

# Impact of Unreported Social Security Earnings On People of Color and Women

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Social Security benefits are determined not only by the level of wages a worker earns but also by the amount of wages actually reported by an employer. People of color and women represent a disproportionate share of private household workers and farm workers, two groups of workers who may be susceptible to employers failing to report wages fully.<sup>1</sup> Failure to report these wages can leave some workers unable to qualify for Social Security benefits. Even workers who are able to qualify will likely receive lower monthly benefits than if all their earnings had been reported.

When Social Security was enacted in 1935, the program covered only employees who worked in private industry and commerce.<sup>2</sup> It was not until 1950 that some regularly employed domestic workers and some farm workers received coverage. In 1954, coverage was expanded to additional domestic and farm workers. Prior to 1994, employers were required to report earnings for domestic employees if the workers' earnings exceeded \$50 per calendar quarter.<sup>3</sup> This is the "cash-pay test." In 1994, the threshold was raised to \$1,000 per calendar year and adjusted in successive years based on changes in average wages. In 2002, the threshold is \$1,300.<sup>4</sup>

The 1994 provisions facilitated reporting requirements for employers but made it more difficult for some domestic workers to have their earnings reported and thus to earn quarters of Social Security coverage. Currently, an employer does not have to report the earnings of a domestic worker unless the employer pays that worker at least \$1,300 a year.<sup>5</sup> This requirement is easier for employers to meet than the previous standard requiring employers to report earnings if they paid a worker at least \$50 in a quarter. On the other hand, this change makes it harder for some workers to have their earnings reported. For example, a worker who has several employers but receives less than \$1,300 per year from each of them may not have any of their earnings reported to Social Security that year. This makes it harder for this worker to qualify for Social Security benefits and also affects the level of benefits the worker will receive if he or she does qualify.<sup>6</sup>

## People of Color and Women: Overrepresented Among Domestic and Farm Workers

Table 1 provides the distribution of domestic

**Table 1. Distribution of Domestic and Farm Work Occupations, 2001**

Occupation	Percent Women	Percent Latino	Percent African American
<b>Service Occupation</b>	60.4	16.3	17.9
Private Household	96.2	32.8	12.1
Child Care	97.0	18.8	8.1
Cleaners & Servants	96.1	39.5	13.5
<b>Farming, Forestry, Fishing</b>	20.8	21.5	5.0
Farm Workers	20.7	42.3	3.7
<b>Proportion of Labor Market</b>	46.6	10.9	11.3

Source: U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*, January 2002, Tables 11, pp. 176-181.

**Table 2: Median Weekly Earnings of Full-Time Domestic and Farm Workers, 2001**

Occupation	Both Genders	Men	Women
<b>Private Household</b>			
Child Care	\$246	— <sup>a</sup>	\$245
Cleaners & Servants	\$254	— <sup>a</sup>	\$254
<b>Farming, Forestry, Fishing</b>			
Farm Workers	\$313	\$319	\$284
<b>All Workers</b>	\$597	\$672	\$511

<sup>a</sup> Insufficient sample size

Source: U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*, January 2002, Table 39, pp. 210, 212, and 215.

(private household) workers and farm workers by gender, race, and ethnicity in 2001. Women dominated domestic occupations. Latinos were overrepresented among domestic workers and farm workers. African Americans were not overrepresented among domestic and farm workers in 2001, but this has not been the case historically. (In 1999, African Americans made up 17.6% of cleaners and other servants.) Record low rates in unemployment levels for African Americans over the last couple of years may have enabled some

domestic workers to obtain better paying jobs. However, African Americans likely make up a disproportionate share of workers nearing retirement whose career work histories include substantial amounts of work in private households.

Domestic and farm workers receive earnings that are well below the median weekly earnings for all workers (see Table 2). Low-wage earners are much less likely to have retirement income from pensions and investments, consequently they are more vulnerable to poverty in their old age than are higher paid workers.<sup>7</sup> The receipt of Social Security benefits is particularly important for these workers since the Social Security program lifts more people out of poverty than all other government programs combined.

## Domestic and Farm Workers: More Likely to Have Unreported Earnings

Although Social Security coverage is particularly important for low-wage workers, individuals employed as private household workers and farm workers appear to be more likely than other workers not to have had their earnings reported for Social Security purposes. This assessment is supported, at least with regard to domestic workers, by a 1965 study by Polinsky that analyzed Social Security Administration (SSA) data collected on women household workers' earnings from 1951 to 1961, the decade after household workers received Social Security coverage.<sup>8</sup>

Polinsky compared Bureau of Labor Statistics (BLS) data and Census data with the SSA data. According to the BLS data, 11%

of women who were gainfully employed held jobs as household workers in 1962. Similarly, the 1960 Census data indicated that 10% of women earning wages and salaries were in household employment. However, only 5% of the women with reported wages in the SSA database for 1961 were household workers. Polinsky concluded:

The limited coverage under OASDI [Old Age, Survivor, and Disability Insurance] and deficiencies in the reporting of covered household employment by employers are chiefly responsible for the large difference between the OASDI proportion and those of the BLS and the Bureau of the Census....the requirements for reporting are probably less widely understood by household workers and employers and are less easily enforced for household employment than for most other types of covered employment.<sup>9</sup>

The workers this study examined are now part of the elderly population, and unreported earnings may have left them with insufficient quarters of coverage to receive Social Security benefits (or to receive more than a low level of benefits). The 1994 legislation was intended to simplify the reporting process for employers, with the expectation that more employers would understand and adhere to the reporting requirements regarding household workers. To date, no study has been undertaken by the SSA to determine how effective the legislative change has been or to gauge the level of nonreporting that still exists for domestic workers.

Information on the level of reporting compliance for farm workers is even more sparse. Most types of agricultural labor are covered by Social Security, but only if one of two cash-pay tests is met.<sup>10</sup> Wages

are supposed to be reported if cash payments (of any amount) are made by an employer whose total agricultural labor costs are \$2,500 or more annually. Alternatively, an employer who has less than \$2,500 in farm labor expenditures must report wages for a given employee if cash payments by the employer to that employee equal at least \$150 per calendar year.<sup>11</sup>

The rules for reporting wages for farm workers are complex, and the extent to which employers of farm workers understand and comply with these rules is not clear. There is a limited amount of research in this area.

Consequently, it is difficult to determine the magnitude of the problem. Evidence that there has been substantial unreporting of earnings among farm workers and household workers can be found, however, in data

regarding the participation of elderly individuals in the Supplemental Security Income (SSI) program at the end of their work lives. The SSI program is a public assistance program for the aged, blind, and disabled poor. An elderly person who does not have a sufficient amount of reported earnings to qualify for Social Security benefits or who receives a low level of Social Security benefits may be eligible for SSI. Based on his 1991 study of the SSI program comparing elderly SSI recipients with all Social Security recipients aged 65 and older,<sup>12</sup> Scott observed:

SSI recipients, especially males, were much more likely to have been involved in farming than those in the Social Security beneficiaries group. About 21 percent of male [SSI] recipients earned income in the agricultural sector, compared with only 3 percent of the overall group....<sup>13</sup>

The study also found that about 21% of the women receiving SSI had worked in private households, compared with only 5% of all Social Security retirees aged 65 or older. In addition, the study noted there is some evidence that wages earned by household workers often continued to be unreported to Social Security after Social Security coverage was extended to these workers.

## Research Needed on Unreported Earnings

Improving Social Security coverage of workers, particularly workers who are least likely to have other sources of retirement income, can help to reduce poverty among the elderly. As previously noted, some workers who are earning the lowest wages and thus are most in need of Social Security benefits, such as domestic workers and farm workers, may not be covered by Social Security (or may only be minimally covered) because

**"Individuals employed as private household workers and farm workers appear to be more likely than other workers not to have had their earnings reported for Social Security purposes."**

their earnings have not been reported. Research is needed to gain greater understanding of the nature and magnitude of the problem of unreported earnings.

As part of such a research effort, information is needed about the effect that the previously mentioned 1994 legislation on employer reporting requirements has had on the level and nature of nonreporting. The SSA has developed plans to conduct research on non-reporting but has lacked the funds to explore the issue.

Resources should be allocated to the SSA to undertake research around two critical questions and their components:

***Examine the extent to which which earnings are unreported and why.***

This research needs to determine the number of people affected, the likely level of earnings not reported, the approximate number of employers involved, and the poverty rates of those with unreported earnings. It must also determine the reasons for non-reporting and examine the extent to which workers who have unreported earnings due to their employers' failure to report are taking advantage of the provision to receive retroactive earnings credits. If a worker can provide evidence that he or she worked for a specific employer, the SSA will credit the worker for those earnings.<sup>14</sup> A signed statement from an employer can serve as evidence of past wages paid. Employers need not fear being penalized for non-reporting, because neither the SSA nor the Internal Revenue Service attempts to retrieve unpaid payroll taxes from the past.<sup>15</sup>

***Determine the proportion of domestic workers who should be classified as self-employed and should pay their own payroll taxes.***

It can be complicated for workers to discern whether they are employees or self-employed. The Internal Revenue Service and the SSA apply a set of rules to make this determination.<sup>16</sup> For example, if the person for whom the domestic worker is doing a job provides the tools or equipment and sets the hours of work, the domestic worker may be an employee. Alternatively, if the domestic worker pays his or her own expenses, provides his or her own equipment, and works for more than one employer, the worker may be self-employed.

If a worker is an employee, the employer is responsible for reporting the worker's wages and making the payroll tax contributions. By contrast, if a worker is self-employed, the *worker* is responsible for reporting his

or her wages and making the payroll tax contributions. (In other words, the worker would contribute both the employer and the employee shares of the taxes which equal 15.3% of the wages earned—12.4% for Social Security and 2.9% for Medicare Hospital Insurance.<sup>17</sup>) This research also should examine ways to reduce nonreporting, informing workers of their rights, and informing employers (including the self-employed) of their responsibilities.

Clearly, there is a cost associated with conducting this research. This research, however, should take precedence over other recent proposals that would incur substantial administrative costs. For instance, several bills have been introduced in Congress recently that would require the SSA to send certificates to current beneficiaries stating that their benefits would not be reduced in the future. The Congressional Research

Service has concluded that such certificates would be no more binding than current law. The SSA Commissioner, Jo Anne Barnhart, has testified before

Congress that sending these certificates may have the undesired effect of alarming workers who do not receive them, such as workers near retirement.<sup>18</sup> Moreover, the SSA estimates that the cost of mailing even a rather basic type of certificate would be \$14 to \$16 million.<sup>19</sup> A more elaborate certificate could be double the cost.<sup>20</sup>

This money could be put to better use. A portion of the estimated cost of mailing out certificates could be used to conduct research on unreported earnings. This research would inform policymakers about the extent of the problem and the means by which to address it so that individuals who have worked hard receive the Social Security coverage they deserve for themselves and their families.

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## References

- <sup>1</sup> Edith U. Fierst, *Household Employees Without Social Security*, Unpublished, January 1999. See also Charlotte Muller, "The Distinctive Needs of Women and Minorities," *Life in an Older America*, (Eds.), Robert N. Butler, M.D., Lawrence K. Grossman, and Mia R. Oberlink, New York: The Century Foundation, 1999, p. 108. Kilolo Kijakazi, *Social Security and Black Women After 50 Years*, National Urban League, Inc., Washington Operations, Unpublished, 1985.<sup>2</sup> Social Security Administration, *Annual Statistical*

*Supplement to the Social Security Bulletin, 2001*, Washington, DC: U.S. Government Printing Office, Table 2.A1, p. 84.

<sup>3</sup> *Ibid.* p. 85.

<sup>4</sup> See the Social Security Administration website <http://www.ssa.gov/OACT/COLA/CovThresh.html>

<sup>5</sup> Social Security Administration, *Social Security Handbook, 2001*, Washington, DC: U. S. Government Printing Office, 2001, 916. See also [www.ssa.gov/OP\\_Home/handbook/ssa-hbk.htm](http://www.ssa.gov/OP_Home/handbook/ssa-hbk.htm)

<sup>6</sup> To be fully insured for the Social Security program, a worker who reaches age 62 in 1991 or later must earn 40 quarters of coverage. The number of quarters required for a worker who becomes disabled or dies before age 62 is determined by the age of the worker at the time of disability or death, but a minimum of six quarters is required. In 2002, a quarter of coverage is earned for each \$870 in annual covered earnings. A worker can earn a maximum of four quarters per year. The amount required for a quarter is adjusted annually for inflation based on changes in the Consumer Price Index. See Social Security Administration, *Annual Statistical Supplement, op. cit.*, p. 12.

<sup>7</sup> For a more extensive discussion of the employment experience, retirement income, and role of Social Security for low-wage earners see: Kilolo Kijakazi, "Low-Wage Earners: Options for Improving Their Retirement Income," *The Future of Social Insurance: Incremental Action or Fundamental Reform?*, Washington, DC: National Academy of Social Insurance, 2002.

<sup>8</sup> Ella J. Polinsky, "Women Household Workers Covered by Old-Age Survivors and Disability Insurance," *Social Security Bulletin*, July 1965, pp. 33-38.

<sup>9</sup> Polinsky, *op. cit.*, p.34.

<sup>10</sup> Social Security Administration, *Handbook, op. cit.*, 901.

<sup>11</sup> Social Security does not provide coverage for agricultural work performed by any foreign-born individual who is lawfully admitted to the United States on a temporary basis for the purpose of doing agricultural work.

<sup>12</sup> Charles G. Scott, "Aged SSI Recipients: Income, Work History, and Social Security Benefits," *Social Security Bulletin*, August 1991.

<sup>13</sup> *Ibid.* P. 7.

<sup>14</sup> Social Security Administration, *Handbook, op. cit.*, 1726, 1421 and 1424(E).

<sup>15</sup> Edith Fierst, *op. cit.* p. 2.

<sup>16</sup> *Code of Federal Regulations*, Title 20, Chapter III,404.1007.

<sup>17</sup> A portion of payroll tax contributions by self-employed individuals can be deducted for income tax purposes.

<sup>18</sup> Jo Anne B. Barnhart, Commissioner, Social Security Administration, *Improvements for Women, Seniors, and Working Americans*, Testimony before the House Committee on Ways and Means, Subcommittee on Social Security, February 28, 2002.

<sup>19</sup> Kilolo Kijakazi, *The Costs and Tradeoffs of Social Security Benefit Guarantee Certificates*, Washington, DC: The Center on Budget and Policy Priorities, March 2002.

<sup>20</sup> Letter from Dan L. Crippen, Director of the Congressional Budget Office to Congressman Robert Matsui, Ranking Member of the House Ways and Means Social Security Subcommittee, Washington, DC, March 11, 2002.