



# Social Security Choice

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

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

WEEK OF SEPTEMBER 29, 2003

### ***DeMint Introduces Social Security Reform Bill***

On Thursday, September 25, Rep. Jim DeMint (R-S.C.) reintroduced the Social Security Savings Act, a plan that includes provisions to protect promised benefits for near retirees and allow workers the option of saving a large portion of their Social Security payroll tax in personal savings accounts they can own and pass on to their families. Furthermore, the act returns the system to solvency and saves taxpayers nearly \$18 trillion over the next 75 years.

In a prepared release, DeMint states: "Social Security reform is a defining challenge for this generation, and is arguable the greatest domestic policy challenge of our time. If we succeed, we preserve and strengthen Social Security for future generations. If we fail, we risk breaking our promise to seniors and crippling future generations with higher taxes and an insecure retirement."

The news release states: "The Social Security Savings Act allows individuals, for the first time, to truly own a significant portion of their contribution to the nation's retirement system. Americans currently pay into Social Security their entire lives but have no legal right to pass on those retirement dollars to their spouse or children. This act would correct this by allowing Americans to set up individual accounts within the Social Security system that include broad investment options and guaranteed benefits. Under this legislation, every American would be able to access a retirement system almost identical to the system (Thrift Savings Plan) available to every member of Congress and federal employee."

The release continues: "The [Social Security Savings Act] helps low-income workers create wealth by establishing a sliding scale that allows lower-income workers an opportunity to direct a greater share of their Social Security contribution to individual accounts, which will generate a higher rate of return than traditional Social Security."

According to DeMint: "If Democrats and Republicans are serious about closing the wealth gap and helping low- and middle-income Americans create wealth, we must work together to strengthen Social Security with personal savings accounts. America has spent trillions on programs to address poverty, but very little to help low-income Americans create wealth and own a share of the future."

Democrat and new advocate of individual accounts Harold Ford Jr. of Tennessee agrees: “The key to retirement security and upward social mobility is wealth creation. Rep. DeMint has a proposal that would allow workers to begin building wealth by investing part of their Social Security taxes in individual retirement accounts.”

Rep. Ford recently stated, “In fact, over the long term, the costliest option is maintaining the existing system.”

DeMint’s plan, officially scored by the Social Security Administration, saves taxpayers nearly \$18 trillion over 75 years. The initial 10-year transition of the plan is \$444 billion, which, according to Citizens for a Sound Economy, “is a drop in the bucket when you consider that Social Security will own an unfunded liability of \$26.1 trillion over the next 75 years if the system isn’t changed.”

DeMint said: “Members of Congress can disagree about how to ‘pay for’ real reform but we need to be honest with the American people. The real question should be: ‘How can we possibly pay for maintaining the current system and its expected \$26.1 trillion deficit?’ We only have three options to save Social Security—restrain the growth of government spending, raise taxes or cut benefits. I believe the first option is only option.

“Continued inaction on Social Security could leave a legacy of crippling debt and high taxes. I applaud President Bush for his commitment to Social Security reform, and his call for an ‘ownership society’ that will help all families, especially low-income families, create real wealth. It’s time for Congress to modernize Social Security and prepare it for the challenges of 2030, not restrict it to the conditions of 1930. My bill gives a guarantee to those who need it, choice to those who want it, and retirement security for everyone.”

Click on the DeMint [Social Security Savings Plan](#) for more information, including additional provisions and proposals on how to finance the transition to private accounts.

### ***Tanner: Credible Dems Must State Position on Social Security***

In a nationally distributed article, “Ask Dems about Social Security,” [Michael Tanner](#), director of Cato’s Project on Social Security Choice, questions where the Democratic presidential candidates stand on Social Security. The issue is expected to be a major focus of the 2004 election and yet not one Democratic candidate has solidified their position on how to continue paying benefits with out increasing taxes. The article follows:

“The nine—now ten—Democratic presidential contenders will soon gather for yet another debate. As with those that have gone before, we can expect a great deal of give and take about Iraq, jobs, tax cuts and terrorism. But one important issue—Social Security—is likely to slip by again without the examination it deserves.

“Social Security is not only the largest U.S. government program, accounting for 23 percent of federal spending, it is the largest government program in the world. The Social Security payroll tax is the largest tax paid by the average American working family. In fact, nearly 80 percent of us pay more in Social Security taxes than we do in

federal income taxes. At the same time, millions of the elderly rely on Social Security for much, if not most, of their retirement income.

“The 68-year-old program is also in crisis. In just 15 years, Social Security will begin to run a deficit, spending more on benefits than it takes in through taxes. The federal IOUs in the Social Security Trust Fund are an accounting measure, not real assets that can be used to fund the program. Unless the program is drastically changed, taxes will have to be raised or benefits cut. But taxes are already so high that younger workers are receiving low, below-market returns from Social Security. Cutting benefits would be a severe burden to millions of low- and middle-income elderly.

“And what do the presidential candidates think should be done to fix this problem? George Bush has made his position clear: He would allow younger workers to invest a portion of their payroll taxes privately through individual accounts. White House sources have spent the last several weeks telling reporters that support for Social Security changes will be a central domestic plank in Bush’s reelection bid. Whether you support his proposal or not, at least you know where he stands.

“But, so far, whenever the Democrats are asked about their views, their responses have been equal parts pandering and evasion. All of them favor ‘saving’ Social Security. And all of them oppose ‘privatizing’ the program—even Joe Lieberman who dropped his support for individual accounts when he became Al Gore’s running mate. With little effort, they can all work themselves into a fury of righteous indignation over the president’s ‘secret plan’ that would leave elderly Americans eating dog food.

“But what do they actually favor?”

“Wesley Clark is ‘still working on’ a proposal, along with the rest of his domestic agenda. Howard Dean used to favor raising the retirement age. Now he doesn’t. John Kerry backs means-testing benefits, except that maybe he doesn’t. Richard Gephardt wants to ‘get back to an economy where we have a surplus so we can fix the Social Security problem.’ Exactly how he would fix it remains unclear. And poor Joe Lieberman, having abandoned individual accounts, has been reduced to clichés. ‘The first thing to say about Social Security is we’ve got to keep it strong and not mess around with it,’ he said, not very helpfully, a short while ago.

“Frankly, that isn’t 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. This is not a complicated matter. In fact, the Democratic contenders can take a lesson from a party stalwart, former President Bill Clinton. It was Clinton who clicked off the three options for reform: raising taxes, cutting benefits, or getting a higher rate of return within the system through private investment. Since the current crop of Democrats all oppose private investment, they should tell us which taxes they will raise and which benefits they will cut. It’s a fair and simple question.

“But don’t hold your breath waiting for an answer.”

### ***Post Editorial Nails It: Dems in Denial***

An editorial in Thursday’s *Washington Post* shuns Democratic presidential candidates for talking the talk on fiscal discipline yet providing muffled responses when

the subject comes to unmanageable future entitlement obligations. The editorial, "[Democrats in Denial](#)," follows:

"Now that the GOP has become the party of reckless tax cuts and 'what, me worry?' deficits, the Democrats have a chance to recast themselves as the party of fiscal discipline. But to judge by the Democratic presidential candidates, fiscal discipline has its limits: It stops at the edge of tackling the real dangers to the country's solvency, Social Security and Medicare. The candidates call for repealing President Bush's tax cuts for the wealthiest Americans; they even venture to endorse doing away with middle-class breaks. But while undoing the tax cuts might be necessary to restore the nation's fiscal health, it won't be sufficient, and all the candidates know that. None of them, however, dares to whisper about a possible trimming of entitlement benefits—say, raising the retirement age for Social Security eligibility or means-testing Medicare.

"Last week's Democratic debate in New York—in particular an exchange between Missouri Rep. Richard Gephardt and former Vermont governor Howard Dean—offered a sorry illustration of this allergy to honest discussion. First Mr. Gephardt rejected any notion of raising the retirement age, noting that he had voted for an increase to 67 back in 1983 and was sticking with that number. He was quickly matched in that pledge by Mr. Dean, who had once suggested—gasp!—raising the retirement age as high as 70.

"That was then. Now that he's running for president, Mr. Dean is in denial. On Social Security, for example, he says there's no need for any changes beyond perhaps raising the amount of income on which payroll taxes are paid, a minor bit of tinkering that wouldn't come close to fixing the problems with the system. He proposed raising the retirement age, he said on CBS's 'Face the Nation' on Sunday, back in 'a time where the budgetary situation was a disaster in this country'—as if we're not in even more disastrous circumstances now. 'You don't have to deal with Social Security,' Mr. Dean said.

"The unsustainability of this head-in-the-sand approach was underscored this week with the release of sobering new deficit projections by the Committee for Economic Development, the Concord Coalition and the Center on Budget and Policy Priorities. The groups predicted deficits totaling \$5 trillion over the next 10 years, but they warned that the bigger problems lie just over that horizon, as growing numbers of baby boomers begin to retire. The first of them will qualify for early retirement under Social Security in 2008 and for Medicare in 2011. That will be just the beginning; by 2025 the proportion of the U.S. population over age 65 will be greater than that in the state of Florida today. Meanwhile, fewer workers will be entering the workforce to pay for this growing number of retirees, with their increasing life spans. Something has to give, whether it's raising the retirement age, means testing or other major reforms.

"It's plain why Democratic candidates fail to face up to this unhappy reality. Why should they be the party of grim tidings when Mr. Bush is all dessert (tax cuts, a new prescription drug benefit for seniors) and no spinach? Still, one listens in vain for some candor on either side. As Robert Reischauer of the Urban Institute put it at the press conference on deficits, it's time to 'end this period of denial' and acknowledge that the country's fiscal problems can't be dealt with by 'a one-shot deal or through measures that gore only someone else's ox.' But you wouldn't know that from the campaign trail."

## ***Forbes Encourages Administration to Stand on Personal Accounts***

In the latest edition of *Forbes Magazine*, Steve Forbes praises Cato's Social Security efforts and implores the Bush administration to be bold on Social Security reform. Claiming there is nothing to lose and everything to gain from a bold personal account-proposal, Forbes lays out specific requirements of a solid plan. Excerpts of Forbes' column, "[Making Social Security a Money Machine](#)," follow:

"Saving social security' will be a sizzling campaign issue next year. Instead of trying to preserve FDR's brainchild, why not transform it into something that enriches the economy and significantly expands retirement benefits?

"Since Republicans are going to get hammered for even considering changing the current on-its-way-to-going-broke system, they might as well be bold instead of tentative. They should advocate an exciting, whole-hog alternative to today's system, thereby making the reform effort worth the political heat.

"The problems with Social Security are now largely known—the declining number of workers versus retirees, the fiscal irresponsibility of pay-as-you-go (it's the public-sector equivalent of a private pension system with no reserves, which, of course, is illegal). Experts argue about when exactly the system will begin to pay out more than it takes in. But no one's arguing that Social Security won't eventually self-destruct, unless it's infused with funds from massive tax increases or, equally unpleasant, scaled down by reductions in benefits.

"The White House and the GOP should emphasize that Americans could choose to stay with the old plan or go with the new. But instead of permitting workers to put only 2-to-4 percent of their payroll tax into personal accounts, as the Administration proposed in 2001, why not increase that to 8 percent or more? Make the contribution significant from the start.

"Whatever the particulars of the new system are, it should have these basic components:

- Guaranteed minimum monthly payments adjusted for inflation, regardless of how your account performs. This would remove a lot of what-if-the-financial-world-collapses-just-as-I-retire angst.
- A small portion of the payroll tax should go toward disability and life insurance, which would provide more generous benefits than similar components do in the current Social Security scheme.
- People should be able to choose from an array of investments (including those with no participation in the stock market): diversified mutual funds that meet certain conservative financial criteria, including low expenses; fixed-rate insurance contracts; U.S. government bonds; government-insured bank CDs; and the like. Government workers in Galveston, Tex., for example, opted out of Social Security two decades ago, and their money went into fixed-income instruments only.
- Benefits should be exempt from income tax.

- Married couples' contributions should be split from the get-go, i.e., half of the husband's contribution should go into the wife's account and, if she also works, vice versa. That way, if there is a divorce, there'll be no fighting over those private accounts.

“The reason all money would initially go into money market accounts is a largely unknown peculiarity in the way the feds now keep Social Security records: Employers send in Social Security taxes in lump sums periodically throughout the year. Incredibly, only in the following year are those lump sums allocated to specific individuals' accounts.

“Bill Shipman, chairman of CarriageOaks Partners and cochairman of the Cato Project on Social Security Choice ... has done extensive work demonstrating that such a system can be created with extremely low administrative costs. At the first level, workers' money would be invested in a collective money market fund similar to the ones the mutual funds industry offers today. Then the participants would have four choices—among three balanced funds and a money market account. The balanced funds would be diversified portfolios that combine stocks, bonds and cash. One such fund that might appeal to younger workers would be geared toward equities; another, appealing to those closer to retirement, would be geared toward bonds.

“There is nothing to be gained—and fantastic opportunities to be lost—by the Administration's being timid.”

### ***Dems Vague on Social Security at New York City Debate***

On September 25, the 10 Democratic presidential candidates took part in a [primary debate](#) sponsored by CNBC and the *Wall Street Journal*. Over the course of the debate, moderator Ron Insana of CNBC questioned six of the candidates about their position on Social Security; specifically, if the hopefuls found “an appropriate role for stock market investments in the Social Security retirement program.” The responses either begged the question or provided unsubstantial solutions to Social Security's problems.

General Wesley Clark replied: “I'm a believer in Social Security. I think you need to protect that system, I think you need to put the resources into it, I think you need to assure that it's solvent.”

When asked more specifically about individual investments, Clark answered: “I think it's great if individuals invest in the stock market, but not as a substitute for ensuring the solvency of Social Security. We're going to get Social Security right first.” *How? Who Pays?*

Sen. John Edwards, after denying that the stock market could be a part of Social Security, said: “We have a train wreck coming. We have the onslaught of the baby boomers coming. We have government that's in deficit, getting deeper into deficit. What we ought to do is help people save.” How better to help people save than to let them keep their Social Security?

Rep. Dick Gephardt turned the question of a solution to Social Security into a point about the economy. “But let me go back to the point that really needs to be made. We are never going to solve Social Security until we get this economy straightened out.”

Unfortunately, Gephardt’s quick fix for Social Security is ruled out as a viable solution. A faster growing economy will not straighten out Social Security’s finances. Currently, benefits are wage indexed, meaning that as wages rise, so do benefits.

Former senator Carol Moseley Braun spoke of a responsibility to the next generation, but not of how we are going to meet it: “We have a responsibility to protect Social Security and retirement security. As the only woman—the first woman in history to serve on the Senate Finance Committee, I worked hard for retirement security and for women’s pensions.”

Governor Howard Dean refined his position on the retirement age and raised the possibility of reform. However, Dean believes tinkering with the system can turn the situation around: “My view is, we do not need to raise the retirement age above 67. We do not need to means test Social Security or Medicare. If we need to do anything, we may need to raise the cap on earnings in order to make Social Security solvent.”

And then there is the wildly optimistic and over-promising Rep. Dennis Kucinich: “We ought to take the retirement age back to 65, take the retirement age back to 65. The money is there. ... I’m saying that Social Security right now, the retirement age ought to go back to age 65. I challenge every one of my Democratic colleagues to look at the record, look at the trust fund, it’s solid through the year 2041.”

These candidates have chosen not to run on Social Security reform, and for a good reason: only personal account proposals have been certified by the Social Security Administration’s actuaries to bring Social Security to solvency. Increases in payroll taxes, raised retirement age, and general revenue transfers are temporary, costly, and ignore Social Security’s many social deficiencies that personal accounts naturally correct.

### ***Gen-X and Gen-Y Workers will Shoulder Double the Burden***

Bill Virgin, a baby-boomer columnist for the *Seattle Post-Intelligencer*, has a regrettable message for all the Gen-Xers: “Get back to work!” In his recent article, “[Boomers, Gen-Xers headed for Showdown](#),” Virgin predicts generational welfare as soon as the inevitable burden of retiring baby boomers appears in Gen-X and –Yers’ pay stubs. Absent reform to a prefunded, personal account-based system, any actions to dispel this conflict will be too late, and the burden will fall on the least politically represented.

Virgin explains: “If you’re not earning money, then you’re not paying taxes, and if you’re not paying taxes then there won’t be any money to pay my Social Security, and I’ll be writing this column well into my hundreds and then won’t we both be sorry.”

He recounts a recent *Business Week* story, “Revolt of the Young: Germans balk at the heavy cost of supporting retirees.” According to the story, a 24-year-old chairman of the Christian Democrat party said elderly entitlements are creating an intolerable

burden for the young. The youth told a Berlin newspaper that they ought to “pay for their own false teeth and hip replacements.”

Thankfully, as Virgin points out: “We’re not to the point of such language in this country yet.”

He continues: “To the extent there is an intergenerational battle, it’s a one-sided contest. The younger set doesn’t know what it is in for or up against, and doesn’t vote anyway. ... But don’t count on the younger set staying silent forever. At some point, the evidence of what’s going on is going to show up in the one place even [Gen-Xers and – Yers] won’t be able to ignore—the paycheck stub.

“And because there are a whole bunch of [baby boomers] and a lot fewer [workers], there aren’t many ways out of the snarl—raise the minimum age at which Social Security benefits can be drawn to about 87 or raise both income and Social Security taxes.”

“And when they add that all up,” Virgin concludes, “they are going to be highly torqued. Who can blame them? About their only hope is for a generation coming up behind them with enough workers to contribute mightily to the system (or else provide a convenient group of players for the next round of ‘pass the debt’).”

### ***Upcoming Events and Announcements***

The Center for Retirement Research at Boston College has just released a new *Issue in Brief*. In “[How Has the Shift to 401\(k\)s Affected the Retirement Age?](#)” authors Alicia H. Munnell, Kevin E. Cahill, and Natalia A. Jivan, all of Boston College, suggest that “the elimination of mandatory retirement, the cessation of the expansion of Social Security, the reduction of retirement incentives within Social Security, and the changing nature of the private pension system” have contributed to the slowing, even reversing, the trend toward earlier and earlier retirement.

Are you new to the Social Security debate? Check out Social Security education project [For Our Grandchildren](#)’s Summer 2003 [activities report](#) where you will find information Social Security reform options, past summer events, introductions to advocates of personal accounts and briefings on partner organization activities. For Our Grandchildren is currently touring in Iowa and Arizona. Upcoming event dates in Iowa include Des Moines on Tuesday, October 7; Sioux City on October 14; Storm Lake on October 15; and more! Arizona events begin in Phoenix on October 10 and continue with two events in Tucson on October 12. Visit the [event calendar](#) for full details and RSVP information.

On Sunday, October 12th, listen for solid Social Security reform proposals or for presidential candidates skirting the issue as the Democratic Party holds a primary debate in Phoenix, Arizona. This event will be hosted by Governor Janet Napolitano and the Arizona Democratic Party and will be broadcast on CNN. The next debate takes place Sunday, October 26 in Detroit, Michigan and will be hosted by members of the Congressional Black Caucus.

[Social Security Choice.org](#) will be holding the first Ohio Town Hall Meeting in Cincinnati. The meeting will convene Monday, October 6th, at Xavier University’s Schiff

Family Conference Center located at 1624 Herald Avenue, downtown Cincinnati, and will begin at 7 p.m. Panelists include Ken Blackwell, Ohio Secretary of State; Michael Tanner, director of the Cato Institute's Project on Social Security Choice; and Steff Chalk, CHALK 401(k) Advisory Board, Inc. The meeting is open to the public and there is no admission charge. Call Social Security Choice.org at 847.570.9620 for more information on the Ohio Town Hall Tour.

**Job Opening, Senior Social Security Analyst:** The Cato Institute's [Project on Social Security Choice](#) is looking for a senior Social Security analyst. The successful applicant will have an advanced degree in economics or a related discipline or equivalent experience. The candidate should have detailed knowledge and understanding of the U.S. Social Security system, as well as the economic and actuarial issues associated with various proposals to reform the system. Excellent written and communication skills are a priority. Candidates should be committed to the principles of limited government and individual liberty, as well as to reforming Social Security through individual accounts. Submit résumé and writing samples to [Michael Tanner](#), director of Cato's Project on Social Security Choice.

**Edited by Helen Mitchell, [hmitchell@cato.org](mailto:hmitchell@cato.org). To subscribe or unsubscribe to *Social Security This Week*, please contact Feliz Ventura at (202) 789-5202 or [fventura@cato.org](mailto:fventura@cato.org).**