

KEY QUESTIONS FOR SOCIAL SECURITY REFORM

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1. *Are the family benefits offered now through Social Security the ones we'd pick if we were designing the system today?*

- Social Security provides generous benefits to spouses who never worked much (or contributed many taxes), because when the system was created most families consisted of a working husband and nonworking wife.
- Most married women now work. Between 1940 — just after Social Security was created — and 2003, the share of married women in the labor force soared from 17 percent to 61 percent.
- More women than ever are now raising children alone. Between 1940 and 2002, the share of children born to single mothers increased from 4 percent to 34 percent.
- Fewer people are now marrying. Between 1970 and 2003, the share of women ages 35 to 44 who had never married more than doubled, rising from 5.7 percent to 13.2 percent.
- Divorce rates have soared since Social Security was created. Between 1940 and 2003, the share of women ages 25 and older currently divorced increased from 2 percent to 13 percent.
- Between 1940 and 2000, the share of families headed by a married couple in which only one spouse works dropped from 67 percent to 16 percent.
- Even at older ages, most women now qualify for Social Security benefits on their own. Between 1960 and 2002, the share of women ages 62 and older eligible for Social Security based on their own earnings histories increased from 43 percent to 67 percent.

2. *As people live longer, should more of the country's assets go to people in their 80s and fewer to those in their 60s?*

- Fully 26 percent of adults ages 85 and older received incomes less than 125 percent of the federal poverty level in 2000, compared with only 13 percent of those ages 65 to 69.
- Social Security benefits accounts for about half of the income received by people ages 85 and older, but only slightly more than one-quarter of the income received by those ages 65 to 69.

- The burden of health care costs rises sharply with age. Adults ages 85 and older spent about \$4,600 per year out-of-pocket on health care costs in 2003, 58 percent more than those ages 65 to 74.

3. *How effective is Social Security as an anti-poverty program?*

- Fully 10 percent of adults ages 65 or older lived in poverty in 2003, down from 30 percent in 1967. The aged poor are disproportionately female, African American or Hispanic, very old, and unmarried. Poverty rates are nearly four times as high for nonmarried aged adults as for their married counterparts.
- More than 90 percent of Americans ages 65 and older now receive Social Security benefits.
- Social Security benefits account for about 40 percent of total family income for all adults ages 65 or older, and for 82 percent of family income for those near the bottom of the income distribution.
- Nearly 6 in 10 aged Americans depend on Social Security for at least half of their family income. Social Security benefits are the sole source of income for nearly one in five aged Americans.
- Social Security pulls nearly 12 million older Americans out of poverty.

4. *Should reform of disability insurance and Medicare be integrated with Social Security reform?*

- 5.5 million disabled workers received Social Security benefits in 2003.
- Payments to disabled workers and their spouses and dependents accounted for 15 percent of all benefits paid by Social Security in 2003.
- Social Security's disability program grew nearly four times as fast as the rest of the program over the past decade. Accounting for inflation, disability payments doubled between 1990 and 2003.
- Total outlays for the Social Security disability program will begin to exceed revenues in 2007, according to the intermediate projections of the Social Security trustees.
- Medicare costs are soaring. The Medicare trustees project that the program will consume nearly 8 percent of the nation's total output by 2035, up from less than 3 percent in 2003.

5. *How are Social Security and Medicare squeezing programs for people who aren't elderly?*

- Outlays for Social Security, Medicare, and Medicaid totaled 8.3 percent of GDP in 2003. By 2030, these programs could consume 17.4 percent of the nation's output, if current trends continue, according to Congressional Budget Office projections.
- Between 1975 and 2003, federal government domestic spending excluding Social Security, Medicare, Medicaid and interest payments declined by 25 percent as a share of the nation's output. During the same period, the share of GDP going to Social Security, Medicare, and Medicaid increased by more than 50 percent.

6. *How well is the private pension system working?*

- About 54 percent of private full-time wage and salary workers participated in employer-sponsored pension plans in 2003. Most participants work for large employers and are well-paid. Only about one-quarter of low-wage workers participate in pension plans.
- The share of covered wage and salary workers in the private sector participating in traditional defined benefit pension plans has plummeted over the past two decades, falling from 83 percent in 1980 to 36 percent in 1999. These plans, which typically pay fixed monthly benefits throughout retirement and depend on earnings and years of service, have provided financial security at older ages for those who participated most of their careers.
- The Pension Benefit Guaranty Corporation, a quasi-independent federal agency that insures benefits in traditional pension plans, is running a \$23 billion deficit – the largest in its history – as increasing numbers of financially strapped employers terminate their plans and abandon their pension obligations. Taxpayers may end up footing the bill.
- Most covered workers now belong to 401(k)-type plans, which function as tax-deferred retirement savings accounts to which both employees and employers generally contribute. However, more than one-quarter of all eligible workers opt out of these plans completely, including more than half of low-wage workers. Fewer than one in ten participants contribute the maximum tax-deferred amount permitted by law.
- Unlike most traditional pension plans, 401(k) plans generally provide benefits in one lump-sum payment, not as annuities that make monthly payments until death. Only 10 percent of retirees ages 65 and older who had participated in 401(k) plans use their plan payouts to purchase annuities, leaving many retirees at risk of depleting their assets before they die.