

Demystifying the Deficit, Social Security Finances, and Commissions

Remarks by Ashley Carson

OWL-The Voice of Midlife and Older Women

I was invited here today to talk about the American people -- specifically, the real men, women and children who rely on Social Security for their very survival. I'd like to start with a few stories about some of those real people. My first story is about Eleanor,¹ an 82 year old retired domestic worker, who receives a check from Social Security every month for \$600. This is her sole source of income. Eleanor remembers learning about Social Security at an early age; when she began working, the system was still in its infancy. She also tried to save money for her retirement whenever she could. But Eleanor worked the majority of her life in a variety of part-time domestic jobs in hotels, restaurants, and private homes – jobs that offer low wages and no pensions, and are predominately held by women. The nature of her jobs and her wages meant that Eleanor was unable to save much of her take home pay. Today, she is living hand to mouth. A lot of the women in her generation had husbands to contribute to the household income and retirement savings, but she didn't. She always worked hard just to keep her head above water.²

A recent poll conducted by NASI showed that the recession has changed the way Americans think about their financial future. Nearly nine in ten Americans say that with the economy as bad as it is right now and Americans having lost so much value in their homes, 401(k)s and other stock holdings, Social Security benefits are more important than ever to ensure that retirees have a dependable income when they retire.³ Undeniably, benefits are modest, but they are better than we had prior to 1935, which was nothing. Older women depend on Social Security because they have to. Without it, more than half of older women would fall into poverty. The reality is that throughout women's lives, they must reconcile their work and life patterns with a retirement system that doesn't respond to their needs. Women's experiences of growing old in America is very different from men's. The financial problems women face are extensions of the problems they face earlier in life. Race, ethnicity, family and work arrangements, and economic resources are the primary influences on the quality of older women's retirement. For women, poverty in old age is often rooted in the realities that shaped their

¹ Name has been changed for privacy

² Social Security Privatization- A False Promise for Women

³ NASI – Economic Crisis Fuels Support for Social Security August 2009

earlier life. The main factors are the wage gap, as I like to say “you can’t save what you don’t “earn”,” (earn of course being in quotation marks because women have traditionally done much of the unpaid work that we continue to undervalue). Other contributing factors are their caregiving responsibilities, and the fact that women more often times take part-time or more flexible jobs that don’t offer benefits – either health or retirement plans. Now, most people have heard of the wage gap – but many people do not understand just how much this can affect a woman over her lifetime. For example – African American women earn only 65 percent of what white men earn. Over a 35 year career, that’s an average \$420,000 less to save or invest for retirement. For Latinas it’s even worse. The wage gap continues to ensure that women will consistently have a lower retirement income than the average man.

As of January 2009, the average retired worker benefit was \$1,155 per month or \$13,860 annually⁴; however this annual average drops by about \$2,000 for older single women. If seniors had to rely only on their non-Social Security income other, 50% of seniors would be poor. With Social Security, less than one senior in ten is poor. So, not only is Social Security an anti-poverty program, but the benefits are critical to middle and upper middle income elders.

My second story is about Anita. Anita, a 25 year old management analyst, has already reaped the benefits of Social Security. Although people sometimes assume Social Security is only financially beneficial for individuals 65 and over, Anita started receiving survivors benefits when her mother died of heart failure when Anita was only 15. Anita’s grandmother became her legal guardian at that point. Now, Anita’s grandmother didn’t expect to be raising another child in her senior years and as a result she relied heavily on the monthly Social Security check to supplement her own retirement savings and her own benefits in order to raise Anita. Because of these benefits, Anita was able to attend college -- without them, there was no way her grandmother would have the financial ability to send her to college.

So, in addition to retiree benefits, Social Security, in fact, provides critical life insurance and disability protection for working families. The Social Security actuaries estimate that 39% of young men and 30% of young women will die or become disabled before reaching retirement age. Much higher percentages than most of us realize. So, in real terms, what does this mean? Well, it means that for a young family, with a 30 year old worker earning from \$27,000-\$30,000 annually with a spouse and two young children, the Social Security disability and life

⁴ Fixing Social Security: Adequate Benefits, Adequate Financing – NASI October 2009

insurance protection are each valued at over \$450,000. About 6.5 million children under the age of 18 receive part of their family income from Social Security, which in effect lifts 1.3 million children out of poverty.

Now, that we've heard how important these benefits are to the people receiving them, I'd like to turn back to some of the points Nancy made in her remarks. First, if Social Security were a private company, its shareholders would be very pleased, as it ran a surplus of \$180 billion last year and accumulated a reserve of \$2.4 trillion. This is the only government program to run a surplus! Second, Social Security is insurance, flowing from the core American value that you work hard, pay into the system, and you eventually receive a benefit if and when the insured event occurs – lost wages in the event of death, disability, or old age. Third, with absolutely no action benefits can be continued to be paid, in-full until 2037 and at that point with no action, benefits will only be slightly reduced. I have to admit, that I come from one of the younger generations who grew up believing, thanks to a few major campaigns to privatize Social Security, that Social Security wouldn't be there for me. In fact, I don't think I've met a single person under 40, who didn't grow up believing that Social Security wouldn't exist when they reached age 65. Even more shocking is that I didn't know the real story about Social Security until I moved to Washington, to work on economic security policy for older women. To me, this means that we economists, advocates and educators have a lot of work to do, and with the impending threat of a commission, very quickly.

So, in addition to educating young people about the truth, how can we make Social Security an even more solid program than it already is? According to the recent poll done by NASI large majorities of Americans say that they don't mind paying Social Security taxes, because it helps millions of other people -- and they know they will probably need it someday. Because of this, many of them are willing to contribute more to the program in order to ensure its future. Seventy seven percent of people polled, agree that it is critical to preserve the program for future generations even if it means increasing working Americans' contributions. Two out of three Americans agree that we should increase Social Security benefits because millions of Americans have lost savings and pensions in the current economic crisis.

The National Academy has recently released this issue brief which provides dozens of options to restore Social Security make it even more adequate. Social Security's projected shortfall can be restored to balance by increasing its revenue, decreasing its outgo, or some combination of the two. Not all increases in revenue involve Americans paying more. For example, many experts have proposed

increasing the return on the investment reserve. This could be done by allowing SS to invest a small part of its reserve in broadly based indexed stock funds. This would eliminate about one-fifth of the shortfall. Another alternative is to raise the cap so higher levels of wages are insured for SS purposes. Congress could lift the Social Security cap so that Social Security insures all wages and all workers pay the same contribution rate, regardless of income – this eliminates almost the entire shortfall --83% of people polled supported this reform.

Another option would be to dedicate the estate tax, solely to Social Security – this option, favored by 70% of individuals polled, reduces the deficit by about one quarter. These ideas are in stark contrast to other options such as raising the retirement age only supported by 31% of those polled and reducing benefits only supported by 11% of people polled. This may come as a surprise, given that those are usually the only two options you hear about. Not only is cutting benefits extremely unpopular, but it is poor policy. Indeed, given the continued and even increasing importance of Social Security 88% percent of those polled say it is more important than ever – I think we should be increasing benefits, and the NASI issue brief provides many options for how this can be done at a modest cost.

In closing, I want to remind you that there is a very strong sense among the American public that Congress needs to act in order to secure this program for future generations, but at the same time, emphasize that the program remains strong. As a country, we need to think very long and hard before we continue lump Social Security in with Medicare and Medicaid – when the problems are completely different. To do so, continues the cycle of people not understanding how Social Security operates, how it is financed, and its underlying pact with the American people to provide greater financial stability in your most vulnerable years or when tragedy strikes. As we try to determine the best route for the long term solvency of Social Security, I urge all of you to think about the real people, the widows, children, and older men and women who rely on this income to pay for their most basic needs. Any reduction in benefits, to ultimately lengthen the solvency of an already solvent program – will hurt them and that goes against core American values. Thank you for your time and I look forward to your questions.