FOUR ANALYTICAL PAPERS ON PRESERVING AND STRENGTHENING SOCIAL SECURITY

By Emeritus Professor of Mathematics, John M. Bachar, Jr., CSULB

jmbachar@sbcglobal.net

Although the Social Security system (signed into law by FDR on August 14, 1935) initially covered a relatively small part of the working force, FDR assured his allies it was just the beginning: "I see no reason why everybody in the United States should not be covered," FDR privately told Francis Perkins. "Cradle to the grave – from the cradle to the grave they ought to be in a social insurance system."

"The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little." - FDR

"Taxes, after all, are the dues that we pay for the privileges of membership in an organized society." – FDR

OUTLINE OF THE FOUR PAPERS:

1. "Social Security: Preserving the System and Exposing the Destructive Fixes" contains an analysis of OASDI for the 16 year period, 1993 through 2008**.** It describes easy structural changes that can be made to the OASDI taxation system that will easily provide for sufficient annual contributions and Trust Fund assets growth to take care of the retirement needs of the increasingly aging population into perpetuity, as well as the replacement of the existing 73-year old ***regressive*** OASDI taxation system (only salaries/wages are taxed below a certain amount called the "cap") by a ***progressive*** one (i.e., tax ***all income***, not merely salaries/wages, at a rate that increases with increasing income), and without reducing retirement benefits nor increasing the retirement age.

2. "Preserving Social Security and Burying the Obama Deficit Commission Proposals on Social Security" is a shorter version written for those who may be uncomfortable with the analytical tables in 1, but it contains the same solutions as 1.

3. **"Social Security: An Ill-conceived Plan That Would Harmfully 'Fix' Something That Isn't Broken"** describes everything that is in 1, but with more attention paid to the real victims of the draconian Social Security proposal by Alan Simpson and Erskine Bowles (co-chairs of President Obama's National Commission on Fiscal Responsibility and Reform), namely, the huge class of hard-working persons at the bottom end of the economic ladder. (Co-authored with Professor Paul O'Lague, UCLA).

4. **"Obama Agrees with GOP to Wreck Social Security Faster Than His Simpson-Bowles-led Deficit Commission Proposal Will Do"** Here is the real analysis concerning the Obama/GOP tax cut compromise with respect to the destructive Social Security sellout (i.e., substantially cutting payroll tax contributions). If applied to either the 16 year period 1993 – 2008, or the 8 period 2011 – 2017, it would guarantee the destruction of the Social Security System.

SOCIAL SECURITY: PRESERVING THE SYSTEM AND EXPOSING THE DESTRUCTIVE FIXES

By Emeritus Professor of Mathematics, John M. Bachar, Jr.

Email: jmbachar@sbcglobal.net

November 2010

Starting with President George W. Bush, there has been an incessant effort by Wall Street, wealthy investors, bankers, conservative politicians, and others, to privatize the Social Security retirement system (official name: OASDI Trust Fund - Old-age and Survivors Insurance and Federal Disability Insurance Trust Fund). OASDI is the most successful government program in US history, but those who would privatize it pass out, knowingly or out of ignorance, a steady stream of misinformation, errors, or distortions of fact. Add to this group still others, who wish to “fix” the system they deem in “crisis”. Amongst the latter group is Alan Simpson (social security “is like a milk cow with 310 million tits”, and, on social security reform, “we’re trying to take care of the lesser people in society …”), co-chair of President Obama’s “National Commission on Fiscal Responsibility and Reform”, whose recent (11/10/2010) Co-Chairs Report would drastically cut retirement benefits and increase the retirement age to 69.

Recently (August 2010), the Board of Trustees of OASDI released their annual report. For each of the 73 years of OASDI benefit payments, the annual contributions to the fund have EXCEEDED the benefit payments**.** Moreover, the OASDI Trust Fund assets at the end of 2009 are $2.54 trillion. The dollar level of the Trust Funds is projected to be drawn down beginning in 2025 until assets are exhausted in 2037. This is primarily due to an aging population. Over the course of the next 20 years, the cost of paying Social Security benefits will rise from its current 4.8 percent of G.D.P. to about 6 percent of G.D.P.

There are several easy structural changes that can be made to the OASDI taxation system that will easily provide for sufficient annual contributions and assets growth to take care of the retirement needs of the increasingly aging population into perpetuity, as well as the replacement of the existing 73-year old REGRESSIVE OASDI taxation system by a PROGRESSIVE one (see below), and without reducing retirement benefits nor increasing the retirement age. The detailed analysis of these structural changes is based on the data contained in the collection of US individual income tax returns for the 16 year period of 1993 through 2008. Regrettably, the “privatization” and “fix-it” groups discussed above are clueless about these facts.

Every year since the1937 start of retirement/disability payments by OASDI, there has been a "cap" (it changes from year to year) on each person's salary/wage earnings (=earned income) as well as an OASDI tax rate. This means each person pays a payroll tax (at the current OASDI tax rate) on all earned income up to the current cap, but not beyond. Furthermore, non-salary/wage income (=unearned income) is not, nor ever has been, taxed for OASDI purposes. The inherent nature of the taxation system used to acquire contributions to the OASDI Trust Fund is REGRESSIVE. This means that the percentage of gross income (= earned plus unearned income) paid into OASDI DECREASES as gross income INCREASES. The following examples will demonstrate this fact. (The current cap is about $100,000 and the current OASDI rate is 6.2%)

Example 2. Earned income $200,000, no unearned income: percentage of gross income **(=$200,000)** paid to OASDI equals **3.1%.**
Example 3. Earned income $310,000, no unearned income: percentage of gross income **(=$310,000)** paid to OASDI equals **2.0%**.
Example 4. Earned income $500,000, $120,000 unearned income: percentage of gross income **(=$620,000)** paid to OASDI equals **1.0%**.
Example 5. Earned income $2.2 million, unearned income $4.0 million: percentage of gross income **(=$6.2 million)** paid to OASDI equals **0.1%**.
Example 1. Earned income below $100,000, no unearned income: percentage of gross income **(=$100,000)** paid to OASDI equals **6.2%**.

In calendar year 2008, tax returns listing a gross income of over $200 K (= only 3% of all tax returns) held 30% of all US gross income, yet less than 3% of the listed gross income was paid to OASDI; returns listing over $1 Million (= only 0.23% of all tax returns) held 13% of all US gross income, yet less than 0.6% of the listed gross income was paid to OASDI; finally, the $10 million and over Adjusted Gross Income class had an average gross income of $37 million, yet paid an average of less than 0.006% to OASDI!

The tables below show the effect of five different progressive tax rate systems (applied to ALL INCOME, not merely to salary/wage income) for OASDI contributions. Typically, these systems LOWER the rate for OASDI payments for 85% of all tax returns (= below $100,000 annually) in comparison to the 6.2% rate now paid to OASDI. This is because the total income of these 85% consists almost entirely of salaries/wages, and everything below the salary/wage cap of $100,000 is taxed at 6.2% for OASDI contributions.

Here is a brief description of the five tax rate systems. (Please note that there are INFINITELY many tax systems that can be devised; only five have been chosen).

Keep in mind that all five systems tax ALL INCOME MINUS SOCIAL SECURITY BENEFITS, not merely salaries/wages below the cap on salaries/wages (currently about $100,000). Only salaries/wages were taxed for the past 73 years, and only the amount of salaries/wages below the cap level (which changes over time) are taxed. Currently, the tax rate on salaries/wages below $100,000 is 6.2%.

Here is a description of tax rate system 1 (the others are all progressive as well).

Tax rate system 1: 4% on all income below $30,000 (40.3% of all tax returns in 2008); 5% from $30,00 to $75,000 (24.6% of all tax returns in 2008); 6% from $75,000 to $200,000 (22.1% of all tax returns in 2008; currently, those from $100,000 to $200,000 pay as little as 3% to OASDI); 7% from $200,000 and up (13.0% of all tax returns in 2008; this group pays from below 3% to as little as 0.006% to OASDI).

If these five systems had been used during the 16 year period of 1993 through 2008, the following results would have ensued:

In addition to providing **more than** the annual retirement/disability needs produced under the existing regressive taxation system, the annual OASDI Trust Fund assets at the end of 2009, for each of the five systems analyzed, would have INCREASED from the current $2.52 trillion (2008) to:

$3.47 trillion for tax-rate system 1
$4.17 trillion for tax-rate system 2
$4.27 trillion for tax-rate system 3
$4.41 trillion for tax-rate system 4
$4.83 trillion for tax-rate system 5

If the non-taxed salaries and wages (S/W)had been taxed at 12.4%, and if the non-taxed Adjusted Gross Income (AGI) had been taxed at 6.2% the results would have been the following:

Extra OASDI income if the non-taxed S/W were taxed at 12.4%: 742.44 billion
Extra OASDI income if the non-taxed AGI were taxed at 6.2%: 2,124.22 billion

For those who may be interested in the details of the analysis, see the following two tables.

Five OASDI Trust Fund Progressive Tax Rate Systems For The 16 Year Period 1993 tThrough 2008
by John M. Bachar, Jr.
September 2010

OASDI TAx RATE SYSTEMS	Tax rate system 1		Tax rate system 2		Tax rate system 3		Tax rate system 4		Tax rate system 5	
AGI class	Tax rate on AGI less Social Security benefits for each AGI income class	Tax rate on salaries/wages paid by employer for each AGI income class	Tax rate on AGI less Social Security benefits for each AGI income class	Tax rate on salaries/wages paid by employer for each AGI income class	Tax rate on AGI less Social Security benefits for each AGI income class	Tax rate on salaries/wages paid by employer for each AGI income class	Tax rate on AGI less Social Security benefits for each AGI income class	Tax rate on salaries/wages paid by employer for each AGI income class	Tax rate on AGI less Social Security benefits for each AGI income class	Tax rate on salaries/wages paid by employer for each AGI income class
$1 under $5,000	0.0400	0.0500	0.0400	0.0600	0.0400	0.0600	0.0400	0.0620	0.0620	0.0620
$5,000 under $10,000	0.0400	0.0500	0.0400	0.0600	0.0400	0.0600	0.0400	0.0620	0.0620	0.0620
$10,000 under $15,000	0.0400	0.0500	0.0400	0.0600	0.0400	0.0600	0.0400	0.0620	0.0620	0.0620
$15,000 under $20,000	0.0400	0.0500	0.0400	0.0600	0.0400	0.0600	0.0400	0.0620	0.0620	0.0620
$20,000 under $25,000	0.0400	0.0500	0.0400	0.0600	0.0400	0.0600	0.0400	0.0620	0.0620	0.0620
$25,000 under $30,000	0.0400	0.0500	0.0400	0.0600	0.0400	0.0600	0.0400	0.0620	0.0620	0.0620
$30,000 under $40,000	0.0500	0.0500	0.0500	0.0600	0.0500	0.0600	0.0500	0.0620	0.0620	0.0620
$40,000 under $50,000	0.0500	0.0500	0.0500	0.0600	0.0500	0.0600	0.0500	0.0620	0.0620	0.0620
$50,000 under $75,000	0.0500	0.0500	0.0500	0.0600	0.0500	0.0600	0.0500	0.0620	0.0620	0.0620
$75,000 under $100,000	0.0600	0.0500	0.0600	0.0600	0.0600	0.0600	0.0600	0.0620	0.0620	0.0620
$100,000 under $200,000	0.0600	0.0500	0.0600	0.0600	0.0600	0.0600	0.0600	0.0620	0.0620	0.0620
$200,000 under $500,000	0.0700	0.0500	0.0700	0.0600	0.0700	0.0600	0.0700	0.0620	0.0620	0.0620
$500,000 under $1,000,000	0.0700	0.0500	0.0700	0.0600	0.0700	0.0600	0.0700	0.0620	0.0620	0.0620
$1,000,000 or more	0.0700	0.0500	0.0700	0.0600	0.0800	0.0600	0.0800	0.0620	0.0620	0.0620

OASDI TAX RATE SYSTEMS APPLIED TO THE 16 YEAR PERIOD 1993 - 2008
Money amounts in thousands of dollars

Year	Contributions to OASDI under current tax system	OASDI benefit payments	Contributions to OASDI under tax system 1	Difference in conyributions using tax system 1	Contributions to OASDI under tax system 2	Difference in conyributions using tax system 2	Contributions to OASDI under tax system 3	Difference in conyributions using tax system 3	Contributions to OASDI under tax system 4	Difference in conyributions using tax system 4	Contributions to OASDI under tax system 5	Difference in conyributions using tax system 5
1993	322,090,000	302,368,000	336,112,675	14,022,675	364,968,905	42,878,905	366,673,601	44,583,601	372,444,847	50,354,847	406,096,420	84,006,420
1994	344,695,000	316,812,000	353,711,842	9,016,842	383,913,140	39,218,140	385,729,703	41,034,703	391,769,963	47,074,963	425,928,124	81,233,124
1995	359,021,000	332,554,000	379,574,948	20,553,948	411,519,325	52,498,325	413,792,853	54,771,853	420,181,729	61,160,729	453,870,268	94,849,268
1996	378,881,000	347,050,000	409,474,116	30,593,116	443,170,542	64,289,542	446,311,486	67,430,486	453,050,771	74,169,771	485,474,163	106,593,163
1997	405,984,000	361,952,000	448,018,538	42,034,538	484,085,233	78,101,233	488,316,053	82,332,053	495,529,392	89,545,392	526,444,154	120,460,154
1998	430,174,000	374,969,000	488,566,414	58,392,414	527,289,482	97,115,482	532,618,980	102,444,980	540,363,593	110,189,593	569,632,354	139,458,354
1999	459,556,000	385,765,000	528,922,834	69,366,834	570,161,606	110,605,606	576,687,431	117,131,431	584,935,185	125,379,185	612,003,639	152,447,639
2000	492,484,000	407,635,000	576,899,166	84,415,166	621,355,209	128,871,209	629,520,749	137,036,749	638,411,957	145,927,957	662,407,934	169,923,934
2001	516,393,000	431,931,000	567,383,588	50,990,588	612,898,213	96,505,213	618,683,892	102,290,892	627,786,817	111,393,817	657,034,330	140,641,330
2002	532,471,000	453,821,000	557,687,582	25,216,582	603,140,155	70,669,155	607,891,537	75,420,537	616,982,052	84,511,052	648,236,035	115,765,035
2003	533,519,000	470,778,000	573,329,597	39,810,597	619,670,177	86,151,177	625,012,957	91,493,957	634,281,073	100,762,073	664,005,568	130,486,568
2004	553,040,000	493,263,000	624,629,933	71,589,933	673,673,527	120,633,527	681,291,606	128,251,606	691,100,325	138,060,325	716,084,287	163,044,287
2005	592,940,000	520,748,000	677,324,200	84,384,200	728,721,794	135,781,794	738,967,968	146,027,968	749,247,487	156,307,487	768,674,887	175,734,887
2006	625,594,000	546,238,000	728,913,377	103,319,377	783,428,295	157,834,295	795,523,040	169,929,040	806,426,024	180,832,024	820,915,758	195,321,758
2007	656,121,000	584,939,000	788,257,358	132,136,358	846,506,276	190,385,276	860,497,003	204,376,003	872,146,787	216,025,787	883,403,222	227,282,222
2008	672,122,000	615,344,000	766,608,269	94,486,269	825,875,783	153,753,783	836,620,824	164,498,824	848,474,326	176,352,326	864,964,279	192,842,279
cumulative 16 year total increase in OASDI Trust Fund				930,329,436		1,625,292,661		1,729,054,683		1,868,047,328		2,290,090,423

16 year period 1993 - 2008					
S/W, AGI, taxed and not taxed for OASDI					
	Total S/W taxed for OASDI	Total S/W	S/W NOT taxed for OASDU	AGI	AGI NOT taxed for OASDU
Year	(billions)				
1993	2,597.58	2,885.62	288.04	3,775.58	1,178.00
1994	2,779.84	3,020.13	240.29	3,961.15	1,181.31
1995	2,895.16	3,194.44	299.28	4,244.61	1,349.45
1996	3,055.65	3,369.64	314.00	4,590.53	1,534.88
1997	3,274.19	3,606.67	332.48	5,023.46	1,749.26
1998	3,469.35	3,872.31	402.95	5,469.21	1,999.86
1999	3,706.45	4,123.88	417.43	5,909.33	2,202.88
2000	3,971.77	4,445.60	473.83	6,423.98	2,452.20
2001	4,164.52	4,551.46	386.95	6,241.04	2,076.52
2002	4,294.35	4,545.26	250.90	6,113.78	1,819.42
2003	4,302.42	4,634.06	331.64	6,287.59	1,985.17
2004	4,459.68	4,904.36	444.68	6,875.12	2,415.45
2005	4,781.45	5,139.76	358.31	7,507.96	2,726.51
2006	5,045.16	5,451.49	406.33	8,122.04	3,076.88
2007	5,291.13	5,824.89	533.76	8,798.50	3,507.37
2008	5,420.16	5,926.75	506.59	8,426.63	3,006.46
	63,508.87	69,496.32	5,987.45	97,770.48	34,261.61

Extra OASDI income if the non-taxed S/W were taxed at 12.4%: 742.44 billion

Extra OASDI income if the non-taxed AGI were taxed at 6.2%: 2,124.22 billion

Preserving Social Security and Burying the Obama Deficit Commission Proposals on Social Security

by John M. Bachar, Jr.
Emeritus Professor of Mathematics, CSULB
jmbachar@sbcglobal.net

President Obama's National Commission on Fiscal Responsibility and Reform, co-chaired by Alan Simpson and Erskine Bowlers, has issued a doomsday report on "fixing" the Social Security retirement system (OASDI) as a part of its proposals to reduce the Federal deficit. This flies in the face of the fact that, not only has Social Security not contributed a dime to the deficit, it has a $2.52 trillion surplus! Amongst other things, the co-chairs would drastically cut retirement benefits and increase the retirement age to 69. Not a single member of this commission, or of the vast TV/audio/print media, has mentioned nor studied other solutions to the alleged Social Security "crisis".

There is no crisis and there is most definitely no need to advance the retirement age to 69 nor to cut the retirement benefits. .

Based on the data in the totality of individual income tax returns for the 16 year period of 1993 through 2008, there are easy structural changes that can be made to the Social Security (OASDI) taxation system that will easily provide for sufficient annual contributions and assets growth to take care of the retirement needs of the increasingly aging population for the indefinite future, as well as the replacement of the existing 73-year old REGRESSIVE OASDI taxation system by a PROGRESSIVE one, and without reducing retirement benefits nor increasing the retirement age. Regrettably, the ever-present plethora of "privatization" and "fix-it" advocates are clueless about this analysis.

To illustrate the regressive nature of the OASDI taxation system, the data from the calendar year 2008 shows the following. Tax returns listing an Adjusted Gross Income (AGI) of over $200 K (= only 3% of all tax returns) held 30% of all AGI, yet less than 3% of the listed AGI was paid to OASDI; returns listing over $1 Million (= only 0.23% of all tax returns) held 13% of all AGI, yet less than 0.6% of the listed AGI was paid to OASDI; finally, the $10 million and over AGI class had an average GROSS income (AGI plus all exclusionary gross income) of $37 million, yet paid an average of less than 0.006% to OASDI

By using a progressive tax rate system (applied to ALL INCOME, not merely to salary/wage income) for OASDI, the rate for OASDI payments for 85% of all tax returns (= below $100,000 annually) will be LOWER than the current rate of 6.2%. This is because the total income of this class is in the form of salaries/wages, and everything below the salary/wage cap of $100,000 is taxed at 6.2% for OASDI contributions.

Here are the details for a typical progressive OASDI tax rate system: 4% rate on all income below $30,000 (40.3% of all tax returns in 2008); 5% rate for the range $30,00 to $75,000 (24.6% of all tax returns in 2008); 6% rate for the range $75,000 to $200,000 (22.1% of all tax returns in 2008; currently, those from $100,000 to $200,000 pay as little as 3% to OASDI); 7% for the range $200,000 and up (13.0% of all tax returns in 2008; this group pays from below 3% to as little as 0.006% to OASDI).

In addition to providing more than the annual retirement/disability needs produced under the existing regressive taxation system, the annual OASDI Trust Fund assets at the end of 2009, for each of **five** progressive tax systems that were analyzed for the 16 year period, would have INCREASED from the current $2.52 trillion (2008) to:
$3.47 trillion for tax-rate system 1; $4.17 trillion for tax-rate system 2; $4.27 trillion for tax-rate system 3; $4.41 trillion for tax-rate system 4; $4.83 trillion for tax-rate system 5.

Clearly, this revised progressive OASDI tax rate system would preserve Social Security, the most successful US government program in history, for the indefinite future, and would silence the plethora of "privatizers" and "fix-it" advocates.
November 2010

Social Security: An Ill-conceived Plan That Would Harmfully 'Fix' Something That Isn't Broken
by
John M. Bachar, Jr., Mathematics Professor Emeritus, CSULB
and
Paul O'Lague, Microbiology Professor Emeritus, UCLA

The Social Security System, since its inception by Franklin D. Roosevelt 73 years ago, has successfully provided a financial safety net for citizens after they retire from the work force. Recently, as part of an attempt to curb our current burgeoning deficit, Alan Simpson and Erskine Bowles, co-chairs of President Obama's National Commission on Fiscal Responsibility and Reform, have made public their suggestion for the future of Social Security by imposing substantial cuts in payouts and by raising the full retirement age to 69. As this suggestion is gaining momentum in the Congress, why aren't American workers, on whose backs the greatness of this country depends, taking to the streets, hooting and hollering, in rebellion, like the French did when the their government suggested raising workers retirement age from 60 to 62? To the contrary, we, the American workers, have been quiet as church mice having fallen asleep at the wheel. What's the difference? Are the French better informed and more involved in their government attempts at reducing social benefits than American workers? Maybe. Do the French feel more entitled than American workers. Maybe. Are most American workers, in our present near economic depression, more worried about their next pay check than they are in what happens to their retirement benefits? Maybe. Maybe all of these. However, we think there is another reason equally disturbing that is at the bottom of workers acquiescence. It is the barrage from a minority of influential people in power, including members of Congress, 'Tea Party' zealots, and from various conservative media outlets, that the Social Security System is financially broken, and the only way to "fix" it is to take the draconian measures suggested by the two co-chairs.

Before proceeding, let us briefly consider, at the outset, the consequences of the Simpson-Bowels Social Security proposals for future retirees. Studies have shown that life expectancy increases as a function of wealth. Most of the increase in life expectancy in recent decades has been among those with higher incomes. Therefore, increasing the retirement age to 69 would adversely affect the quality of retired life for the majority of workers who have low - to – medium incomes, and who solely rely on Social Security for their subsistence. Is it fair to impose rules that would shorten their right to fruitful retirement years and to cut their retirement income, thus depriving them of a fulfilling life style after a dedicated life of long, hard work? We think not. As we shall show in what follows, it is not necessary to raise the retirement age or cut Social Security benefits.

Two important issues should immediately bother American citizens who will be future recipients of Social Security. First, what does it mean that our system is financially broken (we will show it isn't) and second, at this important crossroad for the average worker, is the Simpson- Bowles solution the only one for 'fixing' Social Security?

Is Social Security (officially, OASDI for Old-Age, Survivors, and Disability Insurance) really broken? For 73 years, the OASDI Trust Fund has always been in the black because more has been taken in than paid out.

Furthermore, the OASDI Trust Fund contains over 2.5 trillion dollars as of 2009. In the August, 2010, report of the SSA Trustees, this is sufficient to last for the next 27 years. SO, THERE IS NO IMMEDIATE CRISIS!

Second, to answer whether the severe Simpson-Bowles solution is the only one, we need to identify the real problem with Social Security. And that is, it was designed from the very beginning to be a highly regressive tax system. Money caps were placed on salaries and wages, and only the amount of a worker's salaries and wages below the cap was and is currently taxed. . For example, today the cap is about $100,000, which means a worker who makes this amount or less is taxed at 6.2%, whereas a hedge fund manager who makes $2 million is taxed at 6.2% only on the first $100,000 of his/her salary/wage income, while the rest, $1.9 million, is not taxed at all! That's only a paltry 0.31% on the $2 million! Is that fair? ASK YOUR FELLOW WORKERS. If future OASDI payments require more funds, did the Simpson-Bowles committee consider the taxation of all income, not merely salaries and wages? If not, why not? As workers, we should know.

Has this been a tax cut for the rich? Let's see. A simple analysis* of a few tax rate systems for the 16 year period from 1993 to 2008 indicates that taxing all income would have provided somewhere between $1 trillion to over $4.8 trillion in additional funds. The cumulative tax cuts that the wealthy received during this period are staggering: it amounts to over $2 trillion! Tax cuts for the wealthy under the current regressive OASDI taxation system warrants further comment. Unlike the average American worker, most wealthy individuals receive much of their income from what is called ‘unearned income’, that is, income from other sources, such as stock and bond dividend, capital gains, interest, and other lucrative means, most of which cannot be acquired by the struggling average worker. These sources are not taxed. If this gigantic source of unearned income were to be taxed, it would insure the financial stability of OASDI in perpetuity.

Finally, a recent cartoon in The New Yorker sums up the mental dilemma facing today’s average worker. It shows a bar scene with, at one end of the bar, a blue collar worker, baseball cap and all, with beer glass lifted, saluting, at the other end, another patron, a Wall Street type, possibly a hedge fund manager, and saying to the effect, “As a potential lottery winner, I support tax cuts for the rich.” The probability of an average citizen entering the top financial echelons of our society are miniscule, and so this occurrence is extremely unlikely. If ever there was a time for workers to unite, it is now. There should be no hesitation for us to demand that instead of the Simpson-Bowles solution that would deprive the hard-working average worker of a well-deserved enriching retirement, we must change the system so that the wealthy pay their long over-due fair share. This is not asking for much of a sacrifice for the good of the country. Taxing all income should be put on the table of the Committee, and if they refuse to do so, another body must be created whose members are committed to do so and which consists of at least 50% of workers whose incomes are almost entirely from salaries and wages.

The Social Security system is the most successful government program in US history. Let us keep it that way.

jmbachar@sbcglobal.net

polague@ucla.edu

* see: "Social Security: Preserving the System and Exposing the Destructive Fixes", the first paper in this series of four.

November 2010

Obama Agrees With GOP To Wreck Social Security Faster Than His Simpson-Bowles-Led Deficit Commission Proposal Will Do.

By John M. Bachar, Jr.
Emeritus Professor of Mathematics, CSULB
jmbachar@sbcglobal.net

On October 7, 2010, Obama compromised with the GOP to cut the Social Security payroll tax rate (currently, 6.2% for both employee and employer) on salaries/wages that fall below the current OASDI cap of $106,800 as follows: (1) employee rate, 4.2%, employer rate, 4.2%, or (2) employee rate, 4.2%, employer rate, 6.2%. In case (1), the total annual OASDI income collection would drop down to 67.7% of what is collected now, and in case (2), the drop would be down to 83.8%.

Both cases are analyzed for the 16 year period 1993 – 2008 and for the 8 year period 2011 – 2017 (the latter is based on the Social Security Trustees August 2010 report: Estimated Operations of Trust Fund for 2011 – 2017). For both of these periods, the Social Security System would abruptly disappear into the abyss if the plan were in effect!

Losses incurred by using the plan for the 16 year period 1993 - 2008

If the plan in case (1) was in effect for the 16 year period 1993 – 2008, here is what would have happened:
1. The 16 year OASDI contribution loss would have been $2.54 trillion!
2. The 16 year shortfall in benefit payments would have been $1.6115 trillion!

If the plan in case (2) was in effect for the 16 year period 1993 – 2008, here is what would have happened:
1. The 16 year OASDI contribution loss would have been $1.27 trillion!
2. The 16 year shortfall in benefit payments would have been $341.3 billion!

Losses incurred by using the plan for the 8 year period 2011 - 2017
(Based on Social Security Trustees August 2010 report: Estimated Operations of Trust Fund for 2011 – 2017)

If the plan in case (1) were to be in effect for the 8 year period 2011 – 2017, here is what would happen:
1. The 8 year OASDI contribution loss would be $2.34 trillion!
2. The 8 year shortfall in benefit payments would be $1.33 trillion!

If the plan in case (2) were to be in effect for the 8 year period 2011 – 2017, here is what would happen:
1. The 8 year OASDI contribution loss would be $1.17 trillion!
2. The 8 year shortfall in benefit payments would be $160.7 billion! In 2011 alone, the loss will be $138 billion!

Franklin D. Roosevelt would flip wild somersaults in his grave if the Obama/GOP plan ever goes into effect.

What kind of a society have we become?

If our esteemed (?) leaders know not what they are doing and do it, banish them!

If our esteemed (?) leaders do know what they are doing and do it, banish them!

In either case, cruel actions are beyond the pale.
October 7, 2010

16 year period 1993 to 2008									
	Employee pays 6.2%, Employer pays 6.2%			Employee pays 4.2%, Employer pays 4.2%			Employee pays 4.2%, Employer pays 6.2%		
	12.4% of S/W below the caps:			8.4% of S/W below the caps:			10.4% of S/W below the caps;		
	Net contri-butions b	benefit pay-ments d	contributions minus benefits	Net contri-butions b	benefit pay-ments d	contributions minus benefits	Net contri-butions b	benefit pay-ments d	contributions minus benefits
Year									
1993	322.1	302.4	19.7	218.2	302.4	-84.2	270.1	302.4	-32.3
1994	344.7	316.8	27.9	233.5	316.8	-83.3	289.1	316.8	-27.7
1995	359.0	332.6	26.4	243.2	332.6	-89.4	301.1	332.6	-31.5
1996	378.9	347.1	31.8	256.7	347.1	-90.4	317.8	347.1	-29.3
1997	406.0	362.0	44.0	275.0	362.0	-87.0	340.5	362.0	-21.5
1998	430.2	375.0	55.2	291.4	375.0	-83.6	360.8	375.0	-14.2
1999	459.6	385.8	73.8	311.3	385.8	-74.5	385.5	385.8	-0.3
2000	492.5	407.6	84.9	333.6	407.6	-74.0	413.1	407.6	5.5
2001	516.4	431.9	84.5	349.8	431.9	-82.1	433.1	431.9	1.2
2002	532.5	453.8	78.7	360.7	453.8	-93.1	446.6	453.8	-7.2
2003	533.5	470.8	62.7	361.4	470.8	-109.4	447.5	470.8	-23.3
2004	553.0	493.3	59.7	374.6	493.3	-118.7	463.8	493.3	-29.5
2005	592.9	520.7	72.2	401.6	520.7	-119.1	497.3	520.7	-23.4
2006	625.6	546.2	79.4	423.8	546.2	-122.4	524.7	546.2	-21.5
2007	656.1	584.9	71.2	444.5	584.9	-140.4	550.3	584.9	-34.6
2008	672.1	615.3	56.8	455.3	615.3	-160.0	563.7	615.3	-51.6
	7,875.1	6,946.2	928.9	5,334.7	6,946.2	-1,611.5	6,604.9	6,946.2	-341.3

ESTIMATED OPERATIONS OF TRUST FUNDS 2011 - 2017

(In billion)s

	Income					Expenditures	Income minus Expenditures		
	A	B	B	C	C				
	Employee 6.2%	Employee 4.2%	minus	Employee 4.2%	minus		A	B	C
	Employer 6.2%	Employer 4.2%	A	Employer 6.2%	A	EEXP	minus	minus	minus
Year	OASDI	OASDI		OASDI		OASDI	EEXP	EEXP	EEXP
2011	855.0	579.2	-275.8	717.1	-137.9	742.0	113.0	-162.8	-24.9
2012	908.0	615.1	-292.9	761.5	-146.5	779.0	129.0	-163.9	-17.5
2013	969.0	656.4	-312.6	812.7	-156.3	827.0	142.0	-170.6	-14.3
2014	1,033.0	699.8	-333.2	866.4	-166.6	881.0	152.0	-181.2	-14.6
2015	1,096.0	742.5	-353.5	919.2	-176.8	940.0	156.0	-197.5	-20.8
2016	1,163.0	787.8	-375.2	975.4	-187.6	1,003.0	160.0	-215.2	-27.6
2017	1,228.0	831.9	-396.1	1,029.9	-198.1	1,071.0	157.0	-239.1	-41.1
	7,252.0	4,912.6	-2,339.4	6,082.3	-1,169.7	6,243.0	1,009.0	-1,330.4	-160.7