

To the Editor: The Plan You Asked For

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To the Editor:

In a March 26 editorial, *The New York Times* stressed that progressive tax and benefit reforms necessary to preserve the Social Security system should also include initiatives to “make it truly easier to save for retirement.” That makes good sense, since boosting saving leads to greater investment, higher incomes, and increased tax revenues. But, while the editorial concedes that “good ideas for accomplishing those goals are already out there,” its title and key premise (“Add-On Accounts Add No Value”) seemed to close the door on these ideas.

This Institute’s proposed Supplemental Retirement Savings Account (RSA) should not be judged only in relation to the ongoing Social Security financing debate. The biggest risk to retirement income is the growth in government spending, combined with our nation’s low savings rate. Currently, Americans save less than 2% of their disposable income—far below world averages.

Social Security is a bellwether of the U.S. economy, and the Trustees employ economic assumptions in forecasting the long-term stability and performance of the Trust Fund. It thus follows that Social Security’s future growth potential will be determined by policies that either promote or inhibit economic growth.

Raising taxes and/or cutting benefits can ensure the long-term solvency of Social Security, but at the cost of reduced economic growth and lower income for retirees. By contrast, the Institute’s RSA can add to private investment, help Americans supplement their retirement earnings, and strengthen the economy.

The Institute’s plan would permit workers to supplement their Social Security savings by an amount equal to up to half the value of their annual payroll taxes. Those savings would be tax-deductible and earn interest tax-free. Once a worker becomes eligible for Social Security, distributions from the RSA would be taxed at half his or her tax rate. To protect investors, at least half of RSA contributions would have to be in low risk instruments. There would be no tax on distributions of income from such investments.

The plan would be particularly attractive to younger workers. Given historic returns, if a worker saved \$1,000 per year over 40 years, investing half of the funds in equities and half in Treasury bonds, he or she would accumulate \$139,000 in assets. Annuitizing these savings over a 20-year period at the historic real Treasury rate would produce \$9,250 in additional annual retirement income.

The federal government would also win. Although it would lose tax revenue up front from the tax deductibility of contributions, real tax revenue from the above annuitization would be 30%-45% higher than foregone revenue. And, all tax revenues from RSAs would be paid into the Social Security Trust Fund, thereby contributing to the long-term stability of the Trust Fund.


President

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.