The Future of Social Security

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In 2008, the eldest members of the Baby Boom generation turned 62 and became eligible to collect early retirement benefits from Social Security. Shortly thereafter, in 2010, Social Security began running its first cash deficit since 1983, when Ronald Reagan worked with Congress to rescue the program from financial collapse.

In order to cover that deficit and meet its obligations to current retirees, Social Security has been withdrawing money from the Social Security trust funds. Under what the government’s actuaries call “intermediate” economic assumptions, the trust funds will be able to cover the deficit until 2033. After that, paying all promised Social Security benefits will require increasing the payroll tax by 50%. Under what the government’s actuaries call “pessimistic” economic assumptions, the Social Security trust funds will run out of money to pay promised benefits by 2029. After that, paying all benefits promised to today’s young workers will require doubling the current payroll-tax rate. A recent study by researchers at Harvard and Dartmouth concludes that the Social Security actuaries have been consistently over-optimistic in their demographic and economic assumptions regarding the future fiscal solvency of Social Security.

Some think that, because Social Security is not currently in crisis, Congress can deal with the program’s problems later. But if Congress waits until 2029 or 2033 to fix Social Security, policymakers will be left with very few options and will likely be forced to raise payroll taxes to unprecedented and harmful levels. If Congress acts sooner rather than later, however, it can restructure Social Security to make it solvent and secure in the long term.

Personal savings, investment, and insurance accounts can solve the long-term financing crisis of Social Security without benefit cuts or tax
increases. If Congress is serious about ensuring that future generations can benefit from this program, it would do well to implement these reforms.

**PAY AS YOU GO**

Social Security operates as a pure tax-and-redistribution system, collecting money from workers (via the payroll tax) and allocating those same dollars almost immediately to current beneficiaries. Even when the system was running annual surpluses, close to 90% of the money coming in was paid out within the year to pay current benefits.

Those small surpluses were deposited in the Social Security trust-fund accounts, which Congress created to ensure that benefits would be paid out even in hard economic times. Rather than investing those trust-fund dollars, however, the Social Security Administration lent them back to the federal government to spend on other government programs. In return, the Social Security trust funds received internal federal IOUs. The Social Security trust funds currently hold about $2.8 trillion in such IOUs, and as long as the program runs a deficit, as it is doing today and will into the foreseeable future, Social Security will turn in those IOUs to the U.S. Treasury in exchange for money to pay benefits.

The problem is that the Treasury doesn’t have the money to pay back those IOUs. It can get the cash either by raising taxes or by borrowing still more (from other bond-buyers) and running even bigger general deficits. This pattern will continue until the Social Security trust funds run out of IOUs. From 2010, when the deficits started, until the trust funds are exhausted in 2033, the American people will have to come up with roughly $7.3 trillion to cover all the IOUs that will have accumulated in the Social Security trust funds by then. That is in addition to paying payroll taxes at the current rate for ongoing Social Security spending. And after 2033, those taxes will have to go up dramatically.

The root cause of this long-term fiscal problem is Social Security’s “pay as you go” structure. The fact that the tax money paid by workers today is not saved and invested for their future retirement but is rather immediately used to fund others’ current retirement means there is little margin for error when adverse developments threaten the financing balance.

The most important of these adverse developments are demographic changes. After World War II, the fertility rate, or lifetime births per woman, soared to over 3.0 by 1947, on its way to a peak of nearly 3.7 in 1957. The rate remained above 3.6 until 1960 and was still 3.3 in 1963.
Those born in 1947 are 67 to 68 years old today, and over the next 15 years or so the entire Baby Boom generation is going to retire, massively increasing the benefit obligations Social Security must pay.

To make matters worse, the Baby Boom was quickly followed by a baby bust. The new public availability of the pill and swiftly changing social mores in the 1960s caused the nation’s demographics to turn on a dime. Fertility collapsed to 2.8 in 1965, 2.4 in 1969, and 2.2 in 1971. (Just maintaining a stable population requires a fertility rate of 2.1.) In 1972, the rate fell to under 2.0, down 40% in just nine years. Fertility continued to decline, reaching a nadir of about 1.7 in 1976, less than half the peak 20 years earlier. It stayed near that level until 1987 when it began to inch upward, hitting 2.0 in 1989. It has remained near that level since.

This fertility double whammy has been and will continue to be disastrous for the pay-as-you-go Social Security system. Just when the huge Baby Boom generation is retiring and causing benefit expenditures to soar, their children’s generation, which is paying taxes to support their benefits, is relatively smaller, causing a sharp drop in the tax revenues needed to pay for the Boomers’ promised benefits.

Moreover, life expectancy in America has increased dramatically over the last few generations, which is great news for older Americans but poses challenges for the solvency of our safety-net programs, especially Social Security. In 1940, life expectancy was 61.4 for males and 65.7 for females, so when Social Security was adopted in 1935 with a retirement age of 65, the financial burden did not seem so great. But since then, life expectancy has grown to 76.5 years for men and 81.3 years for women, and it is expected to increase even more in the coming decades.

This will make the already huge cost of benefits for the Baby Boom generation much greater, of course, because many recipients will be living — and therefore collecting benefits — for a longer period of time. For Social Security today to be an equivalent burden to what it seemed to be when it was adopted in the 1930s, the retirement age would have to be nearly 80.

These powerful demographic factors have caused the number of workers financing each retiree to fall sharply. In 1945, there were 41.9 workers paying into Social Security for every retiree drawing out benefits. In 1950, there were still nearly 16.5 workers per beneficiary. Today, there are 2.8. By 2032, under the intermediate projections, there will be only 2.1 workers per beneficiary. Under the pessimistic projections, by
2036 there will be 1.9 workers per beneficiary, on the way down to 1.5. In the pay-as-you-go system, in which current workers pay taxes to support current retirees without investment and accumulating returns, a steep decline in the ratio of taxpayers to beneficiaries requires a steep increase in taxes per worker to finance promised benefits.

**A Bad Deal**

Even if the pay-as-you-go system were immune to the effects of demographics, it is not at all clear that the Social Security system at present is a good deal for taxpayers. We must ask: Are all the benefits provided under current law — retirement, survivors, and disability benefits — actually worth all the years of payroll-tax payments?

A recent study examined a hypothetical family where the husband works and earns the average income for full-time male workers each year, and the wife works and earns the average income for full-time female workers each year. They have two children, and each parent started working in 1985 at age 22, right after they graduated from college.

Even if all their promised Social Security benefits were somehow paid, those benefits would represent an annual real rate of return of about 0.8% on the taxes paid by these two workers and their employers over their careers. Almost all hypothetical two-earner couples examined in the study would receive a real return right around this 0.8% rate. Single workers get an even worse deal: A full-time, average-income single worker would receive a real return through the system of around 0.3%. Overall, for most young workers today, even if the program could somehow pay all of its promised benefits, Social Security would pay a real return of around 1.5% or less. And many workers, especially those who earn above-average incomes, would actually receive a negative real return from Social Security.

Negative real returns are, in general, where the whole program is heading. If the government raises taxes or cuts benefits or both, then the effective rate of return under Social Security will decline further for all workers across the board. Eventually, the rate of return on Social Security for virtually all eligible workers would be driven down into the range of negative effective real returns.

Are there better alternatives? If each worker’s tax payments were saved and invested to finance his future benefits, the answer would seem to be yes. Jeremy Siegel, in the latest edition of his definitive book
Stocks for the Long Run, documents that the real annual compound rate of return on corporate stocks in the United States over the 210 year period from 1802 to 2012 was 6.6%, after accounting for inflation. It was the same 6.6% over the period 1926 to 2012, which included the Great Depression, World War II, the Korean War, the Vietnam War, and the Great Inflation of the 1970s.

From 1926 to 2013, the real rate of return on Large Cap stocks, which represent the larger companies in America, was 10.1%. The real rate of return on Small Cap stocks, which represent smaller, mid-size firms, was 12.3%. A sophisticated, diversified portfolio of 90% Large Cap and 10% Small Cap stocks earned a 10.3% real return over that period, which includes the financial crisis of 2008.

How would our average-income, two-earner couple described above have fared if they’d invested? Suppose they could save the taxes that would otherwise go into Social Security and invest the funds in their own family account over their entire careers. Suppose money is set aside each year to buy private life and disability insurance that would pay at least the same survivors and disability benefits as Social Security promises. The rest of their funds are saved and invested each year in a diversified portfolio of half stocks and half bonds earning a conservative real average return of 5%, after paying for all administrative costs to manage the account.

Our couple would reach retirement with a personal account fund of $1,223,602, after adjusting for inflation. The continuing returns alone on that sum would be just about twice what Social Security promises to pay them under current law; they could withdraw just those returns annually — which would amount to more than the benefits Social Security even promises, let alone what it could pay — and still leave over $1.2 million to their children. Alternatively, they could use the fund to buy themselves an annuity that would pay them over four times what Social Security currently promises.

Workers across the board, of all income levels and family combinations, could get much higher benefits by saving and investing in the market through personal accounts than the benefits Social Security promises today — and the program cannot hope to pay even those. Two low-income spouses earning little more than the minimum wage over their entire careers could reach retirement with well over half a million dollars (in today’s dollars) in their personal accounts. That fund would
be sufficient to pay them more than three times what Social Security promises them but will not be able to pay.

So why the gulf between what can be earned through Social Security and private savings and investment? Again, it stems from the basic pay-as-you-go financing structure of Social Security. There are no actual savings or investment anywhere in the Social Security system. The great majority of the money paid into Social Security is immediately paid out to finance current benefits. The chief example of how this program structure can contribute to extreme financial unsoundness is the very first Social Security recipient, Ida Fuller of Vermont. She and her employer had paid a total of $49.50 into Social Security before she retired in 1940. She went on to live another 35 years, passing away at age 100 in 1975. During that time she collected close to $23,000 in benefits, an enormous return on an investment of $49.50.

But over time, this all reverses — taxpayers end up paying more and receiving less. As late as 1949, the maximum annual Social Security tax was still only $60. By 1957, the tax had tripled, but it was still only $189. Eventually, the system reached a point where workers were retiring who had paid high taxes for their entire careers. Then, even the benefits promised to them by the system became a bad deal — and that’s exactly where the program is now. With no savings and investment in the system, these workers are losing the accumulating and compounding returns that would be earned each year by real savings and investment. They get any return at all from the pay-as-you-go, tax and redistribution system only to the extent that total tax revenues to the system can be raised faster and faster over time. Such a system could never remotely keep up with the full market returns that would be earned by a savings and investment system.

PROVEN TO WORK

The benefits to be gained by restructuring the Social Security system around personalized investment accounts are more than just speculation. There is ample evidence, both in other countries and among particular groups in America, that such accounts are a better way to ensure that citizens have the money they need to retire.

Chile was the first country in the Western Hemisphere to adopt a traditional social-security system — that is, a pay-as-you-go system — in 1925. By 1973, payroll-tax rates averaged 26%, yet the system was still
running large and growing deficits. The promised benefits were inadequate and made for a poor deal for Chileans. To address those problems, Chile adopted a new personal-account system that became effective on May 1, 1981. At first, workers were free to choose the new personal accounts or stay in the old social-security system. Those who chose the personal accounts paid, in place of the old social-security taxes, 10% of their wages each month into a personal account they directly and personally owned. For investment of their account funds, workers got to choose from among 20 or so alternative investment funds, which were approved and regulated by the government for this purpose.

The Chilean government decided to back the accounts, called AFPs (the acronym for the official Spanish names of the investment-fund options that workers could select for their personal accounts), with a guarantee that all workers will get at least a minimum benefit in retirement equal to about 40% of average wages. (This is about what the U.S. Social Security system pays to average-income workers.) If the benefits payable through a Chilean worker’s personal account by retirement are not enough to pay at least this minimum benefit, the government provides whatever additional funding is necessary out of general revenues. Workers also contribute an additional 2.3% of wages for the purchase of group life and disability insurance through their AFP, taking the place of the survivors and disability benefits provided to those younger than 65 in the old system. All of the benefits paid by the new personal-account system, including all of the assets in the accounts, are automatically indexed for inflation.

Within 18 months of the adoption of these Chilean social-security reforms, 93% of workers chose to switch to the new personal-account system. Within a few years, annual economic growth in Chile reached 8%, double the country’s historic rate, while unemployment fell to nearly 5% from a high of 14%. The higher savings and lower taxes resulting from the personal-account reforms are recognized as major contributors to that economic growth. After 15 years under the reforms, the enormous savings in the personal accounts totaled 42% of GDP. Because of Chile’s clear success, other countries, especially but not exclusively in Latin America, have followed suit, including Peru, Argentina, Colombia, Mexico, Bolivia, El Salvador, Australia, Hungary, and Poland.

Even in the United States some of these reforms have been enacted on a limited basis. In 1981, public-sector workers in three counties in
and around Galveston, Texas, voted to opt out of Social Security into a new, defined-contribution plan under a provision of federal law that, at the time, allowed state and local government workers to make this choice.

Under the Galveston plan, the county and each worker together contribute 13.9% of the worker’s salary to the program each year; of that, 9.7% is contributed to the defined-contribution account. The money goes to a bank, First Financial Benefits of Houston, which then lends the money long-term to top-rated financial institutions for a guaranteed interest rate, which has averaged about 5%. The financial institutions make their own investments with the funds and use the earnings to pay the guaranteed returns. The risk to workers is consequently greatly reduced, as their investment returns do not rise and fall with the stock market. The workers also do not have to make investment decisions; First Financial does that for them. Just as in Chile, the Galveston-area workers have enjoyed documented benefits two to three times as much as Social Security promises, with higher survivors and disability benefits as well.

On a larger scale, the federal government offers a retirement-savings program—the Thrift Savings Plan—for its employees. The plan is provided to federal workers in addition to Social Security, not in place of it, but it has been so successful and popular that it serves as a model for how a real personal-account system can work. The TSP has 4.6 million investors—with nearly two-thirds of them contributing their own personal funds—and had just under $400 billion in collected assets by the end of 2013. (That’s nearly $90,000 per investor.) The maximum federal contribution to the account is 5% of salary, which would be matched by 5% from the worker, for a total of 10%. For investment, the workers choose among six fund options with different mixes of investments in stocks and bonds; they can choose to shift among these funds at any time.

At retirement, workers can use some or all of the assets in their accounts to purchase an annuity guaranteeing a specified monthly income for the rest of their lives. With 10% of their salaries going into these personal accounts each year over their whole careers, at standard market investment returns, workers would receive from the TSP much more than Social Security promises—let alone what it can pay. Chile, the Galveston-area government workers, and TSP all show that private savings and investment accounts not only can work, but do work.
In 2005, Representative Paul Ryan and then-senator John Sununu introduced comprehensive legislation providing for such a personal-account option in the United States, officially scored by the chief actuary of Social Security. The bill provided for no changes of any sort for those already retired or near retirement. They would continue to receive all of their promised Social Security benefits in full without any deviation from current law. But workers up to age 55 were empowered with the freedom to choose to take just about half the Social Security payroll tax—roughly the employee share of the tax—to save and invest in the new accounts.

Under the Ryan-Sununu bill, workers would choose investments by picking a fund from an officially approved list, as in Chile. The funds would be managed by private investment firms and would be regulated for safety and soundness. This framework would make investment easy for inexperienced investors. Labor unions and social organizations, such as the NAACP, La Raza, and AARP, could team up with investment firms to offer investment funds tailored for their members.

In retirement, benefits payable from the personal accounts would substitute for a portion of Social Security benefits based on the degree to which workers exercised the account option over their careers and shifted payroll taxes from Social Security to the accounts. Those currently in the workforce who choose the personal accounts would continue to receive a portion of Social Security retirement benefits under the current system based on the past taxes they’ve already paid into the program. They would also receive the benefits payable through the personal accounts. Social Security pre-retirement survivors and disability benefits would continue to be paid as they are today.

The option is designed explicitly so all workers will gain the advantage of the higher market investment returns available through personal accounts for their remaining years of work before retirement. As a result, all workers of all ages and all income levels would gain higher benefits through the personal accounts. Workers also would be free to leave any remaining account funds to their families when they die.

The Ryan-Sununu bill would also maintain the current Social Security safety net in full by guaranteeing, as Chile did, that all workers with personal accounts would receive at least as much as promised by
Social Security under current law. If the total benefit for a retiree with a personal account fell below currently promised Social Security benefits, the federal government would send the retiree a check each month to make up the difference.

Finally, workers would be free to choose to stay in Social Security without exercising the personal-account option at all. There would be no benefit cuts or tax increases for these workers. They would continue to get all the benefits promised by Social Security under current law.

The chief actuary of Social Security analyzed the Ryan-Sununu bill and published a comprehensive official score estimating its effects. He found the personal accounts in the Ryan-Sununu bill would achieve full solvency for Social Security, completely eliminating Social Security’s seemingly permanent deficits over time without any benefit cuts or tax increases. The chief actuary stated: “[T]he Social Security program would be expected to be solvent and to meet its benefit obligations throughout the long-range period 2004 through 2078 and beyond.” This would work because so much of Social Security’s benefit obligations would shift to the personal accounts. Indeed, the chief actuary concluded that the personal accounts would be so beneficial for workers that eventually nearly every American worker would opt for the private-account option, something that also happened in Chile.

An approach like that proposed by the Ryan-Sununu bill would, if the chief actuary’s estimations are correct, generate four obvious benefits. First, workers would be accumulating impressive amounts in the near term. After the first 15 years with the Ryan-Sununu personal accounts, workers would have accumulated $6.5 trillion in today’s dollars, after adjusting for inflation, according to the chief actuary’s score. This is half the size of the entire mutual-fund industry today. After the first 25 years, workers would have accumulated $16.5 trillion, again in today’s dollars.

Second, Ryan-Sununu would eliminate the unfunded liabilities of Social Security. Because the personal savings and investment accounts would be such a good deal compared to current and future Social Security benefits, the chief actuary estimated that nearly every worker would enroll in the personal accounts, which would eliminate nearly all of Social Security’s liabilities — currently projected to be $13.4 trillion. Discarding these liabilities could end up being the greatest reduction of government debt in history.
Third, moving to personal accounts would do a great deal to promote the building of real wealth among the nation’s poorer workers—a very high priority for American progressives and conservatives alike. Workers, having amassed a substantial amount by the time they retire, would be free to leave some portion of these funds to their families at death. A study by Harvard’s Martin Feldstein indicated that if Social Security were shifted to a fully funded system like personal accounts, the concentration of real wealth in the United States would be dramatically reduced.

Fourth, workers would be paying the employee share of the payroll tax into personal accounts that they own and control. As a matter of economics, that portion of the payroll tax would no longer be a tax. The workers would no longer be paying that money to the government to finance the benefits of others. They would be keeping that money as their own property, along with all accumulated investment returns. Through the personal accounts, the payroll tax—the biggest tax most people pay—would be transformed into a personal wealth engine for many workers and their families.

All four of these effects would be a boon for the American economy. They would cause wages, employment, and overall economic growth to expand more rapidly. Stronger economic growth would be an enormous benefit for working people today. And that’s exactly what happened in Chile, helping it to move from the Third World to the First.

**Personal Accounts and Financial Crises**

There are two main arguments against personal savings and investment accounts as a solution to the Social Security crisis. The first, which has often been repeated by President Obama, is that such a system would expose workers to too much risk in the event of a financial crisis. In 2008, such critics point out, the financial markets crashed, and many Americans’ retirement investments declined in value. Wouldn’t it be a bad idea to tie the entire Social Security system to something so volatile?

William Shipman, former principal with State Street Global Advisors (one of the largest private-pension investment-management firms in the world), and I conducted a study of the impact of the financial crisis on lifetime savings and investment. We examined the case of a hypothetical senior citizen retiring at the end of 2009 at age 66 who had had the freedom to choose personal accounts when he entered the workforce in
1965 at age 21. Paying into a personal account what he and his employer otherwise would have paid into Social Security, the worker took the riskiest possible path by investing his entire portfolio in the stock market for his 45-year working career.

While working, he earned the average income each year for full-time male workers, and his wife of the same age earned the average income each year for women employed full-time. She invested in the same personal account as her husband, an indexed portfolio of 90% Large Cap stocks and 10% Small Cap stocks, earning the exact returns reported each year since 1965. This average-income couple would have reached retirement at the end of 2009 with accumulated account funds, after administrative costs, of $855,175 — almost millionaires. Indeed, they were millionaires, but in the financial crisis they lost 37% of their account funds the year before they retired.

This hypothetical is a worst-case scenario, as our couple retired just one year after the worst ten-year stock-market performance in American history, from 1999 to 2008 — a decade that began with the popping of the dot-com bubble and ended with the financial crisis. Yet their account would have been sufficient to pay them about 40% more than Social Security would have promised them.

The calculations in this hypothetical example are consistent with the real-world versions of personal accounts. Chile’s personal-account system survived the financial crisis with no bankruptcies in the personal-account investment funds. Nothing had to be paid out by the Chilean government on the guaranteed backing of the accounts, and the lifetime of savings and investment in the accounts exceeded what the old Chilean system had promised. Similarly, the Galveston-area workers and federal employees enrolled in TSP experienced account declines for a few years, but those returns quickly recovered and continued to beat Social Security’s promises by wide margins.

FINANCING THE TRANSITION

The second argument against personal savings and investment accounts is that any plan would face a serious transition-financing issue. As discussed above, Social Security currently operates on a pay-as-you-go basis; virtually all the money that comes in today goes out immediately to pay current beneficiaries. If a substantial portion of the money coming in were to go to personal accounts instead, additional funds
would have to come from somewhere else to meet the obligations due to current retirees.

This is a cash-flow financing issue, however, not a matter of transition “costs.” What the transition is financing is the increased savings and investment involved in shifting from a pay-as-you-go system, which has no real savings and investment, to a fully funded savings- and investment-based system.

Financing the transition to a system of personal retirement accounts is a matter of effectively financing the savings going into the personal accounts of working people across the United States, ultimately amounting to trillions and trillions of dollars. That accumulated savings and investment is not a cost to the economy; it is a mighty, productive contribution to the economy. Working people who see money growing in their own personal accounts would certainly recognize that it is not a cost but an asset. The personal accounts are just a politically sophisticated means of shifting from current, completely non-invested Social Security to a fully funded system based entirely on private savings and investment. That shift should be readily recognized as the complete, responsible, desirable solution to the problems of Social Security.

This transition could be covered with savings from the reform of other entitlement programs. Those other reforms will be necessary regardless of any changes to Social Security: left as they are, entitlement programs are on track to double as a percentage of GDP over the next generation. With the transition financed entirely by reduced spending, the personal accounts would produce a massive contribution to national savings and investment, with no offset for increased government borrowing to finance the transition.

The Ryan Roadmap, the comprehensive legislation introduced in 2010 by the soon-to-be House Budget Committee chairman Paul Ryan, demonstrated the workability of this approach. That proposal included personal accounts for Social Security, fundamental reform of Medicare and Medicaid, general health-care reform, tax reform, and other budget reforms. CBO officially scored the Ryan Roadmap as achieving full solvency for Social Security and for Medicare while balancing the federal budget indefinitely into the future, completely eliminating all long-term federal deficits with no tax increases. The transition to personal accounts for Social Security was consequently fully paid for, effectively by unrelated spending reductions.
If lawmakers care about preserving the benefits of Social Security for generations to come, they should begin with legislation along the lines of the Ryan-Sununu bill. After initial successes, the personal-account option could be expanded to allow substitution of private life insurance for Social Security survivors benefits and private disability insurance for Social Security disability benefits. This could be accomplished, as in Chile, with another 2.3% of wages coming out of the employer share of the tax. Eventually, the accounts could be expanded to cover the payroll taxes for Medicare, another 2.9% of wages, with the saved funds financing monthly annuity benefits used to purchase private health insurance in retirement. Taken together, these personal accounts would cover all benefits financed by the current payroll tax—except it would take only 11.4% of wages, not the current 15.3% levied by the payroll tax.

If personal accounts provided all the benefits currently financed by the payroll tax, then that tax—the biggest tax burden on working people today—could eventually be phased out altogether. Workers instead would be paying into the family wealth engine of their own personal savings, investment, and insurance accounts. This would establish a new foundation of prosperity for working people in America. In the process, over a period of decades, government spending equivalent to about 11% of GDP would be transferred to the private sector, perhaps the largest reduction in government spending ever.

American workers are ready for this kind of Social Security reform, and they have been for some time. In the late 1990s, when Republican congressional candidates started running on the idea, they won consistently. When George W. Bush ran for president in 2000, he explicitly campaigned on empowering workers with the freedom to choose personal accounts for Social Security. His campaign employed all the positive, populist themes originally envisioned for the reform effort. He emphasized the personal ownership and control workers would enjoy through the accounts, the better returns on investment and consequently higher benefits, the accumulated family funds that could be left as an inheritance to children or other heirs, and the full solvency for Social Security that would be achieved without raising taxes or cutting benefits. And though he won the election narrowly in 2000, he nevertheless won the senior vote in Florida—a demographic historically
opposed to Social Security reform. Top pollster John Zogby summed up the results of 2002 midterms as follows: “In every campaign where personal accounts were a major issue, the candidate in favor of personal accounts won, and the candidate opposing them lost.”

Despite early- and mid-2000s momentum toward reform, too many players still believed that personal accounts were just the “dessert” to make the “spinach” of benefit reductions palatable, not a solution to Social Security’s problems entirely. The reform effort failed, and Social Security today is in an even more precarious position than before.

The impression still exists that it would be politically easier to cut benefits than to enact broad, structural reforms like the personal accounts proposed here. But now that the Baby Boom generation has begun to retire, we know Social Security will become insolvent, or require large and painful tax increases, or both—unless Congress enacts a bold, comprehensive set of reforms.