Keeping Social Security strong

FOUR STEPS WE CAN TAKE TO PRESERVE AMERICA'S PROMISE FOR EVERY GENERATION

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Social Security is one of the great achievements of American democracy. It represents the best of our values – honoring our parents, respecting hard work, and supporting families.

Social Security provides stable income to 56 million people in one in four American households – in both good economic times and bad. For the majority of seniors, Social Security is their largest source of income. Thanks to Social Security, millions of disabled adults and children who have lost a parent also receive income and have access to greater opportunities.

The Great Recession would have been far more devastating without the steady flow of Social Security dollars into every community, supporting families and main street businesses. With traditional pensions in sharp decline, job security evaporating, and savings and home values fluctuating wildly, Social Security in the 21st century is more important than ever for the American people.

As successful as Social Security is, a few tweaks could improve the lives of recipients both today and in the future, *and* help strengthen economic recovery:

1. **Raise benefits for low earners and elderly survivors.**[1] Thanks to Social Security, poverty among seniors has fallen from 35% in 1960 to about 9% today – the lowest rate for any age group. Yet far too many live on the financial edge, especially older widows and people of color.[2] We could better assure all our elders live in dignity by boosting the benefits of those who need them most.

2. **Recognize modern family structures.** People who take time away from work to care for young children or aging parents lose benefits down the road. Women are especially disadvantaged. And while most spouses and dependents receive benefits, Social Security still does not recognize same-sex couples. Family care credits and benefits for same sex partners would make the system more fair.[3]

3. **Restore college benefits.**[4] In earlier generations, children of deceased or disabled workers could continue receiving benefits through college, allowing many young people to pursue dreams that otherwise would have been unattainable. But this benefit was ended in 1981.[5] Today's young survivors struggle on their own, even as college costs spiral out of reach.

4. **Scrap the cap.**[6] Working Americans and their employers each pay 6.2% of wages into Social Security, but only up to the cap of $110,100 in 2012. Taxing all earnings equally would provide the resources for benefit improvements right now, while also guaranteeing the system remains strongly financed for today's young workers – and for their children and grandchildren.

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Social Security Today

3.4

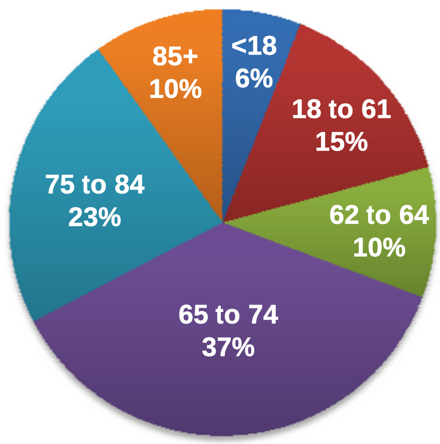
MILLION

THE NUMBER OF CHILDREN ON SOCIAL SECURITY

Working Americans and their employers each pay 6.2% on the first $110,100 of earnings into Social Security. Those payments insure 159 million workers and their families from loss of income due to disability, premature death, or retirement. They also fund benefits averaging $1,125 monthly for 56 million Americans, including:[7]

- **Retirees** age 62+. Age for "full" benefits is gradually rising from 65 to 67.
- **Disabled workers** with more than 18 months work (depending on age).
- **Dependents** of retired, disabled, and deceased workers – children, adult disabled children, spouses, and elderly parents

AGE DISTRIBUTION OF SOCIAL SECURITY RECIPIENTS, 2010



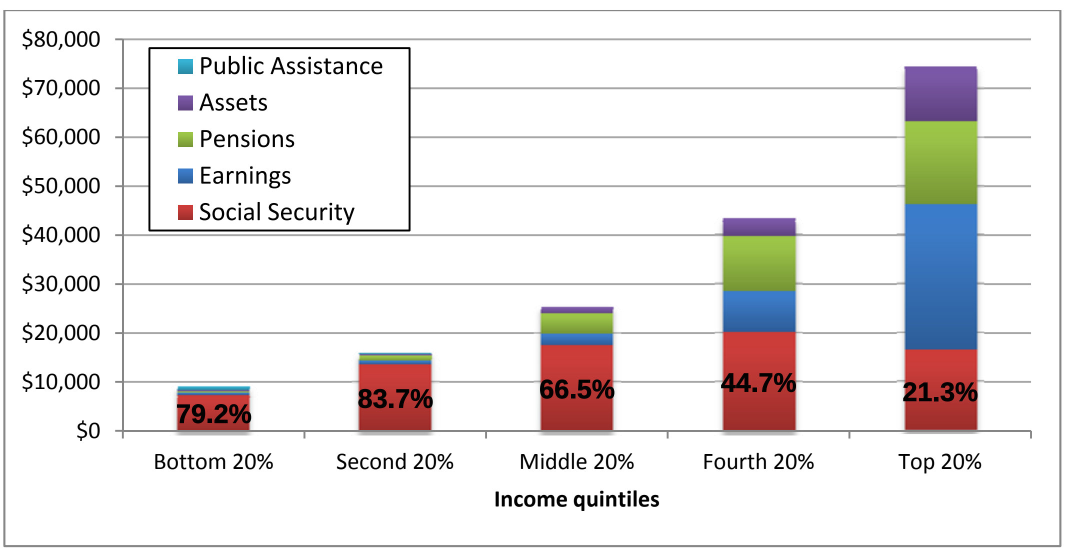
Source: Social Security Administration

60%

OF SENIORS

DEPEND ON SOCIAL SECURITY FOR MORE THAN HALF OF TOTAL INCOME

AVERAGE RELIANCE ON INCOME SOURCES FOR HOUSEHOLDS AGED 65+, BY INCOME QUINTILE 2010



Income range of quintiles: Bottom 20%: $1 - $12,554; Second 20%: $12,555 - $20,145; Middle 20%: $20,146 - $32,602; Fourth 20%: $32,602 - $57,957; Top 20%: > $57,958.
Source: Social Security Administration, Income of the Population 55 or Older, 2010

Social Security's Future

In 1981, Congress adopted a plan to prepare for the retirement of the baby boomers. A key provision was to raise the payroll tax higher than the level needed to cover current benefits in order to build up the trust fund. The interest and principal of the trust fund would supplement payroll taxes during the baby boomer's peak retirement years. The trust fund has now grown to $2.7 trillion.

Every year the Social Security actuaries and Trustees project the program's income and expenses 75 years into the future. This requires them to make assumptions about birth and death rates, immigration, job and wage growth, and the overall economy. The actuaries conservatively predict that the U.S. economy will grow about 2% annually throughout the 21st century, rather than the 3% average rate of the 20th century.

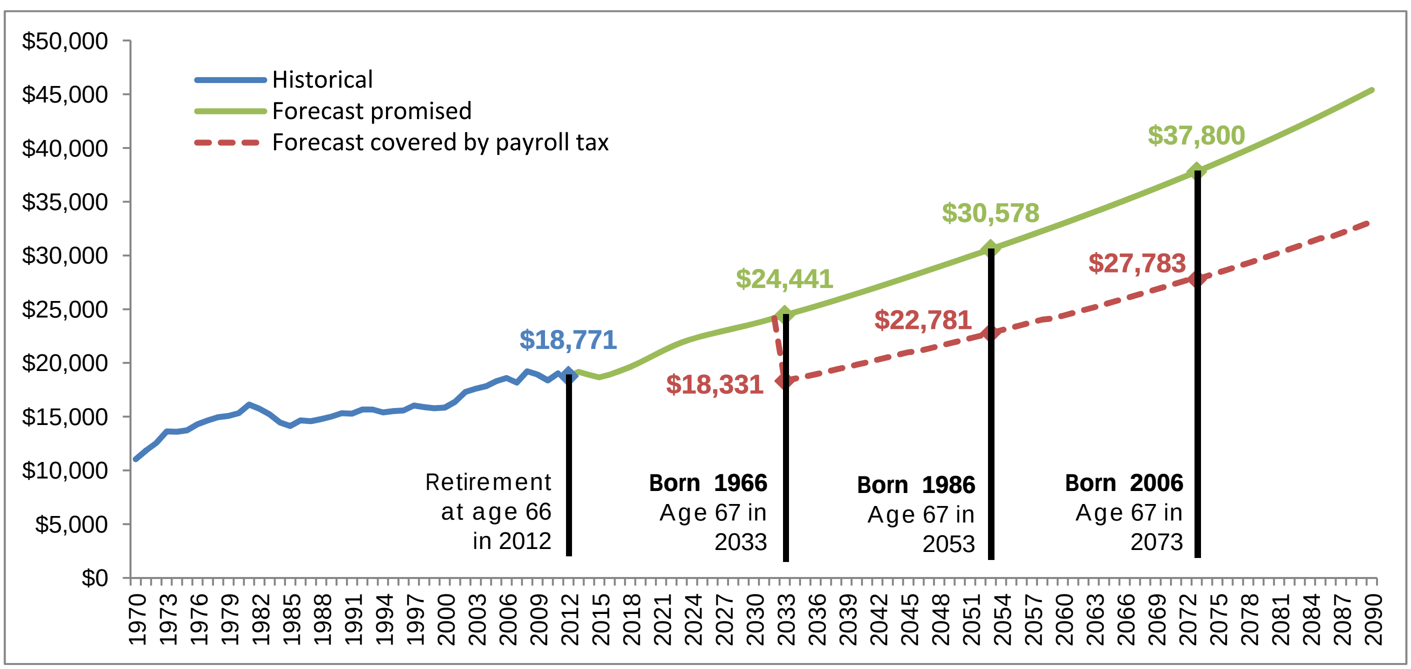
The 2012 forecast predicts that the trust fund will be spent down as planned between 2021 and 2033. At that point payroll taxes will cover about 75% of projected benefits. One year previously, when economists were projecting a slightly faster recovery, the Trustees forecast the trust funds would last until 2036, and at that point payroll taxes would fund 77% of promised benefits. Faster than expected economic growth in future years will push those numbers up again.

Because productivity and wages usually rise faster than inflation over time, both typical workers and retirees will also have higher incomes in future decades. In fact, even under the conservative projections of the actuaries, payroll taxes in 2034 will finance about the same level of benefits as today's retirees receive.[8]

$18,331

AVERAGE BENEFIT IN 2033 WITH NO ACTION BY CONGRESS (INFLATION ADJUSTED)

ANNUAL RETIREMENT BENEFITS OF MEDIAN WAGE EARNERS, ACTUAL AND FORECAST, 2012 DOLLARS, 1970-2090



Source: Social Security Trustees 2012 Annual Report, Supplemental Single Year Tables

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MILLION

NUMBER OF OLDER AMERICAN WHO WOULD LIVE IN POVERTY WITHOUT SOCIAL SECURITY

Social Security: Restoring the American Middle Class

Increasing Social Security benefits now, financed by new revenues from the highest earners, will make life a little easier for the elderly, disabled people, and children living closest to the edge. Those new benefits will be plowed right back into our still struggling national economy, helping create new jobs – and boosting Social Security's revenues. In the end, a strong economy and a thriving middle class are the best guarantees of a strong financial future for Social Security.

The news media – and some politicians and pundits – like to throw around words like "insolvency" and "going broke" when speaking of Social Security's future. Some insist that radical cuts must be made to "save" the program.[9] However, it is clear that Social Security will have the assets to protect American working families throughout the 21st century, even if no changes are made.

Social Security is more important now than ever. Half of the workforce has no retirement plan other than Social Security. Traditional pensions have all but disappeared in the private sector. Americans have seen their assets evaporate in 401(k) plans, savings and home equity.

Social Security protects the childcare teacher and university professor, waitress and software designer, truck driver and surgeon, stay-at-home parent and employed parent, the lucky and unlucky, the newborn and 100-year-old. It's there for us all.

Notes

[1] One way to raise benefits for low earners would be to set a minimum benefit (a previous minimum benefit was eliminated in 1981). Another would be to adjust the benefit formula to replace 100% rather than 90% below the first "bend point" ($767 of monthly earnings in 2012), remain at 32% up to the next ($4,624), and be lowered slightly from the current 15% on higher incomes (up to the "cap" of $9,175 per month). Income of elderly widows and widowers could be raised by assuring the survivor at least 75% of the couple's previous total benefit. The National Academy of Social Insurance has calculated the cost of a new minimum benefit of 125% of poverty for a 30 year worker retiring at full benefit age to be 0.13% of payroll over 75 years and a new widow benefit to be 0.06% to 0.3%, depending on whether it applies to all incomes or only those up to average wage, based on 2009 figures. Virginia P. Reno and Joni Lavery, *Fixing Social Security: Adequate Benefits, Adequate Financing*, National Academy of Social Insurance, October 2009, http://www.nasi.org/sites/default/files/research/Fixing_Social_Security.pdf.

[2] Gary V. Engelhardt and Jonathan Gruber, "Social Security and the Evolution of Elderly Poverty," National Bureau of Economic Research Working paper 10466, May 2004, http://www.nber.org/papers/w10466; U.S. Census Bureau, Income, Poverty and Health Insurance in the United States: 2010, http://www.census.gov/hhes/www/poverty/data/incpovhlth/2010/tables.html; Social Security Administration, Income of the Population 55 or Older, 2010, http://www.ssa.gov/policy/docs/statcomps/income_pop55/.

[3] NASI calculates the costs of up to five years of childcare credits at half the average wage while a child is under 6 to be 0.24% of payroll. The cost of adding same sex partner benefits would be quite low.

[4] NASI estimates the cost of college benefits for children of deceased or disabled workers to be 0.07%.

[5] Social Security Administration, Special Collections, Chronology 1980s, http://www.socialsecurity.gov/history/1980.html.

[6] Eliminating the cap on earned income, and adding a new bend point to the benefit formula to pay 3% in benefits above the current cap, would add resources equivalent to 2.17% of payroll to Social Security, far more than the costs of the improvements suggested above, according to NASI. About 6% of wage earners and 84% of wages are above the cap. The 2012 Social Security Trustees Report projects a 75 year shortfall of 2.61% of payroll. Social Security Trustees, "The 2012 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds," Overview, http://ssa.gov/OACT/TR/2012/index.html. Congress could also make the system more fair and provide substantial additional resources by closing the S-Corporation loophole that allows business owners to pay payroll taxes only on a modest "salary" while pocketing most of the profits of their companies payroll-tax free. The GAO found that in 2003 and 2004 S-corporations underreported compensation to owners by $23.6 billion. U.S. Government Accountability Office, Tax Gap: Actions Needed to Address Noncompliance with S Corporation Tax Rules, December 2009, http://www.gao.gov/new.items/d10195.pdf.

[7] Social Security Administration, Monthly Statistical Snapshot, March 2012, http://ssa.gov/policy/docs/quickfacts/stat_snapshot/index.html?qs.

[8] Social Security Trustees, "The 2012 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds," Overview, http://ssa.gov/OACT/TR/2012/index.html.

[9] See, for example, the *Seattle Times*, "Social Security heading for insolvency even faster," Associated Press, April 23, 2012, http://seattletimes.nwsource.com/html/politics/2018051346_apussocialsecuritymedicare.html.