

Social Security Choice

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

WEEK OF MAY 6, 2005

Cato Launches Major Campaign to Refocus Social Security Debate

The Cato Institute will be stepping up its efforts in the coming weeks to promote the key issues of Social Security reform: ownership, inheritability, and choice. As the nation's leading research foundation on the subject of Social Security reform, the Cato Institute has a long history of researching and analyzing the benefits of personal retirement accounts under America's retirement program.

Unfortunately, too much of the national debate about Social Security reform has been about "solvency dates," "infinite horizons," and "actuarial tables;" these technical issues have failed thus far to generate any of the passion that Social Security reform deserves.

In order to cut through the clutter and promote a message of ownership, inheritability, and choice, Cato has put together six radio spots, a book, and two new print ads; all toward the goal of educating lawmakers and the public about the virtues of Social Security choice.

As part of the expanded campaign, radio spots that have already been running in Washington, DC, will be released nationwide. Additionally, Cato's newest Social Security publication "It's Your Money" will be widely distributed, and print ads will appear in various national publications.

For more information on Cato's ongoing efforts, go to www.socialsecurity.org.

House Republicans to Take Up Social Security Reform

The Associated Press [reported this week](#) that Republicans in Congress will begin holding hearings and drafting Social Security reform legislation this month with hopes of having a bill ready for consideration by June. Meanwhile, according to the report, President Bush has warned Democratic lawmakers and their supporters not to engage in "politics as usual" on Social Security reform options, including progressive indexation. Excerpts of the AP story follow.

"Rep. Bill Thomas, R-Calif., chairman of the House Ways and Means Committee, told reporters he envisioned legislation that 'won't just be a Social Security bill.'

“It will be a retirement bill,’ Thomas said, indicating it would also include steps to encourage private retirement savings. He also signaled that the legislation could include provisions to ease the cost of long term or chronic health care for the elderly.

“Thomas talked with reporters in the Capitol as Bush made his first public appearance since prodding lawmakers to consider reducing the benefits guaranteed to future middle and upper income retirees as part of a plan to assure the solvency of the Depression-era program.

“I have a duty to put ideas on the table, and I’m putting them on the table,’ the president said in suburban Falls Church. Va.

“Thomas, the Republican chairman of the committee, said he intended to hold weekly hearings beginning in May until he is ready to present legislation to the panel in June.

“The president ‘delivered phase one,’ he said of Bush, who has campaigned extensively to build support for changes in the system.

“It is now our responsibility to follow through legislatively and we will do it in as short a time as possible so we will get that done this year,’ Thomas said.

“Across the Capitol, Sen. Charles Grassley, R-Iowa, chairman of the Finance Committee, has said he hopes to have legislation before the panel by the end of July.”

Thomas’s entry into the Social Security discussion has caused some speculation as to possible results—as he was quoted in the AP report above, a Thomas bill would not be limited to Social Security reform. According to [this article from the Washington Post](#), Thomas will likely include provisions to bolster corporate pensions, create tax breaks for long-term health insurance, and expand savings vehicles like 401(k)s and IRAs. Reports indicate that Thomas’s efforts to branch outside Social Security specifically might generate bipartisan support in the House.

Mike Tanner to Testify Before Ways and Means

The House Ways and Means Committee [has announced](#) that a hearing on “[Alternatives to Strengthen Social Security](#)” will be held on Thursday, May 12. Among the witnesses scheduled to appear are [Michael Tanner](#), director of Cato’s Project on Social Security Choice, and Robert Pozen of MFS Investment Management, who was responsible for developing the concept of “progressive indexation.”

The hearing will take place at 10:00 am in room 1100 of the Longworth House Office Building.

Cato’s Alan Reynolds Refutes Levitt’s Criticism of Personal Accounts

In a letter published this week in the *Wall Street Journal*, Cato senior fellow Alan Reynolds rejects the arguments made in a commentary by former SEC chairman Arthur Levitt. Among Reynolds’s criticisms of Levitt’s commentary, which follows, is the suggestion that projected investment returns can be reasonably compared to the unsustainable promises of “guaranteed” benefits from Social Security.

“In ‘Reform Is Good, But PSAs Are Not So Good’ (editorial page, April 26), Arthur Levitt Jr. turns a valid argument against life cycle funds into an invalid argument against personal savings accounts (PSAs). His source, Robert Shiller, demonstrated that stocks not only have a much higher yield than bonds but that the 6.8% predicted return on stocks is also safer (less variable) than the 3% average return on bonds. Since retirement accounts are smallest when people are young, and grow larger with compounding in middle age, any life cycle scheme that requires switching from stocks to bonds at middle age is bound to underperform. Yet Mr. Shiller also found, ‘Workers could do better, of course, if they eschewed the life cycle accounts and went for 100% stocks. In this case...the median net account is...ten times as large as with the baseline life cycle account.... Workers who choose the 100% stocks option lose only 2% of the time.’

“Mr. Levitt wants to ‘steer workers’ in 401(k) plans ‘out of risky investments.’ Yet that is the same paternalistic conceit that inspired politicians to try steering workers into life cycle plans they would never impose on federal workers or Yale faculty members.

“Even the subpar 3.7% return Mr. Shiller predicts for life cycle accounts cannot possibly be compared with future Social Security returns, as Mr. Levitt attempts to do, because nobody has the slightest idea what changes are in store for Social Security. There is no ‘guaranteed’ (or even predictable) future benefit for young people, and this generation cannot force future taxpayers to provide one. Life cycle plans would indeed be an inferior retirement plan, but counting on Social Security is no plan at all. For young people today, Social Security is an overpriced lottery ticket.”

Charles Rounds, professor of law at Suffolk University, expanded on the lack of a guarantee from Social Security in a letter that also ran in the *Wall Street Journal*.

“Mr. Levitt’s commentary is based on a flawed analogy. ‘Borrowing against one’s Social Security benefit to invest in the markets,’ he writes, ‘is a risky strategy that would only make sense for certain high net-worth investors who can afford to lose their entire investment.’

“The problem is that Social Security is an entitlement program (or, in the words of the Supreme Court, a welfare program). There is nothing to ‘borrow’ from. It is not a savings program. There is no rate of return, guaranteed or otherwise, because there is no ownership. Accordingly, the politicians with impunity may cut back or eliminate altogether our ‘accrued’ benefits. They have done so in the past and may do so in the future. That is why means-testing or jiggering benefit schedules are legal options.

“Bottom line: The current system is loaded with political risk. Not so with PSAs, which would involve real, not phantom, property rights. As to market risk, that can be mitigated by levels of diversification set by law and/or an investment loss welfare safety net.”

Current Social Security System Has Failed Hispanics

As [reported by the Washington Post](#), President Bush met with a Latino business group this week and pledged to continue fighting for Social Security reform. “There’s a

lot of moving parts, as they say—which says to me, I better keep working on it,” Bush said. “And I’m going to. I’m just getting started.”

According to the *Post*, “Bush said his plan to restructure Social Security by curbing future benefit increases for middle- and upper-income workers and adding private accounts is the best way to strengthen the retirement program without raising taxes. He also repeated his contention that his plan would protect the nation's lowest-paid workers by ensuring they do not retire into poverty. ‘To me, that’s a noble goal,’ Bush said.

“Bush told his audience yesterday that his plan to allow workers to divert a portion of their salaries into private accounts that are invested in the stock market would help low-income people build wealth and have a greater stake in society. He said he has directed several federal agencies to work with Hispanic business groups to help build financial literacy among Latinos to make them more confident about investing.”

In “[Hispanics Would Disproportionately Benefit from Social Security Choice](#),” Ian Vásquez, director of Cato’s [Project on Global Economic Liberty](#), wrote: “Hispanics in the United States can be proud that there is an idea emanating from Latin America that can solve the imminent crisis in Social Security in a way that increases individual liberty and personal wealth and that creates security in old age. In the words of *Newsweek* magazine, the reform of pensions is probably the first policy initiative coming out of Latin America with relevance and applicability to the United States and other rich countries.

“... The current system has failed Hispanics and has failed to reduce poverty in old age among Hispanics. It has made them extremely dependant on Social Security for their pension benefits, putting them in a very precarious situation. A private retirement system would not only encourage the accumulation of wealth that belongs to contributors, but its benefits far outstrip the benefits of the current system.”

Events

Next Thursday, May 12, the Heritage Foundation will host a policy discussion entitled “Progressive Indexing: Focusing Benefits on Those Who Need Them Most.” Three Heritage scholars—David C. John, Stuart N. Butler, and Rea S. Hederman—will discuss the implications of progressive indexation and its role in preserving the principle of social insurance for workers at every income level. For more details, click [here](#).

The Cato Institute will hold a forum on Monday, May 23 at 4:00 pm entitled, “Progressive Price Indexing for Social Security: What It Is; What It Isn’t.” The forum will feature Robert Pozen, Jason Furman, and David John. Look for registration information in next week’s newsletter.

Cato’s City Seminar program will be in New York City next week for a luncheon seminar on “Social Security and the Future of Limited Government.” Featured speakers include Ed Crane, president of the Cato Institute, Pat Toomey, president of the Club for

Growth, and Al Hubbard, director of the National Economic Council. For more information or to register, click [here](#).

Publications

The Heritage Foundation released two Web memos this week on Social Security reform. “[Bush’s Progressive Indexation Plan: A Key Step to Preserve Social Security](#),” by David C. John and Stuart Butler, looks at the president’s recent endorsement of progressive indexation as a means of improving the fiscal outlook of Social Security. “[How the President’s Plan Benefits Younger Workers](#),” by Rea S. Hederman Jr., describes how progressive indexation, in concert with personal retirement accounts, can ensure that today’s younger generations will have the chance to enjoy more comfortable retirements than under the current system.

Look for the online version of Cato’s newest publication, “It’s Your Money: A Citizen’s Guide to Social Security Reform,” early next week at www.socialsecurity.org. Hard copies will soon be available from the Cato online store at www.catostore.org.

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