

The Question Isn't Whether Social Security Will Be Around But How We'll Pay For It

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The question isn't whether Social Security will be around but how we'll pay for it [Fort Worth Star-Telegram, Texas] By Jack Z. Smith, Fort Worth Star-Telegram, Texas

May 26--"Is Social Security still going to be around when I retire?"

That's a question that concerned American workers are asking at a time when employers are increasingly opting not to provide traditional pension plans or freezing existing ones. Meanwhile, 401(k) plans have been ravaged by a prolonged stock-market free fall, and some employers have ceased matching contributions for them.

The concern about retirement security escalated another notch May 12, when Social Security trustees projected that payroll tax revenues flowing into the program will fall below program costs by 2016 -- a scant seven years away and a year earlier than forecast last year.

By 2037 -- four years earlier than previously forecast -- Social Security's trust funds are projected to be exhausted, leaving the program with only enough revenues to pay about 75 percent of benefits.

The forecasts have become more pessimistic as a result of the deep recession, which has resulted in a net loss of 5.7 million jobs since December 2007 and an unemployment rate of 8.9 percent in April, the highest in 25 years. That means less payroll taxes going into Social Security.

Social Security's long-term fate is significant in terms of retirement security because it is the biggest single source of income for older Americans.

Social Security benefit checks provide 38.6 percent of the total income of Americans 65 and over, according to the Employee Benefit Research Institute. Other sources are earnings, 25.3 percent; pensions and annuities, 18.6 percent, income from assets, 15.6 percent; and other, 1.8 percent.

About 94 percent of current American workers pay into Social Security, but less than half are active participants in a 401(k) plan and less than a third have a traditional defined-benefit pension plan.

Social Security isn't just a retirement program, however. It also provides disability and survivor benefits. Given its broad reach, it's understandable why American workers might ponder the question "Is Social Security still going to be around when I retire?"

Robert Bixby, executive director of The Concord Coalition, thinks it will. The group is a nonpartisan federal government watchdog devoted to reducing budget deficits and dealing with the long-term funding shortfalls facing Social Security and Medicare.

"I don't think there's any question that Social Security is going to be around," Bixby said in a telephone interview. "It's been an enormously successful and popular program. I think the question is how we're going to pay for it.

"We need to do some reform right now," Bixby said. "You can either adjust the benefits or raise the taxes, or a combination of both, which is probably what it's going to take."

The funding issue is becoming more serious, he said, because baby boomers "are beginning to collect early retirement benefits, so you've got an uptick in the number of beneficiaries."

Treasury Secretary Timothy Geithner warned May 12 that "the longer we wait to address the long-term solvency" of Social Security and Medicare, "the harder the options will be."

By 2034, the Social Security Administration expects almost twice as many people age 65 and over as today, with the number ballooning from 38.6 million to 74 million.

There are now 3.3 workers for each Social Security beneficiary. By 2034, there are expected to be 2.1 workers for each beneficiary.

Many suggestions have been made in recent years for alleviating Social Security's funding dilemma. Examples include:

Raising the payroll tax by various amounts, such as a penny for each \$1 of employee earnings. (Currently, an employer and employee each contribute 6.2 cents, for a total of 12.4 cents, while the self-employed pay 12.4 cents.)

Slowly increasing the age for receiving full Social Security retirement benefits, based on longer life spans. (Currently, those born from 1943 to 1954 can receive full benefits at 66; for those born from 1955 to 1959, the full-benefit level rises two months each year; and those born in 1960 and later cannot get full benefits until 67. Everybody can receive reduced early retirement benefits at 62.)

Substantially expanding the top income level (currently \$106,800) subject to Social Security payroll taxes.

Tweaking formulas that determine the initial level of Social Security benefits and annual increases in benefits.

Partially "privatizing" the program.

The Cato Institute, a think tank with libertarian leanings, supports allowing workers to privately invest at least half their Social Security payroll taxes through individual accounts. But a partial privatization approach was fervently promoted by George W. Bush during his presidency and got nowhere politically.

So when will Congress address the Social Security issue?

"At the earliest, next year," Bixby said. "It may well be after the 2010 elections. If not then, I would suspect definitely after the 2012 elections.

"Traditionally, people have said this is an issue that a president tackles in his second term," Bixby said.

If nothing is done in the next seven years to address the problem, and the Social Security trustees' new forecast proves accurate, the issue could escalate to a more serious level in 2016, the year costs outstrip payroll taxes.

At that point, the program will have to start dipping into its trust funds, which hold about \$2.4 trillion in assets.

But there's a big catch. Those assets are in the form of IOUs from one branch of the government, the Treasury Department, to another, the Social Security program. Congress has perennially spent surplus Social Security payroll tax revenues for purposes other than paying Social Security benefits.

"It's been like a slush fund," Bixby said. But the debt owed by Treasury to Social Security is in the form of special-issue, interest-accruing bonds that are "perfectly good," Bixby said.

When Social Security officials must dip into the trust funds to have enough money to pay beneficiaries their monthly checks, they will turn to the Treasury secretary and say, "Pay up," Bixby said.

That's when Treasury will have to "find the money," perhaps by selling more government bonds to raise revenue, Bixby said.

Supporters of the Social Security program, such as AARP and the National Committee to Preserve Social Security and Medicare, hope that Congress will adopt reform measures to put the program on sounder financial footing well before the trust funds have to be tapped.

Social Security has been compared to a Ponzi scheme because it essentially operates on a pay-as-you-go system, with payroll tax revenues being appropriated to beneficiaries shortly after the money arrives in Washington.

"I don't think it's a Ponzi scheme," Bixby said. "It's not intended to defraud people. Everything's on the up and up, and everybody knows what's going on."

Bixby said Social Security's basic function "is to be social insurance. ... It's intended to be a floor of protection," with its array of old-age, disability and survivor benefits.

While Social Security benefits can greatly help in retirement, other sources of income, such as personal savings and a pension, are widely considered by financial advisers to be necessary to ensure a comfortable retirement.

Social Security, while the biggest single source of income for those 65 and over, "wasn't intended to be your sole source of retirement income," Bixby cautions.

Online: www.ssa.gov

By the numbers 50.6 million: Approximate number of beneficiaries in 2009

\$650 billion: Estimated benefits to be paid in 2009

\$1,153: Average monthly retiree benefit*

\$1,063: Average monthly disability benefit*

\$1,112: Average monthly survivor benefit*

38.6% of total income for people 65 and over

54.1% of total income for people 85 and over

88.7% of total income for poorest one-fifth of those 65 and over

*As of December

Sources: Social Security Administration and Employee Benefits Research Institute

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