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Chapter 14
Social Security, Unemployment Insurance, and Welfare

It would be unusual for high school students just beginning a life of work to worry about having enough money to retire. But they might be concerned whether their parents will have the enough money to support themselves after they retire. And high school students probably know something about how their grandparents are supporting themselves.

For a large number of retired workers the answer to the retirement question is Social Security. Money is taken out of the paychecks of working people under the heading of FICA (Federal Insurance Contributions Act), which is used to pay retired workers and their dependents. The letters FICA appear on paychecks next to the amount deducted under Social Security. It is used to support retired workers who have paid a minimum of 40 quarters (10 years) into the plan.

A Brief History of Social Security

In the l890's Germany established a government retirement plan for the old. In the early 1900's England did the same. Over the next 20 years almost all other industrialized countries introduced programs similar to Germany's and England's. All industrialized countries, that is, except the U.S. Until the 1930's most Americans believed that working people should provide for their own retirement and not depend on the Federal government to do it for them.

The United States provided a social security system for the retired in 1935. But it was seven years before enough workers paid into the system to start making payments The reason for the long waiting period was the system had to build up funds before it could pay beneficiaries.• Monthly payments for the retired ranged from 10 to 80 dollars a month.

Three Different Forms of Social Support

The law which established Social Security actually included three different programs. These were:

1. Old Age Survivors and Disability Insurance
2. Unemployment Insurance
3. Public Assistance

President Roosevelt signed the Social Security Act in 1935, establishing each of the above. Although these bills were passed by Congress and signed by Roosevelt at the same time, they are quite different. This chapter will consider each of these 3 programs separately. It will explain the purpose of the program, who was to benefit, and who would pay for it.

• This principle that payments which go to the retired are paid by men and women who are working is still a key ingredient of the Social Security system.

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Old Age, Survivors, and Disability Insurance

President Roosevelt signing the Social Security Act in 1935

This program covers more than just retired workers. As the name of this program suggests, it covers the disabled, and surviving wives, husbands, and children as well as the retired.

In order to get Social Security, workers paid 3% of the first $3,000 (40,000, 1998 dollars) they earn each year. Employers had to pay the same amount for each worker. Since payments were low, so were the pay—out. Social Security checks for the retired workers averaged only $20.00 a month.

What Changes Have Been Made in OASDI and Why?

Since 1935, important changes have been made in OASDI. For instance, agricultural workers, and professional workers were included. In 1965, Medicare — health insurance for retired Americans, has been added. Since 1972, automatic cost of living adjustments (COLA) increased Social Security payments. To meet these extra expenses, workers had to pay more into Social Security. The average contribution as of 2001 from the worker is 7.65 per cent of the first 80,400 dollars of his wages or salary. The employer must pay out an equal amount. The average amount a person on Social Security received a month in 1998 was $765 for a retired worker, and $1290 for a married couple. Students may wish to check with a retired friend or relative how much he/she receives and whether that provides enough money to live comfortably.

The problem with Social Security in the late 21st century is the real possibility that the system is slowly running out of money. At current rates, by the year 2030, only two people will be working for every person retired; 76 million baby boomers will have retired between 1997-2030. Though there was 500 billion dollars in the Social Security Trust fund in 1998, by 2009, it will be impossible to make payments from interest alone; beginning in 2012, more money will come out of the system than is being paid in, and after 2030, the Social security Trust fund will not be able to pay all that it is expected to owe, unless further changes are made in the system.

Various solutions have been proposed for Social Security, and President George W. Bush has made reform of the system one of his prime legislative goals. The most controversial reform is to privatize the system — that is allow participants to invest their money in their own private social security account by buying stocks, bonds and mutual funds. Stock prices have averaged a growth of 11% yearly since 1926 (up until 2002), while government securities have only yielded in the neighborhood of 4% yearly increase. If there is no major problem with the stock market, this solution could yield a million dollar nest egg on the average account. However, the stock market poses risks; it took the market 25 years to fully recover from the 1929 crash. Furthermore, advocates of privatizing have not come up with a plan to pay for those obligations (several trillion dollars) accrued by the system before the next plan takes hold.

Other plans for saving Social Security include raising the retirement age in gradual steps to 70 from the current 65; reducing cost of living adjustments; and denying benefits to wealthy retirees who don't need the money.

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Unemployment Insurance

If you lose your job and it is not a part-time job, and you lost it through no fault of your own, and you wait two weeks, and you keep looking for work, and you go to the unemployment office — then you get unemployment insurance. If you quit or are fired, if you only had a summer or part time job, if you do not wait two weeks, if you decide not to look for other work, then you do not get unemployment insurance.

The amount the unemployed receive varies from state to state. It's usually from 25% to 50% of the worker's salary. Unemployment benefits are paid for 26 weeks. After that 26 weeks they may be extended for another 13 by or longer by an act of Congress. After unemployment insurance runs out, and a person has lost most of his/her worldly possessions, sold his/her stocks and bonds, and emptied his/her bank account, he or she may be eligible for Public Assistance.

Public Assistance and Aid to Families with Dependent Children

There are many forms of Public Assistance. These include aid to the destitute (just mentioned) old—age assistance (when social security does not provide enough money) aid to the blind, and aid to permanently disabled. Unlike social security and unemployment insurance funds for public assistance are paid for by general taxation. They are not paid, as in the case of other programs, by contributions from the insured. The best known and most controversial form of public assistance is AFDC (Aid to Families With Dependent Children.

Common Assumptions about AFDC

Many people use the name, welfare, to talk about this well-known program for helping destitute people (usually but not always, women) feed, clothe and house their children. When AFDC was established in 1935 not many people needed it and most of the recipients were widowed coal miner's wives. By 1996, before welfare reform, over 9 million people were supported by AFDC and many could not get by without it.

Nevertheless, welfare is the most controversial government assistance program. One of the reasons is that Public Assistance, unlike unemployment and OASDI, is not paid for by the people who get it. It is financed with tax general revenues. It is also controversial because it is associated in peoples' minds with negative and often prejudicial attitudes and stereotypes.

Read the following true statements that correct negative stereotypes about people on welfare:

1. The majority of people on welfare are white

2. Most people on welfare have roughly the same number of children as families with similar incomes who are not on welfare. The average number of children in a welfare family has decreased from 4 to under 3, between 1969-97.

3. Most people stay on welfare for fewer than 3 years

4. Most women on welfare would rather work than receive welfare. (However, people receiving welfare may need some job training, and some help with day care.

5. The value of welfare payments (i.e. its purchasing power) has declined by over 30% between the 1960's and the 1990's.

6. The percent of people caught cheating on welfare is lower than the percent caught cheating on income taxes

7. AFDC is set up to help children — the best way to do this, is to help their parents afford a decent place to live with enough food and clothes to meet the child's needs. The alternative would be to take the children away from their mothers and have them adopted, or grow up in orphanages, or to let the women struggle on their own.

Because many people believed the welfare system was not working properly, major changes were made in 1996. With limited exceptions, the number of consecutive years a family could be on welfare was reduced to two, and the total years of welfare dependency was reduced to five. States would be given a far larger share in administering the welfare program; some immigrants and childless individuals, would be prevented from receiving assistance, states could require work for potential recipients; teen-agers on welfare would be required to live with an adult; and, payments would not be increased for children born to a parent already on welfare. Because little was done to increase money for job-training, school, and child care, many regarded the new law as punitive; its advocates, however, thought it made necessary corrections in a system that had gone out of control. Only time will tell whether the reform will do more harm than good.

Medicare Bill of 1965, with President

Suggested student exercises:

1. What basic reforms were made by the Social Security Act of 1935, and what change in attitudes about the Federal government's responsibility for the well-being of its constituents do these reforms imply?

2. Evaluate the changes that have been proposed to save Social Security (or suggest one of your own). Which one do you think is least objectionable?

3. Are there more reasons for than against supporting the reforms made to welfare in the 1996 Welfare Reform act.