

Pensions and Social Security

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Half of Millennials and Gen Xers Doubt They'll Receive Any Soc. Sec. Benefits

<i>When you retire, Social Security will provide ...</i>	Millennial	Gen X	Boomer*
	%	%	%
Benefits at current levels	6	9	26
Benefits at reduced levels	39	36	42
No benefits	51	50	28
Don't know/Ref. (Vol.)	<u>4</u>	<u>5</u>	<u>4</u>
	100	100	100

Note: *Includes only Boomers under age 65. Based on those ages 18 to 64. Figures may not add to 100% because of rounding.

Source: Pew Research survey, Feb. 14-23, 2014

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Agenda

- What is a Pension?
- History of Public and Private Pensions
- Social Security and Public Assistance
- Solvency and an aging population

What are Pensions?

- A regular payment made during a person's retirement from an investment fund to which that person or their employer has contributed during their working life.

Types of Pensions

- Employment based Pensions – A retirement in which both an employer and an employee make contributions into an account each month. Invested on the behalf of an employee with withdrawals possible after retirement.
- Social and State Pensions – A regular cash transfer to elderly, Social Security in the United States, National Insurance in the UK.
- Disability Pensions – a form of pension given to persons temporarily or permanently unable to work due to a disability. Can be grouped together with Social and State Pensions, but can have distinct funding.

Pension basics

- Employment based Pensions come in two different forms
 - Defined Benefit – these schemes pay a set annual income in retirement.
 - These plans and promises made to workers have proved expensive to fund, with the employer responsible for any shortfalls, these have become rare in the private sector.
 - Defined Contribution – schemes that do not promise set payouts rather encourages employees to build up a savings pot that can eventually be used to provide income
 - The Employee decides how much of their salary to contribute and their employer will match some or all of the contributions

Pension Basics

- Social Pensions – have varying schemes depending on the Country, but work on the basic principle of taxed earnings being used to supplement the income of the elderly, or disabled
- Both employment and social pensions are valued as protections against a variety of risks and ensuring a basic floor of income into old age.
 - This is a desirable benefit for employees comparing retirement plans at different companies
 - This is a social necessity to keep older generations out of poverty, and keep retirement as a fixture of developed societies.

History of Public and Private Pensions

- Pensions have a rich and long history dating back to the Roman Empire and continuing to the present
- Countries have been using Military pensions to retain and motivate military personnel over the course of history.
- The American Colonies used Pensions during the Revolutionary war to cover members of their militias.
- The use of military pensions were used even more extensively during the US Civil war
- In 1920 Federal Civilian pensions were offered under the Civil Service Retirement System.

History (cont.)

- Private Pensions, came around in the late 19th century alongside the industrial revolution.
- The American Express Company established the first private Pension plan in 1875 with the goal of creating a more stable career oriented workforce.
- The nature and incentives of these plans would radically change in 1913 when Congress enacted the first federal income tax law.

History Cont.

- While not explicitly stated in the law the IRS rules that pensions paid to retired employees are deductible as ordinary and necessary expenses.
- The effect was sound as by 1919 over 300 private pension plans existed as employers wished to attract workers, and reduce labor turnover.
- Private pensions continued to build up through the great depression.
- In 1935 Social Security was enacted, establishing age 65 as the normal retirement age, at this time life expectancy was around 60 years.

History (cont.)

- As we enter the modern era both private and public pensions become an inseparable part of retirement in the United States.
- While in recent years defined benefit private pension plans are becoming less common than in the mid to late 20th century. 401K and other defined contribution plans are also facing difficulties adequately providing for their recipients.

Social Security

- Social Security was originally signed into law by Franklin Roosevelt in 1935
- The funding is primarily done through Payroll taxes FICA or SECA
- These revenues are deposited in two trust funds (The Federal Old-Age and Survivors Insurance Trust Fund and the Disability Insurance Trust fund)
- Under the system Current Beneficiaries are paid by current contributors

Social Security (cont.)

- Social Security is an important source of retirement income for a great deal of the elderly in the US.
 - 3 in 5 beneficiaries aged 65 or older rely on it for at least half of their income.
 - Many workers aged 21-64 are also eligible in the event of a long term disability
 - Spouses and children of deceased workers also depend on the additional income provided by this social insurance.

Social Security (cont.)

- Social security benefits as grown over the course of the 20th century.
- During the period poverty among the elderly declined precipitously.
- While this decline isn't directly causal social security as well as the disability benefits included have drastically changed retirement in the post-war United States.
- With growing elderly populations in the United States and other developed economies have faced solvency problems in their social pension funds.

Solvency and an aging population

- Aging populations and the decline in the ratio of contributors to beneficiaries has caused issues for both public and private pension funds
- Additional problems with solvency have also emerged with economic crisis that have hit both state run and privately run pension funds.
- Remaining solvent has become a key issue for funds across the united states and abroad

Solvency cont.

- Multiple U.S. state pensions have faced issues with their funds going bankrupt due to rising costs and failure to generate adequate returns.
- Defined benefit plans have also declined due to rising costs aging populations.
- Across the world Pensions have had to adjust to changing conditions.

Social Security Solvency

- DI projected reserve depletion years were 2023 and 2035 for OASI.
- The Ratio of Beneficiaries to contributors has fallen over the history of Social Security.

Social Security Solvency

Type of beneficiary	Number of beneficiaries December				Average amount, December 1996
	1940	1960	1980	1996	
All beneficiaries	222,488	14,844,589	35,618,840	43,736,836	\$672.80
Retirement program	148,490	10,599,021	23,243,078	30,310,865	703.58
Retired workers	112,331	8,061,469	19,582,625	26,898,072	744.96
Wives and husbands	29,749	2,269,384	3,018,008	2,970,226	383.50
Children	6,410	268,168	642,445	442,567	337.07
Survivor program	73,998	3,558,117	7,600,836	7,353,284	637.95
Nondisabled widows and widowers	4,437	1,543,843	4,287,930	5,027,901	706.85
Disabled widows and widowers	126,659	181,911	470.95
Widowed mothers and fathers	20,499	401,358	562,798	242,135	514.91
Children	48,238	1,576,802	2,608,653	1,897,667	487.17
Parents	824	36,114	14,796	3,670	613.54
Disability program	...	687,451	4,682,172	6,072,034	561.36
Disabled workers	...	455,371	2,861,253	4,385,623	703.94
Wives and husbands	...	76,599	462,204	223,854	171.39
Children	...	155,481	1,358,715	1,462,557	193.51
Special age-72 beneficiaries	92,754	653	197.27

Social Security Solvency

- While there are funding issues on the horizon for Social Security this is not the first time in history where solvency was an issue.
- In 1983 Congress raised payroll taxes above the level necessary to pay for current beneficiaries to accumulate savings for the larger generations retirement.
- Continued Solvency depends on future economic growth, political action, and population dynamics.

Sources

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