



Social Security Choice

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

WEEK OF FEBRUARY 6, 2004

Dean: Social Security Not in Need of Reform

In a recent interview on NBC's [Meet the Press](#), Democratic presidential candidate Howard Dean expressed his belief that Social Security is not in need of reform. When questioned about whether he would cut benefits to solve Social Security's financial crisis, Dean stopped short of even acknowledging that the program faces a crisis.

In his comments, contrary to the conclusions put forth by recent [Congressional Budget Office](#) and [Center for Retirement Research at Boston College](#) studies, Dean asserts that economic growth can keep Social Security solvent. Despite the unfavorable evidence, Dean held closely to his position in the interview, conducted by Tim Russert, which follows:

Mr. Russert: In 1995, when you were governor and head of the National Governors' Association and working with them, you were quite bold in your ideas about balancing the budget. You said, "The way to balance the budget is for Congress to cut Social Security, move the retirement age to 70, cut defense, Medicare, veterans' pensions, while the states cut almost everything else. Are you still holding to those views?"

Dr. Dean: Of course not. And Bill Clinton showed that—I mean, that was when we were in really deep trouble. That was when Social Security was in deep trouble, Medicare was in deep trouble. Bill Clinton turned the economy around. Now...

Mr. Russert: We have a \$500 billion deficit, Governor, and the number of people on Social Security and Medicare are going to double in the next 15 years. We're going to be in trouble.

Dr. Dean: But you know what Bill Clinton taught us? Bill Clinton taught us that if you turn the economy around, people start paying payroll taxes, a lot more people start working again, and Social Security and Medicare can be saved without making all those kinds of cuts. Look, we got to balance the budget in this country. And we're going to do what we have to do to balance the budget. We are not going to have to cut Social Security and Medicare to balance the budget. First of all, they have separate trust funds. Second of all, when the economy turns around, which it will under a Democratic president, then we will begin to see people going back to work, and paying the kind of payroll taxes that'll make those programs solvent.

West Wing Tackles Social Security Reform

The need for Social Security reform continues to make its way into popular culture, with the popular NBC television drama *West Wing* devoting an episode to the issue last week. In the show, Democratic President Bartlett, played by Martin Sheen, begins negotiations with Republicans on a plan to reform Social Security.

The show covers several important points. White House Communications Director Toby Ziegler warns that the program is facing looming insolvency. “Life expectancy is getting longer. The biggest generation in history is getting ready to retire. And we don’t have the money.” When the subject of benefit cuts comes up, Ziegler notes, “When Social Security goes broke, will we count that as a benefit cut?” Zeigler also explains that there were 32 workers paying taxes for every retiree when the program began, and there will be only two when a young White House staffer is ready to retire.

The Republican senator involved in the negotiations makes a case for individual accounts and talks about how demagoguery has prevented an honest discussion of the issue.

After much partisan wrangling and the usual melodrama inherent in such shows, both sides arrive at a somewhat unsatisfying compromise involving “add-on” accounts and an increase in the retirement age. Although “carve-out” accounts are ultimately rejected, which is not surprising on a reliably liberal show, they are treated fairly, if superficially. When even Hollywood begins to recognize both the need for Social Security reform and the legitimacy of individual accounts as part of the debate, it becomes clear how much public attitudes have changed in the last few years.

Poll: Support for Individual Accounts Still Strong

Two-thirds of voters support a proposal to allow younger workers to privately invest a portion of their Social Security taxes through individual accounts, according to a Fox News/Opinion Dynamics poll taken late last month. According to the poll, 67 percent of voters supported giving people the choice to invest privately up to 5 percent of their Social Security contributions. Twenty-four percent opposed the proposal. The poll of 900 registered voters was conducted by telephone January 21–22, 2004, in the evenings. It had a margin of error of ± 3 percentage points.

The findings are almost identical to polling results in December 2003 and May 2002. A July 2002 poll conducted by Zogby International for the Cato Institute also found two-thirds of voters favoring individual accounts.

In a [2003 study for the Cato Institute](#), John Zogby analyzed years of public opinion polling about Social Security and found that a substantial majority of the American public supports proposals that would allow them to invest a portion of their Social Security taxes through individual accounts. That support has been consistent over time and is seen in a broad range of public opinion surveys. The handful of public opinion surveys showing less support for individual accounts are based largely on biased questions.

Support for individual accounts is based on Americans’ belief that they should have control over their own money and retirement—rather than higher rates of return or

higher benefits. As a result, support for individual accounts is less subject to erosion through outside events, such as fluctuations in the stock market.

Lithuania, Ukraine Move Ahead on Social Security Reform

As of January 1, 2004, Lithuania became the latest country to allow workers to privately invest a portion of their social security taxes through individual accounts. Workers are able to divert 2.5 percentage points of their 25 percent payroll tax to a private pension fund. The private investment portion will be raised gradually (1 percentage point per year) until it reaches 5.5 percent in 2007. The private pension funds will be managed by one of nine private companies; each company is allowed to offer up to three funds with varying degrees of risk. More companies may eventually join the system.

Workers were given the choice of remaining in the current system or participating in the individual account plan. Approximately 61 percent of workers have indicated that they will choose the personal account option, and about 8 percent of workers will switch immediately. The remaining 39 percent of workers, mostly those over age 50, are expected to remain fully in the government PAYGO system.

Meanwhile, Ukraine has announced that it will begin drafting legislation to create individual accounts as part of its social security system. Details remain to be determined, but parliament is drafting legislation to overhaul the government PAYGO system and to give workers an option for private investment.

The developments in Lithuania and Ukraine follow moves by several other Eastern European countries, including Slovakia, Poland, Hungary, Croatia, and Kazakhstan to adopt individual accounts as part of social security reform. Most of Latin America has also adopted individual accounts, following the successful lead of Chile. British and Australian workers also have an opportunity to privately invest their payroll taxes.

For more information on the worldwide movement toward social security reform, see "[Liberating Workers: The World Pension Revolution](#)," by José Piñera, co-chair of the Cato Institute's Project on Social Security Choice.

Working Women Slighted by Current Social Security System

The current Social Security system is inherently unfair to working women according to columnist Armond Budish of the *Cleveland Plain Dealer*. The program's outdated structure creates a situation in which working women who contribute to Social Security receive no more in benefits than women who have never contributed to the system. This inequity exemplifies the flawed nature of the current system benefit structure and strengthens the case for major reform by way of personal retirement accounts. Budish's detailed description of Social Security's penalization of working women in his article "[How Social Security is Failing Women in the Labor Force](#)" follows.

"Social Security penalizes working women. Don't get me wrong. Social Security is a critically important program that has helped millions of women stay solvent. According to the Institute for Women's Policy Research, half of the nation's women 65

or older would be poor if not for Social Security. But that doesn't change the fact that Social Security was set up in the 1930s, when a woman was expected to stay home and raise the kids while her husband went off to work. Though times have changed, Social Security has not. Let's look at the practical outcome of this reality gap.

"When you retire, you might qualify for Social Security benefits based on your own work record or qualify for half of your spouse's benefits based on his work record. You are entitled to the higher of the two benefits.

"A complex formula is used to calculate Social Security benefits. The formula is based on an average of your highest 35 years of earnings. Working women suffer here in two ways: Women's incomes historically have been lower than those of men, and wives typically have been the ones to take time off to raise the children. If you take 10 to 20 years off to raise children, your best 35 years would include a number of zero-earnings years. That would bring your average (and thus your benefits) way down. For these reasons, many women find that the benefits they have earned under Social Security are less than 50 percent of their spouse's benefits. So they opt for their spousal benefits.

"Let's compare two families. Mr. White earned \$50,000 annually before retiring. His monthly benefits are \$1,200. Mrs. White never worked outside the home, so she gets \$600 a month. Mr. and Mrs. Smith each earned \$50,000 annually before retirement. Mr. Smith gets \$1,200 a month from Social Security. But Mrs. Smith was out of the work force while her children were young, so her monthly benefit, based on her own work record, is only \$500. Of course, she opts for the \$600 benefit based on her husband's earnings record.

"Mrs. Smith gets no more benefits than Mrs. White. While Mrs. White never worked outside the home, Mrs. Smith and her employer paid Social Security taxes totaling 15.3 percent of her earnings to the government each year. Social Security collected more than \$100,000 (including interest) in combined employer/employee payroll-tax contributions, yet Mrs. Smith gets no added benefit.

"Working women also are penalized when their spouses die. The survivor is entitled to the higher of the deceased spouse's benefits or her own retirement benefits. Let's look again at the Whites and the Smiths. When Mr. Smith and Mr. White die, their wives get \$1,200 a month, the amount of their husband's benefits. Again, Mrs. Smith does no better than Mrs. White, even though she paid a lot in Social Security taxes.

"Social Security is not welfare. We pay taxes to fund our retirement. Yet women who work typically get no more in benefits than women who never paid a dime of taxes to Social Security."

OBM Director: Reform on the Horizon

Office of Management and Budget director Joshua Bolten was recently asked whether the recently published budget reflects the president's proposal for private retirement accounts. Although no provisions have been made for the reform in the current budget, Bolten expressed his support for personal accounts as well as his expectation that reform will proceed in the near future. Excerpts from Bolten's statement follow.

“The answer is that there’s no formal proposal carried in this budget. The President has long advocated fundamental reform of our Social Security system, to put it on a sound and sustainable basis, through the use of personal accounts, which numerous experts agree is the right way to go. Those experts include the Bipartisan Commission—that was co-chaired by the late, great Senator Patrick Moynihan—that concluded that the right way to go with our Social Security system is to let people take a portion of their contribution into Social Security and invest it themselves, a portion of their retirement savings that they would own themselves and have some ability to direct what sort of funds it goes into.

“That’s the direction we’re headed on Social Security. For an actual proposal, I think, will be—is not reflected in this budget, will be forthcoming. But I think it’s a subject of such great sensitivity and broad political interests, that we need to get the political debate going on it before there’s an actual legislative proposal sent up to the Hill.

“Social Security ... needs fundamental reform to put it on a sustainable basis. It’s not something that’s going to bite us in the next 10 years, but it is something that’s going to begin to bite in the longer-term. I’m glad to know that a lot of people are talking about it, because this administration is keenly focused on it. We’d like to talk about it, because we need to get those long-term entitlements under control. The budget we’re presenting today is focused on this five-year window and shows a very responsible path.”

Secretary Snow: Immediate Reform Needed to Avert Higher Costs

As time passes, the costs of sustaining the current Social Security program will grow larger, needlessly making essential reforms more costly, according to U.S. Treasury Secretary John Snow. In a February 4 interview, as reported by Reuters, Secretary Snow said that “steps [need] to be taken soon get publicly funded retirement and health-care systems onto a sound long-term footing.” Snow then pointed out that the inevitable reforms would carry their own costs. The choice is between bearing significant costs now and astronomical costs in the future.

During Snow’s recent testimony before the U.S. House of Representatives’ Budget Committee, he warned of the demographic imbalance soon to occur due to the baby boomers approaching retirement age. Because of this trend, Snow concluded: “The Social Security problem is going to have to be dealt with and it will cost something to be dealt with. ... Any fix for Social Security ...will inevitably involve some give somewhere in something.”

Upcoming News and Announcements

A recently released ad from [Social Security Choice.org](http://SocialSecurityChoice.org) illustrates both Social Security’s looming crisis and the only proposed feasible solution—personal retirement accounts. The 30-second ad titled “Time” begins by focusing on the alarming predictions regarding Social Security’s future if reform is not implemented. The current system is going broke and is in need of reform. The ad states accurately that the only options outside private accounts are to raise taxes or cut benefits, or both. Such unpopular alternatives would not only fail to solve the programs deficiencies but would

pass the problem on for future generations to bear at an even greater cost. However, personal retirement accounts will allow us to avert these disasters. As the ad states, personal retirement accounts are “voluntary,” “controlled by you and not the politicians,” and will “save Social Security from bankruptcy.” Click [here](#) to view the ad.

Social Security Choice.org and the pro-reform website [For Our Grandchildren](#) will be cosponsoring a Social Security Choice Town Hall meeting on Monday, February 9, in Phoenix, Arizona. The event’s panel will include David John of the Heritage Foundation, Darcy Olsen from the Goldwater Institute, and Rep. John Shadegg (R-AZ). The meeting will be held at North Canyon High School, 1700 East Union Hills Drive. The meeting is open to the public and admission is free.

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