



# Social Security Choice

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

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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### ***DeMint Victory Another Win for Social Security Reform***

Voters in South Carolina on June 22 chose three-term Representative Jim DeMint, one of Congress' leading advocates of Social Security reform, as the Republican nominee for the United States Senate. DeMint has been an outspoken advocate of allowing younger workers to privately invest their Social Security taxes through individual accounts.

“Representative DeMint’s victory means that there could soon be another strong voice for Social Security reform in the U.S. Senate,” says [Michael Tanner](#), director of the Cato Institute’s [Project on Social Security Choice](#). “If Representative DeMint wins the general election this fall, he will join the ranks of such prominent reformers as Sens. John Sununu (R-NH), Lindsey Graham (R-SC), and Elizabeth Dole (R-NC), who have demonstrated the power of Social Security reform as a political issue.”

Rep. DeMint is the sponsor of the “Social Security Savings Act,” which would give workers under the age of 55 the option to redirect a portion of their payroll taxes to individual accounts. The portion will vary on a progressive scale, with 8 percent for a worker with \$1 of earnings, and 3 percent for a worker with taxable maximum earnings (\$87,900 for 2004). This proposal guarantees that every retiree would at least receive 100 percent of current benefit levels. Social Security Transition Bonds would be issued initially as a source of transition financing.

### ***Tanner Responds to CBO Report on Social Security***

Cato’s [Michael Tanner](#), director of Health and Welfare Studies, comments on the “wait-and-see” approach to Social Security favored by some legislators in Washington. Tanner argues that reform of the Social Security system through the use of privatized accounts must remain a priority in Congress. The full text of his [Washington Times](#) editorial follows:

“Denial, as the saying goes, is not just a river in Egypt. Last week, the Congressional Budget Office (CBO) released a report suggesting there will be a slightly lower actuarial deficit and a later insolvency date than previously estimated by the Social Security Administration itself. Opponents of Social Security reform immediately seized on the reported improvement in Social Security finances to argue against fixing the program.

“Rep. Robert Matsui, California Democrat, said the report proves ‘radical reforms are unnecessary.’ Barbara Kennelly of the National Committee to Preserve Social Security said, ‘It would be absurd for policymakers to drastically alter the program based on those numbers.’

“But one wonders if these critics of reform actually bothered to read the report. If they had, they would have seen CBO’s analysis is simply more bad news for the nation’s troubled retirement program.

“Among the report’s findings:

“The report, which uses more optimistic technical assumptions than the Social Security Administration, indeed shows a tiny improvement in fiscal outlook, albeit with lower benefits.

“For example, under CBO’s assumptions, Social Security will begin running a deficit by 2019, a year later than estimated by SSA. That hardly seems worth celebrating.

“The CBO estimates the Social Security Trust Fund will be exhausted by 2052, 10 years later than the SSA projects. This is largely the result of assuming an increased interest rate attributed to bonds in the trust fund. However, the report notes, ‘Those Trust Funds are mainly accounting mechanisms and contain no economic resources.’

“In other words, the Trust Fund doesn’t actually do anything to help pay Social Security benefits. We could set the interest on the Trust Fund bonds to 100 percent, make the system technically solvent for years, but do nothing in reality to increase funding for the program.

“Simply, even using CBO’s more optimistic technical assumptions, Social Security remains unsustainable: unable to pay promised future benefits given current tax revenues. The report concludes that ‘unless taxation reaches levels that are unprecedented in the United States, current spending policies are likely to result in an ever-growing burden of federal debt.’

“Critics of Social Security reform were also quick to cite the report’s conclusion that the present value of the long-run actuarial deficit for Social Security is approximately 1 percent of payroll, or \$3.7 trillion, compared with 1.9 percent estimated by the SSA.

“Nearly \$4 trillion is still real money, even by Washington standards. However, ‘actuarial solvency’ is the least rigorous and relevant measure of Social Security’s financial situation. For example, it does not include the cost of redeeming bonds in the

Social Security Trust Fund or consider costs beyond the actuarial window. Better measures, such as ‘infinite horizon’ projections, would show a much worse fiscal picture.

“On top of that, the CBO achieves much of its savings by assuming lower benefit payouts in the future. That is, the CBO expects Social Security to become an even worse deal for younger workers in the future. Imagine what would have happened if some politician had suggested we could buy a few more years of actuarial solvency by slashing Social Security benefits. Would Mr. Matsui or Ms. Kennelly be celebrating?”

“The report does not address Social Security’s many nonfinancial issues: unfairness to working women and minorities, the lack of property rights, or the drain on national savings—all of which provide further arguments for reform.

“In fact, in the end, the biggest reason for reforming Social Security is not a question of getting the lines to cross on a budget chart. It’s about giving Americans ownership and control over their own money.

“The upcoming election promises to give voters a clear choice. On one side will be those like President Bush who want to create a better, more secure retirement system by giving younger workers the chance to save and invest their Social Security taxes through individual accounts. On the other side, Ms. Kennelly and Mr. Matsui will keep on whistling past the graveyard.

“That’s a debate that can’t start too soon.”

### ***Kerry, Bush Seen Ducking Social Security Debate***

An article published on [TheStreet.com](http://TheStreet.com) discusses the viability of Social Security privatization plans in the upcoming campaign. Michael Tanner, director of the Cato Institute’s Project on Social Security Choice, speculates in the article that President Bush ought to focus on the issue immediately following this year’s Republican National Convention. He further suggests that Sen. John Kerry, presumptive presidential nominee of the Democratic Party, has only three options for fixing the ailing Social Security system—raising taxes, cutting benefits, or supporting privatization. Of these, Tanner asserts that the only acceptable method of saving Social Security is private investment accounts. Excerpts follow below:

“The future of your Social Security benefits is at great risk and trapped in a system hurtling toward bankruptcy. Or maybe your government-sponsored retirement benefits are just fine. It all depends on whom you ask.

“Uncertainty about the financial health of the Social Security system is playing a huge role in Americans’ retirement planning—and likely will work its way into the fall election season. President George W. Bush and the presumptive Democratic candidate Sen. John Kerry of Massachusetts, as well as candidates for the Senate and House of Representatives, will offer their ideas for fixing a retirement benefit system some critics say is beyond repair.

“The recent release of a key government report that says the system is in better shape than generally believed brings the debate into focus once again, though it doesn’t directly address the issue of private retirement accounts, support for which is pretty much split along partisan lines.

“About 47 million people now receive some form of Social Security benefits, but the projected increase of 30 million more baby boomer beneficiaries has observers of every ideological stripe concerned the system won’t be able to keep up.

“The Congressional Budget Office said the Social Security trust fund will be depleted by 2052, a decade later than the long-term predictions issued by the trustees of the retirement system. The latest report also says Social Security spending will jump from its current 4.4% share of the gross domestic product to more than 6% by 2030, while current federal revenue dedicated to the system will remain steady at about 5% of GDP.

“The CBO report was intended to update lawmakers on the state of the Social Security system, and complement its reports on Medicare and Medicaid spending, issued at the end of last year, a spokesman for the office said.

“Bush and many Republicans long have advocated the creation of individual retirement accounts using part of workers’ Social Security taxes to allow people to invest in stocks and bonds on their own. Variations on this theme would divide worker contributions between the existing Social Security system and private investment accounts, with some curbs on how the money is invested.

“Kerry and many Democrats believe the current system is in need of repair, not renovation.

“Democrats argue there’s no need to put retirement benefits at risk in the stock market if the system can be fixed, while Republicans and critics of the current system say debating the difference in the reports fails to address Social Security’s fundamental flaws. Critics say the report’s finding that Social Security will need more money from the general revenue fund by 2019 is more important, because that will siphon money from Medicare and Medicaid.

“Expect to hear from each side frequently in the run-up to the July 26 start of the Democratic National Convention and the Aug. 30 kickoff of the Republican National Convention.

“‘The latest talk from behind the scenes in Washington is that President Bush will begin laying out a second-term agenda from the convention on,’ says Michael Tanner, director of health and welfare studies at the Cato Institute, a libertarian think tank that supports private retirement accounts. ‘I think Bush needs a big domestic idea, and I think he wants to do this. If he wants to do this in 2005, he needs to talk about it now.’

“Chad Kolton, press secretary at the Office of Management and Budget, says the trustees’ report figures are used in its budget projections, but that the slight differences between that report and the CBO’s findings share one basic conclusion.

“Whether it’s 2018 or 2019, there will be a point where Social Security would require money from the general treasury, and that would continue for 40-some years

until the program becomes insolvent,' he says. 'In order to maintain Social Security for the long term, changes would need to be made.'

"Tanner says Bush will have a chance to make a virtue of necessity at the convention. 'Both of those reports concluded the same thing—Social Security is unsustainable in its current form,' he says. 'There are only three options: raise taxes, cut benefits and invest privately. I think raising taxes and cutting benefits is unacceptable.'"

### ***Matt Moore Warns against Complacency on Social Security Reform***

In a [\*Washington Times\*](#) editorial, Matt Moore, senior analyst with the National Center for Policy Analysis, joins the growing ranks of those in Washington distressed over the numbers in the recently released CBO report. In questioning those who take a "wait-and-see" attitude toward Social Security reform, Moore reminds readers the system remains in dire need of repair. He endorses a privatized Social Security system. The full text of the article follows:

"A new report by Congress' official budget shop, the Congressional Budget Office, sent the Social Security universe into a tizzy. The CBO report says Social Security's long-term debt is slightly smaller than the \$10.4 trillion price tag estimated by Social Security's trustees back in March.

"Critics of President Bush's proposal to strengthen Social Security with personal retirement accounts immediately seized the new report as evidence that when it comes to Social Security—to borrow a line from Mark Twain—reports of its imminent death are greatly exaggerated.

"The CBO report shows just how tentative estimates about the problems of Social Security are, and how absurd it would be for policy-makers to dramatically alter the program based on those numbers,' said Barbara Kennelly, president of the National Committee to Preserve Social Security and Medicare.

"The CBO's findings reinforce previous indicators that Social Security is continuing a decade-long trend of stability and even improvement in the long-range health of the system,' said Rep. Bob Matsui of California, ranking Democrat on the House Ways and Means Committee.

"Perhaps Ms. Kennelly and Mr. Matsui are reading a different CBO report than I am. The version I saw says Social Security's finances run short in 2019—only 15 years away. From that point on, all the money the Social Security Trust Fund has been loaning to the federal budget over the years will have to be paid back. 'In effect,' says the CBO report, 'cash will be transferred from the government's general fund to Social Security,' either through higher taxes, lower spending on other programs or higher debt.

"Between 2019 and 2052, when the CBO report says the Social Security Trust Fund will run dry, the government will have already transferred several trillion dollars from the general fund. It will be like the trust fund never existed. Thus, it doesn't matter if the trust fund is exhausted in 2042—as the Social Security trustees suggest—or 2052, as the CBO report projects.

“Basically, CBO’s numbers are slightly different than the Social Security trustees because of different assumptions about wage growth, inflation and other assumptions, but in the end, whether Social Security is promising \$10.4 trillion, like the Social Security trustees suggest, or 20 percent less, as the CBO report projects, the effect on the federal budget will be significant.

“And that’s just for Social Security. Add Medicare, which is also partially paid for from the payroll tax, and the problem is much worse and much more immediate. The two programs combined will consume all \$789 billion they are expecting to collect in payroll taxes this year, but they will still need an additional \$45 billion from general income tax revenues to pay fully promised benefits.

“In all, to pay Social Security and Medicare benefits from now on, we need \$72 trillion in the bank today, earning interest. Needless to say, we don’t have it. Thus, each generation will have to hand over more and more money.

“Regardless of which report you believe, Social Security and Medicare face tough times ahead. America is aging. When Social Security began, there were 42 workers paying into Social Security for each retiree collecting benefits. By the time Medicare was put into effect in the 1960s, the ratio had fallen to 16-to-1. Today, the ratio is 3-to-1. Between now and mid-century, after retirement of the 77 million Baby Boomers, the ratio will decline to 2-to-1.

“This is important because Social Security and Medicare aren’t savings programs. Instead, they pay benefits to today’s retirees using contributions collected from today’s workers. When we current workers retire, our benefits will be paid by our children and grandchildren, and so on.

“That’s why so many economists suggest strengthening Social Security with the inclusion of personal retirement accounts. Under such a reformed program, Social Security’s burden on future taxpayers would be dramatically reduced because each worker would save part of his or her own Social Security benefits.

“Further, a reformed Social Security program will not become a vacuum, sucking resources from other important priorities, such as roads, schools and our nation’s defense. At the same time, personal accounts will stimulate investment and economic growth and free up resources needed to fix Medicare—which is in much worse shape than Social Security.”

## ***Bush Lays Smackdown on Social Security***

[\*World Wrestling Entertainment\*](#), in conjunction with eight other organizations, has surveyed a group of 18-to-30-year-olds in an effort to attract young voters. President George W. Bush responded to questions that the potential voters asked, and addressed his plans for Social Security in his second term in office. The text of the question, and excerpts of Bush’s response, follows:

***“What policies will you promote to help young adults achieve greater financial planning and security, and to help those who are living paycheck to paycheck to get out of that cycle?”***

**“GB:** When Americans have more control over their own money, they make decisions that fuel economic growth and create prosperity throughout the economy. They also have more money to save and invest as they see fit. That’s why I worked so hard to pass tax relief and why I continue to support efforts to allow young Americans to voluntarily invest part of their Social Security taxes in personal accounts.

“These accounts would be individually owned and controlled, and would allow individuals to seek a higher rate of return on their investment in Social Security. For many Americans, it would be their first opportunity to build assets that could be passed on to their children. For all Americans who participate, it would offer an opportunity to be part of an ownership society and exercise more control over their own money.”

### ***Houston Chronicle Urges Further Caution on CBO Report***

An editorial in the [\*Houston Chronicle\*](#) further cautioned Americans against becoming complacent on the issue of Social Security reform, following the release of the Congressional Budget Office’s report. The newspaper again reminded readers that the CBO report has not ruled out the insolvency to which Social Security remains headed. The editorial further urged Americans to explore Social Security privatization as a means to prevent the collapse of the Social Security system. The text of the article follows below:

“Little comfort should be taken from the Congressional Budget Office’s report that Social Security is in better financial shape than even its trustees are predicting. Retiring baby boomers and those who will shortly follow them into their supposed golden years should remain concerned about the long-term soundness of the government retirement program, as should taxpayers. Social Security is in serious trouble.

“The CBO’s projection that payments to retirees will not exceed revenues until the year 2019, rather than 2018, and will remain solvent until 2052, rather than 2042, as Social Security trustees have predicted, is no cause for celebration. The projection merely reflects the reality that forecasts into the future are based on various assumptions, and vary depending on who makes them.

“Assumptions used by the CBO include higher inflation-adjusted wages for workers, greater productivity, lower unemployment and reduced retirement benefits for those retiring after 2020. Those assumptions might not come true.

“What the public should keep in mind is that in either 2018 or 2019 — just 14 or 15 years from now — the annual Social Security payout will become more than the amount workers and their employers will be paying into the fund.

“To meet Social Security’s obligation to retirees, increasing amounts of tax dollars will have to be pulled from the nation’s general fund to supplement the program. That

will result in fewer dollars available for the government to spend on education, defense, Medicare, Medicaid or whatever.

“Open-minded members of both parties in Congress should seriously explore President Bush’s advocacy of a voluntary, partial privatization of some of the funds workers now contribute to Social Security. Privatization offers the prospect of more retirement dollars for future retirees.

“The rubber will meet the road in 14 or 15 years. Those in their early 50s or younger ought to be talking to their congressmen and senators about Social Security’s soundness.”

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