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Young people must consider their future Social Security burden

By **MATT MOORE**

At the first press conference after his re-election, President Bush outlined the agenda for his next four years.

When asked about the timeline for fulfilling his chief domestic campaign pledge to reform Social Security, the president replied, "We'll start on Social Security now. We'll start bringing together those in Congress who agree with my assessment that we need to work together. We've got a good blueprint to go by."

The president's declaration should signify to everyone that Social Security is no longer the third rail of American politics.

And that's a good thing. We younger workers were finally starting to notice that the system's \$11 trillion long-term debt will come out of our pockets unless we do something to set the program on a fiscally sound track.

So what should we expect from the president? What's this "blueprint" he referred to?

Back in 2001, Bush assembled a 16-member bipartisan task force chaired by Sen. Daniel Patrick Moynihan, a New York Democrat, to study Social Security's problems and find a way to allow today's workers to pre-fund part of their retirement benefits and reduce the system's long-term debt.

In December 2001, the president's task force delivered a couple of different plans to do just that.

The most prominent plan would create personal retirement accounts, which would allow younger workers to set aside part of their income in a personal account they can own and control, which will pay part of their benefits at retirement.

This does not in any way affect current and near-retirees. They would continue participating in the current system and receive scheduled benefit levels and cost-of-living increases.

Under the new plan, a participating worker could invest in a personal retirement account by diverting 4 percentage points of the 12.4% payroll tax he and his employer already pay.

The worker's expected benefit from the current Social Security system would be reduced by some factor based on what the worker accumulates in his account.

As workers with personal accounts begin retiring and drawing a portion of their benefits from the accounts, the burden on future taxpayers would be significantly reduced.

Would the president's plan

work? Shortly after the commission finished its work, actuaries at the Social Security Administration examined the plan.

Their conclusion? While the plan would require an initial infusion of funds - some \$2 trillion over the next several decades - the plan saves about \$11 trillion and sets the program on a path to fiscal sustainability.

Readers should note that Social Security benefits under a reformed system should be compared with what Social Security can currently afford, not what it promises.

The reason? The program can't meet its promises without a cash infusion of an extra \$11 trillion. If we compare reformed benefits to what Social Security

promises, we unfairly give the current system an \$11 trillion "leg up" in the competition.

The Social Security Administration says a median earner (\$35,277 in 2002) Gen-Xer retiring in 2042 would receive a monthly benefit of \$1,392 under the new plan, which is 128.8% of what Social Security can afford under the status quo.

A low wage earner (\$15,875) retiring in 2042 would receive a monthly benefit of \$986 under the new plan or 150% more than under the status quo, thanks to his or her personal account and the new minimum benefit rules included in the new plan.

Some people worry about the details - administrative costs, low-income workers

and inexperienced investors.

But the Social Security Administration, the Government Accountability Office and the Congressional Budget Office show ways the accounts can be structured to keep administrative costs low, prop up the lower-income workers' accounts and protect inexperienced investors.

The president is ready to get started on his second-term agenda. It looks like Social Security reform will be a top priority.

The president's approach is not risky or scary. It is well thought out and fair.

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