

## Fact Sheet

# Social Security: Who's Counting on It?

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Social Security insures families against the loss of income caused by retirement, disability, or death.<sup>1</sup> Social Security is particularly important to Americans ages 65 and over, providing about 88 percent<sup>2</sup> of them with a stable source of income for life and keeping nearly 15 million out of poverty. The program, however, faces a long-term financial challenge that could undermine older Americans' retirement security.

Over the next 75 years, Social Security's shortfall—the amount by which scheduled payments will exceed revenue (“actuarial deficit”)—is projected to be 2.68 percent of taxable payroll.<sup>3</sup> This deficit should be addressed soon. Here are some important facts to remember as the future of Social Security is discussed.

### Social Security Insurance Protects All Age Groups

In 2015, 60 million people, including about 17 million under age 65, received some sort of Social Security benefit.<sup>4</sup> Social Security not only provides retirement income for older Americans but also protects workers of all ages and their families against the risks of death and disability (see figure 1).

- Among people ages 20–49 who pay Social Security taxes, 96 percent have earned survivorship protections for their families.<sup>5</sup>
- Among people ages 21–64 who pay Social Security taxes, 90 percent can depend on a monthly cash benefit in the case of a severe and prolonged disability.<sup>6</sup>

### Social Security Benefits Are Fully Funded for Another 19 Years

The Social Security trust funds had accumulated about \$2.8 trillion in reserves at the end of 2015.<sup>7</sup> Their value is estimated to peak at \$2.9 trillion at the beginning of 2020.<sup>8</sup> Later in 2020, the trust funds' reserves will begin to be drawn down in order to pay full benefits.

According to the Social Security trustees, the Social Security trust funds' reserves will be depleted in 2034. Without any changes, Social Security revenue (primarily payroll taxes) still will be enough to pay 79 percent of benefits in 2034 and 73 percent of benefits in 2089.<sup>9</sup>

It is important that reforms necessary to make the program solvent be made sooner rather than later. The sooner action is taken, the less severe

- ✓ About 60 million people receive a Social Security benefit.
- ✓ Social Security keeps 32 percent of older Americans out of poverty.
- ✓ About 21 percent of people ages 65 and older live in families that depend on Social Security for 90 percent or more of their family income.



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the changes to the program must be. For example, either an immediate increase in the payroll tax of 2.62 percentage points or a 16.4 percent decrease in all current and future benefits would close the shortfall in the Social Security trust funds. Waiting until the point of reserve depletion in 2034, however, will require either a 3.7 percentage point increase in the payroll tax or a 21 percent reduction in benefits.<sup>10</sup>

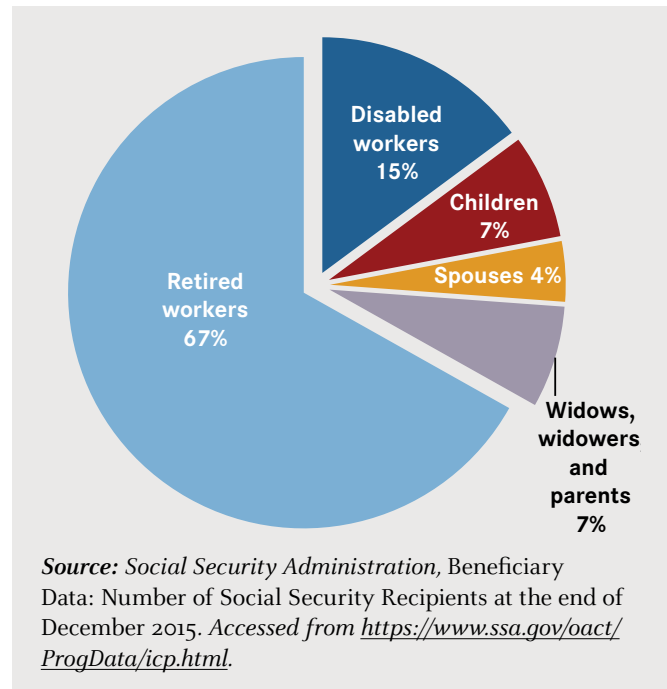
Just as important, the sooner changes are made, the more time there will be for phasing in the changes, and the more time there will be for future retirees to adjust their retirement plans in the event that benefits are reduced.

### Social Security Is the Principal Source of Family Income for Nearly Half of Older Americans

Among individuals ages 65 and older, 86 percent include Social Security benefits as a source of family income, which is almost double the percentage of people who have family income from pensions and retirement savings (see figure 2).<sup>11</sup>

For most older Americans, Social Security is the only retirement income source that is guaranteed for life and adjusted to keep pace with inflation. In contrast, pensions are rarely indexed to inflation,

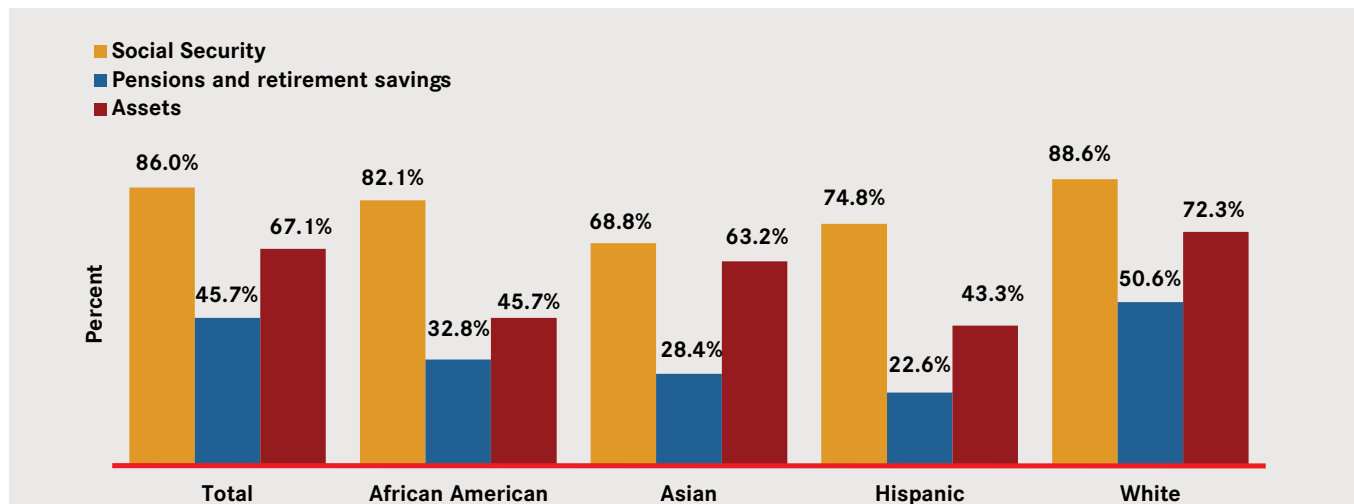
FIGURE 1  
Who Benefited from Social Security in 2015?



causing a decline in purchasing power over time, and retirees may outlive their retirement assets.

About 21 percent of people ages 65 and older live in families that depend on Social Security

FIGURE 2  
Percentage of Americans Ages 65 or over with Any Family Income from Pensions, Assets, or Social Security, by Race and Ethnicity, 2014



Source: Author's tabulations of U.S. Census Bureau, "Current Population Survey," March 2015.

Note: Pensions and retirement savings include retirement, disability, and survivor pensions from government, military, railroad, union, and private employers; and payments from IRAs, 401(k)s, Keoghs, paid-up insurance policies, and annuities.

TABLE 1

**Older Americans Depend on Social Security for a Substantial Share of Family Income, 2010-2014**

YEAR	SHARE OF FAMILY INCOME									
	100%		90%-99.9%		50%-89.9%		Less than 50%		TOTAL	
	Thousands	Percent (persons)	Thousands	Percent (persons)	Thousands	Percent (persons)	Thousands	Percent (persons)	thousands	Percent (persons)
2010	5,271	13.7	3,815	9.9	9,816	25.5	19,555	50.8	38,457	100.0
2011	5,519	13.5	4,157	10.7	10,423	25.5	20,767	50.8	40,867	100.0
2012	6,136	14.3	4,010	9.4	11,014	25.7	21,624	50.5	42,784	100.0
2013	6,094	13.9	3,925	8.9	10,855	24.7	23,121	52.6	43,995	100.0
2014	5,111	11.3	4,633	10.2	10,678	23.5	24,988	55.0	45,410	100.0

Source: Author's tabulations of U.S. Census Bureau, "Current Population Survey," March 2011-2015.

Note: Includes beneficiaries and nonbeneficiaries ages 65 and over. Family income includes income from all family members, including those in related subfamilies. People with zero or negative family income, negative family earnings, or negative family asset income are excluded. Includes families with no Social Security income.

benefits for 90 percent or more of their income. Another 24 percent receive at least half but less than 90 percent of their family income from Social Security (see table 1).<sup>12</sup>

Additionally, reliance on Social Security as a source of guaranteed income increases with age (see figure 3): about 33 percent of people ages 65-69 depend on Social Security for 50 percent or more of their family income, compared with 56 percent of people ages 80 and over.

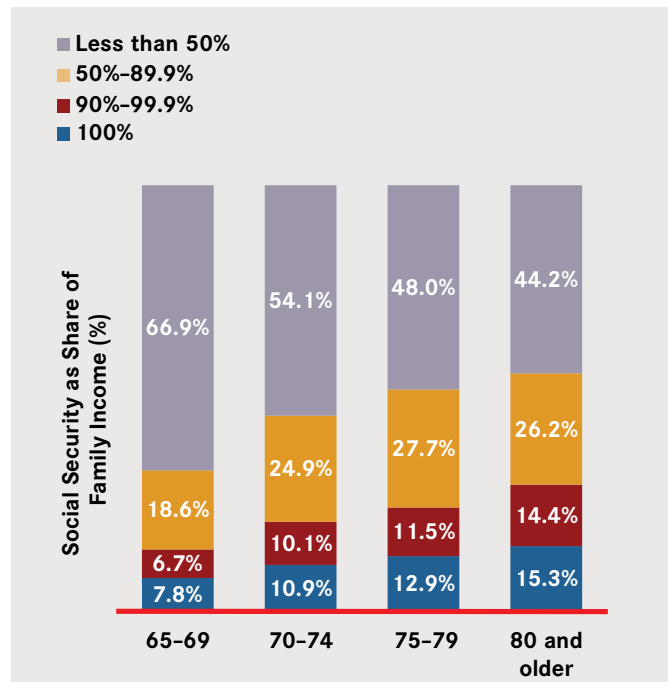
Social Security benefits are particularly important for women because, on average, women live longer and earn less than men do, so they are more dependent than men are on Social Security's progressive benefit and inflation-adjusted, lifetime income. Among women ages 65 and older, 24 percent depend on Social Security benefits for 90 percent or more of their family income, compared with 18 percent of men.<sup>13</sup>

**Social Security Provides Critical Income Support to Minorities**

African Americans and Hispanics are more likely to earn low or moderate wages. The progressive Social Security benefit formula ensures that those lower-wage workers and their families receive a higher benefit relative to their preretirement earnings than do higher-wage workers.

Older minorities are less likely than whites to have family income from pensions and other retirement

FIGURE 3  
**Reliance on Social Security Increases with Age, 2014**



Source: Author's tabulations of U.S. Census Bureau, "Current Population Survey," March 2015.

Note: Includes beneficiaries and nonbeneficiaries ages 65 and older. Family income includes income from all family members, including those in related subfamilies. Includes families with no Social Security income. People with zero or negative family income, negative family earnings, or negative family asset income are excluded.

savings or assets (see figure 2). However, 82 percent of African Americans and 75 percent of Hispanics ages 65 and older have family income from Social Security. Older African Americans and Hispanics are more likely than older whites to depend on Social Security for 90 percent or more of their family income (figure 4).

### Social Security Keeps Older Americans out of Poverty

As the only guaranteed source of income in retirement, Social Security has kept millions of older Americans out of poverty.<sup>14</sup> In 2014, Social Security income kept roughly 32 percent of older Americans, about 14.5 million people, out of poverty (see figure 5).

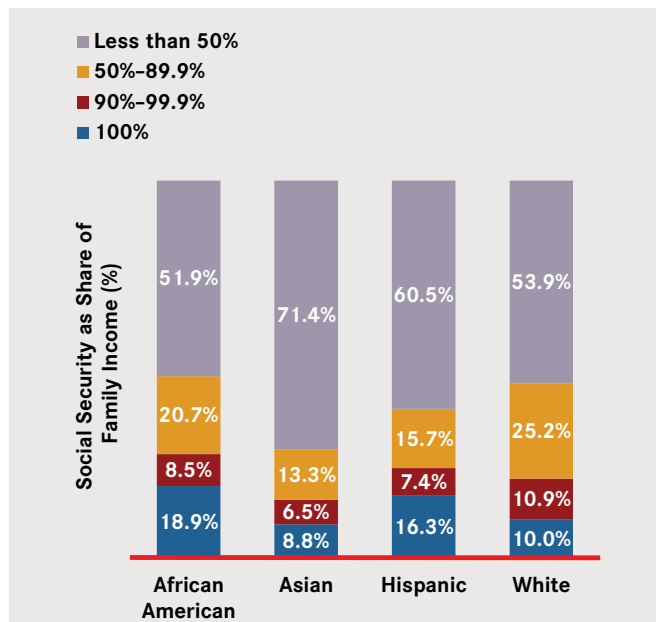
The poor (income below poverty line) and near-poor (income between 100 and 150 percent of the poverty

line) rely on Social Security for a significant share of their family income. In 2014, about 53 percent of the poor and 62 percent of the near-poor relied on Social Security for 90 percent or more of their family income (see figure 6).

### 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. Savings and pensions are also important components of overall retirement income security. For a comfortable retirement, many financial planners suggest that an individual's total income from pensions, personal savings, and Social Security should replace at least 70 percent of preretirement income.<sup>15</sup> However, Social Security replaces only 41 percent of the preretirement wages of a worker with average earnings over his or her career.<sup>16</sup>

**FIGURE 4**  
Older Minorities Depend on Social Security to Provide a Significant Share of Family Income, 2014



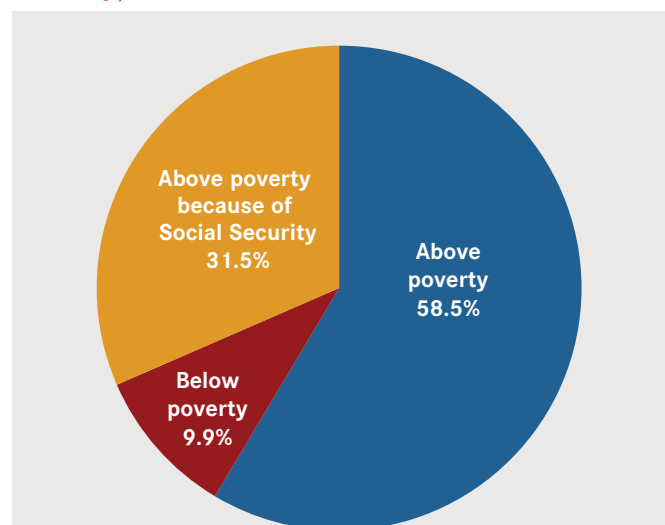
Source: Author's tabulations of U.S. Census Bureau, "Current Population Survey," March 2015.

Note: Includes beneficiaries and nonbeneficiaries ages 65 and older. Family income includes income from all family members, including those in related subfamilies. Includes families with no Social Security income. People with zero or negative family income, negative family earnings, or negative family asset income are excluded.

### Benefit Reductions May Begin in 2034

Without a legislative change, the Social Security program faces a financial shortfall that—if left

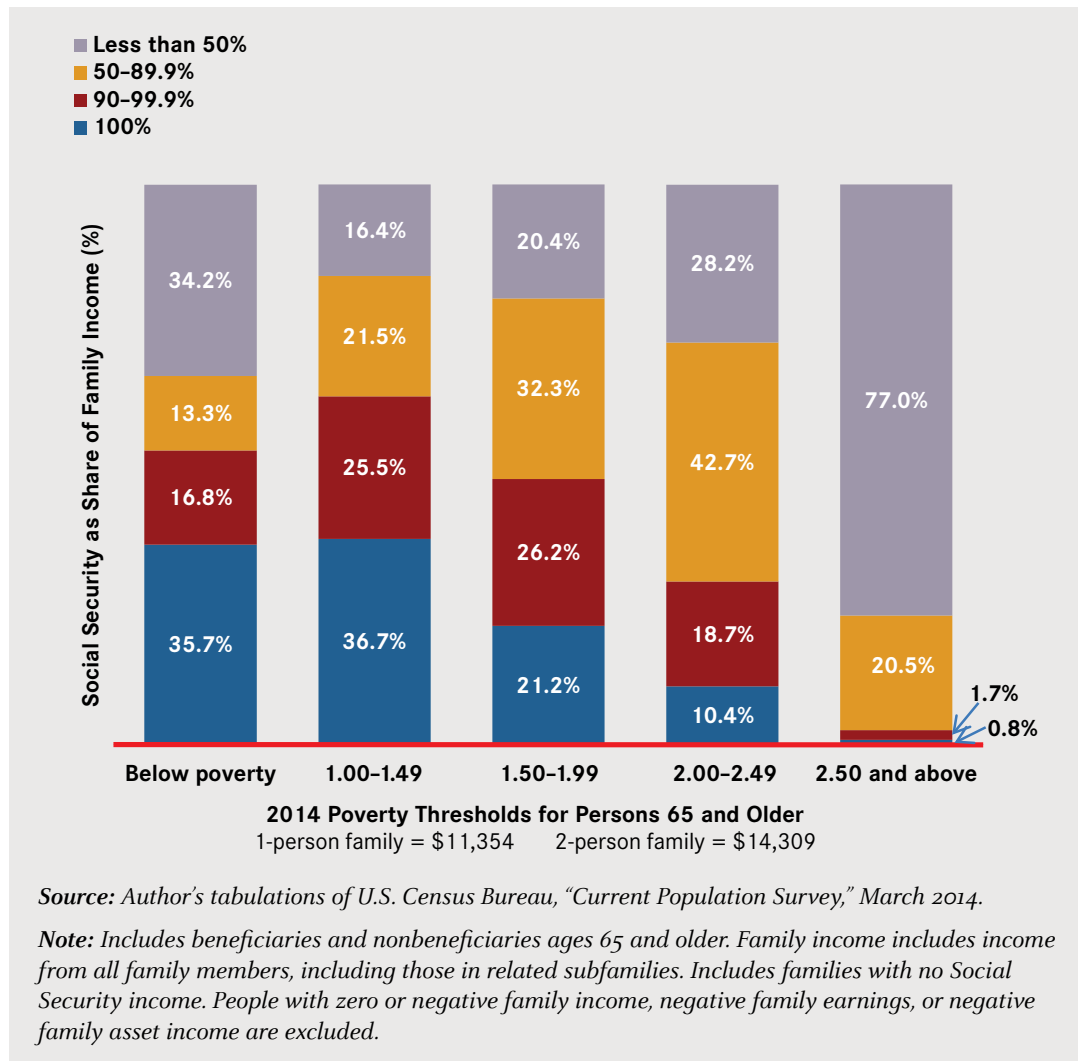
**FIGURE 5**  
Social Security Keeps Older Americans out of Poverty, 2014



Source: Author's tabulations of U.S. Census Bureau, "Current Population Survey," March 2015.

Note: Includes beneficiaries and nonbeneficiaries ages 65 and over.

**FIGURE 6**  
**Social Security Is Vital to Poor and Low-Income Older Americans, 2014**



unaddressed—will require an across-the-board benefit reduction starting in 2034. The sooner policy makers agree on how to achieve long-term solvency, the less drastic any changes would need to be. Any changes to the program should be made gradually—so that people can plan for their futures—and should protect those in or near retirement.

Solvency should not, however, be the only goal of Social Security reform. Reforms to the program must ensure that Social Security benefits continue as the foundation of a lifetime, guaranteed,

inflation-protected retirement income. In addition, reform should strengthen, not erode, the protections for vulnerable workers and their families.

For many Americans ages 65 and older, Social Security is the principal or only source of guaranteed retirement income. It is the most effective antipoverty program in the United States, keeping about 32 percent of Americans ages 65 and older out of poverty. Policy makers must keep these facts in mind as debate about Social Security reform progresses.

- 1 This is an update of “Social Security: Who’s Counting on It?” Fact Sheet 331, AARP Public Policy Institute, Washington, DC, August 2015. This update uses 2015 administrative data and the U.S. Census Bureau, “2015 Current Population Survey (CPS), Annual Social and Economic Supplement.”
- 2 Social Security Administration, “Social Security Program Fact Sheet, December 31, 2014,” April 16, 2015, [http://www.socialsecurity.gov/OACT/FACTS/fs2014\\_12.pdf](http://www.socialsecurity.gov/OACT/FACTS/fs2014_12.pdf).
- 3 Board of Trustees, Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, *The 2015 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (Washington, DC: Social Security Administration, July 22, 2015), <http://ssa.gov/OACT/TR/2015/tr2015.pdf>. The actuarial deficit of 2.68 percent, expressed as a percentage of taxable payroll, is the difference between income (payroll tax contributions and income from the taxation of scheduled benefits) and scheduled benefits and administrative costs, and incorporates a funding cushion equal to one year of benefit payments at the end of the forecasting period. Without any changes, Social Security will have enough revenue to pay 79 percent of benefits starting in 2034.
- 4 Social Security Administration, “Number of Social Security Beneficiaries at End-December 2015,” <https://www.ssa.gov/cgi-bin/currentpay.cgi>. See also “2015 Annual Statistical Supplement,” tables 5.A1 and 5.A10, at <https://www.socialsecurity.gov/policy/docs/statcomps/supplement/2015/5a.html#table5.a.1>.
- 5 Social Security Administration, “Fact Sheet on the Old-Age, Survivors, and Disability Insurance Program,” <https://www.ssa.gov/OACT/FACTS/>.
- 6 Social Security Administration, “Fact Sheet.”
- 7 Social Security Administration, “Trust Fund Data, 2015,” [https://www.ssa.gov/cgi-bin/ops\\_period.cgi](https://www.ssa.gov/cgi-bin/ops_period.cgi).
- 8 Board of Trustees, 2015 *Annual Report*, 3.
- 9 Board of Trustees, 2015 *Annual Report*, figure II.D2.
- 10 Board of Trustees, 2015 *Annual Report*, 24–25, footnote 1. The estimated tax rate of 2.62 percent that would lead to solvency for 75 years differs from the actuarial deficit of 2.68 percent because the 2.62 percent figure does not include an ending reserve equal to one year of benefit payments, while the 2.68 percent figure includes this ending reserve. Also, the 2.62 percent figure includes assumed behavioral responses to an increase in payroll taxes, but the 2.68 percent figure does not.
- 11 The 2015 Current Population Survey relied on a redesigned set of income questions. Preliminary results from the redesigned questions indicate that, while all income levels showed higher 401(k) and Individual Retirement Account (IRA) income from the redesigned questions, the effects were larger at higher income levels. See Craig Copeland, “Explaining the New Income Measures in the Current Population Survey,” Employee Benefits Research Institute Notes 36, no. 5, May 2015, [http://www.ebri.org/publications/notes/index.cfm?fa=notesDisp&content\\_id=3227](http://www.ebri.org/publications/notes/index.cfm?fa=notesDisp&content_id=3227).
- 12 These tabulations take account of the income of the entire family in estimating the extent to which older individuals depend on Social Security.
- 13 Author’s tabulations from U.S. Census Bureau, “Current Population Survey,” March 2015.
- 14 This fact sheet relies on the U.S. Census Bureau’s poverty thresholds; see <http://www.census.gov/hhes/www/poverty/data/threshld/index.html>. In 2014, the poverty threshold was \$11,354 for a single person age 65 and older and was \$14,309 for a couple with a householder age 65 and older.
- 15 Investopedia.com, “Retirement: What Percentage of Salary to Save?” 2014, <http://www.investopedia.com/articles/personal-finance/092414/retirement-what-percentage-salary-save.asp>.
- 16 Social Security Administration, “2014 Social Security/SSI/Medicare Information,” July 28, 2014, <http://www.ssa.gov/legislation/2014factsheet.pdf>. The figure of 41 percent is for the Social Security Administration’s “scaled medium earner” with career average earnings approximately equal to the Administration’s Average Wage Index, which is an index of mean earnings nationwide.

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