

Salvaging social security essay sample

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Since passed by Congress in 1935, Social Security has been considered by Americans to be one of the most beneficial and supported government programs, providing benefits to society and the elderly. Despite its widespread popularity, the program faces major funding issues, making the future of Social Security seem unpromising. In the 2013 annual report by the Social Security and Medicare Board of Trustees, the Social Security program is estimated to be drained by 2033, after which it would be able to fund only seventy-five percent of promised benefits (“ Social Security, Present and Future”). This projected downfall of Social Security has many people wondering if the program will still be around for them by the time of their retirement. Due to Social Security’s inability to change with the economy over the past eighty years, the federal government program will not survive without a combination of benefit reducing, income increasing, and income redistributing reforms to the foundation of the system. Although the current program shares the same founding purpose as the original Social Security Act of 1935, to provide security for workers, the design of Social Security has changed drastically over the past eighty years.

Originally, the Social Security program provided only two types of benefits: monthly old-age benefits for retirees and lump-sum death benefits for workers (Moore). Since then, the lump-sum death benefit has been replaced with two new benefit categories: benefits for the families of retired workers and benefits for widows, surviving dependent children, and surviving dependent parents (Moore). In addition to the change in benefits offered, the limitations on the workforces covered by Social Securities have changed. Only fifty-six percent of the workforce was covered by Social Security

originally, however the current system covers roughly ninety-six percent of workers in the country (Moore). Also, the disability insurance and Medicare programs have been added to the Social Security system since it was originally enacted (Anders and Hulse). In short, the Social Security system has been altered in many ways since passed by Congress in 1945. Although providing benefits to more people in need is a positive aspect of Social Security, these changes have greatly affected the cost and funding of the program. A rising problem with Social Security is the declining ratio of workers to retirees, which causes a decrease in the funds contributed to the program, despite the increasing number of retirees receiving benefits.

As said by writer Bob Burnett, “ During the first half of the twentieth century, the U. S. population was actuarially young, due to relatively high fertility, declining infant and childhood mortality, and high rates of net immigration to the United States by young workers and families...between 2010 and 2030, the number of people aged 65 and older is projected to increase by 77 percent” (Burnett). This “ baby boomer” generation negatively affects Social Security because once their retirement time comes; there will not be enough workers to financially support all the retiree benefits. When Social Security began in 1945, there were fifty workers for every retiree. (Anders and Hulse). By 2006, this ratio had declined to 3. 3 workers for every retiree (Anders and Hulse). Another aspect of this issue is the increasing average life expectancy of Americans. In the past fifty years the life expectancy for men has increased fifteen years, and twenty years for women. (Anders and Hulse). Although a longer life expectancy is a good thing, it means that more retirees will require additional years of Social Security benefits.

Economists also claim that Social Security encourages early retirement, which further reduces the worker to retiree ratio, and increases the pressure of welfare programs on the federal budget (Gorry and Slavov). Due to this increase in retirees, and decrease in workers to fund the program, Social Security will not be able to provide the current benefits to all that are eligible at this rate. Along with the decreasing worker to retiree ratio, the lack of personal savings by Americans is a major contributing factor to the downfall of Social Security. According to the New York Times article “ Social Security, Present and Future,” “ less than half of households ages fifty-five to sixty-four have retirement savings, and of those, half have less than \$120,000” (“ Social Security, Present and Future”). This lack of savings causes retirees to rely solely on Social Security to support them after retirement. Some blame the benefits offered by Social Security for dissuading personal savings, as the personal saving rate has declined from 10.4% in 1984 to 1.4% in 2003 (Anders and Hulse). The decline in the personal saving rate in the U. S. causes beneficiaries to rely more heavily on Social Security income after retirement.

As said by the author of “ It’s Easy to Fix Social Security”, “ more than forty percent of people sixty-five and older would live below the federal poverty line of \$11,490 were it not for Social Security payments, according to estimates from the left-leaning Center on Budget and Policy Priorities” (Cook). Because of their lack of retirement savings, that forty percent of retirees are relying solely on Social Security to support them. One of the main goals of the Social Security program is to help retirees by stabilizing their income (Shiller). Therefore, if people were to save more for retirement

they would not need as much financial relief from Social Security. In addition to the increasing number of retirees, and the decreasing personal saving rate, income redistribution is a major flaw within the Social Security program. One issue with the way the program redistributes income is that people with higher average earnings receive less monthly benefits as a percent of their earnings (Gorry and Slavov). In other words, workers with a lower income receive a better “ return” than workers with a higher income.

Another issue with income redistribution is that workers with shorter careers have a disadvantage due to the way Social Security determines retirement benefits. Each person’s benefits are based on an average of their highest thirty-five years of income, therefore a person with a longer career has more annual incomes to be considered. Lastly, the way income is distributed to unmarried individuals vs two-earner and one-earner couples is unjust. In a couple with one earner, the spouse receives Social Security benefits equal to fifty percent of the earning spouse’s benefits (Anders and Hulse). Unlike two-earner couples, one-earner couples do not pay additional payroll tax in exchange for the fifty percent benefit that the non-earning spouse receives; therefore the program is discouraging the employment of both spouses (Gorry and Slavov). The redistributing of income to Social Security beneficiaries is not only unfair to workers with higher-income, longer employment, and/or a spouse that also works, it also encourages unemployment by its system of payroll taxing for two-earner couples. A controversial solution to the problems surrounding Social Security is investing the funds into private accounts, a process commonly known as privatization.

The privatization of Social Security basically means that each account would be individually owned and operated (Anders and Hulse). Presently, the funds received from each individual's payroll tax are invested in the Social Security trust fund, which is controlled by the government (Koleva). As said by writer Yoana Koleva, " these accounts actually do not belong to the employees and are more of a tracking mechanism that provides information to determine the benefit amount received once the employee reaches normal retirement age" (Koleva). Therefore, privatization proposes that the accounts are privately owned and controlled, as opposed to the current system in which each individual's Social Security account is controlled by the government. The privatization of Social Security is considered to be one of the most controversial reform proposals due to its potential positive impact on the economy, yet the increasing risk and difficult transition for the program associated with the reform. With privatization, workers could potentially earn higher revenues by investing their Social Security funds in the financial markets (" The Privatization of Social Security-Opportunities & Challenges").

A few positive aspects of this reform include encouraging individual responsibility and saving, along with the elimination of the subsidization of one-earner couples (Anders and Hulse). As said in the article " The Outlook for Social Security Reform: Proposals and Implications" by writer Yoana Koleva, " investing in privately held securities such as stocks and bonds in the open market may pay higher rates of return, which would help retirement savings accumulate faster and provide for a larger retirement benefit" (Koleva). In other words, privatization enables individuals to potentially increase their retirement savings by investing in financial

markets, as opposed to the current system in which the government controlled funds have a specific interest rate. The investments made as a result of privatization could also boost the economy and create more economic opportunities (“The Privatization of Social Security-Opportunities & Challenges”). The downside of this reform is that the transition from the current “pay-as-you-go” system to privatization would be very difficult. Also, privatization is risky to the owner because many people do not know how to wisely invest their money.

Although privatization has many positive potential effects on our economy, the challenges surrounding the reform outweigh the benefits. Many of the easiest and most cost efficient proposed Social Security reforms involve reducing the benefits offered by the program. In the 2014 Budget Proposal, President Obama suggested that Social Security benefits be indexed to Chained Consumer Price Index for All Urban Consumers (chained CPI), as opposed to the current indexing by the Consumer Price Index for Urban Wage Earners and Clerical Workers, in attempt to properly measure and calculate inflation in retiree benefits (Shiller). As said by writer Nancy Cook in the article “It’s Easy to Fix Social Security,” “the Congressional Budget Office estimates that chained CPI, which is a kind of budget cut, would save \$130 billion over the next ten years...this would close the Social Security funding gap by twenty-three percent and extend the program’s solvency for roughly seventeen years” (Cook). The downside of chained CPI is that the longer one lives, the larger the reduction of benefits for the retiree would be. Benefits could be cut in various ways such as, raising the retirement age or reducing the cost-of-living adjustments.

Along with being the cheapest and easiest choice of reform, reducing benefits would also benefit the economy by causing beneficiaries to work longer and save more in response expecting lower benefits (Anders and Hulse). A criticism of reducing benefits is that the Social Security would not achieve its main goal, to reduce poverty among the elderly. Another suggestion proposed by many economists and politicians to fix Social Security is to raise payroll taxes. Raising the payroll tax by 2.61 percent would give Social Security another seventy-five years of solvency (Cook). Also, a one percent increase in the payroll tax could be distributed over a twenty year period and still create enough revenue to close half of the funding gap in Social Security (“Social Security, Present and Future”). Although this minor increase in the payroll tax rate seems manageable, present-day workers and employers, as well as workers with low-income would be negatively affected. Some positive aspects of this reform include the easy transition, and the quick relief it could bring to the Social Security crisis. Due to the many problems with the set-up of the Social Security system and the economic challenges our country has faced in recent decades, the future of Social Security is very uncertain.

Some of the major problems with Social Security include: the declining ratio of workers to retirees, the decreasing personal saving rate, and the poor income redistribution done by the program. These rising issues cause many people to wonder if Social Security will be around in the future for their retirement. The answer is no, it will not last without reform. Deciding on which reform is another issue for the government, because each proposed reform has both positive and negative effects. There is not a single reform

that will solve all of Social Security's problems. No version of reform will positively impact effected all parties. Therefore, both retirees and workers need to accept that they will have to make sacrifices, whether it is reduced benefits, or increased payroll taxes, because without these changes Social Security will not last. The only way to salvage the program is to combine benefit reducing and revenue increasing reforms, and to find permanent solutions to the funding issues so that reforms will not be needed in the future.

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