STRENGTHEN SOCIAL SECURITY

...don't cut it.

Frequently Asked Questions About Social Security

Why is Social Security so important?

Social Security works for all Americans, and it has never been more important to our economic security. Fifty-four million depend on Social Security – 1 out of every 6 people. About 2 out of 3 seniors depend on Social Security for most of their income, and one-third of seniors rely on it for at least 90% of their income. Social Security's benefits are modest, but vital. The average benefit is about $13,000 a year—less than full-time, minimum-wage work.

Yet, it is the single most important way the nation protects working Americans and their families against lost wages, when a working person is severely disabled or retires; and when a parent or spouse dies or is severely disabled. Social Security lifts 20 million people out of poverty. Without it, the poverty rate of our seniors would be 45%; instead it is 10%. Social Security does all of this with administrative costs of less than a penny on the dollar.

What types of benefits does Social Security provide?

Social Security provides a *guaranteed lifetime income.* The best part about these benefits is they never run out (until surviving children become adults), are fully portable between jobs, and keep pace with inflation – something that 401K plans and many pension plans don't even do. You get benefits if any of the following happen to you and your family:

- **Retirement**: When you retire, Social Security provides a monthly benefit that replaces a significant portion of pre-retirement earnings – roughly 55% for a low-income person earning about $19,000; 41% for a medium-income person earning about $43,000; 34% for a high-income person earning about $69,000; and 28% for a very high-income person earning about $107,000. Social Security also provides monthly benefits to spouses and divorced spouses (if married at least 10 years).
- **Disability:** If you become severely disabled and can no longer work, Social Security provides you and your family members with monthly benefits.
- **Survivors**: Social Security is, by far, the nation's most important life insurance, providing benefits to older persons (i.e., widow and widowers) whose spouse has died, to many younger spouses caring for dependent children, and to children whose parent has died.

The life insurance and disability protections are extremely important, estimated to have a present value between $450,000 and $500,000 for a married worker who has average earnings and two children under 5 years old.

Is Social Security just for retirees?

Not at all. In fact, about one in three of all Social Security beneficiaries are receiving disability or survivor benefits. Social Security is the nation's largest and most generous program for disabled workers, providing 8.3 million with benefits. It is also the nation's largest and most generous children's program serving 4.4 million children.

How much money do I need in order to retire comfortably?
Retirement experts say that for someone to preserve their standard of living in retirement, they need to have about 70% to 85% of their pre-retirement earnings available to them. Higher-income persons need a smaller percentage because they will no longer be paying as large a proportion of their income in taxes and will probably have more savings, pension benefits and housing equity.

How important is Social Security for retirement?
For most Americans, Social Security is essential for retirement. Two out of 3 seniors rely on Social Security benefits for most of their income. And Social Security's importance is increasing. Americans have traditionally relied on the "three-legged stool" of Social Security, personal savings and employer pensions to have sufficient income for retirement. But savings rates have dropped, housing values have plummeted and the availability and value of employer pension plans have rapidly declined. For many, Social Security is the only stable leg of the "three-legged stool."

How is Social Security funded?
Social Security's revenue was about $800 billion in 2010. The program has three sources of income. The largest source comes from workers and employers who contribute 6.2% each on wages up to $106,800 a year; this raises about 80% of the total. The second source is investment income from Social Security's reserves, which are held in Trust and invested in interest-bearing U.S. treasury bonds; this raises about 15% of total revenue. Finally, Social Security gets about 5% of its revenue from the taxes that beneficiaries pay on their Social Security benefits.

Isn't Social Security the cause of our large federal deficit?
Not even close. Social Security does not contribute a penny to the federal deficit. In fact it currently enjoys a $2.6 trillion surplus that will grow to $4.3 trillion by 2025. Social Security has its own dedicated revenue stream described above. And Social Security is forbidden by law from borrowing, so it cannot deficit spend.

Where does Social Security's surplus go?
Social Security's surplus is in a trust fund that is invested in interest bearing government bonds, backed by the full faith and credit of the United States.

Isn't the trust fund just a bunch of IOUs?
No, unless you consider U.S. savings bonds mere "IOUs" or the green stuff in your wallet worthless because it, too, only has value because it is backed by the full faith and credit of the United States of America. The Social Security trust fund is invested in U.S. treasury bonds, which are backed by the full faith and credit of the federal government. The government is just as obligated to pay back Social Security as it is to pay back Wall Street investors, to pay off

those U.S. savings bonds we buy as gifts for newborns and those notes purchased by China and other foreign countries that invest in U.S. treasury bonds.

Is Social Security going bankrupt?
Social Security will never go bankrupt. Its major source of income comes from the contributions of workers and employers; as long as there are workers, Social Security will have income. Even if Congress took no action, Social Security can pay 100% of promised benefits for the next 25 years and more than three-quarters of benefits after that. Around 2037 there is a modest funding gap requiring modest increases in revenues to guarantee everyone 100% of promised benefits. Social Security has faced far worse financial problems in the past, but Congress has never failed to act to ensure full funding of benefits.

What's the best way to solve Social Security's long-range funding gap?
The cost of closing Social Security's 75-year shortfall is equal to the revenue lost from the Bush tax cuts for the richest 2% of Americans. We can close Social Security's entire funding gap and then some by scrapping the payroll tax cap. Currently, millionaires and billionaires only make payroll tax contributions on the first $106,800 they make in annual wages. Most people pay taxes on all of their wages. If the payroll tax cap was scrapped, which would affect just 6% of taxpayers, the modest funding gap could be closed.

Why don't we privatize Social Security? Why shouldn't I get to invest my own money?
Social Security is so valuable because it provides a guaranteed benefit. Privatizing Social Security by allowing people to divert their Social Security contributions into private accounts, would remove this guarantee and let people gamble their retirement savings in the casinos of Wall Street. If the recent financial crisis taught us anything, Wall Street is the last place where our money is safe. In 2008 alone, Americans' private pension and 401(k) plans lost 37% of their value. Can you imagine what life would be like for seniors today if George W. Bush had succeeded in turning Social Security into a private 401(k) plan? Bottom line, Wall Street would benefit but Americans would be left at risk.

Why shouldn't the retirement age be raised?
A few reasons. The first thing to understand is that raising Social Security's full retirement age from 67 to 69 amounts to a 13% across-the-board benefit cut, no matter what age an eligible worker retires. What's more, raising the retirement age would be especially unfair to low-income workers and minorities, who are more likely to work in physically demanding jobs. In fact, it could make many low-income workers, who have seen few or no gains in life expectancy in recent decades, work until they die. Finally, raising the retirement age discriminates against the growing number of elderly unemployed, who have a much harder time finding new work after being laid off. A more detailed fact sheet is available here.

Should rich people continue to collect Social Security, or should it be "means-tested"?
A very small portion of Social Security benefits go to the wealthy, so excluding them from the program would save little. In order to save big bucks Social Security would have to means-test away some or all of the benefits of many middle-class retirees with household incomes over

$50,000. There is little public support for cutting the benefits of the middle-class, which is barely keeping its head above water. Social Security's strong popularity and broad support is because everyone who contributes gets it. If the program changes so that some people have to keep paying but get little in return, Social Security will become more like a welfare program and broad support for it will collapse. A more detailed fact sheet is available here.

Some politicians say that Social Security's COLA is too generous. Should it be reduced?
Social Security benefits are adjusted automatically each year to keep pace with inflation. This cost-of-living adjustment (COLA) is very important so that benefits maintain their purchasing power. The COLA formula is not overly generous; in fact it should be increased because the COLA does not currently keep pace with rising medical costs. Because health care costs have been rising faster than inflation for many years and because seniors and people with disabilities spend the most on health care, today's COLA understates the effects of inflation on the vast majority of beneficiaries.

If all these things are true, what is the debate all about?
Some people really care about Social Security, but they believe that to close the program's long-range funding gap revenues have to be raised *and* benefits cut, including raising the retirement age. This is an honest disagreement. We believe benefits are already inadequate, many people cannot work into their late sixties and the wealthy should pay their fair share. There are others who do not like the idea of the government running an insurance program – no matter how successful and efficient. Finally, there are special interests that stand to benefit handsomely if Social Security was privatized – the big banks and investment firms on Wall Street.

If Social Security is for protecting Americans, why aren't we talking about how to do that?
Now, that's a good question! We *should* be talking more about it. Today's debate is indeed upside-down. A discussion of how to better realize Social Security's "ends" – providing widespread protection to the American people – has been overtaken by a hyper-focus on the "means" – how to provide the financing that achieves the program's core purposes. A discussion of the values our nation wants to achieve through Social Security are all but forgotten – that we have obligations to our families and neighbors; Americans should live in dignity when retired, disabled or as a survivor; and Americans should work hard and, in turn, have a right to a fair return on their hard work.

Important questions about the kind of protections Americans need in a changing and challenging economy are not being discussed. The presumption that benefits must be cut fails to acknowledge the serious retirement savings shortfalls facing most Americans. A discussion about Social Security that focuses more on, well, *social security*, would allow for a more serious debate about increasing Social Security's benefits for adequacy, rather than needlessly cutting them.