New America Foundation

Policy Paper

Secure Retirement for All Americans

Guaranteeing the American Dream with expanded Social Security

Steven Hill

August 2010

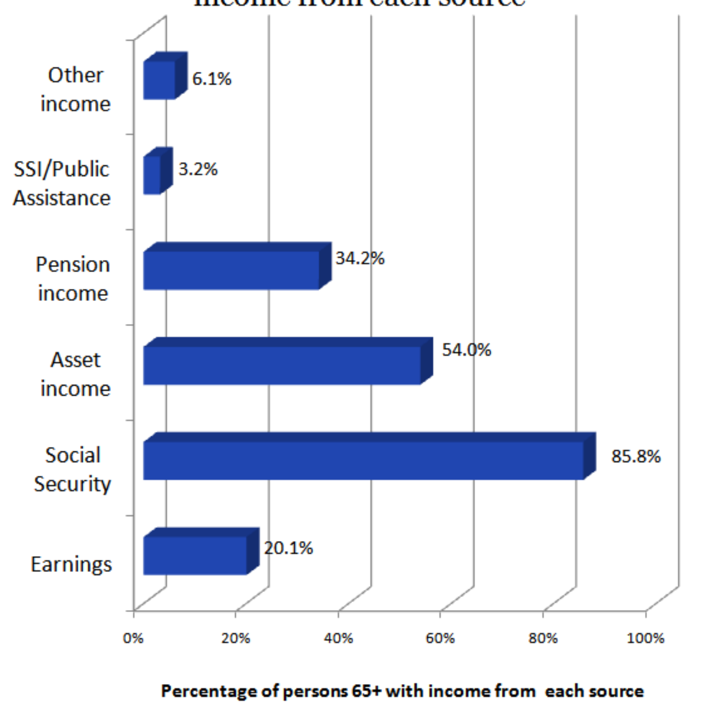
For more and more Americans, the dream of a secure retirement has become increasingly threatened. The Great Recession has taken its toll on a retirement system which has been in place in the United States since WWII. At that time, retirement was conceived as a "three-legged stool," with the three legs being Social Security, pensions and personal savings centered around homeownership. But with private sector employers walking away from providing pensions, and with a collapsed housing market and inequality increasing in the years even before the Great Recession, these other two legs have been undermined. The "retirement stool" no longer is stable and secure, and Social Security now is the only leg left for hundreds of millions of Americans. New solutions are needed to provide retirement security to retiring Americans, now and in the future. In particular, an expansion of Social Security -- one of the most successful and popular programs in American history -- that converts it into a more robust retirement system would build upon the most stable components of the current system.

Retirement Insecurity

Today, there are three main sources of retirement income upon which Americans depend: pensions, personal savings (including non-financial assets, usually homes), and Social Security.[1] Pensions and personal savings are the least broadly distributed asset: only 34.2 percent of Americans 65 and over earn pension income (a percentage which has been declining dramatically in recent years), while 54 percent have income from non-financial assets/homes and nearly 86 percent receive Social Security payments (see Figure 1).[2]

In 2004, 40 and 53 percent of middle-and lower-income Americans, respectively, already were at risk of having insufficient retirement funds, indicating that significant retirement insecurity existed prior to the recent economic collapse.[3] In addition, the Great Recession has taken its toll on

Figure 1: Percentage of Americans 65+ with income from each source



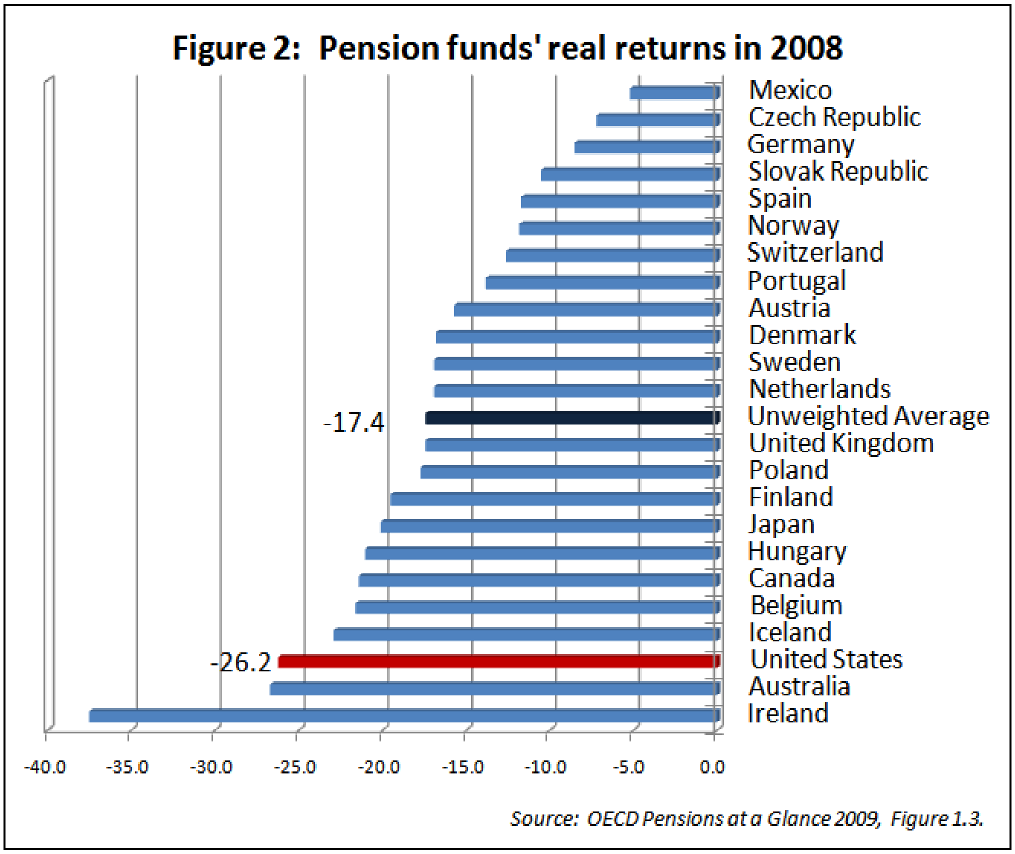
Source: Congressional Research Service, 2009.

two of Americans' primary retirement resources: pensions and non-financial assets in the form of home values.

Troubled Pensions, Private and Public

American pensions were some of the hardest hit in the world by the Great Recession, falling in value by over a quarter in 2008 (the latest date for which such information is available – see Figure 2).[4]

allow employees to set fixed amounts of money into investment accounts. That amount is deducted from their gross wage when calculating taxable income, lowering her or his tax burden. But the amount of money they have when they retire depends on how much they have set aside and how well their investments performed. Employers have greatly preferred 401(k)s over defined-benefit (also known as "guaranteed monthly payout") pensions because workers shoulder the primary responsibility for funding them rather than the employer.



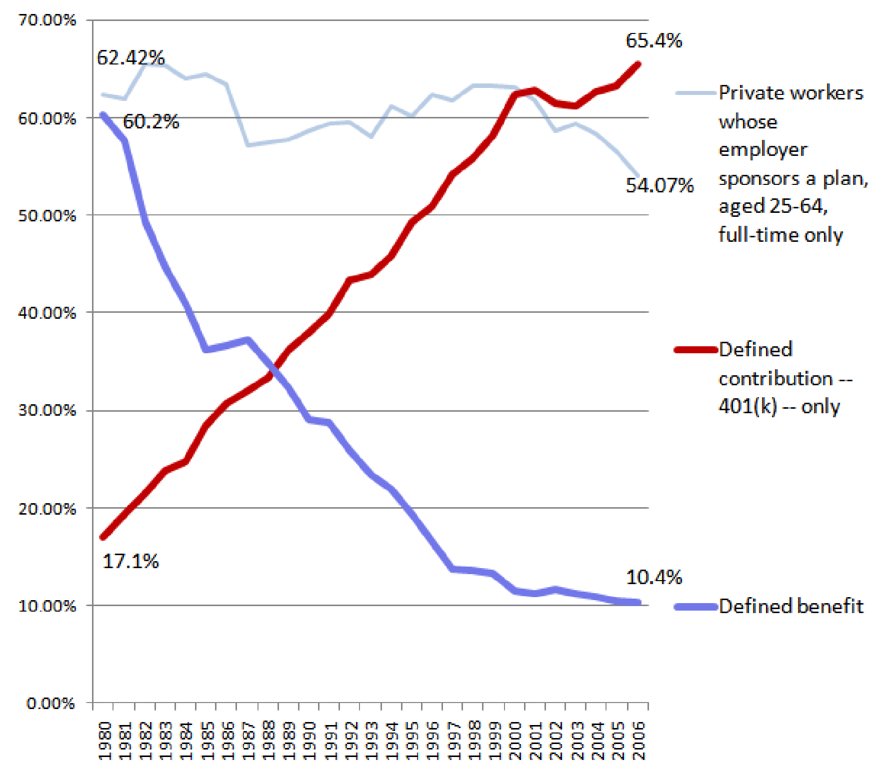
Since the early 1980s, businesses have shifted pension risk onto workers through a conversion from defined-benefit plans to one of defined-contribution. In 1981, approximately 60 percent of private sector workers were covered by a pension with a guaranteed payout; about 80 percent of employees in medium-size and large companies had such plans in 1985, according to the Labor Department. Today only about 10 percent of private sector workers have guaranteed payout pensions. Meanwhile, defined contribution and 401(k) retirement plans have gone from covering only about 17 percent of the private workforce to about 65 percent today (see Figure 3).

But private pensions already had become a less steady leg of retirement security for individuals and families prior to the recent recession, in part due to a troubled transition from "defined-benefit" plan (that provides a guaranteed level of monthly payout to each individual beneficiary) to "defined-contribution" plans (which have no such guaranteed payout). In 1978, Congress enacted a law that allowed workers to take part of their pay as tax-free deferred compensation, opening the way for a proliferation of 401(k) type programs. Unlike traditional pensions, 401(k) "defined-contribution" plans

In some businesses, the employer contributes to the 401(k) plans that are managed by the employees, but the contribution amount is much less than under a defined payout pension.

Defined contribution plans have turned out to be an unreliable pillar of retirement security because they have challenged the ability of many Americans to manage their investments effectively. A study by the National Bureau of Economic Research found that more than one-quarter of baby boomer households (who are due to begin retiring over the next decade) thought "hardly at all" about retirement and that financial literacy among boomers was “alarmingly low.” Half could not do a simple math calculation (divide $2 million by five) and fewer than 20 percent could calculate compound interest.[5]

Figure 3: Percentage of private sector workers with pension coverage by pension type, 1980-2006



Source: Center for Retirement Research, 2009.

In the public sector, a higher percentage of workers still are covered by guaranteed payout pensions. But public pensions are plagued by a serious threat to their stability due to underfunding by state and local governments. States have funded only about 80 percent of their pension liability, leaving a $3.32 trillion funding gap -- an estimate which understates the shortfall due to investment declines from the latter half of 2008.[6] Put another way, fully 34 states have underfunded their public pensions by at least 20 percent of their gross state product. Ohio and Rhode Island are in the worst shape, having underfunded their pensions by almost 50 percent of their gross state product. One study concluded that there is a less than 5 percent chance that the current pattern of pension fund investments can fulfill obligations to retirees in 15 years[7] (see Figure 4). In addition to pension liabilities, states are responsible for more than $530 billion in unfunded Other Post-Employment Benefits (OPEB), which includes retiree health and dental insurance, life insurance, and legal services.[8] All of this underfunding predates the Great Recession.

City governments also are plagued by underfunded pensions. As of June 2009, Los Angeles had underfunded its public pension liabilities by $3.53 billion, with an additional $2.43 billion owed in Other Post-employment Benefits (such as healthcare). The city employee retirement plan is short by over 100 percent of payroll.[9] Also, as of June 2009, New York City public pensions programs had liabilities that exceeded their assets by $39.9 billion with an additional $65.5 billion owed in Other Post-Employment Benefits. The NYC Teachers Retirement System (TRS) is underfunded by over 200 percent of payroll, Police by over 300 percent, and Fire by almost 530 percent.[10]

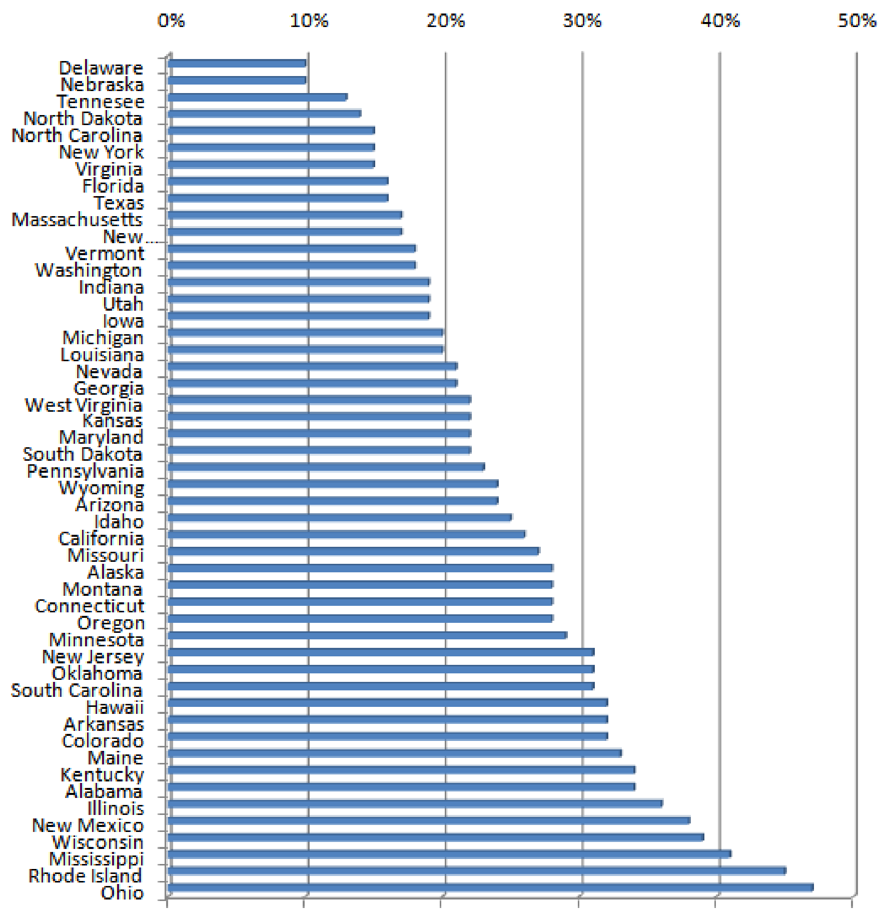
Both the private and public components of the U.S. pension system are under severe pressure with little relief in sight, as the Great Recession combined with pre-recession patterns of rising inequality and a diminishing social contract have taken their toll.

Home Ownership and Retirement Assets

For tens of millions of Americans, their retirement security has been directly linked to homeownership. The danger of over-reliance upon ever-rising home values for retirement security became clear with the rupture of the housing bubble.

The Federal Reserve has estimated that homeowners lost $7.15 trillion in home equity from the beginning of 2006 to the end of 2009, a 53 percent drop in the overall value of the national homeownership stock.[11] About 13 million Americans -- almost 30 percent of all residential properties with mortgages – are now in negative or near-negative equity situations, meaning they are underwater, owing more on their mortgage than their home is worth.[12] Deutsche Bank predicts that before 2011 the collapse of the housing bubble will lead to 25 million homeowners -- half of all homeowners with mortgages -- with negative equity, i.e. underwater mortgages (see Figures 5 and 6).[13] These homeowners are, in effect, flat broke if they have no other accumulated savings or retirement vehicle.

Figure 4: State underfunding of public pensions as a percentage of gross state product



Source: Novy-Marx & Rauh, Journal of Economic Perspectives, 2009.

This is extremely damaging for Americans' retirement security because home ownership accounts for the largest proportion of assets for all but the richest 5 percent of the population. As of 2008, only the top two income quartiles had accumulated enough equity from secure financial assets and pensions to weather the bursting housing bubble. The bottom 50 percent had not saved enough outside their homeownership to avoid devastation to their retirement security. With home prices unlikely to recover soon, this loss in equity has significantly reduced the retirement security of the lower and middle classes, which are less likely to have pensions and other assets such as private savings to sustain them. Indeed, the bottom two income quartiles depend on Social Security for 84 percent of their aged 65+ income, but even the second richest quartile still depends on Social Security for over 50 percent of its retirement income (see Figures 7 and 8).

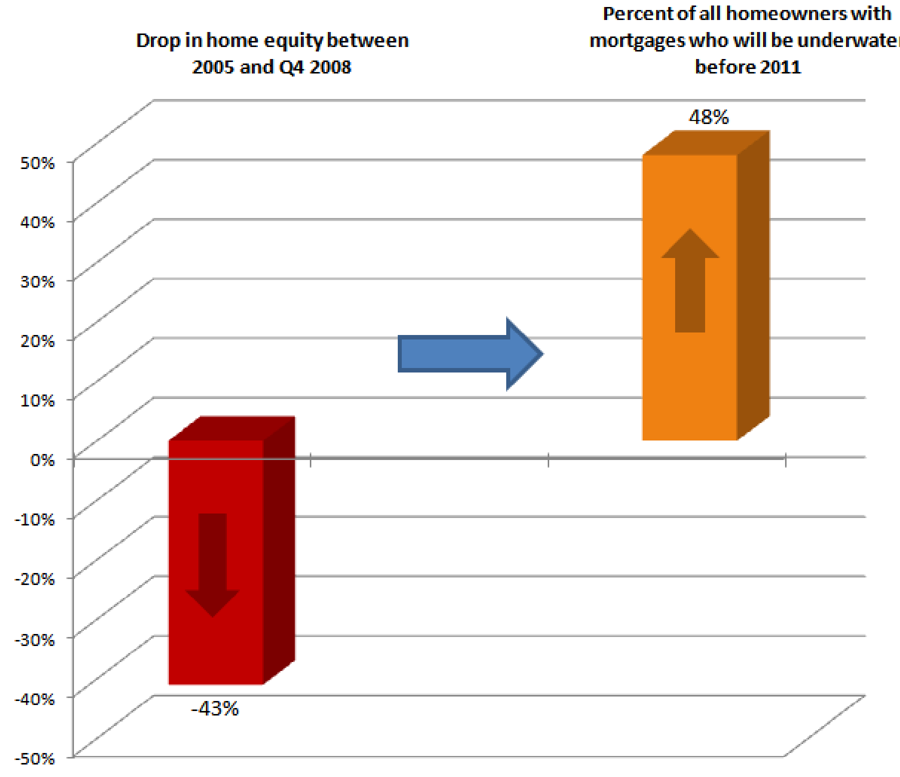
Increased Reliance on Social Security

In short, the collapse of the housing bubble has created a situation in which the vast majority of baby boomers and other retirees will be almost completely dependent on Social Security for their retirement. Even upper middle class baby boomers will likely rely on Social Security for the bulk of their retirement income, as their accumulated savings will only be sufficient to provide a modest supplement to Social Security. Financial experts say it will take about 70-80 percent of pre-retirement income levels -- or at least $200,000 to $300,000 in personal savings[14] -- for the average American to have a secure retirement. Yet most older Americans have saved only a fraction of that. As a result, about half of all Americans are at risk of not having sufficient retirement income, and fully 60 percent of low-income households are at risk of not having sufficient income to maintain their pre-retirement standards of living at age 65 (see Figure 9).[15]

Social Security acts as a cushion to some extent but currently provides much less than the 70-80 percent of pre-retirement income needed to maintain pre-retirement standards of living. It is estimated to replace only about 40 percent of pre-retirement income for the average wage earner with a continuous work history.[16] But in reality, employees do not work steadily their entire lives, and Social Security replaces only about 33 percent of their average wage from the year prior to retirement (see Figure 10).[17]

Given these stark numbers and harsh realities, not surprisingly most Americans are worried about their retirement security. A poll released in January 2010 by the National Institute on Retirement Security shows the anxiety about this issue. Because of the recession, 83 percent of those polled said they were worried about having a secure retirement; of those with a 401(k) account, only about half thought they would have enough money to retire. And 71 percent said it was harder to retire now than for previous generations.[18]

Figure 5: A 43 percent drop in home equity will lead to a housing market in which 48 percent of mortgagors are underwater.



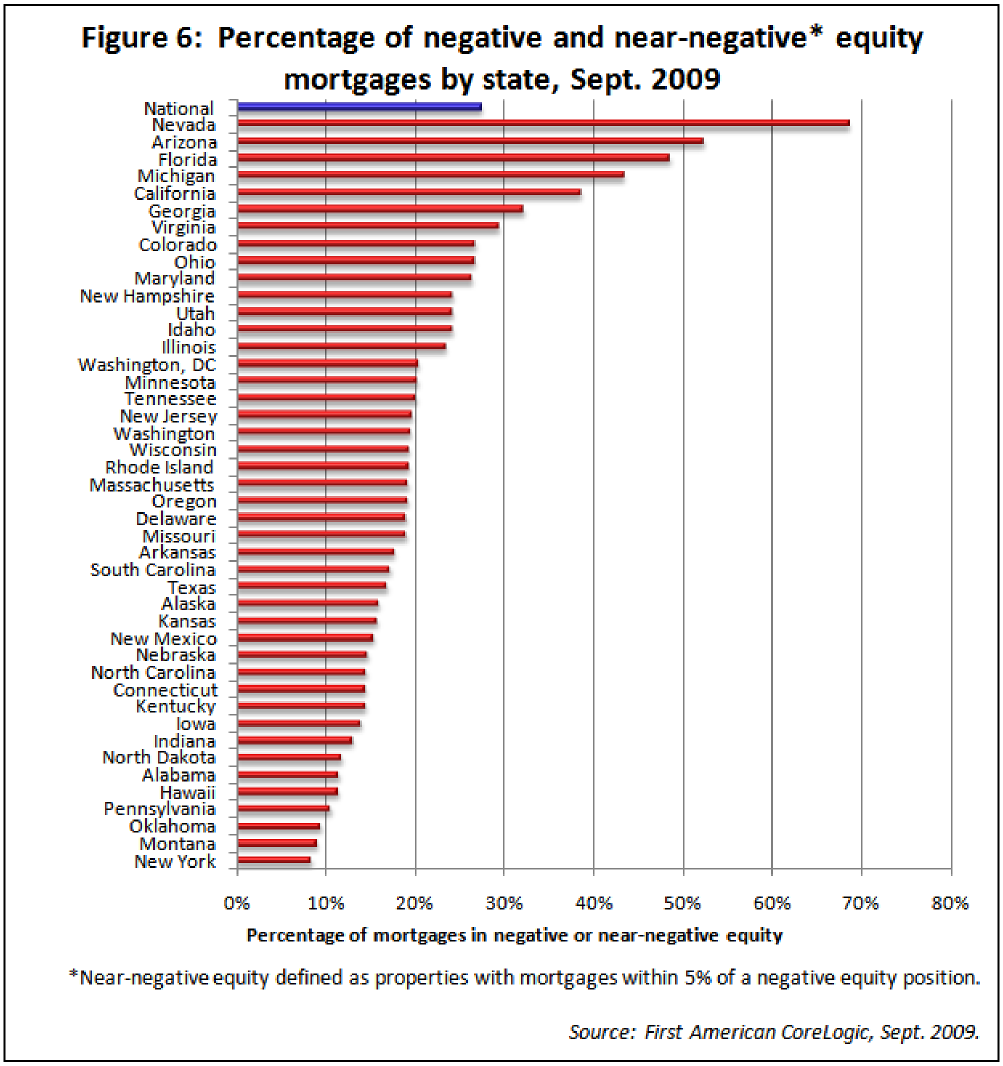
Source: Joint Center for Housing Studies of Harvard University, 2009; Deutsche Bank, 2009.

The Solution: "Social Security Plus"- Expanding Social Security

Given the damage the Great Recession has inflicted on many American households and their economic security, there is little choice but to view social insurance as an even more critical pillar of retirement security in the United States. All Americans should have retirement benefits they can count on, not the casino of privatized 401(k)s run by the same Wall Street bankers and financial managers who drove our economy off the cliff. With home values unlikely to recover and states and cities in serious financial trouble with promised but under-funded defined-benefit pensions, what are our policy options?

Strengthening and expanding Social Security is the place to start. The Social Security retirement system already provides the major means of support for two-thirds of America's retirees, fostering a measure of stability and dignity in the recipients' old-age. Since its New Deal inception in the 1930s, Social Security has become a popular mainstay of retirement security, firmly rooted in America's cultural and economic landscape (as leaders like President George W. Bush discovered when he tried to privatize it).

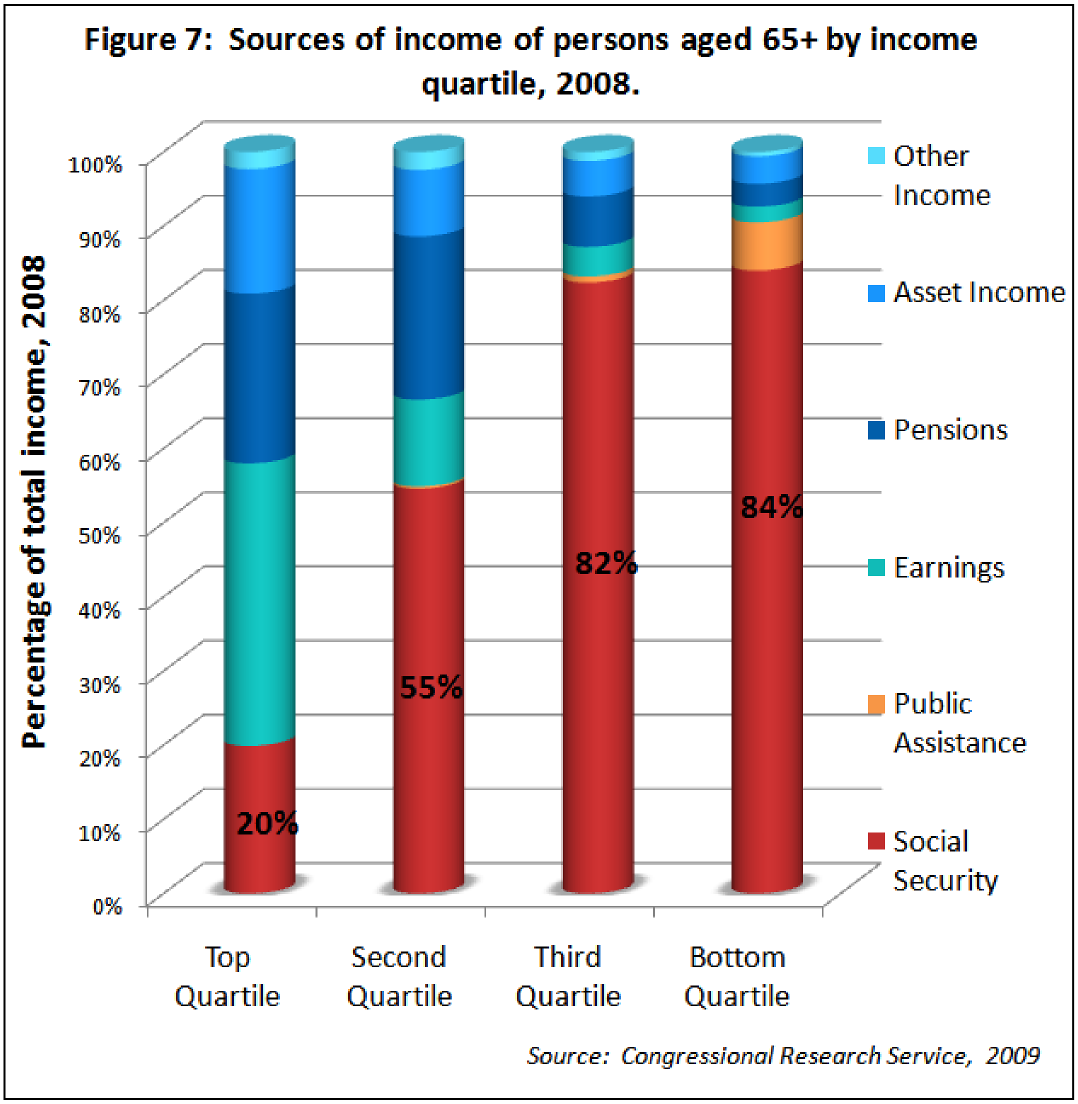
Unfortunately, however, Social Security provides only a small amount of the income needed to retire, especially when compared to the income provided by government pension plans in most other OECD countries. The U.S. is the outlier in this regard. As in the U.S., retirement pensions in most other developed nations are funded by payroll deductions from both workers and employers. But many European countries provide a retirement pension in the amount of 70 to 75 percent of their last working salary, compared to most American workers who will receive Social Security payments of only 33 to 40 percent of their last working salary. In Germany, about 80 percent of an average individual's overall retirement income comes from the government pension, as opposed to only 45 percent in the U.S.[19]



The Social Security Administration has estimated that Social Security replaces about 40 percent of the average worker's pre-retirement earnings, yet most financial advisors say that retirees will need 70-80 percent of pre-retirement earnings to live comfortably[20] (but as noted previously, in reality workers do not work steadily their entire lives so Social Security replaces only about 33 percent of their average wage from the year prior to retirement).

With private pensions disappearing for all but the most fortunate workers, with retirement investment vehicles like 401(k)s subject to the roller coaster of stock market forces, and with homeownership revealed to be a risky undertaking, expansion of Social Security -- call it Social Security Plus -- emerges as the "least worst choice" for providing a degree of retirement security for Americans. A Social Security Plus system that boosted the amount of the benefit closer to the 70-80 percent of pre-retirement earnings level would not only be good for seniors but good for the economy as well. It would stimulate consumer demand which helps create jobs, and act as an "automatic stabilizer" during downturns, which are two necessary components of a modern economy (especially an economy plagued by the frequent disruption of bursting asset bubbles, as in recent years).

Expanding Social Security into a more robust system of retirement income maintenance also would ensure a more secure workforce with complete portability for retirement. Workers would be able to relocate in order to change jobs, providing a degree of labor flexibility that can contribute to job creation, without fear of losing their retirement benefits. And it would help American businesses, who are finding it increasingly difficult to compete with companies in other countries that don't have the same pension and health care obligations to their employees, since those countries have national, non-employer-based plans for retirement and health care (for example, American automobile manufacturers estimate that employee health insurance costs add $1,500 to the price tag of every new car).[21] Greater retirement security also would decrease health care costs stemming from stress-related illnesses and having insufficient income to receive timely care for seniors.



Social Security has succeeded for generations because it is a universal program that has included all Americans regardless of class. It also is individual-based, and thus not dependent on the employer. Social Security has been very stable and popular over time, and despite what some critics say it is on solid financial footing. The Congressional Budget Office (CBO) projects that the program can pay all scheduled benefits out of its own tax revenue stream for the next 40 years with no changes whatsoever.

Expansion of Social Security also is in keeping with American tradition and the history of Social Security. The history of Social Security in the United States shows that it has been an ever-evolving part of not only the social contract but the stability of the economy itself. In 1935, eligibility for social security was so limited that only a minority of the population could hope to benefit from social insurance.

Over the next 40 years, the Social Security system was amended repeatedly to expand eligibility, raise the level and variety of benefits, and establish innovative programs to cover new populations.[22] The federal amendment process has been the means by which Social Security became the political cornerstone that it is today, resulting in a popular program that keeps roughly 40 percent of all Americans age 65 or older out of poverty.

Thus, there is ample history in the United States of expanding Social Security to respond to imminent needs. And there is no doubt that that the need is imminent: the "three-legged stool" of retirement security is nearly collapsed, with two of those legs -- pensions and private savings based on homeownership – broken. Only the third Social Security leg has any strength to it. But the stool itself, standing on a single leg, is no longer secure or stable. Social Security should be expanded to the point where it pays out approximately twice its current levels, from the current 33-40 percent of an individual’s final salary to 66-80 percent. This also would bring Social Security in line with the payouts provided to citizens by government pensions in many other OECD nations.

A poster for a previous expansion of the Social Security Act

Financing Options for the Expansion of Social Security

Financing Social Security Plus could be accomplished via a number of allocation mechanisms. And its implementation could occur incrementally, in stages, which would ease any financial challenges or transition issues.

For example, the conversion could begin by first focusing on the most needy by increasing the minimum Social Security benefit for the nearly 25 percent of seniors who live in poverty.[23] Another option would be to allow active seniors who have not yet reached full retirement age to take a half-pension and work at half-time without losing their right to a full pension upon their retirement. That would both reduce the strain on the Social Security system and ensure that seniors could ease their way into retirement while building up savings, clearing the way for more young people to find jobs.

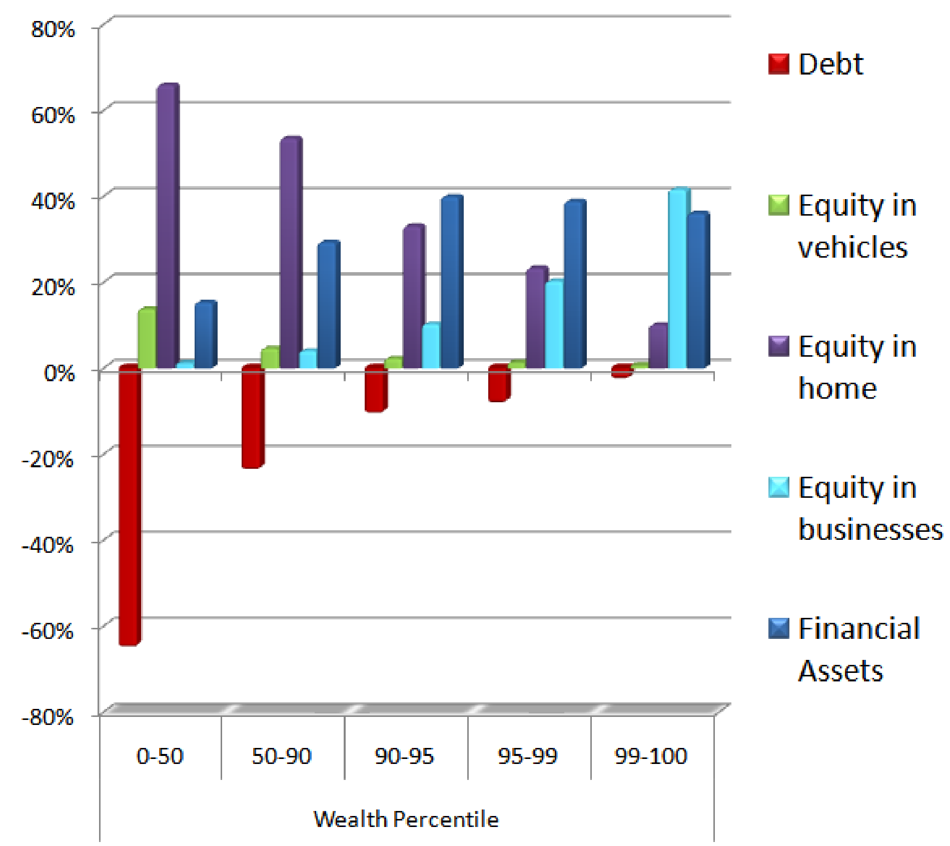
One source of revenue could be devoting an estate or inheritance tax to the Social Security trust fund. Robert M. Ball, former Commissioner of Social Security, among others, has argued in favor of devoting the proceeds of an estate tax to Social Security. The tax perhaps would apply only to large estates of $3.5 million or more.[24] Another possibility would be to make capital gains and unearned income subject to a Social Security contribution, or to direct a small transaction fee levied on all stock market transactions into the Social Security trust fund. Still another possibility would be to use a flexible payroll tax, as Finland has done, in which payroll taxes are increased when the economy is going well and reduced when the country is hit by hard times. This counter-cyclical intervention acts as an automatic stabilizer to reduce the cost to employers of hiring workers during tough times, but during good times directs increased payroll-tax revenues toward a buffer fund that can be used in any number of ways.[25] A flexible payroll tax in the U.S. could deposit the extra revenues collected during prosperous years into a fund that helps finance an expansion of Social Security.

Another revenue source could be offering all participants in the Social Security system the opportunity to make supplementary contributions to their own individual accounts within the Social Security trust fund. This policy could include an option to invest these supplementary contributions in Treasury securities. Supplementary contributions would be optional, and would be in addition to an individual's regular contributions to Social Security. It could result in additional savings for many who would prefer to forego present consumption in favor of setting aside more for their golden years.[26]

Funding Social Security Plus: A Proposal

As these options suggest, there are multiple possibilities for funding mechanisms. But the three best mechanisms for funding would come from modifying the U.S. tax code in ways that better comport with the modern era. In particular, that means: 1) lifting the unfair payroll cap currently in place as it is applied to Social Security, 2) eliminating tax deductions granted to employers for sponsoring retirement plans, and 3) reducing or even eliminating the unfairness inherent in the tax code in general, which allows deductions that favor the wealthy over low and moderate income Americans.

Figure 8: Asset and debt items as a percent of assets by percentile distribution of wealth groups



Source: Kennickell, A. Federal Reserve Board, 2009.

Lift Social Security's payroll cap

Among the American public, it is little known that the current Social Security tax is not universally applied: it taxes 12.4 percent of wages up to $106,800 a year (plus 2.9 percent for Medicare), split evenly between employer and employee. Any income over the $106,800 threshold is not taxed by Social Security. The net result of this is that poor, middle class, and even moderately upper middle class Americans are taxed 12.4 percent on 100 percent of their income. But the wealthiest Americans are treated differently by the Social Security system because they pay tax on only a portion of their income, since no more tax is levied after $106,800 of income. Hence, while a janitor making $20,000 a year pays the full 12.4 percent, a lawyer making $500,000 a year effectively pays only 2.5 percent, and millionaire bankers pay a paltry 1.2 percent. Not only is this payroll tax regressive in broad terms, but it becomes increasingly regressive as one ascends the income scale, even advantaging the mega-wealthy over the merely-wealthy. Requiring that all income levels support the system fully by paying their fair share of Social Security taxes would make the system's financing mildly progressive, instead of regressive.

Removing the income cap and making all income levels pay according to the same rules would be a very popular reform. Studies indicate that most Americans think that if they pay Social Security tax on their full salary, others should do so as well.[27] Higher income workers and employers with large numbers of higher income workers would have little to complain about because they already have been the beneficiaries of exceptionally large tax reductions under the Bush administration. Moreover, there is a precedent for removing this limitation on taxable earnings. Medicare no longer has a cap on taxable earnings, the wealthy pay far more for the same benefits than do those of lower income. They have accepted that being fully taxed does not translate into additional benefits. As a candidate, President Barack Obama stated that he supported raising the cap on the Social Security tax to help fund the program, proposing a Social Security tax of 4 percent on the amount of any income earned over $250,000.[28]

Taxing all income brackets equally would raise nearly sixty percent of the revenue needed to double the Social Security payout from the current 33-40 percent of an individual's final salary to 66-80 percent. According to the Tax Policy Center tables, there are approximately 24 million Americans earning incomes above the $106,800 cap for Social Security tax. If all of their income is taxed at the same 12.4 percent rate as those Americans making less than $106,800, that would raise an additional $377 billion. In 2010, about 51 million Americans will receive $650 billion in Social Security benefits, so that represents 58 percent of the amount needed for doubling the Social Security retirement benefit (see Table 1).

Table 1			
Income level	**No. of tax units**	**Avg income minus $106,800**	**Revenue X .124 tax rate**
$100,000-200,000	18.1 million	$31,953	$71.7 billion
$200,000-500,000	5 million	$183,317	$113.7 billion
$500,000-1,000,000	866,000	$573,951	$61.6 billion
Over $1,000,000	390,000	$2,696,365	$130.4 billion
Total			**$377.4 billion**
All numbers taken from T09-0342 - Baseline Distribution of Cash Income and Federal Taxes Under Current Law, by Cash Income Level, 2004-2020, July 1, 2009.[29]			

Eliminate employer tax deductions for sponsoring retirement plans

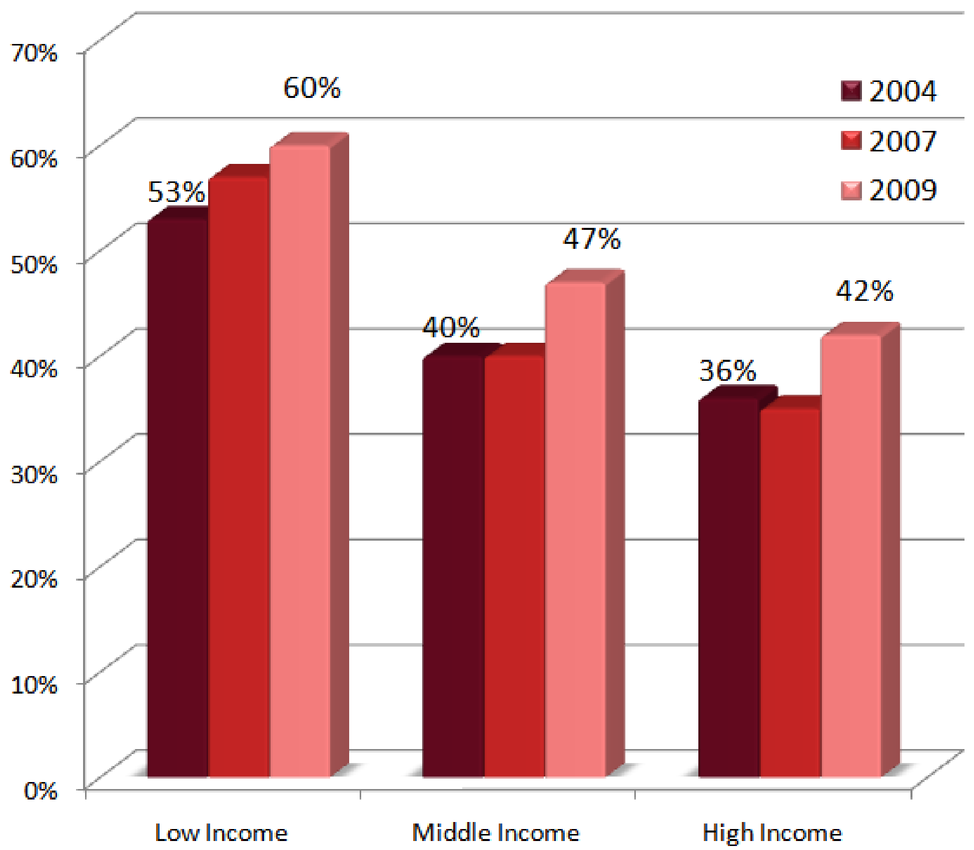
With Social Security Plus available to all Americans, employers would be liberated from their current responsibility of providing some degree of retirement for their employees. That means they no longer will need the substantial deductions they currently receive for providing a retirement plan for their employees.

Elimination of government support for pension plans and private savings makes even more sense when you realize that the current system leads to excessive cost and risk resulting from managers of pension funds who gamble with future retirees money in a bid to achieve above-average returns. As Yeva Nersisyan and L. Randall Wray have argued, the entire industry can be justified only if, through skill or luck, pension fund management can beat the average risk-free return on Treasuries by enough to pay for all of those industry compensations plus add growth to the fund portfolio.[30] But experience has shown no strong evidence that the typical fund manager can consistently beat the average return on Treasuries. Hence, it makes no economic sense to either pay fees to financial managers or send as much as 40 percent of corporate profits to the finance, insurance, and real estate sector, as the U.S. did at the peak of the bubble.

Workers would be better off if employers directed their pension money into a Social Security Plus system with investments restricted to Treasuries, and at the same time removed the tax advantages and government guarantees provided to pension plans. This would boost Social Security and ensure that anyone who works long enough to qualify would achieve a comfortable retirement. No accumulation of financial assets would be required to back up "Social Security Treasuries" in the case of an economic downturn since the full faith and credit of the U.S. government stands behind the promised benefits. Under such a system, at most each pension plan would require a very small management staff that would transfer funds out of the employing firm's bank deposit and into Treasuries. Workers wouldn't have to pay fees that drain their pension funds and assume all that investment risk.

Eliminating the tax deductions and deferrals granted to businesses' retirement plans would save a substantial amount of money, since they amount to the second largest tax expenditure in the federal budget. They are projected to reduce federal tax revenues by an estimated $126 billion in FY2010.[31]

Figure 9: Percent of households at risk of not having enough income to maintain their pre-retirement standard of living at age 65, by income group



Source: Munnell, A. Center for Retirement Research, 2009.

With a more sufficient level of Social Security payout, it also would be possible to eliminate the additional standard deduction on income tax returns that Congress currently allows taxpayers aged 65 and older, which is estimated to reduce federal tax revenues by another $1.9 billion in FY2010.[32] That additional $128 billion, added to the previous $377 million, would supply three-quarters of the revenue needed to double the payout of Social Security.

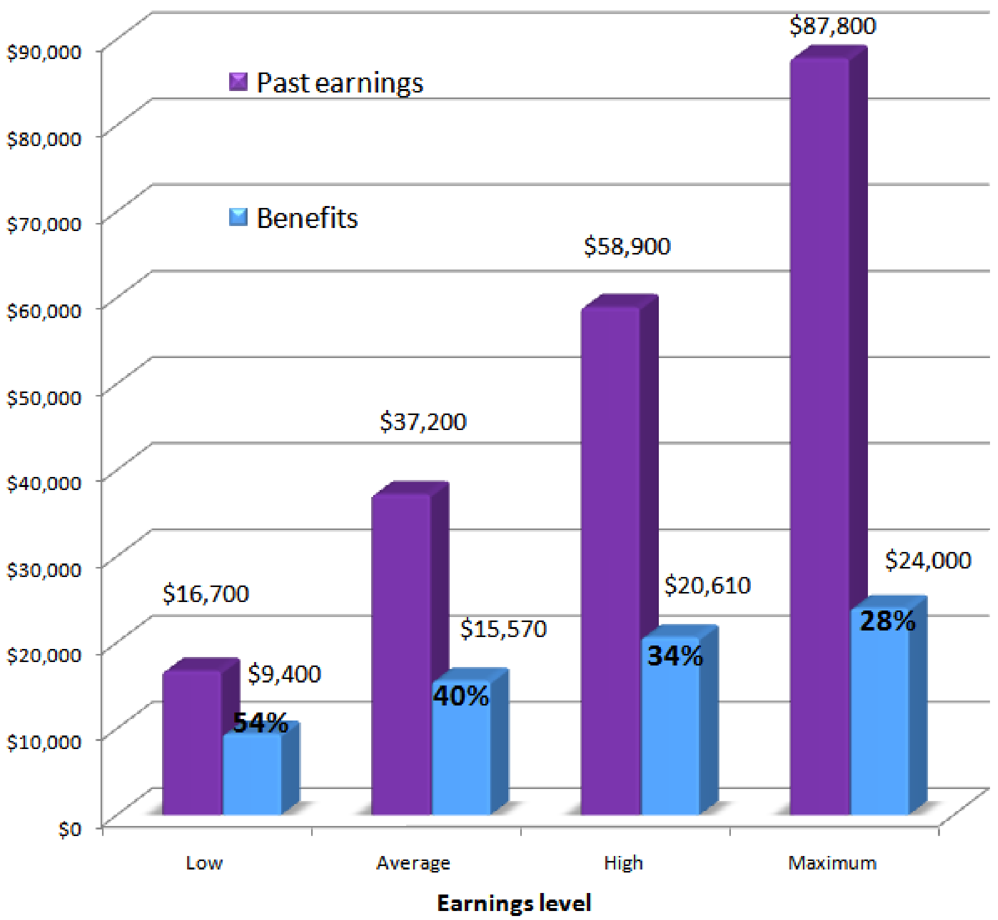
Reduce or eliminate other unfair deductions in the tax code

Another source of income for Social Security Plus would be to decrease or even eliminate many of the aspects of the tax code which disproportionately favor upper and upper middle income groups. The tax code has created a two-tier welfare state in which better-off people enjoy generous tax deductions for homeownership, health care, education and private retirement savings. The majority of these benefits go to the top 20 percent of income earners who can afford these services; the less fortunate receive very little from these deductions because they do not have enough income to take advantage of itemizing deductions.

For example, savings instruments such as traditional pensions, 403(b)s, 401(k)s and IRAs currently are allowed considerable tax deductions for individuals. These are hugely regressive because they act to reduce the taxable income of those able to take advantage of these savings instruments. Higher income people take full advantage of these, resulting in them paying less tax on their reduced taxable income but also in some cases they end up in a lower tax bracket and therefore pay a lower tax rate. These advantages mostly are not available to the poor and working class who rarely have enough income to divert for savings or investment.

Similarly the homeownership deduction for mortgage interest only benefits people with sufficient income to buy a home. In 2010, the mortgage interest deduction will amount to about $108 billion.[33] While eliminating it during the present recession would be unwise due to its stimulus effects, in the long run there is a strong case for raising revenues by capping or phasing out the mortgage interest deduction.

Figure 10: Social Security benefits and percent replacement rates comparing past earnings for workers with continuous work histories, retiring at age 65.



Source: National Academy of Social Insurance, 2007.

These deductions were enacted by Congress in part as a means to incentivize savings. While a certain number of moderate income Americans benefit from these, if we enacted Social Security Plus they would no longer need to rely on these deductions as vehicles for retirement savings. Instead of buying a home as part of their retirement plan – which we have seen is a risky investment – they could put their money into Social Security Plus. Far from hurting the economy, reducing these tax advantages for the better-off would help the economy in a number of ways. By contributing toward an expansion of Social Security payouts it would have a permanent stimulating effect on the economy.

Most economists agree that low and middle income people are more likely to spend an extra dollar on goods and services than are affluent individuals because they put much less money aside. It would also act as an automatic stabilizer during downturns, discourage investment asset bubbles from developing in the future, and help increase retirement security. And because the Social Security payout would be universal, even those who are losing their tax deductions would see at least part of it returned back to them in the form of a greater payout from Social Security.

Just these three revenue streams -- lifting Social Security's payroll cap, eliminating the employer tax deduction for providing a retirement plan, and eliminating the home mortgage deduction -- would raise approximately $613 billion, about 94 percent of the revenue needed for doubling the Social Security payout and providing a stable, secure retirement for every American. Social Security Plus is therefore both viable and fundable, and with the deep cracks in America's retirement benefits revealed by the Great Recession, it is now both desirable and necessary.

Conclusion

The "three-legged stool" of retirement security in the United States -- Social Security, pensions, and private savings (mostly derived from homeownership) -- has become wobbly and unstable. With employers walking away from their traditional role of providing a private pension, with homeownership crashing and with inequality increasing and personal savings declining in the years even before the Great Recession, Social Security now is the only leg left for hundreds of millions of Americans. An expansion of Social Security -- one of the most successful and popular government programs in U.S. history -- into a more robust retirement system that doubles the current payout to individuals would build upon the most stable components of the current system.

In spite of its historical success, Social Security is under new attacks by those who want to further shrink government. However, it is clear that the priority instead should be to strengthen and expand Social Security to a point where it provides twice its current benefit level, bringing the American retirement system more in line with those used in nearly all other advanced societies.

This can be accomplished by making the Social Security tax fairer and more universally applied, by eliminating deductions for businesses that provide retirement plans, and by rolling back or limiting various tax-favored deductions that disproportionately advantage the well-off. Social Security Plus could be implemented in stages, targeting expanded benefits first to those who are most in need. Multiple funding mechanisms and implementation plans are possible toward the desired goal of providing retirement security for all Americans.

Besides stabilizing the U.S. retirement system, Social Security Plus also will benefit American businesses that currently miss out on the competitive advantages offered by non-employer based retirement (as well as health care) systems, and act as an automatic stimulus and stabilizer of the macro economy. Social Security Plus will contribute toward a solid foundation from which to build a strong and vibrant 21st century economy.

Steven Hill is a political writer and researcher whose work has been widely published in the U.S. and abroad. He is the former director of the political reform program at the New America Foundation.

Endnotes

[1] The graphs and much of the discussion in this section come from Lauren Damme, *Facing an American Retirement Security Crisis*, New America Foundation (Economic Growth Program), May 17, 2010, and Lauren Damme, *The American Retirement Security Crisis: An Introduction*, New America Foundation (Economic Growth Program Issue Brief), May 27, 2010.

[2] Purcell, P. *Income of Americans aged 65 and over, 1968-2008.* Congressional Research Service. November 2009.

[3] Munnell, A, Webb, A. & F. Golub-Sass. *The National Retirement Risk Index: After the Crash.* Center for Retirement Research at Boston College. No. 9-22. Oct. 2009.

[4] Organisation for Economic Cooperation and Development. *Pensions at a Glance, 2009. Retirement-Income Systems in OECD Countries.* 2009.

[5] David Ignatius, "Boomers Going Bust," Washington Post, May 7, 2009.

[6] Novy-Marx, R. and J. Rauh. *The liabilities and risks of state-sponsored pension plans.* Journal of Economic Perspectives. Vol. 23, No. 4. Fall 2009. Pg. 191-210.

[7] Ibid.

[8] Government Accountability Office. *State and local government retiree health benefits: Liabilities are largely unfunded, but some governments are taking action.* Report to the Chairman, Special Committee on Aging, and the U.S. Senate. Report GAO-10-61. November 2009.

[9] City of Los Angeles Comprehensive Annual Financial Report, 2009.

[10] City of New York Comprehensive Annual Financial Report, 2009.

[11] Federal Reserve. *Flow of Funds Accounts of the United States, Z.1.* March 11, 2010.

[12] First American CoreLogic. Media Alert: First American CoreLogic releases Q3 negative equity data. September 2009.

[13] Deutsche Bank. *Drowning in Debt: a look at "underwater" homeowners.* Securitization Reports. North America. 5 August 2009.

[14] Beth Shulman, "Retirement Insecurity," TomPaine.com, April 24, 2006; Jonathan Peterson, "Study: Grim Retirement Awaits Many," Los Angeles Times, June 7, 2006; Eileen Alt Powell, "Workers Have Retirement 'Overconfidence'" Associated Press, April 3, 2006.

[15] Munnell, A, Webb, A. & F. Golub-Sass. *The National Retirement Risk Index: After the Crash.* Center for Retirement Research at Boston College. No. 9-22. Oct. 2009

[16] Social Security Administration Board of Trustees. *Annual report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds.* Tables VI.F10, V.C.1, and III.A3. Washington, D.C. 2007.

[17] Social Security Administration Board of Trustees. *Annual report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds.* Tables VI.F10, V.C.1, and III.A3. Washington, D.C. 2007.

[18] Ignatius. op.cit.

[19] See Stephen Beard, "German pension system showing age," Marketplace Money, May 15, 2009; and Reuters, "Possible French pension reform proposals-FACTBOX," June 14, 2010.

[20] "Understanding The Benefits," SSA Publication No. 05-10024, January 2010, ICN 454930, p.4.

[21] Nick Carey, "US Companies Seen Warming to Idea of Health Reform," Reuters, June 4, 2007. See also Lee Hudson Teslik, Healthcare Costs and U.S. Competitiveness, Council on Foreign Relations Backgrounder, May 14, 2007; and Jonathan Cohn, "What's the One Thing Big Business and the Left Have in Common?" New York Times Magazine, April 1, 2007.

[22] "Social Security: A Brief History," Social Security Administration, SSA Publication No. 21-059 ICN 440000, October 2007, p. 19. In 1937, Social Security had barely 53,000 beneficiaries and they were paid a total of only $1.3 million. These rose to 222,000 beneficiaries and $35 million by 1940; 3.5 million beneficiaries and $961 million in 1950; 14.8 million beneficiaries and $11.2 billion in 1960; 26 million beneficiaries and $31.9 billion in 1970; nearly 36 million beneficiaries and $120.6 billion in 1980; and about 40 million beneficiaries and $247.8 billion in 1990 (all figures in nominal dollars, not adjusted for inflation). In 2004, $493 billion of benefits were paid to 47.7 million beneficiaries. In 2010, about 51 million Americans will receive $650 billion in Social Security benefits.

[23] Organization for Economic and Cooperative Development (2008), Growing Unequal? : Income Distribution and Poverty in OECD Countries, COUNTRY NOTE: UNITED STATES.

[24] Max Skidmore, *Securing America's Future,* Rowman & Littlefield Publishers, Lanham, Maryland, 2008, p. 96.

[25] Stephen Fidler, "Flexible payroll tax may be Finland's greatest export," Wall St Journal, July 2, 2010.

[26] See Robert Eisner, *Social Security: More, Not Less,* Century Foundation Press, June 15, 1998.

[27] Skidmore, op.cit. p. 96.

[28] Joseph Henchman, "Obama Would Lift Social Security Earnings Cap, But At A Lower Tax Rate," Tax Foundation's Tax Policy Blog, July 8, 2008.

[29] See Tax Policy Center, T09-0342 - Baseline Distribution of Cash Income and Federal Taxes Under Current Law, by Cash Income Level, 2004-2020, July 1, 2009.

[30] Yeva Nersisyan and L. Randall Wray, "The Trouble with Pensions: Toward an Alternative Public Policy to Support Retirement," published by the Levy Economics Institute of Bard College, Public Policy Brief, No. 109, February 2010, p. 3-4, 11-12.

[31] Purcell. op.cit. p. 2-3.

[32] Ibid.

[33] Ibid. p. 3, see footnote 5.

Main Office
1899 L Street, NW
Suite 400
Washington, DC 20036
Phone 202 986 2700
Fax 202 986 3696

California Office
921 11th Street
Suite 901
Sacramento, CA 95814
Phone 916 448 5189

NEW AMERICA FOUNDATION
WWW.NEWAMERICA.NET