



**TESTIMONY
BEFORE THE
HOUSE WAYS AND MEANS
SOCIAL SECURITY SUBCOMMITTEE**

**Protecting and Improving Social Security:
Enhancing Social Security to Strengthen the Middle Class**

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On behalf of our 38 million members, and all Americans age 50 and over, AARP thanks Chairman Larson, Ranking Member Reed, and members of the Social Security Subcommittee, for the opportunity to testify today on the importance of Social Security. AARP has members in every state and American territory, including 115,662 members in the first congressional district of Connecticut and 114,360 members in the twenty-third congressional district of New York. AARP appreciates the opportunity to testify today on some of the significant issues surrounding the current and future state of retirement security of American workers and their families, and more broadly, on the important contributions Social Security makes to families, beyond providing the critical foundation of retirement income for Americans.

The Retirement Income Gap

The gap between the financial assets Americans will need to maintain their standard of living in retirement and what they actually have or are on track to acquire strongly suggests that the retirement security of millions of Americans will increasingly depend on Social Security. For more than half a century, a secure retirement in the United States centered on reliable income from three sources, the so-called “three legged stool” of retirement – employer-provided defined-benefit pension plans, personal savings, and Social Security. Together, these sources of income offered a stable financial future. Unfortunately, diminishing pensions and inadequate retirement savings – coupled with longer life expectancies --endangers the dream of a secure retirement for millions of Americans, and requires Social Security to play an even greater role in the lives of older Americans.

Defined-benefit (DB) pension plans once dominated the employment landscape. In 1983, roughly 60 percent of workers with an employer-sponsored retirement plan had a DB pension plan; by 2016, however, just 17 percent of workers with a workplace retirement plan had a DB pension.¹ At the same time that fewer workers have been offered a pension with guaranteed lifetime income, more workers have been offered defined contribution (DC) plans – such as 401(k) plans -- to save for their retirement. In 1983, only 12 percent of workers offered a workplace retirement plan were exclusively offered a DC plan, but by 2016, 73 percent of workers offered a workplace retirement plan were only offered a DC plan.

The switch from DB to DC plans has important implications for retirement security. First, employees now assume the responsibility of determining if and how much to save, and managing their retirement funds, even if they have little or no investment experience. Second, it is quite possible to outlive the savings in a DC plan because of the uncertainty of when one will die. Third,

¹ Center for Retirement Research (2018), “Workers with Pension Coverage By Type of Plan, 1983, 1998, and 2016,” <http://crr.bc.edu/wp-content/uploads/2015/10/figure-16.pdf>.

despite the increased use of DC plans, financial experts generally agree the income they generate may not fully compensate for the loss of employer-provided DB pensions.²

Making matters worse, workers who only have access to a workplace savings plan are not saving enough to significantly contribute to a secure retirement. For middle-income households ages 55-64 with a DC plan or Individual Retirement Account (IRA), the median balance is roughly \$100,000, not nearly enough to ensure a secure retirement, especially given that the average number of retirement years has increased markedly from 12 in the 1960s to almost 20 today.^{3 4} It is no wonder that surveys persistently show that Americans do not feel financially prepared to retire. A recent Center for Financial Services Innovation poll, funded in part by AARP, found that only 18% of respondents felt very confident they could meet their long-term financial goals, including retirement.⁵

Of course, access to a workplace retirement plan is better than none at all. Remarkably, just over half of all workers in the United States are in jobs with no retirement plan, and they are more likely to be less educated, part-time, and lower-paid workers.⁶ Overall, the share of the workforce covered by retirement plans is 51 percent as of 2013, a percentage that has remained largely unchanged over the past three decades.⁷ While these workers still could contribute to an IRA to save for their future, few actually do. For example, only about one worker in 20 with earnings of \$30,000 to \$50,000 a year and no access to a payroll deduction plan contributes to an IRA consistently.⁸

Social Security's Critical Role as an Income Source for Millions of Americans

As a result of the diminishing presence of DB pensions and the uncertainty and volatility of personal retirement accounts and private assets, even those lucky enough to have access to a workplace retirement plan are more likely than ever to find that Social Security is the only guaranteed income stream they will not outlive during their retirement. Unsurprisingly, in an

² Center for Retirement Research (2015), "Investment Returns: Defined Benefit vs. Defined Contribution Plans," https://crr.bc.edu/wp-content/uploads/2015/12/IB_15-211.pdf.

³ Center for Retirement Research (2018), "401(k)/IRA Balances for Median Working Household with a 401(k)/IRA Age 55-64, By Income Quintile, 2016," <http://crr.bc.edu/wp-content/uploads/2015/10/Table-17.pdf>.

⁴ Center for Retirement Research (2018), "Average Years in Retirement, 1962-2050," <http://crr.bc.edu/wp-content/uploads/2015/10/figure-10.pdf>.

⁵ Thea Garon, Andrew Dunn, Katy Golvala, and Eric Wilson (2018), "U.S. Financial Health Pulse: 2018 Baseline Survey Results," Center for Financial Services Innovation, <https://s3.amazonaws.com/cfsi-innovation-files-2018/wp-content/uploads/2019/02/25191008/Pulse-2018-Baseline-Survey-Results.pdf>.

⁶ Center for Retirement Research (n.d.), "Pension Participation of All Workers, By Type of Plan, 1989-2016," <http://crr.bc.edu/wp-content/uploads/2015/10/Pension-coverage.pdf>.

⁷ Craig Copeland (2014), "Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2013," Employee Benefit Research Institute (EBRI), Issue Brief 405, p. 27, Washington, DC. https://www.ebri.org/pdf/briefspdf/EBRI_IB_405_Oct14.RetPart.pdf.

⁸ Employee Benefit Research Institute (2006), Unpublished estimates of the 2004 Survey of Income and Program Participation Wave 7 Topical Module.

AARP poll conducted last year, respondents across three generations overwhelmingly said Social Security is very important to their retirement security: 64 percent of Millennials, 79 percent of Gen-X respondents, and a full 90 percent of Baby Boomers agreed with that view.

Social Security is the only lifetime, inflation-protected, guaranteed source of retirement income that most Americans will have. It is the foundation of retirement security that keeps millions of older Americans out of poverty and allows them to live independently. But Social Security also provides some measure of economic security for families who face a loss of income because of the disability or the death of a wage earner. We often do not think of Social Security as a family income protection plan—yet that is exactly what it is.

Social Security was first conceived as a way to protect older Americans from spending their final years in poverty. Congress initially instituted a monthly benefit that would pay income support to a worker in retirement and ensure that the worker could not outlive his savings. The program has evolved over its more than 80 years to protect against a variety of risks. Today's workplace -- and its participants -- are vastly different than the one Congress had first envisioned in 1935, and Social Security has been updated several times to account for these changes and risks.

Social Security was first amended in 1939 to insure against the risks faced by the spouse and children of workers. At a time when men were generally the sole breadwinners for the family, and women were largely excluded from the workforce, these new spousal and survivor benefits protected wives and children in the event that the husband died during his working years. Although women's roles in the workplace have grown, this spousal and survivor benefit still provides vital support to families. Today, roughly one of every six beneficiaries is a spouse, survivor or child of a worker. Nearly 6 million survivors of deceased workers obtain Social Security benefits, and another 4.7 million spouses and children of retired and disabled workers obtain benefits based off the work record of the family's main breadwinner.

In 1956, Congress expanded Social Security to protect against the risk that a severe disability would prevent a person and his family from earning the income needed to live. Disability insurance now serves as a key backstop for all workers who have contributed into the system to receive support should they be unable to earn an income due to a severe medical impairment. Today, roughly 8.7 million workers – or one in seven Social Security beneficiaries – receive disability benefits.

In 1972, Congress added additional protections for all Social Security beneficiaries by requiring annual benefit adjustments to help ensure benefits keep pace with the cost of living. This cost-of-living adjustment, or COLA, protects all Social Security recipients from the risk that the cost of goods will increase faster than their benefits and make it difficult for them to make ends meet.

In January of this year, Social Security recipients received a 2.8 percent rise in their benefit checks based on the increase in certain consumer goods during the prior year.

Admittedly, most Americans do not see Social Security as lifetime insurance. They look to it as a source of retirement income that they have invested in via payroll taxes during their working lives. It is an earned benefit, but it is not structured like a savings account or a 401(k) plan. Social Security benefits are calculated through a formula that helps protect the most vulnerable members of our society. This progressive benefit formula ensures that those with low lifetime earnings receive proportionately larger annual benefits. About half of those 65 and older depend on Social Security for the majority of their retirement income, and roughly one quarter of those 65 and older rely on the program for all or nearly all of their income in retirement.

Lottie Prushinski, AARP member from Southington, Connecticut, shared her story, which reflects the experience of millions of other Americans:

My Social Security benefits are the major source of my retirement income. I also have a very, very small pension, and retirement IRA. These together allow me to live on my own without any government assistance. During my working years which started when I was 16, I paid into the Social Security system until I retired. Being at the very low end of the middle class, without my Social Security benefits that I earned while working all those years, my income would be below the poverty level. I want to continue to live with dignity and financial independence and not rely on others. My current Social Security benefits are allowing me to do this.

A story just like Lottie's is heard every day, in every AARP state office and local chapter. As Rehana Stanley, the AARP Chapter President for Elmira, New York, stated for today's hearing:

Elmira is one of two American cities in the nation that is still in recession. I dare say, without question, that most of our members rely on Social Security income for daily survival. Many of our members have small or non-existent company pensions and have Social Security as the sole source of income. Our members are a hard working lot and have paid into the Social Security System their entire lives until they retired. They have earned the right to receive their payment and are grateful for a system that pays them back for a lifetime of sweat equity.

Social Security plays a crucial role in the financial security of millions of Americans. It has proven to be the most effective policy for reducing poverty among older people, particularly for women and racial and ethnic groups who are more likely to have had lower wages and less likely to have pensions. Without Social Security, nearly four in ten Americans 65 and older would live below poverty; that number drops to one in ten after Social Security lifts more than 15 million older Americans above the poverty line. Nearly one in four women ages 65 and older live in

families that receive at least 90 percent of their income from Social Security. The reliance in minority communities is even more pronounced; nearly 38 percent of African American women in families receiving benefits rely on Social Security for almost all of their income, and more than 31 percent of older Hispanic women do the same.

The Future of Social Security

Social Security is clearly the cornerstone of American financial security in retirement. It is extremely important to AARP's members that it will provide adequate benefits not only for them, but also for their children and grandchildren. While the Social Security Trustees have made clear, and AARP will continue to emphasize, that Social Security has enough funding to pay 100% of benefits until 2034, and it is also true that unless Congress acts, benefits could be reduced by 21% beginning in 2034 and through the remainder of the century. A cut like this would result in severe hardships for millions of people across the country, especially considering how modest benefits are now. It is critical to remember that the average monthly check for a retired male worker is \$1,565; and for a retired female worker, it is even less, only \$1,244.

AARP's membership believes it is the responsibility of Congress and the White House to take action so that hardworking Americans receive the benefits they have earned. That is why AARP has in the past few years made a campaign of asking lawmakers to share their plans for the future of Social Security. We want to commend the Chairman for his leadership in developing a detailed proposal to strengthen Social Security for the next 75 years, and we invite all members of the committee to also share your proposals to secure the future of the program with our members and the American public.

American workers paying into Social Security deserve an honest debate and civil discussion about its future. Our members' commitment to ensure the future of Social Security and their enthusiasm to hear from candidates and lawmakers on this topic is revealed by the breadth of engagements our campaigns have generated. During the 2016 election cycle alone, AARP collected 1.4 million petitions through our state offices and direct mail asking candidates to share a plan for Social Security's future, and 418,000 online activists took 615,000 actions telling candidates and Members of Congress about the importance of Social Security in their lives. We engaged 2.5 million members in phone conversations regarding Social Security during the election season, and those phone conversations complimented nearly 7 million pieces of mail sent to likely AARP voters about Social Security during the 2016 election. Nearly 134 million people saw AARP social media Tweets about Social Security during the 2016 election, and almost 26 million people took action on those Tweets, including sharing Tweets and Facebook posts. Clearly, AARP's members want to engage on the topic of Social Security's future.

Today's hearing is an important opportunity to start a constructive dialogue on the future of the program. As noted earlier, Social Security has evolved over its more than 80 years to address emerging needs and adapt to new realities. You have an opportunity to continue updating the program, so that it better reflects changes in demography, longevity, pensions, work patterns, health and technology. We recognize the challenge lies in not only identifying the most effective policies to improve the lives of Americans, but also in securing the bi-partisan consensus and support of the public that long-lasting solutions demand. AARP offers you our support as you seek to engage the public and develop that consensus, and we commit to you an open dialogue with our members on this vital topic.

AARP would again like to thank Chairman Larson and Ranking Member Reed for the opportunity to share our views and those of our members on the important role Social Security plays, and will continue to play, in the lives of both current and future generations of Americans. The promise of Social Security has endured for over 80 years. It is a promise that AARP believes embodies our deepest values as Americans and is a lasting promise between one generation and the next. We are firmly committed to ensuring that this promise continues to endure for the next 80 years and beyond.