Social Insecurity: public and private pensions

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From an EPI memo about a conference to set up an ad hoc *Strengthen Social Security Campaign*:

> Social Security is wearing a big red bulls-eye, painted on by President Obama's fiscal commission. The co-chairs and others have made clear that they intend to make cuts to Social Security a central recommendation. Congressional leaders have agreed that the commission's recommendations, due on December 1, will receive an up-or-down vote in a lame-duck session of Congress. Too many Members of Congress and the media are subscribing to the very unwise 'conventional wisdom' that Social Security must be cut. We need to set them straight!

Here's an introduction to some of the folks on the Commission that we're up against:[1]

• Erskine Bowles, Co-Chair: An investment-banking millionaire who now sits on the Board of Directors for Morgan Stanley and General Motors. Bowles was Chief of Staff for Bill Clinton, where he was called "Corporate America's Friend in the White House" as he negotiated with Newt Gingrich for how best to cut safety net programs.

• Alan Simpson, Co-Chair: A GOP power player during the Conservative movement's heyday, he led Clinton-era attacks on Social Security and is already crusading publicly for cuts to Social Security and Medicare to address the deficit.

Social Security is *not* in fiscal trouble. All its commitments to retirees and the disabled can be met for at least 20 years[2] with no changes. Even the worst projections (depending on very slow growth in the economy, slower than ever before) for the program after that could be fixed by an increase in the payroll tax of *one tenth of one percent*,[3] leaving workers' real net incomes still higher than they are today. The myth of the demographic time bomb is just that: while the active worker-to-retiree ratio will be falling to 2.1 from 3.3 (1999), the fall from 8.6 (1955) to 3.3 did not lead to any crisis in the fund[4]—and the ratio itself does not take into account very reasonable expectations about increases in productivity that can make retirees' standards of living even higher (assuming a reversal in the rich's success in increasing inequality).

Social Security is the second-best anti-poverty program the US has ever seen (unionization being the best). Elderly poverty in the U.S. decreased dramatically during the twentieth century. Between 1960 and 1995, the official poverty rate of those aged 65 and above fell from 35 percent to 10 percent, and research has documented similarly steep declines dating back to at least 1939. As Social Security expenditures per capita rose over the decades, elderly poverty fell.[5]

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[1] From MoveOn.org
[2] Dean Baker & Mark Weisbrot, *Social Security: The Phony Crisis*, U. of Chicago Press, 1999, citing 30 years as of 1999, p.1.
[3] ibid, p.24.
[4] ibid, p.32.
[5] National Bureau of Economic Research, *Social Security and Elderly Poverty*, at http://www.nber.org/aginghealth/summer04/w10466.html

Cutting SS benefits (by, for example, raising the minimum retirement age for future cohorts) would have essentially no effect on the national deficit or debt. Interest rates for monies borrowed from the SS "trust fund" by Treasury to fund the deficit are the lowest—essentially zero as the Fed tries to keep liquidity in the economy—and income and expenses in the fund itself are not part of the federal budget (so lower payouts would not imply lower deficits).

And potential "fixes" to the minimal "shortfall" predicted by the most pessimistic actuarial picture are remarkably simple. Raising the payroll tax by 1% each for employer and employee in 2020-2049, and by 1% more in 2050, would more than cover the "gap" (104% of gap covered).[6] Even just making all earnings subject to the payroll tax (and raising benefits accordingly, which is *not* necessary except politically) would cover 92.6% of the "gap."

BUT SS as it stands today is *not enough*! The average SS retiree benefit is below $14,000 a year, about a minimum-wage income for a full-time worker, and far below poverty level. Median HH income for those over 65 is under $30,000, half that of younger HHs.[7] Those who conceived and pushed for SS saw it as *part* of a secure retirement, one leg of a "three-legged stool," with private, employer-provided pensions as the second and individual savings as the third. The DB retirement plans that were supposed to be the second leg of the "3-legged stool" have become a rarity; they have gone from nearly 40% coverage (among private-sector workers) just 30 years ago to less than 20% today. And we know that DC plans, in which payout depends entirely on market conditions, are ridiculously unreliable as a method of savings for retirement. As for the third leg, private savings, as we know, have completely collapsed; most families have only their homes—an asset that can be liquidated only with very narrow constraints—and since the recent collapse in the housing market even that is not reliable.

So besides the immediate struggle against reductions in benefits and extensions of the retirement age, we need to brainstorm about longer-term fixes to the entire retirement system.

There is a liberal coalition (including Dean Baker & EPI!)[8] led by Teresa Ghilarducci that's pushing for a federally run system of individually guaranteed accounts (to replace 401k's) that would be subsidized, portable, and insured.[9] But I want to argue that this "liberal" "solution" would be a diversion from the idea of reconceiving Social Security to make it really adequate for everyone's retirement.

We already have a national insured, portable, non-profit pension plan, one that has worked pretty well for 70 years and counting—with incredibly low administrative costs. Some critics worry

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[6] Teresa Ghilarducci, *When I'm Sixty-Four: the Plot Against Pensions and the Plan to Save Them*, Princeton U. Press, 2008. P. 168 has various scenarios.

[7] Monique Morressey, *Toward a Universal, Secure, and Adequate Retirement System*, Retirement USA Conference Report, October 2009, at http://www.retirement-usa.org/wp-content/uploads/2009/10/Conference-Report.pdf

[8] The coalition includes the Economic Policy Institute, the National Committee to Preserve Social Security and Medicare, the Pension Rights Center, and the Service Employees International Union. See http://www.retirement-usa.org.

[9] For their proposal, see http://www.sharedprosperity.org/bp204.html

that the federal government uses the excess balance in the Social Security account for current expenditures, with no reliable guarantee of repayment. But the alternative to lending our public pension funds to the Treasury for public purposes—essentially investing in the nation itself and increasing its future real wealth, while receiving Treasury notes in return—is *private* investment, where as we know repayment is truly unreliable (*and* where the investment uses may be far from those the public would choose).

There is no advantage (and clear disadvantages) to setting up a system of "millions of little pots of gold," as Ellen Frank has argued.[10] Our public commitment to retirement security should not rely on pretending that we each "own" a piece of these savings; only a shared pie makes sense. There are some positives in the Ghilarducci plan and its clones (for example, enhancing surviving spouses' payouts and guaranteeing a minimum standard of living for all). But expanding and enhancing Social Security so that it provides an adequate retirement income for all (now that the other two legs of the stool have collapsed) would be a truly progressive (and fiscally sound!) solution.

Why is this alternative dead in the water among liberals (including, apparently, our usual ally EPI)? To some extent, I would argue, it is because there is a large political investment by US unions and their allies in the existing "second leg," private employer pensions and the public-sector worker pension system. In theory, these provide workers and allies with some leverage in the capitalist game; public pension trustees in particular have occasionally intervened to push for desired changes (the South Africa divestment movement being the strongest example). But union leaders seem to truly believe that union-bargained employer-provided pensions are an organizing tool, and have not apparently caught on to the incredible drain these are on bargaining power (or, for that matter, on international "competitive" status for their employers). And, among unions involved in Taft-Hartley pension plans (in which unions appoint half the trustees), these plans are an incredible source of patronage and thus incumbent leadership power.

It's clear that a transition to a SS system that would (by itself) replace 70% of retirees' pre-retirement income (a reasonable standard) would not be simple. But none of the alternatives (especially *cutting* SS) would be simpler or safer.

For ongoing coverage, see http://socialsecurity-works.org/.
For a cute, short, accessible, to-the-point argument:
http://www.youtube.com/watch_popup?v=nn-O9bf01b4&vq=medium#t=34
For a sharp, to-the-point video and ongoing coverage, http://www.retiredamericans.org/

[10] Ellen Frank, *The Raw Deal*. Boston, Beacon Press, 2004.