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THE SOLUTION TO FIXING SOCIAL SECURITY

In a few years -- sigh -- I'll be eligible for Social Security. But Social Security could be broke before I receive benefits.

The Social Security Trust Fund will be in the red by 2014, and by 2036 will be unable to pay all the benefits promised, Social Security's trustees said in their annual report.

It's worse than that, because there is no money in the Social Security Trust Fund. The $2.6 trillion collected in payroll taxes since 1937 long since has been spent.

What there is in the Social Security Trust Fund are IOUs from the Treasury department. IOUs Treasury can't possibly make good, because federal spending vastly exceeds all other tax revenues. The Social Security Trust Fund is an accounting fiction.

This means that if Social Security isn't put on a sound financial footing pronto, benefits will have to be cut a lot sooner than 2036.

How did we get into this mess?

In theory, our benefits are based on what we pay in payroll taxes. In reality, benefits are paid by the taxes of those who are still working. In 1940, there were 42 workers for each retiree. Today, there are fewer than three.

This is partly because fewer people are entering the work force, more because people collect benefits for a lot longer. When Social Security was created in 1935, average life expectancy was 61 years. Today, it's nearly 79 years.

Demographic bulges and busts wouldn't matter much if each of us had our own Social Security account, and our benefits were in fact based on what we contributed to it. But then politicians couldn't take our money and spend it on other things.

Benefits have increased a lot over the years, and have been extended to people who didn't pay into the system. But for many, Social Security taxes have gone up faster.

The rate of return most of us receive on what we pay into Social Security is frightfully low. The Federal Reserve Bank of San Francisco estimated in 1999 that low paid workers get a 4-5 percent rate of return; middle income workers 1-2 percent, and high income workers -- if they were born after 1975 -- will get back less in benefits than they paid in taxes.

If your Social Security taxes had been invested in the stock market between 1945 and 1989, you'd have gotten a rate of return of 13.57 percent, the Cato Institute estimated.

Because the SS trust fund is just an accounting gimmick, when payouts for benefits exceed payroll tax revenues, Social Security will become a big contributor to our mammoth national debt.

Raising the payroll tax would hurt more than help. It's already a major barrier to job creation, and without more jobs, Social Security can never be put on a sound financial footing.

Two things could. We could means test for benefits. Some conservatives object to this, on the grounds it would convert Social Security into a welfare program, but that ship sailed a long time ago.

More important would be to raise, gradually, the retirement age to 70, to match the gain in life expectancy for those who've reached age 65. This can be done without affecting those currently receiving benefits, or within five years of eligibility.

The kids would get screwed, again.

The kids expect to get screwed. Polls indicate most don't think Social Security will be there when it's time for them to retire. But if we make these reforms, maybe it would be.