

STRENGTHEN SOCIAL SECURITY

...don't cut it.

Social Security Works for the Middle Class

Since it was created, our Social Security system has provided all working Americans a path to earning vital retirement, disability, and survivors' benefits, regardless of wealth or income level. Even as our economy has improved, many middle class Americans have continued to face stagnating wages and a substantial loss of home equity and savings. As a result of growing health care costs, [disappearing traditional pensions](#), and the failure of 401(k) retirement savings plans, the middle class faces a retirement income crisis. In short, middle class Americans are likely to depend increasingly on Social Security's modest benefits in the future. Social Security should not only be protected for middle class Americans; it should be expanded.

Why Social Security is Important to Middle Class Americans

Over 60 million Americans receive Social Security in 2016.¹ The average annual Social Security benefit is \$14,768²—just \$2,888 over the federal poverty level for an individual.³ Despite their modesty, these benefits are critical to the economic security of the households that receive them. Today, over half (52 percent) of all working-age households are expected to be unable to maintain their standard of living in retirement⁴--a figure that rises to just over 3 in 5 (61 percent) when health and long-term care costs are also considered.⁵ Indeed, most Americans have virtually no meaningful supplement to Social Security's modest benefits. Among households that are approaching retirement with any retirement savings in 2013, the median amount of those savings was about \$104,000—equivalent to a monthly, inflation protected annuity of just \$310.⁶ As a result, Social Security is the only defense for many households against poverty in retirement. In 2014, Social Security lifted 21.4 million Americans out of poverty. And without Social Security, the percentage of American seniors living in poverty would have risen dramatically, from 10 percent in 2014, to 41.5 percent.⁷ In addition to lifting millions of Americans out of poverty, and helping families maintain their standard of living in the event of disability, retirement, or the death of a working parent, Social Security has several key features which make it especially vital to all Americans, including those solidly in the middle class.

- Social Security's benefits replace a higher percentage of the incomes of lower earners. Over the past few decades, wages have stagnated, while the income and wealth of those at the top has risen substantially. As a result, the middle 60 percent of households have lost an average \$17,867 in income between 1979 and 2007.⁸ As wages continue to stagnate, Social Security's progressive benefit formula is becoming especially important for middle class Americans.
- The typical caregiver has a median household income of \$54,700.⁹ Caregiving can have adverse effects on workers' lifetime earnings—approximately 6 in 10 caregivers report at least one change in their employment situation (such as reduced hours or taking a leave of absence) due to caregiving.¹⁰ Social Security's progressive benefits are vital to middle class Americans who provide unpaid care.

- In addition to stagnating wages and growing inequality, private sector retirement savings plans are failing all but the wealthiest earners. As a result, Social Security's benefits, although modest, remain the most critical source of income for middle class households in retirement, and are likely to be even more important in the future. In 2012, Social Security benefits represented 50 percent or more of the incomes of nearly 3 in 4 (73.7 percent) middle-class seniors.¹¹
- Social Security benefits are adjusted for inflation, so that they maintain purchasing power over time. This is especially critical for Americans who rely on their Social Security benefits for most, if not all, of their income in retirement. Social Security retains its value far better than other assets, which erode in value over time. This is especially important for those who have the good fortune to live long lives.

To Improve Social Security for the Middle Class, Expand Benefits

Although Social Security benefits are vital to the households that receive them, they are still too modest, and should be expanded. Fortunately, there are a number of policy options that would improve Social Security benefits for all Americans, including middle class Americans:

- *Increase benefits across the board.* Although Social Security benefits have substantially reduced poverty among elderly Americans, these benefits are still too modest. There are a variety of proposals that would increase monthly benefits for all Americans.¹² Middle class Americans would benefit greatly from such expansions.
- *Ensure that benefits keep pace with the cost of living experienced by Social Security beneficiaries.* Because middle class Americans depend on Social Security for a majority of their income, they especially rely upon Social Security's cost-of-living adjustments. However, the current index used to calculate these adjustments under-measures the inflation of seniors and people with disabilities because it does not accurately reflect the higher health care costs that they experience them.¹³ A more accurate cost-of-living index would ensure that middle class Americans' Social Security benefits do not erode over time.
- *Provide a caregiver credit.* Social Security benefits are especially impacted by time spent out of the workforce to provide care to children and other family members. A caregiver credit would ensure that when workers forgo wages to provide unpaid care, their Social Security benefits will reflect the value of this essential work.¹⁴
- *Expand Social Security to include paid family leave.* Social Security was created to empower workers to insure themselves and their families against periods of lost wages—retirement, disability, or the death of a working parent. However, many workers also experience temporary periods out of the workforce due to family caregiving duties and personal medical conditions. The expansion of Social Security to include family leave benefits would ensure that workers do not face economic insecurity during these temporary periods without wages.¹⁵
- *Eliminate the cap on payroll contributions and incorporate investment income.* Only 6.3 percent of working Americans have annual incomes over Social Security's cap of \$118,500,¹⁶ meaning that a majority of Americans make Social Security contributions on all of their earnings compared to millionaires & billionaires, who stop contributing earlier in the year. Eliminating the payroll cap and incorporating unearned income would not only close Social Security's long-range shortfall and help to finance benefit expansions;¹⁷ it would make contributions to the system more equitable for middle class Americans.

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- ¹ Social Security Administration (SSA), “Monthly Statistical Snapshot, February 2016,” March 2016. https://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/index.html?qs
- ² Social Security Administration (SSA), “Monthly Statistical Snapshot, February 2016,” March 2016. https://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/index.html?qs
- ³ U.S. Department of Health and Human Services, “Poverty Guidelines,” January 25, 2016. <https://aspe.hhs.gov/poverty-guidelines>
- ⁴ Alicia H. Munnell, Wenliang Hou, and Anthony Webb, “NRRI Update Shows Half Still Falling Short,” Center for Retirement Research at Boston College, no. 14-20, December 2014. <http://crr.bc.edu/briefs/nrri-update-shows-half-still-falling-short/>
- ⁵ Alicia H. Munnell, Anthony Webb, Francesca Golub-Sass, and Dan Muldoon, “Long-Term Care Costs and the National Retirement Risk Index,” Center for Retirement Research at Boston College, no. 9-7, March 2009. http://crr.bc.edu/wp-content/uploads/2009/04/IB_9-7_508.pdf
- ⁶ U.S. Government Accountability Office, “Most Households Approaching Retirement Have Low Savings,” June 2, 2015. <http://www.gao.gov/products/GAO-15-419>
- ⁷ “Senior” refers to those ages 65 and older. Kathleen Romig, “Social Security Lifts 21 Million Americans out of Poverty,” Center on Budget and Policy Priorities, November 9, 2015. <http://www.cbpp.org/blog/social-security-lifts-21-million-americans-out-of-poverty-0>
- ⁸ Lawrence Mishel, Elise Gould, and Josh Bivens, “Wage Stagnation in Nine Charts,” Economic Policy Institute, January 6, 2015. <http://www.epi.org/publication/charting-wage-stagnation/>
- ⁹ AARP Public Policy Institute and National Alliance for Caregiving, “Caregiving in the U.S.,” June 2015. <http://www.aarp.org/content/dam/aarp/ppi/2015/caregiving-in-the-united-states-2015-report-revised.pdf>
- ¹⁰ AARP Public Policy Institute and National Alliance for Caregiving, “Caregiving in the U.S.,” June 2015. <http://www.aarp.org/content/dam/aarp/ppi/2015/caregiving-in-the-united-states-2015-report-revised.pdf>
- ¹¹ Middle class refers to the middle 60 percent of beneficiary units ages 65 and older. SSA, *Income of the Population 55 or Older, 2012*, Table 9.A4, April 2014. https://www.ssa.gov/policy/docs/statcomps/income_pop55/2012/sect09.html
- ¹² For example, Senator Brian Schatz (D-HI) has proposed increasing the first bend point of the Social Security benefit formula by 15 percent—approximately a \$70 increase in monthly benefits for all beneficiaries. Senator Brian Schatz, “S.1940 – Safeguarding American Families and Expanding Social Security Act of 2015,” accessed February 18, 2016. <https://www.congress.gov/bill/114th-congress/senate-bill/1940?q=%7B%22search%22%3A%5B%22schatz%22%5D%7D>
- ¹³ Alicia H. Munnell and Anqi Chen, “Do We Need a Price Index for the Elderly,” Center for Retirement Research at Boston College no. 15-18, October 2015. http://crr.bc.edu/wp-content/uploads/2015/10/IB_15-18.pdf
- ¹⁴ For example, Representative Nita Lowey (D-NY) has proposed a caregiver credit that could be claimed by anyone spending at least 80 hours per month (up to 60 months) providing care to a dependent relative under the age of 12 or a chronically dependent individual. Representative Nita Lowey, “H.R. 3377 – Social Security Caregiver Credit Act of 2015,” accessed February 18, 2016. <https://www.congress.gov/bill/114th-congress/house-bill/3377?q=%7B%22search%22%3A%5B%22%5C%22hr3377%5C%22%22%5D%7D&resultIndex=1>
- ¹⁵ One proposal for paid family leave comes from the Social Security Works *All Generations Plan*, which would provide those who are insured for Social Security disability benefits up to 12 weeks of paid leave in the event of the birth or adoption of a child, a family member’s illness, or a personal illness. Nancy J. Altman and Eric R. Kingson, *Social Security Works! Why Social Security Isn’t Going Broke and How Expanding It Will Help Us All*, (New York: The New Press, 2015), pp. 221-222.
- ¹⁶ Nicole Woo and Cherrie Bucknor, “Over the Top: Who Pays More if We Raise the Social Security Payroll Tax Cap,” Center for Economic and Policy Research, February 2016. <http://cepr.net/images/stories/over-the-top-supplementary-tables.pdf>
- ¹⁷ Social Security Works, “High Earners Should Contribute Fair Share to Social Security: Policy Options,” April 2015. http://www.socialsecurityworks.org/wp-content/uploads/2015/04/High-Earners-Should-Contribute-Fair-Share-to-Social-Security_Policy-Options_FINAL.pdf