

MUSCATINE JOURNAL

It's 'broke' so it's time to fix it

By Derrick Max
Muscatine Journal
9 May 2005

Social Security is a 1930s program designed to meet the needs of its time. Under Social Security, current retirees receive their benefits from the taxes paid by current workers.

In 1935 when my grandparents were working, there were more than 40 workers paying into the system for every retiree receiving money from the program. Over the last 70 years, however, that number has plummeted. Today, there are just three workers paying in for every worker taking out.

And that ratio continues to drop. In fact, by the time my four-year-old twins are in the workforce, there will be just two workers paying in for every retiree receiving benefits. It does not take an economist to understand that fewer and fewer workers supporting more and more retirees means Social Security is on a path to bankruptcy. The system as currently designed cannot be sustained for today's younger workers, much less the workers of tomorrow.

That is why Social Security must be fixed now. And while it is being fixed, we ought to strengthen it for tomorrow's retirees by including voluntary personal retirement accounts.

Personal retirement accounts will give younger Americans the opportunity to build retirement nest eggs of their own. Personal retirement accounts would be voluntary, and, when chosen, would complement a guaranteed benefit that would be similar to the existing benefits paid to today's retirees. .

Any plan to fix Social Security must of course maintain the current system and the benefits expected by today's seniors and those nearing retirement, such as those in my parents' generation. That's why there would be no changes in benefits, and no personal retirement account option for workers born before 1950.

Of course, since most 25-year olds are not experienced investors, voluntary personal retirement accounts must also include guidelines to ensure sound investment choices – and to make sure that the money can't be taken out of the account until retirement. Personal retirement accounts should be limited to a select group of conservative, broadly diversified investment funds, such as a secure government bond fund, a corporate bond fund and a stock index fund.

The system must be built on a premise of safety. Life-cycle portfolios that automatically and gradually shift personal retirement account funds into even more conservative investments as workers near retirement could be incorporated into the choice of funds available to workers.

Perhaps the best aspect of personal retirement accounts is that we know they will be there for today's younger workers when they retire – unlike the current benefits promised under Social Security. And sound, long-term investing of a portion of their payroll taxes coupled with a modest guaranteed Social Security benefit can result in a higher rate of return than the current system could ever afford to pay.

If my twins could have the option of voluntarily putting a portion of their Social Security taxes in a personal retirement fund, I would be confident they would still receive a stream of guaranteed

benefits when they retire. But they would also have the chance to build a nest egg for retirement, funds which could also be passed on to their children – my great-grandchildren.

Social Security is a great American institution, but it was designed for a different – and distant – era. It's time to fix Social Security to meet the needs of the workers of today – and tomorrow.

America's future depends on acting now to reform the program instead of waiting until my twins are entering the workforce. Social Security is on a certain path to insolvency, and it has to be fixed. Those who are afraid to take on this issue are passing the buck to future Congresses – and passing the bill for crushing tax hikes or devastating benefit cuts on to our children and grandchildren.

Derrick Max is executive director the Coalition for the Modernization and Protection of America's Social Security (CoMPASS)