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A Commission Must Avoid the Wrong Social Security Debate: It's Not About Trust Funds

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As Congress and the White House turn to a commission for options to reform Social Security, many of these policymakers are focusing on the wrong issue. Their sole concern seems to be the state of Social Security's trust fund, and they see the sole objective of reform as increasing its size and extending the date when it will run out of its paper assets. This emphasis misses the fundamental 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 is an accounting device and has no real assets; it has only IOUs that must be repaid by future taxpayers. Instead, the question is how to ensure that every American, regardless of income level, has a secure retirement nest egg. The aim for a Social Security commission and congressional action should be to improve each American's personal retirement security. The only way to accomplish this is to implement President Bush's proposal to provide younger workers with the opportunity to invest part of their Social Security taxes in personal retirement accounts.

The sad reality is that, despite the recent trustees' report that Social Security will be solvent a little longer than expected, the program's serious problems have not changed. Far too soon, payroll taxes will be insufficient to pay all of the benefits that have been promised. Millions of workers still receive a dismal rate of return on their Social Security retirement taxes. Worse, the current program does not enable workers to build up investments and cash savings to supplement a monthly Social Security check.

Solving these problems should be the focus for President Bush's commission and for Members of Congress during the ensuing debate. Otherwise, a real opportunity to improve the lives of future retirees will be missed.

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- **Missing the Point.** "Saving" the Social Security trust fund is fairly simple from an accountant's perspective. All one has to do is raise taxes or lower benefits, 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 or not, makes no difference as far as the program's failure to meet the needs of average workers is concerned.

Today's Social Security program is a bad deal for average workers regardless of whether the trust fund is solvent for 15 years or 115 years. 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 in retirement shows that they will receive the equivalent of only a 1.2 percent return a year. If they were allowed to invest their Social Security taxes instead, they could have $525,000 more for their retirement. The situation 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 will pay in taxes. He could have $145,000 more if he were allowed to invest a portion of his taxes. Unfortunately, Social Security is the only retirement plan many workers will have.

- **Missing the Lessons of the Three-Legged Stool.** Since the time of Franklin Roosevelt, Social Security has been described 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. For many Americans, this is not the reality.

  Less than half of American workers are covered by private pension plans, and most of those who are covered earn above-average incomes. Most lower and middle-income workers will have to rely on Social Security for retirement income. Also, after subtracting the debt they owe, the average American family has savings of only about $1,000—far short of what they will need for retirement. Most Americans, faced with the choice of using their limited income to pay the mortgage or to save for an event 30 years in the future, will choose the former. The fact is that the 10.6 percent of the income most workers pay for Social Security retirement benefits soaks up most of the income they otherwise could save.

- **Re-creating the Roosevelt Vision.** Today's Social Security does two important jobs adequately: It provides necessary income protection when a worker is disabled or dies leaving a young family, and it provides a stable, if low, level of retirement income. These features 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 create a third leg to the Social Security stool that would give Americans the opportunity to build wealth they can use for higher retirement income, starting a small business, or providing better opportunities for children or grandchildren.

- **Building the American Dream.** 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 died before retirement, this money could be willed to their families. 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. This compares to Social Security's average 1.2 percent annual real growth for an average 30-year-old working family. Even Series I U.S. Savings Bonds earn 3.4 percent after inflation. Wealthy Americans earn at least this much every day. It is time to allow workers of all income levels to share in this growth.

Conclusion. Neither Congress nor President Bush's commission should waste time arguing 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 focus on the best way to give all Americans the opportunity to build their nest eggs for the future.

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