Social Security Essay, Research Paper

Social Security

Social Security has long been a topic of heated debate for the people of the United States from small, low income families to the most educated Harvard graduates. Although all Social Security programs serve for only one simple purpose to provide people income and benefit after their retirements, different people all have different perspectives and ideas on how this goal should be achieved. The new elected president Bush also carries out his own plan of allowing partial or total privatization of SS. Is it a good solution for the problems remaining in our present SS system? What is the main problem of the Social Security system? And how does Bush’s proposal affect our financial future? Those questions are going to be answered in my paper. But first of all, let’s take a look at the history and legislation change of the Social Security program.

Because of the massive unemployment and poverty caused by the Great Depression, the government realized that it had to do something to protect employees from unemployment, illness, and old age. The first step taken was the Social Security Act of 1935, Employees used to sue their employers to receive compensation after a work-related injury or illness. Also, the new act created a social insurance program designed to pay worker a pension after retirement. According to the official Social Security web site www.socialsecurity.gov, the first SSN was issued in November 1936, and over 35 million SSN cards were issued in the following two years. In 1939, a new amendment was established to add two new categories of benefits according to the same web site: payments not only to the workers but also to the spouse and children of a retired worker and survivor benefits paid to the family in the event of the premature death of the worker.

During the 40’s , there is virtually no change in the Social Security program. But in 1950, major amendments were enacted . These amendments raised benefits for the first time. These increases, known as Cost-of-Living Adjustments (CoLAs). I think this is the most important legislation change in SS history. Because under these amendments, people’ s retire benefits began increase with respect to time, allowing retired workers overcome the difficulties caused by inflation. On August 1, 1956, another Social Security act was amended to provide benefits to disabled workers aged 50-65 and disable adult children. Over the next two years, Congress broadened this program, also providing this benefit to disabled workers under age 50 and their dependents. I think the SS Amendments of 1956 was the first big step to deal with disabilities. During the 60’s , the most significant change was the Medicare. Under Medicare, health converges was extended to Social Security beneficiaries aged 65 or older. Nearly 20 million beneficiaries enrolled in Medicare in the first 3 years of the program. Again according to the same web site. At the last, there are two major legislation changes in the 90’s. One is the 1994 legislation, “the periodic Social Security Advisory Councils were abolished and a permanent seven-member bipartisan Social Security Advisory Board was formed to provide independent advice and counsel on Social Security.” The other one is ” Welfare reform legislation, signed by President Clinton in 1996, terminated SSI eligibility for most non-citizens. ”

(www.socialsecurity.gov)

Although the Social Security program has achieved a lot for providing benefits for the retired workers and less-income families, there are still some problems remain in the system. One of the most major problems is that the money that the taxpayers earn on their mandatory Social Security contributions is a lot less than they could earn in a private pension, a funded system or even the unstable stock market. Harvard economist Martin Feldstein argues that “Social Security contributions can be expected to grow at the same low rate at which the payroll tax base has been growing : 2.6% , on average since 1960. The real pretax return on non-financial corporate capital was 9.3% over the same period.” This information granted the 6.7 % difference, shows the loss is quite significant. Because of this result, distortions in labor supply will occur. People will need to work longer hours than if a funded system were used to be able to afford the same amount of retirement income. Feldstein estimates that this loss from Social Security taxes in 1995 was about $68 billion. That’s nearly 1% of the GDP compared with the data from our textbook. The damage it dose to national saving and investment is severe. If we would switch to a funded or privatized system, it would expand the nation’s stock significantly that the GDP would easily slide past $10 trillion, which is, according to Feldstein, equal to 2% of GDP per year.

I think the best solution to this problem should refer to the Bush’s plan on the Social Security reform. From the last paragraph, we know that the main problem for the Social Security system is its low return rate and this is due to the inefficient government management of our tax money. So new president Bush has proposed allowing works the chance at least to divert a potion of their Social Security payroll taxes into conservative private investments, allowing their money the to grow at a much faster rate. This will also minimize harsh feelings toward the Social Security system and will give people more incentive to cooperate and see their own personal benefits, as well as the benefit of the government (less tax losses) and economy. The output gain in the economy would be significant in itself. Say a person invest $10,000 of his payroll taxes on the stock market which has a average real rate of return of 7.56% since 1926 (according to www.socialsecurty.org/faqs.html), and by the end of the 30 years, he will get $89,027 return compares to only $18,113 from the government operated social security program which has a real rate of return of only 2%. That’s almost five times difference. Therefore I believe Bush’s proposal should be the best solution to this problem.

In conclusion, the United States Social Security program started back in 1935 has experienced 66 years of developing and reforming. During the last 66 years, this program has achieved a lot for providing benefits to retired workers and their dependents. The legislation also has successfully improved the medicare, disability treatment and the Cost-of-living Adjustments. Although the low rate of turn is a considerable problem of the Social Security system, I believe as Bush has predict, his reform of allowing private investments of payroll taxes would eventually prevent our Social Security from bankrupted and bring people a higher standard of living.