LCAO Principles on Social Security
Adopted November 16, 2010

INTRODUCTION

Social Security Protects Nearly All American Workers and Their Families
Social Security has been the cornerstone of the nation’s income protection system for 75 years. It provides disability, retirement and life insurance protections to virtually all American workers and their families. Social Security’s success is the result of its fundamental structure, which is based on universality, efficiency, progressivity, equity, inter-generational solidarity, and an earned right to benefits.

As important as Social Security is for today’s beneficiaries, future beneficiaries may rely on it even more. Economic turmoil has made current workers insecure about retirement. Millions have lost value in their homes and investment accounts. Fewer and fewer employers now offer defined benefit pension plans, which once provided dependable retirement income to large segments of the workforce. In the face of all this uncertainty, Social Security is a lifeline.

The system remains fiscally sound, efficiently managed, and exceptionally reliable. Never once, in its entire history, has Social Security failed to pay monthly benefits. In addition to its revenue from payroll contributions, the Trust Fund currently has reserves of over $2.5 trillion. By law, these reserves are invested in U.S. Treasury bonds at market interest rates. The bonds are backed by the full faith and credit of the U.S. government and are the safest investments in the world.

While the system requires continual evaluation of its long- and short-term needs -- based on changing economic, societal and demographic circumstances -- in no way is Social Security in crisis. That is clear from the annual reports of the Social Security trustees, which project the financial condition of the Trust Fund over 75 years – a very high standard for determining long-range actuarial balance. According to the trustees’ report for 2010, Social Security will be able to pay all benefits for at least another 27 years, even if no changes are made.

After 2037, the trustees project that income to the system will cover 78 percent of aggregate benefits, leaving a long-range shortfall equal to 1.92% of all FICA-taxable payroll. This outlook compares favorably with annual projections over the last two decades. In the 1997 report, for example, the trustees estimated that the system could pay full benefits only until 2029, with a 75-year shortfall of 2.23% of taxable payroll.
While LCAO recognizes that Social Security will eventually show a shortfall that requires correction, the situation is manageable, not a catastrophe in need of a radical solution.

**Social Security’s Earned Benefits Reflect Payroll Contributions**
Social Security was never meant to be an individual savings or investment program. It is essentially a group insurance system financed by payroll contributions that are directly tied to each worker’s earnings. Payroll contributions are shared equally by workers and their employers and enable Social Security to be completely self-sustaining.

Since 1935, Social Security has pooled these contributions to protect nearly all American households from catastrophic income loss due to the death, disability or retirement of a wage earner. This system of shared risk is not only cost-effective, but also provides a sense of national community in which Americans protect each other against some of the potential hazards of life.

**Social Security Provides Vital and Dependable Income**
Social Security benefits, while modest, are vital to millions of older American households. The average benefit for a retired worker is about $14,000 a year (a little less for disabled workers, elderly widows, and women generally). Nearly 2/3 of recipients rely on their benefits for at least 50% of household income. About 1/3 of all beneficiaries and 1/2 of unmarried beneficiaries (primarily women) depend on Social Security for at least 90% of their income.

Social Security benefits are fully indexed to inflation each year and are payable for as long as a beneficiary lives. As such, the benefits are extremely dependable, particularly during times of economic downturn. Unlike most 401(k) plans or Individual Retirement Accounts, Social Security provides a steady income base, guaranteeing retirement income that is not dependent on a person’s investment savvy or a fluctuating stock market.

Social Security is, in fact, the strongest leg of the proverbial "three-legged stool" of retirement income. Americans, however, need all three legs of the stool -- including pensions and individual savings – in order to ensure economic security in retirement. To build on Social Security’s reliable base, people must have access to tools and information that will help them save and invest. If most Americans are to achieve retirement security, however, the nation must also develop public policies that encourage employers to provide pensions and other workplace retirement plans.

**Social Security Is the Nation’s Top Poverty Fighter**
Social Security has turned out to be the nation’s top anti-poverty program. Benefits are particularly important to older women and people of color, who are more likely to face poverty in their retirement years. Social Security’s benefit formula is weighted so that lower- and average-wage workers will receive benefits replacing a larger percentage of earnings than higher-wage workers. As a result, those who earn relatively low wages can count on a more adequate retirement income than they might have otherwise.
Largely because of Social Security and the nation’s commitment to strengthen its benefits, the poverty rate among older Americans fell from 35 percent in 1959 to under 10 percent today. Without Social Security, 20 million more Americans would be living in poverty -- not only seniors and people with disabilities, but almost 1.2 million children as well.

Social Security’s Projected Shortfall is Manageable
In meeting its primary goals of income protection and poverty prevention, Social Security has had great success. Challenges remain, however, such as correcting the system’s projected shortfall and strengthening benefits so that Social Security can continue to fulfill its mission far into the future.

Throughout its history, Social Security has successfully adapted to shifts in economic and demographic circumstances that affect its income and outgo. It will adapt to current circumstances as well, with relatively modest changes. There are many options for securing long-range solvency, so a radical restructuring -- such as privatization -- is unnecessary. In fact, carving out individual investment accounts would not improve solvency and would be very costly. It would divert billions of dollars from the trust fund and hasten Social Security’s shortfall, while requiring huge across-the-board cuts in basic benefits.

Whenever Social Security has faced a potential shortfall, Congress has moved to correct the problem, strengthen the system’s finances and ensure its sustainability. As in the past, Congress and the President need to address the projected shortfall and propose sensible corrections that reinforce Social Security’s social insurance structure. The corrections should not be limited to solvency, however. They should also address such issues as gender equity in Social Security and the adequacy of payment levels -- particularly for low-income persons.

In considering Social Security’s future, Congress and the American people should keep but one goal in mind: A strong Social Security system that is able to respond to the needs, rights and interests of all who depend on its protection and to do so in a fair and equitable fashion.

SOCIAL SECURITY PRINCIPLES
The members of LCAO are committed to strengthening and protecting Social Security. The challenge today is to ensure that Social Security can continue to meet the needs of beneficiaries far into the future. We believe that if Social Security is to continue to serve the broad purposes for which it was created, any proposal to change the system must respect these ten essential principles:

• Social Security must continue to provide guaranteed, lifelong benefits. Individuals must receive a secure, steady stream of income that reflects the level of their contributions and does not depend on the performance of the economy or the ups and downs of the stock market. Therefore, benefits should not be wholly or partially privatized by diverting payroll contributions to individual investment accounts. Beneficiaries must be secure in the knowledge that their benefits will not run out or be eroded over time.
• **Social Security must continue to be universal.** Nearly all Americans pay into Social Security, with contributions matched by their employers.

• **Social Security must continue to be an earned right.** Benefits must be directly related to lifetime earnings and guaranteed to all contributors and their dependents who meet the eligibility criteria.

• **Social Security must continue to provide survivor and disability protections that enable families to remain economically secure.** Roughly 1 in 5 workers will die before reaching retirement. Nearly 3 in 10 will become so severely disabled, either physically or mentally, that they will be unable to work for some period of time. Workers and their families must be protected against the devastating income loss that occurs when a worker dies or becomes disabled.

• **Social Security must continue to protect people of all ages from poverty.** Benefits must *always* be structured in ways that protect Americans from poverty, just as they keep 1.2 million children and nearly 40 percent of the elderly from being poor today.

• **Social Security must continue to be progressive and fair.** The system’s benefit formula must be weighted so that those who earn less receive a benefit that replaces a higher portion of their preretirement earnings, while those who earn more receive larger benefit amounts that reflect their higher contributions.

• **Social Security must continue to protect workers who retire before full retirement age.** Workers can currently collect Social Security retirement benefits as early as age 62. Millions are unable to work beyond this retirement age because they cannot find a job, their health is failing, or they spent a lifetime in a physically demanding occupation. While those who take early retirement receive reduced Social Security benefits, the reductions should not be so draconian as to threaten beneficiaries’ well-being. Benefit levels must be substantial enough to provide a solid base of income.

• **Social Security must continue to protect against inflation.** Benefits must be adjusted automatically and fully each year to make sure that retirement, survivor and disability benefits keep pace with the rising cost of living and maintain their purchasing power.

• **Social Security must continue to be a family protection plan.** The system must provide benefits that reflect the income needs of families, including the families of lesbian, gay, bisexual and transgender partners. The family protections must cover dependent and surviving children and spouses in addition to disabled and retired workers, and benefits provided to family members must be in addition to the benefits received by the wage earner.

• **Social Security must continue to devote its full resources to providing Americans with the foundation of economic security.** Because nearly all Americans participate in the same public system, Social Security is very cost-efficient. Its administrative costs are less than 1% of benefits paid, compared to 15% or more for private plans. This efficiency must be maintained. It means that virtually every Social Security dollar ends up in the pockets of those who earned benefits.
Note: Supplemental Security Income (SSI) – a critically important federal program that provides monthly financial assistance to aged, blind and disabled individuals in greatest need -- is not addressed in LCAO’s Social Security principles. While SSI is administered by the Social Security Administration and is often confused with Social Security, its funding comes entirely from general revenue, not from Social Security payroll contributions. SSI is a separate, means-tested program. LCAO recognizes that the benefit levels and eligibility standards of the SSI program are in urgent need of modernization and will address these issues in another LCAO document.