Social Security: Ten Facts that Matter

✓ In 2008, 51 million people received some sort of Social Security benefit.
✓ In 2007, Social Security kept roughly 35 percent of older Americans out of poverty.
✓ Social Security has a long-term solvency challenge that must be addressed.

Social Security insures families against the loss of income caused by retirement, disability, or death, with nearly universal coverage; Social Security insurance covers 94 percent of workers in paid employment and self-employment. Social Security has been a success. However, Social Security has a long-term solvency challenge. Over the next 75 years, Social Security’s actuarial deficit is projected to be 1.70 percent of taxable payroll. This deficit needs to be addressed soon, without changing the fundamental structure of the program or eroding the protections it offers to almost all workers and their families. Here are some important facts to remember as the future of Social Security is discussed.

Social Security insurance protects all age groups.

Social Security not only provides retirement income for older Americans, it also protects workers of all ages and their families against the risks of death and disability. In 2008, 51 million people received some sort of Social Security benefit, including about 15 million beneficiaries under age 65. Ninety-seven percent of people aged 20 to 49 in covered employment earned survivorship protection for their children and surviving family. For a young family, the survivor benefit is equivalent to a $433,000 life insurance policy.

- Ninety-one percent of people aged 21 to 64 in covered employment can depend on a monthly cash benefit in the case of a severe and prolonged disability. The value of Social Security’s disability benefit is equivalent to a $414,000 disability insurance policy for a young family.
- Eight percent of all beneficiaries are children of deceased, retired, or disabled workers; 9 percent are widow(er)s; and 15 percent are disabled workers (see figure 1).

Figure 1
Who Benefited from Social Security in 2008?

Social Security: Ten Facts that Matter

- Almost $3 out of every $10 of Social Security benefits go to disabled workers and their families, or survivors of deceased workers.9

**Social Security provides a retirement benefit that is guaranteed for life and is adjusted to keep pace with inflation.**

In contrast, pensions and retirement savings accounts are rarely indexed to inflation, and retirees may outlive those assets. Even if inflation is only 3 percent per year, a nonindexed annuity loses more than one-third of its value over 15 years.

**Social Security benefits are adequately funded for another 32 years.**

Beginning in 2041, according to the Social Security trustees, the Social Security trust fund, which is currently in surplus, will be exhausted. Without any changes, Social Security taxes (primarily payroll taxes) will still be enough to pay 78 percent of scheduled benefits in 2041 and 75 percent of scheduled benefits in 2082.

Social Security benefits are tied to a worker’s lifetime earnings, which are indexed to average wage growth in the economy. Because wages typically grow faster than inflation, benefits equal to 78 percent of scheduled benefits in 2041 and 75 percent in 2082 are projected to be higher in inflation-based dollars than today’s benefits.

**Social Security is the principal source of family income for nearly half of older Americans.**

Twenty-three percent of those age 65 or over live in families that depend on Social Security benefits for 90 percent or more of their income, and another 27 percent receive at least half of their family income from Social Security (see table 1).10

- Eighty-nine percent of individuals age 65 or over include Social Security benefits as a source of family income, which is more than double the number of individuals receiving income from pensions and retirement savings (see figure 2).

- The average monthly Social Security benefit today is $1,056 per month.11

**Social Security keeps older Americans out of poverty.**

As the only guarantee of income in retirement, Social Security has performed admirably over the years in keeping older Americans out of

<table>
<thead>
<tr>
<th>Table 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elderly Individuals Depend on Social Security for a Substantial Share of Family Income</td>
</tr>
<tr>
<td>Percentage of Family Income Provided by Social Security</td>
</tr>
<tr>
<td>100% thousands percent (persons)</td>
</tr>
<tr>
<td>2004</td>
</tr>
<tr>
<td>2005</td>
</tr>
<tr>
<td>2006</td>
</tr>
<tr>
<td>2007</td>
</tr>
</tbody>
</table>

* Family income includes income from all family members, including those in related subfamilies. Persons with zero family income, negative family income, negative family earnings, or negative family asset income are excluded. The elderly includes all persons age 65 and older.

poverty. In 2007, Social Security income kept roughly 35 percent of older Americans out of poverty (see figure 3). Moreover, reliance on Social Security as a source of guaranteed income increases with age (see figure 4).

**Social Security benefits are progressive.**

The Social Security retirement benefit formula is designed to replace a greater percentage of preretirement wages for workers with lower lifetime earnings. Disability benefits are progressive by nature. Disabled workers tend to stop working or work less because of their disability, resulting in lower earnings.¹²

**Social Security is crucial for women.**

Social Security’s inflation-adjusted, lifelong guarantee is particularly important for women, because, on average, women live longer, earn less, and are far more likely than men to take time out of the labor force for caregiving. Women account for 56 percent of all Social Security beneficiaries.¹³ For nonmarried women over age 65, Social Security provides almost half of their income.¹⁴

**Social Security provides critical income support to minorities.**

African Americans and Hispanics make up a disproportionately large segment of Social Security beneficiaries. African Americans and Hispanics are less likely than whites to have other sources of income.¹⁵

---

* Figure 2: Social Security is an Important Source of Family Income for Elderly Minorities: Percent of Persons with Selected Sources of Family Income, 2007

* Figure 3: Social Security Keeps Elderly Persons out of Poverty, 2007

---

¹ The elderly includes all persons age 65 and older.

of workers earning low and moderate wages. The Social Security benefit formula ensures that these lower-wage workers and their families receive a higher benefit relative to their contributions than higher wage workers.

Older African Americans and Hispanics are less likely than whites to have income from pensions and other retirement savings or assets (see figure 2). However, 82 percent of African Americans over age 65 and 76 percent of Hispanics over age 65 have income from Social Security. Older African Americans and older Hispanics are more likely than older whites to depend on Social Security for 90 percent or more of their family income (figure 5).

**Trust fund assets earned interest at 5.1 percent in 2008, and the cost of administering Social Security is minimal.**

The trust funds are invested in special-issue U.S. Treasury securities that guarantee both principal and interest and are available only to the Social Security trust funds. The annual effective interest rate for the special issue securities was 5.1 percent in 2008. The trust funds will continue to grow until 2017, at which point benefits payable are projected to exceed Social Security tax revenues. Under the Social Security actuaries’ intermediate assumptions, assets will total nearly $4.5 trillion by the end of 2017.

In 2008, the administrative cost of the Social Security trust funds was 0.86 percent of contribution income. Social Security’s administrative costs
are appreciably lower than the average administrative cost of a mutual fund, which is around 1.3 to 1.5 percent of the account balance.\textsuperscript{17}

**Social Security is the foundation of workers' retirement security, but it was never intended to be the only source.**

Social Security was intended to provide vital basic protections for workers and their families. However, savings and pensions are important components of overall retirement income security. On average, Social Security replaces only 41 percent of a medium earner’s wages.\textsuperscript{18} For a comfortable retirement, many financial planners suggest that an individual’s total savings, pensions, and personal savings, plus Social Security income, should replace at least 70 percent of preretirement income.

---


---

![Figure 5: Elderly Minorities Depend on Social Security to Provide a Significant Share of Family Income, 2007](chart.png)

* Family income includes income from all family members, including those in related subfamilies; persons with zero family income, negative family income, negative family earnings, or negative family asset income are excluded.


6 See note 4.

7 See note 5.


9 See note 4.

10 These tabulations take account of the income of the entire family in estimating the extent to which older individuals depend on Social Security. If we include the income of each individual only and disregard the sources of income contributed by other family members, then we estimate that 61 percent of individuals depend on Social Security for at least half of their income (including 36 percent who depend on it for 90 percent or more of their income and another 25 percent who rely on it for at least 50 percent but less than 90 percent of their income).


15 Social Security Administration, “Effective Interest Rates earned by the Assets of the OASI and DI Trust Funds.” Accessed at www.ssa.gov/OACT/ProgData/effectiveRates.html.

16 Social Security Administration, “Trust Fund Data.” Accessed at ssa.gov/cgi-bin/ops_period.cgi.


Fact Sheet 154, April, 2009

Written by Selena Caldera
AARP Public Policy Institute,
601 E Street, NW, Washington, DC 20049
www.aarp.org//ppi
202-434-3970, ppi@aarp.org
© 2009, AARP.
Reprinting with permission only.