

Proposed IEEE-USA Policy Statement

RECOMMENDED SOCIAL SECURITY REFORM GUIDELINES

August 2000/March 2005

Background

According to official estimates, the Old Age, Survivors and Disability Insurance (OASDI or Social Security) program is expected to begin paying out more in benefits than it takes in from payroll taxes in 2012. In the absence of appropriate reforms, the Social Security trust fund will be totally depleted by 2032. Without trust fund assets, current payroll taxes will be the only source of revenue for benefits and Social Security will be only able to pay for three-quarters of its projected benefit obligations.

Hence, although the nation's largest, costliest and most successful social insurance program is not facing an immediate financial crisis, experts agree that the time to begin making needed improvements is now, rather than later when reform options may be much more limited. The need for reform is given added impetus by justifiable public concerns about the future solvency of the system. This is because Social Security faces a growing imbalance between the cost of benefits promised under current law and the program's projected income. The solvency problem will be exacerbated by the retirement of the baby boom generation, increasing life expectancies and the declining ratio of workers paying in to the system to retirees collecting benefits early in the 21st Century.

Statement of Principles

For over 60 years, Social Security has been a dependable source of income for millions of Americans during their retirement years. And because fewer than half of all U.S. workers participate in employer-sponsored pension plans, many Americans will continue to rely on Social Security for much of their retirement income. It is essential, therefore, that all American families continue to be protected by Social Security from serious loss of income due to old age or the death or serious disability of a wage earner.

IEEE-USA believes that Congress and the President should take immediate steps to shore up the long-term financial solvency of Social Security through a judicious combination of tax incentives, benefits adjustments and structural reforms.

- Social Security's benefit structure should continue to be universal and portable, guaranteeing monthly, inflation-adjusted benefits sufficient to ensure a decent income in retirement for all eligible participants as long as they live,

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- Social Security should continue to provide risk-free disability insurance protections and survivor’s benefits for eligible participants and their families,
- Beneficiaries who earned higher wages during their working careers should continue to receive benefits related to their earnings history and Social Security should continue to replace a relatively larger share of lower income workers’ past earnings, and
- Basic benefit protections for working women – who have lower lifetime earnings and more frequent breaks in service than men - should be preserved and strengthened. (1)

Recommended Tax Incentives

1. Make social security payroll tax contributions by employees and self-employed individuals tax-deferred so that income tax will be paid on all retirement income benefits and permit individual tax-payers to increase their contributions by the amount previously paid in income tax. (2)
2. Eliminate the current earnings test and attendant reductions in Social Security benefits recipients for people who elect to work beyond the normal retirement age. (3)

Recommended Benefits Adjustments

1. Increase the Social Security retirement age and eligibility for full benefits from 67 to 70 and continue to allow receipt of partial benefits beginning at age 62.
2. Prohibit the integration of Social Security benefits and employer-sponsored pension benefits

Recommended Structural Reforms

1. Remove Social Security payroll tax receipts from the unified budget and account separately for all revenues derived from the income tax on Social Security benefits. (4)
2. Convert the current pay-as-you-go system to a pre-funded system by dividing the Social Security benefit structure into two parts:

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A. a safety-net defined benefit component, funded from payroll taxes on wages up to 120 percent of the median earned income, recomputed each year and

B. a new defined contribution Personal Security Account (PSA) savings option for contributing workers. (6)

Contributions for income above 120 percent of the median wage should be invested in one of two ways: 1) in securities, with a government guaranteed real return of at least 3 percent, indexed for inflation during the period of investment; or 2) in equities, with the total non-guaranteed return credited to individual accounts, less a 0.5% fee to pay for account management by the Social Security Administration.

Equity contributions should be invested in pooled, publicly managed index funds, allocated to insure that government ownership does not exceed 5 percent of capitalization. To avoid government interference or undue influence in private financial markets, these shares could not be voted.

Should a contributing worker die before reaching retirement age, the balance in his or her PSA should be treated as transferable property and passed to heirs who would pay income tax upon withdrawal of the remaining assets.

Recommended Administrative and Transitional Reforms

1. The receipt of benefits should not be conditioned upon a means test. (7)
2. Beneficiaries nearing retirement will receive benefits under the current system . Younger workers will be permitted to enroll in the new defined benefit/defined contribution system under transition rules that will allow the transfer of credits for past FICA contributions.(8)
3. Participation by all employees entering the workforce after the new system is established should be mandatory and FICA taxes should apply to all compensation subject to income tax.

End Notes and Explanations

- (1.) While Social Security should continue to provide fundamental social insurance and retirement income protections, additional reforms are also needed to strengthen America's employer-sponsored pension system and to increase personal savings for retirement and productive investment in the nation's economy.
- (2.) The employer's payroll tax contribution is already tax-free since it is deductible as a business expense.
- (3.) This change will encourage many older American to continue working, if only on a part-time basis, and thereby increase revenues derived from payroll and income taxes imposed on their post-retirement employment activity.
- (4.) This reform will ensure that all revenues, including interest income from government debt purchased with the Social Security surplus will be excluded from the unified budget and credited to the Social Security Trust Fund.
- (5.) The present defined benefit algorithm (which is tilted toward lower income workers) should continue to be used to compute retirement benefits based on wages up to 120 percent of the median. The survivor step-up benefit (where the non-working widow or widower steps up from a 50% benefit to a 100% benefit upon the death of the working spouse) and all cost of living adjustments should be computed using the safety net benefit. In addition, Medicare premiums due in retirement from eligible participants should be subtracted from safety net benefits.
- (6.) Personal Security Account pay-out options should include:
 - a. A minimum of 5 percent of assets in the account per year, starting with the year in which the basic Social Security benefit begins,
 - b. A maximum of 10 percent of assets in the account per year, starting with the year in which the basic Social Security benefit begins,
 - c. An immediate annuity providing a lifetime stream of payments purchased with the proceeds of the account upon retirement,

- d. An immediate annuity providing a joint lifetime stream of payments (for the retiree and spouse to continue until the death of both) purchased with the proceeds of the account upon retirement, and
 - e. A lump sum for purchase of single premium life insurance, with income tax on the lump sum amount spread over five years, at the account owner's option [This option may be desirable for an upper income retiree to provide a greater benefit for surviving family members or to use the proceeds to pay the estate taxes that would be due upon the death of the account-holder.
- (7) Means testing has unintended consequences. It discourages private savings for retirement and has the effect of converting the traditional earned benefit Social Security program into a needs-based welfare program.
- (8) Payments for survivors and disability insurance benefits would be not be changed under the new plan.