Paying People Poverty Wages

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President Franklin Roosevelt (FDR) signed the Social Security Act of 1935 to establish "old-age benefits for workers, victims of industrial accidents, unemployment insurance, and aid for dependent mothers, children, and the physically handicapped." He believed a Social Security system was pivotal to "take care of human needs and at the same time provide for the United States an economic structure of vastly greater soundness."

FDR extended the program in 1939 to include dependents and survivors of workers. Seventeen years later, President Eisenhower authorized benefits for disabled workers. President Kennedy, believing that Social Security requires "constant revision" to address a changing economy and society, made additional amendments to allow retirement at age 62. President Nixon followed in the early 1970s by revising Social Security to provide annual cost-of-living adjustments to recipients and establish Supplemental Security Income (SSI) for individuals with disabilities.

As the 1970s unfolded, double-digit inflation, slowed economic growth, an escalating budget deficit, and an increasing ratio of retired seniors to workers created concerns about Social Security's long-term financial solvency. Responding to the issue, President Carter raised payroll taxes in 1977 from 2% to 6.15% of the worker's pay. In 1983, responding again to the solvency issue, President Reagan authorized taxation of Social Security benefits and an increase from 65 to 67 in the retirement age required for full benefits.

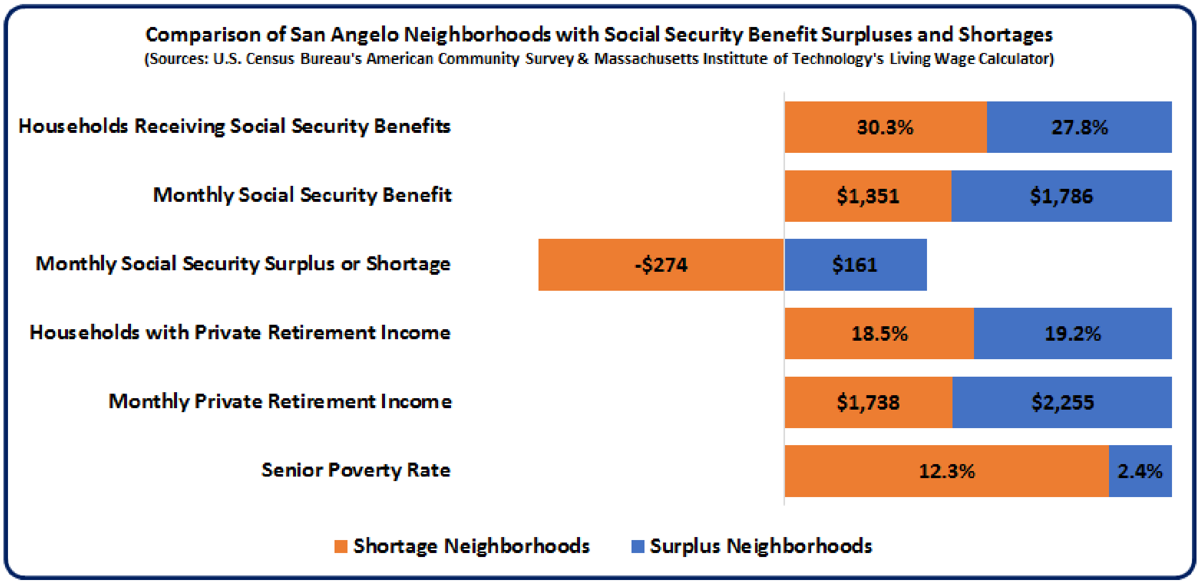
During the mid-2000's, President George W. Bush's initiative to privatize Social Security continued to highlight the solvency issue. This failed effort, however, met with growing public anxiety about making good on the original promise to "take care of human needs" during old-age. The issue of making good on the promise was ascendant in 2016 when President Barack Obama proclaimed, "We should be strengthening Social Security. . . not only do we need to strengthen its long-term health, it's time we finally made Social Security more generous and increase its benefits so that people get the dignified retirements that they have earned."

Obama's call motivated us to investigate whether Social Security actually provides for "dignified retirements" that cover living costs in the variety of local San Angelo neighborhoods. Our first step was to collect measures of the average Social Security income going into each of the city's 20 residential census tracts.

The Census Bureau's five-year American Community Survey (ACS) data for 2013-2017 estimates that 10,658 or nearly 30% of San Angelo households, received monthly Social Security checks. The East San Angelo census tract had the highest percentage with 56.4% receiving benefits. In contrast, only 23.4% of the households around ASU and College Hills received Social Security.

The highest average for San Angelo neighborhoods was $1,843 monthly going to households around the country clubs and Lake Nasworthy. The average of $916 in the Belaire School area was at the opposite end of the spectrum. The average monthly benefit for all San Angelo households receiving Social Security was $1,416.

We turned to the Massachusetts Institute of Technology's (MIT) analysis of data on local markets for food, housing, medical care, transportation and other consumer items to determine average monthly living expenses for San Angelo. Their estimate for 2017 was that a typical individual needed $1,625 to pay bills.



Next, we used the MIT results as a benchmark to assess the adequacy of Social Security to provide a "dignified retirement" in the different areas of the city. For instance, by subtracting MIT benchmark expenses of $1,625 from the Belaire School area's average Social Security benefit of $916, we estimated that a typical retiree in Belaire was likely to fall short on paying bills by approximately $709 per month.

Strikingly, when we applied this method to all of San Angelo's neighborhoods, Social Security covered living expenses in only three census tracts covering Santa Rita, Sunset, and the country clubs and Lake Nasworthy. These neighborhoods averaged a monthly benefit surplus of $161 over MIT benchmark expenses.

Incredibly, the other 17 neighborhoods had monthly benefit shortages ranging from $27 in the Riverside area to the previously mentioned $709 around Belaire School. The average shortage for the 17 tracts was $274 monthly.

In 1954, during an era when employers competed to attract workers by providing generous health and retirement benefits, President Eisenhower redefined the public view of Social Security. Its benefits are not a substitute for private savings or pension plans, Eisenhower explained, instead, Social Security is only "the foundation upon which these other forms of protection can be soundly built."

In recent decades, employers have unloaded guaranteed pension income for retirees while working to shift the onus of financial stability in retirement onto the individual. To follow-up on the local impact of this “risk shift” as economist Jacob Hacker has called it, we compared private retirement income in San Angelo’s neighborhoods with Social Security surpluses and shortages.

The comparison reveals that similar proportions of households in the three surplus and 17 shortage areas have private retirement funds. The difference is that retirees in the surplus areas averaged $2,255 per month from private retirement accounts while those in shortage neighborhoods gained only $1,738 monthly. In the city’s three surplus neighborhoods, retirees receive both higher Social Security benefits and much larger monthly income contributions from private funds.

The core reason for these gaps is that retirement income follows the earnings history of workers. Social Security, for instance, is based on a worker’s 35 highest-earning years, and employee pensions or 401k and IRA funds also grow with increased earnings.

Conversely, retirement income falls when life events such as illness, disability, or pregnancy lead to missed work time and interrupted earnings. Most importantly, workers with low-wage earnings histories end up with small Social Security checks and scant capacity or opportunity to accumulate private retirement assets.

The impact of these linkages in San Angelo is measureable. About 1,400 or 10.3% of the city’s seniors live in poverty. The poverty rate averaged 12.3% between 2013 and 2017 among nearly 11,000 seniors living in the Social Security shortage areas,. This compared to an average poverty rate of 2.4% among approximatly 3,000 living in the surplus neighborhoods.

Interestingly, a 2018 study by the Center on Budget and Policies Priority (CBPP) found that Social Security lifts about 40% of seniors out of poverty. This implies that, without the system, as many as 4,880 more local elders would fall into poverty. Still, neither Social Security nor private retirement funding currenly provide the “dignified retirement” that some 1,400 San Angelo seniors have earned.

In 2017, Social Security Trustees projected that the system’s Trust Fund will expire in 2034 unless Congress intervenes. This, of course, is a tall order for our polarized national lawmakers who routinely fund government via resolutions to continue current spending for only weeks or months at a time and increasingly face shutdowns over budget issues.

Nontheless, the public needs to know that Social Security has two continuous revenue streams that Congress can use to forestall insolvency. First is the payroll tax, which was the original funding mechanism created by the Social Security Act of 1935. The second source is the tax authorized by President Reagan in in the 1980s on the income benefits to Social Security recipients. Jointly, these sources generated over $911 billion in 2017. Yet, as President Kennedy believed in the 1960s, the system still requires “constant revision” for changing times.

It is also wise for the public to be aware that some policymakers, usually spearheaded by Republicans, advocate severe tax and benefit cuts to Social Security based on the opinion that the system is one of the key drivers of the growing national debt.

Democrat policymakers are more prone to advocate stabilization of the system through manageable increases to Social Security revenues. Progressive analysts at the CBPP identify three options to raise revenue: (1) increasing or eliminating the current ceiling on taxable wages; (2) taxing non-wage employment compensation that is currently non-taxable; or (3) increasing the payroll tax rate. Even a modest increase of 0.3 percentage points could close about 20% of the gap according to CBPP projections.

In any case, policy decisions to cut or increase Social Security revenues and benefits are sure to stir intense divisions in the nation's public discourse in future years. Unfortunately, such decisions can lead only to maintaining or unwinding the current system. Solving the real shortcomings requires something more that addresses the needs of the estimated 1,400 San Angelo seniors who are not living a "dignified retirement," but are living in poverty.

Remember, retirement income, whether from Social Security or private funds, is tied to the earnings history of workers. In San Angelo, there were 4,158 workers living in poverty during 2017 according to the Census Bureau, and 1,829 of them worked full-time year-round.

Paying people poverty wages produces impoverished future retirements. Reaching FDR's vision to "take care of human needs and at the same time provide for the United States an economic structure of vastly greater soundness" means paying all workers a living wage.