Kerry Edwards
A STRONGER AMERICA

George Bush's Social Security Plan Benefits the Banks That Contribute To Him – At The Expense of Seniors

A new study by Chicago Business School Professor Austan Goolsbee finds that George Bush's Social Security plan will provide a $940 billion windfall to financial institutions, the largest windfall in history. At the same time, the Bush plan would drain $2 trillion from Social Security over the next decade and require benefit cuts that grow from 23 percent to 45 percent. Cutting Social Security will especially hurt women, who make up 60 percent of Social Security beneficiaries.

George Bush's new plan builds on the failures in his first term: squandering a historic opportunity to save Social Security and instead passing a tax cut that cost more than three times as much as saving Social Security, raiding the Social Security surplus each and every year, and trying to hide the fact that Medicare costs eat up 37 percent of Social Security benefits. John Kerry and John Edwards want to take America in a different direction – strengthening Social Security by growing the economy and making the tough choices to restore fiscal discipline and cut the budget deficit.

<u>Bush Plan Provides a Huge Windfall for Financial Institutions</u>

Under George Bush's plan, financial institutions would manage trillions of dollars of private contributions. A new study by Chicago Business School Professor Austan Goolsbee finds that this will result windfall profits for financial institutions and enormous wasted administrative costs:

→ $940 billion of additional revenue for financial institutions (75-year net present value); that is 25 percent of the expected revenues of financial institutions over the next 75 years.
→ Fees and other administrative expenses from individual accounts will make the Social Security problem 25 percent worse. To pay just these costs would require adding an additional six months years to the retirement age or making other benefit cuts.
→ Expenses will eat up 20 percent of the typical beneficiary's account.

<u>Bush's Plan Will Drain Money From Social Security and Cut Benefits</u>

→ Drains $2 trillion from Social Security over the next decade, boosting the budget deficit.
→ Increases the budget deficit through 2050.
→ Cuts total benefits (including the value of individual accounts) by 23 percent growing to 45 percent.
→ Taxes individual accounts by an average of 80 percent when workers retire.

<u>Bush Is Building on His First Term Failures</u>

→ Squandered the surplus with a tax cut that cost three times as much as saving Social Security.
→ Raided the Social Security surplus each and every year, totaling $507 billion – to date.
→ Tried to hide the fact that Medicare expenses will eat up 37 percent of Social Security benefits this year, growing to 50 percent of benefits in 2021.

Americans Count on Social Security, Especially Women

Since women earn less and live longer than men, on average, they benefit even more from the progressive Social Security system with its guaranteed benefit that is adjusted for inflation to ensure a bedrock of retirement security. In addition, Social Security benefits widows, divorced women, and children.

→ 45 million Americans count on Social Security; 60 percent of these beneficiaries are women.
→ For 25 percent of elderly women who live alone, Social Security is their only source of income.
→ The poverty rate for seniors is 10.2 percent, without Social Security it would be about 50 percent; 68 percent of unmarried women living alone would be in poverty without social security.

John Kerry and John Edwards Will Strengthen Social Security

Social Security faces a manageable challenge, but is solvent through at least 2042. John Kerry and John Edwards believe the program should be strengthened, not undermined. They would not raise the retirement age, cut benefits for people that rely on them, raise taxes on the middle class, or privatize Social Security. Their plan would:

→ Grow the economy, jumpstarting growth today and investing in our long-term productivity.
→ Make the tough choices necessary to restore fiscal discipline.

DETAILED BACKGROUND ON KEY POINTS
$2 Trillion Cost of George Bush's Social Security Plan

George Bush's *Economic Report Of The President 2004* says that his Social Security plan would drain $2 trillion from Social Security over ten years, increasing the deficit. According to George Bush's *Economic Report of the President 2004*, "**personal retirement accounts widen the deficit by design**." In total, the Social Security plan presented in the *Economic Report of the President* (Plan #2 from the President's Commission to Strengthen Social Security) would increase the deficit by $2 trillion over ten years. This plan proposes individual accounts that average about 2 percent of payroll (technically, 4 percent of payroll up to a maximum $1,000 annual contribution). [Council of Economic Advisers, *Economic Report of the President 2004*, pp. 143 and Social Security Administration, Office of the Actuary, "Estimates of Financial Effects for Three Models Developed by the President's Commission to Strengthen Social Security," January 31, 2002]

The *Washington Post* agrees. "His proposed changes in Social Security to allow younger workers to invest part of their payroll taxes in stocks and bonds could cost the government $2 trillion over the coming decade, according to the calculations of independent domestic policy experts." [Washington Post, "$3 Trillion Price Tag Left Out as Bush Details His Agenda," 9/14/2004]
Similar costs for other reform models. The White House has chosen to highlight the cost of Plan 2 in their official documents. But this cost is similar to the other plans developed by the President's Commission – Model #1 costs $1.7 trillion over ten years and Model #3 costs $1.8 trillion over ten years.

COST OF PRESIDENT'S COMMISSION PLAN #2			
	Increase in the Deficit ($2001, billions)	Inflation Factor	Increase in the Deficit (current dollars, billions)
2005	104.5	1.13	118
2006	114.0	1.16	133
2007	123.2	1.20	148
2008	132.8	1.24	165
2009	146.6	1.28	188
2010	156.3	1.33	207
2011	166.5	1.37	228
2012	176.5	1.42	250
2013	186.4	1.46	273
2014	195.4	1.51	295
2005-14	**1,502**		**2,004**

Source: All these numbers correspond to the Chart 6-4 in the *Economic Report of the President 2004*. Actual numbers in $2001 are taken from the Social Security Administration, Office of the Actuary, "Estimates of Financial Effects for Three Models Developed by the President's Commission to Strengthen Social Security," January 31, 2002 available at http://www.ssa.gov/OACT/solvency/tables_20020131/Plan%202T-100p-b.html. The inflation factor is based on actual inflation from 2001-03 and the most recent Social Security actuaries estimates for 2004-14.

Cutting Benefits By 23 Percent Growing to 45 Percent

CBO estimates that Bush's plan will force benefit cuts (even when you include the value of the individual accounts) that grow from 23 percent to 45 percent. According to CBO, the President's plan "would reduce expected retirement benefits relative to scheduled benefits, even when the benefits paid from IAs [individual accounts] under CSSS Plan 2 are included… For example, benefits for the 1980s birth cohort would be 30 percent lower, and **benefits for the 2000s cohort would be 45 percent lower**." [CBO, "Long-term Analysis of Plan 2 of the President's Commission to Strengthen Social Security," 7/21/2004, page 15 and Table 2]

FIRST YEAR BENEFITS FOR WORKERS AT 65 (median in middle household, inflation-adjusted 2004 dollars)			
Birth Year	Benefit Under Current Law	Bush Plan: Guaranteed Benefits Plus Individual Accounts	Benefit Cut
1940s	$14,900	$14,900	0%
1950s	$15,200	$14,100	-7%
1960s	$15,500	$13,100	-15%
1970s	$17,700	$13,600	**-23%**
1980s	$20,500	$14,200	-31%
1990s	$23,300	$14,500	-38%
2000s	$26,400	$14,600	**-45%**

Source: CBO, "Long-term Analysis of Plan 2 of the President's Commission to Strengthen Social Security," 7/21/2004, Table 2. The benefit columns are taken directly from CBO; the percentage cut is calculated.

Even compared to a scenario with benefit cuts to extend solvency, Bush's plan would still cut benefits. CBO analyzed a hypothetical scenario where benefits were cut in order to make Social Security solvent. Specifically, CBO assumes that benefits are paid by payroll taxes after Social Security's projected insolvency in 2052. Bush's plan has lower benefits even than this plan.

FIRST YEAR BENEFITS FOR WORKERS AT 65 (median in middle household, inflation-adjusted 2004 dollars)			
Birth Year	**Benefit Paid By Payroll Taxes After Insolvency**	**Bush Plan: Guaranteed Benefits Plus Individual Accounts**	**Benefit Cut**
1940s	$14,900	$14,900	0%
1950s	$15,200	$14,100	-7%
1960s	$15,500	$13,100	-15%
1970s	$17,700	$13,600	-23%
1980s	$19,700	$14,200	-28%
1990s	$18,100	$14,500	-20%
2000s	$19,900	$14,600	-27%

Source: CBO, "Long-term Analysis of Plan 2 of the President's Commission to Strengthen Social Security," 7/21/2004, Table 2. The benefit columns are taken directly from CBO; the percentage cut is calculated.

Increasing the Deficit Through 2050

The Congressional Budget Office (CBO) estimates that Bush's Social Security plan will increase deficits through 2050. According to CBO, "The resulting outlays would increase budget deficits or decrease budget surpluses." According to CBO's analysis, the President's Social Security plan would result in a higher budget deficit in every year through 2050. [CBO, "Long-term Analysis of Plan 2 of the President's Commission to Strengthen Social Security," 7/21/2004, pp. 11 and Figure 2A]

Social Security actuaries agree. The Social Security actuaries looked at the plans put forward by Bush's Social Security commission. They found that Plan 1 would increase the deficit each and every year through at least 2076; Plan 2 would increase the deficit through 2048, and Plan 3 would increase the deficit through 2051. [Social Security Administration, Office of the Actuary, "Estimates of Financial Effects for Three Models Developed by the President's Commission to Strengthen Social Security," January 31, 2002, see Tables on pages 54, 59, and 62]

Bush Plan Taxes Individual Accounts by 80 Percent

Bush plan would tax Social Security individual accounts by 80 percent – or even higher. According to George Bush's own Social Security actuaries, his Commission's reform model two would "claw back" or tax 80 percent of your individual account at retirement. This is based on the risk-adjusted rate of return. If your investments do poorly, then you could get taxed more than 100 percent – not only would you lose your entire individual account but you would end up owing money to the government. [Social Security Office of the Actuary, "Estimates of the Financial Effects of Three Models Developed by the President's Commission to Strengthen Social Security," 1/31/2002. See page 75, based on estimates for a two medium earner couple retiring in 2042. Based on the risk-adjusted rate of return, the individual account is 26.6 percent of the guaranteed benefit but 21.4 percent of this gets clawed back.]

The President's plans all have "clawbacks." All three of the plans proposed by the President's Commission have "clawbacks." In Plan 2, beneficiaries get to invest up to $1,000 per year. At retirement, they have to pay back the government what their account would have returned if they had invested it at 2 percent per year (adjusted for inflation). That is about $50,629 if they invest for 35 straight years. If they have extra money, they get to keep it. If they have less, they have to return it. (All numbers are in inflation-adjusted 2004 dollars.)

	Low Return Scenario (0 percent)	**Baseline Return (risk-adjusted rate)**	**High Return Scenario**
Assumed Return	0.0 percent	3.0 percent	4.9 percent
Value of Account	$35,000	$61,797	$92,598
Clawback Amount	-$50,629	-$50,629	-$50,629
Remaining Account	-$15,629	$11,168	$41,969
Effective Tax Rate	**145%**	**82%**	**55%**

Note: All numbers are in inflation-adjusted 2004 dollars. Rates of return are also inflation-adjusted. All CBO analysis is based on a 3.0 percent risk-adjusted rate of return – 3.3 percent return on Treasury bills minus 30 basis points for administrative costs.

Bush Plan Reduces Solvency

The Bush individual accounts hurt the solvency of Social Security by more than 50 percent. According to independent analysis by leading Social Security scholars Peter Diamond and Peter Orszag, the individual accounts in Commission Model 2, by themselves, would reduce solvency by 1.07 percent of taxable payroll over 75 years. In other words, individual accounts add more than 50 percent to the cost of saving Social Security for 75 years. The only reason the Social Security actuaries say that this plan extends the solvency of Social Security is because of the deep cuts in guaranteed Social Security benefits and the trillions of dollars in general revenue transfers. [Peter Diamond and Peter Orszag, "An Assessment of the Proposals of the President's Commission to Strengthen Social Security," *Contributions to Economic Analysis & Policy*, Volume 1, Issue 1, 2002]

Bush's Failed Record on Social Security

Instead of strengthening Social Security, George Bush chose tax cuts for the wealthiest that cost more than three times as much as saving Social Security. The present value cost of the Bush tax cuts is $11 trillion. That is more than three times as much as it would cost to save Social Security for 75 years. [Greenstein and Orszag, "Understanding the Social Security and Medicare Projections," Center on Budget and Policy Priorities, 4/2/2004]

George Bush broke his promise and raided Social Security each and every year – totaling $507 billion to date. Soon after taking office George Bush promised not to raid the Social Security surplus, "My plan will keep all Social Security money in the Social Security System, where it belongs." [Bush Radio Address, 2/3/01] The year before George Bush took office, the entire Social Security surplus went for Social Security – none of it was borrowed to pay for other tax cuts or spending. In 2001, however, George Bush dipped into $33 billion of the Social Security surplus to pay for his tax cut. In 2002, 2003, and 2004 he raided the entire surplus. In total, George Bush has used $507 billion of Social Security payroll taxes to pay for his tax cut in the last four years.

Fiscal Year	Social Security Surplus	Amount Raided
2000	$150 billion	$0 billion
2001	$161 billion	$33 billion
2002	$160 billion	$160 billion
2003	$161 billion	$161 billion
2004	$153 billion	$153 billion
Total, 2001-04	**$635** billion	**$507** billion

Source: Congressional Budget Office

EXECUTIVE SUMMARY FROM TODAY'S STUDY:
The Fees of Private Accounts and the Impact of Social Security Privatization on Financial Managers

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September 2004

Creating individual accounts in the social security system would lead to a massive increase in payments of financial fees to private financial management companies. Under Plan II of the President's Commission to Strengthen Social Security (CSSS), the net present value of such payments would be $940 billion.

These expenses amount to more than 25% of the existing deficit in social security over the same period. Rather than using the money to close the social security gap, the plan would transfer this money to private financial managers and mutual fund companies. If the government were to offset the cost of these fees by raising the retirement age, the age would need to rise by about 6 months – just to cover the administrative costs of the individual accounts, not even the accounts themselves.

The fees would be the largest windfall gain in American financial history. The $940 billion payment to financial companies would be an increase more than 8 times larger than the decrease in revenue from the 2000-2002 collapse of the bubble. The net present value (NPV) of the fees amounts to about one-quarter of the NPV of the revenue of the entire financial sector for the next 75 years.

For a worker at the average income level, the fees in privately managed accounts are likely to reduce the ultimate retirement value of their individual accounts by 20 percent for the intermediate case.

BUSH AND HIS WELL-CONNECTED FRIENDS:

Preaching Privatization

With Much to Gain, Big Business Have Been Pushing for Social Security Privatization By Funding Bush and Front Groups

As the debate over Social Security privatization heats up, numerous industry front groups have sprung to life, all pushing the creation of private social security accounts. These groups were created and bankrolled by the securities and investment industries, which have given President Bush nearly $12 million for his last two campaigns for the White House. In addition, 9 of the top 10 Bush donors in 2004 were from the financial services industry. Other GOP-affiliated groups, including Freedom Works and the Club for Growth, both recipients of funds from the financial services industry, have also begun advocating private accounts.

Bush's Biggest Backers Come >From the Financial Services Industry

In 2004, 97 Bush-Cheney Pioneers and Rangers Come From the Finance and Investment Community. In 2004, there are 97 Bush-Cheney Pioneers and Rangers from the Finance and Investment community. [www.whitehouseforsale.org]

➢ **In 2000, 79 Bush Pioneers Came From the Finance and Investment Community.** In 2000, there were 79 Pioneers from the Finance and Investment community. [www.whitehouseforsale.org]

In 2004, 9 of Bush's Top 10 Donors Were From the Financial Services Industry. The top 10 biggest Bush donors in 2000 were all financial services firms. [www.whitehouseforsale.org]

➢ **In 2000, Half of Bush's Top 10 Donors Were From the Financial Services Industry.** 5 of the 10 biggest Bush donors in 2000 were financial services firms. [www.whitehouseforsale.org]

In 2004, Bush Has Received Nearly $8 Million from the Securities and Investment Industries. During the 2004 election cycle, Bush-Cheney '04 has received $7,529,945 from the Securities and Investment Industries. [www.opensecrets.org]

➢ **In 2000, Bush Received More Than $4 Million from the Securities and Investment Industries.** During the 2000 election cycle, the Bush-Cheney campaign received $4,065,576 from the Securities and Investment Industries. [www.opensecrets.org]

Financial Services Firms Have Bankrolled Pro-Privatization Front Groups

Outside Groups Mobilizing and Spending Money to Promote Social Security Privatization. According to Derrick Max, the executive director of the Alliance for Worker Retirement Security, a pro-privatization group created by the National Association of Manufacturers, "The president has said and his top advisers have repeated that should he get re-elected, this is one of his top five issues for his next term … I think it's very serious. <u>Their staff is working on it more, there is more encouragement for outside groups to be active on it, and the groups are raising and spending more money</u>." [<u>The New York Sun</u>, 11/21/03, emphasis added]

Many of These Groups Were Created By Businesses That Stand to Gain from the Creation of Private Accounts. According to the Wall Street Journal, the financial services industry "stands to benefit the most financially from an overhaul of the government-run retirement system." And, "behind the scenes, securities and investment companies, the fourth-largest industry contributor to the Bush campaign during the last election cycle, are raising funds for what looks to be a battle royal over a White House plan to add private investment accounts to Social Security." [Wall Street Journal, 6/12/01]

Alliance for Worker Retirement Security: Created by the National Association of Manufacturers (NAM) and also supported by the US Chamber of Commerce, National Federation of Independent Business (NFIB) and the Securities Industry Association. The Alliance for Worker Retirement Security, the biggest pro-privatization group, was created in 1998 by the National Association of Manufacturers. The Alliance has received funds from numerous financial services firms that gave primarily to the GOP in 2000, and was created solely to lobby for Social Security reform. According to the Wall Street Journal, "Its membership includes trade association heavyweights like the U.S. Chamber of Commerce ($515,499; 94 percent to GOP) and the National Federation of Independent Business ($1.1 million; 97 percent to GOP), as well as the Securities Industry Association ($604,721; 59 percent to GOP); PaineWebber ($1.5 million; 64 percent to GOP)… " [Wall Street Journal, 6/12/01; The Washington Times, 11/20/03]

➢ **Top White House Social Security Official is Former Head of the Alliance.** "The senior White House official working on the [privatization] plan, Charles Blahous, is the former executive director of the president's commission to strengthen Social Security and a former director of the Alliance for Worker Retirement Security, a group that advocates private savings accounts." [The New York Sun, 11/21/03]

Coalition for American Financial Security: Funded by Many in the Financial Services Industry. Coalition members gave huge sums to the GOP in 2000. "Another pro-privatization group is the Coalition for American Financial Security, formed last spring by financial services companies Brinson Partners ($70,800; 88 percent to GOP); Mellon Financial Corp ($120,215; 57 percent to GOP); State Street Corp ($110,858; 53 percent to Dems) and the Frank Russell Co., a subsidiary of Northwestern Mutual Life Insurance Company ($501,575; 73 percent to GOP). It was before a Coalition-sponsored lunch last month in New York that Treasury Secretary Paul O'Neill unofficially launched Bush's plan to add private investment accounts to Social Security." [Wall Street Journal, 6/12/01]

➢ **Bush's Biggest Donors, Who Stand to Reap Huge Sums from Privatization, are Members of the Coalition.** Some of Bush's biggest donors, including Merrill Lynch, Credit Suisse First Boston, UBS Paine Webber, and Goldman Sachs, "were all members of a group called the Coalition for American Financial Security, which favors privatization - and the millions of individual stock market accounts - and brokerage fees to administer them - that would be created." [The News Journal (Wilmington, DE), 2/1/04]

FreedomWorks: Merger of *Citizens for a Sound Economy* and *Empower America*. Freedom Works praised President Bush for his pro-privatization remarks at the Republican Convention. Freedom Works was formed in July 2004 by a merger between Citizens for a Sound Economy

(CSE) and Empower America, and is led by former GOP House Majority Leader Dick Armey, former GOP Vice Presidential nominee Jack Kemp, and GOP insider C. Boyden Gray. According to the Manchester Union Leader, "The group is seeking to concentrate on fewer and more specific agenda items, such as trying to replace Social Security with personal retirement funds and to replace the current system of taxation with a flat tax." [FreedomWorks Press Release, 9/2/04; The Union Leader (Manchester NH), 8/23/04]

➢ **Citizens for a Sound Economy (CSE) Funded by Large Checks from Corporate Interests.** According to internal documents leaked to the Washington Post, 85 percent of CSE's 1998 revenues of $16.2 million came not from its 250,000 members, but from contributions of $250,000 and up from large corporations. Over the years, CSE's contributors have included Enron, Phillip Morris, ExxonMobil and Microsoft. [The Washington Post, 1/29/00]

Club for Growth: The Largest Republican 527, Funded by Wall Street Executives, is Pushing for Social Security Accounts. "Mr. Moore said his group has disagreements with the president but will take to the airwaves this fall to support him. 'We don't love Bush but we think it's important to make the Bush tax cuts permanent and to privatize Social Security,' he said." The Club is the "largest 527 on the Republican side." The group has raised more than $5 million in the 2004 election cycle. [The New York Sun, 7/15/04, emphasis added]

➢ **The Club For Growth Is Backed By Wealthy Wall Street Executives.** "The Club for Growth, founded five years ago, bills itself as a free-market organization that pushes for lower taxes, downsizing of the federal government and economic growth. Its membership is dominated by Wall Street financiers and executives." [Omaha World Herald, 4/26/04]