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Enacting a \$15 Minimum Wage is a Win for Social Security

Today's federal minimum wage¹ is only \$7.25 an hour. It is worth less and buys less than it did a half century ago.² At the same time, the United States is at its wealthiest moment in history. The inadequate minimum wage hurts low-wage workers. In fact, it hurts all workers,³ as well as the economy.

In addition, the inadequate minimum wage harms Social Security's finances and reduces the economic security our Social Security system provides America's working families. It has made income and wealth inequality much worse, which is both destabilizing and immoral. Updating the minimum wage to at least \$15 an hour, as proposed by the Raise the Wage Act, is imperative for the wellbeing of the entire nation.⁴

Updating the Minimum Wage Would Improve Social Security's Finances

Contributions from workers' wages, matched dollar for dollar by their employers, are Social Security's primary source of revenue. When the minimum wage increases, Social Security's revenue also increases. In 2018, around 1.7 million workers earned the minimum wage.⁵ Moreover, 22.3 million essential workers are in occupations with a median wage of less than \$15 per hour.⁶ Altogether, approximately 47.7 million workers in 2018 were employed in jobs with median wages of less than \$15 an hour.⁷

Research from the Economic Policy Institute concluded that raising the minimum wage to \$15 per hour in 2025 would directly or indirectly lift the wages of 32 million workers. If these workers earned \$15 an hour, they would earn an additional \$107 billion a year.⁸ Each of those workers would contribute 6.2 percent of those wages to Social Security, matched dollar-for-dollar by their employers.

The gains to Social Security's revenue would be even greater. People up and down the income ladder receive higher incomes when the minimum wage is increased.⁹ All those increased

wages result in increased Social Security premiums. Those premiums are assessed against those higher wages, bringing in billions of dollars of additional revenue.

Furthermore, updating the minimum wage increases the average level of wages nationwide, which results in more income for Social Security. As the annual Social Security Trustees Report¹⁰ explains: “The average level of nominal earnings in OASDI covered employment for each year has a direct effect on the size of the taxable payroll....”



Updating the Minimum Wage Would Increase the Social Security Benefits Working Families Earn

Updating the minimum wage would increase retirement security and reduce the threat of the nation’s looming retirement income crisis. A 2019 report from the Economic Policy Institute describes in detail how the disappearance of traditional pensions has seriously damaged Americans’ retirement security. While the stark inadequacy of 401(k)s is eroding retirement security for everyone, disparities in retirement savings between different demographic groups of Americans are continuing to rapidly increase.¹¹

Although opponents of updating the minimum wage falsely claim it is mainly paid to teenagers,¹² the reality is that many older workers receive the minimum wage. Around one out of three are over age 40 or older;¹³ one out of six are over age 55.¹⁴

Moreover, those most at risk in retirement, including women and people of color, would be most benefited by updating the minimum wage. While women made up 50 percent of the workforce¹⁵ in December 2019, they constitute 59 percent of those who would benefit from an increase to a minimum wage of \$15 an hour.¹⁶ Similarly, 13 percent of African Americans and 17 percent of Hispanics comprise the work force in 2018¹⁷ but 31 percent of African Americans

and 26 percent of Latinos would receive a raise if the federal minimum wage increased to \$15 an hour.¹⁸

If a single worker were to earn the current minimum wage her whole life, and claimed Social Security benefits in 2021 at her full retirement age, she would receive a monthly benefit of just \$979.80.¹⁹ In contrast, if she had earned \$15 an hour, her monthly benefit would be \$1,409.60.

That is a Social Security benefit increase of over \$5,000 – \$5,157.60, to be exact – each and every year for the rest of her life! Each additional dollar in wages increases a worker's Social Security benefits.²⁰

And that \$979.80 is the benefit if she works to her full retirement age (age 67 for those born in 1960 or later). If she retires prior to her full retirement age, the monthly amount is even lower.²¹ Today, a lifetime minimum-wage worker with a 40-year work history receives a Social Security benefit of only \$685.80/month if they retire at 62, as most workers – often for health reasons – do. This is well below the poverty level.²²

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 update 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.

As of 2019, 12.8 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),²³ and as of 2017, over two in five (42.0 percent) are economically vulnerable (living within 200 percent of the SPM).²⁴ 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.²⁵ Unlike most developed countries, the United States has no universal subsistence-level Social Security benefit,²⁶ but merely pays a sub-poverty-level stipend – Supplemental Security Income (SSI) – to the elderly who are most destitute.²⁷

Unlike SSI, Social Security's benefits are based on wages earned over a lifetime of work. Since one out of four seniors rely on Social Security for virtually all of their income,²⁸ 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.

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 over half (51 percent) of those who would be affected by the Raise the Wage Act are adults between the ages of 25 and 54, and more than a quarter (28 percent) have children,²⁹ adopting a \$15 minimum wage would significantly strengthen the economic security of America's working families.

Updating the Minimum Wage Would Save Tax Dollars Used for Means-tested Assistance

Given how inadequate the minimum wage is today, workers earning it and even higher wages must rely on government provided anti-poverty programs, including cash assistance (e.g., Temporary Assistance for Needy Families or TANF), nutrition assistance, (e.g., Supplemental Nutrition Assistance Program or SNAP), health insurance (e.g., Medicaid and the Children's Health Insurance Program ("CHIP")), housing subsidies, the Earned Income Tax Credit ("EITC") and more. From 2015 to 2019, in just the states with no \$15 minimum wage law, the federal and state governments spent \$253.7 billion on TANF, SNAP, Medicaid, CHIP and the EITC. Almost half of those taxpayer-funded benefits – \$107.5 billion – went to underpaid working families.

Indeed, 42 percent of families with full-time workers comprise the recipients of those benefits in those states.³⁰ Those benefits are taxpayer subsidies indirectly paid to private employers – often quite profitable ones.³¹ If minimum wage workers earned a living wage, taxpayers would be spared that corporate welfare. Instead of taxpayers subsidizing Walmart, McDonalds, Amazon, and other extremely profitable companies, those employers should be required to pay living wages of at least \$15 an hour.

Updating the Minimum Wage Would Strengthen the Economy

Raising the minimum wage to \$15 per hour in 2025 would directly or indirectly lift the wages of 32 million workers, 21 percent of the wage-earning workforce. Over the phase-in period of the increases, **\$107 billion in additional wages would be generated, streaming out into the communities across America.**³²

These billions would be spent immediately in the community because low-wage workers, like most Social Security beneficiaries, need every penny of their incomes to make ends meet, so they will spend any additional earnings to meet their basic needs. This contrasts with higher wage-earners, who tend to save a portion of any additional income. The increased spending by low-wage earners will stimulate the overall economy.



Updating the Minimum Wage Would Increase Equality

Additionally, an increase in the minimum wage will help reduce income inequality by setting a higher floor at the low end of the wage scale. While the American economy has been getting more productive over the past several decades, hourly pay for most American workers has not kept up. Since 1979 to 2017, productivity grew six times faster than typical worker compensation.³³ 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.

Over those same decades, this pattern of continuing economic inequality has had a damaging impact on Social Security.³⁴ This weak and unequal wage growth has caused about a third of Social Security's projected long-term funding shortfall.³⁵

Conclusion

Over the last 50 years, income inequality has been eating away at the American social fabric and weakening Social Security's finances. It has been weakening the economy, wasting taxpayer dollars, and reducing economic security. Americans overwhelmingly support updating the minimum wage.³⁶

Raising the minimum wage not only makes excellent economic sense, it is the right thing to do as a matter of basic decency and morality. And, as a corollary, since average Social Security benefits are around the level of the minimum wage, Social Security benefit levels should be increased as well. The minimum wage should be increased to at least \$15 an hour, though a higher level would more effectively address income inequality.³⁷ A \$15 minimum wage, indexed to wage growth, is a good first step.

Endnotes

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