Social Security, National Health Care, Public Education

3a. Social Security

Social Security is the second most popular government program of all time, and millions of our senior citizens depend on it for their basic needs.[1] However, there is a problem associated with its funding.

In the current funding model, employees contribute 6.2% of their annual gross wage into the Social Security Trust Fund, and this amount is matched by their employer, totaling 12.4%. However, these contributions stop when wages/income reach $110,100. Even though this has produced a surplus of $2.7 trillion, it is only enough to pay out 100% of benefits through 2033, while after that, and for the next 50 years, benefits to recipients will be reduced by 23%.[2]

The numbers

In 2012, the Social Security Trust Fund took in $840,190 million, and had expenditures of $785,781 million. This was enough to add $54,409 million to its year end assets.[3] However, this is not enough to cover 100% of all future obligations because it was based on 12.4% of wages, with a cap on contributions when wages hit $110,100.

> **Current tax system:** 12.4% of wages, with $110,100 cap. This will not be sufficient to pay out 100% of future benefits after 2033.

Year	Total Receipts	Total Expenditures	Net Increase During Year	Asset Reserves at End of Year
2012	840,190	785,781	54,409	2,732,334

It has been determined that to pay out 100% of future benefits without elimninating the cap on contributions, the current level of contributions must be raised from 12.4% to 14.4%.

> **Current Proposed Solution:** Increase contributions to 14.4% of wages while maintaining the cap on contributions.

Year	Total Receipts	Total Expenditures	Net Increase During Year	Asset Reserves at End of Year
2012	975,704	785,781	189,923	2,867,848

However, we should increase benefits upon retirement not only to minimize the effects of inflation, but also to have a better quality of life in our later years. This is accomplished through the reforms found in Section 1.b. and Section 2.a., which, when applied, increases Social Security revenue to such an extent that upon retirement recipients will receive greater benefits.

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[1] The most popular program is Medicare. http://www.harrisinteractive.com/NewsRoom/HarrisPolls/tabid/447/ctl/ReadCustom%20Default/mid/1508/ArticleId/257/Default.aspx

[2] http://www.ssa.gov/oact/trsum/

[3] https://www.ssa.gov/oact/STATS/table4a3.html

This Proposals Solution: Payroll taxes of 6.5% from individuals based on annual gross income (see Section 2.a.), and 5.2% from corporations based on employee annual gross salary (see Section 1.b.). <u>There are no caps on contributions from either source.</u>

Year	Total Receipts[4]	Total Expenditures	Net Increase During Year	Asset Reserves at End of Year
2012	1,100,000	785,781	314,219	2,992,114

As you can see, 2012 total receipts generated from this proposals solution, $1,100,000 million, exceeds the amount generated by the proposed 14.4% capped solution by $124,296 million. This translates into a net increase for end of year asset reserves of $2,992,114 million compared to the asset reserves of $2,867,848 million from the 14.4% solution.

Since there were 61.9 million Social Security recipients in 2012,[5] had this solution been in effect at that time, all beneficiaries would have received an averaged increase of $167 per month above the currently promised benefit.

Unequal application of the current Social Security tax

This solution also equalizes the inherently unfair application of the current Social Security tax. Since most Americans earn less than $110,100 per year, most Americans are taxed on 100% of their income. However, as incomes rise above this level, and since the portion of income above this level is not subject to the Social Security tax, the high-income earners become the recipients of a huge tax break, effectively distributing wealth upwards.

For example, someone who earns up to $110,100 per year pays the Social Security tax on 100% of their income while someone who earns $500,000 per year only pays Social Security taxes on the first $110,100 of their income, an actual tax rate of only 22%. This leaves $389,900 not subject to the Social Security tax, saving this person $24,174 in taxes. More examples:

Percentage of Income Currently Subject to the Social Security Payroll Tax (2012)

Annual Gross Income	Income subject to Soc. Sec. Tax	Income NOT subject to Soc. Sec. Tax	Social Security Tax Paid	% of Income subject to Soc. Sec. Tax
$30,000	$30,000	$0	$1,860	100.00%
50,000	50,000	0	3,100	100.00
80,000	80,000	0	4,960	100.00
110,100	110,100	0	6,826	100.00
125,000	**110,100**	**14,900**	**6,826**	**88.08**
150,000	**110,100**	**39,900**	**6,826**	**73.40**
250,000	**110,100**	**139,900**	**6,826**	**44.04**
500,000	**110,100**	**389,900**	**6,826**	**22.02**
1,000,000	**110,100**	**889,900**	**6,826**	**11.01**
5,000,000	**110,100**	**4,889,900**	**6,826**	**2.20**
10,000,000	**110,100**	**9,889,900**	**6,826**	**1.10**
22,000,000	**110,100**	**21,889,900**	**6,826**	**0.50**

[4] See Appendix F

[5] https://www.ssa.gov/policy/docs/chartbooks/fast_facts/2013/fast_facts13.pdf

The inequity of not paying Social Security taxes on income above $110,100 is corrected by removing the artificially created cap on wages/income. This solution also pre-empts the position taken by those who want to either reduce benefits or increase the retirement age of recipients to solve the long-term benefit pay-out problem facing Social Security. As this plan points out, it is not necessary to solve the long-term Social Security benefit pay-out problem by creating more hardship for the poor, the elderly, and the middle class.

Social Security, an entitlement program?

It should be noted that Social Security, like Medicare, has been referred to as an entitlement program. This has come to mean that recipients are receiving something for nothing, something they are not entitled to, some form of welfare. This is factually incorrect. It must be emphasized that Social Security is an insurance program that includes old-age, survivors, and disability insurance (OASDI). The fact that everyone pays into Social Security during their entire working careers means that everyone is "entitled" to the benefits they receive because they paid for it.

For example, former vice-presidential candidate and current Congressman Paul Ryan (R. Wisconsin), paid part of his tuition at Miami University, an Ohio public school, with the Social Security benefits his family received after the death of his father.[6] No one has suggested that his family received some form of welfare, nor has anyone demanded that they pay back the money they received. By extension, no one should be accused of living off government largesse simply because they became eligible for their Social Security benefits.

Should we privatize Social Security?

Social Security is arguably the government's most successful program of all time. For over 75 years it has met all its financial obligations. It has administrative costs of less than 1%, and interestingly enough, can never go broke because its' revenue is based on payroll taxes that everyone now and in the future will continue to pay.[7] Since it is completely self-funded, it has never had to borrow money to meet any of its' financial obligations, and therefore has never contributed to our national debt.

In fact, it is so successful that the government borrows from the Social Security Trust Fund to pay for other government obligations. Therefore, we should scrutinize with great care the plan some politicians are presenting to "save" the future of Social Security due to what they have purposefully mischaracterized as an insolvency problem. That is factually incorrect. Since Social Security can never go broke, what it has is a future benefit reduction problem, not a solvency problem.

To remedy this fabricated crisis, these politicians want to "privatize" part of Social Security's funding structure. They claim that to save Social Security from bankruptcy we must privatize a portion of Social Security's funding so that at retirement time younger workers will receive the retirement benefits they allege Social Security will be unable to provide.

In their contrived solution, privatizing Social Security means diverting the first 65% of the workers 6.2% payroll tax contributions into private accounts. These are accounts in which the average person is supposed to be able to manage their portfolio to bring about monetary gains that at time of retirement would be greater than the payments guaranteed to them by Social Security. This is nonsense. Since professional financial planners will not provide this guarantee, how can anyone believe that those with the least experience in financial matters will be capable of pulling off such an accomplishment?

It is interesting to note that none of the politicians who promote this course of action have ever offered any empirical evidence to show that their plan will actually work. The only outcome that can be predicted with any degree of certainty is that the institutions that maintain these privatized

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[6] https://www.politico.com/story/2012/08/10-facts-about-paul-ryan-079592

[7] https://www.ssa.gov/oact/STATS/admin.html

accounts will make money. They will make billions on the millions of privatize accounts by charging the investor set-up, custodial, and administrative fees. They will also make money on the transactions that take place in the account. It is great for them, however, there is no guarantee that the investor will make any money, and the very real possibility that they will lose a significant portion of their savings.

The effect of privatization on the Social Security Trust Fund

Diverting 65% of the employees 6.2% payroll tax contribution to private accounts means that 32% of the money currently ear-marked for the Social Security Trust Fund will no longer be there.[8] This does nothing to solve the future benefit reduction problem facing Social Security. In fact, diverting this money to private accounts actually ***creates*** the funding problem that will bankrupt Social Security.

The act of diverting 32% of Social Security's funding from the common pool of money used to pay out current retirees' benefits means that this newly created shortfall will have to be covered by borrowed money. The analysts are saying that the government will have to borrow between one and ten trillion in the short run to make up for this lost revenue, and this borrowed money will be added to our national debt. Again, this course of action not only does not solve the future benefit reduction problem facing Social Security, but actually creates the scenario for bankrupting Social Security in the future.

Lessons from the past

Because our economy is cyclic, the most recent economic collapse will inevitably happen again and if we were to privatize Social Security, the same economic calamity that wiped out between 40% and 60% of the value of our already existing private retirement accounts would befall the newly privatized portion of Social Security.[9] This financial hit would immediately impact millions of senior citizens the consequences of which could likely include homelessness and starvation on a massive scale.

As if this was not bad enough, the consequences to the Social Security Trust Fund would be even worse. Please note that if only 1% of payroll taxes had been diverted to private accounts in 1998, Social Security would have become insolvent by 2015.[10]

Therefore, to prevent the collapse of this social safety net and to ensure Social Security's ability to pay out 100% of benefits in the future, we need to prevent the privatization of Social Security while at the same time adding to its asset reserves.

Stop raiding the Social Security Trust Fund

There is one final point that must be emphasized. The IOU's placed into the Social Security Trust Fund as the promissory note for money borrowed is not good fiscal policy. We must learn to live within the budget revenues raised from other forms of taxation without in any way counting on Social Security's assets. Therefore, this proposal forbids the government from borrowing from the Social Security Trust Fund to pay for other obligations.

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[8] Employer and employee contributions currently total 12.4%. Therefore, 4% /12.4% = 32%

[9] Referring to the subprime mortgage crisis starting in 2007.

[10] Barry P. Bosworth and Gary Burtless, "Privatizing Social Security: The Troubling Trade-Offs," brookings.edu, Mar. 1997