



Social Security CHOICE

by Brad Cook

The focus of the current Social Security debate should be not on whether the crisis is upon us now or some years in the future. Instead the focus should be on the opportunity at hand to improve on one of the longest-running and most important government programs that affects all working Americans by moving to Personal Retirement Accounts (PRAs). The arguments for this improvement to Social Security can be justified and remembered by the acronym CHOICE (Choice, History, Ownership, Inheritability, Control, and Empowerment).

Choice: Americans should be allotted the choice between continuing to commit their tax dollars to an insolvent, Ponzi scheme, government-run retirement system, or one that gives individuals more control and ownership over their retirement. To date, every major reform proposal offers optional PRAs. Individuals would have the choice of voluntarily investing a portion of their Social Security taxes into a mix of safe bond and stock funds. If individuals do not feel comfortable as investors, they can choose to continue under the current Social Security program.

History: If Social Security was to begin today from scratch, then we would want to include personal accounts. Had President Johnson included PRAs in his Great Society reforms to update FDR's New Deal, the monthly retirement income for an average forty-year worker retiring today would be about 30% higher.¹ Social Security taxes have been raised over 20 times since the program began. Originally, Americans contributed 1 out of every 50 dollars earned to Social Security; they now contribute 1 out of every 8 dollars earned. Clearly, higher taxes do not help.

Ownership: Despite popular belief, the Social Security Administration does not place each worker's taxes paid into an account from which their benefits are drawn from during retirement. Payments made by today's workers are used to pay the benefits of today's retirees. According to the 1960 Supreme Court ruling in *Flemming v. Nestor*, Americans have no contract with the government guaranteeing the level of benefits received or, indeed, that they will receive benefits at all. Social Security is a social program of Congress and the level of benefits received is up to the whim of 535 Congressmen whom most of us have never met. PRAs would give every American the opportunity to invest in and own their nest egg, which would be especially beneficial to low wage workers who currently lack the discretionary income to invest.

Inheritability: As individuals are given the opportunity to build a nest egg they will also be given the opportunity to pass on real assets after their death. Again, the opportunity to inherit PRAs would be most beneficial to low-income families, but would make the system fairer for all workers. Under the current system, family members of the deceased, depending on their relationship and family size, can receive survivor benefits, but are not entitled to inherit the money that the deceased individual

A Publication of:

Public Interest Institute at Iowa Wesleyan College

600 North Jackson Street

Mt. Pleasant, Iowa 52641-1328

Phone: 319-385-3462 Fax: 319-385-3799

E-Mail: public.interest.institute@limitedgovernment.org Website: www.limitedgovernment.org

contributed to Social Security over a life time of hard work. This is especially disheartening for low income families because they are unable to pass wealth on to their children, thus resulting in a continued cycle of poverty and inequality.

Control: Under the current system, the government does not trust Americans to control their own money. PRAs would give Americans more control over their final futures. Despite whatever Senate Minority Leader Harry Reid may say, the risk would be relatively limited, and Americans would not be able to gamble away their retirement at the roulette wheel. In many ways, it is more risky for Americans to leave their retirement in the hands of Congress. If Congress chooses not act to on this present opportunity, then they will be forced in the future to either raise taxes, cut benefits, or both.

Empowerment: German chancellor Otto von Bismarck can be credited with creating the modern day state pension system during the 1870's. Bismarck's biographer, A. J. P. Taylor wrote, "Social Security has certainly made the masses less independent everywhere."² In other words, Social Security has made Americans dependent upon Congress for their retirement. By allowing Americans to own at least a portion of their retirements, PRAs would empower Americans to have a stake in their retirements. The current system controls the political football. Since benefits are under the control of the government elect, every election is first a competition over who will provide the most popular retirement benefits, with most other issues become an afterthought.

Clearly we can expect strong debate from all parties involved on the opportunity at hand to improve Social Security. What is offered here represents just a few of the many aspects involved in this debate. However, CHOICE justifies Personal Retirement Accounts as central to any meaningful reform.

(Endnotes)

¹ Kirk A. Johnson, "What Could Have Been: How PRAs Would Have Benefited the Baby Boomers," The Heritage Foundation, *Background*, No. 1836, March 29, 2005, <<http://www.heritage.org/Research/SocialSecurity/bg1836.cfm>>, (4/3/05).

² A. J. P. Talyor, *Bismarck: The Man and the Statesman*, London, Hamish Hamilton, 1955, p. 203.

Brad Cook is a Research Analyst with Public Interest Institute.

*Permission to reprint or copy in whole or part is granted, provided a version of this credit line is used:
"Reprinted by permission from INSTITUTE BRIEF, a publication of Public Interest Institute."
The views expressed in this publication are those of the author and not necessarily those of
Public Interest Institute. They are brought to you in the interest of a better-informed citizenry.*