

Us social security

[Literature](#), [Russian Literature](#)



Social Security and Private Savings Q The life-cycle savings model Future

Consumption \$1500

\$1000 25% interest p. a

\$500

0

\$1000 \$5000

Present consumption/savings

Assuming an individual makes savings for five years at a constant interest rate of 25% per annum under the policy of pay-as-you-go social security, net benefits at the end of that period would vary depending on an individual's level of commitment. The X-axis is an independent variable representing present expenditure and willingness to save for the future. The Y-axis is the dependent variable representing a person's future earnings depending on his present expenditures and saving (Mixon, Franklin and Kamal 17).

Implicit returns on social security contributions do not equal the returns on private savings. As opposed to social security contributions, private savings are out of personal will while social security is usually out of a mandatory requirement prescribed under the law (Brux 214). Therefore, returns on social security contribution would have a constant rate of return as compared to private savings. The rates of return on either perspectives depend on the set rules for the social security contribution and the individual's own rate of saving (Brux 214).

Q 2

Social security contribution and private savings have corresponding influence. Traditional savings theory points to the possibility of decline in

private saving if compulsory public savings (social security) were increased. On the contrary, studies conducted by private companies show that the existence of pension benefits stimulate an urge to increase personal savings (Mixon, Franklin and Kamal 17).

Most research establishes that the social security benefits discourage private saving among people. This is despite the fact that changing experience of retirement offset any decline experienced in savings. Empirical research shows that social security reduces private savings in the U. S. While the social security has both merits and demerits, its demerits have more impacts on private savings among U. S. adults compared to its merits. Social security caters for medical expenses, retirement benefits, and other social aspects requiring expenditures. In so doing, most people become reluctant in remitting substantial allocation for private saving. In reforming the social security policy, it is imperative to initiate obligations compelling people to remit income for personal saving.

Works Cited

Brux, Jacqueline. Economic Issues and Policy. Mason, OH: South-Western Cengage Learning, 2011. Print.

Mixon, Franklin and Kamal, Upadhyaya. The Political Economy of Private Saving in the U. S: Evidence on the Social Opportunity Costs of Public Policy. San Jose: Writers Club Press, 2002. Print.