



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

National Academy of Social Insurance • www.nasi.org
October 2015



What is
Social Security?

How Many People Receive Social Security?

- 59 million people receive Social Security each month, in one of three categories:
 - Retirement insurance
 - Survivor 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?

- 39.7 million *retired workers*
- 8.9 million *disabled workers*
- 4.2 million *widows and widowers*
- 2.5 million *spouses*
- 1.0 million *adults disabled since childhood*
- 3.1 million *children*

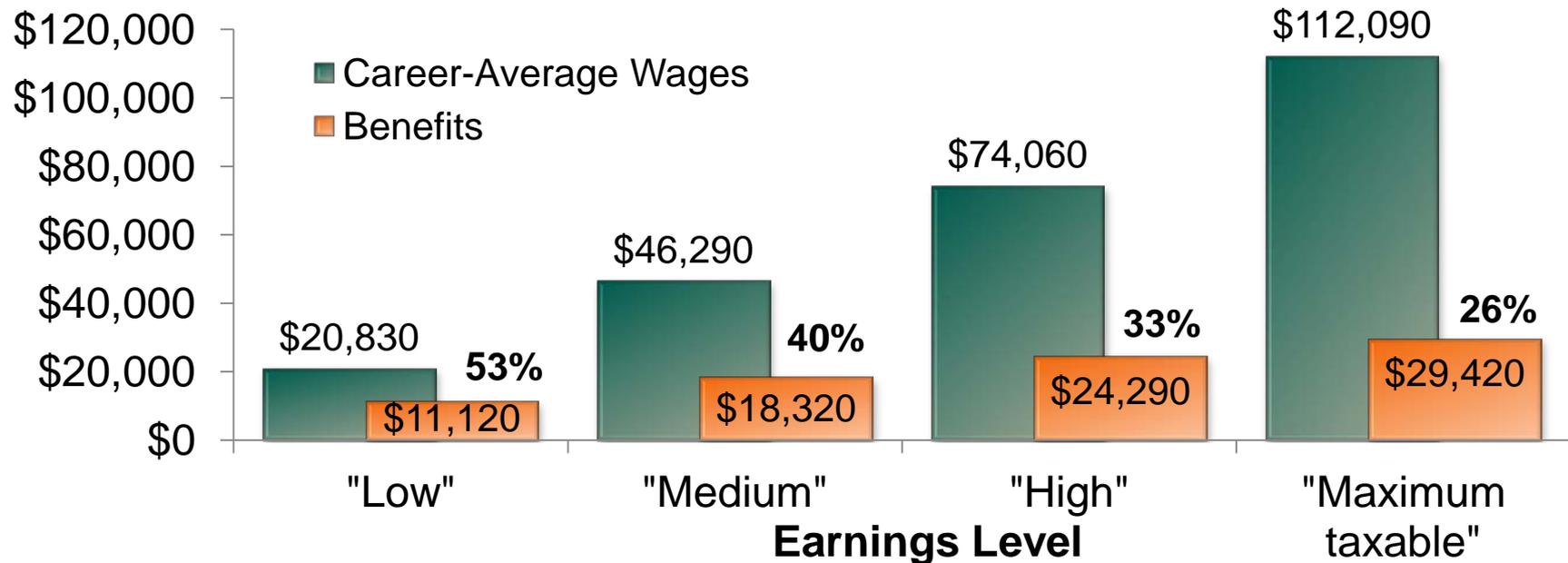
How Much Does Social Security Pay?

(July 2015)

By Beneficiary Type:	Average Monthly Benefit	Average Yearly Benefit
Retired workers	\$1,336	\$16,032
Disabled workers	\$1,165	\$13,980
Widows or widowers (60 or older)	\$1,282	\$15,384
By Family Type:		
Retired worker and spouse (62 or older)	\$2,196	\$26,352
Widowed mother or father (under 60) and two children	\$2,631	\$31,572
Disabled worker and one or more children	\$1,785	\$21,420

How Do Benefits Compare to Earnings?

Replacement Rates for Retired Worker Age 65, 2015



Source: Social Security Administration. 2015. "Replacement Rates For Hypothetical Retired Workers." Actuarial Note #2015.9. Baltimore, MD: Social Security Administration, Office of the Chief Actuary.

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

- 86% of people 65 and older get Social Security.
- Nearly 2 in 3 (65%) get *half or more* of their income from Social Security.
- About 1 in 3 (36%) get *almost all (90% or more)* of their income from Social Security.

Reliance on Social Security By Race and Gender

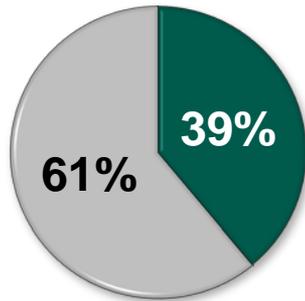
Percent of beneficiaries age 65 and older
whose Social Security benefits make up:

By Race:	<i>Half or more</i> of their income	<i>90% or more</i> of their income
White	64%	35%
Black	72%	46%
Asian	67%	44%
Hispanic	74%	53%
By Gender:		
Married couples	52%	22%
Unmarried women	77%	49%
Unmarried men	67%	40%

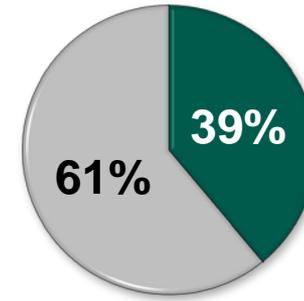
Most Elderly Don't Receive Pensions

Percent with Income from Pensions, 2012

All Age 65+

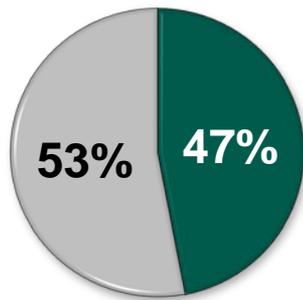


Unmarried Men

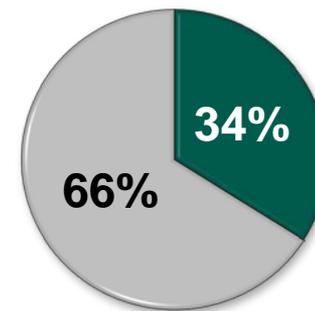


■ Pension
■ No pension

Couples



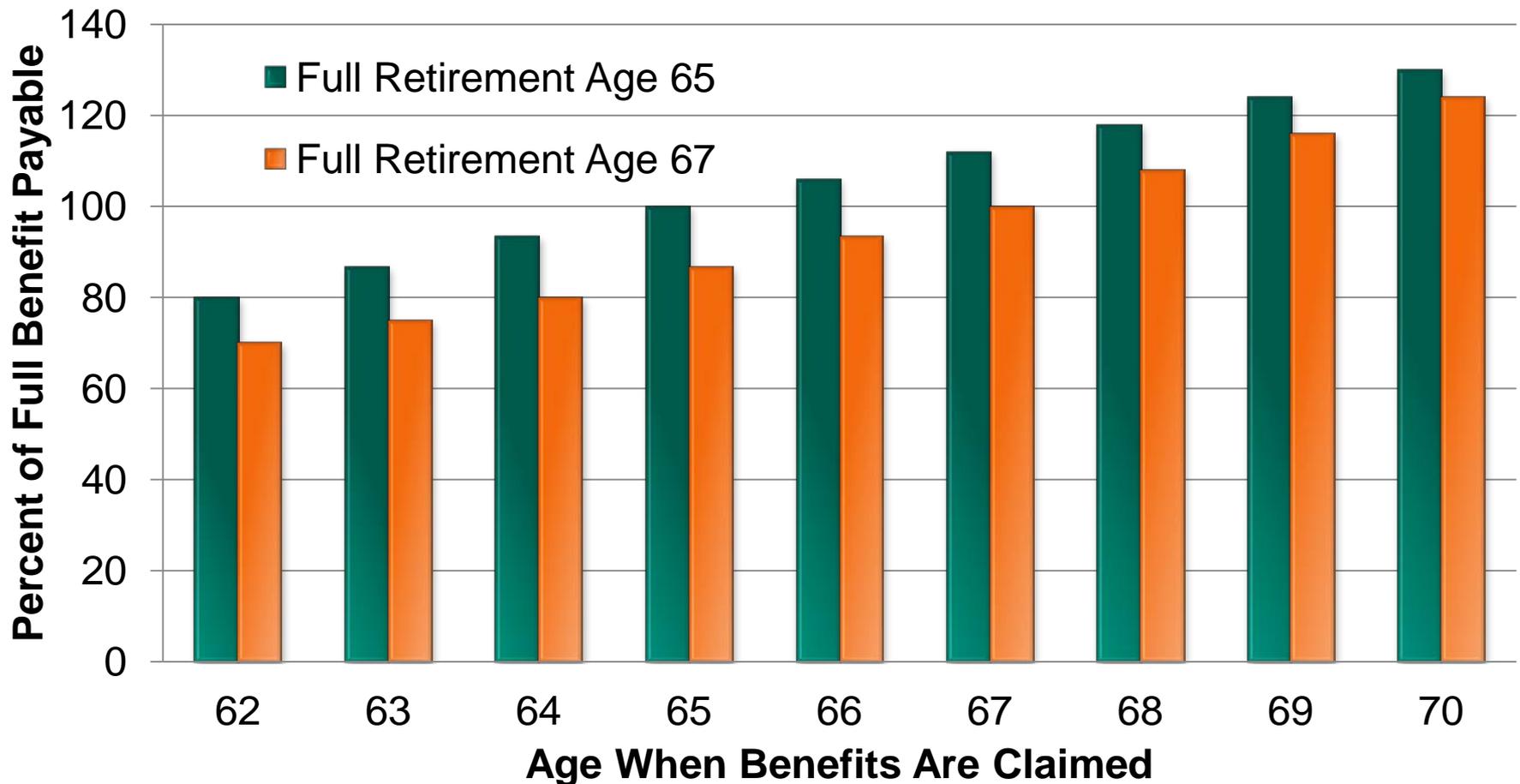
Unmarried Women



How Are Benefits Projected to Change in the Future?

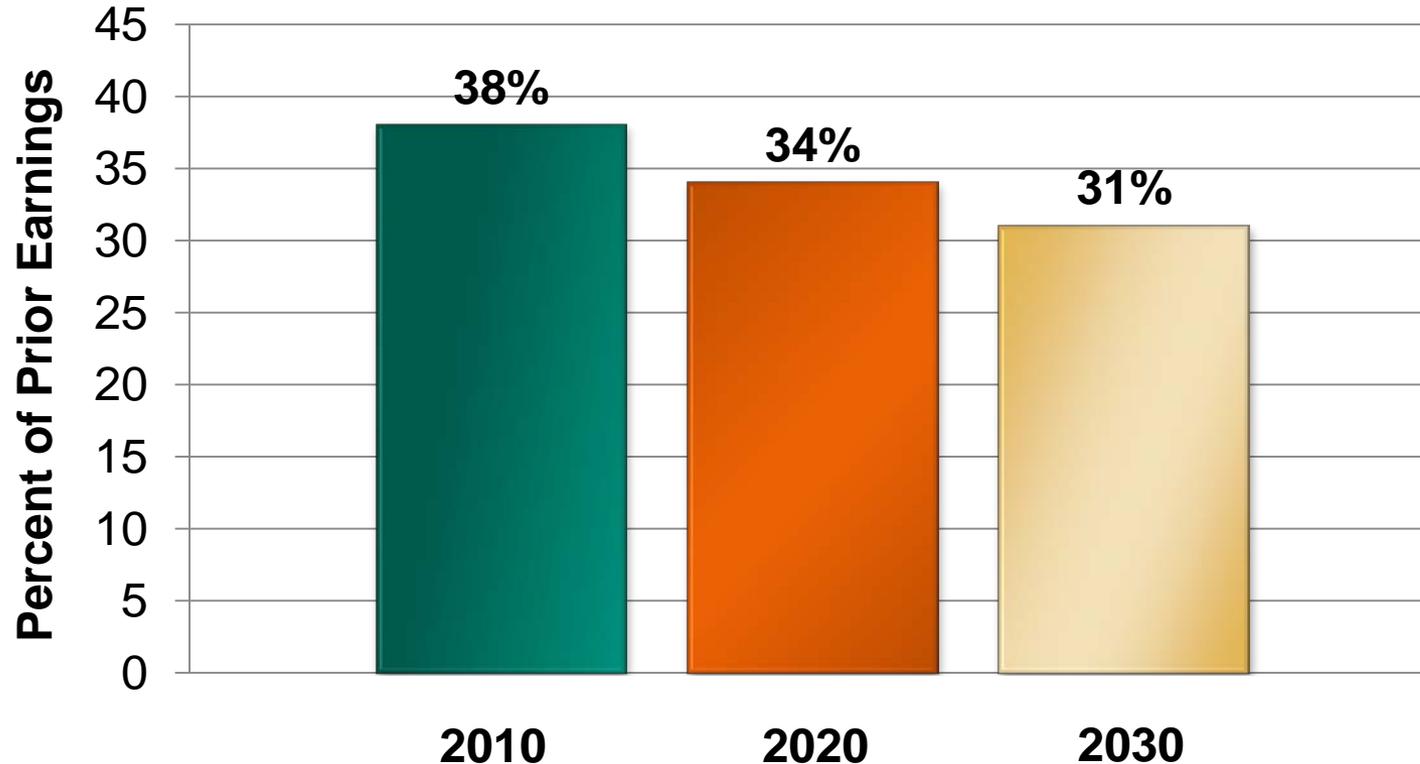
- Benefits will grow faster than prices, but slower than wages.
- The increase in the full-benefit retirement age from 65 to 67 between 2002 and 2027 means that benefits will replace a smaller share of retirees' past earnings.

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

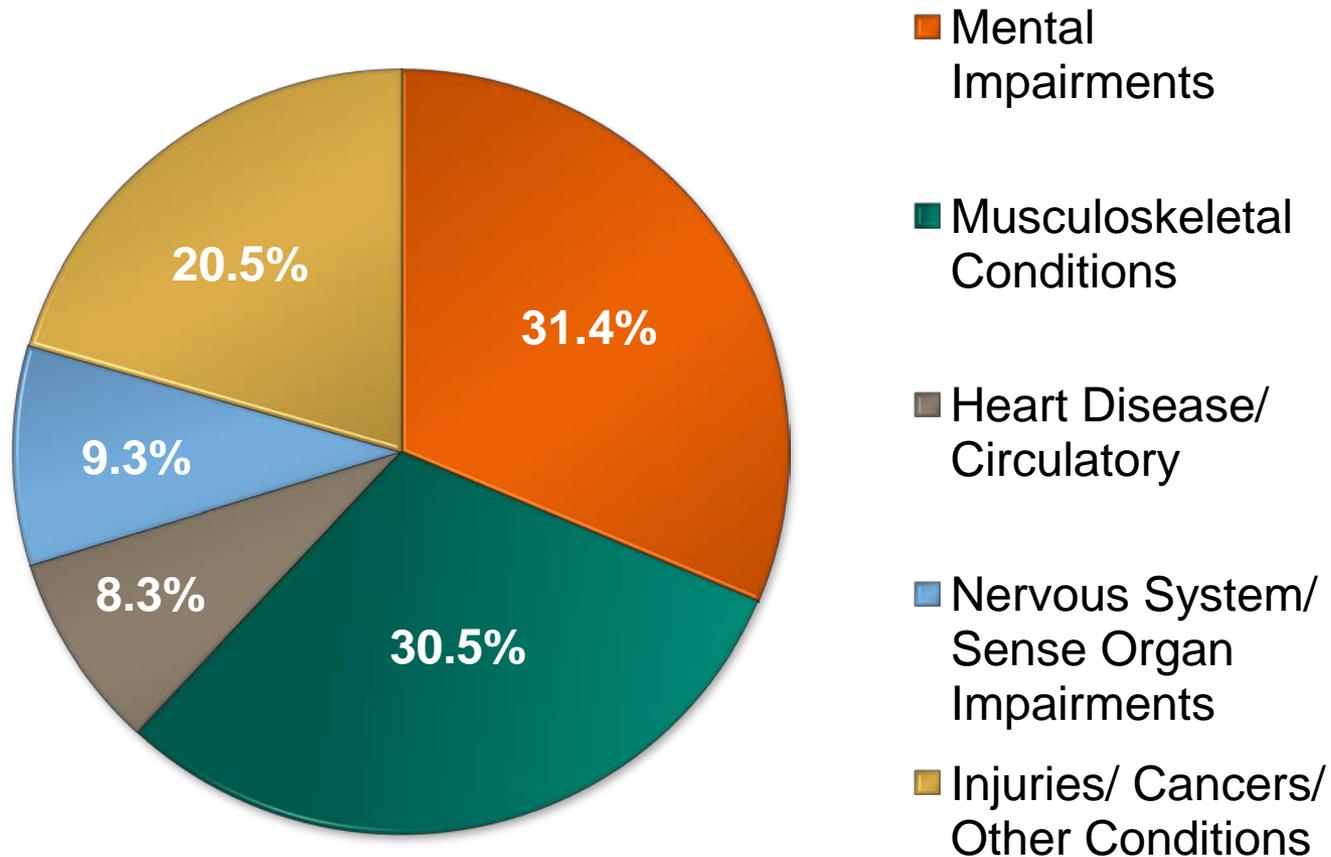


What is Social Security Disability Insurance?



- Disability Insurance (DI) pays monthly benefits to 8.9 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 percent of the poverty threshold.
- Disabled worker beneficiaries are more likely than other adults to be:
 - Older (the average age of disabled worker beneficiaries is 53, and 7 in 10 are over 50).
 - African-American.
 - Lower educational attainment (more than half have only a high school diploma or less; almost 15% 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 Pay?

- Workers pay:
 - 6.2% of their earnings for Social Security, and
 - 1.45% of their earnings for Hospital Insurance (HI) under Medicare (Part A).
- Employers pay an equal amount (6.2% and 1.45%).
- The total is **12.4% for Social Security** and **2.9% for HI**.
- The maximum Social Security contribution base is **\$118,500** in 2015.

Where Does the Money Go?

- It is credited to the Social Security trust funds. Of the 6.2% tax rate:
 - 5.3% goes to the **retirement and survivor insurance fund**
 - 0.9% 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



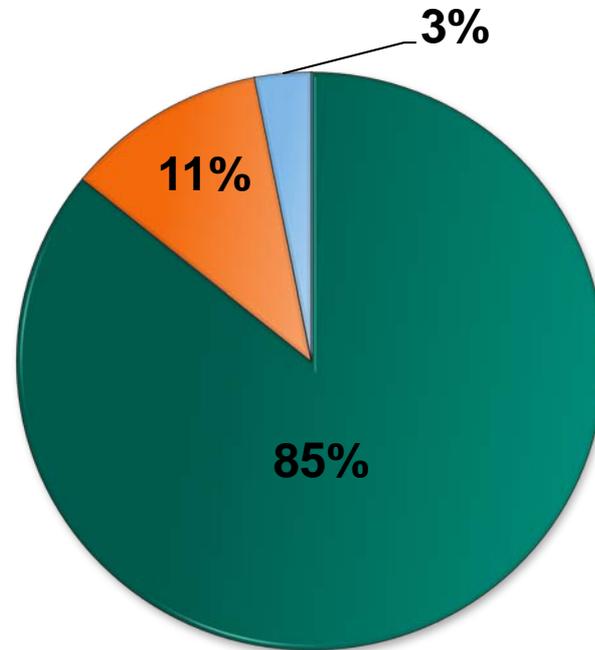
2014 Finances

Trust fund income =	\$884.3 billion (mostly contributions)
Trust fund outgo =	\$859.2 billion (mostly benefits)
Surplus =	<hr/> \$25 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, 2013



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

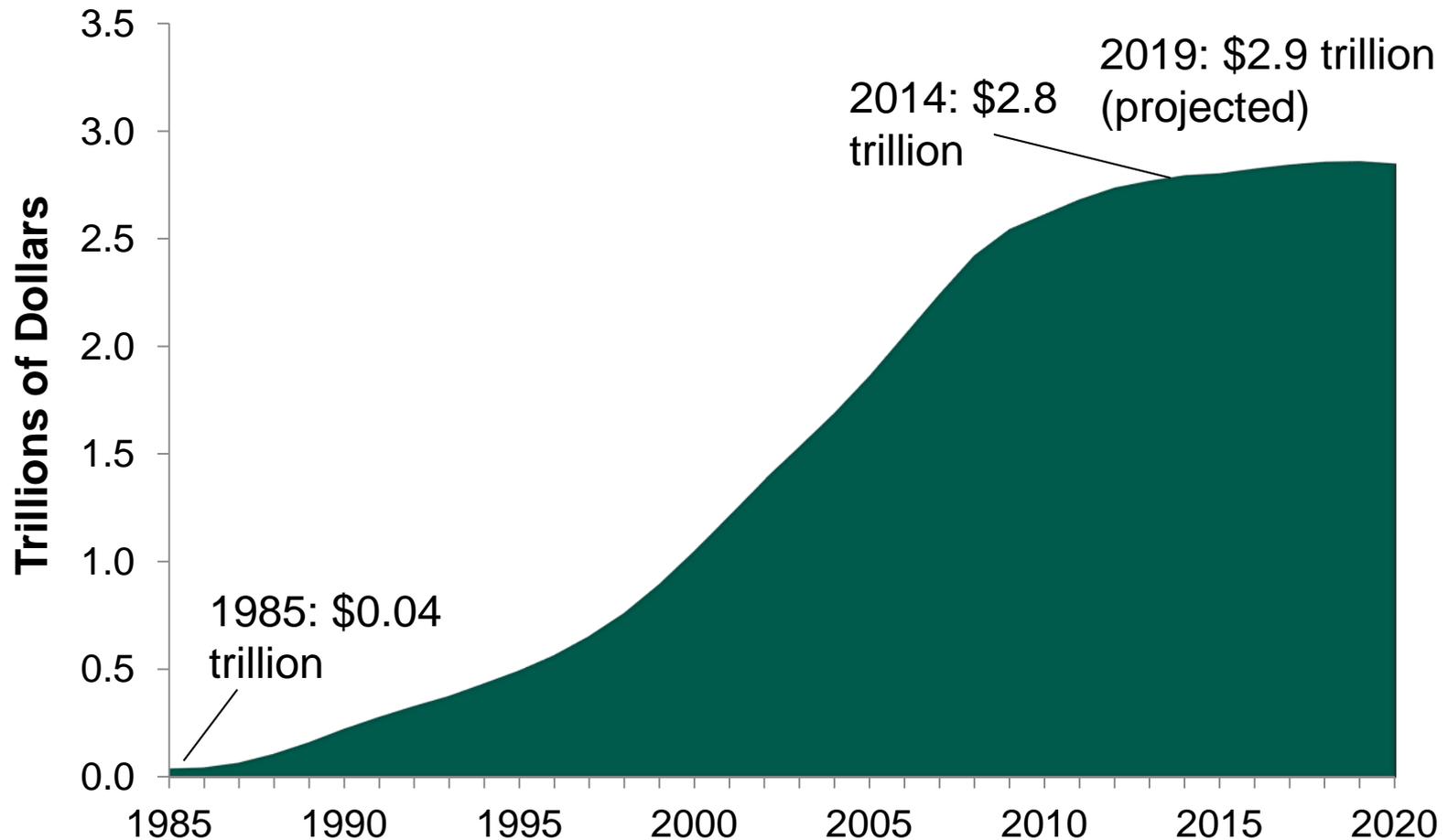
What are Social Security Reserves, or Assets?

- 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 of the United States.

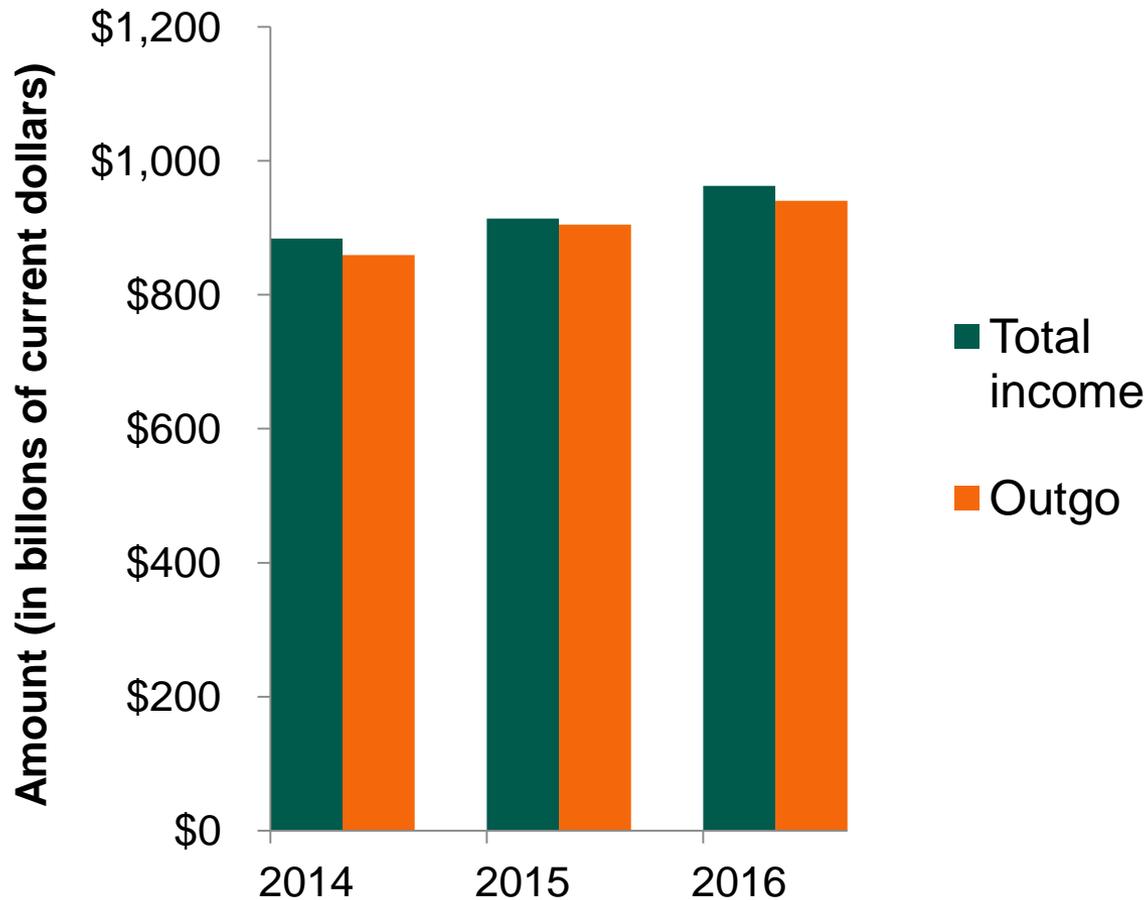
Disability Insurance Projections

- By law, Social Security has two separate trust funds:
 - **Disability Insurance (DI)** trust fund
 - **Old-Age and Survivors Insurance (OASI)** trust fund
- Without prior Congressional action, the DI trust fund is projected to be depleted in late 2016.
- Congress could *reallocate* part of the existing 6.2% tax rate from OASI to DI, which would equalize the status of the two funds.

How Big are Social Security Trust Fund Assets?



What is the “Cash Flow” Balance for Social Security?



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 (best estimate).

The Long-Range Projection (Best Estimate)

- In 2020, revenues plus interest income to the trust funds will be less than total expenditures for that year. Reserves will start to be drawn down to pay benefits.
- In 2034, trust fund reserves are projected to be depleted. Income is projected to cover 79% of benefits due then.
- By 2088, assuming no change in taxes, benefits or assumptions, revenue would cover about 73% of benefits due then.

Other Scenarios

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



High Cost:
Trust fund
reserves would
be depleted in
2028, instead
of 2034.



The Actuarial Deficit (Best Estimate)

The long-range deficit is 2.68% of taxable payroll.

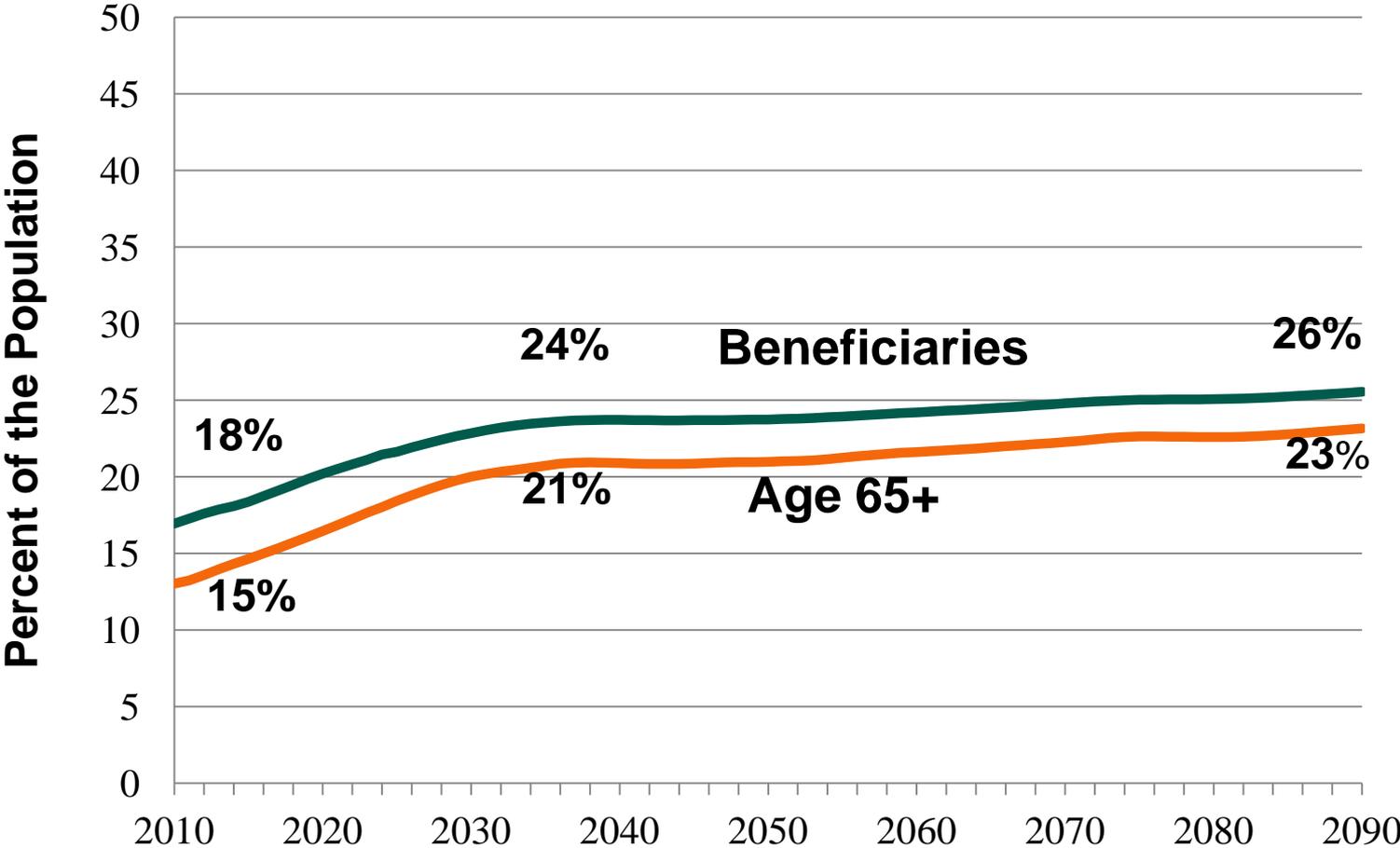
This Means:

The gap would be closed if the Social Security contribution rate were raised from 6.2% to 7.6% for workers and employers each.

Why Will Social Security Cost More in the Future?

- The number 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 14% to 23% of all Americans by 2090.

Percent of the Population Receiving Social Security and Percent Age 65+, 2010-2090



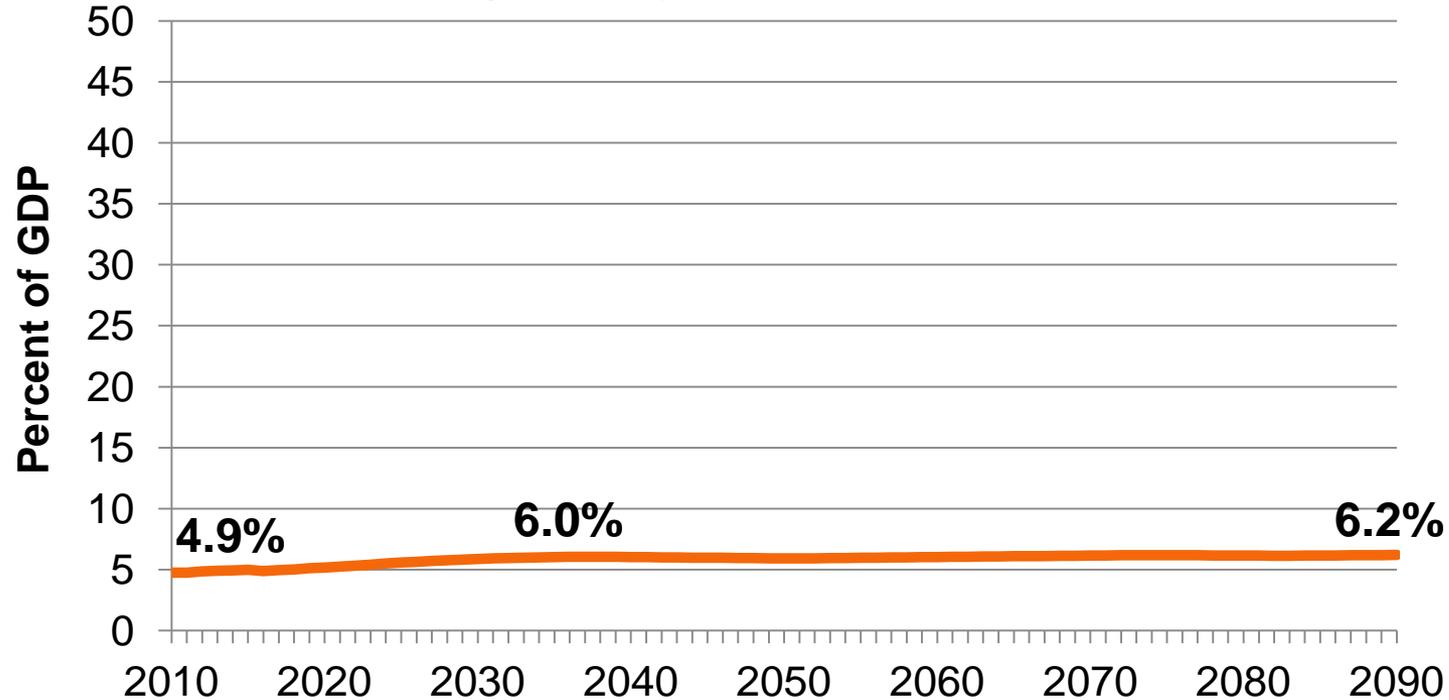


**Can We Afford
Social Security
in the Future?**

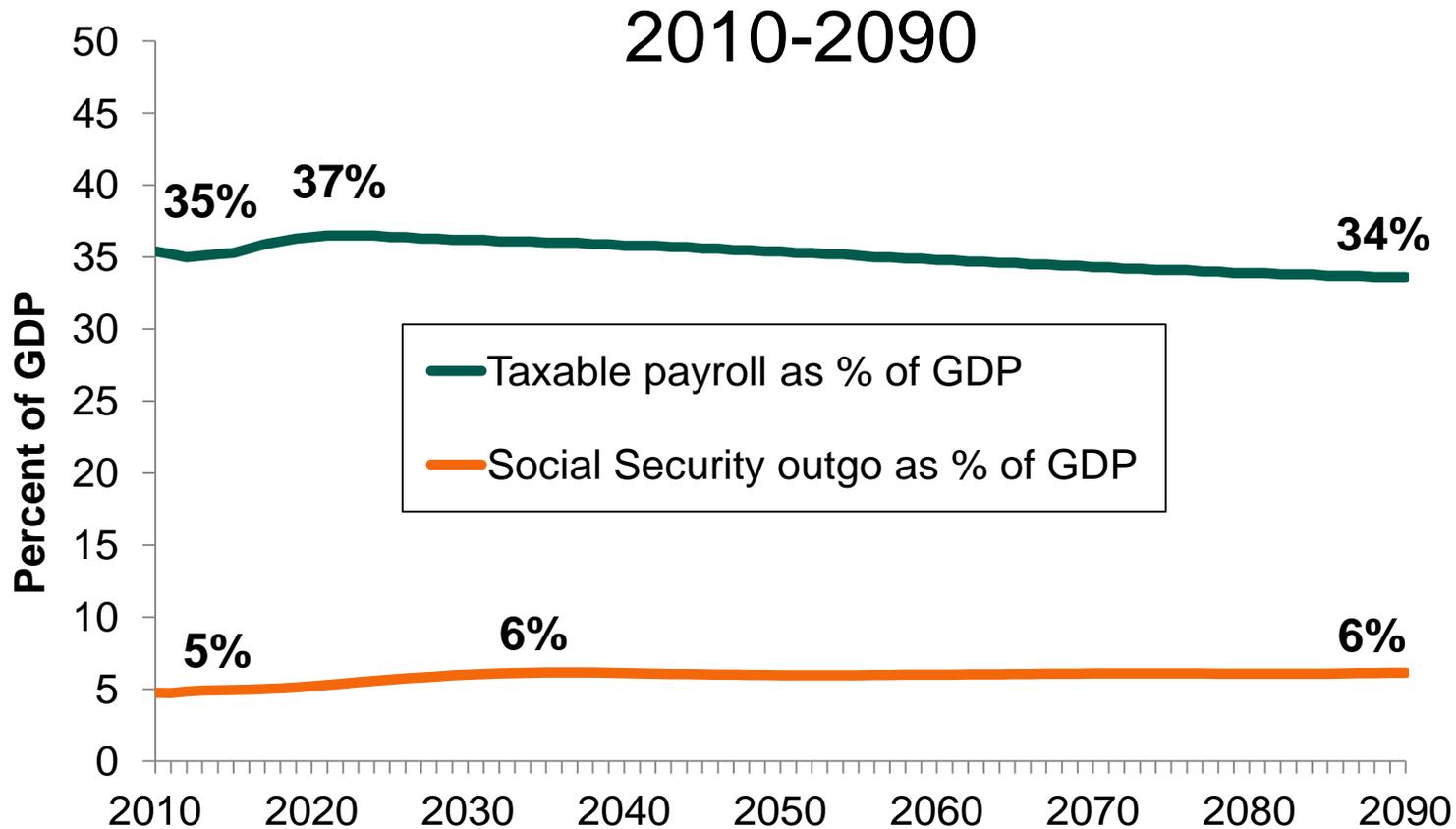


Social Security in the Broader Economy

Social Security as a Percent of the Economy (GDP), 2010-2090



Taxable Payroll and Social Security Outgo as a Percent of the Economy (GDP)





Strengthening Social Security





Low-Cost Options to Improve Adequacy

Options that would improve the adequacy of benefits include:

- 1) Update the special minimum benefit to ensure that long-serving, low-paid workers can remain out of poverty when they retire.
- 2) Reinstate student benefits until age 22 for children of disabled or deceased workers (currently, benefits for these children stop at age 18-19).
- 3) Allow childcare years to count towards Social Security benefits.
- 4) Increase benefits for the “oldest old” (ages 85 and older).
- 5) Increase benefits for widowed spouses of low-earning couples.

Options for Raising Revenues

Options that would help raise revenues include:

- 1) Lift the cap (now \$118,500) on the earnings on which workers and employers pay Social Security contributions.
- 2) Cover all salary reduction plans (contributions subject to FICA), just like 401(k)s.
- 3) Schedule modest contribution rate increases in the future when funds will be needed.
- 4) Dedicate progressive taxes to pay part of Social Security's future cost.

Other Options for Solvency

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

- For example, raising the retirement age amounts to an across-the-board cut in benefits, which also reduces the program's cost.
- Switching to the chained CPI is also a benefit cut for all beneficiaries, because Social Security's cost-of-living adjustments (COLAs) would be smaller each year.



Public Opinion
on Social Security



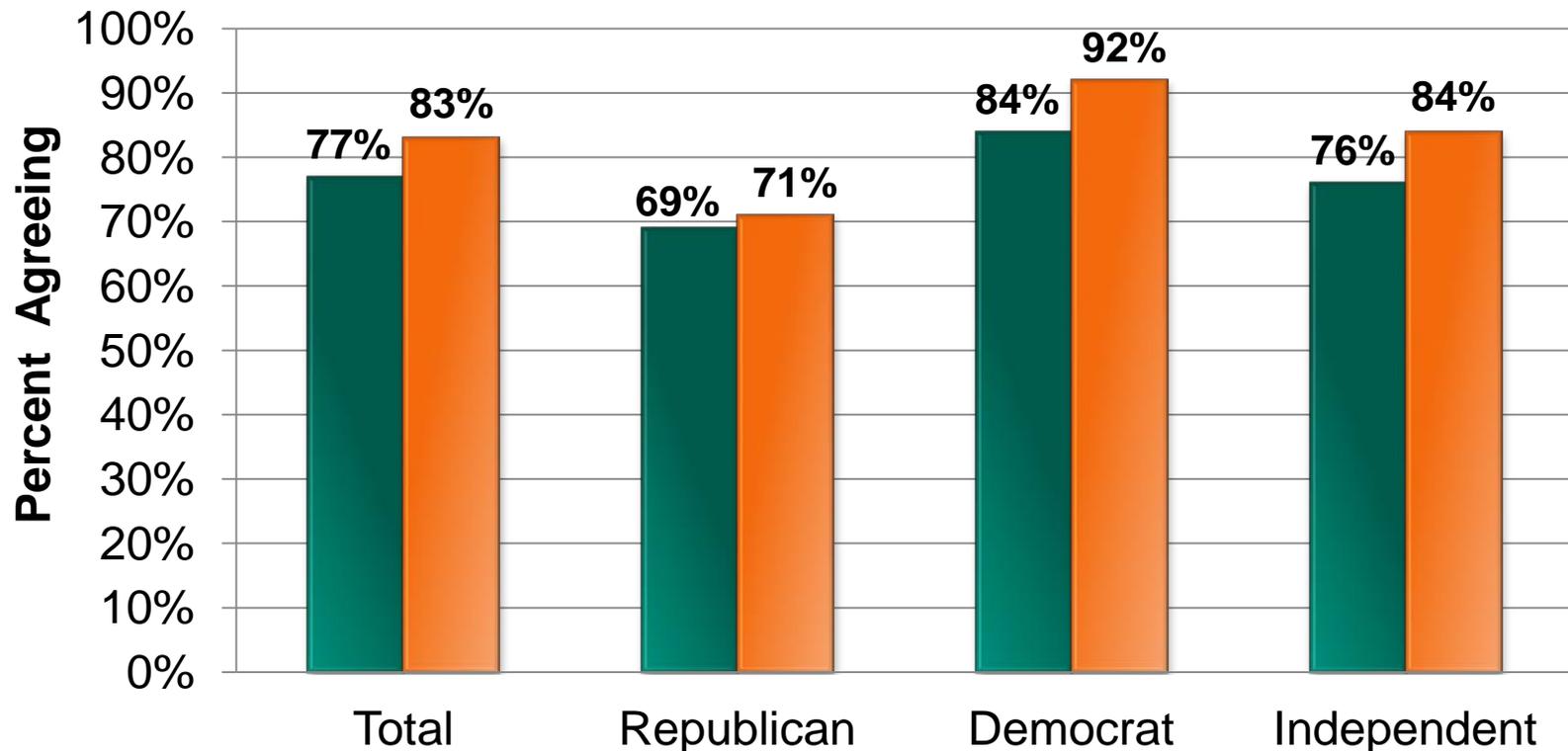
Consistent Findings Throughout the Study

- In focus groups, Americans were concerned about benefits being too low.
- In the survey, Americans said they don't mind paying for Social Security and are willing to pay more.
- In the trade-off analysis, the preferred package would:
 - Gradually **increase taxes** in two ways – for high earners and for all workers.
 - **Increase benefits** in two ways – for low earners and for all beneficiaries via the COLA.

Majorities of Republicans, Democrats, and Independents Agree

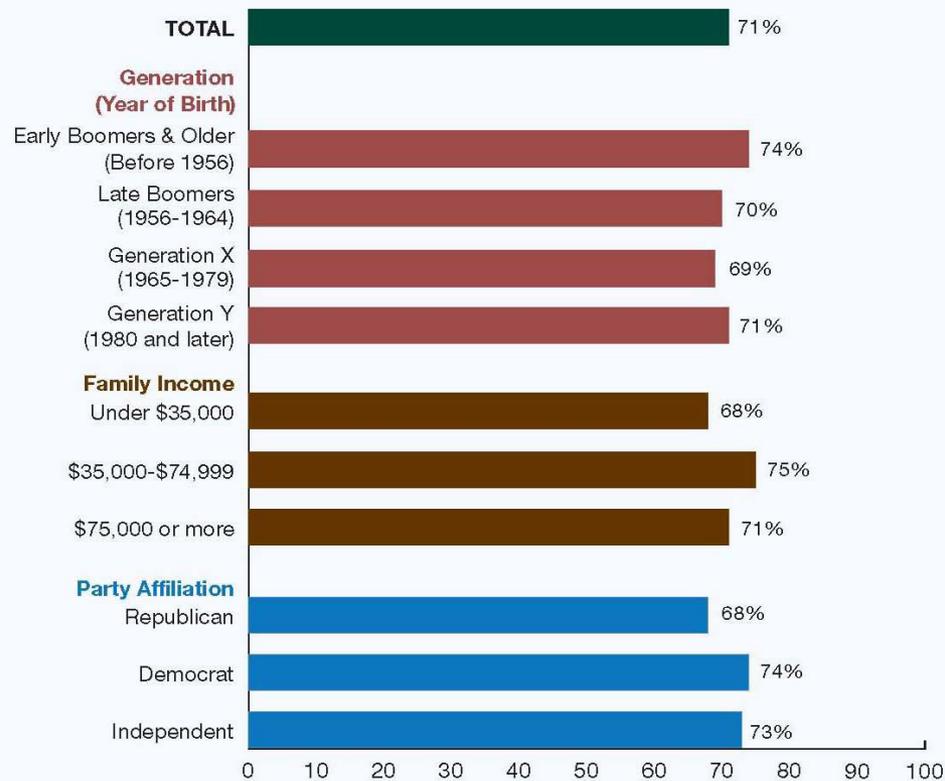
Percent agreeing: It is critical that we preserve Social Security for future generations, even if it means ...

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



Support for the Preferred Package of Policy Options in Trade-off Analysis

Figure 1. **Support for the Preferred Package of Policy Options in Trade-Off Analysis**



Source: National Academy of Social Insurance Survey, June 2014

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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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