



What You Need to Know to be a Part of the Social Security Debate

Social Security Facts and Figures

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The Big Debate

“The debate about Social Security is going to be a monumental clash of ideas. Our aim is to introduce market reforms in Social Security.”

-Peter Wehner, White House advisor

“Democrats believe in individual retirement plans as a supplement to Social Security. Republicans believe in individual retirement plans as a way to supplant Social Security. Fundamental difference.”

-Rep. Rahm Emanuel (D-IL)

Social Security is today financially sound and in no danger of exhausting its Trust Fund reserves for decades to come. However, if this successful federal program is to pay future retirees what they earned and deserve, smart reform measures must be implemented sooner rather than later to ensure the program’s long-term financial strength.

President Bush says Social Security is in crisis and headed for bankruptcy. He is calling for an unprecedented overhaul of Social Security that will radically change how Americans save and plan for their retirement.

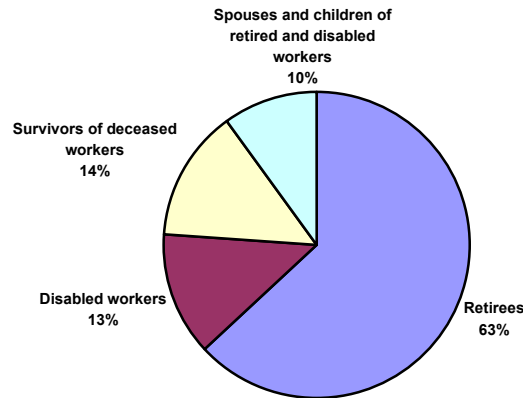
Most Americans and lawmakers acknowledge that Social Security is in need of strengthening. However, there are a number of reform options, other than the president’s plan for private investment accounts, that deserve to be studied and debated.

The debate revolves around what solutions are best, and when and how to enact changes.

Social Security – Some History

Social Security provides Americans with basic protection for life against the hazards of lost work-related income due to retirement, disability or death. It plays a central role in the lives, expectations and peace of mind of both retirees and today’s workers. Enacted in 1935, Social Security was originally designed to lift and keep elderly Americans out of poverty. Today it has come to mean more than just retirement income.

Social Security Beneficiaries

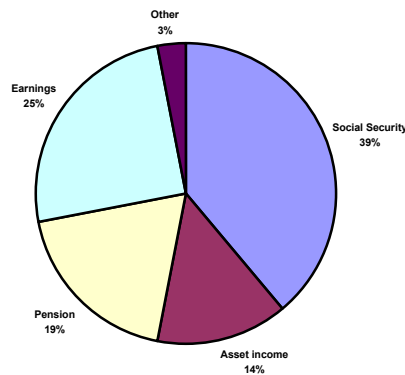


Source: Social Security Administration, 2004

In 2004, more than 96% of American workers contributed to and were insured by Social Security. Benefits were paid to 47 million retirees, survivors and disabled persons. That equals 1 out of every 4, or 25%, of American households. Social Security hasn't missed a payment in 70 years and its impact on people's lives has been dramatic.

Retirees – Serving 33 million retirees, Social Security is the single largest source of retirement income in the U.S. today and has proved to be the safety net President Franklin Roosevelt intended. Its benefits help keep nearly 12 million seniors out of poverty. Thanks to Social Security, only 9% of America's seniors are in poverty; without it, nearly half of retirees would be poor. For 6 out of 10 seniors, Social Security provides half or more of their total income.

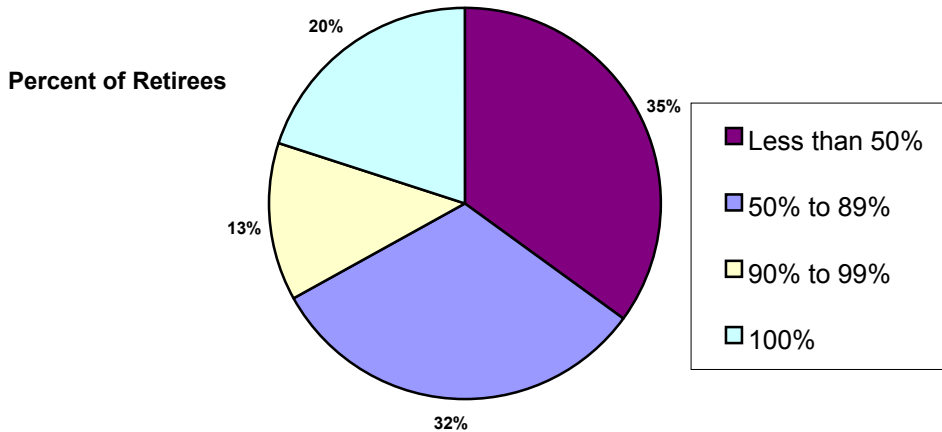
Sources of Retirement Income



Source: Federal Interagency Forum on Aging-Related Statistics, Older Americans 2004

Social Security accounts for 39% of all income received by seniors. A large number of today's older retirees rely heavily on Social Security for all or most all of their monthly income. For 20% of today's seniors Social Security is their sole source of income.

How Much of a Retiree's Income Comes from Social Security



Source: Social Security Administration

Senior Women – More women receive Social Security than any other group of beneficiaries because they, more so than men, are less likely to have private pensions, had more breaks in work history to care for family and earned less when working, resulting in much lower Social Security checks.

Adding to their dependence on Social Security is the fact that women generally outlive men, are more likely to be widowed at 75 and face higher poverty rates than men the older they get. For elderly widows, Social Security provides almost 75% of their income; and 4 out of 10 widows rely on Social Security to provide 90% or more of their income. Without Social Security, most women over 65 would live in poverty.

Disabled Persons – Social Security benefits are paid to 8 million workers who can't work for a year or more due to a disability. Benefits are also paid to the spouse and minor children of the disabled workers.

Survivors – Seven million families of workers or retirees who die also receive Social Security benefits. For most of these families, Social Security survivor benefits provide more than individual life insurance.

Social Security – How It Works

Social Security is a unique social insurance program in which today's workers pay for the benefits received by today's retirees. Workers

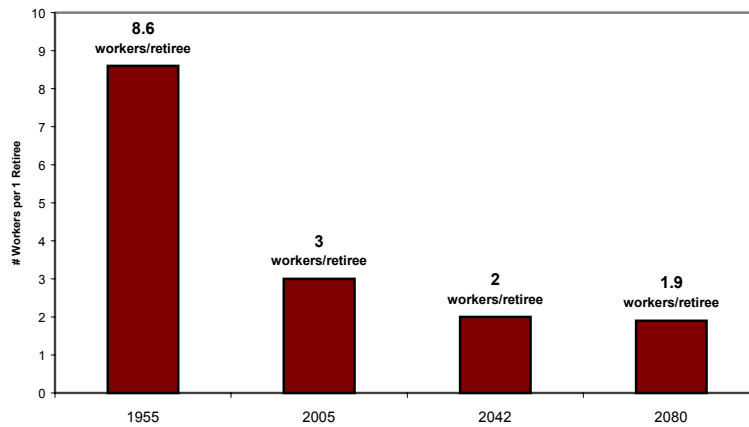
pay 6.2% of their earned income into Social Security and their employer equally matches that amount. The self-employed pay both shares.

The benefits retirees earn today are calculated using a worker's lifetime earnings. Each year, benefits are adjusted to reflect rising wage rates so that seniors who made \$100 a week in the 1950s can expect a livable income in retirement.

Social Security Today

Social Security today runs an annual surplus. Workers are contributing more to Social Security in payroll taxes than is paid out in Social Security benefits. This is because in 1983, President Ronald Reagan enacted minor reforms designed to build surpluses that would cover the unprecedented retirement surge brought on by the baby boomers.

Number of Workers per Retiree, 1955 to 2080



Source: Congressional Budget Office

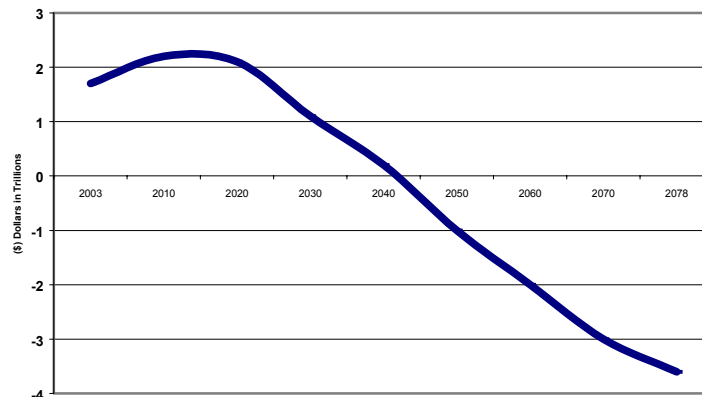
The Trust Fund surplus is estimated to exceed \$4.7 trillion by 2017, about the time when Social Security will need to dip into the Trust Fund surplus to cover its payments. If changes are not implemented now, according to the Social Security trustees, by 2041 the surplus will be depleted.

Without changes, however, it is important to note that, Social Security could continue well beyond 2041 to pay 74% of promised benefits.

Social Security Trust Fund

Retiring baby boomers will exhaust the Trust Fund's reserves by 2041. The shortfall over 75 years is estimated at \$4.0 trillion.

Source: Social Security Administration



Social Security's Fixable Future

The reality is Social Security needs adjustments. The federal government has massively borrowed from Social Security's surplus, using it for other purposes, and has left a mountain of IOUs. While exceedingly reliable the past 70 years, Social Security does face challenges and funding problems, because of government deficits and the forecasted retirement of baby boomers, that need to be addressed sooner rather than later. The fact is future generations can look forward to receiving the full benefits they earned and deserve only if the system is strengthened.

There are many viable options and solutions. President Franklin Roosevelt said Social Security was created "to give some measure of protection to the average citizen and to his family against the loss of a job and against poverty-ridden old age." Legislative efforts should be focused on making the program financially robust, fair and equitable so Americans have the protection they earned and deserve.

Social Security Privatization

President Bush asserts that the answer to solving Social Security's funding problem is to radically change how Americans save and plan for retirement. He favors privatizing Social Security by allowing younger workers to take a percentage of the taxes they would pay into Social Security and invest it instead in private, or "personal," retirement accounts.

The president says workers can get a better return on their retirement investments, than that guaranteed by Social Security, if they are allowed to determine how their money is invested.

Higher returns sound appealing, particularly to younger workers not yet focused on funding their retirement. But such high-risk rewards

associated with stock investments are not guaranteed. Private accounts could raise – or lower – a person’s retirement income; however, the reality is such hoped-for returns are subject to timing and luck and come with risk.

Private accounts, most importantly, do nothing to solve the funding problem threatening Social Security’s long-term financial health. Because private accounts divert money from Social Security intended to pay full benefits, they will cause the Trust Fund to run out of money 14 years sooner than is now expected.

The Truth and Consequences of Privatization

More Debt – In order to continue paying benefits to today’s retirees, the federal government will have to borrow money, mainly from foreign countries such as Japan and China, to make up for the loss of diverted funds. Most agree the initial cost of transitioning to private investment accounts will be as much as \$2 trillion. This new debt will dramatically increase the already massive budget deficit threatening our country’s economy. Today’s workers and young people may face a future hindered by a weakened economy, higher interest rates and increased taxes, all a result of privatization’s hefty price tag.

Risk - To invest in stocks is to take a gamble because nothing about investing is guaranteed except risk. Poor or conservative investment choices could result in lost retirement incomes and a shrinking nest egg for future retirees. Many seniors could end up in poverty if their private investments don’t do well.

Benefit Cuts – The White House acknowledges that a significant reduction in benefits, designed to get deeper over the years, is likely to go hand in hand with private accounts. Cuts in guaranteed benefits, which could be as great as 30% to 50%, are necessary to make up for the accelerated drain the private accounts will have on the Trust Fund.

Workers who elect to redirect some of their Social Security taxes into private accounts will also owe a “debt” to the Social Security Trust Fund. These private investors will see a cut in guaranteed benefits to offset the money they diverted. In addition, if the stock market fails to return even what was guaranteed by Social Security, owners of private retirement accounts will see sizable reductions in their future payments.

Corruption and Waste – The government will decide which Wall Street firms get to manage private accounts and make billions in profits. Today, Social Security is administered very efficiently: only one penny of every dollar Social Security spends is for administration. Administering private accounts and the fees for the Wall Street companies that manage them could eat up 20% of earnings on private accounts.

What You Can Do

The time to strengthen Social Security is now so that benefits earned and deserved are paid in full to today's, as well as to tomorrow's, retirees. There are places for risk in retirement savings, but Social Security is not one of them. Privatizing Social Security and draining trillions of dollars from the Trust Fund are not the answers to ensuring the system's long-term financial health. Lawmakers must hear from you, your families and your friends that privatization is wrong and so, too, are any reform options that cut benefits.

Tell them:

- Social Security can be strengthened without slashing guaranteed benefits
- Poor investments put seniors at risk and in poverty
- It's irresponsible to add \$2 trillion in new debt
- Social Security needs solid funding, not more IOUs
- Exercise fiscal discipline and pay back the money borrowed from the Trust Fund
- Real harm will be done to Americans' retirement security
- Privatization makes problems worse and weakens Social Security
- Privatization means my benefits will be cut.
- Congress should develop a plan that strengthens, and doesn't dismantle, Social Security

To make your voice heard you can:

- ✓ **Educate** – People need to know the real facts.
- ✓ **Speak Out!** – Tell your story and organize local opportunities to share your views.
- ✓ **Visit** – Meet your elected officials and be on the record opposing privatization and benefit cuts.
- ✓ **Call** – Make it a point to call your Representative and Senators to say you are against privatization.
- ✓ **Write** – Email or send a letter to your elected officials that you want Social Security strengthened and protected for future generations. Express these same views in a Letter to the Editor in your local newspaper.

To learn more about Social Security, visit the Alliance for Retired Americans website at www.retiredamericans.org or call 1-800-333-7212.