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The Looming Social Security Crisis: A common-sense, free-market plan for reforming Social Security.

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Introduction:

Since the introduction of *The Path to Prosperity: Restoring America's Promise*, herein referred to Representative Paul

Ryan's budget proposal, earlier this month, Social Security reform has taken a backseat to the restructuring of Medicare. At this writing, Social Security remains the largest, most convoluted, and easiest to reform of the three entitlement programs. The purpose of this article is to examine the intricacies of Social Security, and offer a common-sense, free-market based reform proposal. The plan outlined in this article is an abbreviated version of the proposal outlined by the author in his seminal paper *The New Wave of the Future: Social Security Reform and the Future of Entitlement Spending.* With Social Security nearing insolvency, and millions of new Americans entering the system, lawmakers should make reforming this outmoded and dilapidated program a foremost priority. One of the most viable options for ensuring that Social Security remains solvent and available for the next generation is allowing individuals to assume control over their retirement futures. In fact, Social Security personal accounts are the "new wave of the future."

The Social Security Crisis:

The current government-run, pay-as-you-go system is projected to begin drawing on its reserves by the year 2015. In addition, the *2010 Social Security Actuaries Report* denotes that in 2015, Social Security will begin running permanent deficits that will require hundreds of billions of dollars to pay recipients their full benefits. What is more, in the next seventy-five years, the Social Security Trust Fund owes a whopping **$7.9 trillion** more than it will receive in payroll taxes. By 2037, Social Security will only be able to pay seventy-three cents on each dollar of benefits collected. The non-partisan, Congressional Budget Office, in a 2010 report, noted that by the year 2040, Social Security, Medicaid, and Medicare will consume one-hundred percent of government revenue. In addition, the report noted that the unfunded liabilities, or mandates, whichever idiom one prefers, owed by these two programs is a combined $**82 trillion over the next seventy-five years.** With unfunded liabilities as astronomically high as these, it is impossible for the United States government to function. As noted, by 2040, every dollar brought in by the federal government will go towards paying the benefits of these three programs. As a result, the federal government will be unable to fund its military, schools, roads, or the motley assortment of other programs that require federal funding. Supporters of the government run, pay-as-you-go system contend that the only feasible solution for reducing the exorbitant unfunded liabilities is to increase the payroll tax from 12.4%, to an unfathomable 14.2%, by the year 2055. An increase in what is already the highest tax paid by Americans on a yearly basis would be nonsensical, and pose a grave threat to the financial predicament of every American. As the reader can discern from the myriad of statistics provided, the current government-run, pay-as-you-go system is dwindling on the precipice of insolvency. Replacing the current pay-as-you-go system with one that allows for individual ownership and personal accounts should be a foremost priority of lawmakers on both sides of the political spectrum. Prior to outlining the specifics of this proposal, the author intends to discuss the impact that life expectancy rates and the baby boom generation are having on the current Social Security system.

Life Expectancy Rates and the Baby Boom Generation:

Social Security's insolvency is precipitated by an exorbitantly high number of recipients, coupled with a diminishing workforce. The architects of the Social Security system were unable to predict the titanic population influx that occurred in the middle of the twentieth century. From 1946-1964, seventy-seven million babies were born, constituting the most cataclysmic population increase in American history. In addition, to the seventy-seven million baby boomers, the earliest of which retired in 2009, the United States currently has forty-six million retirees. In the middle of the next century, the number of citizens sixty-five years of age and older will skyrocket to a whopping 80 million. In 1950, there were 50 workers for every one recipient of Social Security, whereas, today, there are 3 workers for every one beneficiary. By 2015, when Social Security begins running a deficit, there will only be 2 workers paying for everyone one beneficiary. As a result of the population influx and the diminishing workforce, an increase in the retirement from 65 to 67 is critical necessity. If Social Security intends to become solvent it is pertinent that beneficiaries began receiving their Social Security payments much later in life.

When Social Security came to fruition in 1935, the life expectancy rates were 60.8 years for males, and 65.2 years for females. Today, life expectancy for females is 80.2 years, and 78.0 years for males. The higher life expectancy rates have been instrumental in the decline of the pay-as-you go system. As aforementioned, if Social Security intends to become solvent it is pertinent that beneficiaries begin receiving benefits much later in life. With Social Security beginning its precipitous decline towards insolvency, it is pertinent that conservatives induce the electorate into believing that personal accounts are a viable solution for reforming this passé entitlement program.

Personal Accounts Proposals: An epigrammatic overview:

Personal accounts, as advocated by leading conservative scholars, and Republican politicians, are the antithesis of the derelict pay-as-you-go system. Since the inauguration of President Reagan in 1981, conservatives have worked assiduously to transform the Social Security system from a government-run entity, to one that is controlled by individuals and the free-market. Of the myriad of personal accounts proposals drafted in the past decade, none of them have come to fruition, due to trepidation over benefit cuts, and transfer costs. In recent years, two excellent Social Security reform policies have been proposed; the Ryan-Sununu plan of 2005, and the Tanner plan, named after Michael Tanner, a senior fellow at the Cato Institute. Both of these plans advocated for full, not partial privatization. The fundamental difference between full privatization and partial privatization is the amount of payroll taxes that can be invested in personal accounts. George W. Bush's 2005 proposal was considered a partial privatization plan, in that it afforded citizens with the opportunity to invest four percent of their payroll taxes into personal accounts. Conversely, a full privatization plan allows citizens to invest their share of the payroll tax (6.2 percent) into a personal account of their choosing. The Social Security reform proposal put forth by Michael Tanner, the taciturn entitlement expert at the Cato Institute, allowed citizens to invest the full 6.2 percent of their portion of the Social Security payroll tax into low-risk stocks or bonds, and would have created what is known as Life-Cycle Accounts. Life-Cycle Accounts allow the investor to fluctuate the amount of money invested into stocks throughout the duration of their working career. For example, a citizen could invest sixty percent of their money into bonds, and forty percent into low risk stocks, upon being hired, and later invest sixty percent into stocks and forty percent into bonds as their career progresses. Under this proposal, citizens, not the government, would be directly responsible for controlling their retirement futures.

A common-sense, free-market plan for solving the Social Security Crisis:

The proposal put forth by this author mirrors the Tanner plan in that it advocates for full privatization and encourages citizens to invest their portion of the payroll tax into Life-Cycle Accounts and low-risk stocks. This proposal would assist in the creation of an "ownership society," enlighten citizens on the importance of sound money management, and, most importantly, bolster the free-market system. Under the author's proposal, citizens would have the opportunity to invest in a private accounts program of their choice, or continue to receive benefits under the current pay-as-you-go system. Peter Ferrara, a leading expert on Social Security personal accounts, in his tome *A New Deal For Social Security,* contends that under the Life-Cycle Account plan, a husband and wife each making $30,000 per year, will have accumulated well over a million dollars by the time they are ready to retire. Moreover, the Congressional Budget Office notes that under a personal accounts system, benefits would be three times greater than under the current government-run, pay-as-you-go system. Allowing individuals to invest a portion of their Social Security payroll tax into personal accounts should be a foremost priority of American political leaders.

The author's proposal is unique in that the employer's share of the payroll tax (6.2 percent) will be used to pay the costs of transferring from a government-run to a private accounts program; to manage the individual personal accounts; and to provide benefits to those who choose to stay in the government-run, pay-as-you go program. Under the author's proposal, the cost of transferring from a government-run, pay-as-you go system, to one that allows citizens to invest in personal accounts, would be $7 trillion over the next seventy-five years. Under the author's proposal the $7 trillion transfer cost will be paid off in 15-20 years. How is this possible? The money being paid into the system by employers (6.2 percent) is being used to pay off the cost of transferring to a private accounts system. Despite the colossal transfer costs, this proposal is still far superior to that of the alternative: a government-run program that will be unable to provide benefits to the next generation of American citizens. Now, more than ever, it is imperative that political leaders begin concocting a Social Security reform proposal that transfers control from the federal government to individuals, bolsters the free-market, and allows citizens to invest the full share of their payroll taxes into personal accounts. Allowing the pay-as-you go system to remain in its present form, without offering a free-market alternative, would be calamitous and will ultimately bankrupt the United States government.

The author's proposal: A summation:

- **The creation of an ownership society.** Under the author's proposal, the control of Social Security will be transferred from the federal government to the individual. Individuals are better suited to select a Social Security plan that caters to their needs, than the federal government.
- **A bolstering of the free-market.** Life-Cycle Accounts would afford recipients with the opportunity to shop around for a program that best suits their individual needs. In a Life-Cycle Account, individuals would be able to invest sixty percent of their payroll tax into low-risk stocks, bonds, or both. The rate of return on their investment under a personal accounts system will be three times greater than under the current pay-as-you-go system.
- **Restructure the current government-run, pay-as-you-go system, to allow for the establishment of personal accounts.** This proposal would not eliminate Social Security or permanently eradicate the current pay-as-you-go system. Instead, it would keep the pay-as-you-go system intact for those currently receiving Social Security benefits, while simultaneously establishing personal accounts that are controlled by the individual. Under this proposal, individuals would be able to invest the full portion of their payroll tax (6.2), into a personal account. The individual, not the government will be directly responsible for the oversight and management of their personal account.

- **Alleviating the cost of transferring from a government-run to a free-market controlled Social Security system.** If the author's proposal came to fruition, transfer costs would be paid by the employer's portion of the payroll tax. In order to avoid an income tax increase, and to ensure that Social Security remains solvent, it is imperative that a portion of the payroll tax is used to cover the costs of transferring to a private accounts system. In order to return Social Security to solvency it is imperative that Congress enacts legislation that affords individuals with the opportunity to establish personal accounts.

Concluding Remarks:

With the American economy dwindling on the precipice, and our entitlement system in a state of utter disrepair, Social Security reform must be a foremost priority. Conservatives must take the lead on Social Security and make it a focal point of the 2012 elections. It is evident from the myriad of examples provided in this article that the liberal's wanton disregard for an ownership society, personal accounts and a stable Social Security system is hampering American economic growth. Personal Accounts are one of the most viable solutions for saving Social Security. It is paramount that conservatives work assiduously to initiate a colossal overhaul of the current government-run Social Security system, and make personal accounts the "new wave of the future."

For a more detailed analysis of this issue and the various proposals for reform, contact the author to receive a copy of his paper *The New Wave of the Future: Social Security Privatization and the Future of Entitlement Spending.* The author can be contacted at:

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