



**STATEMENT FOR THE RECORD
SUBMITTED TO THE HOUSE WAYS AND MEANS COMMITTEE
SUBCOMMITTEE ON SOCIAL SECURITY**

ON

SOCIAL SECURITY AT 75 YEARS: MORE NECESSARY NOW THAN EVER

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The Alliance for Retired Americans would like to thank Chairman Pomeroy and Ranking member Johnson for holding this important hearing to commemorate the 75th anniversary of the Social Security Act. The Alliance appreciates the opportunity to now share with the Committee its thoughts on the important role Social Security plays in the lives of millions of working and retired Americans nationwide.

Founded in 2001, the Alliance is a grassroots organization representing more than 4 million retirees and seniors nationwide. Headquartered in Washington, D.C., the Alliance and its 30 state chapters works to advance public policy that strengthens the health and economic security of older Americans by teaching seniors how to make a difference through activism.

Since its inception, the Alliance has always been a strong and vocal support of the Social Security program. During President Bush's and congressional Social Security privatization proposals of 2005-06, the Alliance ran multiple grassroots campaigns to educate its members about the program and to ultimately play a key role in defeating these misguided privatization efforts. Today, the Alliance continues to educate and organize its members around Social Security, including a focus on the work of the Fiscal Commission, its impending recommendations on Social Security and a consideration of the impact these recommendations may have on the social insurance fabric of the most successful government program in the history of the United States.

Today's retirees fully support the President and the Fiscal Commission on the critical need to reduce our nation's budget deficit. Many are troubled, however, by the incorrect words of deficit hawks who repeatedly claim that Social Security is to blame for the deficit, even though the program has not contributed to the federal deficit and maintains a \$2.5 trillion surplus. In fact, according to data from the Congressional Budget Office (CBO), most of the projected budget deficit over the next 10 years results from President Bush's tax cuts for the wealthiest Americans, the wars in Afghanistan and Iraq, spiraling health care costs and the continuing effects of the worst recession since the Great Depression. Any questions about Social Security's long-term solvency can be addressed with simple tweaks discussed below that do not involve benefit cuts to a program that so many survive upon for their sole retirement income.

As we approach the 75th anniversary of Social Security, a milestone for one of our nation's greatest accomplishments, we should feel tremendous pride at what Social Security has done to help Americans stay out of poverty in their retirement years. As discussed further below, the stock market crash, housing bubble and ensuing recession have left many older Americans facing or in retirement with very little to depend on other than their Social Security benefits. It is, therefore, more essential than ever that Congress celebrate this American success story and work to strengthen – not cut – this lifeline of retirement security to ensure that Americans of all generations can count on the benefits that they have been promised.

THE IMPORTANCE OF SOCIAL SECURITY TO ALL AMERICANS

Social Security was created as a promise to all Americans would have a stable source of income on which they could depend on when they retired, were disabled or had survivors. Specifically, Social Security provides a substantial safety net for more than 53 million Americans, including retirees, the disabled, children and families.¹ Social Security provides vital life insurance and disability insurance protection for millions of Americans, particularly children and their families. In fact, more than 6.5 million children under age 18, or nearly 9% of all children in the United States, benefit from Social Security, as dependants of workers who have died or become disabled, or as family members in households where an adult relies on Social Security.² Of the 6.5 million children in families that received Social Security, fully 1.3 million were lifted out of poverty by Social Security income.³

Retirement Security & Today's Retirees

The recent recession's devastating impact on the lives and well-being of older Americans has left American's of all generations feeling sentimental for the time when the three-legged stool of retirement income security, held together by pensions, savings, and Social Security, was a reality and not simply a reference point in an income-security best practices book. To young and old alike, the economic crisis – starting with the crash of the stock market and the ensuing collapse of the housing bubble – has had a devastating effect on America's retirement security. Take, for instance, the following statistics:

- The share of households that will not be able to maintain their standard of living in retirement jumped from 31 percent in 1983 to 44 percent in 2006.⁴
- Retirement accounts have lost over 17% of their value over the last 12 months;⁵
- 401(k) balances declined in value by one-third;
- Overall, pensions have fallen in value by over a quarter in 2008⁶; and only 21 percent of private sector workers overall can count on a monthly benefit from a defined benefit plan when they retire;
- The collapse of the housing bubble has resulted in the destruction of most or all of a retiree's home equity savings.⁷ This plunge in housing prices has proven particularly difficult for those at or near retirement as housing was the biggest source of savings for most in this age group.

¹ United States Social Security Administration. April 2010.

² National Academy of Social Insurance, *Children's Stake in Social Security*. February 2008.

³ Id.

⁴ Munnell, Alicia. Testimony to the House, Committee on Education and Labor. *Strengthening Workers Retirement Security*, Hearing February 24, 2009. Available at:

<http://edlabor.house.gov/documents/111/pdf/testimony/20090224AliciaMunnellTestimony.pdf>. Accessed: May 19, 2010.

⁵ Urban Institute, 2010, *Retirement Account Balances*. Washington, DC.

⁶ Organisation for Economic Co-operation and Development, 2009. *Pensions at a Glance. Retirement-Income Systems in OECD Countries*. France.

⁷ Baker, Dean. Testimony to the House, Committee on Education and Labor. *Strengthening Workers Retirement Security*, Hearing February 24, 2009. Available at: <http://edlabor.house.gov/documents/111/pdf/testimony/20090224DeanBakertestimony.pdf>. Accessed: May 17, 2010.

Employer-provided pensions, with their with their protection from the types of market fluctuations that decimated the values of so many 401(k) plans, are decreasingly being offered and the savings leg has been rocked by increasing health care costs and falling housing values. By comparison, Social Security has served as a reliable and consistent source of retirement security to older Americans during hard economic times. Without interruption, Social Security continues to send out monthly checks to 35 million retirees and their spouses.

Social Security Plays a Critical Role in Retirement Security

Before Social Security's enactment, more than half of people 65 and older lived in poverty; in fact, by one estimate, about 3 out of 4 people 65 years old and older were poor at that time.⁸ Today, Social Security is a major source of income for retirees. Specifically, nearly two out of three retirees depend on Social Security for more than half of their income; one-third of all beneficiaries (and half of elderly unmarried women and widows) receive more than 90 percent of their income from Social Security; and Social Security is the sole means of income for 14 percent of older Americans. Additionally, more than 80 percent of older African Americans and more than 75 percent of elderly Latinos rely on Social Security for more than half their income, according to the Insight Center for Community Economic Development. Further, poverty in old age is, in large part, a women's issue, for roughly seven out of ten elderly poor and near-poor are female.

While it can be said that the average Social Security retirement benefit of \$1,164 per month or about \$14,000 per year is indeed modest, it is crystal clear how important the program is to sustaining the lives and livelihoods of so many older Americans. The increasing dependence on Social Security for most if not all of a retiree's income has highlighted the need to improve benefits while strengthening the program for generations to come.

Social Security is a Comprehensive Family Insurance Program

According to a recent study, over 2.4 million grandparents are now raising their grandchildren in the United States.⁹ In these instances, Social Security works to ensure that America's children are kept safe and secure by providing a source of income for older Americans who are raising their grandchildren. While these children themselves are not directly receiving Social Security, they do directly benefit from the program because of the higher family income the grandparent is receiving due to the

⁸ Smolensky, Eugene, Sheldon Danziger, and Peter Gottschalk, "The Declining Significance of Age in the United States: Trends in the Well-Being of Children and the Elderly Since 1939," in John L. Palmer, Timothy Smeeding, Barbara Boye Torrey, eds., *The Vulnerable* (Washington, DC: Urban Institute Press), 1988.

⁹ AARP. Available at: [Http://www.aarp.org/families/grandparents/raising_grandchild/](http://www.aarp.org/families/grandparents/raising_grandchild/)

Social Security payment. In fact, it is estimated that 44% of older Americans, including such grandparents, would be considered poor if they did not receive these necessary and critical Social Security benefits.¹⁰

AMERICANS FAVOR STRENGTHENING SOCIAL SECURITY

Americans agree that Social Security should be strengthened so that it may continue to support generations for years to come. In fact, when given the choice between cutting taxes and government spending or strengthening Social Security in response to the economic crisis and large deficit, two in three Americans (66%), including 73 percent of African Americans, 67 percent of Hispanics, and 66 percent of whites, support strengthening Social Security over cutting its benefits. Americans are willing to pay for stronger Social Security benefits. Additionally, when asked their preference between raising taxes on workers or reducing benefits, nearly three in four Americans (71%) said they prefer raising taxes to reducing benefits.¹¹ It is clear that the impact of today's economic situation on the retirement security of current retirees, which saw the crumbling of 401(k) values and dramatic bursting of the housing bubble, has prompted more and more of today's working generation to turn towards – not away from – embracing Social Security as a critical part of their retirement security.¹²

THE POSITION OF THE ALLIANCE FOR RETIRED AMERICANS

The Alliance for Retired Americans strongly rejects the gloom-and-doom, sky-is-falling rhetoric designed to undermine popular support for Social Security by suggesting that it is going bankrupt or that it contributed to the federal deficit and thus needs to be on the chopping block for spending cuts. According to the 2009 Social Security Trustees' Report, Social Security is on schedule to deliver full, guaranteed benefits until at least 2037 (the next 27 years). The Congressional Budget Office projects that it will be fully funded through 2043 (the next 34 years). Even after this window of time, Social Security can continue to pay more than 75% of promised benefits through 2083.¹³ Hardly a gloom-and-doom situation requiring immediate, harsh reactions.

¹⁰ United States Senate, Report of the Special Committee on Aging, *Social Security Modernization: Options to Address Solvency and Benefit Adequacy*. May 2010.

¹¹ National Academy of Social Insurance, *Tough Times Require Strong Social Security Benefits: Views on Social Security among African Americans, Hispanic Americans, and White Americans*. February 2010.

¹² Of those polled in April 2010, 34% of non-retirees said Social Security will be a major source of income in their retirement. This number is the highest Gallup has measured since 2001, the first year the annual Gallup Economy and Personal Finance survey was conducted. Prior to 2008, between 25% and 29% of non-retired Americans expected Social Security to be a major source of retirement funding, but that number has been at or above 30% in each of the last three years. Available at: <http://www.gallup.com/poll/127592/americans-shift-expectations-retirement-funding.aspx>

¹³ Social Security Administration. 2009 Trustees Report.

To further strengthen Social Security's financial structure, the Alliance for Retired Americans supports raising the payroll tax cap – currently at \$106,800 – for the wealthiest Americans. Right now, someone like Bill Gates is paying the same in Social Security taxes as a \$106,800 worker. Experts have said that raising the cap to 90 percent of all wages would fill one-third of a projected shortfall over the next 75 years in the Social Security Trust Fund. This change would only increase taxes on six percent of all workers, but would further strengthen Social Security benefits for the remaining 94 percent of workers when they retire. On a related note, if all earned income above \$106,800 annually were subject to Social Security contributions but did not count toward benefits, Social Security's projected long-term deficit would be completely eliminated. If the higher income counted toward Social Security benefits, about 95 percent of the shortfall would be absolved. Another measure would be to change the estate tax into a dedicated Social Security tax. This solution would reduce the 75-year deficit by one-fifth. A third measure would be to impose a financial transactions tax such as "The Wall Street Fair Share Act" (S. 2927), which would place a modest tax on Wall Street financial speculation while leaving the vast majority of ordinary investors largely unaffected. All told, this modest tax of 0.25 percent would raise over \$75 billion a year. Additionally, if Congress would simply let the Bush tax cuts expire for the wealthiest Americans – those with annual incomes over \$350,000 – the revenue produced would put Social Security in balance for the full 75 years.

The Alliance opposes: Any plans to privatize Social Security by diverting Social Security revenues into individual accounts subject to investment and market risks; any increase in the early retirement age or any further increase in the normal retirement age; or changing the Social Security benefit formula to either increase the number of years of earnings counted or to index benefits entitlement to prices instead of wages.

As we approach the 75th anniversary of the enactment of Social Security, it is important to move away from the myths and misleading rhetoric about Social Security and instead focus on spending time amplifying the true value of the program to all Americans so that we may fully understand why Social Security is indeed needed now, more than ever.