Social Security Basics

Social Security is the popular term used in place of Old-Age, Survivors, and Disability Insurance (OASDI) program.

Benefits are paid as a matter of earned right to workers who gain insured status and to their eligible spouses and children and survivors.

Social Security Basics

To become eligible for his or her benefit and benefits for family members or survivors, a worker must earn a certain number of credits based on work in covered employment or self-employment.

In the case of workers who die before achieving fully insured status, benefits may be paid to a worker's children or to his or her widow(er) caring for such children under age 16.

Social Security Basics

A person builds protection under the OASDI program through work in employment covered under Social Security.

All taxes are credited to the OASI and DI Trust Funds, which by law may be used only to meet the cost of:
  - Monthly benefits when the worker retires, dies, or becomes disabled
  - lump-sum death payments to survivors
  - vocational rehabilitation services for disability beneficiaries
  - administrative expenses

Social Security Basics

Each pay period when workers contribute to Social Security through their FICA deduction, they are purchasing insurance for their families against loss of income should they become disabled, die or live to old age.

About one in three Social Security beneficiaries is not a retiree, but a recipient of disability or survivor benefits.

History


1934: The Railroad Retirement Act was passed, providing pensions for railroad workers. Railroads and employees contributed to the retirement fund, making the system self-supporting.
1935: Congress passed the Social Security Act, establishing a system of old age retirement insurance for workers under age 65 in commerce and industry, agricultural laborers, and domestic workers.
1937: The first Social Security payroll taxes were collected. The tax rate for both employees and employers was 1 percent.

1939: Congress amended the Social Security Act to provide survivors insurance and to authorize the first payment of pensions in 1940.
1946: The Social Security Administration was created.

1950: Social Security was expanded to include public workers not covered by a government program, farm workers, and domestic workers—and benefits were increased.
1954: Social Security was extended to self-employed workers (not including lawyers, and those in medical professions).

1956: Coverage was expanded again to include members of the uniformed services and additional self-employed workers. Early Social Security retirement benefits became available to women at age 62. Disability insurance was also added to the program.

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1960: The payroll tax is increased to 3 percent for employees and employers.
1961: Men become eligible for early retirement benefits at age 62.

1977: To address the problem of increasing benefit levels, the Social Security Administration adjusted the cost-of-living indexing formula downward and increased payroll taxes.
1982: The payroll tax moves to 6.7 percent (including hospital insurance) for employees and employers.
1983: Congress enacted amendments gradually raising the age for full benefits from 65 to 67, taxing benefits of higher-income beneficiaries, and including Federal and and nonprofit workers in the system. The amendments also provided for the conversion of the Social Security trust funds to "off budget" status, exempting them from the Federal budget enforcement procedures.

1994: A Bipartisan Commission on Entitlement and Tax Reform, was unable to agree on a specific set of reforms, but recommended immediate action to ensure the future solvency of the trust funds. The Social Security payroll taxed again increased to 7.65 percent for both employees and employers.

2006: The country is trying to find some kind of solution to the Social Security problem. Who knows.

Although details of the Social Security program seem to be widely misunderstood by many Americans, and while people convey pessimistic attitudes about certain aspects of the program's future, the research shows that young Americans do have a positive attitude about the program and hope that it will be sustained for them.

In fact, all age groups indicated a positive attitude about the program, with favorable views increasing with age:
- 51 percent of 18-39-year-olds indicated a favorable view
- 63 percent of 40-59-year-olds
- 78 percent of people over 60

In mid January of 2005, AARP and Rock the Vote randomly surveyed one thousand people over the age of 18 in an attempt to better understand current public attitudes toward Social Security.

91 percent of young adults reported that they believed that Social Security had problems that could be fixed.

– www.google.com
Problems

Most of the debate regarding Social Security is focused on how the system might function decades from now.

Problems

*Continued

The social security funding problem stems primarily from demographics. As the baby boomers age, the U.S. age distribution, if graphed, is changing from a triangle to a rectangle, lowering the ratio of workers to retirees. By the time the last of the baby boomers retires in 2030, there will be only 2 active workers supporting each pensioner, down from 5 in 1960 and 3.3 today.

Problems

*Continued

Current and past retirees have been promised benefits worth several times what they contributed, including interest. Because the benefit formula is progressive, low-paid employees receive more relative to their contributions than do highly paid workers. In the future, however, baby boomers reaching retirement age can on average expect significantly lower returns from their contributions than their predecessors received, and many can anticipate negative rates of return.

Problems

*Continued

The imbalance between revenues and benefits will soon make the system unsustainable. Social security actuaries predict that benefit payments will exceed payroll taxes by 2013 and will exceed all social security income including interest by 2019. Sometime after 2019, reserve assets would be redeemed by the Treasury to cover the shortfall.

Problems

*Continued

The Treasury would either raise taxes, borrow, or cut other expenditures in order to accomplish this. By 2029, the trust fund will be depleted. After that, only about three-quarters of currently promised benefits could be funded from anticipated social security revenues. Note that even in this case, social security would still exist, simply not at the levels currently promised.

Problems

*Continued

Somewhere around 2041, the system won't be able to pay 100 percent of the benefits it has promised—75 percent is more like it, according to the midrange assumptions of Social Security actuaries.

To make up the difference, the system would need to raise the combined payroll tax rate by 1.92 percentage points to 14.32 percent. Or it could cut benefits by about 13 percent. Or it could do some combination of the two. The longer it puts off the fix, the bigger it will need to be.
Problems
*Continued

- All in all, Social Security does not have a solvency problem because more people are paying the maximum amount of taxes. It has a problem because people are living longer and collecting greater benefits.

Some Positive Thoughts…

- About half of the elderly have incomes that, without Social Security, leave them below the poverty line. Social Security lifts 13 million elderly Americans above the poverty line.
- Social Security does more to reduce poverty among children than any other government program. In 2002, one million children under age 18 were lifted above the poverty line by Social Security benefits. No other government program except the Earned Income Tax Credit lifts more children out of poverty.

Solutions

- Mandatory Retirement-Savings Accounts
- Taxing the Wealthy
- TASS Plan 2
- Privatization

Solutions
*Mandatory Savings Accounts

- A mandatory savings account would be similar to the personal accounts proposed by Bush in that they would include a selection of super-low-cost index funds and would resemble the Thrift Savings Plan for Federal employees.
- Unlike the Bush accounts, they would be funded with new savings, not diverted Social Security taxes. Also, they would not make workers decide whether they wanted a private account in exchange for reduced Social Security benefits—a difficult decision.

Some Positive Thoughts
*Continued

- Social Security is more than just a retirement program: one-third of Social Security beneficiaries receive survivors benefits or disability insurance benefits. 10 million beneficiaries are adults below the age of 65, and 4 million are children.

Solutions
*Mandatory Savings Accounts Continued

- The drawback to this idea is that some members of Congress have opposed these mandatory savings accounts, claiming that it’s a tax in disguise.
- Would you rather the 2 or 3 percent of your income go into an account with your name on it, or into a trust fund that you may never see again…?
This principle would include taxing those who have an annual salary of more than $90,000 (the current maximum annual income on which social security taxes are levied).

Two-thirds of those in a poll this year supported eliminating the cap.

If the existing 12.4% rate had no income limit, the program’s $3.7 trillion deficit over the next 75 years would be erased. Much of the shortfall would also be eliminated by imposing a 6% tax on all income more than $90,000 a year.

The main complication to this idea:
- Any plan that would fix Social Security solely by taxing a relatively small number of wage earners would undermine its support. Social Security is seen as a retirement savings and disability program, not a welfare program. If the nearly 10 million people who make more than $90,000 a year are asked to pay more than they will get out, that principle would be defeated.

The supporters of this idea look at the number of people making more than $90,000. In 1983, 90% of all income had Social Security taxes withdrawn. Today, about 85% is taxed.

The TASS plan is a two tiered plan. Tier one guarantees that no retiree with sufficient work credits will live in poverty.

Tier two provides savings accounts to supplement that minimum guarantee.

Primary insurance amount will be pegged at 120% of poverty level. Early retirement will be available up to three years prior to retirement age with the same actuarial adjustment based on life expectancy at normal retirement age. People who have fewer or more years will have the benefits reduced or increased, respectively at 2.5% of PIA per year.
In the event of the death of one spouse, the surviving spouse is entitled to 100% of the benefit received by the spouse with the greater benefit.

The spouse with greater benefit may receive supplemental payments for children under 18, equal to 12.5% of the full benefit entitled to the benefit spouse.

Tier two is designed as a supplemental retirement fund.

Tier two benefits are based on the values built up in the private accounts. The money here is invested the way a person chooses. Bonds, stocks, trusts. This money can be taken out of the account in one lump sum or in installments.

Workers under age 32 would be allowed to divert up to 46 percent of their payroll taxes to individually owned, privately invested accounts, similar to individual retirement accounts or 401(k) pension plans. The remainder of the payroll tax would be used to continue to provide benefits for the currently retired and those who will retire soon.

Assuming private investment returns below historic averages, individuals in the privatized system would receive retirement benefits equal to or greater than those currently promised by Social Security. However, individuals would receive no recognition of or benefits based on past payroll taxes paid.

During the early years of the transition, the government would issue new debt to supplement revenues from the continuing portion of the payroll tax. Once benefits to current and soon-to-be retirees had been paid, the continuing portion of the payroll tax would be used to service and retire the debt. No new taxes are required to finance the transition.
In Chile they had a very similar Social Security system to the one we have today. Chile's SS system had benefit payments that were greater than its taxes, and it had no funded reserves. This is similar to our situation in the U.S.A. Their answer was to privatize in the 1970's.

Today in their plan workers must contribute 10% of their wages to their own accounts at a pension fund company, which invests the wages in securities such as stocks and bonds. This has resulted in the Chilean system being worth $23 billion, and roughly 41% of the domestic product.

During the past decade growth of Chile’s real GDP has grown 6%, compared to 2% of the USA. For the past 5 years ending in 1994, the annualized total return of the Chilean stock market was 48.6% versus 8.7% for the US. Most importantly, retirees are receiving investment returns on average of 14%. As a result the average retiree is receiving a benefit of nearly 80% of their annual income over the last ten years of their working life, almost double the US replacement value.

Privatization’s Negative Side

■ Today’s insurance to protect workers and their families against death and disability would be threatened.
■ Creating private accounts could dampen economic growth.
■ Creating private accounts would make Social Security’s financing problem worse and not better.

Privatization has been a problem elsewhere.
The odds are against individuals investing successfully.
What you get will depend on whether you retire when the market is up or down.
Privatization’s Negative Side

- Wall Street would reap windfalls from your taxes.
- Private accounts would require a new government bureaucracy.
- Young people would be worse off.
- Women stand to lose the most.

Privatization and Minorities

- Social Security is especially important to people of color because they are less likely than white Americans to have pensions or retirement savings.
- African Americans and Hispanics have higher disability rates and lower lifetime earnings, therefore they benefit from Social Security’s progressive benefit formula and its disability and family benefits.
Privatization and Minorities
*Statistics

- About 52% of all American families own tax-favored retirement accounts such as Individual Retirement Accounts, 401(k) plans and related savings in 2001.
- The median values were lower for African American families ($8,800) and Hispanic families ($8,700) than for white families ($35,000).
- Of Americans age 65 and older, people of color are less likely than whites to have income from private or government employee pensions to supplement Social Security.

Privatization and Minorities
*Statistics Continued

- Such pensions were received by 42% of whites, 30% of African Americans and 19% of Hispanic Americans aged 65 and older in 2002.
- Social Security is the sole source of income for 41% of Hispanics, 40% of African Americans, and 28% of Asian and Pacific Islanders, as compared to 19% of whites aged 65 and older.

Privatization and Minorities
*Statistics Continued

- African Americans are 12% of the U.S. population between the ages of 20-64, and 17% of all disabled worker beneficiaries in the same age group.
- African American children account for 16% of all U.S. children (under the age of 18) and 23% of all children receiving survivor benefits, 21% of all children of disabled worker beneficiaries, and 25% of all children of retired workers receiving benefits.

Funding

- A major change is envisioned in permanent program funding levels. There would no longer be a cap on subject salary. Today it is at 90,000.
- A second change would come with the replacing of employee contribution, and changed to a surtax on all taxable income.
- Another change would take place with the amount an employer has to contribute. Based on assessments after FICA and accounting percentage.

Transitioning

- The transition from current structure to proposed plans would take up to forty years to fully implement.
- During this transition period recipients will receive benefits from the existing plan and the proposed plans based on contributions to the proposed plans and available funds from the existing plans.

Social Security Online!

- www.ssa.gov
  - Sample forms/procedures
Summary

- The Social Security system must be reformed.
- People are continually trying to come up with a solution to solve the problems. There are no permanent solutions as of now.
- People have a mixed opinion on the situation. Most people will agree that there needs to be a change.
- Opinions? Comments?

The end