimum-wage-chart.aspx>

² By any measure – inflation, average wages, productivity – the minimum wage is lower today than it was in 1968. Using inflation: according to the Bureau of Labor Statistics' (BLS) CPI-U-RS, the current method for calculating inflation, the 1968 minimum wage was \$9.39 in 2013 dollars. According to the CPI-U, the 1968 minimum wage was worth \$10.74 in today's dollars. http://www.bls.gov/data/inflation_calculator.htm Measured in terms of average wages or productivity growth as well, the minimum wage was much higher in real terms in 1968 than today. For more see David Cooper, "Raising the Federal Minimum Wage to \$10.10 Would Lift Wages for Millions and Provide a Modest Economic Boost," *Economic Policy Institute*, December 19, 2013. <http://s4.epi.org/files/2013/Raising-the-federal-minimum-wage-to-1010-would-lift-wages-for-millions-and-provide-a-modest-economic-boost-12-19-2013.pdf> and John Schmitt, "The Minimum Wage is Too Damn Low," Center for Economic and Policy Research, March 2012. <http://www.cepr.net/documents/publications/min-wage1-2012-03.pdf>

³ Their share of total household income has declined from 4.2 percent in 1968 to 3.2 percent in 2012, a 24 percent decline. U.S. Census Bureau, "Income, Poverty, and Health Insurance Coverage in the United States: 2012," Table A-2, September, 2013. <http://www.census.gov/prod/2013pubs/p60-245.pdf> Indeed, 100 percent of the total growth in income since 1968 has gone to the top 10 percent of earners. Economic Policy Institute, "When Income Grows, Who Gains?," accessed

November 10, 2013 (<http://stateofworkingamerica.org/who-gains/#/?start=1983&end=2008>), based on data from Emmanuel Saez, University of California, Berkeley: <http://www.econ.berkeley.edu/~saez/TabFig2008.xls>.

⁴ Social Security Works' calculations based on the Income inequality data series from Emmanuel Saez: <http://elsa.berkeley.edu/~saez/TabFig2012prel.xls>. Data are for average wages (excluding capital gains) in 2012 compared to those in 1968 (using the CPI-U-RS to deflate incomes).

⁵ In March of 2013, Sen. Tom Harkin (D-Iowa) and Rep. George Miller (D-Calif.) introduced the Fair Minimum Wage Act, which would restore the minimum wage to \$10.10 by 2016, and then index it to keep pace with future increases in the cost of living. Specifically, the bill would raise the federal minimum wage to "(A) \$8.20 an hour, beginning on the first day of the third month that begins after the date of enactment of the Fair Minimum Wage Act of 2013 Act [sic];(B) \$9.15 an hour, beginning 1 year after that first day; (C) \$10.10 an hour, beginning 2 years after that first day". "S.460 – Fair Minimum Wage Act of 2013," March 5, 2013. <http://thomas.loc.gov/cgi-bin/query/z?c113:S.460>. In his 2014 State of the Union address, President Obama specifically endorsed the proposal. White House Office of the Press Secretary, "President Barack Obama's State of the Union Address," January 28, 2014. <http://www.whitehouse.gov/the-press-office/2014/01/28/president-barack-obamas-state-union-address> In December of 2013, Rep. John Larson (D-Conn.) introduced a bill to raise the federal minimum wage to \$11 an hour. "H.R. 3746: Fair Minimum Wage Act of 2013," December 12, 2013. <http://www.gpo.gov/fdsys/pkg/BILLS-113hr3746ih/pdf/BILLS-113hr3746ih.pdf> Across the country, campaigns are now underway to increase the minimum wage, led by New York, Connecticut, California, Rhode Island, and New Jersey, all of which have raised their minimum wages in 2013/14.

⁶ Lawrence Mishel et al., *The State of Working America, 12th Edition*. Economic Policy Institute (Ithaca, N.Y.: Cornell University Press, 2013). See also John DiNardo et al., "Labor Market Institutions and the Distribution of Wages, 1973-1992: A Semiparametric Approach," *Econometrica* 64, no. 5 (1996): 1001-1044; David Lee, "Wage Inequality in the United States during the 1980s: Rising Dispersion or Falling Minimum Wage?" *Quarterly Journal of Economics* 114, no. 3 (1999): 977-1023.; and Coen N. Teulings, "The Contribution of Minimum Wages to Increasing Inequality," *Economic Journal* 113, October (2003): 801-833. <http://www.princeton.edu/~davidlee/wp/inequality.pdf>

⁷ Monique Morrissey, "Beyond 'Normal': Raising the Retirement Age is the Wrong Approach for Social Security," EPI Briefing Paper #287, January 26, 2011. <http://s4.epi.org/files/page/-/old/briefingpapers/BriefingPaper287.pdf>

⁸ This refers to the shortfall that has emerged since 75-year solvency was last restored in 1983. Dean Baker, "The Impact of the Upward Redistribution of Wage Income on Social Security Solvency," *CEPR Blog*, February 3, 2013. <http://www.cepr.net/index.php/blogs/cepr-blog/the-impact-of-the-upward-redistribution-of-wage-income-on-social-security-solvency> Monique Morrissey, "Wages and Social Security," *Working Economics*, The Economic Policy Institute Blog, July 16, 2012. <http://www.epi.org/blog/wages-social-security/> In 1983, 90 percent of wages in the economy were taxable for Social Security, i.e. were below its tax cap (\$117,000 in 2014). Social Security Administration Office of Retirement and Disability Policy, "Annual Statistical Supplement, 2012," Table 4.B1, February 2013. <http://www.ssa.gov/policy/docs/statcomps/supplement/2012/4b.html> To ensure that the cap would continue to cover 90 percent of wages going forward, Congress provided for it to be automatically indexed each year to the growth in average wages. With equitable wage growth, this would have ensured the cap covered 90 percent of wages over the long term. But in fact, earnings above the cap have grown much faster than those below the cap, and are projected to continue to do so in the future.

⁹ Rising wages under the Social Security tax cap improves the system's finances. Though this eventually leads to higher benefits – which, for low-income retirees, is most certainly a good thing – the higher costs from these higher benefits are offset in part by the fact that cost-of-living adjustments after retirement are tied to consumer prices rather than wages. Monique Morrissey, "Beyond 'Normal': Raising the Retirement Age is the Wrong Approach for Social Security," EPI Briefing Paper #287, January 26, 2011. <http://s4.epi.org/files/page/-/old/briefingpapers/BriefingPaper287.pdf>

¹⁰ David Cooper, "Raising the Federal Minimum Wage to \$10.10 Would Lift Wages for Millions and Provide a Modest Economic Boost," *Economic Policy Institute*, December 19, 2013. <http://s4.epi.org/files/2013/Raising-the-federal-minimum-wage-to-1010-would-lift-wages-for-millions-and-provide-a-modest-economic-boost-12-19-2013.pdf>

¹¹ David Card and Alan Krueger, "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania," *The American Economic Review*, 84, no. 4 (1994): 772-93. <http://davidcard.berkeley.edu/papers/njmin-aer.pdf> John DiNardo et al., "Labor Market Institutions and the Distribution of Wages, 1973-1992: A Semi-Parametric Approach," *Econometrica* 64, no. 5 (1996): 1001–1044. <http://links.jstor.org/sici?sici=0012-9682%28199609%2964%3A5%3C1001%3ALMIATD%3E2.0.CO%3B2-K>

¹² Tim Butcher et al., “Minimum Wages and Wage Inequality: Some Theory and an Application to the UK,” Center for Economic Performance Discussion Paper #1177, November 2012. <http://cep.lse.ac.uk/pubs/download/dp1177.pdf> R.A. London, “Minimum Wages: What Sort of Floor,” *The Economist*, December 3, 2013.

<http://www.economist.com/blogs/freeexchange/2013/12/minimum-wages>

¹³ The classic study in this field analyzed the natural experiment that occurred in 1992 in New Jersey, when it increased its minimum wage by 18.8 percent while neighboring Pennsylvania’s minimum wage remained constant. Tracking employment at 410 fast-food restaurants on both sides of the border before and after the measure, the authors found the higher minimum wage actually *increased* employment in New Jersey relative to Pennsylvania. David Card and Alan Krueger, “Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania,” *The American Economic Review*, 84, no. 4 (1994): 772-93. In the wake of the Card and Krueger study, leading economists today disagree on whether there would be any employment effects whatsoever, and the vast majority (by a 4:1 margin) find that the benefits of raising the minimum wage outweigh the costs. University of Chicago Booth School of Business IGM Economic Experts Panel, “Minimum Wage,” *IGM Forum*, February 26, 2013. http://www.igmchicago.org/igm-economic-experts-panel/poll-results?SurveyID=SV_br0IEq5a9E77NMV Members of the panel agreed by a ratio of 62 percent to 16 percent that “[t]he distortionary costs of raising the federal minimum wage to \$9 per hour and indexing it to inflation are sufficiently small compared with the benefits to low-skilled workers who can find employment that this would be a desirable policy.”

¹⁴ David Cooper, “Raising the Federal Minimum Wage to \$10.10 Would Lift Wages for Millions and Provide a Modest Economic Boost,” *Economic Policy Institute*, December 19, 2013. <http://www.epi.org/publication/raising-federal-minimum-wage-to-1010/> This is in part because most minimum wage jobs are in the service sector, in most realms of which virtually all competitors are domestic. When the statutory minimum wage goes up, it does not harm the competitive position of one firm vis-à-vis its competitors. Rather, for example in the fast food industry, paying workers a fair minimum wage would either modestly reduce business owners’ profits or increase prices for consumers. Such a “hit” taken by business owners, who rank predominately among higher-income Americans, or by consumers, who have the option of not consuming a given good or service whose item has increased in price, should worry policymakers less than the current lack of a living wage for low-wage workers. These workers, 88 percent of whom are over the age of 20 and over a quarter of whom are parents, are trapped in their attempt to support themselves and their families on a minimum wage, which translates to an annual income of only \$15,080. National Employment Law Project, “Raise the Minimum Wage,” accessed November 11, 2013. <http://www.raisetheminimumwage.com/>

¹⁵ US Census Bureau, Kathleen Short, *The Research Supplemental Poverty Measure: 2011*, November 2012, p. 6. https://www.census.gov/hhes/povmeas/methodology/supplemental/research/Short_ResearchSPM2011.pdf

¹⁶ Elise Gould and David Cooper, “Financial Security of Elderly Americans at Risk,” *Economic Policy Institute*, June 6, 2013. <http://www.epi.org/publication/economic-security-elderly-americans-risk/>

¹⁷ Nari Rhee, “The Retirement Savings Crisis: Is It Worse than We Think?” *National Institute on Retirement Security*, June 2013.

http://www.nirsonline.org/storage/nirs/documents/Retirement%20Savings%20Crisis/retirementsavingscrisis_final.pdf

¹⁸ In the 1970s, Congress enacted a special minimum benefit for low-wage workers with steady attachment to the workforce, but in 1981 Congress eliminated the minimum benefit for workers who attained age 62 in 1982 or later. Virginia P. Reno and Joni Lavery, “Fixing Social Security: Adequate Benefits, Adequate Financing,” October 2009. http://www.nasi.org/sites/default/files/research/Fixing_Social_Security.pdf SSA, “Annual Statistical Supplement, 2013,” Table 2.A28. <http://www.ssa.gov/policy/docs/statcomps/supplement/2013/2a20-2a28.html#table2.a28> Because the special minimum benefit enacted in the 1970s was indexed only to prices rather than wages, it has declined in relevance to the point of being vestigial. Today, only 57,242 people receive the special minimum retirement benefit, and almost no new workers qualify for it. SSA, “Annual Statistical Supplement, 2013,” Table 5.A8.

<http://www.ssa.gov/policy/docs/statcomps/supplement/2013/5a.html#table5.a8> Craig A. Feinstein, “Projected Demise of the Special Minimum PIA,” SSA Actuarial Note #143, October 2000.

<http://www.ssa.gov/OACT/NOTES/note2000s/note143.html>

¹⁹ In December of 2012, 1,156,188 elderly received SSI benefits averaging \$409. SSA, “Annual Statistical Supplement, 2013,” Tables 7.A1 and 7.A5. <http://www.ssa.gov/policy/docs/statcomps/supplement/2013/7a.html#table7.a1> To be eligible for SSA, elderly individuals must have monthly income of less than \$721, and less than \$2,000 in assets. SSA, “SSA Federal Payment Amounts for 2014,” accessed December 12, 2013. <http://www.ssa.gov/oact/cola/SSI.html>

²⁰ SSA, “Annual Statistical Supplement, 2013,” Table 2.A26.

<http://www.ssa.gov/policy/docs/statcomps/supplement/2013/2a20-2a28.html#table2.a26> The U.S. population aged 65 or older in 2012 was 41,507,000. US Census Bureau, Current Population Survey, Annual Social and Economic Supplement, 2012. <http://www.census.gov/population/age/data/2012.html>

²¹ The poverty level for a single elderly person in 2012 is \$11,011. US Census Bureau, “Poverty Thresholds,” accessed December 12, 2013. <http://www.census.gov/hhes/www/poverty/data/threshld/>

²² From a worker’s top 35 earnings years, Social Security retirement benefits replace 90 percent of the first \$816 in average monthly earnings, and 32 percent of earnings above \$816 and through \$4,917. These values are for 2014; they are adjusted annually to keep pace with average wage inflation. Hence each additional dollar in average monthly earnings increases a worker’s monthly Social Security benefits by 90 cents (if their average monthly earnings are below \$816) or 32 cents (if their average monthly earnings are above \$816). SSA, “Primary Insurance Amount,” accessed December 11, 2014. <http://www.ssa.gov/oact/cola/piaformula.html> A lifetime minimum-wage worker with a 40-year work history, retiring at the full retirement age (66) in 2012, would see about 64 percent of their average indexed monthly earnings replaced in retirement. If such a worker retired at 62, Social Security would replace only about 48 percent of their average indexed monthly earnings in retirement. SSA, “Annual Statistical Supplement, 2013,” Table 2.A26. <http://www.ssa.gov/policy/docs/statcomps/supplement/2013/2a20-2a28.html#table2.a26> Once a worker has achieved career average monthly earnings of \$816, each additional dollar of average monthly earnings yields 32 cents in additional Social Security benefits.

²³ Annual earnings are calculated by multiplying the federal minimum wage of \$7.25 by 2,080 hours.

²⁴ The public programs considered in the study were the following: Medicaid, the Children’s Health Insurance Program (CHIP), the Federal Earned Income Tax Credit (EITC), food stamps (the Supplemental Nutrition Assistance Program, or SNAP), and Temporary Assistance for Needy Families (TANF). Even among families where a minimum-wage worker works full time, a majority rely on public assistance programs. Sylvia Allegretto et al., “The Public Cost of Low-Wage Jobs in the Fast-Food Industry,” University of Illinois and UC Berkeley Labor Center, October 15, 2013. http://laborcenter.berkeley.edu/publiccosts/fast_food_poverty_wages.pdf

²⁵ David Cooper, “Raising the Federal Minimum Wage to \$10.10 Would Lift Wages for Millions and Provide a Modest Economic Boost,” *Economic Policy Institute*, December 19, 2013.

²⁶ CBS News Poll, November 20, 2013. <http://www.cbsnews.com/news/poll-amid-obamacare-skepticism-confidence-in-obama-wanes/>