

## 8226Social Security Need Reforming

t1       The Social Security program is the largest program operated by the federal government. Social Security represents more than 22 percent of all federal spending. It is an outdated program designed in the 1930s, greatly expanded yet structurally unaltered in 70 years. Social Security is headed for a financial crisis that will affect everyone, young and old. What is wrong with Social Security cannot be fixed by just adding more money. It does need to be reformed. The reasons for reform are many; however, there are five reasons in particular: the financial loss experienced by the poor and their families, the high poverty rates for single women when they retire, the financial losses that are incurred by married couples in retirement or death when both spouses have worked, the low return every worker receives from their contribution, and the changing demographics.

      In 1935 President Franklin Delano Roosevelt signed the Social Security Act and the first benefits were given on January 1, 1942. What an individual received was, as it is now, based on earnings, not contributions. Initially, not all workers were included. Farmers, domestics, casual laborers, seamen, government workers, employees of non-profit organizations and self-employed were not covered. In 1939 a survivor's benefit was added.

      The Supreme Court in 1937 ruled that the Social Security Act was not an insurance program. The program would be a pay-as-you-go system and monies could not be earmarked. The Social Security tax is just another tax and individuals have no personal claim to any monies taxed for this program. In fact, Social Security is an income redistribution program, or as some would call it—welfare. Americans have been misled by the rhetoric of the program, e.g. FICA means Federal *Insurance* Contribution Act.

      In the 1940s Social Security expanded to include farmers, most self-employed, domestic servants, federal workers not covered by federal pension, and residents of the Virgin Islands and Puerto Rico. Survivor's benefits were increased and expanded. The ceiling on taxable earning was increased. From the beginning the Social Security Program gradually expanded until the 1970s when the program's structural problems began to show.

The response to the early signs of the Social Security problem was raising taxes, reducing promised benefits, taking high-income retirees' Social Security benefits, requiring more exempt employees to participate and gradually raising the retirement age from 65 to 67.

The Social Security program in its very existence implies that people cannot be trusted to take care of themselves. However if this were really the case a law could be enacted to require people save a portion of their income. Even if individuals would not comply and found themselves in old age without means, the state could provide welfare—a pay-as-you-go program. Individuals are taxed on the pretense that they are personally saving for their old age with the taxes going into their personal saving account. The consequence of the Social Security deception is that the program has produced unfair and unjust outcomes.

The poor are the first and maybe the biggest casualties of the Social Security deception. Lower income workers, when they retire, depend more on Social Security than upper income earners. A lower income worker retiring today can expect to get only about 57 percent of their contribution back in benefits. Also, most experts think that individuals need between 60 and 85 percent of their pre-retirement income in order to keep their standard of living at the pre-retirement level. The poor taxed by this program think Social Security will provide sufficient income in retirement and old age. If lower income individuals were allowed to save what is taxed in a private fund, even at a modest interest rate of 4 percent, they would be much better off than they are with Social Security. Furthermore, the poor die earlier than those in higher income groups, leaving their contribution to the well off, not their own families. Under Social Security there is: one, no savings and two, no property right.

Blacks, like the poor, do not live as long as White middle and upper income earners. Black men in particular have shorter life spans than their White counterparts. There are similarities between the poor and Blacks even when the Black individual is not low income. Middle and upper income Black earners do not live as long as their White counterparts. Whites benefit more from the Social Security Program than Blacks who have paid the same amount of taxes. Because there is no property right to monies taxed by the program a Black man dying early cannot leave his contribution to his family. Because most people believe the money taxed for Social Security is their money, because of past discrimination against Blacks in the private insurance industry, and because of the

program rhetorical deceptions, Blacks have viewed Social Security as an insurance program and have over-relied on it. The structure of Social Security makes individuals unable to accumulate and pass on wealth. The program effects keep the poor and Blacks dependent on the federal government to provide for them.

Women live longer than men. By 2020 it is expected that women 65 years of age will live 20 more years. This is a substantial change from the life expectancy on which social security was designed and structured. Also women in the 1930s by and large were married and usually not in the paid work force. Now, more married women are in the paid work force. Married women who work outside the home lose the most from Social Security. Many married women work only part-time while the children are growing up and therefore earn far less than their husbands. Upon retirement a married woman is entitled to a benefit equal to 50 percent of her husband's benefits, whether or not she worked outside the home.

In the US today, there are more single females than there were when the marriage benefit was introduced into the Social Security Program. Many single women are low wage earners who have throughout their working life paid an eighth of their wages into the system. Poor single working women, particularly mothers, are more disadvantaged by this system than women who are married and have worked. When a single low wage mother is not paying income tax she still must pay the Social Security tax, usually at the expense of her children's needs. Poor women's life expectancy is shorter than that of middle and upper class women. The taxes paid into the system do not create property, therefore when the lower income single mother dies she has no inheritance to leave to her children. She in affect provides for present retirees who are better off than she and her children throughout her working life.

Divorced women, unless they have been married for 10 years, are not eligible for marriage benefit. Most divorces occur before the 10-year mark. Divorced women usually have children to raise. Divorced women often are among the ranks of the working poor.

Widows, another type of single woman, will receive less than when the husband was alive, often with all the same expenses. Social Security contributions are not individual contributor's personal property. Therefore death of a spouse can result in a considerable loss in the standard of living of most elderly women because women

live longer than men. If both spouses have worked, the death of one may mean a greater loss of contributions than if the wife had never been employed.

People speak of return on investment but this is a misnomer. The money one is taxed does not return to the person. It is a pay-as-you-go entitlement system based on a calculation of how much one has made over a certain period of time. If one does think of this as a return on their investment Social Security is a pathetic investment. The return rate for some is as high as around 2 percent and for others as low as 0.45 percent. Even if individuals put their money into the most conservative investments they would make over time far more than social security provides. Plus it would be their property and could be passed on to spouse, children or whomever.

Even if none of these program flaws existed, the program is still headed for crisis. The changing demographics are the driving force behind the need for change. In 1942 when the first Social Security payments were made there were 50 workers to every retiree, today there are 3.3 workers to every retiree and by 2020 there is projected to be just two workers per retiree. As the number of workers to retiree continues to decline, taxes will have to increase and benefits decline. This will result in poor and young families' after-tax income being severely reduced making it impossible for them to meet their own needs and save outside of the Social Security Program.

The poor, low income women and blacks of low and modest income levels would be better off with personal retirement accounts. A single mother making \$13,500 per year and paying an 8<sup>th</sup> of her income to Social Security tax would be far better off having her own account. If she invested conservatively and earned just 4 percent return, at 67 she would have accrued \$177,147. She would receive a monthly return of \$400 more than she is being promised by Social Security.

The Social Security system should be reformed so individuals: can invest and have a better return on their investments, are able to leave their investments to their family and will not be impoverished by the loss of the spouse's contributions. A most important reason for reform is that the young people of tomorrow will not be able to afford to pay for the retirement of the elderly and care for themselves and their children. Without change in this outdated program we are dooming ourselves to generational warfare.