



Social Security Choice

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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Bush and Snow: PRAs Are a Must for a Permanent Fix

This week, President Bush and Treasury Secretary John Snow both made comments about using personal retirement accounts to achieve permanent, sustainable solvency. Below are excerpts from their various speeches.

“[Social Security reform is] not going to pass without a personal savings account. A plan with personal savings accounts would bring the Social Security system into the modern era. Social Security worked for a long time. There are fewer people paying in the system now. A lot of us are getting ready to retire. We have to think about modernizing the system. I want Social Security to exist and continue to exist. I want it to reflect the 21st century.” —*George W. Bush, April 19*

“I really appreciated the spirit in 1983 of President Reagan and Speaker O’Neill and others who said, we got a problem with Social Security, let’s come together and fix it. That’s the kind of spirit that I’m confident will prevail eventually here in Washington. By the way, this is the 22nd anniversary of the 75-year fix on Social Security. In other words, at the time they said, we got us a 75-year fix. The problem is, 22 years later we’re now talking about it—let’s make it permanent this time. And so, when Congress debates these issues, it’s really important to make sure that we have a permanent fix, that we get it done once and for all.” —*George W. Bush, April 21*

“Social Security has been patched up in the past. We’ve raised taxes to take us through a few more generations of retirees. But the patches don’t last because our demographics are working increasingly against us. We need lasting, meaningful reform. Part of lasting reform ought to be this option, for younger workers, to build a nest egg and I’m excited to be talking with this group about how to make that opportunity a reality in a fiscally responsible way that will not unsettle our financial markets.” —*Secretary John Snow, April 20*

Social Security Hearing Scheduled as Democratic Strategy Shifts

Sen. Chuck Grassley (R-IA), chairman of the Senate Committee on Finance, announced that the committee will convene next Tuesday, April 26, to discuss Social Security reform. They will hear testimony on “Proposals to Achieve Sustainable Solvency, With and Without Personal Accounts.” Cato’s [Michael Tanner](#) will be among those testifying before the committee. (For more information on the hearing, [click here](#).)

According to Grassley, the Committee on Finance will work “to produce bipartisan legislation to preserve Social Security. As part of that, Senator Baucus and I agree it’s important to look at the proposals that achieve sustainable solvency, with and without personal accounts. We need a good understanding of our options before we move forward.” Grassley added, “I hope to have a bipartisan proposal before the committee this summer.”

Although Grassley’s initial announcement suggested that the Committee would be seeking a tentative bipartisan agreement that could be used to engage intransigent Democrats, he acknowledged a shift in purpose towards the end of the week according to the [New York Times](#). Grassley said, “I’m going to put together a Republican-only bill as a first step to getting bipartisan support because I can’t lose time waiting for the Democrats to come to the table.” According to reports, the Grassley bill will address solvency and incorporate personal retirement accounts.

The announcement of the Finance Committee meeting came just days after the [Associated Press reported](#) that Democratic leaders might be backing off of their obstinate opposition to personal retirement accounts. As the AP reported over the weekend, “House Democrats have decided to quit emphasizing that they will not negotiate changes to Social Security until President Bush drops his idea for private accounts. The switch in strategy comes after Democrats learned from focus groups that people frown on the lawmakers for being obstinate.

“People feel like it doesn’t show a good-faith effort,” a top House aide revealed to the AP. “It makes us seem like we’re ‘typical politicians.’”

In spite of the AP report, it seems that obstinacy against PRAs will remain the order of the day among some key Democratic lawmakers. During the Finance Committee meeting, House Minority Leader Nancy Pelosi (D-CA) and Sen. Harry Reid (D-NV) plan to attend an anti-reform rally on the Capitol steps. Grassley said of his colleagues’ attendance at the rally, “This kind of activity just kind of hurts at a time when there isn’t a single Republican or Democrat in the Senate that doesn’t know that there’s a problem with Social Security.”

Ryan and Sununu Reintroduce Reform Bill

This week, Rep. Paul Ryan (R-WI) and Sen. John Sununu (R-NH) reintroduced their Social Security reform bill, which is based on a system of large personal retirement

accounts. At a press conference to announce the reintroduction of the Personal Savings Guarantee and Prosperity Act, Sen. Sununu gave the following remarks:

“Social Security faces a \$12 trillion shortfall that will be forced upon future generations if we don't act now to establish long-term solvency for this program. Critics would prefer to run and hide behind slogans instead of tackling an important issue head on. This approach makes them part of the problem, not the solution.

“Paul and I prefer to move forward. That is why we are re-introducing comprehensive legislation that will strengthen Social Security for future generations and establish long-term solvency for America's retirement security system. By giving younger workers the option to invest a portion of their payroll taxes in tax-free personal accounts, they stand to benefit from a stronger rate of return than Social Security could ever provide. No worker over the age of 54 will be affected in any way, and all workers will maintain a guaranteed minimum benefit as promised under current law. Personal accounts create economic opportunity, inheritable wealth, and prevent Social Security surpluses from being spent by Congress.”

For more specific information on the bill, see [this fact sheet](#) on Rep. Ryan's website.

Crane Memo to Rove Published in Wall Street Journal

The memorandum sent by Cato president Ed Crane to White House deputy chief of staff, Karl Rove, was published this week in the *Wall Street Journal*. In the memo, Crane suggests that the Bush administration is missing an opportunity to frame the debate on Social Security reform around ownership and inheritability, by far the most persuasive and difficult-to-refute arguments in favor of personal accounts. An excerpt of the memo—which appeared in last week's newsletter and is available online [here](#)—follows.

“President Bush has an opportunity to create a real legacy. He has been heroically bold in raising this issue. But it seems to me he's been timid in the manner in which he has chosen to promote it. Personal accounts are the right thing to do whether Social Security is solvent or not. Solvency discussions are boring, not to say uninspiring. Ownership and inheritability are inspiring. The fact that personal accounts help traditional Democratic constituents even more than Republicans should be another opportunity to turn debate around. Sending people out with charts and figures will achieve little. Returning to the first principles of liberty and opportunity—the true reasons to support personal accounts—will work.”

Bush Talks Solvency as Conservatives Draw a Line on Add-Ons

In a speech in South Carolina this week, President Bush began discussing ways in which Social Security could be made solvent, an issue that up to now has been discussed largely in conceptual terms rather than specifics. According to the *Washington Times*, the president “suggested that raising the retirement age and recalculating the way Social Security benefits are determined are ‘good ideas’ and should be discussed with

lawmakers in Washington.” Cato’s Michael Tanner noted that the president was wise to begin floating specific ideas for reform.

“He’s going to have to talk about this sooner or later,” Tanner said. “You can’t pass a concept. You have to pass a bill.”

Meanwhile, congressional conservatives denounced one idea that currently seems to be part of the president’s dubious everything-on-the-table strategy: add-on accounts. In response to [reports](#) last week that the president was “willing to discuss” add-on accounts created on top of the existing Social Security system, a group of conservative lawmakers are circulating a letter to be sent to the White House demanding that add-ons be abandoned. According to the *Washington Post*:

“House conservatives are afraid the White House will compromise on Social Security and go light on reform, so they are drawing a line in the sand this week, telling President Bush that they oppose any legislation that creates personal retirement accounts outside of Social Security.

“‘We worry when we hear these sort of things being entertained, and we just want to make sure that it’s not the president who is entertaining them,’ said Rep. Jeff Flake, an Arizona Republican who, with other conservatives, will sign a letter to Mr. Bush later this week. ‘When they tell you these things are on the table, that’s troublesome.’

“As Republicans seek a Social Security compromise, many on both sides of the aisle have expressed support for creating personal retirement accounts outside of Social Security—as add-ons that supplement Social Security benefits, to help people save for retirement. Last week, a USA Today article cited a top Bush adviser as saying the White House is open to discussing this approach.

“Rep. Mike Pence, Indiana Republican and head of the Republican Study Committee, said there is ‘broad conservative opposition in the House to add-on accounts,’ because they create a government handout and don’t reform the Social Security system.

Mr. Pence is circulating a letter for conservatives to send to Mr. Bush later this week, demanding that he stick with the carve-out accounts. Mr. Pence said conservatives want to prevent what they have seen in recent years, as legislation that began as reforms of education and Medicare morphed into massive expansions of government.

“‘Where conservatives have gone wrong in the past is, we haven’t made our firm positions clear early in the process,’ he said.

“After the USA Today article, Mr. Pence shot off a letter to the White House. He said he was assured no decisions were made and everything is still on the table, but he added that conservatives still want to ensure their opposition to add-ons is understood.

“A bill by Rep. E. Clay Shaw Jr., Florida Republican, has generated notable interest. It would create add-on accounts funded through a refundable tax credit. Under the proposal, when people reach retirement age, they would receive their promised Social Security benefits or the money in their personal account, whichever is higher.

“A Shaw spokeswoman said most people eventually would rely on their sizable personal accounts, so Social Security could begin to build up a surplus. The Shaw plan would cost \$3.4 trillion, but would create a \$4.6 trillion Social Security surplus after 75 years, she said.

“But Mr. Pence said this plan amounts to creating a government entitlement because low-income people would receive checks from the government for their add-on accounts. ‘We just want to kill this idea dead,’ Mr. Flake said. ‘This is not reform.’”

This Week in the Polls: Concern Over Social Security

Harvard University’s Institute of Politics

The Institute of Politics at Harvard University released the results from a survey of 1,206 college students from across the country this week. The results showed that concern about Social Security and its future ranked exceptionally high compared to other issues, placing second among students’ concerns behind Iraq. Seven in 10 college students noted concerns about whether or not the system could pay benefits by the time they retire, and students are considerably more in favor of personal accounts than the general population. A summary of the survey and its results is [available here](#) (in PDF format).

Harris Interactive

According to a [new poll](#) by Harris Interactive, Social Security tops the list of important issues for the government to address. The survey, released last week, asked 1,010 Americans to list their top concerns without any prompting—31 percent listed Social Security, more than any other issue. Iraq placed a distant second at 23 percent.

Other Polls

A recent Gallup poll and a recent Battleground poll show similar trends. In surveys from March, Gallup found that 23 percent of respondents thought Social Security would be the most important issue in 25 years, ranking highest among all the concerns listed. The Battleground poll discovered that Americans think Social Security is the single most important issue for the president and Congress to deal with.

Featured Daily Debunker: Newsweek’s Dubious Claims on PRAs

Each weekday, the Cato Project on Social Security Choice provides new content on its website, www.socialsecurity.org. The Daily Debunker, the most frequently updated feature on the website, sets the record straight about the most egregious instances of misinformation about personal accounts that appear in newspapers and magazines. This week’s featured debunker, from Wednesday, April 20, takes on a recent [article in Newsweek](#), by contributing editor Jane Bryant Quinn. From the Debunker:

Quinn makes a series of highly dubious claims to support the argument that Social Security personal accounts would be a big gamble.

First, Quinn trots out the oft-argued concept of “double benefit cuts.” Cut number one, she writes, will be the reduction in scheduled benefits that is necessary to achieve solvency. Quinn notes somewhat sullenly that raising taxes is off the table, so reducing future benefits is inevitable. The second cut she predicts will be the “cut” in our already reduced benefits that represents the portion of the payroll tax that has been diverted to a PRA.

When you retire, your annual benefit would be docked by the amount of money you contributed to your private account, *plus* 3 percent a year, *plus* each year’s inflation rate...That’s the second benefit cut.

As the debunker has pointed out many times, getting less back in benefits for putting less money in to start with is not a cut. The money that you aren’t paying into the system is going into your PRA and will be used to pay your monthly retirement benefits just as though it had been paid into the traditional system with one key exception: the money in your account is likely to earn a much higher rate of return above inflation than it would have in the traditional Social Security system—even the left-leaning Center for American Progress predicts a 4.6% return above inflation in a portfolio with 50 percent stocks and 50 percent bonds. That people continue to insist that this diversion of funds represents a “cut” in benefits speaks only to the desperation of anti-reformers.

The second claim Quinn makes is that, based on the estimates of one economist, young people would only break even or make money with PRAs 80 percent of the time if invested in a portfolio with 50 percent stocks and 50 percent bonds. Given that conservative ratio of stocks to bonds, 80 percent is quite phenomenal. Young people, however, would likely not start out with such a conservatively invested account. More likely, they would start with a higher ratio of stocks to bonds and gradually grow more conservative over time, boosting the 80 percent quite a bit. Quinn also claims that those invested totally in bonds—which she implies would be playing it “safe”—would lose out. But any young person investing entirely in bonds is not playing it “safe”—they’re playing it crazy. Diversification is the key to investment, and accounting for risk aversion by age is part of the process. Well-structured default plans could avoid the scenarios in which people are over-invested in either stocks or bonds at various stages in their lives.

Finally, Quinn makes claims about an alternative to PRAs:

[I]f today’s payroll tax was extended to cover higher incomes (\$90,000 and up) and government workers not now included in Social Security...two thirds of 20-year-olds-high earners included-would do better than under the most common options for reform, including private accounts. Social Security would be solvent, too.”

High earners would certainly not do better under the traditional system if their entire incomes were taxed at 6.2% unless the maximum cap on benefits were removed as well; this would, however, undermine the financial point of removing the cap. With the tax cap removed and the benefit cap maintained, high earners would get a much worse deal than they currently do as low earners became recipients of a massive wealth transfer.

As for forcing workers who are lucky enough not to be covered by Social Security back into the system? Forcing them out of their current pension plans—many of which provide much more generous benefits for much lower taxes than Social Security—would be nothing short of criminal.

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