

# AFSCME

## Retirees Bulletin

### SOCIAL SECURITY BASICS

Eighty-three years after Democratic President Franklin Roosevelt signed the Social Security Act on August 14, 1935, Social Security remains one of the nation's most successful, effective, and popular social insurance programs, creating "a system of Federal old-age benefits" for workers and their families. In 1956, the law was amended to also provide disability benefits. Now Social Security is composed of two separate entities: The Old-Age and Survivors Insurance (OASI) program and the Social Security Disability Insurance (SSDI) program. Each program has separate finances handled through two separate trust funds.

Many Americans depend upon Social Security, but it is important to remember that some workers were originally exempt from Social Security including government employees, railroad workers, the self-employed, farm workers, domestic help, and employees of nonprofit organizations. In 1950 and 1983, the law was changed to require most of these individuals to participate in the program, although about 25 percent of state and local government workers are still exempt. Most of these exempt employees have their own retirement and disability plans which provide replacement coverage to Social Security.

**Social Security provides a guaranteed, progressive benefit that keeps up with increases in the cost of living.** Social Security benefits are progressive and represent a higher proportion of a worker's previous earnings for workers at lower earnings levels. The benefits are based on the earnings on which one pays Social Security payroll taxes. The higher one's earnings (up to a maximum taxable amount, currently \$128,400 max in 2018), the higher the benefit. But, the benefits for a low earner have a higher replacement rate of about half of prior earnings, while benefits for a high earner replace about one-third of prior earnings, though they are larger in dollar terms than those for the low-wage worker.

**Social Security is more than just a retirement program; it provides important life insurance and disability insurance protection, and a foundation of retirement protection for all Americans.** Disability benefits provide valuable social insurance protection to workers who become disabled and to children and families when a wage earner dies. Over 60 million people, or more than one in every six U.S. residents, received Social Security benefits. While older Americans make up about four in five beneficiaries, another one-fifth of beneficiaries received SSDI benefits or were young survivors of deceased workers. About 6 million children under age 18 lived in families that received income from Social Security, including 3.1 million



children who received their own benefits as dependents of retired, disabled, or deceased workers, as well as others who lived with parents or relatives who received Social Security benefits. worked all of his or her adult life at average earnings and retires at age 65 in 2017, Social Security benefits replace about 38 percent of past earnings. As the retirement age increased from age 65 to 67 over the period 2017-2022, this “replacement rate” will slip to about 36 percent for a medium earner. In addition, administrative costs are very low, only 0.7 percent of annual benefits, far below the percentages for private retirement annuities.

**Social Security plays a huge role in keeping older Americans out of poverty, while at the same time providing an important benefit for women and minorities.** Without Social Security benefits are modest and administrative costs are low. Despite the success of the program the average Social Security retirement benefit was about \$1,400 a month. The average disabled worker and aged widow received slightly less. For someone who Security benefits, about 40 percent of Americans aged 65 and older would have incomes below the poverty line, all else being equal. With Social Security benefits, only 9 percent are below the poverty line. The program lifts 15.1 million elderly Americans out of poverty. For 61 percent of elderly beneficiaries Social Security provides most of their cash income. For 33 percent of them, it provides 90 percent or more of their income. Reliance on Social Security increases with age, as older people — especially older women — outlive their spouses and savings. Among those aged 80 or older, Social Security provides most of income for 72 percent of beneficiaries and nearly all the income for 42 percent of beneficiaries. Among beneficiaries aged 65 and older, Social Security represents 90 percent or more of income for 41 percent of Asian Americans, 45 percent of African Americans, and 52 percent of Latinos, compared with 32 percent of whites.

**Social Security remains on sound financial footing for the near-term future.** Since the mid-1980s, Social Security has collected more in taxes and other income each year than it pays out in benefits. It has amassed a combined trust fund of \$2.8 trillion, that is invested in interest-bearing Treasury securities. The trustees estimate that, if policymakers took no further action, Social Security’s combined Old-Age and Survivors Insurance (OASI) and Disability Insurance trust funds will be exhausted in 2034. After 2034, even if policymakers took no further action to address growing costs, Social Security could still pay three-fourths of scheduled benefits, relying on Social Security taxes as they are collected. Alarmists who claim that Social Security won’t be around when today’s young workers retire either misunderstand or misrepresent the projections. The long-term gap between Social Security’s projected income and promised benefits is estimated at 1 percent of gross domestic product (GDP) over the next 75 years (and 1.5 percent of GDP in the 75th year).

**Social Security benefits should be increased, not decreased.** Because it is extremely likely that more Americans will depend mostly or solely on Social Security for retirement security in the future, we must expand Social Security’s extremely modest benefits. We are the wealthiest nation in the world at the wealthiest point in our history. If the American people want higher benefits and increased protections, there is no question the nation can afford that. Modest changes can be made to secure Social Security’s future as well as to expand benefits for all Americans.

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