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Is Social Security Fair?

A look at payouts and the unique way
benefits are provided to recipients



It doesn't matter if you are male or female, purple or green, native-born or immigrant, agnostic or Zoroastrian, if you and another U.S. citizen share the same birth date, retirement date and earnings history, you both will receive the same Social Security payment. From this viewpoint, Social Security is the exemplar of fairness. But is it truly fair?

Say that a retiree receives a monthly Social Security benefit of \$1,500 a month when filing at age 65. Average life expectancy for all of those age 65 is 19.3 years. If we ignore cost-of-living increases, this means average life expectancy results in total benefits received of \$347,400¹.

A complication is people are not average when it comes to life expectancy. Overall, a 65-year-old female has a life expectancy of 20.5 years. Using the same \$1,500 a month scenario would mean the average received benefits would be \$369,000 — or 6% more than the unisex average. However, males are also not average, for their overall life expectancy at age 65 is 17.9 years. This means the average male receives \$322,200 — or 87% of what the average female receives.

Race plays a factor in life expectancy. If you separate the sexes by race, white age 65 females have a life expectancy of 20.5 years and white age 65 males are at 18 years. By contrast, life expectancy for an age 65 black female is 19.5 years and the life expectancy for a black age 65 male is 16.2 years, making the total benefits received for the average black male \$291,600.

Ongoing research is finding other factors come into play. On average, those that graduated college live roughly two more years than those that dropped out of high school; if all earned the same income, the college grads would collect \$36,000 more from Social Security than the less formally educated group². What's more, white collar workers live longer than blue collar workers³.

Another variable is health. Tobacco users have shorter life expectancies. Although research varies on exactly how much shorter, a difference of three years would mean a smoker collects \$54,000 less and a difference of five years results in a \$90,000 loss when compared to nonsmokers. People with certain chronic health conditions also tend to have less-than-average life expectancy.

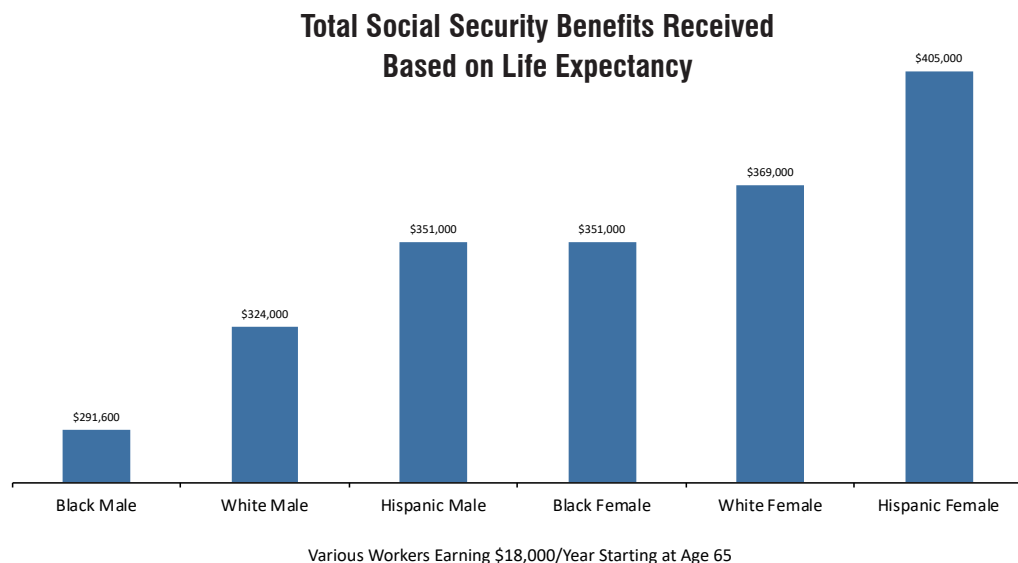
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¹ Life expectancy is the age at which half of the subject group is dead. Life expectancy figures for all, by age, race, Hispanic origin and sex, are from the United States Life Tables, National Vital Statistics Reports, Vol. 66, No. 3, April 11, 2017. Social Security provides cost-of-living increases, which would greatly increase the total benefits received in all examples. However, because the amount of these future increases is unpredictable, the unadjusted initial benefit is used and multiplied by time.

² <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5906056/>

³ <http://www.nber.org/papers/w24127>

Therefore, based on the Life Expectancy Tables, a non-tobacco using, white-collar Hispanic female⁴ with a graduate degree could easily collect over \$100,000 more in Social Security benefits than a two-pack-a-day blue-collar male who dropped out of high school, even though both had identical earnings histories.



FAIR OR UNFAIR?

The basic design of Social Security benefits appears to promote an even-handed approach. When full retirement age was 65, a person who began collecting benefits at age 62 received 80% of what the age 65 benefit would have been. The actuarial rationale was that over life expectancy, the amount of benefits paid out would have been the same. The same mathematical logic is why a person turning age 62 in 2022 collects 70% of what they would collect if they retired in 2027: equal benefits for equal contributions. However, this notion of equality follows some interesting turns.

Social Need #1

We've shown that the total lifetime benefits received may vary widely based on a number of life expectancy variables. However, when it comes to the monthly check, all of the workers in these examples qualified for the same benefit of \$1,500 a month based on their earnings history. The monthly income coming to each retiree's home remains the same ... unless they have a spouse.

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The household of a retiree with a never-Social-Security-contributing spouse receives up to 150% of what a single retiree's household would receive. What this can mean is a spouse who contributed zero to the Social Security fund would receive \$750 a month. And if the working spouse dies first, the never-contributing spouse would receive \$1,500 a month for as long he or she lives. Even with the same contributions, the addition of a spouse to the household could result in a total payback that is greater by 50% or more than what the single retiree receives.

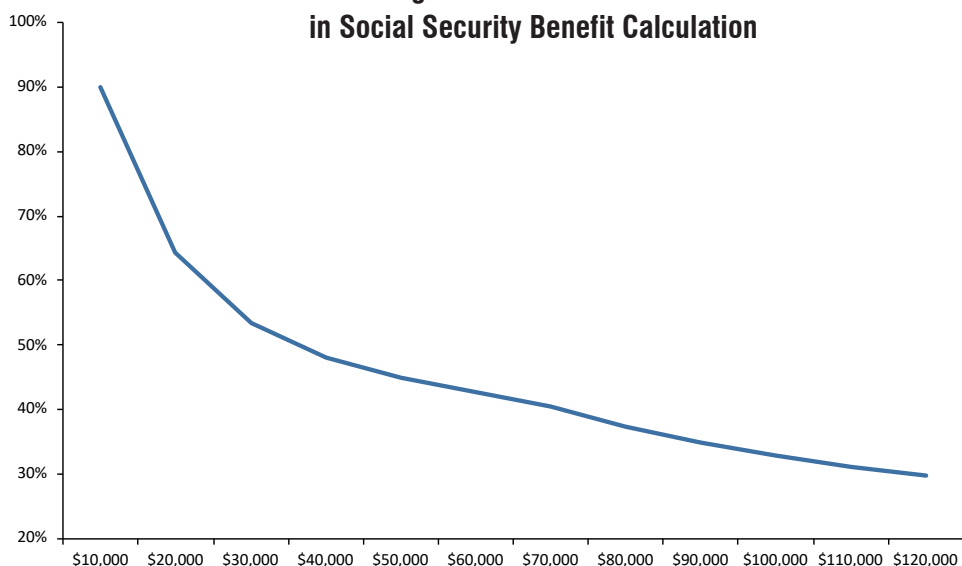
⁴ Note: Hispanic females show the longest average life expectancies of all groups in the U.S. Life Tables.

Social Need #2

Two individuals with the same birth date with identical earnings histories will receive the same monthly Social Security benefit if they retire at the same age — but that does not mean all earnings carry the same weight. The percentage of the Social Security contribution that is used to determine the payout decreases as the dollar amount of contribution increases.

The primary insurance amount (PIA) used for the benefit is calculated based on a formula that has “bend points” to compute the averaged indexed earnings. For 2019, workers receive credit for 90% of the first \$11,112 they earn, 32% for earnings between \$11,112 and \$66,996, and then 15% credit for earnings between \$66,996 and the current ceiling of \$132,900. As the chart shows, the higher the earnings, the lower the percentage of income used to calculate the retirement benefit.

**Percentage of Income Credited as PIA
in Social Security Benefit Calculation**



The reason for the spouse receiving a benefit and the low-income enhanced design of PIA is because Social Security is first and foremost an anti-poverty tool. The initial section of The Social Security Act of 1935 makes this clear by saying the reason for Social Security is “to furnish financial assistance, as far as practicable under the conditions in such State, to aged needy individuals.” Social Security was designed to provide at least a minimum income in retirement. This is why it gives what was intended to be a widow’s benefit

and provides a greater boost in benefits to lower-earning individuals. Indeed, Social Security provides a minimum benefit that is far in excess of what contributions would dictate.

SOCIAL SECURITY IS NOT FAIR

Taking into account the various aspects of factors that impact benefits received shows that Social Security is not fair. There is an intentional structural unfairness where lower-earning individuals get more bang for their retirement buck than higher-earning ones. It is also unfair because it doesn’t fully account for differences in life expectancy.

A prime example is the treatment of females and males. In every group, females live longer than males. Thus, *ceteris paribus*, either females should receive smaller monthly checks or males should receive larger monthly ones from Social Security. However, everything else isn’t equal because offsetting this is the historic reality that females have been paid less than males. Collecting benefits for a couple extra years does not come close to offsetting the former slight.

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be the biggest factor in life expectancy, but income earned tends to be related to the job performed, which is often related to education level). A direct Social Security solution might be to decrease the penalty for claiming early benefits for those in certain occupational classifications or who have lower average earnings. Social Security could offer medically underwritten benefits where those with medical conditions or circumstances that result in a lower life expectancy would receive higher benefits.

Those with blue collar jobs, less formal education and in lower social-economic strata have lower life expectancies than those at the other end of the range. Tobacco users and those with certain chronic health conditions do get shorted on total benefits received. Although the PIA bend points do favor those with lower incomes, an argument can be made that more needs to be done.

Life expectancy factors on job, education level and income are covariates that may reflect causal relationships (the income earned may

BECAUSE IT WAS NOT INTENDED TO BE

If fairness is measured by return on contributions, Social Security fails: high earners during their working life get a far lower percentage return at retirement than low earners. The payout itself is actuarially fair by some measures, but fails miserably by others, particularly when looked at through the lens of race or sex. Social Security ignores the health of the retiree, even though medically underwritten annuities have been available for years from private insurers that pay higher benefits when shorter lives are indicated. By many standards, Social Security is not fair.

However, absolute fairness was never the goal of Social Security. The preamble of the original act says that the purpose of Social Security is “to provide for the general welfare by establishing a system of Federal old-age benefits.” It is a welfare system intended to provide a safety net for the elderly, which has been expanded to provide a safety net for families and the disabled as well. In this role, acting under the United States Constitution’s mandate to promote the general welfare, Social Security has been very fair indeed.

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