Social insurance

Business

Social insurance is a device that helps individuals to pool together their risks and transferring it to an institution, often the government, which is charged by the law to give service or cash benefits to or on behalf of the individuals covered in case of incurring losses that have been specified. Social insurance programs are defined by particular general characteristics.

For instance, they do not receive a financial backing from the government but are supported largely by the covered employers or employees, who make specific contributions and in turn, they are paid from these benefits. Further, an individual's right to benefit is contingent on the past coverage of the recipient covered by a particular program. In addition, several social insurance programs are mandatory and the terms of eligibility and benefits are most often than not decided upon by a statute (Rejda & George 2011). Social insurance has been held with high regard as a means of mitigating economic insecurity. However, social insurance has been bashed by critics ater a cost-benefit analysis. This paper therefore seeks to pursue a cost-benefit analysis of two modes of social insurance and take a critical look at these social insurance programs.

They are the social security and unemployment insurance (UI). Cost-Benefit AnalysisIt is common knowledge that social insurance programs such as social security and unemployment insurance have produced loads of benefit to the welfare of many a worker, who signed up as a beneficiary and more so to the socio-economic growth of a country. For starters, social insurance mitigates the vulnerability of households to economic or natural shocks that may threaten the livelihoods or lives by acting as a safety net. Moreover, social insurance provides a distributional base of resources depending on an individual’s wealth, income level, mortality rates and age. On the other hand, there are negative ramifications that are attributable to social insurance. Labor supply and savings have been compromised a lot since individuals lack any incentive that will motivate them to give in more at work and to accumulate capital.

Social insurance programs like social security that is characterized by a pay-as-you-go modus operandi, discourages the culture of capital accumulation as an individual’s economic security is guaranteed by the government. Therefore, one becomes complacent with regards to making savings for future investment and instead lives for today without any future development strategy. According to Feldstein and Liebman (2001), the benefits that finance the beneficiaries of social security come from taxes imposed on the income of those employed, and as a result, it creates “ deadweight losses that result from changing the behavior of both the aged and the younger population.” They continue to add that the imminent retirement of a large baby boom generation will cause these costs to accelerate rapidly in the future. The ratio of retirement costs to GDP will then remain high because of the permanent increase in the relative number of retirees.