



Social Security Choice

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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White House Officials: Bush Won't Take PRAs Off the Table

Reports in [USA Today](#) and the [Washington Times](#) this week made clear that the White House and the Republican leadership in Congress have no intentions of backing off of plans to create voluntary personal retirement accounts for young workers in spite of proposals from some Republicans to shift the debate to less extreme measures. The reports indicate that the Bush administration will not shy away from what might be a tough battle and they suggest that efforts will be made to provide a clearer direction in hopes of ending party-infighting, which continues to hamper the cause of returning Social Security to permanent solvency by giving workers ownership of their retirement savings.

According to *USA Today*, "Allan Hubbard, Bush's top economic adviser, rejected bipartisan proposals that the administration put aside its drive to create private accounts and focus on the system's solvency.

"In an interview published in Thursday's editions of USA Today, he also dismissed a Democratic proposal that investment accounts be created as a supplement to Social Security, not as a part of the system that diverts a portion of payroll taxes."

And from the *Washington Times*:

"The White House and top House Republicans yesterday refused to back away from personal savings accounts as a key component of reforming Social Security, despite misgivings by Democrats and some Republicans.

"Personal retirement accounts is the main solution to this problem. If you take them off the table then the only solutions left are to raise taxes, which the Democrats obviously want, or to cut benefits, which they obviously want," said House Majority Leader Tom DeLay, Texas Republican.

"At the White House, President Bush's spokesman Scott McClellan yesterday emphasized that allowing younger workers to divert a portion of their payroll

contributions into private accounts is essential to strengthen the Depression-era retirement program.

“Mr. McClellan was responding to recent grumblings by Senate Finance Committee Chairman Charles E. Grassley of Iowa and Sen. Lindsey Graham of South Carolina, both Republicans, who said Mr. Bush should focus foremost on the solvency of Social Security.”

Boaz: “Add-On” Accounts Don’t Add Up

Cato Executive Vice President David Boaz argued against creating so-called “add-on” accounts to the traditional Social Security system [in *The Hill*](#) this week, noting that not only would such accounts do nothing about the looming problem of insolvency, but also that such accounts would create an additional tax-burden on those who can least afford it. Those who could afford to divert more income to add-on accounts, Boaz says, are largely those who already have access to private retirement savings vehicles such as IRAs and 401(k) plans—those who really rely on Social Security for the bulk of their retirement income cannot afford to have more of their incomes seized through the higher taxes associated with add-ons. Excerpts of his commentary follow.

“The latest idea being embraced by opponents of President Bush’s Social Security reform plan is ‘add-ons.’

“Many Democrats and Rep. Clay Shaw (R-Fla.) are arguing that personal accounts are a good idea but don’t have to be an alternative to the current Social Security system. Instead, they say, why not keep Social Security as it is and let people ‘add on’ some investment?

“That argument makes little sense. It won’t make the Social Security system solvent when it starts to run out of money in 13 years. More important, it won’t help people who need Social Security accounts the most.

“After all, we already have ‘add-ons.’ We have IRAs and 401(k)s. Most workers above the median income put some of their money into those programs. Indeed, 40 percent of American households have IRAs, and others have 401(k) accounts through their employers.

“These tax-deferred savings vehicles are great for taxpayers with a little money to spare. But some workers can’t afford to put anything aside once they’ve put 12.4 percent of each paycheck into Social Security taxes. Those are the workers who would benefit from a program of personal Social Security accounts, and add-ons won’t help them.

“Dramatically more Americans own financial assets now than in the recent past. As recently as 1980, only 4.6 million U.S. households owned mutual funds; by 2003 the number was 53.3 million.

“More than half of American families currently own stocks, bonds or real estate. Nearly half of all U.S. households own stocks or stock mutual funds.

“But not all households are participating in the stock market. ‘The majority of working Americans have not benefited directly from the rise in stock prices,’ says

Stephen Brobeck, head of the Consumer Federation of America. ‘In fact, more than half of all households hold no stock...’

“So what would add-ons do for them? They would raise every worker’s taxes. Democratic economist Edward M. Gramlich has proposed that workers be required to contribute an additional 1.6 percent of their wages into private accounts—an ‘add-on’ that would mean higher taxes for declining benefits. Strangely enough, Democratic members of Congress are speaking favorably about such an approach.

“Rep. Shaw proposes to make the add-on voluntary. But if workers could afford to invest more, they could open an IRA. A voluntary add-on is not a plan; it’s a diversion.

“Personal accounts mean ownership. Instead of hoping that future Congresses will come up with new tax revenue to pay future Social Security recipients, workers could invest their own money in their own accounts and rely on them. And they would have a personal nest egg that they could leave to their children.

“The Social Security reform battle is all about the working and middle-class Americans who don’t currently own stocks or mutual funds. Those Americans need accounts they can call their own, accounts they can rely on, accounts they can pass on to their children.”

Thrift Savings Model Doubles Social Security’s Rate of Return

U.S. Senate Majority Leader Bill Frist (R-TN) released a staff study this week comparing the rates of return in the current Social Security program with the Thrift Savings Plan (TSP) that has been a core component of the Federal Government’s retirement program for almost two decades. President Bush has said that his vision for personal retirement accounts is based on the Thrift Savings model.

“Voluntary personal savings accounts would enable future retirees to harness the power of the marketplace when saving for their retirements,” said Frist. “The success of the TSP program proves that personal accounts merit consideration as we discuss strengthening Social Security. As the study’s results reflect, federal workers who participate in their voluntary savings program have more than double a rate of return on their investments compared to the returns from money paid directly into Social Security. The information in this study underscores the compelling case for integration of personal savings accounts into any Social Security modernization plan.”

The entire study is available [here](#).

Dettmer: Republicans and Reformers Need a Clear, Direct Message

Writing this week [in the Washington Times](#), Jamie Dettmer, director of media relations at the Cato Institute, writes that Republicans have created additional hurdles for Social Security reform by not presenting a concise, clear picture of what reform should be. With everything on the table, Dettmer writes, Americans are bewildered and confused as to what exactly the president has in mind for Social Security—and that lack of clarity is hurting the cause. While Democratic lawmakers are nearly united in their

opposition to personal accounts, House Republicans and the White House have wandered off message and made the process much more difficult than need be. Dettmer's commentary follows:

“Republican lawmakers reportedly are facing skepticism in their home districts about Social Security reform and have returned to Washington from their congressional break ready to express their nervousness to the newspapers. Did they really think, though, that reforming the ‘crown jewel’ of the New Deal would be a skip in the park?”

“Major reform requires political toughness and tenacity and a real thoughtfulness when it comes to explaining why change is necessary. Alas, neither congressional Republicans nor the White House has excelled at presenting the case for reform. They are failing to draw on the rich populist themes of the dignity of ownership and the right to dispose of one's own earnings and savings that can win the political debate.

“Recent opinion polls attest to that: Instead of strengthening majorities in favor of reform and the introduction of individual accounts, Republican communication efforts in the last month have weakened pro-reform majorities. The opposition to reform is in lock-step unity in its labors to sow fear, while the Republican Party has strayed off message and is publicly seen negotiating with itself about how to go about reforming Social Security.

“With the White House insisting that everything is on the table—from raising the payroll-tax cap to add-on accounts—the administration is bewildering ordinary Americans, who wonder what it is the president is asking them to support.

“In the past few weeks, Republican lawmakers have been demoralizing themselves with defeatist talk about putting off reform until next year, as if it would be any easier in the run-up to mid-term elections to enact change. Defensiveness has reached even the ranks of the congressional Republican leadership with Senate Majority Leader Bill Frist and House Majority Leader Tom DeLay warning last week that the overhaul could take much longer than expected.

“Former British Prime Minister Margaret Thatcher, whose policies have been influential in shaping the ‘Ownership Society’ ideas of the Bush administration, used to give short shrift to naysayers within her own party who allowed opposition to scare them. She would dub them Nervous Nellies, arguing, in the words of one her former speechwriters, that ‘if you set about things in a wet way, then of course you would lose.’

“Mrs. Thatcher's clarity of purpose was based on her belief that what people wanted from a government was for it to have the courage of its own convictions. Her exasperation would mount when she was told by cabinet colleagues that nothing could be done about overweening trade union power, lame-duck nationalized industries, inflation, high taxes or the dependency culture of a welfare state. Conservative naysayers were as shocked as Britain's Labor politicians when it turned out that the Iron Lady was totally serious about allowing tenants to buy their state-owned homes, arguably the biggest of her big ideas and a reform that established the basis of a new political demography in Britain.

“It is that reform, council-house sales, that has directly inspired Karl Rove and others in the White House, according to the report in a British political magazine the Spectator. In a speech recently in Washington Mr. Rove said, ‘The closest analogy to

what President Bush is attempting to do with his emphasis on an ‘ownership society’ may be found in the policies of Margaret Thatcher.’

“Maybe then the White House and Republicans should have the courage of their convictions and strike for the high ground, in exactly the way Mrs. Thatcher would have approached the struggle.

“This doesn’t have to be as hard a sell as the White House is making it. There are three enormously popular arguments for reform with individual accounts: ownership, inheritability and choice.

“Retired Americans can draw Social Security benefits, but they don’t own them, and it chafes. Many retirees insist that they earned these benefits, but in the current setup, that’s beside the point. Congress may change benefits at will, and has done so in the past. In the resistance to means testing Social Security, we see an entire political class trying to maintain the fiction that this is a meritorious retirement program, not a redistribution scheme.

“The argument for inheritability polls well for a very good reason. With personal retirement accounts, the money left after a worker who dies could be passed on to children and grandchildren. Poorer workers would be able to accumulate inheritable wealth the same way their wealthier counterparts now can, by setting aside some of their payroll taxes. Memo to Republicans: You’re on the side of the poor and downtrodden; advertise this fact.

“Finally, there is the powerful argument for choice. Personal retirement accounts would be voluntary. Those who fear markets could choose not to invest their portion of their Social Security payroll tax and settle for the lower benefits under the current plan, and wage earners who trust markets to deliver better returns than the government may do so. Everybody gets what they want.

“Social Security reform has gotten off track because Republicans have wandered off message. Tricks, schemes and gimmicks—like add-on accounts, tax increases, wage cap increases and the rest—are not the keys to winning the debate over Social Security reform.”

FactCheck.org: Anti-Reformer’s Complaints Don’t Hold Water

FactCheck.org has issued a [response](#) to an [article](#) by the Campaign for America’s Future, disputing FactCheck.org’s [analysis](#) of recent CAF anti-Social Security reform ads. The ads suggested that Wall Street would receive a windfall from personal accounts, hinting that this was the motivation behind the Republican push for Social Security reform.

The CAF article leveled four main criticisms at FactCheck.org’s analysis, which are rebutted thoroughly in FactCheck.org’s response. FactCheck.org also notes that the CAF article failed even to address their central finding: that the federal Thrift Savings plans—often touted as the model for personal Social Security accounts—only pays Wall Street 16 cents for every \$10,000 account. Hardly a “windfall.” Excerpts from FactCheck.org’s response follow:

“CFA made four criticisms of our article:

“CAF cites a *Washington Post* story that appeared the same day as our article, saying that there were differences between the Thrift Savings Plan and the accounts proposed by the President. We agree that there are differences, and our article said so. However, the main difference is the private Social Security accounts—in the words of the *Post* story—‘would be much more difficult to run than the TSP and have far higher administrative costs.’ In fact, the Bush plan is exactly like the TSP in the only ways that matter to the securities industry: it would be centrally administered by the federal government, and workers would be allowed to invest only in a few broadly diversified, passively managed ‘index’ funds offered by Wall Street at what turns out to be extremely low cost. Nothing in the *Washington Post* story contradicted that. The *Post* story didn’t address the question of Wall Street profits at all.

“CAF claims our article ‘contradicts itself.’ It doesn’t. CAF refers to our statement that the total cost to federal workers of administering their TSP accounts is about 6 basis points—or \$6 per year for every \$10,000 account—and that the Chief Actuary of the Social Security Administration estimates that private accounts as proposed by the President would cost 30 basis points—or \$30 per year on a \$10,000 account. That’s not a contradiction. Our article went on to say this about the 30 basis points:

“Our Article: But it would still be a far better deal than the fees charged by most privately marketed mutual funds, and it wouldn’t mean any higher fees for Wall Street. The higher cost of administration for Social Security accounts would be for a larger federal bureaucracy to handle the paperwork—not for securities firms to manage the funds. In fact, fees to the securities industry could quite possibly be even lower (in percentage terms) for the funds available under Social Security accounts than for the funds available under the Thrift Savings Plan.

“CAF states that we reported the refusal of a Louisiana television station to air one of CAF’s ads ‘to build our case.’ We made clear in the article that the ad was pulled because the target of the ad, Republican Rep. James McCrery, objected to the term ‘privatization.’ That dispute had nothing to do with the central issue of profits to Wall Street. CAF also notes that the ad has since been reinstated, which is true. Our article is being updated to reflect that.

“Finally, CAF states that our article ‘criticizes every report done about securities industry profits.’ And indeed, the new information we reported does call into question the two most widely quoted studies, which variously assumed that the industry would be getting anywhere between \$3.50 and \$80 on a \$10,000 account. As we reported, the actual experience of the TSP turns out to be 16 cents, something not known before we posted our article. CAF also states that it cited figures from the Securities Industry Association, which is so. As we stated, however, CAF used the wrong SIA figure. As we said, CAF should have used a figure of \$39 billion to the industry (over 75 years), the SIA’s estimate of revenues to the industry from passively managed ‘index’ funds. But instead, CAF used a figure of \$279 billion, the SIA’s estimate of 75-year revenues from a large number of actively managed funds, which Bush is not proposing. But as we pointed out, even the SIA’s lower figure is based on what turns out to be a mistaken assumption that the industry would get \$3.50 per year on a \$10,000 account—22 times higher than the actual experience of the TSP.”

Quinnipac Poll Reveals Continued Support for PRAs Among Young Workers; Divisions Among the Generations Remain

In spite of reports that support for personal accounts among young workers is waning, a recent Quinnipac [survey](#) confirmed that a vast majority of young voters believe Social Security has “major problems” and a solid majority favors creating personal accounts. Support among older Americans for personal accounts remains low however, suggesting that the debate will continue to split along generational lines in spite of the fact that the president has repeatedly stated that reform will not effect those at or near retirement.

Voters under 40 support privatizing Social Security 59–35 percent; fully 74 percent of those voters agree that Social Security has “major problems.” Conversely, those voters over the age of 65 oppose measures to create private accounts 55–34 percent. Confident that their checks will continue to arrive into the foreseeable future, only 53% agree that Social Security is in a “crisis.”

Meanwhile, Baby Boomers are caught somewhere in the middle, narrowly supporting private accounts 49–45 percent. What’s clear is that those who stand to lose the most from the status quo—today’s young people—are the ones most in favor of taking immediate action to put the system on the road to permanent solvency so that they too might enjoy a healthy and stable retirement as their grandparents have.

Upcoming Events

Cato’s Michael Tanner will debate author and columnist Paul Krugman on Social Security reform next Tuesday, March 15 in New York City. The debate, entitled “Social Security: Is There Really a Crisis?” will take place at the [New York Society for Ethical Culture](#) at 7pm.

America’s Future Foundation will be hosting a roundtable discussion on Social Security next Wednesday, March 16 at 7pm at the Fund For American Studies in Washington, DC. Confirmed panelists include Max Pappas of FreedomWorks and Brooke Oberwetter of the Cato Institute. For more information, click [here](#).

The *National Journal* will host a breakfast Insider’s Briefing on Social Security reform and what the possible outcomes of the debate will be. The event will be held in the University Room at the Watergate next Thursday, March 17. For more information, call 202.266.7356.

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