Macroeconomics of social security research paper examples

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Introduction and History

United States federal government spending on Social Security is greater than any other programs. Social Security program was founded in the year 1935, this program has consisted of two different parts; the OASI (Old-Age and Survivors Insurance) that pays to the retired workers and to their survivors and dependents, and the DI (Disability Insurance) that makes payments to the disabled workers who are years away from reaching their full retirement age and to any of their dependents. To accumulate the numbers, at present more than 57 million are currently receive these Social Security benefits in the United States (Meyerson & Dacey).

After the 1929 stock market crash and subsequent bank failures in the United States, especially in between 1932–1934, tremendous amount of wealth vanished from the United States. This had a huge effect on most Americans, the effect on older Americans was greater as they did not have a long time horizon for recovering their lost wealth before their retirement. Social Security was set up as an immediate response to the loss of wealth for the retired and the soon-to-be-retired people. Having the " government pension" that was financed by the tax savings was the utmost concern in 1935; it became the immediate response of huge wealth evaporation. The Social Security payment is in itself a transfer payment. The recipients do not need to do anything to receive their check; apart from reaching the retirement age of 65. Thus, Social security benefits are no different from the income maintenance or the unemployment insurance (Rothenburg).

Workings of Social Security

Social Security is often characterized as the retirement program because the majority of the beneficiaries (around 70 percent) comprise of retired workers or their spouses and children. In general, workers get qualified for the retirement benefits when they are 62 years or older and when they have paid Social Security taxes for more than 10 years. However, Social Security also offers other kinds of benefits, as payments to survivors of the deceased workers, which makeup around 11% of the beneficiaries. In addition, workers that are younger than full retirement age who need to limit their employment due to their mental or physical disability qualify for the DI benefits. The Disabled workers and their dependents account for around 19% of the beneficiaries. In terms of dollars, retired citizens and their dependents tend to receive around 68% of the Social Security benefits, their survivors receive 14%, and the disabled workers and dependents receive 18% of the benefits (Meyerson & Dacey).

Benefits that the disabled or retired workers receive initially are on the basis of their individual history of earnings, although their earnings and formula used for computing initial benefits get indexed to the changes in the average annual earnings for workforce on the whole. In the subsequent years, cost-of-living adjustment gets applied to initial benefits for reflecting the annual growth in the consumer prices. Workers who were born before 1938 would receive full retirement benefits at age 65. But under the schedule that was placed by Social Security Amendments, 1983, the full retirement age gradually increased. It reached 66 years for the people who were born from 1943 to 1954. The benefits will increase gradually beginning with the people

born in the year 1955, and who would turn 62 in the year 2017. They will reach 67 years for people who were born after the year 1959. The age by which the workers can start receiving the reduced benefits still remains 62 years (Meyerson & Dacey).

Social Security program gets funded from two different sources of the dedicated tax revenues. Roughly 96% of these revenues are driven from the payroll taxes generally, 12. 4% of the earnings that get divided evenly between the workers and employers; self-employed people would pat their entire tax. Only people earning up to the maximum annual amount of $113, 700 in the year 2013 are subjected to payroll tax. This amount, referred as the taxable maximum, increases every year in the same rate as the average earnings of the United States. Remaining share of the tax revenues of 4% come from the income taxes on the benefits. The people filing alone should pay their taxes on the Social Security benefits when the sum of non-Social Security income and around half of their benefits exceed $25, 000. The threshold to file these jointly is $32, 000. Under the present law, these thresholds may remain fixed with no specific adjustment for their earnings growth or possible inflation (Meyerson & Dacey).

Current Problems

In the year 2010, for the first time since the enactment of Social Security Amendments of the year 1983, the annual outlays for program exceeded the annual revenues excluding the interest credited to trust funds. The gap between these amounts since then has persisted, and by the projections of CBO (Congressional Budget Office) based on the current law, outlays will

exceed the revenues by around 13% over the coming decade. After that, difference will continue to grow; by the year 2038, the outlays will be around 1/3 greater than the annual revenues excluding the interest credited to trust funds (Meyerson & Dacey). Currently, the problem with social security for the future is that the projected taxes after trust reserves get fully depleted in the year 2033 will fall short of the projected benefits by 23%. Social security reserve is planned to remain solvent for over 75 years, but after the demographic pressures and the recessionary economy, it will remain solvent only till the year 2033. After that, without any future reforms, it will pay only 75 % of the promised benefits (Gorry & Slavov).

Recommendation

Conclusion

It is clear that the current path of Social Security is unsustainable and responsible action is needed for its preservation. Personally, I do not believe that Congress would allow the social security to fail. However, it is a possibility that, in coming future, we can reach a point where possible failure would be imminent, and choices would be to raise the taxes substantially or allow this program to fail. Neither of them is especially beneficial to the political aspirations of the Congress. Facing this issue at present allows preparations for more options than waiting 5, 10, or more years. So with the baby boomer generation continually retiring and as the economy continues the slow growth pattern, solvency question remains dependent on Washington’s ability to find necessary resources for meeting its obligations.

Works Cited

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