Chapter 8
Improving Retirement Security Takes More than Posturing

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> We will guarantee a dignified retirement, and we will begin by fighting any attempt to privatize Social Security.
>
> —INCOMING HOUSE SPEAKER NANCY PELOSI (D–CA)

In its first 100 hours, the new House leadership hopes to pass a resolution opposing the "privatization" of Social Security. This would do nothing to address a real—and worsening—problem. Social Security has promised $6.5 trillion more in benefits to seniors and disabled workers than the program will be able to pay from its payroll taxes. The 2006 annual report of the trustees of the Social Security trust fund concluded that the program will require progressively larger transfers from general revenues to maintain its projected level of spending. However, Social Security's coming deficits are only part of an overall problem of retirement security. Among the 153 million working Americans in 2004, over 71 million worked for an employer that did not sponsor a retirement plan of any kind, and another 17 million did not participate in their employer's plan.[1] In order to provide Americans with real retirement security, Congress should make fixing Social Security a priority and take steps to improve the ability of all workers to build retirement savings.

Social Security's Growing Deficits

In present value terms, Social Security owes $6.5 trillion dollars more in benefits than it will receive in taxes. That number includes $1.9 trillion, in net present value terms, to repay the bonds in Social Security's trust fund and $4.6 trillion to pay benefits after the trust fund is exhausted in 2040.

Delay in dealing with these coming deficits only makes the problem worse. The total deficit grows each year because Social Security's financial position includes one year less of the current surpluses and one year more of the coming deficits. For instance, 2006's estimated deficit is $800 billion more than 2005's $5.7 trillion deficit, about a 12 percent increase.

Net present value measures reflect the amount of money that Social Security would have to have invested today in order to have enough money on hand to pay its future obligations. In other words, Congress would have to invest $6.5 trillion today in order to have enough money to pay all of Social Security's promised benefits between 2017 and 2080. This funding would be in addition to what Social Security receives during those years from payroll taxes.

Social Security will continue to collect more in taxes each year than it will spend on benefits until 2017.[2] Its trust fund will run out of money in 2040, a year earlier than the 2005 report projected, because low interest rates on

1. Craig Copeland, "Employer-Based Retirement Plan Participation: Geographic Differences and Trends: Employee Benefit Research Institute Issue Brief No. 286," October 2005, Figure 1, p. 7. Non-participants include those who are not eligible for their employer's plan and those who are eligible but who fail to participate. Among the subset of approximately 92 million full-time, full-year wage and salary workers between the ages of 21 and 64, 65 percent work for an employer that sponsors a plan, and 57 percent participate in an employer-sponsored plan.
2. For details about Social Security's fiscal condition, see Social Security Administration, *2006 Social Security Trustees Report*, May 1, 2006, at *www.socialsecurity.gov/OACT/TR/TR06/*.

government bonds will result in the trust fund earning less than previously expected. The projections also reflect a slight increase in the projected future birth rate and a slight increase in future productivity. Neither change significantly affected the program's projected future deficits.

What most reports about Social Security have missed is that Congress will have to start to deal with reduced surplus Social Security tax collections much sooner than it or the public expect. Starting in 2009, the roughly $100 billion annual Social Security surpluses that Congress has been borrowing and spending for years on other programs will begin to shrink. From that point on, Congress will have to find other sources to replace the money that it annually borrows from Social Security or reduce spending. The surpluses will end completely in 2017, the year when Social Security begins to spend more than it takes in.

In a little more than 15 years, today's $100 billion annual Social Security surplus will turn into a $100 billion annual deficit—a $200 billion change. From 2017 on, Social Security will require large and growing amounts of general revenue funds in order to pay all of its promised benefits. Even though these funds will technically come from cashing in the special issue bonds in the trust fund, the money to repay them will have to be found from other tax collections or borrowing. Moreover, the billions that go to Social Security each year will make it harder to find money for other government programs such as defense or Medicare.

Help Workers Save

The households that tend to be in the best financial position to confront retirement are the 42 percent of the workforce that participates in employer-sponsored retirement plans.[3] Employer-sponsored pension, profit-sharing, 401(k), and other plans can be particularly effective in accumulating retirement savings for employees. Traditionally, the take-up rate for IRAs (those who contribute as a percentage of those who are eligible) is less than 1 in 10, but the take-up rate for employer-sponsored 401(k) plans tends to be on the order of 7 in 10. The 401(k) programs make saving relatively easy by enabling employees to elect to have a portion of their pay deposited regularly and directly into a retirement account. These contributions are invested, accumulate on a tax-favored basis, and are often matched by employer contributions. In order to provide comprehensive retirement security, Congress should supplement existing retirement savings plans with innovations such as the Automatic IRA[4] so that all workers have the opportunity to build retirement nest eggs.

Recommendations

Passing a House resolution opposing Social Security "privatization" is at best unconstructive. While it indicates what the new Congress will not do, it says nothing about how to fix Social Security and provide all Americans with real retirement security.

Instead, Congress should consider a resolution stating that it places a high priority on developing a comprehensive solution to Social Security's future deficits that examines all aspects of the program and places a strong emphasis on increasing personal savings across all income levels. This approach would be the first step towards placing all entitlement programs on a sound financial footing and protecting our children and grandchildren from having to deal with those program's massive deficits.

In addition to stating its intention to deal with Social Security, Congress should indicate its bipartisan support for improving the ability of all workers to build retirement savings by improving 401(k) plans and developing retirement savings plans for the millions of workers whose employers do not provide any sort of retirement plan. Together, the two efforts would help to create real retirement security for all Americans.

3. Copeland, "Employer-Based Retirement Plan Participation," Figure 1, p. 7.
4. For more information on Automatic IRAs, see J. Mark Iwry and David C. John, "Pursuing Universal Retirement Security Through Automatic IRAs," February 12, 2006, at *www.heritage.org/Research/SocialSecurity/wp20060212.cfm*.