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Statement for the Record

for the

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"Social Security at 75 Years: More Necessary Now than Ever"

By

Dallas Salisbury

President & CEO
Employee Benefit Research Institute

www.ebri.org

ebri.org
Employee Benefit Research Institute

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My name is Dallas Salisbury and I am the President and Chief Executive Officer of the non-partisan and non-profit Employee Benefit Research Institute (EBRI). Established in 1978, EBRI is committed exclusively to data dissemination, policy research, and education on financial security and employee benefits. EBRI does not lobby or advocate specific policy recommendations; the mission is to provide objective and reliable research and information. All of our research is available on the Internet at www.ebri.org and our savings and financial education material is at www.choosetosave.org

As Social Security turns 75, it is important to acknowledge how this program remains an extremely significant percentage of income for the elderly (age 65 and older). As noted in *EBRI's Databook on Employee Benefits*, "Chapter 7: Sources of Income for Persons Age 55 and Over," from 1975 through 2008, three-fifths of the elderly received 65 percent or more of their income from Social Security.[1] The oldest age group of the elderly, those age 85 and over, receives a greater percentage of their total income from Social Security than those in the younger age groups. In 2008, elderly persons age 85 and over derived 54.5 percent of their income from Social Security, compared with 29.7 percent for those ages 65–69, as was detailed in the *EBRI Notes* article, "Income of the Elderly Population Age 65 and Over, 2008," June 2010, vol. 31, no.6.[2]

I would emphasize this point with my own family. My father retired in 1978 with social security, a defined benefit annuity, a defined contribution account, and savings. From the time he died at nearly 94, until my mother died three years later, also just short of 94, her **only income source was Social Security.**

Reliance on Social Security also significantly differs by marital status, gender, and race, as highlighted in the same *EBRI Notes* article from June 2010. Nonmarried persons receive a larger share of their income from Social Security than married persons (47.1 percent versus 35.3 percent).[3] Additionally, elderly women derived a greater share of their income from Social Security and assets than elderly men in 2008. Social Security accounted for 48.4 percent of elderly women's income, compared with 33.7 percent of elderly men's income.[4] Lastly, significant differences exist when analyzing dependence on Social Security by race. Noted in *EBRI's Databook on Employee Benefits*, "Chapter 7: Sources of Income for Persons Age 55 and Over," elderly Hispanic (47.0 percent) and African-Americans (46.9 percent) received more of their total income from Social Security than Pacific Islanders (43.4 percent), whites (38.4 percent), and Asian-Americans (33.7 percent).[5] Nevertheless, whether comparing Social Security dependence by age, marital status, gender, or race, it is clear that Americans are not saving enough for retirement, resulting in a huge dependence on Social Security.

While today's retirees are extremely reliant on the success and continuation of Social Security, workers confidence that Social Security will continue to provide benefits of at least equal value to benefits received by retirees today has declined over time. EBRI's *Issue Brief*, no. 340, March 2010, "The 2010 Retirement Confidence Survey: Confidence Stabilizing, but Preparations Continue to Erode," and those of the last 20 years, have explored this issue. Seven percent of workers are *very* confident that the Social Security system will continue to provide benefits of at least equal value to

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[1] Chart 7.2 with data points from Table 7.5 contains complete statistics.
[2] Figure 5 on page 5.
[3] Figure 6 on page 6.
[4] Figure 7.
[5] Data is from merged years 2005-2007. See Table 7.2 Additional Data.

the benefits received by retirees today, and 23 percent are *somewhat* confident, 37 percent of workers are *not at all* confident that future Social Security benefits will match or exceed the value of today's benefits, a gradual increase over the past eight years from 30 percent *not at all* confident in 2002.[6] The percentage of retirees saying they are *very* confident about the future value of Social Security benefits has gradually decreased from a high of 28 percent in 2001 to just 11 percent in 2010.[7]

The 2010 Retirement Confidence Survey explored public attitudes about four commonly proposed changes. Workers are most likely to favor gradually reducing the current rate of benefits paid by Social Security, so that people with higher incomes have their benefits cut back more than those with lower incomes (55 percent of workers vs. 45 percent of retirees). In contrast, retirees are most likely to favor increasing the age at which people can begin receiving full retirement benefits by one year (59 percent of retirees vs. 45 percent of workers). Roughly 4 in 10 each report they favor raising the payroll tax paid by workers for this program from 6.2 percent to 7.2 percent (40 percent of workers, 45 percent of retirees), while about one-quarter favor reducing the current rate of benefits by 5 percent for all new recipients (23 percent of workers, 26 percent of retirees).[8]

EBRI released the 2010 Retirement Readiness Rating™ on July 13th, 2010, in (*EBRI Issue Brief* no. 344, July 2010, "The EBRI Retirement Readiness Rating:™ Retirement Income Preparation and Future Prospects"). The report included analysis of possible changes in Social Security, and in the process underlines the importance of the program. The analysis looks at what the impact would be on the future risk of running short of retirement resources of reduction of Social Security benefits to match currently expected payroll taxes; reductions in Medicare; and adding a 3% individual account to Social Security. Looking just at a reduction in Social Security benefits, the impact should be minimal for those currently on the verge of retirement—so the "at-risk" level for Early Boomers increases by only 0.3 percentage points.

But Late Boomers will have a larger percentage of their expected Social Security benefits reduced as a result of this change, and their "at-risk" level increases by 1.6 percentage points under the baseline assumptions. Gen Xers will have even more years of their expected retirement affected by this change, and their increase in "at-risk" percentage is simulated to be 5.8 percentage points. Given that the Gen Xer cohort would experience a significantly larger effect under this modification, this cohort is the exclusive focus when analyzing the impact by preretirement income quartile.

Since Social Security represents a larger percentage of total retirement income for retirees with lower income, it would be expected that the lowest-income quartile would experience a larger overall impact from the proposed Social Security benefit decrease than their higher income counterparts. This is borne out by the results in Figure 12 in *Issue Brief* no. 344. The lowest-income quartile is simulated to have an increase of 7.2 percentage points in their "at-risk" level, compared with only 6.9 percentage points for the second quartile, 5.2 percentage points for the third quartile, and 4.2 percentage points for the highest-income quartile.

In conclusion, EBRI work underlines the significant role of Social Security for today's retirees, and for the income security prospects of those yet to retire.

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[6] Figure 43 on page 38.
[7] Figure 44 on page 39.
[8] Figure 47 on page 41.