

Social Security Solvency Problems Need Solving

***As seen in The Wooster Weekly News
September 29, 2005***

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(I am working on a revised version, of this article, and this represents a draft of that process.)

Social Security is 73 years old this year (2008). The program was designed by President Franklin D. Roosevelt to offer every American financial security and dignity, especially in their later years, whatever their circumstances.

In 2004, Social Security paid \$327 billion to retired workers, spouses and other dependents, but an additional one-third of paid benefits (\$166 billion) went to disabled persons and survivors of deceased workers.

Women are especially dependent on the financial support provided. Almost 30 million women receive some form of Social Security benefits, and this makes up 55 percent of older women's income, compared with just 39 percent for senior men. Women are 58 percent of all Social Security beneficiaries 65 and older, and 71 percent of all beneficiaries 85 and older. Nearly 7 million elderly woman escaped poverty in 2000 with the help of their monthly Social Security check.

Altogether, 13 million seniors of both sexes would be in poverty except for their Social Security benefits.

At the present time there is over \$1 trillion in the Social Security Trust Fund, and if no changes are made, the Fund will become exhausted in 2041 and revenues will be sufficient to pay only 74 percent of that year's scheduled benefits. (New estimates put the year the Fund will become exhausted at probably 2040, a year sooner.)

Capitalizing on this, the Bush Administration made several proposals which threaten the future of Social Security. The proposals would reduce benefits for many Americans, and the middle class would be especially hit hard, what columnist Paul Krugman has called "a gut punch to the middle."

According to the Center on Budget and Policy Priorities (www.cbpp.org) a "medium" wage earner (\$37,000/year) now makes \$22,100 in retirement benefits. With progressive price indexing and private accounts that the administration has proposed, he or she would receive just \$7,510 per year in retirement benefits. A "high" earner (\$59,000/year) now receives about \$29,300 in retirement benefits. He or she would receive only \$3,750 under the Bush plan. While it is true that "low" earners would keep their present benefit levels under current proposals, the prospect of future cuts there is something about which Americans will have to be vigilant. These proposals have not made much progress, but Republican interests are pressing hard and have an eager eye on the Fund.

About half of Americans work at companies that do not offer pensions. A crisis looms in the fact that major corporations' pension funds have been conservatively estimated to be under-funded by \$450 billion.

The majority of Americans polled do not support the administration's proposal, and the courageous opposition of senior's organizations such as AARP has effectively stalled the proposals. Look for a scaled-back private-accounts proposal to be proposed and voted on if somehow a Republican majority is attained in the fall elections and especially if John McCain is elected. Predications are for a shell of a much-reduced proposal that could be expanded later, when it is more politically expedient. It remains to be seen what effects the recovery costs from Hurricane Katrina, not to mention Iraq, will have on Social Security and social spending in general. Fixing Social Security and Medicare is not so easy when we are mired in an Iraq war which has cost America, so far, about three TRILLION dollars. But there ARE some good ideas out there.

Let us take a look at "private accounts," the cornerstone of Bush's proposals. Jason Furman at the Center on Budget and Policy Priorities, supported by some of the leading economists, including Goldman Sachs, conclude that "private accounts do not raise the rate of return." The 1994-1996 Advisory Council on Social Security compared three plans, two with private accounts and one under the current system, for a worker born in 1997. The two private account earners would make 2.2 to 2.6 percent annually, "while the rate of return under the plan that did not include private accounts was 2.7 percent."

What private accounts would most certainly do is decrease the Social Security Trust Fund by approximately 2 trillion dollars, by taking funds out of the Social Security tax base and by greatly increasing administration staff and costs. As it stands now, benefits payments exceed receipts for the first time in 2017. Under the administration proposals, payments would exceed

receipts in 2011, even when one includes the effects of the sliding scale payments – the “gut punch to the middle.”

Solving the Social Security solvency problem in an effective way could take several forms. As it now stands, annual wages above \$90,000 are not taxed by Social Security. Many of the wealthiest .1 percent (the “hyper-rich”) in America earn \$90,000 on the first day of the year (Washington Post, May 8, 2005). The “hyper-rich” – that highest .1 percent of the wealthy – now own 11 percent of the wealth of Americans (I think this may be up to 13 percent now). (The wealthiest 10 percent owns 53 percent of the wealth of America. Globally, the wealthiest 5 percent of people own 95 percent of the wealth.) Current dogma in Congress is that the cap on taxable wages must not be increased above the current \$90,000, although simply eliminating the cap would self-evidently solve the funding problem for Social Security, which exists mainly because the “baby-boom generation” is reaching retirement age. Barack Obama favors lifting the cap. This solution – eliminating the cap on taxes – has been suggested by numerous respected economic sources, but there seems to be no stomach for it in Congress.

Unfortunately it is the apparently-settled policy of the Democratic Party to not make major counter-proposals, because public opinion is against the Bush proposals. What exists now is a hostility to administration proposals and no major Democratic plan exists to be picked apart by the Republicans; apparently, that is how the party wants it to remain, for now.

From the above it can be seen that the only benefit of the administration’s proposal is to shore up stagnant stock markets and also to somewhat increase the average savings rate of individual Americans, helping the banking industry. A part of the scaled-back proposals now

about to be introduced and voted upon, would be the embryonic program for private accounts coupled with an automatic but also optional sign-up for 401(K) s. (You would be signed up unless you opt out.) “You can take it to the bank,” said one Republican lobbyist on condition of anonymity.

The American people need to tell Congress to actually fix Social Security, not make the funding problem worse, and the Democratic Party, whatever its strategy, needs to stand tall and tell the American people the truth.

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