SOCIAL SECURITY MATTERS TO ALL GENERATIONS
NCWO Social Security Press Briefing
Statement of Joan Brodshaug Bernstein, OWL President

I am a Social Security Beneficiary. I'm fortunate that it is not my only retirement income – it represents about one third – and the President assures me that I need not worry about my future benefits. But I'm not here on my own behalf, but on behalf of women of all ages who now and in the future will depend on Social Security for all or most of their income in case of disability, widowhood, or retirement.

OWL has a 25 year history of speaking the truth about the lives of midlife and older women. It works tirelessly with its grassroots membership to affect social and economic policy improvements for women. It particularly values the independence and self respect promised by the wage adjusted, guaranteed, inflation proof, lifetime Social Security benefit.

But we have been bombarded by talk that Social Security will go "bankrupt," "broke," "belly up," "hit an iceberg." Nonsense!

Social Security is a modified pay-as-you-go system – employees and employers each pay payroll taxes of 6.2% of wages up to a cap on taxable pay, $90,000 in 2005. Currently Social Security collects more in taxes than it pays out to beneficiaries – the retired, their spouses, divorced spouses married ten plus years, surviving spouses and children 16 or under of deceased workers, and the disabled.

Social Security invests the surplus in U.S. treasury bonds, currently averaging about a 6% return according to the Trustees. In 2004, 84% of the "Trust Fund" came from payroll taxes, 14% from interest from the invested surplus and 2% from income taxes on benefits above a certain amount.

Any projections of future financing are only "best guesses" of actuaries based on some underlying assumptions about demography, immigration, productivity, inflation, wages, employment, interest rates, and economic growth. It is a totally misleading simplification to assert that the Trust Fund will run out of money because there will be too many old people supported by two few young people.

The "best guess" of the Social Security Trustees in their 2004 report posits that the Trust Fund will continue to accumulate a surplus until the middle of the 2020s. Meanwhile full benefits as currently calculated can be paid from payroll taxes alone until 2018. Between 2018 and 2028, full benefits will be payable from payroll taxes and some interest from the Trust Fund; and until

2042, from payroll taxes, interest, and the principal. The CBO, using the Trustees' demographic assumptions but different economic assumptions, estimates that date will be 2052. Under either set of assumptions, the system will still be able to pay 73% of the currently promised benefit. Northwestern University Professor of Economics Robert Gordon projects that the growth in the economy will mean that there will never be a problem in paying full benefits.[1] No bankruptcy, no going broke, no belly up, no iceberg.

Historically productivity and the resultant economic growth have been and will continue to enable Social Security to make good on its promises to all its participants, be they young or old. From 1940-1959, the size of the U.S. economy doubled in real terms. It doubled again by 1965, and again by 1987. Since 1987, the economy has expanded on average 2.9% per year or over 55% in real terms.[2] Productivity of U.S. workers increased by 4.3% average over the last 3 years.[3] The effect of productivity can be readily understood when one considers that in 1900 it required 39% of the work force working in farming to feed what was a much smaller population. Today, under 2% of the work force farms and feeds a much larger population as well as exporting food – but no one is starving for lack of foodstuffs.[4]

The Trustees themselves have extended the date when they estimate the Trust Fund can not pay full benefits – from 2028 as little as 7 years ago to 4042 in 2004. Changed estimates of future productivity have been the driving force behind these revisions.

Moreover, the Trustees estimate that the shortfall represents only 1.89% of taxable payroll or 0.7% of the entire economy (GDP). Compare this with the 2.2% of GDP cost to the treasury if the tax cuts are made permanent. Many people have suggested many small and incremental measures that could deal with a future shortfall when or if it becomes more certain.

One thing that is certain – private accounts paid out of the Social Security Trust Fund for future beneficiaries will do nothing to improve the financing of Social Security – rather they would accelerate the time when the surplus is estimated to be depleted. And the so-called transition costs to implement private accounts over the next ten years would add $2 trillion to the deficit with more trillions to follow.

Setting up a private account would also mean a cut in a person's guaranteed, inflation-proofed benefit. And there is no guarantee that the return on a private account would make up the difference. In fact, the state of the market at the time one retires can have a disastrous effect on the value of an annuity purchased on retirement. For example, an annuity purchased in 2001 would be paltry compared to one purchased in 1999 with the same investment portfolio.

Another proposal to change the way in which benefits are calculated would reduce all benefits. This proposal calls for a switch from calculating benefits on a wage index to price index. This sounds benign – but wait. If the Social Security benefit had been calculated on a price indexing basis beginning in 1959, there would have been almost a 40% (39.4%) decline in average benefits from 1959 to 2003. *Under wage indexing the average benefit in 2003 was **$13,896** annually. Under price indexing, the average annual benefit would have been only **$8,412**.*[5]

So a private account and price indexing means a double benefit cut. The effect on different age cohorts is dramatic. Those now 45 years old would see a benefit cut of almost 15%, an amount not made up by a return of 3-4% on the private account. Those now 35 years old would see a benefit cut of between 20 and 25% but would receive a return of only about 6% on the private account. Those now 25 years old would see a benefit cut of about 30% but an investment gain only of between 10 and 15% . Those now aged 15 years old would see a benefit cut of between 35-45% but an investment gain of only between 10 and 15%.[6]

More than one-third of Social Security beneficiaries are children and not yet retired adults. After the 9/11 disaster, Social Security has paid benefits to 3,119 individuals, including 2,300 children as survivors. In retirement, women rely upon Social Security for the bulk of their income. Women constitute 71% of the population by age 85. *Without Social Security's current benefits, 52% of white women, 65% of African-American women, and 61% of Latinas over age 65 would fall into poverty.*

---

[1] See: *Scare Tactics: Why Social Security is Not in Crisis* published by The Century Foundation.
[2] See: Professor Robert Friedland, Georgetown University, using figures from the U.S. Bureau of Economic Analysis, National Income Product Accounts, Table 1.1.6.
[3] *New York Times*, Feb.4, 2005, page C3.
[4] See also: the National Academy on an Aging Society study, *Demography is Not Destiny,* 1990.
[5] The Century Foundation Issue Brief, Bernard Wasow and Martha Paskoff Welsh, Back to the Future: The Harsh Reality Underlying a Proposed Change in Social Security.
[6] See: Dean Baker and David Rosnick, "Basic Facts on Social Security and Proposed Benefit Cut/Privatization," Center for Economic and Policy Research.