



**LESSON PLANS ON AGING ISSUES:**  
*Creative Ways to Meet Social Studies Standards*

**Participation in Government**

**THE BABY BOOMERS AND  
SOCIAL SECURITY**

Ithaca College Gerontology Institute  
[www.ithaca.edu/aging/schools](http://www.ithaca.edu/aging/schools)

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## **The Baby Boomers and Social Security**

### **Introduction**

In this lesson, students will review basic demographic information about the aging U.S. population and consider how the government will help support retired baby boomers. Students will learn basic information about how the Social Security system works – and consider issues in the current debate about reforms. This lesson should take two class periods, but it can be completed in one (with homework assignments).

### **Objectives**

Students will:

- Understand demographic trends in the U.S. over the next thirty years
- Consider the impact of the baby boom generation on U.S. public policy
- Understand the basics of the Social Security system and the debate about its future

### **Key Terms**

baby boomers, retirement benefits, supplemental security income, disability benefits, means testing, progressive tax, regressive tax

### **Materials**

Handout: The Baby Boomers

Overhead: Sources of Income for People Over 65

Handout: “Social Security in a Nutshell”

Handout: Review Questions

Handout: Scenario

### **Lesson Steps**

1. Assign the baby boom article for homework reading the night before. Discuss in class.
  - How many students have parents/guardians who are baby boomers?
  - How old will baby boomers be in 2020?
  - How old will you be in 2020?

Review the two charts in the article showing the increase in the number of people over 65 and the corresponding increase in terms of their percentage of total U.S. population.

2. Ask the students, what financial resources today’s retired people depend upon to live. Show the circle graph showing the sources of income for older people. Briefly discuss social security as a major source of income. Ask students to speculate about how the system works. Briefly write their ideas on the board.
3. Distribute the article on Social Security and the review questions. Divide the class into groups and give them 15 minutes to read the article and take notes. Assign a person in each group to answer one of the questions and explain it to the others in the group.

4. Distribute the Scenario handout and have the group work as policy makers writing recommendations to the president and Congress on social security reforms. Require each group to turn in a one-page summary explaining and defending their recommendations. If time permits, have each group present its plan to the class. (Alternatively, make this an individual homework assignment.)

### **Extension Activities**

- Supplement the reading with current articles supporting or opposing government programs for people of different age groups. Provide information representing multiple viewpoints and allow students to formulate their own opinions.
- Discuss the advantages and disadvantages of age-based versus need-based programs. Age-based programs, such as Social Security, do not carry the stigma of need-based programs, such as general welfare programs.
- Have students clip political cartoons from newspapers on issues related to aging and economics. Ask the class to identify the key issues illustrated by the cartoons.
- Hold an intergenerational discussion group on political and economic issues that affect all generations.
- Have your students go to **<http://www.actuary.org/socialsecurity>** to play the Social Security game. This is a game where students get to see the effects of their reform plans.

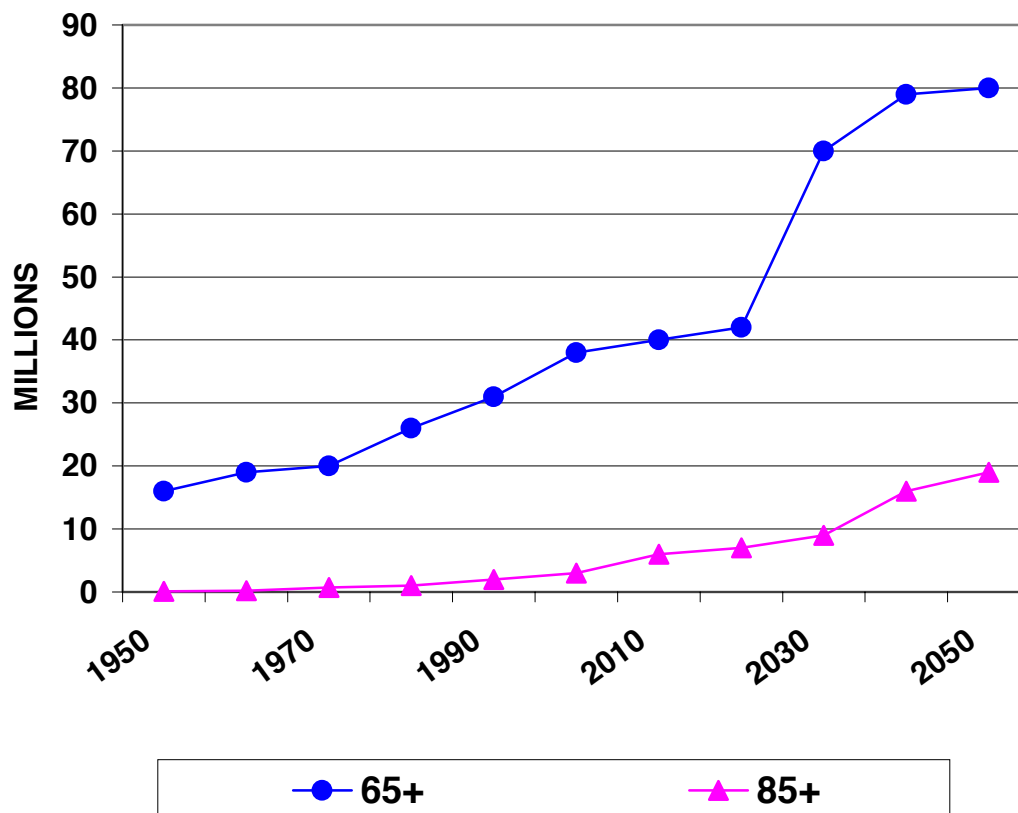
Handout

## The Baby Boomers Born between 1946 and 1964

America experienced a large “bulge” in the number of babies born starting in 1946. This was the result of families deferring pregnancies during World War II. In 1946, with the war over, the baby boom began. The term baby boomers refers to the group of people born between 1946 and 1964. During this time over 76 million babies were born. As this age group moves through their lives they have the attention of government planners, social service agencies and business marketers. Today, the oldest of the baby boomers are approaching sixty. The size and diversity of this group and their anticipated longer life span create challenges for public policy. Chief among these challenges is Social Security and Medicare.

The chart below shows the increase in the older population over the next thirty years as a result of the baby boom. Note how the older population will burgeon between the years 2010 and 2030 when the baby boom generation reaches 65.

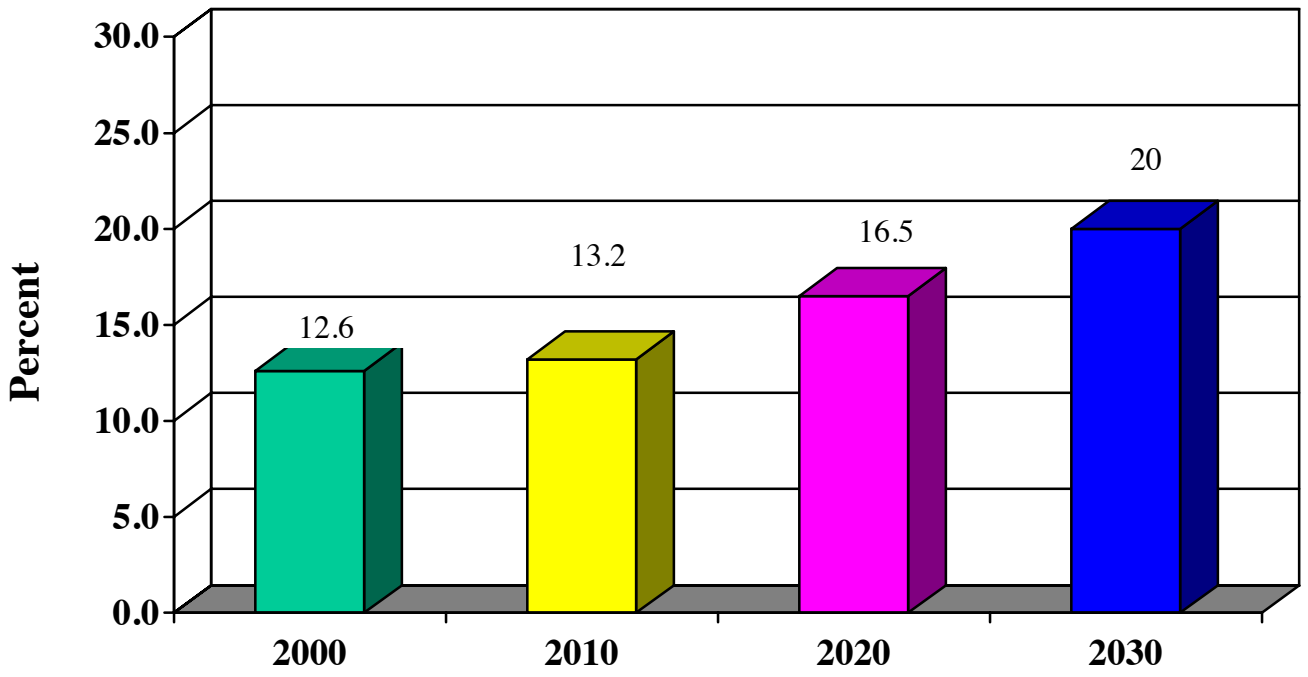
**Projected Growth in the Older Population  
1950 to 2050**



Source: U.S. Bureau of the Census, Current Population Reports, p 23-190, 1996

By 2030, there will be about 70 million people over 65 - more than twice their number in 2000. People 65+ represented 12.4% of the population in the year 2000, but they are expected to grow to be 20% of the population by 2030. That means one out of every five people will be over 65!

### U.S. POPULATION 65+

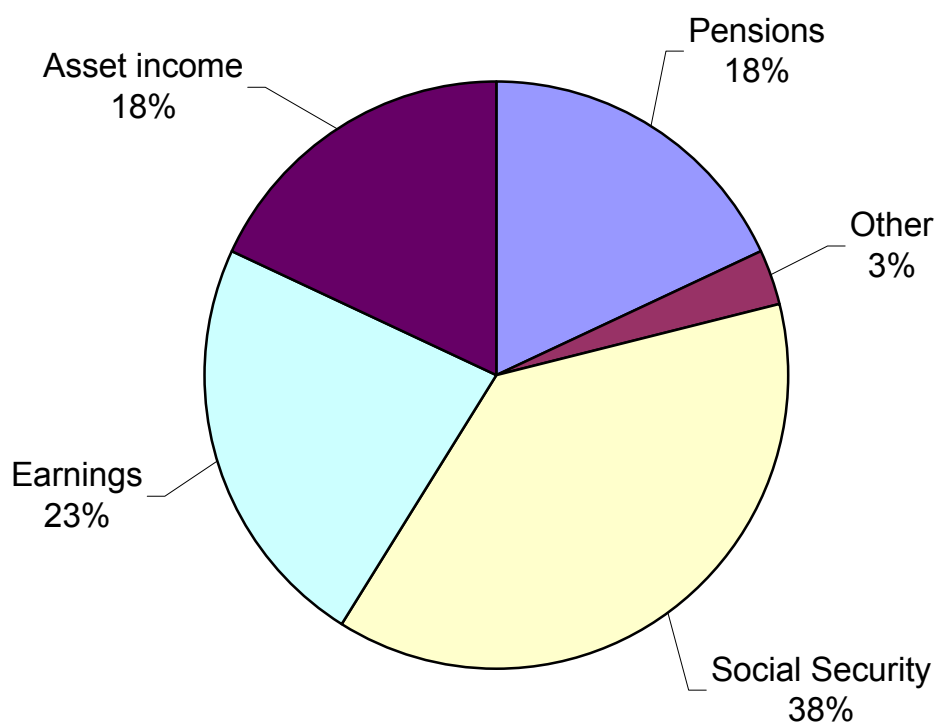


Source: U.S. Bureau of Census, Population Projections by Age, Sex, Race, and Hispanic Origin: 1995 to 2050, February, 1996

## Sources of Income for People Over 65

**Social Security provides the largest share of income for the aged.** Aggregate income for the population 65 or older comes largely from four sources: social security, pensions, earnings, and asset income.

### Shares of aggregate income, by source, 2000



Source: Social Security Administration, *Income of the Aged Chartbook, 2000*, U.S. Gov't Printing Office, 2000.

## “Social Security in a Nutshell”

### What is Social Security?

Social Security is a contributory social insurance program providing benefits to millions of Americans. Workers contribute financially to the system during their careers and earn entitlement to family benefits upon retirement, disability, or death. Currently, more than 45 million Americans receive benefits under the Old-Age and Survivors Insurance and Disability Insurance programs that make up Social Security.

### How is the program financed?

About 96 percent of workers in the United States contribute to Social Security, paying a flat tax of 6.2 percent of their wage income up to \$84,900; their employers contribute an equal amount. If, however, as many economists believe, employers shift the cost of Social Security taxes onto workers in the form of lower wages, workers in effect may actually bear a substantially larger share of the tax burden than employers.

Social Security is largely funded on a pay-as-you-go basis. Social Security is not a “piggy bank” that employees put money into and then take out of when they retire. The benefits that today’s Social Security retirees receive are paid out of taxes collected from today’s workers that are earmarked for the payment of these benefits. Out of this tax money, the government writes Social Security checks. Any money left over after paying benefits is put into the Trust Funds, which are invested in U.S. government securities to provide funds for future use.

### Who is eligible?

Nearly all workers in the United States are required to contribute to the Social Security program. All citizens are eligible for pension benefits when they reach the minimum retirement age.

### How are benefit levels determined?

A person’s retirement benefits are based on their average earnings during a thirty-five year career. Higher lifetime earnings result in higher benefits. The full benefit is payable at age sixty-five (scheduled to rise to 67 in 2022); workers who retire at age sixty-two get a reduced benefit based on the likelihood of their collecting benefits over a longer term. Workers who postpone retirement beyond age sixty-five, up to age seventy, get more than the full benefit.

All benefits are adjusted annually to keep pace with inflation, as measured by the Consumer Price Index (CPI). This means that during periods of high inflation, such as the 1970s, inflation-adjusted benefits protect Social Security recipients from having the real benefits of their Social Security check eaten away by a higher cost of living. Most private pensions do not make similar adjustments for inflation.

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Excerpted from *Social Security Reform Revised 2002 Edition: A Century Foundation Guide to the Issues*, The Century Foundation, Inc., 2002.



## **What's Right with Social Security?**

### **Social Security coverage is nearly universal.**

About 91 percent of individuals age sixty-five and over receive Social Security benefits; those who continue to work beyond sixty-five and have not yet claimed benefits are eligible to receive benefits upon retirement. In 2000, around 153 million workers (about 96 percent of individuals in paid employment) were making payroll tax contributions to the Social Security system and building credits toward future benefits.

### **Social Security benefits save many retirees from poverty.**

In 2000, the benefits paid by Social Security exceeded \$407 billion. These benefits, in combination with Medicare health insurance, have dramatically reduced poverty for the aged in America. In 1959, the U.S. Census Bureau estimated that more than 35 percent of elderly Americans were poor. During the 1960s, elderly Americans experienced twice the poverty rate of all other Americans. By 1999, in large part because of changes in the Social Security and Medicare systems, the poverty rate among senior citizens was 9.7 percent. This is slightly lower than the rate for other adults.

Social Security provided 64 percent of the elderly in America with benefits that represented at least half their total income. A significant portion of the elderly need Social Security to survive: in 1999, 29 percent of elderly recipients relied on Social Security for at least 90 percent of their total income; for 18 percent of recipients, Social Security was their only source of income.

### **Social Security provides benefits that would be difficult for workers to match through private policies.**

Social Security retirement benefits are portable, following workers from job to job. In contrast, many employer-provided pension plans offer benefits only to workers who stay with the same company for an extended period of time. Social Security benefits are adjusted annually to protect against erosion caused by inflation, whereas private pension programs and insurance plans rarely guarantee such protection. Under Social Security, disability and life insurance coverage is provided without regard to the health of the individual.

### **Social Security BENEFITS are progressive.**

Because Social Security is a social insurance program, it is structured so that someone who has had a lifetime of high wages (and was therefore able to save money for retirement) does not have as much of his or her income replaced upon retiring as do low-wage earners. In other words, while those who earned higher wages get a larger check than those who earned less, the check represents a smaller percentage of their average earnings. In turn, the system pays retirees who earned lower incomes benefits that replace a larger percentage of their wages. Workers with a very low wage are guaranteed a minimum benefit.

This progressive feature of Social Security helps give all workers in America a chance at a decent retirement, even if the type of work they did, or personal circumstances, did not enable them to accumulate wealth or become eligible for a private pension plan.

## **Social Security is an efficient program without loopholes and complex administrative requirements.**

The program runs smoothly, regardless of political or economic events. Despite wars, economic recessions, and recent government shutdowns, Social Security checks have always reached recipients in a timely fashion.

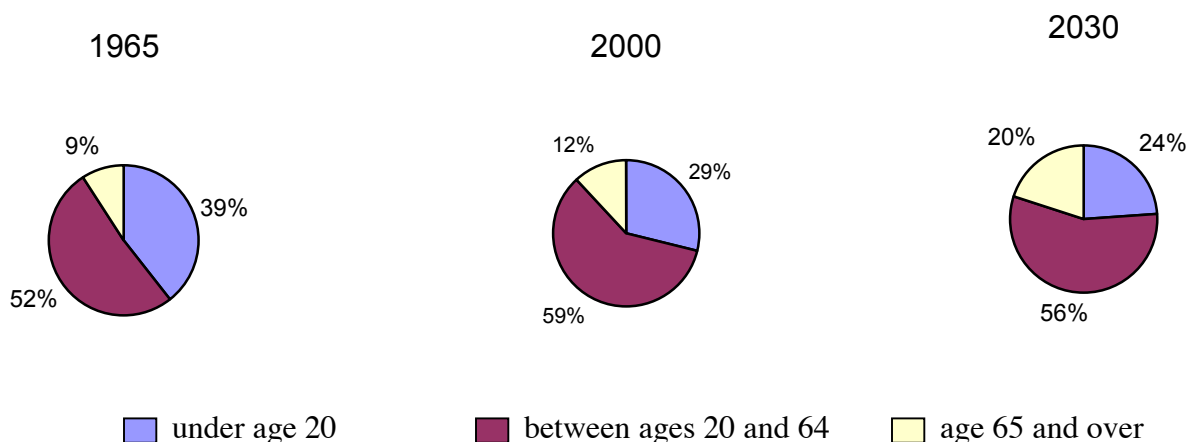
### **What's Wrong with Social Security?**

#### **Without changes, the Social Security Trust Funds may be depleted in 2038.**

Because of the upcoming retirement of the baby-boom generation and other demographic trends, it is projected that, beginning in 2016, annual benefits paid to retirees will exceed payroll tax revenues. Based on those intermediate assumptions, from 2016 through 2024, interest generated from the Trust Funds would be needed to meet current Social Security obligations. From 2025 through 2037, it would be necessary to use principal from the Trust Funds along with accruing tax revenues to meet expenses. By 2038 under those assumptions, the Trust Funds would be fully spent. It is important to note that, contrary to many reports in the media, the system would not become bankrupt or “insolvent” when the Trust Funds run out. Under the intermediate forecast, taxes would be sufficient to pay 73 percent of the obligations to Social Security recipients at the time, declining to about two-thirds by the end of the seventy-five-year period.

It is important to bear in mind that there is no consensus among economists today as to how the economy will perform in the twenty-first century. Few economists predicted that growth would be as high as it was in the late 1990s, while inflation and unemployment remained low. At the same time, Americans are living longer. Projections of longer life expectancies and declining birth rates suggest that, after 2030, more than 20 percent of all Americans will be elderly, a larger proportion than ever before. This larger number of retirees will have to be paid their benefits from taxes collected from a smaller pool of workers, relatively speaking. In 2001, there were nearly five people between the ages of twenty and sixty-four for every person aged sixty-five and over. Demographers estimate that in the year 2030, when today's young workers begin to retire, there will be slightly fewer than three persons between the ages of twenty and sixty-four for each person sixty-five and over.

#### **Composition of Population by Age**



In technical terms, the problem confronting Social Security is that over the next seventy-five years, Social Security is projected to slip out of balance by an amount equal to about 1.86 percent of total taxable payroll per year. This means that an immediate increase in the payroll tax of about 1.86 percent would generate adequate funds to pay full benefits through 2075. Clearly, a payroll tax increase is not the only way to avoid the shortfall, but such an interpretation is useful for gauging the size of the problem.

**Social Security's PAYROLL TAX is regressive.**

In 2002, Social Security's 6.2 percent payroll tax will be assessed on only the first \$84,900 of a worker's earnings. Because unearned income (interest and capital gains) is not subject to taxation under a payroll tax and earned income beyond \$84,900 is not taxed, wealthy individuals pay a lower fraction of their total income in Social Security taxes than other people.

**Social Security may encourage early retirement; putting added pressure on the system.**

Over the past fifty years, older Americans have been retiring at a progressively younger age. . Today, most men and women retire before age sixty-five; in fact, almost 60 percent receive Social Security benefits at age sixty-two, when reduced benefits for early retirement first become available.

On the one hand, earlier retirement is a trend that benefits individual workers, allowing them to enjoy a longer retirement than in the past. Most Americans say they would rather retire sooner than later. Furthermore, if individuals continue to retire earlier, this might increase the demand for younger workers. On the other hand, some economists are concerned that earlier retirement, combined with increased longevity, exacerbates the problem of economically sustaining an aging population. If the trend toward early retirement continues as the population ages, an even smaller shore of workers will be supporting a larger proportion of retirees.

## Conclusion

Social Security has been one of America's most successful antipoverty programs, saving millions of elderly from living out their lives in poverty. The program also has provided important protection for the disabled at any age.

The numerous proposals to reform the Social Security system and bring it into long-run balance can be grouped into two general categories: changes that preserve the basic structure of the current system with minor modifications and more dramatic transformations that would change the system in dramatic ways.

Among the reforms that would preserve the current system with minor changes are:

- ◆ ***Proposals that would increase revenues within the current system.*** One such change is tapping into the budget surplus. Another is to diversify the Trust Funds portfolio by using the Social Security surplus – the annual excess of payroll taxes over Social Security benefits – to purchase stocks and bonds, just as other pension funds do. Yet another would raise the cap on taxable wages. Among the other modifications put forth to increase revenues are taxing Social Security retirement benefits just as private pension incomes are taxed.

- ◆ ***Proposals that would reduce benefit obligations in the current system.*** One such change is increasing the retirement age, another is to reduce cost-of-living adjustments and yet another is to increase the number of work years used to determine the benefit level for new retirees.

Among the reforms that would fundamentally alter the current system are:

- ◆ ***Proposals that would replace part or all of Social Security's guarantees with individual accounts.*** "Privatization" would fundamentally alter Social Security by replacing some or all of a person's guaranteed social security income--based on earning history-- with returns based in some part on individual accounts. Under many of these proposals, workers' retirement needs would be met eventually by private accounts that would depend on market and investor performance and interest rates.
- ◆ ***A proposal to convert the Social Security system from a broad program to a means-tested program for the needy.***

It is clear that the system will require some modifications in order to accommodate the retirement of the exceptionally large baby-boom generation. However, the debate over and implementation of policy changes must be carried out in a deliberate and responsible fashion. The financial security of America's elderly is too significant to be decided by "bumper sticker politics" or ninety-second campaign commercials.

## Review Questions on Social Security

1. What is Social Security? Who pays for it? Who benefits from it? (page 6)
2. What is the Social Security Trust Fund and how does it function? (page 6)
3. What is meant by a “progressive benefit”? Why are Social Security benefits considered “progressive”? (page 7) Why are social security taxes considered regressive? (page 9)
4. Discuss the future of the U.S. Social Security System. Based on economists’ assumptions today, how will the retirement of the baby boomers affect the social security system in each year? (page 8)

By 2016:

By 2025:

By 2038:

Handout

### Scenario: Proposals for Social Security Reform

Your group is responsible for ensuring the solvency of the Social Security system. Consider the advantages/disadvantages of each of the proposed reforms below. Use the chart to organize the information. Then, write a one-page summary describing and defending your recommendations to Congress and the President. Be prepared to defend your positions orally to the class.

Proposed Reform	Advantages	Disadvantages
a) To increase revenues, raise the tax rate used on workers' wages. In 2003, it is 6.2%.		
b) To increase revenues, raise the <b>cap</b> on taxable wages. (Currently, wages above \$84,900, are not taxed.)		
c) To increase revenues, change the taxation of Social Security retirement benefits to match those of private pension income.		
d) To reduce the costs of Social Security, increase the retirement age.		
e) To reduce the cost, reduce the cost of living adjustments made annually to Social Security benefits.		
f) To increase revenues, base Social Security benefits on individual accounts that would depend on the stock market and interest rates.		
g) To reduce benefits, convert the Social Security system from a universal program to a means-tested program for the needy.		