A Memo on Social Security

Michele Ogawa

*Pepperdine University*, michele.ogawa@pepperdine.edu

Follow this and additional works at: https://digitalcommons.pepperdine.edu/ppr

Part of the Economic Policy Commons, Macroeconomics Commons, and the Political Economy Commons

**Recommended Citation**


This Commentary is brought to you for free and open access by the School of Public Policy at Pepperdine Digital Commons. It has been accepted for inclusion in Pepperdine Policy Review by an authorized editor of Pepperdine Digital Commons. For more information, please contact Katrina.Gallardo@pepperdine.edu, anna.speth@pepperdine.edu, linhgavin.do@pepperdine.edu.
Social Security remains an overwhelmingly divisive issue in the ideological spectrum, the virtue of which is constantly questioned by one side and simultaneously praised by the other, with varying levels and degrees of opposing views and opinions in between. It carries with it elements of conflict among classes and age groups, to say nothing of politically affiliated interests. However, dubbed the “black hole” of American politics, the topic remains also one that is largely untouched as far as any conversation on actual reform to the system. This is arguably, at least in part, on account of the nature of the conversations that have taken place.

Nearly all attacks on Social Security discuss the unfeasible, unsustainable qualities of the system, but few have given an analysis of the various factors at work that have presented substantial hindrances to the base concept behind its existence. As such, the purpose of this memorandum is to explore, in this fashion, from population growth and demographics to labor force growth patterns, why the system itself is flawed. It is important to note that it is not the intent of this evaluation to provide alternatives and/or a logical policy recommendation, but rather to fill in the apparent missing step that has worked against the efforts toward any substantial improvement to the current policy. In other words, it represents that which is often omitted from the argument, as well as that part of the argument that is essentially irrefutable. There is naturally no simple solution, and obviously no present or potential situation providing an ideal course of action. However, it is important in any argument on policy, for or against, to begin with the evidence in numbers, as well as the historical context dating back to the signing of the law, to set up an argument to be made for the next step.

From the system’s inception in 1935, not only has the United States population experienced significant grown, but the subset of individuals ages sixty-five and over has vastly increased as well. The U.S. Census Bureau released in 2010 that individuals ages twenty to sixty-four, ages sixty-five and over, and ages eighty-five and over experienced, respectively, 60
percent, 13 percent and 1.92 percent increases from the prior Census year (2000), projecting that these subsets will experience 55 percent, 19 percent, and 2.3 percent growth by 2030. Further, the general population is expected to increase by 42 percent by 2050. To emphasize this growth in another way more in relation to the Social Security system, in 1940, five years after the Act was signed, average life expectancy of a sixty-five-year-old was around fourteen years; today, it is closer to twenty. To put this in perspective, in 2011, Social Security payouts equaled about $727 billion. So, this increase in life expectancy, to give a rough estimate, would amount to nearly $4.4 trillion over the six years. This dramatically understates the true amount, as this figure accounts for the fifty-five million beneficiaries from 2011, not accounting for the increases in beneficiaries that would take place during that period. With these trends, certain problems within the Social Security system have emerged and worsened, namely its impact on individual accountability and financial responsibility, the sustainability of the program, and the mechanics and stability of the system in general.

When the Social Security Act of 1935 was implemented, it was intended to offer supplementary assistance to the elderly and disabled. However, currently, it provides 90 percent of the elderly population (ages sixty-five and over) with just over 40 percent of their income. Furthermore, 22 percent of married couple beneficiaries and 43 percent of unmarried beneficiaries depend on Social Security payments for 90 percent or more of their income. It has become evident that, largely on account of the prospect (and “guarantee”) of such aid, “50 percent of the workforce has no private pension coverage, [and] 31 percent of the workforce has no savings set aside specifically for retirement.” The reach of the program has grown exponentially in the population of individuals collecting Social Security benefits as well as in the amount of aid they are ultimately receiving. This has contributed to a greater dependence on this form of income, thus leading to a tendency toward poor, or lack of, planning during individuals’ pre-retirement years.

Along with the personal accountability issue, possibly the most controversial aspect of the Social Security system is, as mentioned above, that of its unsustainable nature, especially considering certain areas of concern that have arisen and presented circumstances that were unforeseen in 1935. Worry of the program’s sustainability dates back to the mid-1970s, when the Act underwent its first revision for fear of exhaustion of the trust fund. This revision included an increase in both payroll taxes and the wage base, along with a slight reduction in benefits. As the
stated population growth persists, such revisions are periodically made to Social Security, placing greater financial burden on the employed, compensation for which is no longer guaranteed, as, in its current state, “if nothing is done by 2040 Social Security will exhaust its trust fund assets.” Furthermore, in 2008, the first Baby Boomer collected her first payment. From here, nearly eighty million Baby Boomers will follow suit. This paired with troubling economic times, much of which affect individuals’ pension plans, and the pursuant rise in unemployment, also unplanned for in 1935, will lead to quicker exhaustion of the program’s trust fund assets, prompting needed reform, which thus far has generally been manifested in increased taxes.

Finally, also linked to the abovementioned issues (population growth along with the growing elderly population), the workings of the system in general have proven problematic. The worker/beneficiary ratio is currently 2.9 to 1 (meaning there are 2.9 workers paying into the system for every 1 individual collecting benefits). This figure is projected to decrease to 2.1 by 2036, and to continue to decrease thereafter. Furthermore, again referring to future projections, the labor force growth rate is expected to remain below one percent from 2010-2050, dropping from roughly six percent in the 2010s to four percent in the 2020s, and then increasing only slightly to (and remaining at) six percent through the 2050s. This system that Roosevelt intended to be “entirely self-sustaining,” has undergone, and will continue to undergo, constant stress from the increasing beneficiaries and decreasing contributors.

On account of the above stated issues, regarding the trends in population growth and life expectancy that would not have been easily grasped in the 1930s, as well as the volatility of the system, especially when it comes to troubling economic times, the Social Security system has become increasingly problematic, particularly considering the extent and sheer volume of dependence on its payouts. Furthermore, being that nearly all working individuals pay into Social Security, the vastly encompassing reach of such a problematic, unfeasible, and unstable system is indeed of increasing concern to those making and collecting payments, current and prospective participants in the faulty and failing system.

REFERENCES


