



# Executive Memorandum

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## THE WRONG SOCIAL SECURITY DEBATE: IT IS NOT ABOUT TRUST FUNDS

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The report by the trustees of the Old-Age and Survivors Insurance (OASI) trust fund issued March 30, 1999, forecasts that Social Security may not run out of its paper assets until 2034—two years later than last year's projection. But this emphasis on the trust fund fundamentally misses the point about Social Security's problems. The real question is not whether Social Security's trust fund is "solvent" for any specific period of time. The trust fund has no real assets; it has only IOU's that must be repaid by future taxpayers.

Instead, this debate should be about each American's personal retirement security. More specifically, Social Security should enable workers to share in the American Dream by making sure that everyone, no matter their income level, can participate fully in economic growth and build a retirement nest egg.

The sad reality is that, despite the trustees' finding that Social Security will be solvent longer than expected, the program's serious problems have not changed. Early in the next century, payroll taxes still will be insufficient to pay all of the benefits that have been promised. Moreover, the current program still provides a dismal rate of return on the taxes paid by millions of workers. Worse, it does not enable workers to build up investments and cash savings to supplement a monthly Social Security check.

Unfortunately, the trustees' report focuses on obscure accounting terms and the number of years

the OASI trust fund will be solvent. Such discussion is irrelevant. One of this century's most important debates for working Americans is so boring and obscure that even the experts cannot understand it.

- **Missing the Point.** "Saving" the OASI trust fund is fairly simple from an accountant's perspective. All one has to do is raise taxes or lower benefits to a certain level, and the Social Security retirement program could be solvent forever. Whether the program is "on budget" or "off budget," or whether the current surplus goes into a lockbox, makes no difference as far as the program's current failure to meet the needs of the average worker is concerned.

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Today's Social Security program is a bad deal for the average worker regardless of whether the trust fund is solvent for 15 years or 115 years. About three-quarters of all Americans pay more in Social Security taxes than they do in income

taxes. Comparing the total amount of Social Security retirement taxes paid over a working lifetime by a 30-year-old, two-earner couple, both of whom make average incomes, to what they will receive in benefits shows that they will earn the equivalent of only 1.2 percent a year. They could have \$525,000 more for their retirement if they were allowed to invest their Social Security taxes instead. It is even worse for younger workers and minorities. Today, a 25-year-old African-American male will receive \$13,400 less in benefits than he pays in taxes. He could have \$145,000 more if he were allowed to invest his taxes. For many workers, this is the only retirement plan they will have.

- **Missing the Lessons of the Three-Legged Stool.** Social Security was described by its architect, Franklin Roosevelt, as only one of three “legs” of the “retirement stool.” In addition to Social Security, retirement security was to be achieved from personal savings and private pensions supplied by employers. But for many Americans, this is not the reality.

After subtracting the amount of debt they owe, the average American family has savings of only about \$1,000. That is nowhere close to enough for retirement. The simple fact is that the 10.6 percent of income most workers pay for Social Security retirement benefits soaks up most of the money they otherwise could save. For most Americans faced with using a limited income to pay the mortgage or saving for an event 30 years in the future, the choice is simple. Less than half of American workers are covered by a private pension plan, and most of those who are covered earn above average income. Most lower and middle-income workers will have to rely on Social Security for retirement income.

- **Recreating the Roosevelt Vision.** Today’s Social Security does two important jobs adequately: It provides necessary protection for families when a worker is disabled or dies leaving a young family, and it provides a stable, if low, level of retirement income. These programs should be preserved, even though the Supreme

Court says that Congress has the authority to change or end them at any time.

However, Congress should act to create a third leg to the Social Security stool. It should allow all workers to build a financial nest egg for the future. The Social Security debate should be about giving all Americans the opportunity to amass wealth that can be used for higher retirement income, starting a small business, or providing better opportunities for children or grandchildren.

- **Building the American Dream.** Workers should have more to show for a lifetime of work than just memories, but Social Security’s high payroll taxes absorb the money that families otherwise could invest for retirement. Americans would be much better off if a portion of their Social Security retirement taxes went into personal retirement accounts that they own. In the unhappy event that they die before retirement, this money could be willed to their families.

Personal retirement accounts would allow more Americans to participate in the growth of the economy. Studies show that, over time, a mixed portfolio of half stocks and half super-safe government bonds earns an average of 5 percent a year. Although Social Security retirement taxes earn the equivalent of only 1.2 percent a year on average, in the past 12 months the S&P 500 stock index rose almost 21 percent, corporate bonds earned 6.4 percent, and even Series I U.S. Savings Bonds earned 5.05 percent. Wealthy Americans earn this much every day. It is time to allow workers of all income levels to share in this growth.

Congress should not waste its time on the wrong Social Security debate. Talking about trust funds will neither save Social Security nor raise anyone’s retirement standard of living. The Social Security debate should be about giving all Americans the opportunity to build a nest egg for the future.

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