



Social Security Choice

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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As Filibuster Debate Ends, Social Security Takes Center Stage

“With a dispute over judicial nominations at least temporarily resolved, Senate Republicans quickly moved a restructuring of Social Security to the top of their agenda Thursday, planning a committee vote, and possibly floor action, before the August recess,” [according to Congressional Quarterly](#).

“In a closed-door meeting of the Republican Conference on Wednesday, Senate Finance Chairman Charles E. Grassley, R-Iowa, said his committee would vote on a Social Security overhaul bill in the next two months, said aides who were present at the meeting. Floor action could quickly follow, even in the face of a Democratic filibuster,” *CQ* continued.

Although the Senate is hard at work on crafting reform legislation, it remains to be seen which chamber of Congress will take the lead. Under the leadership of Rep. Bill Thomas (R-CA), the House Committee on Ways and Means has already begun the hearing process on Social Security reform options. Thomas has indicated that reform should not focus specifically on Social Security but should be broad-based reform of retirement policy as a whole.

Cato’s Michael Tanner testified before the committee [last week](#) and in [late April](#). And this week, the committee heard [testimony from Rep. Sam Johnson](#) (R-TX), sponsor of the Individual Social Security Investment Program Act (HR 530), which is based on the Cato Institute’s “6.2 Percent Solution.” Johnson told the committee:

HR 530 “puts Social Security on sound financial footing right around the time critics are willing to acknowledge we have a problem. The Social Security Actuary determined that our bill permanently fixes the funding problems of the Social Security system at about *half* the cost of letting the current system roll forward without change. The current system is about \$12 Trillion in debt. In comparison, my bill would cost about \$6 Trillion to implement. ...and ultimately creates a surplus!

For more information on the Johnson bill, click [here](#). To see Cato’s “6.2 Percent Solution,” on which the bill was based, click [here](#).

Mike Tanner: Social Security's "Guarantees" Are a Sham

Michael Tanner, director of Cato's Project on Social Security Choice, wrote an op-ed distributed nationally this week that blasts opponents of reform who argue that personal accounts would tear a hole in the "guaranteed benefits" of Social Security. Far from being guaranteed, Tanner argues, the benefits provided by Social Security are subject to the whims and fancies of Congress and are far less secure than the rhetoric would have us believe. His commentary follows.

"How many times during the recent debate over Social Security reform have you heard someone refer to Social Security's 'guaranteed benefit'? The AARP says 'Social Security is the guaranteed part of your retirement plan.' Nancy Pelosi, the Democratic leader in the House, touts the system's 'guaranteed retirement benefit.' The liberal activist group ProtectYourCheck.org, headed by former Clinton chief of staff Harold Ickes, is running ads calling Social Security 'a guarantee you earned.'

"But Social Security benefits are not guaranteed.

"They are not guaranteed legally because workers have no contractual or property rights to any benefits whatsoever. In two landmark cases, *Flemming v. Nestor* and *Helvering v. Davis*, the U.S. Supreme Court ruled that Social Security taxes are not contributions or savings, but simply taxes, and that Social Security benefits are simply a government spending program, no different than, say, farm price supports. Congress and the president may change, reduce, or even eliminate benefits at any time.

"As a result, retirees must depend on the good will of 535 politicians to determine how much they will receive in retirement. And what could be less guaranteed than a politician's promise? In fact, Congress has voted to reduce Social Security benefits in the past. For example, in 1983, Congress raised the retirement age.

"Benefits are not guaranteed economically because the government doesn't have the money to pay them Social Security will begin running deficits in just 12 years. Overall, the program is facing unfunded obligations of roughly \$12.8 trillion. That means that it has promised \$12.8 trillion more in benefits more than it can pay. If we do nothing to reform the program, then—by law—Social Security benefits will eventually be cut by 26 percent.

"The only guarantee with Social Security is that younger workers will not receive what they have been promised.

"There is one glimmer of hope. President Bush and others have proposed that younger workers be given the choice of privately investing a portion of their Social Security taxes through personal accounts.

"The worker would own this personal account. It would be the worker's property, and no politician could ever take it away. Because the account belongs to the worker, it would be fully inheritable. When the wage earner dies, the money can flow to his or her relatives.

"Under the current Social Security system, when you die, the government simply gets to keep every penny you've paid into the system.

"While there are no guarantees with private investment, history has shown that American capital markets provide a much better rate-of-return over the long term than

Social Security. Workers who choose personal accounts could reasonably expect retirement benefits much higher than what Social Security can actually pay them.

“In fact, a middle-income worker who put his or her half of the Social security payroll tax (6.2 percent of wages) in a personal account, invested in a typical portfolio of 65 percent stocks and 35 percent bonds, would likely receive more in retirement than even what Social Security erroneously promises.

“The sales pitch for personal accounts should boil down to the following: It’s your money. You’ve earned it.”

Changing the Tax Base Hits Single-Earner Families

A [report from CNN Money](#) found that each of three scenarios to increase the income base subject to the payroll tax—the Wexler bill, the Pozen plan, and a hypothetical increase from \$90,000 to \$150,000—would have disparate impacts on different kinds of families with different earnings structures. A summary of the analysis follows.

“A two-earner household where each spouse earns \$100,000 for a total of \$200,000 in wages. Under the Pozen plan, they would pay an additional \$290 combined.

“If that same couple were a one-earner household pulling in the same \$200,000, they would pay an additional \$1,595.

“Here’s why there’s such a big difference: Under the Pozen plan, employees and employers would split a 2.9 percent tax on any wages over \$90,000. So when each spouse earns \$100,000, they would each pay 1.45 percent on the extra \$10,000. But if only one spouse earns the full \$200,000, he or she pays 1.45 percent on \$110,000.

“Meanwhile, single taxpayers under the Pozen plan would pay an additional \$145 if they made \$100,000, and an additional \$1,595 if they made \$200,000.

“Under the Wexler plan, the two-earner household where each spouse makes \$100,000 would pay an additional \$600. If only one spouse earned that \$200,000, they would pay an extra \$3,300.

“For singles under the Wexler plan, they’d pay an extra \$300 if they make \$100,000 or an extra \$3,300 if they earned \$200,000.

“Under a plan where the wage cap is raised to \$150,000—meaning the first \$150,000 of wages would be subject to the 12.4 percent payroll tax, half paid by the worker—a two-earner household would pay an additional \$1,240 assuming each spouse makes \$100,000.

“But a one-earner couple making that same \$200,000 would pay an extra \$3,720.

“Meanwhile, singles making \$100,000 would pay an extra \$620, but an extra \$3,720 if they earned \$200,000.”

Overall, CNN’s report makes it clear that while some plans might be less dramatic than others, all proposals to increase the tax base will add yet another layer of discrimination to the program. The analysis is compelling evidence in support of the case that a one-size national retirement plan doesn’t fit all.

450 Economists Still Support Social Security Choice

As part of its media campaign for Social Security reform, the Cato Institute collected endorsements of voluntary accounts and personal choice from 450 economists, including 5 Nobel laureates. The fact that so many leading economists have lent their voices to the cause for reform has gone [curiously unreported](#) in mainstream media outlets.

Last week, Michael Tanner appeared on CNBC’s *Kudlow and Company* to discuss the case for reform and what many bloggers and [supporters of reform](#) have been referring to as the “Forgotten 450.” To see Tanner’s appearance on CNBC, go to www.socialsecurity.org and look under “Featured.”

This Week in the Polls

Rasmussen Reports released the [results of a new poll on Social Security](#) this week. The poll found that 51 percent of Americans think Social Security needs to be reformed while only 38 percent prefer leaving the system alone. For Americans under 40, 68 percent want the system to be fixed—only 29 percent of people in that age group think the system should be left alone. Fifty-nine percent of all currently employed Americans want to see reform.

In a somewhat new twist on choice, the survey also asked whether people would like to be able to choose their own retirement age in exchange for adjusted benefits. Fifty-two percent think that people should be able to accept higher taxes or lower benefits in exchange for the right to choose their own retirement age. Such a proposal won support from young workers, those currently employed, and—importantly—workers ages 50–64, a group that has been difficult to sway with other reform proposals.

Denying Investment Opportunities Contributes to the “Wealth Gap”

Two studies released this week suggest that the wealthiest Americans build their wealth not through increases in their wages but through returns on investments. According to the *Wall Street Journal*, the studies—one by the wealth-research firm Spectrem Group and the other by Boston Consulting Group—demonstrate that “unlike many wage earners, the wealthy rely on investments for much of their increasing wealth. They also tend to invest in higher-risk and potentially faster-growing investments, including hedge funds, private-equity funds and debt instruments.” Further, the

Journal noted, “only 31% of [multi-millionaires’] wealth last year came from compensation.”

The findings of those studies are particularly important in the context of the debate about personal retirement accounts. The old adage that the rich get richer while the poor get poorer has increasingly been replaced by consternation on the political left over the fact that the rich get richer while the poor get richer at a much slower rate; the debate on wealth is now focused on shrinking the “wealth gap” between the rich and poor. Part of the reason for that gap, as the *Journal* article suggests, is that the wealthy have sufficient income to use on investments for wealth creation.

As Cato executive vice president David Boaz argued in a [recent commentary](#), low-income workers have little money to put towards investments at the end of the month. Boaz noted, “among those with incomes less than \$30,000 stock ownership is only 26 percent [compared to 84 percent for households earning more than \$75,000]. That’s why Social Security personal accounts would mean so much to low-income families. If you make a modest income, it’s not easy to put 12.4 percent of your income into Social Security and save more on top of that.” Letting workers invest in the market out of taxes they already pay could be a first step in closing the gap.

Events

For readers in the San Francisco area, there will be a Cato City Seminar on Social Security and the Future of Limited Government at the Fairmont San Francisco on Friday, June 17. For more information on these and other upcoming Cato Events, see our events page at www.cato.org/events.

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