Social Security Works

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Social Security Basics

For 75 years, Social Security has provided a foundation of economic security for American workers, retirees, and their families. It represents the best of American values, rewarding hard work, looking out for family and community, and honoring the contributions retirees have made to our current prosperity.

Social Security is well structured to continue serving future generations as well.

Social Security and economic security by the numbers

In June 2010, Social Security paid benefits averaging $1,069 per month to 53.4 million individuals – 1 in 6 Americans.[1] *Social Security provides income to 27% of American households, including:*[2]

- 37 million retired workers and their dependents – 69% of beneficiaries;
- 10 million disabled workers and their dependents – 19% of beneficiaries;
- 6.4 million survivors of deceased workers – 12% of beneficiaries;
- over 1 million Washington residents.[3]

Social Security provides economic security to young Americans:

- 3.4 million children through age 19 receive Social Security benefits directly, and more than 3 million additional kids live in households with a beneficiary.[4]
- Social Security lifts an estimated 1.3 million children out of poverty.[5]
- About one in four 20-year-olds will be disabled before age 67 – becoming eligible for Social Security's disability insurance.[6]
- One in eight 20-year-olds will die before retirement age – and their dependents will rely on Social Security's survivors insurance.[7]

Seniors rely on Social Security:

- Middle-income senior households rely on Social Security for 64% of their income.
- 11.5% of senior couples and 30% of unmarried seniors receive all of their income from Social Security.
- The decline of pensions and losses in the value of home equity and other assets make Social Security even more important for future retirees.

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How Social Security works

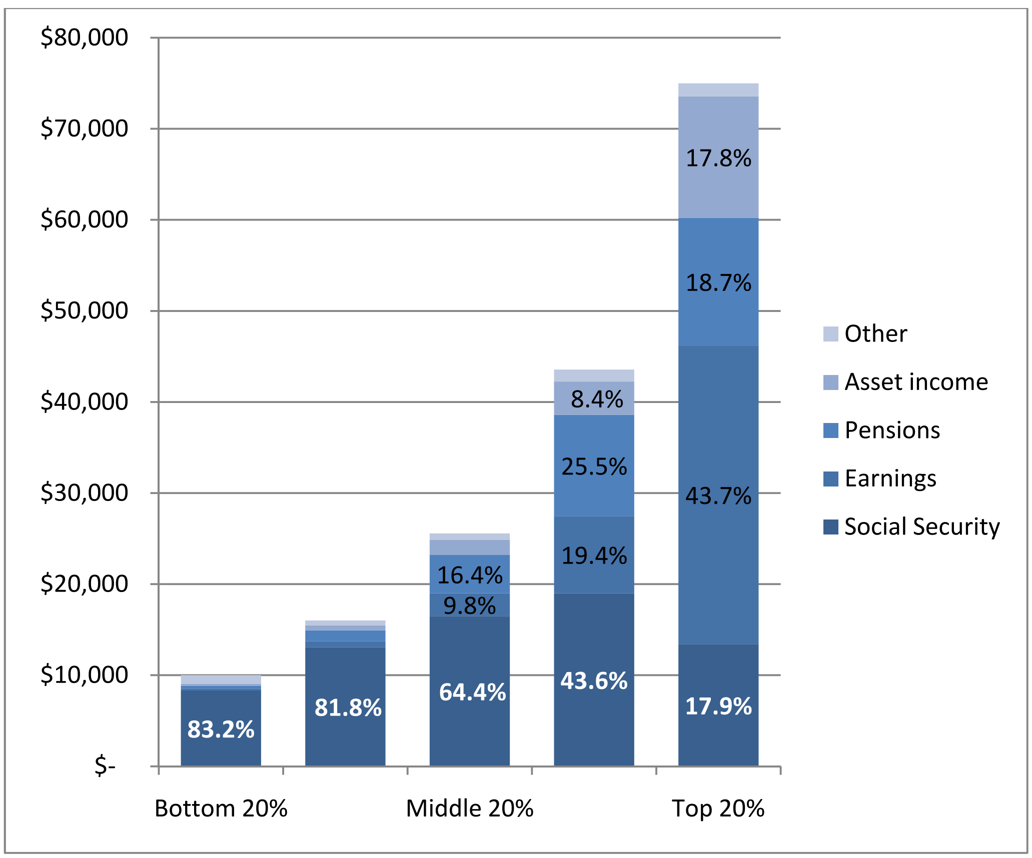
Working Americans and their employers each pay 6.2% of earnings up to $106,800 into the program. This earnings "cap" is adjusted each year, according to inflation. Those payroll taxes fund benefits, with some saved each year to help pay for the retirement of the baby boomers.

Social Security is social insurance, not an individual savings plan. That means benefits are based both on how much an individual contributes and on need. People who earn more receive higher benefits, but low income earners have more of their earnings replaced. People making low wages over their careers who retire at full retirement age receive benefits equaling 56% of their annual earnings, average earners receive 41%, and those earning at the taxable "cap" receive 28%.[8]

Dependent family members also qualify for benefits, so couples and families with children receive more than individuals. And retirement and elderly survivor benefits last for life – no one outlives their Social Security benefits.

SOCIAL SECURITY ALSO INSURES YOUNGER WORKERS AND THEIR FAMILIES WITH SURVIVORS AND DISABILITY BENEFITS.

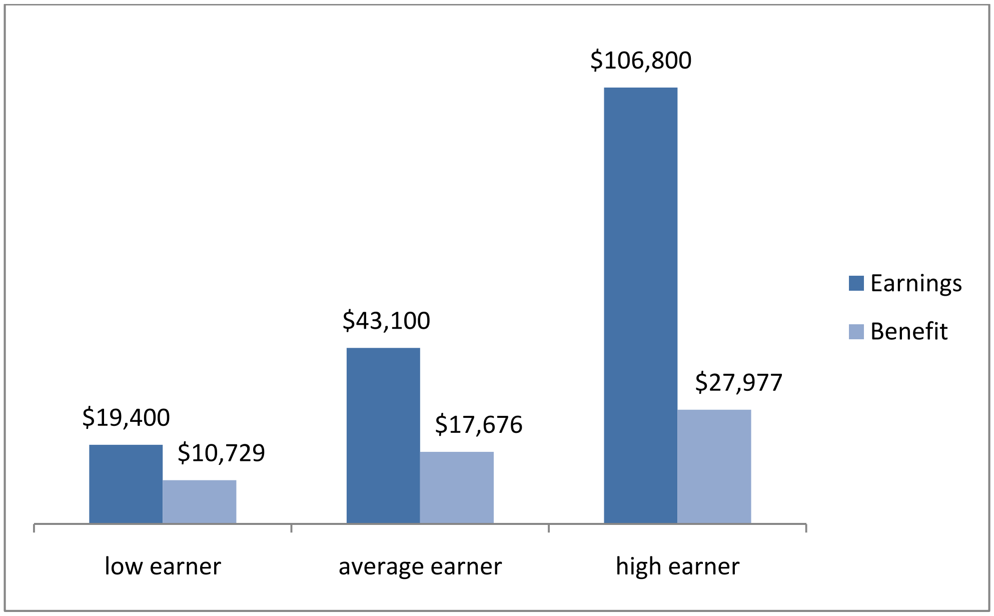
AVERAGE INCOME PER SOURCE BY QUINTILE, FOR HOUSEHOLDS AND INDIVIDUALS OVER 65, 2008



Income ranges: bottom 20% – under $12,082; next 20% - $12,082 to $19,877; middle 20% - $19,877 to $31303; next 20% - $31,303 to $55,889; top 20% – over $55,889.

Source: Social Security Administration, Income of the Population 55 or Older, 2008

ANNUAL EARNINGS AND RETIREMENT BENEFITS FOR LOW, AVERAGE AND HIGH EARNERS, 2010



Source: 2010 Social Security Trustees Report

PEOPLE MAKING LOW WAGES RECEIVE BENEFITS EQUALING 56% OF THEIR ANNUAL EARNINGS, AVERAGE EARNERS RECEIVE 41%, AND THOSE EARNING AT THE "CAP" RECEIVE 28%.

The Social Security Trust Fund

Since it began paying monthly benefits in 1940, Social Security has been primarily a pay-as-you-go program.[9] Payroll taxes cover the cost of administration (less than 1% per year) as well as benefits. Any additional revenues are deposited in the Trust Fund and invested in U.S. Treasury Bills.

During the 1970s and early 1980s, benefit payments exceeded program revenues. President Reagan appointed a commission headed by Alan Greenspan to solve the Social Security funding problem and to plan for the future retirement of the baby boomers.

In 1983, Congress adopted the Commission's recommendations. These included raising payroll taxes above the level necessary to pay benefits in order to build up the Trust Fund, which could then be spent down when the baby boomers retired, and gradually raising the retirement age to 67.[10]

PROJECTING SOCIAL SECURITY'S FINANCES 75 YEARS INTO THE FUTURE REQUIRES MAKING NUMEROUS ASSUMPTIONS.

The Trust Fund grew to $2.5 trillion by the end of 2009. Because of continuing high unemployment, in 2010 payroll taxes are expected to be a little under benefit costs. However, Social Security's total income, including interest on the Trust Funds and income taxes on the benefits of upper income retirees, will still generate a surplus and add another $100 billion to the Trust Fund in 2010.[11]

Social Security's Long Term Outlook

UNDER THE "LOW COST" ASSUMPTIONS, THE TRUST FUND WILL NEVER BE DEPLETED.

Every year, the Social Security Trustees project the program's finances 75 years into the future. Doing so requires making numerous assumptions about economic growth, productivity, wages, fertility, longevity, immigration rates, and other factors. Three different scenarios are created, although often the projections from the Intermediate scenario are reported as certainties.

The intermediate assumptions for 2010 project that the Trust Fund will to continue to grow until 2025. From 2025 to 2037, Social Security will draw on the Fund principal to finance the retirement of the baby boomers, as intended by the Reagan-Greenspan plan. In 2037 the assets of the Trust Fund will be spent down and payroll taxes alone will cover 78% of benefits.[12]

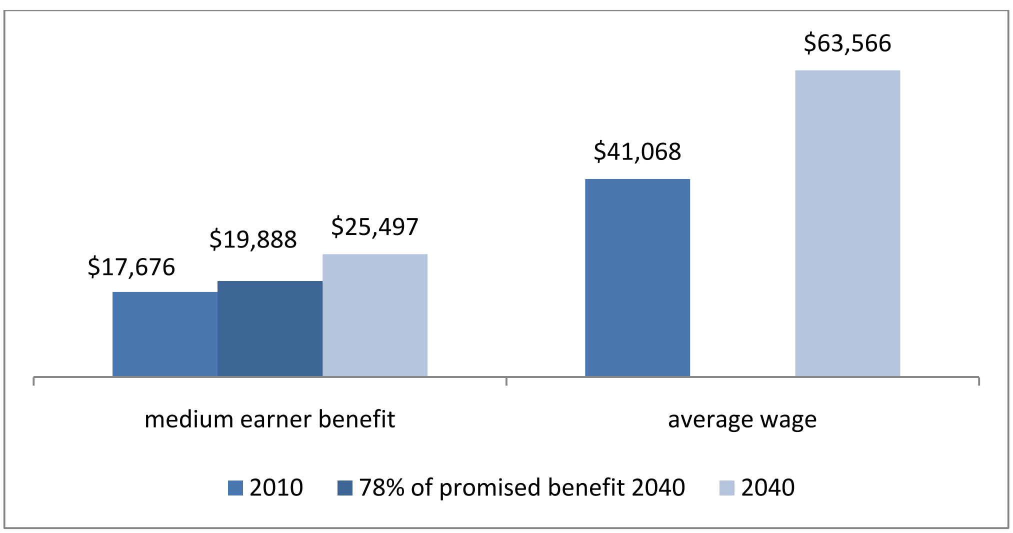
Under the slightly different assumptions of the "Low Cost" scenario, the Trust Fund will never be depleted. In fact, it will begin growing again by the 2050s and continue growing through the rest of the century.[13]

Over time, wages go up a little faster than inflation because of gains in productivity – the amount a worker can produce in an hour's work. By 2037, average wages after accounting for inflation are expected to rise from $43,000 in 2010 to $60,000. Typical retirement benefits are projected to increase from $17,676 to $24,700 annually.[14] If the Trust Fund is exhausted in 2037 as the Intermediate forecast projects, payroll taxes alone at the current level would cover benefits averaging $19,300 – about $1,600 more than today's typical retiree receives after inflation.

UNDER THE INTERMEDIATE ASSUMPTIONS, WHEN THE TRUST FUND IS EXHAUSTED, PAYROLL TAXES ALONE WOULD COVER BENEFITS AVERAGING $1,600 MORE AFTER INFLATION THAN TODAY'S TYPICAL RETIREE RECEIVES.

Of course, at that point Congress could eliminate the cap on payroll taxes, bump up the rate, or adopt some other strategy to maintain the promised level of benefits.

AVERAGE WAGES AND RETIREMENT BENEFIT FOR MIDDLE EARNERS, 2010 AND PROJECTED FOR 2040



Source: Social Security Trustees Report, 2010

Can We Afford to Pay Back the Trust Fund?

The Trust Fund is not a big pile of cash sitting in a vault. When we deposit money in the bank, we receive interest because the bank loans out those funds to others to invest in homes and businesses. So, too, the federal government "invests" the Trust Fund in college loans, Head Start, transportation projects, basic research, and public structures that benefit all Americans.

Such investments make the future workforce more productive and boost economic growth, which in the long run means more revenue for Social Security. Loans from Social Security also allow the federal government to borrow less from individuals and foreign governments, and to keep personal income and corporate taxes low.

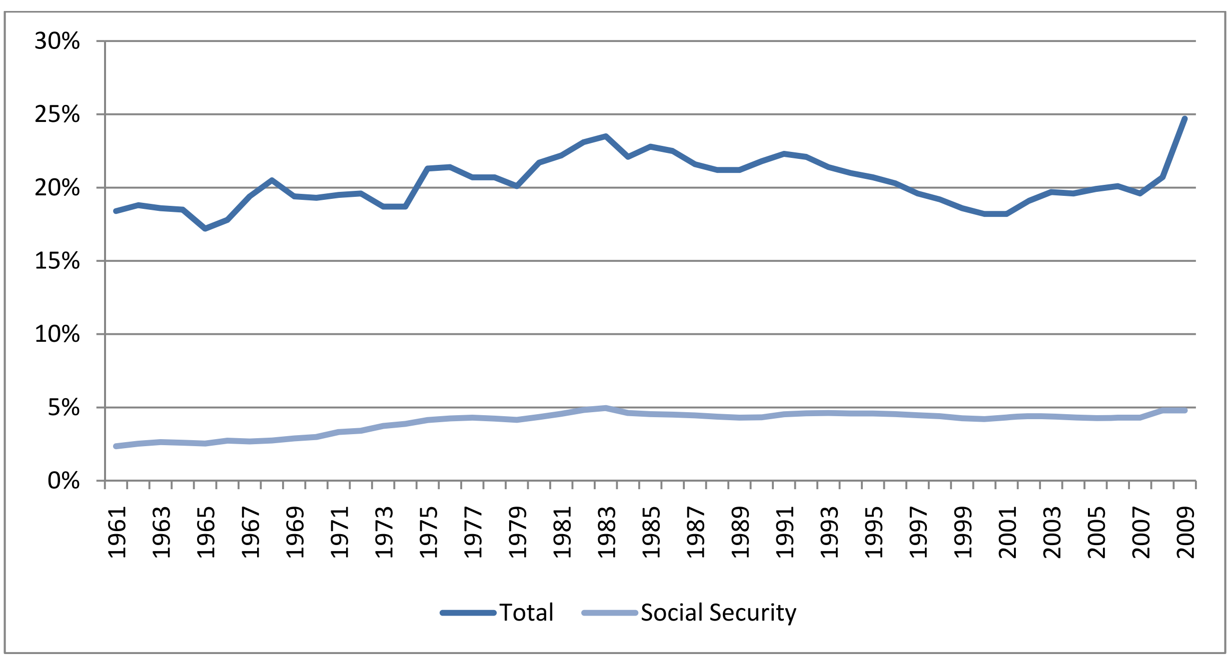
Social Security benefits represented 4.8% of gross domestic product (GDP) in 2009. The program's relative size is expected to peak in 2035 at 6.1% and then stabilize at 5.9%.[15]

To put that long term growth of about 1% of GDP in context, all federal spending has represented about one fifth of the U.S. economy since the late 1960s. The actual percentage has varied. It was 19.3% in 1970, reached 23.5% in 1983, and fell to 18.2% during Clinton's last years in office. By the end of George W. Bush's term in 2008, federal spending had risen again to 20.7% of GDP.

In 2009, with major stimulus spending and continuing recession, it reached 24.7%.[16] In other words, increases of 1% or 2% in federal spending are commonplace and are readily absorbed in the dynamic U.S. economy.

INCREASES OF 1% OR 2% IN FEDERAL SPENDING ARE COMMONPLACE AND ARE READILY ABSORBED IN THE DYNAMIC U.S. ECONOMY.

TOTAL FEDERAL SPENDING AND SOCIAL SECURITY SPENDING AS PERCENTAGE OF GDP



Source: Congressional Budget Office, GPOaccess.gov, and Social Security Trustees Reports

Social Security, the Federal Deficit, and the National Commission on Fiscal Responsibility and Reform

President Obama appointed a commission in February 2010 to consider ways to reduce the federal deficit. The commission is to make their recommendations to Congress by December 1, 2010. Congressional leadership has agreed to an up or down vote on those recommendations.[17]

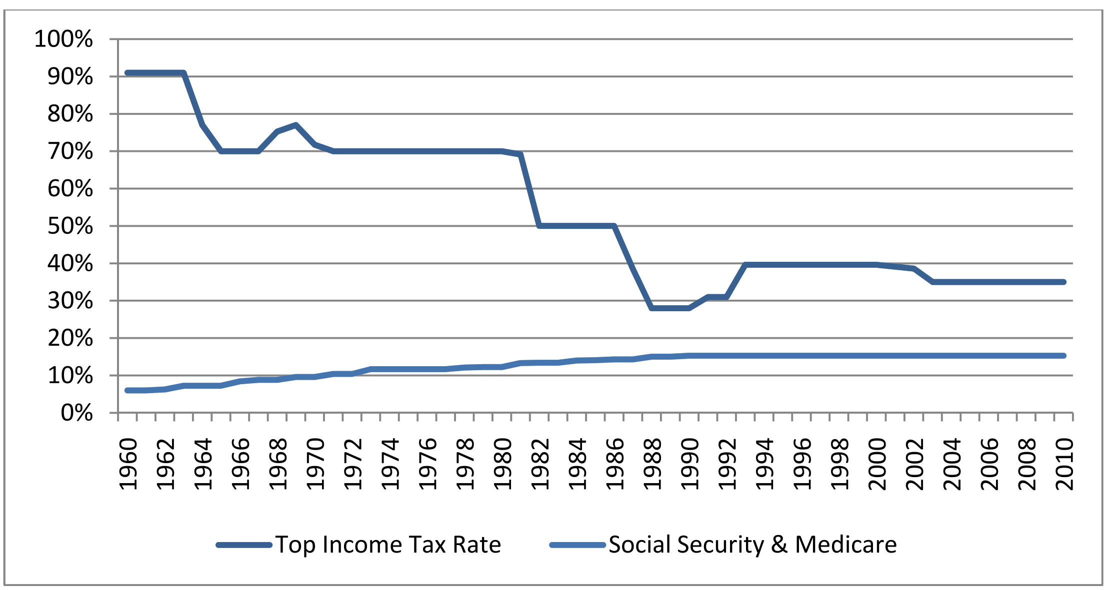
SOCIAL SECURITY, WITH ITS DECADES OF SURPLUSES, IS IN NO WAY RESPONSIBLE FOR THE FEDERAL DEFICIT, NOR DOES IT FACE ANY LOOMING CRISIS THAT WE NEED TO BE IN A RUSH TO "FIX."

Among the "solutions" under consideration by the commission are cuts to future Social Security benefits. But Social Security, with its decades of surpluses, is in no way responsible for the current federal deficit.[18] Nor does it face any looming crisis that we need to be in a rush to "fix" – either through benefit cuts or raising payroll taxes.

The reasoning behind including Social Security in the deficit commission's charge seems to go like this: 'We may have to cut benefits in the future. To avoid that, we should cut benefits for future recipients now.' Of course what cutting future benefits now really does is allow tax rates on the wealthiest, who contribute relatively little or nothing to Social Security, to remain at historic lows.

Congress passed general tax cuts in 2001 and 2003. Those reductions set the federal income tax on the wealthiest lower than at any point since 1931, except for the years from 1988 to 1992.[19] According to the CBO, those tax cuts increased the total deficit by $1.6 trillion, and if extended, will keep future federal revenues well below anticipated expenses – including the cost of making good on the Social Security Trust Fund.[20]

TOP MARGINAL FEDERAL INCOME TAX RATE AND TOTAL PAYROLL TAX RATE FOR SOCIAL SECURITY AND MEDICARE, 1960 - 2010



Note: Medicare taxes were first collected in 1966. Payroll taxes include both employee and employer shares.

Sources: Internal Revenue Service and Social Security Administration

Proposals to Cut Social Security

Proposals to cut benefits are being promoted as reasonable by those who have always opposed Social Security's broad base of benefits. However, cuts are unnecessary in a program that is fully funded for at least the next three decades *and* would impose hardship on millions of Americans.

CUTS ARE UNNECESSARY IN A PROGRAM THAT IS FULLY FUNDED FOR AT LEAST THE NEXT THREE DECADES *AND* WOULD IMPOSE HARDSHIP ON MILLIONS OF AMERICANS.

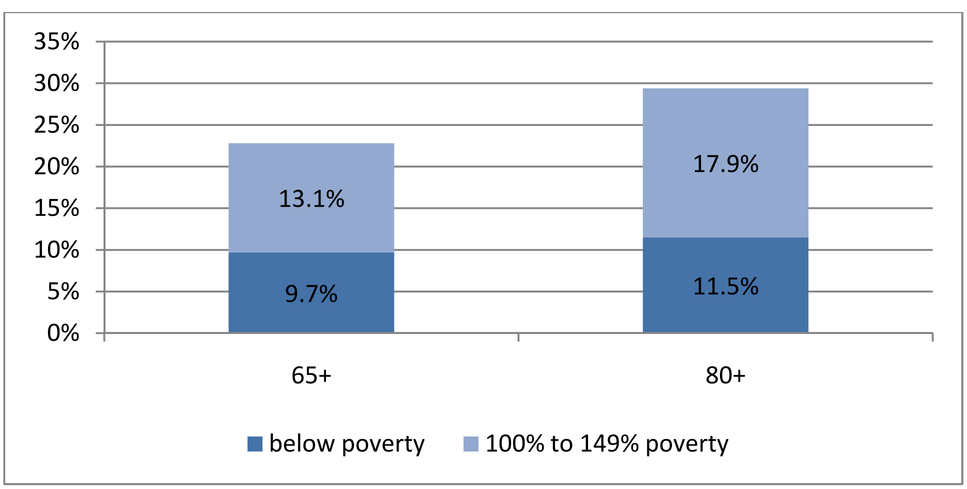
One proposal is to raise the retirement age beyond the already scheduled increase to age 67. Yes, people are living longer and some of them are staying healthier. But people who are in physically demanding jobs or who face early disability often cannot work to age 65, let alone to 70.

Fewer workers will be supporting each retiree in the future than in the past, but the overall "dependency rate" will remain lower than it was in the 1960s when all the baby boomers were dependent children.[21] Moreover, on-going increases in productivity mean workers in coming decades will have higher standards of living and at the same time be able to support those retirees – just as American farmers, now representing less than 2% of the workforce, can feed the nation and export food to the world.[22]

Another proposed cut is to tie benefits to inflation rather than wages. Now, initial benefits are calculated based on average wages, which over time go up a little faster than inflation. The current system allows benefits to more closely reflect the standard of living when someone retires, rather than that of decades earlier when they entered the work force. (Once someone starts receiving Social Security, benefits go up each year based on inflation.)

For many, living in basic dignity would be impossible without Social Security. Cutting benefits for the people who earned them should not be on the table.

SENIORS BELOW 100% AND 150% OF FEDERAL POVERTY LEVEL, AGES 65+ AND 80+, 2008



Source: Congressional Research Service, Income and Poverty Among Older Americans in 2008, Oct 2009, http://benefitslink.com/articles/guests/RL32697_Oct_2009.pdf.

Making a Good System Better

Rather than debating cuts to Social Security, we should focus on ways to increase benefits, especially for women and people who have low earnings throughout their careers. Today the senior poverty rate roughly coincides with the percentage of elderly who do not collect Social Security. But even with Social Security, far too many struggle to make ends meet. About 23% of all households over age 65 and nearly 30% of those over 80 have incomes below 150% of the federal poverty level.[23]

People of color and women are especially likely to be poor or near poor in their later years. Both groups earn far less than white men and have less access to pensions. Women also live five years longer than men on average, and take more time out of the labor force for family care.[24]

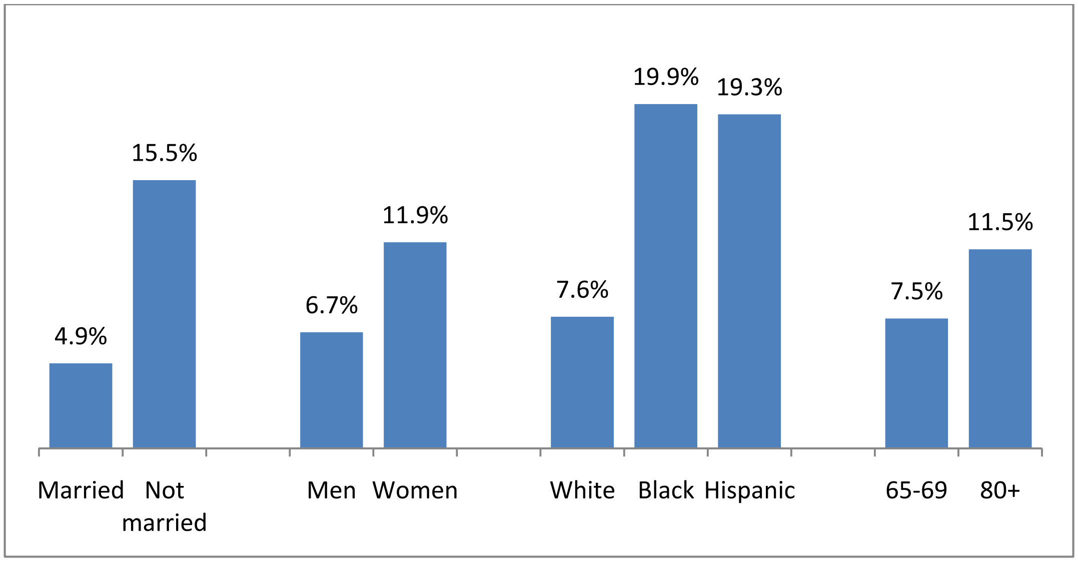
RATHER THAN DEBATING CUTS TO SOCIAL SECURITY IS, WE SHOULD FOCUS ON WAYS TO INCREASE BENEFITS FOR WOMEN AND PEOPLE WHO HAVE LOW EARNINGS THROUGHOUT THEIR CAREERS.

Strengthening Social Security

Social Security's benefits should be strengthened and modernized to reflect the dignity of all work, to better cover health and care costs, and to improve fairness. This can be accomplished by:

1. Changing the benefit formula or establishing a new minimum benefit to replace a higher percentage of low earnings, so those closest to poverty can maintain dignity.[25]
2. Providing a care-giving credit for family care-giving. Social Security benefits are based on the adjusted average of a worker's 35 highest-earning years. While men average 44 years in the workforce, women average only 32 years and are far more likely to face poverty in their old age.
3. Guaranteeing elderly survivors 75% of the couple's benefit would help low and moderate-income widows and widowers.
4. Allowing benefits for state-recognized same-sex couples and family members to add basic fairness to the system.
5. Eliminating the cap on taxable earnings, if additional resources are necessary to cover the cost of benefit increases.[26]

Seniors below Federal Poverty Level by Demographic Group, 2008



Source: Congressional Research Service, Income and Poverty Among Older Americans in 2008, Oct 2009 http://benefitslink.com/articles/guests/RL32697_Oct_2009.pdf.

Conclusion

Social Security is more important now than ever. Traditional pensions have all but disappeared in the private sector. Americans have watched their assets evaporate, whether in 401(k) plans, savings or home equity. Half of the workforce has no retirement plan other than Social Security. Meanwhile, families are mobile, divorce rates are high, and more Americans remain unmarried. All these factors contribute to economic insecurity. The majority of Americans have fewer safeguards if anything goes wrong.

Social Security is more important now than ever. We must fight to protect it.

We can never predict who will become disabled, who will die young leaving behind dependent children, or who will live to be 100. But we do know that every year a certain percentage of Americans face these challenges.

Social Security is there for the lucky and the unlucky, the childcare teacher and university professor, waitress and software designer, truck driver and surgeon, stay-at-home mom and working mom. It is there for all of us. But it will continue to be only if we fight to protect it.

Notes

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[1] Social Security Administration, Monthly Statistical Snapshot, June 2010, www.ssa.gov.

[2] U.S. Census, 2008 American Community Survey, Table B19055, Social Security Income in the Past 12 Months for Households, www.census.gov.

[3] SSA, OASDI Beneficiaries by State and County, 2009, http://www.ssa.gov/policy/docs/statcomps/oasdi_sc/2009/wa.pdf.

[4] Child beneficiary data from: Social Security Administration, Beneficiary Data, Number of Beneficiaries by Age, June 2010, www.ssa.gov/OACT/progdata/byage.html. Estimates on children in households receiving Social Security from: Joni Lavery and Virginia P. Reno, "Children's Stake in Social Security," February 2008, National Academy of Social Insurance, www.nasi.org/research/2008/childrens-stake-social-security.

[5] Child beneficiary data from: Social Security Administration, Beneficiary Data, Number of Beneficiaries by Age, June 2010, www.ssa.gov/OACT/progdata/byage.html. Estimates on children in households receiving Social Security from: Joni Lavery and Virginia P. Reno, "Children's Stake in Social Security," February 2008, National Academy of Social Insurance, www.nasi.org/research/2008/childrens-stake-social-security. According to the U.S. Department of Social and Health Services, Office of Family Assistance, caseload data, 3.3 million children received TANF benefits in December 2009, out of a total of 4.4 million recipients. http://www.acf.hhs.gov/programs/ofa/data-reports/caseload/2010/2010_children_tan.htm.

[6] SSA Press Office, Social Security Basic Facts, June 2010 beneficiary data, www.ssa.gov/pressoffice/basicfact.htm.

[7] SSA, Social Security Basic Facts.

[8] 2010 Report of the Social Security Trustees, Appendix F. Estimates in Dollars, Table VI.F10.

[9] SSA, Historical Background and Development of Social Security, http://www.socialsecurity.gov/history/.

[10] SSA, Summary of 1983 Amendments, viewed August 13, 2010, http://www.socialsecurity.gov/history/1983amend.html.

[11] 2010 Report of the Social Security Trustees, www.ssa.gov/OACT/TR/2010/.

[12] 2010 Report of the Social Security Trustees, Highlights.

[13] 2010 Report of the Social Security Trustees, Section IV.B, Actuarial Estimates.

[14] 2010 Report of the Social Security Trustees, Appendix F. Estimates in Dollars.

[15] 2010 Report of the Social Security Trustees.

[16] Congressional Budget Office, Budget and Economic Outlook: Historical Data, 1970-2009, www.cbo.gov/ftdocs/108xx/doc10871/historicaltables.

[17] www.fiscalcommission.gov.

[18] The rapid increase in the federal deficit over the past decade has been caused by tax cuts in 2001 and 2003 and the Iraq and Afghanistan wars, compounded by the deepest recession in 70 years. Congressional Budget Office, Douglas W. Elmendorf to Maurice D. Hinchey, May 11, 2010, http://www.cbo.gov/ftpdocs/114xx/doc11492/HincheyLtr.pdf. Congress has authorized $1.1 trillion for the two wars. CBO, The Budget and Economic Outlook, Fiscal Years 2010 to 2020, p. 6, http://www.cbo.gov/ftpdocs/108xx/doc10871/01-26-Outlook.pdf.

[19] Internal Revenue Service, Appendix to Historical and other Tables, Table 23. U.S. Individual Income Tax: Personal Exemptions, http://www.irs.gov/taxstats/article/0,,id=175910,00.html.

[20] Congressional Budget Office, Douglas W. Elmendorf to Maurice D. Hinchey, May 11, 2010, http://www.cbo.gov/ftpdocs/114xx/doc11492/HincheyLtr.pdf.

[21] 2010 Trustees Report, Table V.A2.

[22] Bureau of Labor Statistics, "The Employment Situation, July 2010," http://www.bls.gov/news.release/pdf/empsit.pdf.

[23] Source: Congressional Research Service, Income and Poverty Among Older Americans in 2008, Oct 2009, http://benefitslink.com/articles/guests/RL32697_Oct_2009.pdf

[24] National Center for Biotechnology Information, Health, United States, 2009, Chartbook, http://www.ncbi.nlm.nih.gov/bookshelf/br.fcgi?book=healthus08&part=chartbook.

[25] The Congressional Budget Office has evaluated three options to increase benefits for the lowest earners and estimates their effects on the Trust Fund actuarial balance would be up to -0.3%. CBO, *Social Security Policy Options*, July 2010, http://www.cbo.gov/doc.cfm?index=11580.

[26] In 1983, 91% of earnings were subject to Social Security payroll taxes. Since then, the wages of top earners have grown more rapidly than the wages of the majority. In 2009, only 83% of earnings were taxed. CBO estimates eliminating the cap without increasing benefits for top earnings would add 0.9% to the system's actuarial balance, and the Trust Fund would continue to hold assets for the entire 75 year window projected. CBO, *Social Security Policy Options,* p. 18-19.

About Us

The Economic Opportunity Institute (EOI) is a nonpartisan, non-profit public policy organization founded in 1998 and based in Seattle, Washington. Our mission is to forge realistic public policies that promote long-term economic security and opportunity for Washington's middle-class and low-income workers and families, ensuring the benefits of prosperity are broadly available to all those who contribute to it. We utilize research, education and advocacy to shape public debate and advance new policy ideas that support high-quality education, modern work-life standards, retirement security, and shared investments in our common future.

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