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Social Security Reform - Q & A

The following includes selected questions Members may face from constituents and the media when addressing the subject of Social Security Reform. Following each question is a suggested answer.

Is Social Security in crisis?

No, Social Security does not face an immediate crisis today. However, the time-bomb is ticking and the longer we wait the more difficult it will be to implement real and meaningful Social Security reform policy. For once, I am pleased that Congress is addressing a problem in a proactive fashion rather than reactive. We have a unique opportunity to begin addressing the problems plaguing Social Security today.

Even the President's Advisory Council agrees. The Council which introduced three different Social Security reform options agreed on one point: reform is needed sooner rather than later.

Ignoring the impending Social Security problems will harm the American people. If we delay reform, we shorten the time needed by the American people to accumulate savings and adjust their plans for retirement. Any changes should be made while the baby boomer generation is still in the work force and has time to make adjustments.

What's causing the future crisis?

The future crisis is caused by the demographic realities this country and the world will confront in the very near future. It has nothing to do with foreign aid, Social Security fraud and abuse or the tightening up of Social Security eligibility. However, Congress has cracked down on fraud and abuse in Social Security and Medicare and we have tightened eligibility for SSI, eliminating benefits for drug users and alcoholics.

The good news is that Americans are living longer. The bad news is that this demographic trend will result in a huge unfunded liability for Social Security. In just this century, life expectancy at birth has increased 38 years. Today's 65-year-old lives 50 percent longer than seniors did during the 1930s. Simply put, life expectancy has increased while the retirement age has remained constant. In 1935, the Social Security retirement age was 65; life expectancy at that time was 64. Today, the Social Security retirement age is still 65, but the average life expectancy is 76. And, by 2030, life expectancy is expected to approach 80.

Declining birthrates also contribute to Social Security's future crisis. The baby boom generation was followed by the baby bust generation. In 1950, there were sixteen workers for every one beneficiary; that means sixteen workers' payroll taxes helped to pay for one Social Security beneficiary. Today, there are 3.3 workers for every one beneficiary. And by 2030, there will only be two workers per beneficiary.

The Social Security program is designed as a pay-as-you-go. The benefits seniors receive today are paid for by payroll taxes taken out of the checks of younger workers. If people live longer, there are more retirees being supported by fewer workers. If the birth rate falls, there are fewer workers paying for more retirees.

Why are you messing with my money? I paid money into the fund and I intend to get my money out of the fund.

Current Social Security beneficiaries will get back all of the payroll taxes they paid into the Social Security program - - and more. The problem is that future beneficiaries will not. The average wage earner that retired in 1980 got back all of his and his employer's payroll tax contributions in less than 3 years; a low-wage worker 2 years. And the average wage earner that retirees in 1996 will get back his and his employer's payroll contribution in less than 14 years; a low-wage worker 9 years.

However, the problem is for future beneficiaries. Workers who retire after 2015 will not get back everything they and their employer contributed to the program for at least 23 years. This scenario is even bleaker for future retirees if long-term benefit reductions are enacted.

Wouldn't Social Security be just fine if the government hadn't raided the trust fund?

Since 1983, the federal government has ***borrowed*** the money in the Social Security trust fund and used it to pay for government programs such as education, defense, and veterans benefits among others. Currently, the Social Security trust fund is filled with IOUs. And, those IOUs will be redeemed ***with interest***. Unfortunately, those funds have not been invested, other than in Treasury bonds, but rather, they have been spent by the federal government.

It is time that we stop using payroll taxes for government spending and start devoting those funds to a new and improved Social Security system. We need to give payroll tax dollars back to wage earners through personal retirement accounts so workers can better save for their retirement.

What has government done in the past to keep the system solvent?

The solutions in the past have been to increase taxes. However, this is no longer acceptable. Since its inception, Congress has continuously overextended the Social Security program, paying for it by increasing payroll taxes. As a matter of fact, the Social Security payroll tax has been increased more than 20 times since 1937.

When Social Security was started in 1935, the Social Security payroll tax rate was 2% of income up to $3,500 -- divided evenly between employer and employee. Today, payroll taxes, which now include disability and Medicare, total 15.3% on the first $68,400 of income. **And in fact, some reports have shown that 71% of American workers pay more in payroll taxes than in income taxes**.

Social Security reform must be more than just raising taxes on today's workers. We need to ensure that future generations enjoy retirement benefits which are comparable, if not better, to those of today's retirees. We cannot continue to levy higher payroll taxes on current workers. Any reform option must restore the promise that Social Security will be there for not only current beneficiaries, but for future generations as well.

What are the solutions to keep Social Security solvent?

Ultimately, we have three choices to reform our ailing Social Security program. We can increase payroll taxes on today's workers, decrease benefits for today's retirees, or restructure the Social Security program without harming today's beneficiaries and ensuring retirement security for tomorrow's beneficiaries.

Last year, the President's Advisory Council on Social Security developed three Social Security reform proposals that take advantage of the growing number of opportunities to invest in private-sector stock options. It is important to note that two of the proposals included some element of personal retirement accounts for individuals to invest in the stock market.

The first option known as the **Maintenance of Benefits** plan would allow the federal government to divert 40% of the Social Security Trust Fund surplus in private equities. The second option, the **Individual Accounts** plan, would establish a mandatory defined contribution element to an employee's account , this would be funded by a 1.6% payroll tax increase. The last option, the **Personal Savings Account** would allow individuals to invest 5 percent of their payroll taxes into a Personal Savings Account.

The PSA would establish a two-tiered retirement system for workers under the age of 55. The first tier would be a flat benefit equal to two-thirds of the poverty level. The second tier would come from the individual account. This option would increase payroll taxes by 1.42 percent.

Why personal retirement accounts? Set up to run like a 401(k), IRA or the government's Thrift Savings Plan personal retirement accounts would allow for a greater return in comparison to Social Security's current return. This program expands freedom and responsibility and gives individuals greater opportunity to create more wealth.

What have other countries done to address this issue?

Most countries are confronted with an impending retirement security problem. Increased life expectancy will require governments to pay benefits to more seniors for longer periods of time.

In 1981, **Chile** completely replaced its pay-as-you-go Social Security system with a defined contribution system based on individually owned, privately invested accounts. Instead of paying payroll taxes to the government, workers are required to contribute 10 percent of their income to personal security accounts (PSAs). These accounts are invested by private sector managers in a diversified portfolio of stocks and bonds. The government regulates the types of investment allowed and guarantees a minimum level of retirement benefit. Workers were given the choice of moving to the new system or staying in the old Social Security system. Those workers who moved to the new system received a "recognition bond," reimbursing them for taxes paid under the old system. Those retirees receiving benefits under the old system were guaranteed their benefits with no reduction.

Great Britain has established a public-private or two-tiered retirement program for its workforce. The first tier entitles a wage earner to a basic pension which depends on the individual's contribution record, but not his earnings. The second tier allows each British citizen to participate in a government-run Social-Security-earnings-related-pension (SERPS) or opt out of the SERPS program and purchase an occupational pension or personal pension plan.

Other countries that have used the market to increase savings and shore up retirement security include: Mexico, Peru, Argentina, Australia, Columbia, Uruguay, Singapore, Hungary, and Poland.

Isn't this whole privatization scheme some sort of plan by Wall Street to make more money off of my money?

While privatization is a scary concept to many, the need to reform Social Security is very real. Social Security reform has nothing to do with Wall Street trying to make

more money. The fact of the matter is , we will not jeopardize the unique safety net that Social Security provides. Ultimately, there will probably be some kind of two tiered program which makes use of the market and the powerful nature of compound interest to create more wealth and a minimum floor benefit which will provide a safety net for all Americans.

We want to create individual wealth to ensure a secure retirement for all Americans. Last year, the President's Advisory Council on Social Security developed three Social Security reform proposals that take advantage of the growing number of opportunities to invest in private-sector stock options. ***All three plans included some sort of public/private partnership, and two of the proposals included some form of personal retirement accounts.***

How are you going to pay for the transition costs associated with changing the program?

This is the most difficult question to answer. And, the transition cost is one of the reasons we need to initiate reform sooner rather than later. The longer we wait, the more expensive reform becomes.

However, in this new climate of budget surpluses, we have a unique window of opportunity to restructure Social Security. We can make Social Security solvent for years to come and we can create more wealth for all Americans to ensure real retirement security.

Won't it cost more to run a privatized system?

Actually, no. The Social Security Administration is the most efficient government-run program. Administrative costs for SSA is around 1%. If we were to move toward some sort of public-private partnership and create personal retirement accounts, it would likely be structured along the lines of the federal government's Thrift Savings Plan. You would own your personal retirement account, which would be administered through the Social Security Administration or similar government agency.