Is Social Security Affordable?

Social Security's cost pales in comparison to the cost of other Administration policies. Whenever Social Security is labeled "unsustainable," it is useful to consider the cost of other policies the Administration favors. For example, the long-term cost of the President's tax policies is *three to five times as large* as the cost of eliminating the shortfall in Social Security. The cost of the tax cuts is 2.0 percent of GDP over the next 75 years, while the Social Security shortfall is 0.4 percent of GDP under the CBO estimates, or 0.7 percent of GDP as projected by the Social Security Trustees. In fact, *the tax cuts for just the 1 percent of households with the highest incomes exceed the entire Social Security shortfall* that CBO projects. These cuts, which go to households with an average income of about $1 million per year, cost 0.6 percent of GDP.

Workers will be supporting fewer people when the baby boomers are retired than when the baby boomers were children. Estimates by Social Security actuaries and demographers show that the dependency ratio will be *less* when the baby boomers retire than it was when the baby boomers were children. According to research from the National Academy of Social Insurance, in 1960 when the baby boomers were children, each worker supported 2.62 people (including the worker him or herself, children, retirees, and nonworking adults). In 2030, when the baby boomers will have retired, each worker is projected to support 2.21 people.

We Can't Afford *Not* to Save Social Security

Social Security is the single **most important source of retirement income**, providing a majority of income for 6 in 10 retirees. The average benefit in 2005 is $955 a month for a retiree, or about $11,500 per year. Social Security benefits are totally **protected against inflation**. Almost no private pension is guaranteed to maintain purchasing power.

Social Security is the only universal, defined-benefit, inflation-protected pension system for American workers:

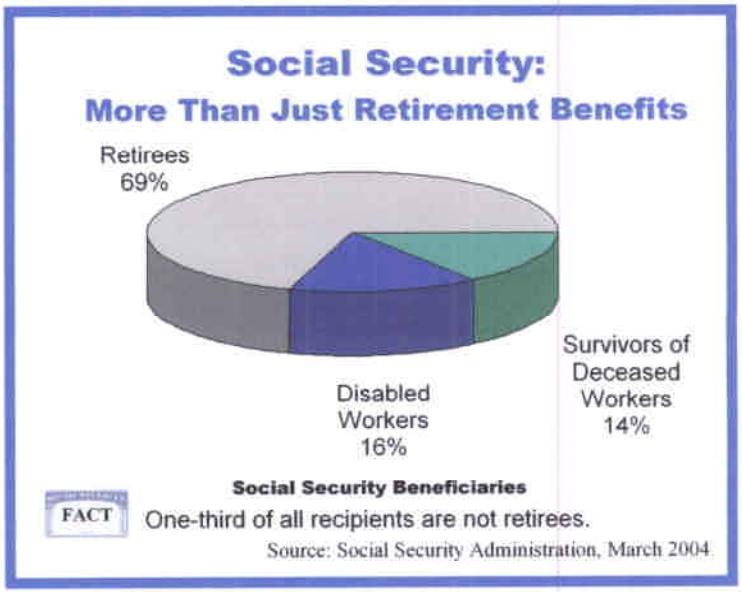
- **Universal:** Over 95 percent of all workers are covered by it. In contrast, less than 50 percent of workers have employer pension coverage on their job. And unlike traditional private pensions, Social Security doesn't lose value when a worker changes jobs.

- A **"defined benefit"** pension system: It is based on the amount of wages a worker has and the number of years worked. **Benefits are paid as long as the worker (and his or her spouse) lives, and the monthly benefit amount is predictable and steady.**

Few private pensions anymore provide this type of benefit. Instead, private pensions – as well as personal savings – depend on workers making contributions, investing their funds wisely (and fortunately), and not outliving their assets. This is an excellent supplement to defined benefits for retirement, but it cannot replace them.

But Social Security is **more than just retirement income**:

- It provides **disability and survivor benefits** that are unmatched in the private sector. About 30 percent of Social Security beneficiaries receive disability or survivor benefits. For a 27-year-old worker with a spouse and two children, Social Security provides the equivalent of a $403,000 life insurance policy or a $353,000 disability insurance policy.



- Social Security is also **family insurance** -- it provides benefits for elderly widows, and young parents who have lost a spouse. It provides dependable monthly income to children who have lost a parent to death or disability. It even pays benefits to those who became severely disabled as children, and remain dependent as adults on a parent who receives Social Security. No private pension or savings account can provide this kind of protection.

Prepared by the Democratic Staff of the Committee on Ways and Means, December 16, 2004
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