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# The Personal Security System - Fundamental Social Security Reform

## Putting Social Security "Off the Table" Puts our Kids on the Chopping Block

The Personal Security System is a modern version of Social Security that provides younger and future workers with a modern, fully funded personal account system.

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*Prof. Laurence Kotlikoff has produced pioneering work on the effects of our tax and welfare systems.*

### Social Security Is in Dire Financial Shape — Far Worse than You Know.

Social Security is our nation's most important social insurance provider, conveying insurance against excessive longevity, early mortality, low earnings, divorce, disability, and their various combinations. Yet, the system's 86-year pay-as-you-go financing scheme is reaching the end of its rope.

According to Social Security's 2023 Trustees Report, the program has a $65.9 trillion fiscal gap (unfunded liability). The fiscal gap is the difference between the present value of all projected future outlays less the sum of a) all projected future receipts and b) its trust fund. The system's red ink is 2.5 years of GDP. Official debt held by the public is less than a year's GDP.

Many, if not most, presidential candidates want to keep Social Security's insolvency "off the table." This "strategy" has a natural end date. In a decade, the system will exhaust its trust fund. At this point, it will be cash-strapped -- unable to pay one fifth of the benefits it owes.

*Social Security has a $65.9 trillion unfunded liability. That is 2 and 1/2 times the size of our Gross Domestic Product.*

One might hope that the rest of the U.S. fiscal system could bail out Social Security. According to Social Security's Trustees, Social Security needs a 4.6 percentage-point immediate and permanent increase in the FICA payroll tax rate to close its fiscal gap, i.e., to meet its benefit commitments without further payroll tax hikes.

Since Social Security's current FICA tax rate is 12.4 percent, a 4.6 percentage-point rise would represent a 37 percent FICA tax hike. Our nation as a whole requires, based on Congressional Budget Office (CBO) projections, an immediate and permanent 41 percent hike in all federal taxes to meet all outlays apart from interest on official debt. In short, Social Security's immense financial shortfall is simply a component of Uncle Sam's overall, even more colossal insolvency. This insolvency is evident in the CBO's latest forecast that official debt will rise to 188 percent of GDP by 2050.

## Paying our Nation's Bills is a Zero-Sum Generational Game.

The less today's older generations pay, the larger the burden today's young and tomorrow's future generations will bear in the form of higher taxes, lower benefits, or less spending on public goods and services. Hence, taking fiscal problems off the table puts our children on the economic chopping block.

The 1983 Greenspan Commission's Social Security reform illustrates this zero-sum game. The Commission chose to "save" Social Security by looking only 75 years into the future – assuming, in effect, that beneficiaries alive in 2058 would conveniently expire in that year. Forty of those 75 years have now passed and there is no sign of an impending, financially convenient mass American extinction 35 years in the future.

> *Having an outstanding, large-scale, sustainable, user-friendly social insurance system is imperative. The current system is miles from these objectives.*

By operating on only a portion of a rapidly growing financial tumor, the Commission, consisting primarily of politicians, left the problem to metastasize. Measured in terms of the requisite immediate and permanent percentage-point FICA tax-rate hike needed to eliminate the system's fiscal gap, Social Security's financial tumor is twice its 1983 size.

The tradition of using 75-year blinders has been maintained for decades. The Highlights (yes, that's the Trustees' ironic title) of the 2023 Trustees Reports makes no mention whatsoever of the system's infinite horizon fiscal gap – it's true red ink – even though its $65.9 trillion magnitude exceeds the 75-year unfunded $22.4 trillion liability by a factor of three. Perhaps the Trustees failed to locate table VIF1 once they hid it deep within their report's appendix?

## Going the Way of Argentina.

A century of fiscal malfeasance transformed that country from rich to poor. Argentine per capita income is now 14 percent of the U.S. level. In 1923, it was 85 percent.

Yes, we can, as the Greenspan Commission did, pray the country will stop aging and experience far more rapid wage growth or that everyone will miraculously pass away on January 1, 2059. But Ponzi schemes have a common destiny – they fail. The only questions are when, how badly, and at whose cost.

Unfortunately, Social Security's problems go far beyond its financing. The system, which is close to a century old, is extraordinarily complex, run by a heartless bureaucracy that is terrorizing millions with benefit claw backs, terribly sexist (de facto, not de jure), scams millions of widows, cons millions into permanently retiring far too early, and I could go on. To be clear. I love Social Security's objectives. I believe having an outstanding, large-scale, sustainable, user-friendly social insurance system is imperative. The current system is miles from those objectives.

In the 1980s, corporate America was also running underfunded defined benefit pension systems. Its solution was to freeze their systems in place, pay off their accrued liabilities, and switch to a defined contribution system. The result is our modern day 401(k) tax-favored saving system. That system has failed, at enormous taxpayer cost, to secure typical workers' retirements. Its main success has been enriching Wall Street.

## The Personal Security System.

Let me present my plan – the Personal Security System -- for fundamentally and permanently fixing Social Security. This plan covers retirement benefits. A similar fully funded plan would handle survivor benefits. The disability program would continue to be funded on a pay-go basis, but would be thoroughly overhauled and run expeditiously and humanly. Right now, it routinely treats disability claimants as cheats who should be ignored.

*The Personal Security System is a plan that fundamentally and permanently fixes Social Security.*

In considering PSS, please keep one thing clearly in mind. PSS can be run on a single laptop. Wall Street plays no role whatsoever in the system and earns not a single penny.

## PSS Is Very Simple — 20 Quick Bullets.

- Current beneficiaries are unaffected
- Freeze the current SS retirement system for workers; fill zeros in their future work records.
- Thus, workers receive, in retirement, all benefits accrued as of the date of the reform.
- FICA tax rate gradually falls as systemwide retirement-benefit expenditures decline.
- All workers contribute 10 percent of their pay to the PSS.
- Spousal contributions are combined and split 50-50 before crediting to their PSS accounts.
- Each person of working age has a PSS account.
- Government matches contributions of poor.
- Match is set to preserve degree of retirement-benefit progressivity under current system.
- Government contributes on behalf of the unemployed and disabled.
- All PSS contributions are collectively invested in a market-weighted index of all widely traded global financial securities.
- The SS Trustees determine what assets are included in the global index. If politically required, index could include just U.S. securities.
- Management of all aspects of the fund is digital. There is zero cost to participants.
- All participants receive identical annual returns.
- Government guarantees a zero cumulative real return on PSS accounts. Account balances are adjusted at time of annuitization as needed to implement the guarantee.
- Between 62 and 70, each birth cohort's PSS account balances are gradually sold and used to purchase (converted to) an index fund of TIPS (Treasury Inflation Protected Securities).
- Workers receive inflation-protected annuities based on each year's conversion to TIPS.
- The annuity received by a participant from conversion at, say, age 63 is proportional to the participant's share of their cohort's PSS balances converted at age 63.
- By age 70, each participant is receiving eight inflation-indexed annuities.

- The eight annuities are adjusted annually in light of the performance of the TIPS portfolio and the cohort's survival experience. This adjustment ensures cohort-survival risk is absorbed by the cohort.

## Summary.

The Personal Security System is a modern version of Social Security. It replaces our current outmoded and horrifically insolvent retirement-benefit system. Current retirees are unaffected. Workers receive their accrued retirement benefits, in full, and continue to pay the gradually declining FICA tax. Middle-aged and young workers lose the opportunity to accrue benefits, but these are benefits that the system would not otherwise have been able to pay.

For younger and future workers, the PSS provides a modern, fully funded, highly progressive, marriage-neutral, non-sexist, personal account system, with collective investment of assets, a guaranteed minimum return, and inflation-indexed annuities. The entire system can be run on a single laptop. And since investments are made in a global, market-weighted index, there is no role for Wall Street to mis-invest our money and charge fees for the privilege.

*From Economics Matters by Laurence Kotlikoff*
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