Social security long term solvency problems research paper example

Law, Security

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Social security is an agenda which is run by many governments in the world that encompasses the unemployed, the old age, the disabled, and the insurance survivors. In the United States, social security programs are maintained by the federal government. Beneficiaries pay compulsory monthly or annual payments, in their active years of service, through employee or employer groups. It can also be defined as the provision to the public with economic and social support through pensions or other financial aids (U. S. Department Of The Treasury). In the case of social security retirement income, which is received by beneficiaries after retirement, the incomes they receive are calculated on the basis of their contributions they made when in active service. The retirement income is received as early as when one is sixty two years or as late as sixty seven years. Social security systems have their advantages as well as disadvantages. Some of the benefits that social security beneficiaries enjoy will include security, investments as well as cautioning against unexpected accidents. The security that social security beneficiaries enjoy is unlimited. Security applies to covers on any unexpected occurrences of accidents, illnesses or disability. The members are cautioned against these effects and their side effects also mitigated. By making monthly or annual contributions to the fund, the state or organizations involved in the collection and later distribution of these funds invest the funds on behalf of the contributors. Through investments, the country enjoys economic growth and the returns for the invested money are guaranteed. However, they do not come without their shortcomings. One of the major shortcomings is the continued burden of people who are exiting public or active employment and demanding their payments. This poses a challenge as the burden becomes too high for the state to bear making it less effective in distributing the payments.

Social security in the United States is faced with numerous long term solvency problems. If these long-term problems are not dealt with in the near future, the social security fund of the United States may become solvent. Of importance to note is that, the social security in the States is divided into two parts. The old age and survivors insurance is a part of the social security that caters for retirement benefits to beneficiaries, and was started by the federal government in 1937. It gets its funding from collection of taxes. The other part is the disability insurance, which insures members from any forms of disability. It is funded through collection of taxes. This is a scheme run by the federal government since 1957 (U. S. Department Of The Treasury). Individuals who are employed by the government are levied directly by the government before they get their monthly salaries. The individuals who are employed in the private sector divide the tax levy into two. The employer takes care of levying half of it, while the employee contributes half the amount. The taxes collected by the state are used by the social security funds to pay benefits of the employees who are out of employment for different reasons. The excess of the taxes so collected is invested back in the economy with the social security buying securities that are held in trust on behalf of the firms. Benefits accrued from social security are liable to automatic disbursement to beneficiaries, provided the trust fund has sufficient funds to facilitate the payments.

Some of the major solvency problems that are faced by social security in the long run include a shortfall in the payments to beneficiaries in the year 2041 if nothing is changed presently (U. S. Department Of The Treasury). The reason for this is that, the present value of the taxes collected now, and the value for money when the contributors will receive their benefits upon retirement does not coincide. This is because, the trust funds already present will already be depleted and the beneficiaries will have their benefits cut by a rate of twenty five percent judging against what they were promised. The other problem that social security is likely to face in the long run is the complete insolvency of the fund. This problem is as a result of constant delays to changes in the social security that reduces the number of people to whom the load of reforms can be spread to. Failure to take action could result to insolvency and only if the changes are implemented to accommodate more people would restore social security to solvency. For social security to be termed as complete solvent over a particular period, the ratio of projected annual payments to beneficiaries to the trust fund should display a positive figure in all years of the projection period which in the United States stands at 75 years (U. S. Department Of The Treasury).

There are possible solutions to the solvency problem currently being faced by social security. If the fraction of the retirement system of America is increased, social security could spend less on retirement and still make the fund more stable and progressive. The one major solution to making the social security solvent once and for all, and even for the future generations, would be to increase the taxes by a 3. 5% points (U. S. Department Of The Treasury). The increase would cut across the current and the future generation. This will raise the number of people of groups in the tax bracket. An increase of people in the tax bracket will itself lead to an increase in the total taxes collected across the generations. If there is an increase in money collected by the current and future generations, the fund will more importantly evade the insolvency that is set to come. The evasion will be made possible by the fact that social security will acquire more assets to boost its trust fund. Additional revenues will also help in the continuous offset of claims by the beneficiaries as soon as they have hit the retirement rate. It is also paramount to note that, an increase in the tax rates now will not only lead to the solvency of social security but will be a fair way to deal with the possible insolvency that is likely to occur. Implementation of the tax rate now will be an expression of fairness to the future generations to come. The other possible solution to solvency problems faces by social security would be to reduce the benefits of the scheduled beneficiaries by 13 %. This would lead to savings that would make the social security solvent up to the time stipulated by the law.

The projected tax raise, by 3. 5 %, is the most feasible plan that the federal government can adapt in order to completely secure the solvency of social security (U. S. Department Of The Treasury). This is because, first, it would be unfair to cut the benefits of an individual who put his hard work and time in serving in employment for a large portion of his life in order to achieve solvency. Giving beneficiaries benefits that are lower than the social security promised would not only look bad in the opinion of the public, but would also lead to low standards of living, or stress due to an adjustment in the earnings received by the beneficiary. Social security would have gone against its vision. The retirees who will receive a smaller amount of the money that they expected will be getting an unfair treatment because they had worked hard to get their full pay. Therefore, all the members of the public, starting with the elderly, way down to the unemployed and who wish to seek employment opportunity to embrace the tax increase as it will caution all of them from the stability of social security. Secondly, the taxes would cut across all members of the work force, presently or in the near future. This would lead to equality and overall achievement of solvency in the social security fund. It is, therefore, sensible to raise the taxes of all workers, in the government as well as in the private sector with a small increase in the percentage as this will help in achieving the overall solvency of the social security over time.

Works Cited

U. S. Department Of The Treasury. " Social Security Reform: The Nature of the Problem." 8 April 2014. http://www. treasury. gov/resource-center/economic-policy/ss-medicare/Documents/post. pdf. 8 April 2104 .