

Social Security Dialogue Should Be Wide-Ranging

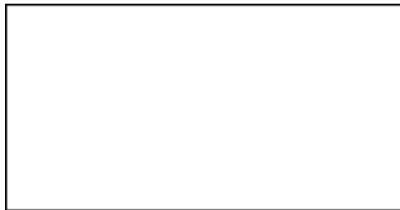
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Call it what you will: personal accounts if you like the idea; privatization if you don't. Either way, the issue of whether to put a part of Social Security taxes into taxpayer-controlled investment accounts is monopolizing the debate over the program's future.

Unfortunately, you'd never know from President Bush's barnstorming or from the attacks of account opponents that this fracas ignores far more important challenges facing the system.

To get a fix on what's overlooked, let's do a little math. A typical couple with an average income of \$53,000 retiring today gets lifetime Social Security benefits worth \$400,000. But for today's 40-year-old couple with the same average income, current law promises lifetime benefits worth upwards of a half-million dollars. Add Medicare, and the older couple pulls in about \$700,000, the younger one roughly \$1.1 million. It's no wonder the government's budget for elderly programs is so out of balance: Tax revenue can't support benefits this big, even if nearly every other government activity is nixed.

Meanwhile, the individual account debate focuses on the sliver of the 12.4% Social Security tax that might be redirected. In some reform proposals on Capitol Hill, the amount transferred is less than one-third of the Social Security cash benefits.

System outdated

Yes, we should debate these accounts and their funding. But the real problem is that Social Security was designed decades ago for the needs of a different age. Here's what we should be talking about before we broach private accounts:

- **Inequality.** Today, abandoned spouses with children, single or divorced people, and two-earner couples -- rarer birds in the 1940s -- all get short shrift. But a spouse who doesn't work, doesn't raise children and doesn't pay any taxes can receive hundreds of thousands of dollars more in benefits than an abandoned mother who works, raises children and pays taxes. Similarly, a two-earner couple in which each person makes \$15,000 a year is slated to get \$100,000 less in lifetime benefits than a one-earner couple making the same \$30,000 with the same tax bill.
- **Life expectancy.** Increasing longevity poses new issues, too. Typical couples now get benefits for 25 years, and less than half of all payments go to them in their last decade of life, when most will have lower incomes, more health problems and less likelihood of working. Social Security is morphing into a retirement system for the middle-aged just as the boomer bulge nears retirement.

Spreading the pain

- **Poverty.** Though Social Security benefits are rising, the extra funds do little to conquer poverty among older Americans. The solution isn't necessarily spending more, but spending wisely. Yet the current debate largely skirts the issue of poverty.
- **Disability, health costs.** Another mistake is not reforming disability insurance and Medicare at the same time as Social Security. For instance, reducing Social Security benefits could prompt individuals nearing

retirement to try to qualify for potentially higher disability benefits. Similarly, part of Medicare's rising costs for doctors and drugs is taken from pensioners' Social Security checks.

- **Savings.** Finally, Social Security reform should be part of a larger conversation about how to increase and protect private saving for retirement. Today, the total amount of personal savings annually is less than government tax subsidies for private pensions. And the Pension Benefits Guaranty Corp., which takes over some pension plans when corporations can't honor their promises to former employees, is facing a crisis like the one that menaced the savings-and-loan industry in the mid-1980s and led to a huge government bailout.

Before the political momentum for reform dissipates into a single-minded dispute over how much to trust Americans' retirement wealth to the stock market, or the president goes on the road again to stump for personal accounts, these larger questions need attention. Only then will the debate track Social Security's original purpose -- meeting the basic economic needs of those considered old by the life expectancy and health standards of each generation.

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