



Justice Talking

'Justice Talking:' Rethinking Social Security

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Thomas Saving, left, and John Rother

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Host Margot Adler recently moderated a debate on the future of Social Security with Thomas Saving, a public trustee of the Social Security and Medicare Trust Fund, and John Rother, director of policy and strategy for AARP. This excerpt is one in an occasional series.

MARGOT ADLER: Tom, let's start with the ideas that President Bush has proposed. Can you briefly tell us about the president's approach? What are the major components?

THOMAS SAVING: The first idea is that we're going to allow individuals to have individual accounts. They're going to take some of the money they're currently contributing and put it into individual accounts and those accounts are going to supply, at least for very young people, a good bit of the benefits that they're going to get at the end. And their defined benefit, as we like to call it, which is what the current Social Security is, would be adjusted downward

MARGOT ADLER: John, AARP has been opposing privatization of Social Security. Lay out briefly why and how you propose to keep Social Security solvent.

JOHN ROTHER: The reason why we've opposed to private accounts is because we view them as unnecessarily

risky, very expensive, and really kind of beside the point about how to keep the system solvent for the future. It would be much better to have that debate first. When we go back to 1983, the last time Congress acted, what we saw there was an agreement on a bipartisan basis to share the cost and the sacrifice very evenly. Part of that was additional revenue; part of it was restraint on future benefits. And it was divided so that each generation had some stake in those changes.

MARGOT ADLER: Now we've been talking a little bit about President Bush's plan for Social Security, but, recently Sen. Chuck Hagel from Nebraska proposed his plan to revamp Social Security. How does that plan differ from President Bush's plan?

JOHN ROTHER: I think many of the senators are thinking like Sen. Hagel. He raises revenue by lifting the wage base above \$90,000, where the obligation to pay into the system currently ends, and then he also increases the retirement age by a year to age 68. I give him some credit for trying to balance both revenue and benefits so that the system can be made solvent for the future.

THOMAS SAVING: When we were on the [President's Commission to Strengthen Social Security], when we mentioned raising the retirement age, I was very happy the audience didn't have rotten vegetables with them. There's nothing more unpopular than raising the retirement age because the median worker hates their job. It's like sentencing a convict to another year. That's not popular. But I think there's another issue here and that is the welfare aspects of Social Security. Social Security is popular because it's not viewed as welfare, and if we turn it into welfare, it's going to become very unpopular.

JOHN ROTHER: I agree. Retaining the earned right nature of Social Security is very important for its future. But there is a real debate that's about a lot more than just economics here. I think it's about whether or not Social Security should be made into just a poverty program -- only for people who are in desperate need -- or should it remain as a mainstay of middle-class Americans' ability to plan for their future? That's really what we're debating even though it's all expressed in numbers and trust funds.

MARGOT ADLER: Imagine for a second that there were no political considerations in this debate at all, that everything was on the table. Would you see some small temporary fix or some other solution that might only require extra contributions from the wealthiest taxpayers? Would you see any solutions that we haven't considered? Tom first.

THOMAS SAVING: I think the combination of private accounts and changing the way that the defined benefit system is structured at the moment can, in the long run, return roughly what the current benefit structure is. But there is no doubt that, if you try to do that, in the beginning you're going to have to increase the saving rate in the country. What that's going to do is decrease consumption temporarily. It's like any other investment that you make. If you make an investment in your life in order to have more in the future, you have to have less now. So there's not a free lunch here.

JOHN ROTHER: Well, I do agree that there's no free lunch. And unfortunately I have to also say there's no temporary fix. Part of the reason that we need to make some changes is really a permanent change in the population structure in the United States. We have fewer children; people are living longer. We're going to have to make some permanent changes. So what do the changes need to be? Well according to the trustees, the gap between income and outgo is about 1.9 percent of payroll over the 75-year period. It starts smaller and it gets bigger in the out years. That's really not that big a change if we can put some things in place now that are gradually going to assure people they're going to get the benefits that are promised. Slow the rate of growth in benefits, increase revenue into the system, maybe do some things with the way the system's reserves are

invested to increase the rate of return. You can make little tiny switches and have enough to keep the system going just fine.

I think we ought to be clear about two things. One is that everyone should save and invest for their future and so in that sense AARP certainly strongly supports private accounts as long as they're in addition to Social Security. Social Security returns an average of 40 percent of your pre-retirement wages. That's not really enough to live on. You need more than that. The other thing is that half of all Americans don't have a pension where they work. And so they don't have a regular way of saving for their future. So that's really the problem that we ought to be addressing -- not changing Social Security, but rather giving every American worker a regular way to save for their future.