

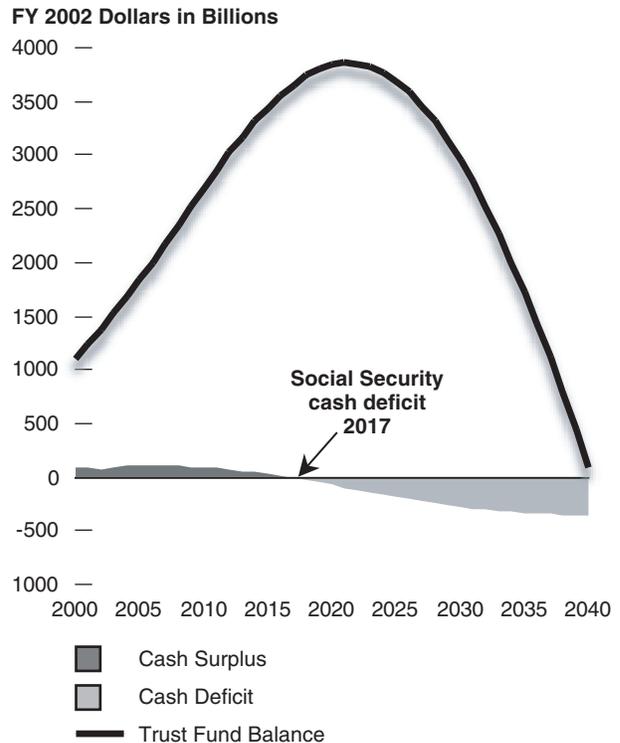


Strategic Objective:

A Secure Retirement for Older Americans

Issue: Social Security has long served as the foundation of the nation's retirement income system. About 39 million people receive Social Security retirement and survivor benefits and, for one-fifth of the elderly, Social Security is the sole source of income. Yet because of demographic changes under way in the nation, the ratio of workers to retirees is declining. This change will have fundamental implications for Social Security and the economy. Although Social Security payroll tax revenues exceed benefit expenditures today, projections suggest that beginning in 2017, spending will exceed revenues by growing proportions and that in 2041, the Social Security Trust Funds will be depleted (see fig. 1.7). However, depending on the strength of the economy, the trust fund may be depleted more quickly. Action must be taken in the near term to restore solvency and sustainability to the Social Security system, particularly as other, even more urgent priorities present claims on public funding and legislative agendas. A variety of proposals for such actions have been made, including some that would create individual retirement accounts for workers. The Congress has considered a number of these proposals, and is continuing these policy deliberations. Most of the proposals would have major consequences for retirees' benefits, the federal budget, and the long-term economic growth of the country.

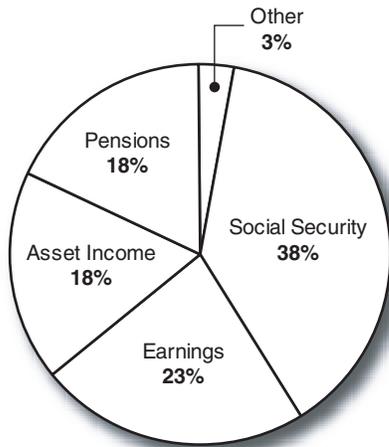
Figure 1.7: Social Security Trust Fund Faces Insolvency in 2041



Source: GAO analysis of data from the Social Security Administration's Office of the Actuary (2002 intermediate assumptions of the *2002 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*).

Pensions are also an important element in the nation's approach to ensuring adequate retirement income, comprising 19 percent of retirement income in the United States (see fig. 1.8). Nonetheless, tens of millions of U.S. workers have no individual pension coverage, placing them at risk during their retirement years. Only about half of the nation's workers are covered by employer pensions, and 48 percent of retirees do not receive any pension income. Determining the best way to increase pension coverage represents a continuing policy concern.

Figure 1.8: Sources of Income in the United States, Age 65 and Over, 2000



Note: "Pensions" includes private pensions and annuities; government employee pensions; Railroad Retirement; and individual retirement account (IRA), Keogh, and 401(k) payments.

Source: Social Security Administration, *Annual Statistical Supplement*, 2001, p. 19.

Some workers with pensions are experiencing a new kind of coverage as a growing number of employers move away from traditional defined benefit plans to defined contribution plans. Furthermore, some employers are shifting to "hybrid" systems that retain the defined benefit structure while adopting certain features of defined contribution

plans. These plans place greater responsibility on workers themselves to make prudent investment decisions about their retirement savings, but do not always provide workers access to the accurate and reliable information necessary for such decisions. Such changes will pose new challenges to workers, government regulators, and policy-makers.

Long-term weaknesses in the solvency of the Social Security program and the sustained lack of pension coverage to half of the labor force necessitate that workers place a greater reliance on their own retirement savings to cover these gaps. Yet despite these potential shortfalls, personal savings rates continue to hover at historically low levels. Current economic uncertainties may exacerbate this trend, threatening the prospects for individuals' future retirement income as well as the nation's future economic growth.

Performance Goals: To support efforts by the Congress and the federal government to address these issues, GAO will

- assess the implications of various Social Security reform proposals;
- identify opportunities to foster greater pension coverage, increase personal saving, and ensure adequate and secure retirement income; and
- identify opportunities to improve the ability of federal agencies to administer and protect workers' retirement benefits.

*Assess the Implications of Various Social Security Reform Proposals**Key Efforts*

- ❑ Analyze Social Security reform proposals for their impact on trust fund solvency, the budget, national savings, economic growth, and related programs
- ❑ Analyze Social Security reform proposals for their impact on workers' benefits, especially for at-risk populations
- ❑ Analyze the implementation and administrative features of Social Security reform proposals for their efficiency and effectiveness
- ❑ Assess reforms other countries have made to their public retirement systems for their impact on retiree benefits, budgetary and economic effects, and applicability to the United States

Significance

Social Security reform continues to be an important issue facing the nation, requiring near-term action in a context where safety and security issues necessarily dominate the nation's policy agenda. The Social Security system faces insolvency within the next 40 years, and projections suggest that benefit costs will begin to exceed program revenues much earlier. Policymakers thus face difficult choices today to avoid potentially catastrophic problems later. The main policy choices include increasing program revenues, investing Social Security trust funds in the private sector, reducing benefits, or some combination of the three. Some analysts call for major structural revisions in the program through the creation of individual retirement accounts for workers, either in addition to the current program or in lieu of some portion of current benefits. All of these proposals have consequences for retirees' benefits, the federal budget, and long-term economic growth. The proposals also would influence the willingness of employers to offer private pension plans to their employees and the types of plans offered. These problems are not unique to the United States—virtually all of the advanced industrialized countries are now grappling with similar issues. Many of these nations are also experimenting with innovative solutions to these problems, including ways to encourage workers to retire later, and the success or failure of these initiatives can have important consequences for how the Congress and the President respond to this policy issue in this country.

Potential Outcomes that Could Result when GAO's Work Is Used

Greater congressional and public understanding of various Social Security reform proposals and implications for retiree benefits, trust fund solvency, program sustainability, the budget, and the national economy

Greater understanding and appreciation for the practical considerations related to the implementation and administration of Social Security reform proposals, as well as the resulting interaction with other retirement systems

Identify Opportunities to Foster Greater Pension Coverage, Increase Personal Saving, and Ensure Adequate and Secure Retirement Income

Key Efforts

- ❑ Improve information about private pensions and identify opportunities to foster greater participation and ensure adequate and secure retirement income
- ❑ Analyze current federal pension regulations and associated tax policies to determine their effect on pension plan formation, plan coverage, and the adequacy and security of benefits
- ❑ Assess the implications and effects of various pension plan design features on pension plan formation, pension availability, and security of retirement benefits
- ❑ Evaluate the characteristics of the current labor force to assess the likelihood of these workers accumulating adequate retirement savings and to determine the role of pensions in reaching an adequate retirement income

Significance

The private pension system remains one of the cornerstones for ensuring that the nation's workers have adequate retirement income. Nevertheless, tens of millions of U.S. workers—close to half of the labor force—continue to have no individual pension coverage, placing them at risk during their retirement years. The private pension system also continues to evolve: the shift from defined benefit to defined contribution plans presents both risks and opportunities for American workers that can affect retirement income dramatically. Personal saving, another important source of future retirement income, is at a historically low level, and could be affected by the enhanced uncertainty of the current economic environment. Reforms to the Social Security system could also affect these other sources of retirement income. GAO's work is aimed at improving the linkage between the private pension and Social Security systems, helping to find effective vehicles to encourage personal saving, and ensuring adequate retirement income for the American people.

Potential Outcomes that Could Result when GAO's Work Is Used

Greater congressional understanding of proposals for increasing employer and worker participation in the private pension system

More effective federal strategies and policies to increase the role of private pensions as a source of retirement income for workers

Improved understanding of means to raise personal saving

Greater awareness of the adequacy of retirement saving among various subgroups

Better understanding of the relationship between federal government policies and changes in personal saving

Identify Opportunities to Improve the Ability of Federal Agencies to Administer and Protect Workers' Retirement Benefits

Key Efforts

- ❑ Evaluate PWBA's and IRS's oversight programs to determine whether workers' private pension retirement benefits are effectively protected
- ❑ Evaluate the PBGC's operations for their effectiveness in conducting its mission and assess the agency's policies and activities for their effect on pension coverage, financing, and adequacy and security
- ❑ Evaluate the SSA's service-delivery systems and program operations to determine whether they are being implemented fairly, effectively, efficiently, and securely
- ❑ Assess the effectiveness of OPM's federal service retirement systems in meeting the federal government's human capital goals
- ❑ Assess actions to maintain the integrity of the Social Security number (SSN) and the balance between the security of SSNs and their use for public purposes, such as program stewardship and law enforcement

Significance

Workers covered by Social Security, federal employee pensions and/or private pensions will continue to require effective, performance-based management and oversight by federal agencies, such as the Social Security Administration (SSA), the Office of Personnel Management (OPM), the Pension Benefit Guaranty Corporation (PBGC), the Pension Welfare Benefits Administration (PWBA), and the Internal Revenue Service (IRS). GAO's work is aimed at enhancing the benefit protections enjoyed by such covered workers, improving the quality of service provided to workers and employers, and assessing the effectiveness of the operations of the relevant federal agencies.

Potential Outcomes that Could Result when GAO's Work Is Used

Increased agency administrative and enforcement efficiency to provide better protection to workers benefits at lower taxpayer expense, thereby improving the security of participants' retirement income

Greater congressional understanding of factors affecting PBGC's financial condition and regulatory effectiveness

Improved efficiency and effectiveness of SSA's service delivery and operations

Improvements in SSA's readiness to cope with future service demands through human capital management and technology changes

Improved operations of federal retirement programs