Chapter 9 Review: Social Insurance 1
Social Security and Unemployment Insurance: John

Readings: Rosen: Chapter 9, all

Outline
I. Characteristics of Social Insurance Programs
II. Justification for Social Insurance
III. Overview of Social Security
   A. Fully Funded (pre-funded) vs. Pay as You Go.
   B. A brief history of SS funding
   C. Defined Benefits vs Defined Contributions
IV. Major issues regarding Social Security
   1. equity: Who gains? Who loses? Is this fair?
   2. financing SS
   3. incentives to work
   4. incentives to save privately
   5. SS’s effect on poverty amongst the elderly
V. Benefits under Social Security
VI. Distributional Issues regarding SS
VII. SS’s Effect on Incentives Among Retirees
VIII. Financing SS
   A. Financial Viability of current system
   B. Proposals for “Saving SS”
IX. Cautions about proposals to transition SS to fully funded
   A. Transitional funding problems
   B. This changes the nature of Social Security
X. SS’s Effect on Incentives to Save
   A. SS may crowd out private savings
   B. Govt. may just spend SS savings, thereby depleting national savings and hurting growth
   C. What is national savings and why is it important?
XI. SS’s Effect on Poverty Amongst the Elderly
Problems

1. Chapter 9 Discussion Question (pp 198 – 199) # 2

2. Chapter 9 Discussion Question (pp 198 – 199) # 3. While you will not be able to come up with exact $ (or £) figures, you should be able to come up with % changes.

3. Chapter 9 Discussion Question (pp 198 – 199) # 4

4. Chapter 9 Discussion Question (pp 198 – 199) # 5

5. Ahhh! The semester is over and you are on vacation. You, of course, go to Ozark, Missouri to visit your favorite Uncle, Duane. Duane is getting near retirement. He states; “You know young-un, I’m not the spring chicken I used to be. I’ll be retiring soon and I ’m mighty worried. I saved all my pay vouchers and have figured out that I haven’t paid much into my social security account. I might not be able to live very well in retirement.”

At this time Aunt Shana, Duane’s wife, says; “Duane, I’ve stayed home and raised your kids for you instead of working. Now you tell me you haven’t paid much into Social security! You better have a plan to feed us during our old age!”

Help Duane out. In particular, answer the following:

a. Explain how current (and those in the near future) Social Security benefits are funded.

b. How are Duane’s benefits tied to the amount of payroll tax money he sees on his pay stubs? Hint: There are two parts to this question. 1) Was/is Duane the only one paying payroll taxes on his behalf? 2) How are past payments tied to benefits?

c. What kind of deal do you think Duane and Shana are getting out of Social Security? Explain your answer.

6. Cousin/Uncle Steve is 32 years old.² He expects to retire sometime around 2035. He states; “I’ve read the numbers. I know Social Security will be bankrupt and won’t be able to pay one red cent by the time I retire. If the current system continues without changes, I won’t get any Social Security Retirement benefits.”³

Is Steve correct? Will Social Security not be able to pay anything, if there are no changes to the current system, after about 2035? If not, clearly explain why.

7. Cousin/Aunt Wren is a bit more optimistic than the rest of the family.⁴ She states; “I have more faith in our government and the American people that the rest of you. We will figure out a way to save Social Security.” You have always been partial to Wren (in a perfectly respectable and

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¹ The names have been changed to protect the innocent. Any resemblance to people, real fictional, or those in the Lovett family is purely coincidence.

² Steve is Shana’s brother.

³ Feel free to hum Merle Haggard’s song “Big City” while you answer this question. … “You can keep your retirement and your so called social security …” Hey, I know you are all closet Merle Haggard fans. Myself, I really was a fan of his later stuff. It just doesn’t have the soul of his earlier stuff.

⁴ also Shana’s sister.
legal way of course). You want to help her out. Do this by discussing several methods by which Social Security can be saved.

This question is a pretty long one. If you saw one like this one the exam, it will either constitute a major portion of the exam or will be narrowed down a bit.

8. Paul (no one is quite sure how he is related to the family … but he hangs around anyway) is a survivalist and is generally not terribly keen on government. He states; “Heck! I don’t even think the government should be in the business of Social Security. Why don’t we just rely on people’s own private, individual initiative to provide for people’s age retirement?”

Answer Paul. Explain the basic arguments for social insurance programs, in particular Social Security. Hint: 1) Make your movements real slow, avoid eye contact, and make your explanations really good. Paul is armed and a bit agitated. 2) I didn’t discuss economizing on decision making. You will have to get this argument from the text.

9. Find this out on your own. Grampa Bob has recently gotten hooked on phonics. He is practicing on your Public Finance textbook. He says: “Okay smarty-pants, let’s see if you know everything in Chapter 9 of this book. Tell me how unemployment insurance is financed. In particular, answer the following questions for me: Who directly pays for unemployment benefits? Is the system funded or pay as you go? Do all payers pay at the same rate?”

Wow! Phonics really works. Answer Grampa Bob’s questions.

5 And it is the only segway I could think of to this question.