Social Security: Restoring Solvency

Donald L. Crooks
Wagner College

Cathyann D. Tully
Wagner College

John J. Burbridge
Elon University

ABSTRACT

The Social Security system, established in 1933, was intended to alleviate some of the hardships Americans faced in the great Depression. The plan worked very well in the middle part of the 20^{th} century; however that is not longer the case. The authors investigate the differences between then and now to ascertain the viability of today's Social Security system and its continued effectiveness. The authors will show how a combined set of changes to the administration of the system can actually lead to greater financial relief afforded to middle class wage earners while adding needed funds to the overall budget of the Social Security system. A new program, the Secured Transparent Retirement Account Program (STRAP), is also proposed. This program, which creates individual retirement accounts managed by the Federal government, allow every American 1) to better understand the growth of their retirement funds and 2) to have direct control in planning for their retirement years.

Key Words: Social Security, Minimum Age, Salary Cap, STRAP (Secured Transparent Retirement Account Program)

Introduction

Given the effects of the Great Depression, many progressives were calling upon Franklin Delano Roosevelt, elected president of the United States in 1932, to provide support for Americans in their retirement years and in the case where disabilities prevented them from earning an income. The solution was the Social Security Act (SSA) which was passed in 1935. When initially conceived, the Act and its funding were based on certain assumptions that are being challenged by the demographics of today's America. As a result, the future of Social Security is jeopardized. The purpose of this research is to study these issues and develop a better understanding concerning the future of Social Security. Proposals will be offered to enhance the solvency of the program both in the short and long-term.

History of Social Security Administration

Originally passed on August 14, 1935, the SSA has had many amendments and changes over the years to allow it to expand coverage and handle cost of living increases. As initially passed, the Social Security Act provided a monthly benefit to individuals aged 65 and older and no longer working. The monthly benefit was paid to the primary worker when he or she retired. The amount received was based on the individual's payroll tax contributions. The SSA also provided unemployment insurance, aid to dependent children and grants to states for medical care (King, Cecil &Wayne, 2006). In 1939 the SSA was amended to include benefits for the spouse or the minor children of a retired worker. It also added a survivor's benefit which further extended the concept of economic security to the family. A major addition to program was initiated in 1950 when a cost of living adjustment (COLA) was implemented.

In 1961 the retirement age for men was reduced to 62. Those deciding to accept Social Security at that age received a scaled-down monthly benefit. This was a very interesting adjustment to the program given that an individual's life expectancy was increasing. In 1935 when the program was instituted, the average life expectancy of a white male was 59.9 years. By 1960 life expectancy had increased to 66.6 years (Life Expectancy, 2010). In 1972, an amendment for institution of automatic COLAs was enacted. This was coupled with a significant increase for those who waited until age 65 to receive benefits. By 1972 the life expectancy had increased to 67.4 (Life Expectancy, 2010). Since 1972 there has been a significant increase in life expectancy as a result of lower death rates given better treatment for heart disease, cancer and other major causes of death and the eradication of such insidious diseases as smallpox and polio. Currently the average combined life expectancy for males and females is 78.24 (CIA.gov, 2010). An interesting change in today's demographics is that the American workforce is approaching 50% females who have a longer average lifespan than men, the original intended audience. Table 1 and Figure 1 illustrate these demographics.

Table 1

UNITED STATES AGE DISTRIBUTION (1950-2050)					
Year	**0-19**	**20-60**	**60+**	**% Male**	**% Female**
1950	33.91%	53.93%	12.16%	49.66%	50.34%
1960	38.67%	48.28%	13.05%	49.40%	50.60%
1970	37.70%	48.09%	14.21%	48.66%	51.34%
1980	31.80%	53.10%	15.10%	48.44%	51.56%
1990	28.59%	54.60%	16.81%	48.70%	51.30%
2000	28.60%	55.13%	16.27%	49.06%	50.94%
2010	28.49%	54.69%	16.82%	49.18%	50.82%
2020*	27.98%	51.49%	20.53%	49.31%	50.69%
2030*	27.76%	48.62%	23.62%	49.30%	50.70%
2040*	29.10%	47.00%	23.90%	49.28%	50.72%
2050*	30.20%	46.60%	23.20%	49.34%	50.66%
*All projections based on a constant growth rate.					

Source:http://www.censusbureau.gov

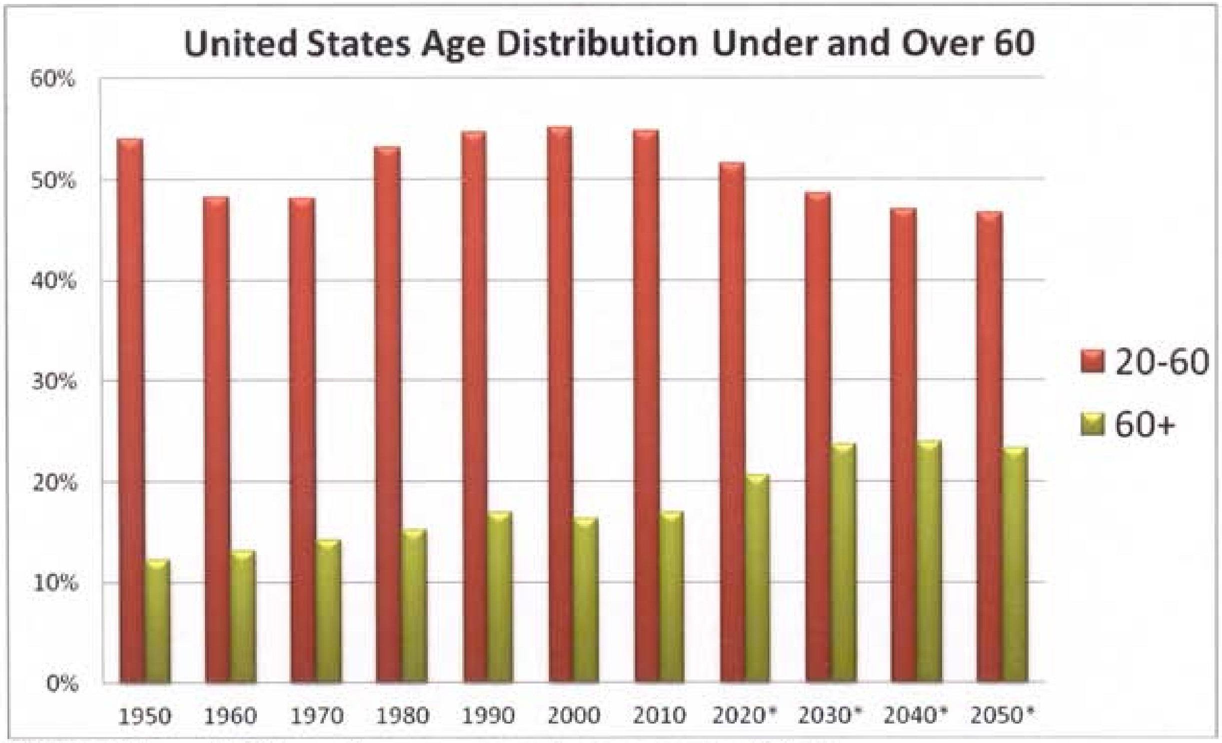


Figure 1 *Source:* U.S. Census Bureau www.censusbureau.gov, www.SSA.gov.

The Emerging Problem

The United States has experienced unprecedented economic expansion over the past 70 years and corresponding financial growth among the populace. The size of the population has increased from 124,000,000 in 1935 to 308,000,000 today (Schlesinger, 2010) as a result of the aforementioned medical advances as well as a tremendous influx of immigrants, legal and illegal. "Baby Boomers," those born between 1946 and 1964, account for approximately 80,000,000 people (Haaga, 2010). These adults are entering their Social Security years at a time when life expectancy has advanced from approximately 60 years when SSA was enacted to a combined 78.2 years for both males and females.

It is also interesting to note that at the time the SSA was passed, less than 8% of the population was over the age of 60. Workers aged 20-60 supported the retirees through payroll taxes. Today over 20% of the population are eligible to receive benefits. This number will exceed 30% in 2050 which underscores the strain on Social Security since 46% of those working and contributing payroll taxes will need to fund the system (Haaga, 2010).

The current situation is untenable. Significant changes will need to be implemented to prevent the Social Security system from becoming insolvent. If one looks at the contributions over the life of the system, one gets a better understanding of the looming problem. From 1937-1950, the Cap on Social Security wages was $3,000. This Cap, known as the contribution and benefits base (Social Security Administration Website, 2010), usually adjusts upward each year with increases in the national wage index. It should be noted that amounts for 1937-74 and for

1979-81 were set by statute; all other amounts were determined under automatic adjustment provisions of the Social Security Act. The amount each citizen was mandated to pay was based upon his/her individual income and the growth/increase in the national average wage. This base has never decreased and has stood at the following rates for each of the last five decades:

Contribution and Benefits Base	
1970	$7,800
1980	$ 25,900
1990	$ 51,300
2000	$ 76,200
2010	$ 106,800

Source: Social Security Administration Website, 2010

As can be seen from this progression, there has been an increasing amount of Social Security taxes withheld over the last forty years, a testament to the growth of prosperity in the United States. Even though there has been such an increase, the overall revenue generated by the Social Security tax, even though substantial, has failed to keep pace with the amount of money that has been paid. It can also be shown that this shortfall is exacerbated by the increased lifespan of the population. As already mentioned, women now make up some 50% of the work force and their life expectancy in 2005 was 80.4. As can be seen from this progression, the system that was first implemented to provide lifelong benefits did not activate until 3.3 years after the expected death of the U.S. worker based upon the life expectancy of 61.7 years in 1935. The United States is now faced with the need to create a solvent system given the provisions of the SSA, changing demographics, and increased life expectancy. The pyramid scheme that worked so well in the first few decades of the SSA is becoming insolvent as a smaller percentage of the population will be required to pay for the benefits of the increasing numbers receiving support. Most estimates are that Social Security will be insolvent by 2040 if not sooner (Kurtz, 2009). Future increases in the base wage rate will be enacted according to the metric developed by the Social Security system. However, these increases may allow the fund to remain solvent for an additional six or seven years (Heritage Foundation, 2010).

Changes in Household Earnings

While the United States has seen unprecedented growth since the end of World War II, the last decade has seen a significant shift in the distribution of earnings. The growth of the higher income wage earners has increased consistently since the dot com bubble burst and the recession of 2001-03. Roughly 6 % of the population had earnings above $106,800, the Cap above which the social security tax does not apply.

Due to growing income inequality, the percentage of United States earnings above the Cap has risen. Table 2 provides further information about the rising inequity in income distribution within the United States (Gross collections, 2008). As can be seen, while the highest incomes have seen substantial growth, middle class incomes have stagnated (Irons, 2009). This trend is expected to continue, meaning that a growing share of earnings will remain steadily outside the tax base. It should be noted that with the Cap in place, higher-income individuals and their employers pay a smaller percentage in Social security taxes than the middle-class. If the employee and employer share of Social Security and Medicare taxes are considered, earners in the middle fifth of the income distribution now pay an average effective payroll tax of about 11 percent. In contrast, the top 1 percent of earners pays just 1.5 percent on average (Irons, 2009).

Income Statistics for Highest Wage Earners

Table 2

Year	Numbers of households above $250,000	% of Households	Mean income
2001	1,305 [Thousands]	1.23	$464,536
2002	1,472	1.32	$438,005
2003	1,547	1.38	$424,693
2004	1,699	1.50	$438,338
2005	2,023	1.77	$434,757
2006	2,240	1.93	$448,687
2007	2,245	1.92	$418,063
2008	1,640	1.78	$421,072

Source: Internal Revenue Service, Gross Collections. 2008. www.irs.gov.

It should be further pointed out that the 94% of all individuals that fall below this level have a greater proportion of earnings taxed than that the 6% whose earnings exceed it. The contention is that the revenue generated by raising the level—estimated at almost $100 Billion in 2004 if all earnings were taxed—could be used to reduce Social Security taxes for lower wage earners and help reduce the long term actuarial shortfall in Social Security. Those who support retaining the base in its current form point out that Social Security's benefit formula favors low-wage earners by *replacing* a greater proportion of their earnings than it does for higher wage earners. They argue that the progressive benefits mitigate the regressive tax. They maintain that completely eliminating the base would allow the rich to receive much higher retirement benefits since benefits are based on one's earnings record, weaken pension programs and other forms of private savings, and ultimately erode public support for the program (Mulvey, 2010).

The ongoing problem with the Social Security System is not just the overall demographics of the country, but an insidious leveraging caused by the multiplier of the base earnings and the monies being paid out. Average household income in 2010 is $68,424, a 54% increase from the $37,403 in 1990. The Cap has increased from $51,300 to the present $106,000 or roughly 48%, falling behind the earner increase by almost 6% in a period with growing numbers of post 60 year old workers (Current population survey, 2010).

Given the disparity between high income and low income, it is best to use the median as the very top end wage earners now skew and bias the results. In 1990, the median income was $30,000. Today it is $50,300 which represents an increase of 59%, or 5% more than the difference of the mean average (Current population survey, 2010). This amount adjusts to each household paying approximately $3,168 per year at the current base rate Social Security tax of 6.3% with employers contributing another 6.3%. Therefore, it is easy to calculate the full amount of inflow into the system each year with the Cap at $106,800. The average Social Security payout is roughly $13,500 per year (Political calculations, 2005) and given the present Cap, it will take approximately two workers to support one retiree annually. There has been a slight shift in the total amount of males versus females in the workforce in the past three decades. During this period we have seen an expanding rate of women to men in the workforce with the increase of two wage earners in the family. In 1954, approximately 54% of the workforce was below 60 years of age. They were paying into the system to support roughly 12% of the population collecting Social Security. This has changed dramatically in the past few decades to the point that the ratio is 54.69% vs. 16.82% and the life expectancy has increased from 70 in 1980 to 75.2 for males and 80 for females today (Current population survey, 2010).

By 2050, the population projections based upon a constant rate of growth and change will be 46% between the ages of 20-60, and 23.20% for those over 60 (Current population survey, 2010). This almost doubles the rate of the elderly in 1950 as the working age portion of the population has diminished by 17%. This two to one payout ratio of workers to retirees is the result of the "baby boomers" entering eligible retirement and living much longer productive lives. A shrinking pool of workers supporting growing numbers of retirees with a multiple of eleven to one will result in the collapse of the system unless significant steps are taken in the short and long-term.

Retirement Age and the Cap

When the SSA was enacted, it is obvious that its creators did not fully consider provisions for such radical change which has occurred in the demographics of the United States citizenry. First, they never realized that medical advancements would drastically increase life expectancy. The retirement age in the original Act was greater than the average life expectancy for males. Even if a male lived until the retirement age, it would not be expected that they would receive significant benefits during retirement. Secondly, it is often stated that the program originators intended to set the Cap to limit the amount of benefits those earning more than the Cap would receive (Political calculations, 2005). Finally, the Social Security payout was more generous in its early years. When one considers cost-of-living, there is a need to supplement the maximum annual payout in order to provide an individual with the means to survive.

It is also obvious that throughout the past eighty years politicians have failed to grasp the enormity of the outflows as the population grew and aged at an ever increasing rate. In the past, there have been many proposals including increasing the retirement age. There have also been proposals to change the maximum taxable wage base, the Cap. For example, the Heritage Foundation looked at the negative impact of removing the cap in 2005. Others have proposed a rate increase while not eliminating the Cap.

It should be emphasized that Social Security was created as a pay-related retirement system, not as a welfare program that redistributes money from workers to those in need regardless of whether or not they paid into the system. The benefits that retirees received were supposedly linked to the taxes they paid when they were part of the workforce. Social Security was intended to supplement rather than replace private sources of retirement income. Maximum level of benefits and maximum taxable wages aided the government in determining the upper limit Americans should receive from the program. A limit on benefits should relate to the amount of money that they paid into the system. Placing an upper limit on the taxes that workers paid into the system would be appropriate (Political calculations, 2005).

Two questions must be raised:

1. Shouldn't the age when one begins to receive Social Security benefits be increased?

   Several commissions have called for such an increase given the current situations. There are many positives associated with such an increase in the age at which one receives benefits. However, others have pointed out that with the rising unemployment, this proposal may hurt those who need their benefit the most.
2. Why create a limit above which no social security taxes would be paid?

The answer may lie in the economic environment of the Great Depression and the experience the government had in collecting income taxes after the 16^{th} amendment to the U.S. Constitution permitted the federal government to impose them. After taking effect in 1913, the federal income tax soon proved to be a highly effective means of providing funding for the U.S. Federal Government. In fact, the new income was so successful that it more than compensated for the tax collections lost when the government enacted the prohibition on the sale of alcohol with the 18^{th} Amendment to the U.S. Constitution (ibid). After Prohibition, the U.S. again would go back to levy a heavy tax on the sale of liquor as a means to provide additional funding to operate the government. However, this was a volatile tax; there was a need to supplement Social Security outlays with a more even and measureable source of revenue. The original intent was to set the base rate below the level of the highest wage earners since their earnings tended to be the most volatile and subject to greater fluctuation. With this cap on the amount of taxable income and respective benefits paid, Social Security should be capable of weathering the extreme storms in the U.S. economy and insure beneficiaries would always receive the benefits promised. Unfortunately keeping that promise has become increasingly difficult.

We now have to look forward to see what can be done in the intermediate term. A proposal to bridge the gap is necessary until a more permanent solution can be investigated and implemented before the hopes and dreams of Americans evaporate.

Raising the Age

Increasing the retirement age for Social Security benefits would be quite simple. In fact, the retirement age has recently been raised from 65 to 67. Many supporters of this approach wish to see it rise even further to age 70. Others propose indexing this increase to the rise in life expectancy.

An argument for such a reform is rather straightforward. Today's workers can expect to get Social Security benefits for a–period of time which is 50 percent longer than when the program was first enacted due to the increase in life expectancy. In addition, individuals have a far greater capability of working beyond age 65 due to modern medicine and changes in the physical content of most jobs. A major contributor to the Social Security crisis is the increase in life expectancy with minor changes in the age when individuals receive benefits. Why should there be a magic number for retirement?

The argument against raising the age would be a cut in Social Security benefits that American citizens are entitled to. An accompanying argument is that such a change will hurt those that need Social Security benefits the most - blue collar and low income individuals. Workers holding such jobs often find themselves incapable of performing arduous work up to and beyond 65 or 67 while higher paying white collar jobs do not put the same strain on the worker. Such individuals find it possible to continue working until 70 or beyond.

Finally, while raising the age can be easily accomplished by act of Congress with the President's approval, changing the retirement age for private pension plans would be quite difficult. Therefore, the Social Security system may find itself with a higher retirement age than private plans. Given such a situation, private plans would run counter to the Social Security system which encourages the continuation of work. Further exacerbating the impact of this increase in retirement age has been the rising unemployment rate which stood at approximately 9.1% in May, 2011 (TED, 2011).

In 2010 the United States budget concerns resulted in a bipartisan Presidential commission issuing a report that addressed Social Security amongst many other issues concerning fiscal responsibility and reform. The report states the following concerning the early and full retirement age:

"After the Normal Retirement Age (NRA) reaches 67 in 2027 under current law, Index both the NRA and Early Eligibility Age (EEA) to increases in life expectancy effectively increasing the NRA to 68 by about 2050 and 69 in about 2075, the EEA would increase to 63 and 64 in lock step" ("The moment of truth," 2010).

To be more specific, the effect of this is roughly equivalent to adjusting the retirement age by one month after the NRA reaches 67. This change would also maintain a constant ratio of years in retirement to years in adulthood. As the life expectancy grows by one year, individuals will be able to spend an additional 4 months in retirement on average when compared to today.

While there is no guarantee that the above will be enacted, it does present a serious proposal by a bi-partisan Presidential commission. The result will likely be an increase in age for both the NRA and EEA in the future.

Eliminating the Cap

As previously stated, Social Security taxes are levied on earnings up to some maximum amount set each year the Cap. In 2004, the Cap–or what is also referred to as the taxable earnings base—was $87,900 (Mulvey, 2010). Currently it is $106,800. There is no similar base for the Medicare Hospital Insurance (HI) portion of the tax; all earnings are taxable for HI purposes. Elimination of the HI base was proposed by President Clinton and enacted in 1993, effective in 1994. As stated earlier, some have proposed that the base for Social Security should be raised or eliminated as well. The complaint is that taxing up to a certain level only creates a regressive tax with the poor sharing a greater burden.

The basic stance of this paper is that the base wage should be eliminated and the HI protocol replicated. In essence, this will result in a large tax increase for the wealthiest of Americans resulting in a huge transfer of wealth; a perceived Robin Hood tax. While this may seem to be undesirable for the long term, this approach is being taken to ensure solvency over the next ten to twenty years until a permanent solution can be accepted and implemented. This nation must face the inevitability that the present system is about to derail. It is felt that this proposal will alleviate the situation in the least painful fashion while protecting the large portion of the population who will become eligible to receive benefits over the next two decades. There is no doubt that this proposal will cause considerable debate with Republican House members refusing to go along because they feel it is a tax increase. However, the recent extension of the Bush tax cuts could counter the opposition.

As can be seen in Table 3, a considerable number of households are earning above the base wage. These earnings are going untouched above the base rate of $106,800 amounting to a loss of revenue for the Social Security System. An increase in the super-rich has occurred in the first decade of the 21st century. Such wealth can be taxed at a more equitable rate without impeding wealth creation or consumption. While far from advocating for a more socialistic tax framework, this research is endeavoring to look for ways to help slow down the demise of the Social Security System.

Table 3 Percentage of wage earners in the $100,000 and over range:

1998	18.2%
1999	19.4%
2000	19.3%
2001	19.1%
2002	18.8%
2003	19.3%
2004	18.7%
2005	19.1%
2006	19.9%
2007	20.2%

Source: Internal Revenue Service, Gross Collections, 2008. www.irs.gov

What will be accomplished by the elimination of the Cap on the base wage? The first five years after elimination of the Cap would result in a tax increase of some $472 billion (Tanner, 2005). On an individual basis, one American in five will stop paying Social Security taxes at some time during the year. Table 4 portrays the tax payment time table, by occupation, illustrating the economic stress on different levels of wage earners, many of whom do not reach the annual base threshold of $106,8000 ("Social security for," 2005).

Table 4 Comparative Incomes

Wage Earner	Salary	Date When Cap Reached
Teacher	$29,564	All Year
Nurse	$45,000	All Year
Police officer—1st year	$46,653	All Year
Seattle Firefighter	$55,752	All Year
U.S. House Member	$158,000	July 27
U.S. Senator	$158,000	July 27
Vice President	$202,900	June 1
House Speaker	$202,900	June 1
President	$400,000	March 24
S. O'Neal ex CEO Merrill Lynch	$28,144,273	January 2
Derek Jeter	$18,600,000	January 2
CEO Pfizer Jeffrey Kindler	$28,151,000	January 2
CEO Wal-Mart Michael Duke	$28,963,872	January 2

Source: Alliance for retired Americans, January 6, 2005

The data in Table 4 presents an idea of how much money could be added to the Social Security balance sheet if the Cap was eliminated. It may be strange to believe the fact that anyone who makes $106,800 pays the same amount of Social Security tax as the CEO's of Merrill Lynch, Pfizer or Wal-Mart. It does seem to be an inequitable burden to carry. As previously mentioned, the growth of returns from $1,000,000 to $10,000,000 and beyond continues to grow and leaves untapped huge sums of money that could flow into the Social Security coffers helping to reduce or even eliminate the shortfall over the intermediate term. A more permanent solution will have to be implemented in order to solve the Social Security looming debacle. A future research paper will tackle such an issue and offer some preemptive, provocative and possibly short term distasteful but much needed medicine to cure the ailing system.

Eliminating the cap should be viewed as a direct injection of funds into the beleaguered system by those individuals who could best afford the burden. According to the Social Security Administration, fully eliminating the Cap on taxable earnings would be sufficient to close the projected shortfall. If newly-taxed earnings above the taxable maximum were credited toward benefits, eliminating the Cap would close most, but not all, of the gap. Without the Cap, the increase in inflow would resolve the issue.

Political Reality

As stated above, increasing the Cap will not be easy, especially in the House of Representatives dominated by fiscal conservatives and Tea Party activists recently elected in 2012. Options may have to be put forth. While it is desirable to remove the cap, it is possible that an alternative proposal might be necessary. For example, keeping the current Cap but reducing the percentage associated with the tax above the Cap may allow the proposal to gain the necessary support.

The next year may also provide a significant opportunity for action. With the burgeoning United States budget deficit and both Democratic and Republican proposals to reduce the deficit, moderates may be looking for common ground. The recommendations of the bi-partisan Presidential commission will certainly be given serious consideration. That common ground may be tax reform. Tax reform can possibly be sold as a means of redistributing taxes and may gain a more favorable response than outright tax increases. Suggested actions like raising the age for benefits and the Social Security Cap may accompany such tax reform.

Strap

For the past decade, there has been a considerable buzz concerning the privatization of Social Security. What does this mean? Simply stated, privatization means that the control of Social Security will be transferred from Federal government to the individual. Privatization will result in individuals having greater control over how their funds will be invested since they will be responsible for investing Social Security funds. Private plans are often characterized by personal accounts with voluntary levels of contribution, private sector management rather than the Federal government, individual investment choice, and a lump-sum payout option. Under such conditions, individuals would probably be investing their funds into more risky investments such as stocks. To the contrary, presently Social Security investments can only be made into government bonds and other very secure investment instruments.

Is such an approach good or bad? Proponents point to the fact that the stock market over time produces higher returns than that of Treasury and other government bonds. Therefore, individuals who invest wisely will generate higher returns and have greater reserves when it comes time to retire. Proponents also point out that individuals should also have more control over how much they wish to contribute to their retirement. Under Social Security, this flexibility does not exist. In addition, the United States prides itself on an individual controlling her or his destiny. Social Security takes away such individuality.

Some organizations and individuals also feel that providing retirement benefits to individuals is not an appropriate role for the Federal government. The Social Security system creates the need for a huge bureaucracy. In addition, the system is not flexible enough to change with demographic changes since any proposal needs to approval by the United Sates Congress. Today's Social Security crisis can be partially attributed to the inability of Congress to respond to the needs of its citizens.

Opponents of privatization stress that the potential for higher returns is accompanied by greater risk. Over the past 15 years, the United States stock market and other global financial markets have experienced steep declines in overall value. Individuals could easily have all their retirement savings wiped out with the collapse of the stock market. Also, individuals don't necessarily have the knowledge to diversify their holding so as to adequately protect themselves from such a disaster. If disaster occurs, who will support senior citizens? Other societies around the world rely on families and offspring to care for parents and other senior citizens. However, this is not ingrained within the United States culture. For the poor and the working class, Social Security often represents a significant portion of retirement income, which they cannot afford to be without.

Based on the above discussion, the researchers propose to initiate a Secured Transparent Retire-ment Account Program (STRAP). This fund would be kept separate from other government programs so the fund could not be used to provide funds to the Federal government. The STRAP initiative which would cure the future funding issues while allowing every individual to know exactly what he or she will be receiving at retirement. An additional proposed benefit is to entitle the individual to include any residual in their estate at death. It will also allow younger workers the opportunity to possibly capture greater returns over a longer period of time. In all cases, at the age of 50, 100% of their STRAP units will be invested in Treasury Securities.

In essence the STRAP proposal is one where every American would "own" his or her retirement account and be able to project future needs during retirement. However, it is important to note that STRAP accounts would not be managed by the individual, which is a major departure from the privatization proposals previously discussed. STRAP accounts, while customized, would still be managed by the Federal government. The individual's portfolio for those younger than 50 would be structured based on the age of the individual and attempt to maximize returns and minimize risk. It should be emphasized that even when those under 50 suffer losses in the short-run, history tells us that those losses will be recovered and positive returns will be experienced in the long term.

This use of individual accounts would also remove the ability of the government to poach the Social Security account and begin the phase out of the current government run Social Security system. Automatic restructuring of individual retirement accounts based upon age would allow every American to capture the best returns while having the safety of Treasury bill guarantees during the last decade of one's working life. This system would also allow for workers to receive distributions at age 60 or after 40 years of employment, whichever comes first. Residual balances could be included in each individual's estate.

In implementation, the program would provide for a phase out of the current Social Security system while protecting every single age bracket and allowing the youngest of our citizens to receive enhanced returns by diversifying their STRAP accounts based upon age. All citizens 60 years or older at the time at which STRAP was implemented would continue to be part of the present Social Security system. Workers younger than 60 would see their STRAP account automatically invested in a diversified portfolio consisting of the S & P 500 stocks, AAA Corporate bonds and Treasury bills. The percentages and balance of the portfolio will be solely determined by the individual's age based upon historical returns using certain risk factors. It will be assumed that younger individuals can weather short-term declines in values while reaping the benefits of higher long-term returns associated with equities and corporate bonds. While higher risks may be associated with such an investment strategy, historical results have shown that the highs and lows smooth out over the duration of the average years of employment.

Summary

As the first baby boomers begin collecting social security benefits, this research paper is very timely. At its inception the SSA was much needed given a sorely depressed economy and a citizenry in need. As the decades rolled on and diseases were conquered, life style changes resulted in better and longer life spans. Population, aided by increased immigration, grew rapidly. Social Security has now reached the "tipping point" when politically distasteful decisions must be made to remedy the malaise now being foisted on children and unborn generations. This paper has presented the foundation for the long term by recommending interim steps. The first step would be to follow the lead of the bipartisan commission, increasing the age at which recipients receive benefits. The second interim step calls for eliminating the Cap for the next ten years which will result in raising approximately $500,000,000,000 from those wage earners making in excess of $106,800. While this proposal will not be greeted with enthusiasm by those earning beyond the Cap, the approach seems the easiest to implement with the smallest impact on lower and middle income households. Refusal to implement this approach could mean massive, across the board tax increases accompanied by a dramatic and drastic reduction in benefits along with a substantial increase in the retirement age to better reflect actuarial tables and funds available for disbursement. The STRAP proposal will be a just long term approach. Lastly no demographic will be disenfranchised by the morphing of Social Security into STRAP.

References

Barone, M. The realignment of America. *Wall Street Journal (Eastern Edition)* (2007), A.19.

CIA.gov (2010). Retrieved from https://www.cia.gov/library/publications/the-world-factbook/fields/0102.html

Current population survey (2010). U.S. Census Bureau. Retrieved from www.census.gov.

Gross collections (2008). *Internal Revenue Service*. Retrieved from http://www.irs.gov/taxstats/article/0,,id=206488,00.html

Haaga, J. (2010). How many baby boomers are there? *Population Reference Bureau*. Retrieved from www.prb.org

Heritage Foundation (2010). Retrieved from www.heritage.org.

Irons, J. (2009). Raising the cap on social security tax best way to fix short fall. In *Economic Policy Institute*. Retrieved from http://www.epi.org/publication/raising_cap_on_social_security_tax_best_way_to_fix_shortfall-2/

King, T. T., & Cecil, H. W. (2006, May). The history of major changes to the social security system. *CPA Journal*.

Kurtz, W. (2009). Seeking alpha. Monthly population estimates for the United States: April 1, 2000 to December 1, 2009. . *U.S Census Bureau*. Retrieved from http://www.census.gov/popest/national/NA-EST2009-01.html

Life expectancy at birth, by race, sex. 1930-2005. (2010). http://www.infoplease.com/ipa/A0005148.html

Mulvey, J. (2010). Social security: Raising or eliminating the taxable earnings base. *CRS Reports to Congress*. Retrieved from http://aging.senate.gov/crs/ss9.pdf

Political calculations (2005). *U.S. Census, U.S. Population Clock*. Retrieved from ssi.monthly@ssa.gov

Population in the U.S. (n.d.). In *Google - Public Data*. Retrieved from http://www.google.com/publicdata/overview?ds=kf7tgg1uo9ude.

Schlesinger, R. (2010) U.S population 301 million and growing. *U.S. News* .

Social security administration website. (2010). Retrieved from http://www.ssa.gov/OACT/COLA/cbb.html

Social security for all ages (2005). *Alliance for Retired Americans*. Retrieved from http://www.retiredamericansfund.org/system/storage/78/5d/3/29/whcoa_apr05_final_web.pdf

Statistical abstract of the United States (2005). *U.S. Census Bureau*. Retrieved from http://www.census.gov/prod/2005pubs/06statab/pop.pdf.

Tanner, M. D. (2005). Keep the cap: Why a tax increase will not save social security. *Cato Institute*. Retrieved from http://www.cato.org/pub_display.php?pub_id=3780

TED: The editor's desk (2011). *The Bureau of Labor Statistics*. Retrieved from http://www.bls.gov/opub/ted/2011/ted_20110608.htm

The moment of truth (2010). The National Commission of Fiscal Responsibility and Reform. Retrieved from http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12_1_2010.pdf

United States demographic and state rankings. Retrieved from http://www.top50states.com/

United Nations population division: World urbanization prospects; Table A.2 (2007). *United Nations*. Retrieved from http://www.un.org/esa/population/publications/wup2007/2007WUP_ Highlights_web.pdf.

U.S. Census press releases (2005). U.S. Census Bureau, U.S. Population Clock. Retrieved from http://www.census.gov/prod/2005pubs/06statab/pop.pdf.

U.S. population clock. U.S. Census Bureau. Retrieved from http://www.cencus.gov/main/www/popclock.html.

U.S. population distribution by age, 1950 through 2050 (2009). In *Calculated Risk*. Retrieved from http://www.calculatedriskblog.com/2009/08/us-population-distribution-by-age-1950.ht

World population prospects: The 2006 revision. Working paper ESA/P/WP. 202; Table A.2. (2006). *United Nations*. Retrieved http://www.un.org/esa/population/publications/wpp2006/WPP2006_Highlights_rev.pdf.

2000 Census of population and housing (2000). *U.S Census Bureau*. Retrieved from http://www2.census.gov/census_2000/datasets/demographic_profile/0_NationalSummary/2khus.pdf, U.S. Census Bureau.

About the Authors

Dr. Donald Crooks is the Director of Graduate Programs at Wagner College. He entered academia in 2002 after spending nearly 35 years on Wall Street as a Senior Executive. Since that time he has presented and published on several occasions and has been an invited guest lecturer at institutions such as Providence College and Duke University's Fuqua School of Business. His research includes financial markets, economics, strategic management and student learning assessment.

Dr. Cathyann Tully is an Associate Professor of Finance at Wagner College. She has presented research at academic conferences throughout the United States, Canada and Europe and published works in national and international journals. Her areas of expertise are financial management, financial literacy and international currency markets. Dr. Tully received her DPS in International Finance from Pace University.

Dr. John Burbridge is currently a Professor of Operations and Supply Chain Management at Elon University. He was formerly dean of the Love School of Business at Elon. He also was associate dean for the Executive and MBA programs at Loyola College in Maryland. Prior to Loyola he was Director of Distribution for AIRCO Welding Products. He received his PhD in industrial engineering and operations research from Lehigh University.

~~Call for Papers~~

Academy of Business Research

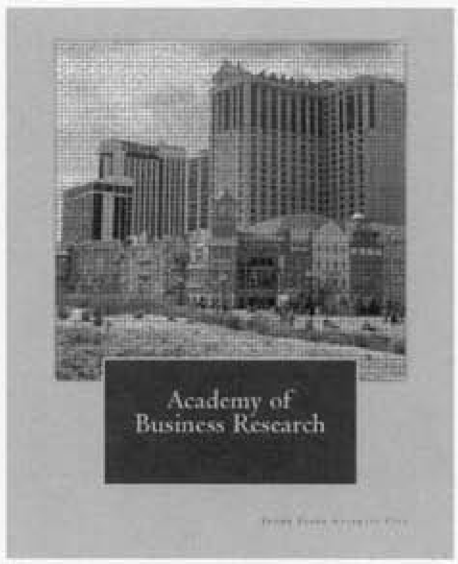
Fall 2012 International Conference

Atlantic City, NJ

September 10-12

Trump Plaza Hotel and Casino on the World Famous Atlantic City Boardwalk

www.academyofbusinessresearch.com



Deadline

Abstract Submission Due May 15th, 2012. All decisions will be made by May 30, 2012