THE FUTURE OF SOCIAL SECURITY

PRESENTED TO THE PRESIDENT'S COMMISSION TO STRENGTHEN SOCIAL SECURITY

SEPTEMBER 21, 2001

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Inaction is not an option.

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

STATEMENT of DONALD R. MARQUIS, TOWN MANAGER of ARLINGTON
WHITE HOUSE CONFERENCE ON SOCIAL SECURITY
TUESDAY, DECEMBER 8, 1998

My comments are given from my position as Manager of a community of 50,000 population, as a Commissioner of the Massachusetts Public Employee Retirement Administration Commission (PERAC) and as Chairman of the Social Security Committee for PERAC.

We need to invest part of the Social Security funds in equities managed and invested by a Board of Trustees independent of the administration and Congress.

Obviously, there is no doubt that our Social Security System needs changes in order to remain solvent and to continue to pay benefits to the participants of the system. Furthermore, these changes-should be implemented sooner rather than later.

As you know, the Social Security System is a pay-as-you-go system, rather than a funded one. I do not believe that the long-term solution is simply to keep increasing the Social Security tax on payroll and/or increasing the retirement age. We need to invest part of the Social Security funds in equities managed and invested by a Board of Trustees independent of the administration and Congress. It has been demonstrated that even a modest return of 8% over the long-term will basically keep the Social Security System solvent in the future.

There has been discussion of including the seven states, which are currently not part of the Social Security System, into the system. We are opposed to this idea.

We in Massachusetts have an excellent public pension system, which we do not want to lose. Our system was created several years prior to the Social Security System in 1935. We were subsequently given a choice of whether to join the Social Security System or retain our own system, and we chose the latter. The Massachusetts public retirement system is established under the General Laws and is governed by a seven-member commission, the Public Employee Retirement Administration Commission (PERAC). PERAC oversees 106 individual retirement boards throughout the state. Fifteen years ago, the State made the decision to require the pension systems to move away from a "pay-as-you-go" funding to a fully funded system. Currently most of the 106 systems under PERAC are at least fifty percent funded and several are one hundred percent funded,

There are several reasons why we do not want to be part of the Social Security System:

1. Our system is solvent and will soon be fully funded.

2. Our benefits are much better than those under Social Security.

3. We made all the right and tough decisions here in Massachusetts, and we do not want to be in a system that is going bankrupt, according to many, in the next thirty-four years.

4. If forced to join the Social Security System, it will cost the public employers and employees in Massachusetts approximately 50 million dollars each in the first year, 700 million each in the tenth year, and over 2 billion dollars each after twenty years, and growing every year thereafter. **If we have to appropriate that extra money for Social Security coverage, obviously we will have to cut other programs under our jurisdiction.**

5. We do not want to be looked at as a “cash cow” in order to help pay the current Social Security benefits to retirees. **Besides the extra revenues would extend the Social Security solvency for only two extra years.** Keep in mind that eventually, the new employees in the system will require benefit payouts from the system.

Finally, keep in mind that you may increase your revenues initially by having us in the Social Security System, but when the “new” Social Security participants retire, it will cost the Social Security System a lot more in the end.

Let us look for real long-term solutions to this Social Security System instead of the piecemeal approach.

DONALD R. MARQUIS, COMMISSIONER
MASSACHUSETTS PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

SUPPLEMENTARY STATEMENT BY DONALD R. MARQUIS, COMMISSIONER MASSACHUSETTS PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PRESENTED TO THE PRESIDENT'S COMISSION TO STRENGTHEN SOCIAL SECURITY ON SEPTEMBER 21, 2001

HOW TO FINANCIALLY SUSTAIN THE SOCIAL SECURITY SYSTEM

As you know, the Social Security System is a pay-as-you-go system rather than a funded one. I do not believe that the long-term solution is simply to keep increasing the Social Security tax on payroll and/or increasing the retirement age. We need to invest part of the Social Security funds in equities managed and invested by a Board of Trustees independent of the administration and Congress. It has been demonstrated that even a modest return of 8% over the long term will basically keep the Social Security System solvent in the future.

Additionally, Congress and the President must stop funding federal programs from the Social Security Trust Fund. No one else in the public or private sectors is allowed to divert funds from their respective pension systems, and neither should the Federal Government. This very unwise and irresponsible practice should be stopped immediately. By doing these two things—investing in equities and stopping the diversion of funds—I believe the Social Security System would remain solvent for years to come.

HOW PERSONAL ACCOUNTS, IF THEY ARE PART OF THE SOCIAL SECURITY SYSTEM, SHOULD BE FINANCED, STRUCTURED & ADMINISTERED

I believe that allowing individuals to invest part of their Social Security funds (2% of their contribution) is a mistake.

1. Most individuals do not possess the basic knowledge to invest wisely;

2. The fees for such individual investments would total much more than fees for investing part of the Social Security Fund as a whole, and that would adversely affect the individual's bottom line;

3. The administrative cost would be substantial;

4. Those close to retirement would be adversely affected by downturns in the market; consequently, there would be political pressure to have the federal government cover their losses.

Instead, we already have the structure in place that allows employees in both the private and public sectors to invest in private accounts such as 401(k)s, and programs such as 457 and 403(b). We should encourage even greater participation in these programs.

I believe there is a better alternative—having part of the Social Security Trust Fund as a whole invested by an independent board, as stated above. As we all know, the key to building adequate retirement assets is to start early and to invest for the long term. Individual accounts come and go and can be adversely affected in the short term by market downturns, especially for those near retirement. On the other hand, the Social Security Fund, which was created sixty-six years ago and will continue indefinitely, would be better able to withstand the volatility and downturns of the market.