

SOLVING THE RETIREMENT INCOME PROBLEM: AN ANALYSIS OF GOVERNMENT PENSION PLANS AND SOCIAL SECURITY BENEFITS

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ABSTRACT

Perhaps at the top of the list of government expenditures that invokes angry outcries from taxpayers, including those who pay no taxes, are seemingly large pension payments to retired government employees. Yet, on the other hand, these same taxpayers angrily insist that the social security benefits that they receive, or expect to receive, are vastly less than what they should receive, based on the amount of social security taxes that they pay into the system.

Both of these commonly believed observations are wrong. In this paper we demonstrate that the larger pension payments can cost the taxpayers less money than do the much more common smaller pension payments. This seeming contradiction is explained when we compare the amount of the services performed by the individual retirees with the total cost of the services to the taxpayers. We also demonstrate that a majority of taxpayers individually receive more in social security retirement benefits than they would receive if their social security taxes had been invested in other instruments, such as insurance policies, marketable securities, or some sort of bank savings accounts. This happens because the formula used to calculate the monthly benefit payments is vastly skewed toward providing higher benefits to lower and middle income workers, who make up the majority of the taxpayers receiving benefits. Therefore, higher income workers will not receive the benefits that their social security taxes could have earned in other investments.

We propose that solving the retirement income problem will require an effort on the part of government to educate the public, including not only everyday citizen taxpayers, but, everyone in general, including politicians, the news media commentators, etc. And furthermore, that education process also will require efforts to remove or expose all of the misinformation as well as explaining or demonstrating how these systems can actually work for the benefit of all Americans. Once people understand how the systems of government pensions and social security benefits actually work, it should be possible to make better decisions regarding the changes needed to minimize the cost to the taxpayers and, also, extend the long term viability of these systems.