

SOCIAL SECURITY: EXPOSING THE DESTRUCTIVE FIXES AND SHOWING HOW TO PRESERVE IT INTO PERPETUITY

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An analysis of the Social Security retirement system (official name: OASDI Trust Fund - Old-age and Survivors Insurance and Federal Disability Insurance Trust Fund), *not to be found anywhere else*, for the 16 year period, 1993 through 2008, shows the following:

1. Easy structural changes 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*.
2. These changes will replace 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. This means *all income*, not merely salaries/wages, will be taxed at a rate that *increases* with *increasing income*.
3. With the adoption of this new OASDI taxation system, retirement benefits will not need to be reduced (in fact, they may be *increased*) and the retirement age will not need to be *reduced* (in fact, they may be *decreased*).

**The complete analysis may be found in absentlinks.com by clicking on:

http://www.absentlinks.com/uploads/6/6/4/2/6642350/four_analytical_papers_on_preserving_and_strengthening_social_security_by_john_bachar.pdf

However, for those who may not wish to read the complete analysis, including the complete analytical tables, please read the following discourse.

The Social Security System, since its inception by Franklin D. Roosevelt 73 years ago, is the most successful government program in US history and has successfully provided a financial safety net for citizens after they retire from the work force. For recent decades, this safety net has become the *dominant* retirement pension system for an overwhelming number of elderly persons. From a study by the Investment Company Institute (ICI):

Ongoing Role of Social Security in Retirement

Since 1975, there has been little change in the importance of Social Security benefits in providing retiree income: Social Security benefits continue to serve as the foundation for retirement security in the U.S. and represent the largest component of retiree income and the predominant income source for lower-income retirees. In 2009, Social Security benefits were 58 percent of total retiree income and more than 85 percent of income for retirees in the lowest 40 percent of the income distribution. Even for retirees in the highest income quintile, Social Security benefits represented more than one-third of income in 2009.

As of June 30, 2011, 54.8 million citizens are beneficiaries of OASDI.

For many decades, there has been an incessant effort by Wall Street, wealthy investors, bankers, conservative politicians, commissions (recently, President Obama’s “National Commission on Fiscal Responsibility and Reform”, co-chaired by Alan Simpson and Erskine Bowles) to privatize the Social Security retirement system, to reduce benefits, or to increase the retirement age. Alan Simpson infamously said that 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* ...”). On October 7, 2010, Obama compromised with the GOP to cut the OASDI payroll tax rate on salaries/wages that fall below the current cap of \$106,800 (currently, 6.2% for both employee and employer) down to 4.2% for employees. This action *reduces* the contributions to OASDI by \$140 billion for 2011! *Even worse, Obama (July 2011) wants to extend this cut to 2012, thereby causing a loss of \$300 billion for OASDI contributions!!*

From these groups, whether knowingly or out of ignorance, a steady stream of misinformation, errors, or distortions of fact steadily flow. Add to this group still others, who wish to “fix” the system they deem in “crisis”.

Currently, Obama and the GOP are proposing to reduce the Federal deficit by reducing OASDI benefits. Purportedly, OASDI is in "crisis" and contributes to the deficit! This flies in the face of the fact that, not only has OASDI not contributed a dime to the deficit, it has a \$2.6 trillion surplus!! In the August, 2010, report of the SSA (Social Security Administration) Trustees, this is sufficient to last for the next 27 years even if we make no changes to the system!! For 73 years, the OASDI Trust Fund has always been in the black because more has been taken in than paid out. Obama once promised not to touch SS. But for 2011, his tax cut deal on SS payroll tax cuts with the GOP allowed a loss of \$140 Billion to the SS Trust Fund, and now this -- payroll cuts for both employees and employers that come to a \$240 Billion loss to the Fund (2012). That comes to a \$380 Billion loss! What double-crossing hypocrisy. It's akin to prescribing toe amputation in order that the patient may walk better.

In the words of AARP executive VP John Rother (August 20, 2010):

Social Security hasn't contributed a single dime to the current deficit. It is financed separately from the rest of the federal budget with contributions Americans make over a lifetime of hard work. Any attempts to cut Social Security benefits to reduce a deficit it didn't cause would undermine retirement security and place an unfair burden on future generations.

If the destructive forces now at work succeed in "fixing a system that isn't broken" by replacing it with a draconian one, thereby increasing the retirement age to 69 or more and reducing benefits, then the quality of life for the majority of retired workers – those who have low-to-medium incomes, and who solely rely on Social Security for their subsistence - would be adversely affected. *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?*

As stated earlier, the life-expectancy of our population is increasing as well as the number that reach the current OASDI full retirement age of 67 (for those born in 1960 and after). In order to take care of this phenomenon, let us examine structural changes that can be made to the OASDI taxation system and 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*.

Every year since the 1937 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 \$106,800 and the current OASDI rate is 6.2%).

Example 1. Earned income below \$106,800 and no unearned income: percentage of gross income (=\$106,800) paid to OASDI equals **6.20%**.

Example 2. Earned income \$213,600 and no unearned income: percentage of gross income (=\$213,600) paid to OASDI equals **3.10%**.

Example 3. Earned income \$320,400 and no unearned income: percentage of gross income (=\$320,400) paid to OASDI equals **2.07%**.

Example 4. Earned income \$534,000 and \$128,160 unearned income: percentage of gross income (=\$662,160) paid to OASDI equals **1.0%**.

Example 5. Earned income \$2.4496 million and unearned income \$4.172 million: percentage of gross income (=\$6.6216 million) paid to OASDI equals **0.1%**.

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 gross income class had an average gross income of \$37 million, yet paid an average of less than 0.006% to OASDI!

The regressive OASDI taxation system has resulted in a tax cut for the rich. The analysis of the 16 year period from 1993 to 2008 indicates that taxing all income would have provided somewhere between \$3.5 trillion to over \$4.8 trillion in additional OASDI trust funds (see below)! 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 or most of their income from what is called “unearned income”, that is, income from other sources, such as stock and bond dividends, 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 *into perpetuity*.

Five different progressive OASDI tax rate systems (applied to ***all income***, not merely to salary/wage income) are given in the complete analysis (see ** above). Typically, these systems ***lower*** the rate for OASDI payments for 85% of all tax returns (those ***below*** an annual Adjusted Gross Income of \$100,000) 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 \$106,800 is taxed at 6.2% for OASDI contributions.

Here is a description of tax rate system 1 (the other four 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

Recall the words of FDR (he signed into law the Social Security Act on August 14, 1935):

“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

IT IS IMPERATIVE THAT WE, AS A NATION FOUNDED UPON THE PRINCIPLE OF PROVIDING FOR THE GENERAL WELFARE OF ALL, ESTABLISH AN OASDI PROGRESSIVE TAX RATE SYSTEM ON ALL INCOME.

Bio

I am a Mathematician with a 50+ year record of research and university teaching (to summarize; Ph.D. UCLA, 1969; M.S. Northwestern University, 1955; 36 years teaching at CSULB; dozens of research conferences; director of research conferences; research papers). In addition to the world of pure mathematics in academia, I have analyzed and written about dozens of issues that are in the Public Interest, with particular emphasis on the inherent mathematical content of such issues.