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(FORM UPDATED: 08/11/2010)

WISCONSIN STATE LEGISLATURE ...
PUBLIC HEARING - COMMITTEE RECORDS

2005-06

(session year)

Senate

(Assembly, Senate or Joint)

Committee on ... Job Creation, Economic Development and Consumer Affairs (SC-JCEDCA)

COMMITTEE NOTICES ...

- Committee Reports ... **CR**
- Executive Sessions ... **ES**
- Public Hearings ... **PH**

INFORMATION COLLECTED BY COMMITTEE FOR AND AGAINST PROPOSAL

- Appointments ... **Appt** (w/Record of Comm. Proceedings)
- Clearinghouse Rules ... **CRule** (w/Record of Comm. Proceedings)
- Hearing Records ... bills and resolutions (w/Record of Comm. Proceedings)
  - (**ab** = Assembly Bill) (**ar** = Assembly Resolution) (**ajr** = Assembly Joint Resolution)
  - (**sb** = Senate Bill) (**sr** = Senate Resolution) (**sjr** = Senate Joint Resolution)
- Miscellaneous ... **Misc**

* Contents organized for archiving by: Mike Barman (LRB) (August/2012)

AARP Wisconsin

April 19, 2005

To: Honorable Members of the Senate Committee on Job Creation, Economic Development and Consumer Affairs

From: Gail Sumi, Associate State Director – State Advocacy – 286-6307

Re: Senate Bill 31, relating to social security and the state income tax

Thank you for the opportunity to support Senate Bill 31, related to providing a full Wisconsin income tax exemption for Social Security phased in over a five-year period. As you know, the Assembly Ways and Means Committee approved the bill unanimously last week. AARP has clear policy on this proposal and is glad to be able to support it.

One in six Wisconsinites receives Social Security. Benefits were paid to 924,150 people in Wisconsin in December 2003, including 622,330 retired workers, 91,290 widows and widowers, 96,780 disabled workers, and 63,520 children.

The average monthly Social Security benefit in Wisconsin in December 2003 was $944.50 for retired workers, $849.40 for widows and widowers who are not disabled, and $900.80 for disabled workers.

If we do the math - $752.5 million in federal funding was paid to Wisconsin residents monthly in 2003. That translates to **$9.03 billion annually in Social Security payments** benefiting Wisconsin's economy.

Not only does Social Security contribute to our economy, but in its absence:

- Wisconsin would likely have to provide for retirees, widows and widowers who currently rely solely on Social Security for their income or who use Social Security to prop up small pensions. Nationally, in December 2003, Social Security accounted for 38% of the total income of people age 65 and over. *In Wisconsin, Social Security is the only source of income for one in five Wisconsinites age 65+. About 45% of Wisconsinites who are 65 or over would have incomes below the poverty line without Social Security.*
- Wisconsin would likely have to provide support to disabled workers and survivors of deceased workers, the children, who currently receive social security benefits. Nationally nearly one-third of Social Security benefits are paid to people in these circumstances. *In Wisconsin, 7% of Social Security beneficiaries are children.*

As you know, AARP has a national campaign to support the Social Security safety net. I have brought some of the materials distributed to the over 300 people who attended our Social Security Forums in Waukesha and Fond du Lac last month.

Thank you for your consideration.

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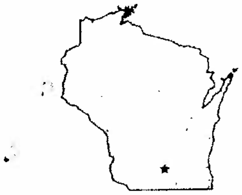


Social Security: Wisconsin Quick Facts

Wisconsin's aged population is expanding.

In 2003, Wisconsin's population was about 5,472,200 with 13% being age 65 and older (712,000 residents).[1] In 2015, the 65+ population will make up 15% of the state's population, and in 2020, it will be 17%.[2]

Wisconsin ranks 21st in income level among the U.S. states.

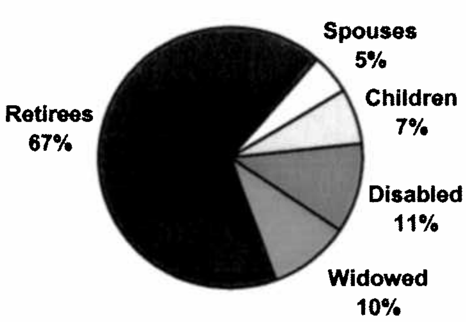
The average personal income in Wisconsin was $30,723 in 2003. Among the Midwest states, Wisconsin's (21st) per capita income ranks higher than Iowa (37th) or Ohio (25th) but lower than Michigan (20th) and Minnesota (10th).[3]

One in six Wisconsin residents receives Social Security.

The Social Security program not only provides monthly benefits to retired workers, but also to families when the worker retires, dies, or becomes disabled. In 2003, over 47 million Americans received Social Security benefits; of these, 928,505 live in Wisconsin.[4]

In 2003, one in six Wisconsin residents received Social Security. While 67% of beneficiaries are retirees, 33% are not: 92,498 are widows and widowers; 98,289 are disabled workers; 50,361 are wives and husbands; and 65,249 are children .[4]

Wisconsin Social Security Beneficiaries



Social Security pumps over 6 billion dollars into Wisconsin's economy.

In 1999, Wisconsin residents received 6.5 billion dollars from Social Security.[5] The average yearly Social Security benefit for a Wisconsin retiree in 2003 was $11,352—or about $946 a month.[4]

Nearly all Wisconsin residents age 65 or older receive Social Security.

Nationally, almost 16% of all people receive Social Security benefits; in Wisconsin, 16% of residents also receive benefits. However, older people are more likely to receive Social Security, with 91% of those over age 65 receiving it nationwide, and the same amount of Wisconsinites (19%) receive it.[1]

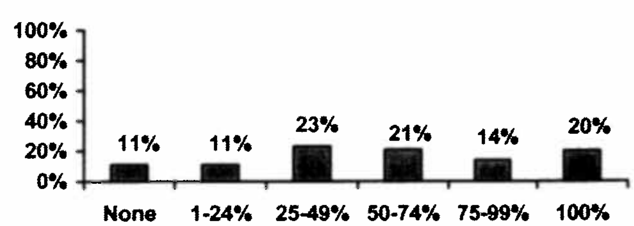
Social Security lifts nearly half of retirees from poverty.

Nearly half (47%) of the nation's older population would be living in poverty if they were not receiving Social Security. In Wisconsin, 45% of state's 65+ population (253,000 people) would have incomes below the poverty line if they did not have Social Security.[6]

Social Security is the only source of income for one in five Wisconsinites age 65+.

Social Security makes up at least half of the income for over half of Wisconsinites age 65 and older. A fifth of older Wisconsinites rely on Social Security as their only source of income.[7]

Income Percentage from Social Security for Wisconsinites 65+



End Notes

[1] OASDI Beneficiaries by State and County, 2003. Social Security Administration: http://www.ssa.gov/policy/docs/statcomps/oasdi_sc/2003/table1.html

[2] Wisconsin Population Projection Tables 2000- 2030, State of Wisconsin Department of Administration: http://www.doa.state.wi.us/pagesubtext_detail.asp?linksubcatid=105

[3] Bureau of Economic Analysis, US Dept. of Commerce: http://www.bea.gov/bea/regional/bearfacts/statebf.cfm

[4] OASDI Beneficiaries by State and County, 2003. Social Security Administration: http://www.ssa.gov/policy/docs/statcomps/oasdi_sc/2003/wi.html

[5] U..S. Census Bureau, Household Aggregate Social Security Income in 1999, Wisconsin: http://factfinder.census.gov/servlet/CTTable?_bm=y&-context=ct&-ds_name=DEC_2000_SF3_U&-mt_name=DEC_2000_SF3_U_P071&-tree_id=403&-all_geo_types=N&-redoLog=true&-_caller=geoselect&-geo_id=01000US&-geo_id=04000US55&-search_results=01000US&-dataitem=DEC_2000_SF3_U_P071.P071001&-format=&-_lang=en

[6] Sherman, A. and Shapiro, I. (2005) *Social Security Lifts 13 Million Seniors Above the Poverty Line: A State by State Analysis*. Center on Budget and Policy Priorities: www.cbpp.org/2-24-05socsec.htm

[7] AARP analysis using data from U.S. Census Bureau: 2000

Quick Facts provided by AARP Wisconsin
Gail Sumi, Associate State Director, Advocacy
608-286-6307

FE ANSWERS FROM AARP

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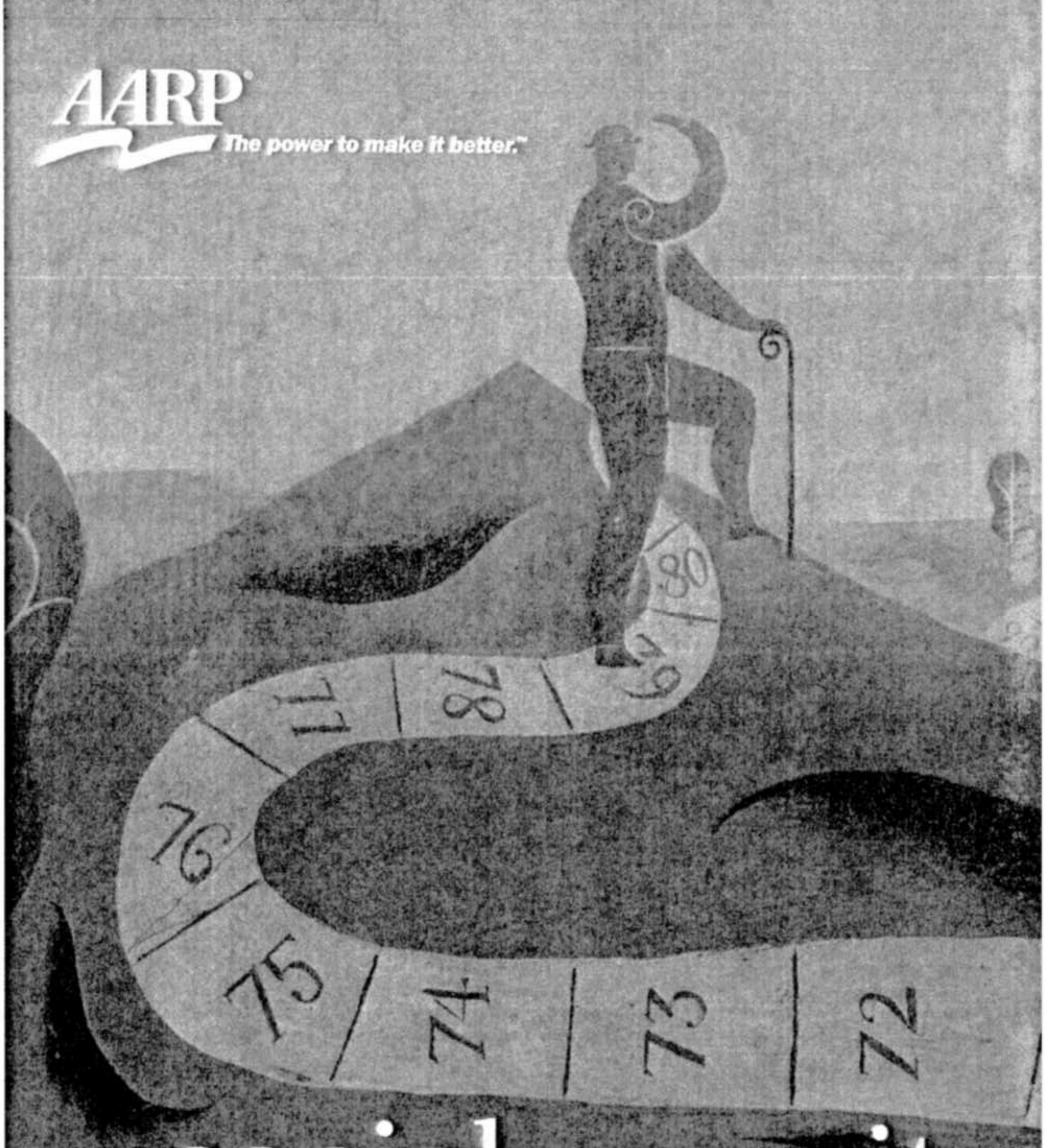


social security

an important part
of your retirement security

CONTENTS

This booklet is part of a series of AARP publications that provide life answers for people age 50 and over.

looking forward to social security

Social Security is the primary source of retirement income for older Americans. It guarantees a stream of income that replaces about 40 percent of your wages if you were an average earner. Social Security's great strength is its reliability. You may outlive your savings (including your 401(k)), but Social Security is always there for you. The cost of living may rise, but—unlike most other sources of retirement income—Social Security benefits are adjusted for inflation annually.

Financed by payroll taxes paid by employees and employers and administered by the Social Security Administration, Social Security provides a stable income base for over 46 million Americans of all ages. This booklet focuses on benefits paid to retired workers, but Social Security benefits also go to younger workers who have become disabled and the families of workers who have become disabled, retired or died. In fact, one in three beneficiaries today is not a retired worker.

The four pillars of a secure retirement

Social Security was never intended to be the sole source of retirement income. It was meant as a base upon which to build by adding private pensions and other savings and income. AARP believes a secure retirement rests on four pillars:

- Social Security.
- Pensions and savings (Individual Retirement Accounts, 401(k)s, and so on).
- Earnings from work.
- Adequate health insurance.

For most Americans, Social Security is the strongest and most reliable pillar, providing the most income to the most people with the least risk. But as you plan for your future, in addition to estimating your projected Social Security benefits, you should review your potential retirement income from all sources—pensions, 401(k), etc.

Will Social Security be there for me?

Some people are concerned about the long-term solvency of Social Security. Although some adjustments will have to be made to keep it strong, without any change at all, Social Security will do just what it's been doing—paying 100 percent of promised benefits—until the 2040s. After that, if no changes are made, Social Security will still be able to pay over 70% of promised benefits. Obviously that's not acceptable, and many proposals are being considered to address this shortfall. AARP favors a balanced approach to restoring solvency and is encouraging policymakers to start considering ways to keep Social Security strong for the future.

Are you eligible?

You can qualify for Social Security in two ways: 1) as a worker, and 2) as a family member of a worker. To qualify as a retired worker, your age and work record count.

To qualify as a retired worker: Anyone who has earned 40 Social Security credits may decide to start receiving benefits at age 62. As explained on page 6, the amount of the benefit you receive depends in part on your age when you start. When you work at jobs covered by Social Security and pay Social Security taxes (identified as FICA on some pay stubs) you earn up to four Social Security credits per year. To qualify for a retirement benefit, everyone born in 1929 or later needs 40 credits or a total of ten years of covered work. If you're like most people, you'll earn many more credits than you need to receive Social Security.

To qualify as a disabled worker: Workers who become disabled before age 65 and who meet stringent disability and work eligibility requirements can receive Social Security Disability Insurance benefits. So can their spouses and young children.

To qualify as a family member: If you have never worked or didn't work enough to earn 40 credits, you may still be eligible to receive a benefit, if you are married to a retired or disabled worker, widowed, a divorced spouse, or a parent or grandparent of an eligible child. Workers may receive benefits based on their own work record or their spouse's, whichever is higher. Those family members not in the workforce may also receive benefits.

Eligibility for Social Security under the above circumstances is discussed in more detail beginning on page 10.

Using your Social Security statement to plan retirement

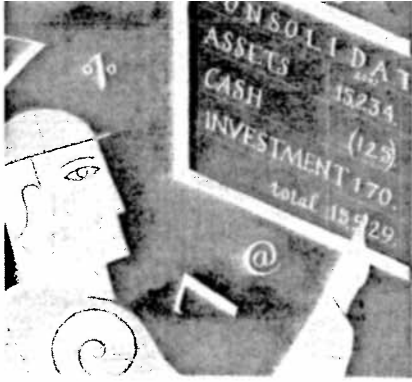
Many financial advisors say that you will need at least 70 percent of pre-retirement income to live comfortably after retirement. The Social Security Administration supplies you with a good tool—the Social Security Statement—for estimating the size of your retirement benefit.

From the age of 25 on, you should receive a Social Security Statement each year about three months before your birthday. (Contact the Social Security Administration if you do not receive one. You can also request one online.)

When you receive the Statement, take the time to review the following information carefully to make sure your Social Security records are accurate:

- ***Your Earnings Record at a Glance:*** If this year-by-year list does not include all of the work credits you have earned under Social Security, you could end up with a lower benefit. If you see a zero for a year that you actually were working in a Social Security covered job or an amount that does not match your tax records, this could suggest that you're missing some credit toward your future benefit.
- ***Your Estimated Benefits:*** This section shows how the amount of your estimated benefit will vary depending on your retirement age. These figures are only estimates, but they can be helpful in making a financial plan for retirement that includes income from all sources.

Based on your previous work and earnings records, the numbers on the Statement assume that you will continue to work until you are eligible for benefits and that you'll continue to earn at your current level. Your actual benefit could change based on your future work and earnings.



The Social Security Administration supplies you with a good tool—the Social Security Statement—for estimating the size of your retirement benefit.

The Social Security Administration (SSA) website, www.SSA.gov, offers several benefit calculators that can be modified using numbers you supply. This can give you a more realistic estimate based on your expectations of how long you will work and anticipated earnings.

What to do if you think the statement is wrong

If you think a figure on your Social Security Statement is missing or incorrect, try to verify the correct information with your pay stubs, W-2 forms, or tax records. If you can't find the salary records, contact your former employer for the information. When you have the information—or if you cannot locate your former employer—contact the Social Security Administration for assistance in correcting the record. You can call Social Security at their toll-free number 1-800-772-1213, or take your records to your local Social Security office.

Have available:

- Your Social Security number.
- The year or years in question.
- The business name and address of your employer in those years.
- If available, your W-2 forms (or tax returns if you are self-employed) for those years.

If no earnings are posted for a year in which you know you worked under Social Security, contact the Social Security Administration even if you don't have your W-2 or tax return. They may be able to search their records using other information you can give. There is a statute of limitations that Social Security can enforce.

getting started

At what age should you begin receiving benefits?

Choosing when to begin receiving retirement benefits is an important decision. It will affect your monthly benefit for the rest of your life. In general, the longer you delay collecting a benefit, the higher the amount will be. You can see the effect that retiring at certain ages will have on the monthly amount of your benefit by looking at the chart on the following page from the Social Security Administration.

Age 62: As long as you have credit for 40 quarters of covered work (approximately 10 years), you become eligible to start receiving your early retirement benefit at age 62. If you choose this option, the amount of your monthly benefit will be permanently reduced compared to what you would receive at what Social Security calls your "full retirement age." This is because you will receive benefits for a longer period of time, but your benefits are reduced five-ninths of one percent for every month you retire before reaching full retirement age.

Full retirement age: Your full retirement age depends on the year you were born. If you were born in 1937 or earlier, your full retirement age is 65. If you were born in 1938, it's 65 years and two months. The age rises to 66 for people born 1943 to 1954, and to 67 if you were born in 1960 or later.

Age 70: If you postpone Social Security, you will get a "delayed retirement credit" that will increase your benefit. The amount of your benefit will increase for each year that you delay taking Social Security between full retirement age and age 70.

Delaying your benefit beyond full retirement age can increase the amount in two ways:

- Each additional year you work adds another year of higher earnings to your Social Security record if you have zero or lower earning years in your record.
- In addition, your initial benefit will be increased by a certain percentage for each year you put off receiving benefits beyond your full retirement age until age 70.

For example, let's assume you turned 62 in 2003 and were eligible for a monthly benefit of $1,444. If you waited until your full retirement age, the benefit would be $1,931 a month. If you waited until you turned 70, you'd get $2,697 a month. (The Social Security Administration supplied these estimates.)

Social Security Full Retirement and Reductions by Age

Year of Birth[1]	Full Retirement Age	Age 62 Reduction Months[2]	Monthly % Reduction	Total % Reduction	Monthly % Reduction (spouse[3])	Total % Reduction (spouse[3])
1937 or earlier	65	36	.555	20.00	.694	62.50
1938	65 and 2 mos	38	.548	20.83	.679	62.92
1939	65 and 4 mos	40	.541	21.67	.667	63.34
1940	65 and 6 mos	42	.535	22.50	.655	63.75
1941	65 and 8 mos	44	.530	23.33	.644	64.17
1942	65 and 10 mos	46	.525	24.17	.634	64.58
1943–1954	66	48	.520	25.00	.625	65.00
1955	66 and 2 mos	50	.516	25.84	.617	65.42
1956	66 and 4 mos	52	.512	26.66	.609	65.84
1957	66 and 6 mos	54	.509	27.50	.602	66.25
1958	66 and 8 mos	56	.505	28.33	.595	66.67
1959	66 and 10 mos	58	.502	29.17	.589	67.08
1960 and later	67	60	.500	30.00	.583	67.50

1. If you were born on January 1st, you should refer to the previous year.
2. If you were born on the 1st of the month, we figure the benefit as if your birthday was in the previous month.
3. The maximum benefit is 50% of the benefit the worker would receive at full retirement age. The monthly % reduction for the spouse does not include the automatic 50% reduction. Percentages are approximate due to rounding.

Source: Social Security Administration

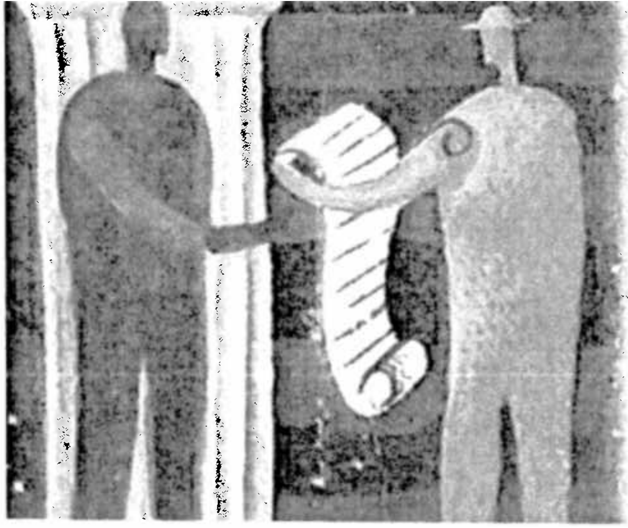
If you're not getting Social Security benefits when you turn 65, you should sign up for Medicare close to your 65th birthday regardless of when you plan to retire. If you're getting Social Security benefits when you turn 65, your Medicare health benefits start automatically. If you wait to sign up for Medicare until after turning 65, it will cost you more.

Factors to consider

For many people, the primary factor in choosing when to start Social Security is financial: The benefit will be needed to pay routine living expenses.

However, if you want to continue working beyond age 62, or if you have access to other sources of retirement income, consider these factors in making your decision:

- If you're in good health, starting your benefit at a more advanced age would guarantee you a higher monthly benefit later. This is important when other resources may be depleted and health care costs may increase.
- If you are unable to continue working because of a severe disability and have not reached full retirement age, consider applying for Social Security Disability Insurance (SSDI) benefits. (See "Disability benefits," on page 11.)
- If your spouse is much younger and could collect survivor's benefits for many years, he or she will be better off with the higher benefits that result from your waiting to start receiving them. However, if the spouse or widow is entitled to a benefit on your record, she could start collecting on her own record and convert to the higher spousal benefit later.
- If you wait, the higher benefit you receive may allow you to leave money in an existing tax deferred retirement or investment account, where it can keep growing tax deferred.
- Continued employment often provides continued health care coverage and other benefits that can be expensive to purchase on your own.
- If you plan to keep working and receive a benefit before reaching full retirement age, your benefit will be reduced if your earnings exceed a certain limit each year. However any benefit reductions before full retirement age are recomputed at full retirement age. For details, see "If you are continuing or returning to work," on page 17.



Applying for your Social Security benefit

Generally, the Social Security Administration advises people to apply three months before they want their retirement benefits to begin. You can apply at a local Social Security office (you can make an appointment), by telephone, or online. If you have questions about the process, call the Social Security Administration (1-800-772-1213), or visit their website, (www.ssa.gov), or visit one of their offices. You will need:

- Your Social Security number.
- Your birth certificate.
- Your W-2 forms or self-employment tax return for last year.
- Your military discharge papers if you had military service.
- Your spouse's birth certificate and Social Security number if he or she is applying for benefits.
- Your children's birth certificates and Social Security numbers, if applying for children's benefits.
- Your divorce papers (if applicable).
- Proof of U.S. citizenship or lawful alien status if you (or a spouse or child applying for benefits) were not born in the U.S.
- The name of your bank and your account number if you choose to have your benefits directly deposited into your account.

Detailed information on contacting the Social Security Administration is at the end of this booklet. Visiting their website (www.ssa.gov) or calling them (1-800-772-1213) is a good early step in your planning.

how much will you receive?

The amount of your benefit is based on the worker's age, years in the workforce, and contributions.

For the worker, the benefit amount is based on a formula that indexes to current wages, and then averages your highest 35 years of earnings. Once your benefit is determined, if you retire before your full retirement age, your benefit will be reduced accordingly. Higher lifetime earnings result in higher benefits, and waiting longer to retire results in higher monthly benefits. However, lower earners have a higher portion of their earnings replaced. If you do not work 35 years, this will make your benefit amount lower. (See "At what age should you begin receiving benefits?" on page 6.)

As a spouse, you are eligible to receive a benefit based on your own work record or your spouse's—whichever is higher. A spouse can receive 50% of the worker's benefit amount.

As a spouse, you are eligible to receive a benefit based on your own work record or your spouse's—whichever is higher.

Disability benefits

If you are a worker below retirement age, are unable to work and earn above a certain level of earnings and have a severe and long-term disability, you may qualify to receive Social Security Disability Insurance. This program also pays benefits to the children, spouse, or divorced spouse of a disabled worker.

To qualify, workers must have earned enough credits from work under Social Security. The number of credits you need depends on your age. For details on how this works, see this section of the Social Security website: www.ssa.gov/dibplan/dqualify2.htm. In addition, workers must have a recent attachment to the workforce.

The Social Security Administration determines whether you are disabled according to their definition. It requires that your disability must be expected to last one year or result in death. Only individuals who meet all the criteria will qualify. Social Security pays only for **total** disability, not partial or short-term disability. Benefits usually continue until you are able to work above a specific threshold for nine months in a five-year period. If you are still disabled when you reach full retirement age, the benefit will be recalculated and convert to a retirement benefit.

Certain members of your family may also qualify for benefits on your record. Each may be eligible for a monthly benefit that is up to 50 percent of your disability payment.

Your family may be eligible for Social Security benefits if you are the parent of a dependent child or grandchild.

However, there's a limit to the total amount of money that can be paid to a family on your Social Security record—around 150 to 180 percent of your disability benefit.

To apply for disability benefits: Call the Social Security Administration, go to their website, or visit one of their offices. You will need:

- Your Social Security number and proof of your age.
- Names, addresses, and phone numbers of doctors, hospitals, clinics and institutions that treated you and the dates of treatment.
- Names of all medications you are taking.
- Medical records from your doctors, therapists, hospitals, clinics, and caseworkers.
- Lab and test results.
- A summary of where you worked and the kind of work you did.
- Your most recent W-2 form, or your tax return if you're self-employed.
- Dates of prior marriages if your spouse is also applying.

family benefits

You may be eligible for Social Security benefits if you're divorced or widowed, or the parent or grandparent of a dependent child.

If you are divorced

You may qualify for a benefit based on your ex-spouse's work record. If you qualify, Social Security will not tell your ex-spouse that you're receiving the benefit, and the benefit you receive will have no impact on the amount received by your former spouse. Your divorced-spouse benefit is equal to approximately 50% of the worker's benefit. If you worked under Social Security and are entitled to higher benefits based on your own earnings, you would receive the higher amount based on your record.

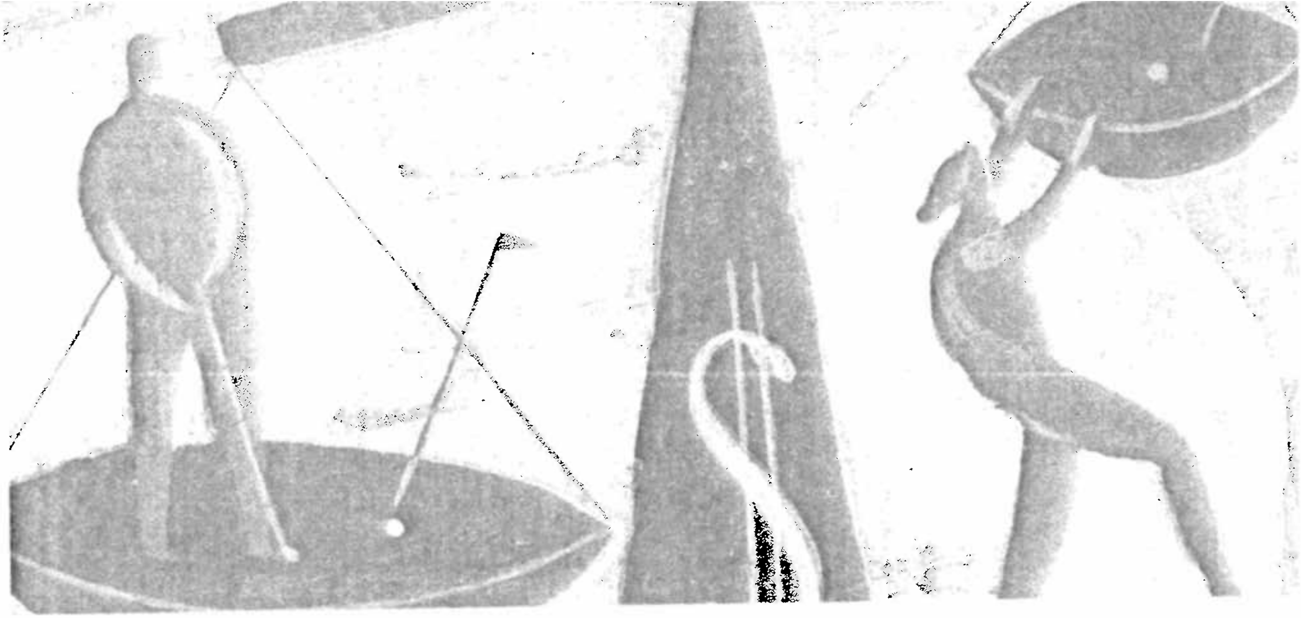
You may be able to receive the benefit:

- If you are divorced after at least 10 years of marriage, not currently married, you are at least age 62 and your former spouse is eligible for benefits (is age 62, and has enough credits).
- If your former spouse is deceased, you can collect widow/widowers benefits at age 60.
- If you become disabled as defined by Social Security, you can collect the benefits at age 50, and if you have been divorced at least two years and are eligible based on age, even if your former spouse is not retired.
- If you remarry at age 60 or later, you may receive benefits by applying as a surviving divorced spouse.
- If you were married less than 10 years before the divorce, and your ex-spouse is deceased; if you're unmarried and caring for the child of your ex-spouse; the child must be your natural or legally adopted child and must be under age 16 or disabled before age 22.

If you are widowed

If your spouse dies, you can receive benefits based on his or her work record. A widow or widower can get:

- Benefits at age 50 if you are severely disabled.



- Reduced benefits as early as age 60.
- Full benefits at full retirement age.
- Benefits at any age if you care for the deceased worker's child who is under 16 or disabled before age 22 and who receives benefits.
- A lump-sum death benefit of $255 if the deceased person worked long enough to receive a Social Security benefit (even if he or she was not getting the benefit at the time of death).

To qualify for benefits, widows or widowers usually must have been married to the deceased worker for at least nine months just before he or she died (in some circumstances—including accidental death—this requirement is waived).

You may find that you can receive a higher benefit based on your own work record rather than that of your deceased spouse. If a husband and wife are both retired and receive Social Security based on their work records and, for instance, the husband dies before his wife, she is entitled to one of two benefits: a widow's benefit or a benefit based on her own work. Social Security will pay a benefit equal to the higher amount. You may also be able to collect on your own work record until you are able to convert to an unreduced spousal benefit. Social Security does not pay benefits for the month in which an individual dies.

Apply for survivor's benefits promptly, as benefits are not paid retroactively.

You can apply by calling the Social Security Administration, going to their website, or visiting one of their offices. You will need:

- Proof of death—either from funeral home or death certificate.
- Your Social Security number, as well as the worker's.

Apply for survivor's benefits promptly, as benefits are not paid retroactively.

- Your birth certificate.
- Your marriage certificate if you're a widow or widower.
- Your divorce papers if you're applying as a surviving divorced spouse.
- Your dependent children's Social Security numbers, if available.
- The deceased worker's W-2 forms or federal self-employment tax return for the most recent year.
- The name of your bank and your account number so your benefits can be directly deposited into your account if you choose.

If you are a parent

Once you start to receive a Social Security retirement or disability benefit, you may also be able to collect a benefit for a child. To qualify, the child must be:

- Unmarried and under age 18;
- Under age 19, but attending elementary or secondary school full-time; or
- Age 18 or older and severely disabled, with a disability that started before age 22.

Social Security also provides survivors insurance to children. When someone who has worked and paid into Social Security dies (regardless of their age), survivor benefits can be paid to:

- Children under 18, or up to 19 and a full-time student (no higher than grade 12).
- Children of any age if they were disabled before age 22 and remain disabled.
- Under certain circumstances, stepchildren, grandchildren, adopted children, or dependent parents who are 62 or older.

Social Security limits the total amount of money that a widow or widower and other family members can receive each month. It is generally equal to about 150 to 180 percent of the deceased's benefit rate.

If you are a grandparent

In some cases, grandchildren may be eligible for Social Security benefits. If the child's parents are disabled, retired, or deceased, and at least one parent earned enough credits from work under Social Security, the child may qualify for benefits based on the parent's work record. But even if the child's parents' work records do not qualify, the child may be able to receive benefits in one of the following situations:

- Generally, the biological parents of the child must be deceased or disabled, or the grandchild must be legally adopted by the grandparent.
- The child must have begun living with the grandparent before age 18.
- The child must have received at least one half of his or her support from the grandparent for the year before the month the grandparent became entitled to retirement or disability insurance benefits, or died. If the child was born during the one-year period, the grandparent must have lived with and provided at least one-half of the child's support.
- A step-grandchild may qualify. But if the grandparents are already receiving benefits, they would need to adopt the child to qualify for benefits.

The child must be:

- Under age 18, or up to 19 and a full-time student (no higher than grade 12).
- Disabled, and the disability started before age 22.

To apply

Call the Social Security Administration, go to their website, or visit one of their offices. The Social Security representative who takes your application will tell you what documents you must provide, but at a minimum you will need:

- The child's birth certificate.
- Your Social Security number and the parents' numbers.

once you begin receiving benefits

If you are continuing or returning to work

Working can affect your retirement benefits. If you are receiving Social Security and have not reached your full retirement age, your benefits will be reduced if you earn more than a certain amount per year. If you are between 62 and your full retirement age, the reduction is always $1 in Social Security benefits for every $2 of earnings above the threshold, except for the year you reach full retirement age when the threshold is higher. The thresholds are adjusted annually.

After you reach your full retirement age, you can collect retirement benefits and continue working without any reduction in those benefits. You may be able to receive a higher benefit based on those earnings up to age 70; your benefit amount is automatically re-computed after your additional earnings are credited to your earnings record. If you are eligible for more than one benefit, you always receive the higher amount—not the two added together.

When benefits are paid

Social Security benefits are paid each month for the previous month. When you apply, the Social Security representative will tell you when you can expect to receive your benefit payment. Your benefit award notice also has this information.

For people who started Social Security after May 1997, the day of the month when you receive your benefit generally depends on the birth date of the person on whose record you receive benefits. For example, if you receive benefits as a spouse, your benefit payment date

If you receive benefits as a spouse, your benefit payment date will be determined by your spouse's birth date, rather than your own.

will be determined by your spouse's birth date, rather than your own.

Birth date	Benefits paid
1st–10th	Second Wednesday of the month
11th–20th	Third Wednesday
21st–31st	Fourth Wednesday

If a regularly scheduled Social Security check is due on a weekend or holiday, you will receive it on the preceding business day.

For people who started to receive benefits before May 1997, the payment date is the third of the month, or earlier if the third falls on a weekend.

You can look up the annual payment calendar at www.ssa.gov/pubs/calendar.htm

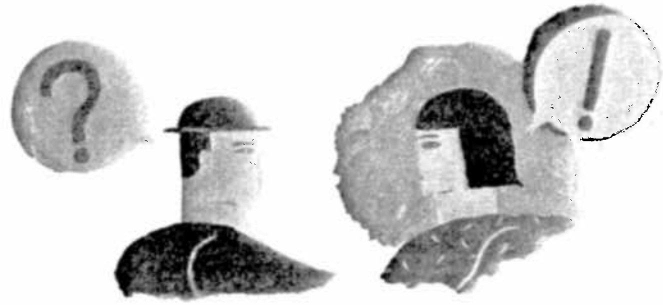
Taxes and Social Security income

If you have other income such as wages, self-employment income, interest or dividends, you may have to pay taxes on a portion of your Social Security benefits. In the following explanation of the rules, the term "combined income" refers to figures on your 1040 federal tax return. It consists of your adjusted gross income, plus nontaxable interest, plus one-half of your Social Security benefits.

- If you are a single filer and your combined income is between $25,000 and $34,000, you may have to pay income tax on up to 50 percent of your Social Security benefits.
- If your combined income is above $34,000, you may have to pay tax on up to 85 percent of your benefits.
- If you file a joint return and you and your spouse have a combined income between $32,000 and $44,000, you may have to pay tax on up to 50 percent of your benefits.
- If you file a joint return and you and your spouse have a combined income above $44,000, you may have to pay tax on up to 85 percent of your benefits.
- If you are married and file a separate tax return, you may have to pay tax on up to 85 percent of your benefits.

Depending on where you live, you may or may not have to pay state income tax on your Social Security benefit.

The Social Security Administration is not an authority on tax matters. IRS Publication 915, *Social Security and Equivalent Railroad Retirement Benefits* is a good source of information on this topic. For this and other helpful publications, call the Internal Revenue Service at 1-800-829-3676 or visit www.irs.gov to read them online.



What to do if you disagree with a decision from Social Security

If you think your benefit amount is incorrect, or Social Security says that you're ineligible, you have some recourse. You will receive a letter from the Social Security Administration explaining the decision. If you don't agree with the decision, you must request an appeal in writing within 60 days. Social Security will not waive the deadline unless there are good reasons for missing the deadline (usually matters out of the individual's control). Your Social Security office may help with your appeal. Depending on the case, many people handle their own appeals with help from the Social Security Administration or you can hire a representative. Your representative cannot charge or collect a fee from you without first getting written approval from the Social Security Administration.

There are four levels of appeal:

- A complete review of your claim by someone who didn't take part in the first decision. You do not need to be present.
- A hearing by an administrative law judge: It is usually to your advantage for you and your representative, if you have one, to attend the hearing.
- Review by Social Security's Appeals Council: The Appeals Council will decide whether to review your case. If it does, it can send the case back to the judge or decide against you.
- Federal court review: If you disagree with the decision of the Appeals Council you may file a lawsuit.

contacting the social security administration

In a number of different situations, contacting the Social Security Administration directly might be helpful. Such situations include the retirement planning stage; when you need information to help you decide the best time to start receiving a benefit; three months before you actually want to start on Social Security; and if you change your name due to marriage, divorce or any other reason.

You can contact the Social Security Administration by going to their website, mailing them, calling them, or visiting a local office.

Documents you submit must be originals or copies certified by the issuing office. You can mail or bring them to Social Security. They will make photocopies and return them.

How to contact Social Security

By Mail

Social Security Administration
Office of Public Inquiries
Windsor Park Building
6401 Security Blvd.
Baltimore, MD 21235

Always include your Social Security number or claim number when you write to the Social Security Administration.

Online

The Social Security Administration website, www.ssa.gov, contains a wealth of information. It also provides services and offers fast, easy ways to ask questions, register complaints, offer suggestions, and give compliments. Online at www.ssa.gov you can:

- Apply for retirement, disability, or spouse's benefits.
- Request a Social Security statement.
- Request a replacement Medicare card.
- Request a replacement Social Security benefit statement (Form 1099).
- Request a benefit verification letter.
- Figure your retirement, disability, or survivors benefits.

Changing your name

If you change your name, you'll need to tell the Social Security Administration and get a new Social Security card. If you do not report the name change, you could lose future benefits. The Social Security Administration needs one or more documents identifying you by both your old and new name. These can include: driver's license, marriage or divorce record, military records, employer ID card, adoption record, life insurance policy, passport, health insurance card (not a Medicare card) or school ID card.

- Subscribe to their email newsletter.
- Find Social Security forms.
- Find the Social Security office nearest you.
- Find Social Security publications.

If you currently receive or recently applied for benefits and you have a password, you can also:

- Check your Social Security benefits.
- Change your address or telephone number in the Social Security Administration's records.
- Have your Social Security benefits sent directly to your bank or change your direct deposit location.

By Phone

The Social Security Administration's toll-free number is 1-800-772-1213. It operates from 7:00 am to 7:00 pm, Monday through Friday. With a touch-tone phone, recorded information and services are available 24 hours a day, including weekends and holidays.

People who are hearing-impaired may call the toll-free TTY number, 1-800-325-0778, between 7:00 am and 7:00 pm, Monday through Friday. Have your Social Security number handy when you call.

Over the phone, you can do everything you can online, plus:

- Request a replacement Social Security card.
- Correct the name and address on your Social Security record.
- Have your Social Security benefits sent directly to your bank.

- Change your phone number in Social Security Administration records.
- Discuss the rules for getting Social Security benefits.
- Ask questions about your check or report a missing check.
- Report a death.
- Discuss the amount of your overpayment.
- Set up a plan for paying your overpayment or ask the Social Security Administration to waive it.
- Request an appointment at a Social Security office near you.
- Get phone numbers for other government agencies.

Social Security Administration offices

Social Security Administration Field Offices are located across the country. Check the website at www.ssa.gov or your phone book for locations near you.

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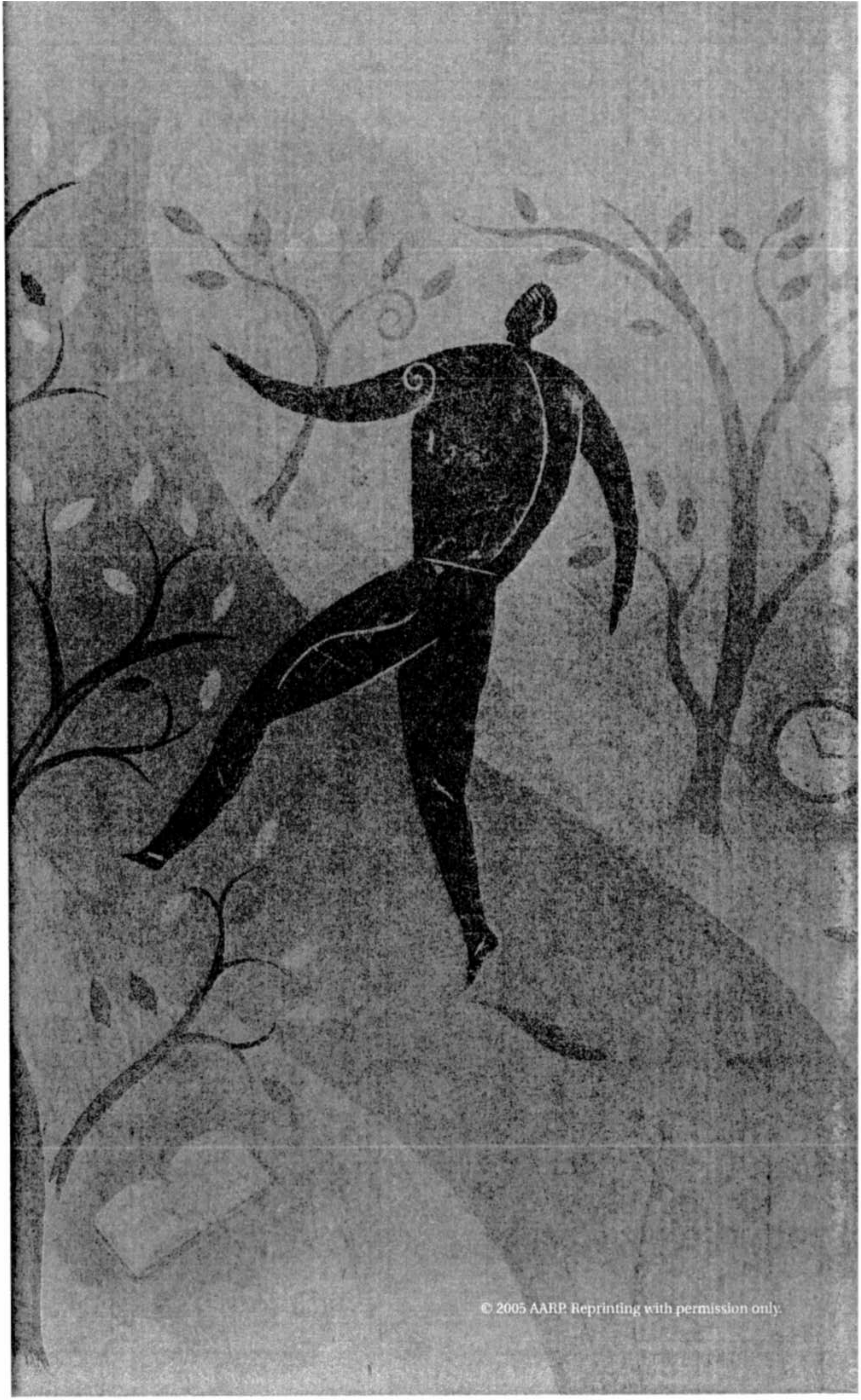

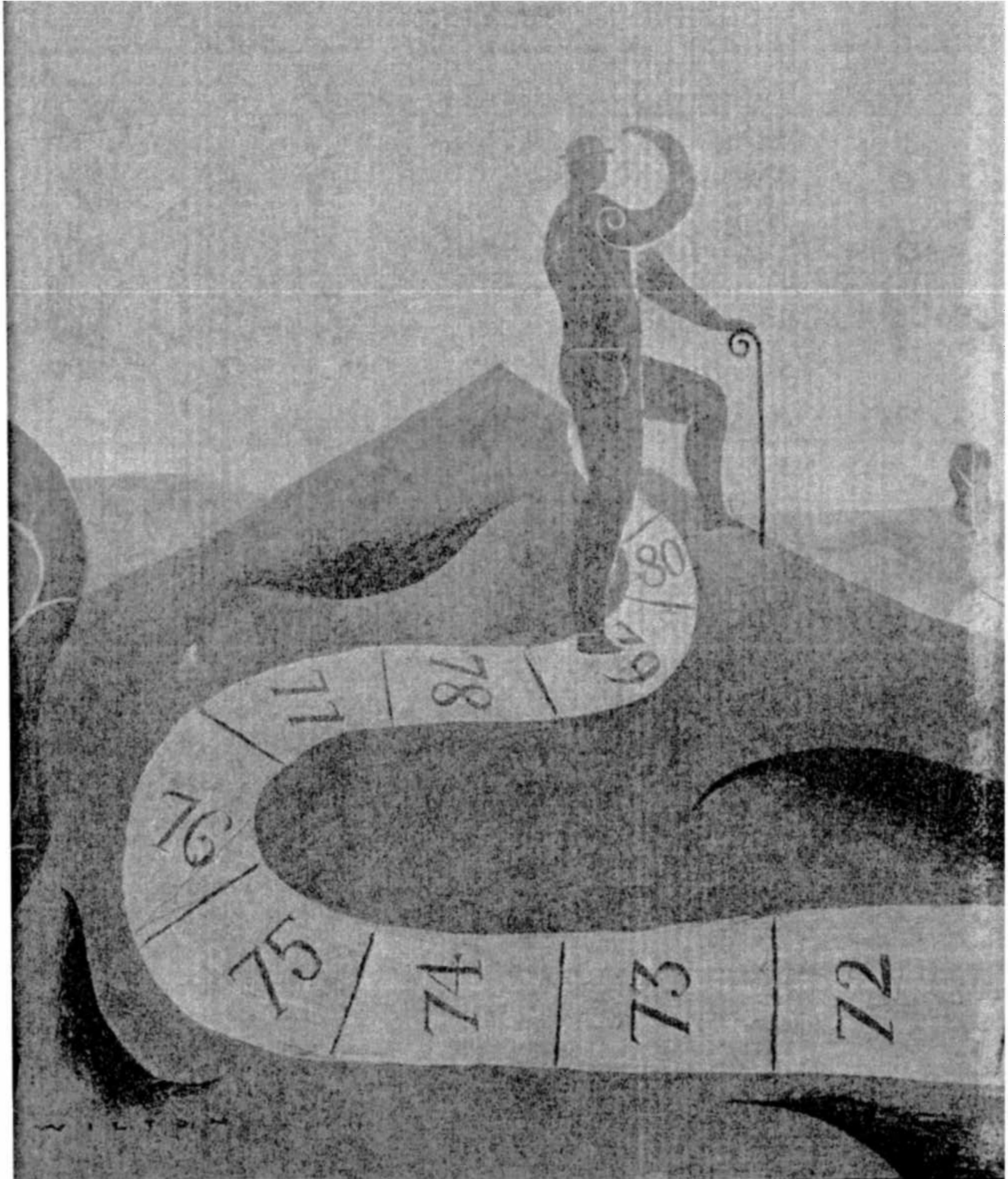

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SOCIAL SECURITY

OUR FUTURE. OUR FIGHT.

The real facts about Social Security

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Our Fight: Keeping Social Security Strong

AARP believes the current Social Security system needs to be strengthened. The longer we wait to come to a national consensus on what the adjustments will be, the more painful the changes we will have to make.

As the boomer generation begins to retire, more people will be getting benefits relative to the number of people paying into the system. In addition, people are living longer. These are reasons why we need to make changes. Although Social Security will remain strong for decades to come, we need to strengthen the system so that it will always be able to pay 100% of benefits. While it was never intended to provide all of your retirement income, Social Security is important to your retirement security.

Our Future: No Immediate Danger

Social Security is in no immediate danger of going "broke." With the retirement of the boomers on the horizon, Social Security began to build a cushion to see us through their retirement years. Because of that planning, the Social Security Trust Funds hold over $1.5 trillion in U.S. Treasury bonds and earn interest every year.

Without any changes, Social Security will be able to pay 100% of benefits well into the 2040s and over 70% of promised benefits after that. Paying only 70% of promised benefits, however, is not acceptable.

Our Challenge: Addressing The Future Shortfall

Some simple steps can be taken to begin making a down payment on that future Social Security shortfall. AARP supports:

- Investing part of the Social Security surplus so that it earns higher returns than those offered by U.S. Treasury bonds. That way we strengthen Social Security while sharing the risks of investing. We should not be creating a system where some people win and others lose when it comes to Social Security.

- Raising the cap on the amount of wages taxed to support Social Security to cover the same share of wages as in the past. That would gradually raise today's cap of $90,000 to approximately $140,000.

- Making Social Security a truly universal system by including all newly hired state and local government workers in Social Security.

These steps alone won't fill the entire future gap, but they are substantial steps toward solving the problem.

The Wrong Direction For Changes

Some people have recommended taking part of the money people pay into the system and diverting it into newly created private accounts. Because less money would be flowing into Social Security, the guaranteed and inflation-adjusted lifetime benefits would have to be cut. Maybe the investments in the account would make up the difference, and maybe they wouldn't.

Market returns can be attractive, yet they come at a risk. Private accounts can lose money just as fast as they can make it. And, unlike Social Security, you run the risk of outliving your savings and you lose the protection against inflation. Furthermore, private accounts are expensive. Most of us would have to pay twice to create this new system — first to keep our commitments to current retirees and again to pay into these private accounts.

Social Security: More Than You Might Think

Many people do not realize just how valuable Social Security is to them. An individual would have to save an additional $250,000 while working to replace the benefits Social Security provides over an average retirement lifespan. Independent investments, pensions, IRAs and 401(k)s are all important parts of retirement savings, but so is Social Security. In fact, the average two-earner couple can expect $20,000 per year in Social Security benefits.

It is true that Social Security needs modest changes, but the guarantee it provides is one worth strengthening, not replacing.

Call 1-800-846-8610
and urge your legislators to
oppose private accounts that
put Social Security at risk.
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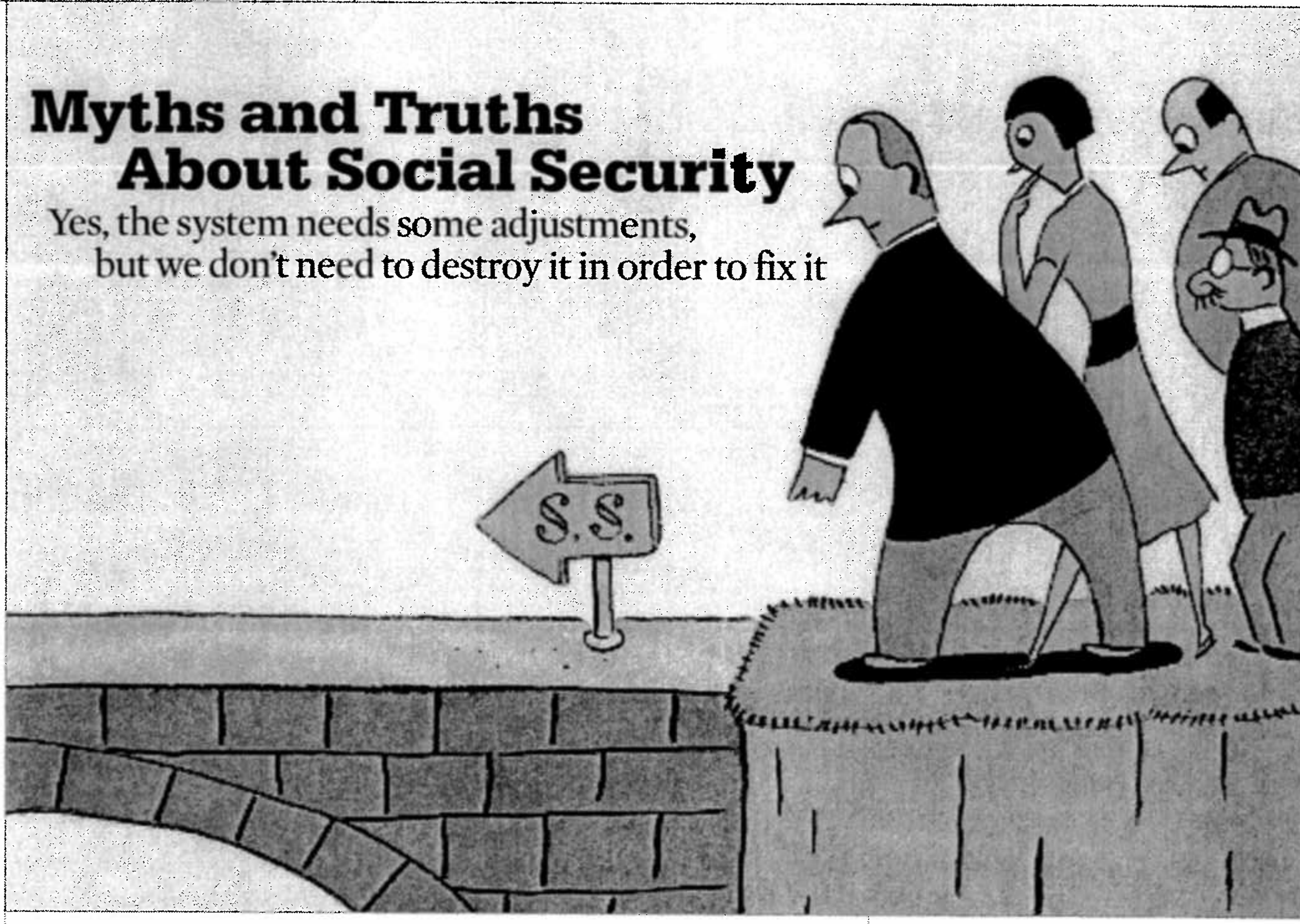
 By Karen Westerberg Reyes

Myths and Truths About Social Security

Yes, the system needs some adjustments, but we don't need to destroy it in order to fix it



MARC ROSENTHAL

SOCIAL SECURITY IS THE ULTIMATE support system, a monetary cushion for grandmothers and granddads, but also a lifeline for widows, widowers, divorcées, orphans, and people with disabilities. For the average American over 65, Social Security makes up nearly 40 percent of their income. For about 20 percent, it is their only income. The system has worked well for some 70 years now with few adjustments. These days, it's on everyone's radar. That's because President Bush has put Social Security reform at the top of his second-term to-do list. He and many others argue that big changes are necessary if Social Security is to survive, much less thrive. But there are those, AARP included, who believe a radical overhaul could spell disaster—the end of Social Security as we now know it.

Is the current Social Security system really at death's door, or are the rumors of its demise greatly exaggerated? Following are some common misconceptions.

Myth: **Social Security is broke.**

Those who argue that Social Security needs a dramatic reorganization begin with this premise: the system is failing; Social Security isn't sustainable in its present form. From there, the argument goes that what's best for the country is some form of privatization. With privatization, a portion of the Social Security taxes now paid would be diverted into an account that each taxpayer would control themselves. (Under the current system, all surplus Social Security revenue is invested in special U.S. Treasury bonds.)

So, is Social Security about to go bust? Not by a long shot. In fact, Social Security is in better shape today than at any other time since it was enacted in 1935. That's because of some judicious adjustments suggested in 1983 by a commission set up by Ronald Reagan and headed up by Alan Greenspan. Since then, trust fund reserves have gone from nearly zero to $1.6 trillion.

Social Security trustees acknowledge that by 2028 the system will need to start redeeming the bonds in its reserve, but they calculate that the fund will be able to meet 100 percent of its obligations until 2042. By that date, the principal will be exhausted, but the system will still bring in enough revenue from taxes to pay nearly 75 percent of benefit amounts. (An even rosier Congressional Budget Office report says the system will be able to pay full benefits until 2052, and 80 percent after that.)

Myth: **The fund starts getting into trouble in 2018.**

Not true. The year 2018 is when Social Security benefit payments are expected to exceed payroll tax revenues. That's not exactly cataclysmic. Reason: from 2018 through 2027, incoming tax revenue combined with interest earnings from trust reserves will still be enough to maintain a positive trust fund balance and pay benefits. Beginning in 2028, as mentioned, the trust fund principal will have to be tapped, and that'll get us through 2042—even if we do nothing.

Clearly a tune-up is needed to extend Social Security's life beyond that horizon. "But dismantling the whole system would be like buying a new car because the one you have has a flat tire," says Peter R. Orszag, a senior fellow of economic studies at the Brookings Institution in Washington, D.C.

Myth: **The Social Security reserves are only on paper.**

Well, yes, but that paper is U.S. Treasury bonds, which have been earning a combined interest rate of about 6 percent a year. For more than 200 years, in good times and bad, during wars and depressions, American bonds have always paid off. They're one of the safest investments in the world. In 2003, some $80 billion, about 13 percent of Social Security's total income, came from the interest from these bonds.

Myth: **The 77 million Baby Boomers marching toward retirement are going to break the system.**

Advocates for radical reform point out that once the boomers retire they will start taking more money out of the system than younger workers are putting in. The oft-cited statistic is that by 2040 there will be just two workers for each retiree. (Today there are just over three workers for each retiree.) But that fact, while accurate, fails to acknowledge that workers today are more productive, earn higher wages, and plan to stay in the workforce longer—all factors that will help fill the future gap. In fact, in the near term, this population juggernaut, being at the peak of its earning years, is currently helping to amass a huge surplus in the fund.

Once boomers start retiring, sure, that's going to put a strain on the system. "But it isn't going to be Armageddon," says Kenneth S. Apfel, former commissioner of the Social Security Administration and current member of the faculty at the LBJ School of Public Affairs at the University of Texas at Austin.

We can strengthen Social Security by making small adjustments, just as we've done in the past. These include raising the cap on wages subject to Social Security (currently you're taxed on income up to $90,000) and investing part of the Social Security surplus in other vehicles that pay higher interest than Treasury bonds do.

Myth: **A system of private accounts would save Social Security.**

The buzz phrase being bandied about by those who favor privatization is "an ownership society." They favor taking a portion of Social Security taxes and diverting it to individuals to invest. They say such a system would give workers ownership of their money. It would allow taxpayers to put their own dollars into stocks, bonds, and other investments that would pay them a higher return.

Those who oppose privatization, including AARP, argue that setting up private accounts would effectively scuttle Social Security. "Siphoning money from Social Security will not strengthen it," says David Certner, AARP's director of federal affairs. "It will just make the problem much worse."

First, the transition costs alone would be crushing—as high as $2–$3 trillion, according to AARP's own economic analysis. "The amount of additional national debt that would generate could eat into any returns people might actually get from a private account system," says Barbara Kennelly, president and CEO of the National Committee to Preserve Social Security and Medicare, a 3.2-million-member organization located in Washington, D.C.

Second, diverting a portion of Social Security money to private accounts means that there would be fewer dollars available to pay Social Security benefits. That would leave the whole system with less of a reserve, as well as less cash on hand to pay beneficiaries. This situation would lead to hard choices: cutting benefits, raising taxes, or doing none of the above and watching the trust fund run out of cash sooner.

According to a letter entitled "The Consequences of Social Security Privatization" signed by Congressmen Charles B. Rangel (D-NY) and the late Robert T. Matsui *(continued on page 87)*

Diverting part of Social Security contributions to private accounts would "blow a hole" in the entire system.

Social Security

(continued from page 31)

(D-CA), diverting a portion of workers' current Social Security contributions to private accounts "blows a hole in the Trust Funds...and directly threatens our ability to pay current retirees." They predict that under privatization the trust fund reserves will be wiped out by 2021, a full 20 years sooner than if the system had been left alone.

Myth: Private accounts will give individuals more control.
People already have control over their money when they invest in private pensions, IRAs, and 401(k) plans. When combined with the solid foundation that Social Security provides, these are excellent vehicles for retirement savings. "What we should be doing is making these work better," says Orszag.

Myth: Individuals will get higher returns with private accounts.
Surely you can do better with your investments than a big bureaucratic government agency can, say those who favor private accounts. Well, the truth is, some people may do better. But who's going to pay for the care and feeding of all those who do worse?

"Under privatization, current workers will have to pay three times," says Certner. "Once to ensure the benefits for those currently at or near retirement, once for themselves, and once more for those whose investments didn't pan out." In the current Social Security system, the risk is near zero. You know it will be there regardless of what the market does. That's because United States Treasury bonds don't crash when the stock market does.

So what can be done? Yes, the Social Security system needs some work, but there's nothing so seriously wrong with it that some due diligence and nonpartisan intervention and planning can't repair. "There's no need to take the risky step of privatization," says Kennelly. ■

Karen Westerberg Reyes, planning editor, is the magazine's Social Security specialist.

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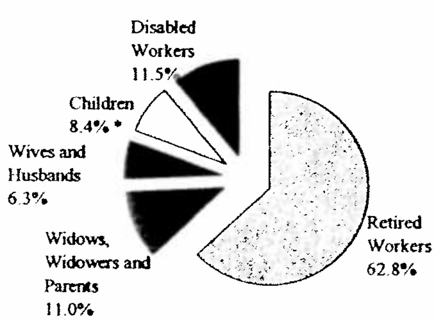
TEN FACTS TO REMEMBER ABOUT SOCIAL SECURITY

Introduction. Social Security provides family insurance—it is much more than a retirement investment plan. Although it is common today to hear about what *return* people receive from Social Security, the program was never intended to be an investment plan that competes with market returns. Here are some important facts to remember.

1. Social Security insurance protects all age groups. Today, Social Security provides insurance coverage to almost 153 million workers and their families, and benefits to close to 46 million people of all ages. For a worker with average income, a spouse and two small children, Social Security's survivor protection is equivalent to a life insurance policy with a face value of $374,000.[1] For the same worker, Social Security's disability benefits are worth more than a $234,000 disability policy.[2]

- More than 3.8 million Social Security beneficiaries are children of deceased, retired, or disabled workers; 4.8 million are widow(er)s; and over 5 million are disabled workers (see Figure 1).
- Just under 3 in 10 Social Security beneficiaries are under age 65. Seven percent are under age 18, 9 percent are 18 through 54, and 13 percent are 55 through 64.

Figure 1
Who Benefited from Social Security in 2001?



Source: Social Security Administration, *Annual Statistical Supplement, 2002*, Table 5A4, forthcoming.
* Includes children under age 18, disabled children age 18 or older, and students age 18 and 19.

2. Social Security provides a retirement benefit that is guaranteed for life and is adjusted to keep pace with inflation. Social Security retirement benefits continue to be paid throughout the lifetimes of retirees and are indexed to increase as prices rise. In contrast, pensions and personal savings accounts are rarely indexed to inflation, and retirees may outlive those assets. Even if inflation is only three percent per year, a non-indexed annuity eventually loses more than one-third of its value over 15 years.

3. Social Security benefits are adequately funded for another 39 years. According to the Social Security trustees, even with no changes, Social Security will still be available to pay 73 percent of benefits after 2041. This is because taxes paid by current workers will continue to flow into the system, and can be used to pay benefits. The cost of making Social Security solvent for baby boomers is less than the cost of the 2001 tax cuts.

4. Social Security protects workers and their families against the risks of death and disability. When reform proposals are compared to the Social Security system, the value of this disability and survivors' insurance should be included in the calculations, although often it is not.

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[1] Social Security Administration, www.ssa.gov/employers/newempl.htm, revised Jan. 2002.
[2] Ibid.

AARP

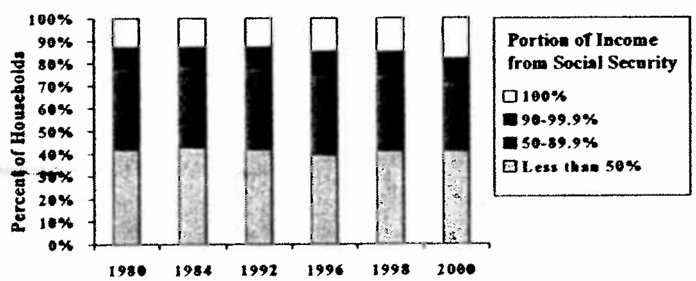
5. **Social Security benefits are progressive.** As social insurance, Social Security provides progressive benefits to low-income workers. Redistribution is accomplished through the benefit formula, which replaces a greater percentage of pre-retirement wages for workers who have low earnings throughout their careers.

6. **Social Security is the principal source of income for two-thirds of older Americans, and virtually the only source of income for one-third.** More than 90 percent of those over age 65 receive Social Security benefits. In contrast, the Bureau of the Census reports that less than half of retirees receive income from pensions.[3] Of those who receive Social Security, about one-quarter get 90 percent or more of their income from it (see Figure 2).

Pension income accounts for about 20 percent of total retirement income, while Social Security accounts for about 40 percent of the income of older retirees as a group, and the percent increases with age. The average monthly Social Security benefit today is $767. As the only guarantee of income in retirement, Social Security has performed admirably over the years, keeping roughly 40 percent of older Americans out of poverty (see Figure 3).

7. **Social Security is crucial for women.** Approximately 24 million women, comprising 53 percent of beneficiaries, currently receive Social Security benefits. For non-married women over age 65, Social Security provides more than half of their income. Because, on average, women live longer, earn less, and are far more likely than men to take time out of the labor force for care giving, Social Security's inflation-adjusted, defined-benefit, lifelong guarantee is particularly important. Additionally, Social Security provides more than retirement benefits. Social Security Disability Insurance protects younger women in the labor force and their families. Widows with children

Figure 2
Percentage of Households 65+ With Different Shares of Family Income From Social Security, Selected Years



Source: AARP, *Beyond 50: A Report to the Nation on Economic Security*, Washington, DC, 2000. For further data and definitions, see also Social Security Administration, *Income of the Population 55 or Over*, selected years, Washington, DC, Table 6A1.

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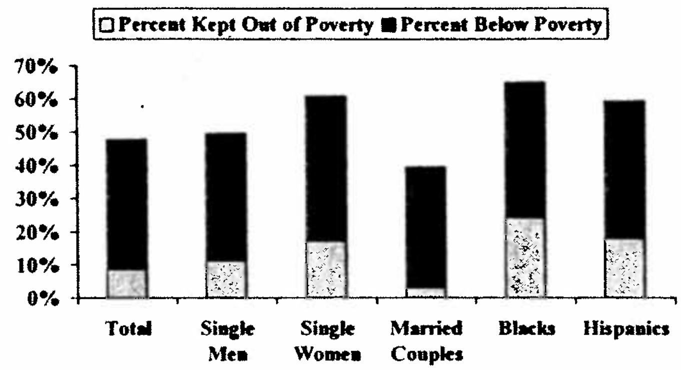
[3] Social Security Administration, *Income of the Aged Chartbook 2000,* Washington, DC, 2002, p. 3.

Figure 3
Percent Kept Out of Poverty by Social Security
Selected Groups in 2000



Source: Social Security Administration, *Income of the Population 55 or Over, 2000*, Washington, DC, 2002, Table 8.3, pp. 148-152.

may be eligible for survivor benefits at any age when caring for a child who is under age 16 or disabled and entitled to benefits. Unmarried children under age 18 may receive survivor benefits based on a parent's record.

make up a disproportionately large segment of workers earning low and moderate wages.[4] The Social Security benefit formula insures that these lower-wage workers and their families receive a higher return in benefit amounts relative to their contributions than higher-wage workers.

Table 1
Percentage of Elderly and Their Spouses with Income from Specified Sources, 1994-1998*

	Total Population	White	African American	Hispanic
Percent of total population having retirement income from investments	67%	73%	34%	34%
Percent of total population having retirement income from pensions or annuities	42%	45%	29%	22%

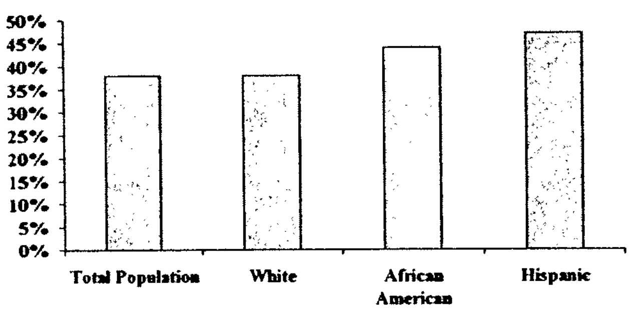
* Source: Kilolo Kijakazi, "Improving the Retirement Income of Low-Wage Earners," in *The Future of Social Insurance*, National Academy of Social Insurance, Washington, DC, 2001. Kijakazi's analysis uses data from the 1994-98 Current Population Survey collected by the Bureau of the Census.

8. Social Security provides critical income support to minorities. Social Security is a primary source of income security for minority workers and their families. African Americans and Hispanics

[4] Kilolo Kijakazi "Improving the Retirement Income of Low-Wage Earners," in *The Future of Social Insurance*, National Academy of Social Insurance, Washington, DC, 2001.

Older African Americans and Hispanics are less likely to have private pensions and assets (see Table 1). However, 86 percent of African Americans over age 65 and 77 percent of Hispanics over age 65 have income from Social Security. In fact, Social Security provides a higher portion of total retirement income for older African Americans and older Hispanics than it does for older whites (see Figure 4).

Figure 4
Percent of Total Retirement Income Provided by Social Security in 2000



Source: Social Security Administration, *Income of the Population 55 or Over, 2000*, Washington, DC, 2002

Minorities receive benefits from more than just the retirement program. While African Americans represent 12 percent of the U.S. population, they comprise almost 18 percent of workers receiving disability benefits. African Americans make up 23 percent of children and 17 percent of widows receiving survivor benefits.

9. Trust fund assets earned 6.7 percent in 2001, and the cost of administering Social Security is minimal. The trust funds are invested in special U.S. Treasury securities that earn market-based returns—6.7 percent in 2001.[5] In addition, the trust funds' holdings of government bonds are not subject to the risk of price losses if they are redeemed early, unlike other bond investments. The trust funds will continue to grow until 2017. Under the Social Security actuaries' mid-range assumptions, assets will total nearly $3.3 trillion by 2010. In 2001, the Social Security trust funds had administrative costs of about 7/10 of 1 cent of every dollar of income. Social Security can achieve these low administrative costs because all Social Security tax dollars are reserved solely to pay benefits and administer the program. Social Security's administrative costs are appreciably lower than the average administrative cost of a mutual fund, which is about 1.5 percent of the account balance.

10. Social Security is the foundation of workers' retirement security, but it was never intended to be the only source. Social Security was intended to provide vital basic protections for workers and their families. However, savings and pensions are important components of overall retirement income security. Social Security replaces only 42 percent of the average worker's wage. For a comfortable retirement, one should also save through pension and personal savings plans to achieve a goal of replacing 70 to 80 percent of pre-retirement income.

Written by Laurel Beedon & Alison Shelton
AARP Public Policy Institute, October 2002
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[5] Individuals generally earn a lower rate of return on their contributions. There are several reasons for this. First, Social Security provides survivors, dependents, and disability insurance. Social Security also redistributes between generations. Finally, Social Security's benefit formula explicitly redistributes between higher and lower-income workers.

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FACT SHEET

SOCIAL SECURITY AND AFRICAN AMERICANS: SOME FACTS

Social Security provides protections for workers and their families should the breadwinner retire, become disabled, or die. Some assert that African Americans and Hispanics bear a large portion of the cost of the program, but will receive little in benefits and would be better off with an individual account system that could be invested in the equities market. What are the facts?

Social Security's progressive benefit formula protects low- and moderate-wage earners.

African Americans and Hispanics make up a disproportionately large segment of workers earning low and moderate wages.[1] Social Security's benefit formula ensures that these lower-wage workers and their families receive a higher return relative to their contributions than do high-wage workers. The program replaces approximately 56 percent of earnings for low-wage workers, 42 percent for average-wage workers, 35 percent for high-wage workers, and 30 percent for those with consistently taxable maximum wages.[2 3]

Social Security is the dominant source of income for most people over age 65. It is particularly important for older African Americans.[4]

Of African Americans age 65 or older:

- 88 percent have income from Social Security;
- 19 percent have income from private pensions or annuities;
- 29 percent have income from assets.

Older African Americans rely heavily on Social Security.[5]

The importance of Social Security is increased for older African Americans because they are less likely to have income from private pensions and assets.

- Older African Americans, on average, receive more than 44 percent of their total income from Social Security.
- African American women over age 65, on average, rely on Social Security for 56.8 percent of their income.
- Social Security is the only source of income for one in three African Americans over age 65,.

Social Security helps keep people age 65 and over out of poverty (See Figure 1).

The high poverty rates for older African Americans would be significantly higher without Social Security. The poverty rate would increase from 22 to over 57 percent

Social Security essentially treats African Americans who reach age 65 no differently than the general population.

Life expectancy is the average number of years of life remaining to a person at a particular age. In order to assess the rates of return from Social Security, life expectancy at birth is a less useful measure than, for example, life expectancy at age 40, when most people are working; or life expectancy at 65, when many workers choose to retire. An average *white male* has a life expectancy of 74.8 years at birth, 37.1 years at age 40, and 16.3 years at age 65. The average *black male* has a life expectancy of 68.2 years at birth, 32.3 additional years at age 40, and 14.5 more years at age 65. At age 65, the difference in life expectancy between white and black males is less than two (1.8) years.[6]

Additionally, while a higher percentage of black men will contribute to Social Security without receiving *retirement* benefits, a higher percentage will receive *disability* benefits than the general population.

Social Security's family benefits are particularly important to African Americans.

Of those receiving Social Security benefits based on a deceased worker's record:[7]

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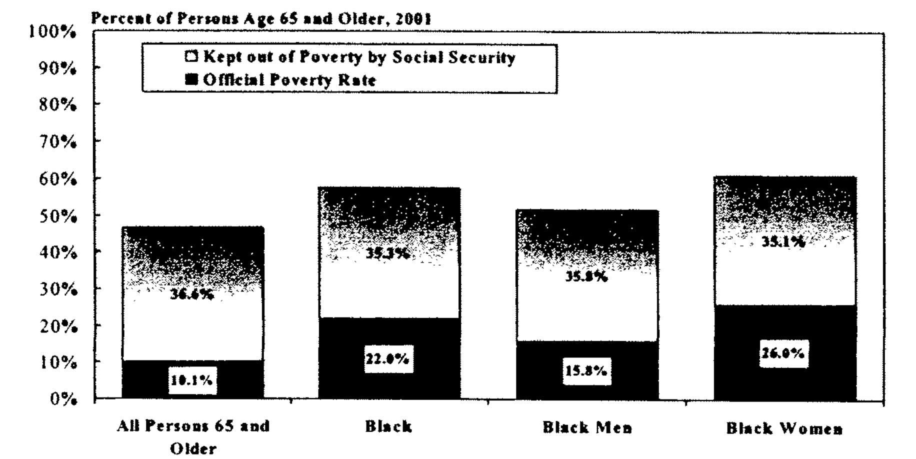
Figure 1
Social Security Reduces the Percent of African Americans Age 65 and Older Living in Poverty



Source: U.S. Bureau of the Census, March 2002 Current Population Survey (machine-readable micro data).

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- African American children represent close to 23 percent of those receiving surviving child benefits.
- African American parents represent almost 17 percent of those receiving widowed mothers' and fathers' benefits.

African Americans represent more than 11 percent of the civilian labor force,[8] but they comprise almost 18 percent of workers receiving Social Security Disability Insurance benefits.

Family members of disabled workers may also receive benefits.[9]

- African American children represent 21 percent of those receiving benefits as children of disabled workers.
- African Americans represent almost 14 percent of those receiving benefits as wives and husbands of disabled workers.

Social Security provides family protection.

Social Security benefits are indexed for inflation, and unlike an individual savings account, they cannot be depleted. Social Security's benefit formula ensures that those who earn lower wages receive proportionally higher benefits. Social Security ensures protection not only for the worker, but also for the family of a worker who retires, is disabled or dies.

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[1] Kijakazi, Kilolo. 2001. *Low-Wage Earners: Options for Improving Their Retirement Income.* Washington, DC: Center on Budget and Policy Priorities (January).
[2] The rates shown are for retirement at normal retirement age.
[3] *Low earners* are defined as having career earnings at 45 percent of the SSA average wage, *average earners* 100 percent, *high earners* 160 percent of the national average wage, and *maximum earners* are defined as earning the taxable maximum steadily across their working lives. Tables available at: www.ssa.gov/oact/tr/tr03/rbfl1.
[4] Social Security Administration. 2002. *Income of the Population 55 or Older, 2000.* Washington, DC. Table 1.3.
[5] Ibid. Tables 7.4 and 6.B4 respectively.
[6] Centers for Disease Control and Prevention. 2002. *National Vital Statistics Report.* Vol 51, No. 3, Tables 5. and 8.
[7] Social Security Administration. 2002. *Annual Statistical Supplement, 2000.* Washington, DC. Tables 5.A1. 4 and 5.
[8] Kijakazi, Kilolo. 1998. *African Americans, Hispanic Americans, and Social Security: the Shortcomings of the Heritage Foundation Reports.* Washington, DC: Center on Budget and Policy Priorities.
[9] Social Security Administration. 2002. *Annual Statistical Supplement, 2000.* Washington, DC. Tables 5.A1. 3 and 4.

FACT SHEET

SOCIAL SECURITY AND WOMEN: SOME FACTS

Social Security is the mainstay of retirement-income support for millions of older women. Some assert that women would fare better in a system based in part on individual accounts that could be invested in the equities market. What are the facts?

Social Security's progressive benefit formula protects low- and moderate-wage earners.

Despite their increased labor force participation rate and rising earnings, women remain concentrated in low-paying occupations. Full-time working women in 2002 had a median weekly wage of $531, which amounted to only 78 percent of the median weekly wage of $685 for full-time working men.[1]

Social Security's benefit formula ensures that lower-wage workers and their families receive a higher return relative to their contributions than high-wage workers. At the normal retirement age, Social Security replaces approximately 56 percent of the average lifetime earnings of low-wage workers, 42 percent of the average lifetime earnings of average-wage workers, and 35 percent of the average lifetime earnings of high-wage workers.[2] Individual accounts would lack this earnings redistribution.

Social Security is the dominant source of income for women in old age. It is a particularly important source of income for older minority women, who are less likely than older white women to have income from private pensions or assets.[3]

Of women aged 65 and older,

- 91 percent of whites, 88 percent of blacks, and 76 percent of Hispanics receive Social Security.
- 19 percent of whites, 15 percent of blacks, and 8 percent of Hispanics have income from private pensions or annuities.
- 62 percent of whites, 24 percent of blacks, and 26 percent of Hispanics have asset income.

Women rely heavily on Social Security.

Over half of Social Security beneficiaries are women. Women are

- over two-fifths of the beneficiaries of disabled worker benefits,
- 99 percent of the spouses receiving Social Security benefits,
- 99 percent of the nondisabled surviving beneficiaries, and
- 98 percent of the dually entitled, that is, persons entitled to benefits as retired workers and as spouses.[4]

Widowed, divorced, and never-married women, in particular, depend heavily on Social Security. Social Security accounts for half or more of the income of nearly three-fourths of these nonmarried female recipients of Social Security. For one in four, it is the only source of income.[5]

Social Security helps keep women aged 65 and older out of poverty.

The poverty rate for women would be significantly higher without Social Security, increasing from 12.4 percent to over 50 percent (Figure 1).

Social Security is gender-neutral.

By law, the Social Security Administration cannot take gender into consideration when calculating benefits, so women and men with identical work histories and earnings receive identical benefits. However, women typically live longer than men and thus receive benefits for a longer period of time. At age 65, for example, women can expect to live another 19.2 years, compared to 16.3 years for men.[6] Because the private market can consider gender when calculating annuities, the same

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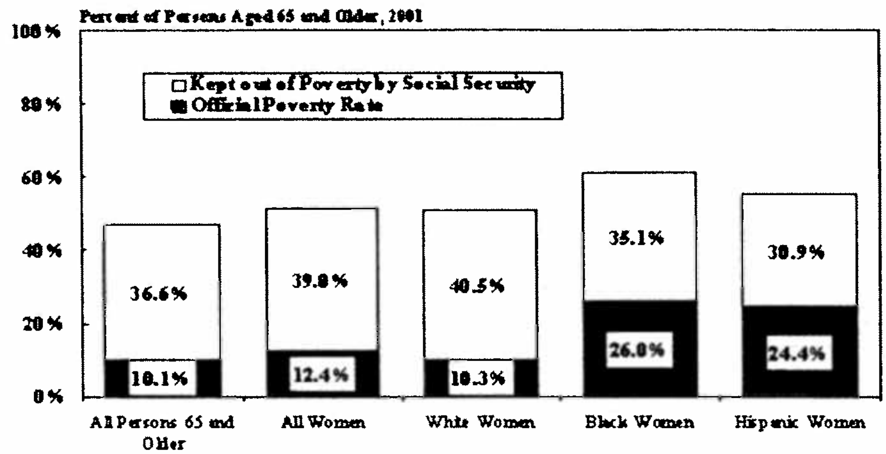
Figure 1
Social Security Reduces the Percent of Women Age 65+ Living in Poverty



Source: US. Bureau of the Census, March 2002 Current Population Survey.

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accumulation of savings in individual accounts would purchase lower monthly benefits for women than for men, even though payments over a lifetime may be the same.

Social Security provides inflation-protected, lifetime benefits with no market risk.

Annual cost-of-living adjustments ensure that Social Security benefits retain their purchasing power. The value of most other sources of retirement income, such as private pensions and annuities, erodes over time.

In addition, Social Security is guaranteed for life. Hence, women need never fear outliving their Social Security benefits. Nor do they have to worry about market fluctuations when it comes to their Social Security benefits. These aspects of Social Security are very important to women because women have longer life expectancies than men, tend to be more conservative investors, and generally have less income to risk. Individual accounts would not provide the same protections.

Social Security's spousal and survivor benefits are especially important to women.

Sixty-two percent of female beneficiaries aged 62 and older receive Social Security benefits as spouses or surviving widows based on the earnings records of their husbands (34 percent) or as dually entitled beneficiaries (28 percent).[7] Dually entitled beneficiaries qualify for their own retired worker benefits; however, they are entitled to higher benefits based on earning histories of their husbands and so receive the higher of the two benefits.

Wives as well as divorced women who had been married to their ex-husbands for at least ten years are entitled to spousal benefits amounting to 50 percent of the benefits of their husbands or ex-husbands. Upon widowhood, they are automatically eligible for a benefit amounting to 100 percent of their current or former husband's benefit.

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[1] U.S. Bureau of Labor Statistics, *Employment and Earnings*, (Washington, DC: U.S. GPO, January 2003), Table 39.
[2] Social Security Administration, Table VI.E11 at http://www.ssa.gov/OACT/TR/TR02/lrIndex.html.
[3] Social Security Administration, *Income of the Population 55 or Older, 2000*, (Washington, DC: U.S. GPO, 2002), Table 1.8.
[4] Social Security Administration, *Annual Statistical Supplement, 2002*, (Washington, DC: U.S. GPO, 2002), Tables 5.A6, 5.A1.2, 5.A1.3, 5.A1.6, 5.G1.
[5] Social Security Administration, *Income of the Population 55 or Older*, op cit., Table 6.B2.
[6] National Center for Health Statistics, *Fast Stats A to Z*, Sept. 11, 2003. http://www.cdc.gov/nchs/fastats/lifexpec.htm
[7] Social Security Administration, *Annual Statistical Supplement*, op cit., Table 5A.14.

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