

Managing Social Security Benefits to Avoid Future Impoverishment for At-Risk Populations in the U.S.

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Abstract:

The Social Security Administration (SSA) administers the Old-Age, Survivors, and Disability Insurance (OASDI) Program in the United States. The amount of Social Security benefit is based on an individual worker's lifetime earnings and replaces approximately 40% of an average wage earner's income. The Department of Health and Human Services (HHS) has determined that the U.S. poverty line in 2006 for a single-person family unit was \$9800 annually (approximately \$816.67 monthly). The median monthly Social Security benefit for 2006 is estimated at \$989.50. Since the Social Security benefit is often the sole (or primary) source of income, many Social Security beneficiaries fall below the poverty line.

This paper will examine some strategies for future beneficiaries to maximize their Social Security benefits and possibly alleviate future income deficiencies. Methods such as increasing lifetime earnings, accurately assessing future financial needs, and establishing additional sources of income will be discussed. Studies focus on at-risk populations already susceptible to and/or for whom impoverishment is exacerbated. Results show that expectations and reliance on Social Security differ among ethnic groups as well as among gender groups. There are also differences in trends in plans to obtain information regarding benefits. While several proposals to remedy the problem are discussed, clearly a fresh approach, such as this study, is needed to help tackle the complexity of the growing Social Security dilemma.

Introduction:

In the wake of the imminent retirement of the "baby-boomers", combined with the increase in life expectancy overall, concerns with the quality of life is become increasingly as (or more) important than the quantity of years. Future retirees are seeking financial security, freedom (and resources) to travel or to engage in some type of leisure activity, to invest, and to leave legacies for loved ones. They do not expect to become a financial or social burden for their families due to a lack of good planning or unrealistic expectations. The United States, as well as other developed countries in the global community, is tasked with maintaining the health, livelihood, and general well-being of all of its members, and in particular its aging population. The most well-known and applicable retirement program in the United States is Social Security.

The topic of Social Security in the United States has garnered widespread attention in recent years, and has been discussed in regards to solvency and privatization, and in terms of "saving" Social Security. The prediction for the future of Social Security has been (at best) that Social Security will continue to exist, though barely functional.

Social Security

The Social Security Act, signed into law on August 14, 1935, was a reaction to the Great Depression, was a broad-based social insurance agent designed to address some of the difficulties brought on by the Great Depression, which was characterized by mass

unemployment, the disruption or loss of pensions by thousands of workers, and the loss of lifetime savings by many. Two main issues were old-age insecurity and unemployment. Other insurance programs set up by the Social Security Act included unemployment insurance, workers' compensation, veterans' disability compensation, armed forces and civil service pensions.

(Atchley, 1997).

Title I of the Social Security Act provided for a federal-state program of public assistance for older people called "Old Age Assistance". It was for the aged poor, regardless of employment history. Title II of the Act set up a national social insurance system to provide pensions for retired and disabled workers. In 1939, survivors of workers were added.

Old –Age (retirement), Survivors, and Disability Insurance (OASDI) – popularly referred to as Social Security is administered by the Social Security Administration and is a Title II program that bases benefits primarily on an individual's own contribution to the insurance system, not on economic need. OASDI provides monthly benefits to workers and their families when earnings stop or are reduced because the worker retires, dies, or becomes disabled. (SSA Congressional Statistics, December 2006).

Social Security was set up as a safety net for retired workers at age sixty-five (65) and their families, and designed to replace approximately forty percent (40%) of the worker's average income. Currently, Social Security pays benefits to closely 32 million workers and their families. The median monthly benefit amount in 2006 was approximately \$989.50. Over 90% of Americans have family members who rely on Social Security for income and healthcare benefits (SSA, 2006).

Poverty

In 2006, single persons with a total annual income of \$9800.00 (or \$816.67 per month) or less, were considered at or below the poverty line. Sources indicate that more than one in ten Americans (10.1%) were below 100% of the poverty line in 2006 (DHHS, March 2007). For certain groups, identified as high-risk, the percentage is much higher. The poverty rate of African-Americans over age 65 overall is more than 1 in 5 (23.2%). For African-American women over age 65, the rate is 25.2%, or more than 1 in 4.

Overall, for all ethnic groups with the exception of Asian-American women, the poverty rate for women is significantly higher than for men. According to the National Academy of

Social Insurance (August, 2000), elderly women comprise almost 70% of the poor elderly in the United States. The poverty rate for the severely poor, or those below 50% of the poverty line, is 2.6 overall, with elderly men slightly lower (2.1%) than elderly women (2.9%). (CPS 2006, Table 1).

Poverty and Social Security

Based on data from the Center on Budget and Policy Priorities (February 24, 2005), without Social Security nearly fifty percent (46.8 %) of the elderly population in America had incomes below the poverty line. The receipt of Social Security lifted 13 million seniors age 65 and older above the poverty line (from year 2000 to 2002). The State of Florida reports that Social Security benefits lifted 1.1 million people age 65 and over from poverty, changing the state's elderly poverty rate from 50.2 % to 8.7 %.

Without a doubt, Social Security has significantly altered the poverty landscape for the American elderly. However, even with all of the gains, there is a serious danger of future impoverishment for certain groups of pre-retirees in the group popularly referred to as "the baby-boomers". "Boomers" are workers who were born between 1946 and 1955, and who would be eligible to retire as early as next year, or in 2008. As previously noted, the median Social Security benefit in 2006 was \$989.50 per month. When compared to the poverty cutoff monthly amount of \$816.67, many beneficiaries could be at or close to the poverty line.

Based on current computations, some future retirees (between ages 40 and 60) are at risk of immediate impoverishment upon retirement at age 62 if certain conditions are met, namely:

1. Have a reliance on Social Security as the sole or primary source of retirement income, and
2. Have average lifetime earnings of \$30, 000.00 or less.

The following sample computation demonstrates the problem:

Average income (highest 35 of 40 years) = \$30,000.00 x 40% = \$ 12,000.00 divided by 12 months = \$ 1000.00 per month.

A monthly income of \$1000 would probably suffice for the average retiree if 100% of that amount could be used for leisure activities, etc. However the reality is that retirees have other financial obligations, such as health care costs after employment ends.

Multiple sources note the increasing rise in the cost of health care for retirees. According to The National Coalition on Health Care, The Urban Institute has projected that there will be significant increases in the out-of-pocket health care costs for older unmarried adults and older married couples. They estimate that in 2030, out-of-pocket health care costs to be 30.3 percent of after-tax income for older unmarried adults, and 35.1 percent of after-tax income for older married couples.

One source in 2006 found that the annual cost of premiums for retiree age 65+ is \$3,240, the average retiree contributions being \$1,320 annually or \$110 monthly (Moon, 2007). Taking into account the Medicare premium cost of \$93.50 per month (HHS, 2007), these added expenses (over \$200) once deducted from the average income of \$1000 (calculated above) would reduce the income of retirees to below the poverty line. This does not take into account that, as mentioned previously, these costs are on the rise and other additional costs such as prescription plans.

Rather than explore or discuss the theoretical forecasts regarding the future of Social Security, the purpose of this paper is to approach the topic (of Social Security) from the current application viewpoint as well as that of the imminent future retirees who will be first eligible to retire with Social Security benefits in 2008, at age 62. Some questions that are being addressed in the paper are: How aware are future retirees in various ethnic groups of their retirement income and the role of their Social Security benefits? Also, how prepared are future retirees for their new situation after employment ends and new age-related issues begin What is being done to prepare groups of future retirees who have traditionally been subject to financial insecurities while working (the “working poor”) and whose precarious position impoverishment than ever due to the greater demands on their limited, fixed retirement income?

Materials and Methods:

In order to ascertain the awareness and expectations of the population regarding Social Security, a survey was administered. Demographic information including ethnicity, gender, age, education level, average annual earnings, and number of years of employment for respondents is collected. Table 1 shows the demographic breakdown for the results reported in the paper.

Respondents currently receiving Social Security benefits based on their own earnings were asked the following questions:

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1. Did you receive Social Security benefit statements advising you of your benefit amount prior to receiving benefits?

2. Was the amount of your actual benefit the same as on the statement?

3. What percent (%) of your retirement income does your Social Security benefit represent?

Respondents were given the following options to select from:

25%, 26-50%, 51-75%, and 76-100%

4. Which of the following is the nearest to your monthly Social Security benefits?

Respondents were given the following options to select from:

\$300-\$600, \$601-\$900, \$901-\$1200, \$1201-\$1500, and \$1501-\$1800

Respondents not currently receiving Social Security benefits based on their own earnings were asked the following questions:

1. Do you plan on receiving Social Security benefits based on your own earnings?

2. Do you receive regular Social Security benefits statements?

3. What percent (%) of your retirement income do you expect Social Security benefits to comprise?

Respondents were given the following options to select from:

25%, 26-50%, 51-75%, and 76-100%

4. Have you received counseling from a Social Security representative regarding your expected benefits?

5. Do you plan on getting counseling regarding your Social Security benefits? If so, how soon?

Respondents were given the following options to select from:

Within 1 yr., 1-2 yrs., 3-4 yrs, and 5 or more yrs

6. Which of the following is the nearest to your expected monthly Social Security benefits?

Respondents were given the following options to select from:

\$300-\$600, \$601-\$900, \$901-\$1200, \$1201-\$1500, and \$1501-\$1800

Estimated monthly benefit amounts were calculated by taking 40% of the reported average annual earnings and dividing the result by twelve.

Results:

As shown in Figure 1, African-American respondents and European-American respondents estimate their future monthly Social Security benefit similarly. 59.1% of European-

Americans underestimate their benefit compared with 45.7% of African-Americans. 22.1% of African-Americans estimate their benefits within range, and 17.1% overestimate their expected benefits while European-Americans estimate 22.7% and 18.2% respectively.

Figure 2 indicates that male and female respondents show significant differences in their estimation of future benefits. 33.3% of female respondents estimate their benefits within range while only 10.0% of male respondents estimate within range. However, 30.0% of males overestimate their benefits compared to only 15.6% of females. 51.1% of female respondents underestimate their future monthly Social Security benefit compared with 60.0% of male respondents.

Results (Figure 3) indicate that African-Americans intend to rely more heavily on Social Security for their retirement income than European-Americans. 36.1% of African-Americans expect to rely on Social Security for more than 50% of their income compared to only 5% of European-Americans. More specifically, 22.2% of African-Americans expect their Social Security benefit to comprise 25% of their total retirement income, 41.7% expect it to comprise 26-50% of their income, 27.8% expect Social Security to comprise 51-75% of their income, and 8.3% expect it to comprise 76-100% of their income compared to European-Americans who expect their Social Security benefit to comprise 30.0%, 65.0%, 0.0%, and 5.0% respectively.

As shown in Figure 4, males intend to rely less upon Social Security for total income compared to females. Results indicate that 15.8% of males expect Social Security to comprise more than 50% of income compared to 31.1% of females. 20.0% of female respondents expect their Social Security benefit to comprise 25% of their total retirement income, 48.9% expect it to comprise 26-50% of their income, 24.4% expect Social Security to comprise 51-75% of their income, and 6.7% expect it to comprise 76-100% of their income compared to males who expect their Social Security benefit to comprise 52.6%, 31.6%, 10.5%, and 5.3% respectively.

Results indicate that the expected reliance on Social Security for pre-retirees closely matches the actual reliance on Social Security reported by current retirees. 29.7% of current retirees report that 25% of their total income comes from Social Security, while 43.8% report that Social Security comprises 26-50% of their income, 20.3% report it comprises 51-75% of their income, and 6.3% report Social Security comprises 76-100% of their retirement income. The percent of future retiree respondents who expect that 25%, 26-50%, 51-75%, and 76-100%

of their total income will be comprised of Social Security are 29.7%, 43.8%, 20.3%, and 6.3% respectively.

Additionally, the results of the survey show that 14.8% of respondents over 41 years of age report not receiving regular Social Security statements. Only 1 in 4 of these respondents have obtained counseling regarding their Social Security benefits. 77.8% of respondents over 41 years old have not yet received counseling. Of those who plan to receive counseling, 43.8% do not plan to seek that counseling for another 5 years or more. 79.4% of African-Americans plan to get counseling compared to 60.0% of European-Americans. 74.4% of female respondents plan to get counseling compared to only 60.0% of male respondents.

Conclusions:

Although the receipt of Social Security benefits has prevented many older Americans from being impoverished, poverty among the elderly remains a cause for concern, especially among groups such as African-Americans and women. The data collected suggests some insight by examining the reliance, awareness and expectations among pre-retirees, or the future elderly.

Regarding estimates of the amount of expected monthly benefits, there are both ethnic and gender differences. European-Americans and African-Americans tend to estimate similarly. Only slightly more European-Americans underestimate expected benefits while slightly more African-Americans were within range. Insofar as gender, the differences are more pronounced. Significantly more men in the study tended to underestimate or overestimate. Women tended to underestimate or to be within range.

The extent of expected reliance on Social Security for retirement income was another measurement of the study. While the majority of the respondents expect Social Security to be less than one-half of their retirement income, there are significant differences between ethnic and gender groups among those who expect to rely heavily (more than 50%) on Social Security for their income. The findings show that African-Americans expect to rely more heavily on Social Security for retirement income compared to European-Americans. Over one-third of African-Americans expect Social Security to be more the primary source (i.e. over one-half) of their retirement income compared to 5% of European-Americans. Men intend to rely less on Social Security benefits compared to women. Of the women who responded, more expect Social

Security to comprise more than one-half of their retirement income compared to men who were surveyed.

Additionally, the study shows that more African-Americans report plans to get counseling regarding their Social Security benefits compared to European-Americans. For the respondents overall a substantial number over age 41 have not received counseling and do not plan to seek counseling for another 5 years or more.

Discussion:

The data from my research, has several implications:

While men tend to overestimate their Social Security benefits compared to women, because they intend to rely less upon Social Security for their total retirement income, they are less affected by their inaccuracies and as noted earlier are less likely to experience poverty as they become older. With African-Americans, though their estimations are comparable to European-Americans, they rely more heavily upon Social Security and therefore put themselves at risk for poverty. It can then be deduced that African-American women are therefore in “double jeopardy”. This expected reliance on Social Security is a cause for further concern since all indicators point to reductions in future Social Security benefits yet increases in future financial obligations, especially health care costs.

We know from poverty data that there is a portion of the retirement population currently living in poverty. Results shows that pre-retirees’ expected reliance on Social Security is similar to the actual reliance of current retirees. This suggests that future retirees may be aware of their future predicament but do not fully understand that they are at risk for impoverishment upon retirement and/or do not have the adequate tools to change the direction of the downward spiral.

While it is encouraging that the majority of pre-retirement African-Americans and women plan to get counseling on their Social Security benefits, it appears that this counseling may come too late to affect outcome. Clearly, the sooner pre-retirees obtain an accurate assessment of their entire retirement income, the sooner deficiencies can be identified and remedied. Although information about Social Security benefits is available, there are population segments, pre-identified as in high risk of poverty, that need the information disseminated in a more accessible venue at an earlier stage in the pre-retirement years, at least 20-30 years before retirement.

Regarding Social Security benefits, all pre-retirees need to know that:

1. Social Security is designed to replace approximately 40% of a worker's average lifetime annual earnings.
2. Financial advisors have determined that retirees need 70-80% of their pre-retirement average earnings for retirement income.
3. Social Security benefit amounts are computed using the highest 35 of 40 years of earnings, and that the amount of earnings has a direct affect on the benefit amount.
4. There is a reduction in monthly Social Security benefits for each year prior to full retirement age.
5. The full retirement age is no longer 65; for some, it is age 67, depending on the date of birth.
6. Social Security benefits for retirees are computed independent of health care cost or other obligations after retirement.

Several sources have weighed in on the issues and controversies surrounding retirement, pre-retirement in particular. People retiring before age 65 are advised to "...carefully plan their financial resources, but they should also plan for health insurance coverage till age 65 when eligibility for Medicare begins. They must also plan for supplemental health insurance coverage for age 65 and beyond". Furthermore, although people can retire and receive Social Security at age 62, because they must wait to age 65 for Medicare coverage they need to plan where they will get their health insurance until they reach 65 as well as supplemental coverage at 65 and beyond (Moon, 2007).

Proposed Policy Changes

Further literature reviews conducted on the topic include suggestions for changes in benefit computation methods, public information strategies, and policy changes overall:

- Favreault, et al (2007), proposes to amend Social Security benefit computation policy in a way that guarantees a minimum benefit for long-service, low-wage earners, which could protect the highest risk groups. This was offered mainly in response to possible future cuts in Social Security benefits.
- Mermin, et al (2007) suggests a public information network approach designed to convince "baby-boomers" to work longer and not seek early retirement. This approach is expected to promote economic growth by enlarging the labor force and to increase the

amount of benefits for individual retirees. Extending the earnings years would be particularly beneficial to high-risk groups who tend to leave the labor force at relatively young ages. The reasons for leaving the work force early (disabling conditions brought on by hard labor, personal obligations, offensive work practices) would need to be addressed for successfully campaigning for longer work years.

- In McAdoo (1997), Hill proposes to counteract the Social Security policy of pre-full retirement reduction with a policy commensurate with life expectancy. Some of the proposed changes include:
 1. African-American men would be eligible for full retirement benefits at age 60, roughly five years earlier than the life expectancy (64.8 years).
 2. African-American women would be eligible for full retirement benefits at age 67, along with European-American men.
 3. European-American women would be eligible for full retirement benefits at age 75.

Discussion of Proposed Changes:

- Setting a minimum Social Security benefit regardless of earnings would be possibly distort the workers earnings irrevocably, and would necessitate some type of ceiling as well as a baseline. There is no way to know the other resources of all workers. For this reason, Social Security benefits would necessarily become more means-tested than earnings-based to establish equity.
- Regarding the efforts to convince the “baby boomers” to delay retirement- or not to retire as early as possible, the main hurdle to overcome is to have in place some relief for the conditions that most likely precipitated the move to early retirement (health, personal, etc.). Some viable alternatives to early retirement could be job re-training, adult education programs, etc.). (Mermin, et al, 2007).

The Administration on Aging (AoA) Older Americans Update (2006), has noted from the report from the Federal Forum on Aging-Related Statistics that a greater proportion of older men and women were participating in the workforce in 2005 compared to 1993, with as much as a 10 percent increase in men over age 70 and women age 65 to 69. The reason for this trend is yet to be determined.

- Changing the full retirement age based on life expectancy would be clearly beneficial to African-American men. The effects on European-American men would need to be studied. However, the effects on elderly women would be totally detrimental in light of the statistics on poverty and the current over-representation of women in poverty among the elderly since there would be a greater age reduction for women who retire prior to age 67 (i.e. more reduction in Social Security benefits from age 62 to 66 and 11 months).

Despite questions regarding the future of Social Security, social scientists agree that some form of Social Security will continue to exist. However, the magnitude and efficacy of the program in the future is uncertain. More effort is needed toward promoting public understanding of the historical context and the intended purposes of Social Security benefits. Public information systems need to approach the dissemination of information in a proactive, accessible way at earlier points in future retirees' careers to facilitate preventive and/or corrective measures. Special effort need to be made to reach African-American future retirees who have historically been in the low-wage, low-benefit categories, and are also the most likely to rely more on Social Security benefits as a sole or primary source of retirement income than other ethnic groups (Atchley, 1997). In the absence of private financial sources, public entities need to become more proactive in reaching particular groups at a point in occupational careers when remediation can occur.

This paper and current study described within has demonstrated that there is a great need for immediate, aggressive efforts to inform the pre-retirement population, particularly those groups who are at the greatest risk of impoverishment at retirement, of the necessity of developing and/or expanding their retirement income resources, obtaining and monitoring all expected sources of income, and plan for the "worst case scenario" in regards to future assets and liabilities.

Future studies will seek to expand the number of ethnic groups for study, include other demographic variables such as occupation, pension status, and education level, determine the effects of factors such as expected retirement age, percentage of reliance, use of the internet, financial counseling venues, etc., and explore the trend of Americans working longer, beyond full retirement age, and the effects on poverty rates in the United States.

Figure Legend:

Table 1. Demographics of Respondents for Reported Results

Category	Number of Respondents
Female	55
Male	22
African-American	40
European-American	27
Over 41 years of age	38
Current retiree	12
Future retiree	66
Total*	78

*One respondent did not report gender

Figure 1. Estimation of Social Security Benefits by Ethnicity

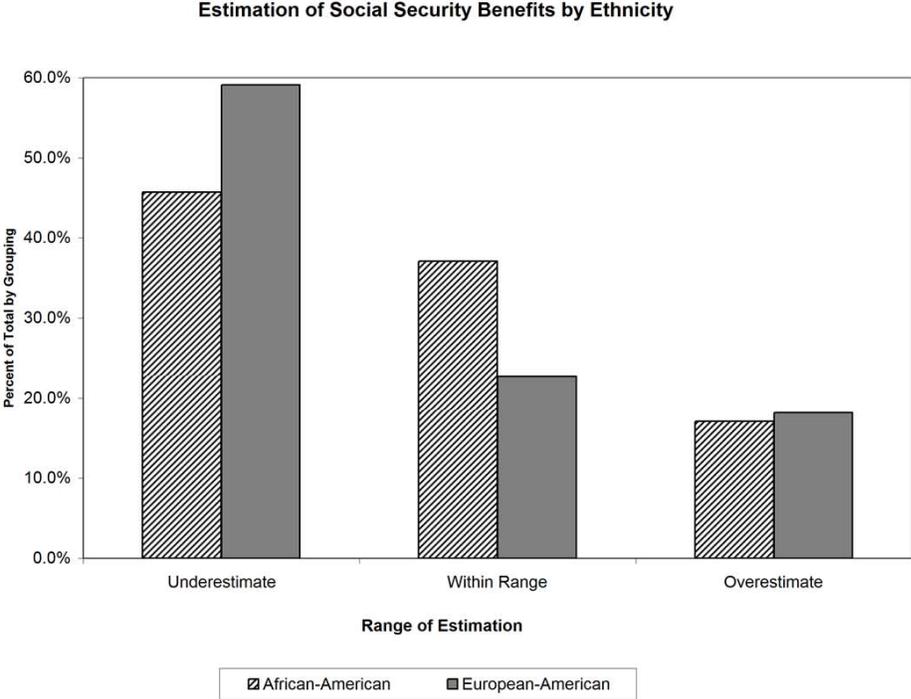


Figure 2. Estimation of Social Security Benefits by Gender

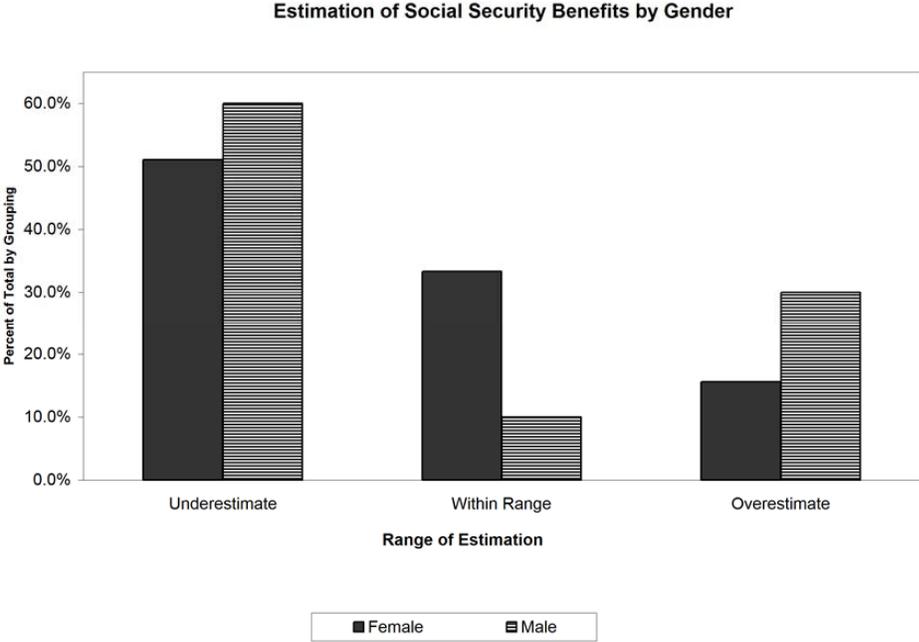


Figure 3. Expected Reliance on Social Security by Ethnicity

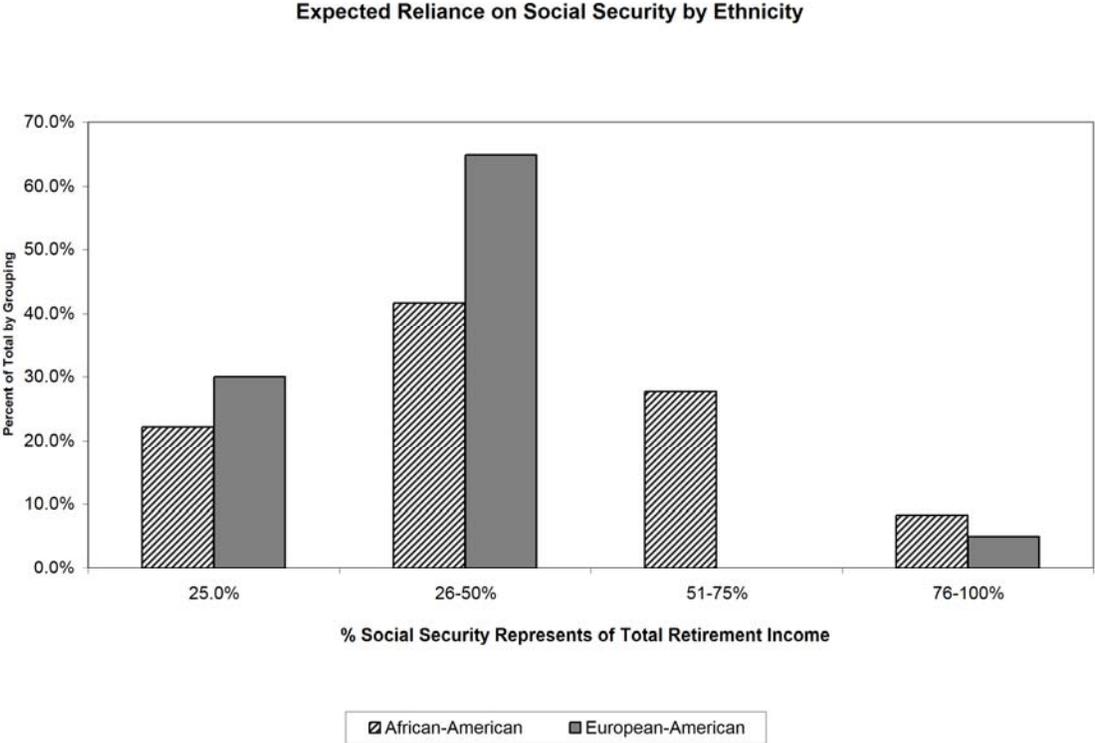
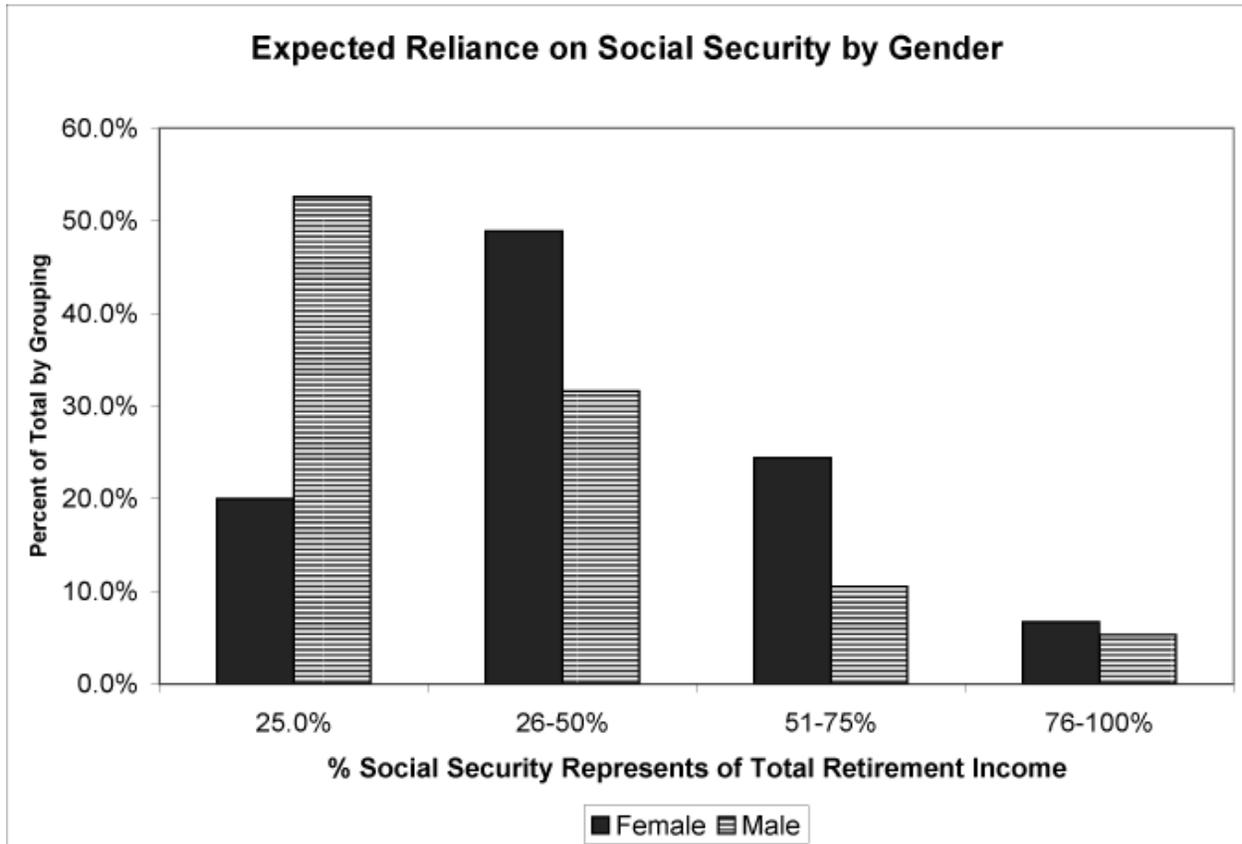


Figure 4. Expected Reliance on Social Security by Gender



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