



Executive Memorandum

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GUARANTEERING RETIREES' SOCIAL SECURITY BENEFITS: AN IMPORTANT FIRST STEP TOWARD REFORM

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Social Security reform will not affect today's senior citizens. The program has more than enough resources to pay them full benefits for the rest of their lives. But one of the most troubling aspects of the debate over reforming the Social Security system has been an attempt by opponents of reform to scare senior citizens into believing that their benefits will be cut, and polling results indicate that seniors are worried. Congress can and should provide senior citizens with assurance that they have nothing to fear from Social Security reform by guaranteeing their benefits in writing.

Legislation That Would Create a Guarantee. Legislation now before Congress would establish such written guarantees. Senator Tim Hutchinson (R-AR) and Representative Walter Jones (R-NC), for example, have introduced the Social Security Benefits Guarantee Act (S. 806 and H.R. 832). Senator Rick Santorum (R-PA) and Representative Jim DeMint (R-SC) have introduced similar legislation (S. 1558 and H.R. 3135).

These bills would require the Secretary of the Treasury to issue certificates to all current recipients of Social Security retirement benefits, guaranteeing that they will continue to receive their monthly benefit and an accurate annual cost-of-living increase. Benefits would continue to be paid through Social Security trust funds. Workers who are already receiving benefits would receive a certificate soon after such legislation is signed. Upon being approved to receive benefits, new retirees would receive certificates guaranteeing the benefits

that were in effect at the time they retired plus an accurate annual cost-of-living adjustment.

Is This a Real Guarantee? The guarantees would be real and legally binding, with Congress making an explicit promise in writing that it will not reduce retirees' benefits. Current law states that anyone who meets the requirements to receive Social Security benefits has a legal right to the level of benefits for which he or she qualifies. However, Congress has never before explicitly guaranteed each recipient's exact benefit level. Its failure to do so has made it easier in the past for Congress to erode the value of benefits paid to the elderly.

A written guarantee of benefits would encourage accountability and make it much harder for a future Congress to reduce retirees' benefits. Guarantees will allow retirees to compare the amount on their certificates with their monthly checks and thereby be alerted to subtle changes in their benefits. While guarantees would not eliminate the possibility that a future Congress might pass legislation to reduce the Social Security benefits of those who have already retired, the

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explicit written nature of the guarantee would ensure that such a move would have severe political implications.

What the Guarantee Does Not Do. Guarantees would not affect the trust fund or make reform more expensive. Social Security benefits would continue to be paid through the trust funds. When those trust funds run out, Congress will face tough decisions regarding such options as raising taxes or increasing borrowing in order to keep paying promised benefits. With every year that Congress delays serious Social Security reform, the task of finding ways to keep its promises to future retirees will get harder. While no serious reform plan calls for cutting current retirees' benefits, even with guarantees, Congress could still change the benefit levels of younger workers if it chose to do so. If Congress fails to establish personal retirement accounts or to take other steps that will substantially improve the ability of the system to pay benefits to younger workers, it may have no option other than reducing their Social Security benefits at some point before they retire.

Why the Guarantee Covers Only Retirees. Social Security is different from other government programs in that it promises workers an explicit level of monthly benefits upon retirement in return for their payment of a specific tax. The exact amount of benefits payable can be calculated only when a retiree's earnings record is complete and he or she has actually applied for benefits. Before then, any benefit predictions are only estimates. Actual benefit levels could change as the worker's annual earnings rise and fall. For this reason, the guarantees cannot be offered to workers who are still in the labor force. However, contrary to SSA Commissioner Joanne Barnhart's expressed concern, workers approaching retirement age need not be worried if they do not receive the guarantees that would be sent to retirees. Those older workers would continue to receive an annual "Your Social Security Statement" that projects the benefits they could

expect based on their earnings record up until that point.

Nevertheless, the proposed guarantees are not a substitute for reform. They do not magically create assets that would be available to pay retirement benefits to younger workers. If a Member of Congress were to propose extending guarantees to all workers, it would be his or her responsibility to include in the same bill a way to pay for those benefits.

Some say that if guarantees make sense for Social Security, they should also be provided for recipients of Medicare. However, Medicare is a completely different system. It does not promise to pay an explicit and limited financial benefit level in return for taxes, and it does not pay benefits to individual workers in a predictable stream of monthly payments. Rather, it pays a service benefit when necessitated by a beneficiary's health needs. It would be extremely difficult to predict health care needs or the costs of treatment. For example, two doctors may treat a chest infection in completely different ways. In addition, both the cost of treatment and the available level of technology are in a constant state of flux. The treatments available to a retiree today, or in the future, may not have existed when he or she first retired and could not have been anticipated in a guarantee certificate. In sum, guaranteeing a specified amount of health benefits for each recipient would be an impossible task.

Conclusion. Congress faces a critical decision. It can assure the elderly that they have nothing to fear from Social Security reform by establishing written guarantees that their benefits will be paid. Alternatively, it can leave retirees vulnerable to exploitation by those who would frustrate efforts to reform the system. America's senior citizens deserve the peace of mind that guarantees will provide.

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