Overview of Social Security

History: Social Security was authorized by the Social Security Act of 1935 and signed into law by President Franklin D. Roosevelt on August 14, 1935. Taxes were collected for the first time in January 1937, and the first one-time, lump-sum payments were made that same month. Regular ongoing monthly benefits started in January 1940. (See the Social Security and Medicare Timeline for more details.)

In a Nutshell: Social Security is a national pension plan. It provides a lifetime of retirement income to people who have paid Federal Insurance Contributions Act (FICA) taxes (payroll taxes) for at least 10 years, are over 62 years of age, or are the surviving spouse or child of someone who would have received benefits and have applied for the benefit. There are also benefits for persons with disabilities.

Benefit Size: The size of the Social Security benefit an individual receives is calculated based on when they retire (at 62, 65, or 70 years of age, or later) and how much they have earned and put into the system over their lifetime. As of 2011, the average monthly benefit received by retirees was $1,181 a month (Social Security Administration [SSA], 2011a).

Significance: As of June 2010, over 53 million people, or about one in every six U.S. residents, collected Social Security. Seventy-five percent of them received benefits as retirees or elderly widow(er)s; 19 percent received disability benefits; and 4 percent received benefits as young survivors of deceased workers. Although it was never intended to provide full support to someone who is retired, for 22% of retired married couples and 43% of unmarried retirees, Social Security constitutes 90% of their income. For 54% of married couples on Social Security and 73% of those who are unmarried, Social Security constitutes at least 50% of their income (SSA, 2011a). In 2008, approximately 10% of seniors were living in poverty, as defined by the U.S. Census. The Center on Budget and Policy Priorities, a policy organization that studies the impact of fiscal policy on those with low and moderate incomes, estimates that, without Social Security (and assuming they could not have made up the difference with money from other sources), 45% of seniors would have been living in poverty (Center on Budget and Policy Priorities, 2010).

Funding: Social Security is defined as a social insurance program because it is funded by taxes paid by the participants. The program uses money from today's workers to pay benefits to current retirees. It therefore distributes the risk/need for income assistance after retirement among the entire tax-paying population, rather than concentrating it on each individual retiree and his or her family. Employees pay 6.2% of their monthly income in FICA taxes. The employer pays a matching FICA tax, and these monies go into the Social Security trust fund. Currently, FICA taxes are levied on only the first $108,000 an employee earns. With some adjustments, this system has worked for approximately 80 years and has usually run a surplus.

Changing Ratios: Because of the large number of retirees in the baby boom (the increase in the number of babies born in the 20 years following World War II), the number of workers in the labor force relative to the number of retirees is changing. (The ratio decreased from 5:1 in 1960 to 3:1 in 2009, and is projected to reach 2.2:1 in 2030 [Vincent & Velkoff, 2011].) Were there to be no increased revenue or other changes in the program, it is projected that by approximately

2036, Social Security will be able to cover only 75% of the monthly benefit retirees should expect to receive. In most years the trust fund has run a surplus, meaning it has collected more in revenue than it spent in benefits. Previous surpluses have been invested in U.S. Treasury bonds. Given demographic changes and the economic downturn, the trust fund will likely begin operating at a deficit in the next few years. That means it will need to start cashing in on these bonds and spending down previous surpluses. There are enough assets to cover current benefit projections through 2036, but cashing in the U.S. government debt held by Social Security can place pressure on the general budget (SSA, 2011b).

What to Do: Today, as in 1935, there is a range of opinion on how important this program is, on whether necessary trade-offs should be made to preserve it in its current form, and on whether the federal government should even be involved in administering a retirement fund. Some people believe that this is not the proper role for the federal government and that individuals must arrange for their own retirement, either through a plan administered by their employer, by putting aside money on their own, or by depending on the care and support of family. Others believe that the federal government, representing the American people, has a duty to require individuals and their employers to participate in a program that will assure a minimum level of income to retired people, their survivors (as of 1939), and the disabled (as of 1956). They believe the program represents a shared responsibility to one another and from one generation to the next.

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