Social Security

- Social Security seeks to combat poverty in old age
- Every taxpayer contributes to the Social Security fund and is eligible for benefits
- Officially called Old Age, Survivors, and Disability Insurance (OASDI)
- At current rate, the Social Security Trust Funds will be exhausted
- Scholars have proposed changes to remedy funding gap

**Restoring Trust Fund Balance**

Early cohorts, born before 1935, received more in benefits than the taxes they paid

The “legacy debt” refers to the money early cohorts borrowed from later cohorts

Social Security had $2.6 trillion in 2010, but needs $20.2 trillion to cover all enrollees

Taxes and benefits must keep the trust fund balances **positive**

**Level and Structure of Benefits**

**Benefits Principles**

- **Progressivity:** benefits paid should rise with earnings, but less than proportionally;
- **Constant relative benefits:** the average ratio of benefits to earnings should remain approximately constant over time as average earnings grow;
- **Age neutrality:** the cumulative value of benefits for each worker should be approximately the same regardless of the age at which benefits are claimed; and
- **Stable purchasing power:** the purchasing power of benefits should not be eroded by inflation. (Aaron, 2011, p. 398)

**Benefits Trend**

Social Security benefits are growing slowly compared to earnings because only cash earnings up to $106,000 are taxed and considered for benefits.

Due to extreme income inequality, average remains unchanged, hence ceiling remains unchanged.

**Modifying Social Security**

**Changing the Benefits Structure:** Vertical redistribution, variation in benefits by age, coverage, raise the initial age of eligibility

**Changes in Financial Structure:** Raising the wage base, broaden the definition of covered compensation,

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