NATIONAL ACADEMY OF·SOCIAL INSURANCE

Social Security Fact Sheet

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Social Security Across Generations: Benefit Cuts Will Fall on Today's Children and Grandchildren

By Virginia Reno and Elisa Walker

Elders and Families Depend on Social Security

Social Security is the mainstay of economic security for older Americans. Two in three seniors who receive benefits get more than half their total income from Social Security. For one in three, benefits account for almost all (90 percent or more) of their income. But Social Security is more than a retirement program; it is also a family protection plan. About 3.3 million children receive benefits because one or both of their parents are disabled, deceased, or retired. These monthly benefits help stabilize families across the nation and across generations.

Solvency Plans Affect the Future of Our Children

Despite its importance, some policymakers and commentators claim that Social Security has to be scaled back to avoid placing an undue burden on our children and grandchildren. For example, the co-chairs of President Obama's fiscal commission, Erskine Bowles and Alan Simpson, invoked the future of the nation's children in justifying their plan:

> …. *We sign our names to this plan because we love our children, and grandchildren, and our country too much not to act while we still have the chance to secure a better future for our fellow citizens.* (p. 7)
>
> … *We need to implement policies today to ensure that future generations have retirement security, affordable health care, and financial freedom. To do that, we must make Social Security solvent and sound.* (p. 13)

The co-chairs' report (signed by 11 of 18 commission members) proposed a package, consisting largely of benefit cuts, that would maintain Social Security solvency for the long term. The cuts include:

- Reducing benefits for people whose lifetime earnings are above the median ($37,000 a year in 2010);
- Reducing benefits by raising the early- and full-benefit ages for retirement benefits; and
- Reducing cost of living adjustments.

Ironically, if these changes are enacted, **the children and grandchildren of today's retirees will bear the brunt of the cuts.**

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Today's Children and Grandchildren Will Get Smaller Retirement Benefits Under the Co-Chairs' Plan

Many people don't realize that **raising the retirement age means lowering benefits** at any age they are claimed. The retirement age increase from 65 to 67 (enacted in 1983) is still phasing in, meaning that today's retirees and their children are already experiencing a benefit cut. The co-chairs' plan makes the cuts much deeper.

For example, a steady worker making about $43,000 will get about $16,760 in Social Security benefits at age 65 in 2010. Here's how her son and granddaughter will fare under the commission plan if they have lifetime earnings comparable to hers:

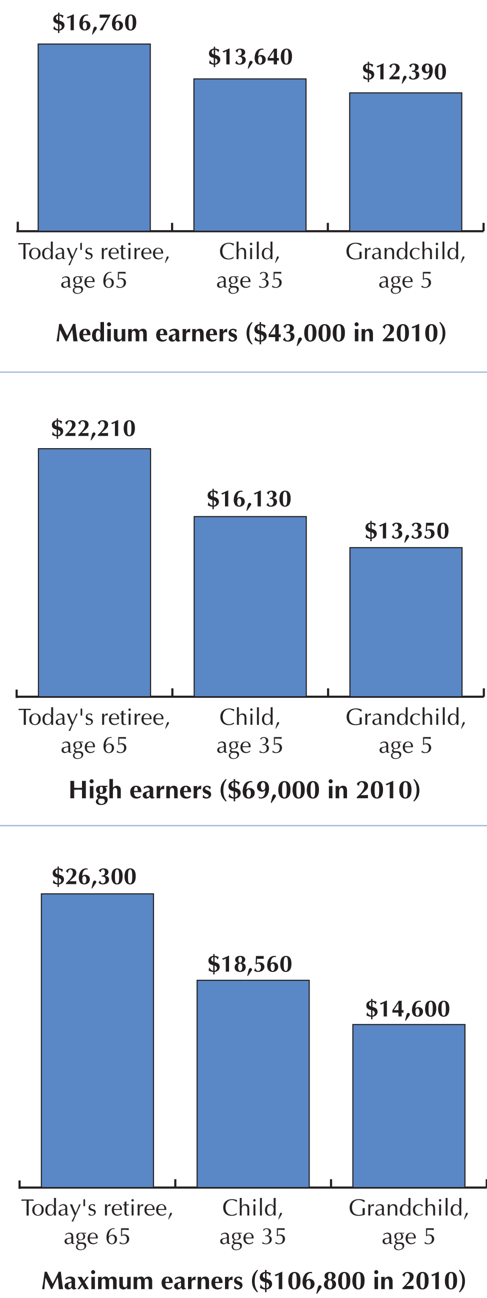
- When her 35-year-old son retires at age 65 in 2040, his benefit will be $13,640, 19 percent less than her amount in 2010 (figure and table). This cut results both from the increase in the full-benefit age to 67 (already in law), and from the further cuts and retirement-age increases proposed by the commission co-chairs.
- The cuts deepen for the next generation. When this worker's 5-year old granddaughter retires in 2070, her benefit will be about $12,390 – **fully 26 percent less** than that paid to today's retiree.

As you move up the earnings scale, Social Security benefits get bigger, but so do the proposed benefit cuts. Someone making about $69,000 will get a Social Security benefit of about $22,210 at age 65 in 2010. Here's how his daughter and grandson will fare under the proposed changes if they have comparable earnings careers:

- When his daughter retires at age 65 in 2040, her benefit of $16,130 will be about 27 percent lower than that paid in 2010. Again, this is due to the retirement age increase already in law as well as the further cuts proposed by the co-chairs.

Retirement Benefits by Earnings Level For Today's Retirees, Children, and Grandchildren

(Amounts in wage-indexed 2010 dollars)



- His grandson retiring in 2070 will receive a benefit of $13,350, **about 40 percent less** than that payable in 2010.

Retirement Benefits under Current Law and under the Plan of the Fiscal Commission Co-Chairs, 2010, 2040 and 2070

Generation	Retire at age 65 in:	Benefit under current law	Benefit under co-chairs' proposal		
			Amount	Percent change	
				From current law	From age 65 retiree in 2010
Medium earner ($43,000 in 2010)					
Today's retiree, age 65	2010	$16,764	16,764	0	0
Child, age 35	2040	14,940	13,640	-9	-19
Grandchild, age 5	2070	15,012	12,385	-18	-26
High earner ($69,000 in 2010)					
Today's retiree, age 65	2010	$22,212	22,212	0	0
Child, age 35	2040	19,812	16,126	-19	-27
Grandchild, age 5	2070	19,896	13,350	-33	-40
Maximum earner ($106,800 in 2010)					
Today's retiree, age 65	2010	$26,304	26,304	0	0
Child, age 35	2040	24,192	18,555	-23	-30
Grandchild, age 5	2070	24,252	14,600	-40	-44

Source: Goss 2010, Table B1.

Note: All dollar amounts shown are wage-indexed to reflect economy-wide earnings levels in 2010. All are based on estimates prepared by actuaries of the Social Security Administration.

American Say They Prefer to Pay for Social Security

Benefit cuts are not the only way to balance Social Security finances for the very long term. Americans say they value Social Security and are willing to pay for it. In a public opinion poll sponsored by the Academy, large majorities said they don't mind paying for Social Security because they value it for themselves, for their aging relatives, and for the millions of other people who rely on it. **On this point, Republicans, Democrats, and independents agree.** When given a choice, most Americans say they would rather pay more for Social Security than see benefits cut further. Lawmakers could avoid large cuts in Social Security for children and grandchildren by improving revenues in the near term and scheduling modest increases in Social Security contribution rates to take effect when and if the funds will be needed. See the Academy's recent brief, *Strengthening Social Security for the Long Run*, for more information.

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Other Social Security Briefs and Reports from NASI…

Strengthening Social Security for the Long Run

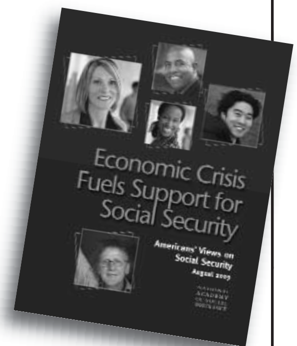
Social Security Brief No. 35

Janice M. Gregory, Thomas N. Bethell, Virginia P. Reno, and Benjamin W. Veghte, November 2010

Economic Crisis Fuels Support for Social Security

Report of poll findings on Americans' views of Social Security supported by the Rockefeller Foundation

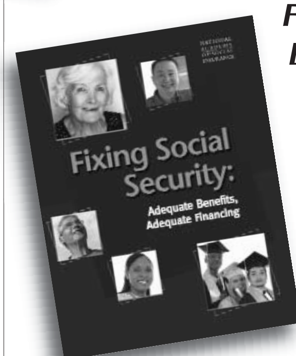
Virginia P. Reno and Joni Lavery, August 2009



Social Security Finances: Findings of the 2010 Trustees Report

Social Security Brief No. 34

Virginia P. Reno and Elizabeth Lamme, August 2010



Fixing Social Security: Adequate Benefits, Adequate Financing

Policy options to bring Social Security into long-range balance in ways that address concerns about benefit adequacy

Virginia P. Reno and Joni Lavery, October 2009

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