



# Social Security Choice

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

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

WEEK OF SEPTEMBER 30, 2005

### ***White House Reaffirms Commitment to Reform***

On Thursday morning, White House Press Secretary Scott McClellan made it clear that the President remains dedicated to Social Security reform. “It is a priority that only gets worse with time and only becomes more costly with time. The President believes it needs to get done. He’ll continue to lead on that issue,” McClellan said.

Asked about the fiscal feasibility of making the transition to private accounts, McClellan said, “It’s something you can’t afford not to address...because when we’re talking about the long-term challenges to our budget, you have to look at entitlements and you have to address that mandatory spending equation.... Each year that you wait, it only—it costs an additional \$600 billion a year. That’s why it’s so important to move forward now and get it addressed.”

### ***Senators Want a Streamlined Social Security Bill***

Two key Senators in the fight for Social Security reform expressed their concern at a recent press conference about the size and scope of the comprehensive retirement bill currently being considered by House Ways and Means Committee chairman Bill Thomas (R-CA). According to a [Dow Jones newswire report](#), Thomas’s bill—which has yet to be unveiled—will not find popular support in the Senate if it is overly complex or attempts too much.

Sen. Jim DeMint, lead sponsor of a surplus-funded personal accounts bill in the Senate, said that the success or failure of reform this year will “really come down to Chairman Thomas, his willingness to pass a simple GROW accounts bill in the House,” according to the report. DeMint continued, “If the bill contains a complex array of benefit cuts that will be used [by opponents] to confuse and frighten people, it won’t work; the Senate won’t take it up.”

Sen. Rick Santorum echoed those sentiments. “If a bill were to come over here [to the Senate] that did a lot of things that were complex and controversial, it would minimize our opportunity to actually pass it,” Santorum said.

Sens. Santorum and DeMint also noted that a bill introduced last week by Santorum could help minimize some of the political obstacles to reform by assuring those born before 1950 that their promised benefits will be delivered as scheduled. Santorum said of his bill, “I see this as part of moving forward both from the standpoint of substance and from the standpoint of political sale-ability.”

However, Cato’s Michael Tanner warned that such measures have far more to do with politics than with sound policy considerations. According to the [Allentown, PA Morning Call](#), Tanner said Santorum’s bill responds “to the rank demagoguery by Democrats about cutting benefits for seniors,” but will have “absolutely no impact” on how benefits are to be distributed.

“It’s a political answer to a political problem,” Tanner said. “You really cannot, in a legal sense, guarantee future benefits. It would take a constitutional amendment.”

### ***McCrery: GROW Accounts Are a Good First Step***

Writing this week in *Roll Call*, Rep. Jim McCrery (R-LA), makes the case for adopting GROW accounts as a first step towards broader Social Security measures that would ensure solvency into the future. An excerpt of his commentary follows.

“The need to ensure the solvency of a program that Americans have relied on to avoid poverty in retirement is among the greatest domestic challenges facing our nation. In addition, the accounting devices used to shift money from Social Security into other government spending programs are unsound and mask the true size of government borrowing. Each and every participant in the Social Security system, whether taxpaying worker, retiree, widow, orphan or disabled person, deserves better.

“As chairman of the subcommittee on Social Security, my goal is to help ensure that Social Security progresses down a more secure and stable financial path. In addressing this challenge, Congress should have the benefit of the best experts, analysts and information available. My subcommittee held a series of hearings designed to accomplish that goal. We have examined the evolution of the Social Security safety net and its importance to vulnerable populations. We have studied the various causes and effects of Social Security’s fiscal woes. We have investigated the impact of longevity, demographics and economic trends on the system’s solvency, and we have learned about other countries’ experiences in reforming their safety nets. We have dissected a variety of options for improving the program, and, perhaps most importantly, we have listened to Americans whose reliance on the Social Security safety net has left them both grateful and determined that it should be there for others. In short, we’ve done our homework.

“The next step is to act. Bush has indicated that he would prefer a broad solution that will restore the system’s solvency while continuing to benefit retirees, both now and in the future. For many reasons, I agree that a remedy for the current system is required—one that achieves fiscal strength, acknowledges budgetary realities, takes advantage of the time value of money, protects current and near retirees and improves the way the safety net operates to support beneficiaries with different needs. Unfortunately, such a comprehensive solution, though apparent, has not yet taken hold in the minds of many Americans and their elected representatives. Their reasons—

among them fear, confusion or resistance to change—may vary, but the facts haven't changed. Social Security is still in trouble, and still needs our help.

“What a number of my colleagues and I have proposed is a reasonable first step towards addressing Social Security's problems: GROW accounts. H.R. 3304, the Growing Real Ownership for Workers (GROW) Act of 2005, ensures that Social Security taxes will only be used to pay Social Security benefits—not, as under current law, to mask the true size of the deficit and fuel the growth of government spending. For as long as it lasts, the Social Security surplus would be protected. According to CBO, GROW accounts extend the solvency of Social Security by 11 years. They would enhance the transparency of Social Security's finances, give workers a real asset they could leave to their heirs, and protect those aged 55 and older from any changes. That's real progress.

“We are currently at a crossroads. We can either ignore the fundamental inadequacies of the current system or work now, while there is still time, not only to fix the system, but to improve it to reflect Americans' changing retirement needs. If we choose not to act, and ignore the looming shortfall, we will only pass the problem on to the next generation.”

## ***Senate Gears up for Pension Overhaul***

On Tuesday, leaders of two Senate Committees agreed on legislation that, if passed, would force companies to better fund their pension plans. Additionally, it would increase the premiums companies pay the federal Pension Benefit Guaranty Corporation (PBGC) to insure those plans, a necessary precaution for any pension program promising a defined benefit.

The proposal would use a company's bond ratings to determine whether it is at risk. Companies would be required to meet additional funding targets if their bond ratings fall to non-investment grade. Companies in bankruptcy or with plans less than 80 percent funded would be prevented from increasing their retirement benefits.

The deal was spurred on by the recent bankruptcy filings of Northwest Airlines Corp. and Delta Airlines Inc., which have increased concerns that if plan defaults continue many workers could lose large portions of their retirement benefits.

If the Senate acts in the next two weeks it would move in advance of the House, which is expected to pass a pension overhaul bill (HR 2830) next month.

## ***Publications***

The National Center for Policy Analysis (NCPA) released a new paper this week entitled “[Tax and Social Security Reform: Thinking Outside the Box](#),” by Hans Fehr, John C. Goodman, Sabine Jokisch, and Laurence J. Kotlikoff. The paper addresses the idea of combining Social Security reform measures with a broader package of tax reforms.

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 Poland, Peru, China, and Kenya.

The World Bank recently released a new report entitled, “[Pensions in the Middle East and North Africa: Time for Change](#).” The report gives a comprehensive review of pension systems in 13 countries in the region and notes that the pay-go funding structure—often combined with overly generous benefits—will be unsustainable in the near future.

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