

ty be voluntary. I thought that was a good idea then; I still think it is.

I find it hard to justify requiring 100 percent of the people to adopt a government-prescribed straitjacket to avoid encouraging a few “lower-income individuals to make no provision for their old age deliberately, knowing that they would receive the means-tested amount.” I suspect that, in a voluntary system, many fewer elderly people would qualify for the means-tested amount from imprudence or deliberation than from misfortune.

I have no illusions about the political feasibility of moving to a strictly voluntary system. The

tyranny of the status quo, and the vested interests that have been created, are too strong. However, I believe that the ongoing discussion about privatizing Social Security would benefit from paying more attention to fundamentals, rather than dwelling simply on the nuts and bolts of privatization.

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10 MYTHS ABOUT SOCIAL SECURITY REFORM

BY DAVID C. JOHN

The arguments against Social Security reform have rested on a great deal of incorrect and misleading information. These myths make it hard for workers to make informed decisions on their retirement finances that will affect not only their own well-being, but also that of their children and grandchildren.

A review of the common misconceptions about Social Security reform and the personal retirement accounts that have been included in proposals for reform will go far to promote a meaningful and productive debate.

Myth 1: Introducing Social Security personal retirement accounts reduce benefits for existing retirees and those close to retirement.

Fact: For now, Social Security is collecting more than enough money to pay both full benefits to those who have retired or are about to retire and to establish personal retirement accounts. As time goes on, the extra money needed for these accounts can easily be found using today’s method of financing Social Security. Under all circumstances, benefits to retirees and to those close to retirement will be paid in full.

Myth 2: Unlike investment in the stock market, today’s Social Security is risk free.

Fact: Social Security is subject to the risk that future generations may not be willing to pay the ever-higher costs of the promised benefits. If nothing is done, either taxes must climb by about 50 percent or Social Security benefits must be cut by about 35 percent.



Myth 3: The Social Security trust fund contains assets that make Social Security secure for the next forty years.

Fact: The Social Security trust fund is essentially the government lending money to itself, and then spending it. There is no pool of actual assets for paying future benefits. According to the Social Security Administration, starting in 2017, the government is going to have to come up with a total of about \$6 trillion in new money just to repay the bonds in the trust fund.

Myth 4: If Congress would stop spending the Social Security surplus and repay that money, there would be no need to fix Social Security.

Fact: Even if there were a way for the federal government to invest the Social Security trust funds, repaying the borrowed money would only delay Social Security’s financial problems. It would not solve them.

Myth 5: We can’t afford to establish personal retirement accounts, because starting such a system would suck between \$1.0 trillion and \$1.3 trillion out of the trust fund in the first 10 years alone. The Trust Fund would be exhausted 14 years sooner.

Fact: It is actually cheaper to establish personal retirement accounts than it is to do nothing. The exact amount needed in the first ten years will depend on the plan adopted, but it will probably be much less than what opponents claim. While transition costs would begin sooner with personal retirement accounts than if we do noth-

ing, the overall amount required to fix Social Security permanently will be less than a third of the cost of doing nothing.

Myth 6: Modest changes will fix whatever is wrong with Social Security. These modest changes might include raising the retirement age, making the wealthy pay taxes on all their income, faster economic growth, or similar measures.

Fact: The Social Security Administration says that over time, today's system will require a total of \$25 trillion (in today's dollars without inflation) more in revenue than it will receive in taxes. It will require much more than modest changes to raise that amount of money.

Myth 7: Personal retirement accounts would result in high administrative costs that would eliminate any benefits the accounts would bring. The only people who would benefit are the rich and Wall Street.

Fact: It would not be difficult to develop a simple personal retirement account system that would have very low administrative costs. State Street Trust has produced a realistic estimate of the cost of a personal retirement account. Using data from pension plans, State Street estimated an annual per-person administrative cost of \$3.38 to \$6.58, or between one-tenth and one-third of a percent of assets under management. State Street's findings were reviewed and accepted by the U.S. General Accounting Office.

Myth 8: The stock market fall proves how dangerous personal retirement accounts would be. If the Social Security trust fund had been invested in stocks, it would have lost billions of dollars in the last couple years.

Fact: Because retirement investing takes place over decades and not just a few years, today's stock losses will be more than made up by longer-term gains. Since 1802, stocks have earned an average of 7 percent annually after inflation. This average includes both the Great Depression and all recessions. Even after recent losses, a personal retirement account invested in stocks for the last 40 years would pay almost three times more in retirement benefits than today's Social Security.

Myth 9: Introducing personal retirement accounts would reduce Social Security's disability benefits.

Fact: Personal retirement accounts could easily be designed to avoid any changes in disability benefits. Although Social Security's retirement and disability programs currently use the same

formula to calculate benefits, there is no reason why Congress could not continue to use the existing formula to calculate disability benefits even if the retirement formula were to change. That would leave disability benefits unaffected by the change in retirement benefits.

Myth 10: Lower income and minority workers are better off in today's Social Security.

Fact: 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.

To receive a favorable rate of return on Social Security payments, a worker has to live long enough to receive in benefits more than the amount that he or she paid in taxes. Statistics show that lower-income workers have a shorter average lifespan than upper-income workers do. Therefore, although they receive higher benefits relative to their incomes, they receive them for a much shorter length of time.

Conclusion

Workers deserve a better quality debate on Social Security reform than they are getting. The fact is that while today's Social Security can pay for all the benefits that it has promised older workers and those who have already retired, it cannot do so for younger workers.

There are only three ways to cure Social Security's problems. The simplest way to fix Social Security is to either raise taxes and/or reduce benefits. These measures take care of the coming financial crisis.

Unfortunately, they also make rates of return even worse than they are today. Essentially, one is paying more, getting less, or both.

The only other alternative is to make payroll taxes work harder by allowing workers to invest all or a part of them in stocks or bonds through personal retirement accounts. Since stocks and bonds give workers a much higher rate of return than the current form of Social Security can offer, personal retirement accounts can both improve retirement income and help to close the gap between what today's Social Security promises and what it will be able to pay.

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