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THE STRAIGHT TALK ABOUT SOCIAL SECURITY ACT: TELLING AMERICANS THE TRUTH ABOUT SOCIAL SECURITY BENEFITS

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The Straight Talk About Social Security Act (H.R. 634 and S. 354), introduced by Representatives Jim DeMint (R-SC) and Karen McCarthy (D-MO) and by Senator John McCain (R-AZ), would require the Social Security Administration (SSA) to provide far more useful information to working-age Americans through their personal benefit statements than is now the case. Similar legislation will be introduced by Representative John Sununu (R-NH) and Senator Rick Santorum (R-PA).

Specifically, proposed changes in the SSA's "Your Social Security Statement" (YSSS) required by these bills would give Americans user-friendly access to information previously hidden in highly technical publications of the SSA, Office of Management and Budget (OMB), and U.S. General Accounting Office (GAO). This would provide an accurate and unbiased assessment of Social Security's future and the true nature of its trust funds—information without which American workers cannot plan adequately for their retirements.

In addition, because they simply add existing information to a current product, the changes contemplated by H.R. 634 and S. 354 would cost little financially. However, they would encourage a more informed debate across America on the future of Social Security.

Americans' Lack of Knowledge About Social Security. Although Social Security is the government's most popular program, many Americans

know little about how it operates and how its benefits compare with the returns from other retirement investments. For example:

- **Millions** remain convinced that Social Security maintains a savings account in each of their names with money in it, even though there is no direct connection between the amount of taxes paid and the benefits an individual eventually receives in retirement.
- **Few** realize the low rate of return on Social Security retirement taxes. For example, a household of two working, 30-year-old earners with children averages a mere 1.2 percent.
- **Most** do not know that the trust funds consist only of IOUs and that, even if these are fully repaid with future taxes, Social Security will be insolvent by 2015 unless it is reformed.

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Giving Americans the Facts. For most Americans, the YSSS, which goes to 123 million workers annually, will be their sole source of official information on the benefits they should receive in retirement. Yet these statements downplay or omit important information about those benefits. They include an accounting of Social Security taxes the individual worker has paid to date, the worker's eligibility for benefits, and an estimate of the various types of benefits the worker and/or family could receive under different circumstances; but while workers are told that they will receive a specific dollar amount from Social Security, they are not told that the money may not be there for them. Nor are they given any idea of the return on their taxes.

Provisions in H.R. 634 and S. 354 are designed to ensure that workers receive a more complete picture of Social Security's financial future in their benefit statements. The proposed changes in the YSSS would inform workers about:

- **How Social Security's projected financial difficulties could affect payment of their benefits.** A general (and easily overlooked) paragraph on these problems is hidden at the end of a letter from the Social Security Commissioner, and the reference to Social Security's financial problems does not clearly state that these problems will apply to the individual worker and his or her personal benefits. Under the Straight Talk bill, the YSSS would inform workers that although benefit estimates are based on current law, Social Security's financial problems could cause it to pay less than that amount. A similar disclosure is required of underfunded private pension plans by the U.S. Department of Labor; Social Security would simply match this standard.
- **How Social Security's trust funds differ from private-sector trust funds.** In its fiscal year 2000 budget document, the OMB explained that the Social Security "trust funds" do not contain stocks, bonds, or other assets that could be sold directly for cash. Unlike private-sector trust funds, the Social Security trust funds contain only IOUs that will have to be paid back with future taxes. As the OMB noted:

These balances are available to finance future benefit payments...only in a book-keeping sense. They do not consist of real economic assets that can be drawn down in the future to fund benefits. Instead, they are claims on the Treasury that, when redeemed, will have to be financed by raising taxes, borrowing from the public, or reducing benefits, or other expenditures.

The Straight Talk bill would require the SSA to include similar text in future statements.

- **The estimated rate of return on Social Security retirement taxes paid.** The Straight Talk bill would require that the YSSS include a chart that plots implicit rates of return by birth year. Similar to a chart found in the GAO's August 1999 report on Social Security's rate of return, this chart would illustrate that the rate of return from Social Security has decreased both steadily and dramatically. Workers would see that unless the current system is reformed, they can expect a lower rate of return on their taxes paid than their parents and grandparents received. More important, they would see that their children and grandchildren will receive even less from Social Security in the future.

Conclusion. Working Americans should be told the truth about Social Security's financial future and its impact on the retirement benefits they expect to receive. As taxpayers, they should have a right to this information, which can be provided by the Social Security Administration at little or no cost. The additional information provided pursuant to H.R. 634, S. 354, and similar bills would go a long way toward enhancing the quality of the Social Security debate and enabling Americans to plan more realistically for their retirement years.

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