Social Security Administration: Measurement of Reliance on Social Security Benefits

This project evaluates how different data sources and methodologies affect estimates of the relative importance of Social Security benefits to the elderly.

Lead Agency:
Social Security Administration

Agency Mission:
To advance the economic security of the Nation's people through compassionate and vigilant leadership in shaping and managing America's Social Security programs.

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General Description:
This research project establishes the extent to which statistics on the economic well-being of the elderly, in particular the importance of Social Security benefits relative to other sources of income received by the elderly, are affected by the choice of data source and the methodology employed.

Official statistics on income and poverty come from the March Supplement to the Current Population Survey (CPS) conducted by the U.S. Census Bureau. This project compares the Social Security Administration's (SSA) published statistics on the relative importance of Social Security for the elderly derived from the CPS with statistics produced using the U.S. Census Bureau's Survey of Income and Program Participation (SIPP) and the Federal Reserve Board's Survey of Consumer Finances. This project also uses administrative data on Social Security and Supplemental Security Income benefits linked to the CPS and SIPP to compare survey responses with administrative records for the same individuals. Comparison of estimates across surveys and the use of administrative data aid in evaluating the effect of variations in survey reporting on the perceived economic well-being of the elderly. Future research includes examination of survey reporting of asset income and pensions using Internal Revenue Service (IRS) administrative data linked to the CPS.

This project also examines how methodological choices, such as the unit of observation, influence estimates of the relative importance of Social Security. SSA traditionally has analyzed aged units when estimating the proportion of the elderly population receiving 50, 90, or 100 percent of its income from Social Security. An aged unit may be a married couple or a nonmarried person; resources from non-spouse family or other members of the household are excluded. In contrast, estimates of the relative importance of Social Security produced by the Congressional Research Service use only the income received by a person. Other measures of well-being, such as the official poverty measure, take into account all family income of a person.

Another methodological decision is the determination of which resources count as income. Many assume that those elderly who receive all of their income from Social Security have no other resources. Current measures, however, do not reflect lump sum withdrawals from individual retirement accounts and defined-contribution pensions (e.g., 401ks) or spending from savings—both of which are important elements of a financially secure retirement. SSA funded an experimental battery of questions to the Census Bureau's 2007 CPS on irregular sums paid out of such accounts. SSA is analyzing these data to evaluate the prevalence of lump-sum withdrawals. This research project is also examining the importance of noncash benefits (food, energy, and housing assistance) that provide a safety net for the elderly. Future research will analyze the relative importance of Social Security on an after-tax basis.

The results of this project, based on income data for 1996, indicate that the percentage of the elderly receiving all of their income from Social Security varies from under 5 percent to over 19 percent, depending on the data source and methodology.

Excellence: What makes this project exceptional?

This project is exceptional, because it brings together multiple sources of survey and administrative data, including new survey questions on irregular income from pension accounts and linkages of IRS data on pension and asset income, to explore what is actually measured by a frequently reported statistic—the relative importance of Social Security for the elderly. Using a number of accepted methodologies and data sources, estimates of the proportion of the elderly who are "completely reliant on Social Security" in 1996 vary from less than 1 in 20 to nearly
1 in 5. Because this statistic is so often reported by the press, researchers, and policymakers, it is important to understand how the estimates can differ to such a large degree.

Significance: How is this research relevant to older persons, populations and/or an aging society?

Research into the financial resources available to the elderly is vitally important to policymakers and the public. Providing assistance to the elderly who are economically vulnerable requires an accurate understanding of the size of the vulnerable population and the resources that are available to them. One popular measure requested by the media and policymakers is the proportion of the elderly receiving all of their income from Social Security.

Effectiveness: What is the impact and/or application of this research to older persons?

Better understanding of how estimates of the economic vulnerability of the elderly are constructed is necessary to make fully informed decisions for public policy. Wide discrepancies between estimates based on different data sources also indicate that further improvements in data collection are necessary to better assess the economic vulnerability of the elderly.

Innovativeness: Why is this research exciting or newsworthy?

The proportion of the elderly receiving all of their income from Social Security is frequently reported in the media, usually as the elderly completely reliant/dependent on Social Security. Over the 1990s and early 2000s, the published proportion of aged units (married couples and nonmarried persons) 65 or older receiving all of their income from Social Security grew from 12 percent to 21 percent. Many interpret this rise as growing economic vulnerability of the elderly population. Results from this research project thus far indicate that this rise is most likely due to growing underreporting of the receipt of asset income in the March Supplement of the CPS. The estimate of the proportion of the elderly receiving all of their income from Social Security is highly sensitive to the data source and methodology used. In 1996, 19.4 percent of elderly individuals surveyed in the CPS received all of their income from Social Security compared to 9.4 percent in the SIPP. If the resources under consideration for the relative importance of Social Security were the same as for poverty estimates (the family income of the person), then 11.3 percent of the elderly in the CPS would have been considered completely reliant on Social Security; the same methodology in SIPP would have yielded 4.9 percent of the elderly completely reliant on Social Security.