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One way to break Social Security logjam

Benefits based on progressive price indexing might be solution

By **SCOTT BURNS**
Universal Press Syndicate

Robert Pozen wants to break the logjam on Social Security, and he thinks he has a way to do it. Pozen is chairman of MFS Investment Management, the \$145 billion Boston mutual fund firm that grew from the creation of the first mutual fund, Massachusetts Investors Trust, in 1924.

Pozen believes Social Security can avoid that nasty day in 2041 when benefits will have to be cut by 26 percent. President Bush has said he favors an idea like Pozen's to keep Social Security solvent.

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How? Pozen proposes to change the formula for benefits with progressive price indexing.

Rather than index all workers' benefits to wages, which rise faster than prices, he proposes that the lowest-income workers will receive wage-indexed benefits.

The highest-income workers will receive price-indexed benefits. Those in between — the 64 percent of all workers with incomes between \$20,000 and \$90,000 this year — will receive a progressively indexed mixture.

If this seems arbitrary, it isn't. He is quick to point out that it is middle and upper-middle income

workers who benefit most from the \$55 billion a year in tax savings they enjoy from qualified plans such as 401(k) and 403(b) plans. Most of those tax savings, he points out, have grown over the last 20 years as more workers have participated in qualified plans and as contribution limits have been increased. Some of the reduction in Social Security benefits, he believes, should be offset by the growth of assets in those plans.

Pozen comes across as a careful pragmatist.

He has little patience for the ideologues of the right or left.

"The most useful thing," he said, "is to view the possible default and think about the reality we're facing. We have to ask: What happens if we don't reform?"

Would he give some examples of how progressive price indexing would work — how it would affect workers at different income levels?

"A worker earning \$25,000 in 2012 would receive exactly what's scheduled in 2045," he said. He explained that about 30 percent of all workers earn at this level or less, that they seldom save much, and that they are the most vulnerable because they're less likely than other workers to participate in 401 (k) and other retirement savings plans.

"Now consider a medium-wage worker, someone earning \$47,000 in 2012. If you look at this in terms of the current benefits schedule, that worker would receive \$19,544 a year in the current system, but \$16,417 under progressive indexing. That's a reduction. But ask what happens if we don't reform. The benefit gets cut to \$14,267," Pozen said.

"Now consider a high-income worker, one with \$70,000 of income in 2012. Benefits would be reduced from the scheduled \$26,300 to \$19,850. That's about the same as a default."

Pozen emphasized that all workers would get price

inflation protection.

"If we're going to protect the most vulnerable — the lower-wage workers — we've got to do something like this," he said.

"We would be reducing benefits relative to a schedule that we cannot afford — to the tune of nearly \$4 trillion. Somebody has to get less than scheduled benefits. You can't have reform without a significant reduction relative to the schedule."

What about an alternative, like raising the cap on the wage base from the current \$90,000?

"Most people have argued that's not viable," he said. "You can fix the whole thing by eliminating the payroll cap, but that's a 12.4 percent tax on all earnings. What benefits will people get? If you really want to demolish the support for Social Security as a program, all you have to do is raise taxes without any benefits."

What about a partial increase in the wage cap?

"Raising the payroll cap to \$150,000 only closes about one-third of the deficit. You'll still need to reduce benefits," Pozen said. He also said his plan would eliminate about 70 percent of the deficit.

Basically, there are only two choices.

We can reduce benefits.

Or we can increase taxes.

"I'm not against doing that," he said of raising taxes. "It's just that we have to be realistic."

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