

# Top Ten Facts About Social Security

Social Security provides a foundation of income on which workers can build to plan for their retirement. It also provides valuable social insurance protection to workers who become disabled and to families whose breadwinner dies.

Eighty-five years after 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 programs.

## **Fact #1: Social Security is more than just a retirement program. It provides important life insurance and disability insurance protection as well.**

Over 64 million people, or more than 1 in every 6 U.S. residents, collected Social Security benefits in June 2020. While older Americans make up about 4 in 5 beneficiaries, another one-fifth of beneficiaries received Social Security Disability Insurance (SSDI) or were young survivors of deceased workers.

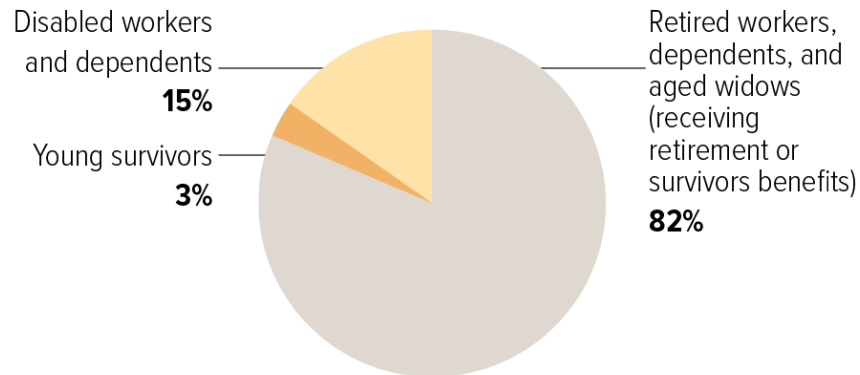
In addition to Social Security's retirement benefits, [workers](#) earn life insurance and SSDI protection by making Social Security payroll tax contributions:

- About 96 percent of people aged 20-49 who worked in jobs covered by Social Security in 2019 have earned life insurance protection through Social Security.
- For a young worker with average earnings, a spouse, and two children, that's equivalent to a life insurance policy with a face value of over \$725,000 in 2018, according to Social Security's actuaries.
- About 89 percent of people aged 21-64 who worked in covered employment in 2019 are insured through Social Security in case of severe disability.

The risk of disability or premature death is [greater](#) than many realize. Some 6 percent of recent entrants to the labor force will die before reaching the full retirement age, and many more will become disabled.

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## One Fifth of Social Security Beneficiaries Receive Disability or Young Survivors Benefits



Source: Social Security Administration, June 2020 data

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## Fact #2: Social Security provides a guaranteed, progressive benefit that keeps up with increases in the cost of living.

Social Security benefits are based on the earnings on which you pay Social Security payroll taxes. The higher your earnings (up to a maximum taxable amount, currently \$137,700), the higher your benefit.

Social Security [benefits are progressive](#): they represent a higher proportion of a worker's previous earnings for workers at lower earnings levels. For example, benefits for a low earner (with 45 percent of the average wage) retiring at age 65 in 2020 replace about half of their prior earnings. But benefits for a high earner (with 160 percent of the average wage) replace about one-quarter of prior earnings, though they are larger in dollar terms than those for the low-wage worker.

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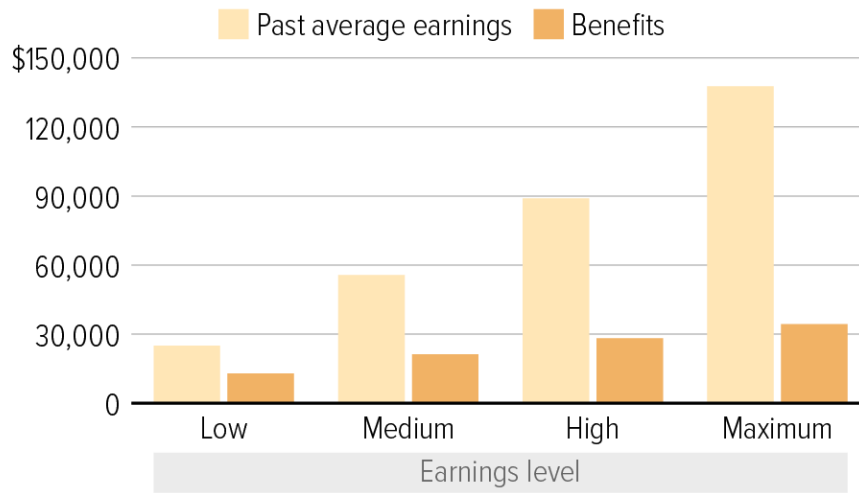
Many employers have shifted from offering traditional defined-benefit pension plans, which guarantee a certain benefit level upon retirement, toward defined-contribution plans (such as 401(k)s), which pay a benefit based on a worker's contributions and the rate of return they earn. Social Security, therefore, will be most workers' only source of guaranteed retirement income that is not subject to investment risk or financial market fluctuations.

## Policy Basics – Top Ten Facts About Social Security

Once someone starts receiving Social Security, their benefits increase to keep pace with inflation, helping to ensure that people do not fall into poverty as they age. In contrast, most private pensions and annuities are not adjusted (or are only partly adjusted) for inflation.

### Social Security Benefits Are Progressive

Annual benefits and earnings for worker retiring at age 65 in 2020



Source: Social Security Administration, 2020 trustees' report

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### Fact #3: Social Security provides a foundation of retirement protection for nearly every American, and its benefits are not means-tested.

Almost all workers participate in Social Security by making payroll tax contributions, and almost all elderly Americans receive Social Security benefits. In fact, 97 percent of the elderly (aged 60 to 89) either receive Social Security or will receive it, according to [Social Security Administration estimates](#). The near-universality of Social Security brings many important advantages.

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Social Security provides a foundation of retirement protection for people at all earnings levels. It encourages private pensions and personal saving because it isn't means-tested — in other words, it doesn't reduce or deny benefits to people whose income or assets exceed a certain level. Social Security provides a higher annual payout than private retirement annuities per dollar contributed [because](#) its risk pool is not limited to those who expect to live a long time, no funds leak out in lump-sum payments or bequests, and its administrative costs are much lower.

## Policy Basics – Top Ten Facts About Social Security

Indeed, universal participation and the absence of means-testing make Social Security very efficient to administer. [Administrative costs](#) amount to only 0.6 percent of annual benefits, far below the percentages for private retirement annuities. Means-testing Social Security would impose significant reporting and processing burdens on both recipients and administrators, [undercutting](#) many of those advantages while yielding [little savings](#).

Finally, Social Security's universal nature ensures its continued popular and political support. Large majorities of Americans [say](#) that they don't mind paying for Social Security because they value it for themselves, their families, and millions of others who rely on it.

### **Fact #4: Social Security benefits are modest.**

Social Security benefits are much more modest than many people realize; the [average Social Security retirement benefit](#) in June 2020 was about \$1,514 a month, or about \$18,170 a year. (The average disabled worker and aged widow received slightly less.) For someone who worked all of their adult life at average earnings and retires at age 65 in 2020, Social Security benefits [replace](#) about 40 percent of past earnings. This "replacement rate" will slip to about 35 percent for a medium earner retiring at 65 in the future, chiefly because the full retirement age, which has already risen to 66, and is gradually climbing to 67 over the 2017-2022 period.

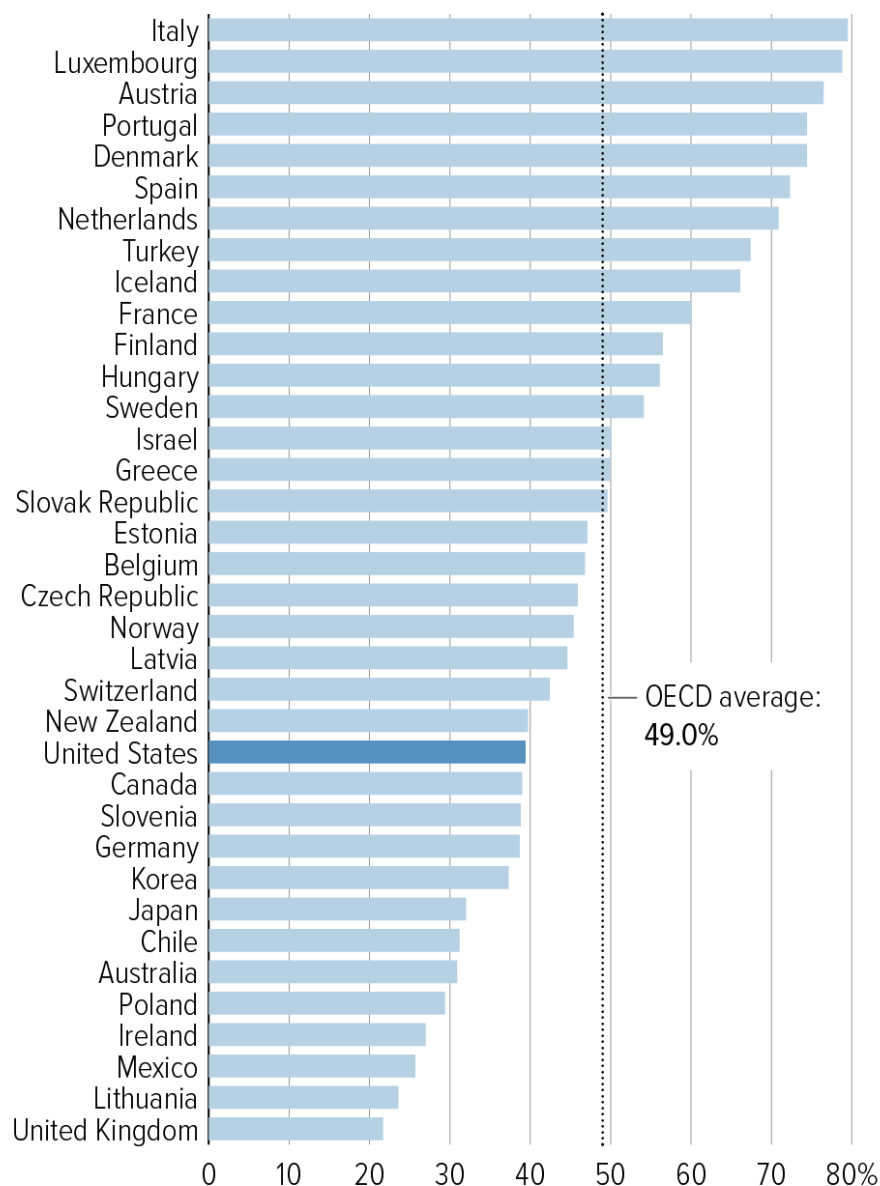
Moreover, most retirees enroll in Medicare's Supplementary Medical Insurance (also known as Medicare Part B) and have Part B premiums deducted from their Social Security checks. As health care costs continue to outpace general inflation, those premiums will take a bigger bite out of their checks.

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Social Security benefits are [modest by international standards](#), too. The United States ranks just outside the bottom third of developed countries in the percentage of an average worker's earnings replaced by the public pension system.

## Social Security Benefits Are Lower Than in Many Other Developed Nations

Social Security benefits for average worker as a percentage of earnings



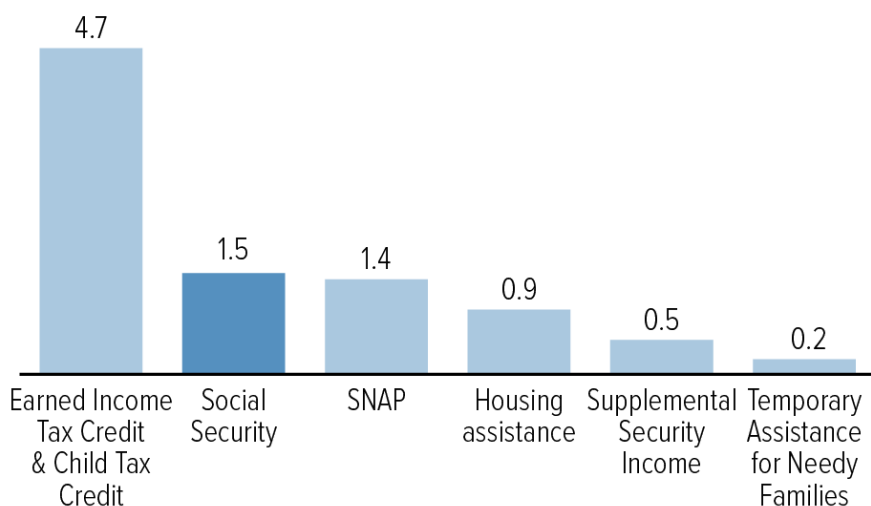
Note: Data depict the gross public-pension benefit (in the U.S. context, Social Security) for an average worker in each country who enters the workforce today and works steadily until full pension age (in the U.S., age 67), as a percent of pre-tax earnings.

Source: Organisation for Economic Co-operation and Development, Pensions at a Glance 2019: Retirement Systems in OECD Countries

## Fact #5: Children have an important stake in Social Security.

### Social Security Lifts 1.5 Million Children Out of Poverty

Number of children lifted out of poverty by selected programs, in millions



Note: Figures use the federal government's Supplemental Poverty Measure (SPM) and do not correct for the underreporting of benefits. Numbers include benefits paid to the children and to their family members.

Source: U.S. Census Bureau, The Supplemental Poverty Measure: 2018, Table A-7.

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Social Security is important for children and their families as well as for the elderly. Nearly 6 million children under age 18 lived in families that received income from Social Security in 2019. That number included nearly [2.8 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.

Social Security lifted 1.5 million [children](#) out of poverty in 2018, as the chart shows. (The figures in the chart use the comprehensive Supplemental Poverty Measure in order to show the full effect of non-cash benefits. These published figures do not correct for underreporting. By the more conventional, cash-only official poverty measure, Social Security [lifted](#) 1.2 million children above the poverty line in 2018.)

## Fact #6: Social Security lifts millions of elderly Americans out of poverty.

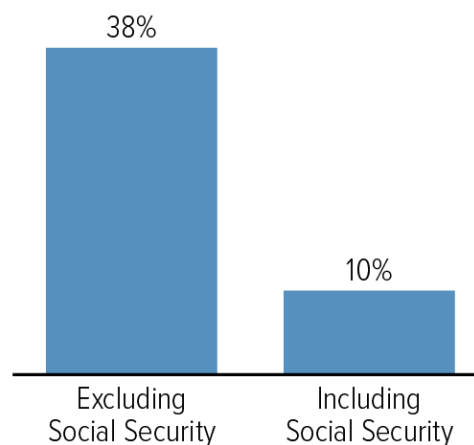
Without Social Security benefits, about 4 in 10 Americans aged 65 and older would have incomes below the poverty line, all else being equal, according to official estimates based on the 2019 Current Population Survey. Social Security benefits lift more than 15 million elderly Americans out of poverty, these estimates show.

An [important study](#) that matches Census estimates to administrative data suggests that the official estimates overstate elderly reliance on Social Security. That study finds that in 2012, 3 in 10 elderly Americans would be poor without Social Security, and that the program lifted more than 10 million elderly Americans out of poverty.

No matter how it is measured, however, it's clear that Social Security brings millions of elderly Americans out of poverty and dramatically reduces the elderly poverty rate.

### Social Security Dramatically Cuts Poverty Among Seniors

Percentage of seniors in poverty, 2018



Source: CBPP, based on data from the Census Bureau Current Population Survey, March 2019.

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## Fact #7: Most elderly beneficiaries rely on Social Security for the majority of their income.

Social Security provides the majority of income to most elderly Americans. For about half of seniors, it provides at least 50 percent of their income, and for about 1 in 4 seniors, it provides at least 90 percent of income, across multiple [surveys](#) and the study that matches [survey](#) and administrative data.

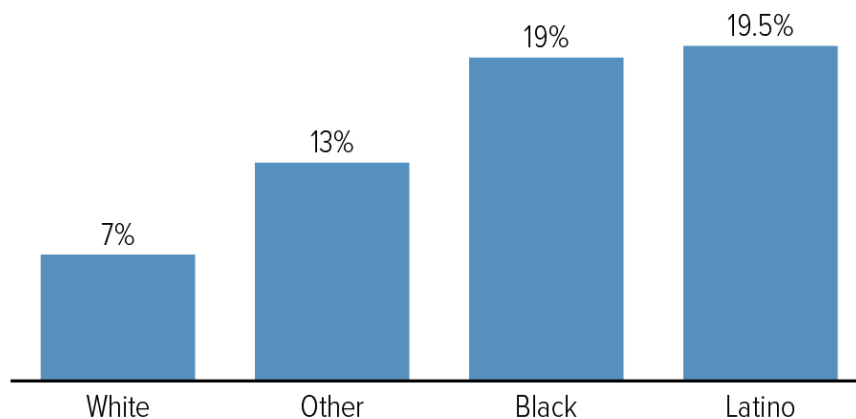
## Fact #8: Social Security is particularly important for people of color.

Social Security is a particularly important source of income for groups with low earnings and less opportunity to save and earn pensions, including Black and Latino workers and their families, who face higher poverty rates both during their working lives and in old age. The poverty rate among Black and Latino seniors is over 2.5 times as high as for white seniors. There is a significant racial retirement wealth gap, leading seniors of color to face more retirement insecurity than white seniors. African American and Latino workers are less likely to be offered workplace retirement plans and likelier to work in low-wage jobs with little margin for savings. Social Security helps reduce the economic disparities between white seniors and seniors of color.

Social Security's importance to families of color goes beyond retirement. Black and Latino workers benefit substantially from Social Security because they have higher disability rates and lower lifetime earnings than white workers, on average, and African American workers have higher rates of premature death. Persistent racial disparities in health care access and quality — as well as in access to food, affordable housing, high-quality schools, and economic opportunity — mean African American workers are likelier to become disabled or die before reaching retirement. Latino workers, too, are more likely to become disabled than white workers, and have longer average life expectancies than white workers, which means they have more years to collect retirement benefits.

### Elderly People of Color Face Higher Poverty Rates

Poverty rate for those aged 65+, by race/ethnicity, 2018



Note: "Other" includes Asians and Native Americans.

Source: CBPP analysis of data from the Current Population Survey for March 2019.

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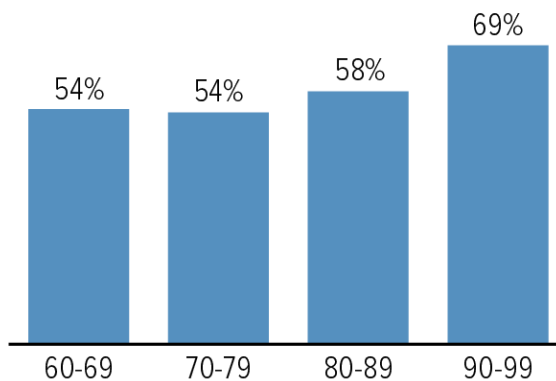
## Fact #9: Social Security is especially beneficial for women.

Social Security is [especially important for women](#), because they tend to earn less than men, take more time out of the paid workforce, live longer, accumulate less savings, and receive smaller pensions. Women [represent](#) more than half of Social Security beneficiaries in their 60s and 7 in 10 beneficiaries in their 90s. In addition, women [make up](#) 96 percent of Social Security survivor beneficiaries.

Women benefit disproportionately from the program's inflation-protected benefits (because they tend to live longer than men), its progressive formula for computing benefits (because they tend to have lower earnings), and its benefits for spouses and survivors.

### Social Security Is Especially Beneficial for Women

Percent of female Social Security beneficiaries, by age group



Source: Social Security Administration, Annual Statistical Supplement 2020. Data are for December 2019.

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## **Fact #10: Relatively modest changes would place Social Security on sound financial footing.**

Since the mid-1980s, [Social Security](#) has collected more in taxes and other income each year than it pays out in benefits and has amassed combined [trust funds](#) of nearly \$2.9 trillion, invested in interest-bearing Treasury securities. But Social Security's costs will grow in coming years as baby boomers retire.

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 2035. (It is important to understand, however, that the report does not reflect the effects of the COVID-19 pandemic and the resulting recession on the programs' trust funds, and so doesn't provide an up-to-date picture of Social Security's financial status.) After the trust fund reserves are exhausted, even if policymakers took no further action, 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 1.4 percent of GDP in the 75th year).

Policymakers should address Social Security's long-term shortfall primarily by increasing Social Security's tax revenues. Social Security will require an increasing share of our nation's resources in the coming decades as the population ages, and polls show a widespread willingness to support it through higher tax contributions. Recent trends also justify boosting Social Security's payroll tax revenue: Social Security's tax base has eroded since the last time policymakers addressed solvency in 1983, largely due to increased inequality and the rising cost of non-taxed fringe benefits, such as health insurance.

*Updated August 13, 2020*