Social Security

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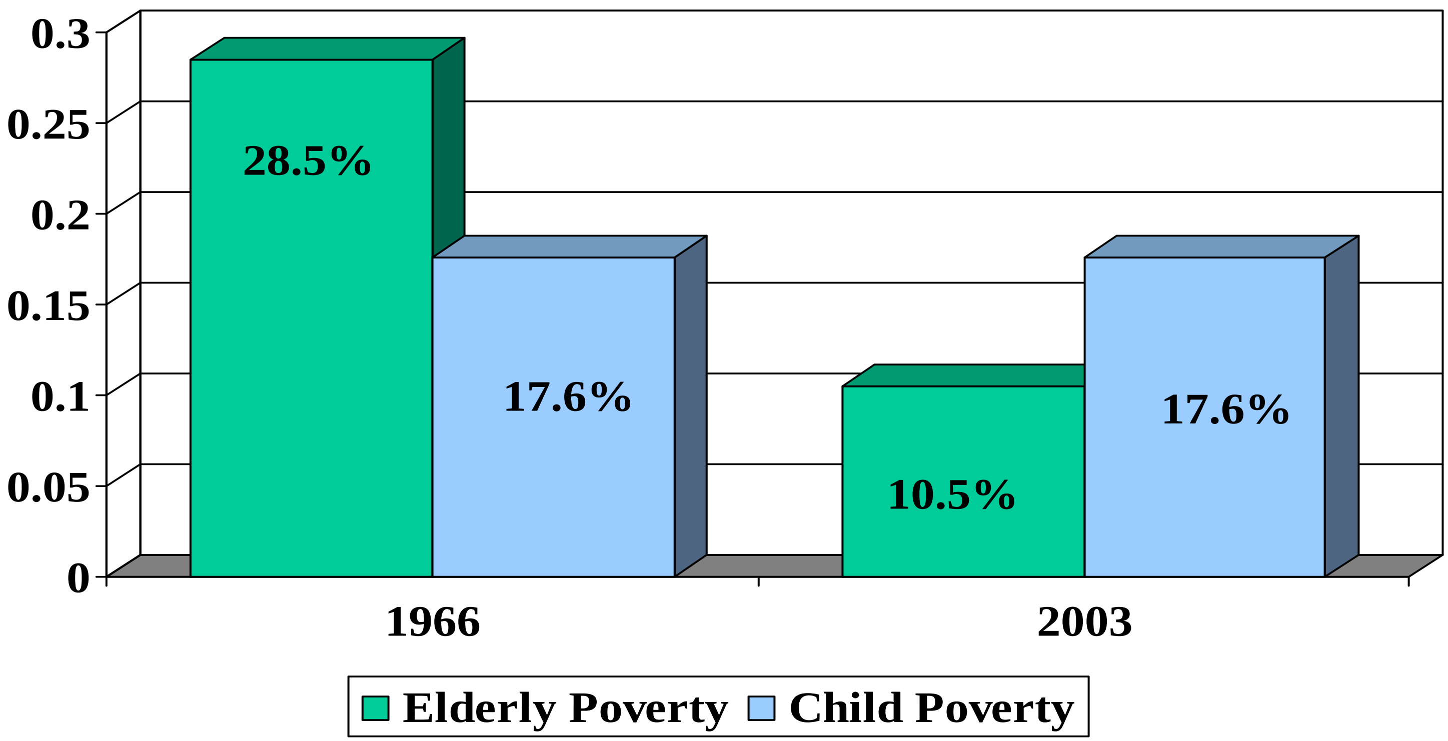
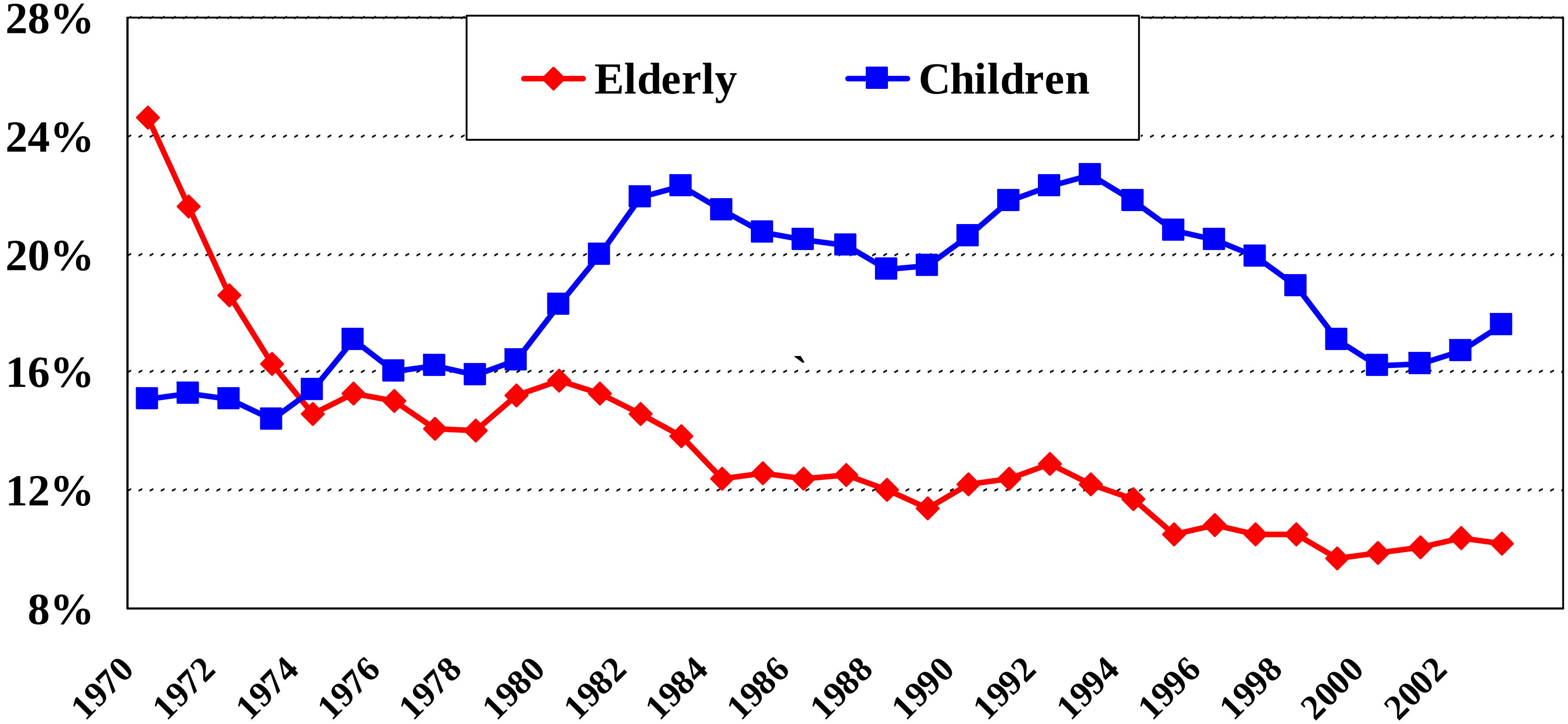
Social Security is this nation's most effective anti-poverty program. Prior to the enactment of Social Security, poverty was widespread among the nation's elderly.

- Even 30 years ago, the elderly were more likely to live in poverty than the population as a whole. In 1966, 28.5% of the elderly in the United States had incomes below the poverty line, compared with 14.7% of the general population and 17.6% of children.
- By 2003 the national poverty rate for the elderly had fallen to 10.5% while the child poverty rate was unchanged at 17.6%.

Social Security is this nation's most effective anti-poverty program. Prior to the enactment of Social Security, poverty was widespread among the nation's elderly. Even 40 years ago, the elderly were much more likely to be poor than were children.



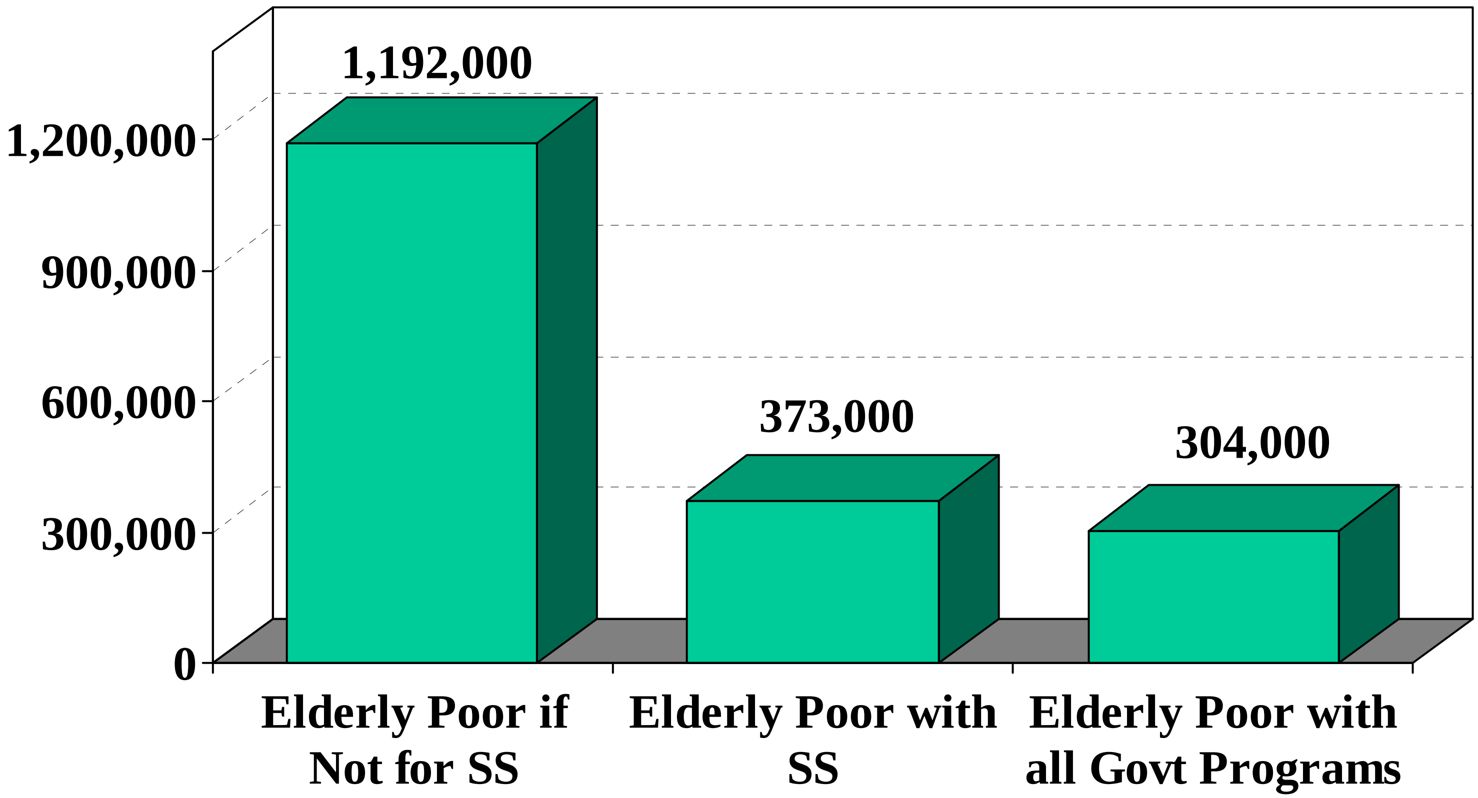
Nationally, Elderly Poverty Rates have Fallen While Child Poverty Rates have Gone UP



Without Social Security, over one million elderly New Yorkers would have incomes below the official poverty line.

- With Social Security benefits added to income, the number of elderly poor is reduced by 818,500 to just over 373,000.
  - Almost one half of New York’s elderly population would be poor if it were not for Social Security and other government programs
  - With these programs, the elderly poverty rate falls to 12.6%.

Social Security Dramatically Reduces the Number of Poor Elderly New Yorkers

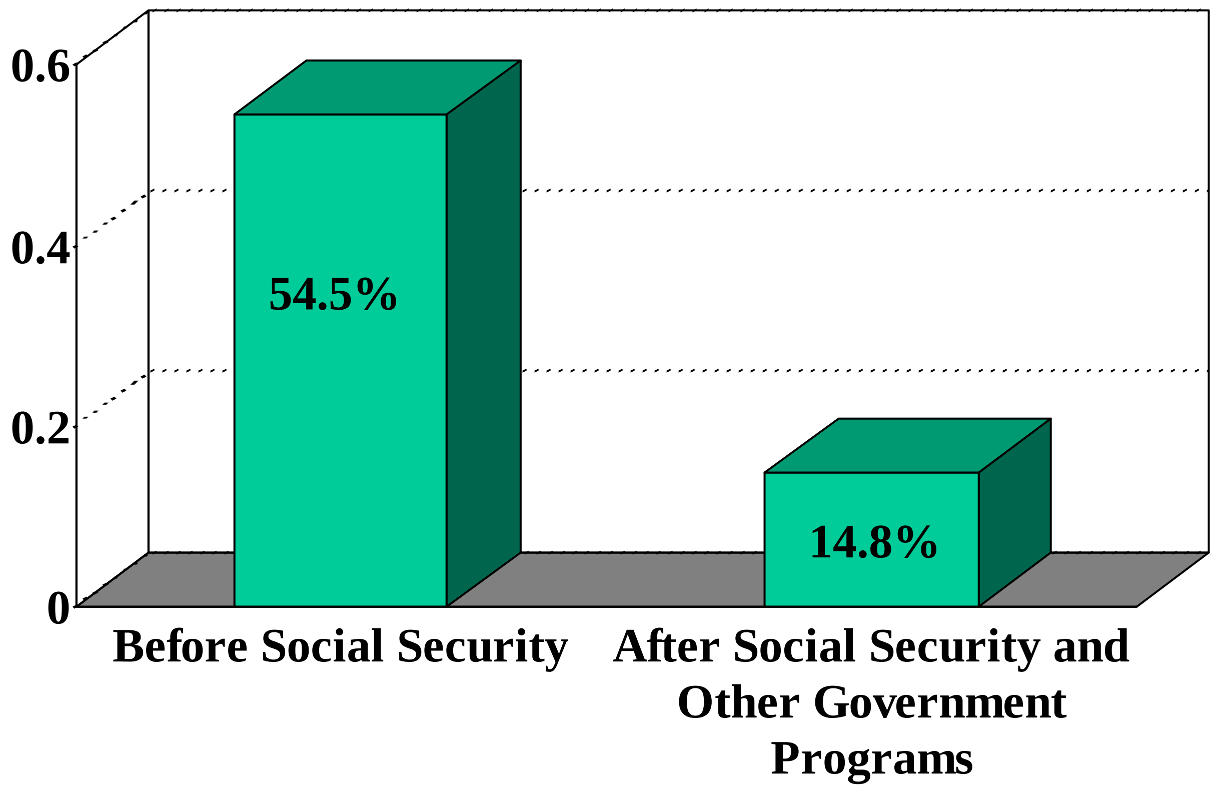


The majority of elderly people lifted from poverty by Social Security are women.

- More than half a million elderly New York women are pulled out of poverty by Social Security benefits.

- The poverty rate of elderly women in New York falls from 54.5% to 14.8% when Social Security and other government benefits are counted.

Without Social Security and other government programs, more than half of NY's elderly women would be poor.



Social Security is important for New York’s economy

- In December 2003, there were over 3 million beneficiaries in NYS. About 2 million retirees PLUS
  – 372,000 disabled
  – 284,000 widows
  – 252,000 children
- Monthly benefits exceeded $2.7 billion

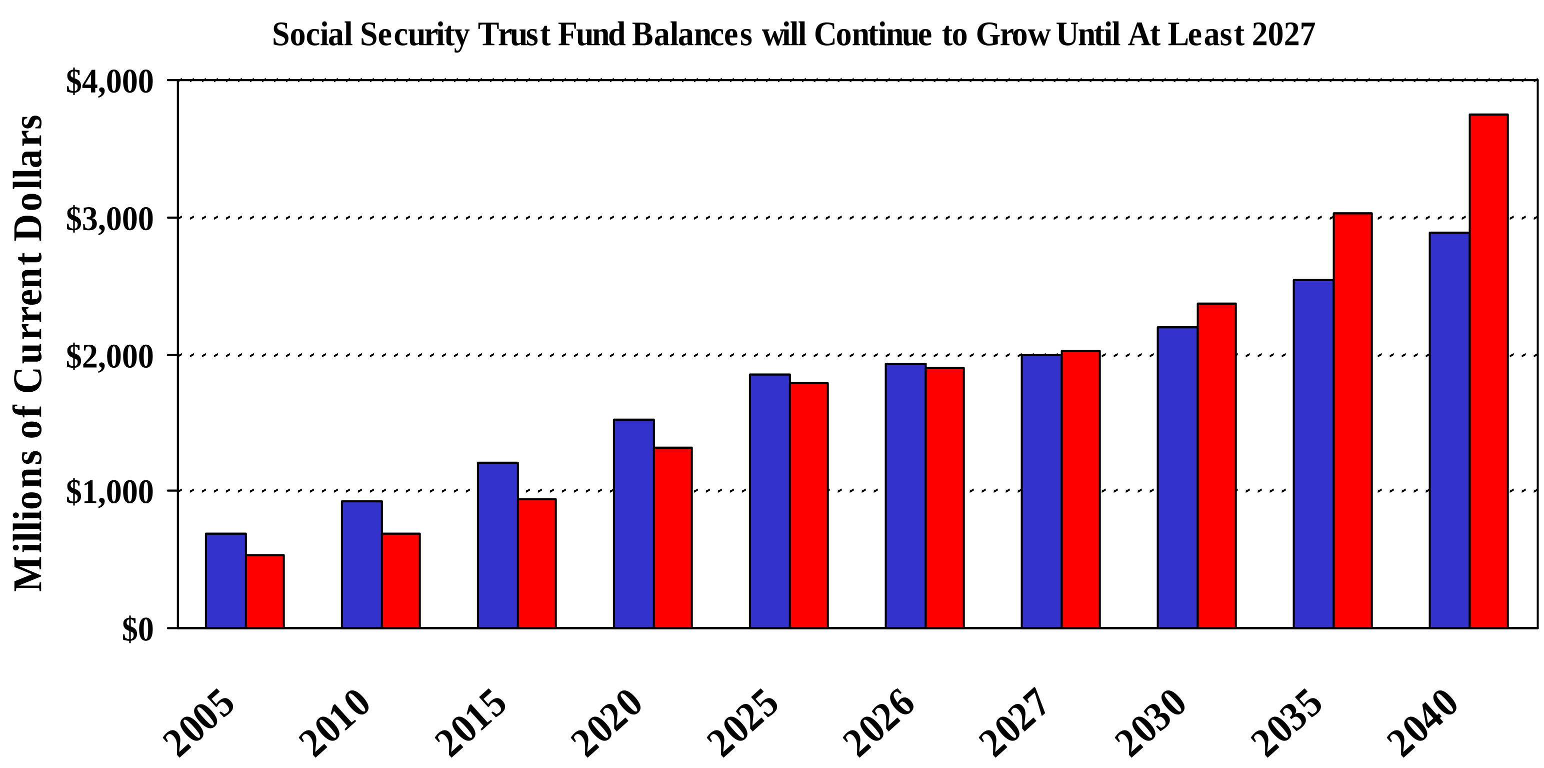
Social Security is important to the economy of Rockland County

- Almost 46,400 people – 16% of the population receive social security benefits
  - This includes 34,300 elderly but also
  - 4,500 children
  - 7,600 nonelderly adults
- Each month, Rockland County residents receive more than $45 million in social security benefits

The Social Security System Is <u>Not</u> in Crisis. Improvements Are Necessary, but Radical Changes Are Not.

- The Social Security Trust Funds have been running increasingly large budget surpluses since the early 1980s. This is the conscious result of the changes made in the Social Security system in the early 1980s to begin building up substantial reserves in the Social Security Trust Funds in anticipation of and preparation for the time when the "baby boom"
- As of December 31, 2004, the balances in the Social Security Trust Funds were $1.7 trillion.
- In fact, the balances in the Social Security Trust Funds are projected to continue growing until at least the end of 2027, when they will peak at a projected $6 trillion. Social Security contributions (i.e., the payroll taxes paid by employees and employers, including self-employed individuals) will exceed benefits each year through 2017 and after that contributions, income from the taxation of benefits and interest income will exceed benefits each year through 2027.

Since income including interest will exceed costs, Social Security Trust Fund Balances will continue to grow until at least 2027. Even after 2041 and with no changes to the system, income will be sufficient to cover 70% of cost of benefits.



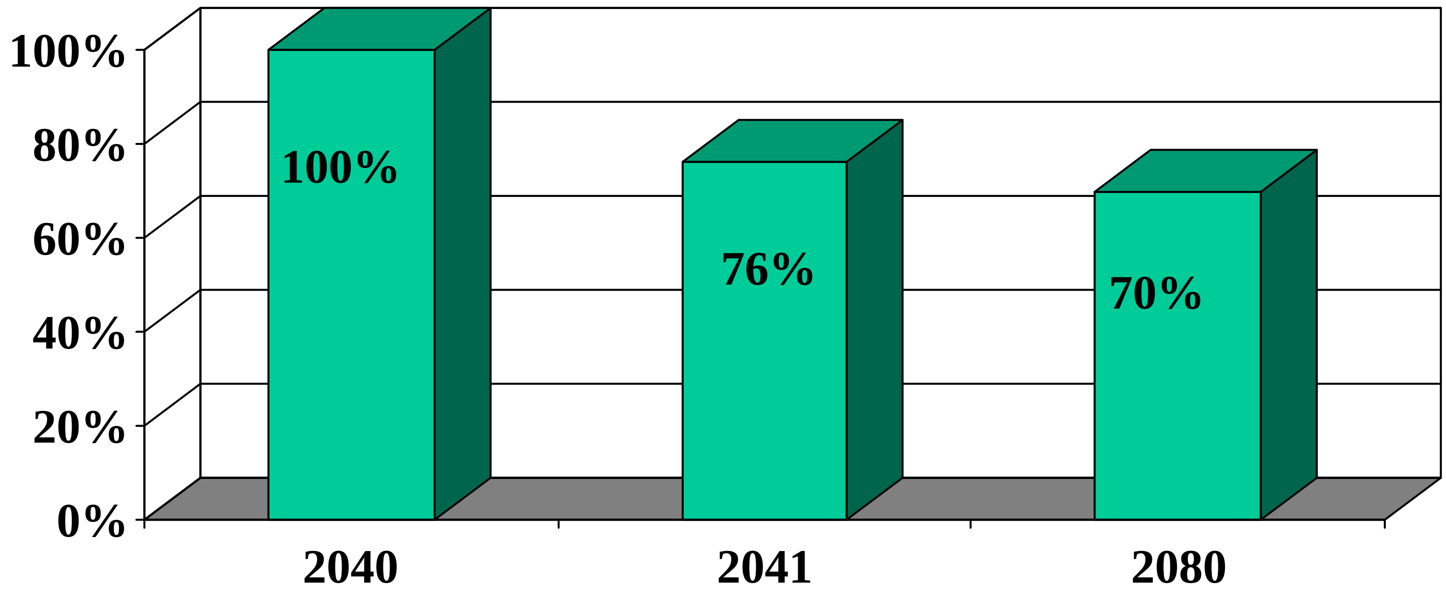
Social Security Trustees estimate that <u>without</u> any changes, the system can pay <u>full</u> benefits through the year 2041

This is a conservative estimate

- the Congressional Budget Offices says current benefit levels can continue to be paid through the year 2052
- this estimate is based on very pessimistic economic growth projections (growth 1/2 the rate in the next 75 years as in the past 75 years)
- Seven of the last eight annual reports by the Trustees of the Social Security and Medicare Trust Funds concluded that the system was in better shape than the prior year's report had projected. Since 1996 the “insolvency year” has moved from 2029 to 2041.

Even after 2041, the Social Security trust fund will not be broke --- ongoing payroll tax revenues will be sufficient to fund about 75% of current benefit levels.

Percent of Social Security Benefits Payable - No Changes to Current System



Social Security trust funds are <u>not</u> filled with worthless IOUs.

- Social security's trust funds hold nothing but U.S. Treasury securities
- These are backed by the full faith and credit of the US government and pay interest
  - Considered, the safest, most reliable investment in the world
  - U.S. default on its treasury securities would is not likely.

Diverting a portion of Social Security revenues to private accounts makes it harder rather than easier to eliminate the budget shortfalls projected for 2041 and thereafter.

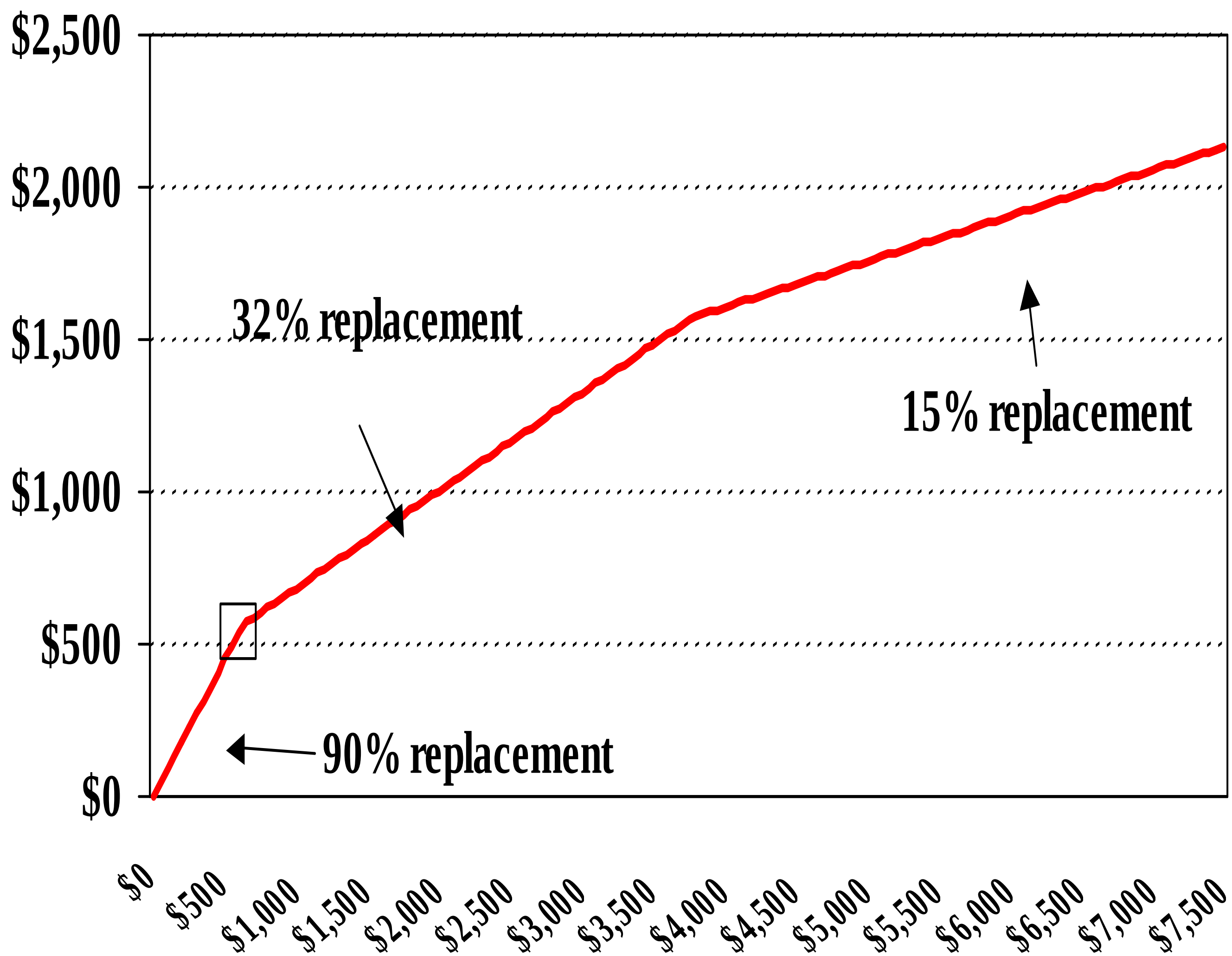
- Diverting a percentage of workers' contributions to private accounts will weaken the trust fund
- Trust fund reserves would be depleted by 2021, two decades sooner
- Benefits would be cut by up to 46% over 75 years
- National debt will explode --- $1.8 trillion for transition costs over the first decade of the plan's operation

Changing from Wage Indexing of Benefits to Price Indexing = Huge cuts in benefits for future generations

- Bush plan would require a large reduction in the benefits provided by the existing system. A worker who is 20 today would see a cut of approximately one-third in his or her retirement benefit.
- Social Security benefits currently equal 42 percent of the earnings of an average worker retiring at 65. Under the new formula, that benefit would fall to 20 percent of pre-retirement earnings.
- It's like saying elderly people today should live at a 1940 standard of living

What is the difference between wage indexing and price indexing?

- Currently, Social Security benefits are calculated based on the following formula:
  - 90% of the first $627 of average indexed monthly earnings (AIME)
  - 32% of AIME between $627 and $3,779
  - 15% of AIME over $3,779
- These income amounts are called “bend point factors.” Currently these are increased each year to reflect changes in wages, the proposal would increase them only by the change in prices.


$2,500
$2,000
$1,500
$1,000
$500
$0
32% replacement
15% replacement
90% replacement
$0
$500
$1,000
$1,500
$2,000
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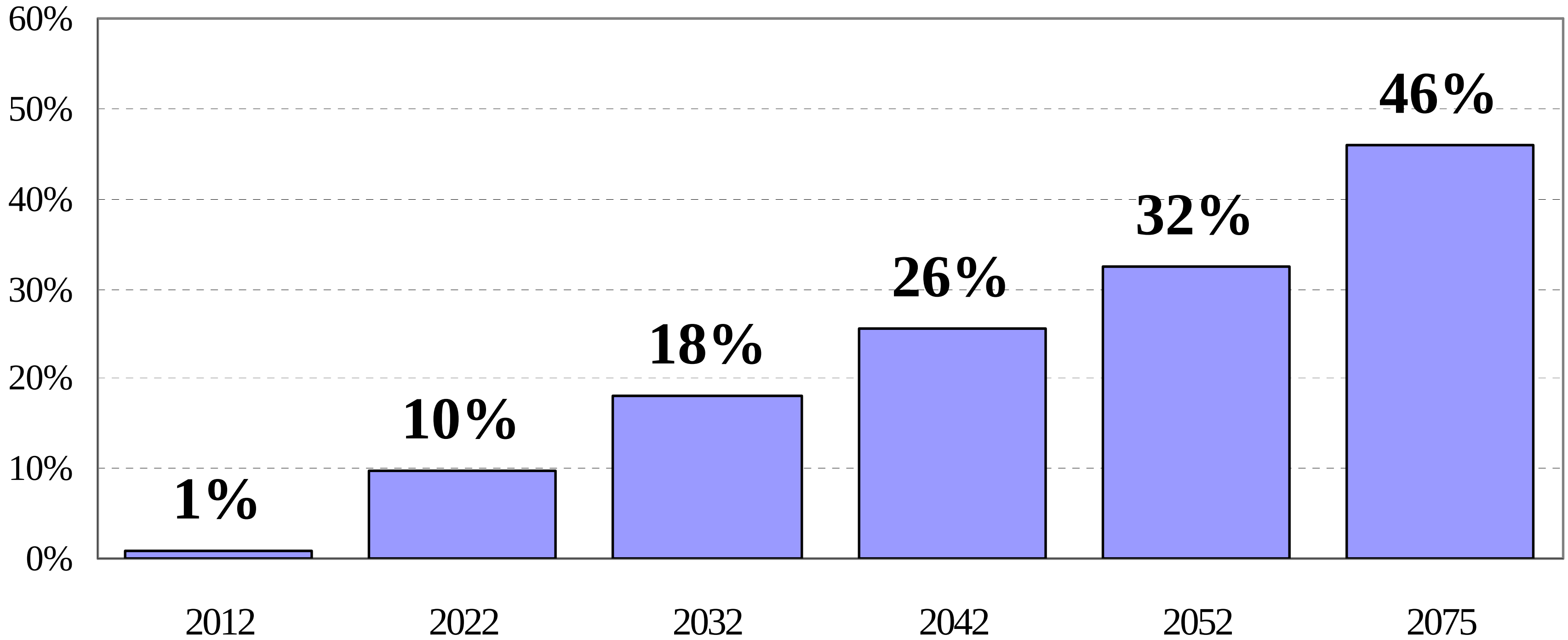
$4,000
$4,500
$5,000
$5,500
$6,000
$6,500
$7,000
$7,500

This “technical” change would have significant consequences for benefits.

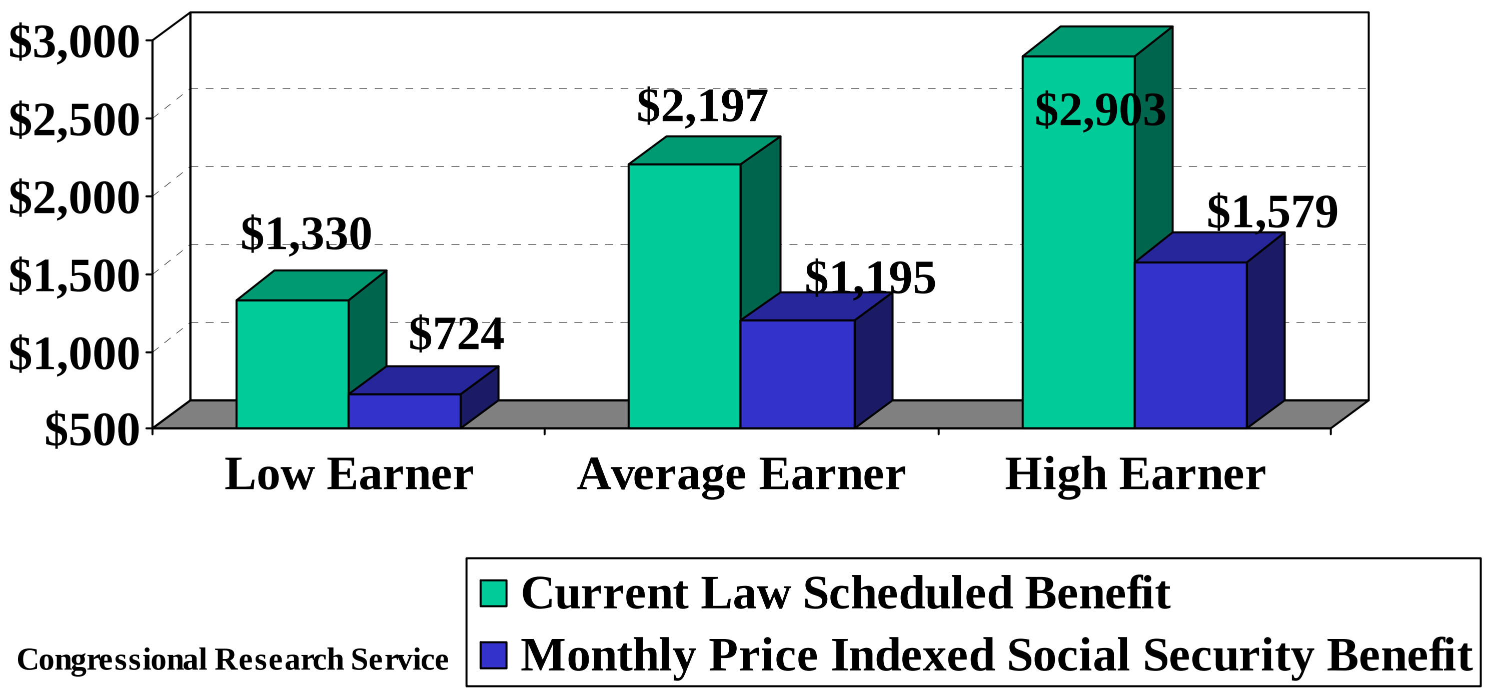
- A middle-class worker retiring in 2022 would see guaranteed benefits cut by 9.9 percent.
- By 2042, average monthly benefits for middle- and high-income workers would fall by more than a 25 percent.
- A retiree in 2075 would receive 54 percent of the benefit now promised.

Percent Reduction in Benefits by Year of Retirement for a Retiree with "Medium Earnings"



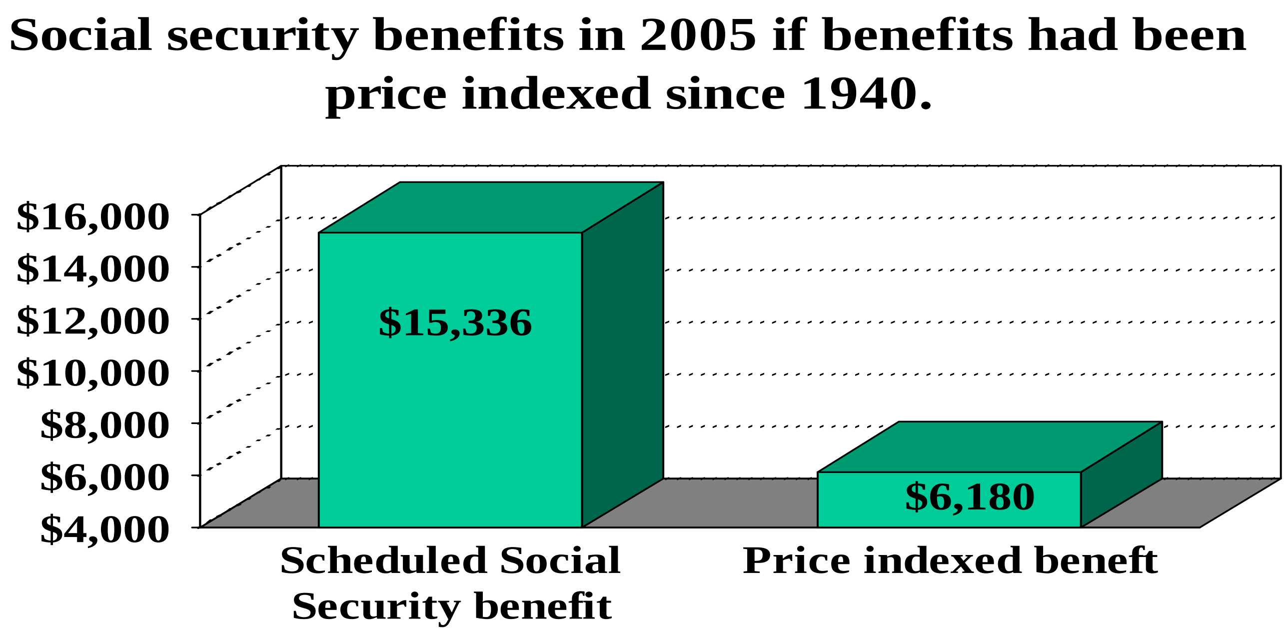
Source: Jonathan Weisman and Mike Allen, "Social Security Formula Weighed,"Washington Post, January 4, 2005

For a worker born in 2006, price indexing will significantly reduce Social Security benefits, whether or not the worker chooses to participate in a private account scheme.



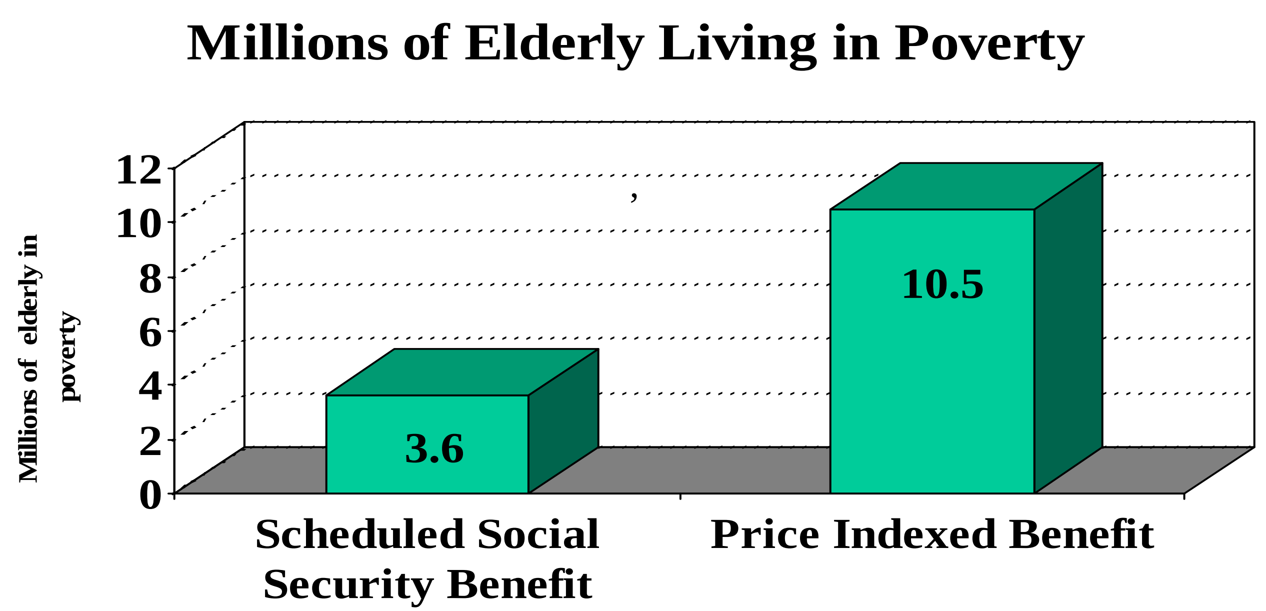
Source: Congressional Research Service

If wage indexing had been in effect since 1940, current benefit levels would be cut by 60%



Source: Congressional Research Service, Memo to Senate Finance Committee re: Estimated Effect of Price-Indexing Social Security Benefits on the Number of Americans 65 and Older in Poverty, January 28, 2005.

Almost 7 million more elderly would be living in poverty today had benefits been price indexed.



Source: Congressional Research Service, Memo to Senate Finance Committee re: Estimated Effect of Price-Indexing Social Security Benefits on the Number of Americans 65 and Older in Poverty, January 28,

Private accounts will not make up for these benefit cuts

- Advocates of private accounts assume that the stock market will give the same returns in the future as it has in the past, even though price-to-earnings ratios in the stock market are far higher now than in the past, and the Social Security trustees project that profits will grow at about half the rate they did in the past.
- Private accounts also have high administrative costs. According to Bush's Social Security Commission, their private accounts will cost about ten times as much to administer as in the current system if they're handled through a single government-managed system. If Wall Street gets its hands on this money, with everyone going to his or her local bank or brokerage house--as is the case with the privatized systems in England and Chile--the costs could be thirty times as high as the cost of our Social Security system.

According to a 2004 study by the CBO:

(Congressional Budget Office)

- Administrative costs for Social Security are only $11 per participant per year and reduce assets by 2% at retirement
- Federal thrift savings plan costs twice as much to administer -- $25 per year, reducing assets at retirement by 5%
- Private Defined-Contribution Funds range from $24 per year to $103 per year and reduce assets at retirement by 9 to 30%.

President Bush misleads the public with his consistent claims that private accounts will result in a better return on "investment"

For example, in Kentucky on June 2 the president stated, *"Right now, when we collect your money, if you're a youngster out there working hard and paying into the system, you'll be displeased to know you get about a 1.8 percent return on your money, which is pitiful, rate of return. Heck, you can put your money in T-bills and do better than that… A conservative mix of bonds and stocks, for example, can yield over a period of time 4.5 percent rate of return. And that difference between the 4.5 percent somebody gets or the 1.8 percent you're now getting [through Social Security] over a 30-year period is a lot of money."*

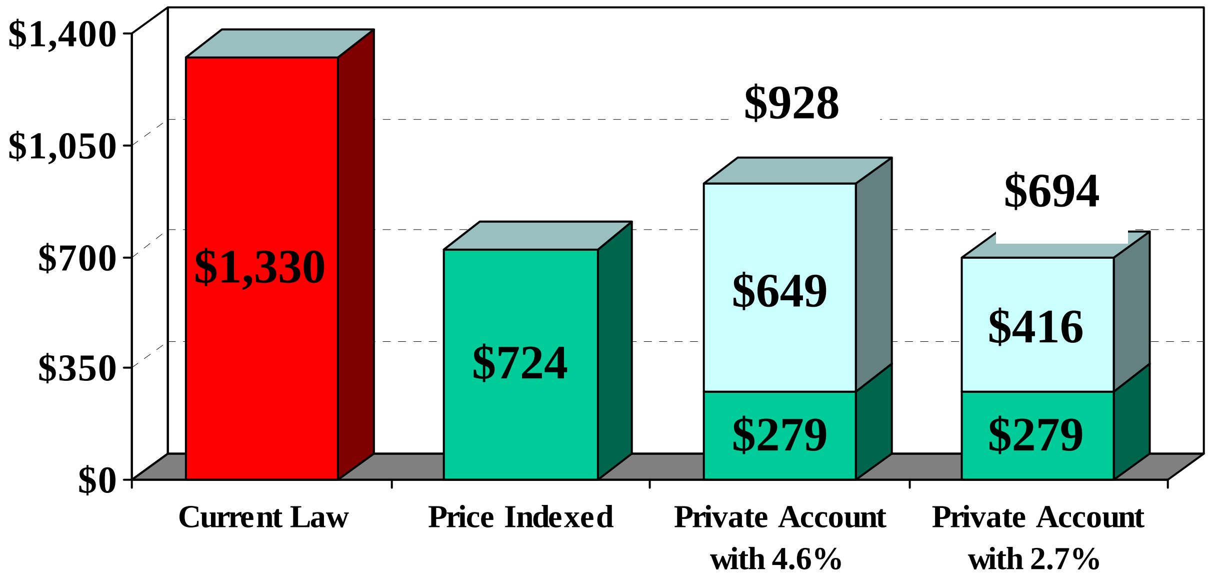
Source: White House Press Office, "President Discusses Strengthening Social Security for Rural America," June 3, 2005.

President's remarks rest on three fallacies

- **Fallacy #1 – Ignoring transition costs**
  – If we were to let everyone put their money into private account, we would still have to pay benefits for current retirees $500 billion per year
- **Fallacy #2 – Ignoring the additional risks associated with stock market investment**
  – Yale economist Robert Shiller estimates that workers who opted for private accounts would lose money between 32 and 71 percent of the time
- **Fallacy #3 – Ignoring the insurance benefits of social security**
  – One third of payroll taxes fund disability and survivors insurance

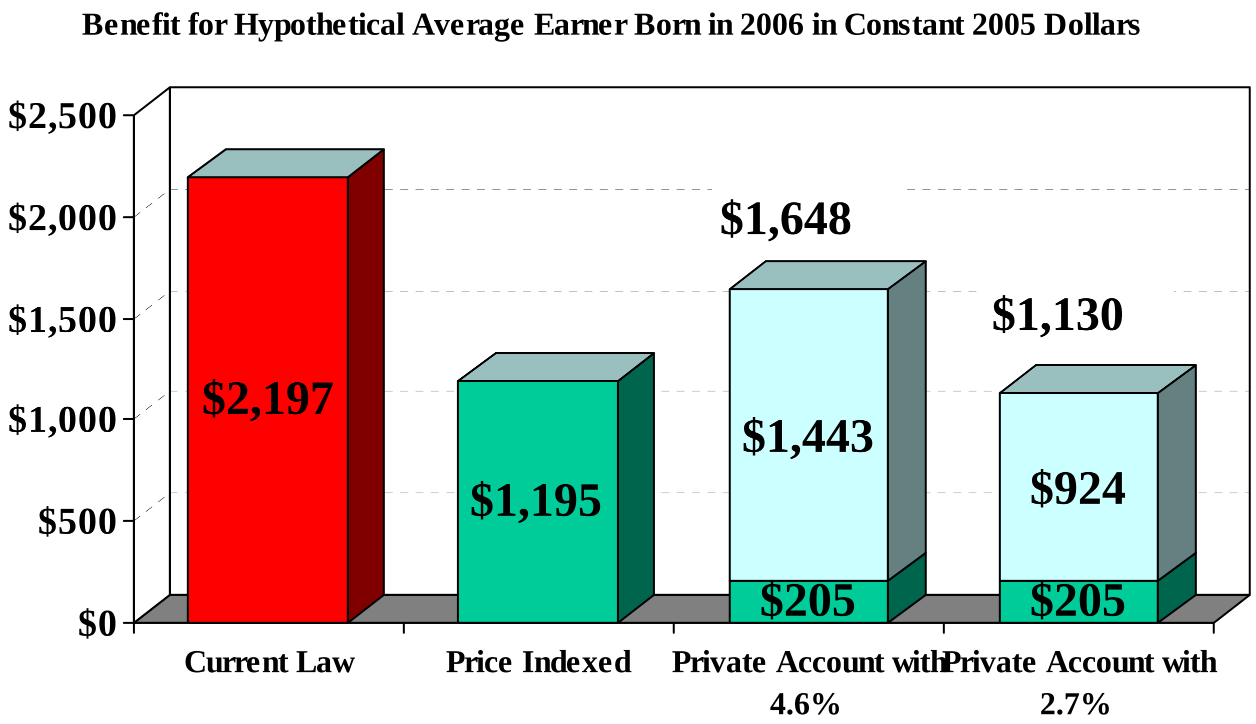
Even using the most optimistic assumptions about average rate of return benefits would be 30% lower than under the current system. With more realistic assumptions about rate of return the reduction is almost 50%.

Benefit for Hypothetical Low Earner Born in 2006 in Constant 2005 Dollars



Source: Congressional Research Service

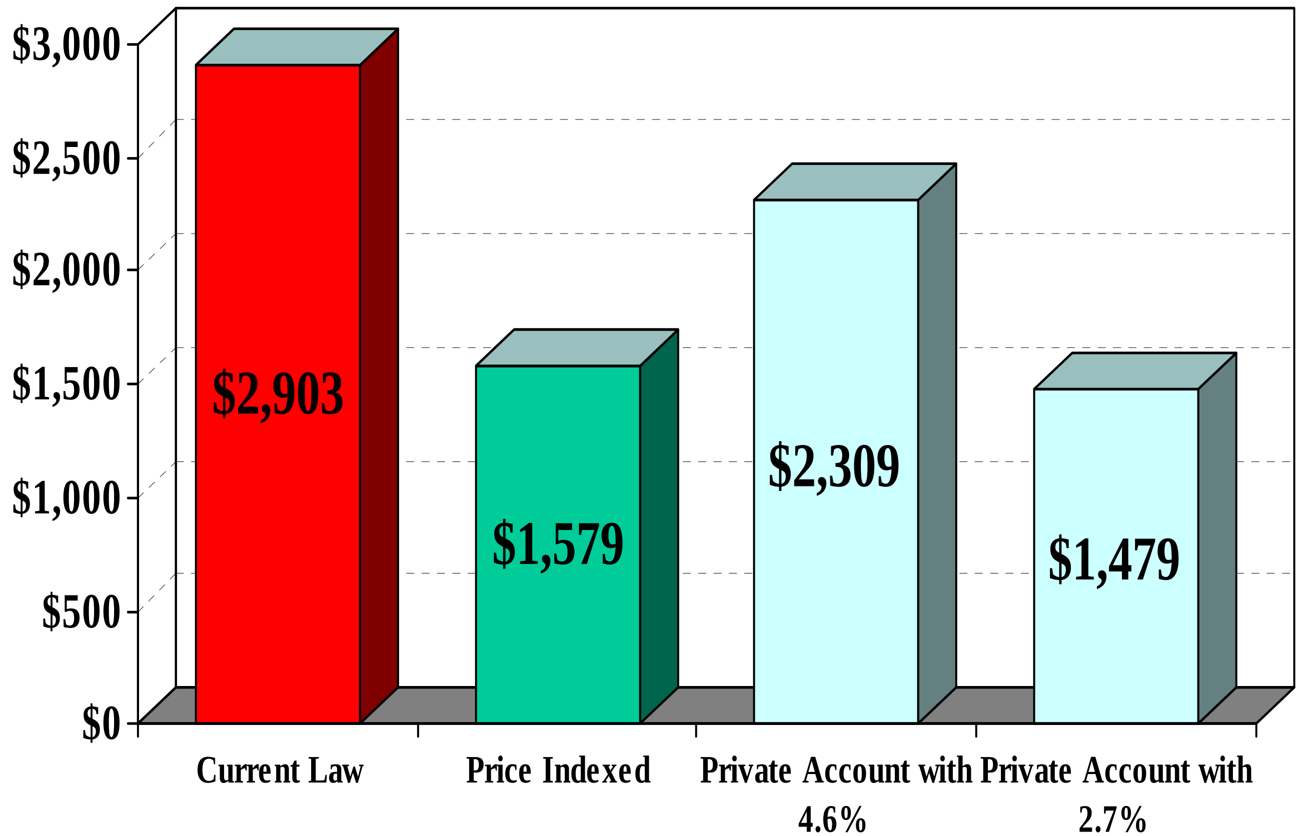
Average earners and high earners would experience similar reductions in benefits.



Source: Congressional Research Service

For high earners, the "shadow account" annuity would offset the entire price-indexed benefit.

Benefit for Hypothetical High Earner Born in 2006 in Constant 2005 Dollars



Source: Congressional Research Service

Extending the life of the trust fund into the 22nd century, with no change in benefits, would require only small common sense adjustments: additional revenues equal to only 0.54 percent of G.D.P.

- That's less than 3 percent of federal spending;   Less than we're currently spending in Iraq ; And it's only about one-quarter of the revenue lost each year because of President Bush's tax cuts - roughly equal to the fraction of those cuts that goes to people with incomes over $500,000 a year.
- Currently, taxes are paid only on the first $90,000 of earnings --- that earnings cap could be eliminated or at least increased --- indexed to wage growth at the top rather than to overall wage growth
- We have not had a Social Security tax increase for 20 years