

Social Security and Welfare Policy

Outline

- Background
 - poverty defined
- Social Security
 - issues, financing
- Means-tested programs and welfare
 - evolution and reform
- Social Security and privatization

Poverty

- Poverty line (\$19806 in 2005)
- Poverty based on demographics
 - 1 in 5 children
 - minorities have higher levels than average
- Poverty as an income distribution problem
- Gini coefficient: way of explaining income equality

Causes of Poverty – Two Viewpoints

• Conservative

- Little involuntary poverty--"Its your own fault"--Calvinism?? Protestant Ethic??
- "Culture of poverty"
- Gov't programs encourage poverty

• Liberal

- Poor lack opportunities
 - education, job training, etc.
- Discrimination
- Why Work? Why Not Guaranteed Income?
- "War on Poverty" a failure? 1965 (17.3%-1973 (11.1%))--rate rises after 1973-end of "war"

Social Security

- Largest federal program (Began in 1935)
- Entitlement program
 - based on how long you worked; how much you earned
- Social insurance program (“get more than you put in”)
- Redistribution of funds across generations
- Pay-as-you-go program
- Categories of beneficiaries
 - retirement (65-67), disability, family benefits, survivor, and Medicare

Social Security (cont'd)

- Goals
 - benefits based on payments into system
 - minimal financial protection ensured
 - poor get higher returns from SS
- “Political third rail”
- Financed through payroll tax on employer and employee-currently collect more than pay out (surplus goes to federal deficit, not to “Lockbox”)

Financing Social Security

- The payroll tax is regressive-millionaire pays same as someone earning \$90,000
- 7.65% of paycheck goes to FICA until pay is \$90,000 (in 2005) – maximum annual payment of \$6,885
- “Political 3rd rail”--AARP--advocacy group
- Changing demographics
 - increasing number of older Americans
 - 1945 (5 million)--2005 (50 million)
 - by approx. 2040, each recipient financed by only two workers
- Problem of the indexing of benefits

Problems w/Social Security

- Fixed retirement age
- Gender inequities-working women may get less than spouse-then working men
- Financing solutions
 - increase revenues-on all? or just those above \$90,000?
 - change form of the tax
 - reduce expenditures
 - change COLA adjustment
 - reduce benefits or increase the retirement age
 - privatization

Means-tested Programs

- To qualify, an individual must satisfy a means test
- Associated with (lack of) income; based on need
- In general, benefit the poor
- Typically welfare/charity programs

Means-tested Programs (cont'd)

- Food stamps--24 million people--\$27 Billion (2004)--agricultural subsidy?
 - other food support programs-lunch/breakfast-28 Million Childrn (2004)
- Aid to Families w/Dependent Children (AFDC)
- “Welfare as we know it”
 - eligibility limited mainly to women w/children and virtually no income
 - issues
 - no expectations for recipients
 - program stigma
 - disincentive to work
- Welfare reform options
- Led to movement for reform

Personal Responsibility and Work Opportunity Reconciliation Act

- Ended AFDC (“Welfare”), created Temporary Assistance for Needy Families (TANF)
- Time limits on benefits
- Requirements to work (or prepare to work)
- Enforced child support
- States run their own programs-they got the \$\$\$
- Caseload reduction requirement (50% by 2002)

Analysis of PRWORA

- Estimated budget savings
- Short run cost increases-child care-training, etc.
- Supported by public in general
- Concerns about child poverty
- 38% drop in cases in first two years
- Cause and effect?
- Quality of jobs; staying off welfare
- State experiments-flexibility?
- Reauthorization? Agreement on child care?
- What next? Promote marriage? Values?

SS Reform & Personal Accounts

- Economic issues
- Current system makes safe investments-2%
 - provides large share of income to aged
 - pay-as-you-go to an earmarked system
- Privatization
 - positives
 - could provide larger returns
 - would encourage savings, growth, etc.
 - negatives
 - market uncertainty or poor decisions
 - need to pay for transition

SS Reform & Privatization (cont'd)

- Political issues
 - Any reform options subject to political rhetoric
 - Strong interest groups
 - What about youth? Loss of confidence
- Ethics and equity issues
 - Promise made
 - Tax for a benefit you may never see
 - Personal freedom of investment options
 - Gender differences