

Why Liberals and Democrats Should Support Social Security Reform

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There are compelling reasons for liberals and Democrats to support serious reform of the system, but they are often mixed in with technical discussion which does not appeal to people whose policy choices are not primarily based on efficiency or economics.

So, for anyone who opposes reform (or anyone who speaks to someone who does) here is a discussion of some of the important arguments in as plain language as I can muster which might make cause liberals and Democrats to consider the many benefits of reforming the Social Security System.

1. **Social Security is a pyramid scheme** which would be a criminal fraud in almost any other circumstance. People who are working now pay in to the system. Much of the money goes to people who have retired, but the problem is what happens to the rest (the "surplus") since current payments are more than what's needed to pay retirees.

Here's what really happens: The government takes the surplus, promising the Social Security System that Uncle Sam owes the money back, and spends it just like any other tax received by the government.

Imagine a friend asks you to hold some money for him and you said you say OK and put it in your left pocket. You tell your friend that your left pocket will only be used for his money. Then imagine you take the money from your left pocket and put it in your right pocket, and put a note in your left pocket saying that it was owed the money from your right pocket. Then imagine you take the money from the right pocket and spent it. Would your friend or the law approve? Would you say that the IOU in your left pocket is actually worth anything?

Of course not, but that's just what the government does with your Social Security taxes. The only difference is that the government can eventually enforce the IOU by taxing future workers more and then giving the money back...but that's the ONLY way and just because they have the power to tax our children more doesn't make it right.

2. **Social Security is not insurance, investment, or a contract.** The Supreme Court has ruled that no matter how much you pay into Social Security, you are guaranteed NOTHING. The money is treated just like any other tax and is not saved or invested. There is no account holding your money or anything else in your name and the government can decide to change or even cancel the program at any time. Your Social Security benefits can be eliminated or reduced at any time by the whim of a few politicians. None of this is true of investment in a personal account which you own and which can never be taken by the swipe of a bureaucrat's pen.
3. **Social Security is often the largest tax that low income workers pay.** Many low income workers pay little or no income tax, but they pay 12.4% in Social Security taxes, half of which are "paid by the employer" and half by the worker. **Don't be fooled by "paid by the employer"; that money should be in the worker's pocket.** Remember

that the employer only cares about his total cost, not where the money goes. So, the half of the tax which is “paid by the employer” is actually paid by the worker because the employer has already shown that he’s willing to pay that much for the work.

For example, an employer is willing to pay \$400 per week for a job. Since he and the worker each pay 6.2% Social Security tax, the worker gets \$376 and \$24 is sent to the government (making the employer’s total \$400). Since the employer is willing to pay a total of \$400, the \$24 the employer gave the government is a direct lowering of the worker’s wages and absolutely should not be thought of as a “free” contribution for the worker. This employee would pay Federal income tax of about \$2,423 on income of about \$19,550, or about 12.4%. Thus the Social Security tax doubles the total federal tax paid by this moderately low-income worker. For lower income workers, Social Security becomes the largest or the only tax paid!

4. **The Social Security tax keeps low-income workers from saving for retirement.** High-income workers have extra money after paying for rent, food, etc., which they can put in retirement accounts. They’ll be OK even if Social Security collapses. Low-income workers have no extra money after those necessary expenses but if their Social Security taxes (or part of them) were available to put in a retirement account, it gives them the opportunity to build a nest egg the way rich people can.
5. Following up on that idea, rich people generally can leave something for their children after they die because they’ve saved money, even if they die prematurely. This “inheritability” of wealth helps keep the next generation out of poverty and gives them advantages over people without any inheritance, even if the inheritance is small.

But **Social Security keeps poor people poor.** This is because **Social Security benefits are not inheritable.** When someone dies, no matter how long he’s paid into the system, the government simply keeps the money. It’s true that a spouse can take the benefits of his/her deceased wife or husband, but only if the spouse gives up his or her own benefits! So when someone dies, the government gets to keep somebody’s Social Security payments! This means that the children of a low-income worker who was prevented from building up his own savings by the high payroll tax are prevented from the likely boost out of poverty which even a small inheritance could bring to the family.

Going back to the example earlier of holding a friend’s money, it’s as if you argued that you don’t owe the money to his family if something happens to him. Not only is the system unfair and immoral, but it’s incredibly damaging to low-income workers who work hard but are prevented by the government from improving their families’ long-term situation.

6. As if the system weren’t unfair enough to low-income workers, it’s even worse than it seems because **Social Security discriminates against women and minorities** due to work patterns and life expectancy.

Since women tend to work fewer years and often at lower salaries, they tend to earn lower Social Security benefits than their husbands. Then women tend to live longer. This means that the surviving wife has to take her husband’s Social Security benefits (which are higher than hers) but must give up her own to do so. Thus, **the 12.4% of her wages which she paid for all those years are simply kept by the government!**

Since minorities tend to have average life spans less than Caucasians, more African-Americans and Hispanics than Caucasians die before retirement age. The government then keeps the money paid in by the minority workers and pay it to the longer-living people, **turning Social Security into a unethical transfer system from African-Americans and Hispanics to white people!**

7. **Any addition of personal accounts to the system will be VOLUNTARY and the government will continue to GUARANTEE the benefits of anyone who is currently in or near retirement.** The right to contribute into your personal account at the beginning of a system reform will likely decline with age. Anybody already receiving Social Security benefits will not even be eligible to participate in the reformed system. Instead they will stay fully in the current system. Only people with many working years ahead of them will be able to contribute the maximum percentage of their earnings to their personal accounts.
8. **Don't buy the fear-mongering about being invested in stocks and bonds!** Almost every major union including those like the national teacher's union which argue against private accounts puts a huge amount of its own pension funds into the market. There's a good reason for this: There's no decade in our history where the return on an investment in the stock market or in bonds didn't surpass the returns from Social Security. In other words, **in every decade since the start of Social Security, you would have been better off with your money in the market** than in Social Security, including the decades with stock market "crashes".
9. **Ownership gives people pride in themselves and interest in knowing what government is doing.** High-income people can already bring pride and confidence home and instill that in their children, with the benefits that brings to their development as adults. Becoming a real owner of assets, knowing that he is doing something which will benefit following generations not only instills pride and civic responsibility in low-income workers but also encourages them to teach those same values to their children. One of the keys to the success of our nation has been the limited nature of our government and the interest our citizens have had in maintaining those limitations. **Giving low-income workers a real stake in our markets and government would be an important benefit for the entire country,** going a long way towards eliminating the sort of "class warfare" from which nothing good ever comes.
10. A couple slightly technical arguments, but which are worth making: **The argument that nothing needs to be done for 40 years is bogus.** When people talk about 2042 as the year the system goes bankrupt, they mean that that's the year when all the prior surpluses will have been used up. But since it's a pyramid scheme with all the money already spent and just leaving meaningless IOUs, **the system will actually be bankrupt in less than 15 years.** That's when the promised benefits will be less than payroll taxes coming in. Since there's no actual trust fund holding the prior surpluses, there will absolutely have to be either slashing of benefits, raising of taxes, or both. Year 2042 is meaningless. We have a problem now.

Furthermore, the **argument against personal accounts based on increased government debt is a deception.** The government will have to borrow that money anyway, and can either borrow less now at lower interest rates or more later at higher interest rates. During the time while the personal accounts would be operating, workers would be accumulating higher retirement benefits than they would be within the system.

So when the system finally collapses, the government will not have to massively raise taxes or slash benefits for everyone in order to make sure people are not impoverished in retirement. The borrowing needed now is just prepaying borrowing which will be necessary later. As a friend of mine says, **when someone argues that a plan is expensive, you must ask “Compared to what?”**.

- 11. Personal accounts will hugely benefit our younger generation while not effecting our senior citizens one bit.** Young people know that Social Security will not be there for their retirement. Arguing against allowing personal accounts is an unconscionable burden on our young people. **It's even worse for young people than it seems** because the system bases retirement benefits on the highest 35 years of working income. This means that very new workers are contributing to the system but (if you think they will work for more than 35 years and their income will rise over time) they are not actually earning Social Security benefits. **If we had personal accounts, workers would be saving for their retirement every year, and not simply losing 12.4% of their earnings while they're young.** Not only does the current system harm our youngest workers financially, but it gives them reason not to bother working!

Remember the value of compound interest. Even **a small contribution to a personal account at the beginning of a career turns into a lot of money by retirement.** For example, \$1000 earning 6% becomes about \$4,300 in 25 years. **The current system steals that potential retirement savings from a young worker at a time when retirement savings are most valuable, i.e. the beginning of a career.**

*To sum up, Social Security is a pyramid scheme which discriminates against women, minorities and young workers. The benefits are not guaranteed and payroll taxes are not invested in anything – they are just spent by the government with a promise to take money from future young people to pay back people working now. The actual inability of the system to be self-sustaining is in less than 15 years so we must act now. Personal accounts will be voluntary and will have no impact on current senior citizens. Being invested in the market is good for people's finances and civic participation. **And most importantly, Social Security keeps poor families poor.***

Many people think of the Democratic Party as the party of the worker and of low-income families. Since the greatest benefits would be to low-income workers and minorities, particularly in the ability of those workers to save money which really belongs to them and can be left to their children, it can only be the worst of politics causing unions, the AARP and the Democratic party to oppose personal accounts. True liberals who care about the quality of life of the least fortunate among us and hard-working but low-paid workers should be the most vocal critics of the current system and the most forceful supporters of personal accounts. Remember, personal accounts stand to benefit minorities and young people while having no impact on current retirees or those close to retirement age.

This should not be a partisan issue and there are many Democrats who acknowledge that the Social Security System has serious problems and should be dealt with now. I urge everyone regardless of political party who has opposed reform because they think it hurts the least fortunate among us to really examine what the system does to our low-income workers. And I urge you to hold responsible any politician or organization who says they're looking out for the little guy when all they're really trying to do is to keep people paying more taxes or union dues.