



Are Low-Wage Workers Destined for Low Income at Retirement?

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Americans are bombarded with messages urging them to save for retirement, but low-wage workers often find it difficult or impossible to put money aside. Family budgets are already stretched thin paying for basic needs. In 2007, 11.3 percent of working-age adults between 18 and 54 were poor (U.S. Census Bureau 2007a). A full-time worker making minimum wage could expect to earn just over \$12,000 before taxes—well below the federal poverty level of \$21,027 for a family of four (U.S. Census Bureau 2007b).

So, are low-wage workers destined for low income at retirement? For most of them, the answer is yes. Without savings, low-wage workers will have to rely on other sources of retirement income, such as Social Security and pensions. Yet these sources of retirement income are based on earnings. The Social Security benefit formula replaces a greater share of earnings for low-wage workers than for higher-wage workers, but low-wage workers will still have lower benefits than their higher-wage counterparts. Pension formulas generally do not provide higher replacement rates to low-wage workers, but the real problem for workers is that many low-wage jobs do not provide defined benefit pensions. Low-wage workers are also less likely to have access to defined contribution pensions and, if offered them, are less likely to participate than higher-wage workers.

But the relationship between lifetime earnings and retirement incomes is often complicated by individual and family circumstances that can change throughout a person's life. Therefore, the answer to our question is not always a simple yes.

Some Low Earners Will Escape Low Income at Retirement

Using the Urban Institute's Dynamic Simulation of Income Model (DYNASIM), we projected retirement incomes at age 67 for boomers with low earnings between ages 22 and 62 (figure 1). Nearly two-thirds of this group will end up with low income at retirement age, but more than one-third will manage to defy the odds and escape being among the lowest-income older Americans.

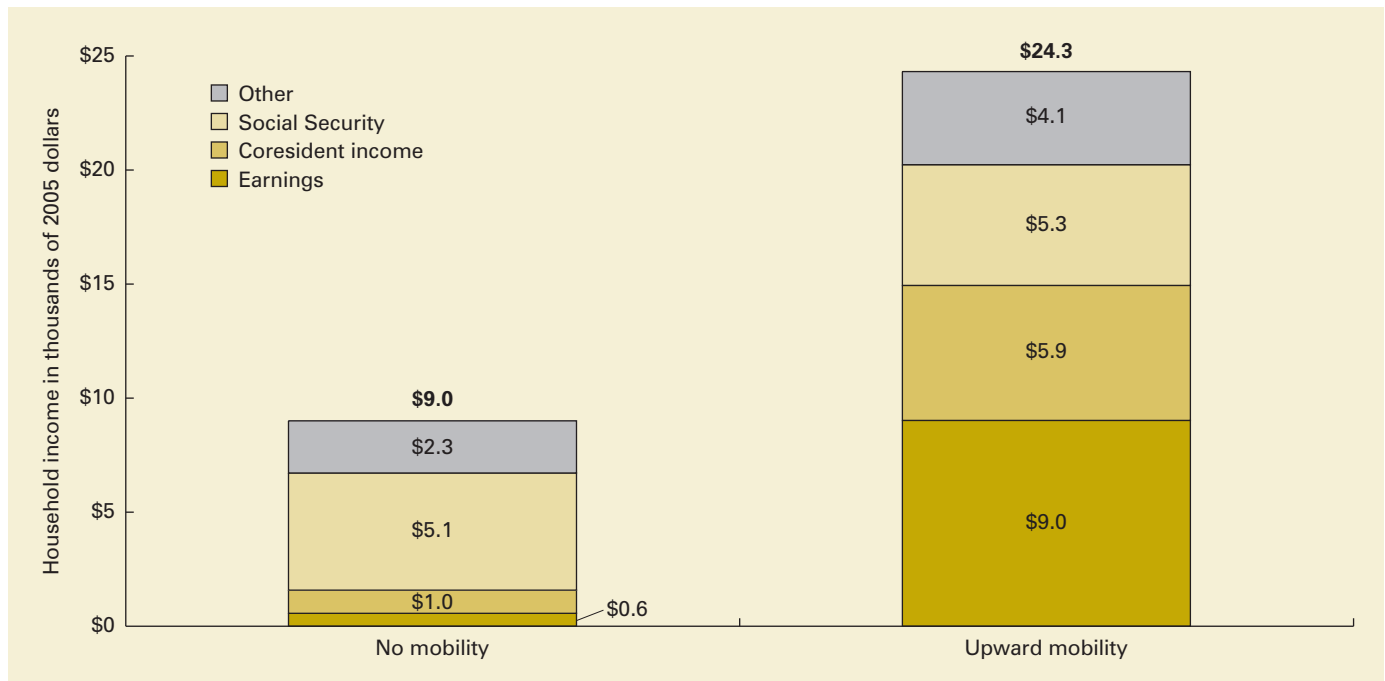
We found that boomers with low lifetime earnings moved up the income ladder at retirement age in two main ways: continuing to work at older ages or living with others, often adult children, who help support them financially. The difference in household income between low-earning boomers who moved up the ladder and those who didn't is projected to be \$15,300—\$8,400 coming from earnings and \$4,900 coming from coresident income. In contrast, Social Security benefits, another major source of income for older adults, will be similar for all low-earning boomers.

Ways to Help Low-Wage Workers Afford a More Comfortable Retirement

If the goal of policy is to help low-income seniors be financially independent without having to work at very old ages, then it is important for policymakers to protect those sources of retirement income low-income seniors rely on most. Our priority should be protecting low-income seniors' Social Security benefits, which account for the majority of their income (Butrica, Murphy, and Zedlewski 2008). Policymakers working to improve the financial solvency of Social Security should consider options that do not hurt low-income seniors. Raising the maximum taxable Social Security earnings or reducing Social Security replacement rates for higher-wage workers are preferable to broader benefit cuts. A new Social Security minimum benefit, enacted alone or as part of a larger reform package, also could protect low-income retirees (Favreault et al. 2007).

Beyond this, policymakers could take additional steps to strengthen the social safety net. If Medicare premiums or out-of-pocket medical costs are increased to protect the program against insolvency, low-income

FIGURE 1. Median Per Capita Household Income at Age 67 for Boomers with Low Lifetime Earnings, by Income Mobility



Source: Butrica, Toder, and Toohey (2008).

Notes: Boomers were born between 1946 and 1965. Low lifetime earners have average shared lifetime earnings between ages 22 and 62 at or below the 20th percentile of the distribution, where shared earnings are half the couple's earnings in years when married and the individual's earnings in years when single. Low-income adults have per capita income at age 67 at or below the 20th percentile of the distribution. Boomers who are not low income are considered higher income. Low lifetime earners experience *no mobility* if they have low incomes at retirement and *upward mobility* if they have higher incomes at retirement. *Other* includes income from financial assets, Supplemental Security Income benefits, imputed rent, defined benefit pensions, and retirement accounts.

enrollees should be exempted. Higher health care costs will lead to higher poverty rates among older adults.

Another option for improving the safety net for retirees is to reform and strengthen the Supplemental Security Income (SSI) program. Increasing the asset limit (set in 1972) to reflect cost-of-living changes and increasing the maximum benefit to the poverty threshold would allow more seniors to qualify for SSI and would raise their annual benefits. Expanding SSI enables the program to fulfill its mission of protecting elderly and disabled adults from economic hardship.

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