They’re Not Moochers and It’s Not Welfare

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MarketWatch Blog by Alicia H. Munnell

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Paul Krugman in a recent (2-16-12) *New York Times* Op-ed “Moochers against Welfare” picked up the theme of an earlier front page story “Even Critics of Safety Net Increasingly Depend on It” (2-11-12). Both pieces, in my view, miss the important distinction between social insurance – where citizens contribute on a regular basis to protect themselves against a loss of earnings – and means-tested benefits – where money, food, or housing is provided to people in need.

People who are receiving Social Security retirement or disability benefits, unemployment insurance, or workers’ compensation are correct in not viewing these payments as a handout from the government. Rather they are receiving the proceeds of income insurance for which they, or their employer, paid premiums over their lifetime.

The case of Social Security retirement benefits is the clearest. Workers and their employers each contribute 5.3 percent of wages annually for Old-Age and Survivors Insurance. This insurance pays benefits to the worker’s family if he should die prematurely and retirement benefits if he survives to age 62. On average, for people retiring today, the payroll tax contributions roughly equal the benefits they can expect to receive. (High earners get a slightly worse deal and low earners a better deal.) Similarly, workers and their employers each contribute 0.9 percent of earnings for Social Security Disability Insurance, which pays benefits when workers become permanently and totally disabled.

The story is essentially the same for unemployment and workers' compensation. Even though premiums are usually paid entirely by the employer, economists believe the employer's contributions are part of the worker's compensation. Essentially, employers decide how much they are willing to pay in total compensation and then divvy up that commitment between wages and fringe benefits. Contributions for unemployment insurance and workers' compensation are a component of fringe benefits.

Medicare is a more complicated story for a number of reasons. Only a portion of the program, Part A–Hospital Insurance, follows the same model as Social Security of purchasing insurance through annual contributions over the worklife. Part B–Medical Insurance and Part D–Prescription Drug Insurance are financed by premiums paid after retirement and both receive a subsidy from general revenues. More complicating is the fact that health care costs have increased so rapidly that the contributions do not cover expected benefits. Yet, the intention is for Medicare to function as social insurance. Most people think they are paying for their benefits. And the only way to get deficits under control is for this aspiration to become a reality.

In short, most of what the average citizen receives "from the government" is not welfare. It is the payoff of a lifetime of premiums. Through social insurance, citizens compel themselves to prepare for the loss of earnings from the business cycle, injury, permanent disability, or retirement or to protect their family should they die early. The government writes the check, but in most cases individuals have paid for the benefits.