



Social Security Choice

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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Santorum: Senate Will Not Drop Personal Accounts

Sen. Rick Santorum (R-PA) [responded strongly](#) to an Associated Press report that suggested GOP senators are increasingly considering dropping personal retirement accounts in order to bring Democrats to the table on Social Security reform. Contrary to the AP story, Santorum wrote on *National Review* online that Republican senators remain committed to passing a reform package this year that features PRAs. An excerpt of Santorum's commentary follows.

"[T]he president and Republicans in Congress have put forward numerous plans to fix Social Security permanently in a fair and responsible manner. Republicans believe that a reform plan incorporating PRAs builds on the values of Social Security's past while modernizing the program for the future. Yes, all ideas remain on the table, but PRAs continue to be the centerpiece of the Republican plan to save and strengthen Social Security.

"Republicans are committed to modernizing Social Security to meet the needs of the new millennium. Currently, workers don't own or control their retirement funds and cannot pass on their accumulated Social Security retirement savings to their loved ones and families because, as dollars are paid into the system by workers, they are in turn paid to current Social Security recipients. PRAs provide individuals—not the government—with control and ownership. They also offer new hope to young workers—hope that they will not be burdened with massive tax increases, painful benefit cuts, or both. And they hold the promise of a greater return for future generations than what they are promised by today's Social Security system.

"Senate Republicans have worked hard to educate Americans about the need for Social Security reform and PRAs. Over the recent Easter break, Senate Republicans held over 50 events on Social Security. House Republicans held over 150 events. After spending so much time talking about the need to fix Social Security permanently, and about how PRAs should be a part of any solution, Republicans are not about to take PRAs off the table. Furthermore, there is evidence that our hard work is paying off.

"Public sentiment has changed regarding Social Security reform. A recent [FOX News poll](#) found that 60 percent favor giving workers the opportunity to invest a portion of their Social Security contributions in stocks or mutual funds. Support for personal

retirement accounts is above 50 percent among all age groups and two-thirds of those under age 45 support PRAs. Further, a recent CNN/*USA Today*/Gallup poll found that 79 percent of Americans think Social Security is an ‘extremely’ or ‘very’ important issue for Congress to deal with. The poll also found 61 percent of Americans think political leaders are moving too slowly to change Social Security. Americans understand that there is a problem and are now looking to the Senate for solutions.

“Congress has the opportunity and responsibility to work in a bipartisan fashion to protect current and near retirees while ensuring sustainable financial security and peace of mind for future generations. Rest assured, Republicans remain committed to saving and strengthening Social Security this year to allow younger workers the option to build a nest egg by putting part of their Social Security taxes in PRAs.”

There remains some doubt though as to the Senate’s intentions, which has prompted new calls for the House to take swifter and more decisive action. According to the [Washington Times](#), “conservative House Republicans, beset with growing distrust of the Senate, are urging the House leadership to jump ahead of the Senate on Social Security reform and pass a bill based on large personal retirement accounts and no tax increases or cuts in benefits.”

“It is imperative now that the House pass a Social Security reform that reflects Republican principles,” said Rep. Mike Pence (R-IN), chairman of the conservative Republican Study Committee. “It’s not imperative that we do something. It is imperative that Congress does the right thing.”

FactCheck.org: Democratic Benefit Calculator Is “Rigged”

In a thorough and devastating critique released this week, the nonpartisan FactCheck.org set the record straight on the benefit calculator being used on the websites of 16 Democratic lawmakers.

The report’s summary follows.

“Democrats have been using a web-based ‘calculator’ to generate individualized answers to the question, ‘How much will you lose under Bush privatization plan?’ For young, low-wage workers it projects cuts of up to 50% in benefits. And a \$1-million TV advertising campaign is amplifying the claim, saying, ‘Look below the surface (of Bush’s plan) and you’ll find benefit checks cut almost in half.’

“In fact, the calculator is rigged. We find it is based on a number of false assumptions and deceptive comparisons. For one thing, it assumes that stocks will yield average returns of only 3 percent per year above inflation. The historical average is close to 7 percent.

“The calculator’s authors claim that they use the same assumption used by the Congressional Budget Office. Actually, CBO projects a 6.8 percent gain.”

The entire analysis of the calculator is available [here](#).

Doug Bandow: Cut Corporate Welfare to Help Finance the Transition

Cato senior fellow Doug Bandow [wrote this week](#) in the *American Spectator* online that moving to a prefunded system of personal retirement accounts could be partially financed by cutting corporate welfare. The problems facing the system are enormous and must be addressed, Bandow argues, and transition financing needn't be a barrier to reform. An excerpt of his commentary follows.

“System revenues are set to go negative in little more than a decade. Alas, there is no trust fund to keep paying benefits until 2041, as claimed by system supporters: all Uncle Sam possesses is a file cabinet full of IOUs from one federal agency to another.

“But the debate over numbers threatens to obscure the most important issue: giving people control over their own retirements. The AARP, apparently unconcerned about sparking a generational war as the tax burden on the young escalates ever skyward, got the issue precisely wrong when one of its hysterical direct mail letters demanded: ‘No private accounts with Social Security dollars!’

“There are no Social Security dollars. There are only Americans’ dollars. (Unless, say, the Emir of Kuwait, still grateful at being rescued by the U.S. after Iraq’s invasion long ago, is secretly underwriting the retirement program.)

“Since Americans are paying into Social Security, they should control the use of those dollars. And they should actually own them, in contrast to today, when their benefits vanish if they die prematurely—or Congress decides to take them away.

“No surprise, individuals are more responsible guardians of their own interest than is Congress. Indeed, given the personal scandals, institutional misbehavior, and irresponsible spending endemic to Capitol Hill, who could believe otherwise?

“One can legitimately argue about the design of a reform package, the size of the accounts, and the speed of the transition. But the worst thing to do is to maintain the status quo—or reinforce it by hiking taxes, pouring more money into a system doomed to actuarial failure.

“Opponents of personal accounts have attempted to argue that it is too expensive to let people control their own retirement futures. There are ‘transition costs,’ they intone.

“Well, yes, it isn’t easy to maintain current benefits while allowing future retirees to put at least some of their current taxes into private accounts. But doing nothing entails its own costs. About \$12 trillion worth.

“That’s the current estimate of Social Security’s unfunded liability. It has to be paid somehow. Private accounts simply turn some status quo costs into transition costs, while reducing the total. That’s a good deal by any measure.

“But grant the concern about the immediate future. How to finance the transition in the short-term?

“Cut unnecessary government spending on the rich.

“Not, mind you, raise taxes. Rather, Congress should slash outlays. That’s not hard to do. My Cato Institute colleague Stephen Slivinski estimates that corporate welfare runs about \$90 billion annually.

“There’s never been a good justification for forcing average taxpayers to enrich Boeing and McDonald’s and Archer Daniels Midland and the multitude of other firms on the federal dole.

“The federal budget offers a target-rich environment. There are the Export-Import Bank and Overseas Private Investment Corporation. There are subsidies for the agriculture and maritime industries.

“There are automobile, energy, and technology research payments. There is an endless stream of grants and loans to the housing industry and other businesses in a variety of guises.

“These programs should be cut on their merits. But ensuring that Americans regain control over their retirement destinies offers another good reason to act.

“Countries the world over are struggling with pension systems that face collapse as more people live longer. The U.S. is no different. Only bold reform, allowing Americans to control more of their own Social Security dollars, will avoid a national retirement catastrophe.”

Trust-less Trust Fund

Last week, President Bush visited the Social Security “trust fund” in West Virginia. Deroy Murdock—syndicated columnist and a member of the advisory board of Cato’s Project on Social Security Choice—describes the president’s visit and discusses what the trust fund really is in the following commentary, which ran late last week on *National Review* online.

“President Bush traveled there Tuesday to visit the trust fund. Americans could be forgiven for thinking that he toured giant vaults brimming with gold bars, diamonds, real-estate deeds, precious antiques, and paintings by Rembrandt and Frans Hals. No such luck.

“A lot of people in America think there’s a trust,’ Bush said, ‘that we take your money through payroll taxes, and then we hold it for you, and then when you retire, we give it back to you. But that’s not the way it works...There is no ‘trust fund,’ just IOUs, that I saw firsthand.’

“What Bush found inside the H. J. Hintgen Building, not far from the Ohio River, was the trust fund’s actual repository: The locked bottom drawer of a gray filing cabinet.

“Imagine—the retirement security for future generations is sitting in a filing cabinet,’ Bush said in astonishment.

“That drawer, inside an office of the U.S. Bureau of Public Debt, contains \$1.76 trillion worth of special-issue U.S. Treasury bonds. Each of these, 225 pieces of paper in all, is contained in one of two white, loose-leaf notebooks that hold plastic page covers. Despite the protective plastic, these certificates have no more financial value than the ink with which they are printed.

“The paper is symbolic,’ Bureau of Public Debt spokesman Pete Hollenbach explained in a February 26 Associated Press dispatch. As a 2004 Congressional Budget

Office report observed, the trust fund is an ‘accounting mechanism’ with ‘no economic resources.’

“The key reason these notes have no value is that the money that should be behind them—the excess payroll taxes not devoted to today’s retirees—instead gets spent by Congress on everything from farm subsidies to national parks to armored Humvees.

“In fiscal year 2004, Cato Institute scholar Michael Tanner reports, the Treasury collected \$570.7 billion in payroll taxes and credited Social Security with \$89 billion in interest. Social Security recipients received \$501.6 billion in benefits. This \$158.1 billion balance—which could have funded personal-retirement accounts—instead flowed into general revenues. Congress spent that amount no differently than income-tax proceeds. In corporate America, this misallocation of funds is punishable by law. In Washington, it’s the law.

“Even worse, these special-issue bonds are not traded in the capital markets, where investors could infuse them with cash value. They are merely IOUs under which future Congresses will have to finance the Treasury’s Social Security checks by raising taxes, authorizing increased federal borrowing, or cutting retirement benefits or other programs.

“Beginning in 2041, Washington will have to bridge an anticipated 30-percent gap between what Uncle Sam will collect in payroll taxes and what retirees are being promised.

“That task will be plenty difficult for the senators, congressmen, and presidents of tomorrow. And, as President Bush dramatized Tuesday, they will get precious little help from a drawer full of plastic-wrapped sheets of paper deep inside an Appalachian filing cabinet.”

Americans for Prosperity Lends Congress a Helping Hand

This week, [Americans for Prosperity](#)—a pro-PRA advocacy group—delivered a gift to several Senators and Representatives in Congress: copies of *The Complete Idiot’s Guide to 401(k) Plans*. According to a press release from Americans for Prosperity, the books were given to five lawmakers who remain adamantly opposed to 401(k)-style personal retirement accounts: Senators Harry Reid, Richard Durbin, and Hillary Rodham Clinton, and Representatives Nancy Pelosi and Charlie Rangel. A copy was also given to William Novelli, president of AARP.

“Millions of American workers are on the path toward a more comfortable, secure retirement because they’ve invested wisely and safely in 401(k) plans and IRAs,” said spokesman Ed Frank. “Allowing workers to also put some of their payroll taxes into 401(k)-style Social Security Personal Retirement Accounts will further strengthen their retirement security, and I hope the book will clearly illustrate this point to these opponents of PRAs.” Frank urged the recipients of the book to read chapter 23, “Social Security and Medicare.”

“That chapter explains how the current Social Security system is broken and needs to be fixed,” Frank said. “It’s clear that unless the system is reformed, it won’t

meet the needs of tomorrow's retirees, so workers should be allowed to build a larger nest egg by investing some of their payroll taxes in personal accounts.”

Publications

The National Council of La Raza has released [the transcript](#) from its session “The Great Debate: Social Security Reform, What’s at Stake for Latinos” from the 2004 NCLR Annual Conference in Phoenix, Arizona. The session’s panelists—Rep. Christopher Cannon (R-UT), Rep. Robert Menendez (D-NJ), as well as Peter Orszag of the Brookings Institution, and José Piñera of the Cato Institute—addressed how Social Security benefits Latinos, how it currently fails to include many Latino workers, and how it can be improved to meet the specific needs of the Latino community.

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