

SAVE THIS | EMAIL THIS | Close

# Social Security: Crisis? What crisis?

Some experts say the urgency to reform Social Security is manufactured -- and very troubling.

December 20, 2004: 11:16 AM EST

By Jeanne Sahadi, CNN/Money senior writer

NEW YORK (CNN/Money) - The debate over Social Security is well under way, with President Bush Thursday giving guidelines for addressing what most acknowledge will be a shortfall in the program's funding in 40 or so years.

The president and some others support overhauling the system by partially privatizing it by giving younger workers the option of creating personal accounts and diverting some of their Social Security taxes to fund them.

But critics say the current proposals are dangerous. And some argue that it's wrong to characterize the eventual shortfall as a crisis.

CNN/Money will be covering the Social Security debate on an ongoing basis. This week, we're mapping out some of those critics' arguments.

### Crisis? Check the calendar

Not only is Social Security not in crisis, it is as financially sound as ever, according to the liberal Center for Economic and Policy Research, run by Mark Weisbrot and Dean Baker, coauthors of "Social Security: The Phony Crisis."

Here's their argument:

Social Security can pay full benefits as promised until 2042 according to this year's Social Security trustees report (or 2052 if you use projections from the Congressional Budget Office). Thereafter it will be able to pay about 75 percent to 80 percent of promised benefits.

Even if benefits were cut to 75 percent of what's promised, that reduced level would still be more than what today's retirees get, he said.

For example, according to CBO estimates, a person born in 1940 would get about \$13,300 in their first year of retirement, while someone born in 1990 would get \$16,700 -- in today's dollars.

Weisbrot also claims that the projected revenue shortfall is not nearly as worrisome as privatization proponents claim.

Currently, Social Security takes in more in payroll taxes than it needs to pay out. By 2018, it will start to receive less in payroll taxes and will need to tap its surplus, held in U.S. Treasurys, to meet its obligations. By 2042 (or 2052), that surplus will be tapped out, and payroll taxes will only be able to cover a portion of Social Security's obligations.

One way to measure the size of that projected shortfall is as a percentage of taxable payroll. It's 1.89 percent, according to the Social Security trustees' report.

That's less, Weisbrot said, than the payroll tax increases made to shore up the system in each of several decades -- the 1950s, the 1960s, the 1970s and the 1980s.

"The problem for Social Security is no different than the problem it's faced previously, except that it's smaller," Weisbrot said.

So what should be done?

Those calling for changes now say the longer we wait to make the changes the more painful they'll be.

Weisbrot sees a need for changes to address the eventual shortfall, but not ones as drastic or as immediate as those advocated by supporters of privatization.

First, he suggested, "leave it alone until the public has a chance to figure it out." (Articles like these can only cover some of the critical issues involved in the reform debate.)

Then consider tax increases on higher income earners. In the next five to 10 years, he suggested, raise the cap on income subject to Social Security tax. For 2005, it's the first \$90,000 of wages.

"Payroll tax no longer captures as much income of wage earners as it did 20 years ago," Weisbrot said, noting that today 85 percent of payroll is subject to Social Security tax versus 90 percent in 1982.

That's because more of national income goes to earners making more than the income cap for Social Security. Raising that cap "gets you a long way" toward taking care of the shortfall, he said.

Beyond that, he suggested repealing some of the recent tax cuts and earmarking the money for Social Security, and, if necessary, raising the payroll tax by one or two percentage points in coming decades.

Currently, you pay in 6.2 percent of your wages and your employer contributes another 6.2 percent.

## Perhaps, but ...

There may be sufficient wage growth to help cover the shortfall, but there have been periods when wage growth was less than expected, and "not everyone grows at the average," said Craig Copeland, director of the EBRI Social Security Research Program, a nonpartisan voice in the debate.

What's more, Copeland said, if you keep raising taxes to provide the same promised benefits, the effective return on those benefits for each generation may be less because more taxes will have been paid in.

And, he noted, some will argue that raising taxes impinges on economic growth, which can hamper wage growth.

On the other hand, it could cost as much as \$1 trillion to \$2 trillion to convert to a partially privatized system since some workers will divert part of their Social Security taxes to individual accounts. If the government borrows to finance that shortfall, that could drive interest rates higher, hurting investment and job creation, Copeland said.

# What other critics say

Critics of privatization argue that having money in personal accounts and investing it in the markets takes the "social" and the "security" out of Social Security.

But they have many other concerns, too. The leading proposal calling for partial privatization also calls for a change in how initial benefits are determined. Currently, starting benefits are indexed to wage growth, but some suggest they be indexed to inflation.

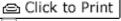
Social Security is intended to replace about 40 percent of your pre-retirement income. If starting benefits were indexed to inflation rather than wages, it would only cover about 20 percent two to three generations from now, said Kenneth Apfel, a commissioner of the Social Security Administration under President Clinton, speaking at a briefing of the Economic Policy Institute.

Henry Aaron, a senior fellow at the Brookings Institution at the same briefing, said that's "optimistic" because it doesn't account for the rising costs of the Part B premiums for Medicare paid out of Social Security benefits.

As it is today, Aaron said, "the real take-home-pay replacement rate that workers receive is already below 40 percent. ... Benefit reductions in a system that's already parsimonious is not desirable."

### Find this article at:

http://money.cnn.com/2004/12/15/retirement/what crisis/?cnn=yes



SAVE THIS | EMAIL THIS | Close

Check the box to include the list of links referenced in the article.