LEADERSHIP COUNCIL
of
AGING ORGANIZATIONS

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LCAO Principles on Social Security

Introduction

Social Security has been the cornerstone of the nation's income protection system for nearly 70 years. It provides disability, retirement and life insurance protections to virtually all American workers and their families. The system is fiscally sound, efficiently managed, and exceptionally reliable. Never once, in its entire history, has Social Security failed to pay monthly benefits.

While the system requires continual evaluation of its long- and short-term needs, in no way is it in crisis. According to its Trustees, Social Security will be able to pay full benefits until 2041, even if no steps are taken to alter the system. At that point, income to the system is projected to cover nearly 75 percent of benefits. That means Social Security will have a shortfall, but the problem is manageable, not a catastrophe that requires a radical solution.

Social Security is a Contributory System, Tied to Earnings

Social Security was never meant to be an individual savings or investment program, but rather a contributory system that is tied directly to earnings. It is financed by both employer and employee contributions. Since 1935, the system has pooled these contributions to protect millions of working Americans and their families against the possibility of catastrophic income loss due to the death, disability or retirement of a breadwinner. The system is based on the concept of shared risk. As a result, it 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 a Dependable Income Base

Social Security's disability, survivor and retirement benefits are relatively modest. They are designed to be an income base, i.e. a replacement for basic income. As such, the benefits could not be more dependable. They are backed by the full faith and credit of the Federal government, are fully indexed to inflation each year, and are payable as long as a beneficiary lives. Social Security is, in fact, the strongest leg of the proverbial "three-legged stool" of retirement income.

To ensure a more comfortable retirement, however, Americans need all three legs of the stool. We need to build on Social Security's reliable base individually by saving and investing as much as possible. And we need to develop public policies that not only encourage working people to save for retirement, but also encourage employers to provide workplace pension plans.

Social Security Is the Nation's Top Poverty Fighter

Social Security has turned out to be the nation's top anti-poverty program. It is 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. This means those who earned less will have a more adequate retirement income than they might have had otherwise. Largely because of Social Security, the poverty rate among older Americans fell from 35 percent in 1959 to under 11 percent today.

Without Social Security, 15 million more Americans would be living in poverty-not only seniors and the disabled, but almost 1.5 million children as well.

In meeting its primary goals of income protection and poverty prevention, Social Security has been an unqualified success. The challenge now is to correct the system's projected shortfall so it can continue to meet these important goals far into the future. A relatively modest mix of revenue and/or benefit changes will ensure Social Security's long-term solvency. In contrast, diverting even a portion of Social Security payroll contributions to fund individual investment accounts could seriously undermine the fundamental qualities that mark Social Security's success: universality, efficiency, earned rights, progressivity, equity and inter-generational solidarity.

Social Security's Problems are Manageable

There are numerous options for securing Social Security's long-term solvency without radically restructuring the system. Throughout its history, Social Security has always successfully adapted to changing demographic and economic circumstances that affect the system's income and outgo. For example, in 1977 and 1983, Congress made reasonable changes in Social Security's revenue and benefit levels in order to strengthen the system's finances.

As in the past, Congress and the President need to address Social Security's current problems and propose sensible corrections. The discussion should not be limited to solvency, however. It should also include such issues as gender equity in Social Security and the adequacy of payment levels to low-income persons, as well as the advantages of preserving the social insurance structure of the system.

Social Security Would be Weakened by Privatization

But replacing even a portion of Social Security with individual investment accounts would expose workers and retirees to unacceptable risk, as well as substantial administrative fees that would eat into returns. It would weaken disability and survivor protections and undermine the concept that, through Social Security, Americans take care of each other-from neighbor to neighbor and from generation to generation.

Carving out individual investment accounts from Social Security does nothing to improve solvency. Instead, it would divert billions of dollars from the trust fund and hasten the system's shortfall. It will require a massive infusion of general revenue funds and mean across-the-board cuts in basic benefits. Privatization plans are costly. We can't strengthen Social Security by draining the system of its resources.

In considering Social Security's future, Congress and the American people should keep but one goal in mind: to strengthen the system's ability 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. We believe the challenge for this generation is ensuring that Social Security can continue to meet the needs of current and future beneficiaries. 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. Beneficiaries must not be subject to the risk that their benefits will 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 workers will become so severely disabled, either physically or mentally, that they will not be able to work at some time before reaching retirement. Workers and their families must be protected against the devastating economic loss that occurs when a worker dies or becomes disabled.

- **Social Security must continue to protect people of all ages from poverty.** Benefits must continue to be structured in ways that protect young and old Americans from poverty in the future, just as they keep almost 1.5 million children and nearly 40 percent of the elderly from being poor today.

- **Social Security must continue to be progressive and fair.** The program's benefit formula must be weighted so that those who earn less receive a benefit that replaces a higher portion of their pre-retirement earnings, while those who earn more receive larger benefit amounts.

- **Social Security must continue to protect workers who must retire early.** Workers can currently collect Social Security retirement benefits as early as age 62. Workers who cannot work beyond Social Security's early retirement age because they are unable or because they cannot find work must be assured they can receive retirement benefits that provide them with a solid economic base.

- **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.

- **Social Security must continue to be a family protection plan.** The system must provide benefits geared toward meeting family income needs. 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 workers.

- **Social Security must continue to devote its full resources to providing economic security to Americans.** Because nearly all Americans participate in the same public system, Social Security's administrative costs are less than one percent of benefits paid, compared to 15 percent or more for private, individual investment accounts. This efficiency must be maintained.