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

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
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.

<table>
<thead>
<tr>
<th>Policy Change</th>
<th>Size of Cut</th>
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<tbody>
<tr>
<td>Raise retirement age to 67</td>
<td>13.3%</td>
</tr>
<tr>
<td>Tax part of benefits with revenues to OASDI and HI trust funds</td>
<td>8.8%</td>
</tr>
<tr>
<td>Delay COLA 6 months</td>
<td>1.4%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>23.5%</strong></td>
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</tbody>
</table>

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

Spouse Benefit

- Baby boom women will be first generation of women to earn more Social Security benefits as workers than as spouses
  
- 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
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

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
Disability Insurance

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

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%

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%

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

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

Retirement: Portable

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

- Government obligation
- Generational compact
- Defined benefit

Life expectancy risk

- At birth
  - Men: 74.0 years - Women: 79.4 years
- At age 65
  - Men: 16.8 years - Women: 19.8 years
Retirement: Inflation-proof

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

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
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

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
Key Planning Question

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