yth: Private accounts will individuals more control.

already have control over their money ney invest in private pensions, IRAs, 1(k) plans. When combined with the undation that Social Security provides, e excellent vehicles for retirement savings. ve should be doing is making these work says Orszag.

Myth: Individuals will et higher returns with private accounts.

ou can do better with your investments big bureaucratic government agency those who favor private accounts. e truth is, some people may do better. 's going to pay for the care and feeding ose who do worse?

privatization, current workers will pay three times," says Gertner. "Once re the benefits for those currently at retirement, once for themselves, e more for those whose investments pan out." In the current Social system, the risk is near zero. You will be there regardless of what the does. That's because United States bonds don't crash when the stock does.

can be done? Yes, the Social Security eeds some work, but there's nothing so wrong with it that some due diligence partisan intervention and planning air. "There's no need to take the

Myth: The 77 million Baby Boomers marching toward retirement are going to break the system.

Advocates for radical reform point out that once the boomers retire they will start taking more money out of the system than younger workers are putting in. The oft-cited statistic is that by 2040 there will be just two workers for each retiree. (Today there are just over three workers for each retiree.) But that fact, while accurate, fails to acknowledge that workers today are more productive, earn higher wages, and plan to stay in the workforce longer—all factors that will help fill the future gap. In fact, in the near term, this population juggernaut, being at the peak of its earning years, is currently helping to amass a huge surplus in the fund.

Once boomers start retiring, sure, that's going to put a strain on the system. "But it isn't going to be Armageddon," says Kenneth S. Apfel, former commissioner of the Social Security Administration and current member of the faculty at the LBJ School of Public Affairs at the University of Texas at Austin.

We can strengthen Social Security by making small adjustments, just as we've done in the past. These include raising the cap on wages subject to Social Security (currently you're taxed on income up to $90,000) and investing part of the Social Security surplus in other vehicles that pay higher interest than Treasury bonds do.

SOCIAL SECURITY

EXHIBIT 25
DATE 3.14.05
SB ST 16

Myths and Truths About Social Security

By Karen Westerberg Reyes

EXHIBIT 25
DATE 3-14-05
SB ST 16

s, the system
needs some
djustments,
we don't need
o destroy it
order to fix it.

urity is the ultimate support system, a
cushion for grandmothers and
s, but also a lifeline for widows,
divorcées, orphans, and people with
s. For the average American over 65,
urity makes up nearly 40 percent of
me. For about 20 percent, it is their
me. The system has worked well for
years now with few adjustments.
ys, it's on everyone's radar. That's
President Bush has put Social
eform at the top of his second-term
He and many others argue that big
re necessary if Social Security is to
uch less thrive. But there are those,
luded, who believe a radical overhaul
l disaster—the end of Social Security
know it.

nt Social Security system really at death's

Myth: A system of private accounts would save Social Security.

The buzz phrase being bandied about by those who favor privatization is "an ownership society." They favor taking a portion of Social Security taxes and diverting it to individuals to invest. They say such a system would give workers ownership of their money. It would allow taxpayers to put their own dollars into stocks, bonds, and other investments that would pay them a higher return.

Those who oppose privatization, including AARP, argue that setting up private accounts would effectively scuttle Social Security. "Siphoning money from Social Security will not strengthen it," says David Certner, AARP's director of federal affairs. "It will just make the problem much worse."

First, the transition costs alone would be crushing — as high as $2–$3 trillion, according to AARP's own economic analysis. "The amount of additional national debt that would generate

Committee to Preserve Social Security and Medicare, a 3.2-million-member organization located in Washington, D.C.

Second, diverting a portion of Social Security money to private accounts means that there would be fewer dollars available to pay Social Security benefits. That would leave the whole system with less of a reserve, as well as less cash on hand to pay beneficiaries. This situation would lead to hard choices: cutting benefits, raising taxes, or doing none of the above and watching the trust fund run out of cash sooner.

According to a letter entitled "The Consequences of Social Security Privatization" signed by Congressmen Charles B. Rangel (D-NY) and the late Robert T. Matsui (D-CA), diverting a portion of workers' current Social Security contributions to private accounts "blows a hole in the Trust Funds, and directly threatens our ability to pay current retirees." They predict that

th: Social Security is broke.

se who argue that Social Security
's a dramatic reorganization begin with
premise: the system is failing; Social
rity isn't sustainable in its present form.
there, the argument goes that what's
for the country is some form of
tization. With privatization, a portion of
Social Security taxes now paid would be
ted into an account that each taxpayer
d control themselves. (Under the
ent system, all surplus Social Security
nue is invested in special U.S. Treasury
ds.)

Social Security about to go bust? Not judicious adjustments suggested in 1983 by a commission set up by Ronald Reagan and headed up by Alan Greenspan. Since then, trust fund reserves have gone from nearly zero to $1.6 trillion.

Social Security trustees acknowledge that by 2028 the system will need to start redeeming the bonds in its reserve, but they calculate that the fund will be able to meet 100 percent of its obligations until 2042. By that date, the principal will be exhausted, but the system will still bring in enough revenue from taxes to pay nearly 75 percent of benefit amounts. (An even rosier

Myth: The fund starts getting into trouble in 2018.

Not true. The year 2018 is when Social Security benefit payments are expected to exceed payroll tax revenues. That's not exactly cataclysmic. Reason: from 2018 through 2027, incoming tax revenue combined with interest earnings from trust reserves will still be enough to maintain a positive trust fund balance and pay benefits. Beginning in 2028, as mentioned, the trust fund principal will have to be tapped, and that'll get us through 2042—even if we do nothing.

Clearly a tune-up is needed to extend Social Security's life beyond that horizon. But dismantling the whole system would be like buying a new car because the one you have has a flat tire," says Peter R. Orszag, a senior fellow of economic studies at the Brookings Institution in Washington, D.C.

Myth: The Social Security reserves are only on paper.

Well, yes, but that paper is U.S. Treasury bonds, which have been earning a combined interest rate of about 6 percent a year. For more than 200 years, in good times and bad, during wars and depressions, American bonds have always paid off. They're one of the safest investments in the world. In 2003, some