

Social Security Choice

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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Cato's Ed Crane to White House: Ownership Is the Key

In a [memorandum](#) from Cato's president Ed Crane to the President's Senior Advisor Karl Rove, Crane criticizes the Bush administration's emphasis on solvency, rates of returns and transitional costs when the real focus should be on ownership and freedom when advocating reform: "Seriously, this should be an emotional issue about liberty and opportunity, not solvency dates. The concept of an Ownership Society is brilliant. Unlike the New Deal, the New Frontier or the Great Society, Ownership Society actually means something—something integral to the essence of America. That essence is a respect for the dignity of the individual, which is axiomatically enhanced when one has more control over one's life. That is what personal accounts provide."

Crane adds: "In addition to more control over your life through personal accounts, all the ancillary benefits of ownership should be enthusiastically played up by the President: the pride one has in having provided for his or her own retirement, as opposed to being a supplicant of the state; the security of knowing the government can't take the money away (which they do whenever they raise the payroll tax or push back the retirement age); and perhaps most of all, the knowledge that your loved ones may benefit from your labor."

According to the US News Bulletin, conservative Hill aides are determined to use the Crane memo to "urge a more passionate approach by the White House than they've seen in the president's town halls."

Rove Rejects Add-Ons, Says Reform Must Feature PRAs

Speaking this week on Social Security reform, Karl Rove, the president's deputy chief of staff, declared that reform measures that don't include personal retirement accounts are unacceptable. An article from *Bloomberg News*, excerpts of which follow, contain Rove's recent remarks on Social Security and the prospects for reform.

"The personal retirement account has to be part of the long-term solution,' Rove, Bush's chief political and policy adviser, said in an interview in Washington yesterday. 'The public and Congress are becoming aware that it's a serious problem.'

“Bush wants Congress to pass legislation allowing workers younger than 55 to invest in stocks and bonds as much as a third of the 12.4 percent tax they and their employers pay into the Social Security program. Bush and Republican congressional leaders acknowledge that it’s politically impossible to pass sweeping legislation without some bipartisan support.

“Almost all Democrats have rejected accounts created with a portion of Social Security funds. The only Democrat to back a personal account is Representative Allen Boyd, a Florida Democrat. And lately, congressional Republicans have indicated they’re skittish about private accounts.”

“Rove denied that Republican apprehension was any cause for serious concern. ‘This is a big issue,’ he said. ‘It’s a big fundamental reform. It’s vital to the country, and nothing ever comes easy.’ He pointed to initial reluctance in Congress to pass Bush’s tax cuts, an education bill and a resolution authorizing the U.S. to invade Iraq.

“All of these things people have at one time or another thrown up their hands and said we’re worried or concerned, but at the end of the day,’ it’s an issue too important to ignore, he said.

“Rove suggested that a middle ground, preferred by Democratic Senators Ben Nelson of Nebraska, Kent Conrad of North Dakota and Ron Wyden of Oregon, that includes adding private accounts created with funds outside the Social Security program, isn’t acceptable as a long-term solution.

“‘We’ve already got add-ons; they’re called IRAs and 401(k)s,’ Rove said. ‘What we face is, we need to do something for the working man who’s living from paycheck to paycheck and doesn’t have extra money to put aside for retirement. That’s the person for whom a personal retirement account is most important and most vital.’”

“Bush has offered few limits on the scope of the debate, and lawmakers such as Graham who’ve advocated raising the \$90,000 limit on income taxed to fund Social Security shouldn’t be chided for such suggestions, Rove said.

“Bush has said a higher payroll tax rate isn’t an option, although he hasn’t ruled out raising the cap.

“‘The president has said he’s going to provide cover for anybody who want to discuss the issues and people have a right to discuss them,’ Rove said.”

“‘The last time we addressed Social Security in a substantive way was 1983,’ he said. ‘If personal accounts had been part of the solution in 1983, think about it, the market since 1983 is up 800 percent. Imagine how much more secure people’s retirements would be if starting in 1983 they’d been able to put money aside as the market grew, as it does over time, dramatically.’”

Hubbard: PRAs Help Workers while Helping the System

In a commentary in the *Wall Street Journal* this week, director of the National Economic Council Allan B. Hubbard made two important arguments for Social Security reform through personal retirement accounts: it will help younger workers, and it will help the system.

On the benefits for younger workers, Hubbard pointed out the following:

- “First, voluntary personal retirement accounts help younger workers build nest eggs for their retirement that they own and control and government cannot take away. By allowing workers to put up to four percentage points of their payroll taxes in a personal retirement account, the individual gets a real ‘trust fund’ with his or her own name on it that is saved for retirement. With the current system, all Social Security surpluses are spent by Washington politicians on other government programs.
- “Second, voluntary personal retirement accounts build assets that can be passed on to family when you die. Any portion of the account not used during retirement can be left to heirs. And in the unfortunate event an individual dies before reaching retirement, the account can be passed to surviving loved ones, many of whom would otherwise receive nothing under the current Social Security system.
- “Third, voluntary personal retirement accounts give younger workers the opportunity to get a better rate of return on their Social Security dollars. If an average-wage worker making \$35,000 a year were allowed to take 4% of his or her payroll taxes and set it aside in a personal retirement account, starting at age 21, then when he or she retired that nest egg would be worth nearly \$250,000.
- “Fourth, voluntary personal retirement accounts give many low wage workers their first opportunity to save. Low wage workers live paycheck to paycheck. Voluntary personal retirement accounts are the only way they can build a nest egg for retirement and their future.”

On the benefits for the Social Security system overall, Hubbard noted that PRAs could provide three important features that the current system is lacking: honest accounting, solvency, and savings.

- “First, voluntary personal retirement accounts introduce a savings component into Social Security. In fact, this would be the first time that people’s payroll taxes would be truly saved at all because the people, not the politicians in Washington, D.C., will have ownership over their own retirement money. The Social Security ‘trust fund’ is a misnomer because it implies that money is being saved in an account for Social Security when, in fact, the money is being spent on other government programs. Social Security has been running surpluses for over 20 years and every year the government has done what it does best: it has spent the money. This practice will continue until we establish a system of personal accounts owned by each person in his or her name, which politicians won’t be able to touch. Only then will the Social Security surplus be saved rather than spent.
- “Second, voluntary personal retirement accounts establish more honest accounting of the government’s Social Security obligations. Take a 35-year-old worker, whom I will call Jane. Like millions of other workers, Jane pays Social Security taxes each year. Everyone would agree that Social Security has an obligation to pay Jane benefits when she retires. But this liability is not disclosed

anywhere on the Federal government's books, as required for all private pension providers. This failure to recognize future liabilities has systematically allowed the government to accumulate obligations with impunity. An honest accounting system will help constrain the government's accumulation of unfunded liabilities.

“While some borrowing may be necessary to fund personal retirement accounts, this type of borrowing is fundamentally different. Government borrowing for current consumption is like borrowing to take a vacation. When the vacation is over, you've spent your money and all you have are memories. Borrowing for personal accounts is more like borrowing to buy a house. When you buy a house, you are making an investment and have an asset that appreciates over time. With a personal retirement account, the government allows the individual to make an investment in an asset that grows over time.

- “Third, voluntary personal retirement accounts, as proposed by President Bush, would be part of a comprehensive plan to fix Social Security and achieve permanent solvency.

“Opponents of voluntary personal retirement accounts who argue they create so-called transition costs either fundamentally misunderstand the proposal or are choosing to ignore the facts. The question is: When does Jane receive her retirement benefits? Now or later? If Jane decides to put some of her Social Security taxes into a personal retirement account, Jane is taking a portion of her benefits now, and she can get a higher rate of return through her account. If Jane elects to stay in the traditional system, then government funds her retirement later, with a lower rate of return on her tax payments. Either way, government is putting out roughly the same amount of money—either prepaying it now so Jane can earn more or paying it later. The only new costs would be for workers who take the personal accounts and then die before retirement. Under the old system, their families would likely get nothing. With a reformed system, their families could inherit their personal retirement account.

“Personal accounts do involve a transition—a transition to a more transparent, more honest system of accounting for Social Security. And, more importantly, by providing ownership, control and the opportunity to save and invest, they lead to a more secure retirement for America's workers.”

Leanne Abdnor Challenges Women's Groups to Debate PRAs

In response to a recent [press release](#) from the National Council of Women's Organizations, Leanne Abdnor, Executive Director of [Women for a Social Security Choice](#), has challenged Kim Gandy of NOW and Heidi Hartmann of the Institute for Women's Policy Research to debate personal retirement accounts and how they could effect women if implemented. The Women for a Social Security Choice press release follows.

“Citing the need for open discussion about women and Social Security reform, *Women for a Social Security Choice* Executive Director Leanne Abdnor today

challenged leading women's rights groups to publicly debate the issue on Capitol Hill next month.

"Responding to an Institute for Women's Policy Research (IWPR) news release that misrepresented her positions on women and Social Security, Abdnor said, 'An open, full and honest airing of our views would be more beneficial to the Congress, to the media, and to the public.'

"Abdnor invited IWPR's Heidi Hartmann and NOW's Kim Grandy or their designees to debate 'The Future of Social Security and Women' with her and another *Women for a Social Security Choice* representative on a mutually agreeable date in May before interested audiences on Capitol Hill. Such a forum 'should provide attendees with a vigorous and interesting exchange of views,' Abdnor wrote.

"Abdnor said, 'Women have the most at stake in the current debate over the future of Social Security primarily because women are more dependent on Social Security in their retirement years and have less ability to accumulate savings or participate in private pension plans.'"

Senators Bring Social Security Debate to the Floor

Gearing up for future debates on Social Security reform, four senators debated personal retirement accounts on the Senate floor on Tuesday night. Though the debate was not about a specific piece of legislation, it was widely hailed as a precursor of debates to come. The debate was organized by Sens. Byron Dorgan (D-ND) and Jon Kyl (R-AZ) each a leader of his own party's policy committee. According to an AP report, the Senators "decided to engage in the exercise as a likely precursor to the real thing later this year."

"These debates are an opportunity for us to rise above 30-second sound bites for a true give-and-take on important issues in a way that the Founding Fathers might have envisioned," Kyl said in a statement. "Rather than watching scripted speeches read to a mostly empty chamber, the American people will have a chance to hear strong, but civil, disagreements, and maybe, on occasion, find areas where our parties agree."

Sens. Dick Durbin (D-IL) and Debbie Stabenow (D-MI) presented the Democratic position and Sens. Rick Santorum (R-PA) and Jim DeMint (R-SC) presented the case for personal retirement accounts.

During the debate, Sen. Santorum succinctly laid out the case for personal retirement accounts:

"Right now, the shortfall over the life of the program is \$11 trillion between the revenue line and the benefit line—the benefit line being up here, the revenue line down here. How do we bring those lines together, and how do we keep it solvent in the future?"

"[L]et us assume it is all borrowing. We cannot make any spending cuts. We borrow up to...\$1 trillion to \$2 trillion over the next 15 to 20 years to prefund Social Security, just like we prefund every other retirement system in America. In fact, they are required by law to prefund. We put the money

into a diversified portfolio of investments and then that borrowing at the beginning creates an elimination of the \$11 trillion long-term problem. So I would ask, is a \$2 trillion investment now worth saving \$11 trillion and making the system permanently solvent in the future?

“I would answer that question with a resounding yes, and we put the Social Security system on stable funding forever and have it supported by ownership. Of course, we all know ownership has its privileges. One of the things is it can be passed to the next generation. One can do better than the current system promises and cannot pay for. Let me repeat that. The promised benefits we cannot pay for for my generation and for future generations of Americans. What we want to give is ownership to future generations. We want to give them a good chance. This gamble—go to every union pension plan and tell them their union is gambling.”

A full transcript of the debate is available [here](#). (Click item 45, “Social Security.”)

Poll: Americans Want Social Security Reform Soon

A new [Fox News/Opinion Dynamics](#) poll shows that Americans remain concerned over the state of Social Security and that 46 percent would prefer to see reforms implemented either immediately or in the next 1–2 years; only 16 percent think reform should be put off for ten years or avoided entirely. Sixty percent of Americans favor allowing younger workers to invest a portion of their payroll taxes into individually owned investment accounts. Overall, 54 percent of respondents reported that they are concerned about whether or not Social Security benefits will be paid to them as promised. For people less than thirty years old, a whopping 84 percent correctly assume that the system will not be able to pay them their full promised benefits.

Publications

A [new Actuarial Note](#) from the Office of the Chief Actuary looks at hypothetical rates of return for workers under Social Security. The paper essentially looks at the contributions made over a lifetime into Social Security by certain income groups and estimates the rate of return on “investment” in the program based on benefits received. The estimates are based on benefits that are actually payable under current law, rather than promised benefits.

Edited by Brooke Oberwetter, boberwetter@cato.org. To subscribe or unsubscribe to *Social Security This Week*, please contact Anna Stroman at astroman@cato.org.