



Social Security Choice

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

WEEK OF SEPTEMBER 2, 2005

Bush to Seniors: Don't Worry About Your Benefits

In spite of [recent news reports](#) that Social Security reform is “dead” and lawmakers are moving on, President Bush told the residents of El Mirage, Arizona that he intends to keep the fight for personal retirement accounts going as Congress returns for the fall legislative session. The president spoke to the community on a range of issues including Social Security. In addition to reiterating his commitment to reforming the ailing system, Bush told the audience, made up largely of seniors, that benefits for current retirees and those nearing retirement would be unchanged.

He said: “I just want to make sure the seniors here understand one thing: Nothing is going to change for you. I hope you don't listen to all the politics coming out of Washington, D.C., but you will get your check. You need to worry about whether or not your grandchildren will get their checks.

“This system cannot sustain itself the way it is now set up. We've got young kids working to pay payroll taxes into the system that's going to be broke in 2040. And that's not fair, and it's not right. My job is to confront problems, not pass them on to future presidents. And I'm going to continue to confront that Social Security problem.”

Other administration officials also used this last week of the congressional recess to advocate Social Security reform. U.S. Treasurer Anna Cabral told the California Hispanic Chambers of Commerce, “Personal accounts are part of the President's dedication to decreasing poverty in the Latino community. He wants workers to be able to grow a nest-egg which could be passed on to loved ones. He wants us to keep control of our own money, knowing that we will do what's best with it. You've probably heard him call it the ‘ownership society’ and I believe this goal is wonderful for our community.”

Gokhale: Let People Choose What Risks to Take

Writing this week [in the Washington Times](#), Cato senior fellow Jagadeesh Gokhale argues that contrary to what some pundits and journalists seem to assume, there are a number of reasons why people don't necessarily always prefer security to

choice, even if the choice may involve risk. Further, Gokhale notes, in the case of Social Security, people are often asked to make choices between risk and security that don't reflect reality: it's one thing to prefer the stability of Social Security today over the "risk" of the market, but entirely another when you take into account that the stability of the system is unsustainable over the long term. An excerpt of his commentary follows.

"Perceptions matter greatly and it seems, in telling pollsters they prefer the 'security' of the current Social Security system, many are considering how that program has operated in the past, not how it will operate in the future.

"Social Security reform opponents don't deny personal accounts (like school vouchers, Health Savings Accounts, etc.) would provide a chance to diversify retirement funds' investments. Although greater risk accompanies greater investment choice, this should not end the discussion as it often does. What kind of risks are we considering? What are the alternatives?

"Let's dispense with silliness: Some have unfairly likened individual accounts with permission to take the money to a Las Vegas roulette wheel. Under all the personal account reform proposals I have seen, the accounts would be regulated to ensure safety and soundness. One extreme would limit investments to broad-based market index mutual funds.

"However, if investing individual accounts in anything other than U.S. Treasury bonds is, indeed, more 'risky,' the relevant question is: Could that still prove safer than continuing under the current Social Security system?

"Proponents of the 'choice is worse' theory answer with an unequivocal 'no' because they wish to portray Social Security benefits as inviolable. However, attributing 'perfect security' to the current system is based on assumption, not fact.

"Many personal accounts opponents say Social Security is as secure as investing in Treasury bonds. That is not even remotely true. A Treasury bond promises payment upon maturity of a fixed sum of money regardless of all outcomes except general default by the federal government. Almost everyone regards a general default as all but impossible.

"There is a somewhat greater risk inflation will erode the real value of the principal and interest of the bonds. But that, too, can be avoided by purchasing inflation-indexed Treasury securities. And Treasury bonds can be bequeathed and can serve as collateral for borrowing in emergencies.

"But the current Social Security system provides a 'soft promise' of future benefits, of unknown size and duration. Social Security benefits cannot be used as collateral for borrowing funds and cannot be bequeathed.

"Moreover, because Social Security's finances are unsustainable, the likelihood some, especially younger, participants' future payroll or other taxes will be increased or benefits reduced is considerably larger than zero. That increases the risk of Social Security's future benefits, reducing their expected value.

"People are starting to figure out the game and some Social Security participants, especially younger ones, are not content with a false sense of security. Owning part of

their payroll taxes and greater choice in investing personal account balances in exchange for reduced future benefits (which have low expected values) is now acceptable to many.

“I suspect reform opponents see the danger (and, thus, the merit) of this argument and are trying to discredit it by attacking the weight most Americans place on greater ‘choice.’ But a comparison of ‘choice’ against ‘security’ can only be valid when the security offered is real.”

This Week in the Polls: Support on Social Security Improves

Although a majority of Americans still disapprove of President Bush’s handling of Social Security, support for the president has risen significantly in recent months according to the latest *Washington Post/ABC News* poll, released August 31. According to the poll, 40 percent of Americans approve of the president’s job performance on the issue, up from 34 percent in June and 31 percent in April. The number disapproving declined even more, from 62 percent in June to just 52 percent today.

This represents the president’s best Social Security numbers since April of 2004, and comes despite an overall decline in the president’s job approval rating. It is also important to remember that approval of the president’s handling of Social Security has always lagged behind public support for personal accounts. A May Zogby International poll conducted for the Cato Institute found 52 percent of likely voters supported proposals to allow younger workers to privately invest a portion of their payroll taxes through individual accounts.

Publications

The Social Security Administration has released the latest issue of its newsletter, “[International Update](#).” The publication for August looks at the most recent international developments concerning pension reform. This month’s issue discusses movements toward reform in the Czech Republic, Romania, Switzerland, the United Kingdom, Canada, and Ecuador.

In addition, the OECD (Organization for Economic Co-operation and Development) recently released a new comprehensive study entitled *Pensions at a Glance: Public Pension Policies Across OECD Countries*. For more information on the book and how to obtain a copy, visit the OECD [website here](#).

Edited by Brooke Oberwetter, boberwetter@cato.org. To subscribe or unsubscribe to *Social Security This Week*, please contact Christy Rhoton at (202) 789-5259 or crhoton@cato.org.