



Social Security Benefits, Finances, and Policy Options *A Primer*

National Academy of Social Insurance • www.nasi.org

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What is Social Security?

How Many People Receive Social Security?

- More than 62 million people receive Social Security each month, in one of three categories:
 - Retirement insurance
 - Survivors insurance
 - Disability insurance
- Nearly 1 in 5 Americans gets Social Security benefits.
- About 1 in 4 families receives income from Social Security.

Who Receives Social Security?

- 43.1 million *retired workers*
- 8.6 million *disabled workers*
- 4.1 million *widows and widowers*
- 2.5 million *spouses*
- 1.1 million *adults disabled since childhood*
- 3.0 million *children*

How Much Does Social Security Pay?

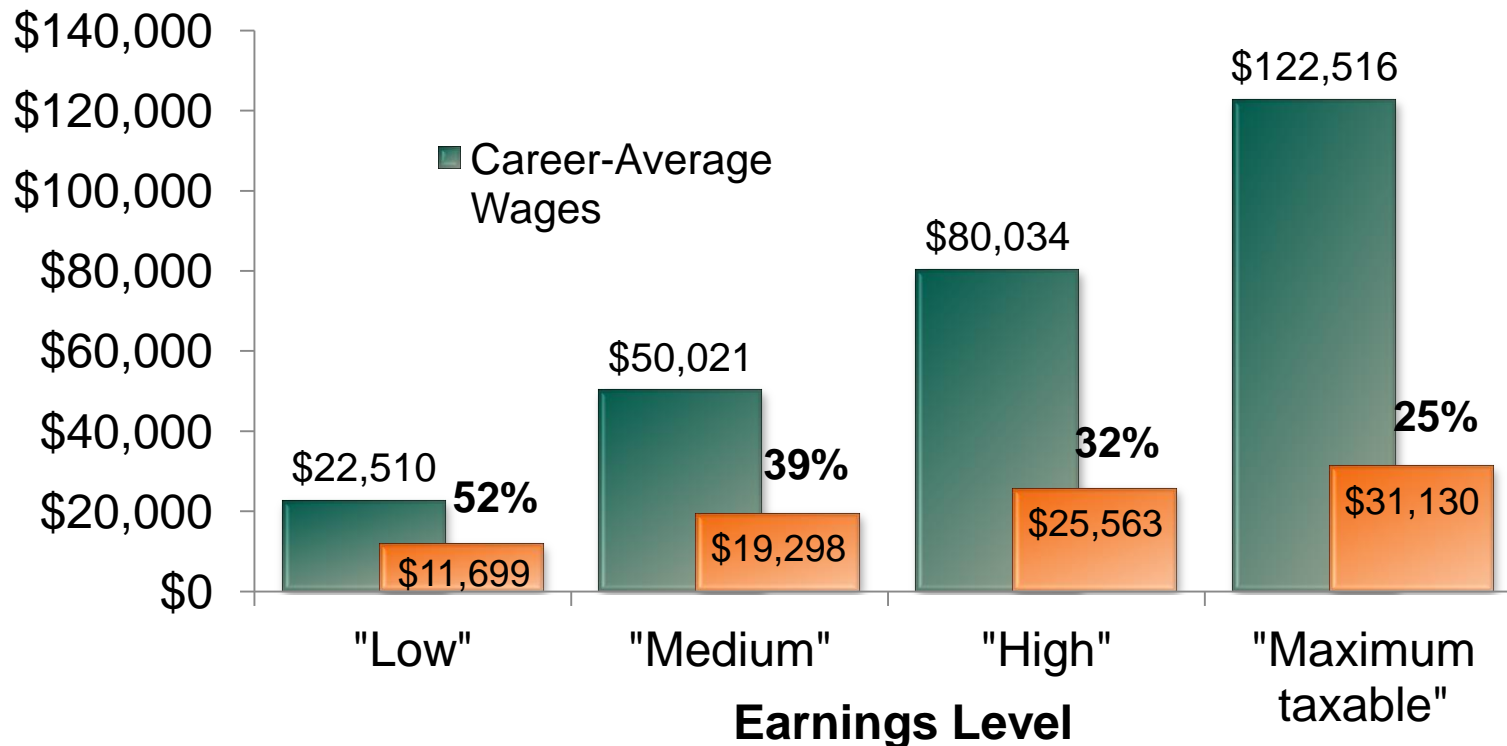
(June 2018)

By Beneficiary Type:	Average Monthly Benefit	Average Yearly Benefit
Retired workers	\$1,413	\$16,956
Disabled workers	\$1,198	\$14,376
Widows or widowers (60 or older)	\$1,345	\$16,140

By Family Type:	Average Monthly Benefit for Family	Average Yearly Benefit for Family
Retired worker and spouse (62 or older)	\$2,362	\$28,344
Widowed mother or father (under 60) and two children	\$2,741	\$32,892
Disabled worker and one or more children	\$1,849	\$22,188

How Do Benefits Compare to Earnings?

Replacement Rates for Retired Worker Age 65, 2018



How Many Seniors Rely on Social Security for Most of Their Income?

- 84% of all people 65 and older get Social Security.
- Over 3 in 5 (61%) beneficiaries of Social Security get *half or more* of their income from Social Security.*
- About 1 in 3 (33%) beneficiaries of Social Security get *almost all (90% or more)* of their income from Social Security.*

SSA, 2016a: Tables 2.A1 and 9.A1.

*Some evidence indicates that a somewhat lower proportion of beneficiaries, about half, receive half or more of their total income from Social Security, and about 20% may get 90% or more of their income from Social Security (Bee and Mitchell, 2017).

Reliance on Social Security By Race

Percent of beneficiary households 65 or older whose Social Security benefits make up:

Race:	<i>Half or more of their income</i>	<i>90% or more of their income</i>
White	60%	32%
Black	69%	45%
Asian	62%	41%
Hispanic	73%	52%

Reliance on Social Security By Gender and Family Type

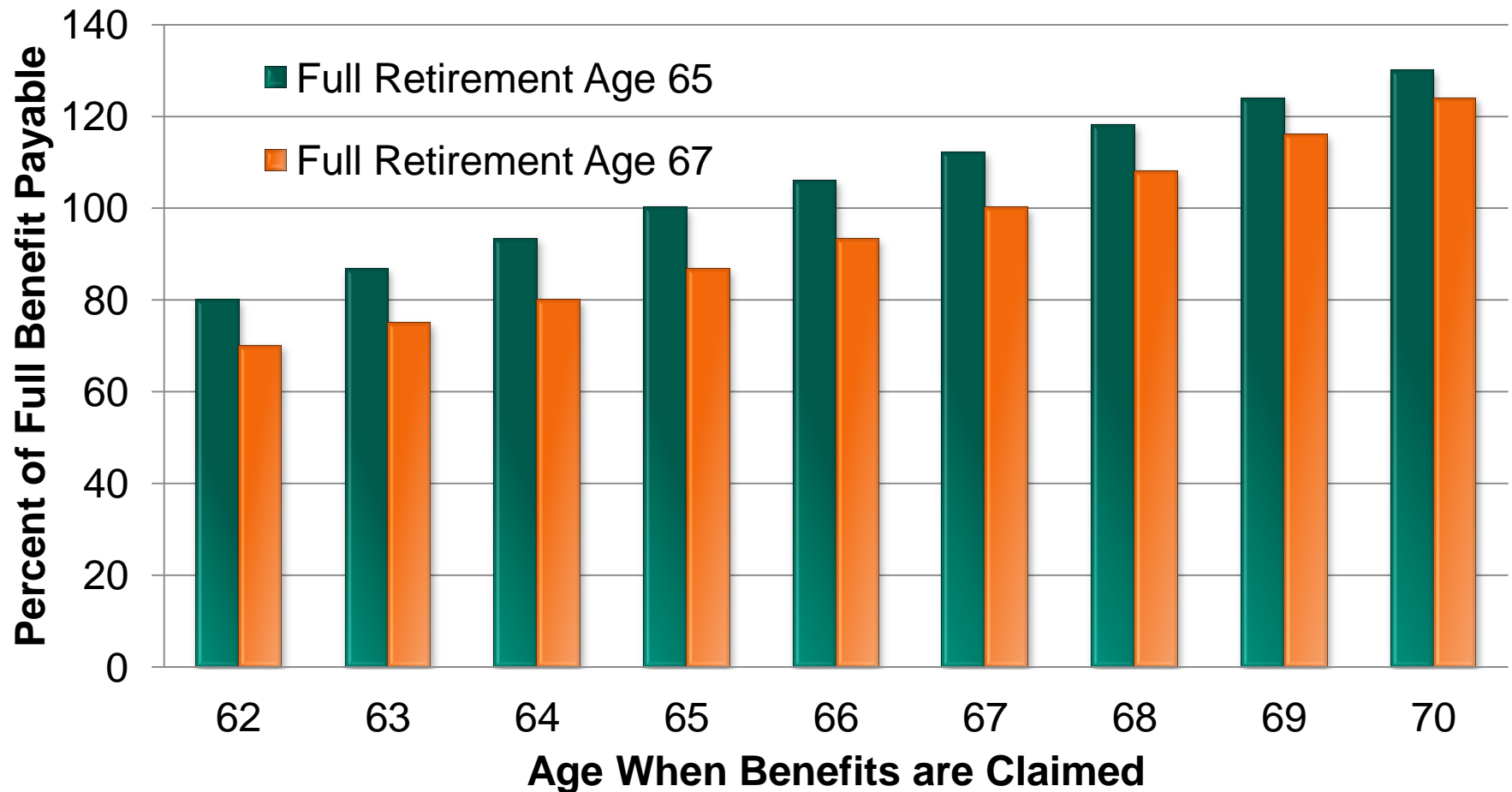
Percent of beneficiaries 65 or older whose
Social Security benefits make up:

By Gender:	<i>Half or more</i> of their income	<i>90% or more</i> of their income
Unmarried women	61%	34%
Unmarried men	56%	29%

Percent of beneficiary households 65 or older
whose Social Security benefits make up:

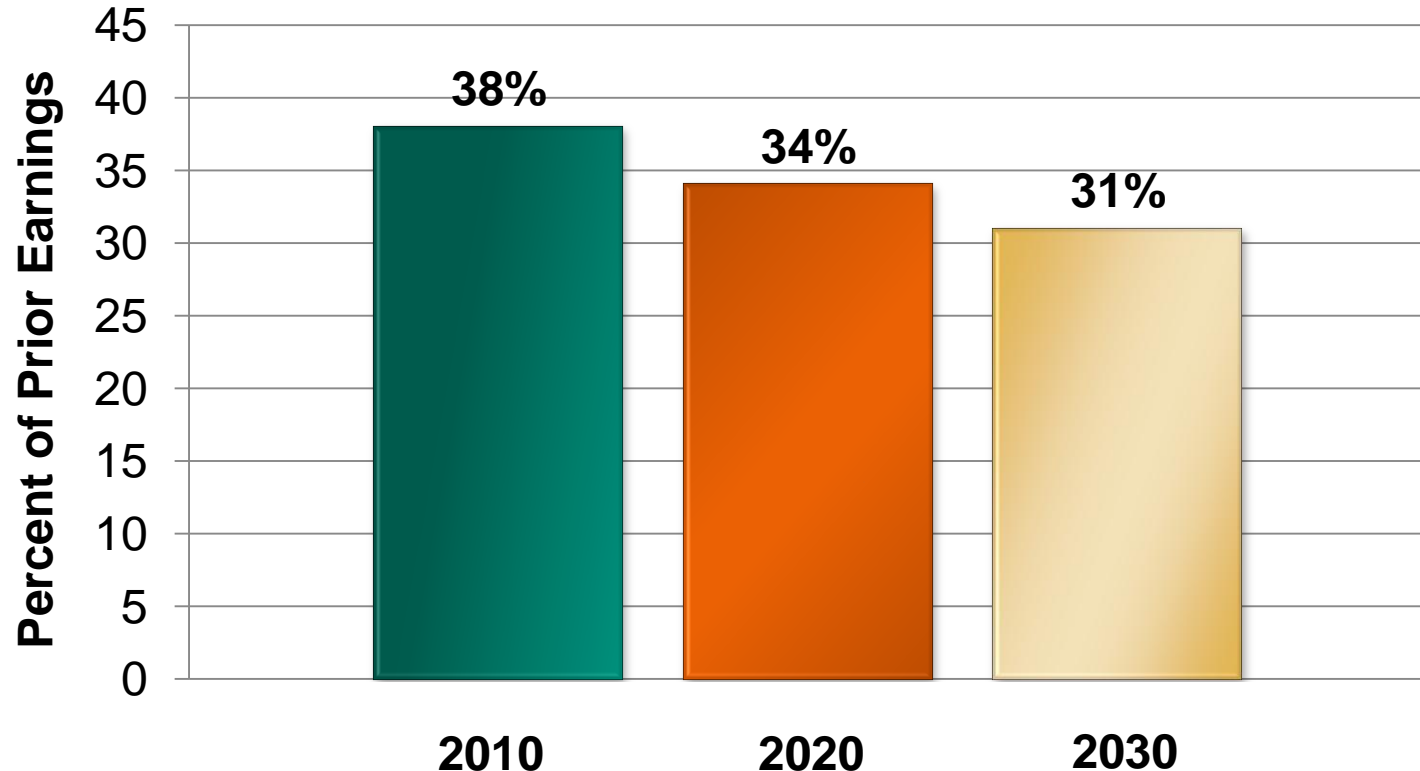
By Family Type:	<i>Half or more</i> of their income	<i>90% or more</i> of their income
Married couples	48%	21%
Unmarried people	71%	43%

Increase in Full Retirement Age (FRA) Lowers Retirement Benefits at Any Age Claimed



Net Social Security Replacement Rates Will Fall

Medium Earner's Replacement Rate at 65
(after Medicare Parts B & D premiums and taxation of benefits)



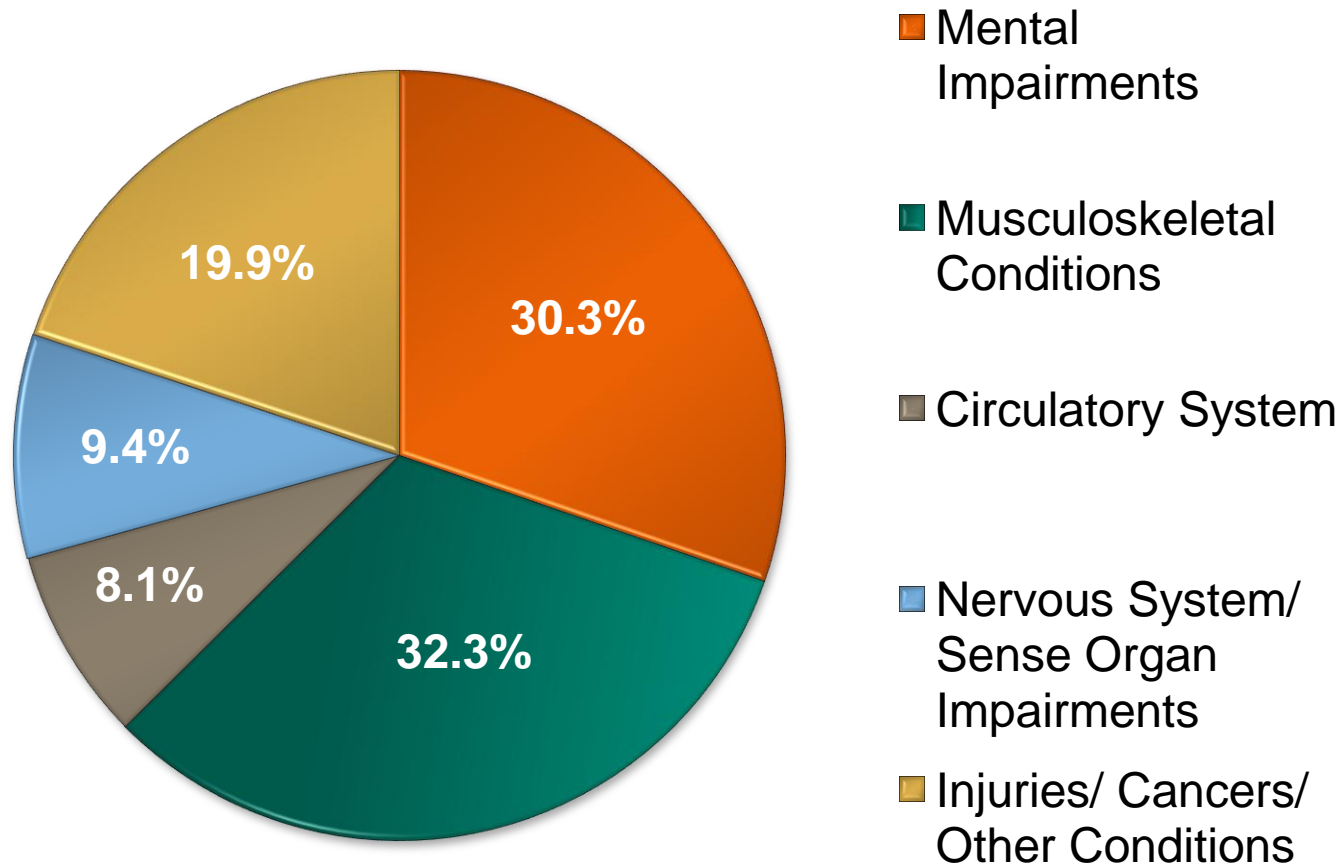
What is Social Security Disability Insurance?



- Disability Insurance (DI) pays monthly benefits to 8.6 million workers who are no longer able to work due to illness or impairment.
- It is part of the Social Security program.

- Benefits are based on the disabled worker's past earnings.
- To be eligible, a disabled worker must have worked in jobs covered by Social Security.

What are the Most Common Disabilities for DI Recipients?



Attributes of Disabled-Worker Beneficiaries

- 3 in 10 disabled workers have incomes below 125% of the poverty threshold.
- Disabled worker beneficiaries are more likely than other adults to be:
 - older (65% are over 50);
 - African-American;
 - and have a lower educational attainment:
 - almost half have a high school diploma or less;
 - 10% did not finish high school.

Who Pays for Social Security?



- Workers and their employers pay with Social Security contributions under the Federal Insurance Contributions Act (FICA).

How Much Do Workers and Employers Pay?

- Workers contribute 6.2% of their earnings for Social Security.
- Employers match these worker contributions (6.2%).
- The total Social Security contribution is 12.4%.
- Earnings above \$128,400 are exempt from Social Security contributions.

Where Does the Money Go?

- It is credited to the Social Security trust funds. Of the 6.2% tax rate:
 - 5.015% goes to the **retirement and survivor insurance fund**
 - 1.185% goes to the **disability insurance fund**
- Projections of income and outgo of the trust funds are made by the Social Security Administration actuaries.





The Financial Outlook



2017 Finances

Trust fund income = \$996.6 billion

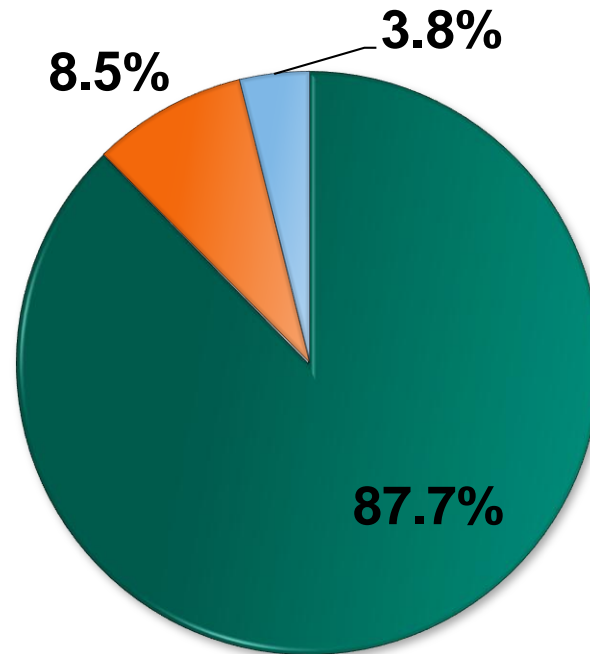
Trust fund outgo = \$952.5 billion

Increase in trust
fund reserves = **\$44.1 billion**

- By law, surpluses are invested in U.S. Treasury securities and earn interest that goes to the trust funds.

Where is Social Security Income From?

Shares of Income to the Trust Funds, 2017



- Workers' and employers' Social Security contributions
- Interest on reserves
- Income taxes on benefits

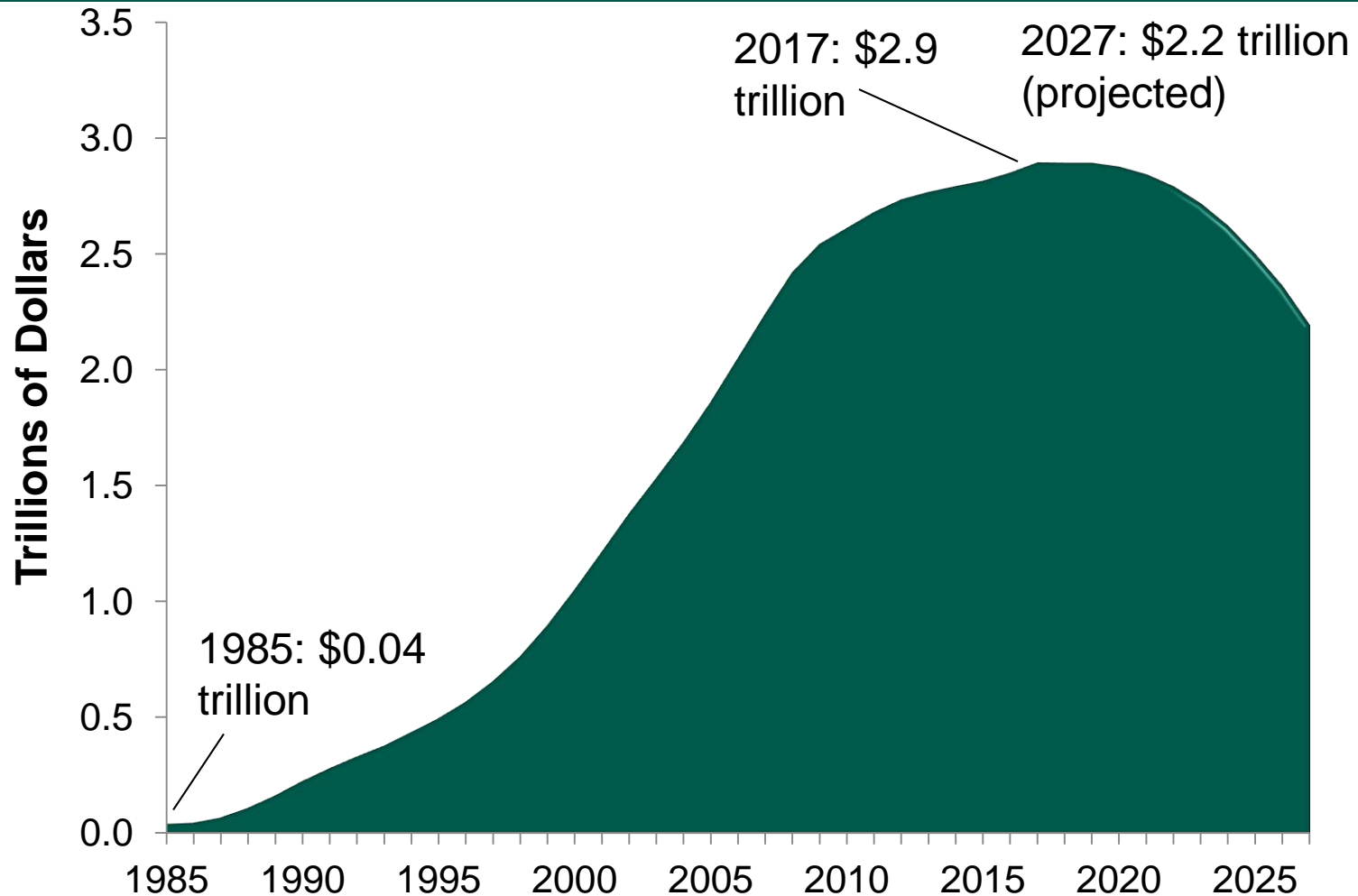
What are Social Security Reserves, or Assets?

- Social Security income that is not used immediately to pay benefits and costs is invested in special-issue Treasury securities (or bonds).
- The bonds earn interest that is credited to the trust funds.
- The accumulated surpluses held in Treasury securities are called Social Security reserves, or trust fund assets.
- The Treasury securities are secure investments that are backed by the full faith and credit of the United States government.

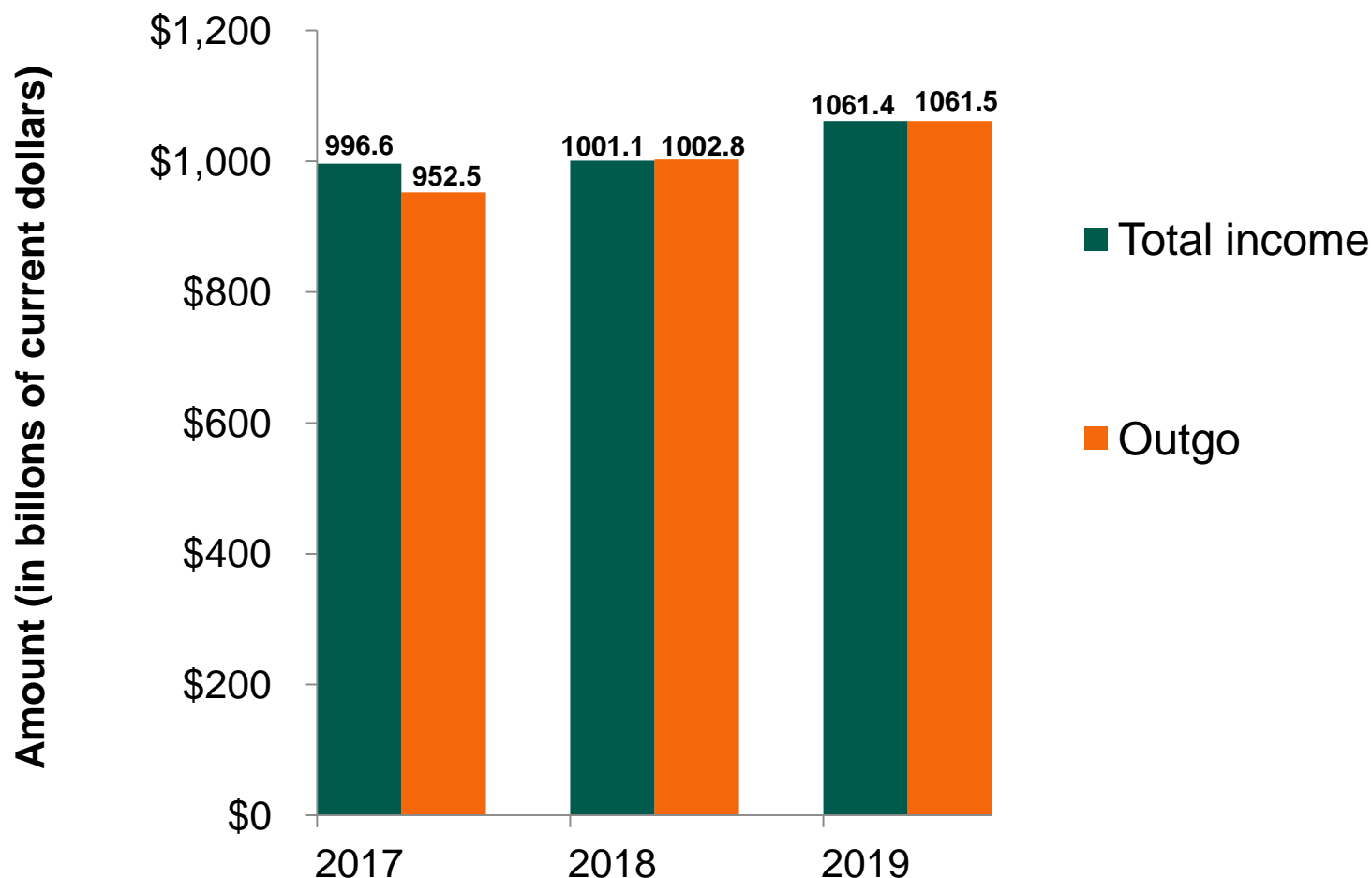
Disability Insurance Projections

- By law, Social Security has two separate trust funds:
 - **Disability Insurance (DI)** trust fund
 - **Old-Age and Survivors Insurance (OASI)** trust fund
- With the Bipartisan Budget Act of 2015, Congress temporarily rebalanced the distribution of Social Security payroll contributions between OASI and DI, extending solvency of the DI trust fund.
- According to the 2018 Social Security Trustees Report, the DI trust fund is projected to be able to pay full benefits until 2032.

How Large are Social Security Trust Fund Assets?



Social Security Income and Outgo



How Do Actuaries Estimate the Future?



- 1) Review the past: birth rates, death rates, immigration, employment, wages, inflation, productivity, interest rates.
- 2) Make assumptions for the next 75 years (longer than the rest of the government).
- 3) Three scenarios:
 - Low cost;
 - High cost;
 - Intermediate.

The Long-Range Projection (Best Estimate)

- In 2018, revenue from payroll contributions, interest on reserves, and taxation of benefits is expected to be less than total outgo for the year. If action is not taken immediately, reserves will start to be drawn down to pay benefits this year.
- In 2034, trust fund reserves are projected to be depleted. Income is projected to cover 79% of benefits due then.
- By 2095, assuming no change in taxes, benefits or assumptions, revenue would cover about 75% of benefits due in that year.

Other Scenarios

Low Cost:
Social Security
would be
solvent for 75
years and
beyond.

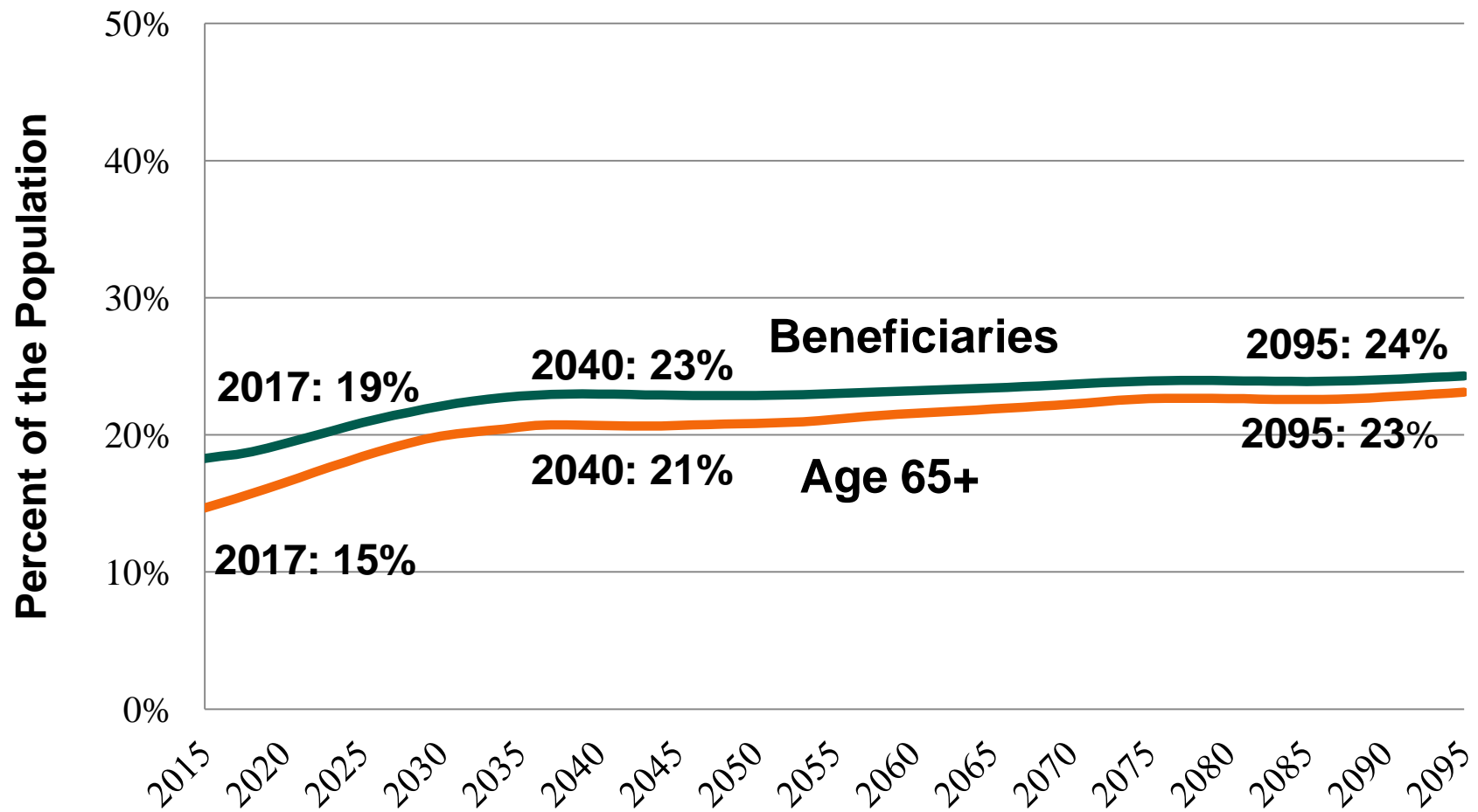


High Cost:
Trust fund
reserves would
be depleted in
2030, instead
of 2034.

Why Will Social Security Cost More in the Future?

- The share of Americans over age 65 will grow because:
 - **Boomers are reaching age 65**
 - **People are living longer after age 65**
- Birth rates are projected to remain at replacement levels.
- People 65 and older will increase from 15% to 23% of all Americans by 2095.

Percent of the Population Receiving Social Security and Percent Age 65+, 2015-2090



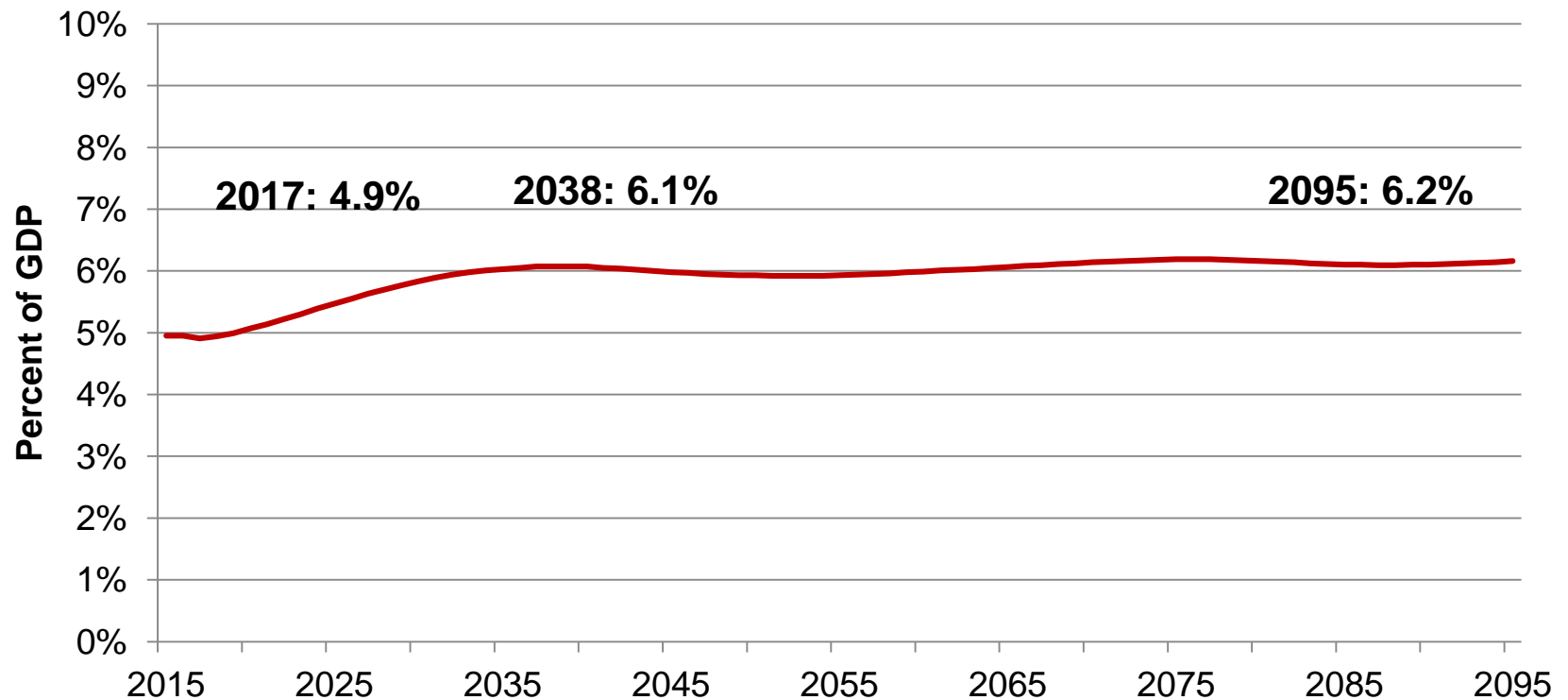


Can We Afford
Social Security
in the Future?



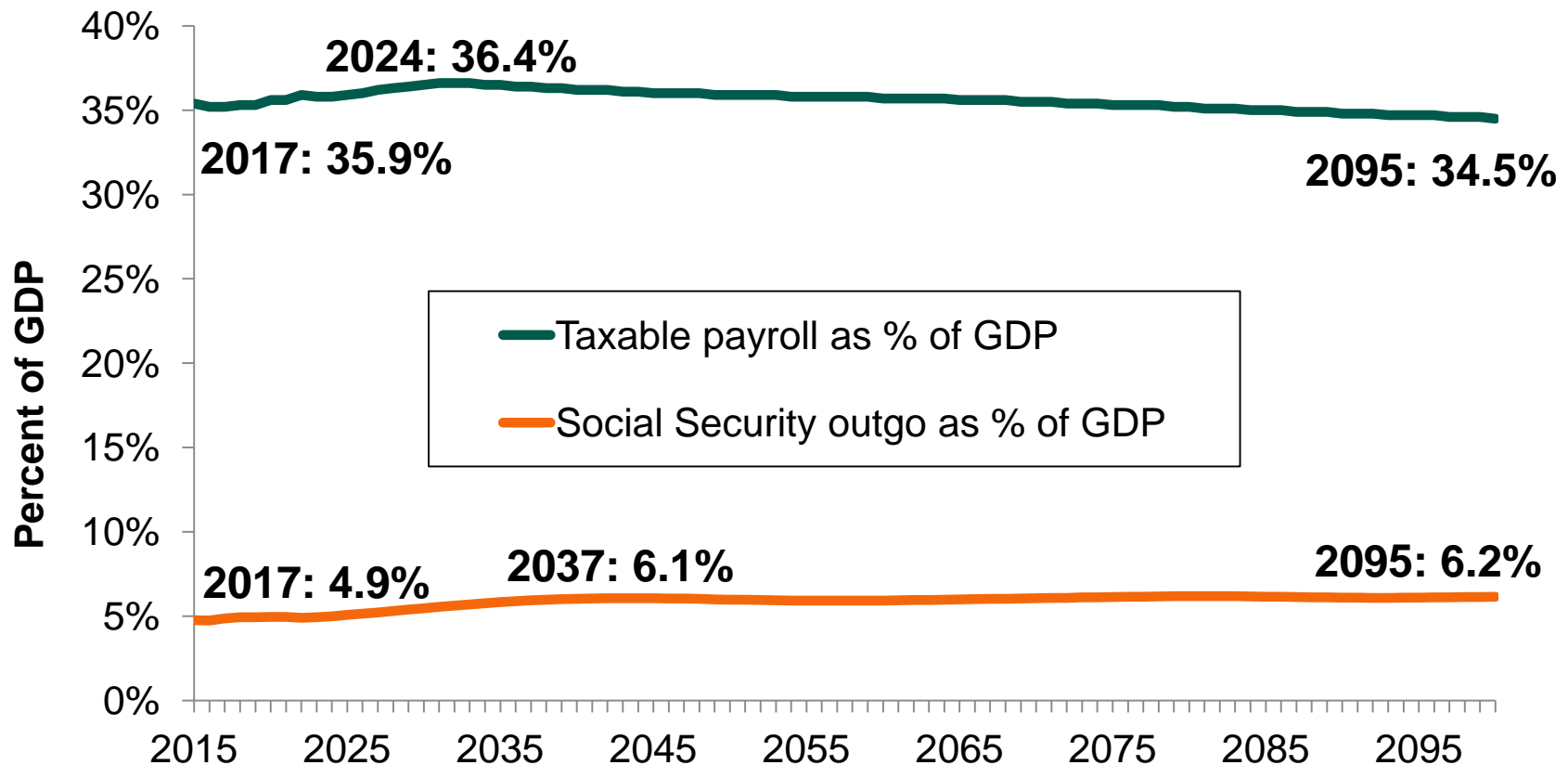
Social Security in the Broader Economy

**Social Security Outgo as a Percent of the Economy (GDP),
2015-2095**



Taxable Payroll in the Broader Economy

Taxable Payroll and Social Security Outgo
as a Percent of the Economy (GDP), 2015-2095





Strengthening Social Security



Options to Improve Adequacy

Options that would improve the adequacy of benefits include:

- 1) Updating the special minimum benefit to ensure that long-serving, low-paid workers can remain out of poverty when they retire.
- 2) Reinstating student benefits until age 22 for children of disabled or deceased workers (currently, benefits for these children stop at age 18-19).
- 3) Allowing up to 5 childcare years to count toward benefits.
- 4) Increasing benefits for widowed spouses in low-earning couples.
- 5) Modestly increasing benefits for all by changing the benefit formula (to increase the first PIA bend point by 15 percent)

Options for Raising Revenues

Options that would help **raise revenues** include:

- 1) Lifting or eliminating the cap (now \$128,400) on the earnings on which workers and their employers pay Social Security contributions.
- 2) Gradually increasing the Social Security contribution rate from its current level of 6.2%.
- 3) Subjecting income from investments to Social Security contributions.
- 4) Treating all salary reduction plans like 401(k)s (subjecting income paid into them to Social Security contributions).
- 5) Restoring estate tax to 2000 level and dedicating to Social Security.

Other Options for Solvency

Some proposals would **reduce benefits for some or all beneficiaries** in order to extend solvency.

- For example, raising the retirement age amounts to an across-the-board cut in benefits, and hence reduces the program's cost.
- Switching to the chained CPI as the basis for Social Security's cost-of-living adjustments (COLAs) would reduce benefits and hence program cost as well.



Public Opinion on Social Security



Consistent Findings throughout the Study

- In 2014, the Academy conducted a multigenerational study to understand Americans' perspectives on Social Security.
- In focus groups, Americans expressed concern about benefits being too low.
- **77%** said it is critical to preserve Social Security benefits, even if it means raising taxes on working Americans.

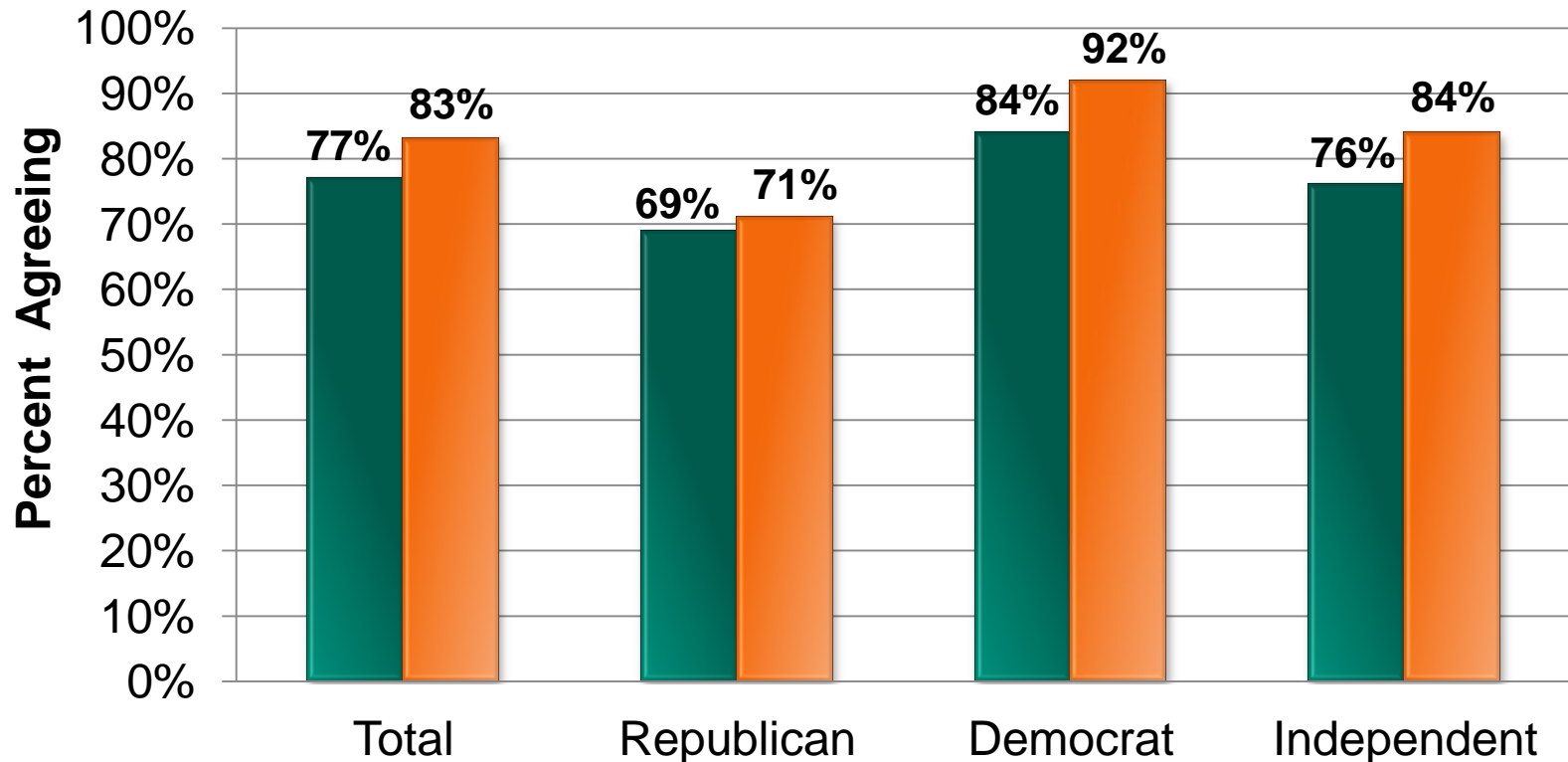
Consistent Findings throughout the Study

- In the trade-off analysis, the package preferred by **71% of respondents** would:
 - Gradually **increase taxes** in two ways:
 - for high earners by eliminating the taxable earnings cap;
 - For all workers by raising the tax rate by 1/20 of 1% per year.
 - **Increase benefits** in two ways:
 - For low earners by increasing the special minimum benefit;
 - For all beneficiaries by basing COLAs on the inflation experienced by the elderly.

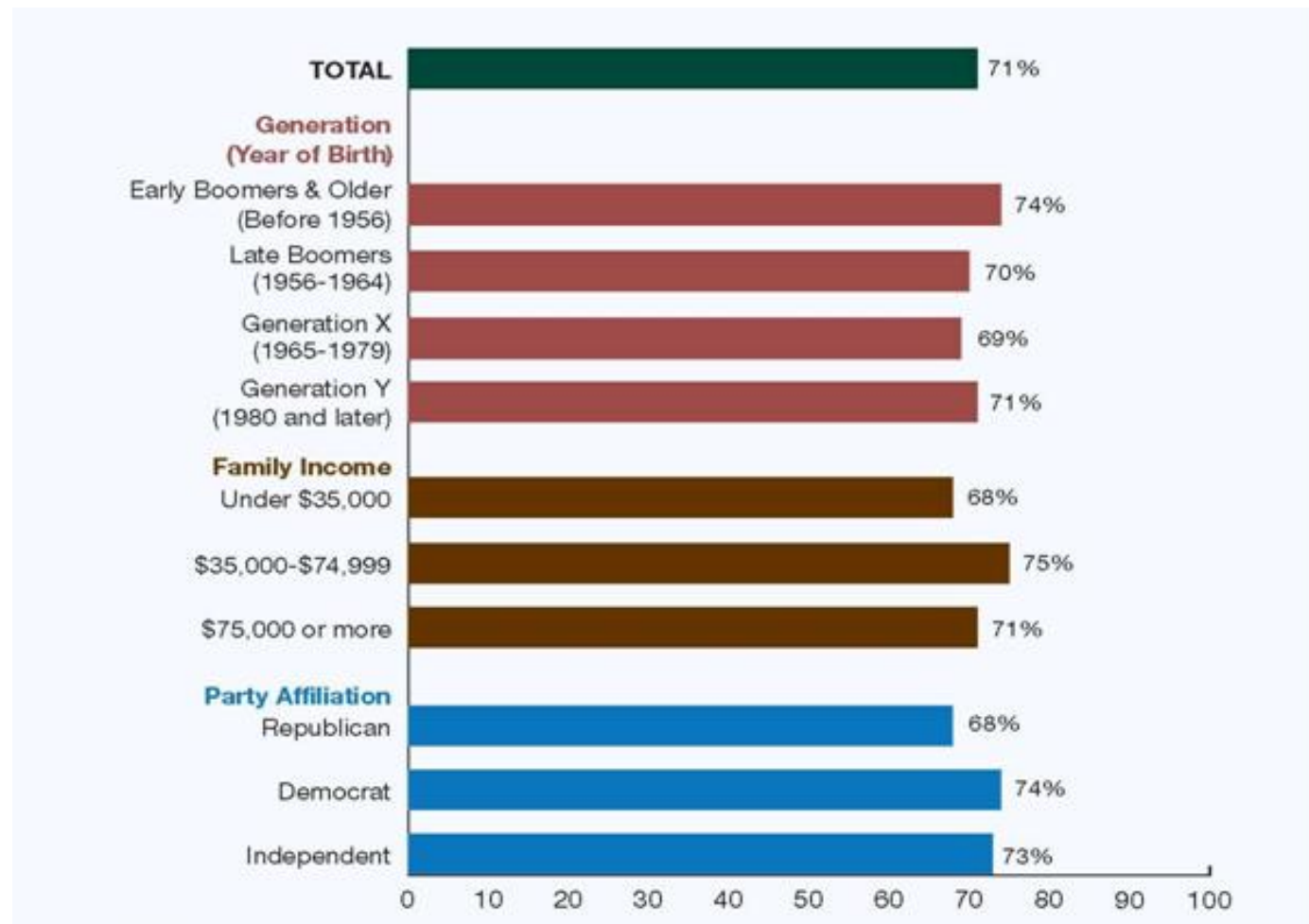
Majorities of Republicans, Democrats, and Independents Agree

Percent agreeing: It is critical that we preserve Social Security for future generations, even if it means ...

- ... increasing the Social Security taxes paid by working Americans
- ... increasing the Social Security taxes paid by wealthier Americans



Demographic Support for Package of Policy Options Preferred by 71% of Americans



Recap

- Benefits are modest (dollars and replacement rates). Yet they are **most beneficiaries' main source of income**.
- Social Security benefits will replace a smaller share of earnings in the future than they do today (**replacement rates are declining because of the increase in the retirement age**).
- **Revenue increases or benefit cuts will be needed** to balance Social Security's future finances.
- Lawmakers **have many options** to raise revenues, lower future benefits, or increase benefits to improve adequacy.
- **Americans value Social Security** and are willing to pay for it.
- **Americans report they would rather pay more** than see future benefits reduced.

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