



# Social Security Choice

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

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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### ***President Bush Commits to Private Accounts***

[Michael Tanner](#), director of the Cato Institute's [Project on Social Security Choice](#), made the following comments Thursday night regarding President Bush's call for Social Security reform in his nomination-acceptance speech at the Republican National Convention:

"The President's call tonight for Social Security reform shows that, on this issue at least, there are bright line differences between the two candidates. President Bush recognizes the urgent need for facing up to Social Security's looming financial crisis. Moreover, he sees the need for Social Security reform as an opportunity to give workers true ownership and control over their retirement money. John Kerry, on the other hand, said last week that he believes Social Security needs nothing more than 'a tweak,' and opposes any proposal to allow younger workers to privately invest their Social Security taxes. It is clear that for younger workers, there is only one candidate offering them an opportunity to truly realize their retirement dreams.'

The President's remarks on Social Security follow.

"In an ownership society, more people will own their health plans, and have the confidence of owning a piece of their retirement. We will always keep the promise of Social Security for our older workers. With the huge Baby Boom generation approaching retirement, many of our children and grandchildren understandably worry whether Social Security will be there when they need it. We must strengthen Social Security by allowing younger workers to save some of their taxes in a personal account—a nest egg you can call your own, and government can never take away."

### ***Greenspan Issues New Social Security Warning***

As reported by [CBS News online](#), Federal Reserve chairman Alan Greenspan recently issued a serious warning about the soaring costs that will result if Social

Security reform isn't addressed soon. Greenspan has made several similar statements already this year about the swelling projected deficits Social Security will cause if ignored. The text of the CBS News article follows.

"Federal Reserve Chairman Alan Greenspan said Friday that the country will face 'abrupt and painful' choices if Congress does not move quickly to trim the Social Security and Medicare benefits that have been promised to the baby boom generation.

"Returning to a politically explosive issue that he has addressed a number of times this year, Greenspan said that it was wrong for the government to hold out the promise of more retirement benefits than it is capable of providing.

"He said this issue was particularly critical given the impending retirement of 77 million baby boomers born in the two decades after World War II.

"As a nation, we owe it to our retirees to promise only the benefits that can be delivered,' Greenspan said in opening remarks to a two-day conference sponsored by the Federal Reserve Bank of Kansas City on the challenges posed by aging populations.

"If we have promised more than our economy has the ability to deliver, as I fear we may have, we must recalibrate our public programs so that pending retirees have time to adjust through other channels,' Greenspan said. 'If we delay, the adjustments could be abrupt and painful.'

"Greenspan, as he has done previously, suggested that possible changes would be raising the retirement age to receive full Social Security benefits, which currently is gradually increasing from 65 to 67.

"For decades Social Security has been collecting more in payroll taxes than it has paid out in benefits. The surplus has been collected in a trust fund, which has been lent to the federal government.

"When the baby boom generation starts to retire, they will go from paying into the trust fund to drawing it down. Eventually, Social Security payments will eat into the trust fund and gradually deplete it.

"The Congressional Budget Office predicts that the program will go bust in 2052. Medicare, which is funded by a similar system, could be insolvent by 2019.

"President Bush has proposed converting the money in the Social Security trust fund into private accounts that workers could invest on their own. Supporters of that proposal believe workers could get a better return on their savings that way.

"But opponents say private accounts would expose workers to the risk of losing their savings. Democratic presidential nominee John Kerry has pledged he will not privatize Social Security, cut benefits or raise the retirement age.

"In his remarks, Greenspan said that the projected doubling of the U.S. population over the age of 65 by 2035 would add to the government's budget deficit woes.

“But he said it was important to be careful in how those deficits were addressed. He said that relying entirely on an increase in the payroll tax on workers to deal with the funding shortfall in Social Security and Medicare would make it more costly for employers to hire workers.

“Greenspan said policymakers must consider all the economic impacts that changes in the government’s two biggest benefit programs would entail such as the effect on retirement decisions, the size of the labor force and the saving behavior of Americans.

“Greenspan acknowledged that any decisions to trim benefits or boost payroll taxes could be difficult politically, but he said those decisions must be made and made quickly to give baby boomers time to adjust.

“Though the challenges of prospective increasingly stark choices for the United States seem great, the necessary adjustments will likely be smaller than those required in most other developing countries’ he said, noting that Europe and Japan will have a much higher proportion of retirees to current workers in coming years.

“Greenspan has repeatedly this year addressed the looming crisis in Social Security and Medicare, a development that the presidential candidates have chosen to virtually ignore given the painful choices that will likely be presented to the next president.”

### ***Indianapolis Star Endorses Private Retirement Accounts***

A recent [editorial in the Indianapolis Star](#) states that personal retirement accounts stand the best chance of fixing Social Security’s long-term funding problems and that PRAs should be given their due consideration. Seizing on the recent remarks of Alan Greenspan, the *Star* suggests that PRAs are the best way to prevent the ‘abrupt and painful’ consequences of ignoring the need for reform. The text of the editorial follows.

**“Our position is:** *A greater share of the Social Security burden will fall on young workers if problems in the system are not fixed.*

“Federal Reserve Chairman Alan Greenspan was dead on in pronouncing that trouble looms ahead for the Social Security program. His remarks should finally become the catalyst for long overdue reform.

“With 77 million baby boomers approaching retirement years, Greenspan issued an ominous prediction last week that the nation faces ‘abrupt and painful’ choices unless Congress finds the courage to either scale back Social Security and Medicare benefits or alter the way Americans pay for them.

“Social Security is expected to become insolvent by 2042, but pressure already has begun building on the retirees and survivors fund. It’s scheduled to begin paying out more than it takes in by 2018. Also, the program’s annual deficit is forecast to quickly grow beyond \$100 billion a year.

“We owe it to our retirees to promise only the benefits that can be delivered,’ Greenspan said. ‘If we promised more than our economy has the ability to deliver . . . as I fear we have, we must recalibrate our public programs so that pending retirees have time to adjust through other channels.’

“Political reality dictates that any serious move toward Social Security reform has little chance during an election year. Nonetheless, Greenspan’s point is germane. The Social Security program’s day of reckoning is fast approaching, whether politicians want to admit it or not.

“Congress must also find the political will to pair down the rising cost of Medicare. The new prescription drug benefit for seniors, expected to cost more than \$540 billion in the next 10 years, will make it even harder to control Medicare expenses.

“As for Social Security, President Bush’s idea of giving workers the option of investing a portion of their payroll taxes into personal retirement accounts merits strong consideration. It’s the best hope younger workers have of seeing a substantive return on their investment.

“It’s also the best chance of defusing the demographic time bomb that is looming. Now, there are about three workers for every Social Security beneficiary. That’s expected to reach a 2-1 ratio by the time today’s young laborers reach retirement age, which is increasing from 65 to 67. Without changes in the way Social Security is set up, future generations will face exorbitant tax rates to support the nation’s retirees.

“It’s not too late to fix Social Security. But, as Greenspan noted, the tough discussions and hard work must begin soon.”

### ***Republican and Democratic Platforms Vary Widely on Social Security***

Both political parties have now released their national party platforms for 2004. While the Republican platform includes strong language in favor of private retirement accounts, the Democratic plank on Social Security includes little by way of a specific plan and instead relies on John Kerry’s stated refusal to privatize the system, raise the retirement age, or cut benefits. The text of the Republican party platform on Social Security follows.

“Social Security needs to be strengthened and enhanced for our children and grandchildren. Republicans remain committed to the principles the President outlined:

- Anyone now receiving Social Security, or close to being eligible for it, is guaranteed that their benefits will not be cut and their taxes will not be raised. Social Security is a promise made by this country to its citizens and Republicans will keep that promise.
- Key changes to Social Security should merit bipartisan agreement so all improvements are a win for the American people rather than a political victory for any one party.

- Personal retirement accounts must be the cornerstone of strengthening and enhancing Social Security. Each of today's workers should be free to direct a portion of their payroll taxes to personal investments for their retirement. It is crucial that individuals be offered a variety of investment alternatives and that detailed information be provided to each participant to help them judge the risks and benefits of each plan. Today's financial markets offer a variety of investment options, including some that guarantee a rate of return higher than the current Social Security system with no risk to the investor.
- Young people deserve to know their Social Security will in fact be there when they retire, just as we have guaranteed it to their grandparents and parents today. This new generation of American workers deserves to have ownership of their future. They must have choices.
- Assets in personal accounts should belong to each individual. Every American should have the opportunity to build a nest egg for the future and pass along that money to their children or grandchildren, who could use the funds to pay for college, buy a home, start a small business, or begin saving for their own retirement.
- Choice is the key. Any new options for retirement security should be voluntary, so workers can choose to remain in the current system or opt for something different.

“This is a challenge that demands leadership. President Bush has shown this leadership by proposing a bold alternative to the collapse of Social Security. Along with Americans everywhere, we pledge to join him in this endeavor of a lifetime. Individual ownership of voluntary personal retirement accounts for today's workers will make Social Security more equitable, but, just as importantly, will put the system on sure financial footing. Fifty years ago there were 16 workers to support every one beneficiary of Social Security. Today there are just 3.3 workers for each beneficiary. By the time young men and women who are entering the workforce today turn 65, there will be only two workers for each beneficiary. Doing nothing is not an option. We must keep faith with both the past and the future by strengthening and enhancing Social Security. We believe that everyone who participates in the Social Security program should use legal and accurate identification.

“President Bush formed a bipartisan commission that recommended three models for reform and many Republicans in Congress have exhibited leadership in sponsoring six different bills. Non-partisan analysis of these proposals shows that each strengthens Social Security and that each shares a common characteristic: giving workers the option of supplementing Social Security with personal retirement accounts that they own. Our Party supports the efforts of President Bush and Congressional Republicans to enact legislation during the next term.”

Meanwhile, the Democratic platform offers little by way of proposals, instead reiterating Kerry's pledge never to privatize Social Security. It reads:

"We are absolutely committed to preserving Social Security. It is a compact across the generations that has helped tens of millions of Americans live their retirement years in dignity instead of poverty. 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. We oppose reducing the benefits earned by workers just because they have also earned a benefit from certain public retirement plans. We will repeal discriminatory laws that penalize some retired workers and their families while allowing others to receive full benefits. Because the massive deficits under the Bush Administration have raided hundreds of billions of dollars from Social Security, the most important step we can take to strengthen Social Security is to restore fiscal responsibility. Social Security matters to all Americans, Democrats and Republicans, and strengthening Social Security should be a common cause."

### ***Jerry Heaster: Kerry Plan Fails Close Inspection***

Writing in the *Kansas City Star*, columnist Jerry Heaster looks closely at the language used on John Kerry's campaign website regarding Social Security and finds it to be wanting. Scant on details, the plan, writes Heaster, essentially requires that high-income Social Security contributors not be allowed to get back more in benefits than they've paid in "contributions." These high-paying workers, he concludes, are effectively robbed of the return on their savings. The full text of Heaster's column follows.

"How would President Kerry deal with Social Security's looming challenge of making good on its promises when revenue income falls short of benefit outgo?"

"The recent obsession with what transpired in Vietnam during Kerry's tour there a generation ago makes for entertaining political theater, but it gets in the way of debating meaningful issues.

"There is no issue of more importance to Americans of all ages than how future political leaders will address Social Security's difficulties.

"President Bush pledges to continue his push for partial privatization, allowing workers to divert a portion of their Social Security taxes to an account owned by the taxpayer. It will be voluntary, its structure isn't supposed to affect benefit levels of current beneficiaries, and over time it will resolve the problem of fewer workers supporting the swelling ranks of retirees.

"Kerry's plan, as outlined on his Web site, seems straightforward, but is short on detail except in one troubling respect. The boilerplate calls for growing the economy, restoring fiscal discipline, bipartisan reform initiatives and no privatization. It also

includes a pledge to ‘never balance the budget on the backs of America’s seniors,’ which sounds good until you read the fine print.

“This assertion comes with the qualification that President Kerry ‘will consider making sure that high-income beneficiaries don’t get more out than they pay in.’

“That statement is fraught with dire implications for future retirees with substantial income from sources besides Social Security. If you have been forced to pay Social Security taxes all your life, it’s outrageous to contemplate a system disallowing any return whatsoever on money paid into Social Security over a lifetime.

“As economist Martin Feldstein noted in a recent *Wall Street Journal* analysis, Kerry needs to explain his position in this regard. In offering his argument for an explanation, the former chairman of President Ronald Reagan’s Council of Economic Advisers offered the following example:

“A worker turning 65 this year who has always ‘contributed’ the maximum Social Security tax since age 21 will have paid just over \$82,000 into the system, and could expect a yearly benefit of about \$22,000. Assuming current life expectancies and a modest inflation rate, Feldstein says, the average beneficiary could expect a payback of about \$440,000.

“To prevent that payback from exceeding the \$82,000 paid into the system, however, the benefit based on these assumptions would have to be trimmed by about 80 percent. Even if you’re lucky enough to have a decent private pension and a respectable nest egg, this still would be a horrific reduction in prospective retirement income for most who might be affected.

“This sort of approach isn’t objectionable because it’s a step toward means-testing. At some point, many years hence, means-testing is likely to be the system’s salvation. Rather, it’s objectionable because it dismisses the notion that high-income Social Security taxpayers don’t deserve a return on their Social Security tax money. The only thing that could justify such an approach would be a hybrid, return-driven system combining public and private accounts for participants.

“Meanwhile, who would be the victims eventually defined as ‘high income’ beneficiaries?

“These are the questions Kerry must address between now and Nov. 2—and maybe he will if we can put aside this Vietnam obsession.”

## ***International Pension News***

The [\*Washington Times\* reports](#) that the pressures expected to squeeze our Social Security system over the next decades have already reached Germany. According to the *Times*, “Germany will increase its social security spending by 50 percent between now and 2017.” The article continues, “German Finance Minister Hans Eichel has already

complained every third dollar he spends goes to social security funds. Eichel has said the large cost of public pensions is a drain on German finances.”

A similar situation exists in neighboring Belgium, [according to Expatica](#), an online news service for ex-pats living in Belgium. Expatica reports that the tiny nation will see a budget deficit of 1 billion euros in 2005, largely attributable to soaring costs in state-provided pensions and health insurance.

In other international news, the Mexican/United States totalization agreement raises the question of how the new rules will apply to undocumented Mexican workers who work in the United States under fake Social Security numbers. According to a [recent AP report](#), a fund of roughly \$376 billion has accumulated from the payroll taxes of undocumented workers using false numbers. Under current law, workers that later get legal status in the United States can try to claim past contributions made under fake numbers. But a group of U.S. Congressmen wants to put a stop to the practice of providing benefits to those who worked here illegally and instead add the \$376 billion to the Social Security trust fund. Cato Trade Policy Director Dan Griswold disagrees, saying, “These people pay into the system, and few ultimately collect anything. These are some of the lowest-paid workers. They deserve to receive some kind of benefit from their contributions.”

## ***Publications***

Three new papers discussing Social Security and retirement were released this week by Boston College’s center for Retirement Research: “[Providing Guarantees in Social Security](#),” by Karen E. Smith, C. Eugene Steuerle, and Pablo Montagnes of the Urban Institute; “[Reform Model Two of the President’s Commission to Strengthen Social Security: Distributional Outcomes Under Different Economic and Behavioral Assumptions](#),” by Melissa M. Favreault, Joshua H. Goldwyn, Karen E. Smith, Lawrence H. Thompson, Cori E. Uccello, and Sheila R. Zedlewski of the Urban Institute; and “[Deferring Income in Employer-Sponsored Retirement Plans: The Dynamics of Participant Contributions](#),” by Karen E. Smith, Richard W. Johnson, and Leslie A. Muller of the Urban Institute.

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