Social Security

Answering God's Call to Care for One Another

Justice and Witness Ministries

UNITED CHURCH OF CHRIST

IN A WORLD THAT ONLY DIMLY REFLECTS GOD'S will being done "on earth, as it is in heaven," the Social Security program stands as a beacon of light and hope. It is a covenant from one generation to the next, a promise to care for those no longer able to work. Social Security provides an income to people who cannot support themselves either because they are elderly, disabled, or the survivors of a deceased worker. The income is usually sufficient for a life of dignity and comfort. Current proposals for private accounts within Social Security would seriously weaken the program's finances and erode society's ability to care for those who can no longer support themselves.

THROUGH THE LENS OF FAITH

In New Testament times and up until the last century, there were few social programs to care for those unable to care for themselves. The economically marginalized relied on charity, which may or may not have been available when it was needed. Nonetheless, there was a well-recognized obligation, placed by God on God's people, to care for others who could not care for themselves.

According to Jesus, the first and most important commandment is to love God. The second, similar to the first, is to love our neighbors as we love ourselves. In Matthew 25, Jesus says that if we are to inherit the kingdom of God, this love for our neighbors must be manifest in actions and extend to all, especially to those on the margins of society. We are called to feed the hungry, give drink to the thirsty, clothe the naked, and address the needs of the poor and excluded.

Both the Hebrew Bible and the New Testament repeatedly call on Israel to care for widows and orphans, two special categories of marginalized people who lack an immediate family to support them. In the book of Isaiah, God charges the Israelites to live up to their covenant: Remove the evil of your doings from before my eyes; cease to do evil, learn to do good; seek justice, rescue the oppressed, defend the orphan, plead for the widow (Isa.1:16-17). Compassionate and fair treatment of orphans, widows, and all the poor and oppressed, were central to God's call.

In the U.S. today, widows, orphans, and the elderly do not have to depend solely on the charity of others. During the 1930s, Social Security was established to care for people who could no longer work: disabled workers and their families, families of deceased workers, and retirees. We thank God for the wisdom of our ancestors who established this program that has meant comfort, economic security, and a life of dignity to millions of people over the past 70 years.

HISTORY OF SOCIAL SECURITY

Social Security was created in 1935 to provide an income to workers and their family members in the event of a worker's retirement, disability, or death. Today, some 159 million people, 96% of all workers, are covered by Social Security. They receive disability insurance, survivorship protection for their families in case of their death on or off the job, and retirement insurance. Some 48 million people, about one in every six Americans and one in every four households, currently receive Social Security benefits. Nearly one-third of beneficiaries are disabled workers and their families as well as the families of deceased workers, while the rest are retirees and their families.

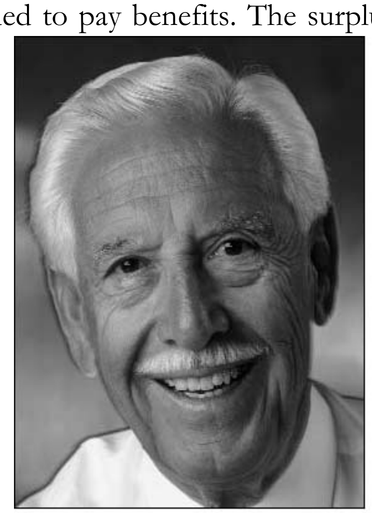
The retirement program is important since less than half (46%) of the private-sector workforce has a retirement pension from their employer.[1] Social Security provides 90% or more of the income received by one-third of couples or individuals who are age 65 or older.[2] Fully two-thirds of the elderly receive half or more of their income from Social Security. Without Social Security, nearly half (47%) of the elderly—some 13 million people—would live in poverty.[3] With Social Security benefits included in income, about one in every 12 seniors lives in poverty.

The disability insurance and survivor benefits provided by Social Security are as important as the retirement income. An estimated three in ten of today's 20 year olds will be disabled before they reach age 67, their legal retirement age.[4] But 72% of the private-sector workforce has no long-term disability insurance except for Social Security.[5] About one in seven young workers will die before reaching age 67.[6] Thankfully, an estimated 97% of the children and spouses of these workers are insured for survivor benefits through Social Security.[7]

PAYING FOR SOCIAL SECURITY & THE TRUST FUND

Workers become eligible for Social Security benefits by making contributions to the program. Payroll taxes of 6.2%, labeled FICA on workers' pay stubs, are paid by both workers and their employers on earnings up to $90,000.[8] (No taxes are assessed on earnings above this cap.) The tax money flows into a single pool out of which all benefits are paid. In any given year, most of the money coming in is sent out to beneficiaries. Today's beneficiaries are paid out of the money that today's workers pay in. In other words, benefits for the next generation of beneficiaries will come from the tax monies paid by the next generation of workers. Workers do not contribute to a personal retirement account. Rather, Social Security is a "pay-as-you-go" system with each generation supported by the generations that follow. It is also a very efficient system. Administrative expenses represent less than 1% of total expenditures.[9]

Anticipating the retirement of the baby boomers and the additional years that retirees are living, Social Security taxes were raised in the 1980s above what was needed to pay benefits. The surplus funds generated since that time are held in a trust fund and invested in U.S. Treasury bonds. Currently, the trust fund holds $1.7 trillion in bonds; interest income that also flows into the trust fund totaled $89 billion in 2004.



It is sometimes charged that the money in the trust fund "has been spent." The image created by this statement is untrue. When anyone buys a bond or even puts cash in a bank, the money does not just set on a shelf somewhere. It is "spent" by the institution that issued the bond. But the bond holder has a legal claim on the institution: interest must be paid and the money must be returned when the bond comes due.

Are Social Security's Treasury bonds just "worthless pieces of paper" as some people claim? U.S. Treasury bonds are considered the safest asset in the world. They are held by individuals in the U.S. and around the world, as well as by foreign governments. The U.S. has never defaulted on its debt, and to do so would probably cause an international crisis. There is no reason to think the U.S. would default on money owed to working Americans.

THE CURRENT STATUS OF THE TRUST FUND

Each year, trustees of the Social Security trust fund issue a detailed report on the 75-year outlook for the program. The most recent report, released in April, 2005, projected that Social Security will have sufficient income from taxes to pay all benefits through 2016.[10] Starting in 2017, the program will need to redeem treasury bonds in order to pay all its obligations to beneficiaries. By 2041, or in about 35 years, the assets will be exhausted. At that time, tax money will be sufficient to cover just 74% of promised benefits. The nonpartisan Congressional Budget Office, using what some argue are more realistic assumptions about the future, estimates that funds will be sufficient to pay all benefits for about ten additional years—through the early 2050s, or for a total of 45 years.[11] The trustees estimate that by 2079, the end of the 75-year forecast, tax revenue will cover just 68% of benefits.[12]

In other words, even 75 years from now, Social Security will not be "broke." Even if no changes are made in the program, in 2079 beneficiaries will receive 68% of their promised benefits. And because benefit levels rise over time, those reduced benefits will be larger, adjusted for inflation, than benefits received today. For example, in 2042, the average benefit for someone retiring at the normal retirement age (67 years of age) will be 7% higher than the average benefit today.[13] The difference gets even larger in the years after 2042. The current debate is over how to strengthen the system so that future workers will get 100% of promised benefits, not just 68% to 74%. But it is important to remember that unless we dangerously weaken Social Security through unwise changes, the system that has served us well for 70 years will also be there for people in the future. Despite the rhetoric, there is no crisis in Social Security.

It is unusual to examine the finances of any organization or social program for 75 years into the future. Usually we budget just one or a few years in advance. It would be hard to name another program where future funding is more certain than Social Security's.

WILL SOCIAL SECURITY "BE THERE" FOR TODAY'S YOUNG WORKERS WHEN THEY RETIRE?

Even if nothing is done about the Social Security "crisis," then the system will continure to pay all benefits as promised for the next 35 to 45 years. However, after that, it will be able to pay just 74% of promised benefits, a figure that will fall to 68% by 2079. However, since benefit levels rise over time, adjusted for inflation, the average benefit after 2041 will be larger than the average benefit today. We need to stengthen Social Security so it can pay 100% of promised benefits in the furture. But even in the unlikely event that nothing is done, Social Security will be there. The only things that really threaten its future are ill-advised "fixes" like privatization.

Contrast the discussion about Social Security with other Washington conversations. For example, if Congress follows the wishes of President Bush and makes permanent the temporary tax cuts enacted in 2001 and 2003, the cost over the next 75 years will be three times the size of the Social

Security 75-year shortfall.[14] The cuts for the top 1% of tax payers alone are nearly as large as Social Security's 75-year shortfall. Consider the federal budget, now in deficit. The cost of the currently projected deficits plus the additional losses from making permanent the tax cuts of the past four years gives a total that is seven times the size of the Social Security short-fall.[15] If Social Security is in crisis, what can we say about the federal budget and the wisdom of more tax cuts? Why are so many in Washington more concerned with the relatively small "crisis" in Social Security than with the much bigger crisis that will result if the tax cuts are made permanent?

SOCIAL INSURANCE NOT INVESTMENT

Social Security is a social insurance program. It is not an investment plan. It has social goals such as reducing poverty, guaranteeing benefits for as long as a beneficiary lives, and protecting beneficiaries against inflation.

Social Security benefits are not determined solely by how much someone paid into the program. Benefits are "progressive," that is, the system pays a larger share of pre-retirement earnings to a low-wage worker than a mid-wage worker, and a higher share to a mid-wage worker than to a high-wage one. (See the table.) For example, a low-wage worker with average annual lifetime earnings of $16,000 who retired at age 65 in 2005 will receive benefits of $9,305 a year, or 58% of his pre-retirement earnings.[16] A high-wage worker with average annual lifetime earnings of $56,000 would receive annual benefits of $20,222, 36% of pre-retirement earnings. Although the low-wage worker has a smaller benefit, it is a larger share of his pre-retirement earnings. A mid-wage worker with earnings of $35,500 would receive a benefit of $15,335, or 43% of earnings. Disability and survivor benefits are similarly progressive. This means that Social Security is particularly beneficial to anyone whose wage or salary is relatively low, or who suffers more unemployment or spends more years out of the labor force (thus reducing one's lifetime earnings). For this reason, many women and people of color are especially well served by Social Security.

Social Security Benefits Disproportionately Help Low Income Earners

Lifetime Average Wage	Annual Benefit	Benefits as a share of Earnings
$16,000	$9,305	58%
$35,500	$15,335	43%
$56,000	$20,222	36%

In addition to a progressive benefit structure, Social Security also provides income to a beneficiary's dependents. For example, if some-one retires or becomes disabled and has dependents to support (either a spouse or children), the dependents are also eligible for Social Security benefits.

Social Security also protects beneficiaries against inflation. As prices rise over time, benefits also rise proportionally. This cost-of-living protection is important since at typical inflation rates, buying power would otherwise decline by one quarter in just ten years.

SOCIAL SECURITY AND SPECIAL POPULATIONS

Social Security treats all population groups equally—it is neutral with respect to gender and race. Individuals with the same earnings history are treated the same. However, due to demographic and economic trends, some population groups are especially helped by various aspects of the program.

Women: Due to their longer life spans, the majority of Social Security beneficiaries are women. Women represent 58% of all beneficiaries age 62 and above, and 70% of beneficiaries age 85 and above. Since women tend to live longer and spend more years in retirement than men, they especially benefit from Social Security's annual cost-of-living increase. Moreover, since women tend to have smaller employer pensions than men, Social Security is a very important source of their retirement income. Among single, elderly women (including widows), Social Security benefits represent 52% of their income.[17] For 29% of these women, Social Security provides their only income.

Women tend to earn less than men and spend more years out of the labor force. Their average, annual lifetime earnings, therefore, tend to be lower than men's. Consequently, women benefit from Social Security's progressive benefit structure. In addition, a woman who never worked is entitled to a Social Security benefit equal to half that of her husband's while he is alive. If she is widowed, her benefit as a single person is nearly two-thirds of the benefit received by the couple.

African Americans: Social Security is especially important for African Americans. While 60% of whites who work in the private sector have a retirement plan or pension through their employer, just 54% of African Americans have pensions. Moreover, since African Americans tend to earn less than whites, their pensions are often smaller. Social Security is the only source of income for 40% of elderly African Americans.[18] African Americans also benefit from its progressive benefit structure. Some people argue that African Americans' shorter life span makes Social Security a bad deal for them. This is not true. While African Americans have somewhat shorter life expectancies than whites, the differences are not great. At age 65, a black woman will live an average of 18 more years compared with 19.5 for a white woman.[19] A black man will live 14.6 years compared with 16.6 years for a white man. African Americans also disproportionately benefit from Social Security's disability insurance. While 13% of the population is African American, 17% of disabled workers receiving benefits are African American.[20]

Hispanics: Social Security is also very important for Hispanic Americans. Only 39% of Hispanics have pensions through an employer, either traditional, defined-benefit plans or retirement accounts such as a 401(k). Therefore, Social Security is a vitally important source of retirement income. It is the only source of income for 41% of elderly Hispanics.[21] Since Hispanics tend to have lower earnings and more unemployment than Euro-Americans, the progressive benefit structure of Social Security is very important for them.

THE BUSH PROPOSAL FOR PRIVATE ACCOUNTS

President Bush has not put forward an official proposal for Social Security, just an outline for a system of private accounts. He proposes that workers be permitted to place a portion of their Social Security tax money in private investment accounts. At the same time, their standard Social Security benefit would be reduced. Whether the balance in the private account will grow sufficiently to offset the reduction in the standard benefit is hotly debated. Experience from Great Britain and Chile, where private accounts were introduced some years ago and are held up as examples for the U.S., indicates that workers could be worse off with private accounts. This is especially true for workers with lower and mid-level wages who benefit from Social Security's progressive benefit structure. This will not be a feature of the private accounts.

Even Bush and members of Congress admit that a system of private accounts will not correct the funding shortfall that Social Security will face in 35 to 45 years. Diverting money into private accounts would cost Social Security an estimated $5 trillion over the first 20 years of the program, worsening its financial outlook. (These losses are in addition to the projected shortfall in 35 to 45 years.) Proponents of privatization argue that while funds will be lost in the early decades, they can be replaced in later decades when people who opted for private accounts begin to retire and receive their smaller Social Security benefit. This is true, but it still leaves a multi-trillion dollar hole to fill over the next few decades. While Social Security is currently expected to pay full benefits until at least 2041, the diversion of money into private accounts would move up this date to around 2030, 11 years earlier.[22]

RISKS OF PRIVATE ACCOUNTS

In addition to the financial problems that private accounts create for Social Security, there are other reasons why these are unattractive for most people. Certainly investment accounts are often a good way to save for future needs, including retirement. But today, someone with a retirement investment account also has Social Security. If their investments do poorly, they will still be able to rely on Social Security's guaranteed retirement income. It is very dangerous, however, to place one's core retirement income at risk from the ups and downs of the stock and bond markets. There are numerous disadvantages to investment accounts:

- **Extra help for low earners is lost:** Social Security's progressive benefit structure would be lost if benefits were determined by an individual's contributions to a personal account and its performance in the markets.

- **Risk:** Workers' core retirement income would be put at risk from the stock and bond markets.

- **Winners and Losers:** While currently no one gets rich from their Social Security benefits, most people get by. Under privatization, people whose investment choices were especially wise or lucky, or who retired when the stock market was up, not down, could do very well. But others could fare quite poorly.

- **Higher administrative costs:** Social Security's low administrative overhead (1% of expenditures) would be replaced by the costs of managing an investment account. These fees will vary depending on the design of the private account system. If choices were very limited, for example, to just five or so investment options, then these fees could be about the same as with Social Security. But if investors have a wide range of options, then fees could be significantly higher. A typical cost to manage mutual funds, stocks, bonds, and other investments is about 1.5% of the value of the account annually. Over the 40-plus years that someone would have an account, this adds up to about 30% of the account's entire value compared to just 1% in Social Security. These administrative costs reduce payout amounts.

CONCLUSION

Social Security has served Americans well for 70 years. It will be sound for many years to come if we resist the false appeal of privatization. The most important thing we can do today to strengthen Social Security is to promote a strong and inclusive economy. When everyone who wants to work has a job, then contributions to Social Security are higher. When wages are growing for workers at the bottom as well as the top of the income scale, then contributions to Social Security are boosted. When government tax revenues are sufficient to make solid investments that will pay off in the future–in education and training, health care, before- and after-school programs, transportation systems, recreational facilities, and all the other things that societies must do to remain strong–then Social Security is also strengthened.

Today there is talk of building an "ownership society." Instituting private accounts within Social Security would be a further step in this direction. But private possessions including private investment accounts do not, ultimately, guarantee anyone's economic security. Each individual encounters a lifetime of ups and downs. He may have a good job or be laid off and unemployed. She may be healthy or develop a chronic or disabling illness. His investments may grow with a rising stock market or shrink with a falling one. Failing corporations, suddenly discontinued pension plans, or fraudulent investment firms all can threaten someone's economic well-being. But one thing that can be relied upon is our collective, public commitment to care for each other when we are no longer able to work. This promise, or covenant, that we make to one another is the source of our true financial security. Privatization means turning inward, turning away from our neighbors and, according to Isaiah, turning away from God.

PREVIOUS GENERAL SYNOD STATEMENTS

The General Synod of The United Church of Christ has spoken clearly about providing for the needs of all, especially those unable to provide for themselves. In the Pronouncement "Christian Faith: Economic Life and Justice," GSXVII (1989) called on the UCC to work for "a just economy [that] gives all persons access to the basic material necessities of life." GSII (1959), in "A Call to Christian Action in Society," called for adequate services for the elderly. GSXII (1979) adopted a "Policy Statement on Aging" that spoke directly about the need to provide adequate income security for the elderly through the federal government's Social Security system: "Social Security should be mandatory…and have as its goal the providing (along with private pension plans) of a standard of living comparable to pre-retirement."

DISCUSSION QUESTIONS

1. In a wealthy country like the U.S., should all people—including retirees, disabled people, and survivors of deceased workers— receive sufficient income to live with dignity? If so, whose responsibility is it to make this happen? Family members? Churches? Government?

2. Is Social Security going "broke?"

3. Should we privatize Social Security?

PRAYER

Creator God, we seek to do your will on earth, as it is in heaven. Give us warm hearts and true wisdom as we consider the future of Social Security. We pray for President Bush, Members of Congress, and other officials and policy makers that they may work to create a nation of justice and compassion. Amen

NOTES

[1] Either a traditional pension or a retirement savings account like a 401(k). Mishel, Lawrence, Jared Bernstein, and Sylvia Allegretto, *The State of Working America 2004/2005*, an Economic Policy Institute Book, Ithaca, NY: ILR Press, an imprint of Cornell University Press, 2005, p. 139.

[2] Ettlinger, Michael and Jeff Chapman, "Social Security and the Income of the Elderly," EPI Issue Brief, Washington, DC, 2005.

[3] Sherman, Arloc and Isaac Shapiro, "Social Security lifts 13 million seniors above the poverty line: a state-by-state analysis," Washington, DC: Center on Budget and Policy Priorities, 2005. The poverty line for a single elderly person is $9,060 and $11,418 for an elderly couple.

[4] Social Security Administration http://www.ssa.gov/pressoffice/basic-fact.htm

[5] Ibid.

[6] Ibid.

[7] Ibid.

[8] This level rises each year at the rate of average wage growth. For example, next year the cap is projected to be $93,000 (*2005 Annual Report of the Board of Trustees*).

[9] Board of Trustees, *2005 Annual Report of the Board of Trustees*, 2005. http://www.ssa.gov/OACT/TR/TR05/trTOC.html

[10] Ibid.

[11] Congressional Budget Office, *The Outlook for Social Security*, 2004. http://www.cbo.gov/showdoc.cfm?index=5530&sequence=0&from=0

[12] Furman, Jason and Robert Greenstein, "What the new trustees report shows about Social Security," Washington, DC: Center on Budget and Policy Priorities, 2005.

[13] Dean Baker, "Weak Economy Moves Social Security Depletion Date Closer," Washington, DC: Center for Economic & Policy Research, 2005. http://www.tcf.org/Publications/Retire mentSecurity/cepr_ss_byte_2005.pdf

[14] Kogan, Richard and Robert Greenstein, "President portrays Social Security shortfall as enormous, but his tax cuts and drug benefit will cost at least five times as much," Washington, DC: Center on Budget & Policy Priorities, 2005.

[15] Furman, Jason and Robert Greenstein, "What the new trustees' report shows about Social Security," Washington, DC: Center on Budget and Policy Priorities, 2005, p. 7.

[16] Primary insurance amount based on annual average lifetime earnings, adjusted for average wage growth. Board of Trustees, *2005 Annual Report of the Board of Trustees*, Table VI F10. http://www.ssa.gov/ OACT/TR/TR05/VI_OASDHI_dollars.html#wp119091

[17] Social Security Administration http://www.ssa.gov/pressoffice/fact-sheets/women-alt.htm

[18] Social Security Administration http://www.ssa.gov/pressoffice/fact-sheets/africanamer.htm

[19] National Center for Health Statistics, Health, United States, 2004. Hyattsville, MD: NCHS, 2004. http://www.cdc.gov/nchs/data/hus/hus 04trend.pdf#027

[20] Social Security Administration. http://www.ssa.gov/pressoffice/fact-sheets/africanamer.htm

[21] Social Security Administration http://www.ssa.gov/pressoffice/fact-sheets/hispanics.htm

[22] Furman, Jason and Robert Greenstein, "What the new trustees' report shows about Social Security," Washington, DC: Center on Budget and Policy Priorities, 2005, p. 5.

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