



# Social Security Choice

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

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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### ***New Polls Reveal Support for Private Accounts***

Two recent polls underscore the support for a private account component to Social Security. The Annenberg Public Policy Center recently released a poll showing that 56% of surveyed American adults favor allowing workers to invest some of their Social Security contributions in the stock market, compared to 36% who were opposed.

A survey conducted by Rasmussen Reports found 52% support for a proposal that would allow workers to invest their Social Security payroll taxes in personal retirement accounts, while 30% oppose the idea. However, the support for private accounts jumps to 63% when private accounts are accompanied by an option to remain in the current system. When asked about the risk of private investment compared to relying on the government system, the numbers were nearly identical: 43% said relying on the government for benefits was riskier, while 42% believe that private investment poses the most risk.

For more information, see [“Public Opinion and Private Accounts: Measuring Risk and Confidence in Rethinking Social Security,”](#) Cato Social Security Paper No. 29, January 6, 2003.

### ***Pointed Social Security Talk Peppers Campaign’s Final Days***

As the campaign enters its final week, Matea Gold and Maura Reynolds of the [L.A. Times](#) report that candidates are desperately trying to “cast each other’s plans for Social Security as recipes for disaster.” Bush has responded to criticisms of his plan by pointing out that John Kerry has yet to propose reforms of his own and is instead relying on tired scare tactics. Excerpts of the back and forth between the campaigns follow.

“On Tuesday, the president promised Florida audiences composed heavily of retirees that their Social Security benefits would not change and accused Democrats of reviving an old ‘scare tactic.’

“In 2000, people traveled this state saying, “If George W. gets elected, our seniors will not get their checks,”” Bush told several hundred supporters at a community amphitheater in New Port Richey.

“Our seniors must remember, you got your checks. You will continue to get your checks, no matter what they try to tell you.’

“Later, during a rally before thousands of seniors at the Villages, a retirement community near Lady Lake, Fla., Bush defended his plan to let younger workers put part of their payroll taxes into their own investment accounts and said Kerry wanted to ‘maintain the status quo when it comes to Social Security.’

“That is unacceptable for younger Americans,’ he said. ‘I believe a president should solve problems, not pass them on to future generations or future presidents.’

According to the *LA Times*, Kerry responded with an appeal to the fears of middle class workers: “‘I cannot tell you how many workers I’ve met like that who are left out there on their own, dangling, the lives of our fellow citizens hanging, while the president and his friends keep feeding the people at the top, keep walking on by, and crossing over to the other side of the street and ignoring those who need the help in America,’ Kerry said.

“I’m going to be a champion for the middle class, for the working folks.’ He called Social Security ‘a sacred compact between generations’ that guaranteed that ‘if you work hard and contribute to your country, then you can retire with a level of both decency and dignity.’”

The article continues: “Vice President Dick Cheney said Kerry was using fears about the viability of Social Security to scare voters. He said it was a common Democratic ploy during presidential campaigns.

“He will now try to scare seniors—and he has this week—by saying their Social Security is threatened, when he knows the president has guaranteed that those benefits will be there for them, and that we will work to ensure the system for today’s young workers, as well,’ Cheney said at a rally at the Green County Fair and Expo Center in Xenia, Ohio.

“Later, in Cincinnati, he was asked about Kerry’s remarks during a question-and-answer session with about a dozen people.

“The comments Sen. Kerry made this week were, I thought, outrageous,’ Cheney said.

“He knows it’s not true—that’s the most appalling thing of all.”

### ***Social Security a Key Issue in South Carolina Senate Race***

As the contest between Rep. Jim DeMint (R) and Inez Tenenbaum (D) for South Carolina’s vacant Senate seat heats up, WIS News Channel 10 of Columbia, S.C., notes

the difference between the candidates on the topic of Social Security, which has become a hot topic in the campaign. DeMint, favored to win by an increasingly tightening margin, is a staunch supporter of a private account option for Social Security, having introduced a reform bill in the House in late 2003. Tenenbaum, meanwhile, has endorsed no reforms for the ailing system, instead suggesting that fiscal restraint could solve the enormous unfunded liabilities facing the system. The text of the WIS News article follows.

“More than 740,000 South Carolinians depend on Social Security. The average benefit is about \$800 a month. The Social Security Administration says if the program isn’t changed, at some point, payroll taxes will have to increase and benefits will have to be cut.

“Both Senate candidates say they would protect it, but have different ideas on how to do that.

“Jim Demint introduced a plan in the House that would allow people the option of saving a large portion of their payroll taxes in a personal Social Security savings account. The private accounts could eventually be passed on to families, ‘My plan for Social Security guarantees benefits. It guarantees that we don’t touch disability. This is the first bill that would make it illegal for Congress to cut benefits, which they’ve done many times in the past.’

“His opponent, Inez Tenenbaum, would oppose that plan. She says she’d work towards a balanced budget, which means lawmakers would not have to dip into the Social Security trust fund and says she’d put that trust fund off limits, ‘I would work to protect Social Security and not take money out of the trust fund and put it into the stock market.’

“Tenenbaum says experts predict Demint’s plan would take one trillion dollars out of the Social Security trust fund over ten years. Demint says the Social Security Administration estimates it would save taxpayers almost \$18 trillion over 75 years.”

### ***Sen. Larry Craig: Social Security Scare Tactics Are Shameful***

This week, Sen. Larry Craig (R-ID), chairman of the Senate Special Committee on Aging, [penned a column](#) that blasts politicians who have distorted the facts about Social Security in an attempt to scare seniors. Craig points out that some campaigns in particular have shamelessly manipulated data to support their statements that switching to private accounts would necessarily entail slashing benefits for retirees. That implication, according to Craig, is hogwash. Craig continues by detailing the benefits of PRAs, noting for one thing that private accounts would prevent the government from raiding pension funds. Craig’s entire commentary follows.

“Halloween is just a few days away, and once again some politicians are out early to scare seniors about Social Security. Perhaps this is explained by the political season, but stirring up such needless fears is sad, cynical, and just plain wrong.

“Some have even accused President Bush of having a plan to cut Social Security benefits by 30 to 45 percent. That’s hogwash.

“The reality is that Social Security is sound for now. Those currently retired and those near retirement will receive all their promised benefits. No one in a position of responsibility has any plan to endanger today’s seniors.

“But there is serious trouble ahead. That’s what Fed Chairman Alan Greenspan says; that’s what the non-partisan Social Security Actuaries say; that’s what the non-partisan Congressional Budget Office and non-partisan Government Accountability Office say.

“Even the non-partisan [FactCheck.org](http://FactCheck.org) website has weighed in on the cost to future generations of doing nothing: ‘Unless taxes are increased, the system’s trustees say currently scheduled benefits would have to be cut 32%.’

“To get us past these difficulties, President Bush has had the courage to confront the problem and advocates the addition of personal retirement accounts within Social Security.

“For women, especially those who don’t make much money over their lifetime, the addition of personal accounts would be of most benefit. A low-wage woman retiring forty years from today would receive (in today’s dollars) around \$825 a month under the current Social Security system. But with a personal retirement account within Social Security, she could receive nearly \$1,100 a month (likewise in today’s dollars).

“By any definition, \$1,100 a month is a better deal than \$825.

“According to the non-partisan Congressional Budget Office, adding voluntary personal accounts to Social Security will expand our nation’s economy by \$58 billion a year. And the National Center for Policy Analysis notes that over the coming decades, personal accounts within Social Security will save taxpayers about \$11 trillion and set the program on a path to fiscal sustainability.

“Personal accounts would give all workers legal ownership of their Social Security benefits and would prevent the government from ‘raiding’ Social Security to pay for other programs. And workers dying prior to retirement could pass on the money to their children, heirs, or a chosen charity.

“The late U.S. Sen. Daniel Patrick Moynihan, a Democrat from New York, noted that by allowing average people making \$30,000 a year to invest a portion of their money in a Social Security personal retirement account, they would have \$350,000 of savings at the end of 45 years, in addition to a traditional Social Security benefit. He summed it up this way: ‘In 1944 the British came up with the slogan of ‘Cradle to Grave’ protection. We propose something beyond: an estate!’

“That’s all any of us should want for future generations. That’s what I want. That’s what President Bush wants. It’s unfortunate that some politicians and special interest groups just want to scare seniors for political gain.”

## ***Kerry's Campaign Tactics Stifle Honest Debate***

Kerry's scare tactics aren't just shameful and manipulative power ploys, writes Nicole Gelinas of the [\*New York Post\*](#); rather, his efforts to scare Americans into voting for him will have the much more serious consequence of squelching honest debate about what is best for America's workers. She asserts that Bush's plan is aimed at solving the dilemma, not hiding it. As Kerry entangles himself in a game of finger pointing, he isn't thinking about the welfare of future retirees, Gelinas concludes. Her commentary follows.

"It is a crude self-caricature and a cruel lie: Once again, the Democratic presidential candidate warns senior citizens that his Republican opponent will slash Social Security benefits. 'The truth is coming out . . . George Bush has finally admitted that he intends to privatize Social Security in a second term,' John Kerry warns in a new ad. 'Bush has a plan that cuts Social Security benefits by 30 to 45 percent.'

"This time around, the lie may double back. Americans familiar with our democratized capital markets can see more clearly than in decades past that Social Security, in its present form, is an unsustainable swindle. The program's 'investment' practices would never pass muster in the private sector—Kerry is pillorying Bush for daring to tentatively address a perpetual financial scandal.

"Bush has tried to debunk Kerry's fear-mongering so that he can tackle this central domestic issue: entitlement reform. 'Let me make sure that every senior listening today understands that when we're talking about reforming Social Security, that they'll still get their checks,' he said during the final debate. 'But for our children and grandchildren, we need to have a different strategy.'

"Indeed. Social Security's 'trust fund' could run a \$100 billion-a-year deficit by 2021 as Baby Boomers reach retirement, warns former Nixon Commerce Secretary Peter Peterson in his book, 'Running on Empty.' Forty years ago, five working Americans supported each elderly retiree—but by 2040, just two working Americans will support each retiree.

"American companies like Ford and GM are struggling now to compete with foreign automakers while making good on their onerous pension promises. The same thing will happen to the entire U.S. economy within 20 years—if we don't act soon.

"But it takes courage for any politician to assert this fact—because the Dems' strategy to attract elderly voters is to perpetuate financial fears. Some seniors will vote for Kerry just to protect their sole source of income—that government check—from an imaginary attack.

"To maintain this permanent cushion of terrified voters, the Dems must preserve, at all costs, Social Security's most egregious violation of sound finance: Pensions should never be invested all in one basket.

“Good financial management means protecting, as much as possible, against the unfathomable—so no ethical investment adviser would force a client to ‘invest’ her entire nest egg in unsecured IOUs backed only by the word of one nation’s government.

“It’s unlikely—even unthinkable—that the federal government would renege on its obligations to creditors (including future Social-Security beneficiaries). But politicians have no right to coerce captive investors into assuming that concentrated risk.

“Politicians excoriated Enron for forcing workers to invest heavily in Enron stock—because that mandate exposed employees to needless risk. But those same pols force all American workers to ‘invest’ a hefty chunk of their lifetime income in unsecured government debt.

“Bush would tweak Social Security to start fixing this. He’d allow workers to invest a small portion of their FICA payments in individual retirement accounts—so that workers could spread their risk across different financial assets.

“So, 50 years from now, when another desperate Dem warns seniors that his GOP opponent wants to cut government retirement benefits, those retirees won’t have to stay up nights worrying, and they won’t feel they have to vote Democratic—because they won’t be entirely dependent on the feds for their income.

“Bush’s reforms would address a second flaw that makes Social Security resemble an institutional swindle rather than an investment trust. If Social Security were a private-sector entity, its ‘trustees’ would soon find themselves exposed as short-term scam artists—because there is no real trust there in the financial sense of the world. Social Security flouts the concept of generational equality—a concept central to a true trust.

“Social Security is marketed (fraudulently) as a universal, perpetual account for all citizens—including those young and unborn. But an impartial trustee would never willfully put future generations’ income at risk to support the current generation.

“Real trustees don’t steal returns from future generations to funnel cash to today’s beneficiaries—that’s why the managers of Teresa Heinz Kerry’s \$1.2 billion Heinz Foundation charity don’t give all the money away today, and forget about future charitable needs. That money is supposed to last forever, to be distributed as equitably as possible across generations.

“But the feds know they’re not treating current and future retirees equitably.

“Social Security’s first beneficiaries received ‘windfall’ returns, Peterson notes—but the Baby Boomers will be lucky to receive a 2 percent return on their own decades’ worth of ‘investments.’ And tomorrow’s workers will likely realize an investment loss on their tax contributions—they’ll get back less money, adjusted for inflation, than they put in.

“Bush would give them a fighting chance to do better—in market-oriented retirement accounts.

“Once in a while, Kerry tries to argue the Dems’ case against entitlement reform on the merits. His main point: Reform will cost too much. In the final debate, he alleged that Bush’s modest proposals would carve a \$2 trillion hole into Social Security, by diverting payroll taxes needed to sustain today’s retirees into private accounts.

“But Social Security reform won’t really cost anything. Yes, the feds will have to borrow more initially to cut checks to today’s retirees. But that borrowing will be offset by a higher level of personal savings. Workers’ investments in Bush’s proposed personal retirement accounts won’t disappear from the economy—those investments will fuel American capital markets, and fund future economic growth.

“Kerry hopes this is too complicated for voters to understand—because informed people can’t be terrified into bad choices.”

## ***Publications***

The Social Security Administration has released the latest issue of its newsletter “[International Update](#).” The publication for October looks at the most recent international developments concerning pension reform. This month’s issue discusses movements toward reform in Ireland, Switzerland, Australia, China, and Jamaica.

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