



Social Security Choice

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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Majority Backs Individual Accounts for Social Security, Cato/Zogby Poll Shows

A majority of Americans agree that younger workers should be allowed to invest a portion of their Social Security taxes in individual accounts, according to a new poll conducted by Zogby International for the Cato Institute.

Despite a drumbeat of criticism for weeks by congressional Democrats and a concerted public relations campaign against Social Security choice by powerful interest groups such as the AARP, 51% of those polled by Zogby support the introduction of individual accounts. Only 39% opposed individual accounts being part of any Social Security reform.

Not surprisingly, the results showed a split along age lines, with younger voters (61% among those under 30, 58% of those under 50) strongly in favor of individual accounts, while those over 65 were opposed (55% against). However, opposition by seniors dropped to just 45% if they were assured that their own benefits would not be affected.

Reflecting the sharp partisan divide nationally, opinion of individual accounts also split along political lines. Republicans were overwhelmingly united behind the reform proposal, which is a priority of President Bush's second-term agenda (74% supporting, 14% opposed). Most Democrats remain opposed with 61% saying they are against individual accounts. However, a surprisingly strong minority among Democrats (more than 30%) favor individual accounts.

Independents leaned toward individual accounts, 45%-40%, with a high proportion of undecided.

While few voters (14%) agreed with President Bush that Social Security was in "crisis," an overwhelming majority (61%) said that the New Deal-era system was facing "serious problems" that required "major changes." Few voters (5%) accepted the argument that Social Security is fine or could be fixed with only "minor, incremental changes" (19%).

When asked whether they believed private investing or the current Social Security system was riskier, voters split nearly evenly. Roughly 41 percent thought private investment was riskier because “benefits could go down depending on how investments perform.”

But slightly more (44%) thought the current Social Security system was riskier “because it cannot pay all the benefits promised.” Again voters split by age, with young people believing Social Security riskier (52%-39%) and seniors believing private investment riskier (46%-31%).

Voters were also supportive of another proposal rumored to be part of a Bush Social Security plan. By a 61%-23% margin, voters backed a proposal to hold future benefit growth to the rate of inflation.

“Americans clearly understand the need for fundamental Social Security reform,” said Michael Tanner, director of the Project on Social Security Choice at the Cato Institute, which commissioned the survey. “They are open to the message that individual accounts give workers greater ownership and control over their retirement income.”

The poll of 1,004 likely voters was conducted in mid-January, and has a margin of error of +/- 3.2%.

Republicans: AARP Poll Deeply Flawed

The AARP released a nationwide poll Monday indicating deep public skepticism about President Bush’s plan for personal accounts, and the Republican Party immediately responded with a letter that the poll was “skewed by age and skewed by politics,” according to [Wired News](#). According to the AARP, “Approximately four in 10 respondents initially favored private accounts. However, those who initially favored private accounts dropped off substantially once they were exposed to any of the consequences associated with implementation of private accounts.” The Republicans’ rebuttal charges that the survey relied on “slanted wording, misleading questions and an unrepresentative sample of the nation as a whole to come up with its findings.”

Specifically, the poll said that “43 percent of those surveyed initially said they favored private accounts and 47 percent opposed them.” Support dropped when those polled were told that the consequences of the change might include a lower Social Security benefit in retirement, ban withdrawals prior to retirement, require a new government agency to administer the program, require an additional \$1 trillion to maintain the benefits for current Social Security recipients. It’s not surprising that support for personal accounts dropped after respondents were led to believe that such accounts would have disastrous consequences.

The AARP poll also found that those age 30 and older held a favorable view of Social Security. Yet dozens of other polls have found that those under age 55 hold a decidedly unfavorable view of Social Security, as the GOP noted in its rebuttal.

You can download the entire AARP poll and report [here](#).

Stephen Moore: Making the Case for Social Security Reform

Social Security reform can be an enormous vote-getter for Republicans if their campaign for personal accounts stresses the financial benefits to workers, argues Stephen Moore of the Club for Growth in a recent *Philadelphia Inquirer* [op-ed](#). George Bush already supports personal accounts and erasing some of Social Security's long-term unfunded liability; now he needs to work with other supporters of reform to make a clear case for personal accounts. Moore suggests six talking points, which are excerpted from his op-ed below.

- 1) "Stress that Social Security reform saves—not costs—money. The creation of private investment accounts is said to cost \$2 trillion, but it saves \$10 trillion in later years. Since young workers eventually will receive their benefits from their private accounts, government will no longer bear the obligation to pay those benefits. Wouldn't most Americans invest \$2 now to get \$10 back in 20 years?"
- 2) "Stress that the Social Security crisis is far from imaginary. Ever since Paul Krugman of the *New York Times* wrote that Social Security isn't broken, this has become the rallying cry of the left. Opponents of reform have seemingly all drunk this spiked Kool-Aid. But many analysts find just the opposite. The system will crater when the baby boomers retire fully. Even the Social Security Administration's own actuaries see doom and gloom if reform steps aren't taken now.
- 3) "Expose opponents for wanting to raise taxes. If benefits are not cut, and private accounts not created, the only option is to raise taxes on workers to cover gigantic funding shortfalls. The option of doing nothing now, really means raising taxes a lot, later.
- 4) "Stop talking about benefit cuts in the future. Trimming Social Security benefits in the future risks an enormous political backlash against the reformers in both parties. The truth is that personal accounts for Social Security will allow Americans to have higher, not lower retirement benefits. Cutting Social Security benefits to get private accounts is like 'paying for tax cuts' with other tax hikes.
- 5) "Make the accounts big and meaningful. Big accounts, like the 6 percent accounts under Ryan-Sununu will accumulate large amounts of dollars quickly. These

large accounts thus help lower the long-term funding problem because workers will no longer need to draw on promised benefits.

- 6) “Stress private ownership and control. The issue of Social Security is not so much about financial viability as it is about who should control the money? The worker or the government. Private accounts empower workers with control of their own money. That is a powerful free-market concept.”

Bush: Social Security Reform Will Benefit Blacks

President Bush met with 22 black religious and business leaders Tuesday to discuss his agenda, particularly his plan for Social Security reform, according to the [Los Angeles Times](#). He stressed that the current Social Security system shortchanges blacks, whose relatively shorter life span means they pay out more in payroll taxes than they receive in benefits. For more information on how Social Security places blacks and other minorities at a disadvantage, please see Michael Tanner’s [Briefing Paper](#), “Disparate Impact: Social Security and African Americans.”

Club for Growth Launches Social Security Blog

The Club for Growth launched a new blog this week on Social Security reform. According to a Club for Growth press release, the blog ([SocialSecurityChoice.org](#)) is “dedicated to bringing pro-growth experts together to advocate Social Security reform by creating personal accounts.” Among those who will participate in posting are Pat Toomey, Larry Kudlow, Donald Luskin, David Keating, Carrie Lukas, and Adam Doverspike.

Economic Growth Alone Can’t Fix Social Security

President Bush should be commended for tackling a political challenge like Social Security reform, says a recent [op-ed](#) in the *Rocky Mountain News*, and opponents of reform ignore the program’s unstable future at their own peril. Some critics of personal accounts have suggested that faster economic growth alone will keep Social Security

solvent. But such growth, while pushing up wages and bringing in more payroll taxes, also increases Social Security's benefit obligations. Furthermore, the benefit obligations to the baby boomers nearing retirement will likely force Congress to raise payroll taxes, a move which will discourage economic growth. Excerpts from the op-ed follow.

"...The problem is relatively straightforward: Payroll taxes at current levels are woefully insufficient to fund the benefits of 77 million baby-boom retirees. According to the most recent report of the trustees of the Social Security trust fund, this imbalance over time will lead to a projected \$10.4 trillion in unfunded liabilities (promised benefits), plus \$1.5 trillion to redeem the Treasury bonds in the Social Security Trust Fund.

"This is an unsustainable trajectory, but not a few opponents of reform would prefer to ignore the math. In the late 1930s, when Social Security was in its infancy, there were 41 workers for every retiree. With rising life expectancies and declining fertility rates, the ratio plunged. It fell to 16 to one in 1950. It is now three to one and expected to fall to two to one by the time today's young workers retire.

"Meanwhile, real rates of return have plummeted. When the payroll tax was 2 percent in the 1930s, the average rate of return for retirees was as high as 110 percent. Payroll taxes are now 12.4 percent of wages, but most young workers can expect future returns of less than 1 percent.

"Those who dispute this is a crisis-in-the-making (such as *New York Times* columnist Paul Krugman, who appears on our pages) insist taxes plus interest on the trust fund's Treasury bonds will cover promised benefits until 2018 and that the fund won't run dry until 2042. But nothing could be more misleading. In fact, Social Security will start running a deficit in 2018 when benefits exceed annual payroll tax revenue. The roughly \$1.5 trillion trust fund surplus that currently exists, and which will grow to \$3.2 trillion in today's dollars by 2018, is not a pot of cash. By law the surplus is invested in Treasury bonds and used to finance other government spending. (The Clinton administration called the trust fund a 'bookkeeping' entry.) In order to redeem these bonds, Congress must raise taxes, cut spending or increase borrowing (or some combination of the three). And even if the trust fund were a pile of cash, it would cover shortfalls only until 2042 (according to the system's trustees), or 2052 (according to the Congressional Budget Office), when it would be completely exhausted.

"There's a let-it-alone school of thought that suggests faster economic growth will keep Social Security intact, even as spending on the program becomes an ever-larger share of gross domestic product. But such economic growth, while pushing up wages and bringing in more payroll taxes, also increases Social Security's benefit obligations.

"As the Social Security trustees themselves warn, the longer Congress dawdles the deeper the cuts in benefits or steeper the increases in taxes that will be needed.

"The president's reform plan is to allow workers to divert some Social Security payroll taxes to private investment accounts. It won't completely solve Social Security's funding

shortfall, but could go a long way toward reducing its unfunded costs, as well as boost national savings.”

Events

The Cato Institute will hold a two-day conference on Social Security on February 8–9, 2005. Confirmed speakers include Nobel Laureate Edward Prescott, as well as Lea Abdnor, Andrew Biggs, Robert Bixby, Jesse Brown, Robert de Posada, Martin Feldstein, Jagadeesh Gokhale, Stephen Goss, Douglas Holtz-Eakin, Rep. Sam Johnson (R-TX), Rep. Jim Kolbe (R-AZ), Maya MacGuineas, Thomas Saving, Kent Smetters, and Michael Tanner, among others. For more information or to register, click [here](#).

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