

Fixing Social Insecurity

SOCIAL SECURITY MUST BE PRESERVED

In the debate over Social Security, American workers are given a no-win choice: risk part of their promised benefits in private investment accounts, or risk not getting a benefit at all. While this *Social Insecurity* approach may be effective as a partisan call to action, it offers little in the way of constructive solutions.

Social Security benefits are not only the obligation of a trust fund, but also a sacred trust between our government and its oldest citizens. After 70 years, the program has become an integral part of American society and the primary source of income for two-thirds of our seniors.

At the same time, private investment remains a critical part of retirement planning.

SOCIAL SECURITY IS A SACRED TRUST BETWEEN OUR GOVERNMENT AND ITS OLDEST CITIZENS

Personal saving is the engine of capital investment and economic growth, but less than 1.2% of Americans' disposable income goes to savings.

Personal Retirement Accounts

The Institute for SocioEconomic Studies believes personal retirement accounts should be a key part of any reform effort. While retaining the Social Security benefit formula, our plan will give taxpayers the option to invest in a Supplemental Social Security-Based Retirement Account (SSSBRA). Workers can

make tax-deductible contributions amounting to up to half the value of their annual Social Security withholding taxes each year to an SSSBRA. Income generated by the funds in these accounts will be fully tax-deferred. An SSSBRA will be held in addition to existing IRA, pension, Keogh or other retirement programs. Moreover, the SSSBRA accounts will offer immediate vesting and portability. The taxpayer will *own* the SSSBRA account, and any undistributed balances can be passed on to heirs. SSSBRA distributions will start at the same time as Social Security benefits, and will be subject to a special, reduced tax rate of only 50% of the account holder's then-current income tax rate.

Benefits Across the Board

These additional savings could make a big difference to retirement incomes. By increasing one's annual saving by \$1,000 per year—just \$83 per month—and with a 6% return on investment, one can accumulate more than \$160,000 in additional assets after 40 years. Assuming the same 6% rate of return, this will allow each person more than \$9,500 in added retirement income each year.

This, combined with the after-tax cost of making annual contributions and the reduced tax rate on distribution, will give all Americans a great incentive to save. The resulting increased capital formation will strengthen the long term competitiveness of the U.S. economy, raise personal incomes, and help stabilize the Social Security Trust Fund, *all without any cost to the government.*

Now is the time to fix Social Insecurity. Supplemental Retirement Accounts can play a vital role in Social Security's future.

Visit our website to learn more.

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The Institute for SocioEconomic Studies is a private operating foundation that examines issues relating to economic development, poverty, health care reform, and the quality of life.