

“ We can never insure one hundred percent of the population against one hundred percent of the hazards and vicissitudes of life, but we have tried to frame a law which will give some measure of protection to the average citizen and to his family against the loss of a job and against poverty-ridden old age.”

President Roosevelt
 August 14, 1935

Policy Basics is a series of brief background reports related to budgets, taxes, and government assistance programs.

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President Franklin Roosevelt signed the Social Security Act on August 14, 1935. As Social Security celebrates its 75th anniversary, it remains one of the nation's most successful, effective, and popular programs. It provides a foundation of income on which workers can build to plan for their retirement. It also provides valuable social insurance protection to workers who become disabled and to families whose breadwinner dies.

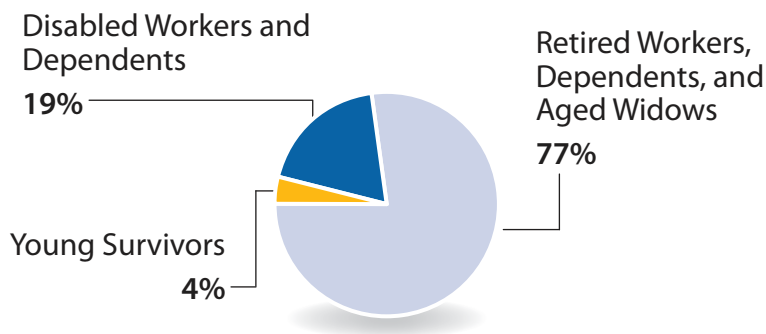
Fact #1: Social Security is more than just a retirement program. It provides important life insurance and disability insurance protection as well.

In June 2010, 53.4 million people, or about one in every six U.S. residents, collected Social Security benefits. While three-quarters of them received benefits as retirees or elderly widow(er)s, another 10.0 million (19 percent) received disability insurance benefits, and 2.3 million (4 percent) received benefits as young survivors of deceased workers.¹ (See figure below.)

Workers earn life insurance and disability insurance protection by making Social Security payroll tax contributions:

- About 97 percent of people aged 20-49 who worked in covered employment in 2009 have earned life insurance protection through Social Security.² For a young worker with average earnings, a spouse, and two children, that Social Security protection is equivalent to a life insurance policy with a face value of \$433,000.³
- About 91 percent of people aged 21-64 who worked in covered employment in 2009 are insured through Social Security in case of disability.⁴

Almost One-Quarter of Social Security Beneficiaries Receive Disability or Young Survivors Benefits



Source: Social Security Administration, June 2010 data.

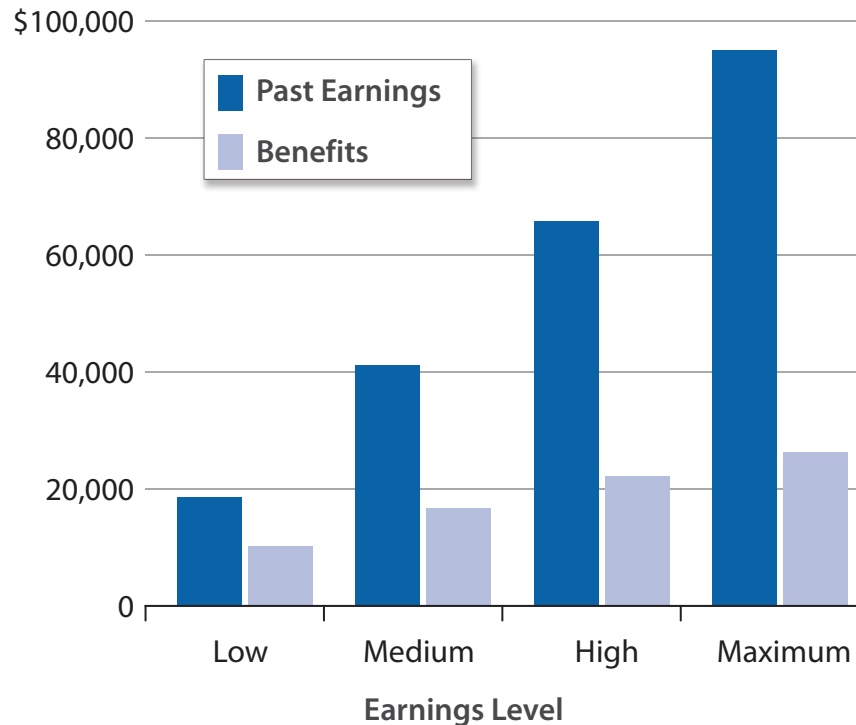
The risk of disability or premature death is greater than many people realize. Almost four in ten men (38 percent) recently entering the labor force and three in ten women (31 percent) will become disabled or die before reaching the full retirement age.⁵

Fact #2: Social Security provides a guaranteed, progressive benefit that keeps up with increases in the cost of living.

Social Security benefits are based on the earnings on which you pay Social Security payroll taxes. The higher are your earnings (up to a maximum taxable amount, currently \$106,800), the higher will be your benefit.

Social Security benefits are progressive: they represent a higher proportion of a worker’s previous earnings for workers at lower earnings levels. (See figure below.) For example, benefits for someone who earned about 45 percent of the average wage and then retired at age 65 in 2010 replace about 55 percent of his or her prior earnings. But benefits for a person who always earned the maximum taxable amount — while higher in dollar terms — replace only 28 percent of his or her prior earnings.⁶

How Annual Benefits Compare to Earnings for Retired Workers at Age 65 in 2010



Source: Social Security Administration, 2010 Trustees Report

“ [Social Security] should remain, as it has been, the cornerstone of the government’s programs to promote the economic security of the individual.”

President Eisenhower
January 14, 1954

In recent years, fewer employers have been offering defined-benefit pension plans, which guarantee a certain benefit level upon retirement, and more employers are offering defined-contribution plans, which pay a benefit based on a worker’s contributions and the rate of return they earn.⁷ Thus, for most workers, Social Security will be their only source of guaranteed retirement income that is not subject to investment risk or financial market fluctuations.

Once someone starts receiving Social Security, his or her benefits are automatically increased each year to keep pace with inflation, helping to ensure that people do not fall into poverty as they age. In contrast, most private pensions and annuities are not adjusted for inflation, or are only partly adjusted.

Fact #3: Social Security provides a foundation of retirement protection for nearly every American, and its benefits are not means-tested.

Almost all workers participate in Social Security by making payroll tax contributions, and almost all elderly people receive Social Security benefits. The near-universality of Social Security brings many important advantages.

Social Security provides a foundation of retirement protection for people at all earnings levels. It encourages private pensions and personal saving because it isn’t means-tested — in other words, it doesn’t reduce or deny benefits to people if their current income or assets exceed a certain level.⁸ Social Security provides a higher annual payout for a dollar contributed than private retirement annuities because the risk pool is not limited to those who expect to live a long time, no funds leak out in lump-sum payments or bequests, and its administrative costs are much lower.⁹ Indeed, universal participation and the absence of means-testing make Social Security very efficient to administer. Administrative costs amount to only 0.9 percent of annual benefits, far below the percentages for private retirement annuities. Proposals to means-test Social Security would undercut many of those important advantages.¹⁰

Finally, the universal nature of Social Security assures its continued popular and political support. Large majorities of Americans say that they don’t mind paying for Social Security because they value it for themselves, their families, and millions of others who rely on it.¹¹

Fact #4: Social Security benefits are modest.

Social Security benefits are much more modest than many people realize. In June 2010, the average Social Security retirement benefit was \$1,170 a month, or about \$14,000 a year. (The average disabled worker and aged widow received slightly less.) When the program’s full retirement age was 65, Social Security checks (after deducting the premium for Medicare’s Supplementary Medical Insurance) replaced about 39 percent of an average worker’s pre-retirement wages — significantly less than similar programs in most other Western countries. That figure will gradually fall to about 31 percent over the next two decades because of

the projected rise in Medicare premiums (as health care costs continue to outpace general inflation) and the further increase in the full retirement age — which has already risen to 66 — to 67 over the 2017-2022 period.¹²

Fact #5: Children have an important stake in Social Security.

Social Security is important for children and their families as well as for the elderly. About 6 million children under age 18 (8 percent of all U.S. children) lived in families that received income from Social Security in 2008. That number included over 3 million children who received their own benefits as dependents of retired, disabled, or deceased workers, as well as others who lived with parents or relatives who received Social Security benefits. In all, Social Security lifted 1.1 million children out of poverty in 2008.

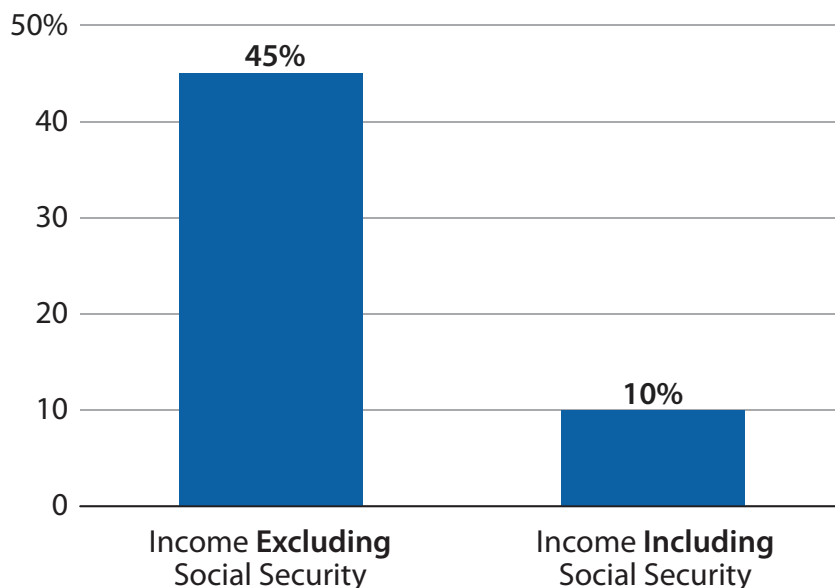
Fact #6: Almost half of the elderly would be poor without Social Security. Social Security lifts 13 million elderly Americans out of poverty.

Without Social Security benefits, almost half of Americans aged 65 and older would have incomes below the poverty line, all else being equal. With Social Security benefits, only one-tenth of the elderly do. (See figure below.) The program lifts 13 million elderly Americans out of poverty.¹³

Almost 90 percent of people aged 65 or older receive some of their

Social Security Reduces Number of Seniors in Poverty

Percentage of Seniors in Poverty



Source: Center on Budget and Policy Priorities based on data for 2008 from the U.S. Census Bureau, Current Population Survey, March 2009.

“Today we reaffirm Franklin Roosevelt’s commitment that social security must always provide a secure and stable base so that older Americans may live in dignity.”

President Reagan
April 20, 1983

family income from Social Security.¹⁴ Those not receiving Social Security mostly comprise recent immigrants, state and local government retirees (and federal retirees hired before 1984) who are covered by separate retirement systems, people under age 66 with significant earnings, and people who are so seriously disabled that they never worked and also have never married.

Fact #7: Most elderly beneficiaries rely on Social Security for the majority of their income.

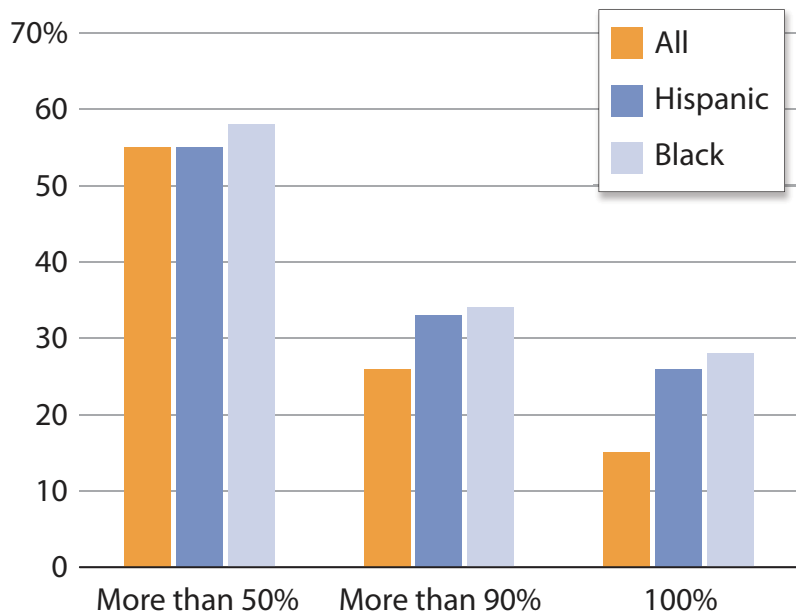
For more than half (55 percent) of elderly beneficiaries, Social Security provides the majority of their cash income. For one-quarter (26 percent), it provides nearly all (more than 90 percent) of their income. For 15 percent of elderly beneficiaries, Social Security is the sole source of retirement income.¹⁵ (See figure below.)

Dependence on Social Security increases with age, as older people are less likely to work and more likely to have depleted their savings. Among those aged 80 or older, Social Security provides the majority of family income for 64 percent of beneficiaries and nearly all of the income for 33 percent of beneficiaries.¹⁶

Fact #8: Social Security is particularly important for African Americans and Hispanics.

A person’s race and ethnicity do not affect his or her Social Security eligibility or benefit levels. However, Social Security is a particularly

Most Elderly Beneficiaries Rely on Social Security for the Majority of Their Income
Percentage of Elderly Beneficiaries



Social Security Benefits as a Percentage of Family Income

Source: Social Security Administration, 2008 data.

important source of income for groups with low earnings and with less opportunity to save and earn pensions, including African Americans and Hispanics. Among beneficiaries aged 65 and older, Social Security represents 90 percent or more of income for 25 percent of whites, 34 percent of blacks, and 33 percent of Hispanics.¹⁷ (See previous figure.)

Blacks and Hispanics benefit substantially from Social Security because, on average, they have higher rates of disability and lower lifetime earnings than whites. Hispanics also have longer average life expectancies than whites, which means that they have more years to collect retirement benefits.¹⁸ Blacks are much more likely to benefit from survivors insurance. In 2007, African Americans made up 12 percent of the population, but 20 percent of children receiving Social Security survivor benefits were African American.¹⁹

Fact #9: Social Security is especially beneficial for women.

Because women tend to earn less than men, take more time out of the paid workforce, live longer, accumulate less savings, and receive smaller pensions, Social Security is especially important for them.²⁰ Women constitute 56 percent of Social Security beneficiaries aged 62 and older and 68 percent of beneficiaries aged 85 and older.²¹

Women pay 40 percent of Social Security payroll taxes²² but receive 49 percent of Social Security benefits.²³ This is because women benefit disproportionately from the program's inflation-protected benefits (because women tend to live longer), its progressive formula for computing benefits (because they tend to have lower earnings), and its benefits for non-working spouses and survivors.

Fact #10: Social Security can pay full benefits through 2037 without any changes, and relatively modest changes would place the program on a sound financial footing for 75 years and beyond.

Social Security's costs will grow in coming years as members of the large Baby Boom generation (those born between 1946 and 1964) move into their retirement years. Since the mid-1980s, however, Social Security has collected more in taxes and other income each year than it pays out in benefits and has amassed a trust fund of \$2.6 trillion. The trust fund will enable Social Security to keep paying full benefits through 2037 without any changes in the program, according to Social Security's trustees, even though it starts paying out more in benefits than it receives in annual tax revenue before then.²⁴

After 2037 the trust fund will be exhausted if no changes are made. After that time, Social Security will be able to pay three-fourths of its scheduled benefits using its annual tax revenue. Alarmists who claim that Social Security won't be around when today's young workers retire either misunderstand or misrepresent the projections.

“ Social Security is a lot more than a line in the budget. It reflects some of our deepest values -- the duties we owe to our parents, the duties we owe to each other when we're differently situated in life, the duties we owe to our children and our grandchildren. Indeed, it reflects our determination to move forward across the generations and across the income divides in our country, as one America.”

President Clinton
February 9, 1998

The long-term gap between Social Security's projected income and promised benefits is estimated at 0.7 percent of gross domestic product (GDP) over the next 75 years (and 1.4 percent of GDP in 2084). By coincidence, that roughly matches the revenue loss over the next 75 years from extending the Bush tax cuts for people making over \$250,000. Members of Congress cannot simultaneously claim that the tax cuts for the richest 2 percent of Americans are affordable while the Social Security shortfall constitutes a dire fiscal threat.

A mix of tax increases and modest benefit reductions — carefully crafted to shield the neediest recipients and give ample notice to all participants — could put the program on a sound financial footing indefinitely.²⁵ As Social Security marks its 75th birthday, policymakers have an opportunity to reassure future generations that they, too, can count on this successful program.

POLICY BASICS | TOP TEN FACTS ABOUT SOCIAL SECURITY

End Notes:

- ¹ Social Security Administration (SSA), “Benefits Paid by Type of Beneficiary,” <http://www.ssa.gov/OACT/ProgData/icp.html>.
- ² SSA, “Social Security Program Fact Sheet,” <http://www.ssa.gov/OACT/FACTS/>. Most employment is covered by Social Security, but a few types of work are excluded by law or covered only under certain conditions.
- ³ Joni Lavery and Virginia Reno, *Children’s Stake in Social Security*, Washington: National Academy of Social Insurance, February 2008.
- ⁴ SSA, “Social Security Program Fact Sheet.”
- ⁵ Robert Baldwin and Sharon Cho, *A Death and Disability Life Table for Insured Workers Born in 1985*, Social Security Administration, February 2006, Actuarial Note No. 2005.6.
- ⁶ *The 2010 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, Table VI.F10.
- ⁷ *EBRI Databook on Employee Benefits*, Chapter 10, “Aggregate Trends in Defined Benefit and Defined Contribution Plan Sponsorship, Participation, and Vesting,” Employee Benefit Research Institute, updated December 2009.
- ⁸ Social Security retirement benefits can begin as early as age 62. Benefits are withheld for people who are below the full retirement age and have earnings above a specified amount (currently \$14,160 a year for people under age 65 and \$37,680 for people age 65 to 66), but monthly benefits are subsequently increased to maintain roughly the same lifetime benefit total. Like income from private pensions and savings, a portion of Social Security benefits is also subject to income taxation for higher-income beneficiaries.
- ⁹ Virginia Reno and others, *Uncharted Waters: Paying Benefits from Individual Accounts in Federal Retirement Policy*, Washington: National Academy of Social Insurance, 2005.
- ¹⁰ American Academy of Actuaries, *Issue Brief: Means-Testing for Social Security* (January 2004).
- ¹¹ Virginia P. Reno and Joni Lavery, *Economic Crisis Fuels Support for Social Security: Americans’ Views on Social Security*, National Academy of Social Insurance, 2009.
- ¹² Alicia H. Munnell, Anthony Webb, and Francesca Golub-Sass, *The National Retirement Risk Index: After The Crash*, Center for Retirement Research, Boston College, Issue in Brief 9-22, 2009.
- ¹³ Paul N. Van de Water and Arloc Sherman, *Social Security Keeps 20 Million Americans Out of Poverty: A State-by-State Analysis*, Center on Budget and Policy Priorities, August 11, 2010.
- ¹⁴ SSA, *Income of the Population 55 or Older*, 2008, Table 2.A1.
- ¹⁵ *Ibid.*, Table 9.B1.
- ¹⁶ *Ibid.*, Table 9.B2.
- ¹⁷ *Ibid.*, Table 9.B4.
- ¹⁸ General Accounting Office, *Social Security and Minorities: Earnings, Disability Incidence, and Mortality Are Key Factors That Influence Taxes Paid and Benefits Received*, April 2003, Report GAO-03-387.
- ¹⁹ SSA, *Social Security is Important to African Americans*, <http://www.ssa.gov/pressoffice/factsheets/africanamer-alt.pdf>.
- ²⁰ National Academy of Social Insurance, *Social Security: An Essential Asset and Insurance Protection for All*, February 2008.
- ²¹ SSA, “Benefits Paid by Type of Beneficiary.”
- ²² SSA, *Annual Statistical Supplement to the Social Security Bulletin*, 2009, Table 4.B13.
- ²³ SSA, “Benefits Paid by Type of Beneficiary.”
- ²⁴ *The 2010 Annual Report of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, <http://www.ssa.gov/OACT/TR/2010/index.html>
- ²⁵ See U.S. Senate Special Committee on Aging, *Social Security Modernization: Options to Address Solvency and Benefit Adequacy*, May 13, 2010; Congressional Budget Office, *Social Security Policy Options*, July 2010; Center for Retirement Research, *The Social Security Fix-It Book: Revised 2009 Edition* (online at www.bc.rrc.edu); National Academy of Social Insurance, *Fixing Social Security: Adequate Benefits, Adequate Financing*, October 2009 (online at www.nasi.org); and the solvency options estimated by the Social Security Administration’s Office of the Chief Actuary at <http://www.ssa.gov/OACT/solvency/provisions/index.html>.