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FIVE RULES FOR REAL SOCIAL SECURITY REFORM

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As the congressional debate over Social Security's impending financial crisis intensifies, some lawmakers may be tempted to pass the expedient rather than real reforms that will stand the test of time and assure retirement security for future generations of seniors. Social Security reform is too important to working Americans for Congress to allow short-term political considerations to triumph over sound policy. Consequently, to qualify as real Social Security reform, a proposal must meet at least the following five criteria:

1. **The benefits of current retirees must not be reduced.** Washington has a moral contract with those who currently receive Social Security retirement benefits, as well as those who are so close to retirement that they have no other options for building a retirement nest egg. Unfortunately, the U.S. Supreme Court has ruled that seniors have no legal right to their benefits. This must be corrected. Thus, any real reform plan must guarantee in law that seniors receive every cent that they have been promised, *including an accurate annual cost of living increase.*

   As a first step to saving Social Security for future generations, Congress should pass a law giving every already retired American a contract that provides a legal guarantee of his or her Social Security retirement benefits. This should include a written U.S. Treasury-backed certificate specifying the level of guaranteed benefits. Furthermore, each American who reaches retirement age and applies for benefits should receive a similar contract.

2. **The financing for personal retirement accounts that are part of Social Security must be guaranteed and not dependent on future surpluses.** Using promised surpluses to fund Social Security reform is not sufficient. If the government overspends–as it has done routinely in recent decades–working Americans will lose their chance for a secure retirement. Instead, Congress should divert a portion of the taxes that Americans currently pay for Social Security retirement benefits into personal retirement accounts. It should have the surplus cover the short-term transition costs associated with this reform.

   Former Congressional Budget Office (CBO) director June O'Neill warned that the era of budget surpluses could be fairly short. Although everyone hopes that the projections of lasting budget surpluses are accurate, any long-term economic forecast is volatile. Just last August, CBO projected the aggregate surplus for fiscal years 1999 through 2008 to be $1.54 trillion. The January 1999 aggregate projections for the same

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period were $2.65 trillion, a 72 percent increase. Over the next few years, these forecasts could just as easily drop–especially given Congress's propensity to spend. When the inevitable economic slowdown hits, deficits likely will return. At that point, if Social Security personal retirement accounts depend on a surplus, Americans will be denied the opportunity to improve their retirement income.

3. **Americans must be able to use Social Security to build a nest egg for the future.** Americans should have more to show after a lifetime of work than just memories. They should be able to build up a nest egg in cash that can be used to increase their retirement income or to build a better economic future for their families.

   Today's Social Security system provides a stable level of retirement income and protects against catastrophic losses through Old-Age, Survivors and Disability Insurance. But it does not allow workers to accumulate cash savings for their own retirement goals or to pass on to their heirs. This gap needs to be filled. The best way to do this is to establish, as a part of Social Security, a system of personal retirement accounts that are financed with a portion of the existing taxes that now go for Social Security retirement benefits.

4. **Personal accounts must guarantee an adequate minimum income.** Seniors must be able to count on a reasonable and predictable level of monthly income, regardless of what happens in investment markets. Therefore, Congress should assure that every American has a personal retirement account with a retirement income that is at least equal to what he or she would have received from traditional Social Security. Moreover, any funds manager who participates in a system of personal retirement accounts must guarantee seniors that their retirement income will at least equal what they gave up in traditional benefits.

   These guarantees must be backed by insurance offered by private carriers and reinsured through a federal agency. Retirees whose personal retirement account includes enough money to exceed the guaranteed benefit should be allowed to increase the income they receive through an annuity, take the excess in cash, or leave the money to their heirs.

5. **For current workers, participation must be voluntary.** No one should be forced into a system of personal retirement accounts. Instead, current workers must be allowed to choose the retirement system in which they wish to participate. Americans who choose to divert part of their payroll tax into a personal retirement account should not be permitted to "double-dip." In other words, they should give up part of their traditional Social Security benefits in return for the higher earnings of a personal account. One way to accomplish this would be to require these workers to give up the proportion that is equal to the amount of tax diverted. Thus, if 20 percent of a worker's Social Security retirement taxes was diverted into a personal retirement account, that worker's monthly Social Security check would be reduced by 20 percent.

Real Social Security reform not only will protect current retirees' income, but also will provide higher retirement income for working Americans, regardless of whether Washington faces deficits or surpluses. The only effective way to ensure that Social Security provides this income is to allow workers to invest a portion of their payroll taxes in personal retirement accounts.

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