



# YOUNG SOCIAL SECURITY BENEFICIARIES IN NEW YORK

**253,000 DISABILITY AND SURVIVORS INSURANCE RECIPIENTS  
IN NEW YORK UNDER AGE 40 –**

**WILL THEIR BENEFITS BE CUT UNDER PRIVATIZATION?**

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## EXECUTIVE SUMMARY

Despite widespread public perception that Social Security is only for seniors, 253,000 young people in New York receive monthly benefits through the Social Security disability and survivors insurance programs. This report discusses the impact that Social Security privatization would have on this vulnerable population.

Most Americans think of Social Security as a program that benefits senior citizens. And it is true that without Social Security, more than half of all seniors would live in poverty. But Social Security also provides disability and survivors insurance for younger families. For example, in a family of four with two working parents and two children, should one spouse become disabled or die, each family member is eligible for Social Security disability or survivors benefits.

The value of these policies is substantial. Consider a worker who is age 25 or 35 in 2000, and has a spouse and child. If her earnings were \$20,000 in 1999, her family's monthly disability benefit would be \$1,261; at \$30,000 it would be \$1,661 and at \$40,000 it would be \$2,028. Her family's monthly survivors benefits would be \$300-400 higher at each income level.

There are millions of young families who count on these benefits each month. Nationally, one third of all beneficiaries under Social Security collect survivors and disability insurance, totaling 13.5 million individuals. In New York, which has about 3 million Social Security beneficiaries statewide, there are more than 860,000 individuals collecting disability and survivors insurance. This total includes 253,000 people who are under the age of 39. In other words, Social Security is there *today* for young people in New York.

This population has a particularly crucial stake in the debate about Social Security privatization. In Social Security, the money that workers contribute today is used to pay benefits today. Under privatization, workers will invest a portion of this money in stocks. As a consequence, substantially less money is available to pay Social Security benefits. Under Governor Bush's Social Security proposal, for example, private investments would divert at least \$1 trillion out of Social Security over the next ten years. As a result, benefits – including disability and survivors – must be cut or substantial new revenue must be raised to offset the new shortfall.

Privatization is also an inferior model for protecting families from the economic crises of disability or death of a working parent. Because the beneficiaries are by definition young, they will not have had enough time to build up significant assets in their investment accounts. The accounts, as a result, will provide little income to offset the cuts in Social Security.

New Yorkers need a detailed accounting of the costs of privatization, including whether benefits for young survivors, disabled workers, and their families will be reduced.

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## SOCIAL SECURITY PROVIDES DISABILITY AND SURVIVORS INSURANCE

Nearly every working American is covered under Social Security, and young adults receive several benefits for the money they pay into the program. First, the contributions provide a dependable income to their parents or grandparents. Second, contributions build a foundation for retirement. While Social Security is not designed to be an entire retirement income and must be supplemented, about one-third of retirees have virtually nothing else.

Consider a worker who is age 25 or 35 in 2000, and has a spouse and child. If her earnings were \$20,000 in 1999, her family's monthly disability benefit would be \$1,261; at \$30,000 it would be \$1,661 and at \$40,000 it would be \$2,028. Her family's monthly survivors benefit would be \$300-400 higher at each income level.

Finally, workers' Social Security contributions earn credits for disability and survivors insurance. These benefits are adjusted to support individual workers, spouses, and even entire families. Survivors insurance was added to the Social Security Act in 1939. Disability insurance was initiated in 1954, and then expanded throughout that decade under the leadership of President Eisenhower. With these developments, Social Security transformed from a retirement program to a family-based economic security program.

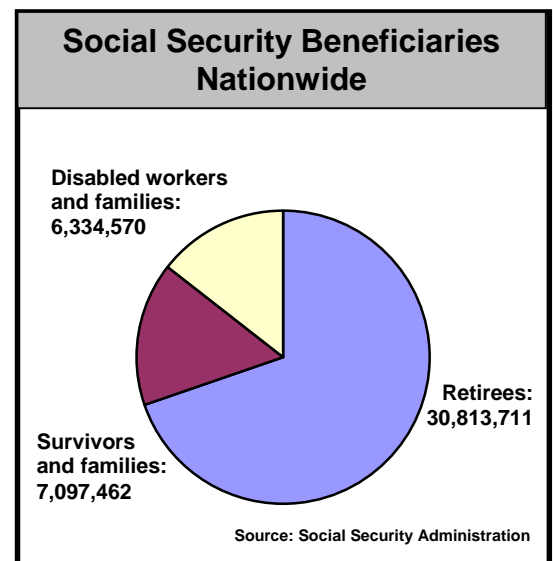
Nationally, one third of all beneficiaries under Social Security collect survivors and disability insurance, totaling 13.5 million individuals.<sup>1</sup> This includes 6 million disabled workers and family members, and 7.5 million widows, widowers, and children.

According to the Social Security Administration, disability benefits are equivalent to a \$223,000 insurance policy on average for a young couple with two children. Moreover, the type of long-term disability insurance that Social Security provides is rare in the private market – fewer than 25 percent of workers have such coverage. And Social Security survivor's insurance program is equivalent to a \$374,000 insurance policy on average to that same family. Social Security provides more life and disability insurance than all private sector plans combined.

Another way of describing the value of these plans is in terms of the approximate monthly benefits that would be provided to workers and their families in the event of disability or survivorship. Consider a worker who is age 25 or 35 in 2000, and has a spouse and child. If her earnings were \$20,000 in 1999, her family's monthly disability benefit would be \$1,261; at \$30,000 it would be \$1,661 and at \$40,000 it would be \$2,028. Her family's monthly survivors benefits would be \$300-400 higher at each income level.<sup>1</sup>

Prior to 1983, a young person who collected Social Security dependent benefits was able to retain this source of income in college, past the age of 18. At the time, there were about 760,000 young adults benefiting from the policy. Unfortunately, the program was eliminated – and it should be restored.

Through these important programs designed to protect younger families, Social Security provides economic security when people need it most.



<sup>1</sup> Of African-Americans, about one-half of all Social Security beneficiaries (about six million people) are collecting disability and survivors insurance.

**SOCIAL SECURITY  
BENEFICIARIES  
BY AGE AND STATE**

	Total	17 & Under	Age 18-39	All other ages
All U.S.	44,246,980	2,968,710	1,329,430	39,948,840
Alabama	801,290	71,350	30,930	699,010
Alaska	49,490	6,950	2,380	40,160
Arizona	751,940	49,480	20,560	681,900
Arkansas	509,600	41,200	17,750	450,650
California	4,064,290	265,120	111,740	3,687,430
Colorado	515,320	36,040	16,410	462,870
Connecticut	565,850	29,190	15,130	521,530
Delaware	129,550	8,370	3,550	117,630
District of Columbia	74,460	5,260	2,340	66,860
Florida	3,111,900	174,530	71,870	2,865,500
Georgia	1,061,650	95,680	39,680	926,290
Hawaii	174,850	10,780	3,740	160,330
Idaho	186,190	12,240	4,910	169,040
Illinois	1,816,170	112,120	52,020	1,652,030
Indiana	976,960	63,030	31,550	882,380
Iowa	536,740	24,480	14,000	498,260
Kansas	432,790	24,960	12,190	395,640
Kentucky	724,690	60,730	32,650	631,310
Louisiana	701,360	70,540	28,090	602,730
Maine	243,920	15,400	9,310	219,210
Maryland	700,090	48,780	18,630	632,680
Massachusetts	1,049,580	60,270	36,950	952,360
Michigan	1,611,750	106,810	50,370	1,454,570
Minnesota	720,080	35,720	20,830	632,340
Mississippi	501,700	56,070	22,790	422,840
Missouri	980,760	68,690	31,510	880,560
Montana	154,560	10,550	4,180	139,830
Nebraska	281,690	14,850	7,150	259,690
Nevada	260,090	16,280	5,970	237,840
New Hampshire	192,320	11,940	6,390	173,990
New Jersey	1,320,230	73,510	33,150	1,213,570
New Mexico	268,660	24,450	8,900	235,310
<b>New York</b>	<b>2,958,870</b>	<b>186,630</b>	<b>67,140</b>	<b>2,705,100</b>
North Carolina	1,297,070	83,070	41,850	1,172,150
North Dakota	115,140	5,580	2,630	106,930
Ohio	1,901,580	109,790	57,860	1,733,930
Oklahoma	585,120	39,910	17,380	527,830
Oregon	555,280	29,940	13,950	511,390
Pennsylvania	2,328,200	110,760	56,150	2,161,290
Rhode Island	190,000	10,590	5,900	173,510
South Carolina	681,280	55,550	22,520	603,210
South Dakota	134,670	8,230	3,590	122,850
Tennessee	958,260	73,610	34,880	849,770
Texas	2,548,810	206,220	76,150	2,266,440
Utah	231,330	19,920	7,460	203,950
Vermont	102,090	6,680	3,560	91,850
Virginia	991,800	69,350	32,490	889,960
Washington	816,200	46,730	22,830	746,640
West Virginia	387,440	26,800	15,220	345,420
Wisconsin	885,080	44,880	24,770	843,060
Wyoming	74,360	5,250	2,460	66,650

Source: SSA Office of Policy. Based on 10 percent sample. Total includes beneficiaries in outlying areas and foreign countries.

**SOCIAL SECURITY AND  
YOUNG PEOPLE IN  
NEW YORK**

New York has about 3 million Social Security beneficiaries statewide, including more than 861,000 individuals collecting disability and survivors insurance.<sup>2</sup>

There are about 67,000 New Yorkers age 18-39 who are collecting Social Security, and an additional 186,000 beneficiaries age 17 and under. In total, about 253,000 New Yorkers under the age of 40 collect Social Security benefits each month.

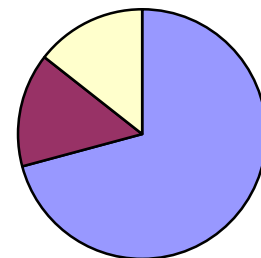
**YOUNG SOCIAL SECURITY  
BENEFICIARIES IN NEW YORK**

Age 17 and under	186,630
Age 18 - 39	67,140
Age 40 +	2,705,100

**SOCIAL SECURITY BENEFICIARIES  
IN NEW YORK**

Disabled workers and families: 431,473

Survivors and families: 429,600



Retirees: 2,102,839

Source: Social Security Administration

## SOCIAL SECURITY FINANCES AND PROJECTIONS

Workers pay 6.2% of their income into Social Security, and their employer matches that amount. The tax, however, only applies up to \$76,200 – income above that level is not taxed for Social Security. About 85 percent of the money that workers pay into the fund is immediately used to pay current Social Security benefits to about 45 million Americans. The remaining 15% is put into a Trust Fund of Treasury bonds designed to finance the boomer retirement.

Under current Social Security Administration projections, Social Security can pay 100% of promised benefits until the year 2037. After that, if no changes are made, payroll taxes at current levels will be enough to finance only 75% of promised benefits (as long as there are workers, there is a funding source for the program). While this is clearly not what most people imagine when they think of Social Security “bankruptcy,” it is nevertheless a real problem that must be addressed.

It is also important to remember that this projection of the future is the product of many assumptions that could easily be mistaken. For example, the Social Security Actuaries project that the economy over the next 75 years will grow at about one-half of the historical rate.<sup>ii</sup> The basis for these assumptions may turn out to be mistaken; under the more optimistic projections published by the Social Security Administration, which change a variety of assumptions, the program *never* runs out of funding, while even under the most pessimistic projection the system is fully solvent for 29 years.<sup>3</sup>

## PRIVATIZATION CAUSES CUTS IN DISABILITY AND SURVIVORS BENEFITS

The design of Social Security is such that the money workers pay in to the system today is used for benefits today. Keeping this in mind, it is easy to see why privatization presents a threat to young disability and survivors insurance beneficiaries: if workers buy stocks with some of the money that they are now paying into Social Security, where will Social Security get the money to pay full benefits? This is the question that supporters of Social Security privatization must answer.

Described another way, if a worker presently contributed \$2000 per year to Social Security, under privatization they would contribute a lesser amount, such as \$1500. The aggregate shortfall produced by this diversion of funding into investment accounts is massive, even under so-called “modest” privatization plans. The theory behind privatization is that, while Social Security benefits are substantially reduced, the income from investments will replace the income stream. This is a questionable assumption.

Governor Bush, for example, is generally thought to favor having workers invest about one-sixth of the money they now pay into Social Security (2 “points” of FICA or payroll taxes). He has indicated, however, that it could be more – as much as one-third (4 points of FICA).<sup>4</sup> Assuming the *smaller* account size, his proposal would divert about \$1 trillion over the next ten years out of Social Security and into investment accounts.<sup>5</sup> (Of course, Social Security is financed along a much longer timeline – over 20 years, for example, the diversion would build to as much as \$3-4 trillion.)

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<sup>ii</sup> This also points to a glaring flaw in arguments for privatization. Supporters of privatization typically argue that the stock market will provide the same annual average rates of return in the next 75 years as in the previous 75 years. But the Social Security Actuaries project that the economy will grow at one-half of the historical rate in the next 75 years. Therefore, stock returns must also be substantially reduced. Projecting historical rates of return in the stock market requires projecting historical rates of growth in the economy. If the historical rates of growth are to be applied to the future, as supporters of privatization obviously argue, then Social Security solvency will be significantly improved. This argument has been wholly unanswered by supporters of privatization. See Dean Baker’s report *Governor Bush’s Individual Account Proposal: A Reassessment Using Realistic Stock Return Projections* ([www.cepr.net](http://www.cepr.net)).

Governor Bush and other supporters of privatization have only a few options for how to plug the 10-year, \$1 trillion hole in Social Security:

- Reduce benefits for current recipients
- Drain the baby boom Trust Fund
- Borrowing / debt creation
- Transfer from the general budget surplus

Of these options, the only one that would not generate broad public opposition is using the surplus. Governor Bush, however, has already budgeted the on-budget surplus to an across-the-board tax cut; that option is not available. According to the *Washington Post* (verified by numerous independent experts), the

Bush tax cut is \$1.6 trillion over 10 years.<sup>6</sup> Increased debt service adds \$300 billion. Most experts agree that the “general budget” surplus (meaning that the Social Security and Medicare surpluses have been taken off the table) will total \$1.8 trillion over the next ten years.<sup>7</sup> In other words, Governor Bush has not left any funding to offset the shortfall in Social Security finances that will result from privatization (or to pay for other new domestic outlays such as education, health care, Medicare prescription drugs, public safety or defense).

It is true that Governor Bush has issued a statement of principles about Social Security that include his pledge not to reduce benefits for disabled or survivors. Without specifying any source of funding, however, there is no basis from which to make this promise.

It is also worth noting that privatization causes significant reductions not only in disability and survivors insurance, but also in retirement benefits. Most workers are unaware that the cost of a private account is a markedly reduced retirement benefit as well as potentially a higher retirement age. The arguments in this report for why privatization is a threat to disability and survivors are equally relevant to the retirement portion (see sidebar).

In addition to cutting benefits, Governor Bush could potentially offset the shortfall in Social Security caused by privatization by reducing his tax cut or specifying new borrowing, or by increasing the Social Security retirement age (a controversial step that, to be fair, Bush has stated he is considering). Whatever his proposed course of action, it is imperative that he, and others who support his position, provide a concrete proposal.

In Social Security privatization plans that have been introduced to Congress, benefit cuts to survivors and disability insurance have been substantial. A recent bill introduced by Senators Gregg and Breaux and

#### **PRIVATIZATION ALSO REDUCES YOUNG WORKERS' RETIREMENT BENEFITS**

The Century Fund analysis shows that diverting two percentage points of the payroll tax into individual accounts would sharply reduce retirement benefits:

If Social Security benefits were cut equally for all workers age fifty-five or younger in 2002, benefits would have to be cut by 41 percent to maintain solvency of the system over the next seventy-five years.

A more likely approach is to phase in cuts in Social Security benefits so that *total* benefits (Social Security benefits plus assumed average individual accounts) would be reduced equally for workers of all ages. In that case, Social Security benefits would have to be cut by only 29 percent for those fifty years old in 2002, but by a much larger 54 percent for those thirty or younger.

Under this phased-in benefit-cut scenario, the average total retirement benefit -- including the expected income from the individual accounts -- would fall by 20 percent (relative to current law) for single average earners age thirty in 2002.

Not only would the average combined benefit under the individual account approach be 20 percent lower than under current law, but individuals would be exposed to greater risk.

All these conclusions are based on assumptions that, if anything, understate the reductions in benefits that are likely to occur under a Bush-like individual account plan.

Source: Century Fund report executive summary

Representatives Kolbe and Stenholm is a good example: the Social Security Administration Chief Actuary determined that their privatization plan would reduce disability and survivors benefits by 18.5 percent.<sup>8</sup>

## PRIVATIZATION PROVIDES INFERIOR PROTECTION FOR DISABILITY AND SURVIVORS

There is a second problem with privatization, beyond the immediate impact on the Trust Fund and cuts in Social Security benefits. The privatization model is simply inferior as a means of protecting families from the economic hardships of disability and death of a working parent.

Supporters of privatization suggest that, while workers will face reduced Social Security benefits, the income that they receive from investing the share of Social Security taxes will offset any cuts. While the basis for their assumptions about future stock market growth are suspect, there are more fundamental reasons that this approach is flawed for young families who might need Social Security benefits due to disability and survivorship:

- **The investments may only offset cuts “on average.”** An average return in the stock market contains many winners and many losers. So, while *some* might conceivably come out all right, it is a mathematical certainty that many will not. This is a particularly inappropriate policy basis for a program designed to protect struggling young families who are coping with the loss of income resulting from a working parents’ death or disability. Consider two families confronted with a crisis causing them to collect survivors benefits: for one, tragedy strikes one week before a stock market crash, and for the other, one week after. Do the compounded struggles of the latter family “average out” against the fortunes of the former? Of course not.
- **Young beneficiary families will have very small investment accounts.** A privatized system is designed to look good over the “long run.” Investment accounts, which are quite small in the early years of the average worker, take decades of growth before they come close to offsetting cuts in Social Security benefits. In the short term, that presents two problems for young working families: they will not have had a long time to contribute to their privatized accounts, so that their principal will be quite low; and they will not have had a long time for the accounts to generate stock market returns. Their accounts, as a result, will be of little value in providing reliable or substantial income.

Compounding these problems is the fact that survivors and disability benefits are family-based, meaning that they are paid not only to individual workers but also to dependents of those workers. As a result, the risks of the market are not solely born by the worker herself, but also by her children. As the Center on Budget and Policy Priorities explains, “a death or disabling accident can trigger Social Security benefit payments to *a number* of individuals rather than just to *one* beneficiary [which] makes it even more difficult for the income from a single individual account to compensate for reductions in disability and survivors benefits.”<sup>9</sup>

In the case of disability and survivors insurance, the best approach is for workers to participate in the broadest possible insurance pool where they, and their family members, can be provided with a *guaranteed* benefit, at the lowest cost. In Social Security, about 95% of all workers participate. As a result, the cost of insuring against these risks is reduced and younger families can gain a much larger benefit than they would otherwise – a benefit that can maintain a standard of living. That is the purpose of Social Security.

## SOCIAL SECURITY CAN BE PROTECTED AND IMPROVED

If there were no options available to improve Social Security solvency, the case against cuts would not be as strong. Fortunately, there are many options that have been shown by the Social Security Administration to ensure Social Security solvency for at least the next 50-75 years. In particular, we suggest:

- **Temporary support from general revenues.** Using the Social Security surplus, as well as a portion of the on-budget surplus, to pay down debt, will free up substantial general revenues in coming decades. This money can be temporarily used to finance Social Security. According to the Social Security Administration, it would ensure solvency of Social Security to the year 2055, getting the country fully through the baby boom.<sup>10</sup> Fifty years of solvency, moreover, is a solid basis of confidence for Social Security's financial health (the current requirement of 75 years, instituted in 1983, is excessive).
- **Applying Social Security taxes to higher income levels.** Since payroll taxes stop at about \$76,000, a worker who earns \$50,000 pays Social Security on all of her income, while a worker who earns \$150,000 pays Social Security on only half. Doubling the "cap" so that more workers pay Social Security on all of their income would add approximately 15 years of solvency.<sup>11</sup>
- **Restoring the student benefit.** Restoring the policy that allowed dependents to retain their benefits during college would be an important step forward in improving the intergenerational strengths of Social Security. Approximately 700,000 young people would be eligible for the benefit today if it were restored, costing about \$50 billion over the next ten years.<sup>12</sup>

## CONCLUSION

As the nation focuses on how to resolve the future of Social Security, we must fully understand how the program affects young people today. Young adults are, in fact, an important group of beneficiaries in Social Security. If the value of the benefits that Social Security provides to young families is to change, the proposal must be subject to public scrutiny brought about by an open debate over the specifics.

Because privatizing Social Security diverts at least \$1 trillion out of Social Security and into privatization investments, the question of how the subsequent shortfall will impact current beneficiaries – including those under the age of 40 – must be answered.

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<sup>1</sup> *Social Security: Understanding the Benefits* (page 34). Social Security Administration, January 2000.

<sup>2</sup> Social Security Administration Table 5.J2

<sup>3</sup> Social Security Administration Trustees Report (<http://www.ssa.gov/OACT/TRSUM/trsummary.html>)

<sup>4</sup> Interview with Governor Bush on National Public Radio, September 2000

<sup>5</sup> Aaron, Blinder, Munnell, Orszag. *Governor Bush's Individual Accounts Proposal: Implications for Retirement Benefits*. Century Fund / Social Security Network, Issue Brief No. 11.

<sup>6</sup> Kessler, Glen. "Cost of Gore and Bush Tax Cuts May Be Understated," Washington Post. 9-8-00

<sup>7</sup> Aaron, Henry. "Entitlement Reform," Testimony before the House Budget Committee, July 27, 2000

<sup>8</sup> Larin, Kathy and Greenstein, Robert. *Social Security Plans That Reduce Social Security Retirement Benefits Substantially Are Likely to Cut Disability and Survivors Benefits As Well*, Center on Budget and Policy Priorities, 1998 ([www.cbpp.org](http://www.cbpp.org))

<sup>9</sup> Ibid

<sup>10</sup> President Clinton has submitted several budgets to Congress that would provide full solvency of Social Security past the year 2050, by using the surplus to pay down debt and transferring the savings into the Social Security fund.

<sup>11</sup> Social Security Administration Office of the Chief Actuary

<sup>12</sup> Estimates from Social Security Administration Office of Policy



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*Nonpartisan and Research Resources*

- American Academy of Actuaries ([www.actuary.org](http://www.actuary.org))
- Brookings Institution ([www.brookings.edu/es/research/areas/social/socsec.htm](http://www.brookings.edu/es/research/areas/social/socsec.htm))
- Center on Budget and Policy Priorities ([www.cbpp.org](http://www.cbpp.org))
- Center for Economic and Policy Research ([www.cepr.net](http://www.cepr.net))
- Century Fund / Social Security Network ([www.socsec.org](http://www.socsec.org))
- Consortium for Citizens with Disabilities (<http://www.c-c-d.org>)
- Economic Policy Network ([www.epn.org](http://www.epn.org))
- Employee Benefits Research Institute ([www.ebri.org](http://www.ebri.org))
- National Academy of Social Insurance ([www.nasi.org](http://www.nasi.org))
- National Urban League ([www.nul.org](http://www.nul.org))
- Social Security Administration ([www.ssa.gov](http://www.ssa.gov))

*Education and Advocacy Resources*

- AARP ([www.aarp.org](http://www.aarp.org))
- AFL-CIO ([www.aflcio.org/socialsecurity/index.htm](http://www.aflcio.org/socialsecurity/index.htm))
- Campaign for America's Future ([www.ourfuture.org](http://www.ourfuture.org))
- National Committee to Preserve Social Security and Medicare ([www.ncpssm.org](http://www.ncpssm.org))
- National Council of Senior Citizens ([www.ncscinc.org](http://www.ncscinc.org))
- Women and Social Security Project ([www.women4socialsecurity.org](http://www.women4socialsecurity.org))

**2030 ACTION**

2030 Action is a non-profit, non-partisan advocacy organization for young adults, based in Washington, DC. 2030 Action is a 501(c)4 project of Tsunami, a national umbrella organization for non-profits based in San Francisco; and an affiliate of the 2030 Center, a 501(c)3 research and education organization for young adults. 2030 Action is focused on economic issues affecting young workers and America's future. This report was written by Hans Riemer, Director, 2030 Action. Copyright 2030 Action, Washington DC; September 2000.

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