Plymouth Institute for Free Enterprise

Personal Savings Option for Social Security

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TOPLINE: Social Security is not retirement savings because 100% of workers' taxes go immediately to retirees' benefits. Today's workers should have the opportunity to build personal retirement savings that they own and can pass on to their heirs.

BACKGROUND: Social Security's current costs are nearly three times the maximum that the program's founders planned. Instead of functioning like a forced savings program that would protect younger workers from bearing the cost of old-age poverty, policymakers have expanded Social Security so far beyond its original intent that there are no savings left in the program and it is a purely intergenerational transfer program from the young to the old. This means that the 12.4% tax that workers pay never earns even a dime of positive returns. Moreover, workers do not own their Social Security accounts, so they cannot determine when and how much to take out, and they cannot pass them on to their heirs.

This lack of ownership makes Social Security an especially bad deal for people who die relatively young. One out of five black men, for example, dies between the ages of 45 and 64 after having paid into Social Security for decades and receiving little or nothing in return. If today's workers could put their Social Security taxes into a personal retirement account, the average worker would have three times as much retirement income as Social Security can provide and would own his roughly $1.6 million nest egg. Even the lowest-income earners would have 40% more in retirement. Policymakers should allow individuals to opt into personal retirement accounts within Social Security, simultaneously increasing the rate of return on their savings while also helping address Social Security's accumulated shortfalls.

Action Items (Congress):

- **Allow individuals the choice to opt into a personal retirement account** for future benefit accruals.
  - These individuals would lock in the payable benefits they earned to date, and then **half of their future Social Security taxes would go into a personal retirement account** (the 6.2% taken from workers' paychecks) and the **other half would help finance Social Security's shortfalls** (the 6.2% paid by employers).

How It Would Make Life More Affordable:

- Workers who opt out could have higher retirement incomes and their continued contributions to Social Security would reduce the program's unfunded liabilities.
- More retirement savings ownership would increase labor supply and productivity.

BOTTOMLINE: Social Security is the biggest tax most workers pay and they should have the option to put part of what they pay into a personal retirement account that offers higher returns than Social Security can provide.