# Top Ten Facts About Social Security

Social Security 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.

Eighty-three years after President Franklin Roosevelt signed the Social Security Act on August 14, 1935, Social Security remains one of the nation's most successful, effective, and popular programs.

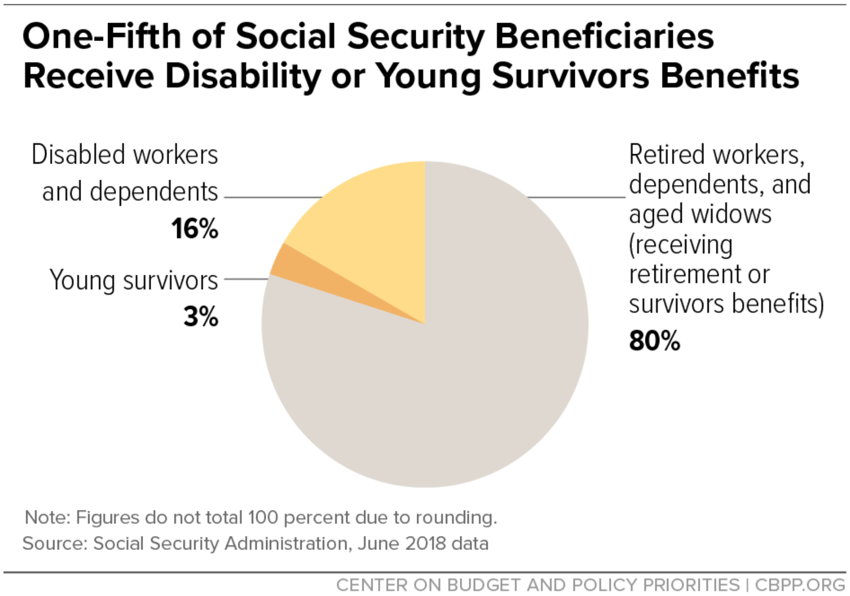
## Fact #1: Social Security is more than just a retirement program. It provides important life insurance and disability insurance protection as well.

About 62 million people, or more than 1 in every 6 U.S. residents, collected Social Security benefits in June 2018. While older Americans make up about 4 in 5 beneficiaries, another one-fifth of beneficiaries received Social Security Disability Insurance (SSDI) or were young survivors of deceased workers.

In addition to Social Security's retirement benefits, workers earn life insurance and SSDI protection by making Social Security payroll tax contributions:

- About 95 percent of people aged 20-49 who worked in jobs covered by Social Security in 2017 have earned life insurance protection through Social Security.
- For a young worker with average earnings, a spouse, and two children, that's equivalent to a life insurance policy with a face value of over $725,000 in 2018, according to Social Security's actuaries.
- About 89 percent of people aged 21-64 who worked in covered employment in 2017 are insured through Social Security in case of severe disability.

The risk of disability or premature death is greater than many realize. Some 6 percent of recent entrants to the labor force will die before reaching the full retirement age, and many more will become disabled.




## 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 your earnings (up to a maximum taxable amount, currently $128,400), the higher your benefit.

Social Security benefits are progressive: they represent a higher proportion of a worker's previous earnings for workers at lower earnings levels. For example, benefits for a low earner (with 45 percent of the average wage) retiring at age 65 in 2018 replace about half of his or her prior earnings. But benefits for a high earner (with 160 percent of the average wage) replace about one-third of prior earnings, though they are larger in dollar terms than those for the low-wage worker.

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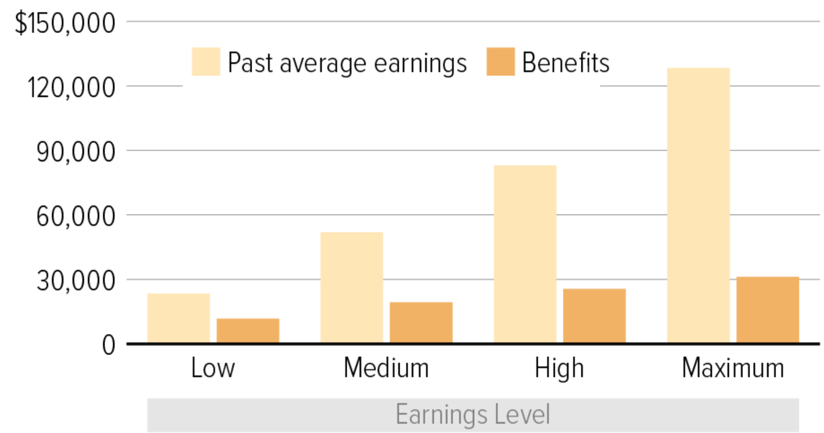
Because many employers have shifted from offering traditional defined-benefit pension plans, which guarantee a certain benefit level upon retirement, toward defined-contribution plans (such as 401(k)s), which pay a benefit based on a worker's contributions and the rate of return they earn, Social Security will be most workers' 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 increase 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 (or are only partly adjusted) for inflation.

**Social Security Benefits Are Progressive**

Annual benefits and earnings for worker retiring at age 65 in 2018




Source: Social Security Administration, 2018 Trustees Report

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## 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 Americans receive Social Security benefits. In fact, 97 percent of the elderly (aged 60 to 89) either receive Social Security or will receive it, according to Social Security Administration estimates. The near-universality of Social Security brings many important advantages.

**97%**

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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 whose income or assets exceed a certain level. Social Security provides a higher annual payout than private retirement annuities per dollar contributed because its 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. Indeed, universal participation and the absence of means-testing make Social Security very efficient to administer. Administrative costs amount to only 0.7 percent of annual benefits, far below the percentages for private retirement annuities. Means-testing Social Security would impose significant reporting and processing burdens on both recipients and administrators, undercutting many of those advantages while yielding little savings.

Finally, Social Security's universal nature 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.

## Fact #4: Social Security benefits are modest.

Social Security benefits are much more modest than many people realize; the average Social Security retirement benefit in June 2018 was about $1,343 a month, or about $16,000 a year. (The average disabled worker and aged widow received slightly less.) For someone who worked all of his or her adult life at average earnings and retires at age 65 in 2018, Social Security benefits replace about 39 percent of past earnings. This "replacement rate" will slip to about 36 percent for a medium earner retiring at 65 in the future, chiefly because the full retirement age, which has already risen to 66, will climb to 67 over the 2017-2022 period.

Moreover, most retirees enroll in Medicare's Supplementary Medical Insurance (also known as Medicare Part B) and have Part B premiums deducted from their Social Security checks. As health care costs continue to outpace general inflation, those premiums will take a bigger bite out of their checks.

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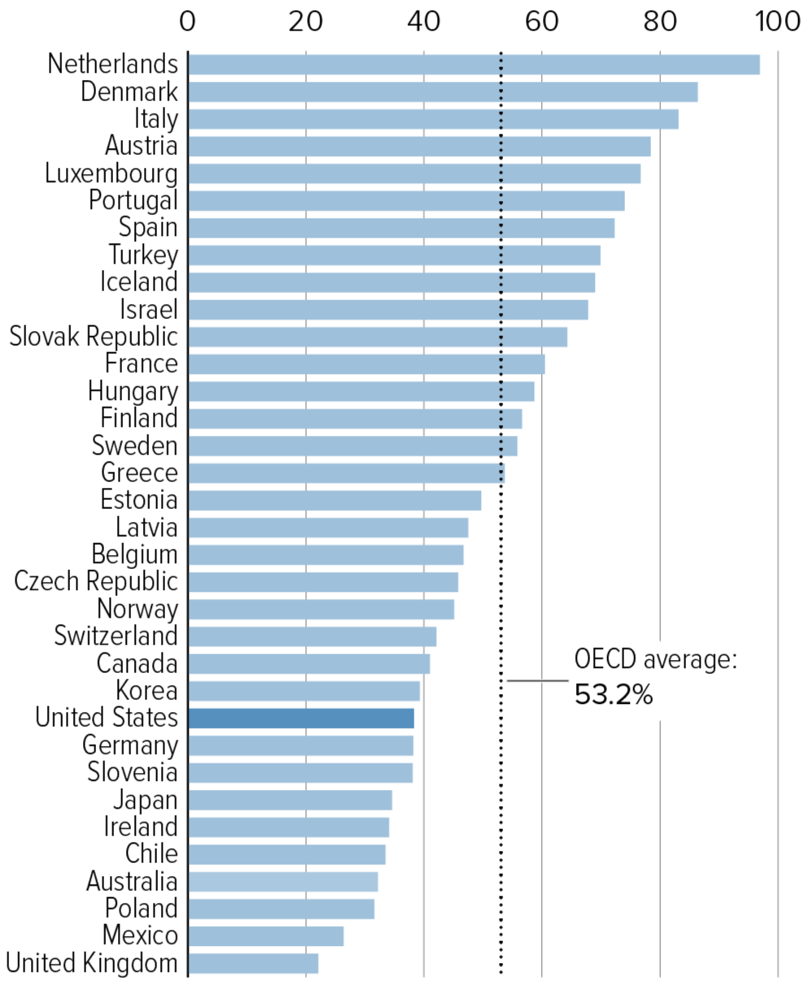
Social Security benefits are modest by international standards, too. The United States ranks in the bottom third of developed countries in the percentage of an average worker's earnings replaced by the public pension system.

**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 2017: 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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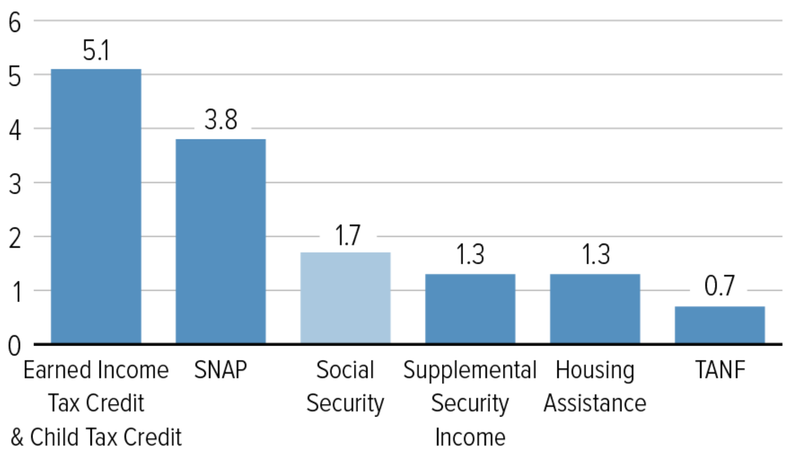
## Fact #5: Children have an important stake in Social Security.

Social Security is important for children and their families as well as for the elderly. About 6 million children under age 18 lived in families that received income from Social Security in 2017. That number included nearly 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.

Social Security lifted 1.7 million children out of poverty in 2015, as the chart shows. (The figures in the chart use the comprehensive Supplemental Poverty Measure, with corrections for underreporting, in order to show the full effect of non-cash benefits. By the more conventional, cash-only official poverty measure, Social Security lifted 1.1 million children above the poverty line in 2015.)

**Social Security Lifts 1.7 Million Children Out of Poverty**

Number lifted out of poverty by selected programs, in millions




Note: Figures are for 2015 and use the federal government's Supplemental Poverty Measure (SPM). Numbers include benefits paid to children and to their family members.
SNAP = Supplemental Nutrition Assistance Program. TANF = Temporary Assistance for Needy Families.

Source: CBPP analysis of Census Bureau data from the Current Population Survey and SPM public use files; corrections for underreported government assistance from Department of Health and Human Services/Urban Institute Transfer Income Model (TRIM).

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## Fact #6: Social Security lifts millions of elderly Americans out of poverty.

Social Security lifts millions of elderly Americans out of poverty and dramatically reduces the elderly poverty rate.

Without Social Security benefits, about 4 in 10 Americans aged 65 and older would have incomes below the poverty line, all else being equal, according to official estimates based on the 2017 Current Population Survey. Social Security benefits lift more than 15 million elderly Americans out of poverty, these estimates show.

A recent study that matches Census estimates to administrative data suggests that the official estimates overstate elderly reliance on Social Security. That study finds that in 2012, 3 in 10 elderly Americans would be poor without Social Security, and that the program lifted more than 10 million elderly Americans out of poverty.

No matter how it is measured, however, it's clear that Social Security brings millions of elderly Americans out of poverty and dramatically reduces the elderly poverty rate.

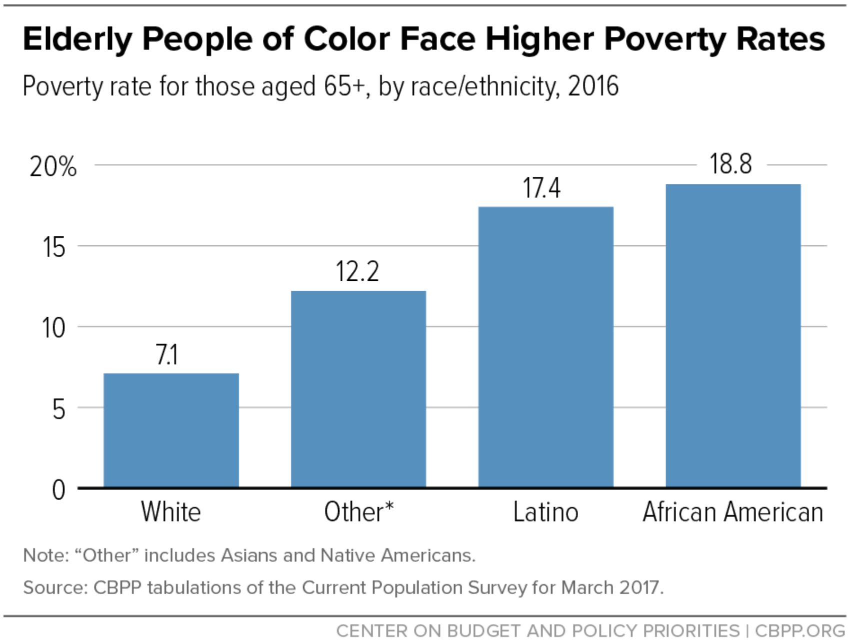
## Fact #7: Most elderly beneficiaries rely on Social Security for the majority of their income.

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 5 seniors, it provides at least 90 percent of income, across multiple surveys and the recent study that matches survey and administrative data.

## Fact #8: Social Security is particularly important for people of color.

Social Security is a particularly important source of income for groups with low earnings and less opportunity to save and earn pensions, including African Americans and Latinos, who face higher poverty rates both during their working lives and in old age. The poverty rate among elderly African Americans and Latinos is about 2.5 times as high as for elderly white Americans.

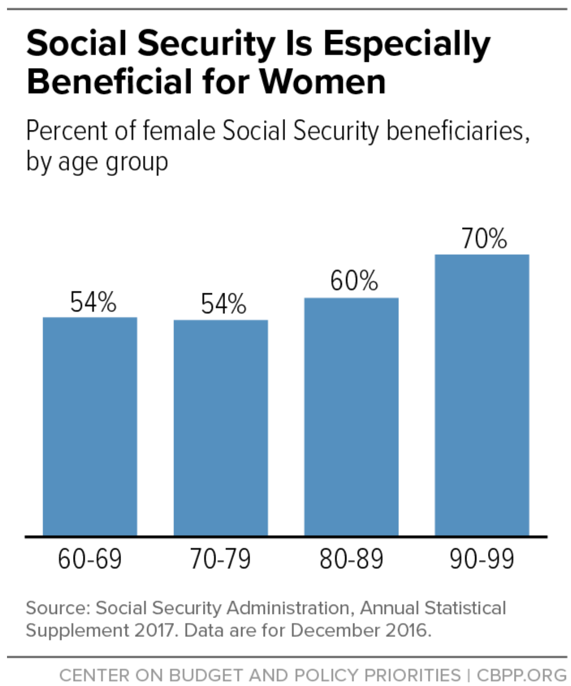
African American and Latino workers benefit substantially from Social Security because they have higher disability rates and lower lifetime earnings than whites, on average. In addition, African American workers have higher rates of premature death than whites, and so are more likely to benefit from Social Security's survivor benefits. Latino workers have longer average life expectancies than whites, which means they have more years to collect retirement benefits.




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

Social Security is especially important for women, because they tend to earn less than men, take more time out of the paid workforce, live longer, accumulate less savings, and receive smaller pensions. Women represent more than half of Social Security beneficiaries in their 60s and 7 in 10 beneficiaries in their 90s. In addition, women make up 96 percent of Social Security survivor beneficiaries.

Women benefit disproportionately from the program's inflation-protected benefits (because they tend to live longer than men), its progressive formula for computing benefits (because they tend to have lower earnings), and its benefits for spouses and survivors.



## Fact #10: Relatively modest changes would place Social Security on sound financial footing.

Since the mid-1980s, Social Security has collected more in taxes and other income each year than it pays out in benefits and has amassed combined trust funds of $2.8 trillion, invested in interest-bearing Treasury securities. But Social Security's costs will grow in coming years as baby boomers retire.

The trustees estimate that, if policymakers took no further action, Social Security's combined Old-Age and Survivors Insurance (OASI) and Disability Insurance trust funds will be exhausted in 2034. After 2034, even if policymakers took no further action, Social Security could still pay three-fourths of scheduled benefits, relying on Social Security taxes as they are collected. Alarmists who claim that Social Security won't be around when today's young workers retire either misunderstand or misrepresent the projections. The long-term gap between Social Security's projected income and promised benefits is estimated at 1 percent of gross domestic product (GDP) over the next 75 years (and 1.5 percent of GDP in the 75th year).

Policymakers should address Social Security's long-term shortfall primarily by increasing Social Security's tax revenues. Social Security will necessarily require an increasing share of our nation's resources in the coming decades as the population ages, and polls show a widespread willingness to support it through higher tax contributions. Recent trends also justify boosting Social Security's payroll tax revenue: Social Security's tax base has eroded since the last time policymakers addressed solvency in 1983, largely due to increased inequality and the rising cost of non-taxed fringe benefits, such as health insurance.

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