



Social Security Choice

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

WEEK OF NOVEMBER 3, 2003

NCPA Study Confirms: Accounts Progressive for Women

According to a recent [National Center for Policy Analysis](#) study, women have the most to gain from a reformed Social Security system that includes personal retirement accounts. In [“The Impact of Social Security Reform on Women in Three Countries,”](#) authors Estelle James, Alejandra Cox Edwards, and Rebeca Wong examined the experiences of women in Chile, Argentina, and Mexico, just three of the many nations that have already allowed for private ownership and investment of pensions.

The study found that “Latin American reforms have raised the level of benefits of women relative to those of men and of low-income workers—many of whom are women—relative to high earners.”

“Women rely on Social Security more than men for financial security during their older years,” said Estelle James, former economist with the World Bank. “Yet women also have the most to gain from a Social Security system that includes personal accounts and other reforms.”

The release for the study states:

“This finding contradicts the long-standing argument from many women and senior’s groups that maintaining Social Security’s status quo was essential to women’s financial security.

“The NCPA study examined reformed systems in Argentina, Chile and Mexico and projected how representative men and women would fare under the new and old systems. Because the old systems in these countries were unsustainable, like the U.S. Social Security system, the NCPA study compared the relative position of men and women with similar education under the new and old systems, rather than comparing the absolute dollar-value of benefits. The result showed a shift in favor of women. For example, comparing married women and men high school drop-outs:

- In Chile, the lifetime benefits of married women with full work careers rose from 71 percent of men’s benefits to 96 percent.
- In Argentina, the same women’s benefits rose from 65 percent to 108 percent of men’s.

- In Mexico, the same women's benefits rose from 80 percent to 98 percent of men's.

"The total pensions of women in these countries come from three sources: personal accounts, public benefits that are targeted toward low earners, and joint pensions that husbands are required to provide. In all three countries, husbands are required to purchase, with the money in their personal accounts, a joint annuity (or other pension) to provide for surviving wives. Most important, women are allowed to keep their own pension in addition to this joint annuity. This means that working women are no longer penalized, as they are in the U.S. and other countries where they must give up their own benefit (to which they have contributed for years) in order to receive the widow's benefit.

"The demographic realities of our Social Security system are going to force us to reform it sooner or later," said James. "By learning from the experiences of these countries, we can design a personal account system that not only solves Social Security's long-term debt, but also makes it a better deal for women."

Accrual Accounting Method Restores Accurate Fiscal Picture

As the U.S. budget faces mounting unfunded and unaccounted for liabilities, Joseph J. DioGuardi urges that the government should be confined to standards of accrual accounting methods to ensure an accurate fiscal picture. As the first practicing certified public accountant elected to Congress, DioGuardi has pushed for government accounting reforms since leaving the House in 1989. Excerpts of DioGuardi *Washington Post* article, "[Federal Accounting Reform Urgency](#)," follow:

"Like the fog that hid the massive iceberg in the path of the Titanic on that fateful night in 1913, Washington's woefully inadequate budget and accounting practices have obscured the sobering reality of our federal government's finances.

"Experts in New York and Washington are beginning to notice the looming crisis and, I believe, we have to act quickly to avert a federal financial disaster of Titanic proportions.

"Washington still uses the hopelessly flawed and easily manipulated cash basis of accounting, even though it has mandated 'accrual' accounting for every publicly traded corporation in America. (Accrual accounting recognizes expenses and liabilities when costs are incurred and when measurable commitments are made, not just when checks are written or funds are borrowed).

"On the cash basis, the federal budget deficit for fiscal 2003 was \$400 billion, and the current national debt stands at \$6.8 trillion. But these are not the real numbers. Our true budget deficit for fiscal 2003 exceeded \$1 trillion, and our true national debt now exceeds \$20 trillion.

"Last April, Alan Greenspan publicly endorsed accrual accounting for the federal government, testifying that the fiscal 2002 deficit of \$158 billion was actually a deficit of \$365 billion on the widely respected accrual basis. Professor Howell Jackson of Harvard Law School recently wrote in the *New York Times* that this year's shortfall from Social

Security alone would drive the fiscal 2003 budget deficit up to \$930 billion on the accrual basis.

“Pete Peterson, chairman of the Federal Reserve Bank of New York, recently said national debt figures do not reflect ‘\$25 trillion of unfunded liabilities for Social Security and Medicare.’ He explained that 77 million Baby Boomers who will retire in the next 10 years have been ‘misled by politicians all their lives that this “trust fund” is going to take care of them.’

“Ironically, Thomas Jefferson wrote more than 200 years ago that, ‘We might hope to see the finances of the Union as clear and intelligible as a merchant’s books, so that every member of Congress, and every man of any mind in the Union, should be able to comprehend them, to investigate abuses, and consequently to control them.’ Needless to say, this has yet to happen.

“Today many politicians, lacking Jefferson’s moral clarity, use campaign rhetoric as a substitute for good accounting to disguise the real cost of government programs. In my book, *Unaccountable Congress* (Regnery Gateway, 1992), I described numerous gimmicks used in Washington to hide the truth about government spending from the American people, including: ‘fudging the economic numbers,’ ‘off-budget treatment,’ ‘trust fund deficit masking,’ and ‘front-loading.’ But I believe the biggest culprit in the systematic deception of the American people is a method of accounting based merely on the easily manipulated timing and flow of cash receipts and disbursements.

“The day after Enron collapsed, investors all across America cried, ‘Where was the board of directors when this was happening?’ Good question. We should also ask: ‘Where has Congress been since it mandated accrual accounting, budgeting and reporting some 50 years ago?’ Incredibly, in 1956, Congress, heeding the advice of the Hoover Commission, actually passed a bill, subsequently signed into law (amending the Budget and Accounting Procedures Act of 1950) to require the federal government to adopt the accrual method of accounting for budgeting and reporting. Nearly 50 years later, we have not yet implemented that law.

“What’s the answer? First and foremost, the federal government must finally implement the accrual accounting method it mandated almost 50 years ago. The American people need to know, in advance, the real cost of government programs, so they can hold our politicians accountable. Accrual accounting must be instituted and applied not only to the financial reporting process, but even more important, to the budget process. Only then can we have meaningful debate about the real cost of government programs now and in future years. And only then can Americans choose the best policies for themselves and for their children.

“As Howell Jackson has observed: ‘Everything about the current accounting system conspires to prevent action today, when relatively painless solutions are still possible. If Social Security were to present its finances on the basis of accrual accounting, the public would have to face the hard truth that the system is insolvent—and its real economic status currently is not annual surpluses but deficits that are increasing by hundreds of billions of dollars each year now and into the future. Politicians would have more incentive to act [if the public knew the truth].’

“The red ink we are leaving our children is as serious, substantial and dangerous as the iceberg that destroyed the Titanic. Let’s clear the fog and change course now, before it’s too late.

Personal Retirement Accounts Allow Optimal Choice

Lea Abdnor, national spokesperson for the grassroots Social Security education project [For Our Grandchildren](#), outlines the need for reform and comments on two structures for personal retirement accounts. In the following article for the *Kansas City Star*, Abdnor argues that optional accounts are “[A Better Way to Fund Retirement](#)”:

“There has been a lot of talk about the need to reform the Social Security system with personal retirement accounts. So you might be wondering, what’s wrong with the system and how would these PRAs work?

“What’s wrong with the system today can be summed up in one word: demographics. An aging generation, the baby boomers, are putting a never before seen burden on Social Security. In 1935, when Social Security was first created, there were 42 workers per retiree. In 1950 the ratio was 15:1. Now it’s 3:1 and soon the ratio will be 2:1.

“In fact, in 15 years the Social Security fund will be operating at a deficit that will grow each year, quickly going to hundreds of billions of dollars. If Congress raised payroll taxes to cover the shortfall, taxes would go from 12.4 percent to more than 18 percent.

“This is where the idea for voluntary personal retirement accounts comes in. There are two schools of thought on how they would work.

“One school would keep it simple, as in the Federal Employees Thrift Savings Plan. In this plan, workers have five large mutual funds from which to choose. They range from a totally safe government bond fund to a fund of all stocks.

“Some Americans are not comfortable with making their own investment choices or any investment decisions at all. There should be a ‘default option’ for workers where their PRA money would be invested in a mix of the funds.

“The other school of thought would allow for more choices and options along the lines of a restricted individual retirement account. Workers would not be allowed to buy individual stock in their accounts. They would be able to choose from a number of diversified equity and bond funds. Investment managers’ mutual funds would have to meet a set of standards to qualify for the PRAs.

“Some people have expressed the concern that the PRA fund managers would take too much for their costs. On the contrary, the American capital markets are the most efficient in the world, and competition in the U.S. financial markets has driven investment fees to very reasonable levels.

“There is no valid reason that should keep workers from being offered the choice to invest part of their payroll taxes in PRAs. With a strong safety net from Social Security still in place, this would allow all American workers—not just half of them—to build wealth and retire with much higher retirement income or pass the money on to their children or grandchildren.”

Younger Voters Can Sway Politicians On Social Security

“The wise late prime minister of England, Winston Churchill, once said that if you are a conservative at 20 you have no heart, and if you are a liberal at 40 you have no head,” writes Vanessa Pierce, a recent University of Washington graduate. In her article for the *Seattle Times*, “[Don’t Vote! \(Unless You Care About Your Social Security\)](#),” Pierce argues that Social Security reform should be one issue that breaks this ideological pattern and brings younger voters to the ballot boxes.

Pierce asserts: “It’s time for young adults in this country to grow up and start using their heads or they can kiss their retirement benefits goodbye.

“Of the 23.9 million 18- to 24-year-olds in the country in 2000, only about 42 percent of those voted, according to CIRCLE, The Center for Information & Research on Civic Learning & Engagement.”

More bad news for Social Security, “According to CIRCLE’s national survey in 2002, most young adults identify themselves as ideologically liberal versus conservative by a spread of roughly 10 percent.”

However, Social Security reform might be the issue to change this pattern because younger workers are in fact the group with the most to gain by individual accounts.

Pierce explains, “The Social Security program is taking advantage of young adults [since] it only has enough revenue to pay 100 percent of promised benefits through [2018], according to the Heritage Foundation, a conservative research center.

“Essentially, this means that Gen Y is paying into the system but won’t receive its fair share of benefits. And if the program is cut completely, then workers will get NO benefits for the amount they put in.

“Where will Gen Y’s entitlement come from? The program is in dire need of help, and Republicans may have the answer—to allow workers the option to invest the Social Security tax (FICA) in stocks or bonds through personal retirement accounts (PRAs). Stocks and bonds will give a higher rate of return for the investment this way.

“The privatization naysayers should think again when they see these numbers. The average 23-year-old female will pay \$200,000 into the system over her lifetime and will only get a 1.82 percent return, monthly benefits of \$1,640 (equaling about \$370,000 by the time she dies). But a PRA would give her 4.89 percent return rate and a reserve of around \$620,000 when she retires.

“Young adults need to do something, and the simplest remedy is by going to the polls and marking a box ... Imagine what [politicians] will do if young adults really spoke up?”

It’s time for today’s 20-year-olds to start using their heads. By the time they reach 40, it will be too late.

Accrual Accounting Method Restores Accurate Fiscal Picture

As the U.S. budget faces mounting unfunded and unaccounted for liabilities, Joseph J. DioGuardi urges that the government should be confined to standards of accrual accounting methods to ensure an accurate fiscal picture. As the first practicing certified public accountant elected to Congress, DioGuardi has pushed for government accounting reforms since leaving the House in 1989. Excerpts of DioGuardi *Washington Post* article, "[Federal Accounting Reform Urgency](#)," follow:

"Like the fog that hid the massive iceberg in the path of the Titanic on that fateful night in 1913, Washington's woefully inadequate budget and accounting practices have obscured the sobering reality of our federal government's finances.

"Experts in New York and Washington are beginning to notice the looming crisis and, I believe, we have to act quickly to avert a federal financial disaster of Titanic proportions.

"Washington still uses the hopelessly flawed and easily manipulated cash basis of accounting, even though it has mandated 'accrual' accounting for every publicly traded corporation in America. (Accrual accounting recognizes expenses and liabilities when costs are incurred and when measurable commitments are made, not just when checks are written or funds are borrowed).

"On the cash basis, the federal budget deficit for fiscal 2003 was \$400 billion, and the current national debt stands at \$6.8 trillion. But these are not the real numbers. Our true budget deficit for fiscal 2003 exceeded \$1 trillion, and our true national debt now exceeds \$20 trillion.

"Last April, Alan Greenspan publicly endorsed accrual accounting for the federal government, testifying that the fiscal 2002 deficit of \$158 billion was actually a deficit of \$365 billion on the widely respected accrual basis. Professor Howell Jackson of Harvard Law School recently wrote in the *New York Times* that this year's shortfall from Social Security alone would drive the fiscal 2003 budget deficit up to \$930 billion on the accrual basis.

"Pete Peterson, chairman of the Federal Reserve Bank of New York, recently said national debt figures do not reflect '\$25 trillion of unfunded liabilities for Social Security and Medicare.' He explained that 77 million Baby Boomers who will retire in the next 10 years have been 'misled by politicians all their lives that this "trust fund" is going to take care of them.'

"Ironically, Thomas Jefferson wrote more than 200 years ago that, 'We might hope to see the finances of the Union as clear and intelligible as a merchant's books, so that every member of Congress, and every man of any mind in the Union, should be able to comprehend them, to investigate abuses, and consequently to control them.' Needless to say, this has yet to happen.

"Today many politicians, lacking Jefferson's moral clarity, use campaign rhetoric as a substitute for good accounting to disguise the real cost of government programs. In my book, *Unaccountable Congress* (Regnery Gateway, 1992), I described numerous gimmicks used in Washington to hide the truth about government spending from the American people, including: 'fudging the economic numbers,' 'off-budget treatment,'

'trust fund deficit masking,' and 'front-loading.' But I believe the biggest culprit in the systematic deception of the American people is a method of accounting based merely on the easily manipulated timing and flow of cash receipts and disbursements.

"The day after Enron collapsed, investors all across America cried, 'Where was the board of directors when this was happening?' Good question. We should also ask: 'Where has Congress been since it mandated accrual accounting, budgeting and reporting some 50 years ago?' Incredibly, in 1956, Congress, heeding the advice of the Hoover Commission, actually passed a bill, subsequently signed into law (amending the Budget and Accounting Procedures Act of 1950) to require the federal government to adopt the accrual method of accounting for budgeting and reporting. Nearly 50 years later, we have not yet implemented that law.

"What's the answer? First and foremost, the federal government must finally implement the accrual accounting method it mandated almost 50 years ago. The American people need to know, in advance, the real cost of government programs, so they can hold our politicians accountable. Accrual accounting must be instituted and applied not only to the financial reporting process, but even more important, to the budget process. Only then can we have meaningful debate about the real cost of government programs now and in future years. And only then can Americans choose the best policies for themselves and for their children.

"As Howell Jackson has observed: 'Everything about the current accounting system conspires to prevent action today, when relatively painless solutions are still possible. If Social Security were to present its finances on the basis of accrual accounting, the public would have to face the hard truth that the system is insolvent—and its real economic status currently is not annual surpluses but deficits that are increasing by hundreds of billions of dollars each year now and into the future. Politicians would have more incentive to act [if the public knew the truth].'

"The red ink we are leaving our children is as serious, substantial and dangerous as the iceberg that destroyed the Titanic. Let's clear the fog and change course now, before it's too late.

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