

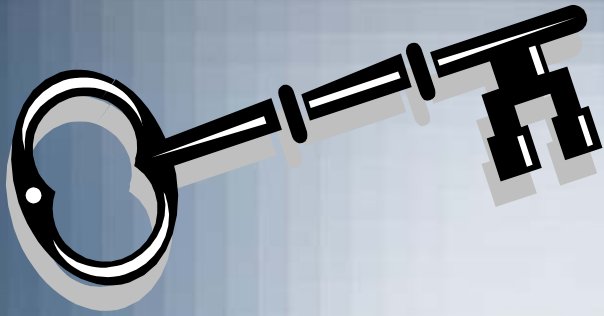


**ACCI**

# **2006 Annual Conference**

Baltimore, Maryland

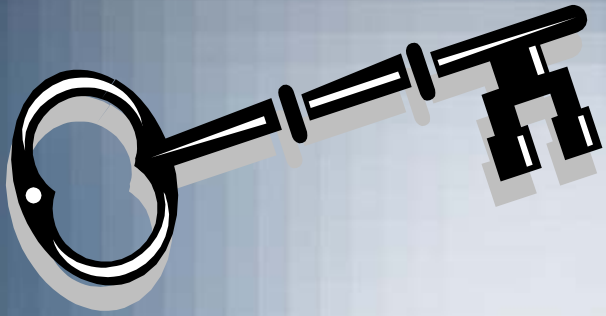
March 16, 2006



# **SOCIAL SECURITY:**

The Way Forward



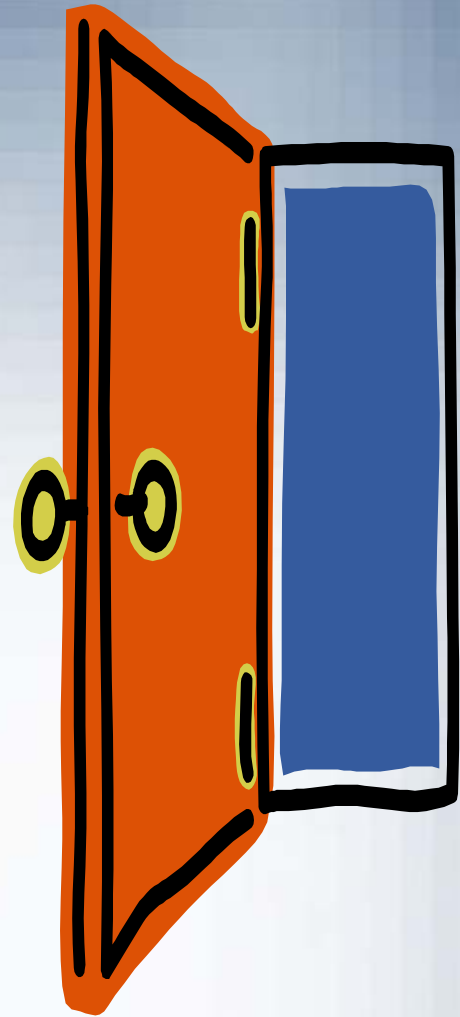


Background Briefing by

**John Rother**

**Director**

**Policy & Strategy**



# RETIREMENT SECURITY



First . . .  
let's put  
Social  
Security  
in context

# The Four Pillars of Retirement Security



**Social Security**



**Pensions & Savings**



**Earnings**

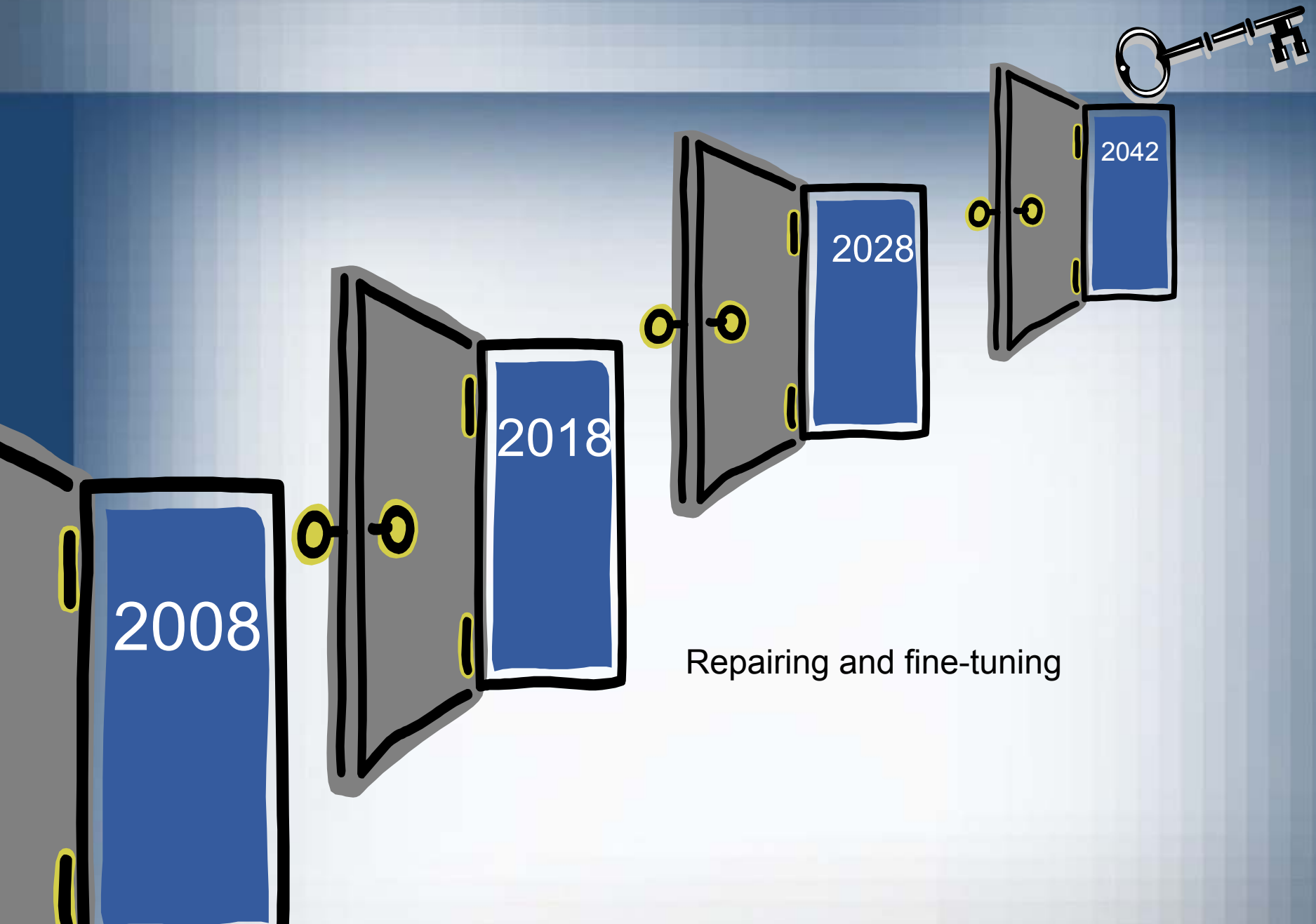


**Health Insurance**

# RETIREMENT SECURITY



Now let's look  
at  
Social Security



2008

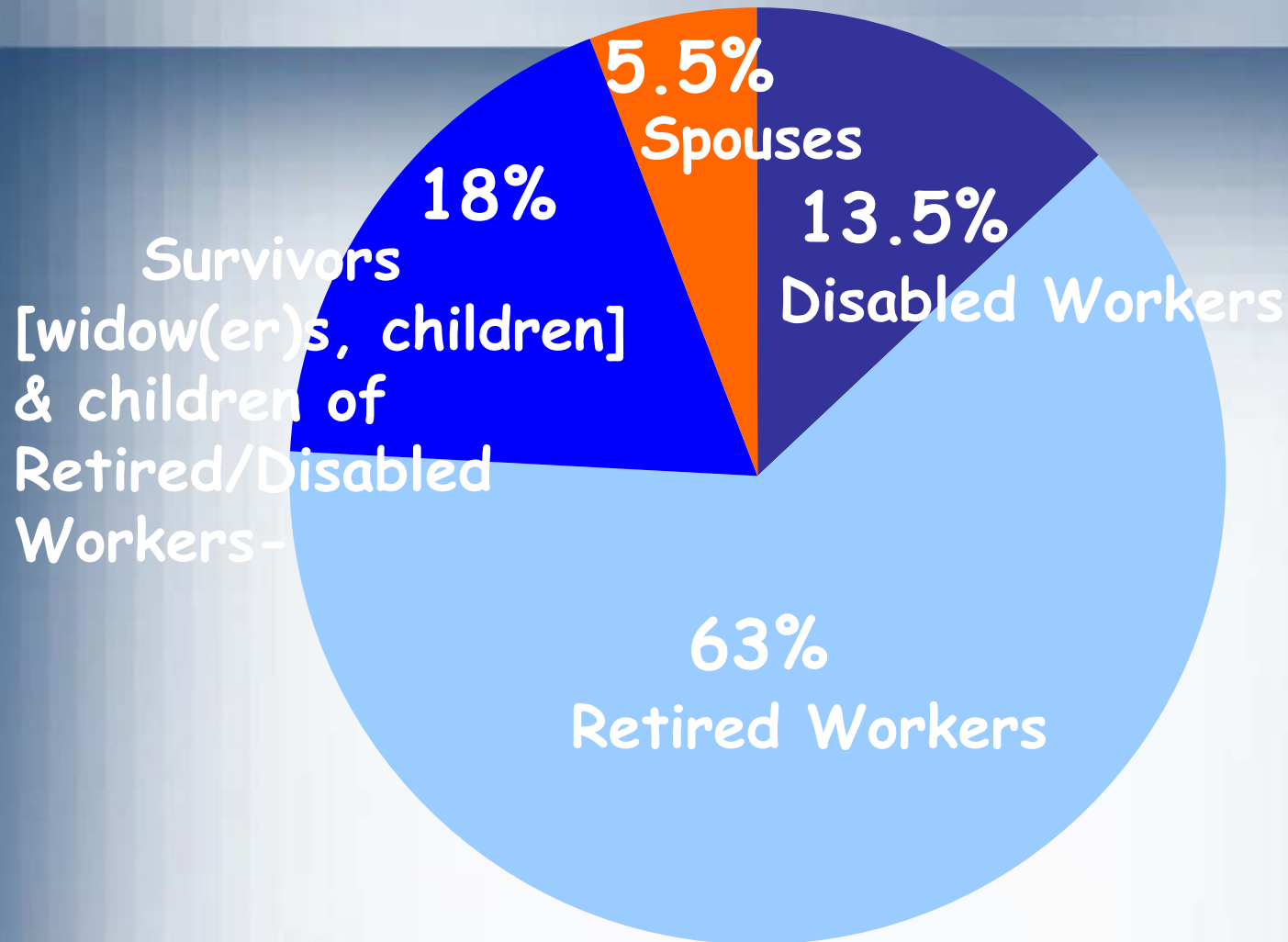
2018

2028

2042

Repairing and fine-tuning

# Social Security



## Who gets benefits?



Looking at:



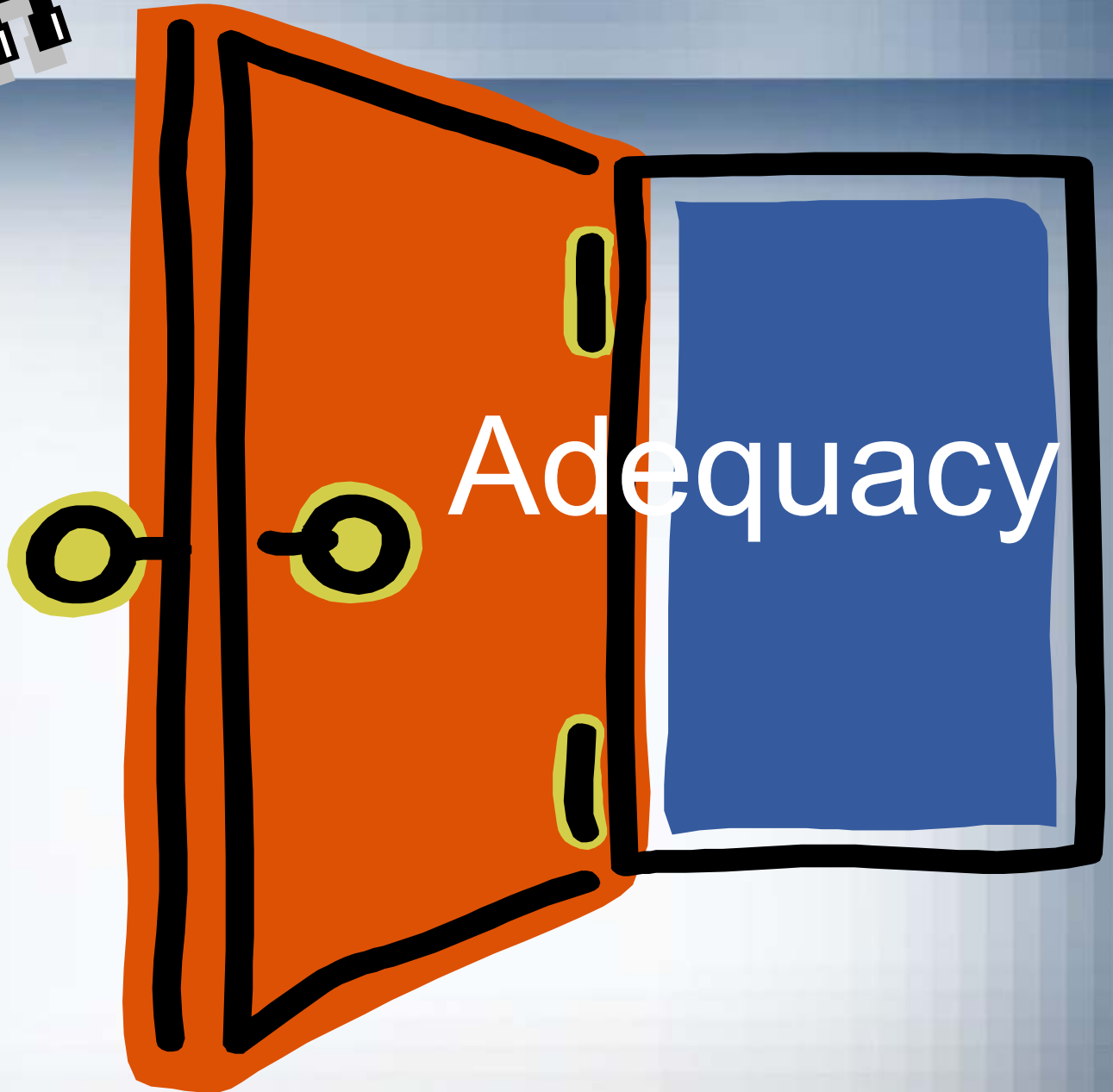
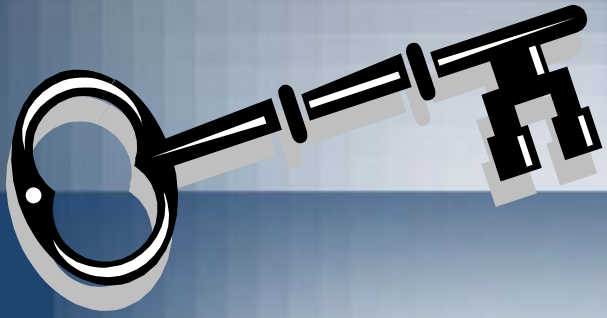
Adequacy

Fairness

Solvency



- **Is Social Security adequate?**
- **Is Social Security fair?**
- **Is Social Security solvent?**



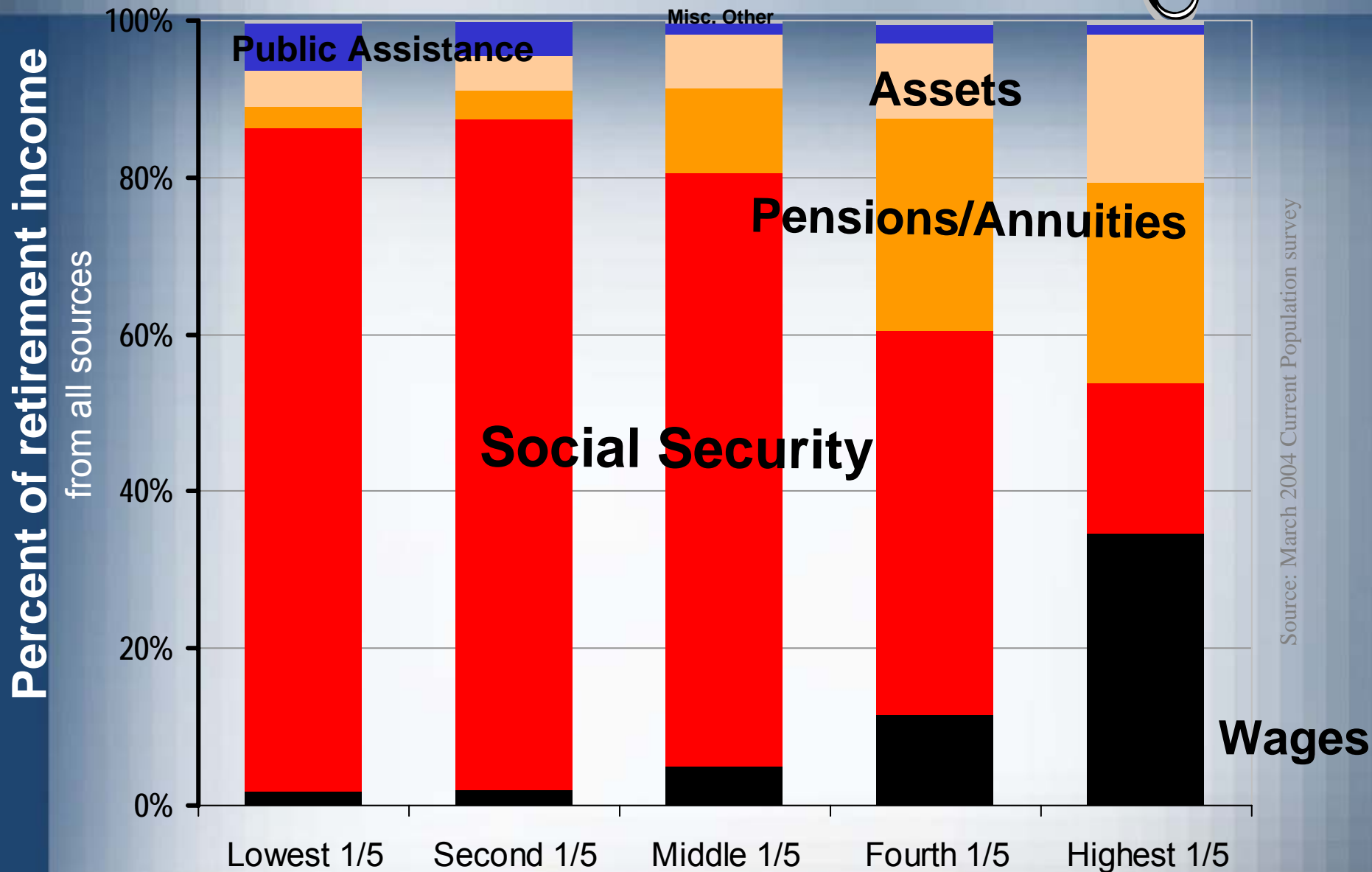
Adequacy

# How much is the average Social Security benefit?



<b>Retired worker</b>	<b>\$1004</b>
<b>Retired spouse</b>	<b>\$ 500</b>
<b>Widowed mother/father</b>	<b>\$ 714</b>
<b>Surviving child</b>	<b>\$ 658</b>
<b>Widow(er) of retired worker</b>	<b>\$ 950</b>
<b>Disabled worker</b>	<b>\$ 938</b>

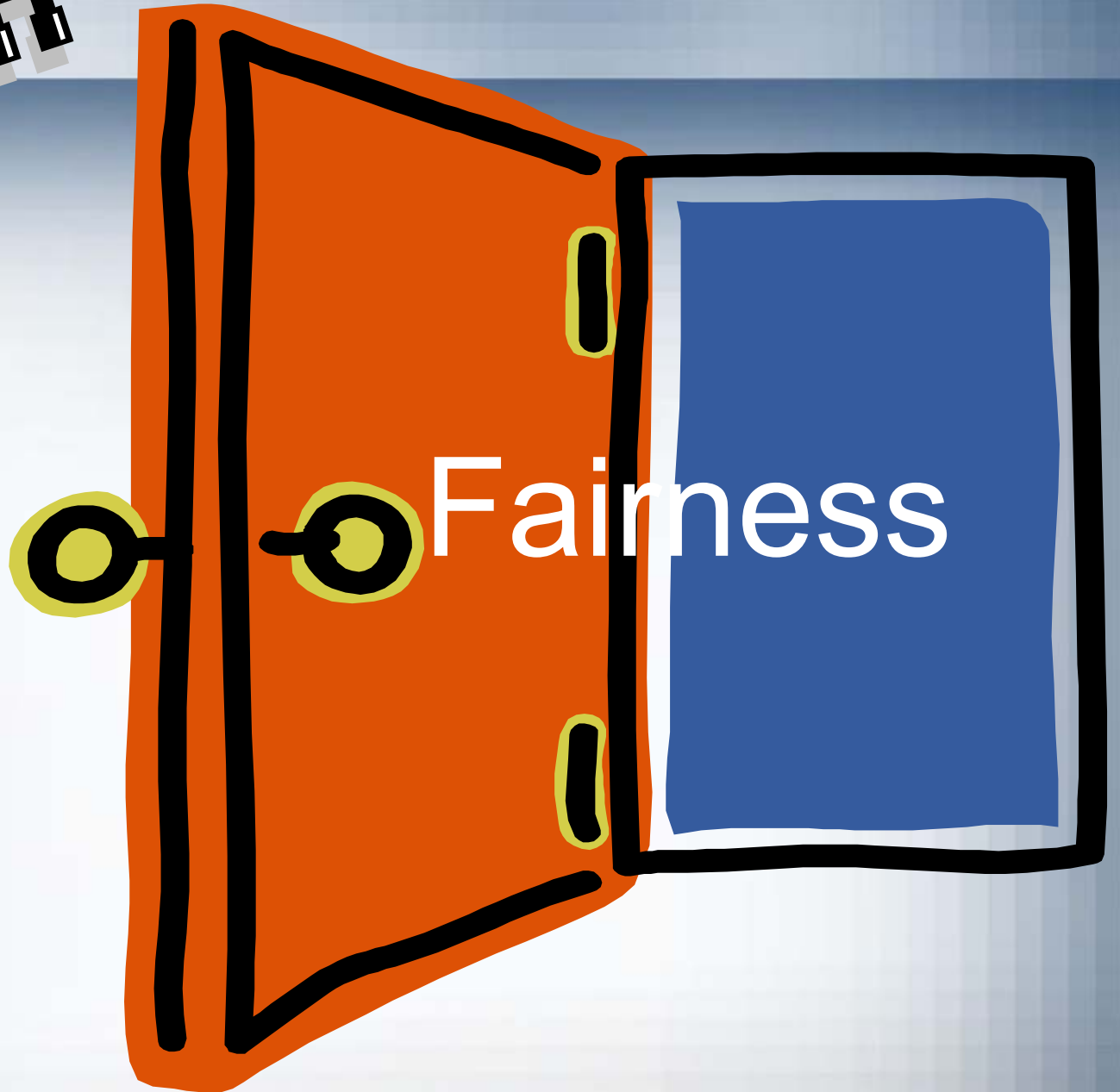
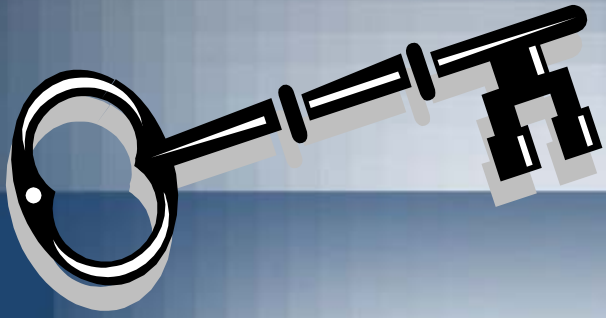
# Social Security: MAIN retirement income for 4/5 of economic brackets



# 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



Fairness

# African-American and Hispanic Workers



- 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



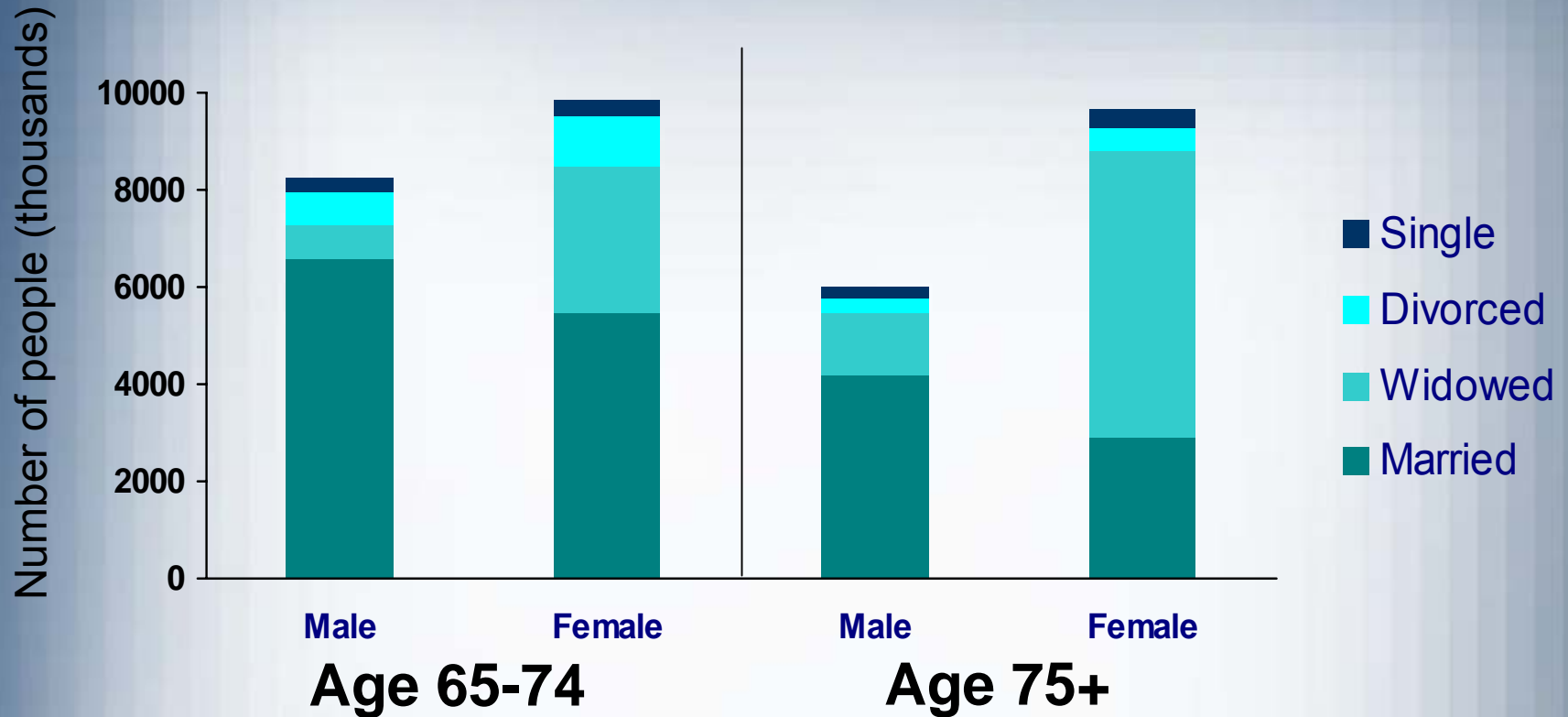
- Women more than men concentrated in low-wage work
- Median weekly salary = \$585 *vs* \$722 for men (81%)
- Over half of beneficiaries are women
- For 1 in 4 unmarried women, sole source of income is Social Security
- Women live longer after age 65: 3 more years
- COLA crucial to well-being of longest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



Source: Table 51, Statistical Abstract of the United States 2003, U.S. Census Bureau

# Women compared to Men



	<u>Men</u>	<u>Women</u>
Median earnings of year-round full-time workers*	\$40,798	\$31,223
Median years of covr'd emplymt by workers retiring**	44	32
Life expectancy at age 65***	16.8	19.8

\*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

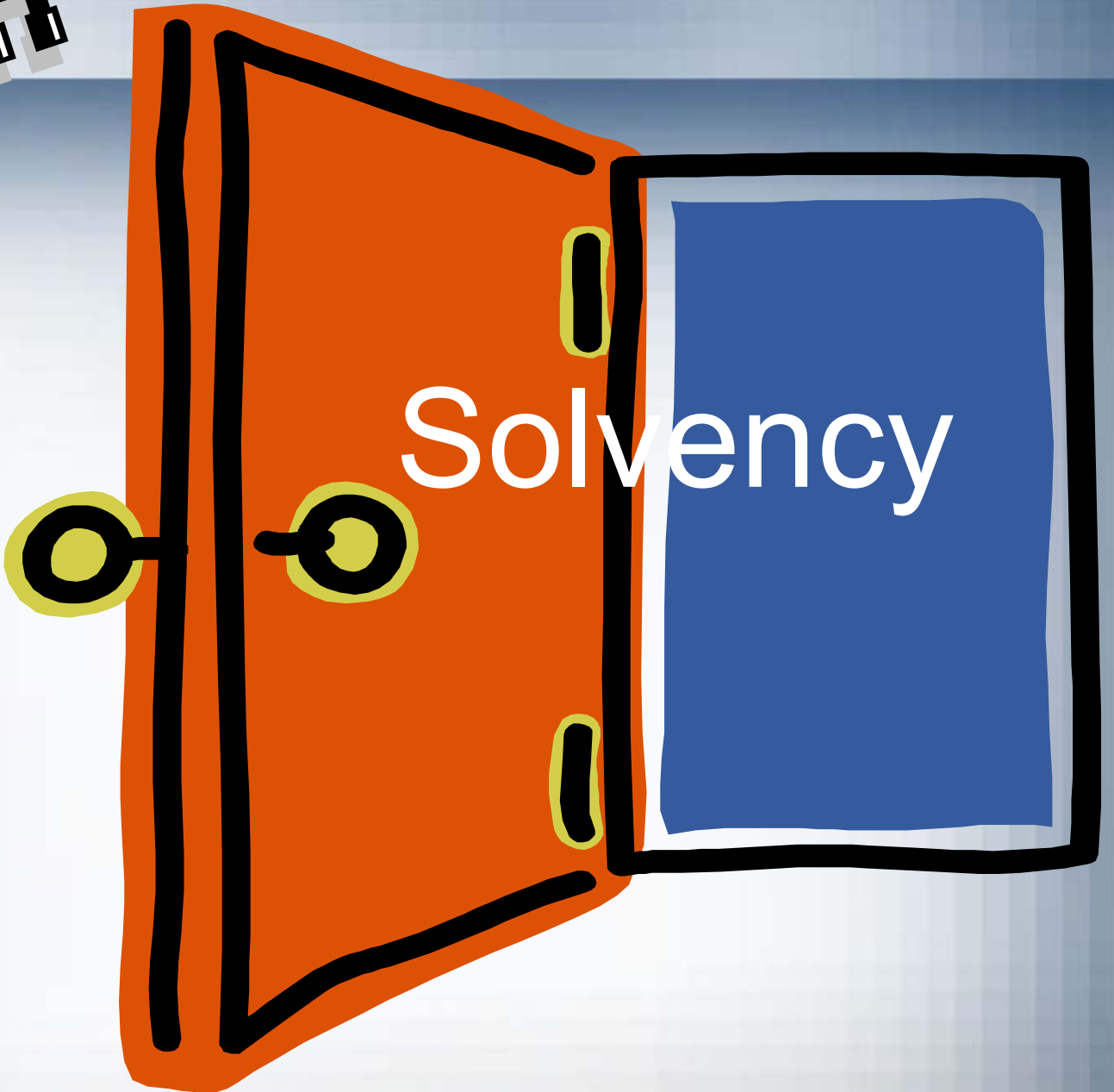
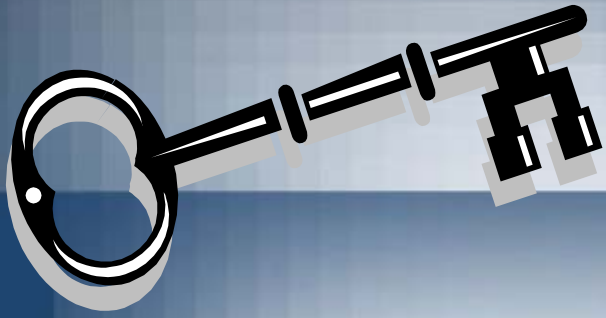
# Poverty Status



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

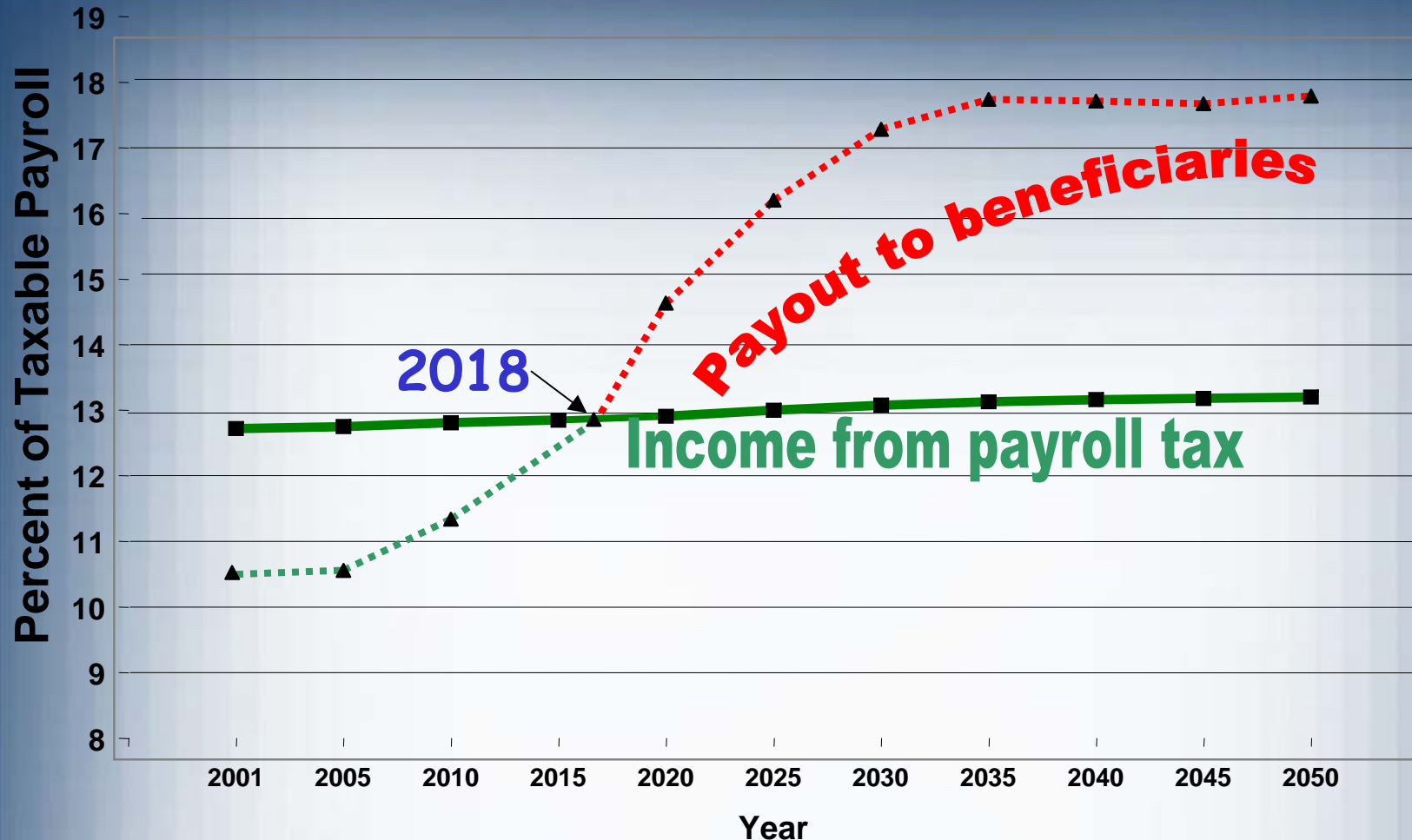
Age	% Male	% Female
<b>60-64</b>	<b>15%</b>	<b>20%</b>
<b>65-74</b>	<b>17%</b>	<b>24%</b>
<b>75+</b>	<b>20%</b>	<b>33%</b>

Source: U.S. Census Bureau, Current Population Survey 2004



Solvency

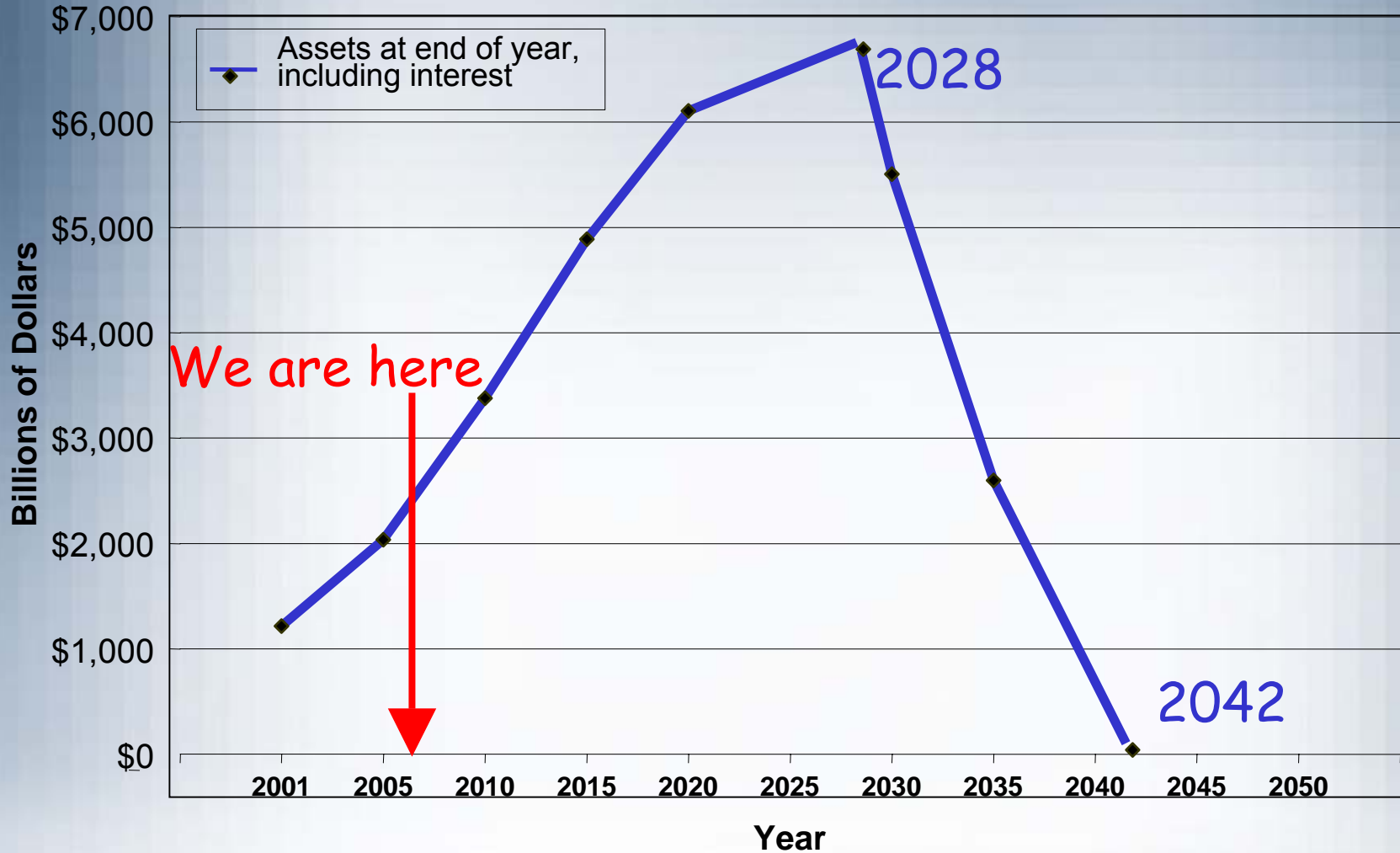
# Social Security: Cash Flow



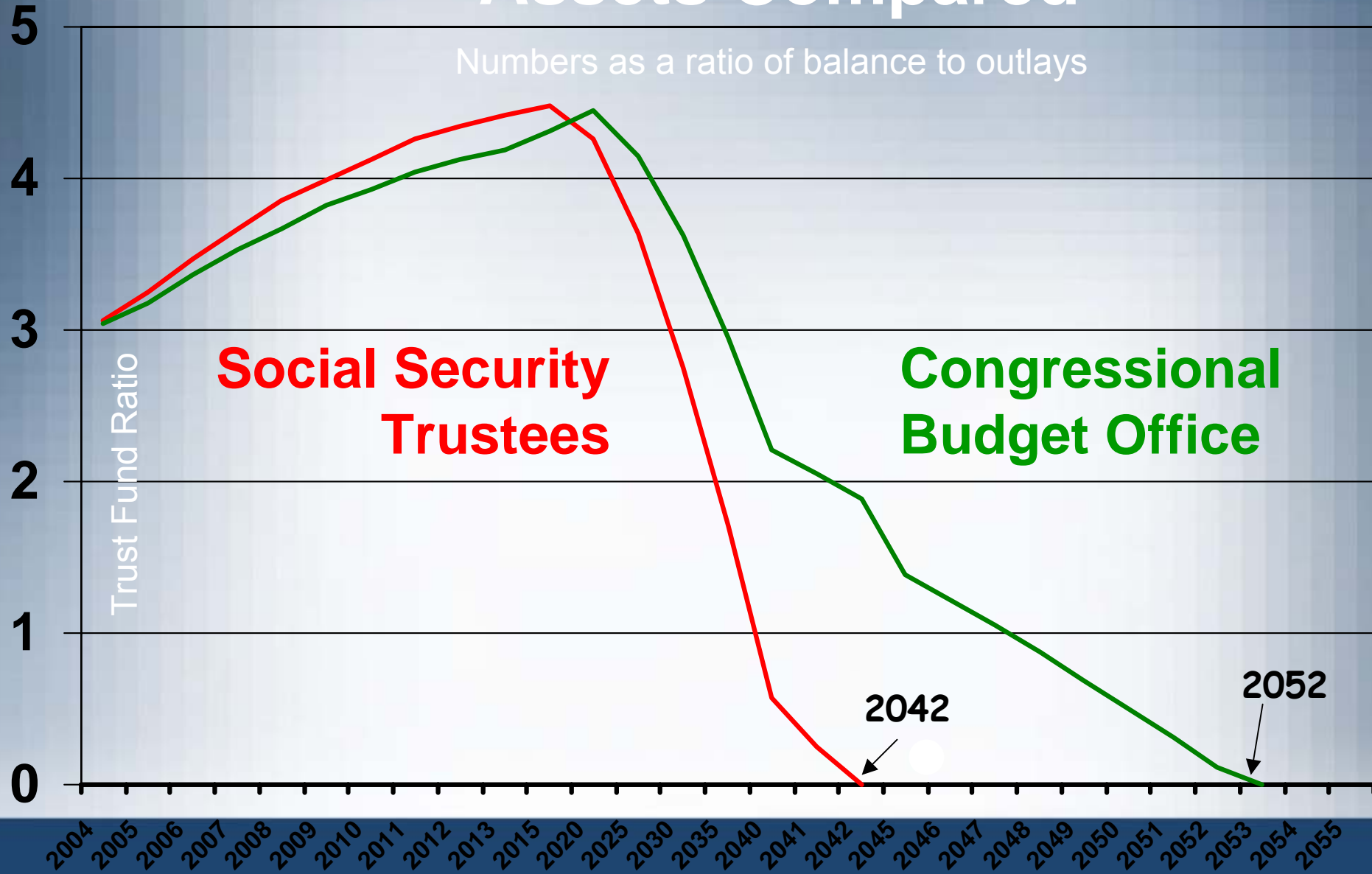
Estimated OASDI and Cost Rates, 2001-50  
[as a % of taxable payroll]

# Social Security: Projected Trust Fund Assets

in current dollars



# CBO/SSA Projections of Trust Fund Assets Compared





# 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



POLICY OPTIONS	%
(Shown on the next two slides)	

Percent by which option would reduce the 75-year actuarial deficit

# Options to Strengthen Social Security



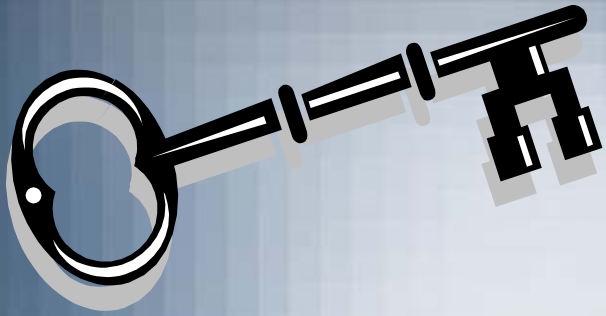
Raise payroll tax $\frac{1}{2}$ percentage point	<b>24%</b>
Include newly-hired State/Local workers	<b>9%</b>
Raise max. wages subject to Soc Sec tax	<b>43%</b>
Gradually raise age of full benefit to 70	<b>38%</b>
Increase calculation period to 38 years	<b>16%</b>

... continued on next slide

# More Options to Strengthen Social Security



Index benefits for “average longevity”	<b>25%</b>
Reduce benefits for new retirees (5%)	<b>26%</b>
Diversify 15% of Trust Fund investments	<b>15%</b>
Slightly lower the COLA calculation	<b>14%</b>
Raise the earliest eligibility age from 62	<b>10%</b>



# Private Accounts

**opposed by AARP**

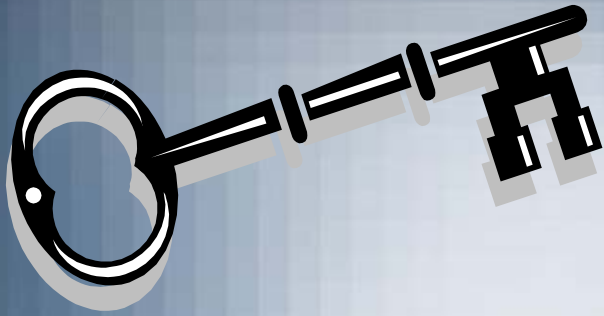
# Private Accounts



- 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



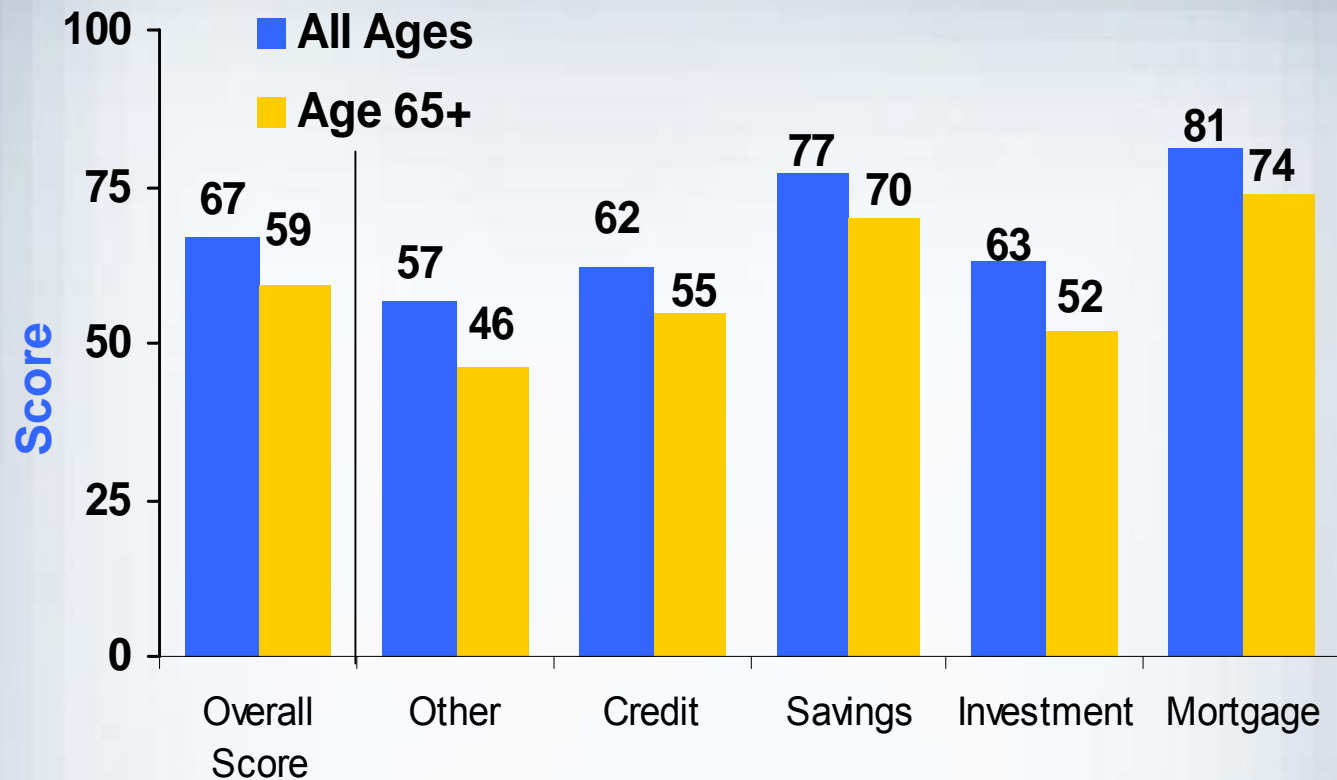


# **Retirement Security** **increasingly requires**

**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



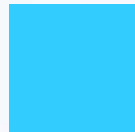
**HIGH financial product ownership**  
**HIGH in prudent financial behavior**

Good



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

Bad



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

“Lost”



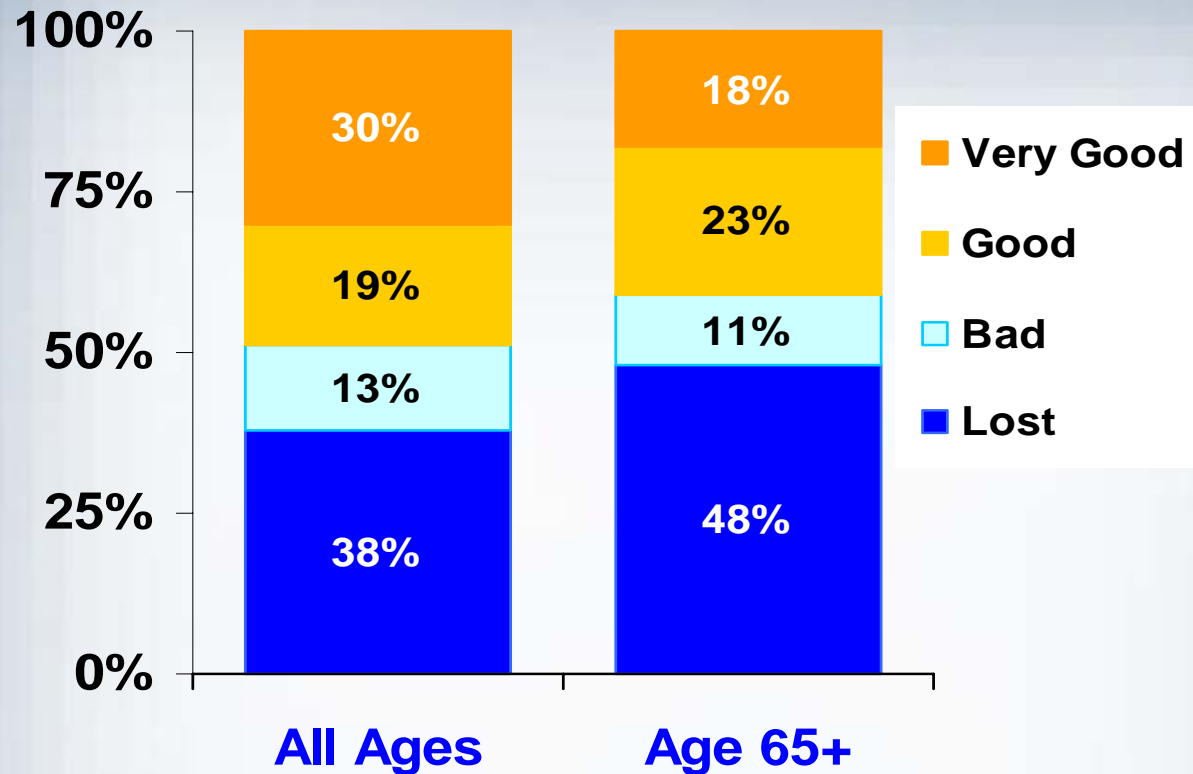
**LOW financial product ownership**  
**LOW in prudent financial behavior**

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

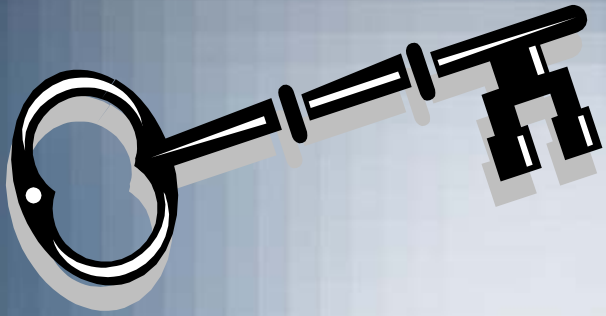


## Simplicity

- 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**

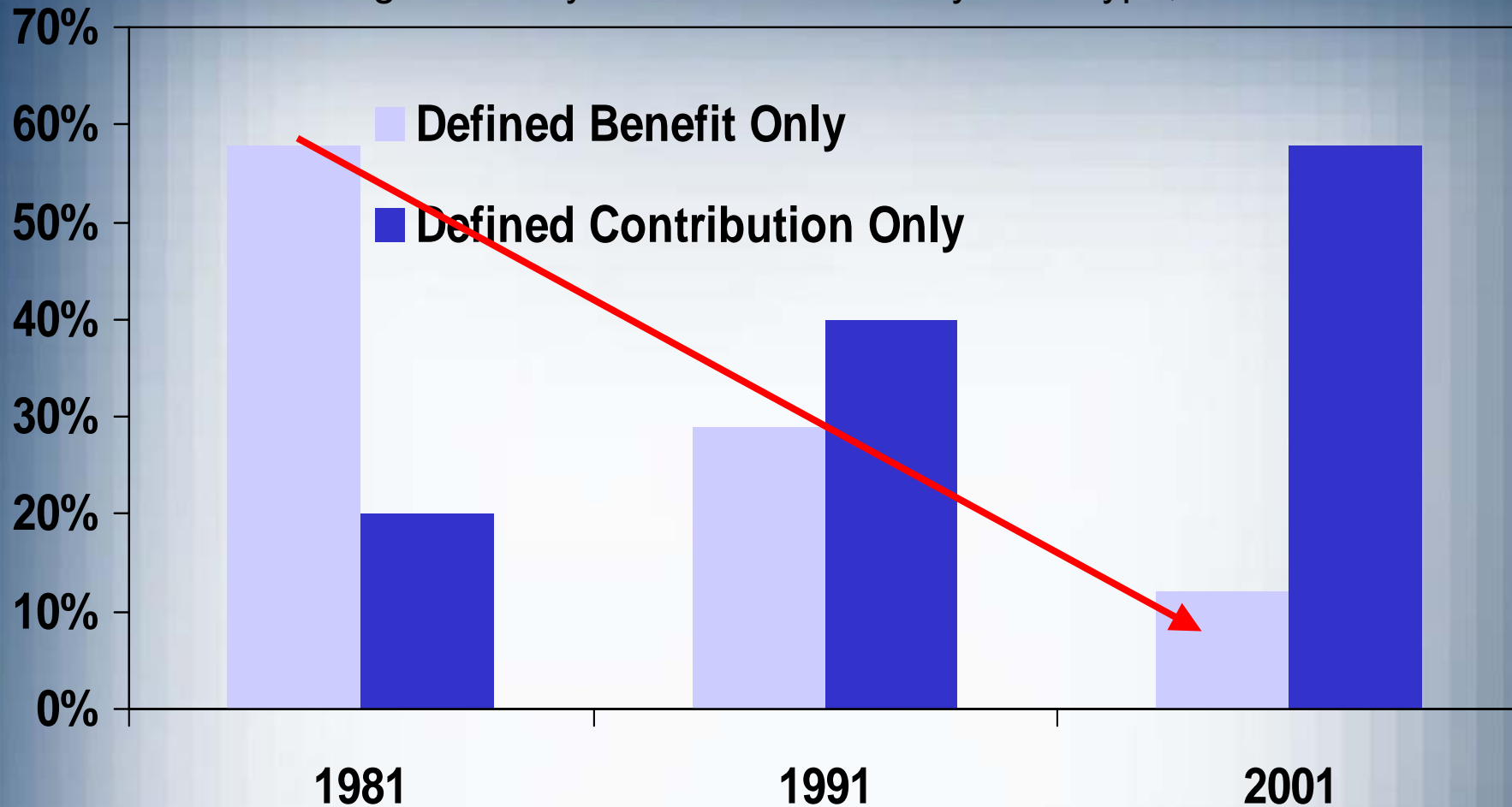




# Defined-Benefit Pensions Disappearing



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



Source: Alicia H. Munnell, Kevin E. Cahill, and Natalia A. Jivan,  
*An Issue In Brief*, Number 13, Center for Retirement Research at Boston College, September 2003.



# What do these companies have in common?



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.

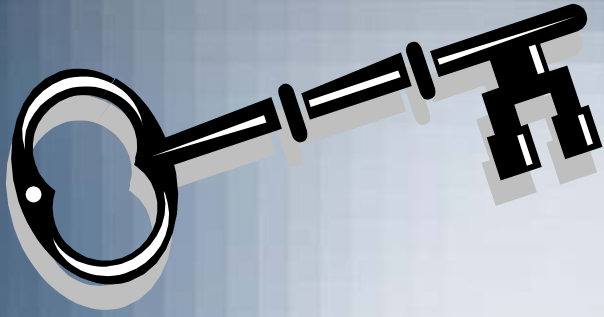
As of September, 2005, 627 of Fortune 1000 companies sponsored traditional pensions, and of those, 115 have been terminated, frozen or closed to new workers.

Source: Benefits consulting firm Watson Wyatt Worldwide Inc.,

# How widespread are pensions?

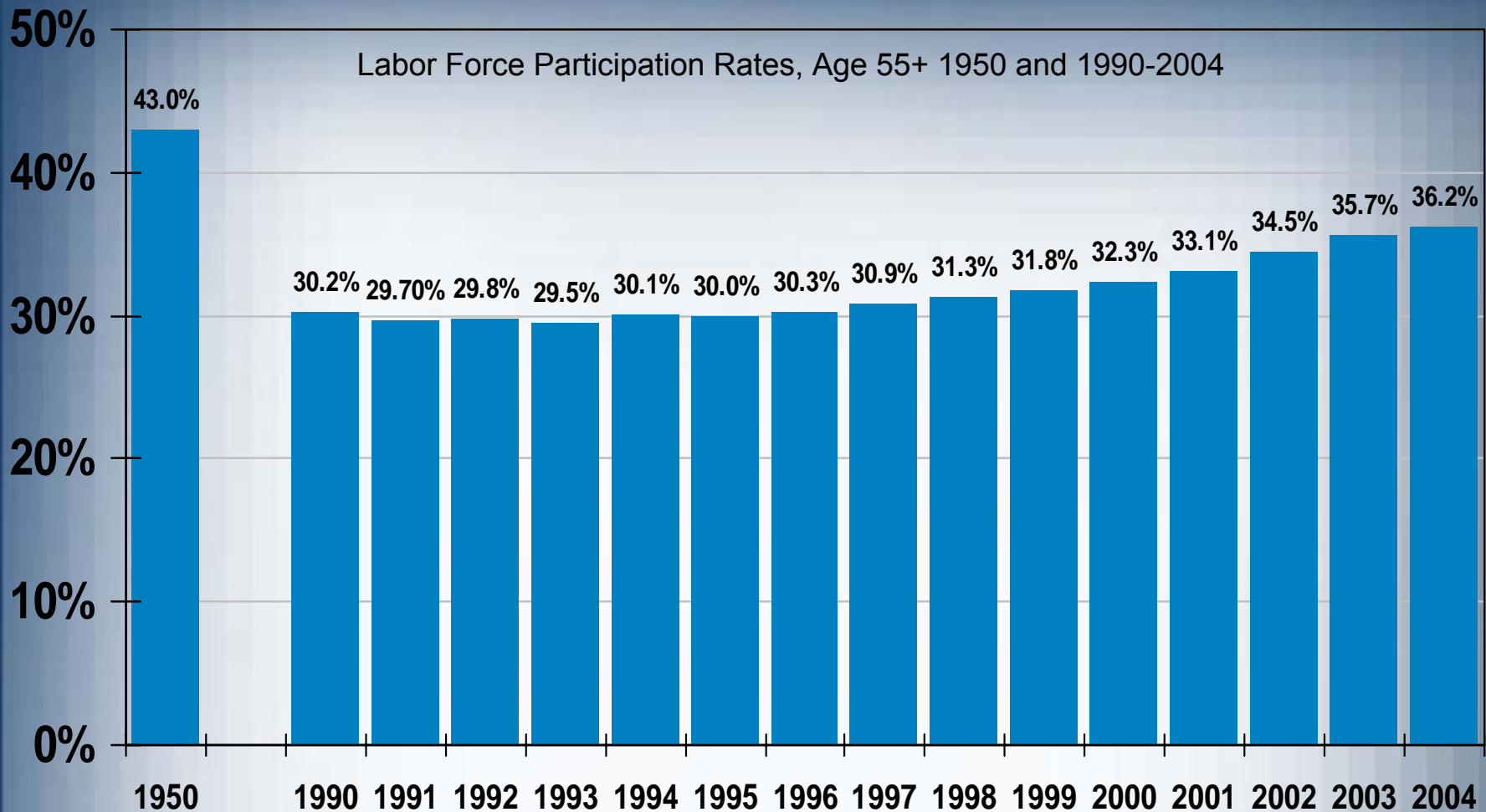


- Half of workers have no access to pension plans, defined benefit or defined contribution
- Even for those who do have 401(k)-type plans, balances are low, and withdrawals before retirement are common



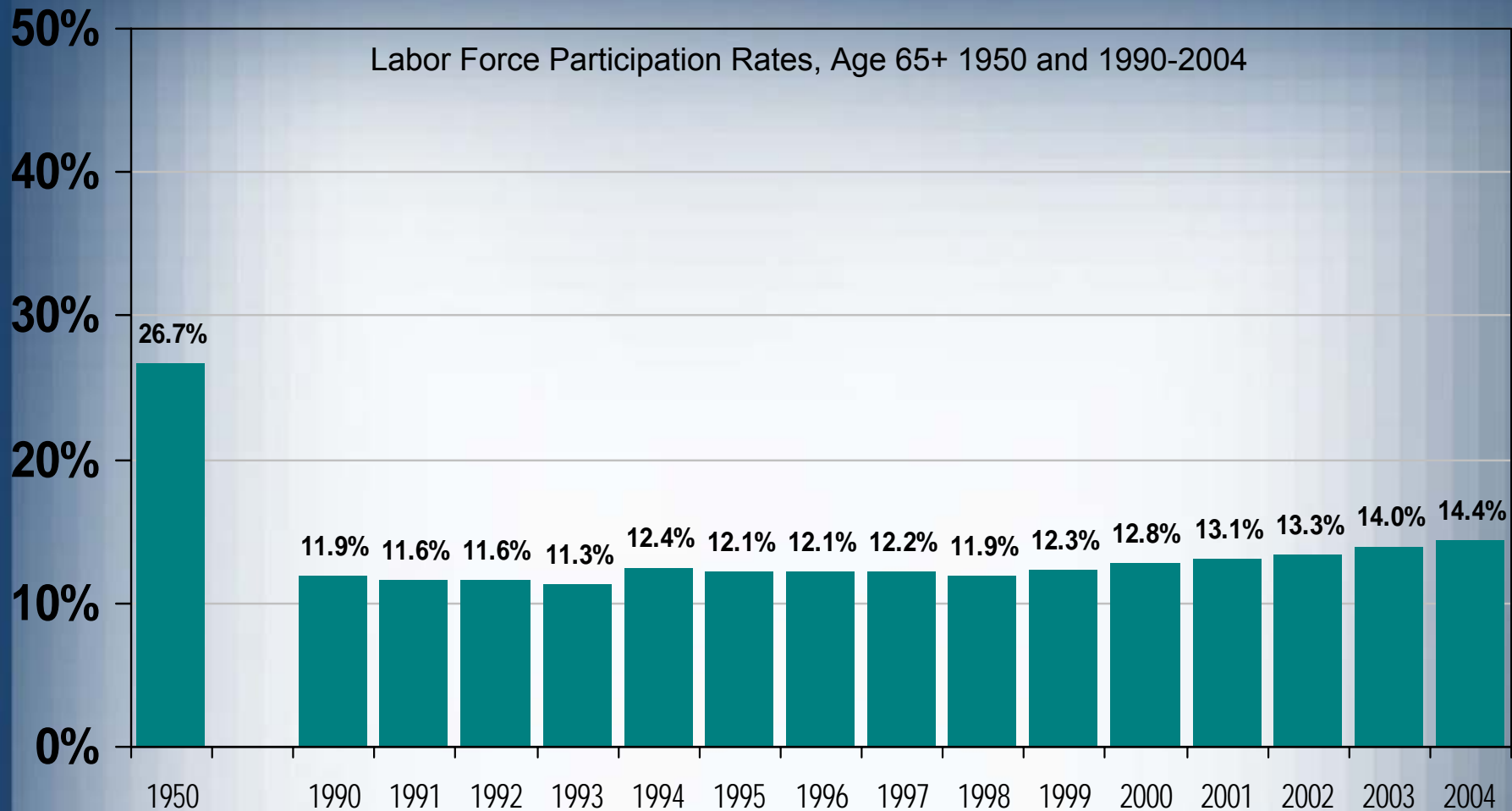
# **Continued Earnings** **an increasing trend**

# Labor Force participation continues to rise for older workers



Source: U.S. Bureau of Labor Statistics, *Handbook of Labor Statistics*, 1985;  
*Employment and Earnings*, January issues, 1986-2005

# Labor Force participation up for 65+ also



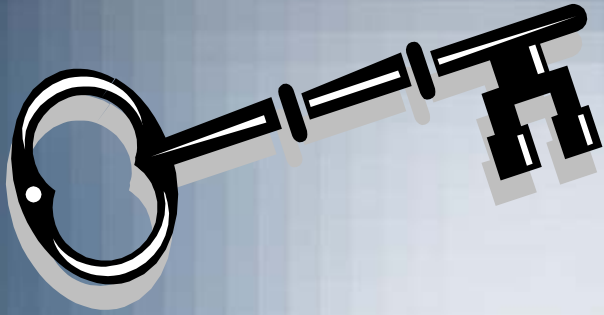
Source: U.S. Bureau of Labor Statistics, *Handbook of Labor Statistics*, 1985;  
*Employment and Earnings*, January issues, 1986-2005

# What do older workers want?

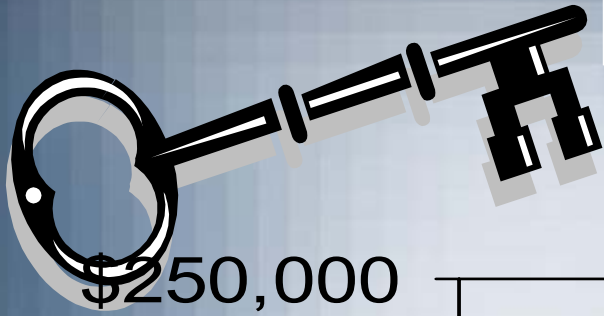


- Flexible job options
- Phased retirement
- Recognition of the worth of older workers
- Health care benefits





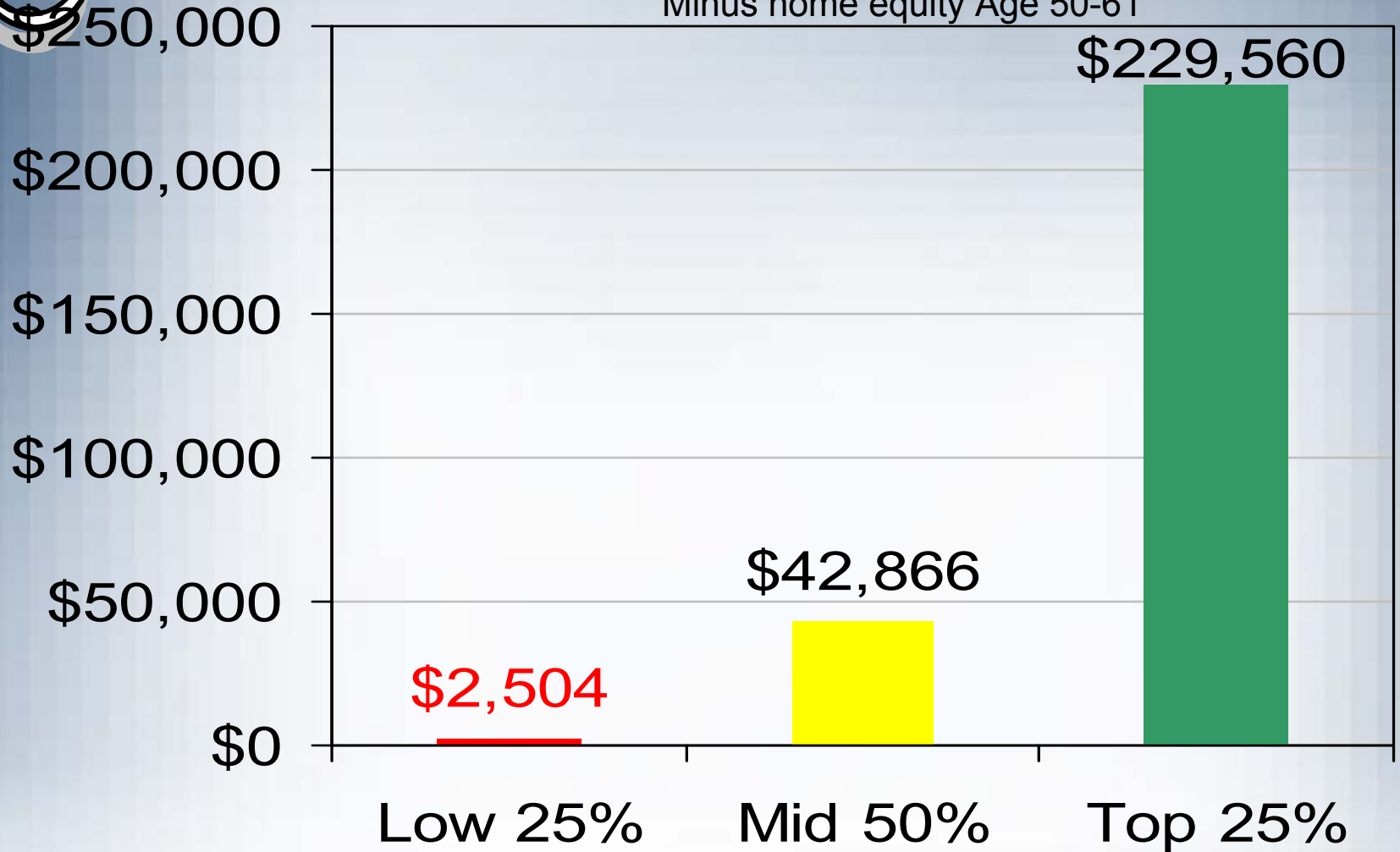
# **Rising Consumer Debt** **an increasing concern**



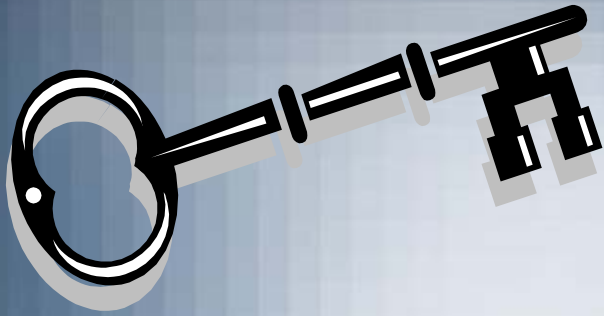
# Most Boomers' Net Worth Low

Minus home equity Age 50-61

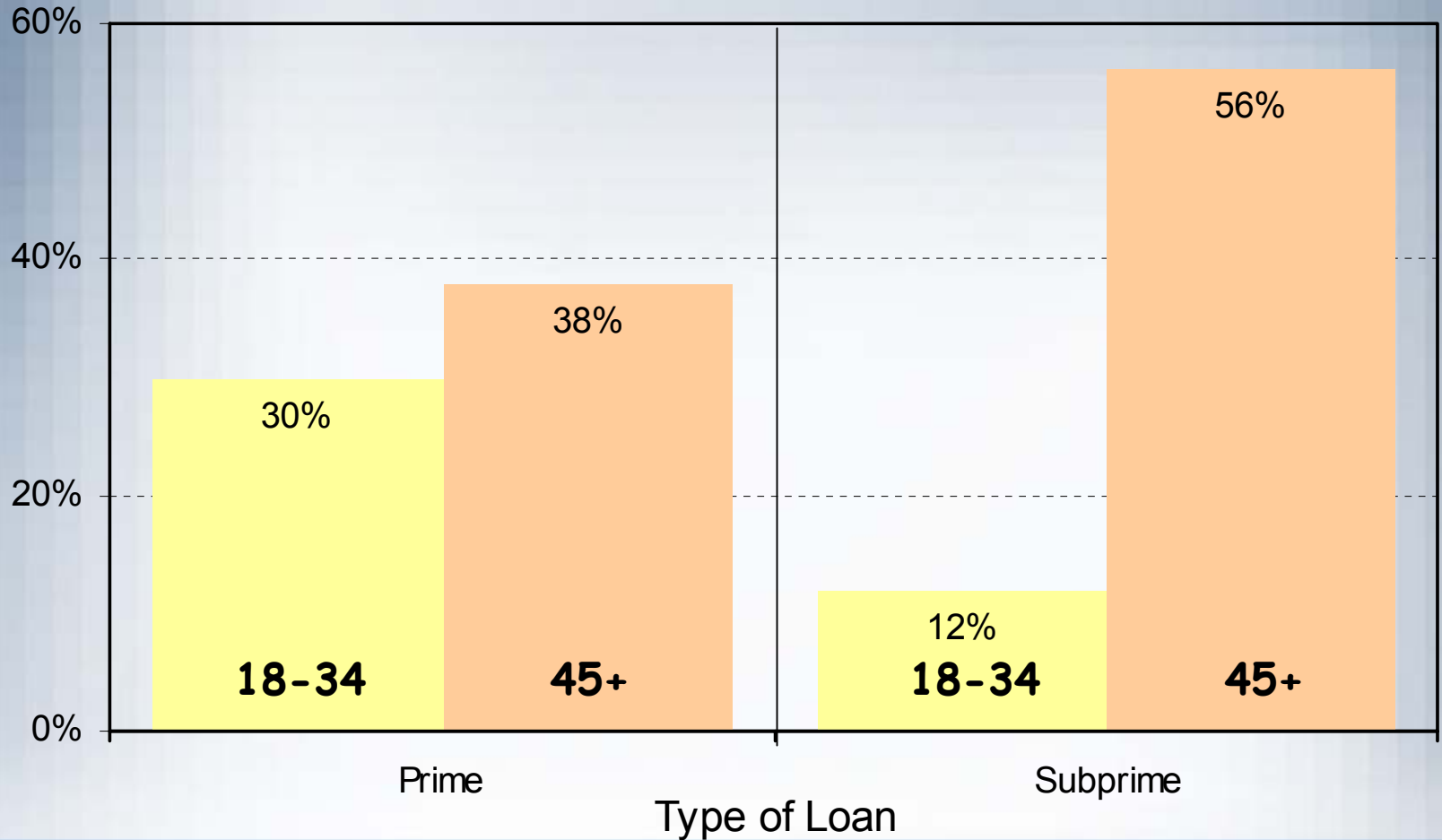
**Median Net Worth**

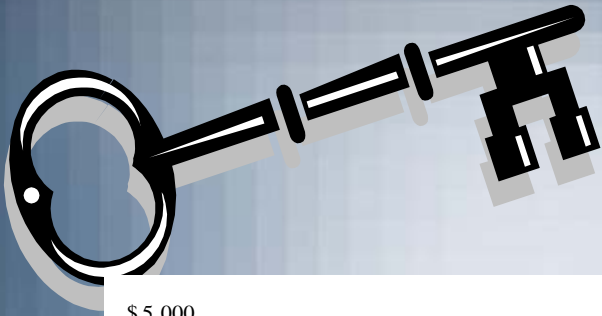


Income Quartile

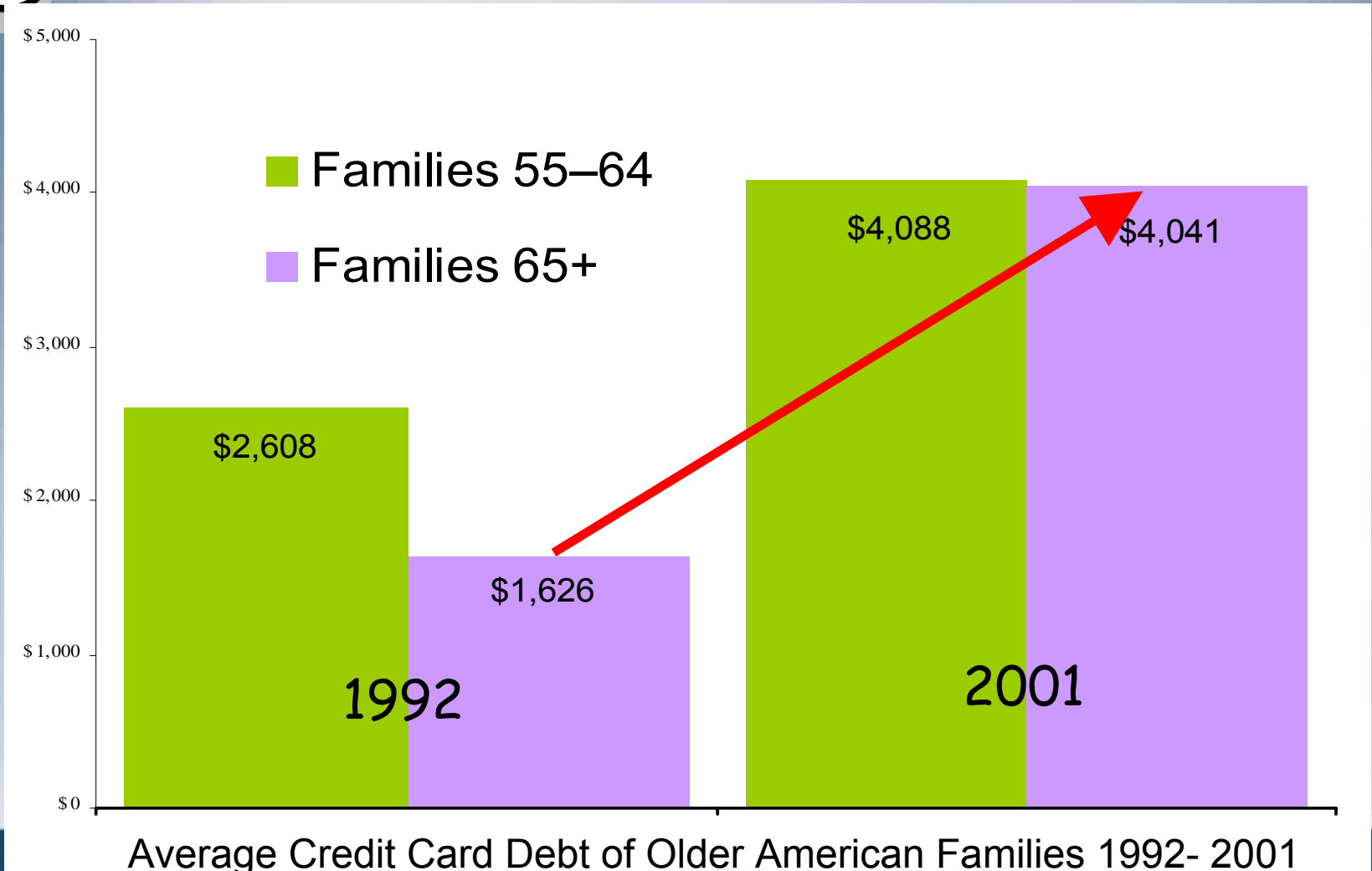


# 45+ more likely to have subprime loans

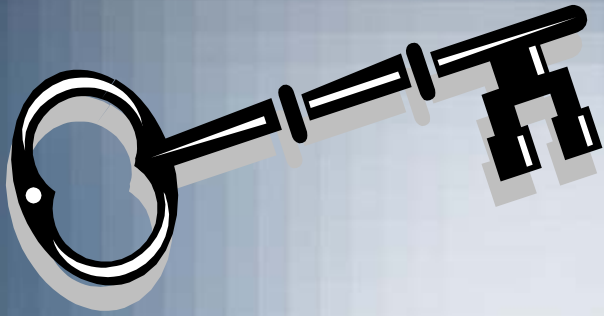




# 65+ credit card debt tripled in a decade



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

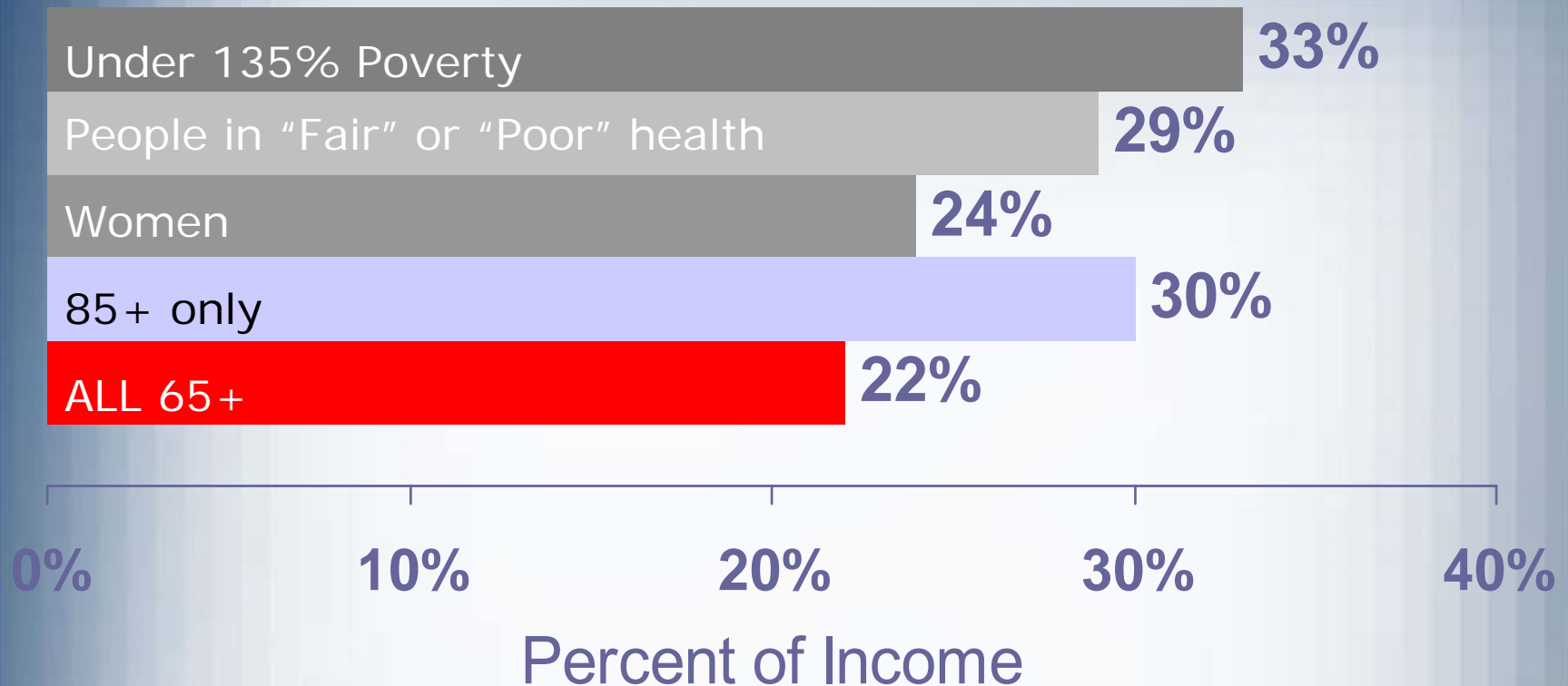


# **Spiraling Health Costs**

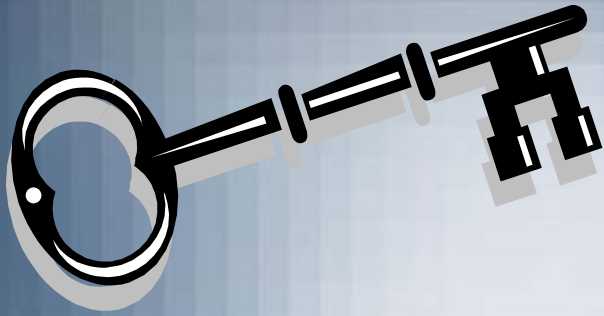
**becoming a major financial threat**

# Average Medicare Out-of-Pocket takes 22% of Income

Average Out-of-Pocket Health Care Spending 2003



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.

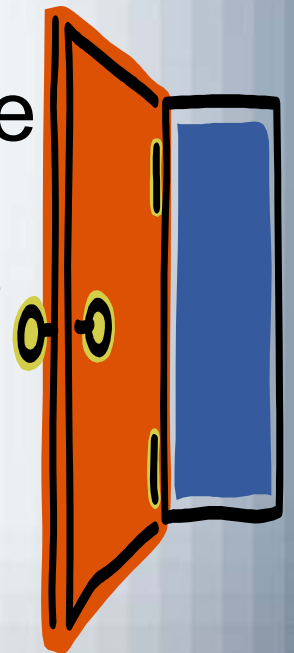


What needs to be  
done to help  
consumers?



## 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



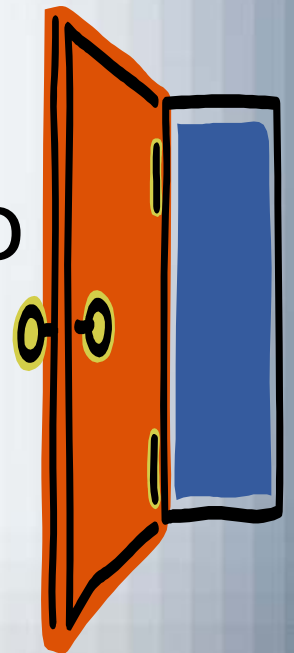




# Consumer Public Policy Recommendations

## Increase financial literacy

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





# Consumer Public Policy Recommendations

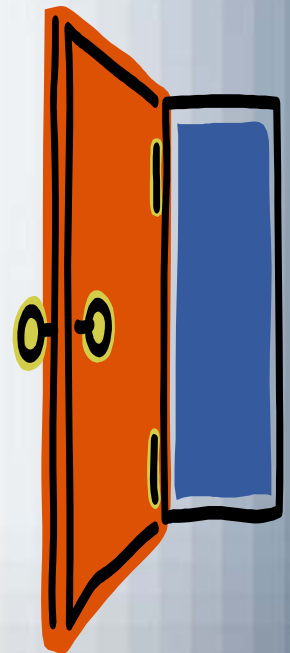
## Improve information quality

□ Make . . .

- Product information
- Labeling
- Disclosures

. . . easier to understand  
& more accurate

(Continued)

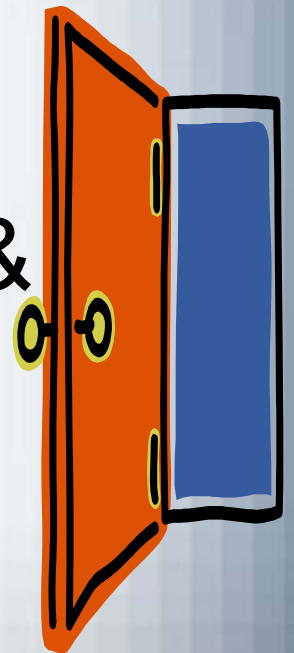




# Consumer Public Policy Recommendations

## Improve information quality

- ❑ Increase quality & integrity of advice to consumers
- ❑ Increase consumer product & services evaluation sources



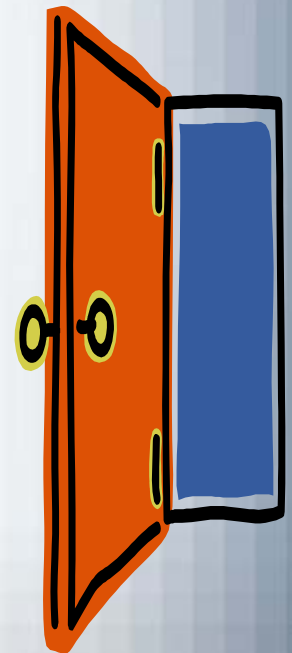


# Consumer Public Policy Recommendations

## Increase options for underserved populations and communities

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

(Continued)

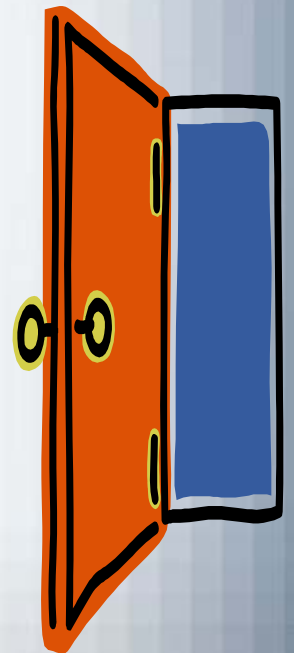


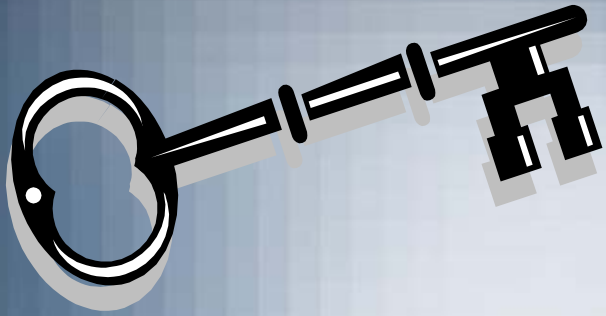


# Consumer Public Policy Recommendations

Increase options for  
underserved  
populations and communities

- ❑ Eliminate predatory financial practices





# SOCIAL SECURITY:

Part of  
The Way Forward

