

## Let's *Not* Save Social Security

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Republicans and Democrats are currently falling over one another to show their determination to save Social Security. Here's a better idea: Let's *not* save it.

Social Security is on a collision course with a disaster of Titanic proportions. Today there are 3.4 covered workers per beneficiary and the Social Security Trust Fund is accumulating assets at a much-publicized rate of \$117 billion a year.<sup>1</sup> However, the system is quietly taking on liabilities below the water line at an even faster rate, since payroll tax payments entitle covered workers to future benefits. Already the System's actuarial liabilities exceed its paltry \$699 billion in assets by an estimated \$8.9 trillion, or approximately 100% of annual national income.<sup>2</sup>

Legislation already on the books gradually increases the standard retirement age from 65 as at present to 67 by 2027. Nevertheless, by 2039 there will be only 2.1 covered workers per beneficiary, and the OASI Trust Fund is projected to be entirely exhausted.<sup>3</sup> At that point, either benefits will have to be slashed by 27%,<sup>4</sup> or else payroll tax proceeds will have to be raised by at least 37%.<sup>5</sup> There is no reason to expect future electorates to vote themselves these crushing taxes just to make up for our own lack of foresight.

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<sup>1</sup> This figure reflects Old Age and Survivors Insurance (OASI) only. Disability Insurance (DI), although managed by the Social Security Administration, is in fact a separate program, and is therefore not included. Source – *The 2000 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*, online at [www.ssa.gov](http://www.ssa.gov), Table I.C.1.

<sup>2</sup> As estimated by Stephen C. Goss, "Measuring Solvency in the Social Security System," in Olivia S. Mitchell et al, eds, *Prospects for Social Security Reform*, Univ. of Penna. Press, 1999. The *2000 Annual Report* contains no estimate of, or even recognition of, the existence of this existing actuarial liability. Because this liability undoubtedly is growing faster than the OASI trust fund, Social Security is in fact running a deficit, rather than a \$117 billion surplus as popularly believed.

<sup>3</sup> The DI trust fund is projected to be exhausted in 2023, so that the combined OASDI trust funds will be exhausted in the more commonly cited 2037. Source – *2000 Annual Report*, Table II.F.20.

<sup>4</sup> 26.9% is the shortfall for OASI alone in 2039. Source – *2000 Annual Report*, Table II.F.13, annual figures in online supplement. The more commonly cited OASDI shortfall for 2036, the last year before the combined trust funds are exhausted, is 24.5%.

<sup>5</sup> A 37% increase in payroll tax revenues would in fact require a more than 37% increase in the payroll tax rate, since some workers would be induced to drop out of the covered labor force. This "Laffer Curve" effect is all the more pronounced, because the payroll tax is already on top of federal, state, and local income and sales taxes. Beyond some point, further tax rate increases will actually result in reduced tax revenues.

The sensible thing to do when you notice an iceberg dead ahead is to throw the engines into reverse immediately. Rather than just striking up the band and laying on more taxes, as the politicians propose, let's put the brakes on the accrual of new retirement liabilities, by ending the payroll tax at once.

Terminating Social Security entitlement accrual will put the retirement decision back into the hands of individuals and their employers, where it belongs. Workers will no longer be compelled to scrimp during their youth to finance a 20-year subsidized vacation that may never come, or that they may be too old to enjoy. Families will be free to put their savings into home equity, education, stocks, or inflation-indexed bonds, as they choose, and will bear the sole responsibility for how those investments turn out. Americans will provide for their own futures with savings that generate real investment, rather than relying on counterproductive future taxes as at present. By mid-century, this last relic of the New Deal will have died a natural and peaceful death, rather than being kept technically alive with grotesque and ruinous life-support measures.

Back in 1982, Jane Bryant Quinn wrote, "Social Security was a Ponzi scheme right from the start."<sup>6</sup> Nothing has changed except that now it's a bigger Ponzi scheme than ever.

Under the "reforms" of 1983, Baby Boomers and their employers will get to pay approximately 10.6%<sup>7</sup> of their covered wages or salaries for most of their careers, to finance the retirement at 65, or even 62, of prior generations who paid rates that were only 2% until 1950. In 2012, when the Boomers themselves begin to reach 65, the retirement age will already have been pushed back to 66, with a further cut to 67 scheduled for 2027. Despite these substantial reductions in the value of benefits, the Trust Fund will quickly begin to decline.

Abolishing the payroll tax, and therefore entitlement accrual, will require making a hard political decision as to whether, and to what extent, to bail out holders of existing entitlements. On the one hand, current entitlement holders have already received what they knowingly paid and voted for, namely the retirement of earlier generations now either deceased or retired. It would be unfair to force future taxpayers, who had no say in creating this Ponzi scheme and who can expect to receive little, if anything, in return, to bail them out. No matter what A may tell B, B's paying for A's dinner in no way obligates C to pay for B's dinner.

But on the other hand, it is most unfortunate that existing entitlement holders are stranded on a sinking ship that was somehow designed with only one lifeboat seat for every 13 passengers.

A reasonable compromise would be to implement the 67 retirement age and 29% benefit cut that are already scheduled immediately, rather than waiting until 2027 or 2034. If

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<sup>6</sup> Jane Bryant Quinn, "The Pyramid Game," *Newsweek*, Nov. 22, 1982.

<sup>7</sup> The combined OASDI payroll tax has been 12.4% since 1990, but 1.8% currently goes to DI.

these cuts are fair for today's goslings, they are equally fair for the geese and ganders who planned to stick them with these outcomes. Cap benefits at the value of tax payments, adjusted for inflation, mortality, and a modest real rate of return. Then bail out the remaining benefits with general revenues.

Whatever its size, any such bailout should come from general revenues, and not be linked arbitrarily to the payroll tax. The OASDI payroll tax today costs workers and their employers 12.4% of covered earnings. Covered workers therefore effectively pay marginal combined payroll plus federal income tax rates as high as 40.9% (12.4% + 31%, divided by 1.062), higher even than the top income tax rate. Any bailout should come from a flatter, and therefore more equitable, tax structure, and should give no appearance of generating new entitlements.

Even a 100% bailout would not require replacing all the revenues from the payroll tax with income tax proceeds or spending cuts, since Social Security currently has only about 76 cents of outlay per dollar of receipts, and since the Trust Fund itself could be gradually depleted. Any bailout would thus permit an immediate *decrease* in total taxes in excess of \$109 billion, even while leaving the emerging on-budget surplus intact for further tax reductions, or to reduce the national debt.

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