



## Issue Brief

# The Future of Social Security and Those Who Depend on It

May 2007

### Introduction

For more than 70 years, Social Security has been the bedrock of dependable income for millions of Americans, providing benefits to retirees, those with disabilities and the survivors of retired and deceased workers.

#### Social Security At-A-Glance

In April 2007, over 49.5 million people, or 1 out of every 6 Americans, received Social Security benefits.

Retired Workers and Dependents	34.2 million	\$1,003 average monthly benefit
Disabled Workers and Dependents	8.7 million	\$833 average monthly benefit
Survivors	6.6 million	\$896 average monthly benefit

Source: Social Security Administration

## **Social Security is a Valuable Investment**

To the average retiree Social Security provides the equivalent of about \$250,000 in retirement savings, or \$500,000 for a two-earner couple. For an average 25-year-old wage earner with a spouse and two young children, the disability policy provided by Social Security is equivalent to a \$353,000 policy in the private sector. Social Security's survivorship insurance is equivalent to a \$403,000 life insurance policy for a 25-year-old, with a spouse and two young children, at average earnings.

Social Security is a major source of income for retirees. Two-thirds of retirees are dependent upon Social Security for half or more of their income. Social Security is the only source of income for 22 percent of retirees and accounts for 90 percent or more of income for one-third.

## **Understanding the Social Security Trust Funds**

Each year, the U.S. government reports the amount of money in the Social Security trust funds, the amount added or redeemed in a given year and the interest earned. By the end of 2007, the trust fund reserves are estimated to be \$2,237 billion. The Social Security trustees project that these resources will be sufficient to pay full benefits until 2041—one year later than last year's estimate of 2040. After 2040, revenue from taxes at the current rates will be enough to pay 75% of scheduled benefits in 2041 and 70% of scheduled benefits in 2081. The projected actuarial deficit over the next 75 years is 1.95% of taxable payroll, a slight improvement over the 2006 estimate of 2.02%. The projected shortfall may be met in a variety of ways as described below.

## **Solvency Solutions for Social Security**

Social Security's long-term solvency shortfall can be addressed by:

- **Raising or eliminating the cap on taxable earnings.** Raising the current cap of \$97,500 to cover 90 percent of earnings would cut the 75-year shortfall by about 45 percent.
- **Dedicating estate tax revenues above a certain limit to the Social Security trust funds.** Current law gradually reduces the estate tax so that by 2009, only estates valued above \$3.5 million (\$7 million for a couple) will be assessed. Dedicating the tax revenues to Social Security would reduce the shortfall by 30 percent.
- **Together, raising the cap on taxable earnings and freezing the estate tax at the 2009 level while dedicating the proceeds to the Social Security trust funds will meet three-fourths of the future shortfall.**

## **Private Accounts and Benefit Cuts**

For decades, opponents of Social Security have attempted to privatize the program. They propose diverting some of the funds that normally go into the Social Security trust funds into private investment accounts. Some would also cut benefits by changing the formula to calculate initial benefits from a wage-indexed system to a price indexed one, and raising both early and normal retirement ages above the current law.

## **The Inheritance Myth**

The Bush administration asserts that private accounts would allow investors to pass on their accounts to their heirs when they die. What they do not say is that the Social Security survivorship benefit paid to the minor children and spouses of the deceased worker would be substantially cut. If a worker dies at a young age, no amount of inheritance would offset the loss of benefits resulting from the deep cuts in benefits and the potential offsets for diverting funds to a private account.

In recent years, the Alliance for Retired Americans has fought to beat back attempts by the Bush administration and others to establish private accounts and institute the price indexing of initial benefits. Despite our successful efforts, privatization proponents can be expected to return and press their agenda again at the first opportunity.

## **The Position of the Alliance for Retired Americans**

The Alliance for Retired Americans rejects privatization of Social Security. Privatization alters the fundamental structure of the program and does nothing to address the issue of long-term solvency.

The Alliance for Retired Americans rejects all changes jeopardizing the benefits of participants or undermining the Social Security system, including:

- Any increase in the early retirement age or any further raising of the normal retirement age beyond current law;
- Any change in the Social Security benefit formula increasing the number of years of earnings counted or indexing benefits to price instead of wage growth; and
- Any alteration to the Social Security disability insurance program that restricts eligibility and/or undermines due process through claims and appeals.

## **Social Security Is a Valuable Investment**

**Social Security is worth a ...**



**Retirement policy  
of \$250,000**



**Disability policy of  
\$353,000**



**Life insurance  
policy of  
\$403,000**

**Source: National Academy of Social Insurance**

