



INDEPENDENT WOMEN'S FORUM

Get the Facts: Social Security

Many young adults do not understand the problems facing Social Security. Having just entered the workforce, retirement seems very far off so Social Security is not a pressing concern. However, Social Security affects you today and will affect your future. Social Security played a significant role in the debates during the 2000 and 2004 elections, and should continue to be an important issue in 2008.

What is the problem? How did we get here?

- By 2017 Social Security will have to pay out more money as benefits than it takes in through taxes.
- A major misunderstanding about Social Security regards its pay-as-you-go structure. People often assume that Social Security saves the money it collects for them for their retirement. That's wrong. Payroll taxes collected from current workers are immediately used to pay benefits of current retirees. Nothing is saved for the future. The success of the system depends on there being enough workers to support current retirees, but due to changing demographics, soon that won't be the case.
 - o In 1940, forty workers supported each retiree, now there are just 3.3 per retiree. By 2050, there will be just two workers per retiree..
- Part of Social Security's problem is that people are living longer. In 1950, life expectancy was only 68 years, now it is almost 78. The average senior citizen reaching retirement age today collects about 50 more payments—or nearly \$46,000—than a senior in 1950.
- Over the next 75 years, Social Security will undergo a \$4.6 trillion shortfall.
- When today's college students are ready to retire, the system will be able to pay only 74% of their promised benefits.

The Solution: Personal Retirement Accounts (PRAs)

- PRAs would allow employees to set aside a portion of their Social Security taxes into an account that they would own and control, and could be used to pay benefits at retirement. By investing in a mix of stocks and bonds, this account would be bound to provide better yields than the negative rates of return offered by the present Social Security system.
- Rates of return matter on investments: If you invested \$10,000 today in a mutual fund that yielded 5% annual return, you'd have \$114,674 in fifty years. If you invested that same \$10,000 with a -1.85% annual rate of return (the rate that a young professional contributing to Social Security is estimated to get) you'd have only \$3,931.11 left after 50 years.
- PRAs offer little risk, and even with relatively poor market performance they will vastly out-perform the current system of diminishing returns.
- Another benefit to PRAs is that they would be inheritable. Right now, someone who works their whole life and contributes to Social Security may not have anything to pass on to their heirs. With a PRA, someone who dies before reaching retirement would be able to pass their benefits on to their love ones.