

Social Security
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History

The Origins of Social Security: The idea of using government provided social security to provide economic security developed in the late 19th century in Europe, but it did not appear in the U.S. until the 20th century. The first social security program for retirees was put into effect in 1889 in Germany. In response to the Great Depression in the 1930's, the U.S. government created its own social security programs.

The Social Security Act of 1935: On June 8, 1934 President Roosevelt announced his intention to provide a social security program to the American People. Early drafts of the first Social Security Act were presented in the following months to the House and Senate. Almost a year later on August 14, 1935, the House and Senate came to a resolution on the bill and the Social Security Act was passed. The Act provided benefits to retirees and the unemployed, and a lump-sum benefit at death. Payments to current retirees were (and continue to be) financed by a payroll tax on current workers' wages, half directly as a payroll tax and half paid by the employer. The act also allocated money to states to provide assistance to aged individuals (Title I), for unemployment insurance (Titles III), Aid to Families with Dependent Children (Title IV), Maternal and Child Welfare (Title V), public health services (Title VI), and the blind (Title X). Also, to accompany this act President Roosevelt implemented a bi-partisan Social Security Board (SSB).

Amendments to the Social Security Act: The Social Security acts and its programs have changed in size and scope since the original act of 1935. The original Act planned to pay benefits out of a large reserve. After the recession of 1937, the 1939 amendments created the Social Security Trust Fund where surplus funds were kept and could be invested by the secretary of the Treasury. This act shifted the conception of Social Security into the pay-as-you-go system we have today. The amendments of 1939 made family protection a part of Social Security. This included increased federal funding for the Aid to Dependent Children and raised the maximum age of children eligible to receive money to 18. The amendment also added wives, elderly widows, and dependent survivors of covered male workers to those who could receive old age pensions. In order to keep the cost of Social Security lower, the amendment decreased benefits for single workers and abolished lump-sum death payments. This decrease in benefits included additional income contributions (taxes) for workers coming from the new "Federal Insurance Contributions Act," or FICA, which are contributions into the Social Security trust fund. Amendments of the 1950's added household employees working at least two days a week for the same person along with nonprofit workers, the self-employed.

Justification

Social Security uses the consumption smoothing effect to make a realistic deduction from your earnings to insure a steady compensation when you retire that was relative to your income during the previous ten years and, if applicable, your 35 years of compensation history. Social security is not tied to any financial markets, which has allowed for long-term stability when paying out to those who receive social security. The only risks or burden to social security are those who live longer than the average American. Americans will, on average, put in more to social security than to their own retirement accounts. As the book indicates, that difference is \$107,000 in future Social Security wealth, but only \$16,000 in private pension wealth and \$3,000 in other personal retirement assets.

Social Security doesn't rule out the possibility of saving in your own private pension or personal accounts. The standard of living is expected to drop as retirement approaches because of the fixed income they predict to live off. This notion has become widely accepted and is usually over anticipated, leaving the retiree with more than they were expecting to live off. The number of retired persons living under the poverty line has fallen dramatically and this trend can be correlated to social security spending. Privatization does offer a "too good to be true" scenario, but wouldn't raise the overall average income for those who are retired and could have adverse effects from mismanagement or market failures.

Reform

As the financial difficulties and shortfalls facing Social Security are severe, it is essential that reform action be taken immediately as to make the changes more gradual and appealing to Americans. Additionally, it is important that these reforms preserve the integrity of Social Security, a program designed to provide assistance to elderly citizens, based on their contributions through work during their lifetimes. Finally, these reforms should not place an undue burden on today's workers, but should instead be a reflection of changing population dynamics and lifestyles since the inception of the program.

Therefore, we propose the following solutions: reinstating the estate tax, raising the cap on taxable income to 90 percent, and gradually increasing the retirement age to 70 years by 2040. These changes pose the most realistic and potentially appealing solution to the funding crisis because they affect only a small portion of the population and are, in general, simply a return to prior policies. Additionally, not only will these policies resolve the current funding shortfalls, they also provide for surplus funds to replenish the trust fund and prevent future funding crises.