WISERWoman

Spring 2011

A Quarterly Newsletter from the Women's Institute for a Secure Retirement

The National Deficit and the Debt? Why is Social Security Part of the Debate?

One of the hottest political debates in the Capitol is the national deficit and the debt, a debate highlighted by the release of the December 2010 report by the National Commission on Fiscal Responsibility and Reform (or "Fiscal Commission"). Appointed by the President in February 2010, its purpose was to recommend a plan to improve the nation's fiscal outlook.

President Obama urged the Commission to put everything on the table for discussion, and Social Security, one of the federal government's largest spending programs, quickly took center stage. One problem is that while Social Security is being lumped in with all other deficit spending, technically, Social Security doesn't contribute to the deficit. Except for 2011 when Congress authorized a 2% reduction in the payroll tax. But that's a special one-year exception.

Illustration by Margaret Scott

The Fiscal Commission's final report was issued with the support of only 11 of the 18 members, falling three votes short of what was needed to become a formal recommendation to Congress. However, the report's recommendations are being taken seriously by members of Congress, with a bipartisan group in the Senate, (formed by Senators Chambliss and Warner) now consisting of more than 20 Senators who meet regularly to discuss options on the deficit.

What is the Social Security shortfall and how urgent is the need to fix the system?

Key demographic changes put a more immediate strain on Social Security's financing:

- The large boomer generation is beginning to retire, so more people will be collecting benefits compared to the number of workers paying taxes into the system.
- People are living longer and collecting benefits for longer periods. For these reasons, Social Security faces a shortfall in about 2037.
- Without any change, Social Security would only have enough revenue to pay about 75-78% of promised benefits in 2037. The shortfall is about 22-25%.
- So the system is not "totally broke" or "running out of money". When people say the system is "totally broke" they are incorrect.
- However, many agree that although there is no immediate crisis, the longer we delay putting the program into long-term financial balance, the more drastic the changes that will have to be made in the future.

How serious is Social Security's long-term financial outlook?

- Under law, Social Security is financed by a designated tax, the 12.4 % payroll tax – 6.2% paid by workers and 6.2% paid by employers on income up to $106,800 this year. The money raised through this payroll tax is used to pay current benefits.
- Any surplus is used to buy U.S. government bonds. All funding for the program comes either from the payroll tax or from the bonds held by the program's trust fund.

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Inside

From WISER's President

Dear Reader:

So if many policymakers consider Social Security as the easiest program to fix – why is it so complicated? It's the politics that are ever so complicated. But that may be why it is the one issue that will make the various factions want to work together and make it happen by the 2012 election.

With so much misinformation about the Social Security program, it's difficult to know where to start with the facts. So what about the deficit connection? The straight answer is that Social Security is prohibited from spending any money beyond what it has in its trust fund. This means that it cannot contribute to the federal budget deficit, since all the money it pays out must come from taxes raised through the program or from the interest generated by the bonds held by the trust fund.

We hope that this newsletter's lead article will help explain the big issues.

Cindy Hounsell

Published by WISER.

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WOMENS INSTITUTE FOR A SECURE RETIREMENT

The Women's Institute for a Secure Retirement
Cindy Hounsell, President
1146 19th Street, NW, Suite 700
Washington, DC 20036
info@wiserwomen.org • www.wiserwomen.org

Newsletter contributors: Cheryl Gannon, Lara Hinz, Ashley Mannes, and Geenae Rivera.

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National Education & Resource Center on Women & Retirement Planning

Information from the National Education & Resource Center on Women & Retirement Planning

Profile of Older Americans, 2010

The Administration on Aging released its publication: *A Profile of Older Americans: 2010*, which is an annual summary of the latest statistics on the older population. The publication covers 15 topical areas including population, income and poverty, living arrangements, education, and health. This resource can be found in the Aging Statistics section at **www.aoa.gov.**

Reverse Mortgage Assistance for Older Homeowners

The Administration on Aging added a new special project page to its website called, *Home Equity Conversion Mortgage (HECM) and the Role of the Aging Network* that explains how the Aging Network can assist HECM reverse mortgage holders who may be delinquent with certain property cost payments. This new page provides important information for working with older borrowers and helping them to understand their mortgage situation so that they can avoid defaulting on the payment or potentially losing their home. The page also provides an overview of HECM and links to valuable resources. More information can be found by visiting the AoA Programs, Special Projects page at **www.aoa.gov**.

Older Homeowners Beware:

Reverse Mortgage Policy Changes Could Lead to Foreclosures and Eviction of Surviving Spouses

A reverse mortgage is a financial loan that replaces a traditional mortgage for the purpose of allowing homeowners to borrow from the equity in their home. It can be a reasonable financial option for some older homeowners who need help making ends meet. The Department of Housing and Urban Development, however, made a "gotcha" policy change to reverse mortgages that are pushing some older homeowners into foreclosure. Lenders often encourage only the elder member of a couple to put his or her name on the mortgage because it leads to a greater payout. But HUD's procedural change has lead to a terrible outcome. Surviving spouses not named on the mortgage must pay the full loan balance to keep the home or face possible foreclosure, even if the property is deemed an "underwater" or worthless property. A lawsuit has been filed against HUD, but the policies are currently still in place. Homeowners, therefore, need to be very careful not to rush into reverse mortgages without carefully considering all the pros, cons and possible pitfalls.

The Impact of Retirement Risk on Women

A new report issued by The Society of Actuaries and co-sponsored by WISER, highlights the problems women face in retirement. The study, *The Impact of Retirement Risk on Women*, is based on findings from the 2009 Risks and Process of Retirement Survey Report.

The report emphasizes five key risks that affect women's chances for retirement security, including:

Outliving Assets: Men and women, when they do plan for their retirement (especially if they are in a marriage or long-term relationship), prepare the same type of retirement plan. But they often overlook the fact that women, on average, outlive men and will typically need more money in retirement to help them through those extra years.

Loss of Spouse: Women outlive men and often marry older men. As a result women tend to have longer periods of widowhood than men do. For many women, the death of a spouse is accompanied by a decline in their standard of living.

Decline in Functional Status: Women tend to have longer periods of chronic disabilities and, as a result, are more likely to need long-term care either by family or community services (i.e. assisted living).

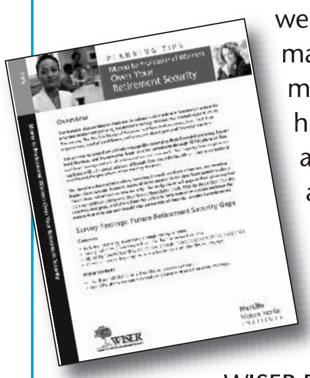
Health Care and Medical Expenses: Women tend to have lower income than men and are less likely to have employer provided early retiree health benefits based on their own earnings. At the same time, women mostly have higher healthcare costs than men.

Inflation: Costs due to inflation affect people who live longer, and it has averaged 3.5% over the last 30 years. For medical care, the average has been 5.8%. Inflation is an important risk because it means money saved for retirement loses its buying power.

For most women, there is little room for error, and being financially unprepared for nearly a third of their lives will have consequences. Women need to know what their future risks are and make mitigating those risks a priority throughout their lives. For more information or to access the report , visit **www.wiserwomen.org**.

New Resources Help Women Navigate Their Retirement Journey

The MetLife Mature Market Institute, in collaboration with WISER, recently released *The Metlife Study of Finances and Female Executives*. This study surveyed career women age 45 to 70 earning $75,000-plus per year and found that while they were highly confident about how to manage their household finances, nearly two-thirds (62%) were still fearful that they may never have enough money to retire. Many have mixed feelings about the financial advice they've been getting, but 25% are not sure what they should be doing.



"Higher income executive women are a force in today's economy," says WISER President Cindy Hounsell. "They play a significant role in managing family finances, have climbed the organizational ladder despite hitting the constraints of the glass ceiling and have achieved success in terms of their careers and their income. The predominant challenge these women face is their feeling of insecurity about retirement. It is a common concern."

> *"The predominant challenge… women face is their feeling of insecurity about retirement."*
>
> *—Cindy Hounsell, WISER President*

To accompany this study, MetLife and WISER developed a planning tip guide called *Memo to Professional Women: Own Your Retirement Security*, as well as a new booklet, *What Today's Woman Needs to Know and Do: The New Retirement Journey*. The study and both of these tools can help women at any point in their lives learn how to prioritize and build retirement savings. They are available in the research section at **www.wiserwomen.org**.

Social Security

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(The system is also credited with a portion of the income tax paid on Social Security benefits.)

- Since 1984, Social Security payroll taxes have been generating a surplus – ***more*** than what is needed to pay current benefits. In 2009, Social Security payroll taxes generated a $122 billion dollar surplus. The surplus is invested in government bonds, which earn interest. (The trust fund now has about $2.6 trillion dollars invested in U.S Treasury bonds, which are lent to the rest of the government.)
- Beginning in 2010, and for most years thereafter, Social Security payroll tax revenues alone will not be enough to pay out annual benefits, and Social Security will draw down on its trust fund reserves to pay benefits.

So what can we do about the shortfall?

- Advocates on one side of the debate call for immediate restructuring of the entire program. There are people who completely disagree with a system of social insurance. There has been strong opposition since the program was instituted about 75 years ago. One reason is that the program redistributes income – lower income workers get a higher percent of their wages replaced; around 55%. While higher income workers get about 27% of their wages replaced.
- Advocates who like the way the system works now urge caution, saying there is no immediate crisis. When others suggest cutting benefits or raising the retirement age, the sparks fly.
- It is important to address the shortfall so that future generations continue to collect adequate benefits.

Current reform proposals

Current reform proposals fall into two general categories—on one side are tweaking proposals to change revenues and

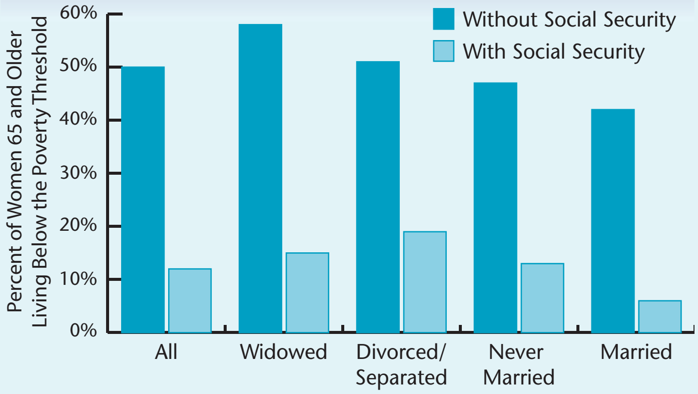
Who benefits from Social Security and How?

Social Security has been the nation's single most successful social program, helping millions escape poverty in old age. Nearly all Americans are participating in the program. Currently there are over 50 million Americans collecting benefits.

For women, who are likely to live longer, Social Security is the cornerstone of their economic safety net; without Social Security, more than half of elderly women would live in poverty. As a life-long benefit, with cost-of-living adjustments, the value of the benefit is protected over time.

More than retirement benefits. Most people know that the Social Security program provides retirement benefits but many do not know that it also provides **disability benefits** to workers who become disabled and their families and **survivor benefits** to spouses and children when a worker dies. When a worker dies, the program provides survivor benefits to a spouse until her children turn age 16 and to the children until they turn age 18. According to experts, the Social Security's survivor's benefit and disability benefit are valued at over $450,000 each.

Social Security Benefits Crucial to Financial Security of Women, Especially Widows



Source: Joint Economic Committee Majority Staff Calculations based on data from the Current Population Survey, March 2010.

Did You Know?

Currently, there are about four million children receiving Social Security benefits.

Social Security

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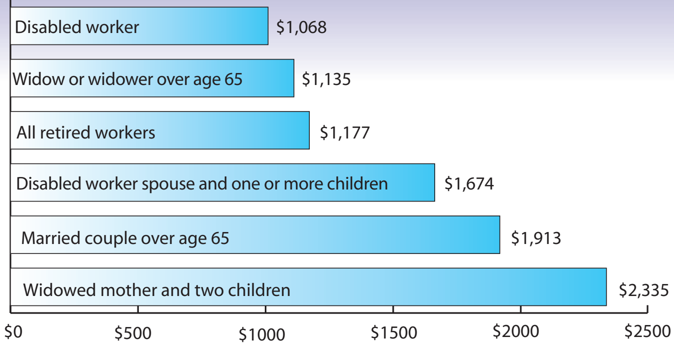
Average Monthly Social Security Benefit



Source: Social Security Administration, Beneficiary Data. January 2011.

benefits to extend the life of the trust fund; and on the other side, there are more dramatic changes to partially privatize the system into individually invested private accounts.

The Fiscal Commission plan calls for:

- changing the benefit formula to slow the growth of benefits for many workers,
- an increase in the retirement age to 68 by 2050,
- an increase in the payroll tax on upper income Americans,
- a cut in the annual COLA increases for Social Security benefits,
- a resulting reduction in the monthly benefits for most beneficiaries, and
- a requirement that newly hired state and local government employees be required to pay Social Security taxes.

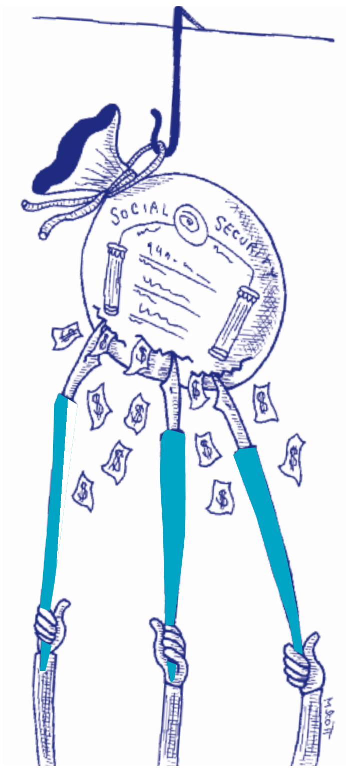
Other reform options

Those who oppose individual private accounts generally support a mix of options including tax increases and benefit cuts to put the system on sounder financial footing.

- Social Security payroll taxes apply to a worker's earnings only up to a cap—$106,800 in 2011. Some advocates suggest lifting this cap and applying the payroll tax to all income. This would completely eliminate the shortfall in Social Security funding.
- Others suggest raising the cap so that the payroll tax is applied to 90% of all earnings as was intended when the program was started. This would eliminate about half of the funding deficit. Only about 6% of workers have earnings over the cap of $106,800.
- Another option is to raise the payroll tax on everyone. A tax increase of about 1% on employees and 1% on employers would eliminate the shortfall. By the time the shortfall occurs in 2037, the real wages of workers will be about 35% higher than today. However, there is substantial opposition in Congress, particularly in the Republican-led House of Representatives, to any tax increase. And payroll increases effect low-income workers the most.

Other more controversial options

"Means testing": Gradually slowing down the cost of living adjustment (COLA) increases, reducing benefits for upper income earners or reducing certain benefits, such as widow's benefits for upper income earners. (See WISER Fact Sheet on the topic.)



Partial privatization of Social Security

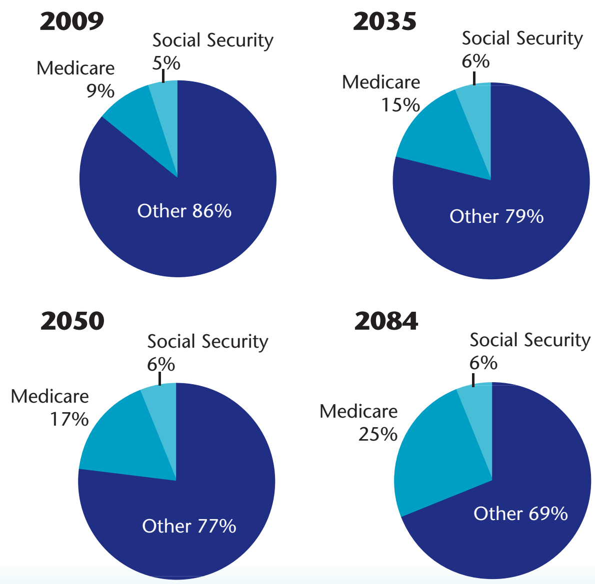
Partial privatization would allow workers to divert a portion of the current payroll taxes into accounts invested in the stock market. The guaranteed benefit under Social Security would be reduced and workers would rely on their accounts to make up the difference. Those who favor privatizing say that the new system would be phased in so that older workers would not be subject to a reduction in benefits. They argue that the current pay-as-you go system is unsustainable in an aging society and private accounts would help to increase national savings and modernize the system.

Stock market returns would result in winners and losers. There would be no guarantee for stock market losers, except perhaps a minimal "base" benefit. Privatization proposals do not generally provide for current disability and survivor benefits.

Just the Facts: Medicare, Social Security and the Gross Domestic Product

Medicare and Social Security as a Percent of GDP

According to the most recent Trustees Report, Medicare and Social Security combined represent 14% of GDP. Even if no changes are made to the systems, Social Security is still projected to increase to 6% of GDP over the next 70 years. Medicare spending will continue to increase at a more rapid rate, but not at the extreme rates that are often inaccurately reported these days.



Source: 2010 Annual Social Security and Medicare Trust Fund Reports, Social Security Administration, www.ssa.gov

WISER's Mission

To improve the long-term financial security of all women through education and advocacy. As the only organization to focus exclusively on the unique financial challenges that women face, WISER supports women's opportunities to secure fair pensions and adequate retirement income through research, workshops, and partnerships.

Next Issue:

- **Taxes, 401(k)s and Long-Term Care**

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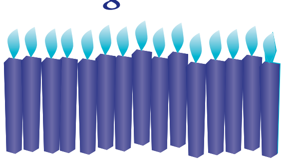
A QUARTERLY NEWSLETTER FROM THE WOMEN'S INSTITUTE FOR A SECURE RETIREMENT

1146 19th Street, NW
Suite 700
Washington, DC 20036

Celebrating 15 Years of Being WISER



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