



National Academy of Social Insurance

The Future of Social Security

The University of Michigan

Presentation of Henry J. Aaron's "Social Security: The Time to Act is Now"

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JASON J. FICHTNER, PhD
JOHNS HOPKINS UNIVERSITY - SAIS

WHAT IS SOCIAL SECURITY:

Social Security is the foundation of economic security for millions of Americans—retirees, disabled persons, and families of retired, disabled or deceased workers. About 169 million Americans pay Social Security taxes and 61 million collect monthly benefits. About one family in four receives income from Social Security.

Social Security is largely a pay-as-you-go program. This means that today's workers pay Social Security taxes into the program and money flows back out as monthly income to beneficiaries. As a pay-as-you-go system, Social Security differs from company pensions, which are “pre-funded.” In pre-funded retirement programs, the money is accumulated in advance so that it will be available to be paid out to today's workers when they retire. The private plans need to be funded in advance to protect employees in case the company enters bankruptcy or goes out of business.

The average monthly Social Security benefit in June 2017 was:

- \$1,391 a month for retired workers;
- \$1,3071 a month for widows or widowers over the age of 60;
- \$1,172 a month for disabled workers;
- \$2,278 a month for a disabled worker and a spouse;
- \$2,664 a month for a widowed mother and two children.

The maximum Social Security benefit for a worker retiring at the 2017 full retirement age is \$2,687 a month.

SOCIAL SECURITY:

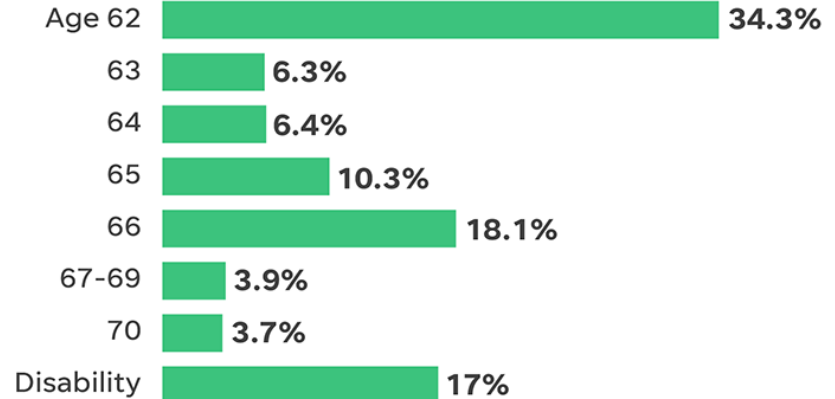
Age for full retirement benefit for retired workers

<u>Year of birth</u>	<u>Full retirement age (FRA)</u>
1937 and earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943–1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

Fast Facts & Figures About Social Security, 2018

https://www.ssa.gov/policy/docs/chartbooks/fast_facts/2018/fast_facts18.pdf

When people claim Social Security



SOURCE Social Security Administration
George Petras/USA TODAY

<https://www.usatoday.com/story/money/personalfinance/retirement/2018/06/19/whats-most-popular-age-to-take-social-security/35928543/>

HOW SOCIAL SECURITY IS FINANCED:

OASDI & HI Contributions

Tax rates, 2018 (in percent)

<u>Program</u>	<u>Employee</u>	<u>Employer</u>	<u>Self-employed</u>
Total	7.65	7.65	15.30
OASI	5.015	5.015	10.03
DI	1.185	1.185	2.37
HI	^a 1.45	1.45	^a 2.90

a. Earned income exceeding \$200,000 for individual filers and \$250,000 for married couples filing jointly is subject to an additional HI tax of 0.90 percent.

Taxes payable, 2018 (in dollars)

<u>Type of earner</u>	<u>OASI</u>	<u>DI</u>	<u>HI</u>
Average	2,603	615	752
Maximum	6,439	1,522	No limit
Self-employed maximum	12,879	3,043	No limit

Maximum earnings subject to Social Security taxes, 2018 (in dollars)

<u>Program</u>	<u>Amount</u>
OASDI	128,400
HI	No limit

Earnings required for work credits, 2018: \$1,320 for one work credit (one quarter of coverage)

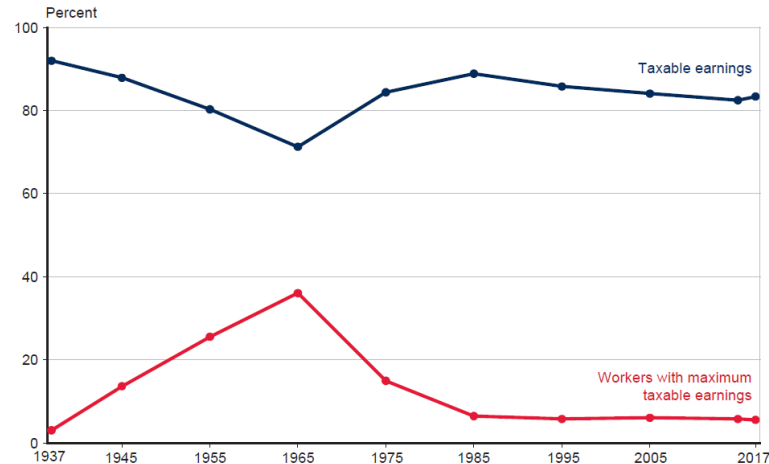
NOTE: A worker may earn a maximum of four credits a year. Doing so in 2018, therefore, requires \$5,280 in earnings.

HOW SOCIAL SECURITY IS FINANCED:

Earnings in Covered Employment, 1937–2017

People contribute to Social Security through payroll taxes or self-employment taxes, as required by the Federal Insurance Contributions Act (FICA) and the Self-Employment Contributions Act (SECA). The maximum taxable amount is updated annually on the basis of increases in the average wage. Of the 174 million workers with earnings in Social Security–covered employment in 2017, about 6% had earnings that equaled or exceeded the maximum amount subject to taxes, compared with 3% when the program began and a peak of 36% in 1965. About 83% of earnings in covered employment were taxable in 2017, compared with 92% in 1937.

Taxable earnings as a percentage of earnings in covered employment and percentage of workers with maximum taxable earnings, selected years

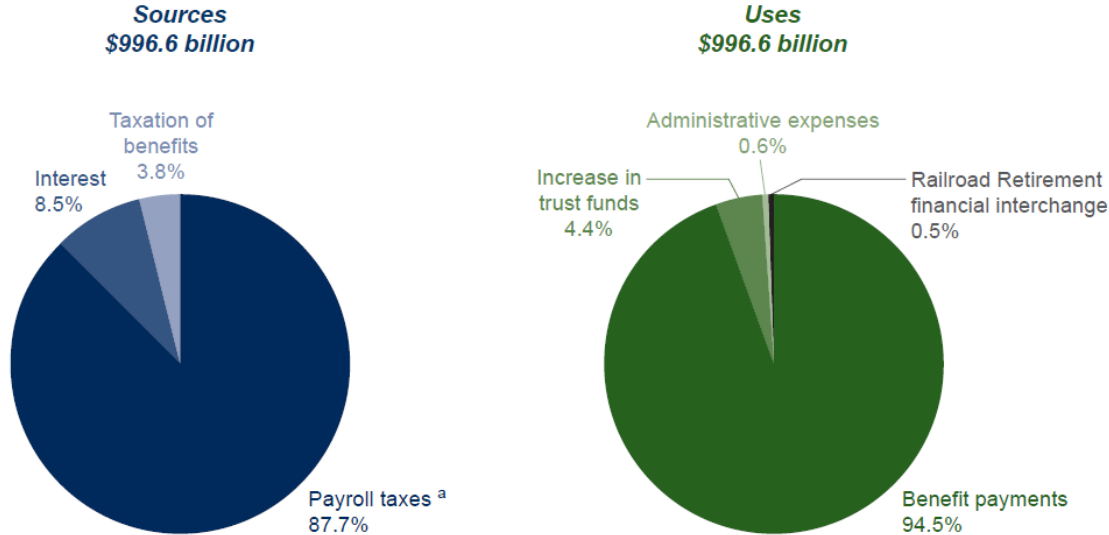


SOURCE: SSA, Office of the Chief Actuary.

Fast Facts & Figures About Social Security, 2018

HOW SOCIAL SECURITY IS FINANCED:

Sources and uses of Social Security revenues in 2017



SOURCE: 2018 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, Table II.B1.

NOTE: Totals do not necessarily equal the sum of rounded components.

a. Includes General Fund reimbursements, which accounted for less than 0.1% of Trust Fund income.

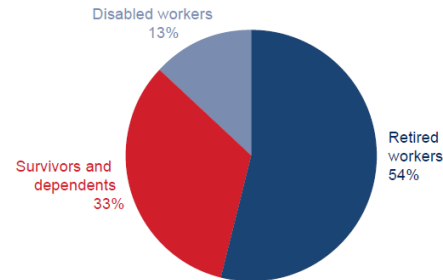
NEW BENEFIT AWARDS, 2017:

Benefits were awarded to about 5.5 million persons; of those, 54% were retired workers and 13% were disabled workers. The remaining 33% were survivors or the spouses and children of retired or disabled workers. These awards represent not only new entrants to the benefit rolls but also persons already on the rolls who become entitled to a different benefit, particularly conversions of disabled-worker benefits to retired-worker benefits at FRA.

New awards, by type of beneficiary

Beneficiary	Number (thousands)	Percent
Total	5,520	100
Retired workers and dependents	3,530	64
Workers	2,975	54
Spouses and children	555	10
Disabled workers and dependents	1,093	20
Workers	716	13
Spouses and children	377	7
Survivors of deceased workers	897	16

New awards



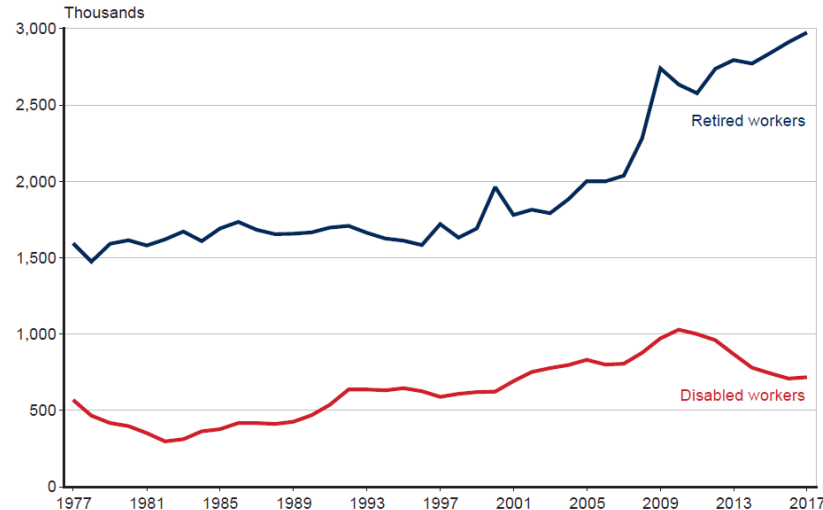
SOURCE: SSA, Master Beneficiary Record, 100 percent data.

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NEW AWARDS TO WORKERS, 1977-2017:

Awards to retired workers increased considerably over the past four decades, at a rate that nearly triples the rate by which awards to disabled workers increased. The annualized rate of increase over the period from 1977 to 2017 is 1.6% for retired workers and 0.6% for disabled workers. The annual number of awards to retired workers rose from 1.6 million in 1977 to 3.0 million in 2017, while for disabled workers it increased from 569,000 in 1977 to 716,000 in 2017.

New awards to retired and disabled workers



SOURCE: SSA, Master Beneficiary Record, 100 percent data.

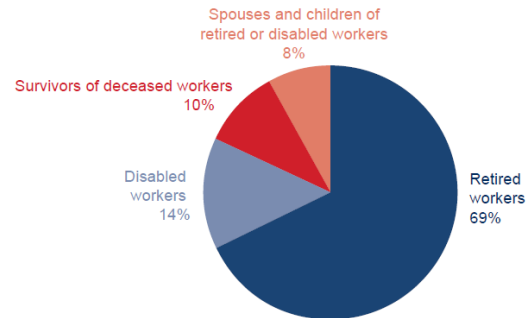
CURRENT BENEFICIARIES, DEC 2017:

Sixty-two million beneficiaries were in current-payment status; that is, they were being paid a benefit. Sixty-nine percent of those beneficiaries were retired workers and 14% were disabled workers. The remaining 17% of beneficiaries were survivors or the spouses and children of retired or disabled workers.

Beneficiaries in current-payment status

Beneficiary	Number (thousands)	Percent
Total	61,903	100
Retired workers and dependents	45,498	73
Workers	42,447	69
Spouses and children	3,051	5
Disabled workers and dependents	10,411	17
Workers	8,695	14
Spouses and children	1,716	3
Survivors of deceased workers	5,994	10

Beneficiaries, by type



SOURCE: SSA, Master Beneficiary Record, 100 percent data.

NOTE: Totals do not necessarily equal the sum of rounded components.

Fast Facts & Figures About Social Security, 2018

https://www.ssa.gov/policy/docs/chartbooks/fast_facts/2018/fast_facts18.pdf

AVERAGE BENEFIT AMOUNT, 2017:

Benefits payable to workers who retire at FRA and to disabled workers are equal to 100% of the PIA (subject to any applicable deductions). At FRA, widow(er)s' benefits are also payable at 100% of the insured worker's PIA. Nondisabled widow(er)s can receive reduced benefits at age 60. Disabled widow(er)s can receive reduced benefits at age 50. Spouses, children, and parents receive a smaller proportion of the worker's PIA than do widow(er)s.

Average monthly benefit for new awards and for benefits in current-payment status (in dollars)

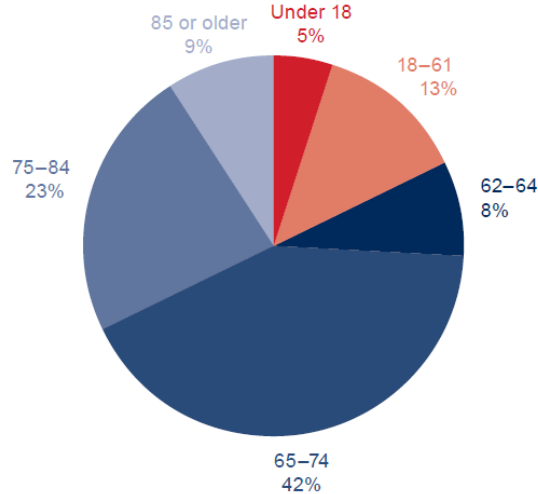
Beneficiary	New awards	Benefits in current-payment status, December
Retired workers	1,460	1,404
Spouses	627	732
Children	634	675
Disabled workers	1,328	1,197
Spouses	382	335
Children	363	366
Survivors of deceased workers		
Nondisabled widow(er)s	1,037	1,338
Disabled widow(er)s	725	729
Widowed mothers and fathers	963	975
Surviving children	857	858
Parents	1,103	1,186

SOURCE: SSA, Master Beneficiary Record, 100 percent data.

BENEFICIARIES BY AGE, DEC. 2017:

About four-fifths of all OASDI beneficiaries in current-payment status were aged 62 or older, including 23% aged 75–84 and 9% aged 85 or older. About 13% were persons aged 18–61 receiving benefits as disabled workers, survivors, or dependents. Another 5% were children under age 18.

Beneficiaries, by age

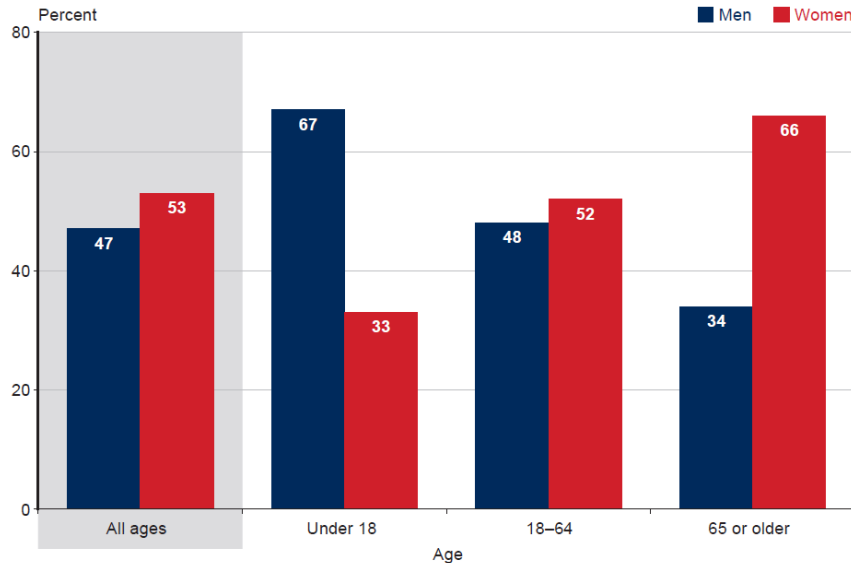


SOURCE: SSA, Master Beneficiary Record, 100 percent data.

SUPPLEMENTAL SECURITY INCOME (SSI)

Overall, 53% of the approximately 8.2 million SSI recipients were women, but that percentage varied greatly by age group. Women accounted for 66% of the 2.2 million recipients aged 65 or older, 52% of the 4.8 million recipients aged 18–64, and 33% of the 1.2 million recipients under age 18.

SSI recipients, by sex and age



SOURCE: SSA, Supplemental Security Record, 100 percent data.

Supplemental Security Income (SSI) is a Federal income supplement program funded by general tax revenues (not Social Security taxes):

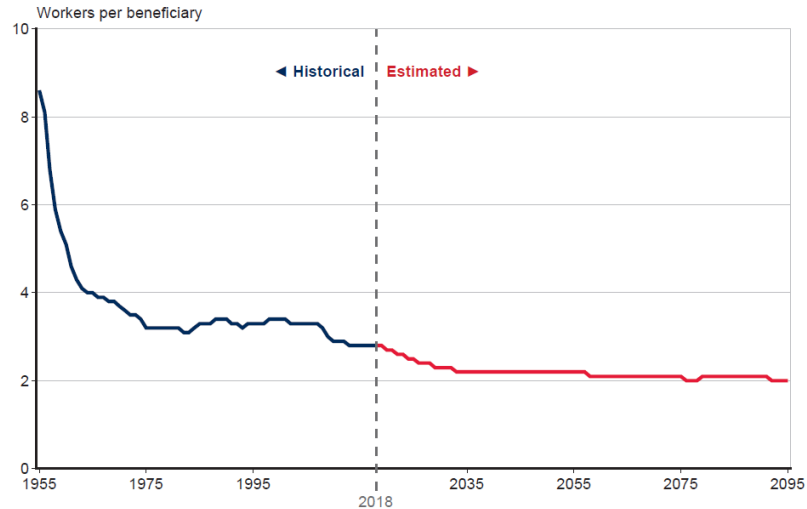
It is designed to help aged, blind, and disabled people, who have little or no income; and

It provides cash to meet basic needs for food, clothing, and shelter.

DEMOGRAPHIC CHALLENGE

The 2018 Trustees Report projects that the number of retired workers will grow rapidly, as members of the post–World War II baby boom continue to retire in increasing numbers. The number of retired workers is projected to double in about 50 years. People are also living longer, and the birth rate is low. As a result, the Trustees project that the ratio of 2.8 workers paying Social Security taxes to each person collecting benefits in 2017 will fall to 2.2 to 1 in 2033. In 2010, tax and other noninterest income did not fully cover program cost, and the 2018 Trustees Report projects that this pattern will continue for at least 75 years if no changes are made to the program. However, the Trustees also project that redemption of trust fund assets will be sufficient to allow for full payment of scheduled benefits until 2033.

Ratio of covered workers to Social Security beneficiaries



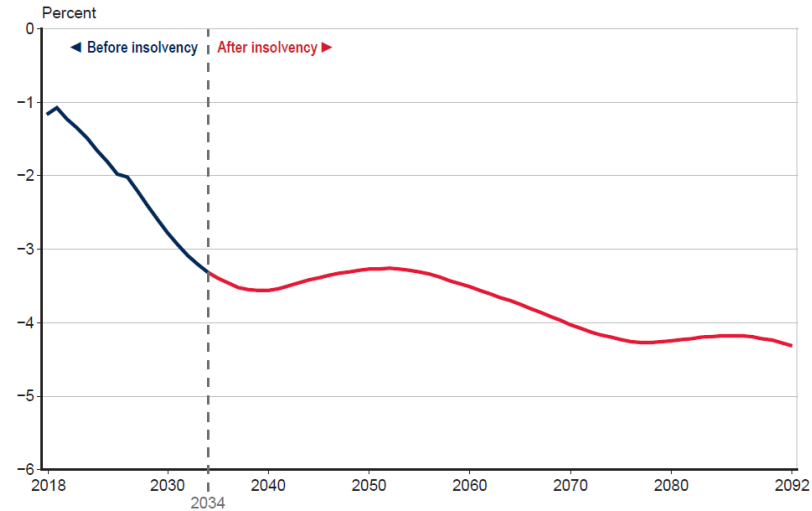
SOURCE: 2018 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, Table IV.B3 (intermediate assumptions).

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LONG-RUN FINANCIAL OUTLOOK

Social Security is not sustainable over the long term at current benefit and tax rates. In 2010, the program paid more in benefits and expenses than it collected in taxes and other noninterest income, and the 2018 Trustees Report projects this pattern to continue for the next 75 years. The Trustees estimate that the combined OASI and DI trust fund reserves will be depleted by 2034. At that point, payroll taxes and other income will flow into the fund but will be sufficient to pay only about 79% of program costs. As reported in the 2018 Trustees Report, the projected shortfall over the next 75 years is 2.84% of taxable payroll.

Social Security income minus costs as a percentage of taxable payroll



SOURCE: 2018 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, Table IV.B1 (intermediate assumptions).

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