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One Cheer for Clinton's Social Security Plan

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President Bill Clinton is considering a plan to use the budget surplus to fund new retirement savings accounts to supplement Social Security. Although the President's plan has some good points, Congress would need to correct several weaknesses for it to become the basis for serious long-term reform.

Details are vague, but the plan appears to use the federal budget surplus—estimated at $76 billion this year—to create the new retirement savings accounts. It is not clear whether every American would qualify for these accounts, or only those who fall below a certain income level. The surplus probably would be used to start the accounts, but future payments to them might be made as either an annual lump sum or a federal match of what the owner had saved. How to administer the accounts and invest their funds is still being discussed. One version would make the accounts voluntary.

Positive Features. The President's proposal clearly shows that the White House recognizes several truths about how to save the Social Security system and several core principles for reform:

- **Using the surplus to save Social Security would mean creating personal retirement accounts.** President Clinton understands basic math. He realizes that most working Americans would receive far higher benefits if they could invest their Social Security retirement taxes in personal retirement accounts. Even a conservative portfolio divided evenly between stocks and super-safe government bonds would yield returns of 5 percent, far more than Social Security's current average annual return of 1.2 percent. The alternatives—raising taxes or reducing benefits—would force Americans to pay more and get less, making Social Security's weak returns even worse.

- **Social Security cannot pay all the benefits it has promised.** President Clinton knows that Social Security simply will not have the resources to pay all the benefits it has promised. He recognizes that Americans need the security of private investments to supplement basic Social Security benefits.

- **Americans should be able to use Social Security to create wealth.** President Clinton recognizes that Social Security should allow workers from all income levels to create a nest egg to use for their retirement or their family's future. Americans should have more to show for a lifetime of work than memories and a small monthly check.

- **Government investment is a bad idea.** The President agrees with the Congressional Research Service, Federal Reserve Chairman Alan Greenspan, and others that having the

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government invest the Social Security trust fund simply would not work and could threaten the economy by politicizing investment decisions.

- **Personal retirement accounts are feasible, cost-effective, and safe.** President Clinton knows it would be fairly simple to solve the logistical problems associated with creating personal retirement accounts, and that these accounts could be structured to be both inexpensive and low-risk. Workers in three Texas counties already manage their own Social Security investments with high returns, and other Americans can, too.

Gaps in the Proposal. But the President's plan contains glaring gaps that must be addressed:

- **Supplemental accounts would do nothing to improve Social Security.** Using the budget surplus to create supplemental accounts would not solve any of the problems facing Social Security. The program still would not have the necessary resources to pay all the benefits it has promised. Supplemental accounts also would do nothing to raise Social Security's underlying rate of return or make it a better deal for workers.

- **Supplemental accounts would not answer the question, "What happens when the budget surpluses end?"** Experience suggests that the era of budget surpluses will be fairly short—about five years. When the inevitable economic slowdown hits, deficits will return, and contributions to the supplemental accounts will stop. Americans need to know they can count on these personal accounts in the future; their retirement security cannot be dependent on the ability of the federal government to balance the budget. Congress needs to make personal accounts permanent without raising taxes on workers.

- **Supplemental accounts would be too small to help most Americans.** If the budget surpluses for the next five years were used to create supplemental accounts, the average 21-year-old would receive an extra $54 per month on top of Social Security at the time of retirement, which represents an increase of only 4.5 percent; a 35-year-old would receive an extra $35 per month; and today's 60-year-old retiree would receive an extra $16 per month. It would be far better to apply the surplus toward real reform of Social Security that would improve the living standard of future retirees.

- **Voluntary accounts would help primarily the well-to-do.** Low- to moderate-income workers —who need additional retirement income the most—would be least able to put money into a voluntary account when surpluses end. Even with tax incentives and federal matches, their income already goes to house payments, living expenses, and doctor bills for their children.

Necessary Additions to the Plan. Congress could improve the President's proposal by making a few simple changes:

- **Make the accounts part of Social Security.** Instead of creating a whole new program, it would make much more sense to make these accounts part of Social Security. The new "Social Security Part B" would encourage Congress to consider these accounts as part of a comprehensive solution to deal with Social Security's existing problems and enhance the retirement security of all Americans.

- **Earmark a part of the existing tax to continue the plan.** The government should fund the accounts with the surplus and then shift to funding them with a portion of the taxes that workers already pay to Social Security. That way, once the surpluses end, the accounts could continue to grow, and the higher returns they earned would allow workers to increase their retirement incomes significantly.

The President seems sincere in his desire to find a real solution for Social Security's problems. Unfortunately, supplemental accounts, at least as he has proposed them, will not do the job. Avoiding the hard choices necessary to save the system will make the situation only worse and place future Social Security retirement benefits in greater jeopardy.

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