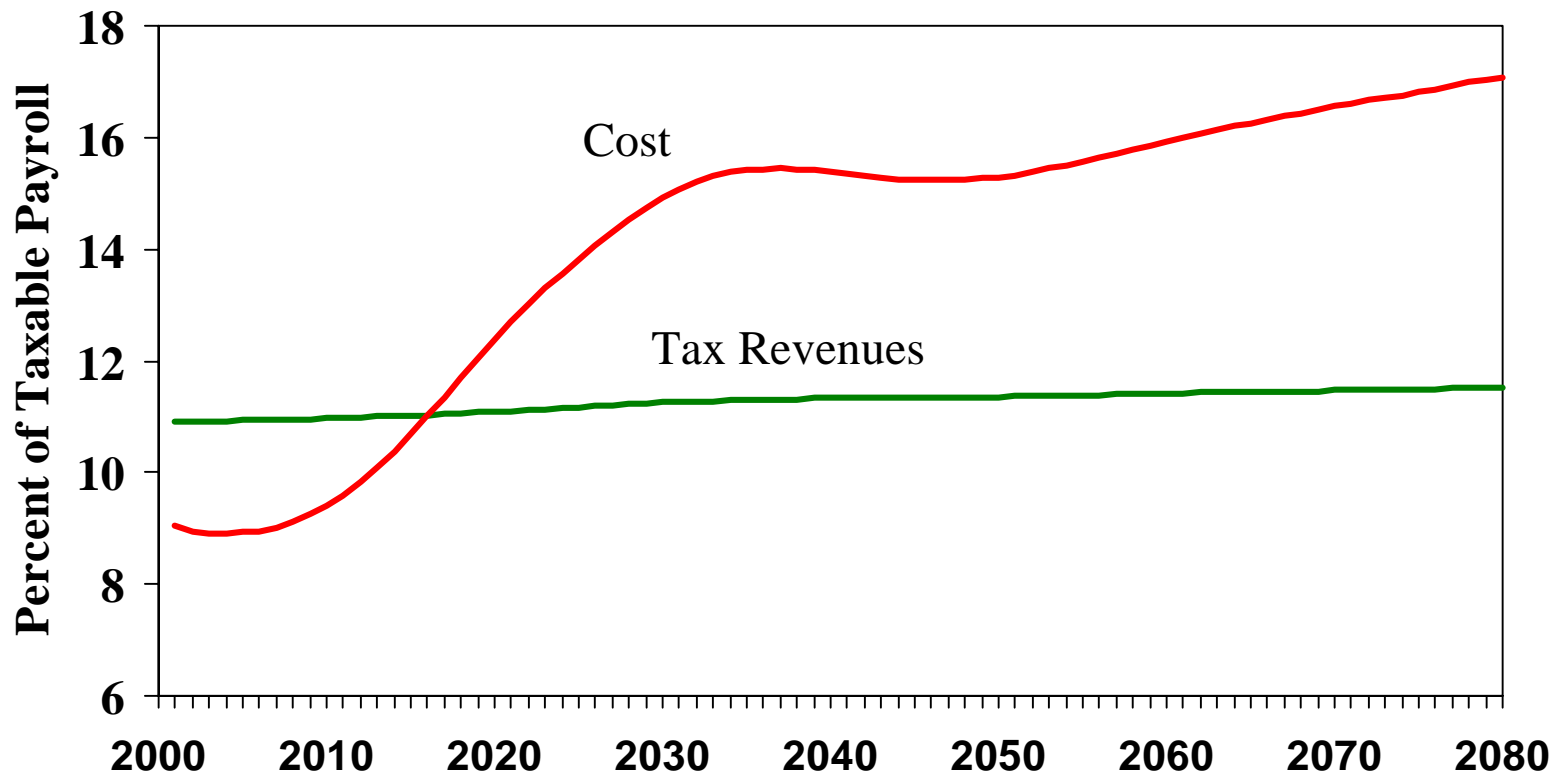


Issues in Social Security Reform

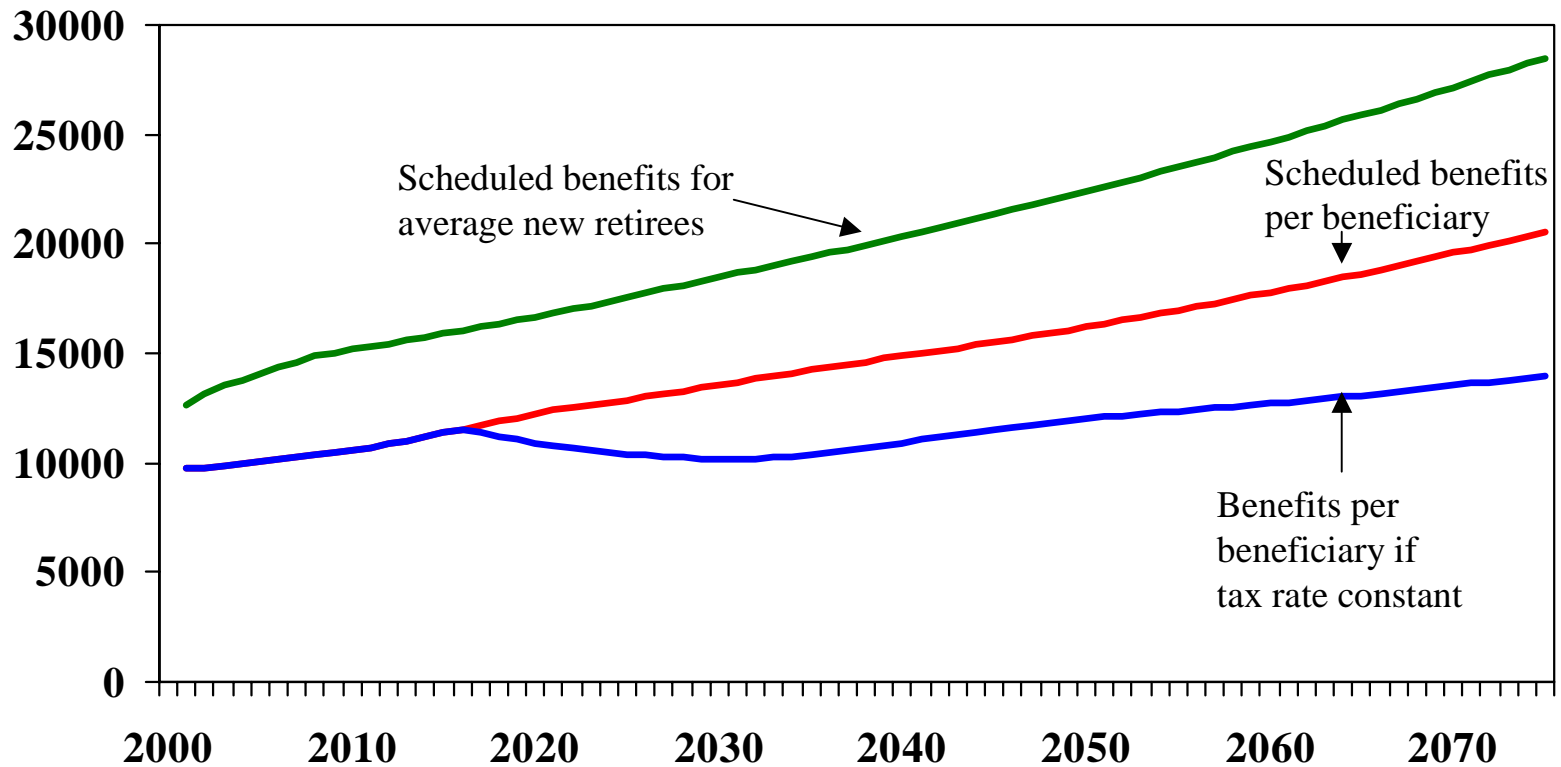


Projected Social Security Tax Rates

(2001 Trustees Report – OASI Intermediate Assumptions)

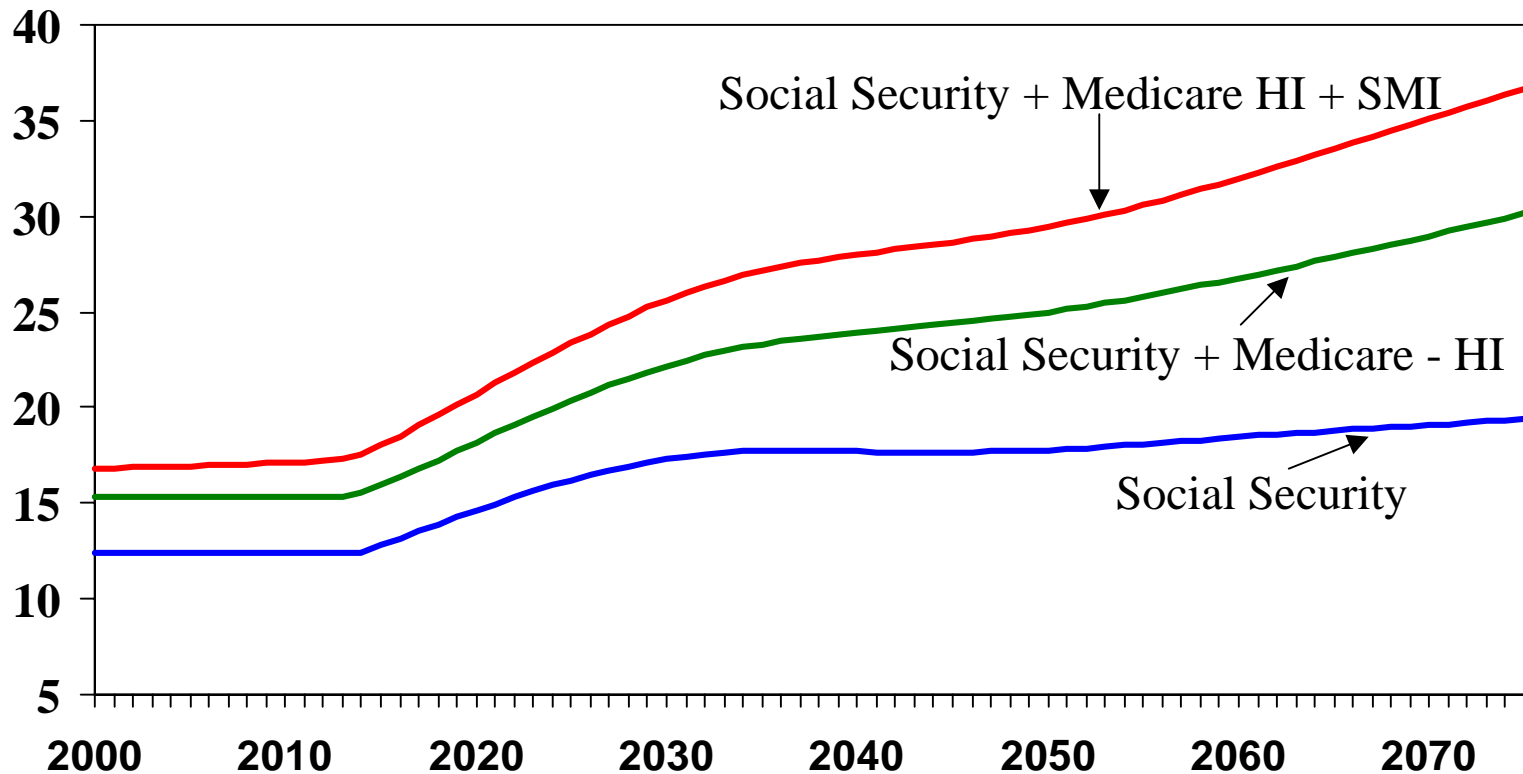


Real Social Security Benefits in \$2001

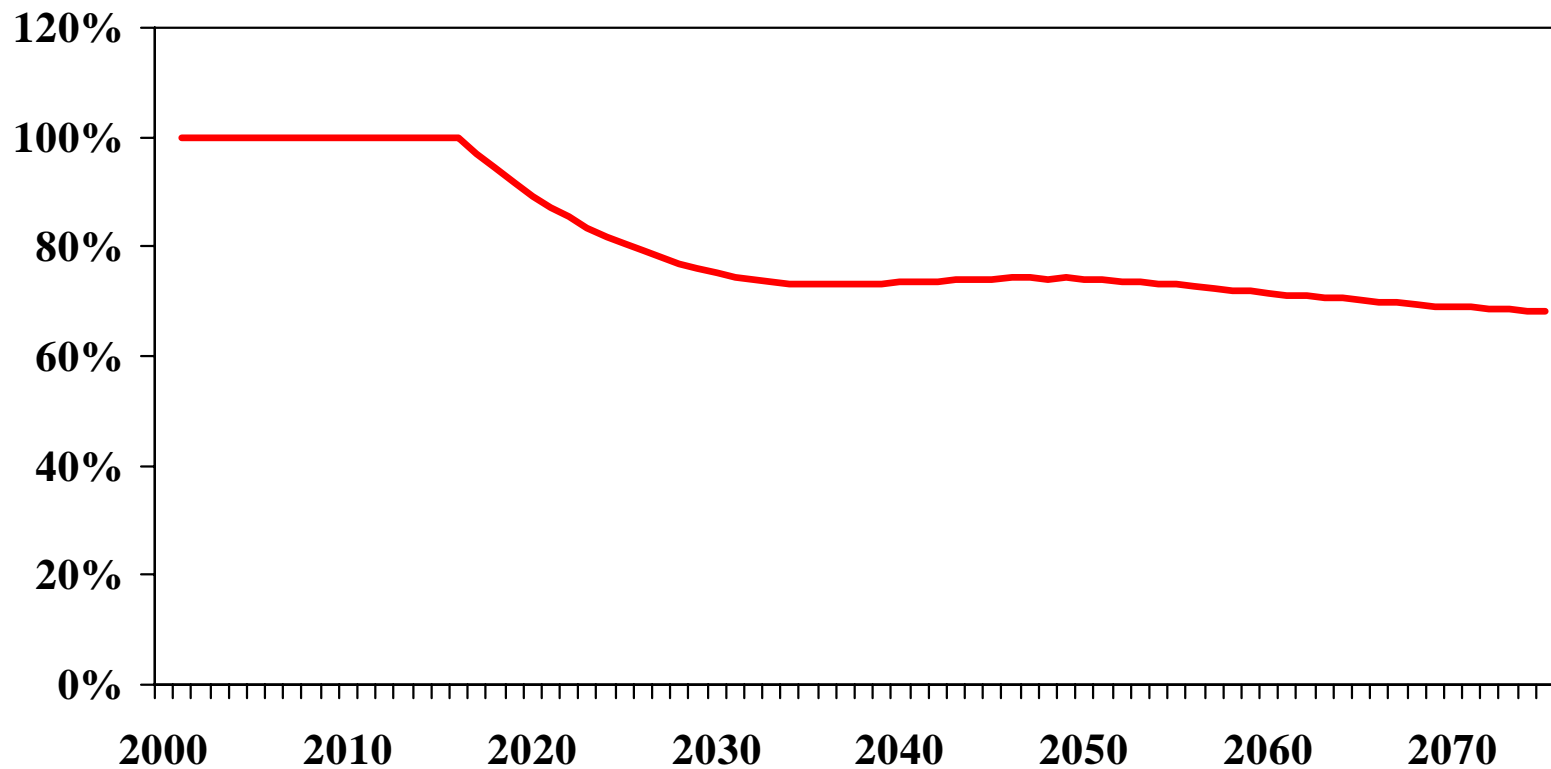


Projected Tax Rates: All Elderly Entitlements

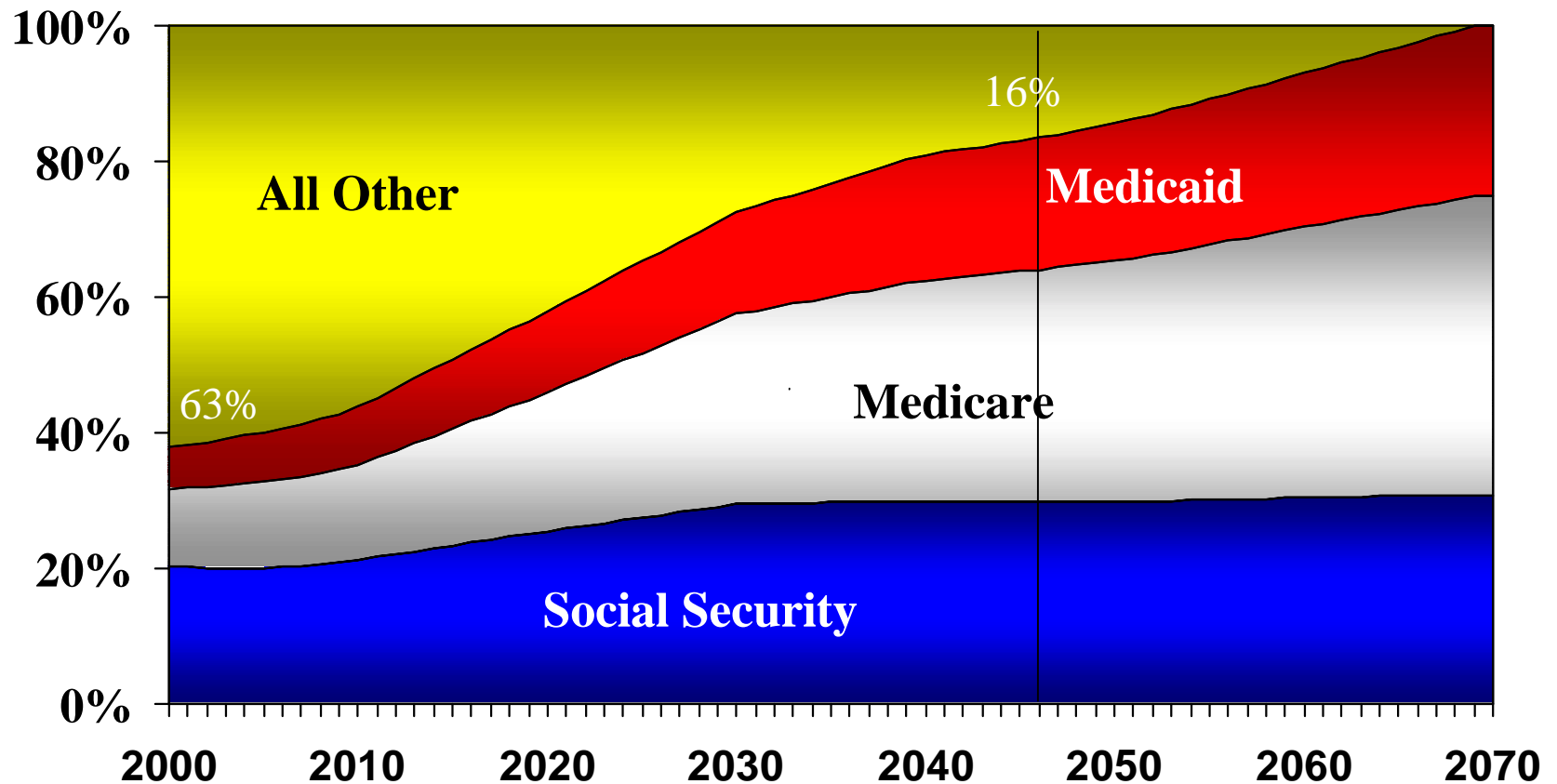
(2001 Trustees Report)



Affordable Benefits With a Constant Tax Rate as a Percent of Scheduled Benefits



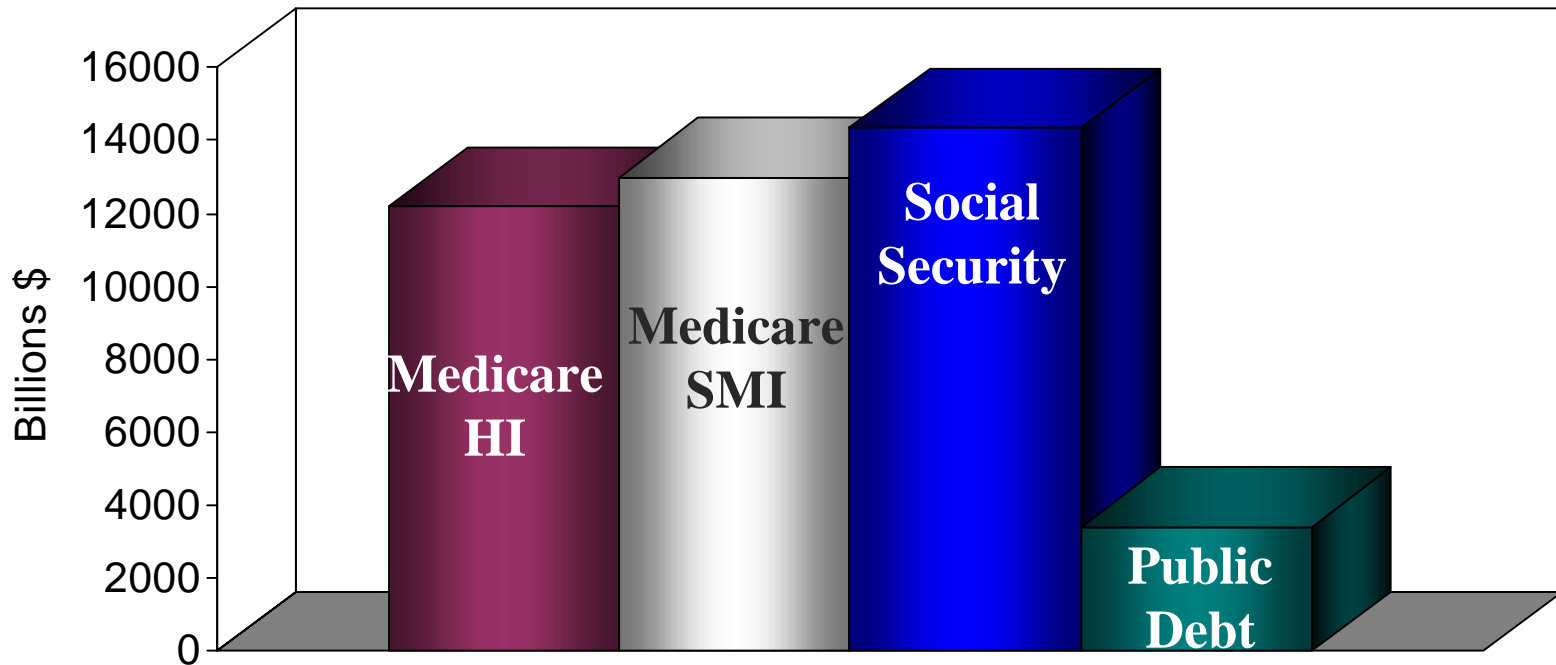
Shares of Total Budget



The Elderly Entitlement Debt



Federal Government Debt



The Trust Fund Is Fiction



Required 2020 Tax Rate

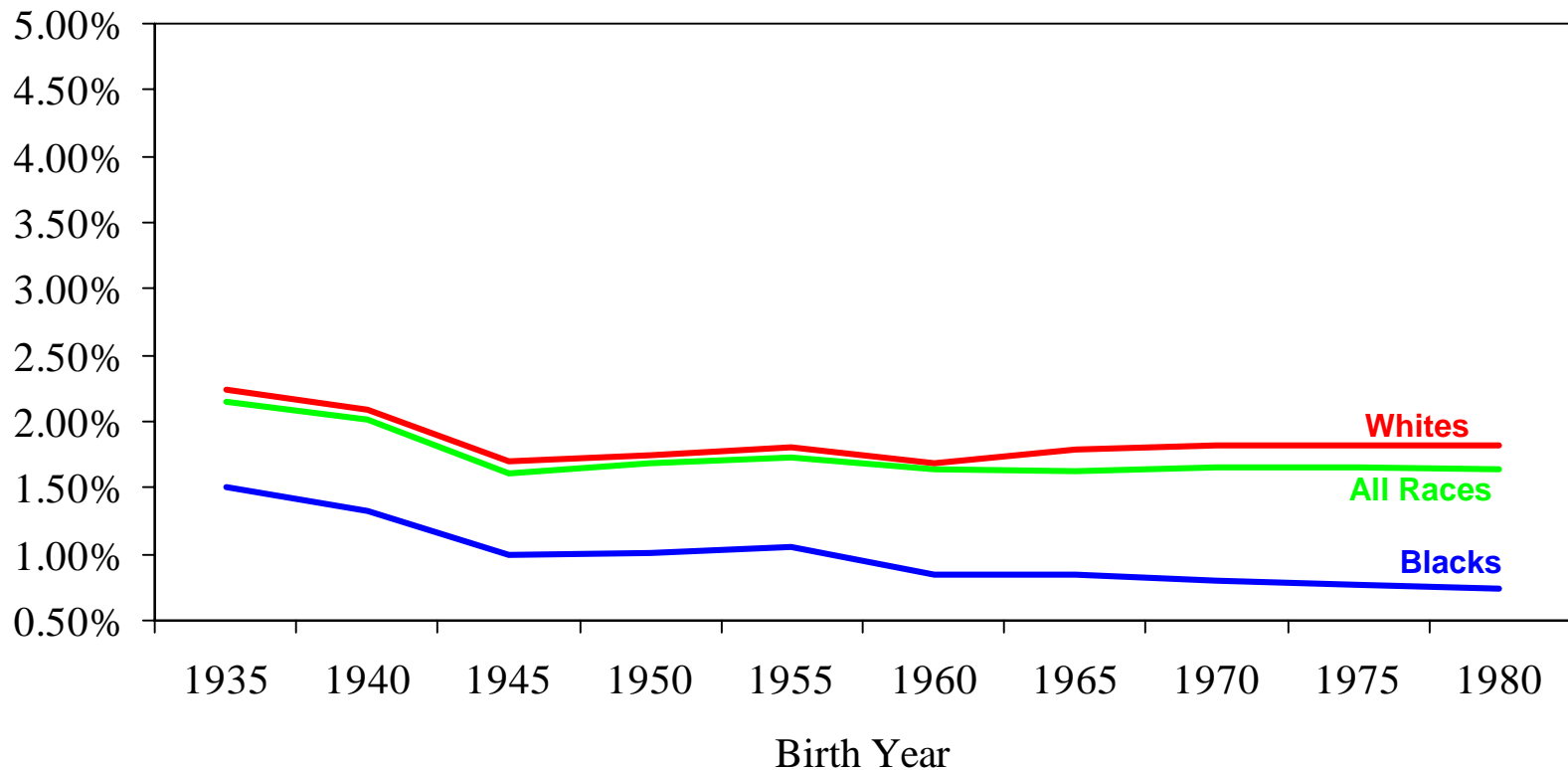
Trust Fund Balance	Required Tax Rate OASDI
\$6.1 Trillion (6.1×10^{12})	14.63
\$6.1 Googol (6.1×10^{100})	14.63
\$0	14.63
13.6DM Trillion	12.40



Racial Differences in Rates of Return



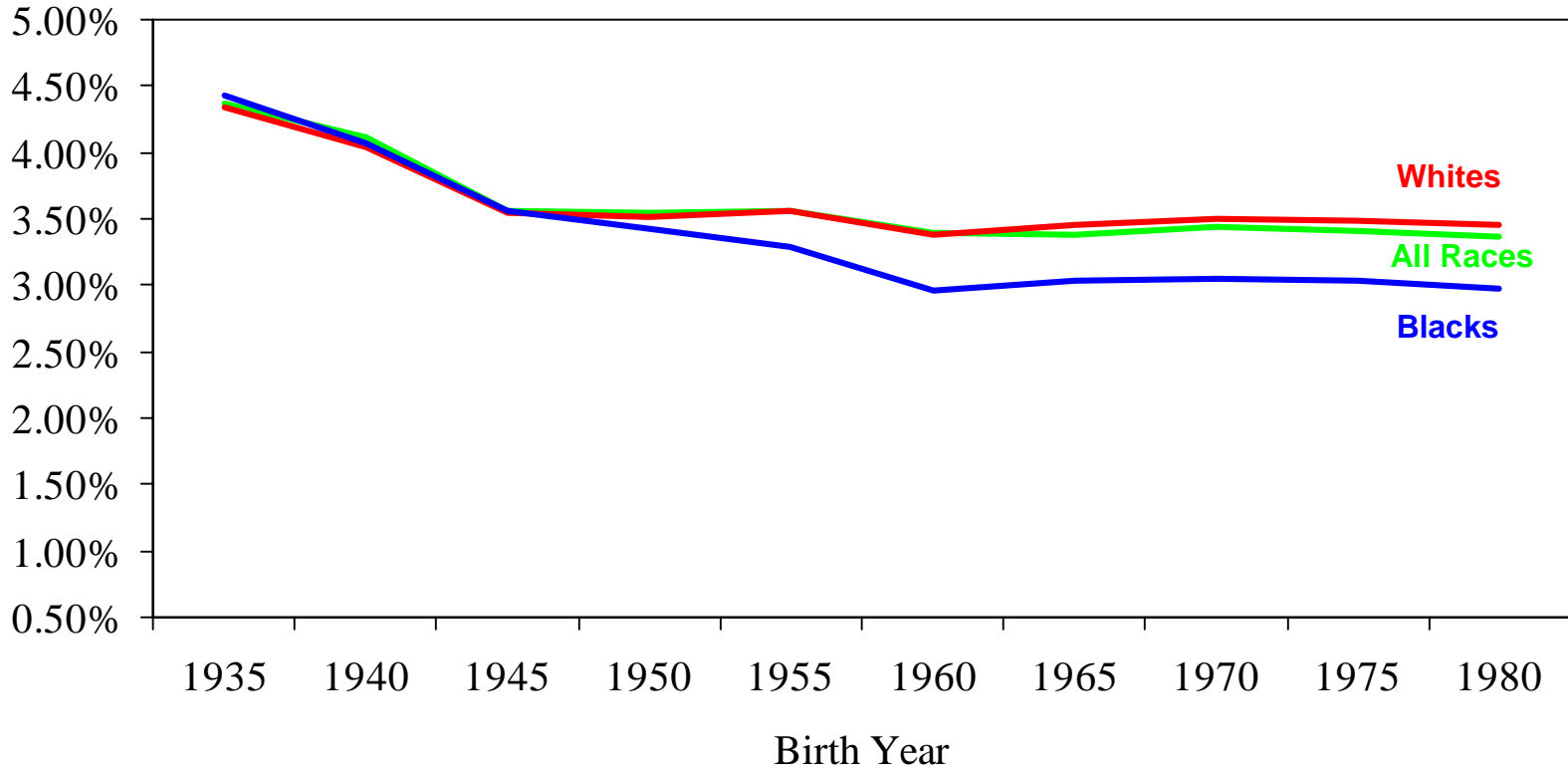
Internal Rate of Return from Social Security for Single Men by Racial Group



Liu and Rettenmaier, "Social Security and Race," National Center for Policy Analysis, 2000



Internal Rate of Return from Social Security for Married Men by Racial Group

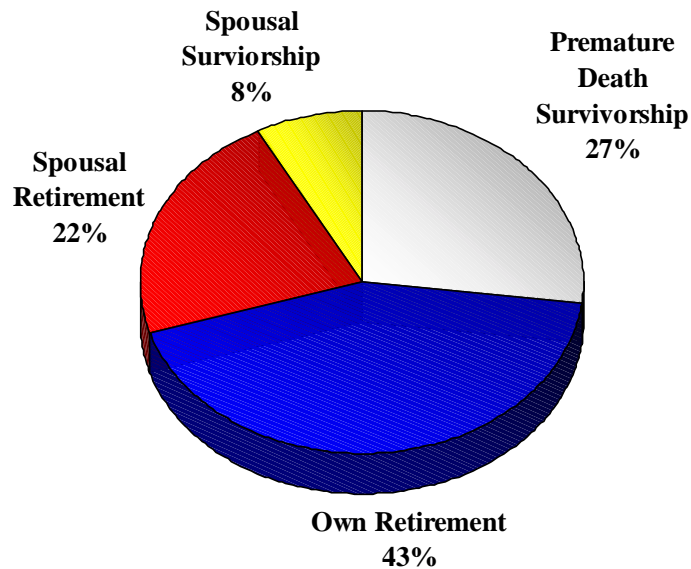


Liu and Rettenmaier, "Social Security and Race," National Center for Policy Analysis, 2000

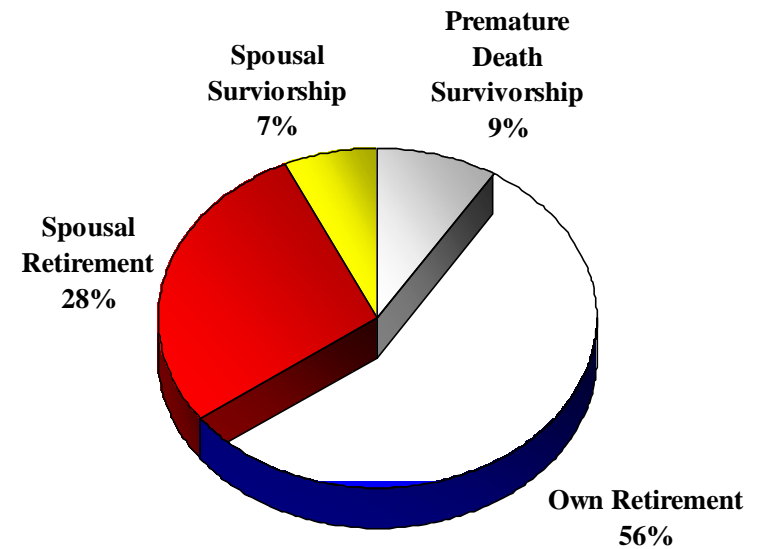


Composition of Expected Benefits for Single-Earner Couples Born in 1980

Blacks



Whites



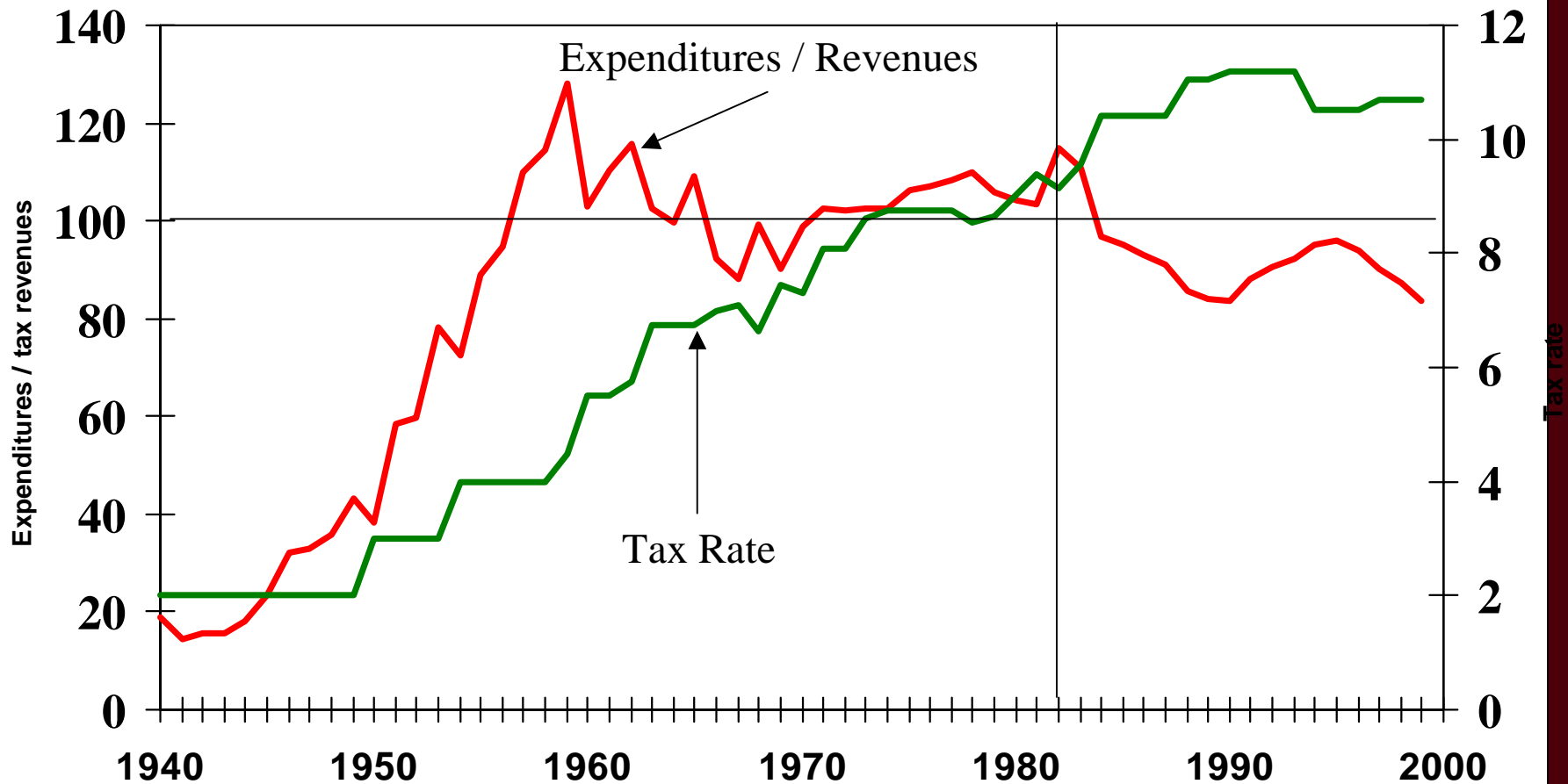
Liu and Rettenmaier, "Social Security and Race," National Center for Policy Analysis, 2000



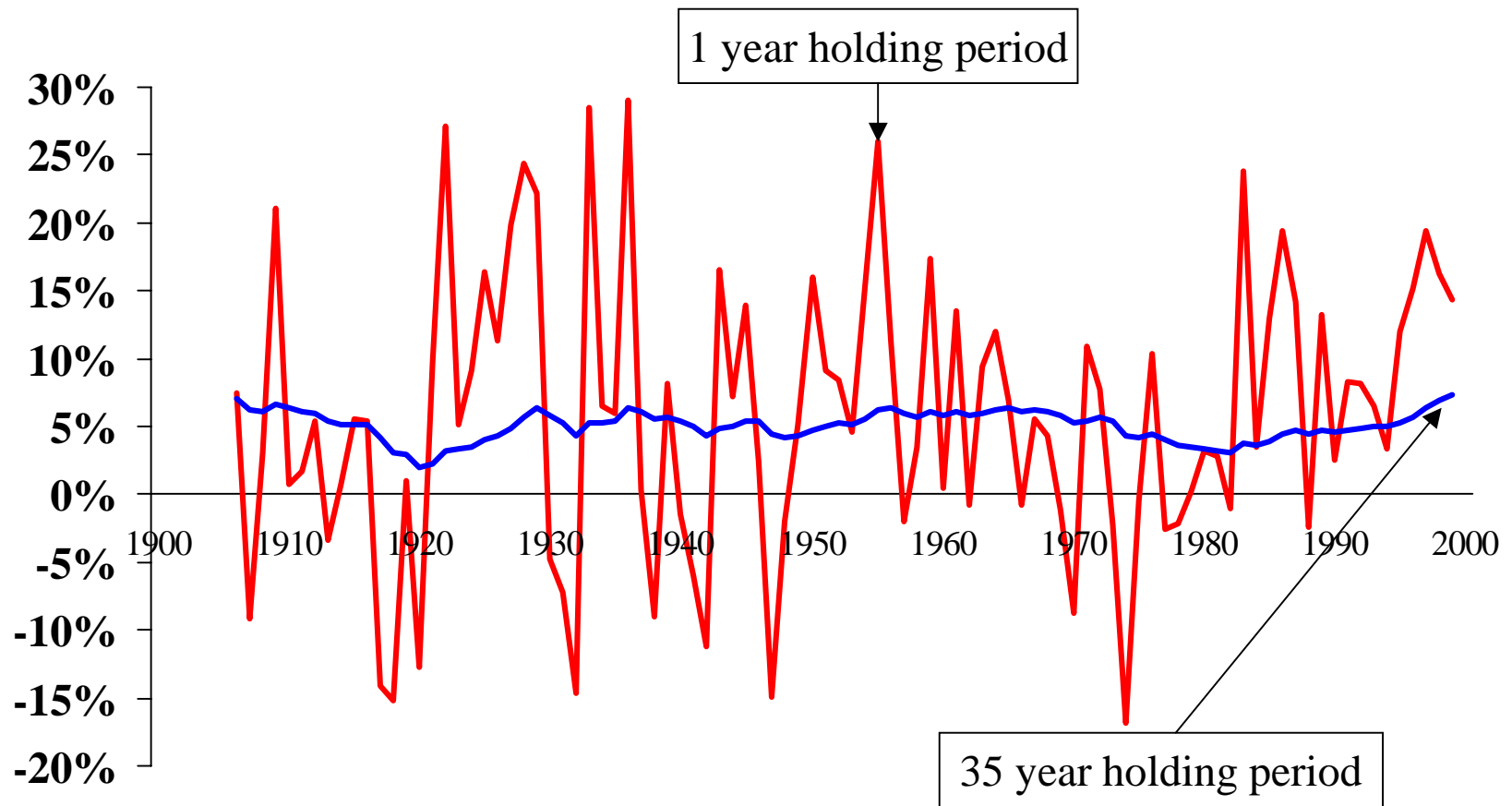
Market vs Political Risk?



Reforms in Response to Financial Imbalance



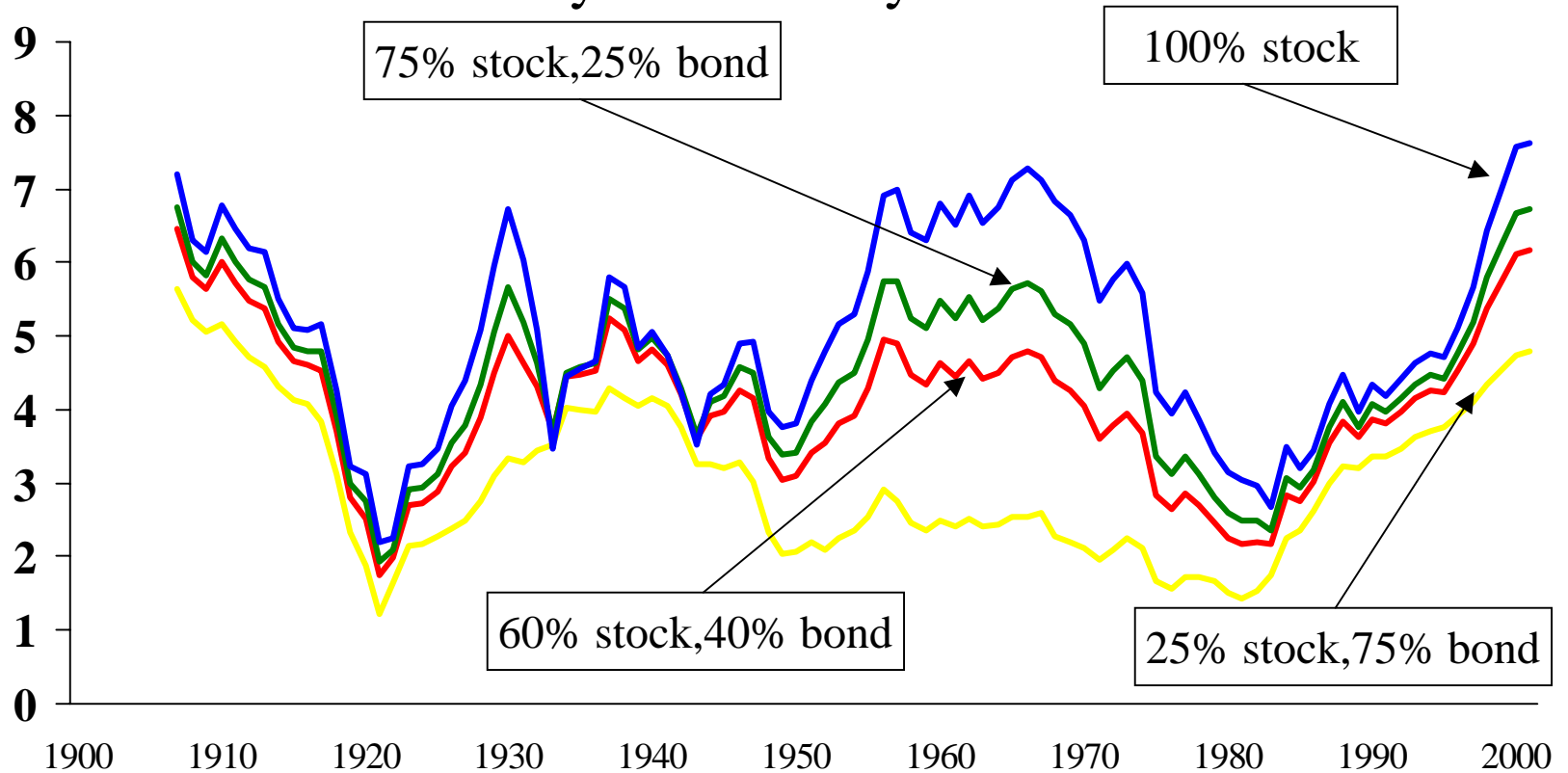
Portfolio Return by Holding Period (60% stock + 40% bond)



Liu, Rettenmaier, and Wang, "Social Security and Market Risk," National Center for Policy Analysis, 2001



Rate of Return on 35-Year Investment Annuitized at Retirement by retirement year



Liu, Rettenmaier, and Wang, "Social Security and Market Risk," National Center for Policy Analysis, 2001



Rates of Return on 35-year Investment Annuitized at Retirement

	25% Stock 75% Bond	60% Stock 40% Bond	75% Stock 25% Bond	100% Stock
Average Return	3.04%	4.08%	4.48%	5.07%
Maximum Return	5.64%	6.45%	6.75%	7.62%
Minimum Return	1.22%	1.73%	1.93%	2.21%
Percent of Returns above 2.0%	86.5%	97.9%	99.0%	100.0%

Notes: Based on 1872-2000 stock and bond returns, 35 year investment period followed by a probability weighted retirement period of approximately 18 years.

Liu, Rettenmaier, and Wang, "Social Security and Market Risk," National Center for Policy Analysis, 2001



Summary

- Long investment horizons mitigate variation in the realized rate of return from the stock market.
- Private accounts endow workers with property rights and reduce political risk.
- Partial prepayment of Social Security using Personal Retirement accounts need not expose retirees to greater financial risk.

