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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 as policymakers face the need to strengthen the program's long-run solvency. 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 quite modest.
2. The majority of beneficiaries have little significant income from other sources.
3. For most seniors, Social Security is the only income they will 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 low compared with other advanced 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 2034, and that even after that, tax revenue anticipated under current law would support three-fourths of scheduled benefits. Social Security's fundamental

[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. A recent report about polarization among Americans on many issues nevertheless found strong support for maintaining and even enhancing Social Security benefits; see Matthew Yglesias, "Americans are divided on everything, except their love of Social Security," Vox, June 12, 2014, http://www.vox.com/2014/6/12/5803160/americans-are-divided-on-everything-except-their-love-of-social.

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 demographic pressure, benefits will cost just over 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 December 2016, the average benefit for the three principal groups of Social Security beneficiaries — retired workers, disabled workers, and aged widows and widowers — was only about $1,325 a month, or less than $16,000 a year. (See Table 1.) That's barely 30 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]

TABLE 1

Social Security Benefits Are Modest

Beneficiaries and average amount, December 2016

	Beneficiaries (millions)	Average amount Monthly	Average amount Annually
Retired workers	41.2	$1,360	$16,322
Disabled workers	8.8	1,171	15,329
Aged widow(er)s	3.7	1,301	15,610

Source: Social Security Administration, Office of the Chief Actuary (http://www.ssa.gov/OACT/ProgData/icp.html). These three groups account for nearly 90 percent of Social Security's 61 million beneficiaries and over 90 percent of its benefit outlays.

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2 Kathleen Romig, *What the 2017 Trustees' Report Shows About Social Security*, Center on Budget and Policy Priorities, July 24, 2017, https://www.cbpp.org/research/social-security/what-the-2017-trustees-report-shows-about-social-security.

3 Using the poverty guideline published by the U.S. Department of Health and Human Services, which is $12,060 in 2017 for one person in the 48 contiguous states and District of Columbia. See https://www.federalregister.gov/documents/2017/01/31/2017-02076/annual-update-of-the-hhs-poverty-guidelines. (It's appropriate to use the 2017 poverty guideline, because the December 2016 Social Security benefit reflects the 0.3 percent cost-of-living adjustment that took effect in that month and that is payable throughout 2017.)

The "Elder Economic Index" developed by Wider Opportunities for Women and the Gerontology Institute at the University of Massachusetts Boston measures how much income a retiree requires to meet his or her basic needs for housing, food, and other essentials (but without "extras" like vacations and meals out). For a single retiree in good health in 2017, the index estimates that threshold at $20,064 if the retiree owns his or her home 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, 8.8 percent of people over 65 were poor in 2015 (and 13.8 percent had incomes of less than 1.25 times the poverty level, a common definition of "near poor"). And under the Supplemental Poverty Measure, 13.7 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. Bernadette D. Proctor, Jessica L. Semega, and Melissa A. Kollar, *Income and Poverty in the United States: 2015*, U.S. Department of Commerce, Bureau of the Census, September 2016, https://www.census.gov/content/dam/Census/library/publications/2016/demo/p60-256.pdf; Trudi Renwick and Liana Fox, *The Supplemental Poverty Measure: 2015*, Bureau of the Census, September 2016, https://www.census.gov/content/dam/Census/library/publications/2016/demo/p60-258.pdf.

While there is no explicit dollar cap on Social Security benefits, top benefits are modest, too. 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 December 2016, nearly 97 percent of retired workers — and even larger percentages of disabled workers and aged widow(er)s — received monthly benefits of less than $2,500.[5]

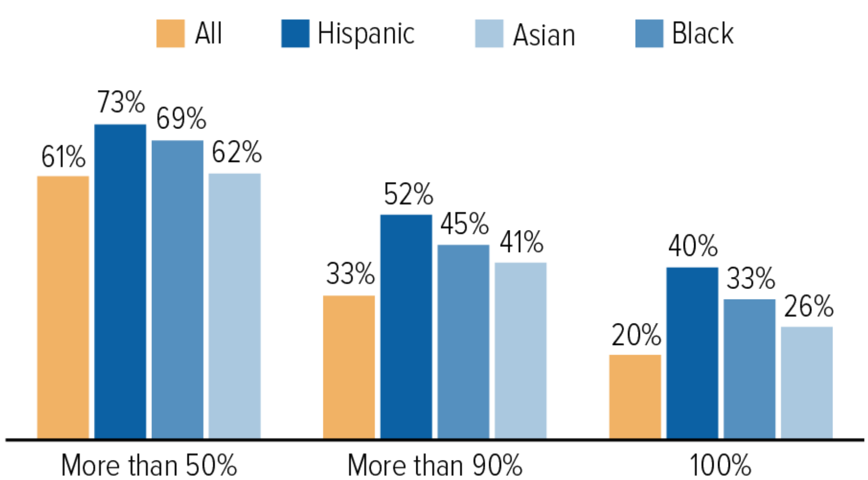
2. Most Beneficiaries Have Little Significant Income From Other Sources

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). But for three-fifths of elderly beneficiaries, Social Security provides at least half of total income. And for more than one-third of them, Social Security constitutes at least 90 percent of income. Those percentages are even higher among minorities.[6] (See Figure 1.)

FIGURE 1

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

Percentage of elderly beneficiaries, 2014



Note: Data are for beneficiaries age 65 or older. Income excludes noncash benefits such as SNAP (food stamps) or savings that might be available to supplement monthly income.

Source: Social Security Administration, 2014 data.

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[5] "Number of Beneficiaries By Benefit Level," Social Security Administration, http://www.ssa.gov/OACT/ProgData/benefitlevel.html.

[6] Data are for beneficiaries 65 or older, from *Income of the Population 55 and Older, 2014*, Social Security Administration, April 2016, https://www.ssa.gov/policy/docs/statcomps/income_pop55/, Tables 9.A1 (all beneficiaries) and 9.A3 (by race and Hispanic origin).

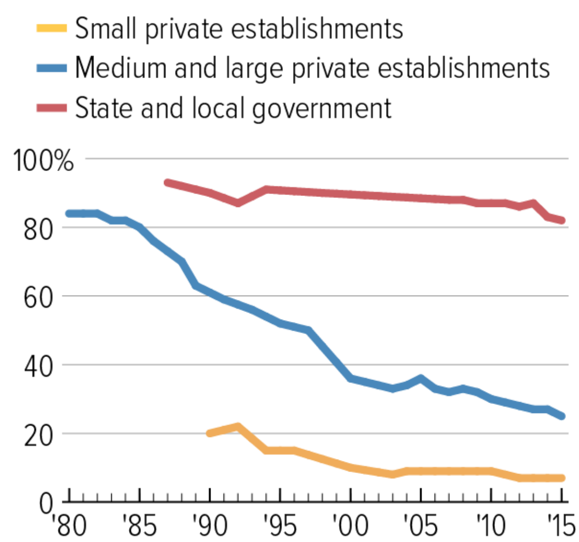
Dependence on Social Security rises with advancing age, as fewer people work and more outlive spouses and savings. Among all beneficiaries 80 and older, more than 2 in 5 get at least 90 percent of their income from Social Security.[7]

In 2014, the median household with a beneficiary 65 or older had income from sources other than Social Security of about $10,200. That figure masks a sharp difference between married couples, who had median non-Social Security income of $27,617, and unmarried beneficiaries, whose median non-Social Security income was a paltry $3,839.[8] 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.[9]

FIGURE 2

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 Databook on Employee Benefits, Chapter 5 (www.ebri.org).

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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 2.) 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.[10]

In many cases, employers have switched to defined-contribution plans, which shift the financial risks to their employees. 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

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[7] *Ibid.*, Table 9.A1.

[8] *Ibid.*, Table 3.A7.

[9] 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.

[10] 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).

length they cannot predict — maintaining Social Security's guarantee of lifetime, inflation-adjusted income will become even more important.

Withdrawals from retirement savings accounts — unlike defined-benefit pensions — aren't counted in the standard statistics on income of the aged. That's because, from an economic standpoint, drawing down savings to help finance consumption isn't a source of "income," just as building up savings is not treated as an "expense."

Some commenters have seized on that distinction to argue that standard sources, like the Social Security Administration's *Income of the Aged* reports, seriously understate retirees' affluence.[11] But that's not the case for most retirees. Retirement savings — which are voluntary and are encouraged by tax preferences that are skewed toward higher-income people[12] — are very unequally distributed.[13] Data from the Federal Reserve Board show, for example, that in 2013 only 48 percent of people aged 65 to 74 had retirement accounts at all; and of those, the median amount was $149,000 — a fairly modest amount when one considers that, if consumed over the owner's remaining lifetime, it'd translate to less than $12,000 a year for a single retiree (and even less for a couple).[14] The Census Bureau redesigned its main survey to improve reporting of retirement-account withdrawals and other traditionally omitted sources like capital gains, and found that they boost the median income for an elderly household by less than 5 percent.[15] In short, amounts omitted by *Income of the Aged* and similar sources are not large enough to significantly affect the conclusion that ordinary retirees face very modest financial circumstances.

4. Social Security Benefits in the United States Are Low Compared With Other Advanced Countries

Governments around the world are feeling fiscal pressure, and some have adopted austerity programs that trim retirement benefits. Why, some commentators ask, should the United States be different? They ignore the fact that most other developed countries have considerably more generous public pension systems than the United States.

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[11] For an overview of these arguments, see Alicia H. Munnell and Anqi Chen, "Do Census Data Understate Retirement Income?," Center for Retirement Research at Boston College, Issue Brief 14-19, December 2014, http://crr.bc.edu/briefs/do-census-data-understate-retirement-income/.

[12] Chuck Marr, Nathaniel Frentz, and Chye-Ching Huang, *Retirement Tax Incentives Are Ripe for Reform*, Center on Budget and Policy Priorities, December 13, 2013, http://www.cbpp.org/cms/?fa=view&id=4063.

[13] Natalie Sabadish and Monique Morrissey, *Retirement Inequality Chartbook: How the 401(k) revolution created a few big winners and many losers*, Economic Policy Institute, September 6, 2013, http://www.epi.org/publication/retirement-inequality-chartbook/.

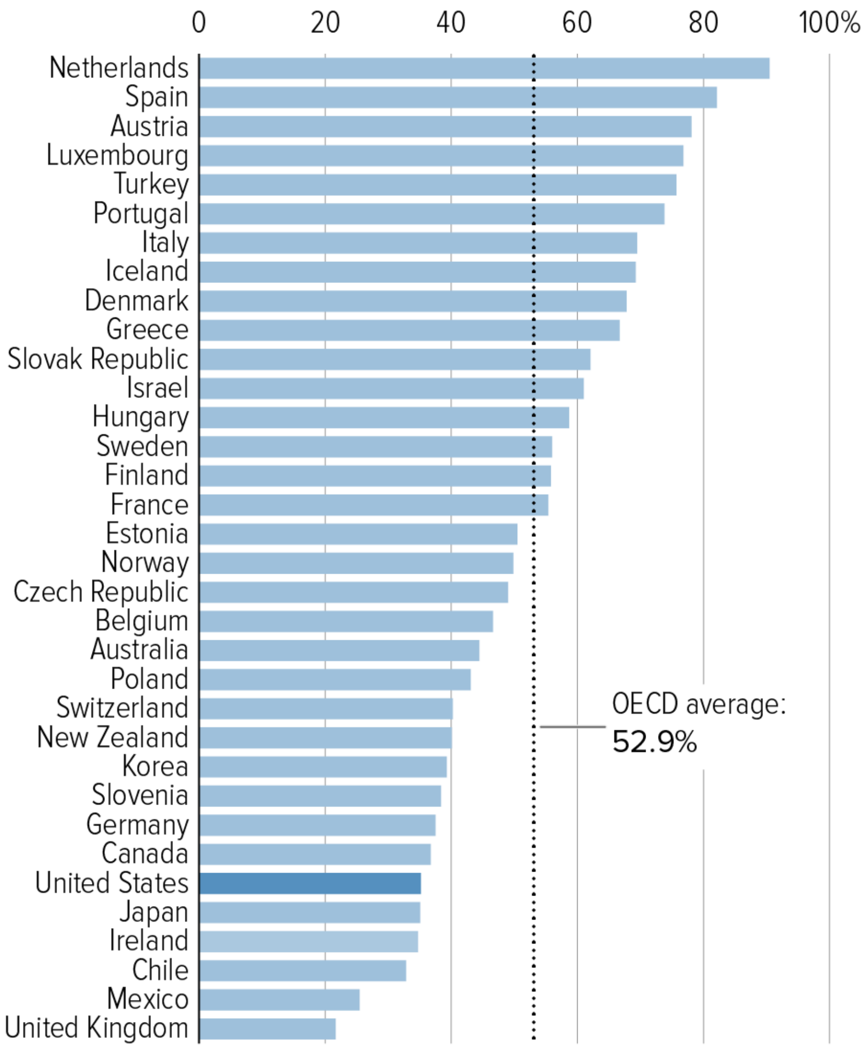
[14] *2013 SCF [Survey of Consumer Finances] Chartbook*, Federal Reserve Board of Governors, September 2014, http://www.federalreserve.gov/econresdata/scf/files/BulletinCharts.pdf. Annuity equivalent is based on examples at https://investor.vanguard.com/annuity/fixed (accessed April 15, 2015) showing that $167,000 would be needed to provide a 65-year-old male with an annuity of $1,000 a month for life. Converting a 401(k) to an annuity means consuming all of it — principal and interest — over a lifetime. On average, women outlive men, and couples outlive singles, so their annuities cost more (or expressed another way, their 401(k) balance buys a smaller monthly payment); although annuities offered directly through employer-sponsored plans — as distinct from those purchased privately, as in this Vanguard example — must offer a blended, "unisex" option for singles.

[15] Jessica Semega and Edward Welniak, Jr., "The Effects of Changes to the Current Population Survey, Annual Social and Economic Supplement (ASEC) Estimates of Income," United States Census Bureau, March 20, 2015, http://www.census.gov/content/dam/Census/library/working-papers/2015/demo/2015-Welniak-01.pdf.

FIGURE 3

Social Security Benefits Are Low Compared With Other Advanced Countries

Social Security benefits for average worker as a percentage of earnings



Source: Organisation for Economic Co-operation and Development, Pensions at a Glance 2015: Retirement Income Systems in OECD Countries.

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.

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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 near the bottom among major industrial nations. (See Figure 3.)

The average OECD nation has a public pension program that replaces about 53 percent of earnings for an average worker; the U.S. system is only two-thirds as generous.[16]

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 jargon, 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 — from the "three-legged stool" of Social Security, pensions, and savings — that replaces about 70 percent of their previous income.[17] 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 $49,400 in 2016 dollars) who retires at age 65 in 2017, Social Security will replace just under 40 percent of previous earnings.[18] And that figure will fall as the program's age for full benefits (sometimes referred to as the "normal retirement age" 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 ($109 per month in 2017) deducted from their Social Security checks. Most also enroll in the prescription drug program, Medicare Part D, although they pay the premium (which averages about $34 a month in 2017) to their chosen insurance plan rather than having it deducted from their check.

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16 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.

17 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.

18 Michael Clingman, Kyle Burkhalter, and Chris Chaplain, "Replacement Rates for Hypothetical Retired Workers," Office of the Chief Actuary (OCACT), Social Security Administration, July 2017, https://www.ssa.gov/oact/NOTES/ran9/an2017-9.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, a worker who filed at 62 — as about half of claimants do — could get 80 percent of a full benefit (or $800, if his or her full benefit were $1,000). Now that the full retirement age is 66, a worker who files at 62 gets 75 percent of a full benefit ($750, in this example); when the full retirement age rises to 67, a worker who files at 62 will get just 70 percent (or $700, in our example). That reduction in monthly benefits lasts for the rest of his or her life.

And at the other extreme, someone who waits until 70 to file now gets nearly a one-third bonus — or $1,320, assuming that his or her full benefit is $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 . . .		
Illustrative monthly benefit, if claimed at age —	65	66	67	68	69	70
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.

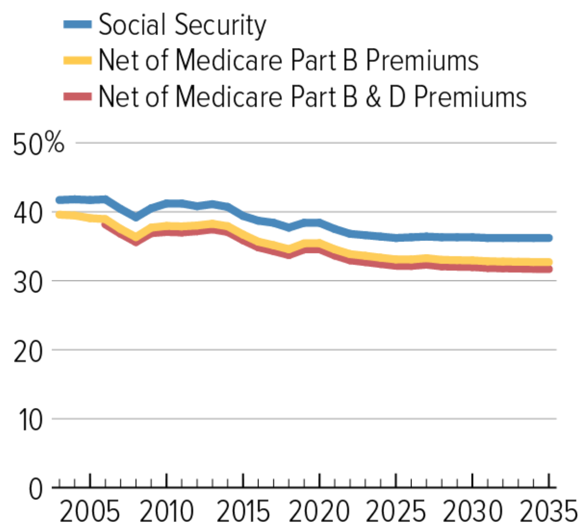
Source: Center on Budget and Policy Priorities

As health care costs continue to outpace wage growth, those premiums will eat further into future retirees' Social Security checks. A medium earner retiring at 65 in 2017 finds that his *net* Social Security check, after paying Medicare premiums, replaces only about 34 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 4.)

FIGURE 4

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 $49,400 in 2016 dollars. Medicare Part D program began in 2006.

Source: CBPP calculations based on 2017 data from the Social Security Administration and Centers for Medicare & Medicaid Services.

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