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Why Reforming Social Security Is Not About Saving the Trust Fund

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As Members of Congress continue to discuss how best to reform Social Security, many 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 policymakers should be asking is how to ensure that every American, regardless of income level, has a secure retirement nest egg.

Any debate about Social Security's future should be about how to improve each American's personal retirement security. The only way to accomplish this is to implement President George W. 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, regardless of when Social Security's trust fund runs out or when the program begins to run cash flow deficits, its future fiscal problems have not been addressed. Far too soon, payroll taxes will be insufficient to pay all of the benefits that have been promised. Even now, millions of workers receive a dismal rate of return on their Social Security retirement taxes. Making matters worse, the current program does not enable workers to build up investments and cash savings to supplement their monthly Social Security checks.

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Solving these problems should be the focus of the coming debate. If it is not, both President Bush and Members of Congress will have lost a real opportunity to improve the lives of America's future retirees.

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. Decisions as to whether the program is "on budget" or "off budget," or whether the current surplus goes into a lockbox or not, will have no effect on the program's failure to meet the needs of average workers.

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 their taxes will "earn" the equivalent of only a 1.2 percent return per year. If they were allowed instead to invest their Social Security taxes, 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. Regrettably, Social Security is the only retirement plan many workers have.

Missing the Lessons of the Three-Legged Stool. Since the time of President Franklin D. 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 through personal savings and private pensions supplied by employers. For many Americans, this is not the reality.

Only about half of American workers are covered by private pension plans, and most of those who are covered earn above-average incomes. Most lower-income and middle-income workers will have to rely solely on Social Security for retirement income. After subtracting the debts they owe, the average American family has savings of only about $1,000—far short of what they will need for retirement. When faced with the choice of using their limited income to pay the mortgage or to save for an event 30 years in the future, most Americans will choose to pay the mortgage. The fact is that the 10.6 percent of their income that most workers pay for Social Security retirement benefits soaks up most of the money that 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 also create a third leg to the retirement stool by reforming Social Security to give Americans the opportunity to build wealth that they can use to increase their retirement income, start a small business, or provide better opportunities for their 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. Should they die before retirement, this money could be willed to their families.

Studies show that, over time, a mixed portfolio comprised half of stocks and half of super-safe government bonds earns an average of 5 percent a year after inflation. This compares to Social Security's average 1.2 percent annual real growth for an average 30-year-old working couple. 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 should waste time arguing in 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 nest eggs for the future.

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