

Discussion questions:

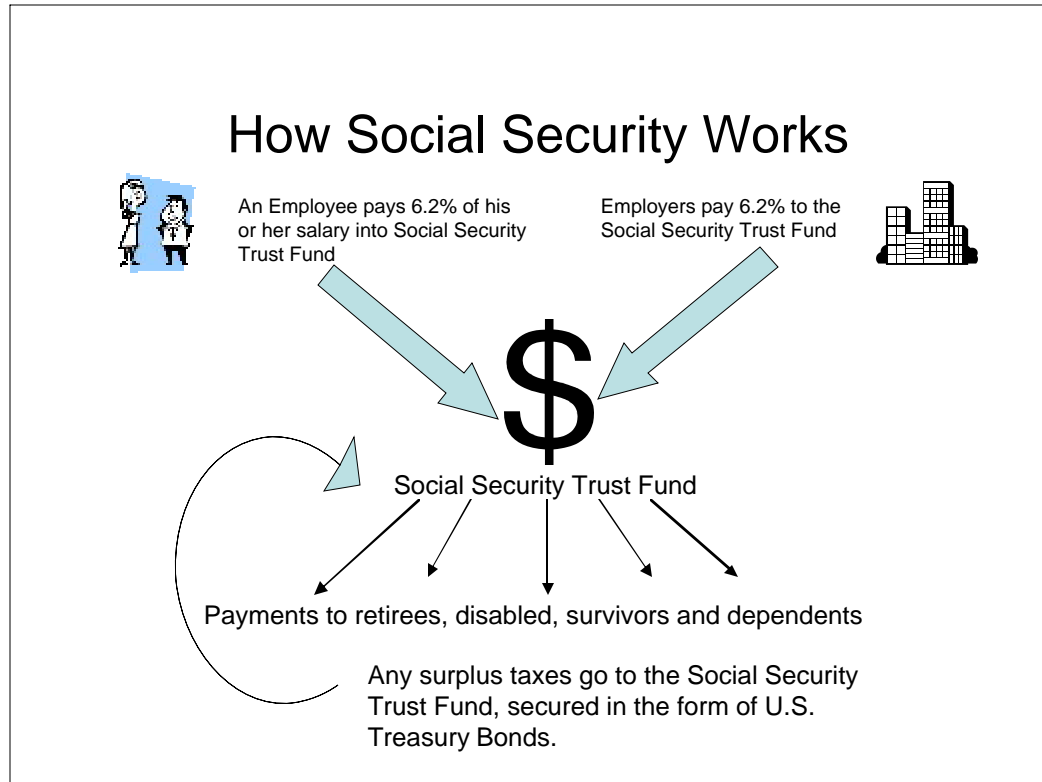
- Describe how the Social Security works? (Explain how contributions are made, how the “pay-as-you-go system” works and how recipients receive their benefits.)
- Workers are taxed on the first \$90,000 of their wages. What would be the effect on income to the Trust Fund if this level was raised or lowered?
- Who are the recipients of social security benefits?
- What is the impact on incoming funds if the payroll tax is raised as it was in 1983 from 5.4% to 6.2%?

# Social Security Reform

## Student Handout

### Social Security - A Simple Concept

When people have a job and receive a pay check, 6.2% of their salary is taken out in Social Security taxes. Their employer also pays a tax of the same amount to Social Security. Employees pay taxes up to a certain amount of their total wage earnings. In 2005 that amount is \$90,000. So if the employee makes \$37,000 that entire amount is taxed at 6.2%. If the employee makes \$125,000, only \$90,000 is taxed.



### Where Social Security tax dollars go

The money paid is not held in a personal account and left to increase with interest and then be paid out when the person retires. The Social Security system is known as a “pay-as-you-go” system where money put in goes out to beneficiaries. Eighty-five cents of every Social Security tax dollar goes to a trust fund that pays monthly benefits to the following existing beneficiaries:

- People who already have retired;
- People who are disabled;
- Survivors of workers who have died;
- Dependents of beneficiaries.

The 12.4% employee/employer tax brings in funds to the trust fund. Funds not used are kept in the trust fund and are invested in Treasury bills.

(See discussion questions below)