



# Social Security Choice

## ***SOCIAL SECURITY THIS WEEK***

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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### ***Greenspan: Personal Accounts Are Not a Sideshow***

Alan Greenspan testified again this week before Congress, this time at a meeting of the Senate Special Committee on Aging. Noting that the issue of Social Security “isn’t a hard problem to solve,” Greenspan made the following remarks indicating that returning the system to solvency without increasing saving would be a mistake.

“Once we have determined the level of benefits that we can reasonably promise, we must ensure that we will have the real resources in the future to fulfill those promises. When we evaluate our ability to meet those promises, focusing solely on the solvency of the financial plan is, in my judgment, a mistake. Focusing on solvency within the Social Security system, without regard to the broader macroeconomic picture, does not ensure that the real resources to fulfill our commitments will be there. For example, if we build up the assets in the Social Security trust fund, thereby achieving solvency, but offset those efforts by reducing saving elsewhere, then the real resources required to meet future benefits will not be forthcoming from our economy. In the end, we will have accomplished little in preparing the economy to meet future demands. Thus, in addressing Social Security’s imbalances, we need to ensure that measures taken now to finance future benefit commitments represent real additions to national saving.

“We need, in effect, to make the phantom ‘lock-boxes’ around the trust fund real. For a brief period in the late 1990s, a common commitment emerged to do just that. But, regrettably, that commitment collapsed when it became apparent that, in light of a less favorable economic environment, maintaining balance in the budget excluding Social Security would require lower spending or higher taxes.

“Last year, Social Security tax revenues plus interest exceeded benefits by about \$150 billion. If those funds had been removed from the unified budget and ‘locked up’ and Congress had not made any adjustments in the rest of the budget, the unified budget deficit would have been \$564 billion. A reasonable hypothesis is that the Congress would, in fact, have responded by taking actions to pare the deficit. In that case, the end result would have been lowered government dissaving and correspondingly higher national saving. A simple reshuffling from the unified accounts to the lock-boxes would not have, in itself, added to government savings; but higher taxes or lower spending would have accomplished that important objective.

“The major attraction of personal or private accounts is that they can be constructed to be truly segregated from the unified budget and, therefore, are more likely to induce the federal government to take those actions that would reduce public dissaving and raise national saving. But it is important to recognize that many varieties of private accounts exist, with significantly different economic consequences. Some types of accounts are virtually indistinguishable from the current Social Security system, and the Congress would be unlikely to view them as truly off-budget. Other types of accounts actually do transfer funds into the private sector as unencumbered private assets. The Congress is much more likely to view the transfer of funds to these latter types of accounts as raising the deficit and would then react by taking measures to lower it.”

For Greenspan’s full testimony, click [here](#).

## ***This Week In the Polls***

### *Washington Post-ABC News Poll*

Though the [headlines](#) reported that this poll shows support for the president’s handling of Social Security is waning, there were some interesting details that went largely unreported. Chief among those unreported results was the finding that 56% of respondents support creating a system in which workers are allowed to invest a portion of their payroll taxes, compared to 41% opposed to that idea. That is the highest level of overall support and the lowest level of opposition since March of 2001. Additionally, a whopping 72% of respondents said they believe the system is in crisis and 67% of those described the crisis as “major.”

More than anything, the *Post* poll shows that people are wary of the president’s handling of the issue, not his stance on it. For more on the meaning of this poll, see [Byron York’s critique](#) on *National Review* online.

For a look at the whole poll, click [here](#).

### *Rasmussen Reports*

This week, Rasmussen Reports released new survey results that indicate “Democrats may be in a weaker position strategically than a top-line look at the polls would indicate,” due in part to misconceptions about what it is that the president is proposing. Among Rasmussen’s findings:

- Forty-five percent of Democrats oppose doing nothing to reform Social Security compared to 60% overall opposition to doing nothing. Interestingly, 61% of those unaffiliated with a major party reject the idea that the system should be left alone.
- Twenty-five percent of Americans believe the President's approach would **require** young workers to set up a personal retirement account. But in fact, all major reform proposals would give workers a choice between staying in the current program and setting up personal accounts.

- When asked initially about personal retirement accounts, just 38% say they favor the program and 47% are opposed. However, when told that personal retirement accounts would be a choice, not a requirement for younger workers—and that those over 55 would be fully protected—support jumps by 13 percentage points to 51%. Even more dramatically, opposition to the plan falls by 20 points to 27%.

For more on this survey, click [here](#).

### *Pew Hispanic Center*

A Pew Report released this week found that Hispanic support for personal retirement accounts was at 49% while opposition to the accounts is at only 38%. Developing a pre-funded system through personal accounts should be particularly important to Hispanics given another key finding of the report: the Hispanic population is much younger.

Ninety percent of Hispanics are under 55, compared to only 74% of whites. According to an article on [HispanicBusiness.com](#), “while the white labor force is expected to drop from 100 million in 2005 to 94 million in 2050, the Hispanic labor force is projected to more than double over the same time period—from 19 million in 2005 to 46 million in 2050. In other words, while fewer white workers will be contributing, more Hispanics will be paying Social Security taxes by the middle of the century.” That means that as baby boomers retire, a young and growing Hispanic labor force will be supporting them.

Though the authors of the Pew study (available [here](#)) suggest that PRAs could be dangerous to Hispanics because the proposed changes will affect their young population more directly, the more reasonable argument—which the polling numbers seem to confirm—is that the young Hispanic population has more to lose as the system’s finances worsen in the future. For more on Hispanics and Social Security, see Ian Vasquez’s Cato Daily Commentary, “[Hispanics Would Disproportionately Benefit from Social Security Choice](#).”

### *Generations Together*

Generations Together, a grassroots coalition that supports personal retirement accounts, released the results of a poll this week that showed that three-fifths of voters over 55 think personal accounts are a good idea for younger workers as long as promised benefits to those at or near retirement don’t change. Sixty-five percent of AARP members surveyed believe that significant changes to the system are necessary to make Social Security stronger for their children and grandchildren. That finding prompted Derrick Max, executive director of COMPASS, to urge William Novelli, CEO of AARP, to reconsider its positions on Social Security reform and personal accounts. The full press release from Generations Together is available [here](#).

## **Senators Take Up Social Security Reform**

By a vote of 100-0, the U.S. Senate passed an amendment to the budget resolution sponsored by U.S. Senator Lindsey Graham (R-South Carolina) that details

the problems facing Social Security. Though the vote was largely symbolic, it was an important first step towards bipartisan support for reform.

“The unanimous vote by the Senate today mirrors President Bush’s description of the problems facing Social Security and in that regard is a significant step forward,” said Graham, a member of the Senate Budget Committee. “In a unanimous vote, the Senate is now on the record in agreement that Social Security is facing major structural problems. If they are not addressed, it will result in massive tax increases or benefit cuts for younger Americans.”

“My hope is that by commonly defining the problem, it will lead to common ground in terms of solutions,” continued Graham.

The amendment lays out the priorities for the Senate when it comes to discussing Social Security reform. The Senate agrees that:

- The President, Congress, and the American people including seniors, workers, women, minorities, and disabled persons should work together at the earliest opportunity to enact legislation to achieve a solvent and permanently sustainable Social Security system.
- Social Security reform must protect current and near retirees from any changes to Social Security benefits, reduce the pressure on future taxpayers and other budgetary priorities, provide benefit levels that adequately reflect individual contributions to the Social Security system, and preserve and strengthen the safety net for vulnerable populations including the disabled and survivors.

The resolution also notes Social Security is the foundation of retirement for most Americans and strengthening the system is a national priority. Without structural reform, future Congresses may have to raise payroll taxes 50 percent over the next 75 years to pay full benefits on time or lower Social Security benefit levels.

“I firmly believe today was a move forward in the debate over how to save Social Security,” said Graham. “One hundred Senators came together to define the problem facing Social Security in real and honest terms, clearly demonstrating that doing nothing leads to massive taxes increases and/or benefit cuts for young Americans.

“Reaching an agreement on the true nature of the problem facing younger Americans should allow for a more thoughtful and constructive debate over how to solve what we now have unanimously defined as a ticking time bomb.”

Sen. John Sununu also [made news this week](#) on the Senate floor, responding to criticisms made by Sen. Debbie Stabenow (D-MI). His comments follow.

“I wanted to speak briefly to the concerns raised by the previous speaker and in particular the three grave concerns with regard to Social Security. I take issue with those three items. The first one of the three items was that any Social Security reform proposal, modernization proposal as envisioned by the President, would result from massive amounts of debt. That is wrong in part but, even worse, it is misleading.

“The reason to take up Social Security reform legislation, which I have introduced in the previous session and will introduce again, is so we avoid \$12 trillion of unfunded debt that our children and grandchildren will be stuck with if we don't act now.

“To suddenly say we can’t deal with Social Security because we are worried about debt is simply a smokescreen, and it is a smokescreen that refuses to recognize the reality that under the current structure we have a huge unfunded debt our children and grandchildren will be stuck with.

“Second, there was a suggestion that personal accounts for younger workers and an optional system of personal accounts would result in huge administrative costs.

“This is absolutely ridiculous, and every bit of evidence from any similar plan, similar account, similar fund, argues against such a suggestion. The Thrift Savings Plan, which is probably the best model of the kind of personal accounts envisioned by the President in legislation that I have introduced, has 3.5 million members. Under Social Security, there would be significantly more than that. The administrative costs are less than two-tenths of 1 percent.

“So to suggest that administrative costs would be exorbitantly high—I see numbers of 1 percent or 2 percent thrown out—is wrong. There is no evidence, no model to suggest that would be even close to the truth.

“Third, the suggestion that any kind of a personal account proposal would require deep benefit cuts is again at best misleading, but at worst it is an effort to scare retirees and those who are near retirement. It is simply wrong.

“I have introduced legislation which is scored by the Social Security actuary that makes the system solvent, is scored as bringing the system into balance permanently, has significant personal accounts, and does not require benefit cuts.

“There are a lot of proposals out there that involve changes to the current system, or even changes to benefits for, say, those at the higher income level, but to suggest that deep cuts are required is simply misleading the American public.”

### ***John Zogby: Social Security Reform Could Build an “Investor-Class” Nation***

This week in the *Wall Street Journal*, John Zogby of the independent polling company Zogby International noted that while some national polls indicate that support for personal retirement is less intense than the opposition, raising the issues of ownership could help bring about a Republican realignment. As Zogby illustrates through some polling figures, free market and limited government arguments resonate with the so-called “investor class,” a group that continues to grow. Zogby’s commentary follows.

“President Bush is in the middle of a vigorous campaign for Social Security reform. New national polls suggest support for his reform plan to be slipping. While my polls have revealed solid majority support among voters under 50 years of age, intensity levels are far greater among voters who oppose Mr. Bush’s plan, especially those over 50. A coalition of seniors, unions, and anti-Bush independent committees are bent on defeating the president, who can claim just one Democratic member of Congress among

his supporters, and whose Republicans in Congress are at best tepid on the idea of personal accounts.

“Why would the president risk his political capital on a plan that appears doomed to failure? I think the answer lies well beyond the politics of any single reform plan. And the president may end up a winner if his call for personal accounts ultimately fails. After all, he has raised a serious issue that needs attention—the very solvency of Social Security—which Democrats have never touched. Huge majorities of voters understand that the current system is in trouble. He will, at the very least, get credit for trying to reform the program previously referred to as the ‘third rail of American politics’—even if he achieves more modest change than he now proposes.

“But there is a much bigger picture. The president’s real prize would be a significant realignment in party politics. It has been no secret that Mr. Bush and Karl Rove have their sights set on a political realignment not experienced since FDR built a coalition of urban ethnics, liberal ideologues and Southern conservatives under the Democrats’ big tent. Like the New Deal, the president’s ‘ownership society’ is a compelling new vision and veritable redefinition of a society less dependent on government largess, of a middle class more independent and more capable of securing financial security on its own.

“This stunning realignment is possible by virtue of a new class of American voters—the self-identified ‘investor class’—which is itself a coalition across a broad spectrum of demographic groups. In their compelling book, *The Emerging Democratic Majority*, Ruy Teixeira and John Judis outlined a short-term path for Democratic Party success. Their study revealed that key demographic groups that traditionally vote Democratic in national and state elections are indeed among the fastest growing demographics in American society: African Americans, Hispanics, women, singles, creatives, Muslims, and South Asians.

“Data from my post-election polling in 2004 suggests that the story is more complicated than simply counting bodies and handing them voter registration forms upon achieving adulthood or citizenship. Indeed, understanding politics in the U.S. over the next few years and decades has a lot more to do with grasping how voters actually identify themselves, not the labels we usually place on them by virtue of their birth.

“Zogby International’s post-election polling reveals fascinating differences between those voters who call themselves members of the ‘investor class’ and those who do not see themselves this way. We see the table below how this response to a single question--‘Do you consider yourself to be a member of the investor class?’--is a far greater determinant of how they will vote and how they see their world than income, religion, race, marital status, or size of individual portfolio.

	Investors		Noninvestors	
	Bush	Kerry	Bush	Kerry
All voters	61%	39%	42%	57%
Union members	57%	42%	36%	63%
18-29 years old	52%	47%	30%	67%
Women	55%	45%	37%	63%

Hispanics	60%	37%	43%	56%
\$50-75K income	64%	36%	45%	55%
Single	45%	53%	25%	73%

“On the surface this hardly seems worthy of attention. Of course, well-heeled investors will tend to be more conservative than underachieving non-investors. But a closer look at the profile of this new ‘investor class’ suggests some tectonic shifts in how Americans see themselves and how they behave politically. These are remarkable voting differences. The numbers are no less dramatic when we see their views of the president and the major issues in the campaign.

“Self-identified investors comprised 46% of the total vote in 2004, a significantly higher figure than pre-election polls suggested. The group is neither dominated by the wealthy nor do members necessarily aspire to become wealthy. According to a series of polls we did on behalf of PBS’s ‘Wall Street Week with Fortune,’ this group tells us they simply are saving for a retirement that maintains their current lifestyle and for college for their children. Importantly, their worldview remains middle class, modest, and basically conservative. They are a group I have followed closely since 2000 and will, for obvious reasons, continue to watch.

“To the president and Republicans: You may lose the battle over Social Security personal accounts, but ultimately you may very well win the war over party realignment. To the Democrats: Just saying no is not a policy and demographics are not destiny. Ignore the ‘ownership society’ at your own peril.”

### **Dallas Morning News *Highlights Cato’s Plan for Reform***

In a brief feature this week, Todd Gillman of the *Dallas Morning News* [discusses](#) Rep. Sam Johnson’s support for Cato’s “6.2% Solution” for Social Security reform, a plan Johnson has introduced in Congress. A brief excerpt of the feature follows.

“[The president] has yet to offer a detailed plan, and few in his party have either. One exception is Rep. Sam Johnson. The Plano Republican is pushing an explicit, relatively easy-to-explain cure for Social Security’s solvency problem.

“Split payroll taxes in half. The government keeps the 6.2 percent paid by employers. Workers get to invest their 6.2 percent.

“Critics say it’s as radical as privatization schemes come. But it has the advantage of simplicity.

“I love it. I love the idea,’ Mr. Johnson said.

“It’s called the [6.2 Percent Solution](#), and it’s the brainchild of the Cato Institute, a libertarian think tank. Mr. Johnson started promoting it two years ago, long before President Bush grabbed the issue.

“The snag, as with all versions of private accounts, is that Social Security pays retirees with money that comes in from workers. Halving that flow creates huge

transition costs. The government would have to borrow \$6.8 trillion to keep up benefits, according to actuaries.

“‘To be truthful, that does cost some money,’ Mr. Johnson said. ‘It’s a lot of money.’

“But in the long run, he said, retirees will be better off at lower cost to the government.

“The plan breaks even in about 40 years, and by 2078, there would be a \$1.8 trillion surplus, instead of a \$3.7 trillion shortfall if nothing changes.

“Mr. Johnson says it’s like taking out a mortgage.

“‘You pay down a little at a time until you own your home,’ he said. ‘Up front we borrow a lot of money. At the end of the day, Social Security becomes fully funded forever and ever.’

“As a member of the tax-writing Ways and Means Committee, Mr. Johnson has long been active on pension and retirement issues. Last week, he unveiled legislation with Sen. Craig Thomas, R-Wyo., to create three types of savings accounts, all allowing tax-free withdrawals.

“If Americans saved as much as their peers in other industrialized countries, Mr. Johnson said, it would be easier to fix Social Security because retirees wouldn’t depend on it so heavily.”

### ***Personal Accounts Could Benefit the Gay Community***

In a commentary appearing in the [\*San Francisco Chronicle\*](#), Andrew Lee, an undergraduate student at Claremont McKenna College, writes that Social Security reform is an issue that the typically left-leaning gay population should consider supporting. Same sex partners stand to gain significantly from a system of personal retirement accounts since under such a plan, individuals get to choose who receives survivor or dependent benefits. In the following excerpt, Lee discusses the politics of a single issue alignment between the gay community and pro-reformers.

“As it is now, same-sex couples cannot receive Social Security survivor benefits or dependent benefits because they are not married under federal law. If Social Security were privatized, however, the federal government could not regulate the beneficiaries of private accounts. Same-sex partners, like any other beneficiary, could receive survivor benefits or dependent benefits.

“Nevertheless, the gay community is not quite ready to embrace President Bush’s plan. Social Security privatization places the gay community at a crossroads of its traditional Democratic affiliation and increased benefits for same-sex couples. In December, for instance, discussion of Social Security benefits in the gay community was pushed to the background. Human Rights Campaign, the nation’s largest gay activist organization, announced its need to ‘moderate its message and its goals.’ One HRC official suggested to the New York Times in December that ‘supporting President Bush’s efforts to privatize Social Security partly in exchange for the right of gay partners to receive benefits under the program.’ In response, more than 30 gay rights officials sent

letters to every member of Congress denouncing HRC for trading gay rights for senior citizens' rights.

“But this response does not necessarily represent the interests of the gay community. Organizations such as the Log Cabin Republicans, a conservative group for gays and lesbians, show that the gay community is just as divided on Social Security reform as the rest of the country.

“If allowed to go forth, Social Security privatization will limit the ability of the government to act as arbiter of Social Security survivor benefits, and therefore recognition of beneficiaries. Up to this point, gay activists have focused on working through the judiciary and state or local governments to recognize same-sex partnerships. Although the gay community might dream of government recognition, at present this is impractical. Without sweeping federal redefinition, gays and lesbians will continue to receive unequal benefits. If they are to make the best of the situation, they should support private accounts, forming alliances with Republicans who support limited government.

“Gay activists have little to lose from such support of Social Security privatization. Some worry that if activists highlight same-sex survivor benefits, President Bush may put legislation banning same-sex marriage on the calendar in order to guarantee support for Social Security privatization from party conservatives. But Republicans were planning another attempt at that legislation anyway. It is also possible that conservative Republicans might side with market (rather than moral) principles and support private accounts, leaving beneficiaries up to the discretion of the private account's owner.

“For the gay community, then, there are no significant disadvantages from Republicans supporting Social Security privatization. Republicans, however, risk losing support for privatization because of the possibility of the same- sex survivor benefits outlined above. If Republicans lose their attempt at privatizing Social Security, gay activists will be no worse off.”

## **Events**

The Cato Institute will host a Capitol Hill Conference on Wednesday, April 6 entitled, “Short vs. Long Term Thinking: Incorporating the Long-Term Fiscal Outlook into the Myopic Budget Process.” The half-day conference will feature Cato Scholars, lawmakers, and other experts as they discuss the merits of complementing official federal budget reports with long-term present-value measures of federal financial shortfalls, particularly with regard to the massive unfunded obligations in federal entitlement programs. For more information or to register for this event, click [here](#).

The New America Foundation and the Committee for a Responsible Federal Budget will host a conference on Tuesday, March 22 entitled “Forget Accounts for a Moment: How Do We Fix Social Security?” The conference will feature numerous speakers including Cato's Jagadeesh Gokhale. For more information on this event, click [here](#).

## ***Publications***

Treasury Secretary John Snow announced last week that the Department of the Treasury has launched a new web site, [www.strengtheningsocialsecurity.gov](http://www.strengtheningsocialsecurity.gov). The site will provide up-to-date information on the problems facing Social Security and the Administration's efforts to permanently fix the program through bipartisan reform. The web site provides access to a broad array of information including speeches by the President and his Cabinet, press releases, and fact sheets. The site tracks Administration officials' Social Security events and will serve as the information center for the ongoing 60 Stops in 60 Days tour.

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