Social Security Benefits, Finances, and Policy Options

A Primer

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What is 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.

Social Security Administration (SSA), 2015a; National Academy of Social Insurance, 2015.
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

SSA, 2015a.

#### By Beneficiary Type:

<table>
<thead>
<tr>
<th>Type</th>
<th>Average Monthly Benefit</th>
<th>Average Yearly Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retired workers</td>
<td>$1,336</td>
<td>$16,032</td>
</tr>
<tr>
<td>Disabled workers</td>
<td>$1,165</td>
<td>$13,980</td>
</tr>
<tr>
<td>Widows or widowers (60 or older)</td>
<td>$1,282</td>
<td>$15,384</td>
</tr>
</tbody>
</table>

#### By Family Type:

<table>
<thead>
<tr>
<th>Type</th>
<th>Average Monthly Benefit</th>
<th>Average Yearly Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retired worker and spouse (62 or older)</td>
<td>$2,196</td>
<td>$26,352</td>
</tr>
<tr>
<td>Widowed mother or father (under 60) and two children</td>
<td>$2,631</td>
<td>$31,572</td>
</tr>
<tr>
<td>Disabled worker and one or more children</td>
<td>$1,785</td>
<td>$21,420</td>
</tr>
</tbody>
</table>

How Do Benefits Compare to Earnings?

Replacement Rates for Retired Worker Age 65, 2015


SSA, 2015c.
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

<table>
<thead>
<tr>
<th>By Race:</th>
<th>Half or more of their income</th>
<th>90% or more of their income</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>64%</td>
<td>35%</td>
</tr>
<tr>
<td>Black</td>
<td>72%</td>
<td>46%</td>
</tr>
<tr>
<td>Asian</td>
<td>67%</td>
<td>44%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>74%</td>
<td>53%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>By Gender:</th>
<th>Half or more of their income</th>
<th>90% or more of their income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married couples</td>
<td>52%</td>
<td>22%</td>
</tr>
<tr>
<td>Unmarried women</td>
<td>77%</td>
<td>49%</td>
</tr>
<tr>
<td>Unmarried men</td>
<td>67%</td>
<td>40%</td>
</tr>
</tbody>
</table>

Most Elderly Don’t Receive Pensions

Percent with Income from Pensions, 2012

- All Age 65+
  - 61% with Pension
  - 39% No pension

- Couples
  - 53% with Pension
  - 47% No pension

- Unmarried Men
  - 61% with Pension
  - 39% No pension

- Unmarried Women
  - 66% with Pension
  - 34% No pension

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

Gregory et al., 2010.
Medium Earner’s Replacement Rate at 65 (after Medicare Parts B & D premiums and taxation of benefits)

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent of Prior Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>38%</td>
</tr>
<tr>
<td>2020</td>
<td>34%</td>
</tr>
<tr>
<td>2030</td>
<td>31%</td>
</tr>
</tbody>
</table>

Munnell, 2013.
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?

- Mental Impairments: 31.4%
- Musculoskeletal Conditions: 20.5%
- Heart Disease/Circulatory: 9.3%
- Nervous System/Sense Organ Impairments: 8.3%
- Injuries/Cancers/Other Conditions: 30.5%

SSA, 2014b: Table 21.
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).

Bailey and Hemmeter, 2015; SSA, 2014b.
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 = $25 billion

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

SSA, 2015d; Board of Trustees, 2015.
Where is Social Security Income From? Shares of Income to the Trust Funds, 2013

- Workers' and employers' Social Security taxes: 85%
- Interest on reserves: 11%
- Income taxes on benefits: 3%

SSA, 2015d.
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.
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?

- 1985: $0.04 trillion
- 2014: $2.8 trillion
- 2019 (projected): $2.9 trillion

Board of Trustees, 2015: Table VI.G8.
What is the “Cash Flow” Balance for Social Security?

Board of Trustees, 2015: Table VI.G8.
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).
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 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.
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.

Board of Trustees, 2015: Tables V.A2 and IV.B3.
Percent of the Population Receiving Social Security and Percent Age 65+, 2010-2090

Percentage of Beneficiaries Age 65+
- 24% around 2030
- 26% around 2090

Percentage of Population Age 65+
- 18% around 2010
- 21% around 2030
- 23% around 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

Percent of GDP

4.9%  6.0%  6.2%

0  5  10  15  20  25  30  35  40  45  50

2010  2020  2030  2040  2050  2060  2070  2080  2090

Board of Trustees, 2014: Table VI.G4.
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 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.
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
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.

Walker, Reno, and Bethell, 2014.
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

Walker, Reno, and Bethell, 2014.
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

Walker, Reno, and Bethell, 2014.
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.
References


References (cont.)


