Social Security Benefits, Finances, and Policy Options

A Primer

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National Academy of Social Insurance • www.nasi.org

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What is Social Security?

How Many People Receive Social Security?

- 55.6 million people receive Social Security each month, in one of three categories:
  - Retirement insurance
  - Disability insurance
  - Survivor insurance
- 1 in 6 Americans gets Social Security benefits.
- About 1 in 4 households receives income from Social Security.

Reno, Walker, and Bethell, 2012; Social Security Administration (SSA), 2012a.

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Who Receives Social Security?

- 35.8 million *retired workers*
- 8.6 million *disabled workers*
- 4.4 million *widows and widowers*
- 2.5 million *spouses*
- 1.0 million *adults disabled since childhood*
- 3.4 million *children*

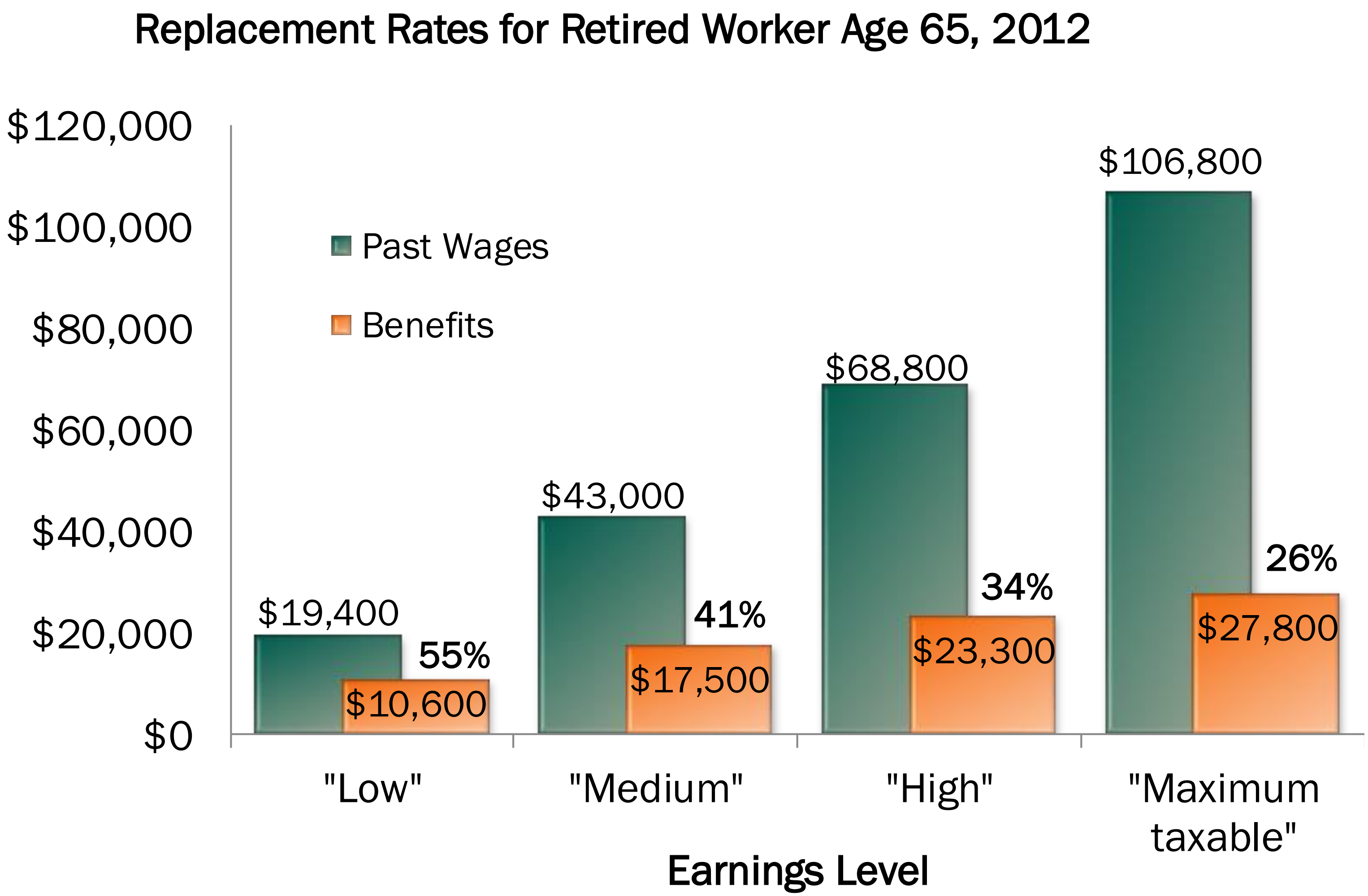
SSA, 2012a.

How Much Does Social Security Pay?
(Jan. 2012)

	Average Monthly Benefit	Average Yearly Benefit
By Beneficiary Type:		
Retired workers	$1,230	$14,760
Disabled workers	$1,110	$13,320
Aged widow or widowers	$1,185	$14,220
By Family Type:		
Retired worker and aged spouse	$1,997	$23,964
Widowed mother and two children	$2,487	$29,844
Disabled worker, young spouse and one or more children	$1,878	$22,536

SSA, 2012a; SSA, 2012b; U.S. Health and Human Services, 2012.

How Do Benefits Compare to Earnings?



Board of Trustees, 2012: Table V.C7.

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

- Nearly 90% 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.

SSA, 2012c: Tables 2.A1 and 9.A1.

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Reliance on Social Security Benefits by Race

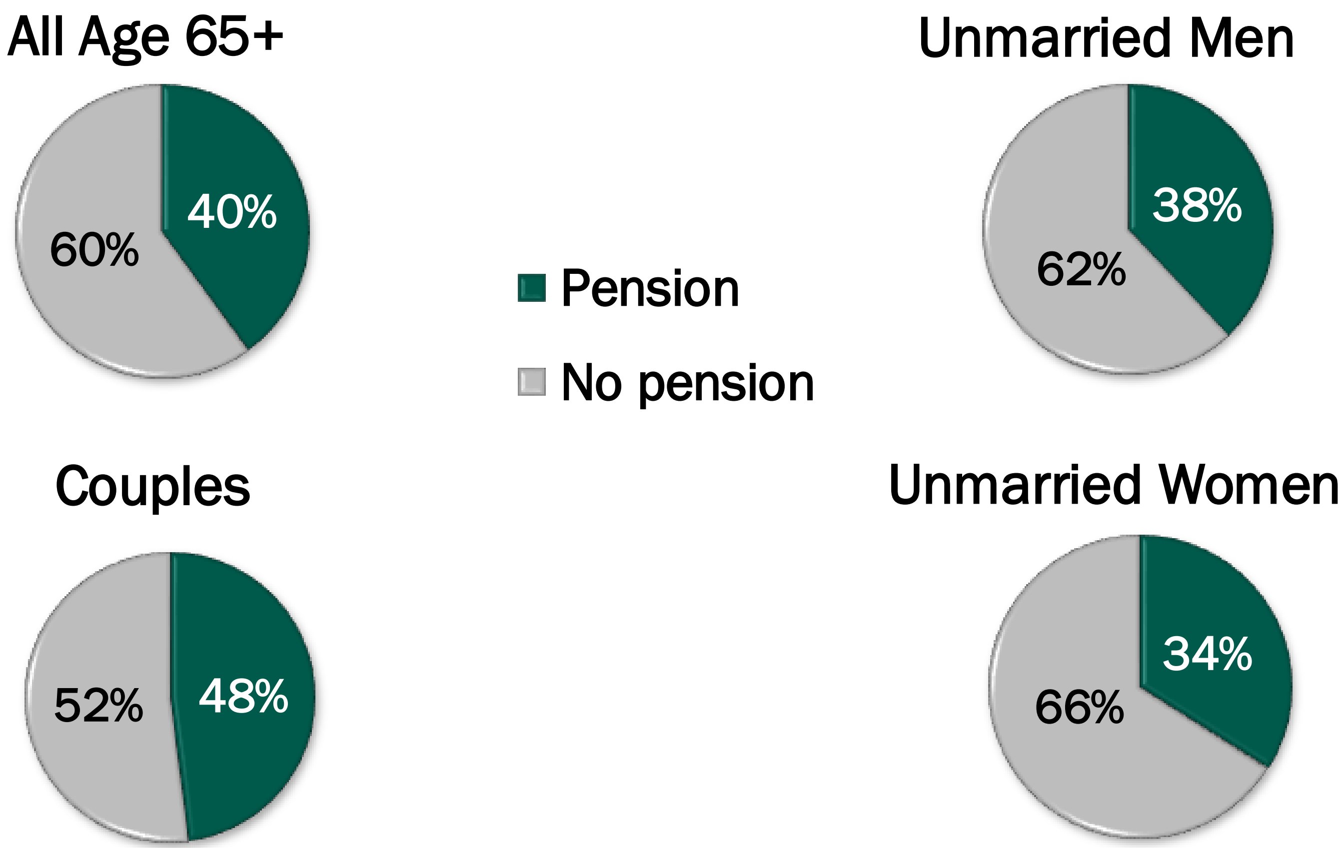
- Percent of beneficiaries age 65 and older who receive ***half or more*** of their income from Social Security:
  - 65% of Whites
  - 74% of Blacks
  - 65% of Asians
  - 77% of Hispanics

- Percent of beneficiaries age 65 and older who receive ***90% or more*** of their income from Social Security:
  - 35% of Whites
  - 49% of Blacks
  - 42% of Asians
  - 55% of Hispanics

SSA, 2012c: Table 9.A3.

Most Elderly Don't Receive Pensions

Percent with Income from Pensions, 2010



SSA, 2012c: Tables 2.A1 and 2.B1.

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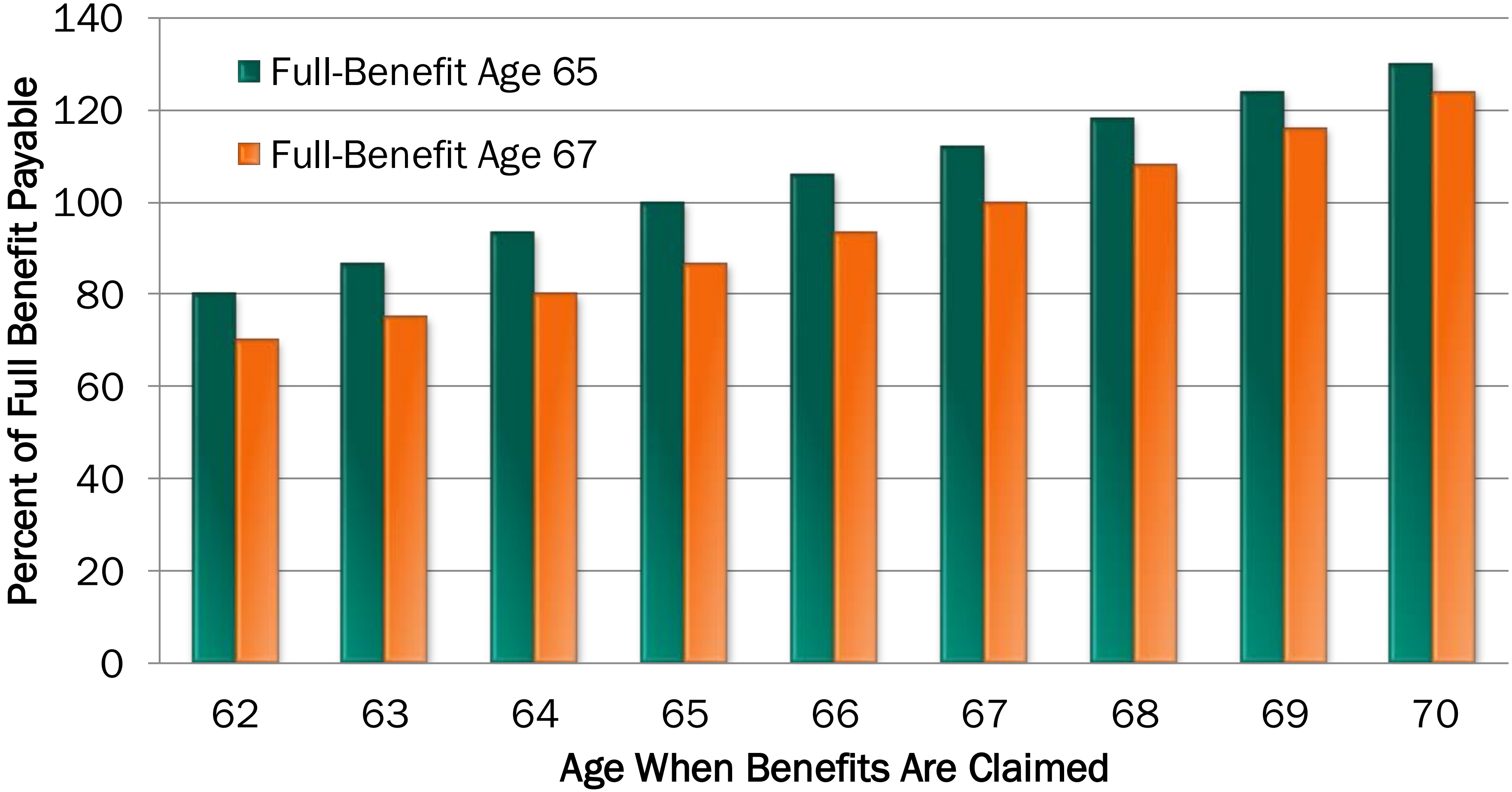
How Are Benefits Projected to Change in the Future?

- 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.

Reno, Bethell, and Walker, 2011.

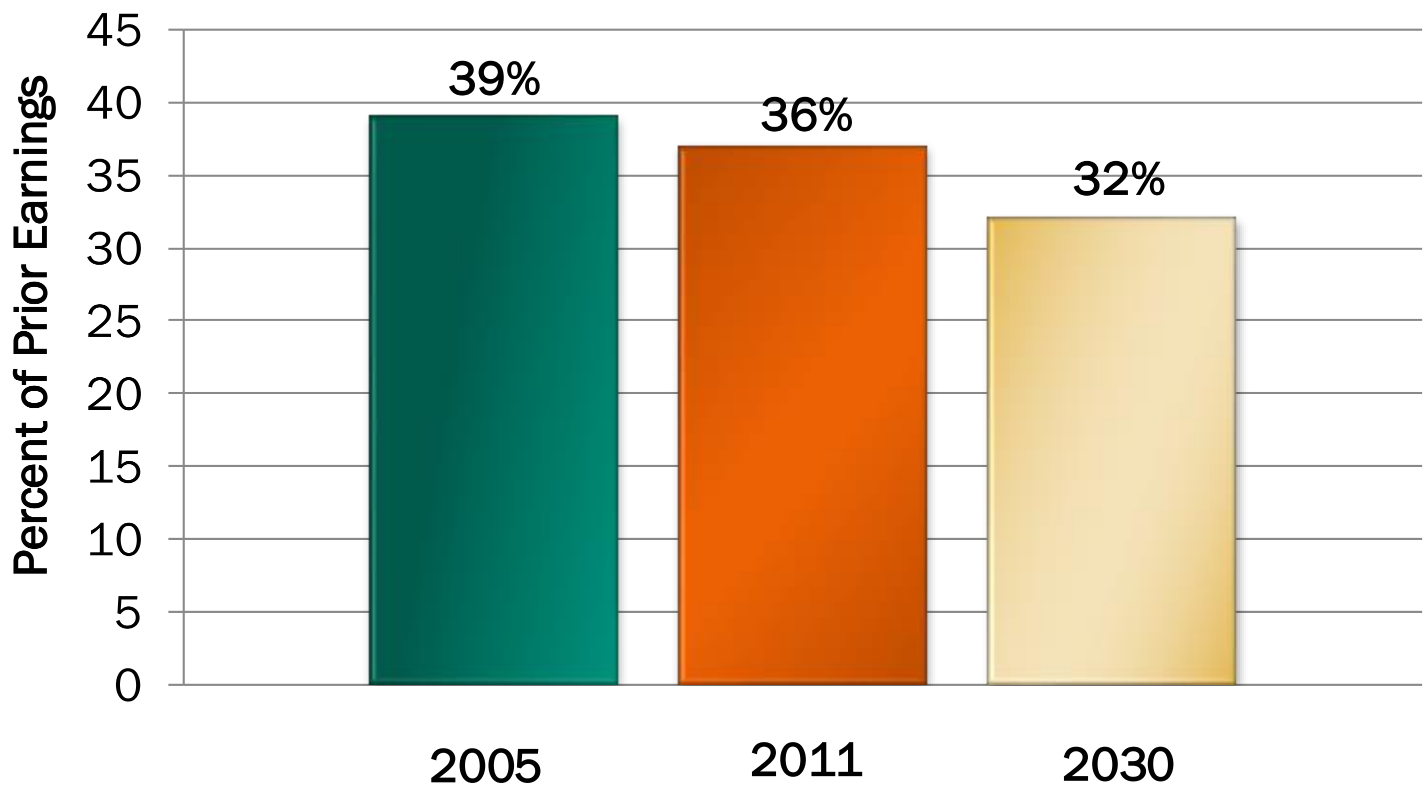
Increase in Full-Benefit Age (FBA) Lowers Benefits at Any Age They Are Claimed



Gregory et al., 2010.

Net Social Security Replacement Rates Will Fall

Medium Earner's Replacement Rate at 65 After Medicare Parts B and D Premiums



Ruffing and Van de Water, 2011.

What is Social Security Disability Insurance?

- Disability Insurance (DI) pays monthly benefits to 8.6 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.

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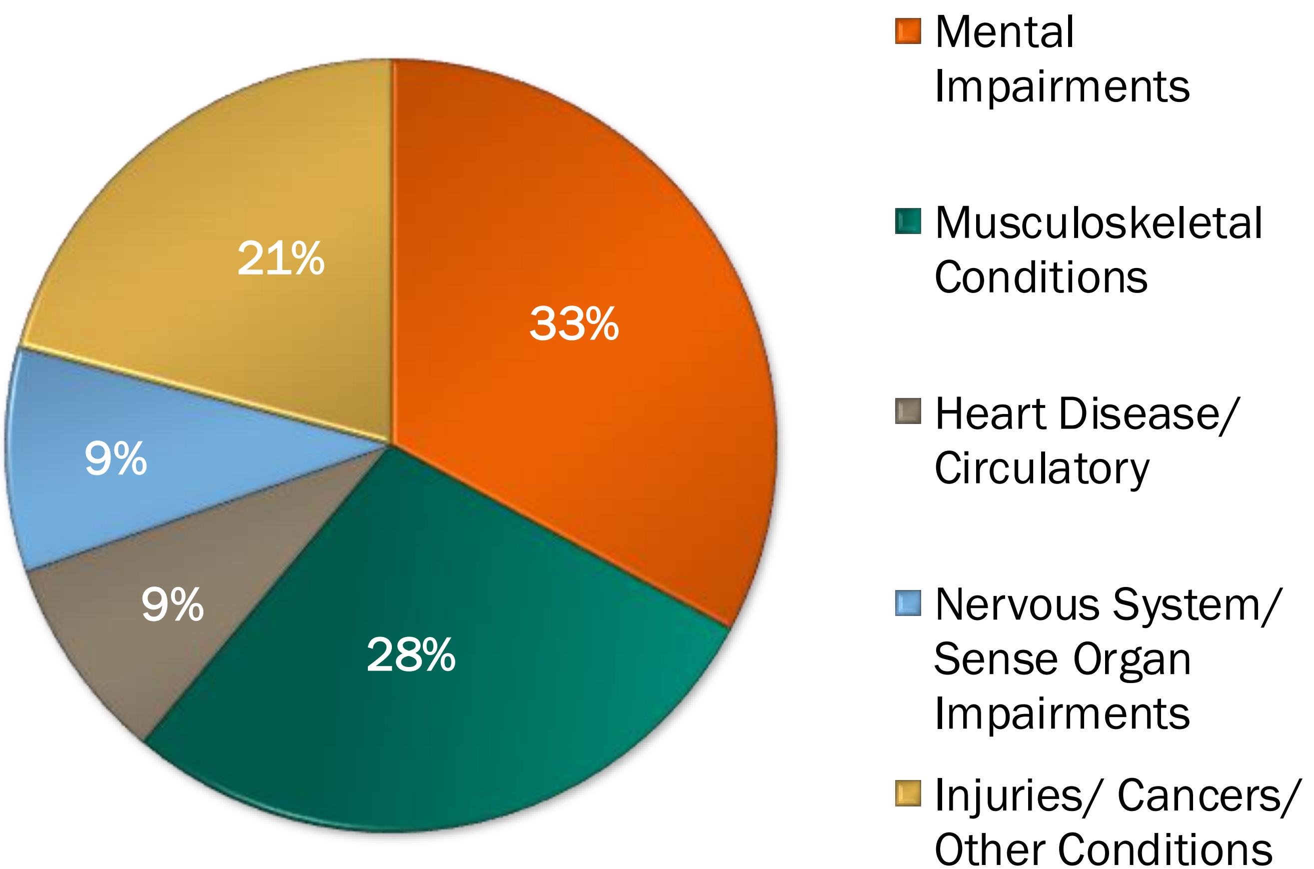
What are the Most Common Disabilities for DI Recipients?



SSA, 2011a.

Attributes of Disabled-Worker Beneficiaries

- About 34% of disabled workers have incomes below 125 percent of the poverty threshold.

- DI beneficiaries are more likely than other adults to be:
  - Older (the average age of disabled worker beneficiaries is 53, and nearly 7 in 10 are over 50).
  - Black or Hispanic.
  - Lower educational attainment (67% have a high school diploma or less, and 1 in 3 did not finish high school).

National Academy of Social Insurance, 2011; Ekman, 2012.

Who Pays for Social Security?

- Workers and their employers pay with Social Security contributions under the Federal Insurance Contributions Act (FICA).

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How Much Do Workers Pay?

- Workers pay:
  - 6.2% of their earnings for Social Security (or 4.2% for 2011-2012 under the temporary payroll tax holiday), 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 Social Security contribution base is **$110,100** in 2012.

Reno, Walker, and Bethell, 2012; Walker, Bethell, and Reno, 2012.

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Where Does the Money Go?

- It is credited to the Social Security trust funds. Projections of income and outgo of the trust funds are made by the Office of the Chief Actuary of the Social Security Administration.

Board of Trustees, 2012.

The Financial Outlook

2011 Finances

Trust fund income = $805.1 billion (mostly contributions)

Trust fund outgo = $736.1 billion (mostly benefits)

Surplus = **$69.0 billion**

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

SSA, 2012d; Board of Trustees, 2012.

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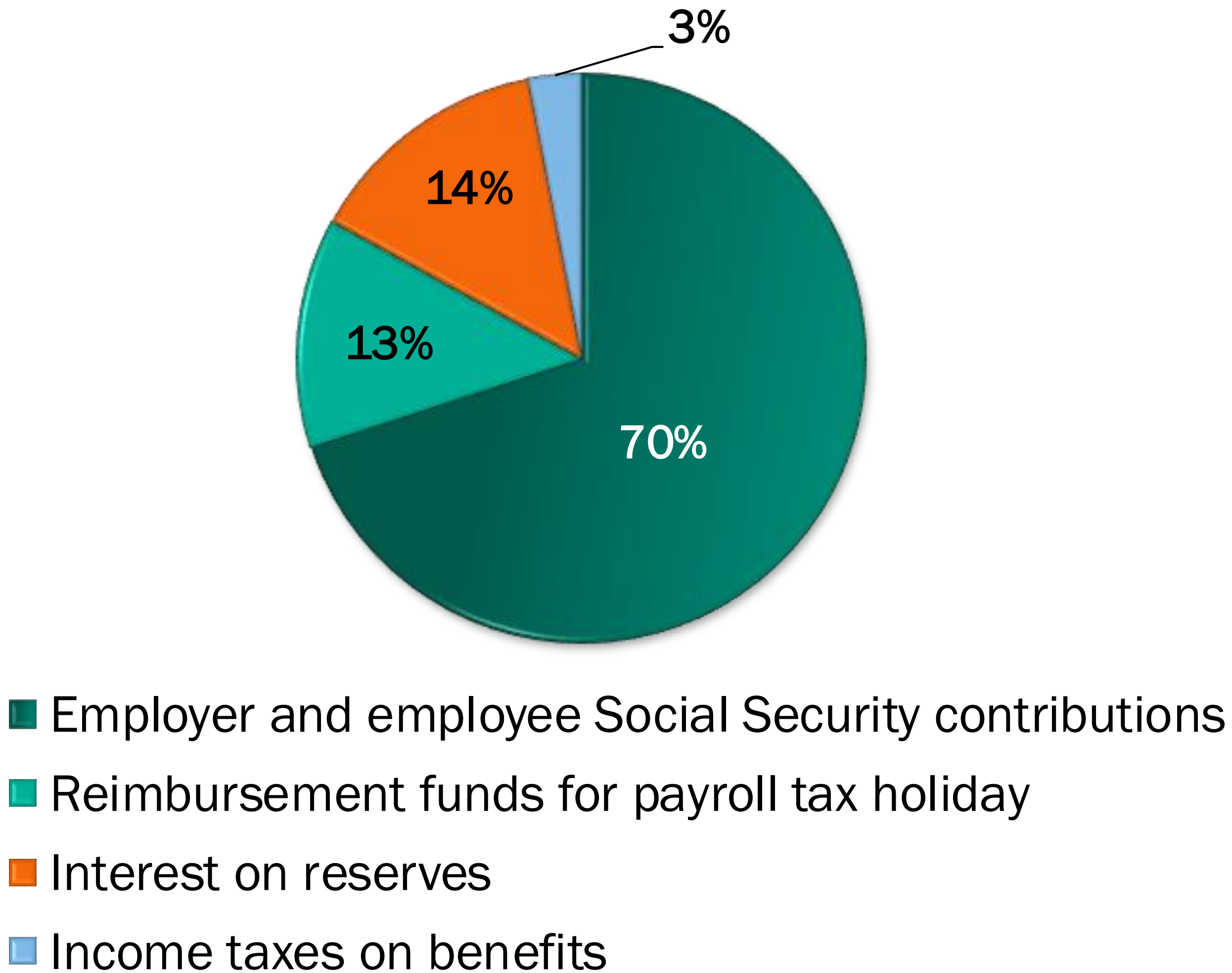
Where is Social Security Income From?
Shares of Income to the Trust Funds, 2011



SSA, 2012d.

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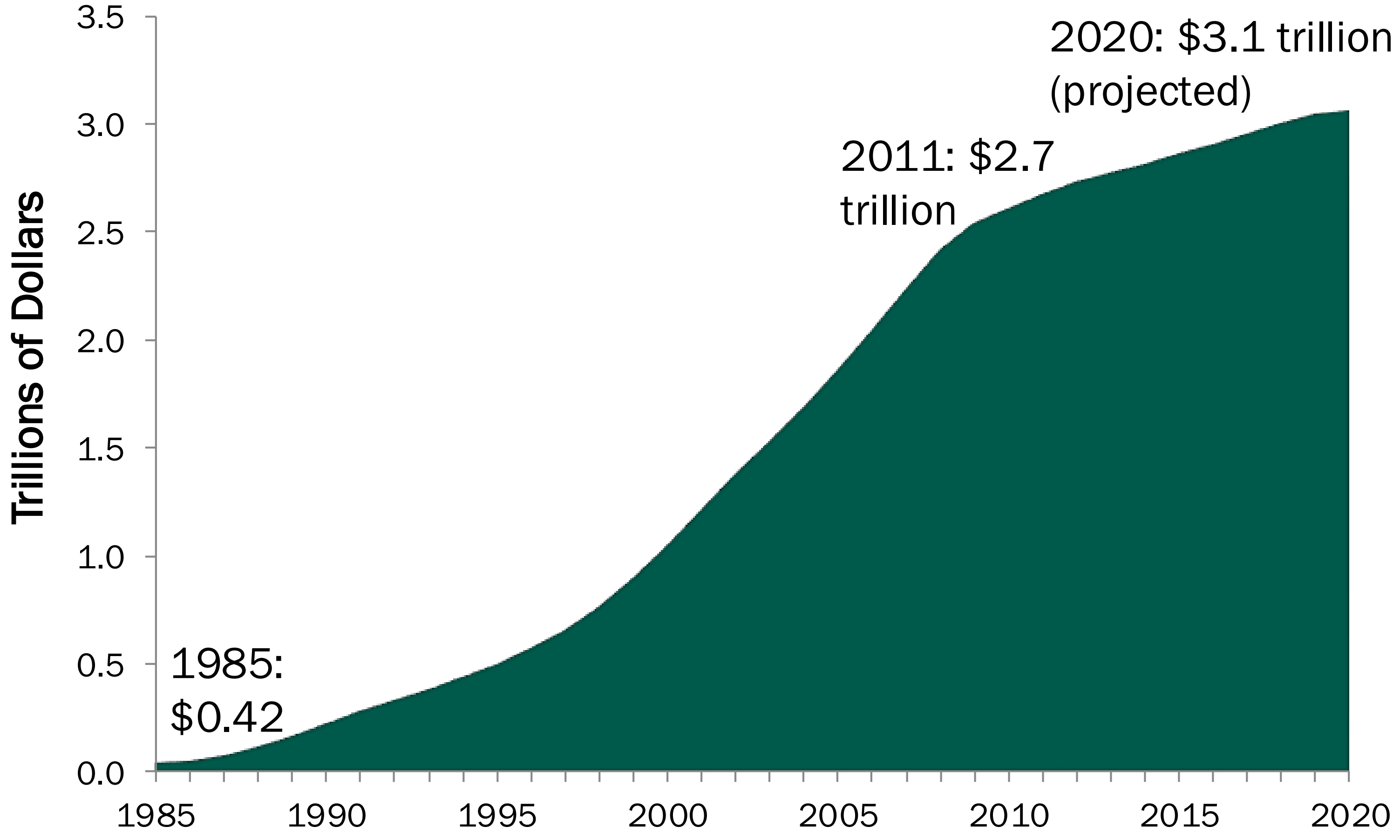
What are Social Security Reserves, or Assets?

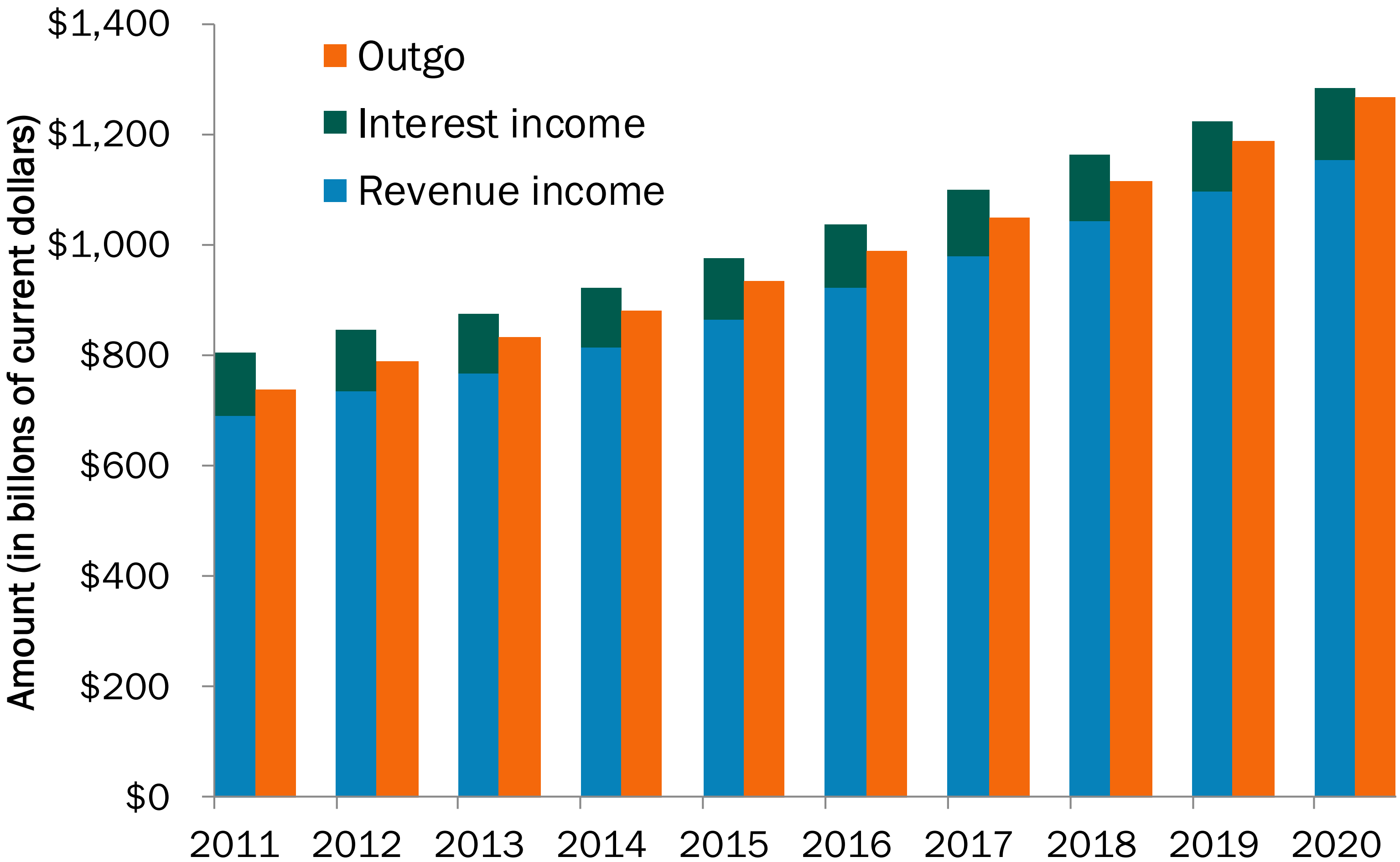
- Social Security income that is not used immediately to pay benefits and costs is invested in special-issue Treasury securities (or bonds).
- The bonds earn interest that is credited to the trust funds.
- The accumulated surpluses held in Treasury securities are called Social Security reserves, or trust fund assets.
- The Treasury securities are secure investments that are backed by the full faith of the U.S. government.

How Big are Social Security Trust Fund Assets?



Board of Trustees, 2012: Tables VI.A3 and VI.F8.

What is the So-Called "Cash Flow" Balance for Social Security?



Board of Trustees, 2012: Table VI.F8.

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).

Board of Trustees, 2012.

The Long-Range Projection
(Best Estimate)

- In 2021, 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 2033, trust fund reserves are projected to be depleted. Income is projected to cover 75% of benefits due then.
- By 2086, assuming no change in taxes, benefits or assumptions, revenue would cover about 73% of benefits due then.

Board of Trustees, 2012.

Other Scenarios

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

High Cost:
Trust fund reserves would be depleted in 2027, instead of 2033.

Board of Trustees, 2012.

The Actuarial Deficit
(Best Estimate)

The long-range deficit is 2.67% of taxable payroll.

This Means:

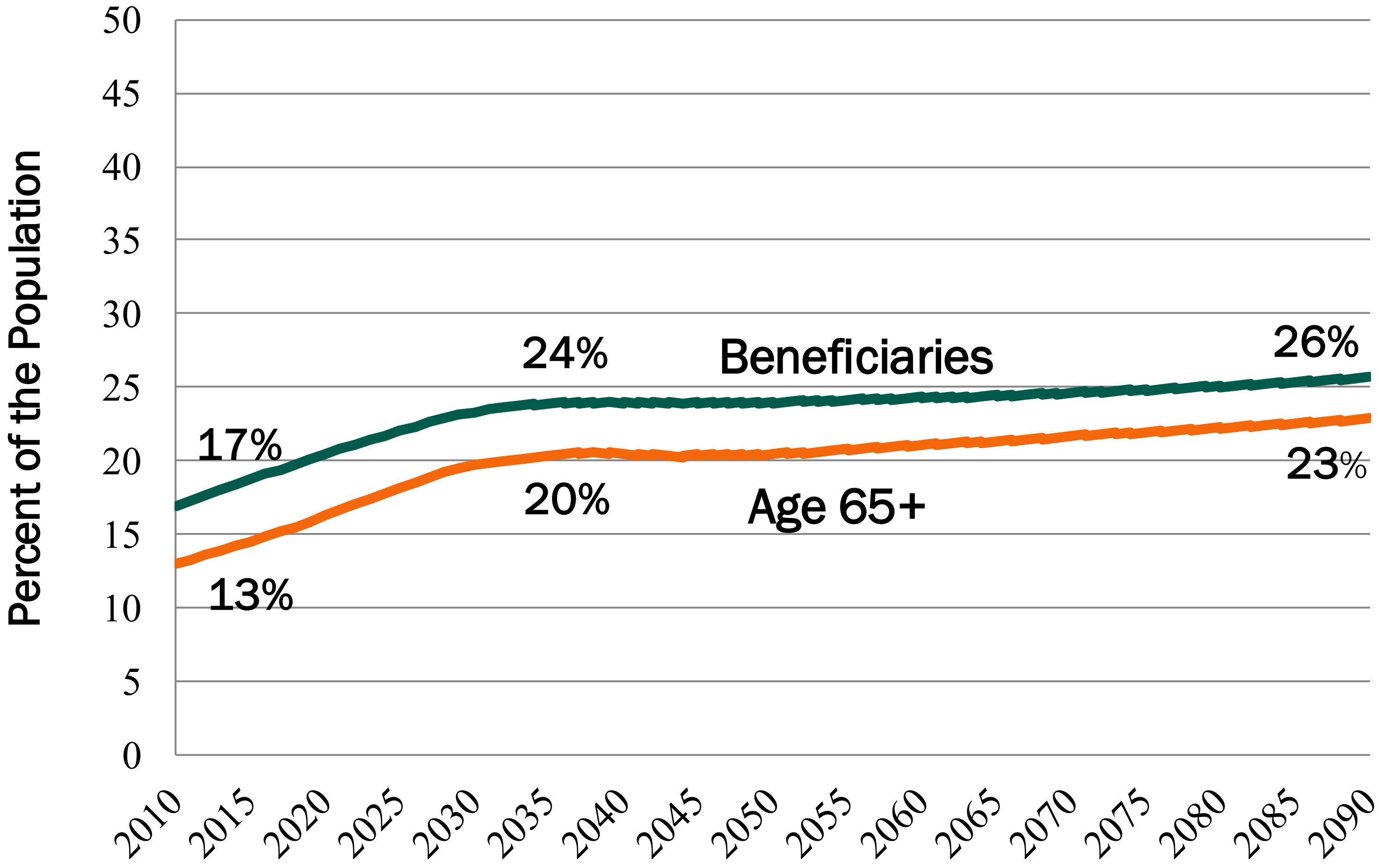
The gap would be closed if the Social Security contribution rate were raised from 6.2% to 7.6% for workers and employers.

Board of Trustees, 2012.

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 13% to 20% of all Americans.

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



Board of Trustees, 2012.

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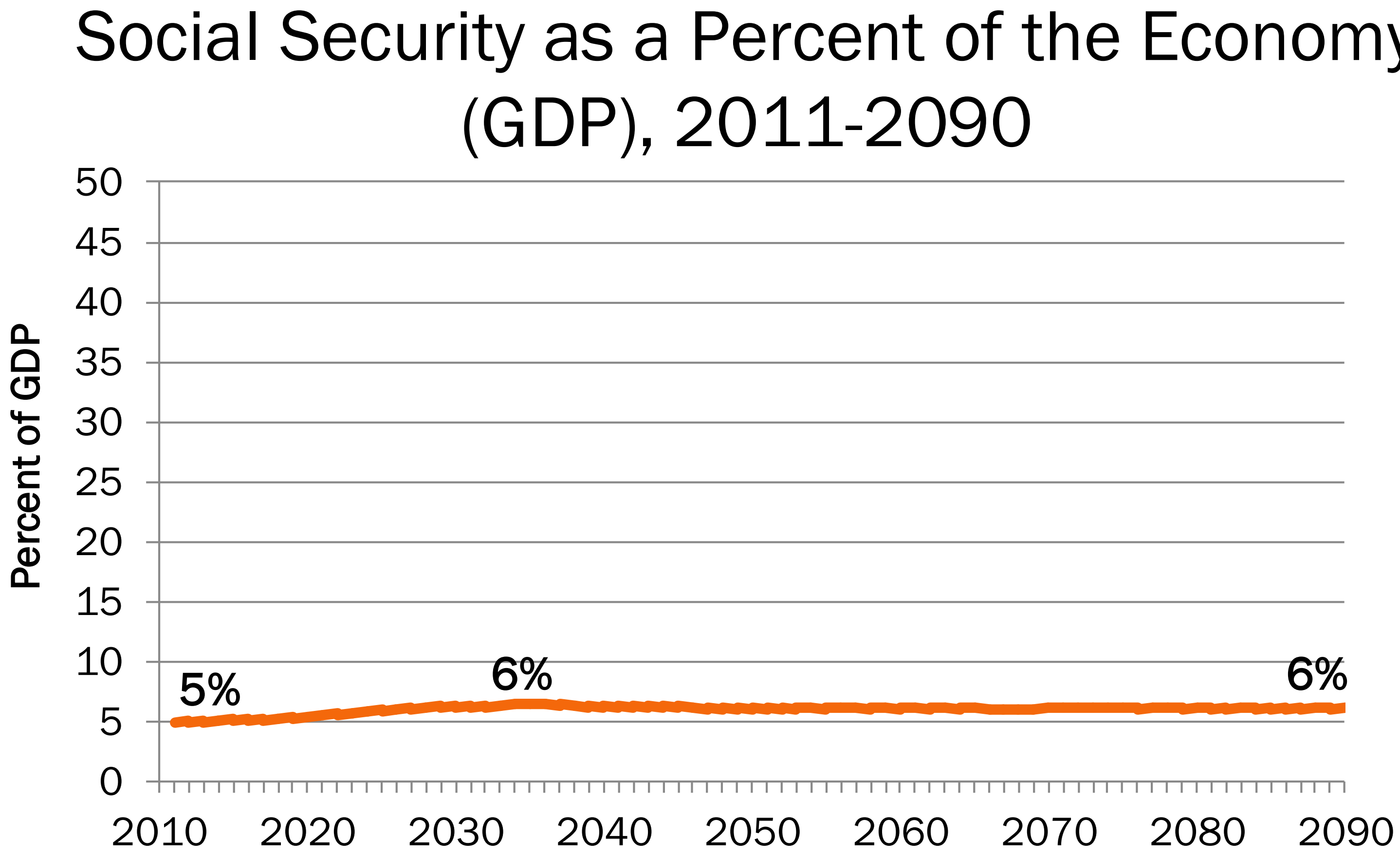
Can We Afford Social Security in the Future?

Social Security is Affordable



Board of Trustees, 2012: Table VI.F4.

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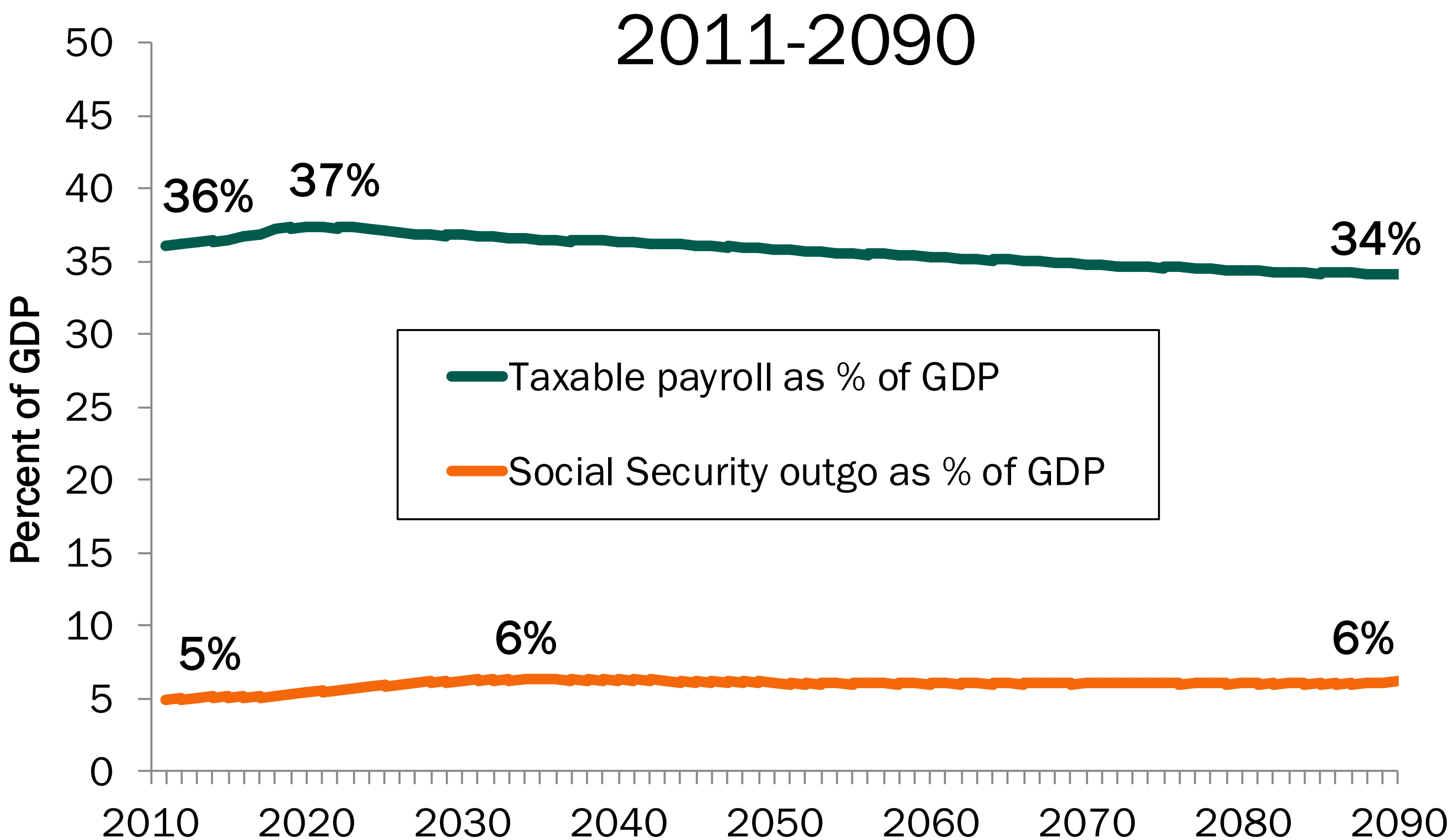
Taxable Payroll and Social Security Outgo as a Percent of the Economy (GDP)



Board of Trustees, 2012: Tables VI.F4 and VI.F5.

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.

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Reno and Lavery, 2009a.

Options for Raising Revenues

Options that would help raise revenues include:

1) Lift the cap (now $110,100) 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.

Reno and Lavery, 2009a.

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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.

Reno and Lavery, 2009a.

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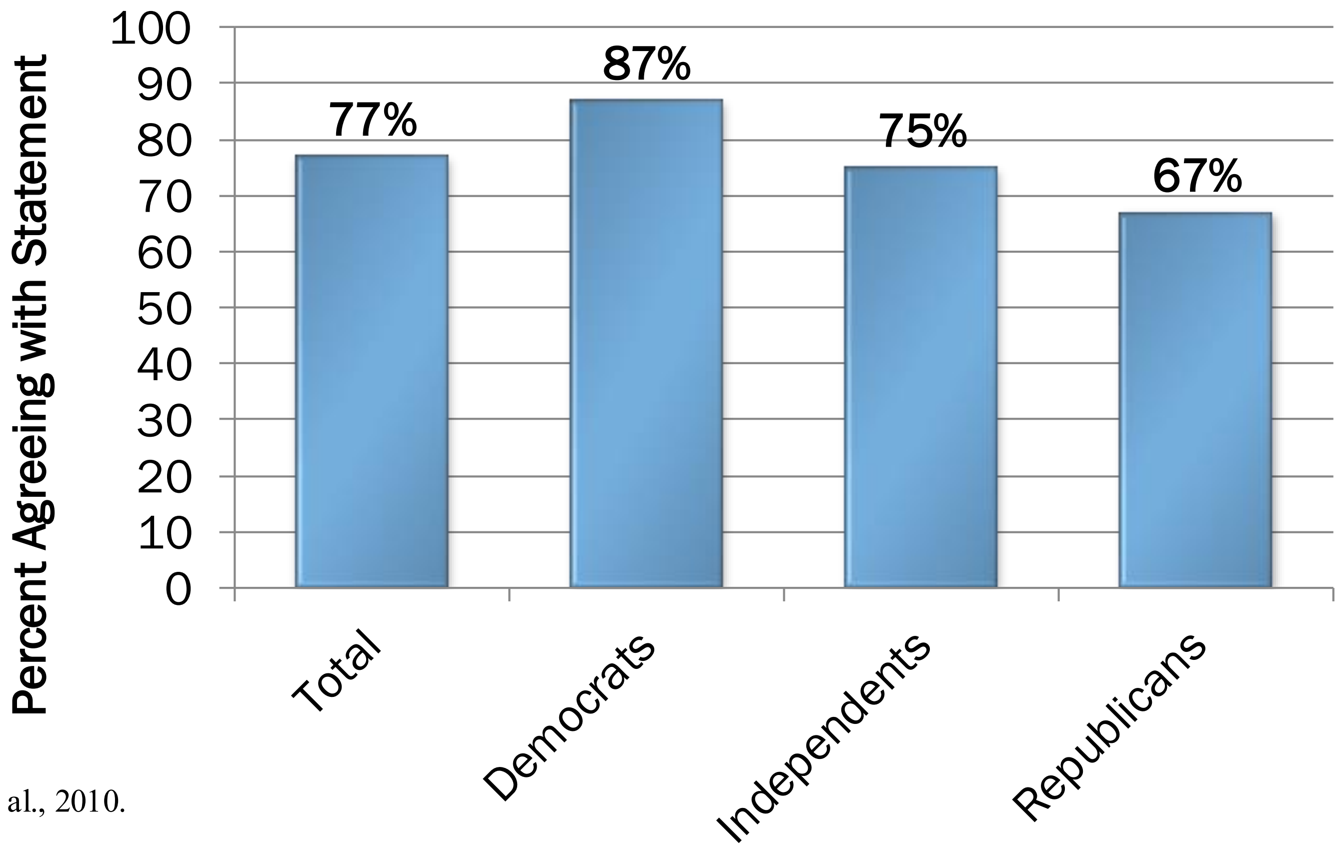
Why Consider Revenue Enhancements to Balance Future Social Security Finances?

Across Party Lines, Americans Want to Preserve Social Security Even if We Have to Pay More

Percent agreeing: "It is critical that we preserve Social Security for future generations, even if it means increasing working Americans' contributions to Social Security taxes."



Gregory et al., 2010.

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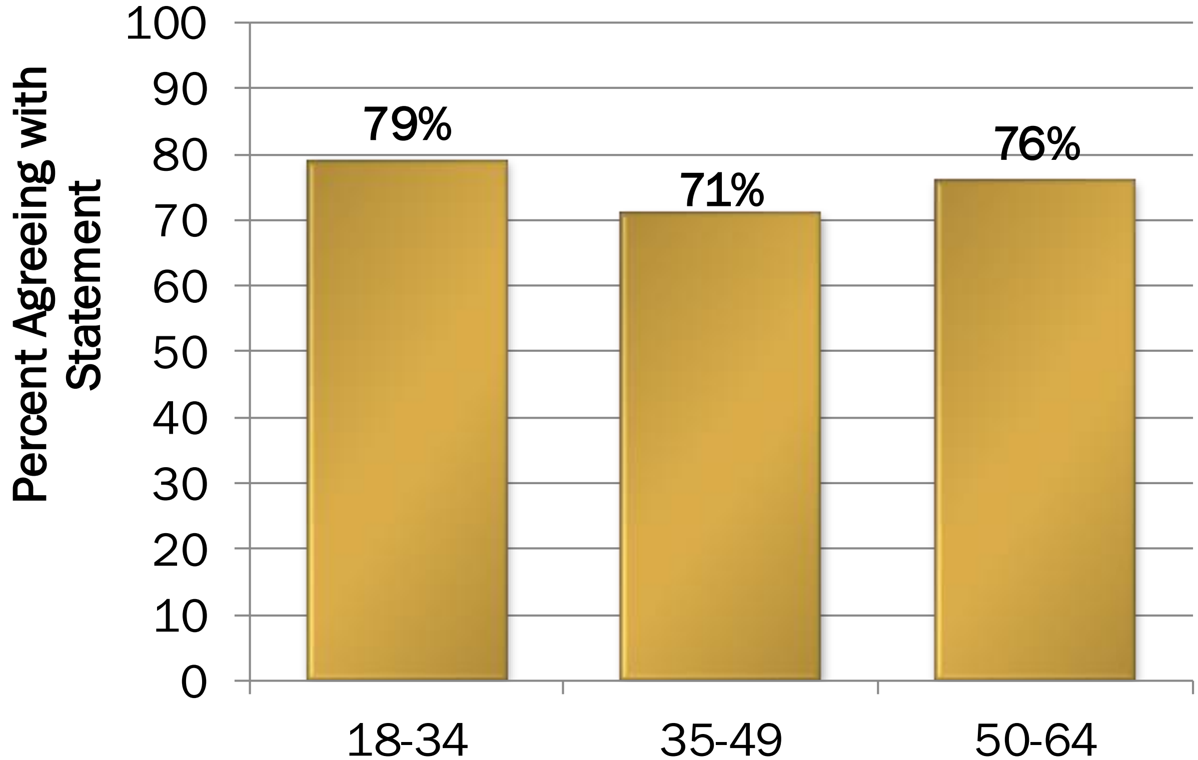
Across Age Groups, Americans Want to Preserve Social Security Even if We Have to Pay More

Percent agreeing: "It is critical that we preserve Social Security for future generations, even if it means increasing working Americans' contributions to Social Security taxes."



Reno and Lavery, 2009b.

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Recap

- Benefits are modest (dollars and replacement rates). Yet they are **most beneficiaries' main source of income.**
- Benefits will replace a smaller share of earnings in the future than they do today **(replacement rates are already declining and are projected to decline further by 2030)**.
- **Revenue increases or benefit cuts will be needed** to balance Social Security.
- Lawmakers **have many options** to raise revenues and improve adequacy.
- **Americans value Social Security** and are willing to pay for it.
- **Americans would rather pay more** than see future benefits reduced.

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