

This presentation provides an overview of Social Security – its benefits, financing, affordability, and policy options to strengthen it. NASI’s income security staff, led by Virginia Reno, Vice President for Income Security, developed the slides.

The purpose of the primer is to provide basic background information about Social Security, what it provides, what it costs, its future finances and affordability, and options to improve benefit adequacy and long term finances.

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The primer is in several parts. First, we describe what Social Security is. We then review the latest projections of its financial outlook for the future. Finally, we consider ways to improve it.



What is the purpose of Social Security? What does it do?

Social Security is a social insurance program. Workers pay in while they are employed and employers pay matching contributions. Then Social Security's guaranteed benefits are available to support workers and their families in retirement, or when they lose their livelihood due to career-ending disability or the death of a family worker. By covering almost all workers and their families, Social Security pools risks broadly.

How Many People Receive Social Security?

- 54.2 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.

NASI Social Security Brief No. 36; SSA: Beneficiary Data, Benefits Paid by Type of Beneficiary 4

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How many Americans receive Social Security? About 54 million people – or one in six Americans – get monthly benefits from Social Security. In one in four households, someone receives Social Security.

Social Security beneficiaries fall into three categories. They receive either *retirement benefits*, *disability benefits*, or *survivor benefits*.

The recipients could be a retired couple, a grandmother who looks after her grandchildren while her son and daughter-in-law are at work, a 55-year-old meatpacker disabled by severe arthritis, or a 5th grader and 3rd grader who became entitled to survivor benefits after their father died in military service.

Who Receives Social Security?

- 34.7 million *retired workers*
- 8.2 million *disabled workers*
- 4.4 million *widows and widowers*
- 2.5 million *spouses*
- 1 million *adults disabled since childhood*
- 3.4 million *children*

SSA: Beneficiary Data, Benefits Paid by Type of Beneficiary

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In all, about 35 million retired workers receive Social Security benefits, as do about 8 million disabled workers, 4 million widows, 3 million spouses, and 3 million children under age 18 (or under age 19 and still in high school). About 1 million adults disabled since childhood also receive regular benefits from Social Security when a parent has died, become disabled, or retired.

(Data as of Jan. 2011)

How Much Does Social Security Pay?

Type of Beneficiary	Average Monthly Benefit (Jan. 2011)	Average Yearly Benefit
All retired workers	\$1,177	\$14,120
All aged widow(er)s, non-disabled	\$1,135	\$13,620
All disabled workers	\$1,068	\$12,816
Disabled worker, young spouse and one or more children	\$1,807	\$21,680
Widowed mother and two children	\$2,390	\$28,680
Retired worker and aged spouse	\$1,911	\$22,930

SSA: Beneficiary Data, Benefits Paid by Type of Family; U.S. Health and Human Services

How much does Social Security pay?

Social Security provides a foundation of retirement income that retirees supplement with pensions, savings, and earnings. Benefits alone do not provide a comfortable level of living. The average retired worker benefit in January 2011 was \$1,177 a month, or about \$14,120 a year.

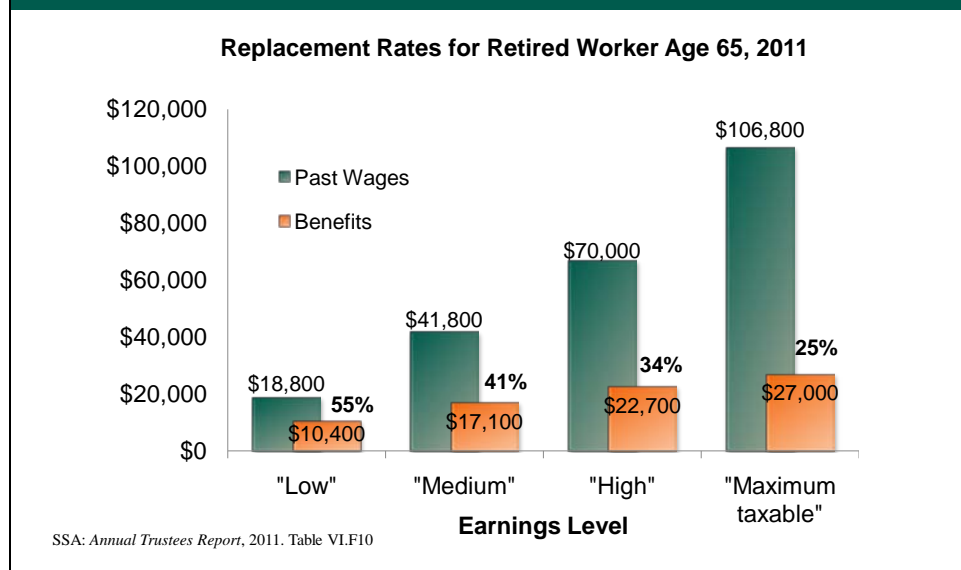
The average is somewhat lower for widowed spouses age 60 and older: \$1,135 a month or about \$13,620 a year.

The average benefit for disabled workers is \$1,068, or about \$12,816 a year. A disabled worker with a young spouse and one or more children received, on average, \$1,807 a month or about \$21,680 a year.

For comparison, the 2011 federal poverty guideline is \$18,530 annually for a family of three, and \$22,350 for a family of four.

Each year Social Security benefits are adjusted to keep up with the cost of living. The cost of living adjustment (COLA) comes in the January checks. There was no COLA increase in Social Security benefits in January 2010 or January 2011 because prices fell after the last COLA increase of 5.8 percent that took effect in January 2009.

How Do Benefits Compare to Earnings?



The most common way to measure income during retirement is to compare it to the same person's income *before* retirement. The resulting "replacement rate" shows what percentage of pre-retirement income is replaced by retirement benefits.

This chart shows how Social Security benefits compare to a retiree's past earnings for a "low," "medium," "high," and "maximum taxable" earner. The short bars are the benefits that a retiree would receive at age 65. The tall bars represent the retiree's typical (or average indexed) lifetime earnings while working. Social Security benefits replace a larger share of past earnings for lower earners. While higher earners receive larger benefit checks, those checks represent a smaller fraction of what they had been making.

For example, a 65-year-old who retired in 2011 with a lifetime of "medium" earnings (about \$41,800 in 2010) would receive about \$17,100 a year, which would replace about 41 percent of past earnings.

A "low" earner who made about \$18,800 in 2010 would receive about \$10,400, which would replace about 55 percent of prior earnings. A worker who always earned the "maximum" taxable amount (\$106,800 in 2009-2011) would get benefits that replace about 25 percent of prior earnings.

These benefits are for workers who claim Social Security at age 65. Workers who take benefits at 62 (the earliest eligibility age) would receive lower benefits because they began receiving benefits early.

For more details on replacement rates, see slide 13.

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

- 90% of people 65 and older get Social Security.
- Nearly 2 in 3 (64%) get *half or more* of their income from Social Security.
- About 1 in 3 get *almost all (90% or more)* of their income from Social Security.

SSA: *Income of the Population 55 or Older*, 2008. Table 9.A1

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Social Security benefits are relatively modest both in dollar amounts and in relation to retirees' prior earnings. Yet the benefits are critically important to the families that receive them.

About 90 percent of married couples and unmarried persons age 65 and older receive Social Security. It is the major source of income for most of those beneficiaries.

Nearly two in three of these beneficiaries (64 percent) rely on Social Security for half or more of their total income from all sources.

About one in three elderly beneficiaries get almost all (90 percent or more) of their income from Social Security.

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:

- 63% of Whites
- 71% of Blacks
- 68% of Asians
- 74% of Hispanics

➤ Percent of beneficiaries age 65 and older who receive **90% or more** of their income from Social Security:

- 33% of Whites
- 47% of Blacks
- 44% of Asians
- 53% of Hispanics

SSA: *Income of the Population 55 or Older, 2008*. Table 9.A3

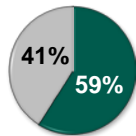
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Social Security is particularly important to elders in communities of color.

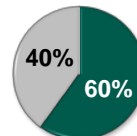
Most Elderly Don't Receive Pensions

Percent with Employer-Sponsored Pensions

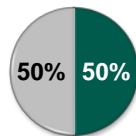
All Age 65+



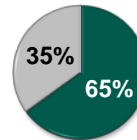
Unmarried Men



Couples



Unmarried Women



■ No Pension
■ Pension

SSA: *Income of the Population 55 or Older*, 2008. Tables 2.A1 and 2.B1; NASI Social Security Brief No. 31

One reason that Social Security is such a large portion of income is that most Americans age 65 and older do not receive income from pensions, from either private employment or from jobs in federal, state or local government. Of couples age 65 and older, just half (50 percent) have a pension from the husband's or wife's work, or both. The unmarried are less likely to have pensions. About 35 percent of unmarried women and 40 percent of unmarried men receive pensions. Combining couples and the unmarried together, the pension receipt rate is 41 percent. These numbers are declining and are projected to be considerably lower in the future.

For those who do receive pension income, the pension amounts typically do not keep up with price growth after retirement. Social Security benefits, in contrast, have automatic cost of living adjustments.

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 age from 65 to 67 between 2002 and 2027 means that benefits will replace a **smaller share** of retirees' past earnings.

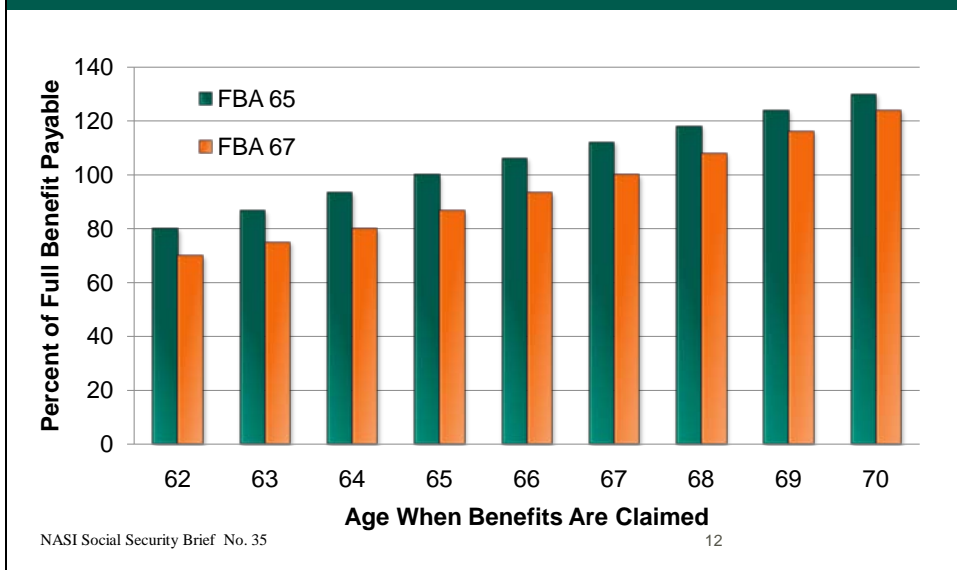
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Ruffing and Van de Water, "Social Security Benefits are Modest," CBPP, 2011

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Under current law, benefits for new retirees are scheduled to rise with wage levels. But in coming years benefits will grow more slowly than wages because the 1983 law that called for increasing the full-benefit age for retirement benefits from 65 to 67 is phasing in. This change lowers benefits across the board relative to what they would have been without the change, as the following chart shows.

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



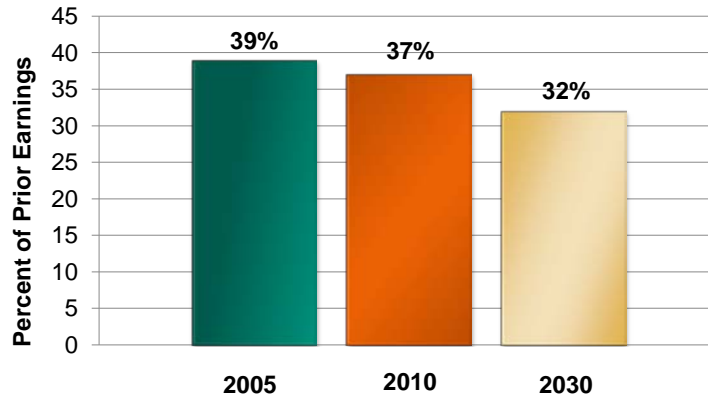
When the full-benefit age was 65, benefits claimed at age 62 were reduced to 80 percent of the full amount; when the full-benefit age reaches 67, benefits claimed at 62 will be reduced to 70 percent, while benefits taken at age 65 will be reduced to 86.7 percent.

When the full-benefit age is 67, benefits claimed at ages 62-66 will be about 12-14 percent lower than they would have been if the full-benefit age had remained at 65. Similarly, benefits claimed at older ages will also be lower than they would have been without the increase in the full-benefit age.

Simply put, increasing the full-benefit age by one year represents a 5-7 percent benefit cut for all retired worker beneficiaries.

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, "Social Security Benefits are Modest," CBPP, 2011

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The increase in the full-benefit retirement age – together with rising out-of-pocket payments for Medicare premiums – will cause net replacement rates from Social Security to fall from about 39 percent in 2005 to 32 percent in 2030.

A medium earner who retired at age 65 in 2005 received a benefit equal to about 39 percent of prior earnings after deducting the premiums for Medicare Part B (the part of Medicare that pays for outpatient services) and Part D (the part that pays for prescription drug benefits).

A medium earner retiring at 65 in 2010 finds that his or her Social Security check replaces about 37 percent of past income after paying premiums for Medicare Parts B and D.

As health care costs continue to outpace wage growth, those premiums will eat further into future retirees' Social Security checks. By 2030, the net replacement rate for a medium earner at 65 will be about 32 percent – the result of the scheduled increase in the Social Security full-benefit age to 67 and steeper Medicare premiums as health care costs continue to climb.

What is Social Security Disability Insurance?



- Disability Insurance (DI) pays monthly benefits to 8.2 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.

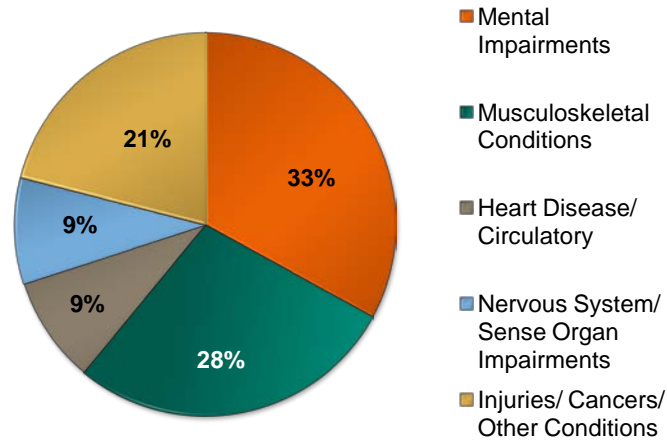
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Since 1957, the Social Security program has provided cash benefits to people with disabilities. Social Security disability insurance (DI) pays monthly benefits to workers who are no longer able to work due to a significant illness or impairment that is expected to last at least a year or to result in death within a year. It is part of the Social Security program that pays retirement benefits to the vast majority of older Americans.

Benefits are based on the disabled worker's past earnings and are paid to the disabled worker and to his or her dependent family members. To be eligible, a disabled worker must have worked in jobs covered by Social Security. Individuals who are drawing Social Security DI benefits become eligible for Medicare after receiving DI for two years.

What are the Most Common Disabilities for DI Recipients?



SSA: Annual Statistical Report on the Disability Insurance Program, 2009

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Many beneficiaries have multiple conditions. Of the 8 million individuals receiving disabled worker benefits at the end of 2009, 33 percent had mental impairments as the main disabling condition, or primary diagnosis. They include five percent with mental retardation and 29 percent with other mental disorders. Musculoskeletal conditions – such as arthritis, back injuries and other disorders of the skeleton and connective tissues – were the main condition for 28 percent of the disabled workers. These conditions were more common among beneficiaries over the age of 50. About nine percent had heart disease or other conditions of the circulatory system as their primary diagnosis. Another nine percent had impairments of the nervous system and sense organs. The remaining 21 percent includes those with injuries, cancers, infectious diseases, metabolic and endocrine diseases, such as diabetes, diseases of the respiratory system and diseases of other body systems.

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:
 - **Black or Hispanic (17% compared to 10% of others age 18-64)**
 - **50 years of age or older (68% compared to 30%)**
 - **Unmarried (51% compared to 42%)**
 - **Divorced (23% compared to 12%)**
 - **Without a high school diploma (37% compared to 13%)**
 - **Without education beyond high school (75% compared to 48%)**
 - **Living alone (23% compared to 11%)**

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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We've looked at who gets Social Security and how much they receive. Now we look at who pays.

Workers and their employers pay for Social Security through dedicated Social Security contributions.

How Much Do Workers Pay?

- Workers pay:
 - **6.2% of their earnings for Social Security** (or 4.2% for 2011 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 **\$106,800** in 2010 and 2011.

NASI Social Security Brief No. 36

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Workers normally pay 6.2 percent of their earnings for Social Security and 1.45 percent of their earnings for Hospital Insurance under Medicare. Employers pay an equal amount. So the total is 12.4 percent for Social Security and 2.9 percent for Medicare; altogether, 15.3 percent. Social Security contributions are paid on earnings only up to a cap: \$106,800 in 2010. The cap rises with increases in average wages. Medicare taxes are assessed on total wages; there is no cap.

In December 2010, as part of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, Congress passed a temporary reduction of two percentage points in the employee share of Social Security contributions, called the “payroll tax holiday.” The reduction lasts one year, and the estimated \$110 billion in lost revenue to the Social Security program will be made up from the government’s general fund.

About 6 percent of all workers earn more than the Social Security tax cap. The self-employed pay both the employee and employer share of the contribution. They get a deduction in their personal income taxes for the “employer” half of the total amount. No future increases in the tax rate are scheduled.

Upper-income Social Security beneficiaries pay income taxes on part of their Social Security benefits, and some of this income-tax revenue goes back to the Social Security trust funds.

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.

SSA: Annual Trustees Report, 2011

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Where does the money go?

The Social Security contributions (taxes) that workers and employers pay are credited to the Social Security trust funds.

A Board of Trustees oversees the trust funds. It is made up of the Secretary of the Treasury, who is the managing Trustee, the Secretaries of Labor and of Health and Human Services, and the Commissioner of Social Security. In addition, two public trustees who are experts in Social Security and come from different political parties serve on the Board.

The Office of the Chief Actuary in the Social Security Administration makes projections of Social Security finances that are used by the trustees in their annual report to Congress.



The Financial Outlook

2010 Finances

Trust fund income =	\$781.1 billion (mostly contributions)
Trust fund outgo =	\$712.5 billion (mostly benefits)
Surplus =	<hr/> \$68.6 billion

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

SSA: Trust Fund Data; SSA: *Annual Trustees Report*, 2011

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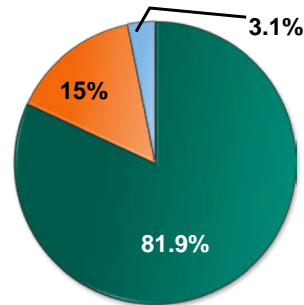
In the near term Social Security is taking in more in revenues and interest than it is paying out in benefits.

In 2010, income to the trust funds (mainly from Social Security contributions, plus interest and taxation of benefits) was \$781 billion, while outgo (mainly benefit payments) was \$713 billion, leaving a surplus of \$69 billion.

These surpluses, by law, are invested in U.S. treasury securities and earn interest that goes to the trust funds.

The outgo from the Social Security trust funds covers administrative expenses of the Social Security program, as well as benefit payments. Administrative costs are about 1 percent of total outgo.

Where is Social Security Income From? Shares of Income to the Trust Funds, 2010



- Employer and employee Social Security contributions
- Interest on reserves
- Income taxes on benefits

SSA: Trust Fund Data

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Where does the Social Security trust fund money come from?

Social Security contributions from workers and employers were about 82 percent of the trust funds' income in 2010. About 15 percent came from interest on Treasury securities held by the trust funds.

Income taxes that some beneficiaries pay on their benefits accounted for 3 percent of trust fund income. (Part of Social Security benefit income is subject to federal income taxes for single beneficiaries with countable income over \$25,000 and for couples with such income over \$32,000. Countable income includes half of Social Security plus all of most other sources of income.)

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.

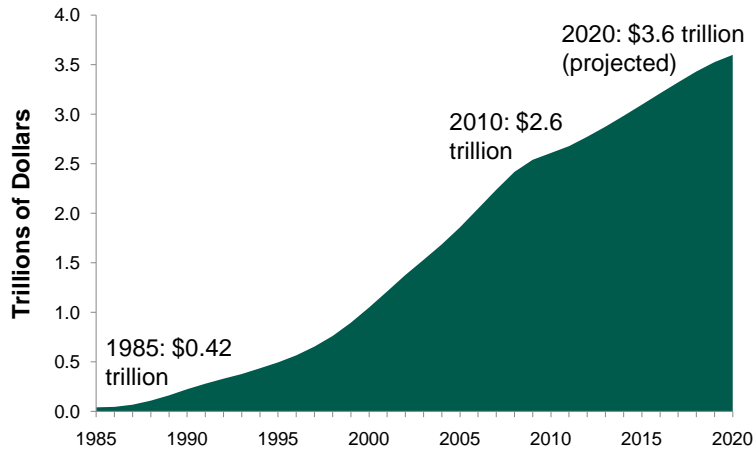
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Surpluses from the Social Security system are invested in special-issue Treasury securities, and are called Social Security reserves or trust fund assets. The securities also earn interest, which is credited back into the trust funds.

The Treasury securities that make up the trust funds are secure investments, backed by the full faith of the U.S. government.

How Big are Social Security Trust Fund Assets?



SSA: Annual Trustees Report, 2011

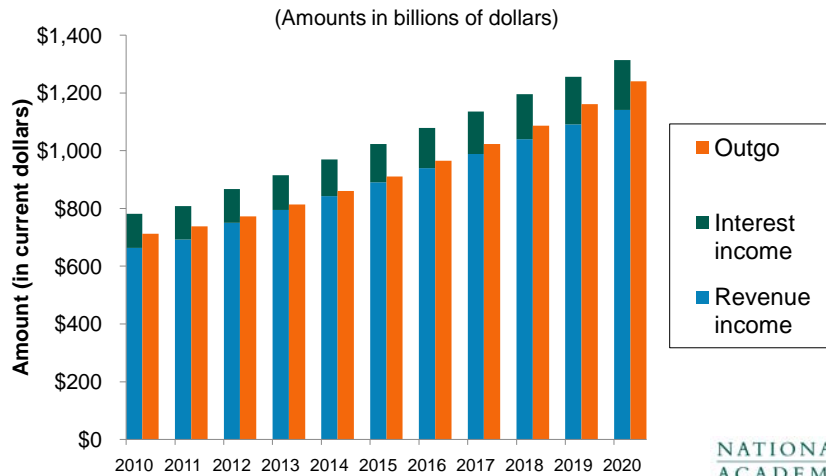
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Social Security's trust fund assets were \$2.6 trillion at the end of 2010. They are projected to grow to \$3.6 trillion by 2020.

Some people say the special-issue Treasury securities held by the trust funds are “worthless IOUs.” Is that true?

Not at all. The investments held by the trust funds are backed by the full faith and credit of the U.S. government. The government has always repaid Social Security, with interest. The special-issue securities are just as safe as U.S. savings bonds or other financial instruments of the federal government. In financial markets, U.S. Treasury securities are considered one of the safest and most secure investments.

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



SSA: Annual Trustees Report, 2011, Table VI.F8

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The “cash-flow” balance for Social Security reports the system’s annual income and outgo without counting interest on trust fund reserves. For example, some media reports announced recently that “Social Security has now officially gone cash negative.” In fact, the program had a \$69 billion surplus for 2010 (as shown in slide 21). The “cash-flow” discussion ignores interest, which is a very real part of Social Security’s income.

The chart above shows projected total income to the Social Security system – including both interest (in green) and revenues from contributions and income taxes on benefits (in blue) – and outgo (in red). If interest is ignored, then other income was less than outgo in 2010. Interest income is a firm commitment of the Treasury to pay the interest due to the Social Security trust fund. It is just as firm as the nation’s obligation to pay interest to any other holder of U.S. Treasury bonds, whether a Wall Street firm, China, or an individual citizen bondholder. Projected income to Social Security including interest will continue to exceed outgo for the next 10 years and beyond.

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)

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How do actuaries project the future?

The actuaries project the Social Security system 75 years into the future. They update their forecast every year. The purpose is to help policymakers anticipate whether Social Security is likely to face financing problems in the future. The actuaries make three forecasts: low cost, high cost, and intermediate (or best estimate).

For each, they use assumptions that have been reviewed and agreed to by the Trustees. The assumptions are about future trends in aspects of the population and the economy that would affect the income and outgo of the trust funds.

The Long-Range Projection (Best estimate)

- In 2023, 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 2036, trust fund reserves are projected to be depleted. Income is projected to cover 77% of benefits due then.
- By 2085, assuming no change in taxes, benefits or assumptions, revenue would cover about 74% of benefits due then.

SSA: Annual Trustees Report, 2011

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Under the “best estimate” set of assumptions, the 2011 Trustees Report finds:

In 2023, 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 2036, reserves are projected to be depleted (assuming no change in benefits or contributions). Income is projected to cover 77 percent of benefits due then. The system will not be “broken,” and Social Security contributions will keep coming in. But, if this projection does not improve, policymakers will need to make some changes before 2036, to ensure that all scheduled benefits can be paid.

Other Scenarios

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



High Cost:
Trust fund
reserves would
be depleted in
2029, instead
of 2036

SSA: Annual Trustees Report, 2011

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What do other scenarios show?

Under the Trustees' "High Cost" scenario, the Social Security trust fund reserves would be depleted in 2029, instead of 2036.

Under the "Low Cost" scenario, Social Security would be solvent for 75 years and beyond.

The difference among estimates shows that there is great uncertainty about predicting the distant future.

The Actuarial Deficit (Best Estimate)

The long-range deficit is 2.22% of taxable payroll.

This Means:

The gap would be closed if the Social Security contribution rate were raised from 6.2% to 7.4% for workers and employers.

SSA: Annual Trustees Report, 2011

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What is the “actuarial deficit”?

Some experts talk about the “actuarial deficit.” It is a way to measure the status of Social Security over the next 75 years in a single number.

Under the intermediate (best estimate) scenario, the Social Security Trustees anticipate an actuarial deficit of 2.22 percent of taxable wages. This means that the gap in Social Security finances would be closed if the contribution rate were raised from 6.2% to 7.4% for workers and employers. This combined increase is slightly higher than the actuarial deficit of 2.22% due to the assumed response of employees and employers to an increase in the contribution rate.

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.

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Why will Social Security cost more in the future?

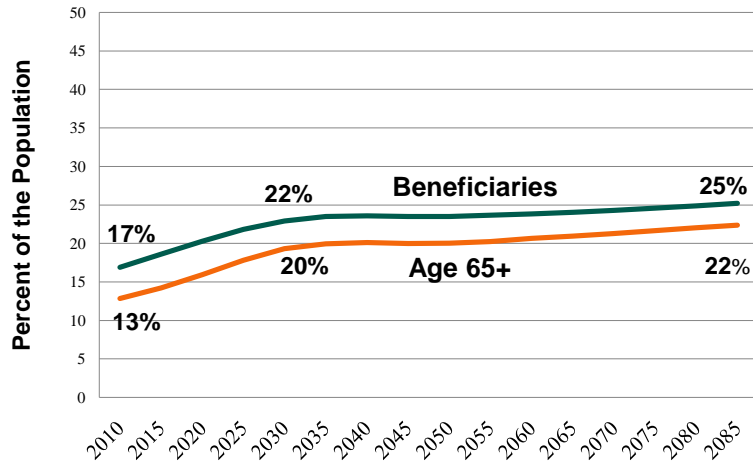
The number of Americans over age 65 will grow because:

- Boomers are reaching age 65
- People are living longer after age 65. However, the longevity increases are not evenly spread across the population, with certain demographic groups enjoying significantly longer lifespans than others.

People age 65 and older will increase from 13 to 20 percent of all Americans.

While the number of people eligible for Social Security will increase, no further increases are scheduled in the Social Security contribution rate.

Percent of the Population Receiving Social Security and Percent Age 65+, 2010-2085



NASI Social Security Brief No. 35

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The share of the population that is over age 65 will increase from about 13 percent today to about 20 percent in 2035 and then will gradually increase to about 22 percent by 2085. The beneficiary share of the population is a bit larger than the age 65+ population because some people under age 65 receive disability, survivor, or early retirement benefits. Beneficiaries as a portion of the U.S. population will increase from about one in six Americans today to about one in four 75 years from now.

Does the growing share of older Americans mean that we can't afford Social Security? That is the next question.

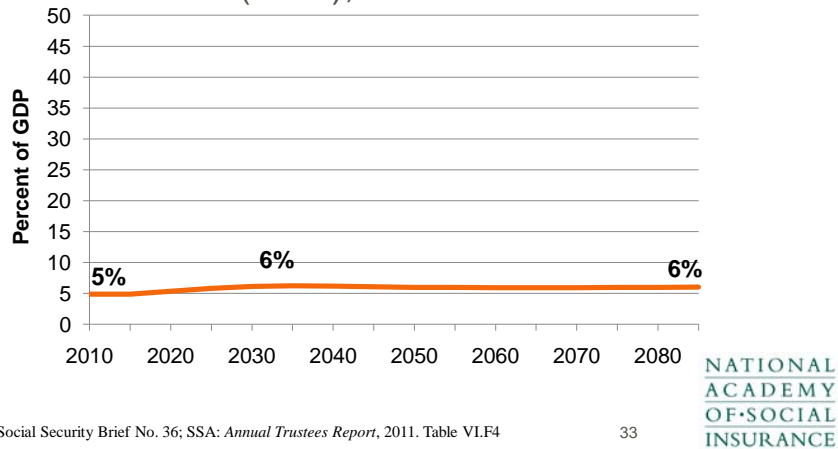


Can we afford Social Security in the future?

A widely accepted way to assess the Social Security program's affordability is to compare benefits scheduled under current law with the size of the entire economy at the time when benefits are to be paid. Our next slide does that.

Social Security is Affordable

Social Security as a Percent of the Economy (GDP), 2010-2085



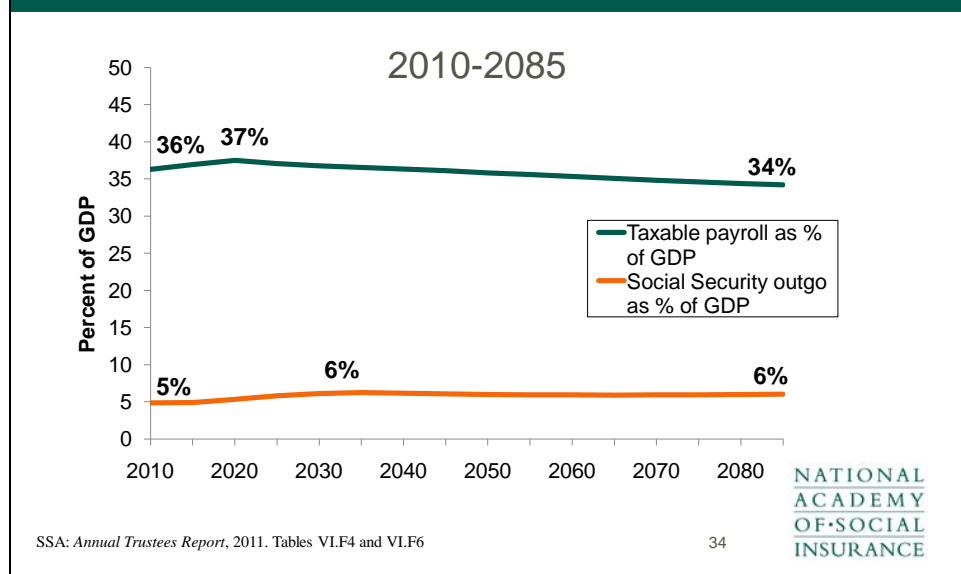
NASI Social Security Brief No. 36; SSA: *Annual Trustees Report*, 2011, Table VI.F4

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According to the 2011 report of the Social Security Trustees, Social Security benefits are now 4.8 percent of the economy, or gross domestic product, and are projected to rise to 6.2 percent in 2035 and then decline, remaining around 6.0 percent for the rest of the next 75 years. This modest increase between now and 2035 is smaller than the growth in spending for public education that occurred when the boomers were children.

A key reason why Social Security remains a relatively stable share of the economy even as more people rely on the benefits is that the change in the full-benefit age to 67 will gradually affect more and more older Americans over the next 45 years. By 2055 all beneficiaries under the age of 95 will have experienced the benefit reduction associated with changing the full-benefit age to 67. This aspect of the 1983 amendments is only beginning to be felt.

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

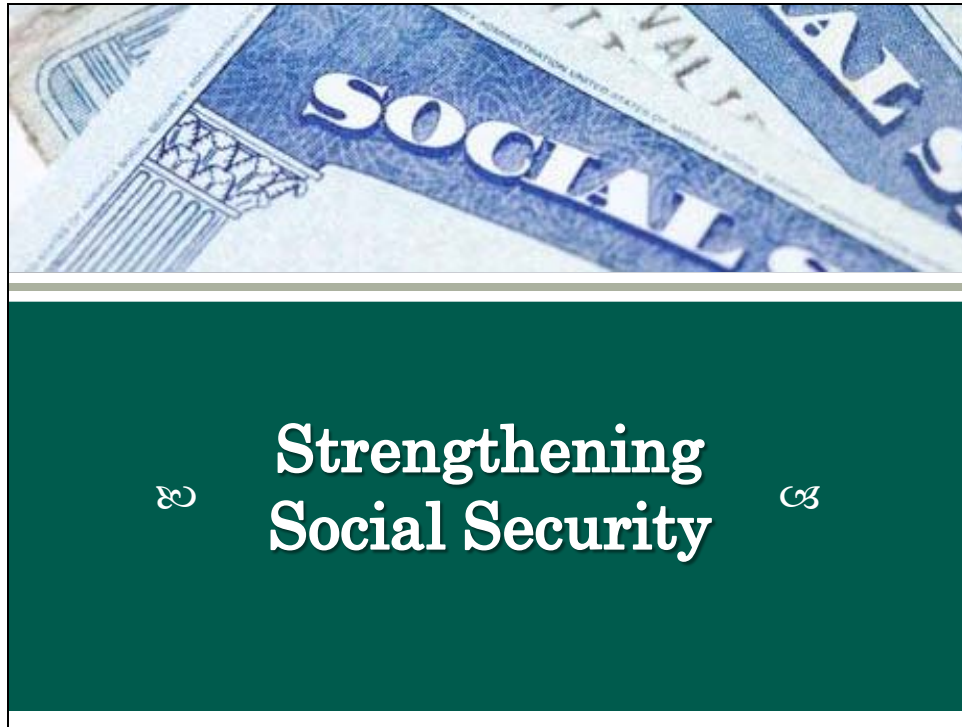


To put Social Security’s financing in a broader perspective relative to the entire economy, consider taxable payroll – or the total wages subject to Social Security (FICA) contributions – as a percentage of the national economy. In 2010, 36 percent of GDP was subject to Social Security contributions; the rest of the national income was not. This share is projected to decline to 34 percent of GDP by 2085.

Sources of income that are *not* subject to Social Security taxes include:

- Earnings above the tax cap (about 16 percent of aggregate earnings)
- Earnings of workers not covered by Social Security (about 25 percent of state and local government employees do not participate in Social Security)
- Non-taxable fringe benefits paid by employers, such as health insurance premiums, pension and 401(k) contributions, and most other employee benefits
- Employees’ tax-favored contributions to “salary reduction” plans for purposes other than retirement (such as out-of-pocket spending for health care, child care, or work expenses)
- Income from capital, such as interest on investments, stock dividends, and rental income from real estate
- Realized increases in the value of property (capital gains) and transfers of property (through gifts and inheritance).

See NASI’s *Fixing Social Security: Adequate Benefits, Adequate Financing* report for more information.



There are countless options and proposals to change or improve Social Security. They include options to:

- Increase benefit adequacy, often for a specific vulnerable group
- Increase revenues for solvency
- Reduce benefits for solvency

NASI's recent report, *Fixing Social Security: Adequate Benefits, Adequate Financing*, illustrates nearly a dozen policy options to improve the adequacy of Social Security benefits for selected groups and improve the status of the program's finances over the next 75 years. The report includes official estimates from Social Security actuaries of the financial consequences of those changes for Social Security's long-term balance.

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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Each of these policy options targets an economically-vulnerable group that would receive more adequate benefits under that option.

For more information on these options and their costs, see NASI's report *Fixing Social Security: Adequate Benefits, Adequate Financing*.

Options for Raising Revenues

Options that would help raise revenues include:

- 1) Lift the cap (now \$106,800) on the earnings on which workers and employers pay Social Security contributions
- 2) Treat all salary reduction plans like 401(k)s (contributions subject to FICA)
- 3) Schedule modest rate increases in the future when funds will be needed
- 4) Dedicate progressive taxes to pay part of Social Security's future cost

See the NASI report *Fixing Social Security: Adequate Benefits, Adequate Financing* for more options.

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The report includes many options for improving Social Security revenues in the future. For example:

- Lift the cap on earnings subject to Social Security contributions (now \$106,800). Many variations on this option exist. Some would eliminate the entire long-term deficit in Social Security; others go part way.
- Treat all salary reduction plans like 401(k)s – that is, treat contributions into the plans as covered earnings for Social Security. In 1983, Congress decided that worker contributions into 401(k)s should be covered by Social Security. That rationale could apply to other salary reduction plans.
- Schedule a modest increase in the 6.2 percent contribution rate out in the future when funds would be needed. Such a change could avoid drawing down Social Security reserves so that interest income will remain a permanent source of income to Social Security.
- Dedicate progressive taxes to pay part of the future cost of Social Security. Examples of progressive taxes (which fall more on higher-income individuals than lower-income ones) include an estate tax and a financial transactions tax.

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.

See the NASI report *Fixing Social Security: Adequate Benefits, Adequate Financing* for more options.

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The NASI report, *Fixing Social Security: Adequate Benefits, Adequate Financing*, includes options that would lower future benefits and costs, such as:

- Further raising the age for full retirement benefits
- Lowering the cost-of-living adjustments
- Reducing benefits for new beneficiaries.

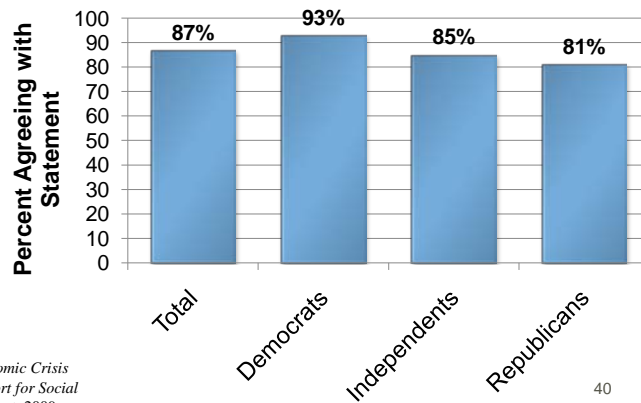


Public opinion polls consistently show that Americans support Social Security and are willing to pay for it. In fact, polls show that Americans would rather pay more than see future benefits cut more than is already scheduled in current law.

Throughout most of Social Security's 75-year history, Congress has scheduled one or more future contribution rate increases to maintain the program in long-term balance. Currently, however, there have been no contribution rate increases since 1990, when the 6.2 percent rate took effect. A case can be made for reviving the practice of scheduling outyear revenue increases. Because policymakers use a 75-year framework to evaluate Social Security's financial status, it makes sense to put in place a 75-year contribution plan.

Across Party Lines, Americans Don't Mind Paying for Social Security

Percent agreeing: "I don't mind paying Social Security taxes because it provides security and stability to millions of retired Americans, the disabled, and children and widowed spouses of deceased workers."



NASI *Economic Crisis Fuels Support for Social Security* report, 2009.

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NASI conducted a poll on public views on Social Security in 2009; see the report *Economic Crisis Fuels Support for Social Security*. Our findings are consistent with those of other organizations.

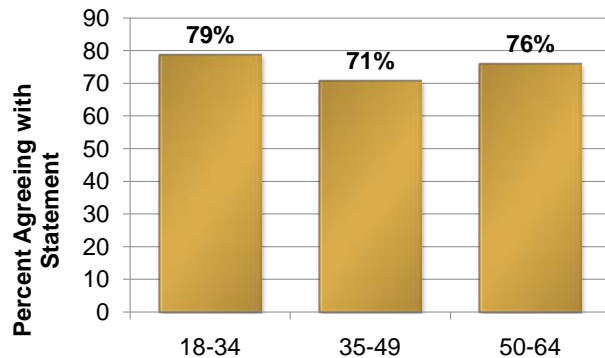
Americans draw a connection between the Social Security taxes they pay and the value they get for themselves, for their families, and for their broader communities.

Large majorities of Americans say they don't mind paying Social Security taxes because it provides security and stability to millions of retired Americans, the disabled, and children and widowed spouses of deceased workers. Overall 87 percent of adults agree. Across party lines, those who agree include:

- 93% of Democrats
- 85% of independents
- 81% of Republicans.

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.”



*NASI Economic Crisis
Fuels Support for Social
Security report, 2009.*

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Working Americans also express willingness to pay more if that is what it will take to preserve Social Security for future generations. Large majorities agree that “it is critical that we preserve Social Security for future generations even if it means increasing working Americans’ contributions to Social Security taxes.” Those agreeing include:

- 79% of adults under 35
- 71% of those 35-49
- 76% of those 50 to 64 years old.

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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NASI Resources

(Available at www.nasi.org)

Social Security Finances: Findings of the 2011 Trustees Report

Social Security Brief No. 36 ~ May 2011
Virginia P. Reno, Elizabeth Lamme, and Elisa A. Walker

Should Social Security's Cost-of-Living Adjustment Be Changed?

Social Security Fact Sheet No. 2 ~ April 2011
Benjamin W. Veghte, Virginia P. Reno, Thomas N. Bethell, and Elisa A. Walker

Social Security Across Generations: Benefit Cuts Will Fall on Today's Children and Grandchildren

Social Security Fact Sheet No. 1 ~ January 2011
Virginia P. Reno and Elisa A. Walker

Strengthening Social Security for the Long Run

Social Security Brief No. 35 ~ November 2010
Janice M. Gregory, Thomas N. Bethell, Virginia P. Reno, and Benjamin W. Veghte

A New Deal for Young Adults: Social Security Benefits for Post-Secondary School Students

Social Security Brief No. 33 ~ May 2010
Alexander Hertel-Fernandez

Tough Times Require Strong Social Security Benefits: Views on Social Security Among African Americans, Hispanic Americans, and White Americans

Social Security Brief No. 32 ~ February 2010
Maya Rockeymoore and Melissa Maitin-Shepard

Fixing Social Security: Adequate Benefits, Adequate Financing

Virginia P. Reno and Joni Lavery, October 2009

Economic Crisis Fuels Support for Social Security: Americans' Views on Social Security

Virginia P. Reno and Joni Lavery, August 2009

Children's Stake in Social Security

Social Security Brief No. 27 ~ February 2008
Joni Lavery and Virginia P. Reno

Survivor Benefits for Families of Deceased Servicemembers and Overseas Contract Workers

Social Security Brief No. 23 ~ October 2006
Virginia P. Reno, Anita Cardwell, and Joni Lavery

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Income of the Population 55 or Older, 2008.

Annual Statistical Report on the Disability Insurance Program, 2009.

Beneficiary Data: Benefits Paid by Type of Beneficiary, www.ssa.gov/cgi-bin/currentpay.cgi

Beneficiary Data: Benefits Paid by Type of Family, www.ssa.gov/OACT/ProgData/famben.html

Trust Fund Data: Financial Data, <http://www.socialsecurity.gov/OACT/ProgData/funds.html>

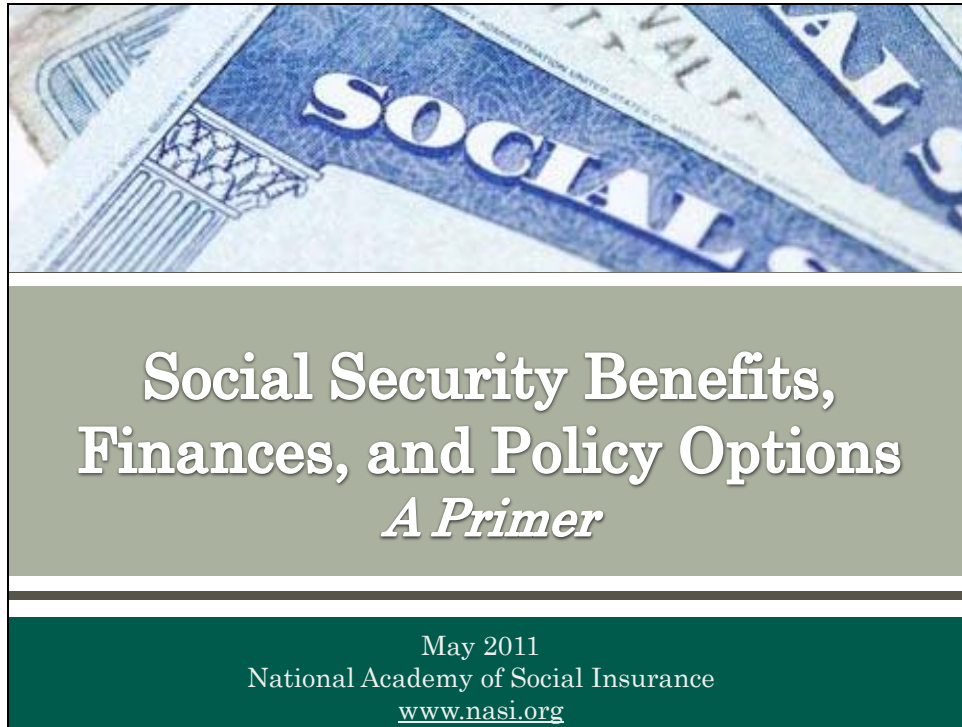
Other:

Ruffing, Kathy A. and Paul N. Van de Water. "Social Security Benefits are Modest: Policymakers Have Only Limited Room to Reduce Benefits Without Causing Hardship." Center on Budget and Policy Priorities (CBPP), 2011.

U.S. Health and Human Services. "The 2011 HHS Poverty Guidelines." <http://aspe.hhs.gov/poverty/11poverty.shtml>

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This presentation provides an overview of Social Security – its benefits, financing, affordability, and policy options to strengthen it. NASI’s income security staff, led by Virginia Reno, Vice President for Income Security, developed the slides.

The purpose of the primer is to provide basic background information about Social Security, what it provides, what it costs, its future finances and affordability, and options to improve benefit adequacy and long term finances.

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