

Social Security Reform

Now is the time to address the bleak financial outlook for Social Security

Fixing Social Security's financial troubles has become one of President George W. Bush's key domestic priorities for the remainder of his presidency. With the aging of the Baby Boom generation, negative personal savings rates and the fact that 40 percent of the elderly currently rely on Social Security for 90 percent of their income, Social Security is projected to be bankrupt by 2040. In the near-term, Social Security costs are expected to jump 80 percent from 2005 to 2015, and will begin paying out more than it takes in by 2017.

Retirement savings and Social Security impact small-business owners and employers uniquely. Due to the unfair restrictions on SIMPLE plans, and the fact that only 25 percent of workers at firms with fewer than 25 employees participate in a savings plan, Social Security failure poses a very real concern for small firms and their employees.

For the last two sessions of Congress (108th and 109th), lawmakers have paid lip-service to reforming Social Security, but nothing was done. Bush has remained firm in his desire to reform the system and provide some kind of personal retirement accounts. Unfortunately, various Democratic lawmakers have stated their opposition to any level of privatization, and will not accept any reform measure that allows individuals to redirect some of their Social Security spending into personal accounts.

A variety of proposals have been offered in order to deal with the looming budgetary shortfalls. There have been proposals to increase the retirement age, to decrease benefits and increase the payroll tax. The Social Security Administration estimates that in order to achieve long-term solvency, payroll taxes would have to be increased by 15 percent if done today, 21 percent if done in 2018 and 42 percent in 2042.

Finally, enabling pre-funding of the Social Security program through allowing personal, growth-centered retirement accounts could help the problem. Bush's proposal would allow individuals to redirect up to four percent of their payroll taxes to personal retirement accounts for investment in broad-based investment funds. The maximum allowable contribution would \$1,000 per year. An important piece to ensuring small-business equity, however, is allowing individuals the option to invest their funds into small businesses.

The longer the country postpones dealing with this oncoming crisis, the more difficult it will be to increase the retirement age, reduce benefits, or give individual accounts time to grow. NSBA urges Congress to act now on reforming Social Security.