

Social Security Choice

SOCIAL SECURITY THIS WEEK

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Johnson, Toomey, Flake to Introduce Cato's "6.2 Percent Solution."

Reps. Sam Johnson (R-TX), Pat Toomey (R-PA) and Jeff Flake (R-AZ) are planning to introduce Social Security reform legislation next week based on Cato's "6.2 Percent Solution." The three Congressmen have scheduled a press conference next Thursday to announce their plans.

Key aspects of the legislation include:

- Individuals will be able to privately invest their half (**6.2 percentage points**) of their payroll tax through individual accounts.
- Individuals who choose individual accounts will receive a **recognition bond** based on the benefits they have already accrued under Social Security. Workers choosing individual accounts will forgo accrual of future benefits from traditional Social Security.
- **Allowable investment options** for the individual accounts will be based on a three-tier system: a centralized, pooled collection and holding point; a limited series of investment options, with 60/40 stock/bond fund as a default mechanism; and a wider range of investment options for individuals who accumulate a minimum level in their accounts.
- At retirement, individuals will be given an **option of purchasing a family annuity or taking a programmed withdrawal**. These two options will be mandated only to a level required to provide an income above a minimum level. Funds in excess of that level can be withdrawn in a lump sum.
- The government will provide a **safety net** by guaranteeing a minimum Social Security benefit equal to 120% of the poverty level.

- If an individual accumulates sufficient funds within their account to allow them to purchase an annuity equal to 120 percent of the poverty level, he or she will be **able to opt out** of the Social Security system in its entirety.
- **The remaining 6.2 percentage points of payroll taxes** will be used to pay transition costs and to fund disability and survivors benefits.
- This discussion will be offered **in the context of payable Social Security benefits**. That is, workers who choose to remain in the traditional Social Security system will receive a level of benefits commensurate with what Social Security can pay with existing levels of taxation. Those workers will receive the same level of benefits as workers retiring today, after adjusting for inflation, but future promised benefit increases above inflation would not occur.

The legislation is part of a growing consensus in favor of large individual accounts as part of Social Security reform. However, it is designed in a way that is expected to minimize transition costs and make the plan less expensive than other large account proposals.

Hartford Courant Sees Social Security as a Campaign Issue

John McDonald writes in the [*Hartford Courant*](#) this week that President Bush has a good chance of making Social Security a top priority on his domestic policy campaign agenda. With the recent nomination of Jim DeMint, a South Carolina Republican, for the U.S. Senate, many politicians are becoming less afraid of campaigning on the issue of Social Security. Such results can only help the president as he combats the critics of his Social Security privatization plan, which Michael Tanner, Cato's director of the Project on Social Security Choice, suggests will be a primary domestic concern for President Bush in his campaign. The text of the article follows below:

“After Jim DeMint, a youthful looking 43-year-old, won the Republican Senate nomination in South Carolina last month, conservatives quickly said his victory proved that politicians can safely advocate major changes in Social Security.

“Defying traditional political wisdom to leave Social Security alone, DeMint openly embraced the most far-reaching revisions ever proposed for the program, changes long supported by conservatives who have considerable influence with the Bush administration.

“The question now is: Has President Bush been paying attention?

“Analysts who have very different views about what should happen to Social Security agree that if Bush is re-elected, he will make a major push to set up private individual investment accounts within Social Security.

“It will be one heck of a fight,’ predicted Barbara B. Kennelly, president of the National Committee to Preserve Social Security and Medicare and a former Democratic House member from Connecticut who opposes allowing workers to divert some Social Security taxes into private accounts.

“Democratic presidential candidate Sen. John F. Kerry promised earlier this year that he will ‘never privatize’ Social Security. Kerry’s running mate, Sen. John R. Edwards, also rejects the idea, drawing a line between the Democratic ticket and Bush on one of the most sensitive issues in American politics.

“Bush threw his support behind private investment accounts during the 2000 campaign, as a way to give workers more control over their money, then sidetracked Social Security in favor of revamping Medicare.

“But if voters return Bush to the White House, conservatives say, they have been told the president’s top domestic priority will be Social Security, the New Deal creation that paid \$471 billion in benefits last year, making it the nation’s largest domestic program.

“I think the prospect of Social Security being an agenda item in a second Bush administration is a certainty,’ said Derrick Max, executive director of the Alliance for Worker Retirement Security, one of several conservative coalitions working to promote private investment accounts.

“Bush campaign adviser James C. Capretta confirmed those expectations. ‘The president has made it very clear that he is willing and eager to show the leadership that is necessary to move the [Social Security] program to a much more solvent and secure program,’ said Capretta, a former White House budget official who worked on Social Security issues. ‘The president believes personal accounts are central to that.’

“Bush has not embraced a specific plan for creating private accounts, but conservatives say he will support their idea of carving the accounts out of the existing 12.4 percent Social Security payroll tax. Proposals call for setting aside up to half of the payroll tax to establish the accounts.

“Supporters argue that private accounts, which would be invested largely in stocks, would produce higher returns than the current Social Security program, which invests in ultra-safe Treasury bonds. In addition, supporters assert that private accounts would give beneficiaries personal control over their retirement and help reduce Social Security’s long-term deficit.

“Critics respond that minor adjustments could preserve Social Security without exposing beneficiaries to stock market risks. Further, they argue that Social Security provides benefits—such as disability insurance and survivors insurance—that would be lost if the program began to emphasize investment gains through private accounts.

“The argument raged largely in academic circles for a decade. Then, in 1997, the Clinton administration began to analyze the idea of personal accounts, though it came to no conclusion. After endorsing the idea during the 2000 campaign, Bush appointed a commission that many analysts thought would lead to an administration proposal for setting up private accounts.

“The 2001 terrorist attacks and the war in Iraq caused Bush to set Social Security reform aside. Conservatives say Bush decided he could not tackle both Social Security and Medicare and opted to do Medicare first because senior citizens were pushing for a politically popular prescription drug benefit. There was no comparable pressure for Social Security changes.

“Michael Tanner, an analyst at the Cato Institute, a Washington think tank, said, ‘What we’ve been hearing is that in terms of a domestic agenda [Social Security] is it.’

“David John, who tracks Social Security issues for the Heritage Foundation, another Washington think tank, said he is ‘pretty confident’ that Bush will push private investment accounts if he is re-elected. ‘This is a legacy issue,’ John said. It also has the support of key segments of Bush’s conservative political base and business groups.

“But Bush will have to push the issue during the campaign if he wants to claim a second-term mandate for changing Social Security, several analysts said. At the moment, Iraq and the economy are the dominant issues for voters.

“Social Security is barely a blip in most polls, which means the president will have to put his own political capital on the line to achieve any change in the retirement program, analysts said. ‘Congress will not do it alone,’ John said.

“If Bush wins re-election, he will face several obstacles gaining approval for personal investment accounts. Among them:

“Democratic opposition in Congress. Even if Republicans maintain control of both houses of Congress, Democrats are expected to have enough votes in the Senate to block any plan that would carve personal accounts out of Social Security. If Democrats regain control of the Senate, personal accounts will be virtually dead.

“Opposition from AARP. The 35-million member senior citizen lobby supports increasing personal savings but not carving out investment accounts from Social Security, said John Rother, AARP’s director of planning. AARP plans to use its publications this fall to remind members of the organization’s views and the positions of the candidates.

“Transition costs. Allowing younger workers to put some of their payroll taxes into private accounts while guaranteeing full benefits to older workers and retirees—as many propose—would increase the program’s short-term deficit. Estimates vary but start at \$1 trillion. With the government currently running an annual deficit of about \$475 billion, covering the transition costs would be difficult.

“In addition, a recent report by the nonpartisan Congressional Budget Office said Social Security will remain solvent until 2052, a decade longer than previously forecast. That could give many politicians a reason to sidestep the issue altogether.

“Thomas Mann, a congressional scholar at the Brookings Institution, a Washington think tank, said large deficits will inhibit the next president in passing proposals that involve any major new spending.

“‘Do I think that Congress would pony up a trillion dollars for the transition costs to private accounts in Social Security? No, I do not,’ Mann said.

“Still, that does not keep conservatives from pushing the issue. In South Carolina, DeMint won a runoff election and Senate nomination by including personal investment accounts in his platform, following the lead of several other Republican politicians.

“Personal accounts have been winning across America for several years now,’ said Grover Norquist, president of Americans for Tax Reform and an influential conservative. ‘Whether it’s George W. Bush in 2000, Sens. Elizabeth Dole, Jim Talent, Lindsey Graham and John Sununu in 2002, or Jim DeMint in 2004, personal retirement accounts for Social Security are a political winner.’”

Biggs, Shays Discuss Social Security Reform Town-Hall Style in Connecticut

The [*New Haven Register*](#) reports that Representative Christopher Shays (R-CT) and administrators at the SSA met Connecticut residents recently to address growing concerns over Social Security. The officials stressed the need to overhaul the program before it reaches insolvency in 2042. Both Shays and the officials from SSA argued in favor of privatized accounts as the means to make the Social Security program self-sufficient. The full text of the article follows below:

“Federal officials met with about 40 people at the Shelton Community Center on Saturday to discuss the state of Social Security, which they say needs immediate change.

“U.S. Rep. Christopher Shays, R-4, organized the event.

“I think as Americans we have to act sooner than later,’ Shays said.

“Deputy Commissioner of Social Security James B. Lockhart told the concerned citizens that if the system continues to operate the same way, by 2042 there will be a large cut in Social Security benefits.

“Lockhart said that 2042 is when the special trust fund for Social Security that has been set up with yearly surplus funds from Social Security payroll taxes will run out.

“If we take action sooner, it will have to be a lot less drastic than if we wait until disaster hits,’ Lockhart said.

“Associate Commissioner for the Office of Retirement Policy Andrew Biggs said the Social Security Administration has developed a simulator that lets officials see the differences between various future scenarios.

“It helps illustrate the pros and cons of the choices we have to make,” Biggs said, ‘One of the goals is to make the system self-sustaining.’

“Biggs said that in 2018, Social Security will begin dipping into the trust fund, because tax collections will be less than benefit spending.

“Lockhart said that there are several options being looked at to revitalize the system, including raising the payroll taxes that support Social Security or increasing investing options and reducing benefits for future generations According to Biggs,

increased payroll taxes would 'reverse that effect' in the short term but wouldn't fix the long-term problem.

"Lockhart talked about the second option, which would allow workers to invest a percentage of their Social Security payroll taxes in exchange for reduced benefits when they become eligible for Social Security.

"That 'could increase payable retirement benefits (in the long run),' Lockhart said.

"Shays said the increased investment options would likely be by allowing people to choose indexed markets to invest in, similar to the Thrift Savings Plan that Federal Employees invest through.

"Shays said that program has proved successful and could be adapted for the public."

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