Facts on Aging: Social Security

The Pepper Institute on Aging and Public Policy

Florida State University

Social Security is the primary source of retirement income for most Americans. Nearly 7 out of 10 beneficiaries today derive more than half of their income from Social Security. For 20% of the beneficiaries, mostly poor households, Social Security is the* only *source of retirement income.

The Beneficiaries

- 47 million people – one in six Americans – get monthly benefits from Social Security. That means that in one in four households, someone receives monthly income from Social Security. Among them are:
  - 30 million retired workers
  - 5 million widows
  - 6 million disabled workers
  - 3 million young children
  - 750,000 adults disabled since childhood
- About 90% of Americans age 65 and older receive Social Security benefits.

Source: How Social Security works, by Virginia P. Reno;
from: Generations, Journal of the American Society on Aging (Spring 2005)

- The number of Social Security beneficiaries per 100 workers is projected to increase from 25 beneficiaries in 2000 to 26 in 2010, 32 in 2020, and 39 in 2030.

Source: Social Security Administration, 2005

Social Security and Retirement Income

- For most Americans retirement security comes from several sources of income. Among people age 65 and older, 90% received Social Security, 29% received private pensions and 14% some form of government employee pension. Other income sources are assets (59%) and earnings from employment (22%).

Source: Social Security Administration, 2002

- In January 2005, the average retired-worker benefit was $955 a month, or about $11,500 a year. The average annual benefits are slightly lower for elderly widows ($11,000 a year) and disabled workers ($10,700 a year).

Source: How Social Security works, by Virginia P. Reno; from: Generations*, Journal of the American Society on Aging (Spring 2005)*

- Social Security is a lifeline for older women, who tend to receive lower benefit levels than men due to lower earnings and more time spent out of the work force caring for family. 26% of all unmarried older women rely totally on Social Security, and 42% depend on Social Security for at least 90% of their income. Without Social Security half of all older women would be in poverty.

Source: AARP - The Policy Book, 2004

- Social Security today provides less retirement income as a percentage of prior earnings than in the past. For a medium earner this so-called replacement rate was 41.2% in 2000; by 2030 it is expected to be only 36.5%. The rising cost of Medicare Part B premiums could further reduce benefits by an estimated 9% by 2030.

Source: AARP

- Wage indexing of Social Security benefits has helped lower the proportion of retirees living in poverty from 35% in 1960 to only 9% today.

Source: AARP

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Who Pays?

- Social Security benefits are financed by earmarked taxes. Workers and employers each pay 6.2% of workers' annual earnings, up to $90,000.
- In 2000, there were about 4.5 workers per nonworking adult age 65 and older. If current age and gender-specific employment rates continue, there would be only 3.3 workers per nonworking older adult in 2020.

Source: The Urban Institute

Future Outlook

- **Through 2018**, scheduled Social Security taxes are more than enough to pay for all benefits that come due during this time.
- **After that date and through 2042**, benefits can be paid for through Social Security tax revenue plus interest earned on the Social Security reserves, and by redeeming U.S Treasury bonds held as Social Security trust fund investments.

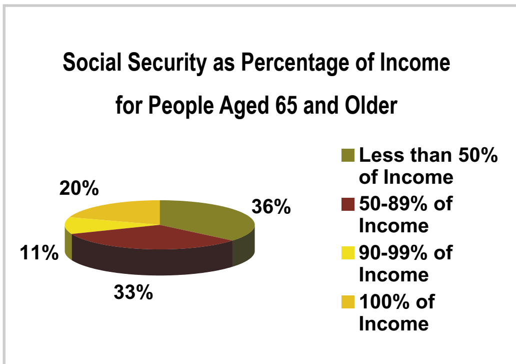
Source: 2004 Report of the Social Security Board of Trustees

- Since the federal government is both the payee and recipient of these bonds, their net asset value to the federal government is zero. The bonds will not reduce the level of future taxes needed to cover the Social Security deficit when the baby boomers begin to retire.

Source: Economics: Private and Public Choice, by James Gwartney, Richard Stroup, Russell Sobel, and David Macpherson.

- **After 2042,** trust fund reserves will be depleted and new taxes coming in from workers and employers will only cover about 73% of benefits called for in current law.

Source: Office of the Chief Actuary of Social Security



Addressing the Financial Shortfall

- The Social Security Trustees predict a long-range "deficit" over the next 75 years of 1.89% of the total of all wages subject to Social Security. This means the gap could be closed if taxes would be that much higher, raising the Social Security tax from currently 12.4% to 14.3%
- The size of the long-range shortfall can also be expressed as a share of the total economy or gross domestic product (GDP) – in this case, 0.7% of the GDP over the next 75 years. That is about one third of the revenue loss from the tax cuts legislated in 2001 and 2003, if they were made permanent.

Source: How Social Security works, by Virginia P. Reno; from: Generations, *Journal of the American Society on Aging (Spring 2005)*

- In 1983 Congress agreed on a goal of taxing 90% of all wages in covered employment. But incomes of the nation's highest earners have risen much faster than those of lower-income workers, with the result that about 15% of total earnings now goes untaxed. By gradually raising the cap at which earnings aren't taxed – currently set at $90,000 – this intended policy goal could be restored again, and could cut the projected Social Security shortfall by 32%. The change would only affect about 6% of all tax payers.

Source: AARP

- The age of eligibility for full retirement benefits is slowly increasing from 65 to 67. Raising the retirement age to 70 would cut the shortfall by about 36%. Workers could still retire earlier, although with lower monthly benefits.

Source: AARP

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