

Social Security, Medicare, and Pensions:

Promoting the Common Good

“The real grand bargain is coming undone,” predicts Alexander Keyssar, a professor of history and social policy at Harvard’s Kennedy School, in his August 2011 Washington Post article. He was referring to the huge social risks of abandoning long standing social insurance. Such losses should be on the radar of all those concerned with the common good, human dignity, and justice in America.

The “bargain” that Keyssar is talking about emerged between the 1890s and 1930s, and “established an institutional framework to balance the needs of the American people with the vast inequalities of wealth and power wrought by the triumph of industrial capitalism.” The institutional framework consisted of three prongs, according to Keyssar:

1) Regulation of Banking and Corporations.

These legal changes sought to regulate business and banking to protect consumers, limit the power of individual corporations, and prevent anti-competitive practices. See the Sherman Antitrust Act (1890), the Pure Food and Drug Act (1906) and the Glass-Steagall Act (1933).

2) Regulation of Labor Practices. Another round of legal changes guaranteed workers’ the right to form unions and engage in collective bargaining (1914 Clayton Act and the National Labor Relations Act of 1935), since individual workers lacked the power to protect their interests when dealing with large employers. (Collective bargaining rights paved the way for employees bargaining not only for just wages but also for pension, health and welfare benefits.) For those most poorly paid, the federal government mandated a minimum wage.

3) Creation of Social Insurance. Unemployment insurance (1935), Social Security (1935), and Medicaid and Medicare (1965) were grounded in the recognition that citizens could not always be self-sufficient and that it was the role of government to aid those unable to fend for themselves.

These three elements provide the foundation for the referenced “bargain,” giving us a framework for discussing Social Security, Medicare, and pensions in light of the common good, human dignity, and economic justice. The legislation that has allowed these various programs to flourish has constituted, in the opinion of Keyssar, a “social contract,” one that has “preserved the dynamism of capitalism while guarding citizens against the power imbalances and uncertainties that a competitive economy produces.”

That “bargain” provides us with a vision of the “common good”—a just ordering of society so that all may do well (*Gaudium et Spes*, #26, 74). However, this vision of justice has been under attack for decades. Those leading the attack tend to exhibit an ideology of individualism, the antithesis of Catholic Social Teaching, assuring us that we do not have responsibilities to the most vulnerable (or that these responsibilities can be adequately met through individual charity), and that the state has no business regulating banking, corporate and labor practices or providing for the well-being of its citizens.

Catholic Social Teaching provides a different perspective, a faith perspective modeled on the ministry of Jesus Christ: “Central to the biblical presentation of justice is that the justice of a community is measured by its treatment of the powerless in society... (people identified by) vulnerability and lack of power... and have no protector or advocate” (*Economic Justice for All*, #38). Christians, as disciples of Jesus, are called to protect the powerless and most vulnerable.

The following provides a brief review of the Federal social insurance programs: Social Security, Medicare, and pension plan programs sponsored by employers. Social Security is essentially a retirement and disability program funded by both employee and employer contributions. Medicare is essentially health insurance coverage for those over age 65 and the disabled and is funded by employee and employer

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contributions. Pension programs include defined benefit (DB) and defined contribution (DC) plans, which provided cash benefits to retired workers, and became protected and encouraged by legislation (especially the 1974 Employee Retirement Income Security Act (ERISA)). Pension programs developed in some instances via collective bargaining to provide basic security from what one labor leader once referred to as “evil days.” Employees not represented by a union have also been covered by pension plans provided by employers.

The “evil days” refers to economic hardships frequently experienced by older citizens, especially those unable to work because of old age, disability, and illness.

Social insurance programs provide some measure of economic security to some of the most vulnerable in our midst and have contributed to the common good, human dignity, and the quality of economic justice in our country. If we believe justice is best measured by the way the poor and vulnerable are treated, then these benefits help ensure justice: “As a community of believers, we know that our faith is tested by the quality of justice among us, that we can best measure our life together by how the poor and the vulnerable are treated” (*Economic Justice for All*, #8). This “measure of our life together” touches on the principle of the “common good,” a principle that provides a vision of an economy that serves all people, not just a privileged few (*Economic Justice for All*, #14).

Attending to the common good requires measures that go beyond charity, although charity is also a required response to the needs of the most vulnerable. Social Security, Medicare, and pension plans sponsored by

employers are measures that do just that: they help tend to the demands of the common good, human dignity, and justice; they provide strategies for addressing the evils that diminish the common good and threaten human dignity. They, in short, tend to our life together.

Advancing the Common Good: Social Security

On August 14, 1935, the Social Security Act (H.R. 7260, Public Law No. 271, 74th Congress) became law with President Franklin D. Roosevelt’s signature. Although the Social Security program officially arrived in America in 1935, there was one important precursor. Following the Civil War, there were

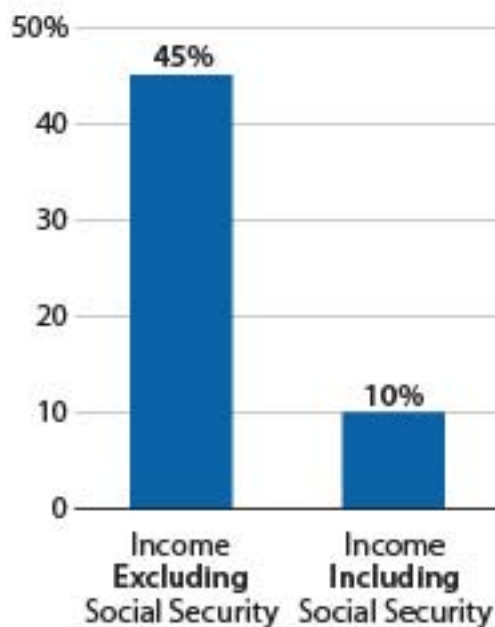
hundreds of thousands of widows and orphans, and hundreds of thousands of disabled veterans. “In fact, following the Civil War, a much higher proportion of the population was disabled or survivors of deceased breadwinners than at any time in America’s history. This led to the development of a generous pension program, with interesting similarities to later developments in Social Security” (in 1935). 2

Advancing the Common Good. Protecting Basic Human Rights: Medicare

In 1945, President Harry Truman proposed legislation to establish a national health insurance plan. This proposal was followed by two decades of debate regarding such legislation. Opponents were focused on the dangers of “socialized medicine.” Such fear-based rhetoric continues in contemporary debates regarding social security.

On July 30, 1965, Medicare and its companion program Medicaid, (a program providing medical coverage for indigent recipients), were signed into law by President Lyndon Johnson; these programs were created under the Social Security Act of 1965.

Social Security Reduces Number of Seniors in Poverty
Percentage of Seniors in Poverty



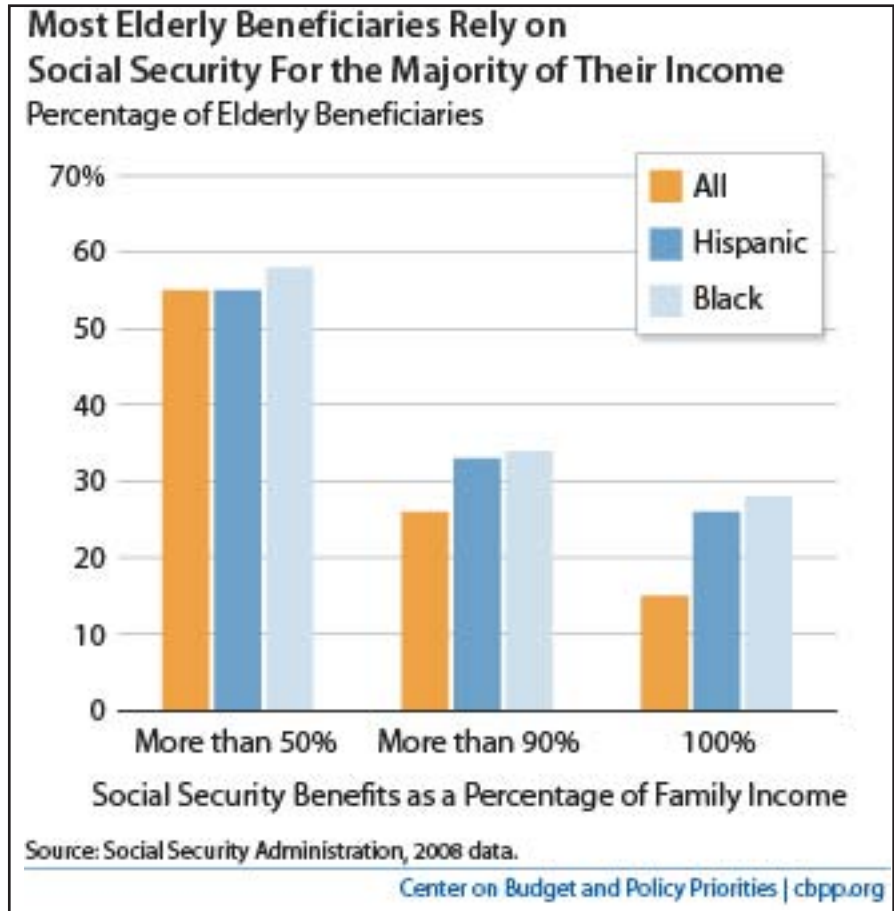
Source: Center on Budget and Policy Priorities based on data for 2008 from the U.S. Census Bureau, Current Population Survey, March 2009.
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Ten Important Facts About Social Security

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1. Social Security is more than just a retirement program. It provides important life insurance and disability insurance protection as well.
2. Social Security provides a guaranteed, progressive benefit that keeps up with increases in the cost of living.
3. Social Security provides a foundation of retirement protection for nearly every American, and its benefits are not means-tested.
4. Social Security benefits are modest. In June 2010, the average Social Security retirement benefit was \$1,170 a month, or about \$14,000 a year. (The average disabled worker and aged widow received slightly less.) Social Security checks (after deducting the premium for Medicare's Supplementary Medical Insurance, Part B) replaces about 39 percent of an average worker's pre-retirement wages — significantly less than similar programs in most other Western countries.



5. Children have an important stake in Social Security. Social Security lifted 1.1 million children out of poverty in 2008.
6. Almost half of the elderly would be poor without Social Security. Social Security lifts 13 million elderly Americans out of poverty.
7. Most elderly beneficiaries rely on Social Security for the majority of their income.
8. Social Security is particularly important for African Americans and Hispanics. Social Security is a particularly important source of income for groups with low earnings and with less opportunity to save and earn pensions. Blacks and Hispanics benefit substantially from Social Security because, on average, they have higher rates of disability and lower lifetime earnings than whites
9. Social Security is especially beneficial for women. Because women tend to earn less than men, take more time out of the paid workforce, live longer, accumulate less savings, and receive smaller pensions, Social Security is especially important for them
10. Social Security can pay full benefits through 2037 without any changes, and relatively modest changes would place the program on a sound financial footing for 75 years and beyond.



President Johnson signed the legislation creating Medicare at the Truman Presidential Library in Independence, Missouri, and former President Harry Truman became the first to enroll in this program.

Essentially, Medicare provides health care coverage for inpatient hospital (Part A) and physician services (Part B) on a hospital inpatient and outpatient basis. The prescription drug coverage (i.e., outpatient prescription drug coverage) under Medicare came into effect on December 8, 2003, when it was signed into law (the Medicare Modernization Act) by President George W. Bush.

Those provided medical and hospital coverage under the legislation include people age 65 or older, people under age 65 with certain disabilities, and people of all ages with End-Stage Renal Disease (permanent kidney failure requiring dialysis or a kidney transplant).

The medical care provided under the Medicare and Medicaid programs is a basic human right (along with food, clothing, shelter, rest, and necessary social services), one that the American Catholic bishops call to mind in *Faithful Citizenship*, citing the teaching of Blessed Pope John XXII in 1963 (*Pacem in Terris*, no. 11).

Supplements to Social Security: Pension Programs Sponsored by Employers and Protected by Federal Legislation

Similar to Social Security, some pension plans provide what is called a “defined benefit,” an annuity usually paid monthly for the rest of a participant’s life, and frequently for the life of the participant’s surviving spouse. These are employer sponsored plans. These types of pension benefits are technically referred to as “Defined Benefit” (DB) pension plans and are normally based on years of employee service, salary earned during the years of service for an employer, or a set dollar amount multiplied by

the number of years of service for an employer. Also, employees are enrolled automatically after satisfying certain service requirements; this is not a plan an employee opts in or out of participation.

For example, a pension may be based on an employee’s final average pay for the last 5 years of employment. If the final average pay was \$60,000 and the pension plan paid 25% of the employee’s final average pay, the retired employee would receive \$1,250 monthly for life: $\$60,000 \times .25 = \$15,000$ annually; monthly ($\$15,000/12$) the benefit would be \$1,250, as noted above.

The new business practice is that profits and long-term business agility are more important factors than a company’s long-term commitment to its work force.

Yet, defined benefit pension plans have fallen into disfavor. In 1983, there were 175,143 defined benefit plans sponsored by employers; in 2008, that number had shrunk to 48,374. During that same period of time, defined contribution plans grew from 599,822 in 1983 and to 669,156 in 2008.

Why the decrease in defined benefit plans? One obvious answer is that employers have

a fiduciary responsibility---a legal responsibility--to fund these plans, which means that their primary responsibility is the welfare of the participants, not the company’s bottom line. And corporations are no longer making this commitment. The new business practice is that profits and long-term business agility are more important factors than a company’s long-term commitment to its work force. Legally, corporations may terminate a pension plan, but they cannot reduce or refuse to pay an accrued benefit due an employee.

Another type of pension plan, also an employer sponsored plan, frequently available to employees is called a “Defined Contribution” (DC) retirement plan. Participation in these types of plans is optional. In some cases, unfortunately, employees may not be able to afford to contribute to these plans because living expenses require all of his or her income. The benefit based on DC plans is derived from



contributions made by the employee to the plan plus any employer matching contributions and any gain accrued via investments of employee and employer contributions. Employers are not required to match employee contributions (unless a collective bargaining agreement with union employees requires such), so, in some cases, it is only the employee funding his or her defined contribution plan.

However, because of Federal legislation, employees can make their contribution on a pre-tax basis. (They will have a tax liability later, when they begin to take distributions, usually following retirement.) An employee can also suffer losses from his or her investment (downturn in the market), which, of course, will diminish the benefits eventually received. DC plans can carry risks for the employee because of market fluctuations; DB plans carry less risk because of mandated funding standards and insurance provided by the Pension Benefit Guaranty Corporation (PBGC), but these plans can also be affected by the financial markets, since funding of pension plans is also dependent upon returns from investments made by employers.

Why has there been an increase in the number of defined contribution plans? One answer is that employers are not required to fund the plans or match employee contributions. Even if an employer provided a dollar match for employee contributions at one time, that amount of employer matching contribution can be reduced or eliminated, leaving all the funding of this type of retirement plan to the employee. However, employers sponsoring plans are required (they have some fiduciary responsibilities to participants) to offer the employee various investment options and negotiate reasonable administrative fees so the employees are not excessively charged for investment services.

The bottom line is that it is the employee taking most of the risk in this type of retirement plan, shifting the once shared risk of the pension to the individual employee.

Although there are nuances regarding the pension plans, the primary goal of these plans is quite simple: to protect employees (and their families) from “evil days,” i.e. poverty, when they are no longer able to

work because of age, disability, or illness. These retirement plans should be considered as compensation for work: and when we talk of “just wages,” provision for an employee’s retirement should be considered as part of the compensation package that constitutes a “just wage.”

The most recent *Faithful Citizenship* statement by the U.S. Catholic bishops seems to do just that: “Employers contribute to the common good through the services or products they provide and by creating jobs that uphold the dignity and rights of workers—to productive work, to decent and just wages, *to adequate benefits and security in their old age* (emphasis added)...(*Faithful Citizenship*, no. 52).

Resources

1. “*The real grand bargain is coming undone*” by Alexander Keyssar. http://host.madison.com/ct/news/opinion/column/alexander-keyssar-the-real-grand-bargain-is-coming-undone/article_d273f988-64df-5c37-84e0-ce0f918e13f2.html?mode=story#ixzz1ejbpD9np. Originally published in *The Washington Post*, August 21, 2011. Page A19.
2. Social Security Online <http://www.ssa.gov/history/briefhistory3.html>
3. The Center on Budget Policy Priorities <http://www.cbpp.org/cms/index.cfm?fa=view&id=3261>

Additional Reading:

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- United States Catholic Bishops, *Forming Consciences For Faithful Citizenship*. 2011.



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