

PURPOSE

The care of our nation's elderly and disabled is the focus of the last of the chapters that specifically address U.S. equity issues (though equity issues are addressed in all chapters). Thus, the purpose in Chapter 9 is to discuss the U.S. Social Security system. There are many common misconceptions that students seem to have about Social Security. We therefore look at the long-run problem occasioned by the declining worker-to-beneficiary ratio, as well as some of the changes likely to occur in the system over the next several years. These include the intentions of Donald Trump and some other Congressional Republicans to dramatically slash budgets for Social Security, as well as privatizing the system. Young people believe that Social Security will no longer “be there” for them, so this should make this an interesting and relevant topic for students.

LEARNING OBJECTIVES

The learning objectives in this chapter are:

1. to acquaint the student with the history of the Social Security system.
 2. to acquaint the student with the features of the Social Security system.
 3. to differentiate between social insurance, private insurance, and public assistance programs.
 4. to discuss with the student the long-run problem of Social Security.
 5. to help the student analyze some of the measures taken, or likely to be taken, to increase the financial viability of Social Security.
 6. to discuss the women's issues inherent in Social Security.
 7. to discuss with the student many of the other issues surrounding Social Security, including proposals to change it.
 8. to delineate the economic conservative and liberal viewpoints on Social Security, including proposals for privatization.
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LECTURE SUGGESTIONS

- This is an issue that students have opinions about. They really *are* interested in the institutional structure of Social Security. Discussion helps to alleviate the dryness of some of the material. To start the discussion, ask them questions.
 - Ask the students if they have any family members receiving Social Security. (They likely do, but they may not know.)
 - Ask student workers how much of their paycheck goes to Social Security. This will trigger discussion, since it is a large share.
 - Ask the students if they expect Social Security to be there for them. (Most do not.) Students, whether they are eighteen or much older, have opinions about this issue. They do not have much information to back up their opinions. If some of them start expressing their opinions, the rest really seem to maintain interest in the subject matter.
- Our students' issue is: “Will it be there for me?”; so, that is a topic that I emphasize.

ADDITIONAL DISCUSSION AND ACTION QUESTIONS

1. In the last year Joe was employed, he earned \$38,000. He has retired, and his Social Security retirement benefits are \$14,400. What is Joe's replacement rate? (**38%**)
2. A proposal that is sometimes made to improve the financial soundness of Social Security is to eliminate benefits for high-income workers. What would that do to the goal of covering virtually the entire population? Would Social Security still be a social insurance program? Would there then be a stigma attached to receiving Social Security benefits? Do students seem to be in favor of this approach?

SOME ANSWERS AND COMMENTS ON THE TEXT DISCUSSION AND ACTION QUESTIONS

1. The system is gender neutral. If women receive lower benefits on their own records than the spousal benefit on their husbands' records, it is a symptom of other inequities in the economy, rather than in the Social Security system. Young people may feel the system is unfair to themselves.
2. By taxing only earnings above some level.
3. Answers are in the text.
4. *See Table 9-1.* The most important differences probably are the principles of social adequacy vs. individual equity and the source of funding for each. Unemployment compensation is also a social insurance.
5. *See Table 9-2.* The most important differences are probably the population that is covered and the financing of the programs. Other public assistance programs include food stamps and TANF.
6. Student activity.
7. The long-run problem is the declining worker/recipient ratio. The steps taken in 1983 were not adequate, although they were certainly giant steps in the right direction.
8. Student activity.
9. Student activity.
10. Student activity.

SUGGESTED TEST QUESTIONS

Multiple-Choice Questions

1. A major difference between social insurance and public assistance programs is that:
 - a. **social insurance covers the entire eligible population, but public assistance covers only the needy.**
 - b. receiving social insurance benefits is widely regarded as shameful, but this is not so with public assistance.
 - c. social insurance is a statutory right, but public assistance is a contractual right.
 - d. social insurance is financed by general tax revenues, and public assistance is financed by earmarked payroll taxes.
2. When we say that the Social Security tax is a matching tax, we mean that:
 - a. the government doubles the amount that each worker pays.
 - b. **both workers and their employers pay the Social Security tax based on the workers' earnings.**
 - c. the benefits workers receive are larger than the taxes they paid in.
 - d. the benefits a worker will receive are proportional to the taxes they paid in.

3. When we say that the Social Security tax is regressive, we mean that:
 - a. the tax takes a larger percent of the income of high-income workers than low-income workers.
 - b. the tax takes the same percent of income for both high- and low-income workers.
 - c. **the tax takes a larger percent of income for low-income workers than for high-income workers.**
 - d. None of the above
4. The Social Security tax is regressive because:
 - a. **the earnings of higher income workers exceed the maximum amount taxable for Social Security, and only wages and salaries are taxed for Social Security.**
 - b. capital gains are taxed at a higher rate.
 - c. the employer's portion of the Social Security tax is larger than the worker's.
 - d. workers who paid in more taxes receive larger retirement benefits.
5. The worker's retirement benefits as a percentage of his/her final working year's earnings is the:
 - a. benefit rate.
 - b. transfer rate.
 - c. entitlement rate.
 - d. **replacement rate.**
6. Which of the following is a public assistance program?
 - a. Social Security
 - b. Medicare
 - c. **welfare**
 - d. All of the above
7. The long-run problem of Social Security is that:
 - a. the system is going bankrupt.
 - b. **the ratio of workers to recipients is declining.**
 - c. the trust funds are invested in junk bonds and other risky investments.
 - d. There are too many young people relative to old people in today's economy.
8. The argument that Social Security increases savings by encouraging early retirement is the:
 - a. wealth effect.
 - b. replacement effect.
 - c. **early retirement effect.**
 - d. savings effect.
9. The argument that Social Security decreases savings because it decreases the need to save privately for retirement is the:
 - a. replacement effect.
 - b. early retirement effect.
 - c. dissaving effect.
 - d. **Social Security wealth effect.**
10. Most of the revenues for Social Security come from the:
 - a. general tax revenues of the federal government.
 - b. **payroll taxes paid by workers and their employers.**
 - c. income tax paid on Social Security benefits.
 - d. interest on the Social Security trust funds.

11. Which of the following is correct?
 - a. The replacement rate is higher for high-earning workers than low-earning workers.
 - b. Married workers are given the greater of retirement benefits on their own record or spousal benefits on their spouse's earnings record.**
 - c. The Social Security program only covers retirement, not disability.
 - d. Public assistance benefits are based on the principle of individual equity.
12. Jane retires. The last year she worked, she earned \$30,000. Her social security payments the first year total \$15,000. Her replacement rate is:
 - a. 40%.
 - b. 50%.**
 - c. 60%.
 - d. 200%.
13. A tax takes \$2,000 from Joe whose total income is \$20,000. The tax takes \$3,000 from James whose income is \$40,000. The tax is:
 - a. regressive.**
 - b. proportional.
 - c. progressive.
 - d. fair.
14. The idea that a social insurance program should put a minimum floor of income under the entire population is the:
 - a. principle of individual equity.
 - b. principle of social adequacy.**
 - c. basis of capitalism.
 - d. basis of compassionate conservatism.
15. The idea that a taxpayer who pays more Social Security taxes should receive higher retirement benefits is the:
 - a. principle of individual equity.**
 - b. principle of social adequacy.
 - c. basis of capitalism.
 - d. basis of conservative philosophy.
16. When Social Security is described as a pay-as-you-go system, it means that Social Security:
 - a. cashes in government bonds each month to pay retirement benefits.
 - b. pays benefits out of the current taxes collected from people who are working.**
 - c. has to borrow to pay current retirees their benefits.
 - d. None of the above
17. Among the changes made to the Social Security program in 1983 was:
 - a. decreasing the normal retirement age.
 - b. increasing the early retirement age.
 - c. increasing the normal retirement age.**
 - d. exempting Social Security benefits from income taxes.
18. When we say that Social Security benefits are progressive, we mean that:
 - a. high-income workers receive higher retirement benefits because they paid more taxes.
 - b. low-income workers have a higher replacement rate than high-income workers.
 - c. low-income workers receive lower retirement benefits because they paid less taxes than high-income workers.
 - d. all workers have the same replacement rates, but they did not all pay the same taxes.

19. Plans to partially privatize Social Security would reduce the Social Security tax and:
- require that workers establish investment accounts with the taxes saved.**
 - allow the Social Security Administration to invest in common stocks.
 - allow the Social Security Administration to invest in junk bonds.
 - allow workers to use the saved taxes for educational purposes.
20. Our largest social insurance program is:
- unemployment compensation insurance.
 - Medicaid.
 - Social Security.**
 - food stamps.
21. Why are the gaps in survivorship Social Security benefits primarily a women's issue?
- Women tend to live longer than men.
 - Women are still more likely than men to work in the home.
 - On average, men earn more than women.
 - All of the above**

True-and-False Questions

- Although the Social Security payroll tax is regressive, Social Security benefits are progressive. **(T)**
- Social Security is a program for low-income workers only. **(F)**
- Public assistance programs are financed by earmarked payroll taxes. **(F)**
- Social Security is a social insurance program paying retirement, survivorship, and disability benefits to covered workers. **(T)**
- To qualify for Social Security benefits, one (or one's spouse) must have worked and paid taxes on one's earnings. **(T)**
- Workers have a contractual right to Social Security benefits. **(F)**
- The Social Security used to have a "welcome immigrants" message on its homepage, but no longer does. **(T)**
- Social Security covers the entire eligible population and not just low-income people. **(T)**
- Adverse selection is any situation in which the choices of insured persons lead to higher loss levels and costs. **(T)**
- Social Security is a fully funded insurance system. **(F)**
- Social Security is an entitlement, to which eligible persons are given a right by law. **(T)**
- Because the taxpayer has a statutory right to Social Security benefits, Congress cannot unilaterally change the Social Security program. **(F)**
- The purpose of both private and social insurance is the pooling of risk. **(T)**
- An argument against making Social Security voluntary is that ultimately the costs per covered person would increase. **(T)**
- There is a stigma attached to receiving Social Security benefits. **(F)**
- The Social Security tax rate for workers is 6.2 percent. **(T)**
- The combined Social Security tax rate for employers and employees is 12.4 percent. **(T)**
- A public assistance program covers the entire population, whereas a social insurance program covers only the needy. **(F)**
- If nothing is done to save it, Social Security will go bankrupt in 2041. **(F)**

20. Future retirees will be able to retire at age 60 and collect full Social Security benefits. (F)
21. The tax base for Social Security taxes is earnings from work *above* some specified level of earnings. (F)
22. The long-run problem of Social Security is the aging population. (T)
23. Adverse selection means that people's choices lead to higher-than-average loss levels for the program's sponsors. (T)
24. Some Republicans would like to see a privatized for the Social Security program. (T)
25. Economic liberals are more likely than economic conservatives to favor cuts in Social Security benefits. (F)
26. The immigration of young people to our country would help support our aging population. (T)
27. Medicare is a social insurance healthcare program for Social Security recipients. (T)
28. One problem with Medicare is that it may not provide full social adequacy. (T)
29. Medicare is facing rising healthcare costs as well as an aging population. (T)

Short-Answer questions

1. Discuss three of the steps that could be taken to increase Social Security's financial soundness.
2. What do we mean when we say that Social Security benefits are progressive?
3. The last year Sarah worked, her earnings were \$20,000. Her Social Security retirement benefits are \$10,000 a year. What is her replacement rate? (50%)

Critical Thinking Question

Some people suggest that a way to make Social Security financially sound is to make it a means-tested program that would pay benefits only to people with relatively few assets and low income. Do you think this is a good idea?

INTERNET RESOURCES

<http://www.ssa.gov>

(This is the Social Security Administration's site. You can find the most recent annual report here.)

<http://cato.org>

(This conservative think tank promotes the privatization of Social Security, as well as conservative views regarding immigration, school choice, drugs, globalism, and federal spending.)

<http://www.cbpp.org>

(This site presents a more liberal view on Social Security and other economic topics. It is the Center for Budget and Policy Priorities.)

<http://www.whitehouse.gov>

(You can send your students to the website to search for speeches by the president that focus on Social Security.)