

Social Security in 15 Minutes

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for

Can We Afford Our Parents' and Grandparents' Retirement?

August 3, 2007

Who gets Social Security?

As of June 30, 2007

- 49.6 million people receive Social Security each month
 - 34.3 million retired persons and their dependents
 - Includes spouses and children
 - 6.5 million survivors
 - 8.7 million disabled workers and their dependents
- Nearly 1 in 4 households receive income from Social Security

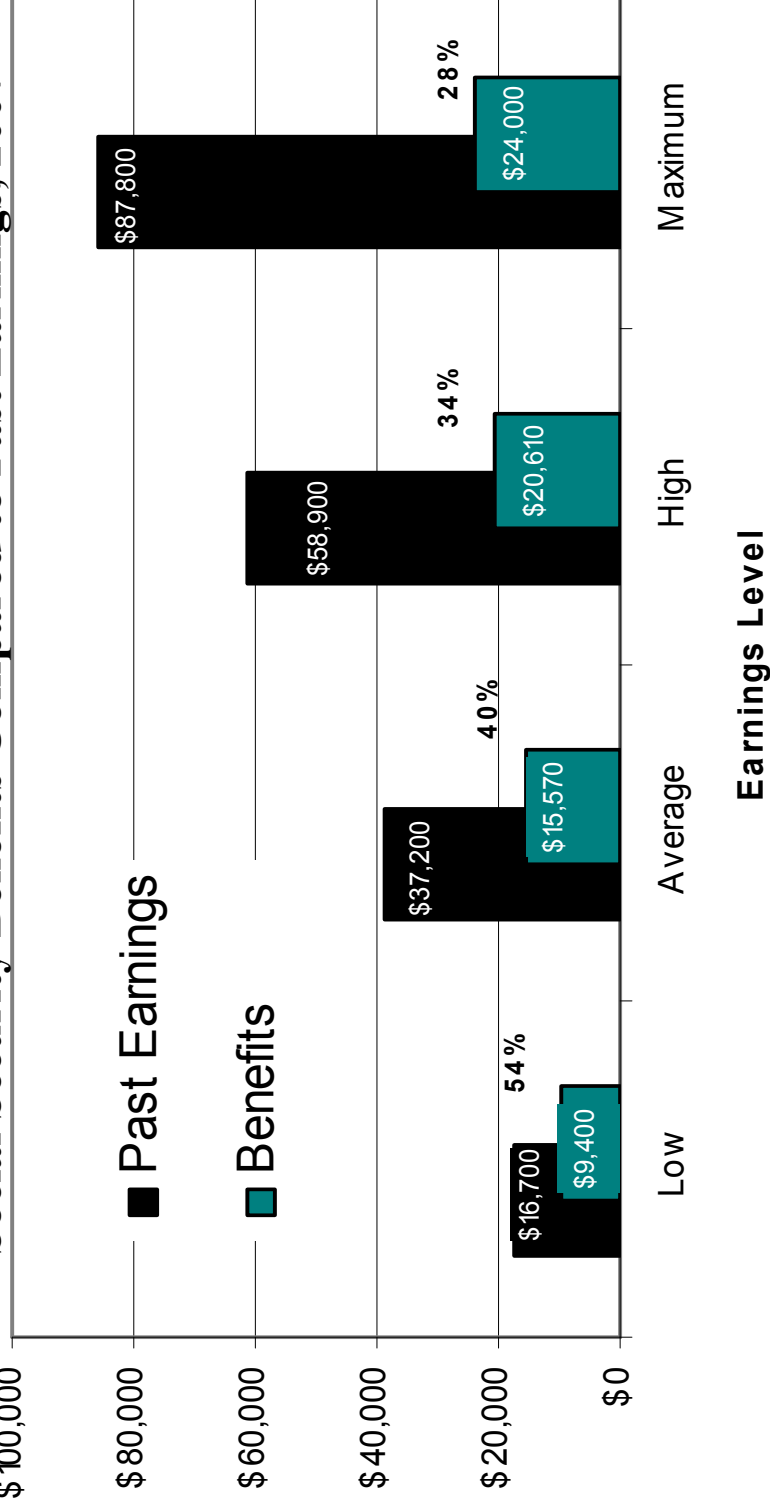
How Much Does Social Security Pay?

Average Monthly Benefits, January 2007

- Retired workers \$1,044
- Aged widows and widowers \$1,008
- Disabled worker alone \$ 978
- Widowed mother and 2 children \$2,170
- Disabled worker, spouse, children \$1,642

Progressive Replacement of Wages

Social Security Benefits Compared to Past Earnings, 2007



Illustrative Low, Average, High, and Maximum Earner Retiring at Age 65

Social Security Reduces Poverty

- Social Security lifts 1 million children under age 18 above the poverty line.
 - Apart from the earned income tax credit, no other government program lifts more children above the poverty line
- Social Security lifts 13 million seniors above the poverty line.
 - Without Social Security, nearly one in two seniors has income below the poverty line; with Social Security, just one in twelve (8.7%) is poor

Source: Center on Budget and Policy Priorities, 2005

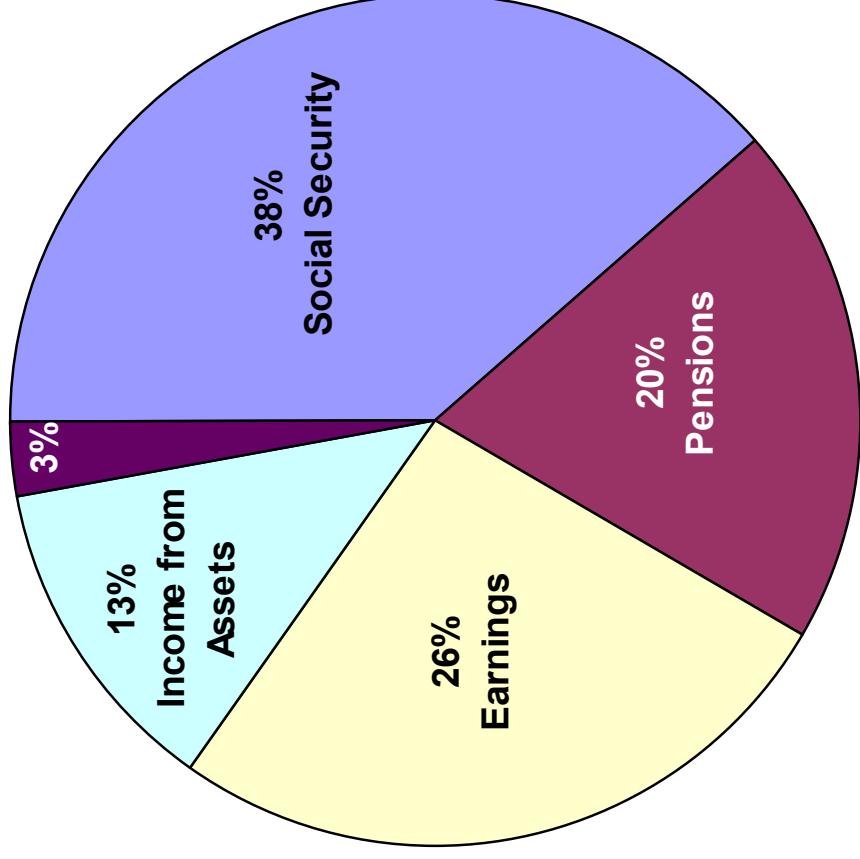
Poverty and Adequacy

2007 Poverty Lines

- Person alone \$10,210 a year
- Family of 3 \$17,170 a year

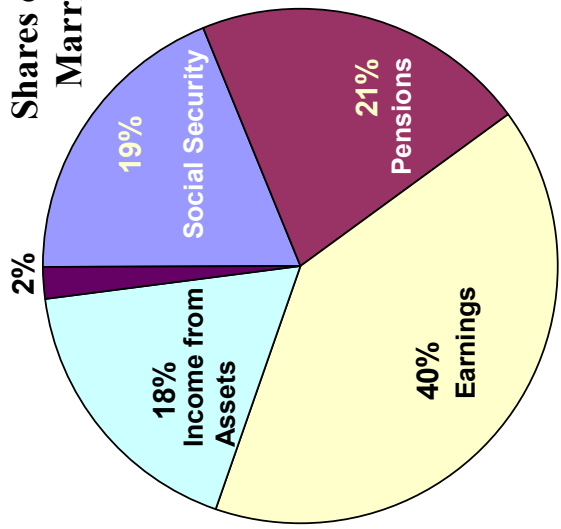
Adequacy: New studies show basic needs cost
1 ½ to 3 times the poverty line

Social Security is the Main Source of Income for Seniors

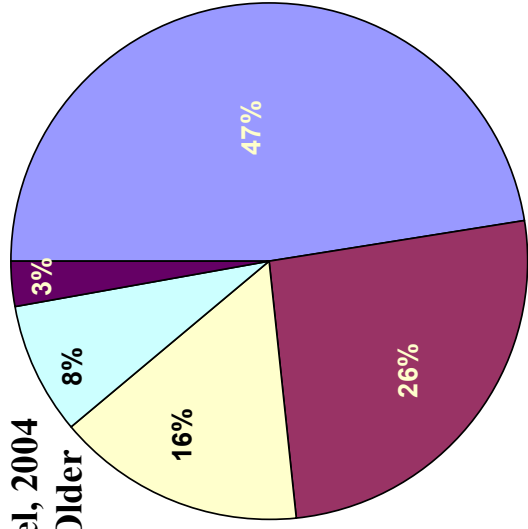


Shares of Aggregate Income: Married Couples and Unmarried Persons Aged 65+, 2005

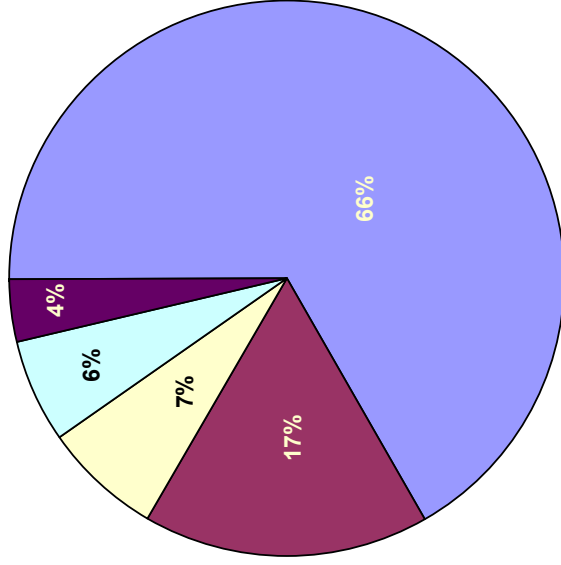
**Shares of Income from Specified Sources by Income Level, 2004
Married Couples and Unmarried Persons Age 65 and Older**



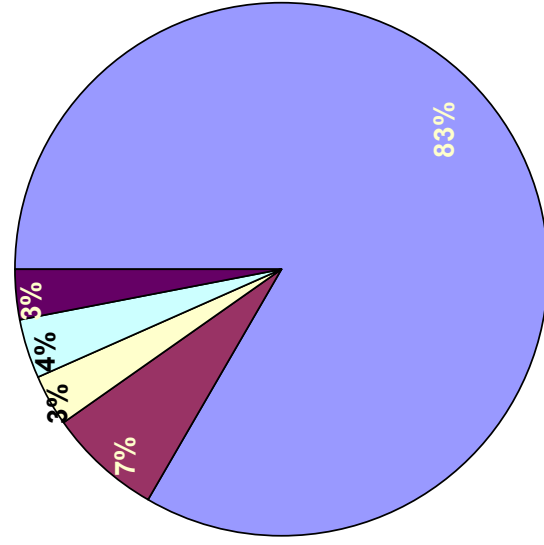
Top fifth -- \$44,130+



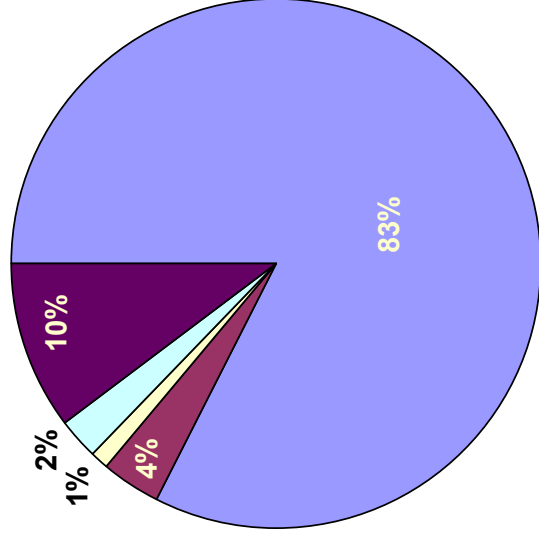
Next to highest fifth: \$25,588- \$44,129



Middle fifth: \$16,354 -- \$25,587



Second fifth: \$10,400--\$16,353



Lowest fifth -- \$10,399 and below

Who pays for Social Security?

- Workers pay 6.2% of wages (up to \$97,500 in 2007)
- Employers match it

Workers and employers also pay 1.45% of all wages for Medicare (Part A)

Where does the money go?

- Credited to Social Security trust fund
- Pays benefits and administrative costs
- Balance is invested in U.S. Treasury securities
- Chief Actuary projects status of trust funds

How much goes for administration?

- Less than 1 percent of revenue
- The rest is paid in benefits or invested

Near Term: Social Security is in good shape – It has a surplus

Trust Fund income = \$745 billion
(taxes and interest)

Trust Fund outgo = \$555 billion
(benefits and admin costs) _____

Surplus in 2006 = \$190 billion

Trust Funds at end of 2006 = \$2.0 trillion

How do actuaries project the future?

Every year, they update history, program changes, and assumptions on:

- Population: births, deaths, immigration, marriage, divorce
- Economy: employment, unemployment, wage levels, inflation, productivity, interest rates
- Due to uncertainty, they project 3 scenarios: low cost, high cost, and “best estimate”

What does the “best estimate” show?

- Annual surpluses continue until 2017 and reserves grow
- In 2017, tax income will be less than benefits paid. Interest and reserves will help pay benefits until 2041.
- In 2041, reserves depleted. Tax income will cover about 75% of scheduled benefits.

What do other scenarios show?

- High cost: Reserves depleted in 2030
- Low cost: Funds adequate for 75 years and beyond
- Latest CBO estimate: Reserves depleted in 2046

The future is uncertain.

What is happening with pensions?

- Employers are shifting to 401(k)s, which pose new risks to workers:
 - Uncertain investment returns
 - Temptation to spend the money before retirement
 - Making the money last for life

For example:

- Median 401(k) balance of \$60,000 for household heads age 55-65
- Lifetime income of \$324 a month at age 65