Pay Me Now or Pay Me Later, But You Will Pay
by Arlan DeBlieck

Until recently, Social Security was a "sacred cow" that no politician could change without taking a political beating. As Americans experience a strong economy and stock market, they are noticing performance differences between private retirement accounts and Social Security. The performance differences, combined with this country's first budget surplus in thirty years, are finally focusing serious public attention on fixing Social Security.

Social Security is an unfunded, pay-as-you-go system similar to a Ponzi or an illegal pyramid. All pay benefits with the receipts received from new members. To keep the schemes solvent, there must be a continuous increase of new members. In the 1940s when the payroll tax was in its infancy, there were 16 workers supporting one retiree; by 2030 that ratio will drop below 2:1. Decreasing birth rates, increasing average life expectancy, and a declining worker-to-beneficiary ratio are bankrupting the system. The discounted value of all projected surpluses and deficits for the Social Security trust fund through 2032 is an unfunded liability of $8 trillion.

Another problem with Social Security is the trust fund. Most Americans believe the current system has an account with their Social Security number on it collecting interest for retirement; nothing could be further from the truth. IOUs are issued for the surplus tax collections, which are counted in with the General Fund and are spent. In theory, when the trust fund begins running deficits, these IOUs can be repaid by the General Fund to pay beneficiaries. Since there are no hard assets to back these IOUs, the Congress will need to raise money to pay for the funds it borrowed in earlier years. The only way it can raise the needed money is to raise taxes, cut other government programs, issue more debt to pay the debt, cut benefits, or a combination of these options.

When counting the IOUs as a debt (which is a source of debate), the $8 trillion unfunded liability increases to $18-20 trillion. To put this into perspective, our current Gross Domestic Product is approximately $8.3 trillion; total value of all stocks traded on the New York Stock Exchange is $12.8 trillion. Trust fund IOUs are backed by the good faith of the United States government. However, in Fleming v. Nestor the Supreme Court ruled that individuals were not guaranteed benefits even though they paid into the system. This means that Congress can change benefit levels anytime it sees fit. This would not be the case if workers were allowed to save into private accounts much like 401(k) accounts.

There are at least a dozen different plans for fixing Social Security. Most of the variation centers around the degree of private ownership and benefit levels. Social Security is government-managed and benefit levels are determined by a formula (defined benefit). Fully privatized plans would give the workers 100% ownership, require them to invest their half of the payroll tax (6.2%) into an approved savings vehicle, and allow employees to keep all of the benefits that the account can produce. These are commonly referred to as Personal Savings Accounts (PSAs).

Full privatization is the only way to secure retirement fairly for every working American. The cornerstone of this premise is the recognition of PSAs as private property. When working Americans get to
keep their portion of the payroll tax now used to support the current system, it no longer is a tax, but an investment. Private property designation makes it more difficult for the government to use these funds to support current spending. Every account will be pre-funded and asset-backed, and have an undefined benefit level.

The current system discriminates against people who can not beat the average for life expectancy. Actuary tables show African-American males and the working poor do not live as long as wealthier groups, and tend to die before they collect their full benefits. With fully privatized accounts, demographics do not define benefit levels. If a person dies before retirement, the PSA can pass to an heir; under the current system, the government keeps the money.

An additional benefit of a fully privatized program is that within three years of implementing the system, over 90% of Americans will have money invested either directly or indirectly into the market. That means workers will finally have a financial, as well as an employment, interest in America. Our current system redistributes money to a designated class of people. Under privatization, America would truly become "employee owned."

If the system remains unchanged, the Social Security trust fund will begin running annual deficits in the year 2013, and will be insolvent by 2032. The total of the annual budget surpluses between now and 2013 will keep the system afloat through 2032. To keep the system going for another 75 years, taxes will have to increase from 12.4% to 18%, benefits will have to decrease by 33%, and the retirement age must rise. These drastic remedies would provide only a temporary fix. To ensure real retirement security, privatizing Social Security with full individual property rights is the only permanent solution.

ENDNOTES:

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