

Securing Social Security

Congressman Rob Bishop, Utah's First Congressional District

The discussion of Social Security today is not just about a social security program. It's about retirement security for all of us, but especially for our kids. Social Security has been a solid program for over 60 years. It was there for my parents. I'm convinced it will be there for me. But the demographics are against it being there for my kids unless we're willing to take steps to protect the system for future generations. I know Americans of good will care enough to give our kids a stake in a secure Social Security future.

IT'S OUR MONEY AND IT'S NOT SECURE

The first thing to remember is that it is our money. We earned it. It came from our paychecks. The government shouldn't just take it, but should ensure that it will be of some use to us in the future so that retirement security will be there for our us and our kids. The government can ensure this by guaranteeing our right to make safe, prudent choices so our money is secure and maximized.

There are voices trying to minimize the problem. They say there is no present crisis, but remember that the Titanic didn't sink until it actually hit an iceberg. Wouldn't it have been wiser to change course?

The second thing to remember in this debate is that there are irrefutable problems facing the Social Security program right now or in the very near future. In three years, we will begin to see the first baby boomers retire. Already each year there are fewer workers to support more retirees. The retiring of baby boomers will only exacerbate this problem. Social Security cannot afford to pay all of the benefits it has promised. Beginning in 2017, it will run cash deficits that get bigger every year. Though the fixes to the overall program may be matters for disagreement, discussion and debate, the imminent financial and demographic problems facing Social Security are not. They are undeniable facts.

Social Security is not actually original to the United States. Otto Von Bismarck in 19th century Prussia designed the system. In Prussia, it was a short-term success. The system there, just like the system here, had two inherent problems. First, it is a captive of demographics. Since it's a pay-as-you-go plan, it's a great arrangement if there are lots of kids who will become workers. In the 1950s there were 16 workers paying into the system to support every Social Security recipient. Today there are three workers for every recipient.

When our kids retire, it will be down to a two-to-one ratio. I have a friend with ten kids. One day at the supermarket, the checker was giving him a hard time about having so many kids. She claimed she was paying for his children's education. My friend just smiled and said, "Be happy. My kids will be paying for your Social Security." The bottom line is there are not enough kids to fund Social Security in the future as it is now established. It's also a good system if people don't live long. When Social Security was first established in the U.S., the retirement age was pegged at 65. Of course, back then the average life expectancy was 60, or 57 if you were a working man. If the average person passed away before taking out any Social Security retirement benefits, there was very little financial strain on the system. Today, however, people live longer, which is great for us individually, but not great for a system designed for the America of 70 years ago.

The second inherent problem is that the system creates no wealth, but is only a transfer of dollars. The system does not benefit from what Einstein called the most powerful force in the world: compound interest. Despite all the rhetoric and promises, there are no assets in the Social Security trust fund. For the past 40 years, the federal government has invested our excess Social Security tax money in government bonds. The interest rate has been a pathetic 2 percent, but it probably doesn't matter since the owner of the bonds is the government itself. Einstein's principle of compound interest doesn't work, because ultimately the government pays the government. It's as if I were to write an IOU, put it from one pocket to another, and say, "I'm rich! I've got money invested." If the bond were to someone else, we could claim an asset, but government debt to itself has no intrinsic value. So far there has been no harm because we had lots of taxpayers to keep the system going, but when the baby boomers retire, without a system change, someone down the line is going to lose. That will be our kids. I am offended because it is my money the government misspent and it is my kids who will suffer for it. It's easy to see why Americans feel more comfort in people's ability to partially manage some of their own money over the federal government's failed record of 40 years of poor choices.

We cannot put off reform too much longer. The first baby boomers are eligible for retirement in 2008. The issue is closer than one thinks.

THE POWER TO CHANGE AND HOW TO CHANGE WHO IS POWERFUL

This mismanagement of 40 years has made the problem severe. And it's our money at the core of the issue. To make Social Security whole for our kids' future—in other words, to pay off the IOUs and keep the cash for the kids—would cost, by the most conservative estimates, \$11 trillion. Some say it is as high as \$27 trillion. \$11 trillion is larger than our entire economy. For every year we wait to make our kids' retirement secure, the cost increases another \$600 billion. Just letting the economy grow will never solve the problem. If the economy doubled, it would still not be enough to keep the system solvent. The present system takes a lot of money from you, me and our kids, without giving equal value in return.

It is legitimate to ask why so many politicians are so set against change. It's simply a matter of power. If Social Security is only an entitlement program, citizens, especially senior citizens, need politicians. The politicians make the rules, control the money and determine the benefits. If a person has a personal account, using Einstein's principle of compound interest accumulating real assets, not IOUs, the citizen may need to talk to a financial advisor, but not necessarily to a politician. And with a simplified system that has sensible controls and a few prudent choice options, you probably wouldn't even need that. Liberal politicians fight change because they want the power of being needed. Smart politicians will recognize the power loss; dumb ones will be the best demagogues. We're seeing that already.

That is tragic and wrong, because we put our own money in and deserve a secure system responsible to us. Unfortunately, the original Social Security system was never based on an ownership right. The Supreme Court in the 1930s concluded people had no ownership or control of Social Security dollars. You see, the present system is not risk free. With no ownership rights, we're all at the mercy of political whims. Today, we should emphasize ownership. If people have a chance to be a part of the economy, it's the difference between giving a guy a bottle of Coke or allowing that guy the choice to own part of the Coca-Cola Bottling Company.

PERSONALIZATION IS NOT PRIVATIZATION

What President Bush has proposed is not privatization. A private account is where one owns the money and has unlimited options to invest or spend it. A personal account, on the other hand, is where one owns the money and has a few, safe investment options from which to choose. Under our present system, no one owns anything nor has any voice in what happens. Privatization would be the complete opposite method. I like the middle approach. It would be a good bipartisan course to chart. The question is what is the best way to invest our money for our future. Social Security must be a part of that future, because the government made a pact with gener-

ations of Americans. The question is how do we best secure that pact in the future. With a personal account plan, we pay into the system just like now, but the government doesn't spend it. Instead, the government puts it in an account for us. We own the money. We have a voice. We have a future for our kids and us.

I've heard those who have no plans for the future complain. If one listens carefully to those voices of opposition, they are first of all very partisan. If one also listens carefully, the solution is always the same: wait and eventually raise taxes and lower benefits. I reject those options. Good minds, working together can find another way. One of the Senators of the minority party was on a TV talk show protesting that Social Security wasn't "broke," it merely could not fulfill its benefit pledge in the future. The moderator reminded her that in the real world when a company doesn't have the money to meet obligations we say it is "broke." Regardless of the words used, I support President Bush in his goal of paying future benefits by making the system secure now.

If we continue to pay the full 12.6 percent payroll roll tax without a change, it will mean our kids will get less than half the benefit they were promised. However, had you and I been paying only a 3percent payroll tax over the past 40 years with this money placed into a personal account consisting of a sensible mix of bonds and stocks earning the average rate of return, there would be a secure 100 percent benefit for us and our kids. That's what Einstein meant by the power of compound interest. Hindsight shows us what financial good could have been. It should also show us how we can improve in the future.

Some political voices chime in a chorus that such investments would be risky. It's interesting that almost all nay-sayers have an investment portfolio of some sort for themselves. The President is not trying to get money to Wall Street; he's trying to get it out of Washington and into our pockets.

People are smart enough to make decisions. An improved retirement system should require that any and all investment options for personal accounts must be secure and easily understood. The government must spend more time explaining the choices to Americans and less time wasting America's cash.

There are compelling reasons for personal accounts even if there was no funding crisis. Personal accounts mean the system is pre-funded and secure, not just a tax for the present that is immediately spent and can be politically manipulated. Personal accounts encourage savings. It is understandable that a relatively small percentage of those making less than \$20,000 annually have any savings or investments. The government unmercifully taxes away what is not spent on necessity. In contrast, among those making over \$100,000 annually, 25 percent of that group has some sort of personal savings. Personal savings accounts would balance that out, giving a savings program to all, regardless of personal income. Moreover, the saver is not at the mercy of power hungry

politicians desiring control. Retirees with enhanced earnings could use this personal wealth to start a small business, enjoy a vacation, or help grandkids in college. Any number of options, including just holding onto the money, would be available. Contrast that with the present system which not only does not build a “nest egg” for the future, but actually discourages savings by absorbing large chunks of earnings in Social Security taxes.

Most important, personal accounts are optional. No one would be forced to have a personal account. Anyone who wanted the old system could stay. I agree with former Senator Phil Gramm who suggested that retirees should make the choice at retirement to compare the two options. Senator Gramm is convinced that Einstein was not stupid. Compounded interest will make personal accounts a better retirement for those who choose it.

Utah has a sound retirement system for state employees. Amidst all this debate, it should not be forgotten that there is nothing President Bush is proposing that has not been successfully administered in Utah’s program and countless other state retirement systems. We must make Social Security actuarially sound and give individuals ownership rights over their money.

Let me just touch on one criticism of the amazingly naïve. Some say that repealing the Bush tax cuts is the answer. But tax cuts don’t impact the benefit cash flow caused by demographics. If one repealed every recent tax break of all Americans, it still wouldn’t be enough to pay the future shortfall. It would be enough, though, to stifle the economy and compound the problem. Our goal is to get more workers and generate additional income, not fewer workers and less revenue.

In a final bit of bad news, the Social Security rate of return is particularly appalling in the State of Utah. In terms of payments made versus benefits received, the First Congressional District in Utah ranked 356th of the 435 districts nationwide. That means that an average Utah couple, born in 1970, could expect only 69 percent of the Social Security taxes they paid to be returned as a Social Security benefit. That should be objectionable to all of us, and reason enough to try and reform and improve the system. Our children deserve a brighter financial future than that.

FOR THE SAKE OF OUR CHILDREN, THE PROGRAM CAN AND SHOULD BE FIXED

There are no “simple” or “easy” fixes for our kids’ future. Social Security needs a systemic change. Those who say there is no problem do a disservice to America. There is a financial and demographic crisis facing our current Social Security system. For the sake of our kids, we must move to secure retirement now. Let us not forget that absolutely no portion of these proposed reforms and improvements will affect those currently retired or near retirement. For those 55 years and

older, their retirement benefits from Social Security are secure and protected. This debate is about our kids and grandkids and whether or not they deserve the same promise. The obvious answer to that is an absolute “yes.” I’m hopeful the President and Congress can sit down in a bipartisan manner and say “no” to benefit cuts and future tax increases and “yes” to protected benefits and opportunity for our children. My kids should be able to put money aside, allow it to grow over time, and receive a better retirement in the future. We are all in the same financial boat. It is not an “us versus them” issue. There need not be generation conflict. You can’t sink half a boat without all going down. We need a system fair to all. I believe we can create it.