Social Security Essay, Research Paper

Social Security is a hot topic of debate today, since most American’s believe

that the system is near collapse. The trust fund that Americans have been paying

into for Social Security is likely to dry up in 2029 due to the large number of

baby boomers heading into retirement. Franklin Roosevelt set up Social security

to help the people that had worked and Struggled all their lives in honest toil.

Social security was set up to accomplish two main goals. The first goal of

Social Security is to act as a disability or life insurance policy that protects

almost all Americans. Currently, there are seven million survivors of deceased

workers and four million disabled Americans that receive income support from

Social Security. The second goal is to provide lifetime retirement benefits that

rise with inflation. Social Security payments for retirees are needed to keep

half of the elderly Americans above the poverty line. A large number of baby

boomers believe that they won’t see a dime’s worth of Social Security benefits,

and most younger people assume that once they have reached retirement the

program will be gone. There have been many proposed solutions to the Social

Security problem. A first possible solution is to dramatically change the Social

Security Payroll Tax. Another proposal is to change amount of benefits of the

provided by Social Security. A third reform proposal includes investing Social

Security money in stocks either by the government investing the money or by

setting up mandatory IRA investing. Another major development in the future of

Social Security is the recent proposals made by President Clinton’s Advisory

Committee on Social Security. In January of this year the Advisory Committee on

Social Security presented a report of strategies to save Social Security.

Shortly after the 261 page report was released there was a huge increase of

debates and criticism over the future of Social Security. The issue facing

American today is when and how to reform Social Security. Although the American

public and political groups are unwilling to accept the burdens of social

security reform, extensive reform is needed soon to continue paying the current

benefits to American citizens. A change in the Social Security tax is a possible

factor of reform to bring the Social Security program back on track. Currently

the Social Security tax is a flat-rate tax paid on all employment earnings up to

a specified limit. Due to inflation the limit is increased every year currently

it is just over $60,000. This tax is much harder on a lower income individual

because the higher income individual is only taxed on their income that is below

a certain amount set every year. It has been proposed that if the limit on the

payroll tax were lifted, two-thirds of the projected Social Security deficit

would be eliminated. Once the limit on the payroll tax is lifted a rise in the

tax rate of the employers and the employees by 1.1% is predicted to be enough to

solve Social Security’s problems. This is assuming that two evasive actions take

place. First the government will have to keep its hands of this extra tax

revenue gained by the tax increases. Second the proposed solution will only have

a chance to work if it is started immediately while the baby boomers are still

able to add a little more cash to the trust fund for there own retirement. This

solution isn’t likely to be implemented by today’s political system. The

advisory council on Social Security would not pursue the lift of the limit

because the support of the wealthy voters for Social Security reform would be

lost. Americans are also weary of Social Security tax increases. The middle and

lower class voters would also not support a Social Security tax increase. A

recent poll by Money magazine found that 70% of the public is unwilling to pay

more tax than the current 6.2% rate. Another proposed solution to Social

Security’s problems is a to decrease the amount of benefits received by

retirees. The first way to reduce the amount of benefits that are being paid out

is to adjust the CPI. Sen. Daniel Monynihan of New York (Dem.) has proposed that

a 1.1% cut in annual cost-of-living adjustments for pensioners would be a

reasonable solution to Social Securities problems. The adjustment of the CPI

would reflect the belief by many economists that the CPI overstates current

inflation. He claims that this would almost completely solve the problems in the

Social Security program by insuring that the expected inflow of funds would

equal the expected outflow of benefits for future decades. An alternate approach

to lowering the amount of paid benefits is to raise the retirement age.

Currently the retirement age is expected to rise from 65 to 67 in 2037. A recent

poll taken by Money magazine found that 70% were in favor of raising the

retirement age to 67 by 2016. This would decrease the amount of benefits being

paid out, and give two more years for these individuals to put money into the

system. Another proposed solution that would also lower the amount of benefits

paid out is to cut benefits for the prosperous retirees with incomes above

$50,000 dollars a year. The biggest problem with cutting benefits of any kind is

that any politician that proposes cuts will instantly lose support by elderly

that count for a major portion of the voters, so cutting benefits is almost

impossible in our political system even if the cuts are very small. A politician

would also be unwise to implement benefit cuts only for prosperous retirees

because the support of the wealthy would also be lost. The third major reform

proposal consists of investing the Social Security tax in the stock market. The

biggest question for this type of reform is whether taxpayers would decide where

to invest there tax money or would the government choose for them. An individual

on this type of plan would be required to invest a portion of there income in

stocks, bonds, mutual funds, bank CDs, but not in gambling or other wild money

making schemes. The tax payer on this type of program would then be able to

withdraw their investments once there reach retirement age. The government would

also insure that the retire still receive a minimum return even if their

investments fail. The biggest advantage of this IRA style approach would be that

Americans will finally be in control of their own retirement fund. This proposal

has many advantages for politicians and voters of all ages. There would no

longer be debates about retirement ages and you could make your own choice on

when to retire. The debates on the how to measure the rate of inflation with the

CPI to would no longer affect benefit payments. The stock market could flourish

from the added revenue of future retirees. The increase in investing also could

improve the state of the American economy. There are a few drawbacks for this

type of reform. The biggest is deciding how to finance Social Security for

people retiring before this reform, since Social Security is run as a pay as you

go system. Social Security is considered a pay as you go system because people

paying Social Security now are paying for the already retired citizens.

Financing the retirement for people before the reform isn’t a proble, since the

baby boomer generation is creating a $50 billion a year surplus. The baby boomer

generation has also created a $500 billion surplus from recent years which will

be enough to finance the their retirements. The other option is for the

government to invest Social Security trust funds in the stock market. The

advantage of this is that if market trends continue the government will generate

gain an additional after inflation interest rate of about 7%. Although this

option has many problems that will keep it from being a solution. This option

would give the government a massive control of the private economy. It is hard

to believe that the government will be able to keep a hands off approach when it

controls huge blocks of stock in companies. The American public doesn’t have

enough faith in the government to trust that it will be able to invest such a

large sum of money without being swayed by political pressures. The new demand

for the stocks will decrease the demand for bonds thus raising bond interest

rates which could hurt the economy. This approach also doesn’t have a plan of

action for slumps in today’s volatile market. Recently, the White House’s 13

member Social Security Advisory Council released three reform approaches. These

reform proposals are different variations of investing Social Security taxes in

the stock market and the use of private savings accounts. In each proposal by

the Advisory Council on Social Security the benefits of retirees are maintained

and taxs are also held at the same rate. The most popular of these approaches

was supported by six of the members. This plan would keep Social Security a

government-run retirement system. It calls for a study of investing up to 40% of

Social Security surpluses in the stock market. This plan is strongly backed by

labor and retiree groups, but it may not be accepted because of fears of

government ownership of the stock in private companies. The least favorite

proposal among the council is only supported by two members. It would require

all workers to put 1.6% of pay into mandatory government-run individual accounts

that offer a choice of stock and bond investments. At retirement, account

balances would be paid out as annuities for the life of the employee. Few people

are strong supporters of this variation, but it could be come a model for

compromise among the councils three proposals. The final approach is supported

by five of the council’s members. This plan would divert into savings accounts 5

percentage points of the 12.4% payroll tax paid by workers 54 or younger and

employers. The remaining 7.4 percentage points of tax would help fund a the

basic Social Security plan. This plan could become the standard plan for radical

reformers, but it is likely that it will not be supported by congress. The

private savings accounts could be good for the economy. Instead of spending

almost all taxes from today’s workers immediately as retiree benefits, the money

will be placed in savings accounts that will grow by 2.5% of the GDP every year.

This rate will be maintained as long as stocks and bonds maintain the returns

they have generated in the past century. My own proposal under ideal conditions

would not use the approach of investing in the stock market. I am not that

excited about investing in the stock market because I don’t believe that today’s

bull market will last. Although in order for my most aggressive type of approach

to work there would have to be a substantial tax increase and an adjustment of

the CPI, and I could never get enough support for my proposal from the wealthy

or the retired citizens. In order to make a proposal that would have any chance

of making it through the house and the senate I have already compromised on

investing in the stock market to reduce the increase in taxes and to keep from

decreasing benefits substantially. I propose that to begin reforming Social

Security we need to first adjust the CPI. This would cut down on the benefits

for those receiving Social Security payments. Then I would propose that a law be

passed to keep the governments hands off this money so we can gradually work our

way away from the pay as you go system into a system that would insure everyone

over 35 would be receive benefits under the traditional system. Everyone under

35 would start having by having 4 percentage points of there Social Security tax

put into individual IRA’s. The percentage of the Social Security tax that is put

in the IRA’s would be gradually increased until the benefits for everyone over

35 have been paid for. After everyone over 35 have had there benefits accounted

for in the budget the amount of the Social Security tax invested in IRA’s will

stop at 8.5 percentage points of the 12.4% rate. The left over Social Security

tax will then be invested in government Treasuries, or it would pay for a basic

insurance plan that would be provided to the public. The amount of the tax

invested in either of these areas would completely depend on America’s demand

for benefits from the insurance. This insurance would cover the same goals of

the current system, and it would provide an allowance to anyone that doesn’t

meet a minimum benefit level from their IRA’s.