ACCI
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SOCIAL SECURITY: The Way Forward
Background Briefing by
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Director
Policy & Strategy
First . . . let’s put Social Security in context
The Four Pillars of Retirement Security

- Social Security
- Pensions & Savings
- Earnings
- Health Insurance
Now let’s look at Social Security
Who gets benefits?

- 63% Retired Workers
- 13.5% Disabled Workers
- 5.5% Spouses
- 18% Survivors [widow(er)s, children] & children of Retired/Disabled Workers

Source: Jan 2006 Monthly Benefits Stats SSA
Looking at:

- Adequacy
- Fairness
- Solvency
• Is Social Security adequate?
• Is Social Security fair?
• Is Social Security solvent?
Adequacy
How much is the average Social Security benefit?

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retired worker</td>
<td>$1004</td>
</tr>
<tr>
<td>Retired spouse</td>
<td>$500</td>
</tr>
<tr>
<td>Widowed mother/father</td>
<td>$714</td>
</tr>
<tr>
<td>Surviving child</td>
<td>$658</td>
</tr>
<tr>
<td>Widow(er) of retired worker</td>
<td>$950</td>
</tr>
<tr>
<td>Disabled worker</td>
<td>$938</td>
</tr>
</tbody>
</table>

Source: Jan 2006 Monthly Benefits Stats SSA
Social Security: MAIN retirement income for 4/5 of economic brackets

Percent of retirement income from all sources

Social Security
Pensions/Annuities
Assets
Public Assistance
Misc. Other
Wages

Key measure of adequacy: “Income Replacement Rate”

- Current Social Security benefit formula ensures lower-wage workers receive a higher replacement relative to their earnings:
  - 57% low-wage workers
  - 42% average-wage workers
  - 35% high-wage workers
  - 24.8% consistent max-taxable wages

Center for Retirement Research, November 2005, Munnell, “Just the Facts on Retirement Issues”
Fairness
Minorities make up a disproportionate segment of low and moderate wage earners.

Social Security benefit formula ensures all lower-wage workers receive a higher replacement relative to their earnings.
Women’s Equity Issues

- Women more than men concentrated in low-wage work
- Median weekly salary = $585 vs $722 for men (81%)
- Over half of beneficiaries are women
- For 1 in 4 unmarried women, sole source of income is Social Security
- Women live longer after age 65: 3 more years
- COLA crucial to well-being of longest lived
- Women (and men) get the higher of:
  - Spousal benefit
  - Or, own work earnings

Source: 2005 Full-time Wage and Salary Workers
Most women widowed by 75+

Marital Status
By Age and Sex, United States 2003

Age 65-74
Age 75+

Source: Table 51, Statistical Abstract of the United States 2003, U.S. Census Bureau
<table>
<thead>
<tr>
<th></th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median earnings of year-round</td>
<td>$40,798</td>
<td>$31,223</td>
</tr>
<tr>
<td>full-time workers*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median years of covr’d emplymt</td>
<td>44</td>
<td>32</td>
</tr>
<tr>
<td>by workers retiring**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life expectancy at age 65***</td>
<td>16.8</td>
<td>19.8</td>
</tr>
</tbody>
</table>

*Source: Institute for Women’s Policy Research for 2004

**Source: Center for Retirement Research, *Why Are So Many Older Women Poor?*, by Alicia H. Munnell, April 2004

***Source: Preliminary figures for 2003 – National Center for Health Statistics - CDC
## Poverty Status

### Poor & Near Poor, 2001
(within 150% of Poverty)

<table>
<thead>
<tr>
<th>Age</th>
<th>% Male</th>
<th>% Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>60-64</td>
<td>15%</td>
<td>20%</td>
</tr>
<tr>
<td>65-74</td>
<td>17%</td>
<td>24%</td>
</tr>
<tr>
<td>75+</td>
<td>20%</td>
<td>33%</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau, Current Population Survey 2004
Solvency
Social Security: Cash Flow

Estimated OASDI and Cost Rates, 2001-50
[as a % of taxable payroll]

Payout to beneficiaries
Income from payroll tax

Year

Percent of Taxable Payroll

2018

Social Security: Projected Trust Fund Assets

in current dollars

Assets at end of year, including interest

We are here

2042

$0

$1,000

$2,000

$3,000

$4,000

$5,000

$6,000

$7,000


Year

Billions of Dollars
CBO/SSA Projections of Trust Fund Assets Compared

Numbers as a ratio of balance to outlays

Social Security Trustees

Congressional Budget Office

2042

2052
Implications of CBO Projections

• Long-term problem looks only half as big
• Short-term cash flow the same
• More modest changes would be sufficient
Options to Strengthen Social Security

<table>
<thead>
<tr>
<th>POLICY OPTIONS</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Shown on the next two slides)</td>
<td></td>
</tr>
</tbody>
</table>

Percent by which option would reduce the 75-year actuarial deficit
Options to Strengthen Social Security

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raise payroll tax ½ percentage point</td>
<td>24%</td>
</tr>
<tr>
<td>Include newly-hired State/Local workers</td>
<td>9%</td>
</tr>
<tr>
<td>Raise max. wages subject to Soc Sec tax</td>
<td>43%</td>
</tr>
<tr>
<td>Gradually raise age of full benefit to 70</td>
<td>38%</td>
</tr>
<tr>
<td>Increase calculation period to 38 years</td>
<td>16%</td>
</tr>
</tbody>
</table>

...continued on next slide
<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Index benefits for “average longevity”</td>
<td>25%</td>
</tr>
<tr>
<td>Reduce benefits for new retirees (5%)</td>
<td>26%</td>
</tr>
<tr>
<td>Diversify 15% of Trust Fund investments</td>
<td>15%</td>
</tr>
<tr>
<td>Slightly lower the COLA calculation</td>
<td>14%</td>
</tr>
<tr>
<td>Raise the earliest eligibility age from 62</td>
<td>10%</td>
</tr>
</tbody>
</table>
Private Accounts

opposed by AARP
Private Accounts

- Shift risk to the individual
- Require deep cuts in future benefits
- Necessitate added government borrowing for transition; interest obligations increased for taxpayers
- Expensive to administer, fees would reduce earnings
The Other Pillars of Retirement Security

- **Pensions & Savings**
- **Earnings**
- **Health Insurance**
Retirement Security increasingly requires Financial Management Skills
Consumers Age 65+ score even Lower than General Population on Financial Knowledge Tests

Source: Surveys of Consumers; analysis by AARP Public Policy Institute 2004.
Types of Money Managers

- **Very Good**
  - HIGH financial product ownership
  - HIGH in prudent financial behavior

- **Good**
  - LOW financial product ownership
  - HIGH in prudent financial behavior

- **Bad**
  - HIGH financial product ownership
  - LOW in prudent financial behavior

- **“Lost”**
  - LOW financial product ownership
  - LOW in prudent financial behavior

Source: Surveys of Consumers- uses Federal Reserve Board types of money managers; analyses by AARP Public Policy Institute, 2004.
Consumers Age 65+:

More Likely to be “Lost” Money Managers

Source: Surveys of Consumers; analysis by AARP Public Policy Institute 2004.
Factors that Increase Difficulty of Information Gathering and Financial Management for ALL Today’s Consumers

- **Time pressures**
  - Working more
  - Increased individual responsibility
  - More decisions/choices

- **Complexity of products and services**
  - Pricing not clear
  - Difficult to comparison shop

- **Low levels of financial literacy**
Financial Disclosures

- **Fail** to provide complete information on costs

- **Do not** make consumer aware of seller compensation arrangements

- **Not** provided in a timely fashion
What Consumers Want

Simplicity
- Plain English, no legalese, lay terms
- Clarification of financial terms, definitions
- Preferably 1 page
- Larger font size, more white space (esp. around fees)
- Glossary
- 800 # for assistance
- Color coding who gets $
- Standardization for comparison shopping

Clarity in Fees
- Total fees
- Differentiate between mutual fund fees, broker fees, others
- Charts, tables
- Examples, numeric
- Annual costs
- How much money brokers may receive as incentive
- Information on difference between back-end & upfront charges

Changes in Pensions

Shifting risks to individuals
Defined-Benefit Pensions Disappearing

% of Wage & Salary Workers Covered by Plan Type, 1981-2001

United Airlines (parent UAL Corp.)
International Business Machines Corp (IBM)
Verizon Communications Inc.
Hewlett-Packard Co.
Sprint Nextel Corp.
Tribune Co.
Lexmark International Inc.
Alcoa Inc.
Russell Corp.

All have terminated or frozen traditional pensions or announced plans to do so.

As of September, 2005, 627 of Fortune 1000 companies sponsored traditional pensions, and of those, 115 have been terminated, frozen or closed to new workers.

Source: Benefits consulting firm Watson Wyatt Worldwide Inc.
How widespread are pensions?

- Half of workers have no access to pension plans, defined benefit or defined contribution.
- Even for those who do have 401(k)-type plans, balances are low, and withdrawals before retirement are common.
Continued Earnings

an increasing trend
Labor Force participation continues to rise for older workers.

Labor Force participation up for 65+ also

What do older workers want?

- Flexible job options
- Phased retirement
- Recognition of the worth of older workers
- Health care benefits
Rising Consumer Debt

an increasing concern
Most Boomers’ Net Worth Low

Minus home equity Age 50-61

Median Net Worth

Low 25% | Mid 50% | Top 25%

$2,504 | $42,866 | $229,560

Source: Federal Reserve Board, Survey of Consumer Finances 1998

Income Quartile
45+ more likely to have subprime loans

65+ credit card debt tripled in a decade

Source: Dēmos's calculations from Federal Reserve Board Survey of Consumer Finances, 1992 and 2001
Spiraling Health Costs

becoming a major financial threat
Average Medicare Out-of-Pocket takes 22% of Income

Average Out-of-Pocket Health Care Spending 2003

- Under 135% Poverty: 33%
- People in “Fair” or “Poor” health: 29%
- Women: 24%
- 85+ only: 30%
- ALL 65+: 22%

Figures are for non-institutionalized Medicare beneficiaries only. “Out-of-Pocket” includes payments for Medicare cost-sharing, Part B & Private insurance premiums, physician balance billing, and goods & services not covered by Medicare. It excludes the cost of home care and long-term nursing home care.

What needs to be done to help consumers?
Four priorities:

- Strengthen and protect Social Security
- Give all workers a means to save through payroll deduction
- Reform health care to keep affordable
- Give consumers better decision tools
Increase financial literacy

- Empower consumers with new tools & technology
- Focus on outcomes that lead to improved money management
Improve information quality

- Make...
  - Product information
  - Labeling
  - Disclosures

...easier to understand
& more accurate

(Continued)
Improve information quality

- Increase quality & integrity of advice to consumers
- Increase consumer product & services evaluation sources
Increase options for underserved populations and communities

- Strengthen Community Reinvestment Act
- Encourage increased basic banking and credit services

(Continued)
Increase options for underserved populations and communities

- Eliminate predatory financial practices
SOCIAL SECURITY:
Part of
The Way Forward