



CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

JIM SAXTON, CHAIRMAN

Contact: Chris Frenze

Phone: 202-225-3923

Fax: 202-226-3950

CHRISTOPHER FRENZE

EXECUTIVE DIRECTOR

PRESS ADVISORY

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Social Security System Benefits Low-Income Workers

-- New JEC study shows how low-income wage earners get back payroll taxes plus! --

WASHINGTON, DC — Joint Economic Committee (JEC) Chairman Jim Saxton (R-NJ) released a study today entitled, [Payroll Taxes and the Redistribution of Income](#). This study demonstrates how low-wage workers receive more than their money's worth from Social Security. Low-wage workers are expected to recover their entire payroll tax contributions throughout their lifetimes.

"There is no doubt that payroll taxes represent a large burden on the working poor. However, this burden cannot be viewed in a short-term context because payroll taxes represent future benefits for workers. The Social Security system is an insurance program which workers pay into so that they can receive benefits when they retire. Payroll taxes must be viewed in this larger lifetime context," stated Saxton.

The Social Security program was created in the Social Security Act of 1935 to provide retirement benefits for the elderly. It was designed to provide higher rates of return for those with the greatest financial need. Accordingly, the Social Security system redistributes a substantial amount of money from mid- and high-income workers to low-income workers.

The study provides data which show that low-wage workers can expect to receive Social Security benefits which exceed the value of their payroll tax contributions. In contrast, middle- and high- wage workers are expected to pay substantially more into the system than they will receive in benefits. Middle- and high-wage couples are expected to suffer net losses throughout their lifetimes as large as \$120,000 and \$200,000 respectively.

In addition, many low-income workers receive tax relief in the short term through the Earned Income Tax Credit (EITC), an existing refundable tax credit designed to help low-income families remain self-sufficient. This study shows that the EITC more than offsets the payroll tax liabilities of very low-income families so that many of these families have negative tax liabilities. For these families, any benefits received through Social Security resemble pure cash transfers.

In conclusion, the Social Security program resembles an insurance program in which workers make payroll tax contributions that entitle them to future retirement benefits. By design, low-income workers receive better rates of return than mid- and high- income workers. As a consequence, mid- and high-income workers subsidize the payroll tax liabilities of low-income workers. It is misleading to focus on the short-term burden imposed by payroll taxes without accounting for the future benefits provided through Social Security.

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G-01 Dirksen Senate Office Building • Washington, DC 20510 • (202) 224-5171 Fax (202) 224-0240 • www.house.gov/jec/



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