

## Social Security: An Essential Asset and Insurance Protection for All

by Robert Rosenblatt

### Summary

This fact sheet presents key findings of the report, *Social Security: An Essential Asset and Insurance Protection for All*. The report is a synthesis of findings of twelve organizations supported by the Ford Foundation to carry out research and outreach activities to help low-income people understand their stake in Social Security and add their voices to discussions about its future.

### What is Social Security Worth?

For most Americans, the value of Social Security is the biggest accumulation of dollars they will take into retirement. For two-thirds of recipients over the age of 65, Social Security accounts for more than half of their income during retirement (pages 4-5).\*

For a typical retiree, Social Security is worth a savings account of about \$225,000. Here's how the report calculated that value. The average monthly benefit for a retiree in January, 2007, was \$1,045. Suppose you wanted to buy an annuity from a life insurance company, a promise to pay you \$1,045 a month for the rest of your life. At age 65, this annuity contract would cost you \$140,000 in cash.

But if you want protection against inflation, a guarantee that the payments would climb by 3% a year for the rest of your life, then the price goes up. You would have to pay the insurance company \$190,000 in cash.

You may also want protection for your spouse, so the money keeps flowing even if you die. Adding this feature to the annuity brings its price to \$225,000. That shows you what Social Security is worth to the average retired person. It gives you the income protection that you would have to pay \$225,000 for in the private insurance market.

The report discussed other features of the Social Security program that are often overlooked because people tend to think of Social Security as a retirement program. But it also plays a key role in providing financial help for those who become disabled and can't work, and for the survivors of workers who die.

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\* Pages in the full report where these data are cited.

## The Value of Disability Benefits

Benefits also go to disabled workers—those who cannot work at any job for at least a year because of physical or mental illness and impairments—and to their dependents. The value of the disability benefits was the equivalent of purchasing a \$414,000 disability insurance policy in 2006. That represents the total benefits available to a 30-year old worker who becomes disabled after earning between \$25,000 and \$30,000 a year, has a 28 year-old spouse, a child age two and an infant under the age of one (pages 5-6).

## The Value of Survivor Benefits

Social Security provides life insurance protection to millions of workers. Benefits are paid to children and widowed spouses of deceased workers. The value of the life insurance protection is worth \$433,000 for the young family described above (page 6).

About 69% of Social Security benefits go to retired persons, 17% to disabled workers and their families and 14% to survivors.

Social Security is a compact among the generations. Today's workers pay taxes for those who are retired, those who have become disabled and unable to work and to the survivors of workers who have died.

## The Vital Role of Social Security for Communities of Color

In communities of color, retirees on Social Security are likely to rely on Social Security for a large share of their income. Among all beneficiaries 65 and older, 42% of single persons and 22% of married couples relied on Social Security for almost all (90% or more) of their total income in 2006 (page 7).

- Among African-Americans, the figures were 54% for single persons and 33% for married couples.
- Among Hispanics, the figures were 62% for single persons and 37% for married couples.
- Among Asian Americans and Pacific Islanders, the figures were 55% for single persons and 27% for married couples.
- Among Indians and Alaskan Natives, the figures were 61% for single persons and 25% for married couples (page 7).

The report is based on a July 11, 2007, meeting in New York at Ford Foundation headquarters. The National Academy of Social Insurance (NASI) prepared the report. NASI is a non-partisan non-profit organization dealing with Social Security, Medicare, and other social insurance programs. Its mission is to promote understanding and informed policymaking on social insurance through research, public education, training, and the open exchange of ideas.

Organizations supported by the Ford Foundation reported on their research and outreach activities on Social Security. The organizations include: the Center for Policy Research on Aging, UCLA; the Center for Retirement Research at Boston College; the Center on Budget and Policy Priorities; the Employee Benefit Research Institute; Global Justice Now; the Institute for Women's Policy Research; the Joint Center for Political and Economic Studies; the National Council of Negro Women; the National Council of LaRaza; the Peterson Institute for International Economics; the Urban Institute; and NASI.

## Excerpts from the Report

### The Value of Social Security

*The insurance features of Social Security are increasingly important as pensions shift to individual accounts that expose workers to more risks.*

- Michael J. Graetz, Yale Law School Professor, Former Treasury Official

*Social insurance principles are part of the social fabric of America. Few other policy debates are as important to the wellbeing of middle- and low-income workers and families.*

- Robert Greenstein, Center on Budget and Policy Priorities

*Social Security is the best expression of community in America.*

- Senator Bill Bradley as quoted by Kenneth Apfel, former Commissioner of Social Security

*Social Security means I don't have to negotiate with my wife each month about how much we should send to her parents versus how much we should send to mine.*

- Dallas Salisbury, CEO, Employee Benefit Research Institute

### Importance for All Americans

*Social Security's insurance features protect families against loss of income due to a workers' death or disability and protect retirees against financial risks they can not control: inflation, market slumps, living longer than expected, and depleting savings to pay for a spouse's final illness or other emergencies.*

- Michael J. Graetz, Yale Law School, NASI Study Panel Co-Chair

*The United States has a much larger stock of private pension funds than exists in other countries. However, the stock of private pension wealth is held overwhelmingly by the upper income segment in the U.S. and will not provide retirement support for most Americans.*

- Martin L. Baily, Peterson Institute for International Economics

*Social Security wealth is far more equally distributed – across racial and ethnic groups and between high- and low-income households – than is wealth from pensions and other financial assets....Social Security and Medicare are the most important financial assets for most Americans. Public discussion and education about these programs are essential.*

- Bob Rosenblatt, former reporter, *Los Angeles Times*, Senior Fellow, NASI

### Importance for Vulnerable Groups

*Social Security benefits for children are particularly vital in the African American community, where working parents face higher chances of dying or becoming disability before retirement age.*

- Center on Budget and Policy Priorities

*Social Security's progressive benefits provide a significant income boost for lower earning African Americans and its steady, inflation-adjusted benefits are important for keeping families out of poverty when faced with tragic circumstances like disability, death, or retiring without any other form of income support.*

- Maya Rockey Moore, Global Justice and Black Student Network

*Latino elders enter their retirement years with little wealth and rely heavily on Social Security. Without it, they would be living at a Depression-era poverty level.*

- UCLA Center for Policy Research

*Because women earn less than men, work for fewer years, have less in savings, and get smaller pensions, Social Security is a lifeline to a secure retirement.*

- Heidi Hartmann, Institute for Women's Policy Research

*Given the relatively higher stakes that African Americans with lower incomes have in the Social Security system, work needs to be done to engage this group in educating themselves about Social Security, proposals to reform it, and potential ways to prepare for retirement.”*

- Joint Center on Political and Economic Studies

*Latinos have a great deal at stake in the debate over the future of Social Security. Latinos benefit greatly from the insurance that Social Security provides – but that is not widely known, within the general population or the Latino community.*

- Fernando Torres-Gil, UCLA Center for Policy Research

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## **Affordability of Social Security**

*Cuts in taxes on individual and corporate income, capital gains, and inheritances that were enacted in 2001 and 2003 would, if made permanent, create a gap in federal revenues that is three times the size of the Social Security financing gap over the next 75 years.*

- Center on Budget and Policy Priorities

*As a share of the total economy, spending for Social Security benefits when boomers are retired will grow less than spending for public education when boomers were children.*

- National Academy of Social Insurance

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