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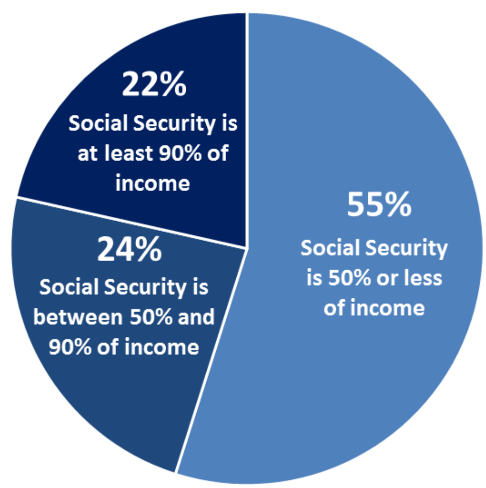
Social Security and Retirement Savings in the United States

Since its inception in 1935, Social Security has provided benefits to hundreds of millions of Americans.[1] In June 2016 alone, it helped more than 60 million individuals, almost one-fifth of the current population.[2] Of those recent beneficiaries, more than two-thirds received retirement benefits. The remaining beneficiaries received disability insurance payments or were surviving spouses or children of deceased Social Security beneficiaries. This issue brief focuses on Social Security benefits as an important source of retirement income for older Americans – a role that will grow due to the changing landscape of retirement savings in the United States.

The overwhelming majority of older Americans receive Social Security benefits. Individuals earn their benefits during their working years. Since the Social Security Act was signed by President Franklin Roosevelt in 1935, Social Security benefits have grown to become a "nearly universal" source of income for Americans in their retirement.[3] The average retiree this year will receive $1,350 a month in Social Security benefits, or just over $16,000 annually.[4] While those benefits are modest, they play a critical role in the financial security of seniors. According to the Federal Reserve, 90 percent of current retirees receive income from Social Security, making it by far the most common source of income for individuals in this group.[5] By comparison, 65 percent of current retirees receive income from a defined benefit pension from work.[6]

Social Security is a major source of income for millions of retirees. Roughly 45 percent of seniors – approximately 20 million people – rely on Social Security payments for a majority of their income.[7] This includes the 22 percent of seniors who count on Social Security for 90 percent or more of their income (see **Figure 1**).[8] On average, seniors with incomes in the bottom 20 percent of the income distribution depend on Social Security for two-thirds of their total income. Seniors in the middle of the income distribution depend on Social Security for more than half of their income, and seniors with incomes in the top 20 percent depend on Social Security for less than one-fifth of their income.[9]

Figure 1. Importance of Social Security Benefits for Older Americans
65 years and older, 2014

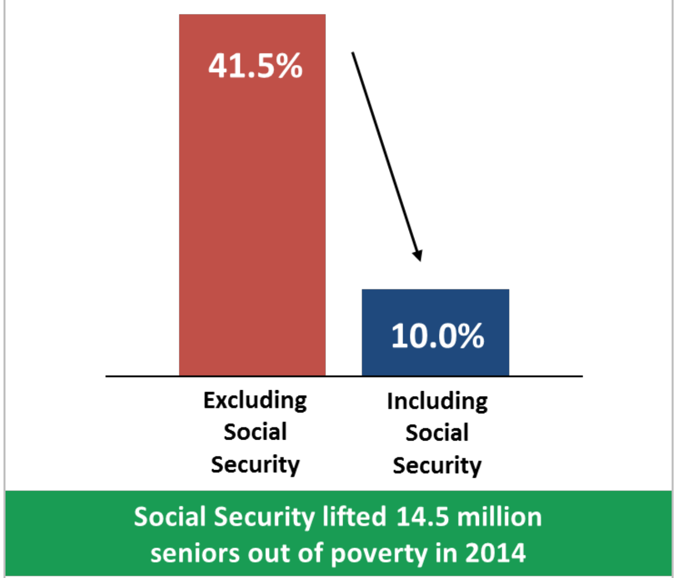


About 45 percent of seniors receive a majority of their income from Social Security

Source: JEC staff calculations using data from the Social Security Administration
Note: Figures do not add to 100 percent due to rounding

Social Security reduces poverty among older Americans. Social Security benefits lifted 14.5 million seniors out of poverty in 2014. Without those benefits, the poverty rate among seniors – 10 percent in 2014 – would be over four times higher (see **Figure 2**). More than half of those lifted out of poverty were women (8.6 million women ages 65 and older). Without Social Security income, the poverty rate among women 65 and older would increase from 12 percent to over 45 percent.[10] Poverty rates would be significantly higher across racial and ethnic groups without Social Security benefits, with more than half of black seniors and 47 percent of Hispanic seniors living in poverty.[11]

Figure 2. Poverty Rate Among Seniors
Excluding and including social security income, 65 years and older, 2014



Source: JEC staff calculations using data from the U.S. Census Bureau, Current Population Survey

Note: The 'Including Social Security' figure represents the actual poverty rate measured; the Excluding Social Security' figure represents the poverty rate if social security payments are not factored into incomes

Social Security accounts for a larger share of women's retirement income.[12] One in four women ages 65 and older receives at least 90 percent of her income from Social Security, compared with less than one in five men.[13] In fact, for 13 percent of women 65 and older, Social Security benefits are their only source of income.[14] Women are less likely than men to have pension income. Women also face a gender pay gap – women's median earnings for full-time, year-round work are 79 percent of men's – and are more likely to spend time out of the labor force to care for children and other family members. As a result, women typically have lower career earnings and less retirement savings than men.[15] Even though some women may have other sources of retirement income, Social Security is the only source both guaranteed for life and protected against inflation.[16]

Unmarried retirees rely on Social Security benefits more than most married retirees. Unmarried retirees are almost twice as likely as married couples to rely on Social Security for at least 90 percent of their income, as married couples typically draw more of their income from other sources.[17] Marital status contributes to the increased importance of Social Security for women. Because women have longer life expectancies than men, they often outlive their spouses. Less than half of women ages 65 and older are married, compared with 70 percent of men. The majority of unmarried women 65 and older are widows.[18]

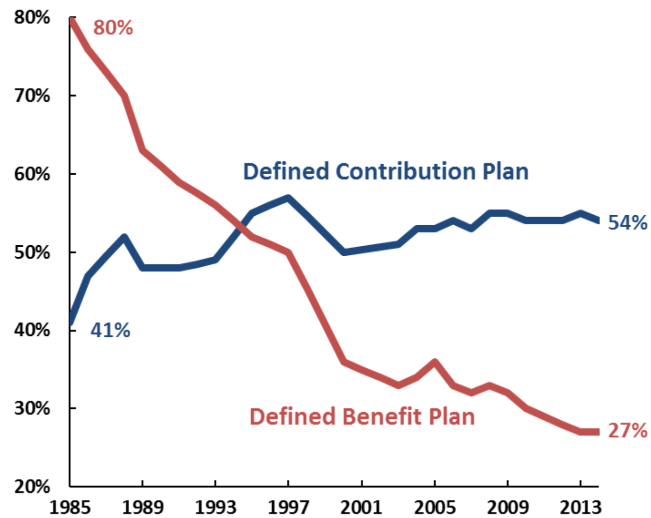
Social Security is an important source of income for many retirees of color. Workers of color typically face a pay gap, earning only a fraction of what white workers earn. They are also more likely to work in low-wage jobs and less likely to have a retirement account. These factors make it harder for black and Hispanic workers to save for retirement. As a result, their incomes tend to be lower once they reach age 65. The median annual income for black seniors is about $16,000, 72 percent of the median income of white retirees. At $13,200, the median income for Hispanic seniors is just 59 percent of the median income of non-Hispanic white seniors.[19] With less income from other sources, Social Security accounts for a larger share of income for black and Hispanic workers. On average, black and Hispanic seniors receive 41 percent of their retirement income from

Social Security, while white seniors receive one-third of their retirement income from Social Security.[20]

The move away from defined benefit plans will further elevate the importance of Social Security for many Americans. Most employers have stopped offering "defined benefit plans," also known as pensions, which pay out a specified level of retirement income for as long as the former employee lives. As recently as 1985, 80 percent of employees at medium- or large-sized companies participated in defined benefit retirement plans (see **Figure 3**).[21] Surveys now suggest that fewer than one in four 18 to 29 year olds expect to have a defined benefit pension plan in retirement, compared to two in five 45 to 59 year olds.[22] These pension-style plans have been steadily replaced by "defined contribution plans," such as 401(k) accounts, in which benefits depend on the contributions made into them and market returns. Unlike pension plans, defined contribution plans do not guarantee income for life and expose workers' retirement security to market risk and volatility.

Figure 3. Share of Private-Sector Workers Participating in Retirement Plans

Employees at medium and large establishments, 1985 to 2014

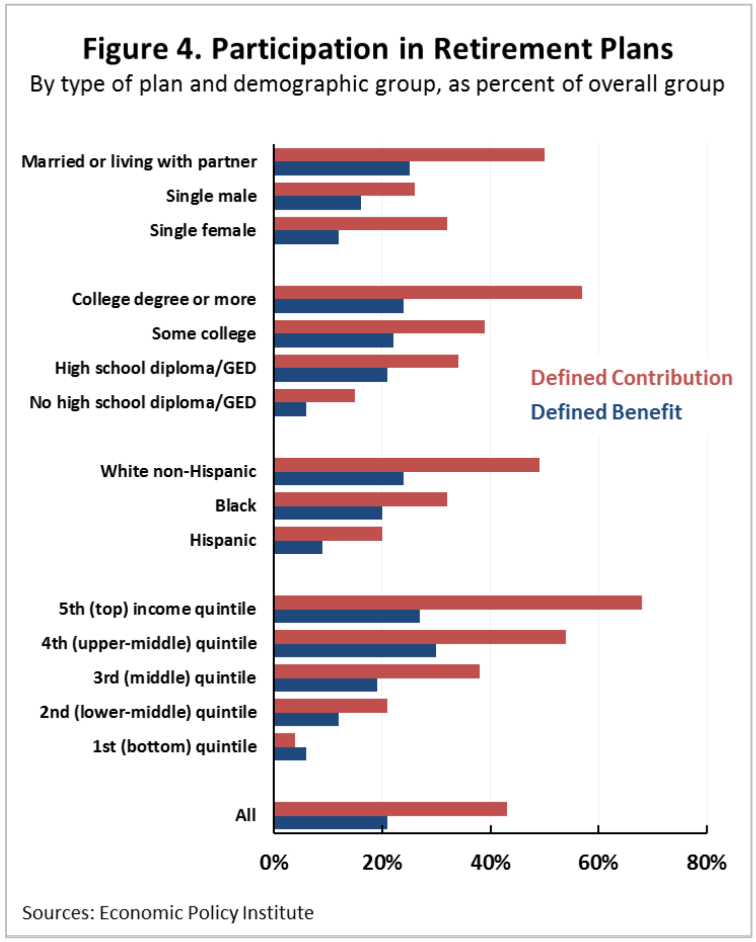


Sources: Employee Benefit Research Institute and the Bureau of Labor Statistics, National Compensation Survey

Notes: Numbers do not sum to 100 percent because some employees have both retirement plans; for most years, "Medium and large establishments" denotes those with 100 or more employees; data are interpolated for the following years of missing data: 1987, 1990, 1992, 1994, 1996, 1998, 1999, 2001 and 2002

Slow wage growth and rising costs of living have made it hard for many families to save for retirement. Many workers have seen their real (inflation-adjusted) wages stagnate or fall over the past several decades. For example, average weekly earnings of production and nonsupervisory workers, adjusted for inflation, are lower now than they were in the 1970s.[23] At the same time, the cost of important expenses such as education, health care and child care have grown.[24] The amount a typical middle-income, two-parent family spent to raise a child increased 24 percent in real terms between 1960 and 2013.[25] As a result, families today have less income to devote to building a nest egg for retirement, even though the declining prevalence of pension plans has made it increasingly important to do so. Among workers who are eligible but do not participate in an employer-offered defined contribution plan, more than one in four workers say they cannot afford to make contributions.[26]

The shift to defined contribution plans is increasing inequality in retirement savings. The top 1 percent of families have over $1 million in retirement savings, yet half of families nearing retirement have $12,000 or less in retirement savings.[27] Overall, families today are twice as likely to participate in a defined contribution plan (or 401(k)) as a defined benefit plan. And while participation in DC plans is greater across nearly every demographic group, participation is more heavily concentrated among certain demographic groups. For example, the top 20 percent of families by income are 17 times as likely as the bottom 20 percent of families to have a 401(k). By comparison, the highest income families are about 4.5 times as likely to have a defined benefit plan (see **Figure 4**). White (non-Hispanic) workers, college-degree holders and workers who are married are among the most likely to have a 401(k).[28] This growing divide will make the guaranteed benefits provided by Social Security even more important to American families in the coming years.



Social Security is not going bankrupt. Despite frequent claims that the Social Security Trust Fund is "going broke," the latest Social Security Trustees report maintains even if no action is taken to shore up the program, it will continue paying full benefits through 2034, after which benefits would be reduced by about one-quarter. Moreover, modest changes to generate more revenue or reduce benefits for well-off retirees could be made to assure the long-term solvency of the program.

Most Americans are counting on Social Security to be there when they retire. Overall, 65 percent of Americans are expecting to receive Social Security benefits in retirement, although those expectations are lower among younger workers.[29] More than two-thirds of voters believe Social Security benefits should not be reduced, and legislators have expressed support for expanding the program.[30] More Americans would prefer to raise taxes than reduce benefits in order to ensure the program survives.[31]

Social Security is designed to be progressive. By design, Social Security benefits replace a larger share of earnings for lower-wage workers, and a smaller share of earnings for higher-wage workers. According to the Social Security Administration, benefits replace roughly 41 percent of average yearly earnings for a worker with "low" earnings, 30 percent of earnings for a worker with "medium" earnings, and 20 percent of earnings for a worker with average career earnings equal to the maximum income subject to the payroll tax.[32] This progressive effect is at least partially offset, because wealthier individuals, on average, live longer than people at the lower end of the income spectrum, and this gap has been growing in recent years. That means the wealthier individuals receive Social Security benefits for longer.[33] Currently, income above the maximum of $118,500 is not subject to the payroll tax which funds Social Security. A higher maximum taxable income would increase the progressivity of Social Security, since a greater share of high-earners' wages would be subject to tax and the higher benefits they would receive would not equal the higher taxes paid into the program.[34]

Sources

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[4] Social Security Administration, "Number of Social Security beneficiaries at the end of June 2016."

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[9] Social Security Administration, "Income of the Population 55 or Older, 2014" (April 2016). Data are from Table 8.B7.

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[11] JEC Democratic staff calculations using the Census Bureau's CPS Table Creator. If Social Security benefits are excluded from money income the poverty rate in 2014 would have been percent for non-Hispanic white individuals 65 and older, 47 percent for Hispanic individuals 65 and older, and 51 percent for non-Hispanic black individuals 65 and older.

[12] Social Security Administration, "Income of the Population 55 or Older, 2014" (April 2016). Data are from Table 8.B1. On average, Social Security accounts for 46 percent of income for men and 51 percent for women.

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[28] Monique Morrissey, "The State of American Retirement: How 401(k)s have failed most American workers" Economic Policy Institute (March 3, 2016).

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