STATEMENT OF MAYA ROCKEYMOORE, PH.D.

BEFORE THE SENATE FINANCE COMMITTEE, SUBCOMMITTEE ON SOCIAL SECURITY, PENSIONS, AND FAMILY POLICY

Wednesday, May 21, 2014

"How Structural Factors Drive the Need to Expand Social Security Benefits for Future Retirees"

Good morning Committee Chairman Brown, Ranking Member Toomey and members of the United States Committee on Finance, Subcommittee on Social Security, Pensions and Family Policy. Thank you for inviting me to speak to you today on a matter of critical importance for the future of our children, our workforce and our nation.

Mr. Chairman, I request that the entirety of my written testimony be entered into the record of the hearing.

My name is Maya Rockeymoore, I am President of the Center for Global Policy Solutions, a nonprofit think and action tank dedicated to making policy work for people and their environments. I hold a Ph.D. in political science with a specialty in public policy and have been a practicing policy analyst and researcher in DC for almost 20 years. A former professional staffer on the House Ways and Means Social Security Subcommittee, I currently chair the board of the National Committee to Preserve Social Security and Medicare, serve as co-chair of the Commission to Modernize Social Security, and serve on the boards of the National Academy of Social Insurance, Economic Policy Institute, and the National Association of Counties Financial Services Corporation.

WHY SOCIAL SECURITY IS IMPORTANT

Mr. Chairman, I am testifying this morning on the importance of strengthening Social Security for tomorrow's retirees—a group that includes today's youth. While a seemingly obvious fact, this is an important point precisely because some have argued in recent years that Social Security investments in retirees have undermined critical investments in our children. Nothing could be further from the truth. It is important to remember that Social Security serves people at all stages of the life cycle—from birth to death. More than 4.4 million children receive Social Security benefits as the dependents of deceased, disabled, and retired workers (Social Security Administration, 2013). But Social Security's importance to our youth must also be viewed from another critical perspective.

You see, what the title of this hearing makes clear and what we should all understand is that today's young will become tomorrow's old. And, given what we know about the material weaknesses in our economy, the structural inefficiencies of our labor market, the deficiencies of employer-sponsored retirement options, and the likely socioeconomic effects of projected demographic changes, our children will need Social Security for their own retirement as much, if not more so, than their parents did. For this reason, it is important to understand that Social Security is a societal investment that is as vital for tomorrow's retirees as it is for todays.

There are a number of reasons why Social Security will be of continued importance for tomorrow's retirees. The first is the well-documented retirement crisis that has gotten progressively worse over the past few decades. Nearly half (57%) of private sector workers do not have access to a tax preferred, employer-sponsored retirement savings plan of any kind (Rhee, 2013). Of private sector workers who do have access and participate in a retirement plan, a substantial majority (69%) had only a defined contribution, or 401k-style, plan while a diminishing few (7%) had access to only a defined benefit, or traditional pension, plan (Employee Benefit Research Institute, 2011).

There have been numerous studies warning of the significant deficiencies of 401k retirement accounts, which have become the staple of private sector retirement plans. Among the many challenges is that they leave most account holders without enough resources to maintain their desired standard of living in retirement. Of those with retirement accounts, the median account balance was a paltry $40,000 in 2010; suggesting that even those with accounts have few retirement savings (Rhee, 2013). This is especially true of older workers nearing retirement, whose median 401k account balance was $120,000 in 2010, barely enough to provide a modest supplement to the Social Security benefits that they will continue to need in retirement (Munnell, 2012).

Despite known problems with 401ks, there are growing calls for public sector employers to offset their pension liabilities by following the private sector's lead in turning to defined contribution plans, which shifts greater financial risks to employees. A number of states are pursuing this objective by adopting hybrid models and a few—Oklahoma being the most recent—are seriously considering adopting a defined contribution only retirement plan for their workers. If more states and localities move in this direction, there will be a retirement security crisis of epic proportions for public sector workers who have traditionally enjoyed more secure retirement benefits. This could increase future pressure on the Social Security system, possibly by increasing calls to include more state and local workers within its benefit structure.

Furthermore, there are structural inequalities in our labor market that shut millions of workers out of non-Social Security retirement savings. Currently, 38 million working age households (45% of the US workforce) do not have retirement account savings of any kind (Rhee, 2013). The biggest reason for this gap is that access to employer-sponsored retirement accounts varies by industry sector, occupation, size of employer, and whether the job has union coverage (Hiltonsmith, 2010). When these factors are layered on top of structural inequalities in the U.S. labor market such as occupational segregation and pay disparities by race, class, gender, and education, we begin to understand why access to private retirement accounts correlates strongly with high wage and "white collar" employment and why already economically disadvantaged groups—such as the young, people of color, and low-income workers—are the least likely to have any other form of retirement savings outside of Social Security (Hiltonsmith, 2010).

A third reason pointing to Social Security's continued relevance for future retirees is the generational impact that the Great Recession has had on earnings potential for younger workers. It has long been understood that in vibrant economies, children typically fare better in terms of wealth accumulation then their parents did at similar ages; but in the U.S. this no longer holds true for Generation X and Y who have accumulated less wealth than their parents did at that age (Steuerle, 2013). Referred to as the "lost generation," today's young adults have dealt with high unemployment rates, demoralizing under employment, and lower wages. From 2007 to 2010, it is estimated that Generation Xers lost 45 percent of their wealth, reducing their already low wealth levels by almost half (Gist, 2013). All of these factors translate into fewer opportunities to save for retirement, which means young adults in these cohorts will not have enough assets accumulated to achieve economic security in retirement (Gist, 2013). Given the depression-era unemployment levels among teens in recent years, there remains serious cause for concern about the retirement prospects for America's youngest workers as well (Ayres, 2013).

The nations shifting demographics represent the fourth reason why Social Security will continue to be important for future retirees. There are two phenomena associated with the projected demographic shifts. First is the ongoing retirement of the baby boomer generation, with the number of older Americans expected to increase from 46.6 million today to over 77 million by the year 2033 (Social Security Administration, 2014). It is clear that with older adults becoming a larger percentage of the U.S. population, the value and strength of Social Security will remain a top priority for the nation for decades to come.

The second, and often overlooked shift, relates to race and ethnicity. U.S. Census figures show that today a majority of babies born in the U.S. are from non-white racial and ethnic groups, by 2019 a majority of children and youth under the age of 18 will be from non-white households; and by 2042 the majority of the U.S. population will be non-white. This is significant because households of color are more likely to be heavily reliant on Social Security for most or all of the retirement income (Rockeymoore, 2011).

While it is often assumed that our nation is proceeding, albeit slowly, toward a diverse and inclusive economy, in fact, the racial and ethnic wealth gap has risen fourfold over the past several decades (Shapiro, 2010). And the depth of this gap, driven by differentials in homeownership, income, education, unemployment, and inherited wealth, is deep (Shapiro T. M., 2013). A newly released report by the Center for Global Policy Solutions and the Research Network on Racial and Ethnic Inequality at Duke University found that for every dollar of wealth held by the typical white family, the typical African American and Latino families only own six and seven cents of wealth respectively (Tippet, 2014). Furthermore, the study finds that over a third of African Americans (38%) and Latinos (35%) have no financial assets whatsoever compared to only 14 percent of whites and that less than a third of African Americans (32%) and Latinos (28%) possess retirement accounts compared to 58 percent of whites (Tippet, 2014).

It is important to note that the growth of the Latino population is the largest driver of the ongoing ethnic demographic shift, but less than four out of ten (37.8%) Latinos have access to employer-sponsored retirement plans, compared to 62.3 percent of whites (Rhee, 2013). Of those with a plan, 4 out of 5 Latino households age 25-64 have less than $10K in retirement savings suggesting that Social Security will remain a vital component of their retirement income (Rhee, 2013).

EXPANDING SOCIAL SECURITY

The structural challenges driving our nation's retirement crisis means that, absent comprehensive and equitable policy reforms, a majority of the nation's workers will continue to rely on Social Security for much of their retirement income well into the future. Yet, despite Social Security's role in serving as a critical retirement resource for U.S. workers, its benefits remain modest. Today's average monthly benefit for retired workers is $1,294, or only $15,528 per year (Social Security Administration, 2014). This amount is above the official poverty guideline for a single person living alone ($11,670 in 2014) but below more up to date measures of poverty that account for health care, housing, and other expenses born by the elderly (Reno, 2009).

For this reason, efforts to strengthen Social Security should not only focus on the program's solvency, they must also consider how to increase the adequacy of benefits for vulnerable populations, and how to modernize the program to meet changing population needs. In recognition of this need, a growing number of experts, policymakers and advocacy organizations are calling for the expansion of Social Security, the only near-universal, portable, and affordable retirement vehicle accessible to most of America's working-age population.

Generally, efforts to strengthen and expand Social Security include three different types of proposals: 1) strengthening benefits for vulnerable groups; 2) extending or restoring benefits to new groups; and, 3) adding new program elements to Social Security's social insurance framework.

Strengthening Benefits for Vulnerable Populations

There are a number of population groups for whom Social Security is extremely important, but for a variety of reasons the program's benefits are often not sufficient to survive and thrive. Without other sources of support to turn to, groups such as the very old, very poor, newly disabled, unemployed caregivers, children, and widows are among the populations for whom more adequate Social Security benefits would make dramatic improvements in their quality of life. Popular proposals to strengthen the adequacy of Social Security benefits for vulnerable groups include:

- Increasing benefits for the very old. Those in advanced years of age are susceptible to extreme poverty because they have outlived other resources, are unable to work, or have seen the value of assets they may have eroded by inflation (Reno, 2009). This group tends to be disproportionately comprised of women who have longer life expectancies than men. To improve outcomes, proposals for this group include boosting benefits by a uniform dollar amount or by five percent for beneficiaries age 85 and older. The first option would give everyone the same amount of support but the second option would make an increase dependent upon the level of benefits received (Reno, 2009).
- Increasing benefits for widowed spouses. Widowed spouses tend to be economically insecure in retirement because the pension support that their spouse may have received either ends or declines sharply upon his or her death or because both spouses worked at low pay during their working years thereby resulting in no boost in benefits for widowed spouses (Reno, 2009). Proposals to strengthen benefits for widowed spouses include increasing benefits for the surviving spouse to 75 percent of the sum of worker benefits received by the couple with either a cap to not exceed the average earnings of one person (which targets the benefit to the surviving spouse of dual-earning, low-income couples) or a cap to not exceed the maximum earnings of one person that is taxed and counted for Social Security purposes (which targets the benefit to the surviving spouse of a higher earning worker) (Reno, 2009).
- Increasing benefits for the very low income. Retirees who have previously worked for many years at low wages are very vulnerable to poverty because they are the most likely to have worked in sectors that do not provide private pensions and often do not have the disposable income to save on their own, thereby increasing their risk of economic insecurity in retirement. In 1974, a special minimum benefit was added to Social Security but today few receive it because it was not designed to keep up with wage growth (Reno, 2009). Proposals to strengthen benefits for retirees who have worked for low wages for at least thirty years include updating the special minimum benefit to 125 percent of the current poverty threshold and increasing benefits for single retirees at retirement and/or upon reaching the age of 85 (Reno, 2009).

- Providing across-the-board benefit increases for all beneficiaries. Stagnating wages and the effects of the Great Recession have imposed financial hardship on all workers but have had an especially detrimental affect on vulnerable workers—particularly younger adults, low-income workers, and workers of color—whom experts predict will never make up the earnings they lost due to unemployment and underemployment (Steuerle, 2013) (Tippet, 2014). As a result, many suggest that Social Security's modest benefits need to be increased across the board to meet the projected income needs of future retirees who have been harmed by macroeconomic factors beyond their control (Reno, 2009) (Tippet, 2014).
- Adopting a better cost-of-living-adjustment (COLA) measure. The purpose of the COLA is to ensure that the value of Social Security benefits keep pace with increases in inflation so that seniors can maintain their purchasing power. However, the CPI-W, the measure historically used to calculate the adjustments, does not account for the added costs that older adults bear, particularly in the area of health care expenses. The Bureau of Labor Statistics has maintained an alternative measure of inflation, the CPI-E, since 1987. This measure includes the purchasing patterns of America's seniors and has historically reflected a rate of inflation 0.2 to 0.3 percentage points higher than the rate generated by the CPI-W. Proposals to strengthen Social Security call for adopting the CPI-E for the purposes of determining annual COLA adjustments for Social Security recipients (Estes, 2012).

Extending or Restoring Benefits to New Groups

A number of proposals to strengthen Social Security focus on how to extend or restore benefits to new population groups who are economically vulnerable without the program's coverage. Prominent proposals within this category of expansion include:

- Extending benefits to caregivers. Caregivers, who are disproportionately women, are disadvantaged by the Social Security benefit formula when they are forced to work part-time or take time out of the formal economy to care for dependent children or relatives. These years of part time work or formal unemployment reduce the benefits of caregivers upon retirement and, for women especially who also experience lifetime pay disparities and live longer than men, make them especially vulnerable to poverty. Proposals to strengthen Social Security for caregivers include establishing a family service credit, for up to five total service years, with imputed earnings equal to one half of that year's average annual wage. Eligible beneficiaries would have to demonstrate that any earnings received in their family service year(s) amounted to less than 50 percent of that year's average annual wage. Imputed earnings would be used to close the gap between actual earnings and the 50 percent of average annual wage threshold (Estes, 2012).
- Covering immigrant workers. Undocumented immigrants working in the U.S. are currently not eligible to receive Social Security benefits even though many contribute to its trust funds and experts widely acknowledge that

comprehensive immigration reform could improve the program's actuarial balance over time (Miranda, 2010). Lack of Social Security or private pension coverage, combined with a lifetime of low-wage work, increases the extreme financially vulnerable of immigrant workers as they age. Expanding the number of legal immigrants through comprehensive immigration reform would not only provide a pathway for immigrants to access Social Security benefits, it would strengthen Social Security's financing mechanism by improving the worker to retiree ratio (Miranda, 2010).

- Restoring the student benefit. Currently, children with a disabled or deceased parent are eligible to receive Social Security benefits up to the age of 18 or 19 if still in high school. Prior to 1981, when the program was ended, these young people were able to keep receiving benefits up until the age of 22 as long as they were enrolled in college, vocational school or high school. Research shows that the additional years of income helped many low-income students receive a college education. Studies show that a college degree tends to enhance earnings over a lifetime, which, in turn, strengthens Social Security benefits upon retirement. Restoring the student benefit could have a directly positive benefit on financial outcomes for future retirees.
- Covering same-sex couples. Although blanket discrimination against providing Social Security benefits to same-sex couples ended when the U.S. Supreme Court ruled the Defense of Marriage Act unconstitutional, many same sex couples remain in limbo and without benefits due to evolving administrative policies and/or to state laws that do not recognize same-sex marriages. Same-sex couples are vulnerable to financial insecurity in retirement because they are often: treated as single individuals, ineligible for widow(er) benefits from their spouses' employer-provided pension, and ineligible for the Social Security benefit boost that marriage affords to the spouses of disabled, retired, or deceased workers. Proposals to strengthen Social Security benefits for same-sex couples seek to have the federal government treat legally married same-sex couples the same as heterosexual couples, including benefits extended to dependents, regardless of their state of residence or the location where their marriage ceremony occurred. Some also call for amending the language in the Social Security Act to eliminate gender-specific pronouns (Estes, 2012).

Creating New Social Insurance Programs

Just as Congress amended the Social Security Act to add Medicare as a new program in 1965, some proposals to strengthen Social Security seek to introduce other innovate programs to the Act in an effort to boost economic and health outcomes for U.S. workers. Proposals in this category include:

- Providing paid medical and family leave for workers. Despite enactment of the Family and Medical Leave Act, which required covered employers to allow workers job-protected, unpaid time off for specific medical and family purposes, it remains a financial hardship for many workers to take unpaid leave. One proposal establishes a national paid family and medical leave program, as part of Social Security, that would provide partial wage replacement for workers across the country who temporarily need to take time off from their jobs to tend to their own medical condition, to care for an ill family member, or to take care of and bond with a newborn or newly adopted child (Boushey, 2014).

- Extending wellness benefits to all workers and their families. Wellness insurance is a proposed social insurance program designed to protect workers and their families against the risk of chronic illnesses that are costly to individuals and society (Rockeymoore M. , 2009). Financed primarily by a dedicated worker- and employer-supported payroll tax directed to a new Social Security trust fund, wellness insurance would support eligible workers and their family members in their effort to lead healthier lives by facilitating access to subsidized primary prevention services such as gym memberships, nutrition and weight management classes, tobacco cessation interventions, and chronic disease management programs among other vital supports. Access to wellness insurance can make future retirees healthier while also enhancing their financial position by reducing their out-of-pocket medical expenses. It could also increase health cost savings by reducing the incidence of preventable chronic diseases in the United States.

CONCLUSION

While the focus of this hearing is on strengthening Social Security for future retirees, it is important to note the many proposals seeking to strengthen and expand benefits for disabled workers and dependents. In this category, common proposals include eliminating the requirement that new disability beneficiaries wait 24 months before gaining Medicare eligibility, eliminating the benefit reduction that accompanies eligibility for disabled widows benefits, allowing benefits for dependent disabled adult children to be reestablished after a divorce, and reducing the disability claims backlog and increasing fairness in the disability determination and claims processes.

Other administrative proposals for strengthening Social Security include equalizing the reporting threshold for earnings credits required for household workers and other workers, providing comprehensive language and translation services at all Social Security offices and virtual sites, and strengthening Social Security's data collection and reporting.

In conclusion, Social Security has helped provide economic security for American workers and their families for 79 years. Social Security has not only helped to keep these working families out of poverty, it also has helped them maintain a standard of living that would not otherwise be possible when they are faced with death, disability, or retirement of a family member. Given the multiple factors undermining retirement security for future retirees, it is imperative that we adopt strategies that can strengthen and expand Social Security to meet the needs of an increasingly diverse and economically insecure 21st century workforce.

Mr. Chairman, thank you again for this opportunity to present this important information to you and your Senate colleagues.