Social Security: Building on Success

November 20, 2007
Presentation for the Economic Policy Institute
Virginia P. Reno
Vice President for Income Security
National Academy of Social Insurance

Vreno@nasi.org
Key Points

- Social Security is affordable.
- Tho’ benefits are modest, Social Security is seniors’ main source of income.
- The need for more adequate income.
- The case for using Social Security to deliver it.
- 21st century retirement
Social Security Is Affordable

- Benefits will increase from 4.3% of GDP today to 6.2% in 2030.
- Benefits remain about 6.2 - 6.3% of GDP through 2085.
- That growth – 1.9% of GDP -- is less than the increase in spending for education when boomers were children.
Social Security Replaces Earnings
Age 65 Benefits Compared to Past Earnings, 2007

2007 Trustees’ Report, p. 186
Modest Benefits, Yet Main Source of Income for Seniors

Average retired-worker benefit is $12,600 a year.

Social Security is important for seniors across the income spectrum.

It is the main source of income for middle- and upper-middle-income seniors, as well as for low-income seniors.
Shares of Income from Specified Sources by Income Level, 2004
Married Couples and Unmarried Persons Age 65 and Older

- Lowest fifth -- $10,399 and below
  - 83%

- Second fifth: $10,400--$16,353
  - 66%

- Middle fifth: $16,354 -- $25,587
  - 47%

- Next to highest fifth: $25,588- $44,129
  - 26%

- Top fifth -- $44,130+
  - 19%
The Need for More Adequate Benefits

- Replacement rates are low.
- U.S. seniors are more likely to be poor than in other industrialized countries.
- Social Security will replace less of earnings at age 65 in the future.
- Employers are dropping DB pensions.
Build on Success: Social Security…

- Covers almost everyone; portable
- Lasts for life, keeps up with cost of living, protects widowed spouses
- Has family life insurance and disability protection; no leakage
- Permanent sponsor
- Efficient: $0.99 of every $1.00 paid in benefits.
Workers Need Both Insurance and Savings

- As social insurance, Social Security targets insured risks. No “leakage” for other uses.
- Savings accounts create expectations of choice, ownership, flexibility, bequests.
- 21st Century Retirement System:
  - More adequate social insurance
  - More widespread voluntary savings on top.
Next Step: Refine Answers to the Right Question

How can we build on the strengths of Social Security – its fiscally responsible design, its universality, progressivity, efficiency, and effectiveness – to meet the needs of working families and retirees in the 21st century?