

ST. LOUIS POST-DISPATCH

Think the U.S. Social Security System is flawed? You should take a look at Europe.

By Thomas Grady

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Recently we examined the thorny issue of Social Security in the U.S., which could pit Boomers against their kids in taxation warfare. Hopefully a national debate will lead to a reasonable solution that avoids such generational tensions.

However, the dilemma facing our European cousins is far worse. In fact, one might say fatally worse. In the U.S., Social Security is predominately a retirement program, with disability and survivor life insurance playing lesser roles. But the European concept of social security is far broader, deeper and more generous. Much more than retirement income, it also provides unemployment security, guaranteed cradle-to-grave health care, and long-term care.

The retirement benefits themselves are more luscious in Europe than in the U.S. Germans, for example, receive roughly 70% of their historic working income after they retire vs. 53% of income received by Americans. And France's official retirement age is 60. During their productive years, most Europeans enjoy 35-hour work weeks, 40 days of annual paid vacation, and cash bonus for vacation travel. These hideous labor conditions aren't an out-of-pocket expense to the employee; they are rather costs, some mandatory by law, to the employer.

In addition, most Europeans are treated to free health care from the time they show up on the world stage until they bow out. And if they need nursing care in the latter years of their time here, that's free too.

Of course, these freebies aren't really free. American's pay 7.65% of their paycheck toward all future social security benefits; Europeans pay 20%. In addition, the U.S. pays out 4.4% of its Gross Domestic Product (GDP) to its citizens as social security benefits; the top three European countries shell out, on average, 13% of GDP in payments. So the monetary burden of the European social security model on their economies is over 2.5 times that of the U.S. burden.

That's not all. There are three interrelated and potentially fatal issues effecting the European model that do not effect the American one (at least yet):

Birth Rate per Woman: both the European and American model paid benefits today and into the future are funded immediately by current employees. So the more employees the better. Here's where Europe falls dangerously short. The average European birth rate per woman is 1.53. The average U.S. rate is 2.03. Replacement rate is consider to be 2.1. This means the European population is shrinking while the U.S. population remains relatively stable. Therefore, the cost to fund the retirement of European Boomers per employee will dramatically increase, putting heavy tax burden on their economies.

Economic Growth: a country is just like your household, the more money it makes the easier it is to pay its bills, including those of social security. European economic growth since 1999 has limped along annually at 1.85%, compared to 3.08% in the U.S. (Excluding the devastating year 2001, European growth remains roughly the same, while U.S. growth hits 3.6%, almost double Europe's.) Slow economic growth only exacerbates Europe's ability to pay out high levels for social services, causing a menacing downward spiral.

Public Perception: In the U.S. payroll withholding for social security benefits is perceived as a tax. Loathing of taxes of any kind is built into Americans' DNA. So there is constant pressure on politicians to lower the tax rate. Europeans, however, view their payroll deductions as insurance premiums. Insurance

premiums carry a different connotation than taxes.

The U.S. dilemma is singular: find a way to balance its long-term social security books. Americans are acutely aware of the problem. A March, 2005 Washington Post/ABC poll said 71% of Americans believe social security is heading for a crisis. Out of this group 67% said a major fix (vs. a minor fix) is necessary to right the program.

For European politicians balancing their social security books, which are 2.5 times more deficient than those of the U.S, is only part of their problem. They must soon start wrestling the other three serious problems: increase birth rates, strengthen economic growth, and change their public's perception of the medicine they must take.

The last quandary is interesting, because unlike Americans, the European populace is far less inclined to recognize and fix its problem. In 1995 the French government attempted to trim down its bloated social security system. For their boldness, French citizens took to the streets in nasty protests and literally brought down the government of President François Mitterrand. In early February of this year, both French and Germans were in the streets, again protesting cuts in their social programs and adjustments to their tight labor markets.

America will grudgingly repair her social security system. After loud political screaming and Congressional debate, after much analysis (fabricated and accurate), after great media spin, after many pundit pronouncements, after clear discourse on barstools, America will get the job done.

But Europe will not answer her responsibility, and she will slowly and painfully slip toward third world status. And the U.S. will rescue her once again – some how, some way – because something deep inside us knows that she is our enfeebled parent; we are her vibrant and sassy child. Always will be.

