



Social Security Choice

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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President Bush Renews Call for Individual Accounts

As the Bush campaign begins laying out plans for a second-term agenda, the president has renewed his support for proposals to allow younger workers to privately invest a portion of their Social Security taxes through individual accounts. At an “Ask the President” campaign stop in Annandale, Virginia, Bush responded to a question about Social Security reform by saying,

[O]ne of the interesting questions that we'll be confronted with in government when the baby boomers begin to—really begin to retire, is how to make sure the Social Security system is strong so that the infants will be able to see something from Social Security. This is a very important issue for young workers. Old guys like me don't need to worry about it because the system is solvent for those who have retired, or are near retirement. What we need to worry about is younger folks.... I want them to share with the people who might be listening, how they think about savings, what savings means as a young couple. And maybe they've got some suggestions on Social Security—how to strengthen the system, how to make it fulfill the promise—better fulfill the promise that our government has made....

After a young couple, Chris and Susie Ensign, spoke of their support for individual accounts, the president continued:

What Chris just said is part of an attitudinal shift towards Social Security that is taking place in the country. When I was coming up, it was pretty well assumed that Social Security would be all right—until people began to calculate the fact that there's a lot of baby boomers who are going to be on the system relative to the number of payers into the system, like Chris. And the fundamental question is, can we change the system by strengthening it, so that Chris can realize there's something available for him after he pays for me? That's really what we're talking about, isn't it?

And what he just said was, he said, look, if you look at the rates of return on the money in the Social Security trust fund, they are so abysmally low, that it is impossible—virtually impossible from a fiscal perspective—to

make the system work without raising taxes on him and his family, to the point where it chokes productivity and progress.

And then what he said was, he said, well, would government please consider putting aside some of my own money—at his choice—in a personal account, an account that he could manage under obviously strict guidelines, but could get a better rate of return for his money than that which we're now getting inside the Social Security trust. And by the way, it would be an account that is his own, or their own, that they could then pass on to whomever they wanted to pass it on to. I support the idea of creating a personal saving account for younger workers in order to make sure the system is solvent.

The campaign event was devoted to the president's call for "an ownership society," which includes health savings accounts and increased home and small business ownership, in addition to Social Security reform.

The Bush-Cheney campaign also released a new position paper on Social Security that says: "President Bush favors personal accounts for today's workers. These personal accounts would provide ownership, choice, and the opportunity for all workers to build a nest egg to help with their retirement and pass on to their heirs."

John Kerry: All Social Security Needs Is a "Tweak"

Campaigning at a senior citizens center in Nevada, Democratic presidential candidate John Kerry attacked President Bush's proposals to allow younger workers to privately invest a portion of their Social Security taxes through individual accounts and said that Social Security did not need major reform.

Kerry reiterated his position: "I will never privatize Social Security. I will not cut the benefits, and I will not raise the retirement age in this country, period." Kerry claimed that the bush proposal would take \$1 trillion out of the Social Security Trust Fund and would expose seniors to risks of the marketplace.

Kerry went on to minimize Social Security's financial problems and to deny that the program needs major changes:

[T]o those who say to me, well, the Social Security's system is going to be in trouble, you've got to do this, ladies and gentlemen, I've spent 20 years in the Congress, I've heard that several times before. And each time we hear it, we fix it. We fix it in a little, you know, tweak here, tweak there. The biggest fix for Social Security is to put America back to work and start creating jobs that pay more than the jobs that we're losing overseas. And that's what I intend to do. That's what I intend to do.

In reality, Social Security will begin running a deficit in less than 15 years and faces more than \$26 trillion in unfunded liabilities. And, because benefits are linked to economic growth, it is impossible to grow our way out of Social Security's financing

problems. For more information, see Andrew Biggs, "[Social Security: Is It a Crisis That Doesn't Exist?](#)"

Michael Tanner: Where is John Kerry's Social Security Plan?

Writing this week in the [Houston Chronicle](#) and elsewhere, Michael Tanner, director of Cato's Project on Social Security Choice, questions whether or not John Kerry has any kind of concrete plan for dealing with the fiscal crisis facing Social Security. According to Tanner, the evidence overwhelmingly implies that no plan for reform exists. Kerry has even failed to acknowledge that any problem exists, claiming that minor "tweaking" is all that will be necessary to preserve the system in its current state. The text of Tanner's op-ed follows:

"When it comes to Social Security reform, John Kerry is clear about what he is against. 'I will not privatize Social Security,' he declared in his acceptance speech to the Democratic National Convention. 'I will not cut benefits.'

"The Democratic Party as a whole takes the same position through its party platform: 'Democrats believe in the progressive, guaranteed benefit that has ensured that seniors and people with disabilities receive a benefit not subject to the whims of the market or the economy. We oppose privatizing Social Security or raising the retirement age.'

"It is a clear, resounding message...that says absolutely nothing about what Sen. Kerry or the Democrats would do to solve Social Security's looming financial crisis.

"Yet Social Security will start running a deficit-spending more money on benefits than it takes in through taxes-in less than 15 years, by 2018, according to the last report of Social Security's trustees. The so-called Social Security Trust Fund, which is supposed to help pay benefits until 2042, in reality contains only government bonds, essentially an IOU. While few people doubt that those benefits will ultimately be paid, the federal government will still have to find the money to pay them.

"And a lot of money it is. In 2018, the first year that Social Security faces a shortfall, the cash deficit will exceed \$17 billion. That's almost as much as Kerry has proposed in increased spending on Pell Grants. By 2022, the annual Social Security deficit will have grown to roughly \$100 billion, as much as Kerry would spend for a proposed energy trust, increased veterans benefits, fully funding Head Start, and increased spending on homeland security. By 2027, with the annual deficit approaching \$200 billion, you can add in the his proposed increases in aid to state and local governments, his national service plan, and science and technology research. And so it goes.

"Overall, Social Security now faces unfounded liabilities in excess of \$26 trillion. One has to wonder where Kerry plans to get the money.

"Actually, it is all too clear where the money will come from. As former President Bill Clinton pointed out, there are really only three options for Social Security reform: raise taxes, cut benefits, or invest privately. Since Sen. Kerry rules out private

investment or benefit cuts, he could legitimately be accused of implicitly endorsing tax increases.

“And mighty big tax increases they would have to be: a 50 percent increase in the payroll tax or the equivalent. This would be a tax hike far higher than what Kerry would ‘save’ by rolling back parts of President Bush’s tax cuts—even if he hadn’t already promised to use those savings to fund other government spending.

“Not that financing is the only problem with Social Security. The program already provides today’s workers with a low, below-market return on their tax ‘contributions’ to the program. The program unfairly penalizes African-Americans, working women and others. Workers don’t own their money or have any guaranteed right to their benefits. In short, it is a program crying out for reform.

“But Sen. Kerry continues to duck the issue.

“Frankly, that’s not good enough. No one should be running for president if he can’t stand up and tell the American people what he would honestly try to do about Social Security. President Bush has made his position clear. He would allow younger workers to privately invest at least a portion of their Social Security taxes through individual accounts. You can agree or disagree with that idea, but at least you know where he stands.

“If Sen. Kerry plans to raise taxes to prop up Social Security, he should tell us. If he has another idea, he should share it with us. If he believes that the current program, with all its problems, is the best we can do, he should say so.

“Sen. Kerry says that he has ‘reported for duty.’ But on one of the most important domestic issues facing this country, he has been AWOL.”

Cox News Service: Social Security Emerging as a Key Domestic Issue

Writing this week for Cox News Service in the [*Palm Beach Post*](#), Larry Lipman finds that Social Security’s status as the “third rail” of politics might soon be coming to an end. Lipman notes that both the Bush and Kerry camps seem to be gearing up for substantive discussion on Social Security as the campaign heats up, especially since Bush seems so comfortable discussing privatization of the system in the context of his larger “ownership” theme. Though neither candidate has endorsed a specific proposal for reform, it seems clear that Social Security will be a key domestic issue. In the following excerpt, Lipman describes both candidates’ positions on the issue, noting their key statements on Social Security and the options for reform:

“Plans to deal with the approaching funding crisis have gained urgency in recent years.

“Bush’s recent promises to allow young workers ‘to manage and own some of their own retirement accounts’ echoes his campaign position four years ago. But the president has never specifically said how he would accomplish that goal.

“Shortly after taking office, Bush appointed a 16-member bipartisan commission headed by the late former Sen. Daniel Patrick Moynihan, D-N.Y., and Richard Parsons, then co-chief operating officer of AOL Time Warner Inc. The commission’s instructions

were to recommend a plan to provide private investment accounts as part of Social Security.

“Instead of a single plan, the commission came back in December 2001 with three alternatives, each of which called for send part of the system’s payroll taxes to individually managed private accounts instead of the Social Security trust fund.

“The most widely supported option would divert 4 percent of payroll taxes, up to \$1,000, into personal investment accounts. Upon retirement, a worker’s account would be converted into an annuity, and his or her Social Security benefits would be reduced accordingly.

“Bush has indicated that his proposal would be voluntary and would not affect those who are already retired or nearing retirement age, although he has not specified what age would be covered.

“Since the commission issued its recommendations, there has been no action by the Bush administration or Congress on the issue.

“‘What he’s got is a framework,’ [the Heritage Foundation’s David C.] John said. ‘It’s a good start, but it’s no more than that. There will have to be a lot of details and a lot of discussion before this is a retirement plan you could make a decision on.’

“Meanwhile, several Republican lawmakers, including Rep. E. Clay Shaw Jr., R-Fla., chairman of the House Social Security subcommittee, have proposed reforms, but none have gained traction without White House support. Many of these plans call for diverting a larger share of the 12.4 percent payroll tax shared by workers and employers to the private accounts.

“Kerry, who has said economic growth can solve most of the Social Security financing problem, has ruled out most proposals to cut benefits, raise the eligibility age or impose a wealth test. But he has indicated he might consider reducing benefits for wealthy longtime retirees.

“Appearing on ‘Meet the Press’ last year, Kerry noted that ‘someone who’s very wealthy is fully repaid in their Social Security by the time they are 77 years old. So that wealthy person may be drawing down money they didn’t put in, plus interest, from somebody earning \$20,000 a year. Now, as a matter of fundamental fairness, I don’t understand why John Kerry and Teresa (Heinz Kerry) ought to be getting from someone earning \$22,000, if I were lucky enough to live into the 80s.’”

“Jason Furman, the Kerry campaign’s economic policy director, said Kerry has not specified at what point, or by how much, benefits would be reduced. But Furman said the cap would likely be for people with incomes above \$200,000, and that benefits would not be eliminated.

“‘It’s not a means test,’ Furman said. ‘Everyone would get Social Security benefits.’

“Kerry has also indicated he would favor adjusting the formula used to determine what portion of wages is taxable. Currently, the amount is capped at \$87,900, but since 1983, the percentage of the nation’s total payroll subject to the tax has decreased from about 90 percent to about 80 percent.”

New Bush Campaign Ad Says People Should “Own Their Retirement”

Injecting Social Security into the campaign for the first time, albeit obliquely, the Bush-Cheney campaign has released a new television ad that says Americans should be able to “own part of their retirement,” widely seen as a reference to the president’s proposal to allow younger workers to privately invest a portion of their Social security taxes through individual accounts. The ad puts the proposal in the context of the “ownership society,” which the president says should also include home ownership and ownership of health insurance through health savings accounts. The text of the ad follows:

One of the most important parts of a reform agenda is to encourage people to own something. Own their own home, own their own business, own their own health care plan, or own a piece of their retirement. Reforms that trust the people, reforms that say government must stand on the side of people. Because I understand if you own something, you have a vital stake in the future of America.

The ad will run on national cable and in key local markets.

Mexico Builds on Existing Pension Reform Efforts

The Mexican government has recently taken steps to privatize pensions for a number of government employees, according to the *Los Angeles Times*. The move comes on the heels of reports that suggest Mexico’s pension system is headed for collapse in as few as 15 years. The new measures will build on earlier efforts to privatize Mexico’s pay-as-you-go social security system. Two excerpts of the article follow:

“In a showdown with one of the nations’ most powerful unions, federal legislators on Thursday approved reforms aimed at shoring up Mexico’s financially troubled social security system, which provides healthcare for 50 million Mexicans.

“In the predawn hours of an emergency session, the Mexican Senate took aim at ballooning pension liabilities that are straining the system’s finances to the breaking point.

“Projections show that generous retirement benefits paid to government doctors, nurses and other social security workers will devour the system’s entire budget within 15 years if nothing is done to rein in costs.

“The reforms would require all new employees at the Mexican Social Security Institute to begin financing their own pensions, though the specifics would be left to contract negotiations. Mexico’s lower house, the Chamber of Deputies, approved the measure last week. All that’s needed now is the approval of President Vicente Fox, who is expected to act quickly.

“Union members say that the measure would be an attack on the labor rights of all Mexicans and the first step toward dismantling the nation’s main public healthcare system. Enraged government medical workers have marched in the streets, blockaded federal buildings and threatened a nationwide strike.

“Fox in turn has characterized the conflict as a choice between using tax money to support social programs that benefit of millions of Mexicans or for maintaining perks for civil servants.”

The article later sums up the basic problem facing pension systems around the world, namely, rapidly changing demographics:

“We’re headed toward a crisis,’ said Genaro Borrego, a PRI senator who voted in favor of the reforms. ‘The demographic transformation we’re seeing is raising the cost of healthcare dramatically.’

“Overhauling government pension programs has taken on new urgency throughout Latin America, where weak economies and poor tax collection have created unsustainable financial burdens.

“Ironically, the region has been a leader in private-sector pension reform. For example, Mexico in 1997 began requiring all workers in private industry to contribute 11.5% of their salaries toward their retirement years, much of it into privately managed 401(k)-style accounts.

“Latin American governments have been slower to force such changes on politically powerful civil-service unions. But pensions experts say aging populations and crumbling finances are forcing politicians in Mexico to deal with what they’ve long avoided.

“Public pension reform is an absolute necessity in much of Latin America,’ said Olivia S. Mitchell, an employee benefits expert at the University of Pennsylvania’s Wharton School. ‘The private sector has already taken the bitter pill. Asking the public sector to share more of the burden seems not only reasonable, but inevitable.’

“Although Mexico has taken the first steps in that direction, some say the pension reforms passed Thursday won’t be sufficient to repair the troubled finances of the social security system, largely because they apply only to future workers.

“It’s not enough,’ said Mexico City economist Rogelio Ramirez de la O. ‘We’re moving sideways.’”

Cato’s L. Jacobo Rodríguez, in a 1999 Policy Analysis paper “[In Praise and Criticism of Mexico’s Pension Reform](#),” looked at the initial reforms made in Mexico and suggests how the Mexican government could improve upon its earlier reforms to create a more fiscally durable system.

Publications

The Social Security Administration has released the latest issue of its newsletter “[International Update](#).” The publication for July looks at the most recent international developments concerning pension reform. This month’s issue discusses movements toward reform in Romania, Jordan, Taiwan, El Salvador, and Peru.

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