

# Actuarially, I Believe

by Paula H. Hines, ASA, MAAA

Actuarially, I believe every American should know and understand how Social Security and Medicare are funded. I believe this would make taxpayers more supportive of public schools, as these students' earnings will fund future Social Security and Medicare benefits. Even though I did not complete a Fellowship track, one of the core fellowship courses that I passed included a section on Social Insurance programs. Learning about the delicate balance between Social Adequacy and Individual Equity in the Social Security program was enlightening and rewarding. As such, Americans should understand that Social Security is not a welfare program, in that benefits are not means-tested, and yet, the benefit formula is leveraged toward lower income levels.

In its Issue Brief, *Social Adequacy and Individual Equity in Social Security*, the American Academy of Actuaries defines Social Adequacy as “ensuring that all covered workers and their families enjoy adequate basic protection from a number of financial hazards”, and Individual Equity as “ensuring that each covered worker will receive benefits commensurate with his or her history of contributions”.

The fact that Social Security benefits are not means-tested helps to satisfy the Individual Equity goal of the program. The fact that the benefit formula is leveraged toward lower incomes – the lower one's income is the higher the proportional benefit – satisfies the Social Adequacy goal of the program. In a similar manner, Medicare also balances Social Adequacy and Individual Equity by not requiring means-tests and by providing the same level of benefits (basic protection) to all Medicare beneficiaries.

When local governments are discussing increasing taxes to fund public schools, many believe they have nothing at stake in excellence in education (other than property values). These are senior citizens, single adults, families with no children in public schools. These taxpayers should understand that, by supporting public education, they are also supporting the long-term solvency of Medicare and Social Security by contributing to the increased earning power of public school graduates.

Everyone should understand that Medicare and Social Security are funded on a pay-as-you-go basis, which is appropriate for a government-led program. Private and corporate pension plans should be fully funded but that is not necessary for government programs. Taxpayers that believe the taxes they pay go to fund future benefits do not have the correct understanding of how these programs are funded.

Millennials are often heard saying, “Social Security and Medicare won't be around for me”. This is an ill-informed perspective. The question is not whether Social Security and Medicare will be around. The question is how high will the tax rate be? Will it be 25% compared to the current 15%?

The fellowship exam on Social Insurance also included a review of historical tax rates for Social Security and Medicare. In 1937, the tax rate was 2% of income up to \$3,000. By 1950, the rate was 3%. By 1970, the rate was over 9% of income up to \$7,800. By 2000, the rate was over 15% of income up to \$90,000\*. Along with the tax rate increases, the number of active employees supporting each retiree has declined from 5.1 in 1960 to 2.9 in 2010. Higher tax rates reduce the ability for families to create financial security. Lower ratios of employees to retirees threaten the solvency of these programs.

Finally, seniors' quality of life should not be eroded due to a lack of funding and everyone deserves the opportunity to build financial security for themselves and their families. This is why all Americans should understand how Social Security and Medicare are funded and be supportive of increased investment in excellence in education.

*\*In 1994, all earnings became subject to the Medicare tax.*

References:

Link to American Academy of Actuaries Issue Brief

[https://www.actuary.org/sites/default/files/pdf/socialsecurity/individual\\_jan04.pdf](https://www.actuary.org/sites/default/files/pdf/socialsecurity/individual_jan04.pdf)

Historical Tax Rates

<https://taxfoundation.org/social-security-and-medicare-tax-rates-calendar-years-1937-2009/>

Worker to Retiree Ratio

<https://www.mercatus.org/publications/government-spending/how-many-workers-support-one-social-security-retiree>