

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

WEEK OF MARCH 11, 2002

Social Security and African Americans

This coming Tuesday, Cato and the National Black Chamber of Commerce will cosponsor an all-day conference entitled “Social Security and African Americans: Race, Retirement, Reform.” Cato will host leading experts from across the ideological spectrum who will discuss and debate how Social Security can best provide retirement security for African Americans. Also, according to the Washington Post’s Rich Morin and Claudia Deane, “The conference [is] a way to counter the impression that Cato and free-market libertarians are indifferent to interest of African Americans.”

Speakers:

Harry Alford, president and CEO, National Black Chamber of Commerce;
J. Kenneth Blackwell, Secretary of State, Ohio;
Gwendolyn King, member of the President’s Commission to Strengthen Social Security;
Dylan Glenn, special assistant to the President, National Economic Council;
Edward Crane, president, Cato Institute;

Panelists (in order of appearance):

Michael Tanner, director, Cato Institute Project on Social Security Privatization;
Horace Cooper, fellow, Center for New Black Leadership;
Maya Rockey Moore, senior resident scholar, National Urban League;
Kilolo Kijakazi, senior analyst, Center on Budget and Policy Priorities;
Darrell Williams, professor of economics, U.C.L.A.;
Mellody Hobson, president, Ariel Capital Management, Inc.;
Rev. Floyd Flake, senior pastor, Allen African Methodist Episcopal Church;
Rev. Alexander Hurt, senior pastor, Kingdom Church, Brockton, MA;
Star Parker, president and founder, Coalition on Urban Renewal & Education;
Herman Cain, CEO, T.H.E., Inc.;
Hilary Shelton, director, Washington Bureau, NAACP;
E. Percil Stanford, former chairman, National Committee to Preserve Social Security & Medicare

Moderators:

Juan Williams, host, NPR’s “The Talk of the Nation”
Derek McGinty, anchor, ABC News, “World News Now”

Wiley Hall, executive editor, Afro-American Newspapers

For more information and to register, please visit the [Cato events page](#), or call Julie Johnson at 202.789.5229, jjohnson@cato.org.

Both Sides Call for a Debate

On Tuesday Representative Robert Matsui (D-CA) and Rosa DeLauro (D-CT) held a press conference denouncing proposals to reform Social Security through personal retirement accounts. The conference remained consistent with the Democrats' efforts to bring personal accounts to a debate before the November elections.

According to [Matsui](#), "Republicans are pushing Social Security privatization very aggressively. But they refuse to explain, debate, or vote on their plans. Voters should not be kept in the dark by Republicans who have a secret plan to privatize Social Security, which they will only reveal after the elections. The American public deserves an honest debate, and we are not going to stop pushing until they get one."

The Alliance for Worker Retirement Security supports a full debate on Social Security reform. Executive Director Derrick Max makes the following comments:

"Clearly the first step in such an open and fair debate is for all participants to put forward their own ideas for reform, and make clear their outlook for the future of the current system. Without that kind of full disclosure, the debate will be lop-sided- as it has always been when some participants are able to criticize the proposals of others without offering meaningful alternatives. This approach has been not only unconstructive but manifestly unfair."

"We couldn't agree more that the nation is in dire need on an open and fair debate on the critical issue of American's long-term retirement security. Clearly the more we can focus on facts, and the fewer distractions of partisan politics and attacks, the better off we are going to be."

Meanwhile, Democratic leaders insist that Republicans carry a 'secret plan' to cut Social Security benefits following the fall elections. Michael Tanner, Director of Cato's Project on Social Security Privatization, points out that it is reform opponents who remain silent.

"The real secret is what reform opponents would do to fix Social Security, since no prominent congressional critic of individual accounts has endorsed any proposal. While happy to criticize personal accounts, few are willing to say what they would do to save Social Security."

"Where is Bob Matsui's reform plan? Where is Rosa DeLauro's? If personal accounts were off the table, which taxes would they raise and which benefits would they cut? When will they release a plan to keep Social Security safe for our children and our grandchildren?"

"A free and open debate on Social Security is in the interest of the country. Reformers have put their cards on the table: they favor personal accounts to increase savings and give workers the opportunity to build wealth and pass it on to their children.

Reform opponents are duty-bound to present their own proposals, and they should do it before the election, not after.”

Current Program’s Benefit Structure Out of Date

While much of the national debate on Social Security reform centers on creating and maintaining long term solvency, Yung-Ping Chen, Professor of Gerontology at the University of Massachusetts, writes in the [Boston Globe](#) that without modernization of Social Security’s “outdated” benefits structure, the result of reform could be an even “less effective way to protect peoples income.”

Social Security’s benefits structure has not substantially changed since the 1930s, when the typical family consisted of a male primary earner and whose spouse did not work outside the home. As the number of unmarried couples, divorcees, and single parent households multiplies, fewer Americans qualify for spousal and survivors benefits. Many who do qualify receive them at greatly reduced levels.

Chen recommends that married couples share their earnings for the purposes of Social Security, with each spouse credited for half of the couple’s total earnings, as part of a two tiered benefits structure that would provide a flat rate benefit to the elderly and the disabled regardless of earnings. In this way Social Security, according to Mr. Chen, would “Protect as many at risk individuals as possible” while also maintaining its solvency.

Matsui Releases Critique of Accounts

In opposition to any type of Social Security reform, the office of Congressman Robert Matsui (D-CA) released a memo entitled “Six problems with Social Security privatization.” As the document is not widely available, it is printed here in its entirety:

Six Problems With Privatizing Social Security

- Privatization would increase financial risk for Social Security beneficiaries.
- Privatization would require severe cuts in Social Security benefits.
- Privatization would harm women.
- Privatization would harm minorities.
- Privatization would undermine Social Security disability and survivors’ benefits.
- The fees for administering a privatized system would eat away at the value of workers’ accounts and would significantly reduce the payments they would receive from them.

RISK

Social Security privatization would expose individual workers and their families to much greater financial risk. Under privatization, Social Security benefits would no longer be determined primarily by a worker’s earnings and the payroll tax contributions he or she made over his or her career. Rather, benefit levels would be determined by the vagaries of the stock market, by a worker’s skill (or luck) in making investments, and by the timing of his or her decision to retire.

- Social Security today provides guaranteed, lifelong benefits. No matter what the stock market does the day you retire or in the months leading up to your retirement, your benefit will be unaffected.
- Advocates of individual accounts argue that, since fluctuations in the stock market average out over time, individual investment risk is negligible. Averages are misleading. For every person whose investments perform above average, there is another person counting on Social Security whose investments perform below average. Retirees are not just averages. Retirees are individuals.
- Between March 2000 and April 2001, the S&P 500 fell by 424 points or 28 percent. If Social Security had been privatized, a worker who had his or her individual account invested in a fund that mirrored the S&P 500 and who retired in April 2001 would have 28 percent less to live on for the rest of his or her life.
- There were fifteen years in the past century (1908-12, 1937, 1939, 1965-66, 1968-1973) in which the real value of the stock market fell by more than 40 percent over the preceding decade. (Congressional Budget Office)
- Between January 1973 and September 1974, the stock market declined by 43 percent and did not return to its 1972 high for almost 10 years. (Boston College Center for Retirement Research). More recently, the S&P 500 fell 10 percent in 2000 and 13 percent in 2001.
- Social Security protects against many risks, including the risk of death or disability, the risk of low lifetime earnings, the risk of unexpectedly long life, and the risk of inflation. Privatization undermines these protections and adds one more risk that workers would have to worry about – individual financial risk.

BENEFIT CUTS

Social Security operates largely on a pay-as-you-go basis. The vast majority of the payroll taxes paid by current workers are used to make payments to current beneficiaries, whether retirees, survivors, or the disabled. Consequently, if less money were to go into Social Security, there would be less money available to pay benefits. The December, 2001 report of President Bush's Social Security commission reveals the scale of the cuts in Social Security's guaranteed benefits necessitated by partial privatization of Social Security.

- If some 2.4 percentage points of the current 12.4 percent payroll tax were diverted from the Social Security Trust Funds into individual accounts, the amount of money available to pay for Social Security benefits would fall by \$1.5 trillion between FY 2003 and FY 2012. Even the smallest of the commission's plans, with a diversion of 1.33 percentage points, would drain the Trust Funds of \$1.2 trillion over the next 10 years.
- In order to pay for privatizing Social Security, the President's handpicked Social Security commission proposed cutting benefits for future retirees by 30-46 percent, reducing disability and survivor benefits, raising the retirement age, and drawing on general revenues. It did not specify which taxes would be raised, or which other spending would be cut, to raise the revenues called for in the plan.
- One of the commission's plans includes benefit cuts reaching 46 percent for future retirees. This would be done by tying initial benefit levels for future retirees to the growth in prices, rather than wages, as is now the case. Wages rise faster than prices, and reflect the rise in the standard of living for each generation. If this change were adopted, retirees could not

maintain the standard of living in retirement that they had earned during their working years, but instead would fall back to the reduced standard of previous generations.

- Another of the commission's plan contains a disguised increase in the retirement age. While the retirement age is not raised outright, changes in the benefit formula would accomplish exactly the same result. Workers would have to work more years to receive the benefits they are expecting to receive today. In addition, the three-quarters of retirees who retire before the full retirement age would be subject to an additional cut, because this plan includes a separate provision to further reduce early-retirement benefits. The combined effect of these changes mean benefits cuts of 30 percent for a worker retiring in 2075.
- The commission chose to apply the cuts in Social Security benefits to disabled workers and their families, and to dependent survivors of workers who die. However, the accounts would not be available to these workers – no access to the funds in the account would be permitted until retirement.
- Although the accounts would be voluntary, the benefit cuts would apply to everyone. The President and his commission have emphasized that the accounts would be voluntary. But the benefit cuts the commission proposes to make up for the loss of revenue diverted to the accounts would apply to all future beneficiaries, not just those who had an account.

PRIVATIZATION HURTS WOMEN

Women constitute the majority of elderly Social Security beneficiaries – approximately 60 percent of Social Security recipients over the age of 65 and roughly 72 percent of beneficiaries above the age of 85 are women. Women rely heavily on Social Security as a source of income in old age – 27 percent of women over age 65 count on Social Security for 90 percent of their income. Yet, Social Security privatization would undermine many of the features of the program that benefit women the most.

- Women, on average, earn less than men, meaning that they count upon Social Security's progressive benefit structure to ensure that they have an adequate income in retirement. (The progressive benefit structure means that lower earners have a higher proportion of their pre-retirement earnings replaced by Social Security than higher-earning workers.)
- Women are less likely to be covered by an employer-sponsored pension plan. Hence, Social Security comprises a larger portion of their total retirement income.
- Since women lose an average of 14 years of earnings due to time out of the workforce (to raise children or to care for ailing parents or spouses), and since women generally have a higher incidence of part-time employment, they have less opportunity to save for retirement.
- Women live 6 to 8 years longer than men do, so they must make retirement savings stretch over longer periods of time. Consequently, women depend upon Social Security's life-long benefits, which are fully protected against inflation.
- Individual account balances and the annual benefits they yield are the direct result of a deposit into an individual account and any return on the investment. Because women earn less and spend less time in the workforce, they would have less to deposit. Because women live longer in retirement, they would have to stretch out the payments from their accounts over more years. In short, women would have to live on smaller benefits from smaller accounts.

- No privatization proposal can prevent individual account balances from being eroded by inflation. This is particularly devastating for women, who have less money to retire on and need to make their money last longer. Social Security resolves this problem by adjusting benefits each year through an automatic cost-of-living adjustment (COLA) that is tied to the annual increase in the Consumer Price Index, the official measure of inflation.

PRIVATIZATION HURTS MINORITIES

Social Security is the single most important source of income for African-American and Hispanic retirees. On average, it provides about three-quarters of their retirement income. For 1 in 2 African-American or Hispanic seniors, Social Security benefits provide 90 percent or more of their total income. Privatization jeopardizes the protections that are of particular importance to people of color:

- Social Security provides insurance against the risk of having low lifetime earnings. It has a progressive benefit formula that provides higher benefits, relative to earnings, for low-wage earners than for high-wage earners. This is an important feature of Social Security for many members of minority groups. Median earnings for African-Americans were about \$15,000 in 1996; for Hispanics the median was \$14,000. The median for the general population was \$19,000. Under privatization, lower-wage workers would lose part of the extra boost provided by Social Security's progressive structure. This is because individual savings accounts – which are based on a flat percentage of earnings (i.e. a non-progressive structure) – would be substituted for Social Security benefits – which are calculated on a progressive basis.
- Retirees who are minorities are more likely to depend heavily on Social Security to provide retirement income. Only 28 percent of African-American retirees, and 21 percent of Hispanic retirees, have a pension other than Social Security. They have little to fall back on should Social Security benefits be reduced as a result of privatization.
- The median income of African-American seniors is modest – in 1998, it was less than \$8,000 for singles, and about \$22,000 for married couples. For Hispanic retirees, median incomes are even lower – \$7,800 for singles and \$17,200 for couples. With such modest budgets, the guaranteed monthly benefit provided by Social Security is especially important, since there is little room to cut should income drop unexpectedly – as could happen with private investment accounts.
- Social Security provides disability and survivors benefits that are unmatched in the private sector. This protection would be undermined in a privatized Social Security system. These benefits would have to be cut to pay for the accounts, yet the accounts would be unable to make up for the loss of these benefits. Disability and survivor insurance protection is especially important for African-Americans, who have higher rates of career-ending disability or premature death. African-Americans comprise only 12 percent of the U.S. population, but account for 17 percent of the Social Security disability beneficiaries.
- Social Security is family insurance. Those who are financially dependent on a breadwinner who dies, becomes disabled, or retires are entitled to receive benefits. These include the spouse, minor children, and adult children who were disabled as children. It would be difficult for an individual savings account to provide the same degree of income security to a workers' dependents that Social Security does today, because there would only be a fixed pot of money to meet the needs of all dependents. Social Security's family benefits are

particularly important to African-American families: nearly one-fifth of all African-Americans who receive Social Security benefits are children.

IMPACT ON DISABILITY AND SURVIVORS BENEFITS

Social Security is more than just a retirement program. As of December 2001, 13.8 million people – or about 30 percent of all Social Security beneficiaries – were receiving Social Security benefits because they or a family member are severely disabled or because a family member has passed away. Moreover, it is estimated that a twenty-year-old today has a 1 in 6 chance of dying before reaching retirement age and a 3 in 10 chance of becoming disabled before reaching retirement age, making survivors and disability insurance just as important in the future as they are today.

- For a 27-year-old worker with a spouse and two children, Social Security provides the equivalent of a \$403,000 life insurance policy or a \$353,000 disability insurance policy. The vast majority of workers would be unable to obtain similar coverage through private markets.
- In 1996, only 26 percent of private-sector employees had long-term disability coverage under employer-sponsored insurance plans. (GAO)
- In the case of retirement benefits, workers would accumulate balances in their individual accounts over their entire careers. In the case of survivors and disability benefits, balances would accumulate over much shorter periods of time and would, therefore, provide much less income in the event that a worker dies or becomes disabled.
- In January 2001 after examining a number of privatization plans, the GAO concluded, “the income from [workers’ individual accounts] was not sufficient to compensate for the decline in the insurance benefits that disabled beneficiaries would receive.”
- The President’s Social Security commission recommended cutting disability benefits to help pay for the cost of private accounts. Also, it barred access to the accounts prior to retirement age. This represents a double blow for disabled workers – reduced Social Security benefits, and no money from the accounts to cushion the loss.
- If the survivors and disability insurance elements of the program were insulated from benefit cuts, then much larger cuts in retirement benefits would be necessary to achieve the same overall level of cost reductions – reductions which are necessary because of the loss of the Trust Funds’ revenue to the individual accounts.

COST OF ADMINISTERING AND ANNUITIZING A PRIVATE SYSTEM

Administering a privatized Social Security system would be an incredibly difficult and complex task, the cost of which would have a significant impact on workers’ retirement security. In the words of the Employee Benefit Research Institute, “Adding individual accounts to Social Security could be the largest undertaking in the history of the U.S. financial market, and no system to date has the capacity to administer such a system.”

- Under a system of private accounts, workers would likely lose between 20 to 40 percent of their accounts’ value to administrative charges and management fees.
- An annual fee equal to 1 percent of assets under management would absorb 20 percent of a worker’s individual account over the course of a 40-year career.

- An annual fee of 2 percent would eat up 40 percent of a worker's account during his or her working years. According to Investment Company Institute data from late 1998, the average administrative cost for mutual funds is 1.49 percent per year.
- Administrative costs under the United Kingdom's voluntary individual account system reduced the account balance of the typical worker by 36 percent (relative to the balance that would have accumulated without any administrative costs).
- Social Security administrative costs equal less than 1 percent of the value of benefits, compared to the 20 to 40 percent for individual accounts. Unlike private investment funds, which charge their costs against an individual's account, Social Security's administrative costs have no effect on benefit levels.
- Workers' account balances would be further reduced by the cost of purchasing an annuity. Social Security provides a guaranteed stream of benefit payments for as long as a retiree (and his or her spouse) lives. To replicate this stream of life-long benefits and to ensure that they do not outlive their individual account balances, workers would need to purchase an annuity with their individual account balances. In a report issued in 1999, the General Accounting Office found that the cost of purchasing an annuity could consume up to 15 percent of workers' account balances (on top of any losses due to the other administrative costs described here).
- The administrative costs of a system of individual accounts would depend on a number of factors, including the extent to which fund management was centralized, the range of investment options available to workers, the level of customer service offered under such a system (e.g. telephone access to account information, frequent account balance statements, etc), and the rules and regulations governing the accounts. As advocates of individual accounts have rarely discussed any of these details, it is difficult to determine how expensive it would be to administer the accounts they envision.

Reformers Respond to Matsui Attack on Personal Accounts

Supporters of reform based upon personal accounts responded to the Matsui staff document above with "Six Myths About Strengthening Social Security: A Correction of Errors in Document Entitled 'Six Problems with Privatizing Social Security.'"

Again, as the document is not widely available it is reprinted here in whole:

Six Myths About Strengthening Social Security:

A Correction of Errors in Document Entitled "Six Problems with Privatizing Social Security."

Recently, the staff of Congressman Matsui circulated a document entitled, "Six Problems with Privatizing Social Security" that criticizes efforts to strengthen the Social Security system. The document contains several misleading statements and outright errors, both concerning the specific recommendations of the President's Commission to Strengthen Social Security, and the stakes involved in strengthening Social Security generally. In so doing, this document misinforms and misleads the public about policies that can strengthen the Social Security system through meaningful reform.

As clearly documented in the non-partisan Social Security Trustee's Report, the current Social Security system faces severe, long-term financial deficits. Congressman Matsui's staff has made it clear that they oppose meaningful reform of Social Security through personal accounts. For those who oppose personal accounts, the only policy options available for restoring Social Security to sound financial footing is to raise taxes or cut benefits. Congressman Matsui's staff has failed to indicate which of these two alternative approaches they view as the best alternative to personal accounts.

The document's title and its persistent use of the words "privatizing" and "privatization" are apparently intended to create negative connotations surrounding the President's efforts to begin advance funding of Social Security through personal accounts. Personal accounts are not "privatization." "Privatization" implies that the current publicly administered Social Security system would be dismantled, or that the program's social insurance features and poverty protections would be weakened. By contrast, the President's Commission repeatedly stated its opposition to "privatization," and laid forth a program for bolstering Social Security's protections through personal accounts. Instead, the President's Commission outlined multiple approaches for how Congress can restore the Social Security system to financially sound footing and provide future retirees with higher expected benefits than today's retirees receive, without raising payroll taxes. In addition, these proposals would provide all participants with true retirement security by providing ownership of real assets, diversification, control over how their contributions are invested, and the opportunity to leave an inheritance.

There are many myths, errors and misleading statements throughout the document. The major ones are:

- Their first myth is that personal accounts would increase risk for beneficiaries. The fact is that the existing system places future beneficiaries at greatest risk because Social Security does not have enough money to pay scheduled benefits without a substantial tax increase. Giving workers the opportunity, but not the obligation, to invest a small fraction of their contributions into a personal account provides an important element of diversification – the key to minimizing overall risk to an individual's retirement security.
- The second myth is that personal accounts would require benefit cuts. This is a major mistake -- the document references the Commission's estimates of the benefits that the current Social Security system can pay without personal accounts, but blames these "benefit cuts" on personal accounts. The actual benefit levels projected for the personal account proposals are much higher than what today's retirees receive, and much higher than what the current system can actually pay. The authors of the document completely ignore the personal account benefits, thus misleading the reader about the impact of reform.
- The third myth concerns the effect of reform on women. The document makes a number of categorical statements about the effect of reform on women, ignoring the substance of actual personal account proposals. Contrary to the statements in the memo, the Commission's reform models would increase benefits for women relative to what the current system can pay.
- The fourth myth is that minorities will be harmed by reform. Once again, real proposals are again ignored in favor of categorical statements based on artificial plans. For example, it is stated that personal accounts would be based on a flat percentage of earnings and would detract from progressivity, even though the

Commission's proposals would both fund accounts progressively, and add progressivity to the basic system.

- The fifth myth is that disability and survivors' benefits would be undermined. Yet this is flatly inconsistent with the President's principles for reform that clearly state: "Modernization must preserve Social Security's disability and survivors components."
- The final myth is that administrative costs would "eat away" at workers accounts. The non-partisan Office of the Chief Actuary clearly states that the administrative structure proposed by the Commission would cost less than three-tenths of one percent of plan assets. Even after accounting for these costs, expected benefits with personal accounts substantially exceed benefits without personal accounts.

Myth 1: Risk

-- The memo alleges that individual workers would be subject to greater risk to the "vagaries of the stock market." Personal accounts would *not* require individuals to invest in stock. For those who choose to include stocks in their investments, these would be in broadly indexed funds over a working lifetime, and would not require individual skill in investment decisions, or good luck in the timing of retirement. Even the largest temporary fluctuations in the market would not bring total accumulations down below the level that could be achieved without stock investment over a full working lifetime. Even if the individual chose invest their personal account entirely in no-risk government bonds, their expected benefits would still be higher than without personal accounts.

- The memo incorrectly states that the 28% drop in stock values in between March 2000 and April 2001 would mean that an individual who retired in April 2001 would have 28 percent less to live on. This is incorrect under any accurate set of assumptions. No proposal on the table would permit individuals to place their entire lifetime of Social Security taxes in the stock market. Under all options, the vast majority of benefit levels would still be determined through the pay-as-you-go system. Even if all of the taxes had been in the market, however this 28% drop would still allow for far higher benefits than under the current system; in fact, under the specific example above, investing all payroll taxes in this way would result in total benefits roughly three times higher than current law, even including the 28% drop.
- Personal accounts reduce total risk by diversifying risk. Contrary to the memo, benefits from the current Social Security system are not "guaranteed," but can be cut at any time by Congress. In fact, without reform, there is a certainty that benefits will be cut (by 27% under current estimates) due to projected system insolvency. Personal accounts enable participants to reduce total risk by shielding a portion of benefits from the risk of legislated benefit reductions.

Myth 2: Benefit Cuts

This section contains the highest concentration of factual mistakes in the memo.

- The memo states that under personal accounts, "less money" would go into Social Security. Under all of the proposals considered by the Commission, all Social Security revenues would continue to be provided to Social Security. The only respect in which there would be "less money" would be that there would be less money loaned to the remainder of the federal government through the Social Security Trust

Fund, because some of that money would remain protected within Social Security through personal accounts.

- Contrary to the implications of the documents, none of the Commission proposals would change benefits in any way for current or near term retirees.
- The document states that the commission “proposed cutting benefits for future retirees by 30-46 percent.” This is FALSE. The 30-46 percent figures generated for the document refer to the level of benefits that can be paid without personal accounts and without substantial tax increases. With personal accounts, every proposal provides higher expected benefits to future retirees than what today’s retirees receive, even after adjusting for inflation.
- The document states that price indexing would amount to “benefit cuts reaching 46 percent for future retirees.” Again, this refers the Commission’s estimate of the benefits that could be paid by the current system without personal accounts. With the personal accounts, an average retiree would receive a benefit in 2052 that is more than 50% higher than is paid today.
- The memo says that the commission proposed that Social Security “draw on general revenues,” and criticizes the commission for failing to identify how these revenues would be raised. In actuality, the commission’s proposals would reduce general revenue needs for the Social Security program relative to that required to maintain current scheduled benefits without personal accounts – one proposal by 68%, one by 52%.
- If the benefit levels cited in the Matsui memorandum are indeed unacceptable “benefit cuts”, then two choices face policy makers: 1) join the Commission in calling for personal accounts to allow for higher benefit levels, or 2) raise taxes significantly. It makes little sense, however, to decry the benefit levels payable under the current system, and to blame those benefit levels on the personal accounts that would by all estimates exceed them.
- The memo states that “workers would have to work more years to receive the benefits they are expecting to receive today.” Incorrect. Under that particular plan, benefits both for those who do and those who do not take the personal accounts would be higher than those payable under the current system, as certified by the Social Security Actuaries.
- A very significant error appears at the bottom of the memo, in which it is stated that “the benefit cuts the commission proposes to make up for the loss of revenue diverted to the accounts would apply to all future beneficiaries.” This is simply wrong. There is a benefit offset applied whenever an individual opts for a personal account, but this offset applies only to the benefits of the individual who selects the account, in exchange for the benefits he will receive from the account. No changes to benefits would apply to any other retirees as revenue is invested in personal accounts. The traditional systems would be balanced on their own; no additional changes in benefits would affect those who do not opt for a personal account, whether 0% or 99% of wage earners choose to participate in personal accounts.

Myth 3: Women

- In its section on women and Social Security, the memo ignores the contents of real proposals to create personal accounts. The authors must resort to this misleading

tactic because the contents of the Commission's actual recommendations completely rebut these assertions.

- The document notes that women are less likely to have pension coverage than men, have lower earnings, and also count on Social Security for a larger share of their retirement income. This is all true. What the authors neglect to point out, however, is that this means that women are disproportionately threatened by the insolvency projected the Social Security system. Under current law, benefits would have to be reduced by 27% in 2038, and systemic cash shortfalls would begin as early as 2016. Future generations would, under the current structure, face tough choices between raising taxes and cutting benefits, which impact women disproportionately.
- The page notes that women “count upon Social Security’s progressive benefit structure.” The Commission proposals would increase the progressivity of Social Security’s benefit structure.
- The Commission proposals not only benefit lower-income individuals, most of whom are women, but also include recommended benefit increases for low-income survivors, most of whom are women. Estimates are that the Commission proposals would lift between one-half million and one million individuals out of poverty by 2018, and potentially increase benefits for as many as two to three million widows.
- The Commission proposals also provide new property rights for divorcees, who, along with widows, face the highest risk of poverty in old age. Under the personal account options developed by the Commission, women would have a marital property share in all accumulations in the Social Security personal account during a marriage. Under current law, a woman who is married for less than ten years has no right to benefits based on her husband’s earnings.
- The sheet also wrongly states that “no privatization proposal can prevent individual account balances from being eroded by inflation.” All of the benefits projected for the Commission’s proposals are fully inflation-protected with annual COLA adjustments.

Myth 4: Minorities

- Like the section on women, the section on minorities ignores the actual work of the Commission and bases criticisms on hypothetical plans that do not exist.
- The memo notes that minorities are disproportionately reliant on Social Security for their retirement income. This is true, but it is an argument for reform, not against it. First, it means that minorities are even more vulnerable to the benefit cuts that would be required under the current system. Second, it is an argument for using the Social Security system for accumulating household wealth. The average minority household has \$3,000 or less in total financial wealth. Under the Commission’s recommendations, an average wage earner retiring in 2052 would hold more than \$150,000 (after adjusting for inflation) in their personal account.
- The memo states “lower-wage workers would lose part of the extra boost provided by Social Security’s progressive structure.” But the Commission offered new progressive proposals for funding the accounts, and progressive changes to Social Security’s benefit structure. As a result, many minorities would be helped disproportionately by the Commission’s recommendations. (For example, under reform model 2, low-income individuals retiring in 2052 would have benefits 78% higher than today, medium-income individuals 59%.)

- Again, the Commission proposals are estimated to lift as many as one million low-income retirees out of poverty by 2018.
- The sheet also ignores how minorities, who have shorter life spans than the general population, would benefit disproportionately from the Commission's recommendations to allow for inheritability of personal account balances. Inheritability would allow those who collect Social Security benefits for a shorter period of time, to pass unused balances on to their heirs.
- Robert Johnson, Chairman of Black Entertainment Television and a member of the President's Commission, stated : "African Americans die earlier, therefore receiving less in the form of Social Security payouts and less in the form of overall return from their work contribution to Social Security. I am convinced that one of the ways to address this is through the use of wealth generating private accounts that form part of an estate opportunity for African Americans."

Myth 5: Disability and Survivors' Benefits

The memo completely mischaracterizes the Commission's recommendations regarding disability and survivors' benefits. The Commission specifically did not make recommendations on whether to apply the provisions in its final report to the disabled. Its discussion of the treatment of disability, however, differs sharply from the characterizations in the memo, in which it is stated that the disabled would be hit with benefit "cuts" but would have "no access to the funds in the account" until retirement. What the Commission actually suggested was that the disabled receive full disability benefits before they hit retirement age, in view of the short period of time they would have spent contributing to personal accounts while working. Then, when they hit retirement, they would, like other participants, exchange a smaller portion of their traditional benefits in return for an expected higher benefit from their personal accounts. In this way, the disabled could also gain part of the benefits of personal accounts at retirement age, while still receiving full disability benefits while younger.

The memo also wholly mischaracterizes the Commission's recommendations regarding survivors. The Commission recommended large increases in survivors' benefits, raising lower-income widows' benefits up to a level of 75% of that received by both spouses while working. Estimates are that this provision could increase benefits for as many as two to three million widows. It is misleading in the extreme to suggest that the commission proposals would jeopardize survivors, when the commission's proposals contain explicit increases in survivors' benefits. Widows would also benefit from inheriting personal account balances.

Myth 6: Administrative Costs

The memo also states that administrative costs would reduce the benefits receivable by participants. But the Commission's estimates for total benefits already deduct the Social Security Administration's estimates (generated independently of the Commission) of administrative costs from total benefit levels. Even with these estimated administrative costs of less than three-tenths of one percent, benefit levels are still substantially higher than that which can be paid by the current system.

The document also falsely claims that, with regard to the administration of these accounts, "as advocates of individual accounts have rarely discussed any of these in detail, it is difficult to determine how expensive it would be to administer the accounts they envision." We strongly suggest that the authors of the document actually read the final report of the President's Commission to Strengthen Social Security, in which each of these issues are discussed in detail.

The amount of detail was deemed more than sufficient for the Office of the Chief Actuary of the Social Security Administration to estimate the costs of these proposals.

Upcoming Events

On March 18, Cato Social Security analyst Andrew Biggs will speak to the United Nations International Conference on Financing for Development in Monterrey, Mexico.

On April 9, the Cato Institute and Women Impacting Public Policy (WIPP) will sponsor a conference on “Social Security Reform: A Women’s Issue.” The conference will examine the unique issues surrounding women and Social Security reform, including whether women would be helped or hurt by individual accounts. Confirmed speakers include: Lea Abdnor, Naomi Lopez Bauman, Celeste Colgan, Edith Fierst, Joan Gruber, Heidi Hartmann, Grace Hinchman, Julie Kosterlitz, Meredith Munger Leyva, Terry Neese, June O’Neill, Michelle Singletary, Vanessa Summers, Sue Taylor, and Lauri Young. [Click here to register.](#)

On May 21, the Cato Institute and the Hispanic Business Roundtable will hold a conference on “Social Security and Hispanic-Americans,” to examine issues around how Social Security privatization will impact on the Hispanic community. Confirmed speakers include: Linda Chavez, John Cobin, Moctesuma Esparza, Armando Guzman, Javier Jimenez, Lourdes Meluza, Mario Rodriguez Roberto de Posada, Jose Pinera, Refugio Rochin, Eric Rodriguez, Rick Sanchez, Julie Stav, Fernando Torres-Gil, and Fidel Vargas. Registration coming soon.

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