

Class 10 Outline
Business Finance 640 - Insurance and Risk
Autumn Quarter, 2007

Social Security is the most important social insurance program in the United States. Its purpose is to provide a floor of protection against financial insecurity that can result from premature death, disability and old age. More than nine out of ten workers are covered by Social Security, and about one out of six persons receive a monthly benefit. Social Security has some features that are similar to private pensions and insurance arrangements and some features that are not.

Social Security is largely self-supporting, in that OASDI benefits are largely financed through OASDI payroll taxes. The amount of OASDI benefits payable to a worker increases with the amount of payroll taxes paid by the worker or by the employer on the worker's behalf. The payment of benefits is based on specific events happening (e.g., retirement, death disability). However, the absence of a means test distinguishes Social Security from pure welfare programs.

Medicare was added to the Social Security program in 1965. It provides medical insurance to retirees and non-retirees aged 65 and older, and to certain disabled persons. People become eligible for coverage by working and paying social security payroll tax. Coverage is mandatory for most workers.

I. Nature of Social Insurance

- A) Reasons for Social Insurance
 - 1. To help solve social problems
 - 2. To provide coverage for perils that are difficult to insure privately
 - 3. To provide a base of economic security
- B) Basic Characteristics of Social Insurance
 - 1. Compulsory programs
 - 2. Floor of income
 - 3. Emphasis on social adequacy rather than individual equity
 - 4. Benefits loosely related to earnings
 - 5. Benefits prescribed by law
 - 6. No means test
 - 7. Full funding unnecessary
 - 8. Financial self-supporting

II. Old Age, Survivors, Disability, Insurance (OASDI)

- A) Covered Occupations
- B) Determination of Insured Status
 - 1. Fully insured
 - 2. Currently insured
 - 3. Disability insured
- C) Types of Benefits
 - 1. Retirement benefits—paid as monthly income to people who are fully insured and are at least age 62
 - a. Full retirement age
 - b. Early retirement age
 - c. Monthly retirement benefits
 - d. Delayed retirement credit

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- e. Automatic cost-of-living adjustment
- f. Earnings test
- 2. Survivor benefits—paid to the dependents of a fully or currently insured deceased worker
- 3. Disability benefits—must be disability insured, meet a five-month waiting period, be unable to perform any substantially gainful activity, and have a condition that is expected to last at least 12 months or result in death
- 4. Taxation of OASDI benefits
- 5. Financing Social Security benefits
 - a. Long-range OASDI actuarial deficit
 - b. Reducing the long-range deficit
 - c. Voluntary personal retirement accounts
- D) Medicare benefits—available to most people age 65 or older, people who need kidney dialysis treatment or a kidney transplant, and disabled people under age 65 who have been entitled to OASDI disability benefits for at least 24 months
 - 1. The Original Medicare Plan
 - a. Hospital Insurance (Medicare Part A)
 - b. Medical Insurance (Medicare Part B)
 - c. Financing of Medicare
 - d. Medicare financial crisis
 - 2. Medicare Advantage Plans (Part C)
 - a. Medicare HMOs
 - b. Medicare PPOs
 - c. Medicare Special Needs Plans
 - d. Medicare Private Fee-for-Service Plans
 - 3. Other Medicare Health Plans
 - 4. Medicare Prescription Drug Plans (Part D)
 - a. Cost of prescription drug coverage
 - b. Financial help for low-income beneficiaries
 - c. Other provisions
 - 5. Medigap Insurance