

Honoring the Social Security Contract

Is SOCIAL SECURITY GUARANTEED?

Yes, it most certainly is. The problem is that the value of the U.S. dollar—its purchasing power—is not. The current deficit led to a 7% decrease in the value of the dollar in just one week! For those on fixed incomes, this is a 7% decrease in purchasing power.

The Federal government's guarantee that you will receive Social Security is considered a binding contract. Why, then, is "saving Social Security" the buzz-phrase of the hour?

THE BUDGET SHORTFALL

Social Security funding is pay-as-you-go. That means that retirement benefits are paid directly from taxes on employees. Today, there are 3.3 workers for every retiree, but as the population ages over the next 20 years, that ratio will drop to two-to-one. In order to fulfill its obligation to seniors, the government will have to pay out more than younger workers provide to the fund. This creates a budget shortfall.

NON-SOLUTIONS

The government can meet this shortfall in several ways. It could increase payroll taxes, raise the retirement age, or restrict eligibility for Social Security—but these measures would be politically risky. It could borrow money, running up a greater deficit and risking inflation. But, since retirement benefits are indexed to inflation, budget costs would go up further. This would increase the shortfall, weaken the dollar, and over the long term, undermine the economy.

Chief among the current proposals is to allow workers to invest part of their Social Security withholding in private accounts. This would potentially increase the return on contributions and give workers a sense of ownership—but at the risk of losing their investment. Also, by drawing money out of the trust funds, it would force government to borrow huge sums just to honor its guarantee.

ENSURING RETIREMENT SECURITY

An Omnibus Reform Plan recognizes that retirement, health care, and the economy are part of the same issue. It would thus maintain a secure funding source for Social Security, combined with incentives for individuals and industry to grow the economy. The economic benefits would be shared across the population and assure adequate funds for retirement.

Elements would include:

- Social Security benefits for all seniors, even when they continue to work.
- Savings accounts that grow tax-free until withdrawal. Americans need to save more and this is an important incentive. Individual savings, not just for retirement, boost the value of the dollar and make capital available to grow the economy.
- A flat income tax rate coupled with a national tax rebate, to create a Smart Tax. By returning a portion of collected tax directly back as income to all citizens, the tax would benefit everyone and lift the poor out of poverty.
- Tax exemptions for all medical expenses (including prescription drugs), education, and charitable donations. Tax-free savings allow individuals to save for their important needs.
- Catastrophic medical coverage. The Medical Allowance would be adequate to cover routine medical expenses. Annual expenses over that amount would be covered by federally regulated and administered health insurance. This is a cost-effective way to protect seniors and those seriously ill from devastating medical expenses. It also puts health care back in the hands of doctors and patients, away from bureaucrats.

Sound too good to be true? It's not. Columbia University has done the numbers for our book, *The National Tax Rebate*. Visit our website for more details.

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