Should Social Security benefits be expanded?

Ron Watson

The National Association of Letter Carriers opposed enactment of both of the unfair reductions to the Social Security benefits of letter carriers covered by the Civil Service Retirement System (CSRS). Those reductions are known as the Government Pension Offset (GPO) and the Windfall Elimination Provision (WEP). The GPO was enacted in 1977. The WEP was enacted in 1983. Over the years, the NALC has supported legislation to repeal these laws and to lessen their unfair impact.

None of the many legislative attempts to undo the GPO and WEP has succeeded. Even more alarming, the same ideological forces that were responsible for the GPO and WEP reductions now are clamoring for more across-the-board reductions to Social Security benefits. Such reductions would adversely affect employees covered under the Federal Employees Retirement System (FERS) as well as CSRS-covered employees.

The idealogues now argue what they always have—that Social Security is going broke; that we can't afford it; that the deficits must be lowered. But consider this: By all accounts, we have the wealthiest society/nation in the history of the world. This fact suggests that we certainly can afford the modest income insurance provided to the elderly by Social Security. The average monthly Social Security benefit for retired workers is about $1,200.

Putting that number in context, studies have shown that the value of Social Security benefits has decreased by about 25 percent since 1983. The 1983 law that enacted the WEP also increased the full retirement age from 65 to 67, introduced taxation of benefits for higher-income seniors, and changed the cost-of-living adjustments. Projections by the National Academy of Social Insurance, as reported in a recent Reuters article, show that in 2015, Social Security will replace 35 percent of the median worker's pre-retirement income at age 65, which is down from 39 percent in 2002. The projections show the replacement rate will fall further, to 31 percent, by 2030.

Is our nation becoming less wealthy, so that we need to continually reduce the amount the elderly receive in income security? Are we producing fewer goods and services? Are productivity rates of American workers decreasing? Not at all. Our economy is growing; we are producing more goods and services; and the productivity rates of American workers are steadily increasing. On the whole, we are becoming more wealthy.

The problem is that the wealth generated by the growth in productivity, and production of goods and services, is not being shared by the workers. Instead, it is being funneled disproportionately upward to CEOs, assorted billionaires, and corporate entities owned and controlled by the wealthy. A 2011 study by the Congressional Budget Office found that the top earning 1 percent of households increased their income by about 275 percent after federal taxes over a period between 1979 and 2007, compared to a gain of just under 40 percent for the 60 percent in the middle of America's income distribution.

Since Social Security taxes are applied only to the first $113,700 (in 2013) in wage income, the upward funneling of wealth has a negative affect on the Social Security trust fund. For example, an employer has 100 employees, with 90 making $50,000 per year, and 10 executives making $100,000 per year. That is an aggregate wage income of $5,500,000. The Social Security tax rate is 6.2 percent, applied to the first $113,700 of each individual's earnings. So the entire $5,500,000 is subject to the 6.2 percent Social Security tax. If the company does well, and makes a lot of money, but funnels the increased earnings solely to the executives, the Social Security fund does not benefit much from the increased earnings. If the company continues to pay the 90 workers $50,000 each, but now pays each of the 10 executives $300,000 per year, the total income received by the employees is $7,500,000. But only $5,637,000 of it is subject to Social Security tax.

Stated another way, Social Security has suffered from the growing income inequality in income growth that has occurred since the late 1970s.

The same Reuters article noted above relayed a revealing answer from a financial services executive to a question about the absence of significant savings of all but the highest income households approaching retirement. The executive's answer: "They don't have any money while they're working, so why should they have any money in retirement?"

Maybe it's time to think about increasing Social Security benefits; perhaps funded by lifting the cap on earnings that are subject to the 6.2 percent Social Security withholding, a surtax on income over a certain amount (for instance, $1 million), and closing loopholes that allow the wealthy to avoid payroll taxes.

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