Apr 20th, 11:00 AM - 12:15 PM

Social Security Income: A Comparison of the US System and Abroad

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Abstract

Social Security in the United States is one of the ways that the country helps to provide income to those who are retired. The criteria for eligibility for this is strict, therefore this is not something that is available to everyone. The funding for this is done by employees, employers and self-employed individuals. This is the only type of retirement income that is regulated by the federal government. Canada has three governmentally regulated programs, the Canada Pension Program, the Old Age Security program and the Guaranteed Income Supplement program. These programs are most closely related to a Social Security system. Individuals can be eligible for one of these or even all three of these. The Canada Pension Plan is funded like that of the United States, but the other programs are government funded. The Netherlands also has a system that is funded through a combination of the government as well as employees and employers. The percentage of income that retired people in the Netherlands receives is much higher than both the United States and Canada, but the reason is because the funds are collected in a different way.

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Introduction

Social Security income is an important aspect in the field of accounting. Each country has their own laws on this topic, but the idea is similar, to provide income to a certain group of people. The way the system is funded is different based on the structure of countries, as well as the distribution to citizens. Some countries rank higher than others in the way that they disburse money and based on how much an individual can receive. While some countries may seem to be better off or worse when it comes to providing for society the main difference relies on the way the money is funded as well as the size of the country.

One of the main aspects of a social security system is the retirement income. Pensions and similar programs that provide money to individuals at a certain age is necessary to help support those who are no longer able to work as they get older. The ability to provide the same amount of income after retirement that was earned during retirement is something that is very difficult to do. The goal of many countries is to try to give as much money as they can to those who qualify to help citizens have a steady income later in life. A country like the United States has to think entirely different on something like that compared to a much smaller country like the Netherlands. The ability to provide for a smaller country is much easier and can be handled in an entirely different way. The cause is just as important in all the countries but the capacity to provide depends on the government. While many countries have some type of governmental involvement in the matter there are various other forms of retirement income that are non-government based. Social Security differs for many reasons which causes there to be differences in how much an individual can receive.

The US Social Security System

History

The social security system in the United States is a form of economic security for a variety of Americans. Those who are eligible to receive this type of benefit and the amount that they are able to receive varies for each individual. Social Security is a public system and regulated by the U.S. federal government. This makes it different from pension programs and other private plans that are available.

The current system that exists differs greatly from when the programs first began in the United States. Economic security has always been an issue and throughout history different societies have come up with ways to provide for themselves. These ancient ways eventually became more formal as time went on with the introduction of taxes and the first modern day equivalent to social security, which came out in 1862 after the Civil War. This was established to help families who lost a soldier during the Civil War. By 1890 any disabled Civil War veteran could also receive benefits. Then in 1910 Civil War veterans could receive not only disability benefits but also old age benefits. Pension programs in companies began to become popular in the 1880s as well, this was the first time that withholding a percentage of an employees pay with interest being added each year began. The Social Security Act was passed by 1935 where 30 states had a form of retirement pension (SSA). This was the beginning of modern day social security.

Current US System

While the laws change frequently, social security in America has been similar for quite a few years. Currently, social security is available for select people from different groups such as those who are retired, disabled, families of retired, disabled or deceased workers. More specifically eligibility is based on many characteristics beginning with age (65 or older), disability or blindness. In addition to meeting those criteria an individual must also have a limited income, limited resources as well as meet a few other requirements. Those who wish to receive social security benefits must be a U.S. citizen who live in one of the 50 states, District of Columbia or Northern Mariana Islands. People in Puerto Rico are eligible for Supplemental Security Income as well, a form of social security. There are some certain categories of immigrants or non-citizens which may also qualify for benefits. In addition to meeting these criteria a person must not be out of the country for thirty or more consecutive days and must not be held in an institution at the expense of the federal government, such as a prison. Meeting these requirements does not guarantee that someone will receive social security income but is the basis to begin to see if an individual qualifies (SSA).

One of the most widely discussed parts of social security income in the United States is the retirement income portion. To receive retirement benefits an individual must have paid Social Security taxes while they were working to earn credits. These credits equal to a required number of years worked and is what determines eligibility of retirement income. Also, these benefits cannot be taken before the age of 62, even though the benefits received at this age will not be the full amount as that comes when a person waits longer to receive the benefits. The full amount of benefits can be taken at age 67 for those who were born in 1960 or later. Individuals who chose to retire even later and post pone receiving this type of social security actually can receive higher benefits. The actual amounts of retirement income are different for each individual. There is not set amounts that people get but it is based on a formula. The formula is based off lifetime earnings, the 35 highest paid years of earning (SSA).

The Social Security program is funded through a payroll tax. Employees have a percentage of their salary withheld, 6.2% is withheld but only for up to $118,000 made. Employers also pay the same 6.2% up to $118,000 for each employee. A self-employed individual will pay the entire 12.4% on their own. This is why an individual must have paid these taxes and earned a certain number of credits, because the money comes from the public and is not funded by the federal government.

Problems in the US

The US Social Security system is one that is highly criticized, especially in comparison to other countries. Reform for the current system is constantly mentioned. An article written by Catherine Collins, *The Imperative and Implication of Social Security Reform*, discusses the importance of change. As she mentioned one of the problems is that only about 40% of income is supplied by Social Security benefits, while in some other countries it is closer to 60%. There is a concern that if something is not done to change the way the system is funded and distributed that by 2034 benefits will no longer be able to meet the needs that it had promised. The longer the country waits to begin a reform the harder it will be to make the change. The options are not that easy to help with the problem either, raising taxes or pushing back the age of receiving benefits are only a few of the options. An option that may be beneficial without harming citizens is individual states creating their own laws on how to give workers a retirement savings. The problem with this is that it is not a national program so it can only help some people, assuming Congress does not repeal the allowance of these reforms (Collins).

Collins is not the only person to bring light to the problem that the United States currently has with its' retirement income portion of social security. Bradford also writes about the need for a change, as soon as possible. The article *Advocates call for creative ideas on Social Security.*

Pensions & Investments agrees that raising taxes or cutting back benefits to a later age would be very unfavorable. A suggestion from Bradford is a “mandatory add-on savings account” the purpose of this would be to delay the start of collecting Social Security but would provide individuals with some kind of an income. This and ideas like it are called START- Supplemental Transition Accounts for Retirement. Not everyone would agree with these alternative forms of retirement income but since there is no simple solution to such a large problem the government has to get creative (Bradford).

Canadian Social Security System

The equivalent to a social security system in Canada is called the Canada Pension Plan or the Quebec Pension plan. This system is combined of three parts with the intention to supply an income to those who are eligible. The first part is an earning related program for retired, disabled workers and their survivors. The second part is a universal program, called the Old Age Security, is paid to most all Canadians who are 65 years or older. And the last piece of this system, called Guaranteed Income Supplement, is a type of guaranteed annual income for low to moderate income seniors (SSA).

The Canada Pension Plan/Quebec Pension Plan are similar to that of the United States. From the age of 18 to 70, or until retirement pension is received, an individual in Canada will pay into this plan. Employees and employers will pay a certain percentage of each pay period’s earning that will go to this system. The earliest age to retire and receive some of these benefits is age 60, while full benefits are available at age 65 and increased benefits for those who wait up until the age of 70. The Old Age Security is available to all legal residents of Canada who have lived there for at least ten years. Eligibility for this begins at age 65. The amount received varies depending on residency in the country, but full benefits are given to those who have lived in Canada for forty or more years. The full amount, if eligible, is about 14 percent of average salaries, but there is a cutoff amount where the benefit will be reduced by 15 percent. The income received from Old Age Security is also taxable. This old form of retirement income is not conditional on actual retirement but rather the age of an individual. The Guaranteed Income Supplement is for some Canadians whose income is below a certain level. The requirements for this is that you are eligible to receive and are receiving an Old Age Security Pension and annual income is less than the threshold amount. According to the Canada public pensions website, single individuals who have a yearly income, over $17,783.99, not including the Old Age Security Benefit are not eligible for the Guaranteed Income Supplement (SSA).

The threefold part of retirement income can provide income to almost all citizens in Canada. Some individuals are eligible for all three, while some may only be eligible for one, this makes their overall benefits seem higher because they are able to provide in a variety of ways.

Netherlands Social Security System

Another country to examine the social security or equivalent of that is the Netherlands. An article from businessinsider did a study where it ranked the best social security systems based on how much money is given to the individuals who receive it. The Netherlands was ranked the highest (Vinik). Their social security system consists of a few parts that cover a range of individuals. There is currently coverage for old age pension, survivor pension, disability pension for employed persons, disability pension for self-employed persons, and disability assistance for young persons. There is a specific eligibility requirement for each type of benefit that is available.

To receive the old age pension a person must be a legal resident of the Netherlands or have worked there from ages 15 to 65 and be aged 65 to receive the full amount. Those who worked for a part of the time from ages 15 to 65 can still receive a reduced amount, as well as non-residents. There is also an exception for a 65-year-old who has a younger partner. They are still entitled to a reduced amount of old age pension as long as their younger partner has employment income that is less than 1288.47 euros per month. It is also not necessary for an individual to be retired in order to receive the old age pension (Expatica).

The way the system in Netherlands is funded is through insured people, self-employed people, employers and the government. In addition to those who are working, social security is paid by everyone regardless of job status (Expatica). The largest portion of this income comes from the collection for the state pension fund which was close to 18% in 2016. This also has an affect on how much money the Netherlands can distribute because they are collecting such a high amount from those working, but also collecting from those who aren't working. A combination of these funded programs and the many private programs that are available help to make many citizens receive much higher benefits overall.

Comparisons

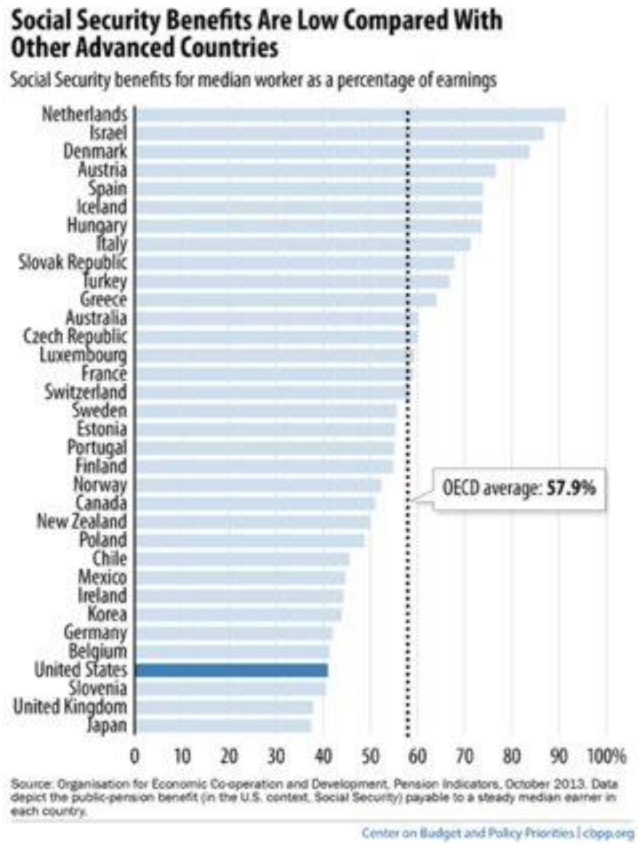
The way each country handles social insurance, especially retirement income, is different for a variety of reasons. Things that work for one country may not work for another which leads to large discrepancies in trying to determine who has the best program and who distributes the largest amounts of monthly income. Every country has their own problems when it comes to providing for its' citizens when retirement age comes, but America seems to be having more problems than both Canada and the Netherlands.

Young, Old in US Plan on Relying More on Social Security, by Newport, discusses just how big the social security retirement problem has become. There has been an increase in the number of people who say that social security will be a huge portion of their income after retirement. This is problematic because this article also suggests that by the mid-2030s retirement benefits will have run out. Even if the system is doing okay now and providing decent benefits to those who receive it, the problem will come in the next twenty years if something is not done. According to Newport this has been a known issue for years, especially as interviews have shown an increased in the number of people who expect to rely on this source of income later in life. Another problem that is presented in this article is that pension plans are not as popular as they once were. This contributes to the problem because there are less people receiving retirement funds from other places. Reliance on 401k plans are also said to be less than in previous years, another sign that something must be done to improve the Social Security Retirement plan in the United States (Newport).

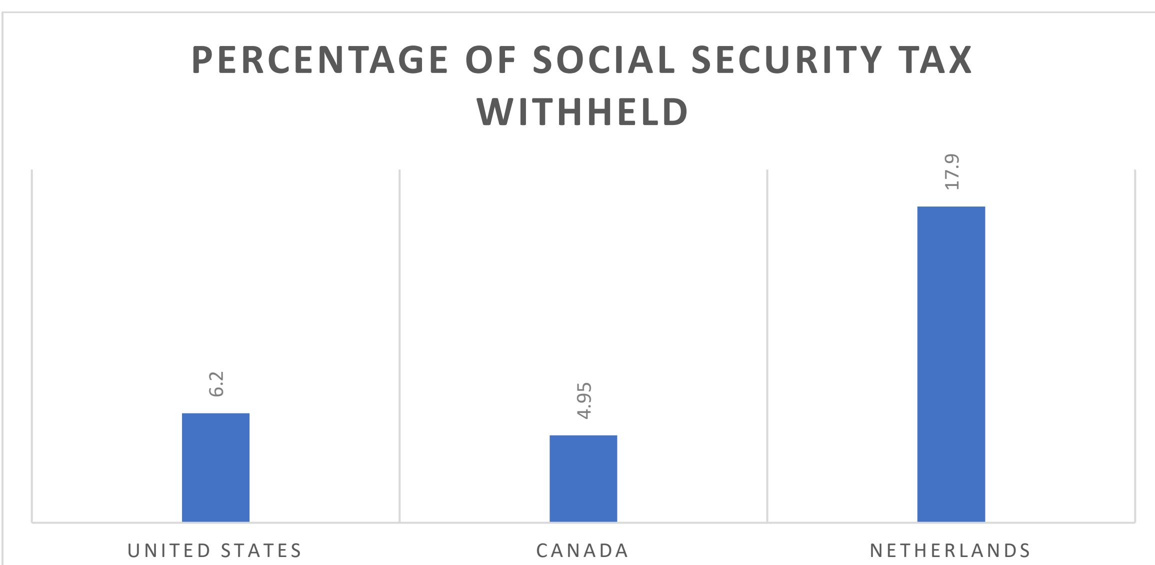
Canada also has its share of problems in the area of retirement income as well. Andrew Biggs writes *on Lessons For Social Security Reform from Canada: Part 1*, which discusses the major change Canadians made when the country changed its pension plan. This article from 2015 states that when Canada raised its social security taxes in order to provide more benefits to those receiving them, that people began saving drastically less than they did prior to the tax raise. For every dollar saved, 90 cents less was saved. This shift could have ended bad, but because Canada has the second form of retirement income, the Old Age Security system, this was not as large of an issue. Reduced personal savings is a problem but when there are higher benefits expected in return they can balance each other out. Biggs also writes that trying something like this in the U.S. could be risky due to the fact that the Social Security system hasn't drastically changed in over twenty years. Canada has two forms of pensions which help keep its citizens now, and in the future, away from poverty. Although there is concern that the current system may need some adjusting, it is not as big as the U.S.

The Netherlands have much less of a concern for the future of their pension program compared to the United States and Canada. An article in the New York Times, *No Smoke, No Mirrors: The Dutch Pension Plan*, discusses how the country has more of a focus on each generation on its own. The first main difference for the Dutch people is that about 90% of employers offer a pension program, which typically payout about 70% of their lifetime average pay. This makes their retirement income seem much better because it comes from a different source than in the United States. While they may receive more money they pay the price earlier by having a much higher percentage of their pay check withheld. As Walsh mentions there is also a huge difference in the country itself. The Netherlands differ greatly from the United States because of the lack of large cities. They have much less people so funding for retirement has to be done differently as they don't need to accommodate so many people. The main reason for the large difference as well is that America has a social security system which accounts for much of the retirement income, where the Netherlands rely much more heavily on the private pension program which is not nearly as common in the United States.

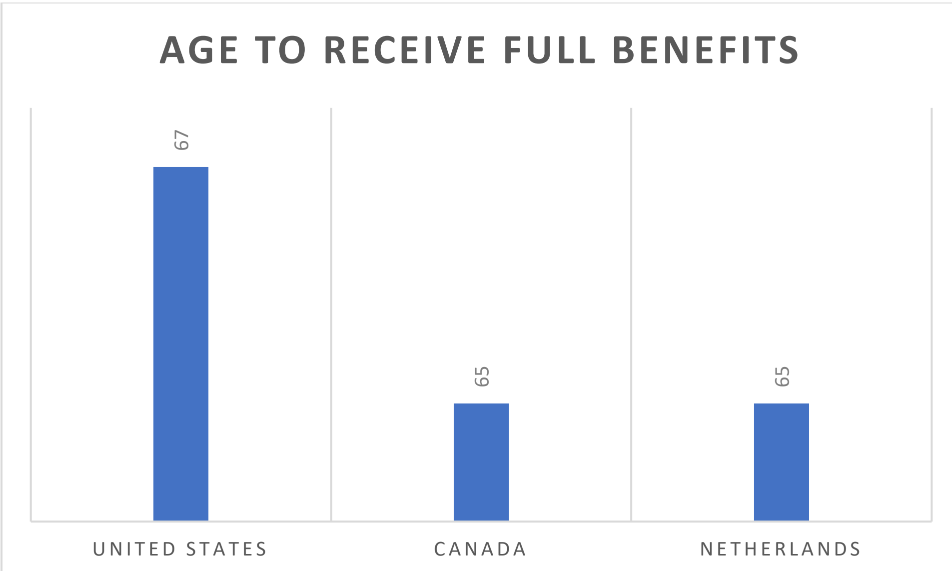
Charts & Graphs



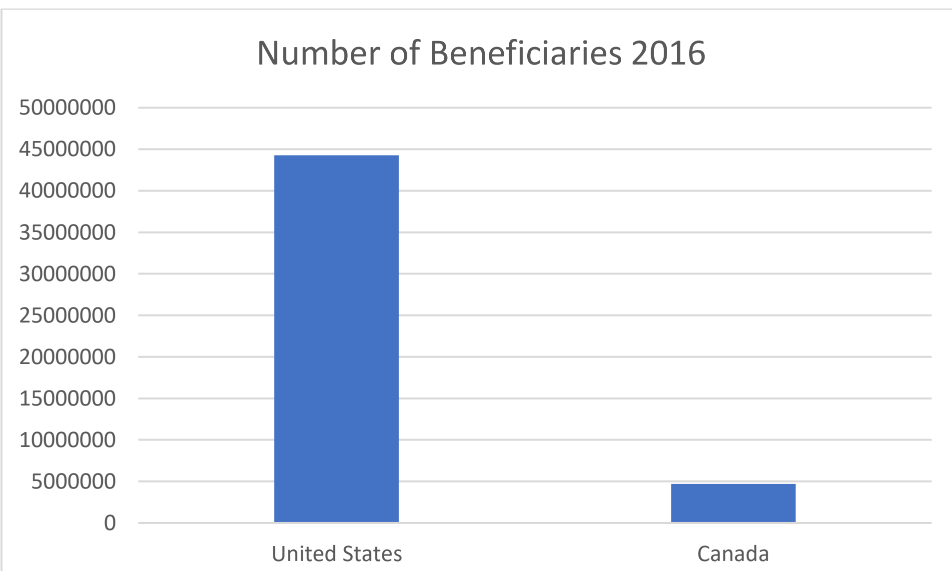
This graph from the businessinsider shows the percentage of earnings that are received in social security benefits in various countries. The Netherlands are leading by providing just over 90% of earnings to retired, Canada is at about 50% while the united states is only about 40% of earnings.



The percentage is withheld by employee, employers match the contribution, self employed pay the entire amount(double the percentages). The Netherlands percentage is only the amount paid by the employee, the employee does not match that amount. This does not include health insurance as that is an extra 9.65% that is withheld.



The countries each have early and late withdrawal options, but these are the current ages for retirement.



The United States amount includes only those individuals who received social security for retired workers. The Canada amount only includes the number of individuals who received retirement pensions under the Canada Pension Plan. The number of beneficiaries is quite different which contributes to how the funds are split to the public.

Conclusions

The United States, Canada and the Netherlands have three different ways of supporting their citizens when it comes for retirement. Providing for those who are no longer employed or who have reached a certain age is something that all three of these countries work hard to do. They have some similarities in the way that this is accomplished, but also vary with the programs that are available. One commonality is the collecting of money from those who are employed as a percentage of their pay. This is the federal funding that is done in each country. Canada and the Netherlands have alternative forms of distributing money, while the United States has one main system. Private pension programs are also more common in Canada and the Netherlands making their retirement benefits overall seem higher than the United States.

While each country has their own way of collecting and distributing there are things that can be learned by studying other countries. The United States has to make a change at some point in the near future, having the same system as the Netherlands may not work but with combining how other countries provide retirement income they may be able to come up with a unique way that works for the large population they have to account for. Comparing the countries is a good way to see what works in different areas but the people of the country also have a huge affect on the way the country is run. The Netherlands have higher retirement income in comparison to most countries, but as mentioned by many articles that comes at a huge price to the citizens. Saving more and having more money taken from an early age is a sacrifice that the people of the Netherlands are okay with.

In conclusion, these three countries have created distinct ways to help with an underlying problem- how to pay for the cost of living after a certain age. As time goes on each country has changed the way that this was done, and as time continues to go on and things change they will also continue to change the way money is collected and distributed. The United States is ready for a change now, Canada and the Netherlands may be okay now but they will soon enough also have to make a change in the future too.

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