The 40-quarter credit rule of Old-Age social security: An enhancer of the racial and gender gaps

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There are significant gender and racial gaps in elderly poverty. The poverty rate among elderly Afro-Americans is more than twice that of the other races. Women receive, on average, 35% lower benefits than men. And the current design of OASI is enhancing these gaps. The so-called 40-quarter credit rule means that even workers who have worked and paid social security contributions will not receive own social security benefits unless they have worked a total of 40 quarters over their working life. A large proportion of elderly Americans retire without accumulating 40-quarter credits, leaving them mechanically with $0 PIA. The rule's effect on the final PIA is significant because, absent the rule, the average PIA for this group would have been above $300, a fifth of the average OASI benefit.[1]

This 40-quarter credit rule is likely a structural barrier that increases the gap in benefits between races and genders for two reasons. First, minority workers are most likely to have less than 40 quarter credits at retirement. This is because women have lower labor participation rates than men, and Black workers have the highest unemployment rates (more than double that of white workers for the period 1970-2020).[2] Second, by the system's design, people who do not meet the 40-quarter credit rule can still qualify for benefits through their spouse. Unfortunately, since the marriage rate for Black Americans is only about half as large as the rest of the population, they are the most exposed to the negative consequences of the 40-quarter credit rule.[3] In summary, minority workers are the most likely to retire with less than 40-quarter credits and the least likely to receive benefits through a spouse.

We propose to study the distributional consequences and fiscal cost of eliminating the 40-quarter credit rule. For the distributional consequences, we will look at who stands to benefit from eliminating the rule, by race, gender, marital status, income and health. For the fiscal cost, we will consider both mechanical cost and behavioral cost of the reform. To estimate the behavioral cost, we can use "bunching" techniques to measure how much the rule's existence incentivizes people to generate earnings to achieve the 40-quarter credits before retirement, thereby quantifying any additional fiscal cost to getting rid of this incentive. By measuring costs and benefits of eliminating the policy, we hope to provide a better basis for policymakers to take informed decisions.

Focal Area of the project: #1 Disparities by race and ethnicity

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[1] Benefits and Earnings Public use file, 2004. Social Security Administration.
[2] US Bureau of Labor Statistics.
[3] Martin, Patricia P., and John L. Murphy. "African Americans: Description of Social Security and Supplemental Security Income Participation and Benefit Levels Using the American Community Survey." *Research and Statistics Note, January* (2014).