The Heritage Foundation Backgrounder

366

No.

The Heritage Foundation 214 Massachusetts Avenue N.E. Washington, D.C. 20002 (202) 546-440(

July 12, 1984

FIVE QUICK FIXES FOR SOCIAL SECURITY

INTRODUCTION

A year as political as 1984 is unlikely to witness a full national debate on the structural reform of Social Security. The bitter partisan taste of the last Social Security crisis is still too strong for congressional candidates to risk debating it again, and President Ronald Reagan seems too vulnerable on this issue to take the initiative. Nevertheless, the evidence shows clearly that Social Security remains in serious trouble, despite the costly 1983 "reforms."[1]

A genuine structural reform package that would rebuild the system has been advanced.[2] These reforms would ease the pressure on Social Security by encouraging the creation of "super-IRAs" to provide the range of benefits currently available under Social Security--but far more efficiently and fairly.

These reforms would require major legislation, implemented over several years. In the meantime, there are five small, and potentially highly popular, quick fixes that would prepare the ground. These could be embodied now in legislative proposals that would be appropriate even for a political year.

---

1 Peter J. Ferrara, "Rebuilding Social Security, Part 1: The Crisis Continues," Heritage Foundation Backgrounder No. 345, April 25, 1984.

2 Peter J. Ferrara, "Rebuilding Social Security, Part 2: Toward Lasting Reform," Heritage Foundation Backgrounder No. 346, April 25, 1984.

FIVE QUICK FIXES FOR SOCIAL SECURITY

(1) Index permissible IRA contributions

The current maximum tax-deductible contribution to an Individual Retirement Account should be raised to equal the maximum employee contribution to Social Security. This would raise the maximum annual IRA contribution immediately from $2,000 per worker to about $2,600--a modest increase. This would mean, however, that the maximum limit would increase each year at the rate of the growth of average wages, as does the maximum Social Security taxable income. Indexing would maintain the real value of the IRA deduction.

(2) End the discrimination against homemakers

Nonworking spouses currently can contribute only $250 per year to an IRA. This should be increased to the same maximum as for working spouses. The law now discriminates against homemakers, who need retirement protection as much as, if not more than, spouses who work. Congress seemed poised to end this discrimination in the recent tax bill, but the proposal was removed in conference. It should be reintroduced.

(3) Allow IRA funds for purchase of life, disability, and retirement health insurance

As fears grow about the ability of Social Security and Medicare to handle the rising costs of increased longevity and health care for the aged, it is time for Congress to take the first step toward relying more on private sector IRAs to shoulder this burden. Congress thus should begin to increase the deduction for an IRA, provided the increase is used for an appropriate mix of life, disability, and health insurance to supplement Medicare.

This step would take some pressure off Social Security, while ensuring that workers would have more adequate protection, just as supplemental IRA benefits do for retirement income. It would also enable workers to become more familiar with IRAs as an alternative to Social Security.

(4) Require the Social Security Administration to (a) publish each year an estimate of the rate of return on Social Security contributions, and (b) furnish each worker with a "Statement of Account," indicating his or her contributions for the year and the anticipated rate of return under current law.

This would educate the public. But the congressional mandate must be carefully crafted to prevent its distortion by the Social Security Administration.

There are at least two reporting requirements that are not easily open to such distortions. First, the Social Security Board of Trustees could be required to include each year in its annual report a section comparing the typical rate of return paid by Social Security to those retiring in that year with the rate of return likely to be paid to those entering the workforce that year. This would force the government to admit publicly that while the program still offers a good deal to today's retirees, it offers little to today's young people. Example: Such a statement issued this year would inform many young workers that they will not even recoup the money they and their employers "invest" in Social Security, let alone obtain any yield on their money.

In addition, the Social Security Administration should be required to send to each worker a "Statement of Account," giving the rate of return the worker could expect, under current law, on the contributions made by the employer and employee. This would enable the worker to judge Social Security accurately against private retirement and insurance plans.

(5) Require that the employer's share of the payroll tax be reported on each worker's paycheck, as well as the amount of employee payroll tax withheld, and require the total of each to be broken down into the amount paid for each type of Social Security coverage

This would help workers understand the full amounts being paid for their Social Security benefits, and enable them to compare more easily what they could obtain for the same funds in the private sector. It would also help workers recognize how much they are contributing to various parts of the program for which they can never collect, such as single workers contributing for Social Security survivors insurance.

Prepared for The Heritage Foundation
by Peter J. Ferrara,
a Washington attorney*

---

* Formerly a senior staff member in the White House Office of Policy Development.