



# NO SOCIAL INSECURITY

*by Allison Kasic*

A SPECIAL REPORT ON  
SOCIAL SECURITY REFORM  
FROM THE INDEPENDENT  
WOMEN'S FORUM

# INSOCIAL INSECURITY

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THE INDEPENDENT WOMEN'S FORUM  
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# Executive Summary

AMERICA'S SOCIAL SECURITY SYSTEM is a ticking time bomb. It is not a stable system and provides young workers with negative returns. Reform is needed now to ensure the future of the system and the financial security of younger generations.

In 2017, Social Security will start to owe more money than it takes in. The support base for the system is shrinking, as Americans live longer and have fewer children. Over the next 75 years alone, Social Security will face a \$4 trillion shortfall.

When my generation of workers (current students or recent graduates) gets ready to retire, the system will be able to pay only 74% of our promised benefits. We will pay more money into the system than we will get back.

The solution is to let young workers put some of their Social Security money aside into Personal Retirement Accounts. These accounts will give

our generation financial security and ownership of our retirement funds. The yields of a PRA system would be far greater than what Social Security currently promises workers, let alone what the system can actually afford to pay out. PRAs would also start to pre-fund future benefits, bringing the Social Security system closer to financial solvency.

Without Personal Retirement Accounts, Social Security will be forced either to cut benefits or raise taxes. Both are unacceptable responses to an unacceptable situation. Young workers deserve a system that is financially stable and that will provide a reliable safety net for retirement. PRAs allow both the system and the individuals within it to prosper.

The time to act is now. Every year we put off reform, the Social Security system gets closer to bankruptcy.

## Introduction

PERHAPS YOU ASSOCIATE Social Security with the FICA line on your paycheck. Or perhaps the term conjures vague memories of Al Gore and his "lock-box" (a political move that, if nothing else, anchored some fabulous sketches on *Saturday Night Live*). But Social Security is more than a number on a pay stub, and it's no joke. It's a failing system, our generation is going to bear the brunt of its collapse, and no one seems to care.

In 2017, Social Security will start to owe more money than it takes in.<sup>1</sup> You don't have to be a finance major to realize something is wrong with a system that's losing money. And you don't need to know much about economics to see that the

two options for bringing the system into balance—cutting benefits or raising taxes—are about equally undesirable. You might as well be choosing between a Jessica Simpson CD and an Ashlee Simpson CD: Either way *you* lose. The only solution that benefits our generation and the future of the system is to create private accounts. Unfortunately, private accounts—which would give our generation more control over our financial future—are under attack.

College students owe it to their future to educate themselves about Social Security before it's too late. Time is of the essence—the sooner the system is changed, the better.

# Problems with the Current System: Uncle Sam is a Gold Digger

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**S**OCIAL SECURITY doesn't just provide money to old people—it's an old system. Established in 1935 to help provide for our nation's retirees, the system ran smoothly for awhile, but was doomed from the beginning due to its pay-as-you-go structure.

The pay-as-you-go process is perhaps the most misunderstood part of Social Security. People assume, logically, that the money they pay into Social Security is an investment (even if it's expected to generate a low or negative return) for their retirement. But the nine-digit number attached to your name is not a personal savings account. In reality, the money coming out of your paycheck is going straight to a senior citizen today. None of the money you pay into Social Security is being saved for your retirement. The Supreme Court has even ruled that you have no right to collect Social Security payments.<sup>2</sup> Congress decides how much to give you (and whether to give you anything at all). Call me crazy, but that sounds like Social *in*Security.

The success of the pay-as-you-go system de-

pends on the ratio between current workers and current retirees, a ratio that is rapidly shrinking. Back in 1940, forty workers supported each retiree.<sup>3</sup> Now that ratio is down to 3.3 to 1. By 2050, there will be only two workers for each retiree.<sup>4</sup> The support base for the Social Security system is vanishing as Americans have fewer and fewer children.

People are also living longer. A child born today can expect to live almost 78 years. Women, on average, are living to the ripe age of 80! But people didn't always live this long. In 1950, the average life expectancy at birth was only 68 years.<sup>5</sup> While these statistics are sure to make the manufacturers of adult diapers and walkers jump for joy, they are bad news for the Social Security system. Longer life expectancy means today's seniors are collecting more payments from Social Security than in the past. The average senior reaching retirement age today collects about 50 more payments—or nearly \$46,000—than a senior in 1950.<sup>6</sup>

Fewer children and longer lives add up to a system that is losing money. Over the next 75 years, Social Security will undergo a \$4.6 trillion shortfall

(an absurd amount only Dr. Evil could comprehend).<sup>7</sup> When our generation gets ready to retire, the system will be able to pay only 74% of our promised benefits.<sup>8</sup> That's a pretty lousy deal. If a friend borrowed a dollar from you only to pay you back 74 cents, I doubt you'd be satisfied with the transaction. But that is exactly the deal that every young worker has with Uncle Sam through Social Security—we pay more into the system than we will ever get back.

A 22 year-old male liberal arts major graduating college today will make an average of \$30,337 as his starting salary.<sup>9</sup> Over the course of his career, he will pay \$625,272 into Social Security, only to

receive a -1.85% annual rate of return.<sup>10</sup> The rates of return are equally abysmal for women and for people with other majors. A 21 year-old female marketing major would receive a 0.25% annual rate of return. A 23 year-old male computer science major would receive a -2% annual rate of return. A 22 year-old female chemical engineer would receive a 0.15% annual rate of return.<sup>11</sup>

The trend here is clear: Across the board, rates of return on investment are embarrassingly low and in many cases are negative. Luckily, there are alternatives to the current system. As you will see below, our generation can expect respectable rates of return from Personal Retirement Accounts.

## The Solution: It's All About the Benjamins, Baby

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*PRAs would allow employees simply to set aside a portion of their Social Security taxes into an individual account—an account that is bound to provide better yields than the negative rates of return offered by the present Social Security system.*

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**S**OCIAL SECURITY is a train wreck waiting to happen. So what's the solution? Personal Retirement Accounts (PRAs). PRAs would allow employees simply to set aside a portion of their Social Security taxes into an individual account—an account that is bound to provide better yields than the negative rates of return offered by the present Social Security system.

The benefits of a PRA system are many. From

the system's standpoint, Social Security could start to pre-fund future benefits. This would relieve the strains created by the current pay-as-you-go set-up. Social Security would be transformed into a system that actually saves money for people's retirement, as many people mistakenly assume it does now. PRAs are the important first step toward building a solvent system.

From the individual's standpoint, PRAs pro-

vide better returns and individual ownership. Remember the liberal arts major from the above example? While today's system provides a pathetic -1.85% annual rate of return, a PRA would yield an estimated 4.89% annual rate of return (even that is a conservative estimate). If he were to invest all of his Social Security taxes in a PRA he would eventually receive \$11,283 more per month in benefits.<sup>12</sup> Who wouldn't want an extra eleven grand a month? That's enough money to attend 1,128 movies, buy 940 Kelly Clarkson CDs (admit it—she's your guilty pleasure), or even score 226 kegs of Natty Light (making for one heck of a party) every month.

Now, most proposed reform plans wouldn't allow workers to set aside all of their Social Security taxes into a PRA. But the point is that the yields of a PRA system far exceed what Social Security currently promises workers, let alone what the system will actually be able to afford to pay us when we retire. Consider how important rates of return are. If you invested \$10,000 today in a mutual fund that yielded a 5% annual return, you'd have \$114,674 in fifty years. If you invested that same \$10,000 with a -1.85% annual rate of return (the same rate facing our young liberal arts friend under the current Social Security system), you'd have \$3,931.11 left after fifty years. Our generation faces devastatingly low rates of return. Investing in PRAs is a crucial means of securing our future.

One myth associated with PRAs is that investments are too risky to provide a dependable retirement nest egg. In reality, PRAs offer little risk, and even with a relatively poor market performance, they will vastly out-perform the current system of diminishing returns. While investments fluctuate in the short term, they are generally stable over time. Over the long haul, investments in a private equity account yield, on average, a 6.5% real annual rate of return.<sup>13</sup>

There are also ways to limit risk in the PRA system. Workers would only have a few stable choices for where to invest their money. People wouldn't be allowed to pour their hard-won dollars into the latest Internet start up, for instance. Instead, they would choose among low risk investments such as mutual funds. You wouldn't even have to know anything about investing to participate in a PRA system. Lifecycle funds automatically adjust as you get older, becoming less risky over time. They might start you off investing in stocks when you are young, then gradually shift you to bonds in order to ensure that the closer you get to retirement, the less risk you take with your portfolio.

The second benefit to PRAs is that workers own them. Not only does this allow you to guarantee that your money gets set aside for your retirement, it also means that you can pass your benefits on—like any other asset—to your dependents when you die.

# Resistance to the Solution

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*It's ironic that groups like NOW are so adamantly opposed to reforming a system that does such a disservice to women.*

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**T**HE CASE FOR private accounts is clear. More money + more ownership + more control over your destiny = private accounts are awesome. But you'll be hard pressed to find a voice of reason on a college campus when it comes to Social Security reform.

At my alma mater, Bucknell University, the economics department went so far as to say that there wasn't a problem with the Social Security system. The department brought Dean Baker of the Center for Economic and Policy Research to campus to "deflate the scare stories" about Social Security. All students in entry-level economics—a required class for several majors—were either offered extra credit or required to attend the lecture. The same month that Baker spoke, the Bucknell University Conservatives Club sponsored a town hall meeting with Senator Rick Santorum on Social Security reform. Needless to say, Senator Santorum's visit took place with no support from the economics department.<sup>14</sup>

Women's groups such as the National Organization for Women (NOW) and the Institute for Women's Policy Research are among those leading the fight against private accounts, and thus against young workers. NOW alleges that "Social Security is a successful program. It is not in crisis." They also call private accounts "foolhardy" and say "privatization will hurt everyone, especially

young workers."<sup>15</sup> It's ironic that groups like NOW are so adamantly opposed to reforming a system that does such a disservice to women.

Women, on average, rely on Social Security more than men do for retirement income. It stands to reason that if future benefits are cut to compensate for the system's shortfalls, women will be among those most deeply affected. Private accounts would allow women to earn interest even while taking a break from the workforce (for example, to raise children). Private accounts would be treated like any other asset in the event of a divorce, allowing women to collect an appropriate amount of benefits.

The advantages of PRAs are clear. But you wouldn't know it to look at the death grip liberals have on the Social Security system.

Democrats even went so far as to give President Bush a standing ovation at the 2006 State of the Union address when he announced that Congress was unable to pass Social Security reform.

It's one thing for Democrats to dislike a Republican president, but that act went well beyond political defiance—it was the equivalent of giving a symbolic middle finger to America's future generations. People have the right to disagree with the President and his plan, but applauding irresponsible inaction is, in the words of NOW, foolhardy.

# Take Action

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*Our generation must stand up for private accounts now, or we will suffer later. ... There are many ways to make a difference in this important policy battle, but one thing is for sure: Inaction is not an option.*

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**O**UR GENERATION will benefit the most from Social Security reform and will suffer the most if the system stays as it is. But sadly, most students remain apathetic about this important issue. Despite P. Diddy's threat ("Vote or die!"), young people were not a major force in the 2004 election. Older people, however, vote in very high percentages. The scare tactics used by opponents of Social Security reform lead senior citizens to oppose changes to Social Security for fear of losing their benefits.

Young people must mobilize. They must make their voices heard. Most importantly, they must vote for politicians who will make real and lasting changes to Social Security. Our generation must stand up for private accounts now, or we will suffer later.

There is a lot that you can do on your campus today. Talk to your friends. Tell your fellow students what they stand to gain and lose from Social

Security. Talk to your parents and grandparents. They are not in danger of losing benefits, but you are. This is a time when generations should be uniting to ensure the future security of all Americans. We should stop fighting over a non-issue. Communication is the first step toward a solution that benefits us all.

Get involved on your campus. Become a campus coordinator of Students for Prosperity, the campus branch of Americans for Prosperity. Start a chapter of Students for Saving Social Security, a campus-based organization that promotes private accounts. Write your congressmen and senators and demand reform. Write letters to the editor or opinion pieces for a local paper or the school paper. In other words, force people to start talking about Social Security—spark a debate!

There are many ways to make a difference in this important policy battle, but one thing is for sure: Inaction is not an option.

# Conclusion

**B**y 2030, there will be 70 million Americans of retirement age. That's twice as many patrons of the early-bird buffet as today.<sup>16</sup> That increase will place crippling burdens on an already failing system. The current system is unsustainable and provides insultingly low returns for workers.

The case for personal accounts is clear. PRAs allow both the system and the individual to prosper. But the time to act is now. Every year without reform just makes the problem worse. Young workers owe it to themselves to be educated about this critical issue and to push for reform today—before it is too late. ■

*What to learn more about Social Security reform?  
Check out these great organizations:*

INDEPENDENT WOMEN'S FORUM:  
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AMERICANS FOR PROSPERITY:  
[www.americansforprosperity.org](http://www.americansforprosperity.org)

STUDENTS FOR SAVING SOCIAL SECURITY:  
[www.secureourfuture.org](http://www.secureourfuture.org)

CATO INSTITUTE:  
[www.socialsecurity.org](http://www.socialsecurity.org)

HERITAGE FOUNDATION:  
[www.heritage.org/research/socialsecurity/](http://www.heritage.org/research/socialsecurity/)

FREEDOMWORKS:  
[www.freedomworks.org](http://www.freedomworks.org)

THE CLUB FOR GROWTH:  
[www.socialsecuritychoice.org](http://www.socialsecuritychoice.org)

# Endnotes

1 Social Security Administration, "The 2006 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds," May 1, 2006, p. 2. Available at: <http://www.ssa.gov/OACT/TR/TR06/tr06.pdf>

2 See *Flemming v. Nestor*, 363 U.S. 603, 610-11 (1960).

3 President's Commission on Social Security, Interim Report, August 2001, p. 2. Available at: <http://www.csss.gov/reports/Report-Interim.pdf>

4 "The 2006 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds," p. 47.

5 Centers for Disease Control and Prevention, National Center for Health Statistics, Health, United States, 2005, "Table 27. Life expectancy at birth, at 65 years of age, and at 75 years of age, according to race and sex: United States, selected years 1900-2003." Available at: <http://www.cdc.gov/nchs/data/hus/hus05.pdf#027>

6 This was calculated based on lifespan information from the Centers for Disease Control and Prevention's Health, United States, 2005 Report, Table 27, and the average monthly benefit for a retired worker taken from the Social Security Administration's Annual Statistical Supplement, 2005, "Table 5.A1. Number and average monthly benefit, by type of benefit and race, December 2004." Available at: <http://www.ssa.gov/policy/docs/statcomps/supplement/2005/5a.html#table5.a1>

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8 "The 2006 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds," p. 8.

9 Sahadi, Jeanne, "Lucrative degrees for college grads," CNNMoney.com, April 19, 2005. Available at [http://money.cnn.com/2005/04/15/pf/college/starting\\_salaries/index.htm](http://money.cnn.com/2005/04/15/pf/college/starting_salaries/index.htm).

10 The Heritage Foundation Social Security Calculator. Available at: <http://www.heritage.org/research/features/socialsecurity/SSCalcWelcome.asp>

11 Salaries taken from Jeanne Sahadi's "Lucrative degrees for college grads" and plugged into The Heritage Foundation Social Security Calculator.

12 The Heritage Foundation Social Security Calculator.

13 Michael Tanner, "The Better Deal: Estimating Rates of Return under a System of Individual Accounts," Cato Project on Social Security Choice No. 31, Cato Institute, October 28, 2003, p. 12.

14 DeLong, Emily, "Econ Education Deficit," *The Counterweight*, March 30, 2005, p. 6.

15 "Talking Points About Women, Social Security, and Privatization," National Organization of Women, March 4, 2005. Available at: <http://www.now.org/issues/economic/social/030405points.html>

16 The Cato Institute's Project on Social Security Choice. Available at <http://www.socialsecurity.org/> under "Quick Fact Archive." ■

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Allison Kasic is the director of campus programs at the Independent Women's Forum. A graduate of Bucknell University, Allison was heavily involved in campus politics, serving as the executive director of the Bucknell University Conservatives Club (BUCC) and editor-in-chief for the *Counterweight*, Bucknell's conservative magazine. Allison and her BUCC colleagues were featured on the cover of the *New York Times Magazine* in May 2003 for their outstanding activism at Bucknell. Allison is also an avid writer, published in the *Weekly Standard*, National Review Online, and Human Events Online.

## ABOUT IWF

The Independent Women's Forum is a nonpartisan, nonprofit 501 (c) (3) research and educational institution. Founded in 1992, its mission is to rebuild civil society by advancing economic liberty, personal responsibility, and political freedom.



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