

DOMESTIC WORKERS WORKING HARD TO SUSTAIN AMERICAN FAMILIES, COMPROMISING THEIR SOCIAL SECURITY

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INTRODUCTION

Labor Day is an important opportunity to recognize the important contributions of Latinos to the workforce and highlight ways in which public policy can improve the ability and the opportunity of Latino workers to succeed and prosper. Policy experts and the Congress grappled with Social Security reform last year. But the debate left out many Latino workers by failing to talk about the need of workers to gain better access to social insurance. With each paycheck, workers make their Social Security contributions, earning credits for retirement or in the event of disability or death. However, workers in the informal sector, a sector with a high concentration of Latinos, may encounter specific barriers in accessing and participating in social insurance. One such group of workers who work informally and face such challenges is domestic workers.

Domestic workers are employed as cleaning persons, cooks, gardeners, or babysitters.¹ The contributions of domestic workers help to sustain families; however, because this labor sector is informal, it may be more difficult to access general worker benefits, such as Social Security. This compromises workers' options for self-sufficiency by hindering access to social insurance. Domestic workers are less likely to have other sources of private savings to build a retirement nest egg; therefore, consistent access to Social Security is critical to a worker's well-being during retirement. Domestic workers need increased social insurance because of their attachment to the labor market and because of coverage problems related to wage reporting.

Latinos** pay into Social Security, but have lower rates of benefit receipt. Currently, Latinos number more than 18 million workers in the U.S.

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** The terms "Hispanic" and "Latino" are used interchangeably by the U.S. Census Bureau to identify persons of Mexican, Puerto Rican, Cuban, Central and South American, Dominican, and Spanish descent; they may be of any race.



workforce.² In 2005, Hispanics made up one out of every three (33.9%) private household workers.³ Even with these work contributions, Latinos still experience low per capita earnings with the average being \$14,106, the lowest compared to any other group.⁴ Lower earnings make it more difficult for Latino workers to develop assets to use during retirement, which increases reliance on Social Security. Current Social Security rules pertaining to domestic workers makes it so Latinos working in this sector encounter difficulties counting working years and earning credits, making it harder for them to reach Social Security eligibility thresholds and access benefits during retirement. Latinos encounter barriers to full Social Security coverage given the jobs they hold, and, as a result, are less likely to receive income from Social Security when compared to their White counterparts.

To respond to Latino worker concerns with social insurance, policymakers must consider how attachment to the workforce occurs and address the issues of less access, lower participation levels, and the resulting proportionately lower benefits in any discussion of Social Security reform. The limits of current social insurance and benefit adequacy must be improved in a way that assists workers most effectively to improve Social Security and retirement security overall.

BACKGROUND

Under the original legislation, the Social Security Act of 1935, almost every worker “in commerce and industry under age 65, or about 60% of the workforce, were required to participate in the Old-Age Insurance program.”⁵ Yet, domestic and farmworkers - like government workers, railroad employees, the self-employed, and employees of nonprofit organizations - were not eligible to contribute to and to participate in Social Security.⁶ The exclusion of workers began to raise questions about the fairness of government-sponsored social insurance coverage and benefit adequacy.

Regularly employed domestic workers gained Social Security coverage in 1950 provided that they met certain limitations.⁷ For domestic workers to earn social insurance coverage, they were required to earn a minimum of \$50 per quarter and work at least 24 days within the same calendar quarter.⁸ Domestic workers could receive coverage from more than one employer provided that they worked 24 days per quarter for each of them. These strict measures were probably implemented to limit coverage of regularly employed workers; casual domestic workers (workers who did not meet the 24 days per quarter requirement) would remain without Social Security coverage.⁹ Even so, it is estimated that the 1950 law expanded coverage for almost a million (950,000) domestic workers. Again in 1954, Social Security was made more accessible for domestic workers with the elimination of the 24 days for a single employer requirement, which brought about 200,000 additional domestic workers into Social Security. This action increased total social insurance coverage to about 90% of domestic workers at that time.¹⁰

Expanding Social Security coverage was a large focus of policy efforts at the time, yet because the domestic worker threshold remained at \$50 (despite rising inflation),

compliance by employers declined. Thus, accessing Social Security benefits for domestic workers remained an issue in the succeeding decades. In 1994 following a series of scandals where the Social Security taxes for domestic workers had not been paid, Congress reformed the Social Security laws pertaining to domestic workers. The failure of many Americans to report household employees had become common. The scandal increased public attention on how more people could comply with the provisions. The “Social Security Domestic Employment Reform Act of 1994” aimed to increase compliance with the Social Security rules by increasing the threshold contribution and indexation requirements, but reduced Social Security coverage for domestic workers.¹¹

Currently, coverage is only provided as long as actual tax payments are made and credited into the system. That said, for those workers who might meet the earnings requirements, eligibility may still be a problem. First, there may be some confusion about who is a domestic worker. The Internal Revenue Service views household employees as a person hired to do household work whereby the employer controls what and how the work is done.¹² The Social Security Administration also provides some guidance for employers of domestic workers by noting that workers must be paid a certain threshold of income and that if wages are not credited on time, there could be penalties as well as overdue taxes to pay.¹³ This guidance and the informal nature of the work make it so employers do fail to withhold and report domestic workers’ taxes. In turn, this will raise questions about domestic workers’ accumulation of Social Security credits. If employers paid the Social Security taxes for their domestic workers, employees would receive increased social insurance and labor protections.

In addition to the difficulties of gaining Social Security credits, domestic workers are rarely able to participate in employer-sponsored retirement savings vehicles, such as pensions. According to the United States General Accounting Office (GAO),* people in the labor force who are low-paid, work part time, and work in small businesses are more likely to lack pension coverage.¹⁴ Domestic workers usually have more than one of these characteristics, thus this work sector is among the groups with the least access to employer-sponsored retirement plans, and the GAO notes that in 1993 nearly 96% of private household workers lacked pension coverage.¹⁵ Because of limited availability of other saving options, domestic workers’ need for Social Security is greater to ensure a secure retirement.

These coverage issues resonate strongly for Latino domestic workers as well as the larger Latino workforce, as Latinos experience lower Social Security coverage rates and much of it is attributable to the types of jobs they hold. For example, in 2004,

* The General Accounting Office’s (GAO) name was changed to the Government Accountability Office on July 7, 2004 as part of the GAO Human Capital Reform Act of 2004, Pub. L. 108-271, 118 Stat. 811 (2004).

91% of Whites 65 and older received income from Social Security and the median amount of Social Security received was \$13,063.¹⁶ In contrast, 76% of Hispanics 65 and older received income from Social Security and the median income was \$10,399.¹⁷ Given that Latinos make up a significant percentage of the domestic work force and experience Social Security receipt at lower levels, further analysis of these coverage challenges is warranted with the aim of improving Social Security for these workers.

ISSUES

High Threshold to Receive Social Security Credits: Worker coverage under Social Security has evolved since the creation of the program, with the aim of increasing coverage and addressing retirement security challenges. Yet, in 2006, domestic workers must earn \$1500, a full \$530 more to receive Social Security credit, compared to the \$970 that most workers must earn to gain coverage.¹⁸ Moreover, the domestic worker will receive Social Security credit if the threshold is reached by one employer's contributions. Because many domestic employees work in more than one household, this rule creates barriers for Social Security receipt, creating access and participation challenges.

Difficulty Reporting Wages to Qualify for Social Security: The tax code is complex, which makes the proper accounting and reporting of wages difficult and can lead to inaction. The Internal Revenue Service requires a series of calculations to report household workers as well as paying FICA taxes, withholding the appropriate amount of taxes, making the necessary contributions, and filing taxes accurately.¹⁹ In 2003, more than 60 percent of individual returns are arranged by paid preparers representing additional costs for tax payers.²⁰ Employers may not report household workers' earnings because of the difficulty of understanding the system and the hassle of paying additional preparers' fees to calculate and to report employees.

Another barrier could exist in that there is a decrease in domestic workers' net salary earnings from tax reporting that might discourage accurate wage reporting, and ultimately, participation in Social Security. According to the Bureau of Labor Statistics, the median annual wage for maids and housekeeping cleaners is \$17,080.²¹ Although this median is already low, the fact that private households and commercial establishments are included in the same calculation could have even inflated the actual average of the first group. Domestic workers generally fall in the low-income bracket, thus paying professional tax filing services can lead to underreporting.

Uncertainty and/or Limited Awareness About Social Security: Workers need ten years of work (40 credits) to be eligible for Social Security retirement benefits.²² A 2006 survey found that the majority of workers do not know when they will be able to receive full Social Security benefits and only approximately one in five (19%) were able to give the correct age to receive Social Security retirement benefits.²³ The survey noted that these answers were given despite the Social Security Administration's mailing of individual benefit statements for seven years. Almost half of workers believed they would be eligible for unreduced Social Security benefits sooner than they would.²⁴ This data shows that workers are not aware of their Social

Security benefits, even when largely in the traditional workforce. For domestic workers who work in the informal sector, it is even more of a challenge to understand the benefits of and the need to pay into the Social Security system. Given that many domestic workers are Latino, it is critical to address whether a similar information gap exists. According to a poll conducted by AARP, almost one in two (48%) Hispanics declared having little or no knowledge at all about how Social Security works.²⁵ It becomes clear that more information about the program needs to be accessible to also increase monitoring and diligence of contributions to Social Security.

Address Overall Retirement Income Insecurity: Domestic workers confront difficulties creating retirement assets. For example, given that domestic work is in the informal labor market, many household employees will not have some of the standard benefits offered through work, such as an employer-sponsored pension plan. As of 2002, only 6.4% of private household workers had a chance to take part in an employer sponsored pension plan, representing the lowest pension availability for any other occupation.²⁶ Latino workers overall are less likely to have pension plan coverage or to participate in such plans. In 2001, more than half (55.4%) of all workers were offered a pension plan at work, but a mere 43.2% participated.²⁷ However, 37.5% of Latino workers were offered pension plans, but only 26.3% participated.²⁸ Because of limited availability of other retirement saving options, domestic workers' accessing and participating in Social Security becomes even more critical to prevent old age poverty. This goal is consistent with the original intent behind Social Security's design.

RECOMMENDATIONS

Proposals to equalize the threshold amounts between domestic workers and other workers should be considered. During the 109th Congress, Congressman Xavier Becerra (D-CA) introduced H.R. 1761, "Retirement Security for America's Domestic Workers Act." The bill's provisions would equalize threshold levels by stopping the indexation of the threshold and triggering liability for Social Security and Medicare tax for both the employer and the domestic worker until the standard quarter of coverage threshold is reached through its own indexing.²⁹ Although the two thresholds will not balance immediately, estimates are that by 2013 they would reach the same amount and then increase at the same rate.³⁰ This bill would eliminate threshold disparities and would benefit household workers by increasing their access to Social Security earnings.

Efforts to improve correct and proper payment of taxes and wage reporting should be implemented. In many industries, the Internal Revenue Service thoroughly scrutinizes employers. However, based on reporting numbers, the same scrutiny is not seen for employers of domestic workers, which has negative consequences for domestic workers' social insurance participation. A more streamlined process to make wage reporting easier should be developed so employers can better comply with

the duty to pay the taxes for their domestic workers. In addition, efforts to encourage compliance via tax penalties on employers could prove effective also.

Worker understanding of the importance of Social Security and retirement security must be addressed and improved, especially for workers in the informal labor market. To increase participation numbers of this working sector, strategies to increase Social Security awareness should be adopted so compliance becomes the desired end. Community-based organizations and local groups can work to educate about the role of social insurance and retirement security. This effort could reach domestic workers as they will not be reached in the typical work environment. Moreover, Latino workers are more likely to respond to these groups with roots deep into the community and implement the steps accordingly. The federal government can also increase awareness at tax time via low-income taxpayer clinics where domestic workers might be able to get information on how to file their taxes and the importance of their contributions to Social Security for their retirement economic well-being.

Other retirement security coverage options for domestic workers must be explored. Social Security is intended to make up only one part of a worker's overall retirement security. Domestic employees are largely unable to access employer-sponsored retirement plans and, as a result, are more likely to face challenges developing assets that could be leveraged during retirement. Some of the proposals to deal with this issue include increasing enrollment numbers in nonemployer-sponsored retirement tools like Individual Retirement Accounts (IRAs). Financial markets can also do more to reach domestic workers by making retirement savings vehicles, like IRAs, more accessible. The IRS recently announced that a split refund program would be implemented in January which will allow deposits to be made in up to three financial accounts.³¹ Of course, the challenge is that a household would have to have an IRA in order for the money to be deposited. Some have suggested that this policy attempt be linked to a type of government sponsored IRA or savings bond, which would help domestic workers access and increase their retirement savings.³²

CONCLUSION

Domestic workers make large contributions to the U.S. economy through their work sustaining American families at the expense of their own self-sufficiency. Policymakers need to increase access to social insurance and to close the participation gap domestic workers face in Social Security. These goals can be reached by enforcing and making wage reporting easier, decreasing thresholds levels, by increasing awareness of the importance of Social Security, and providing further retirement savings options that will reach domestic workers. Latino workers face many barriers to accessing Social Security and experience lower rates of benefit receipt. Moreover, Latinos tend to rely largely on Social Security when they qualify for benefits. This gap has much to do with where Latinos are in the labor force, the informal sector, where vulnerability to lack of wage reporting and earnings enforcement can compromise Social Security and future retirement security.

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