



# Social Security Choice

## ***SOCIAL SECURITY THIS WEEK***

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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### ***CBO Report Blasts Government Investing***

As opponents of personal accounts search for ways to salvage Social Security's finances, some suggest allowing the government, rather than individuals, to invest Social Security funds in private securities. The latest long-range fiscal policy brief from the Congressional Budget Office, "[Acquiring Financial Assets to Fund Future Entitlements](#)," highlights the ineffectiveness of and risks involved in government investing.

The brief first acknowledges that the current system has limited options available to secure future retirement benefits. "[The] government is currently dissaving by running budget deficits.... If the government used some of its current receipts to buy financial assets, it would simply have to borrow more to meet its other obligations."

Furthermore, "even if the government had surplus receipts to invest, it is doubtful that a process to protect them would be sustainable. A future Congress, confronted by war, recession, or other urgencies, could spend the invested resources.... No trust fund, lockbox, or other accounting device has yet proved effective in protecting funds that have been set aside for future commitments from the fiscal demands that arise from one Congress to the next."

Second, the brief cites the dangers of government effectively owning private businesses. "Government ownership of stocks could affect corporate decisionmaking, interfere with the nation's competitive market system, and impede the efficient operation of financial markets—potentially limiting economic growth."

"The nation's investment resources and the economy's long-term capacity would increase if society consumed less and saved more. However, the government's purchasing of private securities and other financial assets would not, by itself, accomplish those goals.... the only obvious result would be a reshuffling of the financial portfolios of the government and the private sector."

Another option is for the government to "credit the Social Security Trust Funds with more government bonds. When money was eventually needed to pay benefits, the government could sell the bonds. While that strategy may appear to be reasonable, the eventual sale of those bonds would have the same effect as the government's borrowing the money then."

The brief continues: “Government acquisition of financial assets to meet promises of future entitlements may distract attention from the steps needed to enhance investment. Instead, the accumulation of financial assets by the federal government may render a false sense of having taken effective action.”

And finally, the brief states that individuals are more likely to optimize savings than the government when investing in private securities. “Assets set aside to fund future obligations are most likely to be insulated by a system in which ownership and control rest with individuals. In that circumstance, each participant has property rights and legal recourse to guard against the diversion of resources. An approach in which the government invests collectively on behalf of beneficiaries is less likely to succeed.”

### ***Toomey Continues Social Security Road Show***

In his article, “Traveling Panel Seeks Social Security reform,” Michael Sadowski, of the *Scranton Times* [reports](#) on a statewide Pennsylvania tour promoting personal accounts as a means to keep Social Security solvent and to satisfy the need for ownership of and control over an individual’s lifetime earnings and retirement income. The tour, hosted by a Washington, D.C.-based personal account advocacy group, [Social Security Choice.org](#), scheduled several town hall meetings to stress the immediacy of reform and to introduce the benefits of personal accounts.

The latest gathering of Social Security experts included Bob Costello, president of Social Security Choice.org, Rep. Pat Toomey (R-Penn.), Jim Martin, president of the 60 Plus Association, and Peter Ferrara, president of the International Center for Law and Economics. They all agree, Sadowski reports: “All the money today’s workers put into the Social Security fund may not be there to support them when they retire.”

“By about 2040 or 2041, there won’t be anything left,’ said Costello...while stumping in the area for support of a fully funded Social Security that allows people more control over their money. “There will be nothing but liabilities. The system will be bankrupt.”

Toomey, successful in the 2002 congressional elections after campaigning strongly on options for personal accounts, has been a member of the panel at most of the Pennsylvania tour meetings. Sadowski says Toomey plans to “challenge incumbent U.S. Sen. Arlen Specter in the spring 2004 primary.”

Sadowski writes: “The people gathered Monday to favor a system allowing workers to invest the money they normally would put in the Social Security fund. But it would only be an option; anyone wishing to stay in the traditional system could do so.

“But make no mistake, Toomey said, change is necessary. ‘Social Security is the biggest program in the country,’ he said. ‘If we don’t do anything to fix the current problems, it will fail. We can’t afford to let it fail.’”

According to Sadowski, “Ferrara said a similar plan was instituted in Chile about 20 years ago, and now an average worker in Chile has twice the amount of savings that an average American worker does, despite earning one-seventh of an American salary.”

## **Ferrara Touts Social Security Plan**

Last week, the [Institute for Policy Innovation](#) released a new Social Security proposal by Peter Ferrara. In a *Washington Times* commentary, “Mending Social Security,” Ferrara, director of the International Center for Law and Economics, describes what the future of Social Security would be under his proposal. Excerpts of his commentary follow:

“Many good books and studies have been written developing the rationale for allowing workers the freedom to choose a personal savings and investment account in place of at least part of their current Social Security coverage. What is needed now is a specific proposal for reform that delivers on the promise of personal accounts.

“In a study released...by the Institute for Policy Innovation, I propose a specific, detailed, progressive reform plan, which provides a broad range of benefits for working people, lower income workers, African-Americans, Hispanics, women, and others.

“The plan would allow workers the freedom to choose to save and invest in their own personal accounts 5 percentage points of the total 12.4 percent Social Security payroll tax [10 percentage points of the tax go to finance retirement benefits]. On the first \$10,000 of wage income, however, this would be doubled to 10 percentage points, including both the employer and employee shares of the tax.

“This would enable lower-income workers to save a higher percentage of their incomes in the accounts than higher-income workers. As a result, lower-income workers would gain as much from the accounts as middle- and upper-income workers.

“Indeed, exercising such an account option over their entire working lives and earning just standard market investment returns on a diversified portfolio of stocks and bonds, workers across the board would retire with 60 percent to 75 percent more in benefits than Social Security promises, but cannot pay.

“The Treasury Department would contract with a number of private fund managers to offer investment funds to workers who exercised the personal account option, as in the Federal Employee Thrift Savings program. Other investment firms can apply to be added to the list, all regulated for safety and soundness.

“The entire system would be backed up by a safety net providing a guaranteed minimum benefit equal to what Social Security would have paid without the account. There would be no change in current Social Security benefits for those retired today, or in future Social Security benefits for those who did not exercise the option.

“Social Security disability and pre-retirement survivors benefits would continue to be paid by the old Social Security framework as today. Workers would be free to choose to stay in the current Social Security system as is.

“Such personal accounts would unwind the long-term Social Security deficits, and eliminate the program's unfunded liabilities, with nothing more than the positive features of the accounts themselves. If almost all workers ultimately exercise the personal account option, eventually we would reach the point where virtually all workers are relying on the accounts for their retirement benefits in place of the old Social Security framework.

“At that point, the old Social Security system would bear little or no benefit obligations, and there would consequently be no deficit or unfunded liability of any consequence in that old system.

“Such personal accounts would also provide low- and moderate-income earners their only real chance to participate in investment markets like higher-income workers, and accumulate substantial savings and capital. This would result in much broader and much more equal ownership of wealth and capital, which would greatly enhance social solidarity and harmony.

“The goal is to expand the support for this reform plan over time until it includes the president of the United States, and Republican and Democratic leaders of the Congress.”

### ***The Other Senior Issue***

In spite of all the attention devoted to Medicare reform this week, an article in the West Virginia *Intelligencer Wheeling News-Register* claims that it is Social Security that cannot wait. By enacting swift reform of Social Security, President Bush and many recently elected members of Congress will have kept their promise to reform the ailing system. The article, [“Other 'Senior' Issue Still Quiet,”](#) follows:

“The Congress seems determined to create a huge new drug entitlement for today's seniors in order to garner votes in 2004, but what about tomorrow's seniors? We're referring to the senior issue that, unlike the drug benefit, actually ranked in polls as an issue that actually makes a difference in how people will vote: Social Security reform.

“It was one of the signature issues of President Bush's 2000 campaign, and a number of members of Congress—notably moderate Republicans such as North Carolina Sen. Elizabeth Dole—campaigns on Social Security reform in 2002. But there's been hardly a peep about it in official Washington since the White House turfed the issue off to a bipartisan commission two years ago.

“The reasons for reform are quite simple and have not changed: The Social Security system, left alone, will go bust in the span of a generation. It's a rip-off for younger workers; those in their early 30s can expect, at best, returns in the 1 percent range—yes, *one*—on Social Security taxes that claim 12.4 percent of income. And, last, despite being forced to pay in over a lifetime and the program's carefully tended image as a super-annuity, workers don't own a dime of their Social Security accounts.

“Bush's idea in 2000 was to allow workers to actually set aside a portion, just a meager portion, of their Social Security taxes in owned investment accounts. Those accounts, if they tracked the broader market, conservatively would bring long-term returns in the 6 percent range. This can be done without changing benefits of current or near-retirees, just as other nations have made the transition.

“Every serious analyst of Social Security—left, right or middle—agrees that the system needs reform, even though they may disagree on the particulars. The savings model has demonstrated the ability to defuse what for decades as a “third rail” of

politics, in large part because those of the Baby Boom generation and younger see retirement savings accounts as the norm, not an aberration.

“All that's lacking is political initiative in Washington. Time is running out. As a practical matter, major policy discussion will likely come to a standstill by the end of the year, as the 2004 campaigns get under way to satisfy ridiculously early primary calendars. The first wave of Baby Boom retirements is now less than 10 years away. If the opportunity for reform is squandered again this year—with a sitting president having campaigned on Social Security reform—exactly when should Americans expect it to happen? When the Boston Red Sox and the Chicago Cubs face off in the World Series?”

“Americans deserve better than what has become an unconscionable delay of badly needed Social Security reform.”

### ***Upcoming Events and Announcements***

The [Manhattan Institute for Policy Research](#) invites you to a luncheon forum, Tuesday, June 24, at 12 P.M, to discuss, “Reform of Social Security: What’s at Stake for Minorities?” Speakers John C. Goodman, president of the National Center for Policy Analysis, and Harry C. Alford, president and CEO of the National Black Chamber of Commerce, will present how both organizations are relaying the message of Social Security reform to millions of black Americans throughout the United States through a volunteer network called Team NCPA. The event will be held at the Harvard Club, 27 West 44th Street, New York City. RSVP to 212.599.7000, ext. 410.

**Job Opening, Senior Social Security Analyst:** The Cato Institute’s [Project on Social Security Choice](#) is looking for a senior Social Security analyst. The successful applicant will have an advanced degree in economics or a related discipline or equivalent experience. The candidate should have detailed knowledge and understanding of the U.S. Social Security system, as well as the economic and actuarial issues associated with various proposals to reform the system. Excellent written and communication skills are a priority. Candidates should be committed to the principles of limited government and individual liberty, as well as to reforming Social Security through individual accounts. Submit résumé and writing samples to [Michael Tanner](#), director of Cato’s Project on Social Security Choice.

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