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Social Security Choice

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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As DeMint Plan Gains Momentum, Solvency Concerns Surface

Senate Finance Committee chairman Charles Grassley pledged this week to resume his efforts to pass Social Security reform legislation in the fall legislative session. "My goal is sustainable solvency," Grassley told reporters this week. He added that he felt that this year marked a "once in a decade" opportunity to achieve meaningful reform. Committee staff will be hard at work crafting the legislation during the August recess, according to a dispatch from Market News International.

A similar message of commitment to solvency has come from the White House as well: the president is unlikely to accept legislation that does not address the looming insolvency of the system. Though White House advisors hailed the DeMint option as "a very important first step" last week, subsequent statements by administration officials have suggested that a plan without solvency is a non-starter. Ben Bernanke, the new chairman of Bush's Council of Economic Advisers, said that the president "will insist on maintaining the long-term solvency of the Social Security system, so that it can continue to provide benefits to retirees in the future," according to the *Washington Post*.

From the article:

"'The president is committed to two elements,' Bernanke said. 'One is restoring the solvency of the Social Security system, and the second is creating personal retirement accounts for individuals. The legislative process is a long and complicated one, and we will be working with Congress to see what comes out, but we would want to see both of those elements in a final program.'

"Bernanke, a former member of the Federal Reserve Board, did suggest the White House is open to one change in the Bush proposal. Under the president's personal accounts plan, a retiree's defined Social Security benefits would be reduced by one dollar for every dollar contributed to an account, plus an interest rate of 3 percent above inflation. That so-called 'offset rate' was set to roughly equal the amount the Social Security system would have received if the money in the accounts had instead gone to Social Security and been invested in Treasury bonds.

"Under the plan, workers who choose personal accounts would get more benefits than they would from the traditional system only if their account investments returned gains higher than 3 percent above inflation. Even some allies of Bush have suggested that is too high a hurdle.

"Bernanke appeared to agree.

"'With real interest rates quite low, the offset rate may unduly penalize personal accounts,' he said. 'And we may need to think about whether the offset rate should be adjusted somehow to market levels.'"

Murdock: Let Workers Earn More with Personal Retirement Accounts

Deroy Murdock, columnist and advisor to Cato's Project on Social Security Choice, makes the case for the DeMint plan in an article for *National Review* Online. Arguing that the case for the proposal has two key components—accountability and the potential in personal retirement funds—Murdock details the returns projected under the Social Security Administration's own scoring of the plan. Particularly, Murdock emphasizes the hollowness of the Trust Fund:

"Americans may believe this money is conserved for the future. Sorry. It vanishes as quickly as Congress sees it. To understand how, try this experiment: Open your wallet. Remove $100. Buy a new T-shirt, some socks, a decent lunch, two movie tickets, and beers with a friend afterward. Now, place in your wallet a slip of paper that reads: 'I owe me $100 when I retire.'

"Social Security is financed similarly.

"In fiscal year 2005, for instance, the Social Security system will collect $577.1 billion in payroll taxes, $16.6 billion in taxation of benefits, and $91.7 billion in congressionally appropriated interest. Of this $685.4 billion bundle, retirees will receive $511.6 in benefits, while $9.1 billion will cover administrative costs. This $164.7 billion balance is the Social Security surplus.

"This money is not invested in stocks, real estate, or even Picassos. Since 1983, Congress has spent $1.67 trillion of this cash on food stamps, cruise missiles, the space shuttle, Amtrak, etc. In its place, non-traded "special issue Treasury notes" sit in the so-called Social Security Trust Fund, a filing cabinet in Parkersburg, West Virginia. These pieces of paper obligate future Congresses to collect taxes tomorrow to finance Congress' bipartisan spendaholism today. There are no underlying, marketable assets involved—just the anticipated political will of future elected officials to shake down citizens who currently populate America's K-12 classrooms."

Additionally, Murdock continues, the financial benefits of converting the surplus into personal accounts are substantial:

"According to the SSA, a 44-year-old earning $36,600 would retire with an account worth $9,783 to $13,096, depending on his preference for bonds or diversified investments. A 34-year-old earning $58,600 would retire with $19,117 to $30,606. Come 2017, surplus payments would end, but this roughly $1.2 trillion in accumulated private property would keep growing. These nest eggs would help finance each owner's retirement benefits.

"Some free marketeers would sweeten the DeMint-Ryan plan by adding congressionally allocated interest to these accounts. They would make a huge difference through the magic of compounding.

"Phil Kerpen, policy director of the Free Enterprise Fund in Washington, D.C., estimates that 'adding interest nearly triples the ultimate size of these accounts.' In the examples cited above, the 44-year-old worker 'would have an account of $26,929 in the bond fund and $35,597 in the mixed fund. Your 34 year old would have an account of $53,321 in the bond fund and $84,215 in the diversified portfolio.'

The full article is available here.

Women for Social Security Choice v. Anti-Reformers: Debate Recap

Last week, Women for a Social Security Choice hosted a debate (along with Alison Fraser of the Heritage Foundation) with two prominent women's rights leaders on the issue of Social Security and women. The two opponents of reform were Kim Gandy, President of the *National Organization of Women*, and Heidi Hartmann, President of the *Institute for Women's Policy Research.*

A memo released by Lea Abdnor, executive director of Women for a Social Security Choice, included the following summary of the opposing positions:

Messages from Gandy and Hartmann included:

- "Privatization is bad for women."
- "Social Security is not in crisis....the Trust Fund is secure, and the pay-as-you-go system is fiscally responsible."
- "Social Security is family insurance" that cannot be replaced with gambling in the stock market.
- "Privatizers want to replace a guaranteed Social Security benefit with a guaranteed gamble."
- "The President's plan would cut benefits for all workers (under age 55) with income above $20,000."
- "With private accounts, individuals could end up poorer in old age."

Some of the messages from [Abdnor's] side included:

- "Social Security's benefits are not guaranteed and are unreliable in the future."
- "The Social Security Trust Fund is "a shoebox full of IOUs."
- "Personal Retirement Accounts would give women choices and control over her retirement; she would have two sources of income in retirement."

- "Personal Retirement Accounts would give women the opportunity to create a real nestegg of her own--and have more money in retirement than she would by relying solely on Social Security."
- "Personal Retirement Accounts are the only way to ensure that your Social Security taxes are spent on your retirement and not by Congress on other programs."

For more information on Women for a Social Security Choice, see their website at www.womenforsschoice.org.

Featured Daily Debunker: Nancy Pelosi's Outrageous Claims

Each weekday, the Cato Project on Social Security Choice provides new content on its website, www.socialsecurity.org. The Daily Debunker, the most frequently updated feature on the website, sets the record straight about the most egregious instances of misinformation about personal accounts that appear in newspapers and magazines. This week's featured debunker discusses Nancy Pelosi's recent claims that young workers have the most to lose under a system of personal retirement accounts. From the Debunker:

House Minority Leader Nancy Pelosi's campaign against Social Security reform took a new turn this week. Speaking to members of the Democratic 30-Something Group on the Capitol, Pelosi made the following remarks:

> The message that the 30-Something Group is taking out to the country—whether it is on campuses, in the halls of Congress, on the road, or in the homes across America—is that the privatization of Social Security, when it comes to young people, is a critical issue because you have the most to lose.
>
> We have these dice here to say: "We do not intend to have Social Security, which is a guaranteed benefit, turn into a guaranteed gamble for any of you."
>
> When you go out and talk to your friends about this, just give them these three numbers: 20, 40, and five. If you are 20 years old now, when you need Social Security, when you come to retirement age, you will get a cut of more than 40 percent in your benefits if privatization goes forward, and you will have a bill of $5 trillion. 20 years old now, 40 percent benefit cut, $5 trillion cost. This is an immoral transfer of debt to the next generation.

Arguing that younger workers have the "most to lose" from personal accounts and a Social Security fix is a novel stratagem. Financial advisors typically recommend that their younger clients discount possible returns from Social Security entirely. Studies of likely returns for workers starting out now split between those estimating a 1 percent annual return and those expecting a negative return. Neither is an attractive prospect, assuming, of course, that the system doesn't simply go broke in thirty years time as the Social Security Administration currently projects.

Quite how Pelosi calculated that personal accounts entail a benefit cut of 40 percent for younger workers remains something of a mystery. Under the DeMint plan, which Democrats have opposed in the House and Senate, the current surplus is retained in the system and not spent on other projects, meaning more money, not less, for future Social Security payouts.

That's no gamble either. The real gamble is assuming that Congress will continue to pay out the benefits it has promised, when there is no legal requirement for future lawmakers to do so and great financial pressures on the current system. Moreover, this element of uncertainty is tamed precisely by the introduction of personal accounts, as each account is the legal property of the individual whose name is on it; America's retirement dollars are no longer subject to the whims of budget-setters. Limits on investment options are a further check against any possibility of bad choices hurting future retirees.

Cato's Michael Tanner to Debate Paul Krugman

Michael Tanner, director of Cato's Project on Social Security Choice will debate economist and columnist Paul Krugman on the future of Social Security at an event commemorating the 70th anniversary of the implementation of the program. Krugman has been an outspoken critic of any plan to create individual retirement accounts and has repeatedly denied that Social Security faces long-term challenges that need to be addressed, in spite of his protestations to the contrary during the Clinton years.

The debate, hosted by the Franklin and Eleanor Roosevelt Institute as part of a day-long event, will take place in Hyde Park, NY on Saturday, August 13. For more information, click here.

Members of Congress and Young Leaders to Discuss Reform

On Tuesday, July 26, Senator John Sununu (R-NH), Senator Jim DeMint (R-SC), and members of the U.S. House of Representatives, will participate in a roundtable discussion with students, activists and young influentials on the need to save and strengthen Social Security for younger generations.

Among the panelists are Cato's Brooke Oberwetter, Raj Bhakta of *The Apprentice*, Ramesh Ponnuru of *National Review*, Derrick Max, and representatives from Students for Saving Social Security.

The event will be held in the U.S. Capitol Building, S-207/Mansfield Room from 9:00 – 11:00 AM.

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