

Updated January 8, 2020

Social Security Benefits Are Modest Benefit Cuts Would Cause Hardship for Many

By Paul N. Van de Water and Kathleen Romig

Social Security benefits are a perennial target for cuts because the program faces a long-run shortfall. Some lawmakers and opinion leaders mistakenly portray the program's benefits as lavish. The fact is, benefits are modest and workers have earned them by paying into Social Security — protecting themselves and their families if they retire, become disabled, or die leaving family members to support. Here are five key facts that policymakers need to keep in mind:

1. Social Security benefits are modest.
2. Most beneficiaries rely on Social Security for most of their income.
3. For most seniors, Social Security is the only income they receive that's guaranteed to last as long as they live and to provide full inflation protection.
4. Social Security benefits in the United States are lower than many other developed countries.
5. Future retirees already face lower benefits (relative to their past earnings) than current retirees because of a rising Social Security retirement age and escalating Medicare premiums.

These facts argue for avoiding cuts in future benefits — a position that the majority of Americans support strongly.¹

Social Security faces a real but manageable long-term shortfall. The program's trustees project that its trust fund reserves will last until 2035, and that even after that, tax revenue anticipated under current law would support three-fourths of scheduled benefits. Social Security's fundamental challenge is demographic, traceable to a rising number of beneficiaries rather than to escalating costs per beneficiary. In the mid-2030s, when the large baby boom generation exerts its greatest

¹ Elisa A. Walker, Virginia P. Reno, and Thomas N. Bethell, *Americans Make Hard Choices on Social Security: A Survey with Trade-Off Analysis*, National Academy of Social Insurance, October 2014, https://www.nasi.org/sites/default/files/research/Americans_Make_Hard_Choices_on_Social_Security.pdf. About three-quarters of Americans oppose any reductions to Social Security benefits, including more than two-thirds of Republicans. *Looking to the Future, Public Sees an America in Decline on Many Fronts*, "Retirement, Social Security and long-term care," Pew Research Center, March 21, 2019, <https://www.pewsocialtrends.org/2019/03/21/retirement-social-security-and-long-term-care/>.

demographic pressure, benefits will cost just under 6 percent of Gross Domestic Product (GDP), up from 5 percent today.²

There is no imminent crisis, and policymakers have time to put Social Security on sound financial footing. However, they shouldn't wait until the last minute because a carefully crafted solvency package could strengthen public confidence in the program, share sacrifices fairly across generations, and give workers plenty of notice so that they can plan their work, saving, and retirement.

1. Social Security Benefits Are Modest

In November 2019, the average benefit for the three principal groups of Social Security beneficiaries — retired workers, disabled workers, and aged widows and widowers — was only about \$1,438 a month, or just over \$17,200 a year. (See Table 1.) That's not even 40 percent over the poverty level, and well below one estimate of the minimum necessary to enable a secure but no-frills retirement.³ These modest benefits help to explain why many older people are poor or near-poor — especially under the enhanced definition of poverty that considers their out-of-pocket medical costs.⁴

While there is no explicit dollar cap on Social Security

TABLE 1

Social Security Benefits Are Modest
Beneficiaries and average amount, November 2019

	Beneficiaries (millions)	Average amount	
		Monthly	Annually
Retired workers	45.0	\$1,478	\$17,736
Disabled workers	8.4	1,238	14,856
Aged widows and widowers	3.6	1,399	16,793
Average	57.0	1,438	17,251

Source: Social Security Administration, Office of the Chief Actuary (<http://www.ssa.gov/OACT/ProgData/icp.html>).

Note: The average includes retired workers, disabled workers, and aged widows and widowers. These three groups account for nearly 90 percent of Social Security's 64 million beneficiaries and over 90 percent of its benefit outlays.

² *The 2019 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, April 2019, <https://www.ssa.gov/OACT/TR/2019/index.html>.

³ Using the poverty guideline published by the U.S. Department of Health and Human Services, which was \$12,490 in 2019 for one person in the 48 contiguous states and District of Columbia. See <https://www.federalregister.gov/documents/2019/02/01/2019-00621/annual-update-of-the-hhs-poverty-guidelines>.

The “Elder Economic Index” developed by Wider Opportunities for Women and the Gerontology Institute at the University of Massachusetts Boston measures how much income retirees require to meet their basic needs for housing, food, and other essentials (but without “extras” like vacations and meals out). For single retirees in good health in 2017, the index estimates that threshold at \$20,064 for those who own their homes without a mortgage, \$23,364 if renting a one-bedroom apartment, and \$30,972 if living at home with a mortgage. (These figures are a U.S. average.) See <http://www.basiceconomicsecurity.org/EI/locations.aspx>.

⁴ Under the standard measure of poverty, 9.7 percent of people over 65 were poor in 2018 (and 14.1 percent had incomes of less than 1.25 times the poverty level, a common definition of “near poor”). Under the Supplemental Poverty Measure, which accounts for taxes and non-cash benefits and presents a more complete picture of the impact of anti-poverty programs than the official poverty measure, 13.6 percent of the elderly were poor — about one and a half times the official rate — chiefly because many of them face high out-of-pocket expenses for medical care. Jessica Semega *et al.*, *Income and Poverty in the United States: 2018*, U.S. Department of Commerce, Bureau of the Census, September 2019.

benefits, top benefits are not excessive. That’s because Social Security caps the amount of earnings on which workers pay taxes and accrue credit toward future benefits, and because the program’s progressive benefit formula replaces a greater share of past earnings for low-paid workers than high-paid ones. In June 2019, nearly 94 percent of retired workers — and even larger percentages of disabled workers and aged widows and widowers — received monthly benefits of less than \$2,500.⁵

2. Most Beneficiaries Rely on Social Security for Most of Their Income

Social Security is the foundation of retirement income. Of course, most beneficiaries have other income as well — from pensions, investments, a job, and (for some of the poorest) from means-tested programs such as Supplemental Security Income (SSI). Social Security provides the majority of income to most elderly Americans. For about half of seniors, it provides at least 50 percent of their income, and for about 1 in 4 seniors, it provides at least 90 percent of income, across multiple surveys and a recent Census Bureau study that matches survey and administrative data.⁶

Most retirees have modest incomes, save for some at the top of the income spectrum. About 1 in 4 retiree households live on less than \$20,000, while the wealthiest tenth of senior households had incomes of \$230,000, on average.

The median elderly household had income of about \$44,000 in 2012, *including Social Security*. That figure masks a sharp difference between white and Asian households, which had median incomes of about \$47,000 and \$48,000, respectively, and Black and Latino households, which had median incomes of about \$32,000 and \$30,000, respectively.⁷

Proposals to “means-test” Social Security — by trimming benefits for retirees with other income — wouldn’t save significant money unless they targeted retirees who are not affluent; such measures would also pose high administrative costs and would damage incentives to work and save.⁸

<https://www.census.gov/library/publications/2019/demo/p60-266.html>; and Liana Fox, *The Supplemental Poverty Measure: 2018*, Bureau of the Census, September 2019,

<https://www.census.gov/content/dam/Census/library/publications/2019/demo/p60-268.pdf>.

⁵ “Number of Beneficiaries By Benefit Level,” Social Security Administration, <http://www.ssa.gov/OACT/ProgData/benefitlevel.html>.

⁶ Irina Dushi, Howard M. Iams, and Brad Trenkamp, “The Importance of Social Security Benefits to the Income of the Aged Population,” *Social Security Bulletin*, Vol. 77, No. 2 (2017), <https://www.ssa.gov/policy/docs/ssb/v77n2/v77n2p1.html>. Adam Bee and Joshua Mitchell, “Do Older Americans Have More Income Than We Think?” U.S. Census Bureau, SESHD Working Paper #2017-39, July 2017, <https://www.census.gov/content/dam/Census/library/working-papers/2017/demo/SEHSD-WP2017-39.pdf>.

⁷ Bee and Mitchell, Table 3.A7. Bee and Mitchell’s study includes the most recent retirement income data that match survey responses with administrative data.

⁸ Kathy Ruffing, “Means-Testing No Answer for Social Security,” Center on Budget and Policy Priorities, March 10, 2011, <https://www.cbpp.org/blog/means-testing-no-answer-for-social-security>.

3. Most Beneficiaries Will Lack Other Pension Benefits

Relatively few future retirees can count on one traditional mainstay of retirement income: an employer-provided, defined-benefit pension plan. Coverage under such plans has fallen precipitously. (See Figure 1.) That trend has led researchers at the Urban Institute and the Social Security Administration to warn about “the disappearing defined benefit pension,” which will significantly affect baby boomers now in or approaching retirement.⁹ Most low-income elderly households have very little pension income, if any; the majority of elderly households in the bottom third of the income distribution receive no pension income at all, compared to more than 80 percent of those in the top two-thirds.¹⁰

Trends strongly indicate that the composition and distribution of retirement income will change significantly. Roughly two-thirds of non-Social Security retirement income in 2012 was from traditional defined-benefit pensions, according to the Census study — but in the private sector those pensions have largely been replaced by defined-contribution plans, which shift the financial risks to employees, for today’s workers.¹¹

Future retirees will be much less likely to have traditional pensions, and more of their retirement income will come from defined-contribution plans and individual retirement accounts, in which balances are highly unequal. As Americans seek to stretch their savings in 401(k)s, IRAs, or other vehicles (which can produce volatile and uncertain returns) to cover their full lifespan — whose length they cannot predict — maintaining Social Security’s guarantee of lifetime, inflation-adjusted income will become even more important.

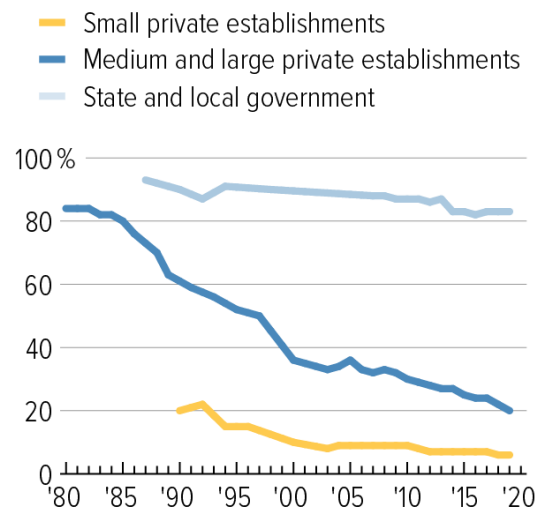
4. Social Security Benefits in the United States Are Lower Than in Many Other Developed Countries

Governments around the world are feeling fiscal pressure, and some have adopted austerity programs that trim retirement benefits. This has prompted some commentators to ask why the

FIGURE 1

Defined-Benefit Pension Plans Are on the Wane

Percentage of full-time workers covered by defined-benefit pension plans



Source: Employee Benefits Research Institute, EBRI Data-book on Employee Benefits, Chapter 5 (www.ebri.org) and Bureau of Labor Statistics Data

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

⁹ Barbara A. Butrica *et al.*, “The Disappearing Defined Benefit Pension and Its Potential Impact on the Retirement Incomes of Baby Boomers,” *Social Security Bulletin*, Vol. 69, No. 3 (2009).

¹⁰ Bee and Mitchell.

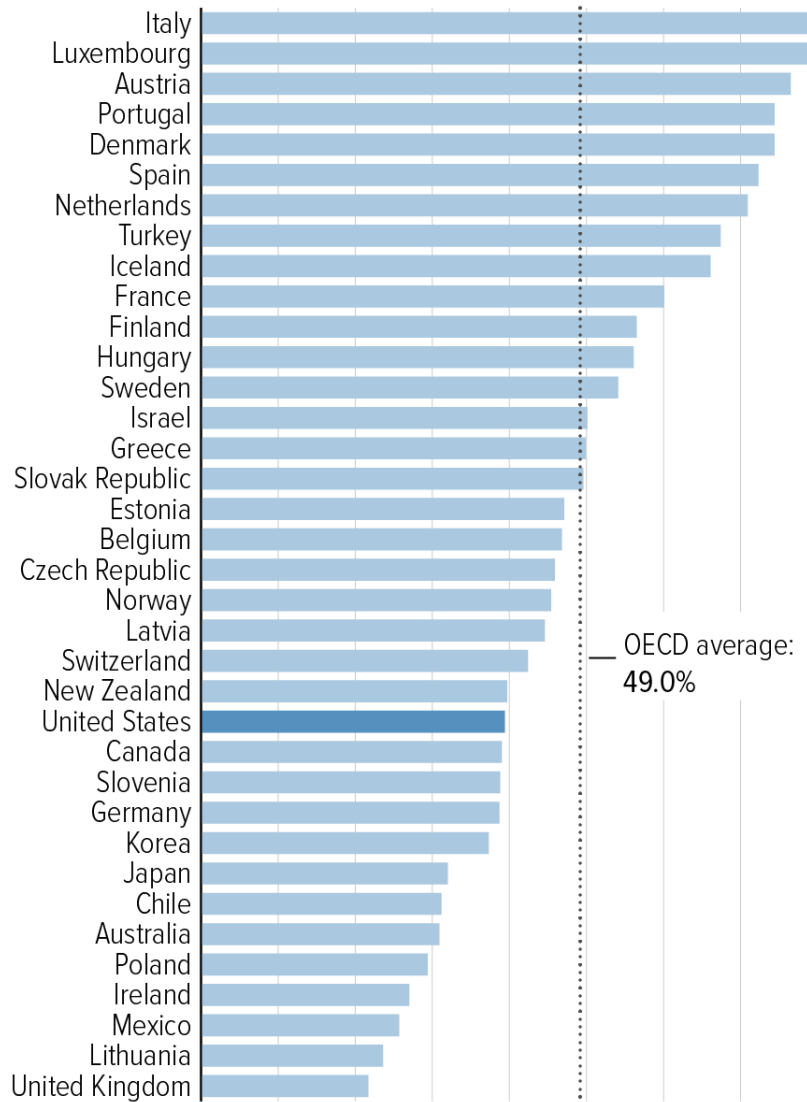
¹¹ Bee and Mitchell.

United States should be different. But that question ignores the fact that most other developed countries have more generous public pension systems than the United States.

FIGURE 2

Social Security Benefits Are Lower Than in Many Other Developed Nations

Social Security benefits for average worker as a percentage of earnings



Note: Data depict the gross public-pension benefit (in the U.S. context, Social Security) for an average worker in each country who enters the workforce today and works steadily until full pension age (in the U.S., age 67), as a percent of pre-tax earnings.

Source: Organisation for Economic Co-operation and Development, Pensions at a Glance 2019: Retirement Systems in OECD Countries

The Organisation for Economic Co-operation and Development (OECD) has tallied the percentage of past earnings that the public pension system replaces for various countries. By that measure, the United States ranks in the bottom third among major developed nations. (See Figure 2.) The average OECD nation has a public pension program that replaces half of earnings for an average worker; the U.S. system replaces about 40 percent of earnings.¹²

5. Future Retirees Already Face a Benefit Squeeze

Social Security has always aimed to provide retired or disabled workers (and their survivors) with a benefit that replaces a reasonable fraction of their lost earnings. Benefits make up a larger fraction of past earnings for lower-paid workers than for higher-paid workers, which is one of the program's progressive features. In Social Security parlance, lower-wage workers receive a higher "replacement rate."

Although individual circumstances vary, financial planners recommend as a rule of thumb that retirees aim to build a portfolio that replaces about 70 percent of their previous income.¹³ Social Security will get them only partway toward that goal. For a medium worker (someone who steadily earned close to Social Security's average wages, about \$52,000 in 2018 dollars) who retires at age 65 in 2020, Social Security will replace about 38 percent of previous earnings.¹⁴ That figure has fallen in recent years, and will continue to fall further as the program's age for full benefits (or "full retirement age"), which climbed from 65 to 66 in the past decade, rises further from 66 to 67 as a consequence of legislation enacted in 1983 (see box).

Furthermore, rising Medicare premiums will take a growing bite out of beneficiaries' Social Security checks. Most beneficiaries 65 and older, along with most disabled workers under age 65, participate in Medicare's Supplementary Medical Insurance program ("Medicare Part B") and have the premium deducted from their Social Security checks. (The Part B premium is \$144.60 per month in 2020, with surcharges for the highest-income retirees.) Most also enroll in the prescription drug program, Medicare Part D, although they pay the premium to their chosen insurance plan rather than having it deducted from their check. (The Part D premium averages \$33 a month in 2020, again for all but the highest-income retirees.)

¹² Kathy Ruffing, "Social Security Benefits Are Modest by International Standards," Center on Budget and Policy Priorities, December 4, 2013, <https://www.cbpp.org/blog/social-security-benefits-are-modest-by-international-standards>. The newer OECD data are for an average, not median, worker, and are therefore not strictly comparable to those we wrote about in 2013.

¹³ John Karl Scholz and Ananth Seshadri, "What Replacement Rates Should Households Use?" Michigan Retirement Research Center, Working Paper 2009-214, September 2009, <http://www.mrrc.isr.umich.edu/publications/papers/pdf/wp214.pdf>.

¹⁴ Michael Clingman, Kyle Burkhalter, and Chris Chaplain, "Replacement Rates for Hypothetical Retired Workers," Office of the Chief Actuary (OCACT), Social Security Administration, April 2019, <https://www.ssa.gov/oact/NOTES/ran9/an2019-9.pdf>. For a complementary analysis of replacement rates for actual — not hypothetical — workers, using alternative measures of retirees' past earnings, see Stephen Goss *et al.*, "Replacement Rates for Retirees: What Makes Sense for Planning and Evaluation?" OCACT, July 2014, http://www.ssa.gov/oact/NOTES/pdf_notes/note155.pdf.

Why Does Raising the Retirement Age Reduce Benefits?

The full retirement age is 66 and will rise to 67 for people born in 1960 and later. *Raising the retirement age amounts to an across-the-board cut in benefits, regardless of whether a worker files for Social Security before, upon, or after reaching the full retirement age.* A one-year increase in the full retirement age is equivalent to a roughly 7 percent cut in monthly benefits for all retirees who are affected.

The full retirement age really just means the age at which full benefits are paid.^a Workers can file sooner and collect permanently reduced monthly benefits, or they can file later and get larger monthly benefits. Shifting the retirement age means that the early retiree gets a deeper reduction and the delayed retiree gets a smaller bonus.

When the full retirement age was 65, workers who filed at 62 – as about half of claimants do – could get 80 percent of a full benefit (or \$800, if a worker had a full benefit of \$1,000). Now that the full retirement age is 66, workers who file at 62 get 75 percent of a full benefit (\$750, in this example); when the full retirement age rises to 67, workers who file at 62 will get just 70 percent (or \$700, in our example). That reduction in monthly benefits lasts for the rest of a beneficiary's life.

And at the other extreme, workers who wait until 70 to file now get nearly a one-third bonus – or \$1,320, assuming a full benefit of \$1,000. Eventually that will shrink to about one-quarter – or \$1,240, in our example.

Proposals to raise the retirement age further would deepen those benefit cuts. In short, an increase in the retirement age reduces benefits *across the board*.

Raising the Full Retirement Age Reduces Benefits for Everyone

	Full Retirement Age					
	Scheduled Under Current Law			If Increased Further to –		
	65	66	67	68	69	70
Illustrative monthly benefit, if claimed at age –						
62	\$800	\$750	\$700	\$655 ^a	\$610 ^a	\$570 ^a
63	867	800	750	700	655 ^a	610 ^a
64	933	867	800	750	700	655 ^a
65	1,000	933	867	800	750	700
66	1,080	1,000	933	867	800	750
67	1,160	1,080	1,000	933	867	800
68	1,240	1,160	1,080	1,000	933	867
69	1,320	1,240	1,160	1,080	1,000	933
70	1,400	1,320	1,240	1,160	1,080	1,000

Estimates assume a Primary Insurance Amount, or full benefit, of \$1,000 a month and an increase in the monthly benefit of 8 percent for each year that an individual delays drawing benefits beyond the full retirement age. The full retirement age rose gradually from 65 to 66 for people who reached 62 in 2000 through 2005, and will climb from 66 to 67 for people who turn 62 in 2017 through 2022. Consistent with the SSA actuaries' convention, the estimates assume a small adjustment in the actuarial reduction factors if the full retirement age is increased past 67.

^a Some (but not all) proposals to raise the full retirement age would also raise the early retirement age – typically to set it at five years below the full retirement age. If so, benefits would not be available at these ages.

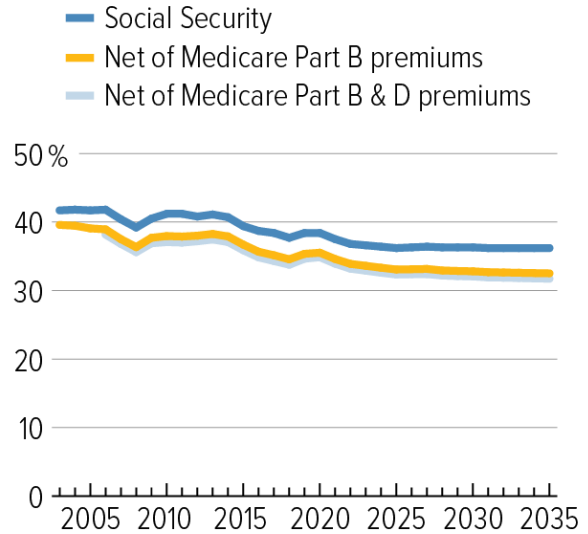
Source: Center on Budget and Policy Priorities

As health care costs continue to outpace wage growth, those premiums will eat further into future retirees' Social Security checks. Medium earners retiring at 65 in 2020 find that their *net* Social Security check, after paying Medicare premiums, replaces only about 35 percent of past earnings. By 2030, that figure will be about 32 percent — the combined result of the scheduled increase in the Social Security retirement age and steeper Medicare premiums as health care costs continue to climb. (See Figure 3.)

FIGURE 3

Social Security Benefits Already Scheduled to Fall in Relation to Previous Earnings

Benefit as a percentage of past earnings for medium earners retiring at age 65



Note: Medium worker earned about \$51,800 in 2018 dollars. Medicare Part D program began in 2006.

Source: CBPP calculations based on 2019 data from the Social Security Administration and Centers for Medicare & Medicaid Services.