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MONEY FOR THE GOLDEN YEARS

Only a mandated savings plan will save retirees

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MOST AMERICANS, young and old, are aware that changing demographics threaten Social Security's future. When baby boomers retire, there'll be fewer than two workers paying into the Social Security and Medicare trust funds for each retiree. To maintain benefits, the conventional solution is to cut Social Security benefits, or raise taxes.

But taxes would have to be raised 50 percent, or benefits cut by 43 percent. Neither choice is attractive. Social Security also might be saved by raising the retirement age or adjusting inflation indexes. Still, there are two other transcending problems:

■ **Americans' lack of retirement savings.** When President Franklin D. Roosevelt created Social Security, he talked about retirement security being a three-

legged stool. Leg one is personal savings; leg two private pensions; and leg three Social Security, the safety net.

Today the stool is broken. Most families have limited or no savings, and a limited or no private pension. Yet we can expect to live a third of our lives — more than 20 years — after we retire. Most of us are facing retirement insecurity. To restore retirement security, we need to be smart enough to remodel Social Security to bolster savings.

■ **A growing gap in income and the ability to accumulate wealth.** Thirty years ago a high school graduate could expect to earn a solid, working-class, middle-income wage. In today's new global economy, four billion people willing to work for \$2 a day are competing directly with our high school graduates. That leaves many of those graduates in minimum-wage service jobs, with no chance to save or accumulate wealth.

Currently 10 percent own 90 percent of the net financial assets. If 50 percent of Americans become "an underclass," the wealthiest 20 to 25 percent will be forced to live in gated communities for safety's sake. Is this good? To fashion a sound response, these transcending problems need full public discussion.

Two thirds of all income comes from

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wages; one third comes from wealth, or savings. Physicist Albert Einstein once was asked what is the most powerful force in the world. His answer? Compound interest. Let's put savings and the power of compound interest to work for all Americans, using existing Social Security taxes.

A worker who earns \$8,000 per year is already paying \$1,200 of that into Social Security (his tax plus his employer's contribution). Let's allow all working Americans to set aside at least \$1,000 annually in individually owned IRA-type

Social Security accounts. Invested in the private sector, the money would grow tax-free for 45 years. With a 4 percent annual rate of return, the high school graduate could expect a nest egg of \$150,000. Going up the economic scale, people could reasonably expect nest eggs of \$300,000 and \$500,000.

All will be better off than under the current Social Security system, because they can live off the income of their savings and pass the capital tax-free to their children, providing them new economic independence and a second source of income — the income from capital.

In an agrarian society, land was the major source of wealth and capital. Today the major source of wealth (after home ownership) is financial instruments — 401(K) plans, IRAs, and savings. We have a history of using government to open the doors of opportunity for all Americans. The Founding Fathers were smart enough to offer Americans 40 acres to homestead. Why can't we be smart enough to create a mandated savings system through Social Security and offer all Americans 40 shares?

By using the best in the private sector and the best in the public sector, we can address the increasing imbalance in the distribution of income and wealth.



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