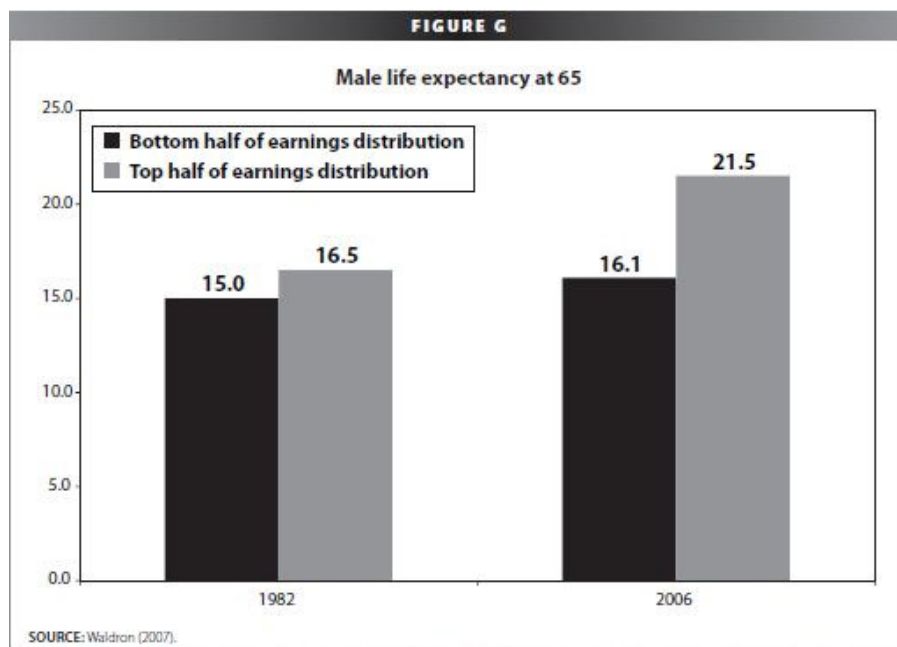


## SPOTLIGHT: LOW WAGE EARNERS & SOCIAL SECURITY

Social Security benefits are based on a worker's earnings; the more a worker makes, the higher the benefit amount will be. Because some workers are in low paying jobs and have little income to save for retirement, Social Security uses a benefit formula that replaces a greater fraction of the lifetime earnings of low earners than high earners.<sup>1</sup> Specifically, a minimum wage worker will see earnings replaced at 60%, an average wage worker's earnings will be replaced at about 42% and a high wage worker's earnings will be replaced at about 26%. Low wage workers are typically individuals who are either low skilled, receive low wages or took time out of the workforce to carry out caregiving responsibilities.

### Retirement Age & Low Wage Earners

Even though life expectancy for high income men has increased by five years since 1982, lower-income men have seen a gain of only 1.1 years, and lower income women have actually seen life expectancy decline. This means that a high-income man can expect to live almost four years longer than his lower-income cohort. If the retirement age were to be raised to 70, for instance, both income levels would be affected, but the lower-income man would be especially negatively affected because his shorter life expectancy means that he would have less time in retirement than his higher-income counterpart.



## Poverty & Low Wage Earners

Low wage earners are more at risk than ever before of living in poverty due, in part, to the declining availability of defined benefit pension plans. Previously, production and manufacturing workers, particularly those who were union members, had pensions that they could count on for retirement income. Over the last twenty years, however, employers have instead opted to offer defined contribution plans, such as 401 (k) plans, to their employees. After paying for immediate needs, most low wage workers have very little income to put towards a defined contribution account, thus leaving them with even less retirement security than ever before.

Even with Social Security, many low wage earners with significant work history still find it difficult to get by during their retirement years. In fact, almost thirty percent of retired-worker beneficiaries living in poverty have worked for at least thirty years.



### Did you know?



Low-wage workers' Social Security benefits are modest. For example, someone who spent 40 years working full-time at the minimum wage who retired at 62 would receive a Social Security benefit equal to only 83% of the poverty level.



Raising the retirement age would severely impact low wage earners who work in physically demanding jobs. Forty-five percent of workers over the age of 58 hold physically demanding jobs. Among those who lack a high-school diploma, the figure is seventy-five percent.



Older women have lower incomes in retirement than their male counterparts. This is largely because they tend to have shorter careers, lower earnings in the years they work, and lower lifetime earnings than men.

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<sup>i</sup> A “low wage earner” is usually described as an individual making \$16,739 or less annually.

