

# Reform Social Security to Tame a Tsunami of Red Ink

*By Bob McClure*

Much of the debate about soaring federal deficits has centered on Congress's profligate spending on pork barrel projects. Yet as *The Wall Street Journal* recently noted, "Some 84 cents of every dollar the government spends is essentially committed before the legislators even have at it."

The *Journal* was referring to entitlements, and Social Security is one of the three big three, along with Medicare and Medicaid. Together they cost the nation \$3 billion a day. Social Security spending is currently 4.2 percent of the nation's Gross Domestic Product (GDP). By 2050 it's projected to be 6.4 percent. Mind you, that's not the 6.4 percent of the federal budget; it's 6.4 percent of the GDP -- the sum total of the economy's commerce in goods and services.

So even though lawmakers' reckless spending is a problem, Washington's failure to reform entitlement looms as an even bigger problem. As Social Security exists today, the payroll taxes go to paying the benefits of current retirees. In the 1940s the ratio of workers to retirees was 42-1. Today the ratio is 3-1. With the 77 million baby boomers preparing to retire, the ratio of workers to beneficiaries will decline even further, turning the entire system on its head.

Some critics of Social Security reform say the system won't really be "turned on its head" until sometime around 2018. Yet ignoring this kind of actuarial problem now means that the eventual solution is likely to be more painful.

There are essentially three approaches to ensuring that future retirees will have an adequate income in their golden years. The first is to raise taxes. This has been done 40 times since the program began in the 1930s. The original Social Security tax was capped at \$60 a year. The annual cap has ballooned to \$11,000 today. In 1949, the Social Security payroll tax was 2 percent. Today it's 12.4 percent. Yet higher taxes have not solved the problem. In 2003, the Social Security Board of Trustees released a report showing that taxes would need to be raised 50 percent to save Social Security in its current form. Where would such taxes get us? Eighty percent of American workers already pay more in Social Security taxes than they do in federal income tax.

The second option is to cut benefits. This is simply tinkering around the edges of the problem. Draconian benefit cuts of up to 27 percent would be needed merely to preserve today's limping system for a little longer.

No doubt you have heard much about a Social Security Trust Fund. Some have even referred to a "lockbox." The reality is that there isn't a trust fund in the usual sense. Instead, it's simply a set of IOUs the federal government has written to itself, believing that somehow it will repay the debt in the future. In essence, this so-called "trust fund" is merely an accounting mechanism.

The only real option to fixing the Social Security dilemma is the establishment of Personal Retirement Accounts. By allowing participants to invest a portion of their payroll taxes, the subsequent growth of those accounts would close the gap of an insolvent system.

There are other benefits as well. For one, the workers actually have control of their savings. No longer is a faceless bureaucracy doling out your hard earned money or changing the terms of the agreement as it sees fit. Basic economics teaches us that private ownership provides a stronger incentive to care for and properly manage resources.

Opponents of a privatized system often argue that it would hurt lower-income and minority workers, believing somehow that the current rate of return -- a meager 2 percent -- is not an issue since Social Security is supposed to be an insurance plan.

This assumption is incorrect. As the Heritage Foundation reports, "Personal retirement accounts would allow lower-income and minority workers to earn more on their Social Security investments and could create assets that could be passed on to their families."

The leviathan called "entitlement" is gorging itself on the federal budget. Fiscal responsibility and the very definition of liberty demand reform. We can start with Social Security. With choice and accountability through Personal Retirement Accounts, all Americans can build meaningful wealth, ensuring a more comfortable retirement for themselves and a brighter future for their families.

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