

Remarks on Social Security and Retirement Security

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Good morning and thank you for organizing this important discussion. Social Security plays a critical role in our retirement system, providing the basic foundation on which retirement security is built. But Social Security is not only about retirement. It also provides disability and survivors insurance, protecting all of us against the possibility that we will not be able to work or that an early death will leave our family with reduced means of support. And that is why I am grateful for NASI's continued work on social insurance. Your efforts to improve our understanding of these issues help us in our efforts to ensure that all Americans have a secure and dignified retirement and protection against some of life's most important risks.

Social Security will convey direct benefits totaling \$863 billion to 58 million Americans in 2014. Almost 90 percent of the population aged 65 and older receives benefits and those payments make up an average of 38 percent of income for people over 65.

Social Security provides greater benefits to the most vulnerable workers. It replaces a larger share of a worker's previous earnings for workers at lower earnings levels. All else equal, 14 million retirees would fall into poverty without Social Security. Without Social Security benefits, the poverty rate for Americans over age 65 would increase from less than 10 percent to over 40 percent. As retirees draw down their savings and stop working completely at older ages, Social Security becomes even more important as a source of income. For the most elderly, Social Security is the primary source of income for over half of married and nearly three quarters of unmarried beneficiaries.

Social Security benefits are particularly important for women. In 2010, more than half of women over age 65 had no retirement savings in 401(k) accounts. Women's lower retirement savings and longer life expectancies can translate into greater hardship in old age. That is why features of Social Security including spousal benefits, survivors' benefits, the progressive benefit structure and the guaranteed, lifelong benefit indexed to the cost of living are all so important for women—who account for 67 percent of the most elderly beneficiaries.

Many of these features also make Social Security benefits particularly important for African-American and Hispanic households. White households have six times the retirement savings of African-American or Hispanic households. This gap has grown considerably over the past two decades and stems in part from unequal access to and enrollment in work-based retirement savings plans. In fact, only 27 percent of Hispanics and 40 percent of African Americans aged 21-63 participated in an employment-based retirement plan in 2012, compared to about half of

whites. As such, there is considerable disparity in reliance on Social Security by different groups. For elderly beneficiaries, Social Security accounts for more than 90 percent of income for 35 percent of whites, 42 percent of Asian Americans, 49 percent of African Americans, and 55 percent of Hispanics.

As you know, Social Security is more than just a retirement program. It is also an insurance program that covers the vast majority of American workers. Almost all workers in paid employment and self-employment are covered. While retirees make up 70 percent of beneficiaries, disabled workers and the survivors of deceased workers comprise the other 30 percent. Roughly 95 percent of the population aged 20-49 has survivorship protection for their families from Social Security and 90 percent of the population aged 21-64 has disability protection. These protections are provided at a relatively low administrative cost and without any premiums for adverse selection. Moreover, they are especially helpful to many of the groups I have talked about—like women, African Americans, and Hispanics.

Social Security will continue to grow in importance in the future as workers now bear more of the financial risk associated with their workplace retirement benefits. In 1981, roughly 60 percent of active participants in private pension plans were in defined benefit plans; by 2011, this number had fallen to 18 percent. Instead, employers have switched to offering defined contribution plans, which provide what workers have saved plus whatever investment gains have accrued in the savings plan. Defined contribution plans offer an important opportunity for many Americans to accumulate wealth and are an important element of the retirement system. But not all Americans have access to even defined contribution plans—in fact currently over half of the workforce has no private pension plan and 34 percent of the workforce does not have savings specifically set aside for retirement. Moreover, for those that do have retirement savings, few people actually rollover their retirement accounts into annuities, especially into annuities with the type of built-in cost-of-living adjustments provided by Social Security.

Part of the answer to these challenges is to strengthen the ability of Americans to save for their own retirement and to annuitize those savings. In 2009 the Treasury expanded the ability of companies to establish opt-out systems for retirement savings that are a proven way to increase the takeup of 401(k) plans. Earlier this year the President directed Treasury to establish myRA accounts that would provide an easy and safe way to introduce more Americans to retirement savings. And we are also pushing for legislation to make workplace savings plans available to all workers who do not have them today.

Ultimately, however, there is no substitute for Social Security's guaranteed benefit. That is why it is so important to work together to address Social Security's solvency while protecting and strengthening the program. As the President said in his 2011 State of the Union Address, "We should also find a bipartisan solution to strengthen Social Security for future generations. We must do it without putting at risk current retirees, the most vulnerable, or people with disabilities; without slashing benefits for future generations; and without subjecting Americans' guaranteed retirement income to the whims of the stock market."

Thank you.