



Social Security

The Future Of Social Security

www.socialsecurity.gov



“Social Security is one of the greatest achievements of the American government, and one of the deepest commitments to the American people. For more than six decades it has protected our elderly against poverty and assured young people of a more secure future. It must continue to do this important work for decades to come.”



President George W. Bush

“Whatever their individual circumstances, the vast majority of Americans will at some point in their lives be touched by Social Security. For the millions of Americans currently receiving benefits, and for those who will become eligible in the future, we must make sure that the program is there for them.”



Jo Anne B. Barnhart
Commissioner of Social Security

Social Security must change to meet future challenges

Social Security has been a basic part of American life for almost 70 years. It provides a base of economic security in today's society through a valuable package of retirement, disability and survivors insurance.

More than 150 million workers are protected by Social Security, and more than 45 million people receive retirement, survivors and disability benefits from Social Security.

The Social Security system is designed so that there is a link between how much workers and their employers pay into the system over their working years and how much they will get in benefits. Basically, high-wage earners receive a higher benefit payment than low-wage earners. However, the benefit "formula" is set up so that lower wage earners will get a higher percentage of their pre-retirement earnings.

Social Security has been changed over time to meet the needs of the American people. It will need to change again to meet future challenges.

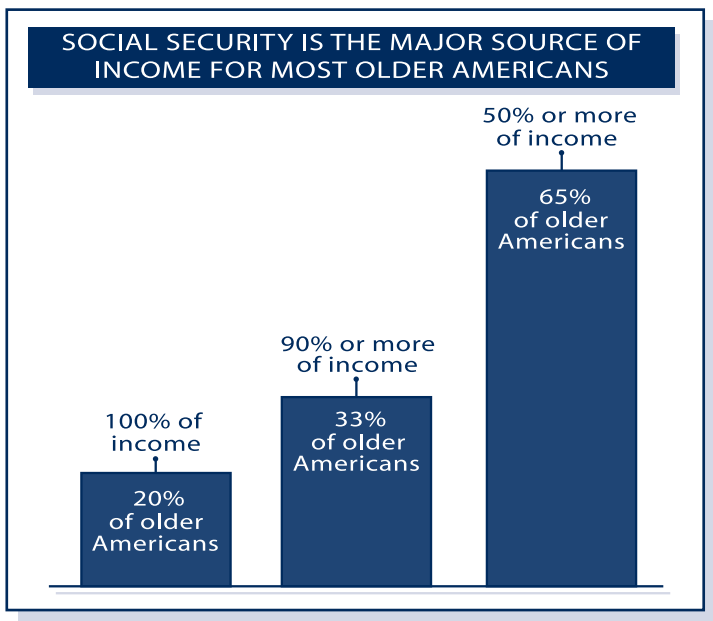
Strengthening Social Security to meet changing needs is important to you ... to your parents and grandparents ... to your children and grandchildren. In the upcoming national debate on Social Security reform, it is important that you understand the issues presented in this booklet about the system's long-range future.

Social Security has made an enormous difference in the lives of older Americans

Social Security provides older Americans with a dependable monthly income with automatic increases tied to increases in the cost of living.

Workers can retire as early as age 62 and get reduced Social Security benefits. Or they can wait until full retirement age and receive full benefits. In 2004, the full retirement age is now 65 years and 4 months. It will increase gradually until it reaches 67 for people born after 1959.

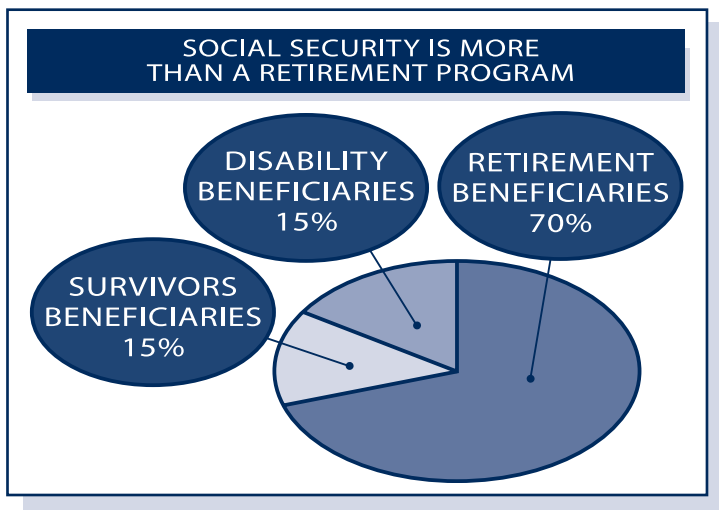
More than 9 in 10 retirees now get Social Security benefit payments each month. For two-thirds of the elderly, Social Security is their major source of income. For a third of the elderly, Social Security is virtually their only income.



Social Security is more than a retirement program

Social Security is also “America's Family Protection Plan.” Younger workers and their families receive valuable disability and survivors insurance protection. In fact, about 1 in 3 Social Security beneficiaries is not a retiree.

About seven million people get monthly survivors benefits, and more than seven million workers and family members get disability benefits. These benefits can make a significant difference. For example, a 35-year-old worker who earns \$40,000 a year and who has a spouse and children could get about \$1,900 a month from Social Security if he or she became disabled. If that same worker were to die, his or her family could receive about \$2,400 a month from Social Security in survivors benefits.

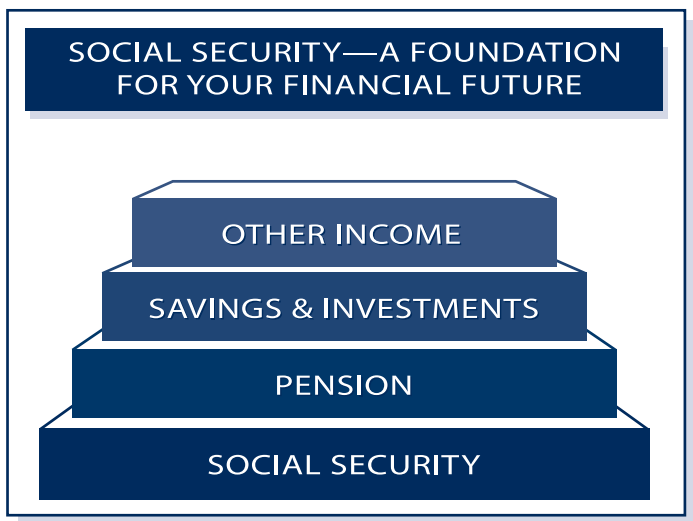


Social Security provides a foundation on which to build retirement security

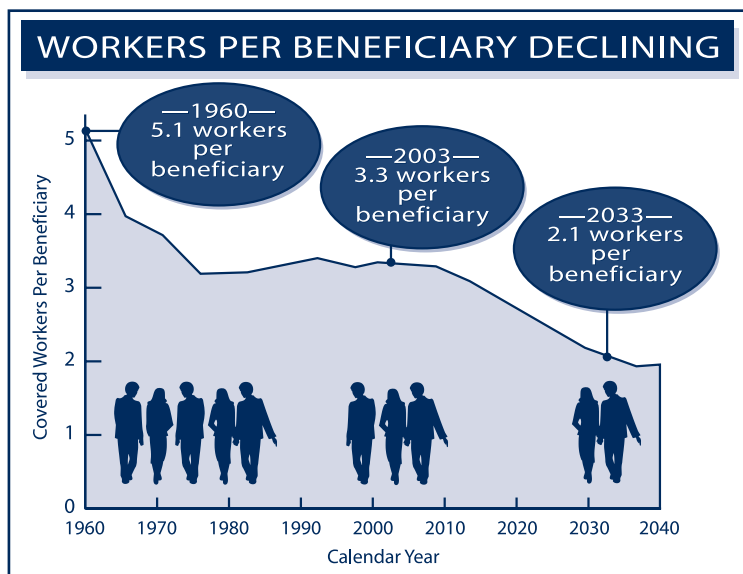
A comfortable retirement rests on a three-legged financial stool—Social Security, pensions and savings.

Today, about half of all workers are covered under an employer-sponsored pension, and many people are not saving as much as they should. While Social Security replaces about 40 percent of the average worker's pre-retirement earnings, most financial advisors say that you will need 70 percent or more of pre-retirement earnings to live comfortably. Even with a pension, you will still need to save. If you will not have a private pension, you will need to save more—and start saving sooner.

Each year we mail a *Social Security Statement* to workers age 25 and older. This *Statement* shows your earnings history and also gives estimates of your retirement, survivors and disability benefits provided by Social Security. You should use this *Statement* to help you with your future financial planning.



Changing demographics are driving need for changes in Social Security



The main reason for Social Security's long-range financing problem is demographics. We are living longer and healthier lives than ever before. When the Social Security program was created in 1935, a 65-year-old American had an average life expectancy of $12\frac{1}{2}$ more years; today, it is $17\frac{1}{2}$ years and rising.

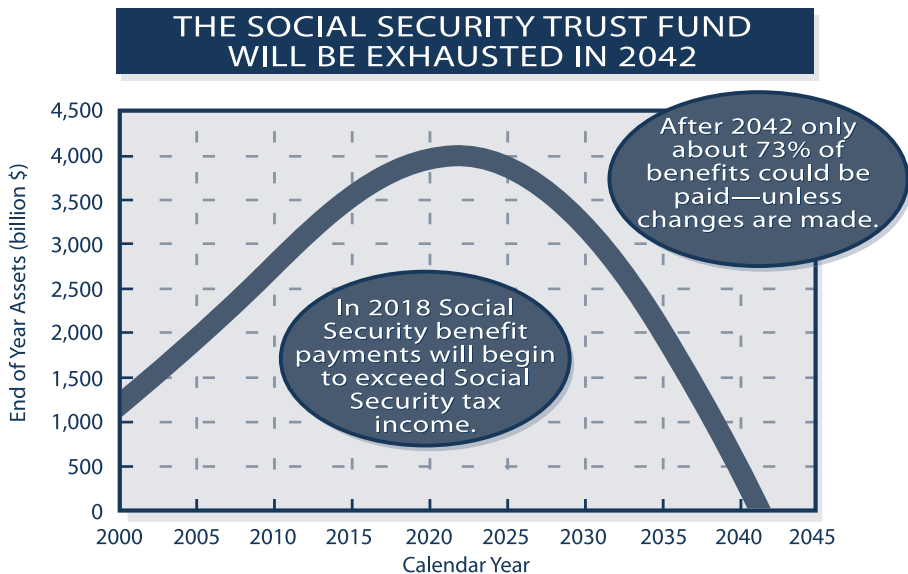
In addition, 79 million "baby boomers" will begin retiring in 2008, and in about 30 years, there will be nearly twice as many older Americans as there are today. At the same time, the number of workers paying into Social Security per beneficiary will drop from 3.3 today to about 2 in 2030.

These demographic changes will severely strain Social Security financing.

Current Social Security system is unsustainable in the long run

Many people think that the Social Security taxes they pay are held in interest-bearing accounts earmarked for their own future retirement needs. The fact is that Social Security is a pay-as-you-go retirement system—the Social Security taxes paid by today's workers and their employers are used to pay the benefits for today's retirees and other beneficiaries.

Social Security is now taking in more money than it pays out in benefits, and the remaining money goes to the program's trust funds. There are now large “reserves” in the trust funds, but even this money is small compared to future scheduled benefit payments. In 2018 benefits owed will be more than taxes collected, and Social Security will need to begin tapping the trust funds to pay benefits. The trust funds will be exhausted in 2042. At that time, Social Security will not be able to meet all of its benefit obligations ... if no changes are made.



Choices lie ahead

There are several ways to guarantee that Social Security continues to be there for future generations. Each option means difficult trade-offs that Americans need to know about. The sooner the changes are made, the smaller their impact will be.

For example, some people think that benefits should be reduced, or at least their future growth should be slowed. One way of doing this would be to increase the retirement age for full Social Security benefits. They say that Americans are living longer and healthier lives than ever before and that people are spending an increasing number of years in retirement. Critics of the proposal to further raise the retirement age say most Americans now choose to retire early, and that it would be hard for some people to work past the current retirement age because of their health or because their jobs are just too demanding.

Some people believe that Social Security taxes should be raised so that all future benefits could be paid. They want to increase the current combined payroll tax rate, which is now 12.4 percent. Critics argue that payroll taxes are already very high, having been raised 20 times since the program began, and that almost 80 percent of workers already pay more in payroll taxes than they do in income taxes. And they point out that eventually Social Security taxes would have to be raised by about 50 percent to pay for all benefits owed.

Other people believe that the future financing problem can be solved without reducing benefits or raising taxes. They favor “pre-funding” benefits for younger workers by letting them have their own voluntary Social Security personal savings account. They say that by investing in stocks and bonds, workers could

receive higher benefits. Supporters also say personal accounts would allow workers to leave a “nest egg” to their heirs.

Critics say that personal retirement accounts mean higher risks for workers, and that if investments were not doing well when a worker is ready to retire, plans would have to be changed. They also say personal accounts could be expensive to administer.

Some people think the government and not individuals should invest Social Security reserves in stocks and bonds, so that higher potential returns can be earned but financial risks shared. But critics say the government should not invest in private companies, because the government could end up being the largest stockholder in a company.


There are other options and suggestions being discussed that could strengthen the Social Security retirement system. While there is disagreement over what should be done, the 2003 Annual Report of the Board of Trustees notes that “projected trust fund deficits should be addressed in a timely way to allow for a gradual phasing in of the necessary changes and to provide advance notice to workers. The sooner adjustments are made the smaller and less abrupt they will have to be.”

If you would like more information on how the Social Security program works and the critical financial issues now facing the program, you can visit our website at ***www.socialsecurity.gov***.

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