

## FINANCIAL SECURITY AND RETIREMENT SAVINGS

Comments by Virginia Reno

National Academy of Social Insurance

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Thank you for inviting me to be part of this fifth annual Southern Regional Asset Building Coalition conference on *Closing the Wealth Gap: Diversity of People, Policy and Research*. And thank you for including Social Security on your agenda. I am honored to be part of this program.

The National Academy of Social Insurance (NASI) is a non-profit, non-partisan organization based in Washington, DC. We carry out research and public education on Social Security, Medicare, and related programs. NASI is made up of 1,000 members who are experts in various aspects of social insurance programs. Our members bring a broad range of professional backgrounds and have varied political philosophies. In our research, we seek to inform public policy with unassailable facts. With support from the Ford Foundation's initiative on Building Economic Security Over a Lifetime, we work to improve Social Security protection for low-paid workers and to change the national conversation on Social Security.

Inside the Washington beltway and in much of the major media, we hear mistaken ideas about Social Security. We hear it framed as a "problem" for the federal government. While it is true that Social Security is big, it is not true that it is "too big" or unaffordable. Yet, the conventional wisdom is that lawmakers need to rein in Social Security and reduce its spending going forward. The facts tell a different story. For the American people, Social Security is not a problem. It is a *solution*. And it is a solution that Americans are willing to pay for. Let's review the facts.

**1. Social Security is the most important asset that most Americans have.** If you wanted to buy a guaranteed retirement income from an insurance company – say, one that would pay \$1,230 a month starting at 65 and would last for life, keep up with inflation, and continue for your spouse if you died – you would need to pay the insurance company about \$430,000 up front.<sup>1</sup> That is the asset value of the average Social Security benefit. While \$1,230 a month is a modest amount to live on in retirement, it has a big price tag if we were to try to buy it on our own.

**2. Social Security is America's most effective poverty prevention program.** It keeps 21 million Americans from falling into poverty, including 1 million children, 6 million adults younger than 65, and 14 million seniors.<sup>2</sup>

**3. Social Security provides essential retirement security to the broad middle class.** While benefits are modest, they are the main source of income of most seniors. For two in three older beneficiaries, Social Security is more than half their total income. For one in three it is almost all their income.<sup>3</sup>

**4. Social Security combines key principles of social solidarity and social justice.** As universal insurance that will replace part of your income when adversity strikes – due to death, disability, or old age – it incorporates the powerful idea that “we are all in this together.” By recognizing that lower-paid workers and family breadwinners need higher levels of wage replacement to meet basic needs, it also incorporates principles of social justice.

**5. Social Security is an earned benefit.** You receive it as a matter of right because you pay for it while you are working. Workers pay for it through payroll taxes that are deducted from their paychecks. Workers pay 6.2% of their wages and employers pay a matching amount. Less well-known is that beneficiaries also pay for Social Security. Those with incomes over a certain level pay income taxes on part of their benefits and those taxes go back to Social Security to help pay for future benefits.

**6. Social Security is efficient.** Of every dollar it spends, less than one penny is spent on administration.<sup>4</sup> The other 99 cents goes to the 55 million Americans who count on the benefits each month – retired and disabled workers and their families and children and widowed spouses of workers who have died.

**7. Social Security is fiscally responsible.** Unlike the rest of the government, Social Security, by law, cannot spend money it does not have. It cannot borrow, so it cannot contribute to the national debt. While Social Security is large, it is also the most fiscally responsible part of the federal government. Over the 77 years since it began in 1935, Social Security has collected \$15.5 trillion (in taxes and interest income) and paid out \$12.8 trillion, leaving a balance of \$2.7 trillion in reserves at the end of 2011.<sup>5</sup>

**8. Social Security is fully financed for the next 20 years and 75% financed thereafter.** Social Security reserves, plus interest on the reserves, together with taxes will fully pay for Social Security benefits until 2033. After that, reserves will be depleted. Then payroll taxes from workers and employers and income taxes beneficiaries pay on their benefits will cover about 75% of benefits due.<sup>6</sup> Many policy options exist to cover full benefits for the future.

**9. Social Security is affordable.** Social Security spending is now just under 5% of the economy. As members of the boomer generation retire, that share will increase to about 6.5% by 2035 and then will level off at about 6% of the economy for the rest of the next 75 years.<sup>7</sup> We can afford that.

**10. Americans are willing to pay more to keep Social Security strong.** Opinion polls consistently show that: Americans don't mind paying for Social Security; they want to preserve and improve it; and they would rather pay more than see future benefits cut.<sup>8</sup> Two proposals to pay for Social Security have widespread support, according to a recent survey. Lawmakers could:

- a) Gradually eliminate the cap on earnings that are taxed for Social Security. In 2012, earnings above \$110,100 a year are not taxed. (That cap is \$113,700 in 2013). Just 5% of workers make more than the cap. They (and their employers) stop paying Social Security taxes when they reach the cap. To phase out that cap over 10 years (and pay such persons a bit more in Social Security benefits when they retire) would eliminate about 71% of Social Security's long-range shortfall.
- b) Gradually increase the 6.2% tax rate over 20 years until it reaches 7.2% for workers and employers each. This means that someone making \$50,000 a year would pay about 50 cents a week more each year. This change would eliminate about 53% of Social Security's long-range shortfall.

These two changes would wipe out Social Security's shortfall and would have funds left over to improve benefits in various ways, such as to: (1) increase benefits for low paid workers so that anyone who paid into Social Security for 30 years could retire at 62 or later and not be poor; (2) improve protection for children of disabled or deceased workers so that their Social Security benefits continue until 22 while they attend college or vocational school; and/or (3) increase benefits for the oldest beneficiaries.

Your folders include the report [Plan for a New Future: The Impact of Social Security Reform on People of Color](#), by the [Commission to Modernize Social Security](#), a group of 19 experts representing African American, Asian American and Pacific Islander, Latino, and Native American communities. It has a detailed plan to keep Social Security strong for 75 years and modernize benefits to better reflect the needs of an increasingly diverse America. Communities of color have a large stake in Social Security today, and have a huge stake in Social Security's future because the funding shortfall begins at just about the time that persons of color become the majority of the U.S. population.

Young people also have a huge stake in Social Security because they would bear the brunt of any benefit cuts that are contemplated as a way to reduce the size of Social Security in the future. The [\*Young Person's Guide to Social Security\*](#) is written by young adults to help their friends and colleagues understand the program and speak out for the Social Security system they want for themselves and their children. Finally, I want to share with you a 3 ½ minute video, [\*Social Security: Just the Facts\*](#), that NASI produced to help community groups discuss and share some of the unassailable facts about Social Security.

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<sup>1</sup> National Academy of Social Insurance. [“Quick Answers to Common Questions about Social Security.”](#) April 2012.

<sup>2</sup> Paul N. Van de Water and Arloc Sherman. [“Social Security Keeps 21 Million Americans out of Poverty: A State-By-State Analysis.”](#) Center on Budget and Policy Priorities, October 2012.

<sup>3</sup> Social Security Administration. [Income of the Population 55 or Older, 2010.](#) March 2012.

<sup>4</sup> Social Security Administration. *2012 Trustees Report.* April 2012.

<sup>5</sup> Virginia P. Reno, Elisa A. Walker, and Thomas N. Bethell. [“Social Security Finances: Findings of the 2012 Trustees Report.”](#) Social Security Brief No. 39. National Academy of Social Insurance, April 2012.

<sup>6</sup> Reno et al., 2012.

<sup>7</sup> Reno et al., 2012.

<sup>8</sup> Virginia P. Reno and Joni Lavery. [Economic Crisis Fuels Support for Social Security: Americans' Views on Social Security.](#) National Academy of Social Insurance, August 2009.