

LEADERSHIP COUNCIL
of
AGING ORGANIZATIONS

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Social Security Myths and Facts

Myth: Social Security is going broke.

Fact: Social Security is not in danger of collapse. Even if no changes are made to the current system, Social Security will continue to pay full benefits, on time, until 2041. After that, it will still be able to pay out nearly 75 percent of promised benefits. In fact, as long as contributions continue, the system can never go broke. The challenge facing Social Security today is to ensure that 100 percent of benefit obligations are paid in the future. One point to keep in mind as Americans discuss the challenge ahead is that if the economy grows by even a modest one percent a year, tomorrow's workers will have considerably higher wages than today's. Higher wages will make it easier to honor obligations to future beneficiaries.

Myth: In the future, a smaller work force will be unable to provide Social Security benefits to a growing population of retirees.

Fact: It is true that the population is changing. Today, there are four people age 18 through 64 (those who are most likely to be in the paid work force) for every person 65 and older (those who are most likely to be retired from the paid work force). This is called the worker-to-beneficiary ratio. By the year 2030, when most of the baby boomers have retired, the worker-to-beneficiary ratio will be slightly less than three to one (i.e., slightly less than three working-age people for every person 65 and over).

Sometimes, these predicted changes are used to argue that we can no longer afford Social Security because there will be fewer workers making payroll tax contributions that pay for retirees' benefits. But these numbers do not tell the whole story.

The worker-to-beneficiary ratio already has changed significantly over time. In 1950, for example, there were 16.5 workers for every Social Security beneficiary. Now there are four workers for every recipient, and Social Security continues to pay benefits every month, without fail.

One reason why the system is able to protect families even in the face of these changes is that workers become more productive over time. That is each worker is able to produce more for every hour worked. This means that in the future it will take fewer workers to support each Social Security beneficiary, just as fewer workers can support each retiree today than in the past.

Another important factor is that current assumptions for the ratio of workers to beneficiaries do not take into consideration the good possibility that, in the future, many people will choose to work after reaching full retirement age and continue contributing to Social Security. The result of this projected trend would be more dollars going into Social Security.

Also, the worker-to-beneficiary ratio is not the best gauge to determine if our society can support its aging population. Another measure, called the "overall dependency ratio," takes all dependents into consideration and gives a more complete picture. For example, in 1965 there were 95 dependents (children as well as seniors) for every 100 Americans of working age, with 18 over age 65. In 2030, the number of dependents is projected to be 80, with 36 over 65.

The overall dependency ratio is important because it shows that, as the nation's senior population grows, the number of younger dependents will decline. As a society, we are capable of shifting our priorities. That is how we financed the education of the baby boomers in the '50s, '60s, and '70s, when spending for education rose from 3.4 percent of GNP in 1950 to 7.4 percent of GNP in 1975.

Myth: Social Security is a retirement and investment savings plan.

Fact: Social Security is an insurance plan for workers and their families that replaces a portion of lost earnings at retirement or in the event of a worker's death or disability. Social Security benefits were designed to be complemented by both pension benefits and personal savings to produce a steady source of income when a worker withdraws from the paid labor force.

Through Social Security, American workers—across generations—and their employers pool their resources to provide retirement income and protect working families when earnings are lost. The U.S. government guarantees benefits.

One of the most successful federal programs in history, Social Security meets some of society's deepest needs, such as preventing poverty, supporting disabled workers and protecting children who lose a working parent. This combination is what makes Social Security "social insurance."

Myth: Only retirees benefit from Social Security.

Fact: Of the more than 45 million people who currently collect benefits under Social Security, only 29 million are retired workers. The beneficiary rolls also include close to five million dependent spouses and children, seven million survivors of deceased workers, and nearly five million disabled workers. But the number of people who benefit from Social Security far exceeds the number who receive checks:

- **Adult offspring of retirees benefit** because they can depend on Social Security to provide a basic income for their parents. When they don't have to provide for Mom and Dad, more of the family's resources can be focused on raising and educating children, and other needs.
- **Taxpayers benefit** because Social Security is such a good poverty fighter. If not for Social Security, for example, nearly half of all seniors would be poor, rather than the current 11 percent. With more people in poverty, government assistance programs would need more resources and require higher income taxes.
- **The economy benefits** because Social Security pays out hundreds of billions of dollars in benefits annually (\$430 billion in 2001), which beneficiaries use to pay for rent, clothing and food. This is particularly helpful in recessions, when fewer Americans are drawing paychecks. The fact that Social Security beneficiaries are still getting their checks helps stabilize the economy, keeping businesses open and more people employed.
- **American values benefit** because Social Security is a key way in which our society shows we care for our families and for our neighbors. It is an expression of Americans' sense of national community and our desire to protect each other against the potential hazards of life.

Myth: Everybody wins with privatization of the Social Security system.

Fact: There will be few winners and many losers if Social Security's current system is changed from one of pooled risk to one in which workers divert all or part of their payroll taxes into individual investment accounts. Individual accounts worsen Social Security's financial condition and necessitate significant benefit cuts within the current program. As history has shown and recent events confirm, market returns are not guaranteed and will vary dramatically among individuals and during different periods of time.

- **Working families will lose.** Social Security currently provides benefits guaranteed by the federal government. These benefits are the foundation of retirement income for nearly all Americans. Diverting payroll tax dollars from Social Security into individual accounts will require significant

cuts in basic benefits and will expose fundamental income to an unacceptably high degree of risk. Millions of workers could end up without sufficient protections for their families in the case of disability or premature death, or without enough income to last throughout their retirement years.

- **Low and moderate earners will lose.** Social Security benefits are based on a progressive formula that replaces a larger percentage of wages for lower earners than for higher earners. Individual accounts, which are based solely on investment returns, are not progressive in this manner. Also, lower-paid workers tend to be less experienced investors and are more likely to make cautious investment choices, because they are less able to withstand the volatility and risk of the stock market.

A privatized system, unlike Social Security, would require administrative fees paid directly from people's accounts. These fees would be substantial and over time could significantly erode the balance of an account, particularly for low-wage workers. In countries with privatized or partially privatized systems, administrative fees average as much as 15 to 20 percent of contributions.

- **Women will lose.** On average, women have lower incomes and, therefore, less money to invest than men. In fact, three out of four working women earn less than \$30,000 per year. Women also live longer and interrupt their working careers more frequently, largely because of family caregiving. Under a privatized system, women would risk outliving the assets in their private accounts. Social Security also provides important protections for divorced women—protections that are not addressed by most private individual investment account proposals.
- **Minorities will lose.** Social Security benefits are particularly important to people of color. Like women, they are less likely to have other retirement income or personal savings. Less than one-third of African American seniors and one-fourth of Latino seniors receive pension benefits. African Americans are also more likely than the general population to need survivor and disability benefits. As a result, the reductions in guaranteed benefits required by privatization would disproportionately impact people of color. In addition, most privatization proposals would raise the retirement age. This change would be especially harmful to African American males, who have shorter life expectancies than the general population.
- **Younger workers will lose.** If a portion of the payroll tax is diverted to private accounts, promised benefits would still have to be delivered to current beneficiaries. The result would be a changeover period lasting many years, during which both the new and old systems would need to be supported simultaneously. President Bush's Social Security Commission (2001) indicated that a large infusion of federal funds would be necessary to accomplish this, but failed to clarify the source. The reality is painful: federal funds would have to come from higher taxes, cuts in current and future benefits, or increased government borrowing. Younger workers would end up paying twice—for current beneficiaries and for themselves. With these changeover costs factored in, nearly all younger workers end up doing worse under a privatized or partially privatized system than under Social Security.