



## New Mexico Fiscal Policy Project

### **Social Security: What It Means to New Mexico**

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Currently, a debate is raging in this country about Social Security. It is clear that the present Social Security fund is under financial pressure. Predictions are that Social Security trust fund revenues will fall short of covering scheduled benefits over the next 75 years, if nothing is changed.<sup>1</sup> While 75 years seems a long time in the future, the Bush administration cautions that immediate changes are necessary to save social security for future generations.

This concern has prompted a number of proposed solutions to the current dilemma, including creating private or personal investment accounts with social security savings. In effect, some of the population would be given control over investing their social security accounts, on the theory that citizens could realize a better return on the money if they controlled their investments in a private market. Another suggestion has been to reduce the benefits for all Social Security recipients under a certain age (current discussion suggest that those now born in 1950 or earlier would be "grandfathered in" to the current system, while people younger than 55 would see some reduction of benefits). And yet another suggested policy change is to raise the age at which recipients become eligible for Social Security. Some combination of all of these ideas has also been suggested. . The solution strongly favored by New Mexico Voices for Children is to remove the cap on earnings that are taxed for Social Security (arbitrarily, only earnings up to \$90,000 are currently subject to Social Security taxes).

In order to understand any of proposed policy solutions, it is important to grasp the role that Social Security plays as a part of the financial support for current portions of the population. Their experiences can be seen as a good predictor for future generations as they age.

Social Security is an important source of income for 47 million Americans, and almost 300,000 New Mexicans – nearly 16% of the total state population. It is a much more broadly-based program of social support than is generally understood. Social Security helps not only retired working people, but also the spouses and children of deceased, disabled and retired workers. It also helps workers who become disabled. Social Security is a nearly universal safety net that stretches across the generations to protect people from falling into poverty.

## Social Security and the Elderly

Social Security benefits have a powerful effect in preventing poverty among seniors. Nationally, there were nearly 36,000,000 elderly people (over the age of 65) in 2003. Almost 91% of them received Social Security benefits. In the same year, there were about 225,000 elderly people in New Mexico. Of these, 201,400 - 89% of all elderly people in New Mexico - received Social Security.<sup>2</sup>

Social Security benefits are a significant part of the retirement income for most of the elderly in this country. Two-thirds of all elderly people in the country depend on Social Security for 50% or more of their retirement income. For one-third of the elderly, Social Security is even more significant: it comprises 90% or more of retirement income.<sup>3</sup> Data on the New Mexico elderly track the national statistics very closely: 63% depend on Social Security for more than half or more of their retirement income, and for 33%, Social Security is 90% or more of their retirement income.

**Table I**

### New Mexico - All Aged Seniors with Social Security Income

Share with 50% or more of Income from Social Security		Share with 90% or more of Income from Social Security	
65 or Older	75 or older	65 or older	75 or older
63%	53%	33%	33%

Though the data presented above are impressive, the more revealing statistics are the number of elderly that Social Security moves above the federal poverty level. For a large majority of elderly in New Mexico, Social Security means the difference between living at or above the federal poverty threshold. (The federal poverty line is currently \$9,060 for a single elderly individual and \$11,418 for an elderly couple). While living above the federal poverty measure does not mean that elderly people have an adequate income,<sup>4</sup> every dollar above the poverty level is critical to many elderly in our state. As Table II shows, even with Social Security income, 13% of New Mexico's elderly, or 29,250 elderly people, live below the federal poverty level.<sup>5</sup> Without it, 47% would live below the federal poverty level. That means that Social Security lifts 78,000 elderly above the federal poverty level.<sup>6</sup>

**Table II**

### New Mexicans 65 and older below the Federal Poverty Line

Excluding Social Security	Including Social Security	% Lifted Above FPL by Social Security
47%	13%	34% (78,000 elderly)

There were significant differences in the share of income coming from Social Security by marital status. Unmarried men received 75 percent of their income from Social Security, unmarried women derived 86 percent of their income from Social Security, and married couples received 49 percent of their income from Social Security. A large difference also exists between non-Hispanic whites and Hispanics, with 59 percent of non-Hispanic whites' income coming from Social Security and 82 percent of Hispanics' income from Social Security. Both the percentage for non-Hispanic whites and that for Hispanics in New Mexico was less than the national average, which was 66 percent for whites and 84 percent for Hispanics.

### **More than Just the Elderly Receive Social Security Benefits: Survivors and the Disabled**

Social Security is often perceived as a program primarily for retirees, who are also the elderly because social security benefits currently start at age 65. But in 2003, almost 16 percent, or about 294,600 people, of the total New Mexico population of 1,875,000 received benefits.<sup>7</sup> Of these, 201,400 were elderly; therefore, about 95,000 New Mexicans below the age of 65 received some form of Social Security benefits that year<sup>8</sup>.

Nearly one third of Social Security recipients are spouses under 65, widow or widowers under 65, children or the disabled also under 65 years old. None of these groups are discussed much in the current political discussions of how to "fix" Social Security, especially in the context of private accounts.

In New Mexico, there were 175,984 retired workers, 19,986 spouses, and 3,628 children receiving Social Security in 2003. In addition, there were survivors of a Social Security recipient: 30,516 widows (or widowers) and 14,519 children. There were 38,315 disabled workers, 1,429 spouses of disabled workers and 10,310 children of disabled workers.<sup>9</sup> While the data do not indicate how many of the spouses, widows (or widowers) and disabled were also 65 or older, there were a total of 95,000 adults and children under the age of 65 receiving Social Security because they fell into one of those three categories. Of the total, 28,457 children under the age of 18 in New Mexico received Social Security benefits in 2003. Children comprised 8% of all of the Social Security beneficiaries in the state that year.

Any policy discussion about Social Security must take into account the effects on the disabled, children and surviving spouses.

## Social Security helps the New Mexico Economy

The New Mexico economy receives \$2.6 billion in total Social Security payments. This means that nearly 6 percent of the state's total personal income comes from Social Security benefits.

The percentage of New Mexico Social Security recipients that receive retirement benefits was 68 percent. The proportion of Social Security recipients that receive disability benefits was 17 percent. The proportion of beneficiaries that receive survivor's benefits is 15 percent.

**Table III**

Number of Beneficiaries with SS Survivor's Benefits

Total Survivors	Widowers	Children
45,035	30,516	14,519

**Table IV**

Number of Beneficiaries with SS Disability Benefits

Total Disabled	Disabled Workers	Spouses	Children
50,054	38,315	1,429	10,310

## Current Experience as a Predictor of the Future

None of the current policy recommendations to "fix" the nation's Social Security problem include recommendations to reduce or change benefits for the populations – elderly, spouses, disabled or children – currently receiving Social Security benefits. But, if the policy solution includes reducing benefits for those born after 1950, then spouses, disabled and children receiving benefits who fall into that category *could* be affected.

The more important discussion is: what do current Social Security benefit patterns tell us about what the people under 55 year old could expect if their benefits are reduced or accounts are privatized? Based on the data presented here, they could expect a more severely reduced standard of living than is experienced by current beneficiaries. There is little evidence to suggest that the next generations of Americans will need to depend on Social Security earnings for a smaller percentage of their total retirement income. The expectation is that by investing their Social Security in private investment accounts, individuals can do better than the earnings of the entire Social Security system. This assumption removes "security" from the equation, and leaves the future to chance and the vagaries of the stock market and the honesty of private brokers. Given that many of the

generations younger than 55 years old don't have retirement plans that would make up the 50% that Social Security won't provide, gambling with the other 50% is extremely risky.

A simpler and more reasonable solution is to remove the Social Security earnings cap. Currently, all earnings up to \$90,000 are taxed at 12.4% to fund Social Security. Every dollar earned above the cap is exempt from Social Security taxes. While the argument against removing the cap is that higher earners would pay taxes, they would also receive more benefits since Social Security benefits are a function of lifetime earnings.

According to the Economic Policy Institute,<sup>10</sup> even under the most pessimistic assumptions, removing the earnings cap would reduce the funding deficit predicted in 75 years by 90%. Under more optimistic scenarios, the deficit would be eliminated completely.

The current data about Social Security are sobering. Too many elderly struggle to remain at a subsistence level, even when Social Security provides half of their retirement income. Removing the earnings cap can keep the Social Security system solvent for the future. This doesn't mean that future generations can rest easy: they'll still need to save the other 50% for a minimal retirement. But, at least Social Security can continue to provide a minimal safety net if the earnings cap is removed.

## Endnotes

<sup>1</sup> Economic Policy Institute, *Economic Snapshots*, February 17, 2005. See, [www.epinet.org](http://www.epinet.org), snapshots archive.

<sup>2</sup> Social Security Administration [OASDI Beneficiaries by State and County, 2003](#).

<sup>3</sup> Ibid.

<sup>4</sup> Research by New Mexico Voices for Children indicates that statewide, a retired couple needed to earn \$18,800 to live at the real poverty level in 2003, an amount substantially above the 2005 federal poverty level for an elderly couple.

<sup>5</sup> Center on Budget and Policy Priorities tabulations of the Current Population Survey for March 2001, 2002, and 2003.

<sup>6</sup> Ibid.

<sup>7</sup> Social Security Administration, [OASDI Beneficiaries by State and County, 2003](#).

<sup>8</sup> Ibid

<sup>9</sup> Ibid

<sup>10</sup> Ibid.