



# Social Security Choice

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

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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### ***2004 Trustees Report: Social Security Financing Worsens***

The Social Security system's trustees released their [annual report](#) on March 23, 2004, showing that the future remains bleak for the nation's government-run pension system.

According to the trustees, Social Security will begin to run a deficit by 2018, just 14 years from now, which is the same date as in last year's report. Thus, while politicians dithered and tried to pretend the issue would go away, we moved another year closer to disaster. More importantly, the present value of Social Security's unfunded liabilities increased by more than \$200 billion since last year's report, reaching \$5.2 trillion over the 75-year actuarial period—\$3.7 trillion to fund benefits after the trust fund is exhausted and \$1.5 trillion to redeem the bonds in the trust fund. Measuring the deficit on an infinite horizon, the present value of Social Security's unfunded liability is \$11.9 trillion (including \$1.5 trillion to redeem the trust fund).

Reacting to the Trustees Report, Michael Tanner, director of Cato's Project on Social Security Choice, said, "This year's report reinforces what we already know: Social Security faces massive long-term deficits and needs to be reformed, and the sooner the better. With each passing year Social Security's multi-trillion-dollar deficits increase and the cost of fixing the system rises."

Tanner also noted that "focusing solely on Social Security's finances, however, ignores other important issues that reform must address, including the lack of a legal right to benefits, and discriminatory treatment of working women, divorced individuals, younger workers and low-wage/minority workers with shorter life expectancies. Nevertheless, the Trustees Report proves again that Social Security reform needs to be on the agenda.

"Only by allowing younger workers to privately invest their Social Security taxes through individual accounts," Tanner concluded, "can we fix Social Security without massive tax increases or benefit cuts. It's time to have a national debate over how best to reform Social Security."

## ***Snow Says Individual Accounts Key to Social Security Reform***

In a statement marking the release of the 2004 report of the Social Security system's trustees, [Treasury Secretary John Snow](#) restated the administration's support for allowing younger workers to privately invest a portion of their Social Security taxes through individual accounts. Snow pointed out that the Trustees Report shows that Social Security is unsustainable as currently structured and called for action sooner rather than later to fix the program. Among Snow's remarks:

"The fundamental math of Social Security is inescapable as the large baby boom generation reaches retirement age and the number of workers paying into the system declines significantly relative to the number of retirees. While we have some time to fix the problem, inaction is not a responsible option. The President has called for bipartisan efforts to create a permanently sustainable system and he has been right to do so—and the sooner action is taken, the better for all concerned. Each year that passes without needed changes to the program makes the ultimate resolution more difficult.

"To provide some perspective on what this means—today, the cost of paying Social Security benefits absorbs 4.3 percent of the nation's GDP. According to the Social Security actuaries, the cost will rise to 6.6 percent by 2078. This would mean that the share of the economy required to fund Social Security benefits would be more than 50 percent higher than it is today—and even that would continue to increase, the further out one looks.

"Personal accounts are an important part of the solution to strengthen Social Security as they will enable younger workers to accumulate a nest egg towards their retirement needs, creating funding within the system. Now is the time to take the steps to preserve and protect Social Security so that commitments to our seniors are kept and the needs of our children and grandchildren are met."

## ***Cato's 6.2% Plan Endorsed by Seniors Organization***

[Seniors Against Federal Extravagance](#) (SAFE) issued a press release this week supporting Cato's 6.2% solution for Social Security reform. The text of the press release follows:

"On behalf of the coming generations, Seniors Against Federal Extravagance has favored Personal Retirement Accounts funded by payroll taxes, since SAFE was founded in 1997. On March 19, 2004, the SAFE Board of Directors voted to endorse a specific proposal of the Cato Institute. Under the proposal, workers born on or after January 1, 1950 would be allowed to use their half of payroll tax (6.2% of income) to fund individually owned, privately invested accounts. Details are given in a 15 page report from the Cato Institute, ['The 6.2% Solution: A Plan For Reforming Social Security'](#) by Michael Tanner (SSP no. 32, 2-17-04).

"Similar proposals have recently been endorsed by Steve Forbes (in Forbes Magazine), the *Wall Street Journal*, and the Alliance for Retirement Prosperity among others. In other words, here is a great idea whose time may have finally come.

“This plan is the culmination of over 25 years of excellent work by Cato,’ says SAFE President Barry Dorsch. ‘It is an excellent solution to a serious problem. I hope Congress adopts it and doesn’t mess it up.’

“SAFE was founded in Delaware and has members in most states. SAFE concentrates on the future welfare of coming generations, and doesn’t ask for additional benefits for seniors.”

### ***Kemp on ARP vs. AARP***

Last week saw the launch of the [Alliance for Retirement Prosperity \(ARP\)](#), a single-issue organization founded by Dick Armev, Jack Kemp, and former Social Security commissioner Dorcas Hardy that seeks to transform Social Security to a system that allows workers to save a portion of their payroll taxes in Personal Retirement Accounts. The AARP, which actively campaigns against Social Security privatization, has apparently taken issue with the Alliance’s use of the acronym “ARP” and claims that it is deliberately misleading. But co-chair Jack Kemp says AARP’s reaction indicates a fear of competition, not confusion. Kemp’s response to AARP’s accusations follows:

“Just a few hours after the inaugural press conference of the Alliance for Retirement Prosperity—an organization I co-chair along with former Congressman Dick Armev and former Social Security Commissioner Dorcas R. Hardy—we received word that the AARP is considering legal action against the alliance because the acronym ‘ARP’ sounds like ‘AARP.’ However, the distinctions between the two organizations could not be more clear.

“Our Alliance for Retirement Prosperity ([www.arpnow.org](http://www.arpnow.org)) is an organization whose sole purpose is to help lead and coordinate the legislative and grass-roots efforts for real Social Security reform enabling working Americans to invest in the private economy for their retirement by redirecting at least half of the current 12.4 percent payroll tax into their own personal retirement accounts. The alliance is in its infant stages, just beginning to raise money for a budget of less than \$1 million. In stark contrast, the AARP boasts a membership of some 35 million members, has been around since 1958 and has an annual budget of \$620 million.

“The alliance has a visionary mission: to transform Social Security for the 21st century premised upon retirement prosperity and individual ownership, which would complete the transformation of America into an investor nation. The alliance opposes all payroll tax increases and benefit cuts, and supports reasonable restraint on federal spending growth and prudent federal borrowing to finance the transition to the new system. I believe the enactment of large personal retirement accounts would bring to fruition Abraham Lincoln’s true American dream of making every worker an owner.

“Conversely, even mentioning personal retirement accounts seems anathema to AARP. After President Bush uttered the words ‘personal retirement accounts’ in his 2004 State of the Union Address, AARP representatives rushed to criticize any such proposal. David Certner, AARP’s director of federal affairs, said, ‘We continue to oppose reform proposals that would take money out of Social Security and put it into private accounts. ... Taking money from Social Security would only weaken the program.’

“Instead of being a partner and voice for meaningful change, AARP leaders seem to prefer putting their heads in the sand and pretending that the problem doesn’t exist. For example, in a speech at the National Press Club, Bill Novelli, CEO of AARP, argued that: ‘Social Security can pay full benefits until 2042.’ But his words simply do not comport with the facts. You don’t have to take my word for it; simply read the summary of the 2003 trustees’ report:

“Projected OASDI tax income will begin to fall short of outlays in 2018 and will be sufficient to finance only 73 percent of scheduled annual benefits by 2042.’ To argue that a system that will begin running perpetual deficits in 2018 does not present a serious public policy problem until 2042 is misleading at a minimum and reckless in the extreme.

“In 1999, Fed Chairman Alan Greenspan explained why so many baby boomers planning for retirement feel nothing but social insecurity: ‘Those (citizens) born in 1960, for example, are currently calculated to receive a real rate of return, on average, of less than 2 percent on their cumulative contributions.’ The situation only gets worse for workers born after 1960.

“As a result, the Alliance for Retirement Prosperity supports progressive personal retirement accounts. Workers could contribute 10 percent of their first \$10,000 of earnings and 5 percent thereafter up to the income limits of payroll taxation. The chief actuary of Social Security scored a plan published by the Institute for Policy Innovation that meets all of the alliance’s principles and concluded that workers owning large personal accounts would receive nearly 60 percent more in retirement benefits than Social Security currently promises.

“Interestingly, AARP authorizes 15 private investment funds designed to meet the diverse investment needs of AARP’s membership while providing competitive returns. AARP also touts the success of its Scudder GNMA AARP Fund, which has an asset value of approximately \$4.4 billion and for the 10-year period through Jan. 31, 2003, the fund averaged annual total return of 6.1 percent. Not bad, but that begs the question: Why is diversified private market investment OK if it is controlled by the AARP and for AARP members, but a ‘risky scheme’ when used to transform Social Security into a pre-funded, investment-based system for all Americans?

“In the letter we received threatening to sue the alliance, AARP’s lawyers claimed that our group is intentionally producing a ‘likelihood of confusion in the marketplace,’ and as a result we are engaging in ‘unfair competition.’ Contrary to AARP’s assertions, we seek not to create confusion but to clarify, and not to litigate but to compete in the marketplace of ideas. I am so confident that our ideas for reforming Social Security are superior to AARP’s reactionary opposition to personal accounts, that I, along with my two co-chairs have formally challenged AARP to a series of town hall debates around the country to dispel any confusion between the two organizations and where we stand on the issue of personal retirement accounts and retirement prosperity. We have not heard a word from anyone from AARP other than their lawyers. We’re waiting.”

### ***NCPA Study: Raising Social Security Taxes Won’t Prevent Insolvency***

Raising Social Security taxes is not at all an attractive solution to the problems facing the system, according to a new Briefing Analysis from the National Center for Policy Analysis. Eliminating the Social Security payroll tax cap is merely a temporary fix, and not a very good one, argues Matt Moore in “Eliminating the Social Security Payroll Tax Cap: A Bad Idea.” A [brief summary](#) of the paper from the NCPA website follows:

“One way to address Social Security’s looming insolvency is to integrate a private investment component into the current system, allowing younger workers to fund part of their own future benefits by investing some of their Social Security taxes today. Another way is to increase taxes; raising or eliminating the Social Security payroll tax cap is frequently suggested.

“The wage cap is the maximum earnings to which the 12.4 percent Social Security payroll tax applies. It is currently \$87,900, and automatically rises with inflation. According to a new Social Security Administration report, removing the payroll tax cap would:

- Push back the date of Social Security’s cash-flow deficit from 2018 until 2025—giving Social Security only seven additional years of surpluses.
- Increase the Treasury bonds deposited in the Trust Fund by \$3 trillion, up to \$7 trillion at its peak.
- Increase Social Security’s income by \$14 trillion over the next 75 years, reducing Social Security’s 75-year debt from \$27 trillion to near \$14 trillion, but still leaving a significant debt.

“Eliminating the payroll tax cap immediately affects 9.2 million Americans, raising their marginal tax rate by 12.4 percent. As a result, earners in the top income tax bracket would pay more than half of each additional dollar they earn in taxes.

“NCPA studies show that the current system encourages people to work fewer hours and produce fewer goods and services, imposing an economic cost of 11 cents to 18 cents for every dollar of tax revenue collected. According to the Heritage Foundation’s Center for Data Analysis, eliminating the cap would raise taxes \$461 billion over the first five years, and over 10 years cost more than 1.1 million new jobs.

“Finally, any excess cash collected will be spent on other government programs, as it always has been. However, personal retirement accounts could ensure the new funds are saved for retirement.”

For more information, see Matt Moore, ‘[Eliminating the Social Security Payroll Tax Cap: A Bad Idea](#),’ Brief Analysis No. 470, March 23, 2004, National Center for Policy Analysis.

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