

Social Security and Financial Planning

William Arnone
Chair, Board of Directors
National Academy of Social Insurance

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What Role Does Social Security Play in Financial Planning?

- It's more than just retirement
 - >Spouse benefit
 - >Survivor protection
 - >Disability insurance
- As a retirement benefit, it's
 - >Portable
 - >Guaranteed
 - >Inflation-proof

What Role Does Social Security Play in Financial Planning?

- Social Security Administration
 - >Social Security Statement
 - >Web Site

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It's More Than Just Retirement

- 50 million beneficiaries
- Beneficiary categories
 - >Retirement and Dependents: 69%
 - >Survivors: 14%
 - >Disability and Dependents: 17%
- One in three is not a retiree

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Benefits are being cut more than most people realize

Cuts enacted in 1983 and 1993 are phasing in. By 2050, net retirement benefits will be 23-24% lower than they would have been without the cuts.

Policy Change	Size of Cut
Raise retirement age to 67	13.3%
Tax part of benefits with revenues to OASDI and HI trust funds	8.8%
Delay COLA 6 months	1.4%
Total	23.5%

No increase in contributions from workers or employers has yet been scheduled.

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Spouse Benefit

- Baby boom women will be first generation of women to earn more Social Security benefits as workers than as spouses
Source: "When Baby Boom Women Retire," Nancy Dailey (Praeger, 1998)
- No other retirement plan pays spouse while worker is still alive
- Unlike private insurance annuities, Social Security does not reduce women's benefits to account for longer average life expectancies

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Survivor Protection

- Over 6.5 million survivors (widows, widowers, children) receive benefits
- Social Security is the main source of life insurance for most families with children
- For 27-year old worker with two children, Social Security provides equivalent of \$400,000+ life insurance policy

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Disability Insurance

- Most people do not plan for disability
- 8.6 million workers and family members receive Social Security disability
 - >2.4% of men and 1.4% of women ages 16-64 receive SS disability benefits
 - 10.5% of men ages 60-64
 - 7.2% of men ages 55-59

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Disability Insurance

- >For average worker: equivalent of a \$230,000+ insurance policy
 - For 27-year old with 2 children: \$350,000+

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Retirement: Snapshot

- Today's retirees and income sources
 - >Social Security: 40% (90% receiving)
 - >Assets: 21% (56%)
 - >Pensions: 19% (30% private, 14% public)
 - >Earnings: 17% (23%)
 - >Other (including public assistance): 3%

Source: "A Profile of Older Americans," AARP and U.S. Administration on Aging (2005)

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Retirement: Snapshot (cont'd)

- Over 3 out 10 beneficiaries receive 90% of their total income from Social Security
- 6 out of 10: More than half of their total income comes from Social Security
- Social Security keeps more than 13 million elderly out of poverty
 - >Without Social Security, elderly poverty rate would be 48%

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Retirement: Motion Picture

- Tomorrow's retirees
 - >97% of boomer families will receive Social Security
 - Up from 90% of today's retirees
 - >Average Social Security income for boomers will be higher
 - Greater rates of labor force participation by women
 - Rising real wage growth

Source: *Pension & Retirement Income Simulation Model, Employee Benefit Research Institute (1988)*

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Retirement: Negative

- 3.6 million (9.8%) still below poverty level
 - > Another 2.3 million (6.7%) are near-poor (125% of poverty level)
- Single elderly poverty rates are much higher than for couples
 - > Single men: 3x as high as married men
 - > Single women: 5x as high as married women

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Retirement: Portable

- Stays with you from job-to-job
- All private employers play by the same rules
- No risk of leakage

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Retirement: Guaranteed

- Government obligation
- Generational compact
- Defined benefit

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Retirement: Guaranteed

- Life expectancy risk
 - >At birth
 - Men: 74.0 years - Women: 79.4 years
 - >At age 65
 - Men: 16.8 years - Women: 19.8 years

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Retirement: Inflation-proof

- COLA is critical to the long-term value of Social Security
- Low appreciation due to low inflation

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Social Security Administration

- Social Security Statement
 - >Good News
 - Proactive mailing to 125 million workers age 25+
 - Triggers retirement planning as “wake-up call”
 - Engages recipient
 - Most effective public information tool

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Social Security Administration

- Social Security Benefit Statement
 - >Not-as-good News
 - Earnings errors
 - How zero years count
 - 78% of baby boom women will have fewer than 35 years of earnings
 - Today's dollars
 - Missing lump sum values for survivor and disability protection

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Social Security Administration

- Web site (www.ssa.gov)
 - >Superb Retirement Planner
 - Quick Calculator for rough benefit estimates
 - Online Calculator for projecting future earnings
 - Detailed Calculator for comprehensive what-if planning

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Key Planning Question

- “When Should I Begin Collecting My Benefit?”
- National Academy of Social Insurance video

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