

# **STATEMENT OF THE CONCORD COALITION**



## **TO THE PRESIDENT'S COMMISSION TO STRENGTHEN SOCIAL SECURITY**

**AUGUST 2001**

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**STATEMENT OF THE CONCORD COALITION**  
**TO THE**  
**PRESIDENT’S COMMISSION TO STRENGTHEN SOCIAL SECURITY**  
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**I. Overview**

The Concord Coalition heartily welcomes the effort of this Commission to strengthen Social Security for future generations. We stand ready to assist you in producing a credible plan for dealing with Social Security’s long-term challenges in a fiscally responsible and generationally fair manner.

The interim report of the Commission makes a compelling case for swift action to close Social Security’s long-term financing gap. At the same time, it highlights the importance of ensuring that reform results in increased national savings. The next crucial step is to devise a credible solution that meets the challenges set out in the interim report. Overall, reform must retain Social Security’s beneficial effects for retired and disabled people without overwhelming workers’ paychecks, the budget, or the economy.

The Concord Coalition has devoted much of its time and resources to promoting bipartisan dialogue on the key long-term challenges facing Social Security, and evaluating potential solutions. Three conclusions stand out:

**Conclusion #1 — Changing demographics make the current pay-as-you-go system fiscally unsustainable.**

- As recently as 1960 there were 5 workers for each Social Security beneficiary. Today the ratio is 3.4 workers for each beneficiary. As the huge Baby Boom generation retires the ratio will fall to 2 to 1.
- This dynamic will have a profound effect on the system’s fiscal sustainability. Social Security will generate ample surpluses for the next several years. But in 2008, the year the first baby boomers will qualify for benefits, the annual cash surplus will begin to shrink, and by 2016 the trustees project that Social Security’s cash flow will turn negative.
- From 2016 through 2038 Social Security will need to draw upon interest income and eventually liquidation of its trust fund assets—special issue Treasury bonds—to pay benefits. In 2038 the

trust fund will be depleted, leaving Social Security with enough annual income to pay just 73 percent of benefits.

- Redeeming Social Security's trust fund assets will have an impact on the rest of the budget because these assets are also liabilities to the Treasury. To come up with the money for Social Security, Treasury will have to cut other spending, raise taxes, use any surpluses that may exist, or borrow from the public.
- Between 2016 and 2038, the year of projected trust fund insolvency, the system faces a cumulative cash deficit of more than \$4 trillion in today's dollars.
- By 2038 the *annual* cash deficit will reach \$330 billion in today's dollars — an amount roughly the size of this year's entire budget for national defense.
- Closing the gap that year would require a Social Security payroll tax hike of 40 percent or a nearly 30 percent cut in benefits.
- Over the trustees' 75-year horizon Social Security's cash deficit of \$22 trillion in today's dollars far outweighs the cash surplus of roughly \$1 trillion through 2016, and the cash plus interest surplus of \$3.7 trillion through 2025.
- As a percentage of the economy Social Security will grow from 4.17% today to 6.6% in 2038.
- More importantly, this growth in Social Security's cost will take place in the context of rising costs for other senior entitlements. The combined cost of Social Security, Medicare, and Medicaid will grow from less than 10 percent of the economy today to over 20 percent by 2050. And this assumes no additions to the current programs.

**Conclusion #2 — Increasing savings to address the looming challenge is essential.**

- The Social Security challenge is really a savings challenge. Real resources must be set aside to meet the huge retirement and health care costs associated with the coming "senior boom."
- A workable reform plan should pursue two strategies.
- First, reform should ensure Social Security's fiscal sustainability by reducing its long-term costs.
- Second, it should make the remaining costs more affordable by increasing national savings, and hence the size of tomorrow's economic pie.
- Increasing savings requires hard choices. Simply counting on robust stock market returns, or presumed fiscal dividends from reform itself, is not a realistic solution.
- There is no free lunch solution. Each reform option involves trade-offs and each comes with a fiscal and political price, regardless of whether it aims to prop up the existing pay-as-you-go system or aims at transitioning to a partially prefunded system.

### **Conclusion #3 — Generational responsibility requires that prompt action be taken.**

- The rationale for reforming Social Security now has nothing to do with today's retirees or those who are about to retire. For them, there is no crisis.
- What's at stake is the retirement security of future generations — those who have many working years ahead, or who have yet to enter the workforce. For them, doing nothing is the worst option.
- The issue is what makes sense for the world of 2035, not what made sense in the world of 1935.
- The longer reform is delayed, the worse the problems inherent in the current system will become and the more difficult they will be to remedy.
- Delay risks losing the opportunity to act while the baby boom generation is still in its peak earning years, and the trust fund is running an ample cash surplus.
- Squandering this opportunity would be an act of generational irresponsibility.

## II. Putting Social Security reform in context

Social Security does not exist in a vacuum. The problems it will face in the future are part of a much larger retirement security challenge. And, to be clear, the retirement security challenge is not just to find some extra cash for Social Security. The challenge is to prepare for the demographic tidal wave that will transform our work lives, our health care system, our economy, and our culture.

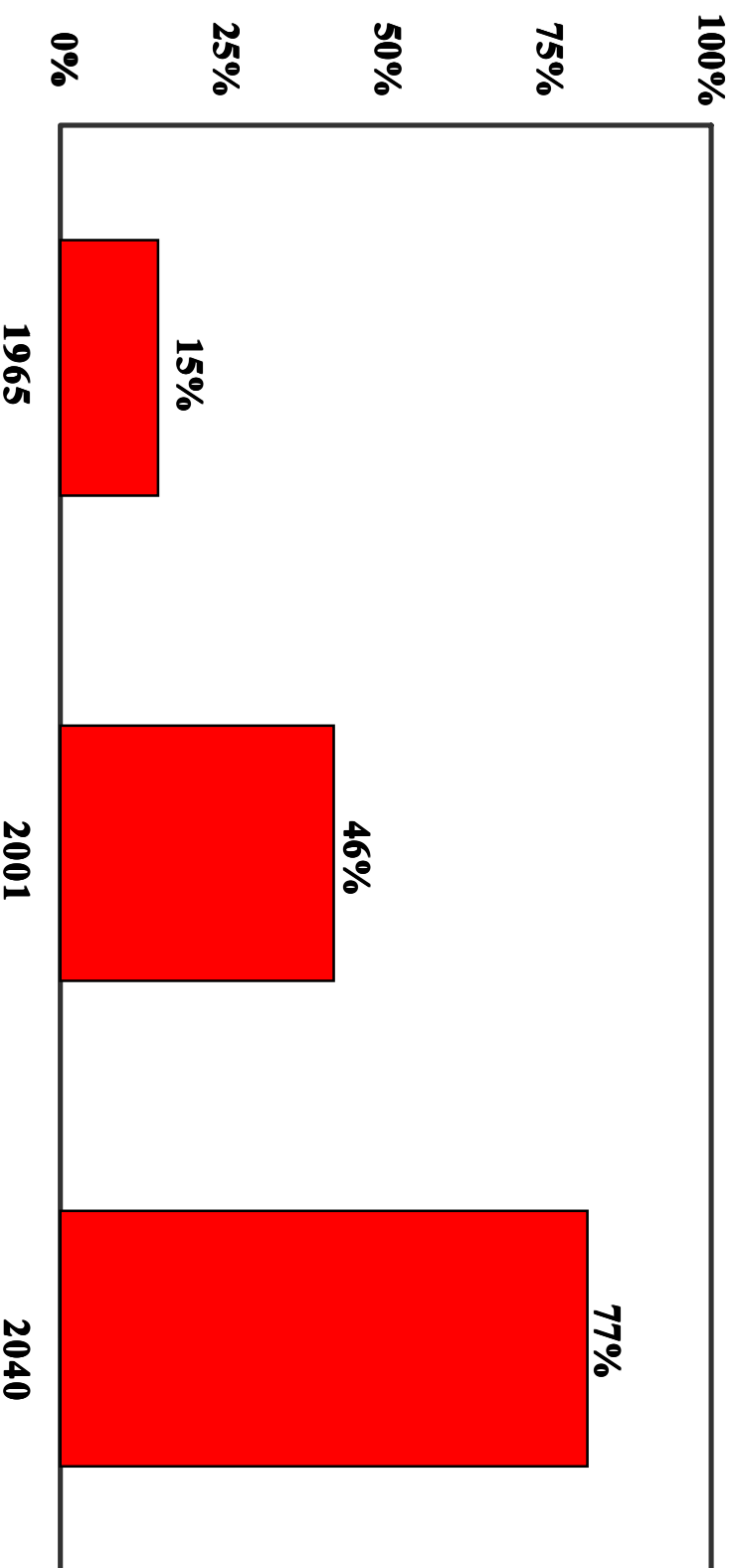
The truth is that America, along with the rest of the developed world, is about to undergo an unprecedented demographic transformation for whose vast cost it has no idea how to pay. Now is the time to begin preparing for the aging of America by designing a retirement system that is both more secure for the old and less burdensome for the young. Demographic and economic circumstances will never again be so favorable for Social Security reform. With a small (Depression) generation in retirement and a large (Baby Boom) generation still in the workforce, America is enjoying a kind of “Demographic Indian Summer.” However, this window of opportunity is rapidly closing.

The prosperity of recent years has been very welcome. But it has not delayed the coming age wave. Nor has it erased the projected growth in senior benefit costs.

- By 2040, according to current projections, Social Security, Medicare, and Medicaid (whose expected cost growth is due almost entirely to nursing home care) will consume roughly 80 percent of federal budget outlays.
- Since the mid-1990s, the officially projected cost of Social Security as a share of taxable payroll has actually *increased* in every year beyond 2030.
- In November 1999, the Technical Panel of the Social Security Advisory Board warned that the official projections might greatly underestimate future longevity, and hence future costs.
- Following the recommendation of an official technical panel, the Trustees this year increased their projection of Medicare’s long-term cost rate by a staggering 60 percent.

If we reform Social Security today, the changes can be gradual and give everybody plenty of time to adjust and prepare. If we wait much longer, change will come anyway—but it is more likely to be sudden and arrive in the midst of economic and political crisis.

# Senior Benefits Threaten to Crowd all Other Priorities Out of the Budget--From Education to Defense



**Spending on Social Security, Medicare, and Medicaid,  
as a percent of non-interest outlays**

*Source: Analytical Perspective, Budget of  
the United States, Fiscal Year 2002, page 24.*

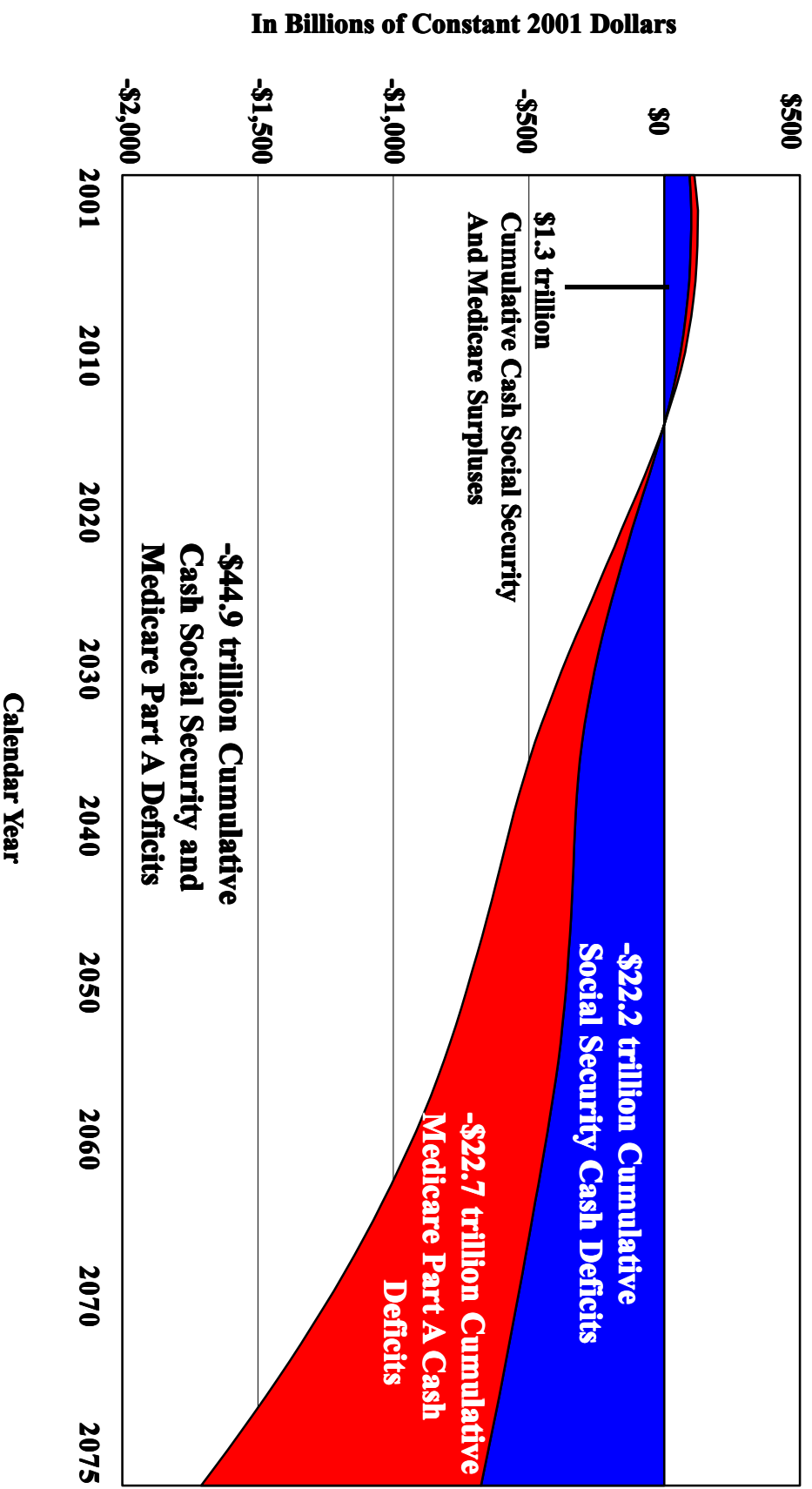
This chart assumes that total government spending  
will equal 15.9 percent of GDP in 2001 and 18.3  
percent of GDP in 2040.

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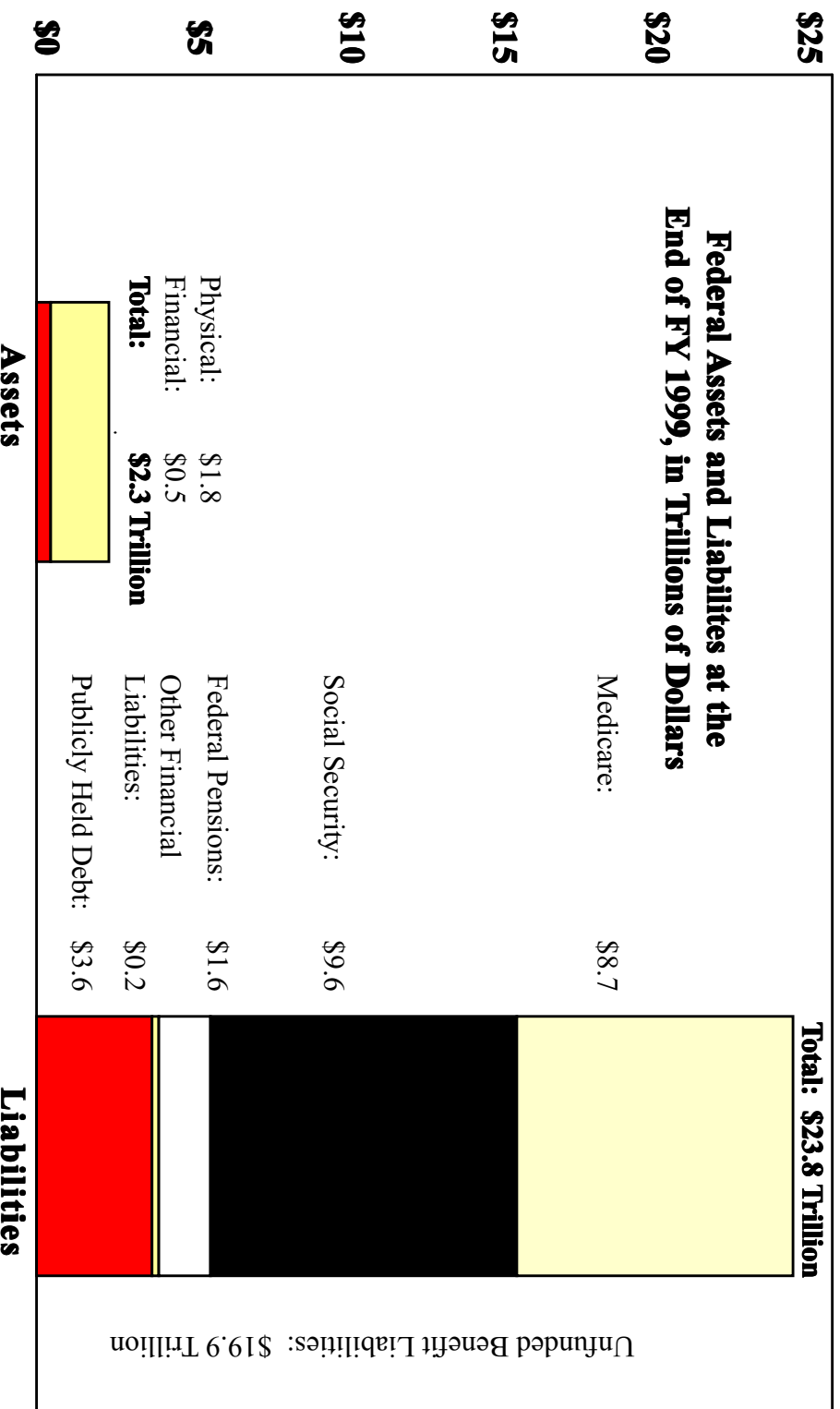


# Social Security and Medicare Part A Cumulative Cash Deficits (In Constant 2001 Dollars, 2001-2075)



Source: Social Security Trustees' Report, March 2001--Intermediate Projections.

# Beyond our Official National Debt, We have Accumulated a \$20 Trillion Mountain of Unfunded Benefit Liabilities.



Source: OMB and SSA

All figures are discounted to present value at the end of fiscal year 1999.

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### **III. Why reform is necessary**

For over 60 years Social Security has provided a vital floor of protection. Its broad range of retirement, disability, and survivors' benefits for millions of Americans makes it an important issue for people of all ages. But Social Security's future is neither as bright nor as secure as its past. Changing demographics render the current pay-as-you-go system fiscally unsustainable and generationally inequitable over the long-term. Reversing this trend will require facing up to some hard choices and making far-sighted decisions.

In assessing the case for Social Security reform, it is important to remember why the issue is on the political agenda. There are five major reasons:

#### **1. Social Security will impose a mounting fiscal and economic burden long before its official trust fund bankruptcy.**

- According to the program's Trustees, annual benefits will exceed annual tax revenues by a widening margin beginning in 2016, long before the projected trust fund bankruptcy in 2038
- Once Social Security starts running cash deficits in 2016, it will have to redeem its trust-fund assets if it is to continue paying promised benefits.
- But these assets—special issue Treasury bonds—are essentially IOUs from the government to itself. The same bonds that are assets to Social Security are liabilities to the Treasury, which means all of us. To come up with the cash to honor these obligations, Congress will have to raise taxes, cut other federal spending, borrow from the public, or consume any surpluses that may exist.
- These are exactly the same choices lawmakers would face in 2016 if the trust funds didn't exist.
- From 2016 to 2038, while Social Security is still technically solvent, the Treasury will have to come up with over \$4 trillion in today's dollars to redeem the trust fund assets.
- During this same 22 years period taxpayers will also have to come up with over \$2 trillion in today's dollars to cover the projected cash shortfalls in the Medicare Hospital Insurance trust fund.
- The cumulative cash deficits over the Trustees' traditional 75-year horizon amounts to roughly \$22 trillion in today's dollars. Adding Medicare to this calculation yields a cumulative projected deficit of over \$44 trillion.

## **2. Absent reform, the current system will lead to steep tax hikes or big benefit cuts.**

- So long as the trust funds possess assets Social Security has the budget authority to pay promised benefits. Once they are insolvent benefits will have to be cut unless new revenue is raised and allocated to the trust funds.
- The required benefit cuts or tax increases are very large.
- If the status quo is maintained today's typical 35 year-old can expect to get just 87 cents of every dollar in promised benefits; today's 25 year-old can expect just 72 cents.
- The alternative to a big benefit cut is a steep tax increase.
- By 2038, the projected date of trust fund insolvency, Social Security is projected to cost 17.8 percent of payroll — an increase of 70 percent over today's cost (10.5 percent).
- Paying full promised benefits in that year would require a payroll tax increase of roughly 40 percent over today's rate (12.4 percent).
- Thereafter, provided current law benefit promises are not reduced, that burden will continue to rise—all the way to 19.4 percent of payroll by 2075, the Trustees' time horizon.

## **3. Social Security's pay-as-you-go structure undermines savings.**

- Beyond fiscal sustainability, pay-as-you-go financing poses a more basic problem for an aging society: maintaining an adequate level of national savings.
- In the first place, Social Security's widening cash deficits threaten to trigger a huge new run-up in the publicly-held debt starting in the 2010s. If the projected Social Security cash deficits have to be deficit financed the cost to taxpayers will swell by another \$6 trillion in today's dollars through 2038 due to the added interest cost.
- Moreover, economists widely believe that Social Security's pay-as-you-go structure discourages household savings, and hence capital formation, because it promises households future benefit income while creating no real economic resources to generate that income. As a result, households put less into other (fully funded) forms of savings.

## **4. The rate of return on payroll contributions, or "moneysworth," will continue to decline under the current system.**

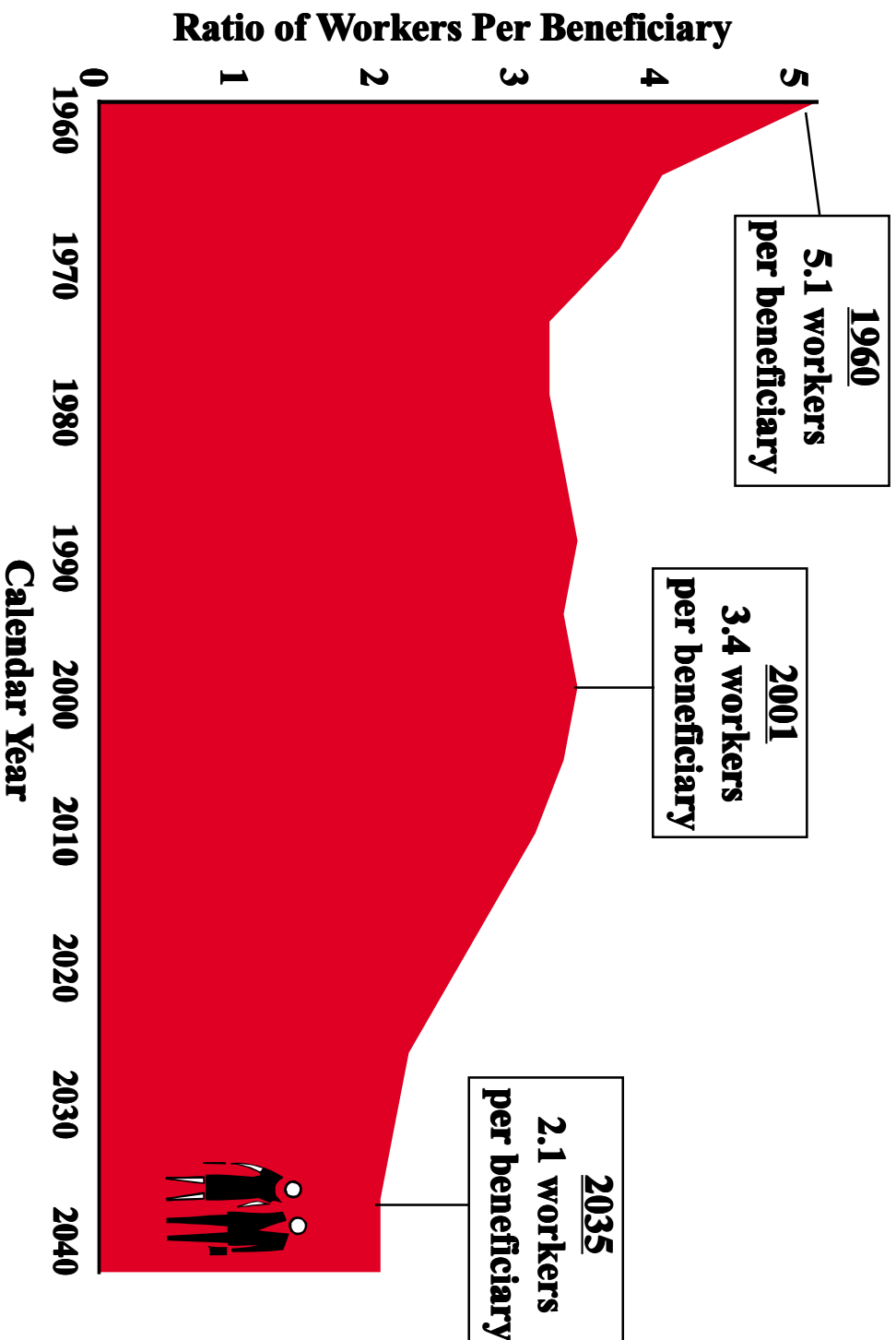
- A fair return on contributions, "individual equity," is basic to the public's understanding of Social Security. But today, for the first time in the history of the program, large categories of newly retiring workers are due to get back less than the market value of prior contributions.

- Social Security does and should provide a better deal to some categories of workers, especially low-earners. But among today's younger Americans, virtually all categories — including the favored categories — will see a continued decline in the moneysworth of their payroll contributions.
- The typical single male retiring in 2035 (today's 33 year-old) can expect a return on his lifetime Social Security contributions of just one percent. And this assumes that promised benefits will be paid in full even beyond the date of trust fund insolvency.
- The problem lies in Social Security's pay-as-you-go structure. Workers must always divert a part of their contributions to paying off the unfunded claims of the previous generation.
- This structure allowed early cohorts of beneficiaries, rich and poor alike, to receive windfall paybacks. But there was a trade-off. The decision not to establish a funded system inevitably meant that the payback for later beneficiaries would be less than the market return on their contributions — even less than the return on risk-free Treasury bonds.

## **5. The public is losing confidence in Social Security.**

- With a growing share of Americans concerned about Social Security's fiscal sustainability and disappointed in its declining moneysworth, surveys show that public confidence in the program has declined dramatically.
- This decline in confidence is itself a major problem for a system that depends critically on everyone's approval and trust. Social Security is indeed a generational contract in which each generation's welfare depends directly upon the willingness of the next generation to participate.
- If the next generation grows disaffected and suspects it is not being treated on an equitable basis, the survival of the system is thrown into question.

# The Number of Workers Per Beneficiary Is Falling

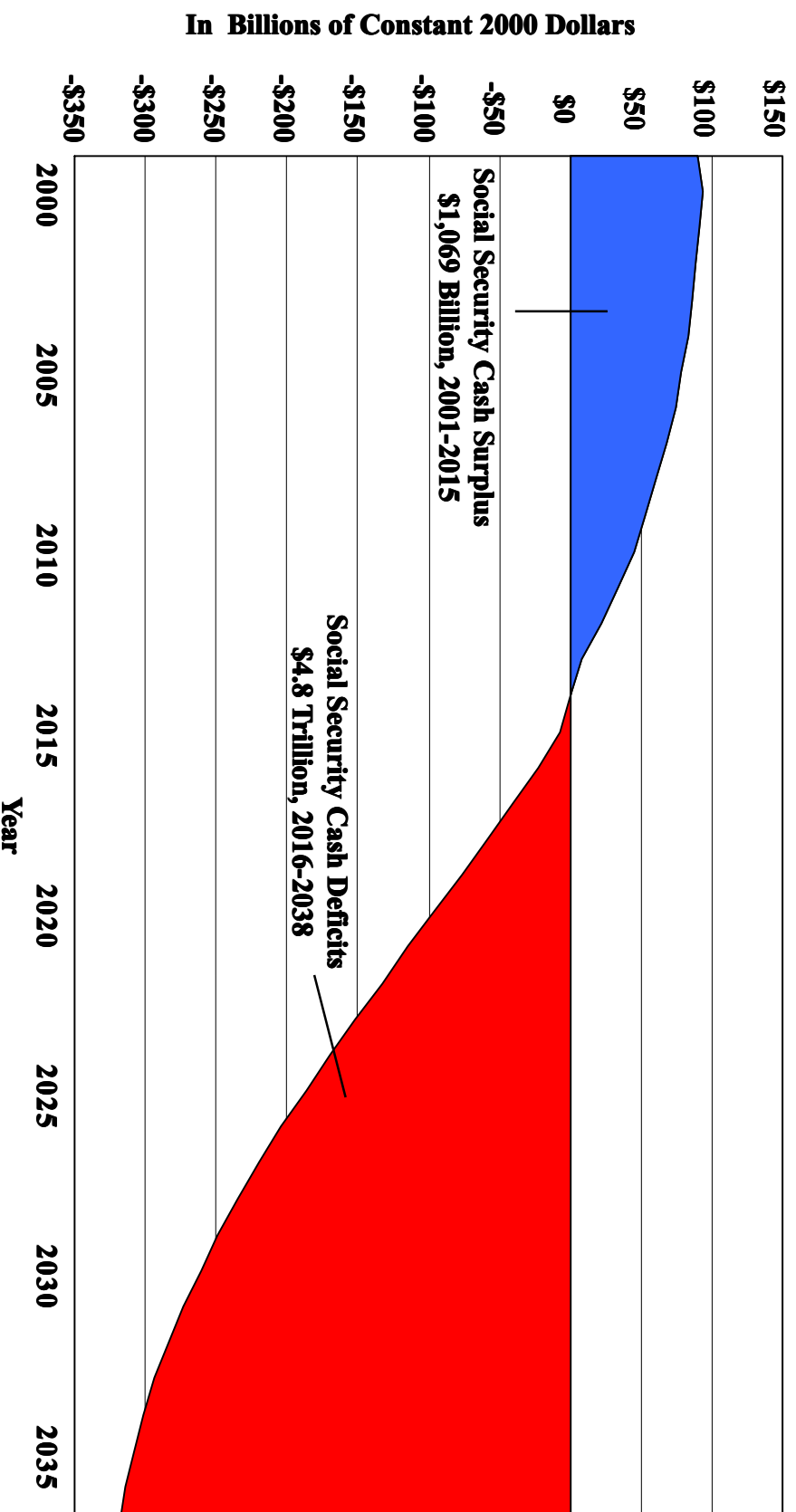


Source: Social Security Trustees' Report (2001)

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# Social Security is Projected to Run a Cash Deficit of Over \$4 Trillion Between 2016 and 2038--the Official Date of Trust Fund Insolvency

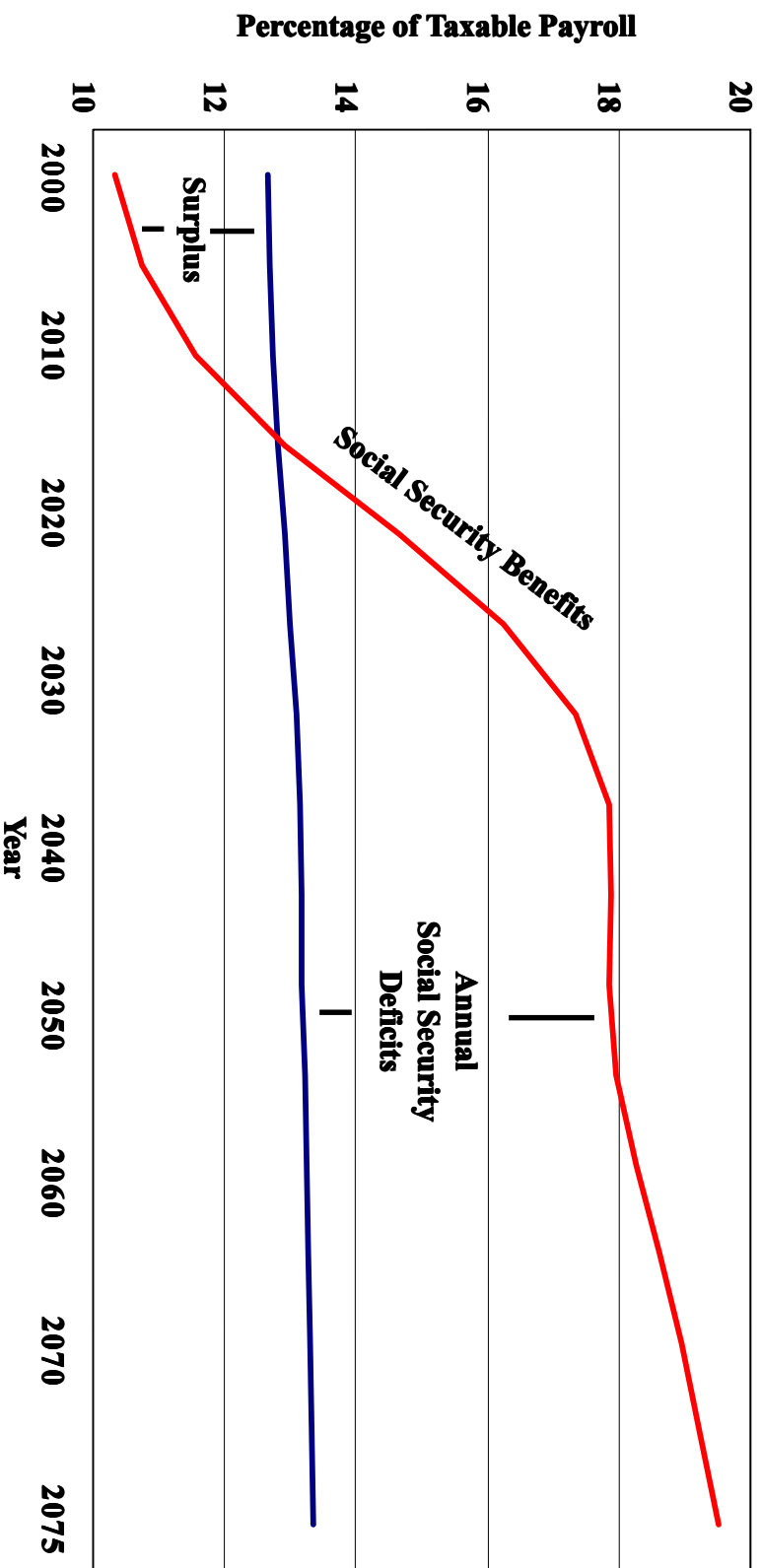


Source: Social Security Trustees' Report (2001)

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# Social Security Is Unsustainable In Its Present Form

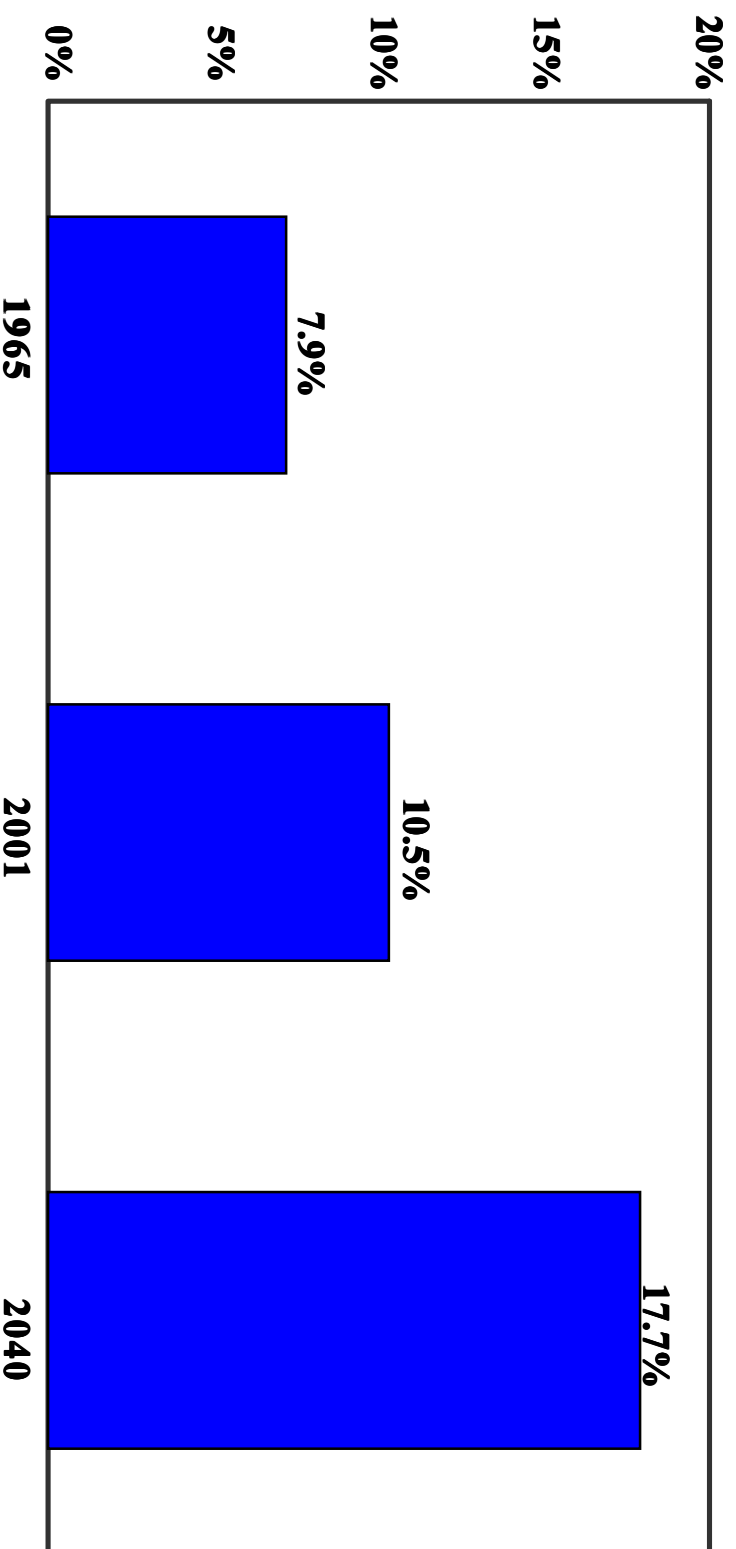


Source: Social Security Trustees' Report (2001)





# Implied Tax Increase Under the Current System\*



**Social Security Outlays, as a Percent of Taxable Payroll**

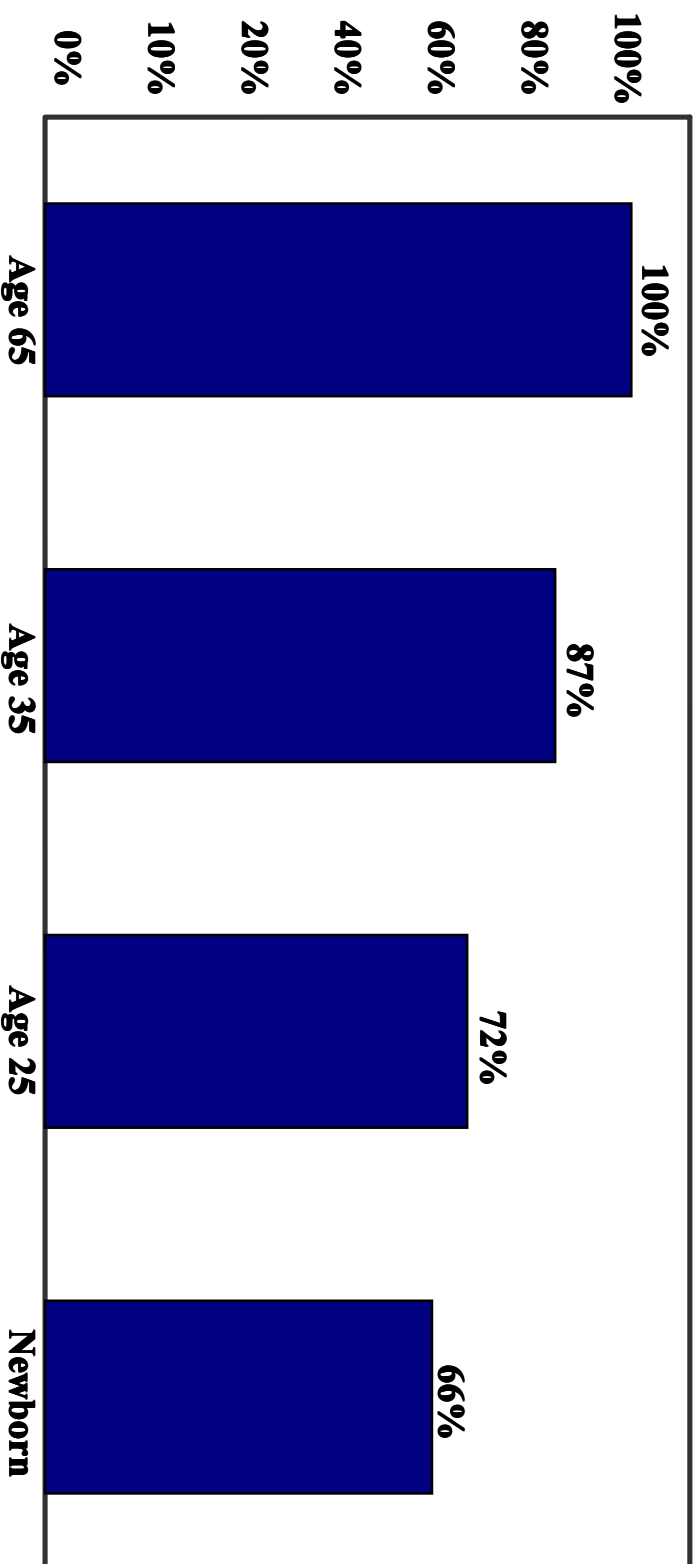
\* Assumes that there will be no reduction in promised benefits.

Source: Social Security Trustees' Report (2001)

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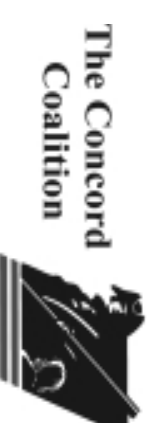
# The Implied Cut in Current Benefits\*



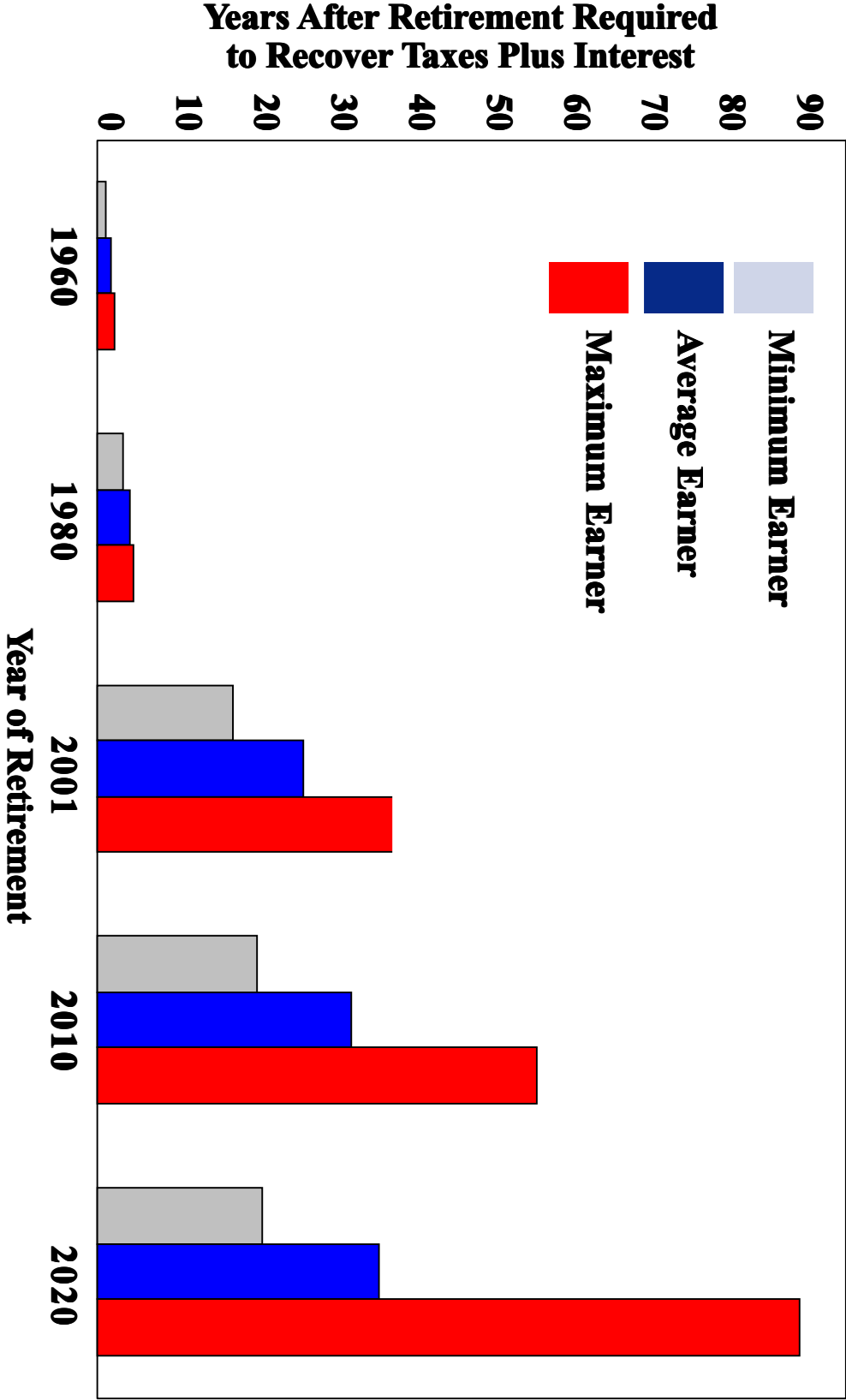
**Percent of Promised Benefits Social Security Can Afford Under Official Projections**

\*Assumes no change in the contribution rates.

Source: Social Security Trustees' Report (2001)

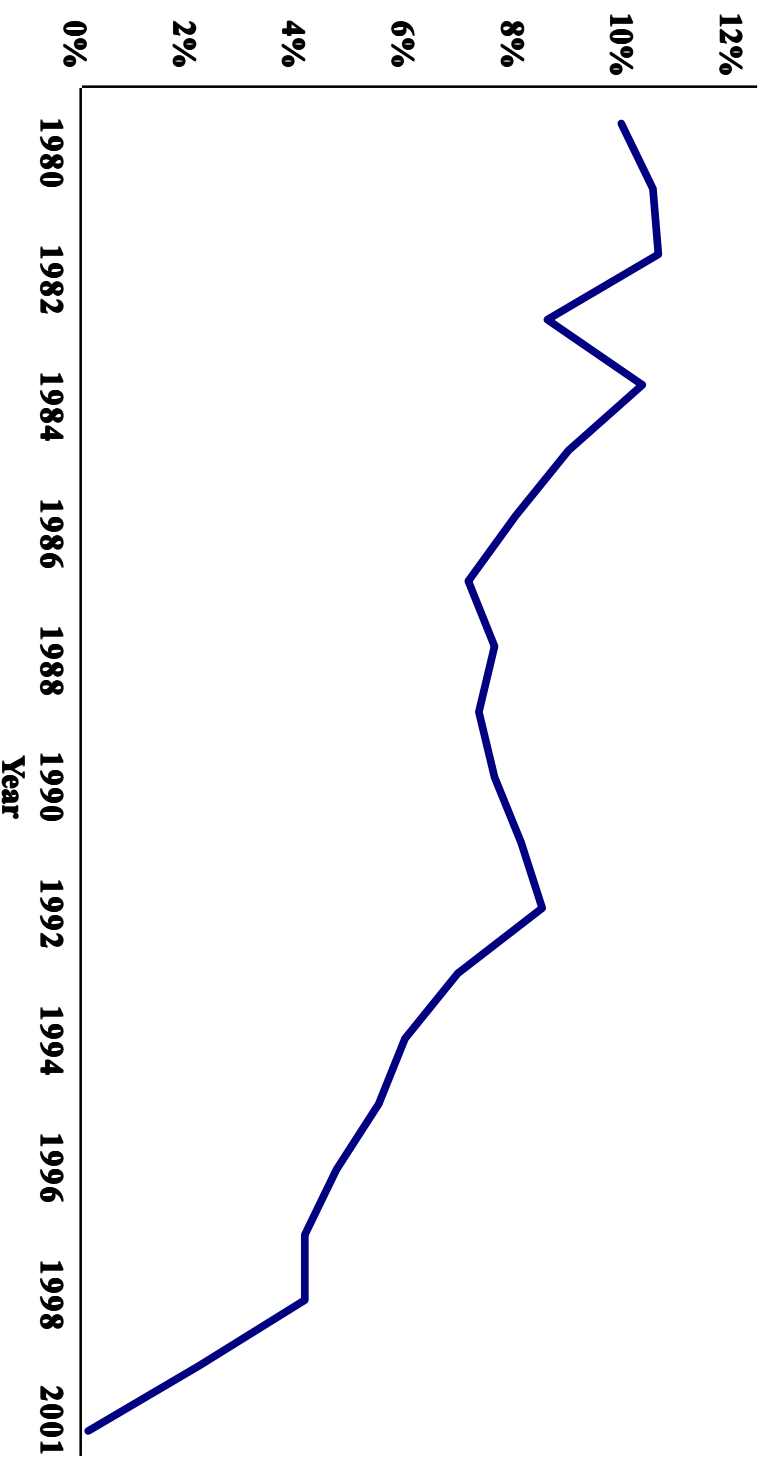


# It Takes Longer And Longer To Recover Social Security Taxes Plus Interest After Retirement



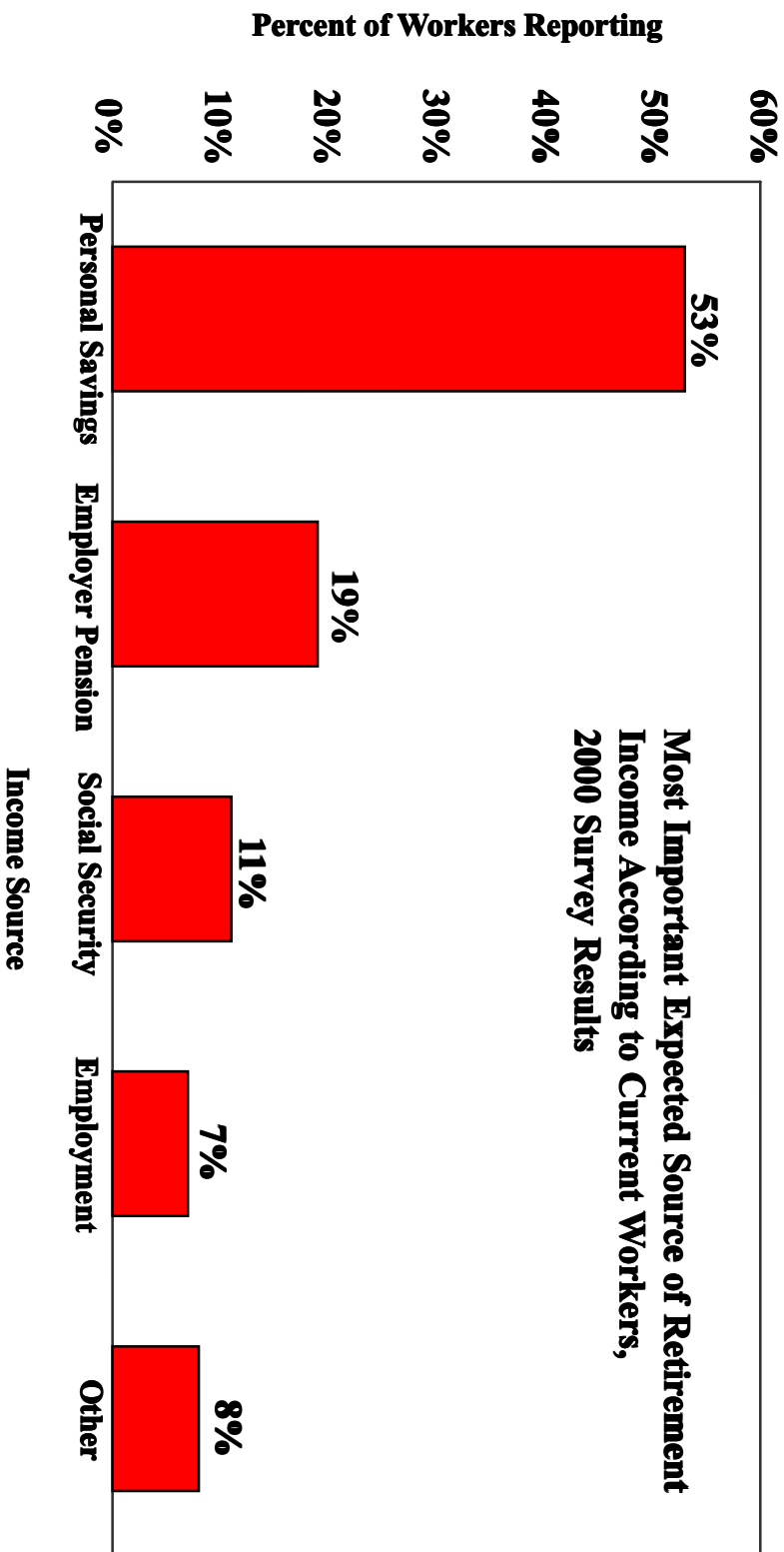
Source: Congressional Research Service, June 2001

# The U.S. Personal Savings Rate has Plummeted to New Lows



Source: Bureau of Economic Affairs (2001)

# Today's Workers Expect to Rely on Their Own Savings in Retirement, Not Government Benefits

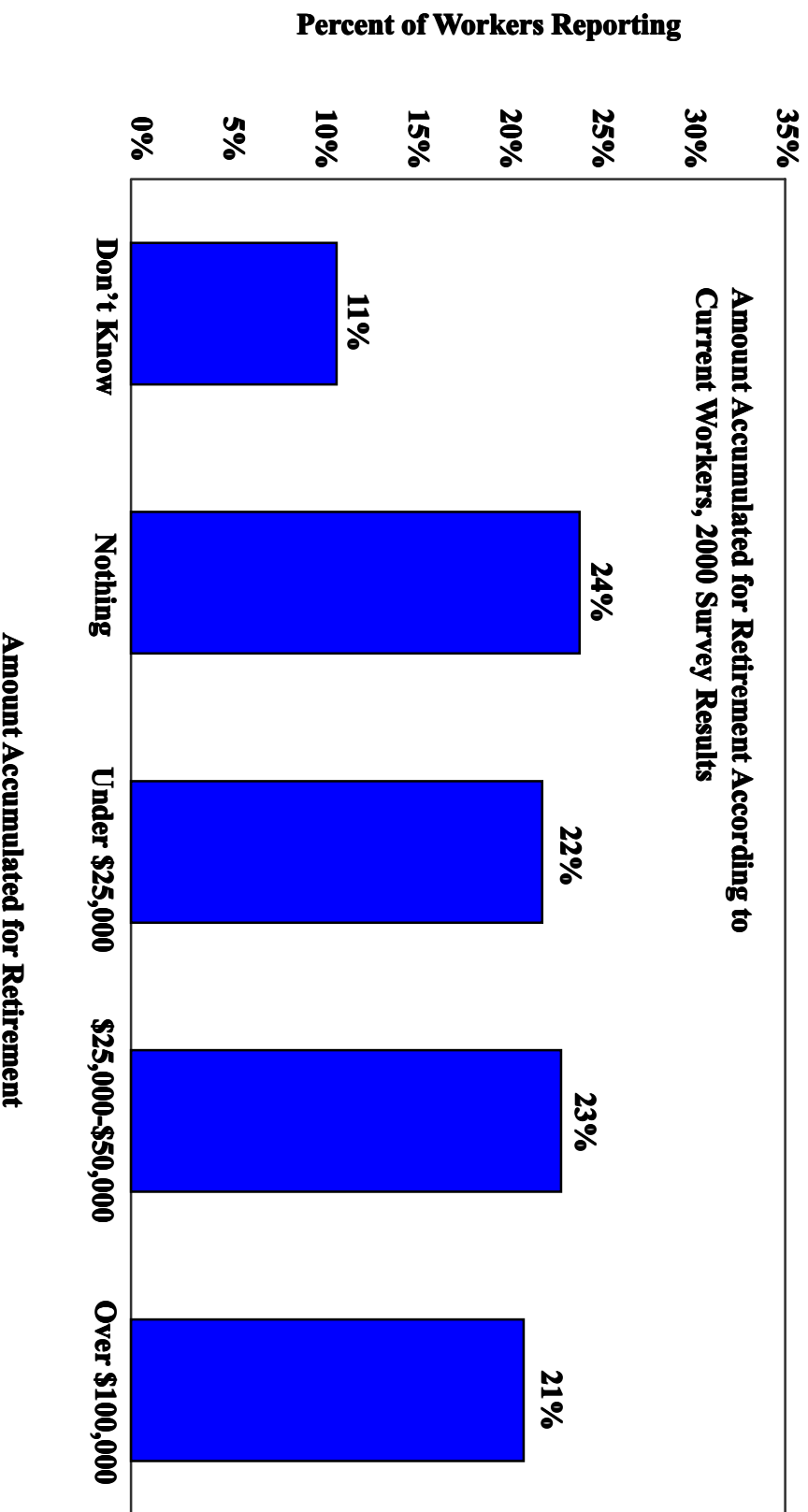


Source: 2000 Retirement Confidence Survey (EBRI)

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# But Most Workers Clearly Aren't Saving Enough

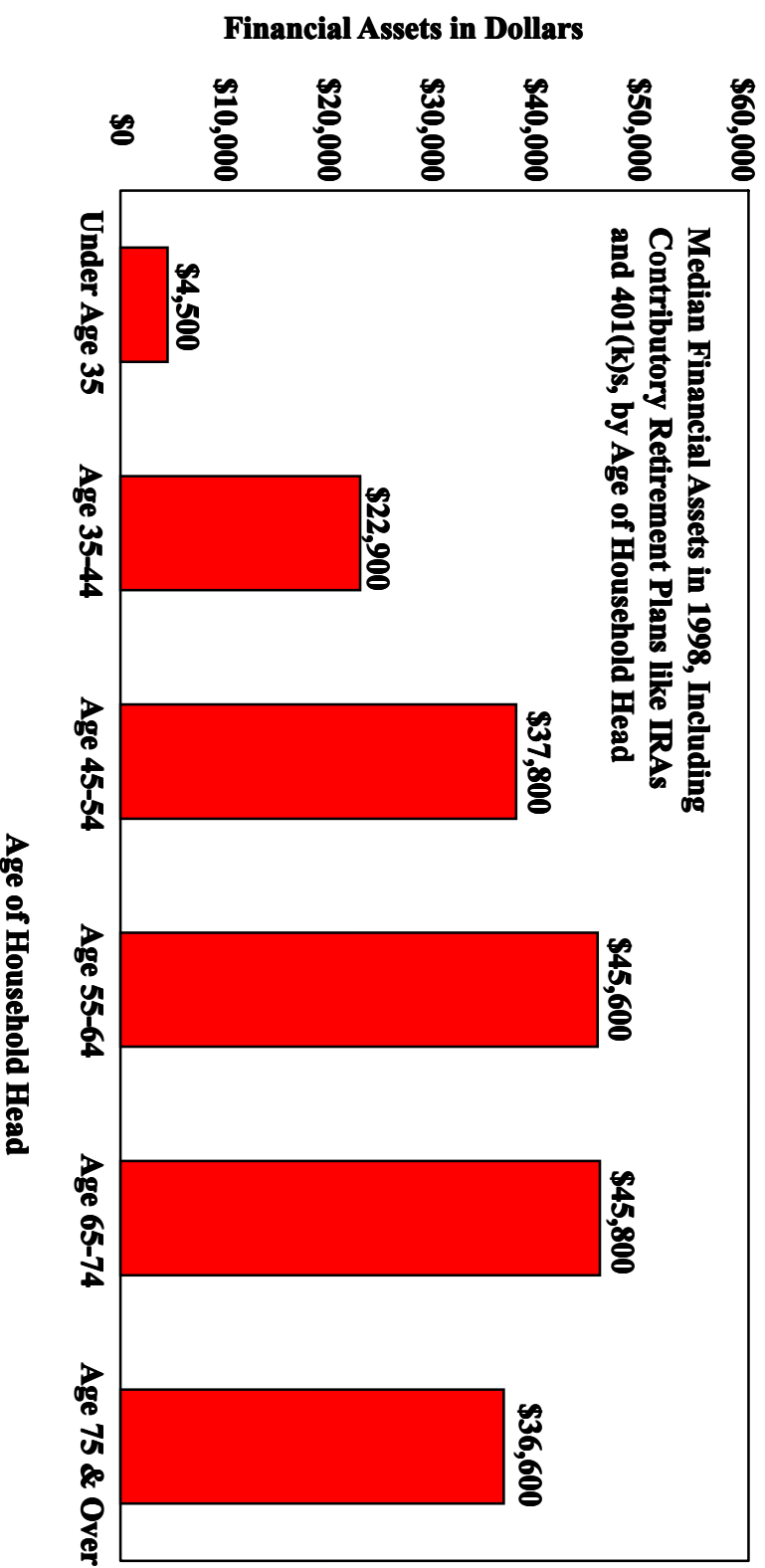


Source: 2000 Retirement Confidence Survey (EBRI)

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# Even Counting Defined Contribution Pensions, the Typical Worker Nearing Retirement has Less than \$50,000 in Financial Assets



Source: Federal Reserve

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## IV. Reform Criteria

In assessing whether Social Security reform proposals face up to the real issues or merely conceal or shift problems under the pretense of solving them, The Concord Coalition suggests that reform plans be evaluated using the following criteria:

- **Does it improve net national savings?** Given demographic trends, the economy in the future will be called upon to transfer a rising share of real resources from workers to retirees. These resources will be much easier to find in a healthy growing economy than in a stagnant one. The best way to achieve economic growth and increase real income in the future is to increase savings today. Savings provide the capital to finance investments, which will enhance productivity and increase the amount of goods and services each worker can produce. Without new savings reform is a zero-sum game.
- **Does it focus on fiscal sustainability rather than trust fund solvency?** Trust fund solvency is the wrong goal because it is unrelated to the cost of future benefits or to the manner in which sufficient resources will be found to afford this cost. For example, the trust funds could be made perpetually “solvent” by granting them additional Treasury bonds, or by crediting them with higher interest on the existing bonds. Such actions would improve trust fund solvency, but they would not make the program any more affordable for future workers. Fiscally, what really matters is Social Security’s operating balance — that is, the annual difference between its outlays and its dedicated tax revenues. Trust fund accounting sidesteps the real issue, which is not how to meet some official solvency test, but how to ensure Social Security’s fiscal sustainability and generational fairness.
- **Does it rely on a hike in the FICA tax?** Hiking payroll taxes to meet benefit obligations is neither an economically sound nor generationally equitable option and will fall most heavily on the middle class. Younger Americans in particular may be skeptical of any plan that purports to improve their retirement security by increasing their tax burden and by further lowering the return on their contributions.
- **Does it rely on new debt?** Paying for promised benefits or the transition to a more funded Social Security system by issuing new debt defeats the whole purpose of reform. To the extent that plans rely on debt financing, they will not boost net savings. And without new savings, any gain for the Social Security system must come at the expense of the rest of the budget, the economy, and future generations. Resort to borrowing is ultimately a tax increase for our kids.
- **Does it rely on outside financing?** Unrelated tax hikes, and spending cuts may never be enacted, or if enacted, may easily be neutralized by other measures. Unless the American public sees a direct link between sacrifice and reward, the sacrifice is unlikely to happen. If projected non-Social Security budget surpluses are used to help close the financing gap some mechanism should be put in place to guard against the possibility that these hoped for surpluses will fail to materialize.



- **Does it use prudent assumptions?** There must be no fiscal alchemy. The success of the plan must not depend upon large perpetual budget surpluses or lofty rates of return on privately owned accounts. All projections regarding private accounts should be based on long-term historical averages, a prudent mix of equity and debt, and realistic estimates of new administrative costs.

**Does it maintain the system's progressivity?** While individual equity (“moneysworth”) is important, so too is social adequacy. Social Security’s current benefit formula is designed so that benefits replace a higher share of wages for low-earning workers than for high-earning ones. Under any reform plan, total benefits, including benefits from personal accounts, should remain as progressive as they are today.

- **Does it protect participants against undue risk?** Under the current system, workers face the risk that future Congresses will default on today’s unfunded pay-as-you-go benefit promises. While reducing this “political risk,” reform should be careful to minimize other kinds of risk, such as investment risk, inflation risk, and longevity risk — i.e., the risk of outliving ones assets.
- **Does it keep Social Security mandatory and preserve a full range of insurance protection?** The government has a legitimate interest in seeing that people do not under-save during their working lives and become reliant on the safety net in retirement. Moving toward personal ownership need not and should not mean “privatizing” Social Security. Any new personal accounts should be a mandatory part of the system. Moreover, Social Security does more than write checks to retirees. It also pays benefits to disabled workers, widows, widowers, and surviving children. A reformed system must continue to provide these important insurance protections.

## **V. Why there is no free lunch**

Social Security's dedicated revenues are nowhere near large enough to cover its long-term obligations. This presents policymakers with limited options, none of which is a free lunch:

- Increase contributions to the system
- Achieve a higher return on current contributions
- Reduce promised benefits
- Increase general revenue financing

Borrowing our way out of this problem is not a viable option because the demographic challenge facing the system is not a temporary bulge caused by baby boomer retirements. It is a permanent phenomenon caused by longer life expectancy. Incurring ever-rising levels of debt to plug the gap would consume the savings needed to spur economic growth, and impose higher income taxes on future generations.

Increasing general revenue financing of Social Security might appear to be an easy option in times of budget surpluses. But large perpetual surpluses cannot be counted on, particularly given other budgetary pressures caused by the coming "senior boom." More importantly, however, a large expansion of Social Security's general revenue financing would mark a substantial departure from the program's self-financing tradition. If the link between dedicated contributions and benefits is severed, there will be less to distinguish Social Security from a welfare program, which is one reason the idea has been rejected many times in the past. Another problem with this idea is that it would weaken fiscal discipline within the system.

Closing the gap by traditional means alone — raising taxes on workers and lowering benefits for retirees — would inevitably result in a less generous program paid for at an increasingly burdensome cost. This is a generational lose-lose proposition.

Transitioning out of the current pay-as-you-go system into a partially funded system, with or without individually owned accounts, inevitably requires some group of workers to pay for the pre-funding of the new system while at the same time maintaining funding for those still receiving benefits under the old system. There is no avoiding this transition cost.

Because the present system is fiscally unsustainable, some combination of cost cutting and revenue raising must be enacted. Investment income provides a way to mitigate these changes, however, no conceivable rate of return on investments, standing alone, would be enough to fund currently projected benefits at today's contribution rate.

Moreover, if workers are allowed to invest a portion of their payroll taxes in private accounts there will be that much less revenue left to pay benefits to those in the current program who are already retired, or who are about to retire. As a result, the cash flow deficit, now expected to arrive in 2016 would arrive sooner — perhaps as soon as 2007. This would force policymakers to confront the impending gap between dedicated revenues and promised benefits several years earlier.

Adding personal accounts without using the current payroll tax is not a cost free solution either. It would require higher payroll contributions or a substantial and permanent infusion of general revenues.

The bottom line is that the system requires new savings and this cannot happen without sacrifice in one form or another. The choice we face is not between guaranteed future benefits under the current system and a risky path of reform; it is between reform options that, in different ways, attempt to ensure the fiscal sustainability of fair and adequate benefits over the long-term.

Despite widespread recognition that hard choices are unavoidable, this difficult work is forced to compete for attention with an assortment of arguments for inaction and reform ideas that purport to fix the problem without asking anyone to give anything up. Here are five of the most frequently used arguments:

**Argument #1: Social Security can pay full benefits until the year 2038.**

This argument is true as far as it goes, but it does not tell the full story. The Trustees now project that Social Security will be “solvent” until the year 2038 — meaning that its trust funds will possess sufficient assets, and hence budget authority, to cover benefits until that date. However, trust fund solvency says nothing about fiscal sustainability.

The problem is that the trust funds are primarily an accounting device. Social Security’s assets consist of Treasury IOUs that can only be redeemed if Congress raises taxes, cuts other spending, uses surpluses, or borrows from the public. Thus, their existence, alone, doesn’t ease the burden of paying future benefits. It is true that when trust fund surpluses are used to reduce the publicly-held debt it does result in higher savings. But experience has shown that trust fund surpluses are just as likely to be spent as saved. It therefore cannot be assumed that a trust fund surplus will result in higher savings. Fiscally, it is not the trust fund balance, but the program’s operating balance that matters — that is, the annual difference between its outlays and earmarked tax revenues. Social Security’s current operating surplus is due to begin falling in 2008 and turn into an operating deficit in 2016. This deficit will widen to an annual cash shortfall of \$330 billion in today’s dollars by 2038, the year the trust funds are projected to become insolvent.

**Argument #2: A mere 1.86 percent of payroll increase would cure the problem.**

A related argument is that a tax hike of merely 1.86 percent of payroll is all that is needed to restore Social Security to long-term solvency. This claim is based on the program’s actuarial balance, which averages projected trust-fund surpluses and trust-fund deficits over the next seventy-five years. In 2001, Social Security’s actuarial balance was a shortfall of 1.86 percent of payroll. In theory, this is the amount that Congress would have to raise FICA taxes or cut Social Security benefits, starting immediately, in order to keep the trust funds solvent until 2075.

The proponents of this idea neglect to mention a couple of important caveats. For one thing, “mere” is a relative term: A tax hike of 1.86 percent of payroll is equivalent to a nearly 10 percent increase

in everyone's personal income taxes. For another, the solution is not permanent: It assumes that the horizon for trust-fund solvency will forever remain fixed at seventy-five years from today. In other words, it assumes that while we would require the trust funds to be in balance over a full seventy-five years, our children will be satisfied with forty years and our grandchildren will be satisfied with an empty cupboard.

But there's a more fundamental problem. As noted above, any trust-fund surplus is immediately lent to Treasury, leaving Congress free to spend the money it is supposedly saving. For the 1.86 percent solution to ease Social Security's burden on the economy, legislators would have to allow the program's extra interest-earning assets to accumulate unspent for thirty years. A proposition that seems unlikely and in any event cannot be guaranteed.

**Argument #3: Saving the Social Security surplus in a "lockbox" to eliminate the publicly held debt can solve the problem.**

Reducing, or eliminating, the \$3.4 trillion publicly held debt would help grow the economy, exert downward pressure on interest rates, and result in large budgetary savings from lower interest costs. But debt reduction cannot solve the problem.

In present value terms, saving the total projected Social Security trust fund surplus through 2015 would cover only 44 percent of the cash shortfall between 2016 and 2038, the date of trust fund bankruptcy. It would cover only 17 percent of the projected shortfall over the Trustees' traditional 75-year time horizon.

Moreover, there is no guarantee that the reduction in publicly-held debt assumed by lockbox proponents will actually occur. Promising to devote the Social Security surplus to debt reduction is a fiscally responsible goal but it is easier said than done. Regardless of intent, and despite any bookkeeping devices such as a lockbox, the government can only save the Social Security surplus if it continues, year after year, to take in more money than it needs to pay all of its other bills without dipping into the Social Security trust funds.

Success of the lockbox concept is therefore critically dependent on both the accuracy of notoriously inaccurate long-range budget surplus projections and the willingness of future political leaders to maintain fiscal discipline.

**Argument #4: The Trustees are too pessimistic about the future.**

Another frequently heard argument is that the Social Security Trustees are too pessimistic—that the projections are unduly gloomy about future economic growth and that with more realistic assumptions the Social Security problem disappears.

It is true that the Trustees project that the economy will grow more slowly in the future than it has in the past. But this is a matter of arithmetic, not pessimism. Economic growth (GDP) depends on workforce growth, and this will fall to near zero when the Boomers start retiring.

- Since 1973, the U.S. workforce has grown by 1.7 percent per year.
- Over the next seventy-five years, it is projected to grow by just 0.3 percent per year.
- Given the demographics, it is unlikely that GDP growth will not slow.

A more legitimate question is whether the Trustees are too pessimistic about the growth in productivity, or output per worker hour. In the future, the Trustees may have to raise their assumption. Since 1995, productivity has unexpectedly surged. Some believe that this heralds the arrival of a “new economy” in which information technologies and globalization will lead to permanently higher rates of productivity growth. But there are reasons to be skeptical:

- The new-economy thesis remains just that: a thesis. No one yet knows whether the surge in productivity that began in the mid-1990s will outlast the current business cycle. The Trustees’ current long-term assumptions for productivity growth—1.5 percent per year—is right in line with the record of the past twenty-five years.
- Even if the enthusiasts are right about the new economy, higher growth is no long-term cure-all for Social Security. When productivity goes up, average wages go up, and this adds to long-term tax revenues. But when average wages go up, average benefit awards also go up, and this adds to long-term outlays.
- Practically, the only way to get big savings from higher productivity growth is to sever the link between average wages and new benefit awards. The United Kingdom has done this, and the reform stabilized its long-term pension outlook. Without such a fundamental change, higher productivity growth alone cannot possibly save Social Security.

There is one aspect in which the Trustees are indeed pessimistic—but here greater optimism would obviously add to Social Security’s costs. The Trustees project that mortality rates will decline more slowly in the future than they have in the past—and that longevity will therefore grow more slowly.

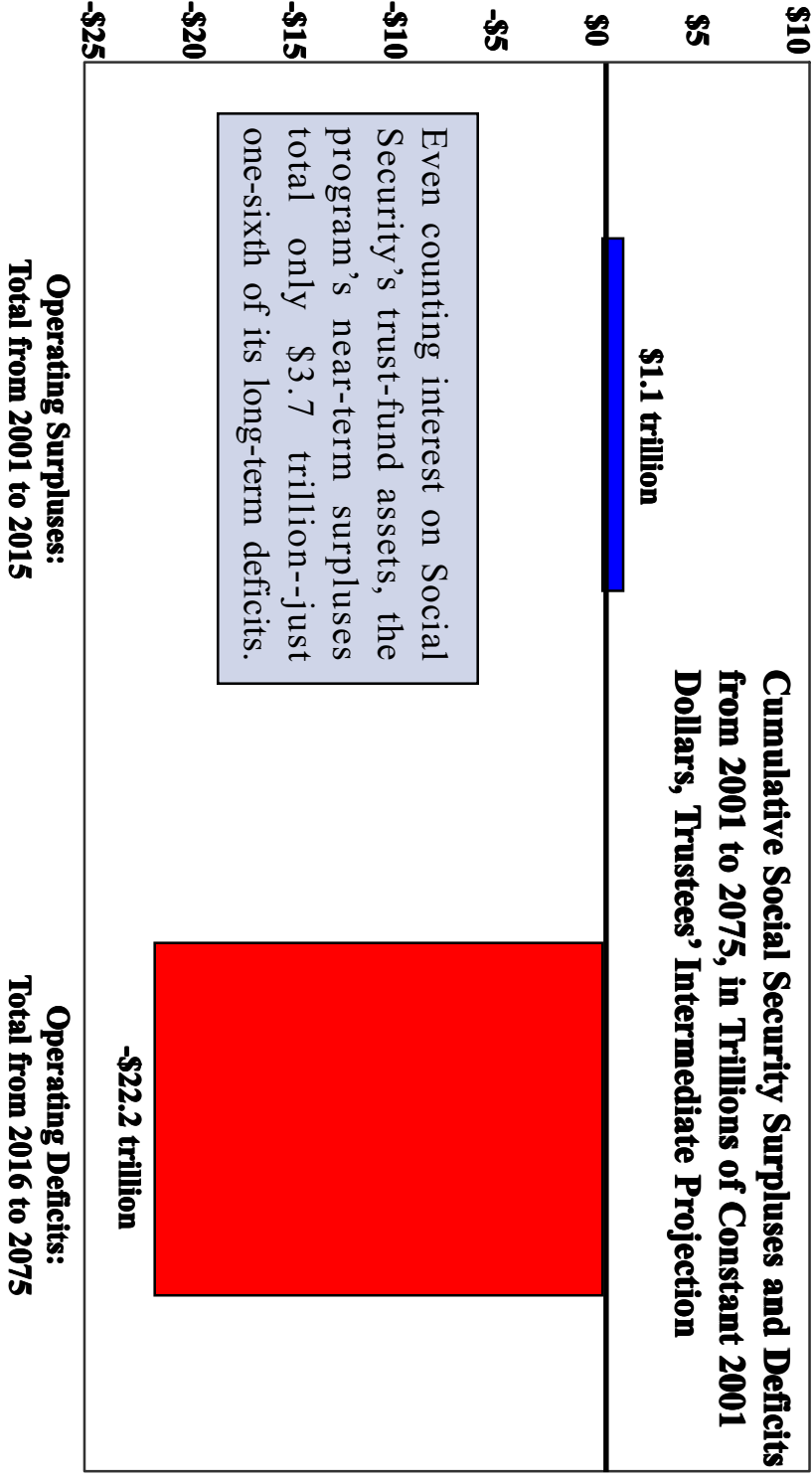
- According to the Trustees, life expectancy at age 65 will grow at just half the pace over the next seventy-five years as it has over the past seventy-five.
- Some biotech optimists are now predicting that a life expectancy of 100 or more is attainable within a generation.
- If anything approaching that came to pass, the entire structure of old-age entitlements would be rendered instantly and massively unaffordable.
- But one doesn’t have to agree with these visionaries to conclude that the Trustees are too conservative. Accepting their projections means believing that Americans will have to wait until the mid-2030s to achieve the life expectancy that the Japanese already have today.

### **Argument #5: Investment returns provide a “pain free” solution.**

Moving toward a more funded Social Security system could indeed have enormous benefits: not just higher returns to retirees, but greater national savings and productive investment, and hence greater wage growth for workers in the years before retirement. It would also be the surest method of locking up the Social Security surplus because it would prevent the government from spending the money on other programs. But it cannot be supposed that directly funding more of Social Security’s benefits is a way to avoid the hard choices. It *is* the hard choice:

- The challenge is that, until the transition is complete, workers will have to pay more, retirees will have to receive less, or both. Reform plans that do not face up to this transition cost will not result in new net savings or a larger economy. Any gains for future beneficiaries will necessarily come at the expense of future taxpayers.
- It is neither realistic, nor economically sound to count entirely on the historic spread between the investment returns on stocks and bonds to fund a reform plan without cost reductions or higher contributions.
- Projected budget surpluses provide a tempting source of funding for personal accounts. But projected surpluses are far from reliable. More importantly, even if the future unfolds exactly as projected, the surpluses won’t last forever. And when they vanish Congress will have to fund the new Social Security accounts by selling bonds to the public (i.e., borrowing) unless taxes are raised or spending is cut. In that case, all the plan will have created is another unfunded entitlement.
- The fundamental issue is not whether the system should be public or private, but the extent to which it should be unfunded or funded. Unfunded personally owned accounts would neither add to national savings nor reduce the burden of today’s system on future generations, even if they earn a higher rate of return than the current pay-as-you-go system. A new system of unfunded accounts, like trust fund solvency, avoids the real challenge, which is to ensure that adequate resources are set aside to meet the cost of future benefits.

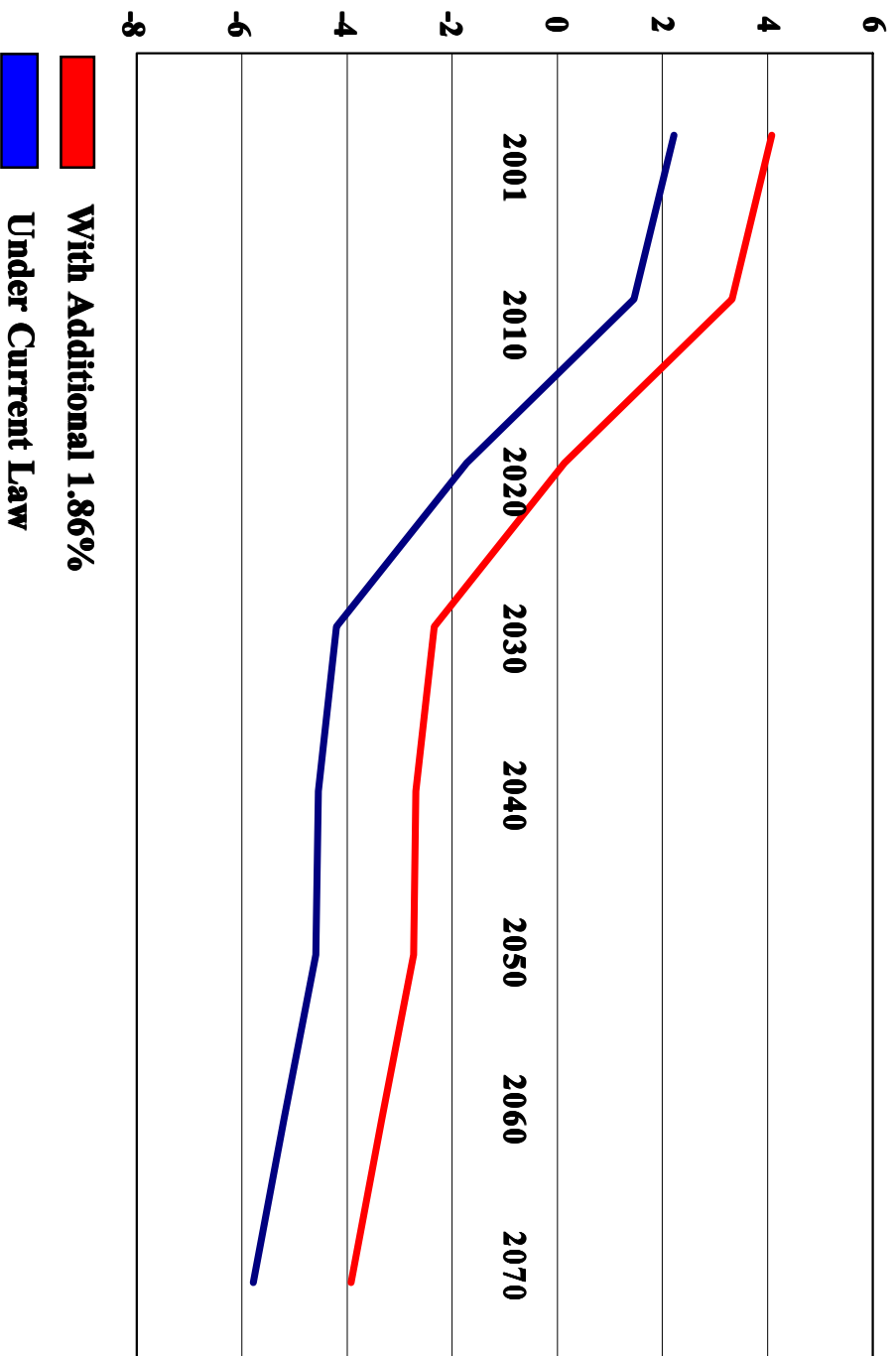
# Projected Social Security Surpluses—the “lockbox”—are Dwarfed by Projected Social Security Deficits



Source: Social Security Trustees' Report (2001)

# The Myth of the 1.86 Percent Solution

Annual OASDI Operating Balance as a Percentage of Payroll



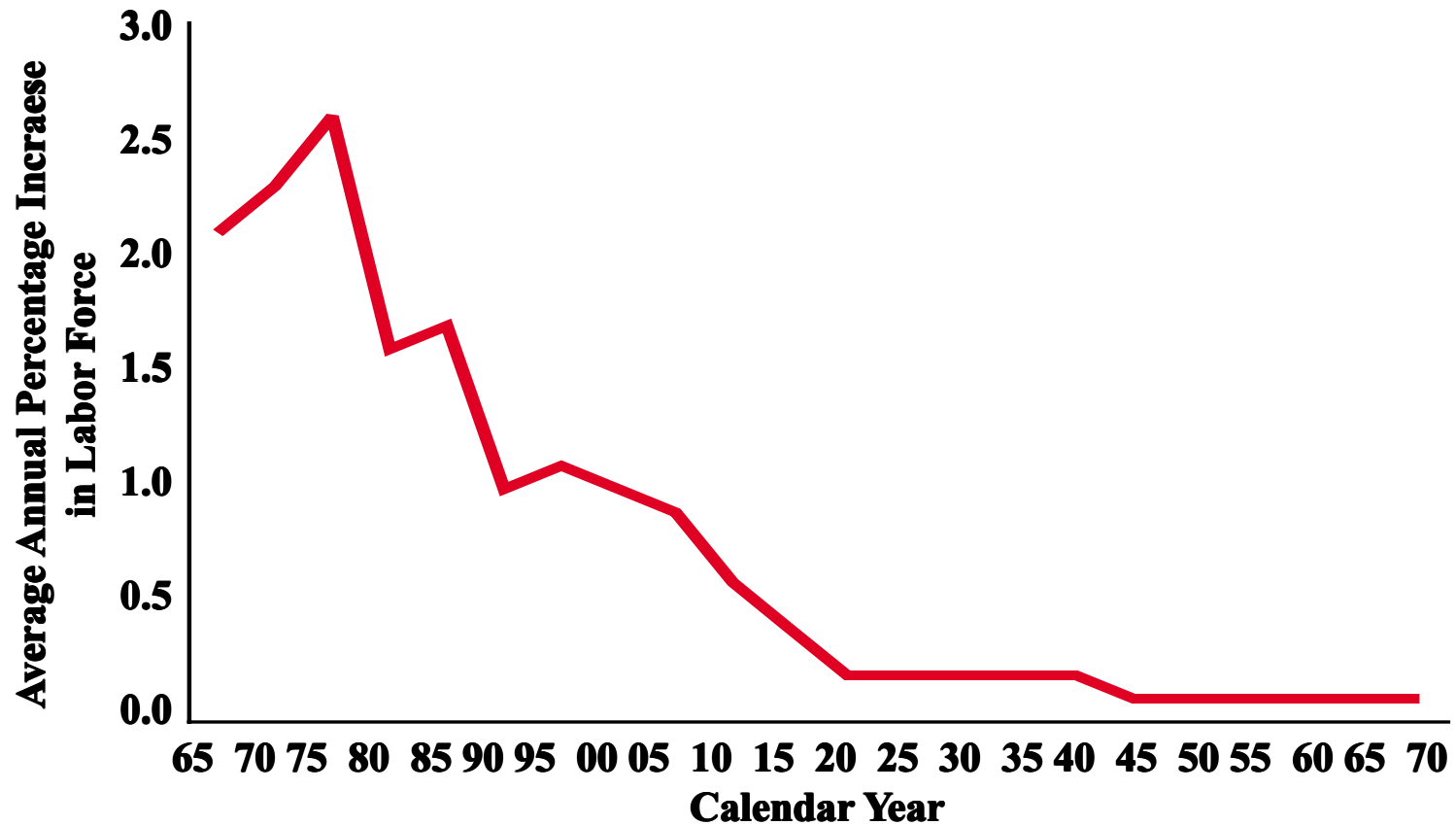
Source: Social Security Trustees' Report (2001)

The Concord  
Coalition





# U.S. Annual Workforce Growth Will Slow Almost to a Halt

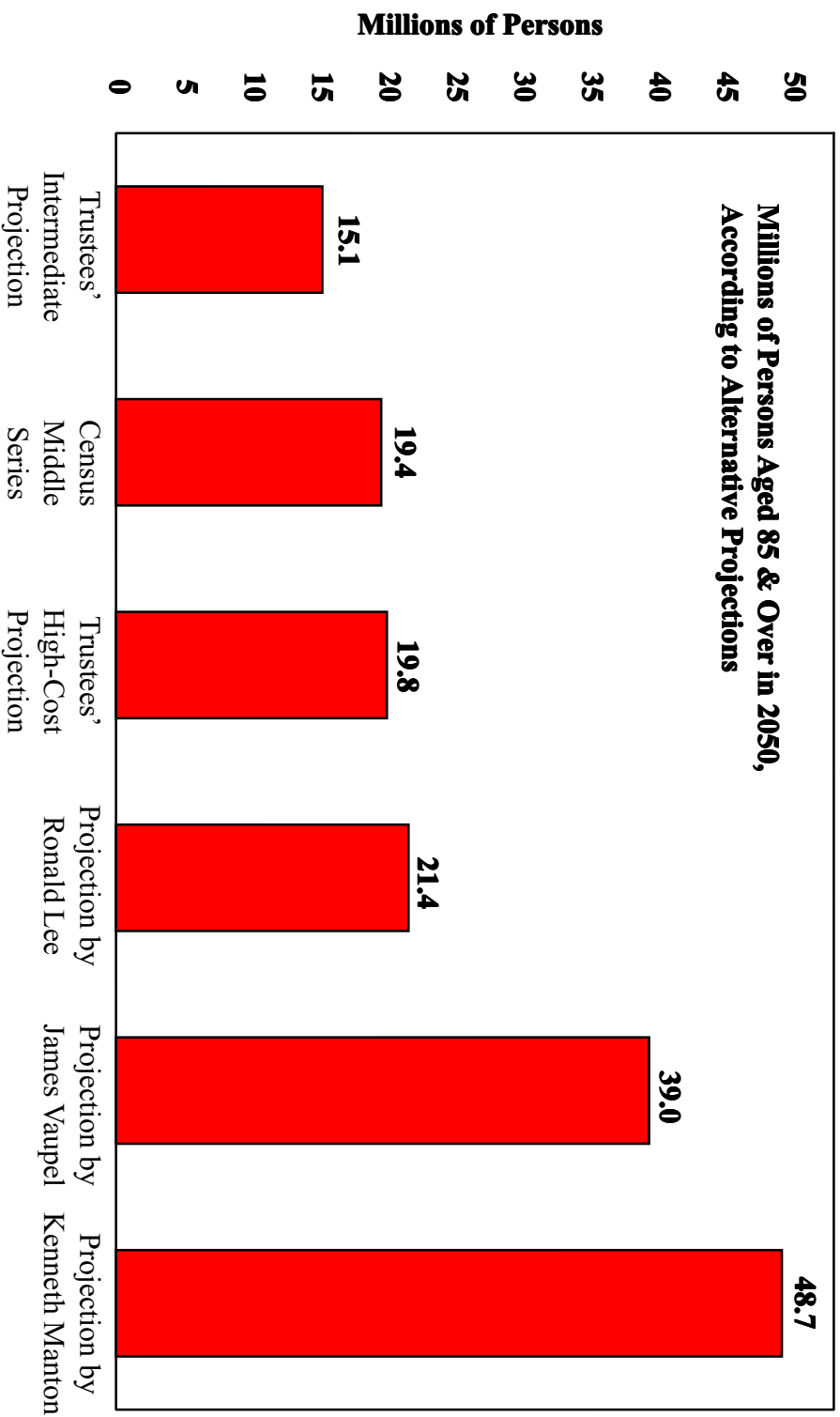


Source: Social Security Trustees' Report (2001)

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# The Trustees May be Greatly Underestimating Future Longevity and the Growth in the Number of Old Old (age 85 and above)



Source: SSA, Census, and NIA

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## VI. Designing a Personal Account Plan for Social Security

The inherent problems in Social Security's pay-as-you-go financing have led many to conclude that the program should be transitioned into a partially funded system in which some portion of workers' payroll tax contributions are saved and invested in personally owned accounts. Indeed, this Commission has been specifically charged with developing such a plan.

There are several attractions of personally owned accounts. Properly designed and implemented, they could provide:

- Higher returns on workers' contributions, which increase the resources available to pay Social Security benefits.
- A means of prefunding benefit promises, which are now unfunded.
- Greater national savings and productive investment, and hence greater wage growth for workers in the years before retirement.
- Private ownership of assets. The current system provides a *statutory* right to benefits that Congress can cut at some future date. And, at death, workers cannot bequeath Social Security benefits to their heirs. On the other hand, personally owned accounts would offer workers ownership of *constitutionally protected property*, which could be passed on to their heirs.
- A "lockbox" no politician can pick. Using the currently projected Social Security surplus as a start-up fund for the new accounts would ensure that politicians could not spend it.
- A savings-oriented use for non-Social Security surpluses. Allowing, or mandating, such supplemental funding would provide a powerful political incentive to attain these surpluses since the public would have a personal stake in them. This would help enforce fiscal discipline.
- An answer to those who warn that paying off too much publicly-held debt will force us to make exorbitant payments to redeem outstanding bonds from reluctant sellers or force the government to acquire substantial private sector investments.

The challenge of moving to a partially funded system is that until the transition is complete workers will have to pay for *two* retirements: their own, which would have to be prefunded, and that of current retirees, who will continue to rely on pay-as-you-go benefits. Workers will thus have to save more, retirees will have to receive less, or both.

Without *new* savings, without *real* funding, a plan cannot increase the productivity of tomorrow's workers, and thus becomes a zero-sum game of pushing liabilities from one

pocket to another or from one generation to another.

Two approaches to personal accounts that The Concord Coalition has expressed reservations about are the so-called “clawback” plans, and those that call for the issuance of “recognition bonds.” The common flaw is that these plan do nothing to reduce Social Security’s long-term cost. Instead, they bank on large fiscal and economic dividends that may or may not materialize to guarantee all currently promised benefits.

### *The “clawback” idea*

In this approach part of the projected budget surpluses would be diverted into personal accounts, which would be invested in stocks or other private assets. When workers retire, the government would claim most of the proceeds of the accounts to pay current-law benefits, which would remain unchanged. It is assumed in these plans that over time higher investment returns and stronger economic growth from the new investments would entirely close Social Security’s financing gap. In the meantime, for approximately 40 years, Social Security would have to rely on an infusion of general revenues to pay promised benefits. Here are some major concerns with this approach:

- By not reducing Social Security’s long-term cost or dedicating any new revenues to the program, it relies entirely upon investment gains — the spread between stocks and bonds — to close the current funding gap.
- Buying stocks on a large scale, as personal account holders would do, and selling bonds on a large scale, as the government would have to do to redeem the trust fund bonds, would cause the yield of bonds to rise and the yield on stocks to fall — narrowing the favorable spread on which the plan depends.
- Because the “clawback” mechanism cannot yield significant revenues in the short-term, the system would still face huge deficits for decades. These deficits would have to be covered by general revenues.
- While in theory, the system could become self-sustaining in 50 years or so, the amount of deficit spending needed in the interim could swamp the budget and the economy long before that time arrives.
- It is unclear who owns the money. If the government has such a large claim on the personal accounts, it would be determined that the government owns them—and if it does, what is to prevent Congress from borrowing against them?
- In any event, the public may grow cynical about “personal accounts” that are claimed by the government upon retirement.

### *The “recognition bond” idea*

Another idea calls for diverting some or all of the current FICA tax into personal accounts while issuing “recognition bonds” to the public — that is, formal Treasury debt— to guarantee benefit claims under the old system. Once again, because these plans neither require new contributions nor restrain the cost of Social Security’s existing benefits, they do not raise national savings.

- The problem with issuing debt is that it undermines a major purpose of reform by offsetting (or even more than offsetting) any additions to private savings.
- It would also burst the nation’s current popular and procedural firewalls against excess federal borrowing. If we can borrow trillions to finance Social Security reform, why not borrow trillions for any purpose at all?
- By translating existing implicit Social Security liabilities (which have no constitutional protection) into formal Treasury debt (which does), they would in effect render Social Security benefits unreformable. Short of default on the national debt, Congress could never again make any change to what is now a legislated outlay.

### **A Checklist of Questions**

While The Concord Coalition has expressed support for some form of personal accounts, we have never subscribed to the view that this is a simple or “pain free” solution. The following questions are a checklist of choices that must be made in designing any such plan for Social Security.

#### **1. What percentage of pay should be devoted to individual accounts?**

The size of the contribution to personal accounts is perhaps the key decision. The advantage of a small plan — 2 percent or less of taxable payroll — is that it minimizes the total burden placed on workers, and preserves a large share of the current Social Security system. Over a working lifetime even small contributions can produce sizeable benefits.

The case for a larger plan is that introducing a new system requires a critical mass of resources sufficient to swiftly and adequately replace the current system with a superior one. In the long run, it may be best to enact major changes now and pay for the transition costs up front.

#### **2. Should the contributions replace or be added to the existing Social Security tax?**

One approach to funding personal accounts is to add new mandatory contributions on top of the existing payroll tax (i.e., an “add-on” plan). The other prominent approach is to fund personal accounts out of the existing payroll tax (i.e., a “carve-out” plan). The two

approaches differ in the trade-off they make between two objectives:

- The carve-out approach guarantees that no extra compulsory contributions of any kind will be added to the Social Security system.
- But there is an unavoidable trade-off in not requiring any new contributions. While it is possible for a carve-out plan to give workers bigger benefits than the current system can afford, it is not possible for it to give workers bigger benefits than the current system promises.
- The add-on approach meets a different objective. The increased funding would make it possible for every worker to be at least as well off in total benefit dollars in retirement under the new system as under the old. In effect, it would fund the unfunded promises of the current system.
- The much better benefit adequacy of the add-on option is not without a cost—namely, the extra contributions required of all workers.
- Is it worth paying a bit more to achieve these superior results? In the end, after all the shell games are played out, this is the central choice the American public must confront.

No reform plan can fund currently promised benefits at the current contribution rate — and still abide by honest accounting and prudent assumptions. The public will not find it an easy choice to make. But it won't be nearly as unpleasant as the consequences of doing nothing. Either option is preferable to the alternative if we leave Social Security on autopilot—draconian benefit cuts or massive tax hikes and a system that will satisfy no one.

### **3. Will the new system raise national savings?**

Today's public policies, including Social Security reform, should be directed at building national savings and investment to spur the productivity increases needed for tomorrow's labor force to support the retirement and health care costs of the population's much higher percentage of retirees. Plans that require huge general revenue contributions, or the issuance of new debt, are unlikely to increase net national savings.

Personal accounts are more likely to lock up budget surpluses for savings than plans that purport to save money within government owned accounts. So long as the government retains ownership of the funds it may spend them and credit itself with an IOU — as happened every year from the 1983 reforms until 1999.

It cannot be assumed, however, that the entire amount devoted to personal accounts will add to national savings. Some workers would undoubtedly save less in other areas if forced to contribute more through a payroll deduction. The actual offset would depend

critically upon the extent to which households see the new system as a substitute for other forms of voluntary savings. For below-to-median income households without pension coverage, the offset may be negligible since most of these households can't save much less than they do already. But for more affluent households, the offset may be sizeable.

#### **4. To what extent would the new plan require financing from outside the Social Security system?**

Cashing in on fiscal dividends is a good example of a more general problem with many reform plans: They are designed so that their sacrifice is hidden from the public. To this end, reforms often resort to some combination of two strategies: Issuing government debt, usually with the promise to pay it off later, and raising taxes or cutting spending outside the Social Security system.

The problem with issuing debt is that it undermines a major purpose of reform by offsetting (or even more than offsetting) any additions to private savings. It would also burst the nation's current popular and procedural firewalls against excess federal borrowing.

The problem with raising taxes or cutting spending outside the system is that it creates no direct link between sacrifice and reward. The proposed savings measures may never be enacted—particularly if, as in many plans, they are just vague injunctions to cut “government waste.” And even if they are, they may not be effective. If (for example) we enact a national sales tax to help fund personal accounts, the public will be likely to view this as a substitute for existing taxes and demand an offsetting tax cut. Once again, a larger deficit (or smaller surplus) may neutralize the private saving boost.

#### **5. Would personal accounts threaten the adequacy of Social Security benefits?**

Social Security's defined benefit structure has always attempted to balance “equity” and “adequacy.”

- Equity is the idea that every retiree will receive benefits that are directly linked to the amount of his or her prior contributions.
- Adequacy is the idea that low-income workers should get a somewhat better deal from a public program than high-income workers so that every retiree has an adequate standard of living.
- Both principles appeal to most Americans and should be preserved.

Personal accounts would improve Social Security's individual equity because the benefit return would be equal to the market value of prior contributions minus administrative costs. However, absent other changes such as matching grants for low-wage workers or a further tilt in the defined benefit formula personally owned accounts would lessen Social Security's overall progressivity and hence its social adequacy. The Commission's proposal

should address how, or whether, both the adequacy and the equity standards would be honored.

In assessing the adequacy of benefits under a reformed system it must be kept in mind that a person's retirement income would come from *both* sources—a basic level of guaranteed benefits from a fiscally sustainable defined benefit program and an additional benefit financed from the lifetime accumulation of the personally owned account.

Because the current system is substantially unfunded, the proper comparison is between a reformed system *with* individual accounts and a reformed system *without* individual accounts.

## **6. Should the new system be mandatory?**

Given that Americans like the idea of choice, voluntary participation may be a political selling point. While this Commission has been asked to develop a voluntary plan, we believe that mandatory participation is necessary to boost national savings, maintain progressivity within the system and to ensure that workers build meaningful assets in their personally owned accounts. To date, voluntary savings incentives such as 401(k) plans and Individual Retirement Accounts (IRAs) have met with mixed results. This experience is evidence that participation in any new system must be mandatory to ensure that personal savings will actually increase. Assuming voluntary participation, would workers have the freedom of opting in and out?

In a more fundamental sense, however, mandatory participation is basic to the concept of Social Security as a universal system of social insurance. Government has a legitimate interest in seeing that people do not under-save during their working lives and become reliant on safety net programs in old age. Moving toward personal ownership need not and should not mean “privatizing” Social Security.

## **7. How much government regulation should there be?**

No plan can allow contributors *complete* freedom, including the discretion to liquidate the account on demand. Very rigid constraints can be adopted to further society's interest in minimizing investment risk and averting insufficient benefits. Less restraint furthers the individual's interest in maximizing choice. Here are suggested approaches to some of the key issues regarding account regulation:

### **1. Investment rules**

Workers could be required to choose a financial fiduciary and to invest funds within certain regulatory guidelines designed to eliminate unnecessary risks, minimize administrative costs, and ensure the adequacy of retirement income. In addition to rules governing the ownership and use of assets, the guidelines should cover:

- certification of fiduciaries.



- management fees.
- allowable investments, diversification, and asset allocation.

The guidelines could require that a fixed percentage of assets, adjusted for age, be invested in low-risk debt. They could also set a ceiling on allowable management fees.

A quasi-public “oversight board,” with public and private trustees, could be set up to establish these guidelines, certify fiduciaries, and maintain a “switchboard” to ensure that all contributions are made in a timely fashion and routed to the right account.

In addition, this oversight board could serve as the default financial manager of personal account funds. Anyone unable or unwilling to deal with a private manager would have his or her account managed by this agency, which would invest all default funds according to some relatively low-risk formula. The level of risk in default portfolios could be automatically adjusted to reflect an age-appropriate balance of stocks and bonds. Such portfolio rules would help protect workers nearing retirement from market declines.

## 2. Deposits and withdrawals

Personal account funds should be subject to strict rules governing ownership and use. For example:

- Until age 62, no worker should be allowed to withdraw personal account funds for any reason. Enforcing this requirement may prove to be a political challenge, but it is absolutely essential to ensure adequate benefits upon retirement.
- At age 62 and over, all funds withdrawn should be used to purchase an indexed annuity until the annuity, together with the worker’s pay-as-you-go benefit, ensures that the worker possesses an income for life equal to some minimum threshold, say 150 percent of the poverty line.
- Couples would have to provide for joint income and survivorship of the spouse. Fund balances in excess of those required to purchase the minimum annuity could be subject to no use restrictions.
- In the event that a couple divorces, account assets attributable to wages earned during the marriage should be evenly divided.
- If the account owner dies before annuitizing benefits, the assets should be routed into the account of the spouse. If the owner is unmarried, they should become part of the owner’s estate.

As an alternative to the annuity rule, workers could be allowed to make annual withdrawals, with the amount not to exceed the account balance divided by the average remaining years of life expectancy.

## **VII. Possible Changes in the Traditional Program**

Regardless of whether personal accounts are added to the system, some combination of cost reductions or increased contributions will be required to make the pay-as-you-go portion of Social Security fiscally sustainable over the long-term. These are often referred to as the “hard choices,” and they are critical to the success of any reform plan.

Personal accounts provide a promising vehicle for prefunding a portion of future benefits, particularly for younger workers. But they are no quick fix. It takes many years to accumulate sufficient assets to serve as a meaningful source of retirement income. And by themselves, personal accounts cannot close the looming gap between promised benefits and dedicated revenues under the current system.

The Concord Coalition believes that the necessary savings could be achieved using some combination of the following options:

### **A. Raise the “normal retirement age” for full benefit eligibility**

One of the most logical options to consider is raising the age for full benefit eligibility. It makes good sense for two reasons:

- Longevity is increasing steadily, and longer life spans mean longer, and more costly, benefit spans.
- In coming decades, the pool of working- age Americans will virtually stop growing, depriving our nation of this engine of economic growth. Raising the full benefit-eligibility age could help augment the labor force by encouraging older people to remain at work for a few more years.

It’s conventional wisdom that our population soon will be growing older because the huge baby boom generation is poised to begin retiring and hitting the Social Security rolls starting in 2008. But that’s only part of the picture. Even if there were no Baby Boom, the rising longevity and fall in birth rates mean an older America and spell serious trouble ahead for Social Security (and Medicare as well).

Increasing life spans have already increased benefit spans.

- In 1940, when the first benefits were paid, 65-year-old men could expect to live almost another 12 years and women another 13.4 years.
- Today, men retiring at 65 can expect, on average, 16 years of benefits and women more than 19 years.

- By the time today's high-schoolers begin retiring in 2050, 65-year old men are expected to live another 18 years and women another 21 years.
- Or to turn it around, for people today to spend the same number of years collecting benefits as the typical 65-year-old when the program began, they would have to wait until 72, and by 2030 they would have to wait until 74.

But the problem posed by an aging population is not just that benefit spans will lengthen. We also expect to be coping with a labor shortage. The population 65 and up will double by 2030, but the working-age population will grow by only about 15 percent during the same period. This projection assumes that birth rates hover indefinitely around 1.9 births per woman rather than following the downward trend seen in 19 of the 22 other most developed countries.

Instead of increasing our supply of working age people by 2 percent each year as in recent decades, or even the current 1 percent rate today, between 2010 and 2050, workforce growth will slow to a crawl: just 0.3 percent per year. There will be just barely enough new workers each year to replace those who are leaving.

Growing our economy could help finance benefits for a mushrooming retiree population. But, boiled down to essentials, economic growth depends on two factors: increasing the number of workers, and increasing how productive each worker is. Since no one has a sure-fire recipe for boosting worker productivity enough to make up for the slowdown in workforce growth, anything we can do to encourage people to work a few more years and encourage employers to accommodate older workers will help our economy.

## **B. Index for Longevity**

Any reform plan should also index initial benefits to changes in elder life expectancy. Without this provision, Social Security will once again drift out of balance; with it, the system's long-term cost will be stabilized relative to worker payroll.

## **C. Treat Social Security Benefits Like Private Pensions for Tax Purposes**

Making 85 percent of all benefits taxable is fair, and should be on the table as a means of increasing Social Security's revenues. The 85 percent taxability rule that now applies to beneficiaries with incomes over high thresholds could apply to all beneficiaries. The 15 percent exemption reflects an estimate of the dollar value of most beneficiaries' prior FICA contributions that have already been subject to personal taxation. It would thus bring the tax treatment of Social Security in line with the tax treatment of private pension benefits.

Since this provision would affect only those households with enough income to pay income taxes, it would maintain the progressivity of the program. It's worth noting that

because current law does not index the thresholds at which benefit taxation applies, a rising share of total OASDI benefits are now becoming taxable—and eventually 85 percent of all benefits will be taxable. Full benefit taxation is therefore already due to be instituted in the future (and future revenues from it are already included in current projections). What this option would do is to move to full benefit taxation right away.

The new revenue from this provision is not large (in today's dollars, never more than \$25 billion annually), but it is available immediately and thus generates critical near-term budget savings, which may be needed for the transition costs of any reform plan.

#### **D. Affluence test**

An affluence test for upper income beneficiaries could be designed as an alternative to full benefit taxation and generate roughly the same aggregate savings in every future year, which makes the two provisions substitutable. The appeal of full benefit taxation is its simple equity: It would merely subject Social Security beneficiaries to the same tax code as everyone else. The possible drawback is that it reaches deep down into the middle class. The appeal of the affluence test is its greater progressivity. The possible drawback is that it will be regarded as arbitrary.

#### **E. Change the Cost of Living Adjustment (COLAs)**

Cost-of-Living Adjustments (COLAs) are used in Social Security, the federal income tax code, and other programs to ensure that specified dollar amounts are adjusted every year for inflation, as measured by the Consumer Price Index (CPI).

There has been substantial debate about how accurately the CPI measures the true cost of living. A 1995 commission chaired by Michael Boskin estimated that the CPI overstates it by 1.1 percentage points. There are many sources of bias, some very technical. For example, the particular market basket of goods used can rapidly become out of date. The basket based on surveys taken between 1982 and 1984 was still in use through 1997. This means, for one, that new products can be ignored completely.

Although the government has made some improvements to the CPI in recent years some experts, including Federal Reserve Board Chairman Alan Greenspan, believe that CPI still overstates inflation and thus over compensates beneficiaries. Additional adjustments to the CPI may thus be in order. However, a great deal of caution must be used in deciding whether to make ad hoc COLA reductions. While over-indexing Social Security squanders budget resources, setting COLA's *beneath* a fair measure of inflation is not the right way to balance the system since it would unfairly penalize the oldest and poorest beneficiaries.

## **F. Change the formula for determining initial benefits**

The determination of a retiree's initial Social Security benefit check is based on the calculation of Averaged Indexed Monthly Earnings (AIME). The amount of money earned by an individual each year of work is multiplied by the increase in average wages that has occurred up to the year of eligibility for Social Security, and then the average of the highest 35 years (fewer for those receiving disability benefits) of indexed wages is taken and divided by 12 to get the AIME.

Once the AIME is calculated, the Primary Insurance Amount (PIA) is determined by applying the "primary insurance amount formula." This progressive formula is designed to replace a share of annual pre-retirement income based on three "bend points." (90 percent, 32 percent, and 15 percent.) For example, in 2001 the replacement rates are 90 percent of the first \$561 of average monthly earnings, 32 percent for earnings up to \$3,381, and 15 percent of higher earnings up to the taxable maximum.

One way to reduce Social Security's long-term cost would be to lower the bend points across the board. Or if preferred, reduce the replacement rate within each bend point bracket on a progressive basis that would protect low-income workers. This later approach would work particularly well with a system of personal accounts, which in the absence of some other mechanism such as savings matches paid out of general revenues, would make the overall system less progressive than it is now.

Another option, which has been used in Great Britain to stabilize its long-term pension outlook, would be to index initial benefits to the growth in prices (CPI) rather than to the growth in wages. Under this approach, the purchasing power of benefits would be preserved. Benefits, however, would grow more slowly than wages — thus helping to stabilize the total cost of Social Security as a share of the economy. Given where federal spending on retirement and health care is headed, it may well be wise policy to break or alter the automatic link between benefits and wages. According to the General Accounting Office (GAO), spending on Social Security, Medicare, and Medicaid will grow from less than 10 percent of GDP in 2001 to over 20 percent of GDP by 2050.

This must result in one of three outcomes: large tax hikes, resurgent and unsustainable deficits, or the withering away of the rest of government — allowing spending on the poor, on infrastructure, and on defense to steadily decline decade after decade. No one believes that the federal government's sole function should be to transfer income to retirees at the expense of all other government functions. But that is the inevitable consequence of adhering to two widely held-and entirely contradictory-goals: limiting the size of government and allowing senior benefits to consume an expanding share of GDP.

## **VIII. Looking Ahead**

Today's Social Security system is more than adequate to meet its obligations to those who are already retired. Indeed, today's retirees, on average, will get a better deal from Social Security than any category of similarly situated retirees will enjoy in the future. And, while the baby boomers can expect less generous benefits relative to their payroll contributions than their parents now enjoy, fairly modest changes could be enacted to keep the current system solvent for most boomers.

But what of the so-called Generation X'ers, those born in the post-boom "baby bust" years of the late Sixties and Seventies? And, what of today's children, those who are now relying on their baby boomer parents and WWII generation grandparents to leave behind a growing economy, to say nothing of a secure retirement system?

Too often, it is the young who are overlooked in the Social Security reform debate. And yet, today's young people are the ones who are expected to pay the higher taxes, accept the lower benefits, and bear the burden of debt incurred between now and their "golden years" to keep the current pay-as-you-go system going for their elders.

In the end, Social Security reform is about the young. It is about today's workers and retirees exercising stewardship over the future, and preserving the sacred trust of generational responsibility.