July 9, 2010

Make Social Security Pay, Today

By DONALD B. SUSSWEIN

Washington

WITH the economy once again showing signs of weakness, many of the nation's leading economists and politicians have been calling for another round of stimulus spending. This week President Obama himself said repeatedly that more action is necessary to spur job creation and to help people looking for work.

The problem is, few voters trust Washington to pay back their big outlays; even fewer are confident that the same groups who benefit from today's stimulus will bear the costs of tomorrow's austerity.

Fortunately, there is a powerful fiscal tool that could address both problems: Congress could grant workers a temporary holiday from the forced savings program known as Social Security.

Under Social Security, nearly all workers pay for their own retirement benefits. The amounts withheld from a worker's paycheck, and paid by his employer, are effectively credited to an account established just for that worker.

The account is strictly on paper, of course; no actual investment is separately maintained. Even so, the tax payments essentially earn the equivalent of a small amount of interest. They are later converted, through a complex formula that emulates the workings of an individual retirement account, into a stream of retirement benefits.

As a result, the more you work and the more you earn in any year (up to an annual limit), the more retirement benefits you accumulate. If you take off four months without pay — say for maternity leave — you not only lose your salary for that period, you also reduce the growth of your Social Security pension.

To stimulate the economy now with no long-term increase in government debt, Congress should therefore temporarily exempt a portion of wages from the Social Security taxes imposed on workers; at the same time, those exempted wages would not be credited in computing that worker’s future retirement benefits.

For example, a 40-year-old earning $50,000 and paying annual Social Security taxes of about $3,000 could see those taxes cut to about $2,000. The added $1,000 in his paycheck, along with similar amounts for other workers, could be a huge stimulus to the economy.

In the future, of course, there would be a price to pay: the growth in that worker’s retirement benefits would be slightly reduced — much as if he had taken off four months without pay.

But the emphasis should be on “slightly.” Because benefits are typically paid over decades, the cost of a temporary $1,000 tax cut would be spread over many years; it could amount to a reduction in annual pension benefits of less than $100. The holiday could even be limited to workers under the age of 55, to allow plenty of time for them to salt away a few extra dollars for retirement once the economy improves.

Best of all, the costs and benefits would be matched to each worker. Those who get a pickup today would pay it back later on. This way, the Keynesians would get their stimulus, and the deficit hawks could sleep better at night.

Social Security has been an astounding success in preparing American workers for retirement. But if we need workers to temporarily increase their spending, a holiday from that forced saving can get cash into the economy — without draining it from the government’s coffers.

Donald B. Susswein is a tax lawyer and former adviser on Social Security for the Senate Finance Committee.