

# American Social Welfare Policy: A Pluralist Approach

## Chapter 10

### Social Insurance Programs

# Definition of Social Insurance

- Social insurance is the cornerstone of U.S. social welfare policy
- Unlike Social Security, public assistance programs are subject to means tests
  - And are based entirely on need

**TABLE 10.1** Past and Current Federal Spending for Major Social Insurance Programs, Selected Years  
(expenditures in billions)

Programs	2002	2004	2006	2008	2010
OASDI	\$452	\$494	\$539	\$598	\$670
Medicare	254	287	319	366	421
Unemployment Insurance	51	46	43	45	49
Total	757	827	901	1009	1140

Projected Federal Spending for Social Security, Medicare and Medicaid, Selected Years (expenditures in billions)

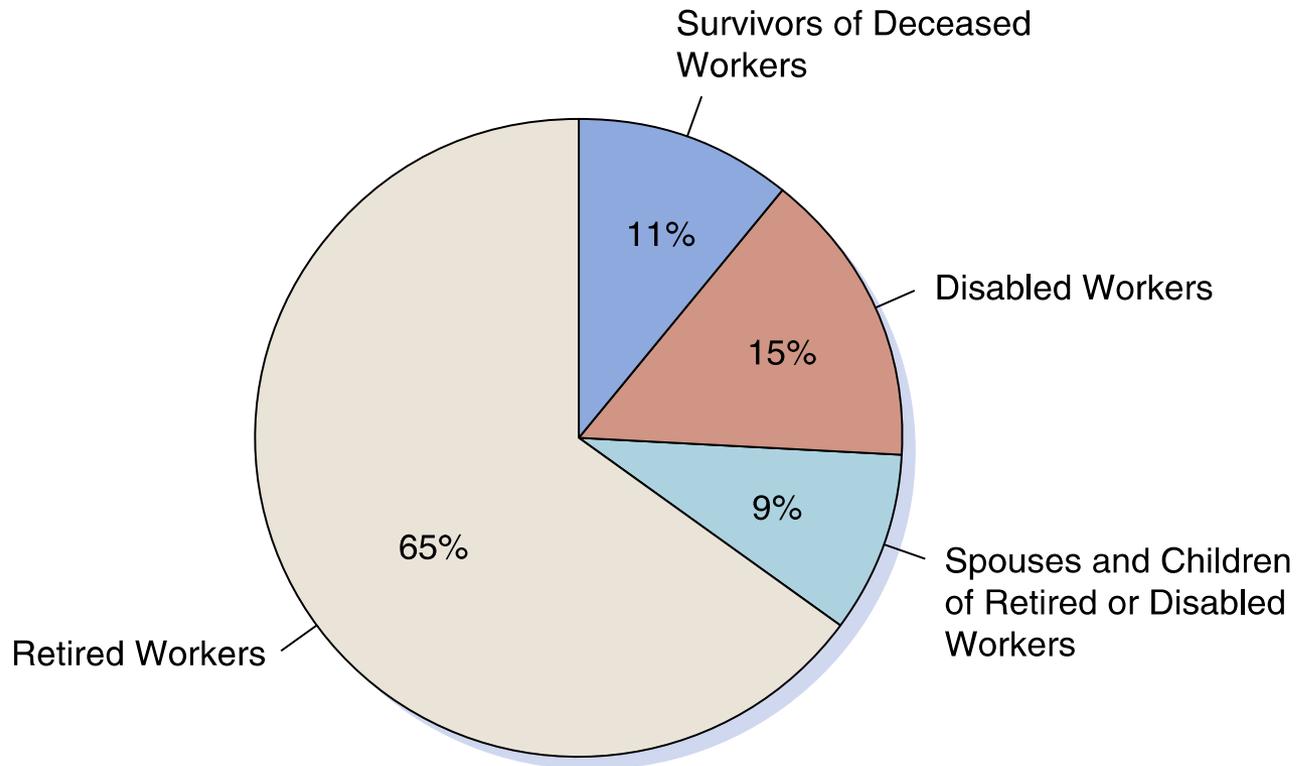
Programs	2012	2014	2018	2020	2022
Social Security	\$770	\$857	\$1,063	\$1,197	\$1,345
Medicare	560	629	769	890	1,041
Medicaid	262	330	456	522	605
Total	1,592	1,816	2,288	2,609	2,991

# The Background of Social Insurance

- The first old-age insurance program was introduced in Germany in 1889
- Social Security Act of 1935
  - Repeatedly modified, almost always in the direction of increased coverage

# The Financial Organization of Social Insurance

- Social insurance is relatively straightforward
- Social Security and Medicare taxes are divided among several trust funds
- The trust funds are governed by a board of trustees
- Surplus



**FIGURE 10.1** Number of Social Security Beneficiaries by Type, June 2012 (total 56.2 million)

# Key Social Insurance Programs

- OASDI
  - Combination of Old-Age and Survivors Insurance (OASI) & Disability Insurance (DI)
  - Cost-of-living adjustments (COLAs)
- Unemployment Insurance
  - The Unemployment Insurance System and Benefits

# Key Social Insurance Programs

## – Problems in UI

- Part-time workers
- Temporary workers
- Low-wage workers
- Limited coverage
- Benefit decline
- Longer spells of unemployment

# Key Social Insurance Programs

- Women and unemployment
- Meeting the UI system's financial obligations
- Regressive Nature of UI
- **Workers' Compensation**
  - Began in 1911 in Wisconsin and New Jersey
  - WC programs are problematic in several ways

1. States must have in place the following to receive one-third of their incentive payment:
  - A base period that includes recent wages
2. States must have in place at least two of the following four to receive two-thirds of their incentive payments:
  - No denial of benefits for seeking part-time work
  - No disqualification for separations from employment for compelling family reasons
  - Provide extended compensation to UI recipients in qualifying training programs
  - Provide dependents' allowances to UI recipients with dependents

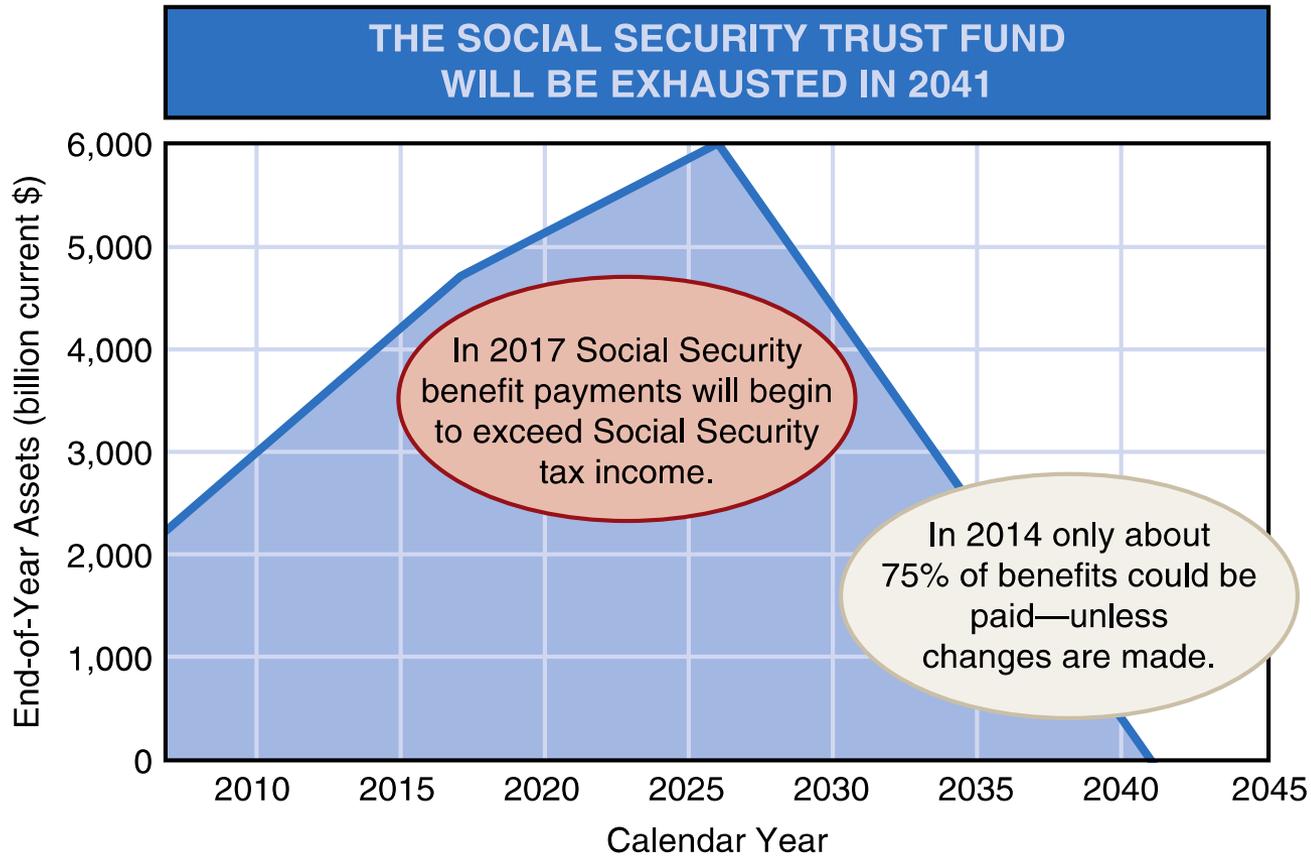
**FIGURE 10.2** Requirements for the Recovery Act Incentive Fund 2011

# The Social Security Dilemma

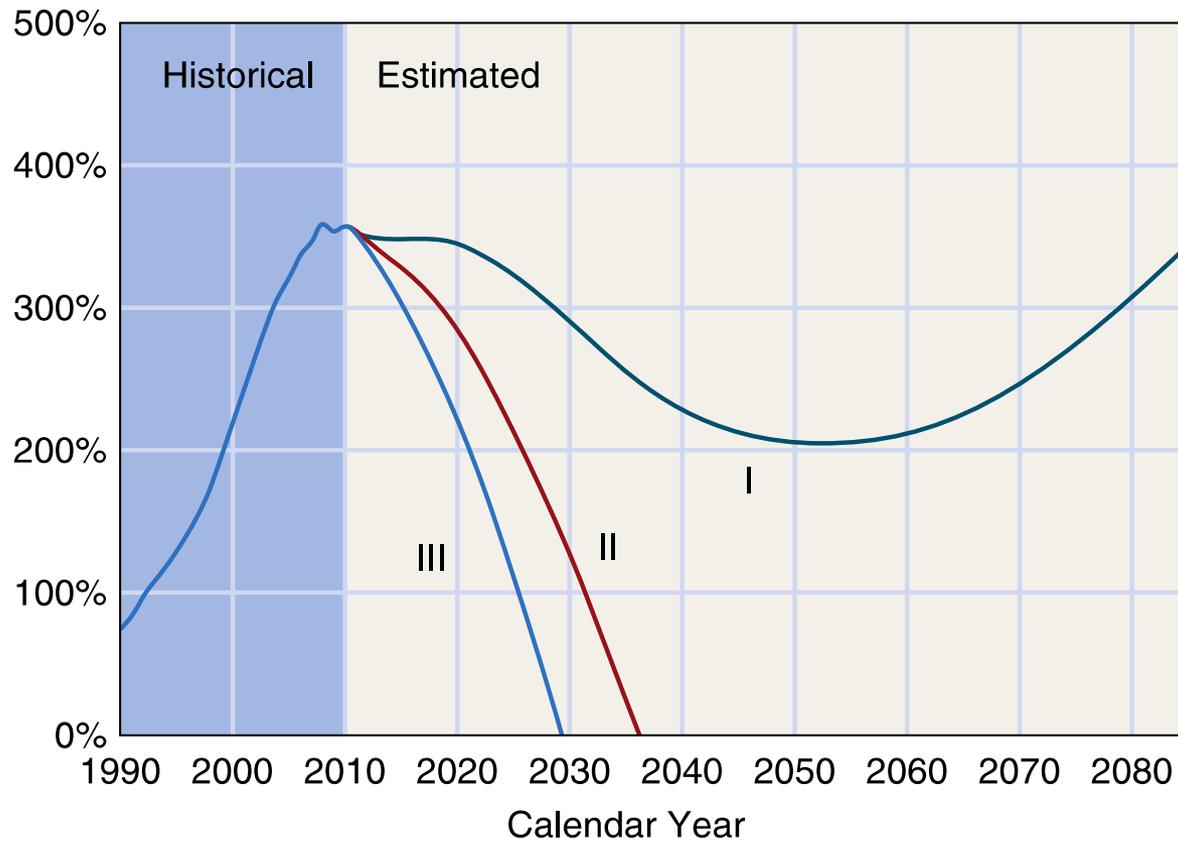
- Was long perceived by policy analysts and legislators as the third rail of politics
- Arguments against the Current Social Security System
  - Social Security is fueling intergenerational tensions

# The Social Security Dilemma

- Arguments for the Current Social Security System
  - Social Security is a special kind of “investment”
  - Social Security in Trouble
- The Long-Term Prospects for Social Security



**FIGURE 10.3** Projected Exhaustion of the Social Security Trust Fund



N.B. Assumption I: low cost; Assumption II: best estimate; Assumption III: high cost

**FIGURE 10.4** Year of OASDI Trust Fund Exhaustion Using Social Security Estimates

**TABLE 10.2** Key Dates for the Trust Funds

	<i>OASI</i>	<i>DI</i>	<i>OASDI</i>	<i>HI</i>
First year outgo exceeds income excluding interest	2017	2005	2010	2008
First year outgo exceeds income including interest	2025	2009	2023	2008
Year trust funds are exhausted	2038	2018	2036	2024

# Medicare (Hospital Insurance and Supplementary Medical Insurance)

- The outlook for Medicare has improved because of the 2010 Affordable Care Act
- Supplementary Medical Insurance
- The DI Trust Fund
  - The DI fund has exceeded tax revenue since 2005 and is projected to be exhausted in 2018

# Lingering Problems in the Social Security System

- Structural problems continue to plague the system
- Dependency ratio
- Competition between public (compulsory) and private (voluntary) pension plans

# Should We Privatize Social Security?

- Proposals to fully or partially privatize Social Security
- The Bush plan
- Retirement income and other forms of social insurance
  - Addressed differently in different nations

# Pension Systems in Selected Industrialized Countries

- Canada's Retirement Income System
  - A multifaceted system that includes:
    - Tax-funded benefits
    - Low-income benefits
    - Employment-based pensions
    - Private tax-subsidized retirement savings

# Pension Systems in Selected Industrialized Countries

- Retirement in the United Kingdom
  - Most of the 6 million UK public sector workers are enrolled in a workplace pension plan
  - Basic State Pension (BSP) and the Additional Pension (AP)
  - The State Second Pension (S2P)
  - Pension Credit (PC)

# Pension Systems in Selected Industrialized Countries

- The Chilean Experiment in Privatizing Social Security
  - In 1924, Chile was the first country in the Americas to enact a social security system
    - Provided coverage for old-age, survivors; disability benefits; and cash sickness and medical benefits
  - Funding for the system was similarly bleak

# Pension Systems in Selected Industrialized Countries

- **Germany's Social Security System**
  - The German retirement system is built on governmental social security pensions
  - Contributions are based on annual earnings
- **The Greek Pension System**
  - Until recently, Greece had one of the most liberal pension systems in Europe

# Pension Systems in Selected Industrialized Countries

- The Australian Retirement System
  - The Australian retirement system is based on superannuation (Super)
  - Heavy reliance on privately managed investment funds

# Conclusion

- The U.S. Social Security stands out as one of the best in the world
- Social insurance programs are a mainstay of the American social welfare state
- Social insurance programs represent a major source of security
  - For elderly Americans & present-day workers