

# COMPASS

Coalition for the Modernization and Protection of America's Social Security

*The Seniors Center* has joined and is attending meetings of COMPASS a coalition of over 300 organizations and businesses dedicated to modernizing and protecting social security. We believe that social security reform must include voluntary personal accounts and no tax increases. We also understand that those over 55 years old must understand that voluntary personal accounts will not affect their social security checks. Social security reform is for future generations. We must not allow our children and grandchildren to inherit a bankrupted system nor allow social security to become another form of welfare.

## FREQUENTLY ASKED QUESTIONS

### **What is Modernization, and Why Do We Need It?**

Modernization is the only way to preserve Social Security for current and future retirees.

By 2017, Social Security will start running a deficit. If we do not take action now to fix this problem, we will all pay for it later with higher taxes or reduced benefits. Fortunately, there is a solution. Proponents of Social Security modernization have proposed a plan that would allow workers to divert a percentage of their Social Security tax into a personal savings account (PSA). A government-approved financial firm, selected by each individual, would manage this account. Modernization would not affect today's seniors in any way. However, it would benefit all Americans by providing significantly higher payments to future retirees and guaranteeing continued benefits to today's seniors.

### **Why is Social Security Running Out of Money?**

More retirees, longer retirements, and fewer workers mean Social Security will soon go bankrupt.

**Social Security needs to be modernized before it's too late.** As baby boomers retire, and increased life expectancies result in longer retirements, more and more people are depending on Social Security. Conversely, Americans are having fewer children. Since today's workers pay today's retirees, a shrinking workforce must share a growing Social Security burden.

**Doing nothing will cost more than we can afford.** The President's Commission to Strengthen Social Security estimates that doing nothing would require **benefit cuts of \$4,000- \$6,000 per year** for young workers entering the workforce today. Or it would require tax increases of over \$2,000 per year for the average two-earner family. In fact, **a payroll tax increase of close to 50 percent would be needed**—and quite possibly more.

### **What Will Modernization Mean to Today's Retirees?**

Today's retirees and near retirees will see no change in benefits.

Social Security modernization is an option open to younger workers, but it will not affect seniors in any way. However, **if nothing is done to modernize Social Security**, people who reach retirement in 2017 and later may see some of their benefits cut, as the funds run low.

**Current benefits will continue to be funded during the transition period.** Over the longer run, **PSAs would actually reduce the long-term Social Security financing gap.** As workers retire, they will be relying on their personal accounts in place of a portion of their Social Security benefits, thus reducing the financial burden on Social Security. In addition to President Bush's recommendation to allocate Social Security surpluses over the next few years for investment in personal accounts, **general revenues could also be used** to cover the transitional financing burden.

### **Which modernization proposal is the best solution?**

Personal savings accounts are the only real solution. **Modernization gives workers personal ownership of their retirement money.** Modernization would give workers the opportunity to personally choose how to invest their money, rather than letting politicians decide for them. The plan would let

workers invest a portion of their payroll taxes into **personal savings accounts (PSA) that they own and control, similar to 401(k) plans or IRAs.** benefits of modernization include:

**Higher Returns and Greater Benefits:** Even the most conservative investors would accrue substantial assets during their lifetimes through personal investment accounts, yielding far more in retirement income than Social Security promises. **Private Property:** Individuals would own their personal retirement accounts. Accumulated assets could be used for retirement and/or passed on to family members. **Creation of Wealth:** Low-wage workers would become shareholders in the U.S. economy and, through personal investment and participation in the market, accumulate wealth. **Individual Empowerment:** Individuals would control their retirement security, and they would see their accounts grow as a result of hard work. **Improved Economy:** Economists believe that the overall economy will benefit from an increase in savings and investment resulting from this system

Modernization has been well thought out. Below are several additional reasons why Americans need to modernize Social Security now.

**PSAs are optional.** If they choose to do so, workers may elect to put part of the Social Security payroll taxes they are already paying into a PSA that they will own. This will allow workers the freedom to choose from a list of funds approved for the system and regulated for safety and soundness. Lastly, modernization plans would compensate workers for past taxes. **The PSA system is easy for unsophisticated investors.** Like a 401k, the participant would choose a mutual fund managed by a major investment firm from a government-regulated list. The investment firm would then pick the particular stocks and bonds in which to invest, and maintain the appropriate diversification. **PSAs will avoid an Enron-type problem.** Heavy concentration in one stock would be banned from the PSA strategy. Following a worker's mutual fund selection from the diversified, government-approved list, major investment companies, with the highest expertise would then invest those funds. The PSAs would hold only a small fraction of workers' funds in any one stock. So a collapse of one company would scarcely affect retirement accounts at all. **Modernization includes a safety net.** If a worker has not accumulated adequate funds by retirement, the government could "top off" the worker's account. The guaranteed benefit would ensure that every worker's retirement income is at or above the federal poverty line. **Modernizing Social Security would lead to an increase in national saving.** Hundreds of billions of dollars would be invested through PSAs every year. Those investments, in turn, would substantially increase national investment, producing higher wages, jobs, and overall economic growth. In addition, modernizing Social Security would amount to an effective cut in payroll taxes, boosting productivity and employment.

### **Who would benefit the most from modernization?**

Modernization would be a victory for all Americans.

American workers of all income levels and family combinations would receive higher benefits from the PSAs.

Virtually all women-single, divorced, married, or widowed-would be better off financially under a system of full PSAs. Middle class Americans would enjoy the **higher retirement benefits, improved economy, and personal ownership** that are all a part of a system of personal retirement accounts. Low-wage workers would benefit from modernization because **they would own their retirement savings.** This is particularly important because poor workers tend not to live as long as individuals with higher incomes. **Under today's Social Security, if you die before reaching retirement, you receive nothing in return for a lifetime of contributions.** Modernization, however, would give workers the opportunity to **pass their savings to surviving family members.** Minorities, particularly African-Americans, would benefit from a system of PSAs. Since African-Americans tend to die younger, they benefit by being able to pass their PSA to family members. Also, greater monthly payments generated by PSAs would have a substantial impact on the lives of minority future retirees who live in poverty.

### **What do opponents of modernization propose?**

Opponents of modernization provide no real alternatives.

**Bankruptcy looms in Social Security's near future.** If we don't redesign the system, Congress will have to **cut benefits, raise taxes, or both.** According to the Social Security Administration, **paying all promised benefits would require a 50 percent payroll tax hike.** If we don't raise taxes, the Social Security Administration estimates that we'll have to **cut benefits by 25 to 33 percent.** **The Social Security "lock box" doesn't address the real problem.** The Social Security "lock box" was supposed to guarantee that politicians would not spend surplus Social Security taxes on other programs but rather would reserve surplus funds for the Social Security program. Unfortunately, Congress has no real mechanism to save surplus funds. Currently, Congress either uses the surplus funds to buy down other debt, or it spends the funds on other budget priorities. Thus, there is no vault in Washington with funds set aside for the coming baby boomer generation. In fact, in less than two decades, Congress will have to redeem the bonds it has placed in this so-called "lock-box" by raising taxes or cutting other spending-the same two choices it would have faced if it had never created a trust fund or lock box. The real problem is the **shrinking funds** generated by an ever-smaller workforce. Ownership of one's retirement-through a modernized Social Security system where individuals can invest a portion of their own money-is the only true, secure lock-box.

