



Social Security Choice

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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Quinnipiac Poll: Majority Support Individual Accounts

A majority of voters support a proposal to allow younger workers to privately invest a portion of their Social Security taxes through individual accounts, according to a new Quinnipiac University poll. According to the poll, taken last week, 52 percent of voters supported giving people the choice to invest a portion of their Social Security contributions. Just 39 percent opposed the proposal. The results were virtually unchanged from previous Quinnipiac polls. The survey of 1,865 voters had a margin of error of +/- 2.3 percent.

The poll also found that Social Security ranked fifth among issues in importance for voters, trailing the economy, terrorism, Iraq, and health care. Overall, eight percent of voters listed Social Security as their top priority, but 13 percent of seniors did.

In a [2003 study for the Cato Institute](#), John Zogby analyzed years of public opinion polling about Social Security and found that a substantial majority of the American public support proposals that would allow them to invest a portion of their Social Security taxes through individual accounts. That support has been consistent over time and is seen in a broad range of public opinion surveys. The handful of public opinion surveys showing less support for individual accounts are based largely on biased questions.

Support for individual accounts is based on Americans' belief that they should have control over their own money and retirement—rather than higher rates of return or higher benefits. As a result, support for individual accounts is less subject to erosion due to outside events, such as fluctuations in the stock market.

Tanner: Presidential Candidates Must Address Social Security

In an upcoming op-ed, Cato's Michael Tanner deplores the lack of leadership on Social Security reform demonstrated by President Bush and presidential hopeful John Kerry. Given the many serious problems plaguing the system as outlined in the recent Trustees' Report, the American people should be able to expect some serious debate on the future of Social Security. But so far, writes Tanner, they aren't getting it. The text of the op-ed follows:

“A few weeks ago, Washington went into one of its periodic spasms of shock and indignation because of Federal Reserve Chairman Alan Greenspan’s comments that Social Security cannot continue to pay its promised level of benefits with its currently projected levels of revenue. Greenspan was not saying anything new. But politicians of every stripe reacted as if he had announced that the sun was about to stand still in the sky.

“Now, the Social Security system’s trustees have released their latest report on the program’s finances and once more reaffirmed the truth of Greenspan’s statements. In doing so, the trustees offer us another opportunity for an honest debate about how to reform Social Security and ensure that our children and grandchildren will have the opportunity for a safe, secure retirement.

“The Trustees confirm that Social Security will begin to run a deficit by 2018, just 14 years from now, and 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. But the truly frightening numbers are found further into the report, and make clear the magnitude of the fiscal train wreck awaiting us.

“The figure most cited in the media is the ‘present value’ of Social Security’s unfunded liabilities, \$3.7 trillion, which represents the amount needed to cover shortfalls after the Trust Fund is exhausted in 2042. An additional \$1.5 trillion would be needed to redeem the bonds in the trust fund, for a total unfunded liability of \$5.2 trillion, on a present value basis. Present value calculations are an important number for economists and actuaries—they show the amount the government would have to set aside today (assuming it earned standard interest rates) to pay all promised benefits in the future. But, of course, the government cannot set aside \$5.2 trillion today. That would be nearly half of our Gross Domestic Product.

“Therefore, a better measure of Social Security’s financial crisis is its actual cash deficit: the total amount that its expenditures will exceed its revenue from 2018 on. Measured in constant 2004 dollars, that shortfall is an astounding \$26 trillion—\$26,000,000,000,000.00.

“To put this in context, in 2018, the first year that Social Security will run a cash deficit, that shortfall will be approximately \$16 billion, or roughly the equivalent of the current budgets for Head Start and the WIC nutritional program. In another two years, Social Security’s shortfalls will nearly exceed those two programs, plus the Departments of Education, Commerce, Interior, and the Environmental Protection Agency. By 2030 or so, you can throw in the Departments of Energy, Housing and Urban Development, and Veterans Affairs. And the biggest deficits would be still to come.

“Or, if you would rather look at it in terms of taxes, in the first year after Social Security starts running a deficit, the government must acquire revenues equivalent to nearly \$200 per worker. By 2042, the additional tax burden increases to almost \$2,000 per worker, and by 2078 it reaches a crushing \$4,200 per worker (in constant dollars). And it continues to rise thereafter. Functionally, that would translate into either a huge increase in the payroll tax, from the current 12.4 percent to as much as 18.9 percent by 2078, or an equivalent increase in income or other taxes.

“And all of this doesn’t even begin to consider Social Security’s other problems: a poor and declining rate-of-return for younger workers; issues of fairness for minorities and working women; the impact on wealth creation; and the lack of legal ownership and control over one’s benefits.

“The American people would be right to hope, therefore, for an open and honest debate over how Social Security should be reformed. So far, however, they would be disappointed.

“President Bush has been willing to discuss Social Security reform, at least conceptually. He would allow younger workers to privately invest a portion of their Social Security taxes through individual accounts. But, so far he has been unwilling to put any political capital behind such proposals. And, he has been maddeningly short of details on issues such as how big private accounts should be, or how he would finance short-term cash shortfalls during the transition to individual accounts.

“Bush’s Democratic opponent, Sen. John Kerry, has so far defined his position primarily by what he is against. Campaigning in Florida, Kerry told a group of seniors, ‘I will never privatize Social Security. Never, never, never!’ Kerry went on to say that he would never support any cuts in Social Security benefits either. ‘Not me. Not my party. Not ever.’ That’s all very well—but then what is he for? As former President Bill Clinton pointed out, there are only three options for Social Security reform: raise taxes, cut benefits, or invest privately. Kerry seems to be taking benefit cuts and private investment off the table. Does that mean he supports tax increases? If so, he isn’t saying.

“At a time when politicians can expend so much time and energy on issues ranging from who gets married to the use of steroids in baseball, wouldn’t it be nice for them to give us some straight forward answers about the ticking time bomb of Social Security?”

Reform Called Critical for Young Workers

Social Security’s inherent problems are outlined by Robert Dodge’s *Dallas Morning News* article entitled “[Social Security’s Problems Come from Several Factors.](#)” Despite the noble intentions behind the program’s founding, its structure will ultimately leave future generations to bear the heavy costs of the currently unfunded benefits to future retirees. According to Dodge, this unfortunate characteristic of the program reveals why some say that Social Security is more like “a government-sponsored Ponzi scheme” than a real retirement fund. In the following excerpt, Dodge notes the sources of this problem.

“Think of the Social Security puzzle having three big pieces—all of which no longer work together.

“Workers: When the program started paying monthly benefits in 1940, designers believed there would always be enough workers paying taxes to support each beneficiary. In 1945, there were nearly 42 workers for every retiree drawing benefits.

“But since then, the number of workers for each retiree has steadily declined. By 1970, the number of workers supporting each beneficiary dropped to 3.7. By 2010, the

Social Security trustees expect only 3.2 workers to be around to support each retiring baby boomer.

“It is certainly the driving factor,’ said Robert Bixby, executive director of the nonpartisan Concord Coalition.

“Birth rates: Women are having fewer babies, which explains why the number of younger workers is declining.

“John Goodman, president of the conservative National Center for Policy Analysis, said women of child-bearing age need to have an average of 2.1 children to replace the population. By 1975, the nation's birth rate had dropped to 1.75—down from 3.5 in 1955.

“If you are not replacing the population, it will peak and start declining,’ Mr. Goodman said. ‘And this is a huge problem for the elderly entitlement programs.’

“Life expectancy: The third leg to the Social Security puzzle: Americans are living longer.

“That is good news for anyone looking forward to a lengthy retirement. But it means Social Security will pay out more money as retirees live longer to collect benefits.

“Consequences: Future beneficiaries will likely have to settle for less and future workers will likely pay higher taxes, Mr. Bixby said.

“Put those three factors together and you have the demographic dynamic that is causing the problems ahead for Social Security,’ he said. ‘It is structured very much like a Ponzi scheme: The first in get a much better deal than those holding the bag at the end.’”

Research Groups Urge Congressional Action

Alan Greenspan’s recent comments on Social Security have ignited a new urgency to solve the program’s fiscal and structural problems, according to Ian Bishop of the *Sentinel and Enterprise*. In a [recent article](#), Bishop suggests that the real controversy shouldn’t be over Greenspan’s comments but over Congress’ “unwillingness to tackle the future of Social Security.” Bishop discusses the political climate of the Social Security debate in the following excerpt:

“There really has been very little leadership,’ says Michael Tanner, a Social Security scholar at the Cato Institute, a libertarian-leaning Washington think tank. ‘Republicans, with a handful of exceptions, have not exactly been profiles in courage on this issue,’ Tanner adds. ‘But the Democratic response (to Greenspan) was particularly spineless.’

“Tanner said someone needs to take the reins, and fast, before the financial hardships the Social Security Administration says is coming lands in the lap of today’s 30-somethings.

“In Massachusetts, 1.95 million baby boomers are approaching Social Security eligibility, the first wave arriving in 2008. There are nearly twice as many boomers creeping toward the benefit in the Bay State than there are retirees currently collecting. In Vermont alone, 199,000 baby boomers are approaching Social Security eligibility, the first wave arriving in 2008. There are nearly twice as many boomers creeping toward the benefit in the Green Mountain State than there are retirees currently collecting.

“Across the country, an estimated 77 million baby boomers are moving in on Social Security. Despite the approaching crisis, political reality is hindering congressional action. There is an election waiting in November.

“It’s really difficult to get politicians to think outside two-, four- and six-year terms,’ concedes Rep. Marty Meehan, a Massachusetts Democrat. ‘I’d like to think that at some point we’ll grapple with this issue.’

“Tanner, of the Cato Institute, said voters need to tell lawmakers the time is now. Vermont Sen. James Jeffords, an independent, agrees. ‘We must act immediately so those who are insured under the Social Security system receive the benefits they are entitled to,’ says Jeffords, a member of the Senate Finance Committee. ‘Failing to act now will exacerbate this coming calamity.’

“The Social Security Administration recently projected that by the time the last of the baby boomers reach the end of their life expectancy at age 77 in 2041, Social Security will be near shambles. The system is safe for seniors and the boomers, the administration predicts. But left uncorrected, the money shortage will force an automatic 27 percent cut in benefits beginning in 2042 for younger generations. Social Security will be paying out more than it takes in through taxes in 2018, but its \$1.2 trillion reserve trust will offset the deficit until 2042 when the reserve runs dry, the Social Security Administration projects.

“The parties are split in their views of enacting Social Security revisions. Republicans have used the Social Security Administration’s projections to trumpet President Bush’s conception to use the stock market to fund the retirement of younger generations.

“Just like families who save today for big expenses down the road, we need to give workers the opportunity to choose voluntary personal accounts to save real assets to secure Social Security’s future,’ said Florida Republican Clay Shaw, chairman of the Ways and Means subcommittee on Social Security. ‘If my Democrat colleagues are willing to work with me to refine this vital legislation, or offer a plan of their own, we can begin steps towards a bipartisan solution.’

“Yet Democrats see the recent projections as a sign of Social Security’s strength. ‘There is no crisis in either Social Security or Medicare,’ says Massachusetts Democratic Sen. Edward M. Kennedy. ‘Social Security is solvent for approximately 40 years.’

“Does it need adjustments? Yes,’ adds Rep. John Tierney, a Salem Democrat. ‘But these projections are not static and they need to be reviewed on a year-to-year basis.’

“Democrats dismiss the Republican plan to rely on the stock market. ‘When compared to other types of investments, Social Security offers a solid, reliable return

and a steady stream of retirement income to seniors,' says Rep. John Olver, an Amherst Democrat. 'Getting our fiscal house back in order is the best way to ensure the long-term viability of the Social Security program.'

"In the midst of this plodding partisan debate, one thing is certain: Very few of the lawmakers who will ultimately determine the future of Social Security in the chambers of Congress will be personally affected. The Social Security payments for every senator and 419 House members is assured, based on the recent projections. Only eight House Republicans and 11 House Democrats, including Rhode Island Rep. Patrick Kennedy, are younger than the baby boom generation, officially counted as people born in 1946 to 1964.

"Rep. Robert Matsui, a California Democrat, is one of the 19 younger lawmakers facing a reduced Social Security benefit. Yet he toes the Democratic party line in viewing Social Security's future, and believes the recent projection 'holds good news.'

"While this partisan entrenchment signals the bumpy, slow-going road ahead for a Social Security solution, the cause of the looming crisis is easily apparent.

"Three factors pose the financial hurdles to Social Security: increased life expectancy, the baby boom generation and then the drop in birth rates in subsequent generations.

"When Franklin Delano Roosevelt signed Social Security into law in 1935, life expectancy was in the 60s. Now it's 77.4 and climbing. And for every retiree in 1950, there were 16 people working and paying into the system. Today that ratio is down to 3.3 workers for every retiree. By 2030, when all the baby boomers are well into Social Security, their children will bear the burden. But many boomers had families smaller than their parents, and the ration supporting their retirement will be 2.2 workers for every retiree.

"With American workers and employers each paying 7.65 percent of each paycheck for Social Security taxes—6.2 percent for Social Security and 1.45 percent for Medicare—the math doesn't add up to support a retiree without help from the \$1.2 trillion trust [fund].

"This dramatic demographic change is certain to place enormous demands on our nation's resources—demands we almost surely will be unable to meet unless action is taken,' Greenspan said during a recent appearance before a House committee. 'For a variety of reasons, that action is better taken as soon as possible.'"

Former CEA Member Jeffrey Brown Urges Reform Now

Former Council of Economic Advisors member Jeffrey Brown writes in the *Chicago Sun-Times* that Social Security reform through personal accounts will save trillions in the long run, thereby removing a large financial burden from the backs of young workers. Brown asserts that opponents of reform are incorrect when they claim that the transition from a pay-as-you-go system to one of personal accounts will be too expensive. Keeping the current system is the most expensive option, says Brown, because the unfunded liabilities of the system will continue to climb. Therefore, Brown states, the financial situation makes "the case for Social Security Reform stronger than

ever.” Brown’s explanation of Social Security’s financial state and his outline for a personal account system follows:

“A bipartisan presidential commission in 2001 first recommended the reform option that the [Council of Economic Advisors] uses to illustrate this point. If implemented, the plan would permanently restore Social Security to sound financial footing by gradually reining in spending growth.

“How would this work? Under current law, Social Security retirement benefits for today’s 20-year-olds are scheduled to be more than 50 percent higher than those received by today’s 65-year-olds, even after adjusting for inflation. By simply slowing this rate of growth so that benefits rise at the same pace as inflation, the plan does something that is all too rare in Washington: It puts in place a program that will ‘live within its means’—forever—without resorting to permanent payroll tax increases. The plan would not touch the benefits of those currently or soon to be retired. In addition, it would, for the first time, allow a small portion of payroll taxes to be voluntarily directed into personal accounts that can build wealth.

“Some commentators suggest the analysis shows that Social Security reform is too expensive and would expand our national debt at a time when we can ill afford it. They point out that the debt-to-GDP ratio, now at roughly 35 percent, could ‘shoot up to 58 percent.’

“This reasoning is dangerous because one of the worst things we can do for our country’s fiscal health is ‘nothing.’ Indeed, we can scarcely afford not to act, and act soon.

“To understand how this approach to Social Security reform improves the fiscal health of our nation, consider how the government’s balance sheet looks today. The official U.S. ‘national debt’—debt held by the public—is about \$3.9 trillion. Unfortunately, this measure drastically understates the situation because it ignores the huge liabilities facing Social Security and, to an even larger extent, Medicare.

“According to the 2003 Trustees’ Report, the present value of Social Security’s budget shortfall is about \$10.5 trillion—2.5 times larger than the ‘national debt.’ To fill that hole by raising payroll taxes, as needed, Social Security would consume 20 percent of payroll (vs. 12.4 percent today) by the time my young children are comfortably beyond the retirement age in 75 years.

“The plan analyzed by the CEA takes a different route, and the beneficial effect on the total government ‘balance sheet’ is enormous. By slowing benefit growth, the plan immediately eliminates nearly all of Social Security’s \$10.5 trillion liability. In other words, reforming Social Security in this way is roughly equivalent to wiping out the entire balance of our publicly held ‘national debt’—more than twice!

“It is true that we may have to issue more public debt in order to fund the transition to personal accounts while simultaneously making good on our promises to current retirees. It is also true that, in return, we eliminate a far larger mountain of implicit debt that our entitlement programs are poised to heap upon future generations.

“Those who claim the reform plan adds to our national debt are looking at only one side of the equation—counting the upfront investment as a cost, while ignoring the

fiscal benefits that accrue to every future generation. To suggest that reform is too expensive is akin to arguing that individuals should not save for retirement because doing so requires that they give up something today, while ignoring the fact that saving improves their balance sheet today.

“Myopia is expensive for individuals. It is also expensive for the country. We have the opportunity to place one of our nation’s most sacred social programs on a path to long-term fiscal health, and improve the government’s ‘balance sheet’ in the process. We should act while we can.”

For information on Cato’s plan for a system of individually owned retirement accounts, see Michael Tanner’s [“The 6.2% Solution: A Plan for Reforming Social Security,”](#) (SSP no. 32, 2-17-04).

McLachlan: Social Security “Trust Fund” Is a Myth

Many opponents of Social Security reform refer to the “trust fund”—the surplus of payroll tax revenue—as a real asset that may be redeemed to avert the financial crisis. But it is not so, writes Bert McLachlan, who calls propagation of the idea of a true “trust fund” for entitlements “misunderstood accounting, misrepresentation, perpetuation of a myth, or simply outright lying.” [His recent op-ed](#) in the *Houston Chronicle* adds that “the nation’s seniors should be outraged” over what he refers to as a “cover up.”

“The hospital insurance fund is likely to run dry by 2019. Social Security’s projected insolvency date remains 2042. Those statements about a distant problem are correct if they are trust funds. But those funds exist only on paper. There is absolutely no money in them, and it has been loaned out to an organization—Congress—that has: run deficits in its own non-Medicare and non-Social Security accounts of \$4 trillion in the past two decades; is forecasting to run deficits of \$3 trillion more in the next six years; is spending \$1.53 for every \$1 it takes in; and has no conceivable way of paying back this borrowed money.

“To pay back what it is borrowing out of these trust funds, Congress would have to: 1) run a surplus; or 2) borrow the money from the public and pass the bill for the repayment of that debt on to our grandchildren and great-grandchildren. Guess which choice Congress will make.”

“The problems of Medicare are not 15 years away and the problems of Social Security are not 38 years away,” McLachlan continues. “The second paragraph of the trustees’ summary of their 2004 reports says that there will be annual cash-flow deficits beginning this year and expected to grow rapidly after 2010 as baby boomers begin to retire. In the third paragraph, the trustees say that the retirement (and disability) income will begin to fall short of outlays in 2018. But the further truth is that this is the intermediate (middle-of-the-road) guess. The trustees’ pessimistic guess is that the cash deficit may begin as early as 2013.

“Here is what actually goes on with this fictional trust fund, using the Social Security retirement fund (OASI) as an example. The 2003 payroll tax income for OASI was \$543 billion. The payments to retirees were \$406 billion. So the remaining \$137 billion supposedly went into the trust fund. That annual remaining amount is budgeted to go up rapidly for a few more years: more than \$200 billion in 2007 and more than

\$275 billion by 2013 into this trust fund. In fact, this trust fund will also supposedly collect \$10 trillion in interest from Congress over several decades. That is how the trust fund will supposedly last until 2042, when it will become exhausted and benefits, per the trustees, will drop 27 percent.

“The obvious problem is that the \$1.4 trillion that the trust fund has collected to date as assets has already all been spent, as will every other billion dollars of excess payroll tax revenue that comes in.

“Retirees thought their payroll taxes were going only to cover their retirement checks. But the money isn’t there. Congress took it and has spent it. The amounts are so enormous and escalating so fast that Congress has no way of paying what it has supposedly borrowed.

“What the trust fund does hold is a pile of IOUs that will go to our grandchildren and great-grandchildren, as both Medicare and Social Security go into cash deficit, respectively, this year and in the next nine to 14 years. The crisis is not off over the horizon somewhere. It is here now.”

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