

Social Security Choice

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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Republican Senators Unite behind Reform Bill

Following months of public and private discussions, GOP lawmakers introduced a bill in the Senate based on the Social Security reform proposals crafted by Sen. Jim DeMint (R-S.C.). The bill provides for personal accounts funded only from the current Social Security surplus. These accounts would be smaller than in other proposed models, drawing on approximately 2 percent of payroll taxes, but do not divert any money from current Social Security spending. Instead, the bill would end the current practice of spending the Social Security surplus as part of general revenue, locking the surplus payroll taxes into owned accounts that cannot subsequently be diverted to other government projects.

The bill is widely seen as an attempt to break the deadlock on reform by eliminating, or at least postponing, several disputes over other reform options. The bill creates no new debt, leaves existing Social Security spending unchanged, and limits investment options to no-risk Treasury bonds to start. As such, it is hoped the bill will shift the focus of the debate to issues of ownership and inheritability.

Republican senators have come together to endorse the bill, unveiled by Sens. Jim DeMint (R-S.C.), Rick Santorum (R-Pa.), Lindsey Graham (R-S.C.), Mike Crapo (R-Idaho), Tom Coburn (R-Okla.), John Sununu (R-N.H.), Johnny Isakson (R-Ga.), Mike Enzi (R-Wyo.), John Cornyn (R-Texas), Trent Lott (R-Miss.) and Sam Brownback (R-Kan.). Several of the senators backing the new bill had previously promoted reform models of their own.

DeMint explained the thinking behind his plan to safeguard the current Social Security surplus:

“Social Security has been a secret slush fund for Congress for over twenty years. It’s time to stop the raid and start the accounts. American families pay thousands of dollars in Social Security taxes every year, and not a penny is saved for their retirement. Politicians of both parties have been secretly robbing workers’ retirements to pay for other programs. This plan will take the first step toward long-term reform by locking away money today and reducing government obligations tomorrow. This plan will restore integrity to the program and restore trust with the American people about how Social Security is run.”

House Republicans Offer a Surplus-Funded Accounts Bill

Several House Republicans introduced a bill before the Ways and Means Committee centered on a limited Social Security reform proposal to restrict use of the Social Security surplus to Social Security spending. The bill—sponsored by Reps. Jim McCrery (R-La.), Clay Shaw (R-Fl.), Sam Johnson (R-Texas), and Paul Ryan (R-Wis.)—would create individual accounts for workers. The proposal will not contain measures to ensure long-term solvency for Social Security, such as progressive indexing, but will return ownership of a small portion of payroll taxes—the surplus—to individuals in the form of GROW accounts (Growing Real Ownership for Workers).

The plan is similar to that introduced by Senate Republicans, based broadly on the reform plan authored by Sen. Jim DeMint (R-S.C.). The legislation would end the current practice of siphoning off the Social Security surplus each year to top-up funding for other congressional projects.

GROW accounts would initially be invested in Treasury bonds, which would have the same yield as the current system. However, beginning in 2009, the fully-marketable bonds could be sold by account holders and invested in other bonds and stocks, within regulated limits.

Ways and Means Committee Chairman Bill Thomas (R-Calif.), who is expected to soon unveil his comprehensive retirement legislation with changes to private pension rules and new provisions on tax-sheltered savings as well as Social Security reform, said, “This proposal will likely form the basis for one of the components of a developing retirement security package. I applaud these Members for developing GROW accounts to ensure Social Security dollars are spent on Social Security, and I support their efforts to find common ground on which we can move forward.”

Rep. Sam Johnson of Texas, a cosponsor of the new bill, previously introduced legislation based on the Cato Institute’s “6.2 Percent Solution.” Johnson said, however, that he will not back down from his support of his own bill ([HR 530](#)).

Key Difference between House and Senate Accounts Bills

Though the premise of the Social Security bills introduced in each chamber of Congress is the same, there are some things that are different, which are worth noting.

Specifically, there is a difference with respect to cash flows. In the Senate version, the surplus revenue goes directly into personal accounts. In the House version, there is a complex cash-flow mechanism that would send the surplus dollars first to the traditional trust fund, then to Congress, then back into accounts.

According to *CQ Today*, “Payroll taxes would be paid to Social Security’s trust funds, which would pay benefits and program expenses, then loan the surplus to the federal government in exchange for non-marketable Treasury bonds, as happens now. But instead of spending the surplus on other programs, the government would use it to create individual accounts. The accounts would be invested in marketable Treasury bonds, in effect sending the surplus back to the government to be spent.”

There is concern among some that this will extend Social Security's solvency only on paper, while actually putting the government on worse financial footing overall. *CQ Today* continued, "[Ed] Lorenzen [of Centrists.org] says that mechanism would mean the government owes two debts for the surplus: one to Social Security's trust funds and a second for the bonds held in the individual accounts."

Cato's Mike Tanner Responds to New Reform Bills

In response to the announcement of the two new Social Security reform bills, Michael Tanner, director of Cato's Project on Social Security Choice, penned the [following commentary](#). In the commentary, which originally ran in the *Washington Times*, Tanner argues that while the bills are nothing approaching a permanent solution, they would prevent the Social Security surpluses from being squandered and put needed pressure on the Democrats to come to the negotiating table.

"With Senate Democrats still unified in their opposition to any proposals to reform Social Security that include personal accounts, Sen. Jim DeMint, South Carolina Republican, may have come up with a proposal that will put them on the spot.

"Mr. DeMint has said that he will introduce a bill that would rebate Social Security surpluses to workers in the form of contributions to personal accounts. Today the surplus, currently running around \$150 billion per year, is used to pay for general government spending. In return, the Social Security Trust Fund is given a bond that will eventually have to be repaid out of future taxes. Mr. DeMint's proposal would prevent Congress from spending the surplus, allowing individual workers to save that money toward their own retirement.

"The proposal does little to address Social Security's looming insolvency. Nor is it all that individual account supporters would like to see. The accounts would be temporary and far too small to rectify Social Security's biggest problems: the lack of ownership, inheritability and choice in the current system. Limiting investment to bonds would deprive younger workers of earning a higher rate of return. As such, this bill should not be the final word on Social Security reform. A more comprehensive approach would still be needed, either now or in the near future.

"But the bill does reach across the ideological divide in a way that should be hard for honest Democrats to resist.

"Democrats have said that personal accounts take money out of Social Security. Mr. DeMint's proposal would only use Social security surpluses. The government's general operating budget would be deprived of those funds, but Social Security's finances would not be touched. There is no 'transition cost.' Democrats have said personal accounts are too risky. Mr. DeMint's proposal would let workers invest only in government bonds. All that would change is who holds the bonds. Instead of the Social Security Trust Fund keeping the bonds, individual workers would hold them. Workers would gain some of the benefits of ownership and inheritability without assuming any market risk.

“Democrats have said Social Security surpluses should not be used to fund non-Social Security spending. Mr. DeMint’s proposal would represent a true ‘lock box,’ devoting that money solely to the worker’s retirement. Without Social Security surpluses to hide behind, Congress would have to face up to the choices of running higher deficits, raising taxes or, hopefully, spending less.

“This is not to say that the Democrats’ arguments have merit (personal accounts help Social Security’s finances over the long-term; markets are remarkably safe given the diversification and long investment horizons envisioned), but Mr. DeMint is meeting the Democrats on their own terms. Like a good poker player, he is calling their bluff. If their stated objections are removed, what is it that they are opposed to? The very idea of people owning and controlling their own money?

“In the end, the Social Security debate is not about risk or transition costs or even actuarial solvency. It is a debate about whether people should be entrusted to make decisions about their own lives. It is a debate about who should control your retirement: you or the government.

“Mr. DeMint has cleared away all the smoke and mirrors and put that debate straight in front of us. Now let’s see which side the Democrats come down on.”

Media Jump the Gun on Reform without Accounts

Media coverage of the Social Security reform debate stepped out of line with development in the middle of the week after a Republican senator’s remarks caused confusion. Sen. Robert Bennett (R-UT) spoke to reporters following the meeting of several Republican senators and the president. Sen. Bennett told reporters:

“[Bush] indicated I should go forward. We can use this bill to break the logjam.”

The remark sparked extensive reporting announcing that the president had stepped back from his insistence on approaching Social Security reform through personal accounts. However, Sen. Bennett moved quickly to [correct](#) the mistake:

“I don’t want to get ahead of the story here. The president spoke favorably of the blended indexing which is the main part of my bill but we didn’t specifically say, ‘and it’s a good thing you’re dropping private accounts.’ Frankly that didn’t come up. He knows I am dropping private accounts from the bill, not because I don’t believe in them. I do. I support personal accounts just as the president supports personal accounts. I think they’re essential long-term.”

“But,” Bennett continued, “so many Democrats have been saying we won’t support anything that has personal accounts, that I decided to separate them, put them in a separate bill, which I will also offer and say all right, let’s see how many supporters we can get for a bill without personal accounts and then we’ll have the discussion about personal accounts later. So I don’t want to overstress the president’s kind words as being a signal that he was more than willing to jettison personal accounts because he never said that.”

Despite the clarification midway through the day, some media outlets continued to report a White House surrender on personal accounts up until the introduction on Wednesday morning of a bill in senate, based on the reform plan promoted by Sen. Jim DeMint (R.-S.C.) that locks the Social Security surplus into personal accounts that cannot be diverted by Congress to other projects.

Emphasizing the administration's continuing commitment to personal accounts, President Bush spoke in Maryland on Thursday morning, using the opportunity to [reiterate](#) his strong support.

Grassroots Student Groups Organize for Reform

President Bush used a recent Social Security event in the DC area to highlight grassroots organizations working on options for personal accounts-based Social Security reform. Speaking at Montgomery Blair High School in Maryland, Bush noted the emergence in the last number of months of new groups of young workers, worried about the system's approaching insolvency and their own retirement security.

Speaking with the president at this week's discussion was Ben Ferguson of [Students for Saving Social Security](#). Reacting to media coverage, Mr. Ferguson [stressed](#):

"There's been a lot of people that have said in the media that young people just don't care. We started our organization two months ago. We have over a hundred college campus chapters that have said, 'we want to be involved in this debate.'

"We realized that basically our chance at Social Security, the only chance we ever have to have this, is if it gets fixed and we get our personal accounts. That's the only way we're going to get it. We know it's not fair, we know we're paying someone money that we're not going to see, and so we need our second chance."

As polling numbers show strong support for personal accounts among younger workers, President Bush emphasized the weight of expectation of those newly entering the workforce:

"The idea is to say to younger workers, instead of putting money into a bankrupt system, or a system that will be bankrupt, we're going to, one, permanently solve the problem and, two, give you a better deal, by letting you watch your own money grow, investing in a safe mix of bonds and stocks that will compound over time.

"You've got younger Americans saying, don't count on Social Security. I guess the word is getting out—slowly, but surely—we've got a problem with Social Security, to the point where you've got some people saying, don't count on it. As a matter of fact, I saw a survey where it said younger workers feel like they're more likely to see a UFO than get a Social Security check.

"Members of the Senate and the House aren't hearing from younger Americans."

[Students for Saving Social Security](#) was established in April. Chapters have opened in more than a hundred colleges around the country.

Events

There will be a rally at Taft Memorial Park near the Capitol Building this Sunday, June 26. Spearheaded by Fix Our Future, a group favoring Social Security reform, the rally hopes to bring together young people from across the country. For more information on the “Storm for Reform,” click [here](#).

The Center for Strategic and International Studies and the Concord Coalition will host a conference next week entitled “Social Security Reform: Is There a Bi-Partisan Solution?” The event will be hosted at CSIS on Thursday, June 30, from 8 AM to 2 PM. For more information, contact Keisuke Nakashima at knakashima@csis.org.

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