

Social Security and Unemployment Benefits as Safety Nets**Introduction:**

Due in large part to the low level of individual savings and investments, vast numbers of U.S. workers are unprepared to support themselves in the event of layoff or termination, and must rely on government-provided “safety nets”, both to sustain themselves and their families during periods of unemployment, as well as to assist them in seeking other work. A Sept. 2-5, 2004, survey by the Civil Society Institute, a Newton Centre (Mass.) nonprofit group, found that only 26% of eligible people opt in to company-supported 401(k)s, and 55% cash out their savings when they change jobs. Median-wage workers contributing 6% of pay, plus a 3% employer match, should have about \$300,000 in their 401(k) as they approach retirement, yet the actual figure is just \$42,000.¹ Further, according to the U.S. Bureau of Economic Analysis, personal savings as a percentage of disposable income was *minus* .5% during the first quarter of 2006.²

Because many displaced workers are unable to provide for themselves during periods of unemployment, both tax dollars and voluntary contributions help sustain them until they are able to attain new jobs. Assistance includes such public programs as unemployment and welfare benefits, as well as programs to cross-train or re-train employees. This essay will describe the benefits to individuals of a number of those programs, while showing how business and society as a whole may also realize an indirect net economic gain through the maintenance of social safety nets.

Background:

America's social safety net has expanded dramatically over the past 100 years. At the turn of the last century, Americans still viewed themselves as individualists, capable of handling their own difficulties. Should dire need arise, families, local communities, and religious charities formed the basis of the social safety net.

The Great Depression of the 1930s changed much of that. President Franklin D. Roosevelt's New Deal established Social Security in 1935 and inaugurated the modern day federal welfare system with a program called Aid to Dependent Children (ADC). The next great expansion came during the Johnson administration in the 1960s, when Medicare, Medicaid, public housing, and other programs were established.

Much of America's welfare state remained largely unchanged after that until August of 1996, when a broad welfare reform law -- the Personal Responsibility and Work Opportunity Reconciliation Act -- was implemented that contained sweeping work requirements designed to create a dramatic decline in welfare caseloads, while simultaneously boosting revenues from payroll taxes and providing additional labor for the country's expanding business base.³

One of the guiding principles of current social legislation appears rooted in the principle that benefits of any employment assistance program be below the market minimum, in order to encourage workers to return to the labor force, rather than to remain unemployed.⁴ Some of the assistance programs that have been established to help displaced workers recover and return to the labor force include the following:

Unemployment Insurance⁵

- The unemployment insurance (UI) program provides temporary income support to workers who lose their jobs. In most states, eligible unemployed workers can receive up to 26 weeks of benefits, funded by the states through payroll taxes on employers.
- A second level of benefits is available in states with especially high unemployment. UI recipients in those states can receive up to 13 additional weeks of benefits under the federal/state extended benefit (EB) program, financed equally by federal and state payroll taxes.

Displaced worker assistance⁶

- Up to \$1.1 billion will be spent on the Trade Adjustment Assistance (TAA) program in fiscal year 2006 for training and benefits to workers dislocated as a result of trade imbalances. For the first time, they may be entitled to receive a Health Coverage Tax Credit covering 65 percent of the premium for qualified health insurance. Workers over age 50 may be eligible to receive Alternative Trade Adjustment Assistance, which provides half the difference in any lost income due to new employment for up to two years and \$10,000.
- Forty-four programs in nine different federal agencies focus principally on employment training. There are numerous programs for dislocated workers, including adjustment assistance for trade-related dislocations. These programs are designed to improve worker skills and mobility.⁷
- The president's fiscal year 2006 budget proposed over \$23 billion for job training and employment assistance. The administration also proposed spending \$250

million to train employees for industries generating the most new jobs, as well as funding new education programs to better prepare high school students for high-demand job sectors.⁸

Welfare Programs

- One of the major objectives of the 1996 Personal Responsibility Act was to encourage states to provide opportunities to move individuals off the welfare rolls and into the working ranks. Moving welfare recipients into work and providing them with an array of supplemental non-cash benefits have carried a particularly high price tag for taxpayers. Over the last four years, nearly \$9 billion has been spent on work-support programs for current and former recipients, and the federal government is giving nearly \$1 billion more each year to such programs than was spent by the federal and state governments together before the new law.⁹

Corporate Programs

- U.S. employers, especially large companies, spend more than \$70 billion each year on worker re-training, education and outplacement programs.
- Because of rapidly changing consumer demands, many U.S. employers provide a range of services to assist their employees to ensure that U.S. workers are ready to be hired for the next generation of jobs. For example, at IBM, each employee spends an average of 55 hours each year in formal training. IBM recently created a \$25 million Human Capital Alliance Fund dedicated to helping employees who are concerned about competition from off-shore technical experts to sharpen their skills. U.S. employers are also recognizing that it is in their best financial interests to initiate programs designed to cross-train workers whose current jobs may

eventually become obsolete, as providing training for current employees is less expensive than hiring new ones.¹⁰

Conclusion:

The information contained in this memo demonstrates that unemployment and welfare benefits allow displaced workers the opportunity to sustain themselves while seeking new employment. To do otherwise would be to condemn those persons into perpetual poverty, placing even greater economic strains onto society and denying businesses a viable labor pool. Retraining programs are also in furtherance of the economic well-being of private industry, as well as society in general, since such programs reduce the need to layoff persons whose jobs have become obsolete. Similarly, job assistance programs put workers back into the labor force, off welfare rolls and onto the tax rolls.

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