



# Executive Memorandum

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

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The Straight Talk About Social Security Act (H.R. 722 and S. 368), introduced by Representatives Jim DeMint (R–SC) and Karen McCarthy (D–MO) and by Senators John McCain (R–AZ) and Lindsay Graham (R–SC), would require the Social Security Administration (SSA) to provide far more useful information to working-age Americans through their personal benefit statements than it currently does. Similar legislation will be introduced by 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 that is essential for American workers to plan adequately for their retirements.

In addition, because they simply add existing information to a current product, the changes proposed in H.R. 722 and S. 368 would cost little. However, they would engender a more informed debate across America on the future of Social Security.

**Americans' Lack of Knowledge About Social Security.** Although Social Security is the govern-

ment'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, while, in fact, there is no direct connection between the amount of taxes paid and the benefits an individual eventually receives in retirement.
- Few realize how low the rate of return on Social Security retirement taxes is. For example, the average rate of return for a household of two, working, 30-year-old earners with children is a mere 1.2 percent.
- Most do not know that the trust funds consist only of IOUs or that trillions of dollars in additional taxes will have to be collected to repay these IOUs. Even with those additional funds,

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found at: [www.heritage.org/  
research/socialsecurity/em866.cfm](http://www.heritage.org/research/socialsecurity/em866.cfm)

Social Security will be unable to pay full benefits to anyone born after 1974 unless the system is reformed.

**Giving Americans the Facts.** For most Americans, the YSSS, which goes to 123 million workers annually, is their sole source of official information on the benefits they should receive in retirement. Yet these statements downplay or omit important information about Social Security's future. The statements 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. However, while workers are told that a specific dollar amount from Social Security is due to them, they are not told that the money may not be there when they retire. Nor are they given any idea of what the rate of return on their taxes will be.

Provisions in H.R. 722 and S. 368 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 tucked away in a letter from the Social Security Commissioner, and the reference to Social Security's financial problems does not clearly state that these problems will affect the individual worker and his or her personal benefits. Under the Straight Talk bill, the YSSS would more clearly and directly inform workers that, although benefit estimates are based on current law, Social Security's financial problems could result in benefits that are less than that amount. The U.S. Department of Labor requires a similar disclosure of underfunded private pension plans; Social Security would simply be required to meet 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 con-

tain 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 bookkeeping 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 been decreasing steadily and dramatically. Workers would see that, unless the current system is reformed, they can expect a lower rate of return on the taxes they 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 can expect to receive. As taxpayers, they have a right to this information, which the Social Security Administration can provide to them at little or no cost. The additional facts required by H.R. 722, S. 368, 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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