



## Social Security Needs Shoring Up

This article was written in response to Clive Crook's commentary, "The Case for Patching Up Social Security," which appeared in *The Financial Times* on November 19, 2007. This article was submitted to *The Financial Times* but was not published.

Clive Crook's article, "The case for patching up social security," is deliberately misleading and shows a lack of understanding of the problems plaguing the U.S. Social Security system. Despite Mr. Crook's assertion that "no great fiscal crisis lies in wait for social security," the Social Security Trust is faced with a \$4.6 trillion present-value unfunded obligation. Furthermore, all of the Trust's assets will be exhausted by 2040.

The wave of retiring baby boomers will increase the number of beneficiaries by over forty million in the next three decades. In 2017, payments to beneficiaries will exceed tax receipts for the programme. At this point, the Trust will dip into its assets to fund the annual deficit until 2040 at which time the assets will be exhausted. To address the funding shortfall *today* would require an immediate and permanent increase in payroll withholding taxes from 12.4% to 14.42% or a roughly 13% immediate reduction in current and future benefits. Waiting until 2040 to address the problem would require a 26% cut in benefits or an increase in payroll withholding to 16.65% (with further increases in the future). Higher payroll taxes will only make American labour more uncompetitive against lower wage countries. The longer Washington defers the problem the more drastic the measures that will be needed to correct the structural deficit in the Social Security trust.

President Bush's plan to offer younger workers the option to participate in private accounts was forward thinking and addresses another major structural deficiency. Currently, the annual return on the Social Security Trust's assets is roughly 2%. This is due to the fact that most of the Trust's assets are invested in IOU's to the U.S. Treasury. Giving younger workers the option of participating in a plan similar to the Federal Thrift Savings Plan would enable participants to invest in a wider range of asset classes and likely achieve a higher rate of return than investing in the current system. This higher return is all the more important given the uncertainty of the level of future benefits under the current system and the ability of recipients to sustain their standard of living on those benefits.



To be fair, Mr. Crook rightly recognizes that Social Security gives many Americans a base that should not be jeopardized, that Americans should save more, and that Medicare poses a much larger financial crisis than Social Security. To marginalize the significance of the Social Security crisis and President Bush's efforts to open debate on reform does a grave disservice to readers and exhibits flippancy towards a serious issue for younger American workers. Though the significance of the deficit is sensitive to actuarial assumptions, the crisis facing Social Security is real and now is the time for resolute action on the part of politicians and the people. Mr. Crook's commentary does little other than criticize. He, like politicians in Washington, is burying his head in the sand in hopes the problem will go away or else resolve itself without considering the long-term economic impacts of inaction.