SAVING SOCIAL SECURITY

A Guide to Social Security Reform

HOUSE REPUBLICAN CONFERENCE
DEBORAH PRYCE, CHAIRMAN

SENATE REPUBLICAN CONFERENCE
RICK SANTORUM, CHAIRMAN

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January 27, 2005

Dear Republican Colleague:

As we begin the 109th Congress, we look ahead, poised to address one of the most important issues facing our seniors of today and our generations of tomorrow: Social Security.

Social Security has been one of the greatest successes of our government, but the program was designed for a different world than the one we live in today. For today's generation of senior citizens, the system is strong and fiscally sound. But for the younger workers of tomorrow, the system remains a topic of increasing uncertainty.

One of the tests of leadership is to confront problems before they become a crisis**.** Our job here in Washington is to solve problems, not pass them on to future lawmakers and future generations, and the time to confront this problem is now. The President has made strengthening Social Security a top priority, and Congress hopes to follow his lead ensuring that adequate benefits are in place for our children and our grandchildren.

Please find the enclosed information to help you communicate an effective and consistent message on the problems facing the Social Security system. By staying informed, we will remain better armed to beat back opponents of meaningful change. Though this will not be an easy task, Americans expect action -- keeping the promise of Social Security far into the future and giving millions of seniors—today and tomorrow—the dignity, security, and peace of mind they deserve.

Sincerely,

Deborah Pryce, Chairman
House Republican Conference

Rick Santorum, Chairman
Senate Republican Conference

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Reforming America's Social Security System for Future Generations

Courtesy: White House Office of Communications

Importance of Social Security

- Social Security provides a critical foundation of income for retired and disabled workers.
- For one-third of Americans over 65, Social Security benefits constitute 90% of their total income.
- Hispanics, African-Americans, and unmarried elderly women are even more reliant on Social Security.

Social Security Must Be Fixed

- **Social Security is safe for today's seniors** – but it is in serious danger for our children and grandchildren.
- **Social Security is a pay-as-you-go system** with today's workers paying to support today's retirees. But each year, there are more retirees taking money out, and not enough additional workers to support them.
- **Social Security has a total unfunded obligation under current law of more than $10 trillion.**
  - In the 1950s, there were about 16 workers paying for every beneficiary. Today, there are about three – and eventually, there will be only two workers to support each person on Social Security.
  - In 2018, the government will begin to pay out more in Social Security benefits than it collects in payroll taxes -- and shortfalls then grow larger with each passing year.
  - By 2042, when workers in their mid-20s begin to retire, the system will be bankrupt – unless we act now to save it.

The Time to Act is Now

- **One of the tests of leadership is to confront problems before they become a crisis.** President Bush came to Washington to solve problems, not pass them on to future Presidents and future generations.
- **The longer we wait to take action, the more difficult and expensive the changes will be.** Under the current system, today's 30-year old worker will face a 27% benefit cut when he or she reaches normal retirement age.
- **Doing nothing will cost the most in the long run** -- resulting in either dramatic tax increases or severe benefit cuts.
- **Any fix will require bipartisanship.** There are a variety of good plans that have been proposed to fix Social Security and establish personal accounts. The President will work with Congress to determine the best elements of the proposals that have been put forward.
- **This Nation must always strive to leave behind a better America for our children and grandchildren.** If we invest now, we can leave them a more secure retirement for the future.
- **The first members of the Baby Boom generation turn 60 next year, in 2006.** This is not a distant problem, but something that is coming our way quickly.

President Bush Has Set Forth Broad Principles to Guide Reforms

- **There will be no benefit change for those receiving Social Security and those near retirement.** For seniors, nothing will change, and nobody is going to take away their check.
- **We will not raise payroll taxes** – higher taxes would slow economic growth.
- **Voluntary personal accounts as part of a comprehensive solution will give younger workers the option to save some payroll taxes in a personal account** – a nest egg they can call their own, government cannot take away, and they can pass on to their children.
- **The current system cannot afford to pay promised benefits to younger workers.** Today's 30-year old worker can expect a 27% benefit reduction when he or she reaches normal retirement age. Personal accounts give younger workers the opportunity to receive higher benefits than the current system can afford to pay.
- **Personal accounts will provide Americans who choose to participate with an opportunity to share in the benefits of economic growth by participating in markets through sound investments**. Any proposal will include limitations on the risk of investments permitted in personal accounts and will include low-risk, low-cost options like broad index funds similar to those currently available to Federal employees.

Communicating Social Security Reform

It is key to teach your constituents that Social Security is hurting, but the way in which you go about communicating the problem and the need for reform is critical. You will face the unique challenge of recruiting the support of both current and future retirees—two groups of Americans with very different views on Social Security's reliability. Both must realize what is at stake, why reform is necessary in the very near future, and how they and their grandchildren will benefit from Personal Retirement Accounts. A number of messaging techniques have already been tested in the field—feel free to follow these helpful guidelines as you tailor and communicate the solution to a quickly approaching problem.

Key Recommendations…

- ✓ **"Personalization" not "privatization":** Personalization suggests increased personal ownership and control. Privatization connotes the total corporate takeover of Social Security; this is inaccurate and thoroughly turns off listeners, who are very concerned about corporate wrongdoing.
- ✓ **Talk in simple language:** Your audience doesn't understand financial jargon. Phrases such as "cash flow deficits" and "actuarial imbalance" don't normally crop up in conversation; avoid using them.
- ✓ **Keep the numbers small:** Your audience doesn't know how trillions and billions differ. They know these numbers are large, but not how large nor how many billions make a trillion. Boil numbers down to "your family's share." Also avoid percentages; your audience will try to calculate them in their head—no easy task while listening to a speech—and many will do it incorrectly.
- ✓ **Acknowledge risks:** Many of your listeners will not have a lot of financial education or investment experience, but they know that markets have risk—and nothing is guaranteed. They believe investments can grow over time, but they also know they can lose their investments. They don't trust someone who tells them differently.
- ✓ **Say it the way they can hear it:** Your audience will reject some turns of phrase because of the connotations and associations. The responses are not universal, but they are much less personal than you might imagine.

For example, to most Americans *building wealth* sounds unattainable—especially in the context of Social Security. But on the other hand, *putting aside a nest egg* sounds like common sense. Another example: Calling the trust fund *meaningless* will raise hackles. Taxpayers believe it is the source of the monthly checks paid out by Social Security. But, everyone agrees that it is an *empty promise*.

- ✓ **Lean on indisputable facts:** Your audience will be persuaded by the falling ratio of workers per retiree. Cite the ratios of 16 to 1 in 1950, down to 3.3 to 1 today, and falling to 2 to 1 in 25 years. Be sure to reference the source of the data, the Social Security Administration. The best way to say this is: "The number of workers has been rising since the 1950's, but the number of retirees has been increasing even faster."
- ✓ **Don't say, "Social Security lifts seniors out of poverty":** People don't appreciate all that Social Security does, and believe that despite the program, many seniors are still in poverty. Instead, talk about how Social Security is a "floor of protection" that keep seniors out of the most dire circumstances.
- ✓ **Don't get dismissed by a skeptical audience:** Your audience is skeptical of things that sound perfect or too pat. They will dismiss the notion that the government can help them accumulate a million dollars in a personal account. They do not find it credible that the accounts will be easy to manage.
- ✓ **Don't attempt to demolish every myth:** People "know what they know" and you'll be hard pressed to shake them out of strongly held, erroneous beliefs. Most of these have nothing to do with the case for personal accounts. They are harmless urban myths, such as *Congress doesn't pay FICA taxes,* and *FDR intended Social Security to last only one generation.* Advocates who have educated themselves on the issues sometimes find it hard not to "set the record straight." Stay focused—don't get sidetracked.
- ✓ **Acknowledge concerns, but don't get trapped by them:** Your audience will have concerns that weigh heavily on their minds. However, you need to know that these concerns do not stand in the way of their support for the personal account reform. Two quick examples—one personal, the other more altruistic:
    - First, people genuinely doubt that the money in a personal account will be theirs to keep. They fear it will be taxed or confiscated when they will need the money. Despite this, they still feel personal accounts are safer than the current system.
    - Second, altruistically, Americans want to hear how people without financial savvy will be protected and educated in a system of personal accounts. They feel it is important that those "others" are taken care of. A few rare individuals will admit that they are concerned about their own financial acumen. But, even without an education play, they favor personal accounts over the current system.

Special Issues for Those Over 50

- ✓ **Know how challenging the sale will be:** Start out by asking the audience how many of them think that over the next 50 years the U.S. economy will grow at least as fast as it did during the past 50. Expect those who raise their hands to end up agreeing with you on personal accounts.
- ✓ **Balance family interest with self-interest:** Explain that this reform will help people's children and grandchildren be more secure, while protecting their own benefits for the rest of their lives.
- ✓ **Appeal to their sense of legacy:** Quote theologian Dietrich Bonhoeffoer: "The ultimate test of a moral society is the kind of world it leaves to its children." Almost everyone embraces this notion.
- ✓ **Be clear about revenue source:** Accounts would be funded by current FICA taxes. Stress how the money going into a personal account is not new money, but rather a portion of the FICA taxes workers are already paying.
- ✓ **Offer an alternate reality:** Talk about how much more money they'd have for retirement if they themselves had been investing in a personal account all these years. Add that personal accounts would enable young, minimum-wage workers to enjoy dignity in retirement.
- ✓ **Stress bond investments over stocks:** Assure them that "triple A-rated" bond index funds will be among workers' secure choices.

Social Security: Then and Now
Time for A Better Deal

In 1950, there were 16 workers for each beneficiary. Today, there are 3.3 workers for each beneficiary. By the time today's younger workers reach retirement, there will be only 2 workers for each beneficiary. Unless Social Security is saved, the system will not remain solvent for current and future generations of American workers and retirees.

SOURCE: Social Security Administration

Americans Believe Social Security System Has Major Problems, Needs Reform

An overwhelming majority of Americans think Social Security has major problems; Want action now

The latest NBC News/*Wall Street Journal* poll shows that 90% of Americans think that the Social Security system is either in crisis or "in trouble." 79% of those under retirement age doubt Social Security will be providing benefits when they reach retirement.

This is confirmed by the recent Gallup poll, which showed that 71% of Americans believe Social Security is in a state of crisis or "has major problems," as well as the recent CBS News/*New York Times* poll, which found that 50% of Americans believe Social Security is in a real crisis.

Pew Research found that 70% rate strengthening Social Security as top priority for the President and Congress. Only strengthening the economy and defending the nation from terror attacks ranked higher.

Today's workers have little confidence that Social Security will be there for them when they retire

The ABC News/*Washington Post* poll of mid-January shows that 60% of Americans, and 80% of those under age 30, don't believe Social Security will have enough money to pay their benefits when they retire, an increase of 9 points from 2000.

And according to the latest Gallup poll, just 45% of non-retired Americans think that the Social Security system will be able to provide benefits for them when they retire, the lowest level since Gallup began asking the question in 1989.

Furthermore, Gallup found that almost two-thirds of those under age 30 don't think Social Security will provide benefits for them when they retire. The CBS News/*NYT* also found that 75% of those aged 30 to 44 don't believe that they will receive benefits either.

Americans believe it will be necessary to make changes to the Social Security system

The same CBS News/*NYT* poll shows that three-quarters of Americans believe that it will be necessary to either make fundamental changes to Social Security, or completely overhaul the system, while just 23% think that only minor changes need to be made.

According to a recent FOX News poll, 60% of Americans think that people should have the choice to invest a portion of their Social Security contributions. This is confirmed by recent polls from ABC News/*WP* and the Pew Research Center, both of which also showed that a majority of Americans (55% and 54%, respectively) support allowing people could choose to invest a portion of their Social Security contributions.

SAMPLE CONSTITUENT LETTER

Dear John Q. Public,

Thank you for contacting me regarding the Social Security program. I appreciate hearing from you on this issue.

The Social Security program is sound for today's seniors and for those nearing retirement, but it needs to be fixed for our children and grandchildren. Social Security is mainly supported by payroll taxes collected from workers that are used to pay benefits to those seniors collecting from Social Security. Although the Social Security Trust Fund is now running surpluses of income over benefits paid to beneficiaries, the Social Security Trustees project that the Trust Funds will be depleted in 2042. The Trustee project that in 2018 Social Security will begin to pay out more in benefits than it takes in revenue. In 1950, there were 16 workers paying into Social Security for every one beneficiary. Today, there are about three, and when younger workers retire, there will only be two.

The impending financial problems of the Social Security program are why the Congress must work together *now* to strengthen Social Security for our children and grandchildren. The longer we wait, the more difficult and costly it will be to fix the problem. I believe that investing money in personal accounts and allowing younger workers to decide how their money is invested is an idea that deserves serious consideration. Many workers today have opportunities to invest a portion of their own salary in IRAs and 401(k)s for a greater return than what the Social Security system offers. Personal accounts invested in safe, low-cost, broad-based investment funds will earn higher rates of return than the traditional system and help workers enhance their personal savings and their freedom to retire by creating a nest egg that they can call their own and the government cannot take away and they can pass on to their children.

It is important that we debate and begin on serious dialogue today on the future of Social Security and how to strengthen the program. To wait until the program faces an imminent financial crisis would be a disservice to future and near retirees. Doing nothing to fix the Social Security system will cost us, as well as our children and grandchildren an estimated $10.4 trillion, according to the Social Security Trustees. The longer we wait to take action, the more difficult and expensive the changes will be. Rest assured, I intend to be a vocal proponent of the need to reform Social Security in a way that respects the needs of seniors who depend on the Social Security program for their benefits while at the same time shoring up the program for our children and grandchildren

Member, United States Congress

WHAT DOING NOTHING WILL MEAN FOR SOCIAL SECURITY

Do-nothing Democrats are attacking President Bush's plan to strengthen Social Security. These Democrats claim "Social Security is strong now and in no danger of going broke" and accuse the White House of "crying wolf." Social Security has to be fixed, and the falling ratio of workers to retirees proves it. Without reform, the Social Security trust fund will be exhausted by 2042 and benefits will be reduced across-the-board.

Worker To Retiree Ratio:

- **In 1950: More than 16 Workers Paid Into Social Security Per Beneficiary.**
- **By the time today's younger workers retire: Only 2 workers Pay into the system per beneficiary.**
- **Today: Only 3.3 Workers Pay Into System Per Beneficiary.**

If You (Your Children or Grandchildren) Were Born In 1960:

- **In 2027, When You Retire At The Age Of 67, 2.3 Workers Will Be Paying For Your Retirement.**
- **In 2043, At The Age Of 83, Your Scheduled Benefits Will Be Cut By 25%.**
- **In 2055, At The Age Of 95, Your Scheduled Benefits Will Be Cut By 27%.**

If You (Your Children or Grandchildren) Were Born In 1970:

- **In 2037, When You Retire At The Age Of 67, 2.1 Workers Will Be Paying For Your Retirement.**
- **In 2043, At The Age Of 73, Your Scheduled Benefits Will Be Cut By 25%.**
- **In 2055, At The Age Of 85, Your Scheduled Benefits Will Be Cut By 27%.**
- **In 2065, At The Age Of 95, Your Scheduled Benefits Will Be Cut By 29%.**

If You (Your Children or Grandchildren) Were Born In 1980:

- **In 2047, When You Retire At The Age Of 67, 2.0 Workers Will Be Paying For Your Retirement And Your Scheduled Benefits Will Be Cut By 26%.**
- **In 2055, At The Age Of 75, Your Scheduled Benefits Will Be Cut By 27%.**
- **In 2065, At The Age Of 85, Your Scheduled Benefits Will Be Cut By 29%.**

If You (Your Children Or Grandchildren) Were Born In 1990:

- **In 2057, When You Retire At The Age Of 67, 2.0 Workers Will Be Paying For Your Retirement And Your Scheduled Benefits Will Be Cut By 26%.**
- **In 2065, At The Age Of 75, Your Scheduled Benefits Will Be Cut By 27%.**
- **In 2075, At The Age Of 85, Your Scheduled Benefits Will Be Cut By 29%.**
- **In 2080, At The Age Of 90, Your Scheduled Benefits Will Be Cut By 30%.**

If You (Your Children Or Grandchildren) Were Born In 2000:

- **In 2067, When You Retire At The Age Of 67, 1.9 Workers Will Be Paying For Your Retirement And Your Scheduled Benefits Will Be Cut By 29%.**
- **In 2070, At The Age Of 70, Your Scheduled Benefits Will Be Cut By 29%.**
- **In 2075, At The Age Of 75, Your Scheduled Benefits Will Be Cut By 30%.**
- **In 2080, At The Age Of 80, Your Scheduled Benefits Will Be Cut By 31%.**

Our Children and Grandchildren Certain To Inherit Benefit Cuts or Tax Increases:

Without reform, the Payroll Tax would have to be increased by more than 28% to 48%. If Our Children And Grandchildren Are To Receive Their Scheduled Benefits.

SOCIAL SECURITY FACTS & FIGURES

- Social Security was signed by FDR in 1935.

- Social Security is a pay-as-you go system, which means that the payroll taxes paid by current workers are used to pay the benefits for current retirees. A worker's payroll taxes are not saved in an account to pay his or her retirement benefits.
  - In 1950, there were 16 workers for each beneficiary.
  - Today, there are 3.3 workers for each beneficiary.
  - By the time today's younger workers retire, there will only be 2 workers for each beneficiary.

- Payroll taxes have been increased over and over again since 1935.
  - In 1937, payroll taxes were 2% on the first $3,000 of income
  - Today, payroll taxes are 12.4% on the first $90,000 of income.
    - Employers pay 6.2% and the employee pays 6.2% of today's payroll taxes
    - The wage cap is adjusted each year in increments of $300 to reflect the average wage growth.

- The average life expectancy has increased from 63 in 1935 to 77 today.

- The Social Security Trustees estimate that:
  - In 2018, the current system will begin to pay out more in benefits than it takes in revenue. These cash deficits will be permanent and will grow larger every year
  - In 2042, the current system will become insolvent.
  - Without reform, the current system owes $10.4 Trillion more (in present value) in promised benefits than it can afford to pay.
  - Without reform, each passing year adds an addition $600 billion to the cost of permanently fixing the system.

- In 1977, President Carter signed a law to wage-index Social Security benefits, over-riding expert recommendations that the formula be price-indexed.
  - Price indexing means benefits are adjusted to keep up with inflation or the consumer price index (CPI).
  - Wage indexing means that benefits grow at the same rate of growth as wages. Under wage indexing, benefits grow faster than inflation.
    - For instance, the current system pays the average wage earner retiree an annual benefit of $14,200. Because of wage indexing, the average wage earner who retires in 2050 is promised benefits valued at $20,600 in today's dollars.

SOCIAL SECURITY RESOURCE DOCUMENT

For Our Grandchildren (FOG): http://www.forourgrandchildren.org/

- Click on FOG's Social Security 101 section for information on "The Basics," "The Problem," and "The Solution."
- Visit their message boards and blogs to see what others are saying on Social Security. FOG also has comprehensive list of recommended links for further information on Social Security.

The Coalition For The Modernization And Protection Of America's Social Security (COMPASS):

Website Coming Soon

Progress For America: http://www.progressforamerica.com/pfa/

- Watch PFA's ads promoting the strengthening of Social Security. PFA is a source of recent articles on Social Security.

The White House: http://www.whitehouse.gov/infocus/social-security/

- The White House website is a good place to find recent presidential speeches, fact sheets, and news releases.

Social Security Administration: www.socialsecurity.gov

- SSA is a critical source for information about the current Social Security system, retirement age, current benefits, and future problems.
- Click on "About Social Security's Future" for answers to frequently asked questions www.ssa.gov/qa.htm.
- A summary of the 2004 Social Security Trustees Report: www.ssa.gov/OACT/TRSUM/trsummary.html.
- SSA analyses of various Social Security proposals: www.ssa.gov/OACT/solvency/index.html.
- What happens under a "no action" scenario: http://www.ssa.gov/policy/docs/policybriefs/pb2004-01.html.

House Republican Conference: http://www.gop.gov/

- The House Conference site is source for news and statements on Social Security.

Senate Republican Policy Committee: http://rpc.senate.gov/index.cfm?FuseAction=Issues.Issue&Issue_ID=34

- The RPC website is source of RPC policy papers on Social Security.

House Policy Committee: http://policy.house.gov/index.cfm

- The House Policy Committee site is source for reports and news releases on Social Security.

Congressional Budget Office: http://www.cbo.gov/byclasscat.cfm?cat=11

- CBO's site provides cost estimates of current Social Security system and Social Security proposals.
- Some helpful CBO papers: www.cbo.gov/showdoc.cfm?index=4324&sequence=0 and www.cbo.gov/showdoc.cfm?index=3948&sequence=0

CATO Institute: www.socialsecurity.org

- CATO's Social Security page includes a useful section, "Reform and You," which answers questions on how individuals are affected, provides facts on Social Security, and a Social Security Calculator. It also has informative commentaries, fact sheets, research, and Social Security updates.

The Heritage Foundation: http://www.heritage.org/Research/SocialSecurity/index.cfm

- The Heritage Foundation is a source for policy papers and Social Security research. Their Social Security calculator is a helpful resource: http://www.heritage.org/research/features/socialsecurity/

Alliance For Worker Retirement Security (AWRS): http://www.retiresecure.org/

- AWRS provides op-eds, policy papers, speeches, and testimony. AWRS, also has a calendar of events and list of available speakers on Social Security.

American Enterprise Institute: http://www.aei.org/

- AEI's site is source for policy papers and Social Security research.

Senate Republican Conference: http://www.senate.gov/src/agenda/index.cfm?fuseaction=socialsecurity

- The SRC website lists the message of the day. Provides links to Social Security articles and other resources on Social Security.

President's Commission To Strengthen Social Security: www.csss.gov/reports

- The reports of the President's Commission To Strengthen Social Security.

Concord Coalition: http://home.mn.rr.com/webryant/ConSS-1.pdf

- The 1998 Concord Coalition paper on defining the Social Security problem.

Government Accountability Office: http://www.gao.gov/

- GAO PowerPoint presentation, "Current and Emerging Fiscal and Retirement Security Challenges": http://www.gao.gov/cghome/cefrsc/. GAO paper analyzing reform proposals: http://frwebgate.access.gpo.gov/cgi bin/useftp.cgi?IPaddress=162.140.64.21&filename=d03310.txt&directory=/diskb/wais/data/gao

The Real Deal – By Syl Schieber and John Shoven

- This book, published in 1999, provides a history of the Social Security program.

CASE STUDIES: 2002 SOCIAL SECURITY CANDIDATES

2002 Social Security Case Studies:

Sen. Elizabeth Dole (R-NC): Dole ran for Jesse Helms' open seat against Bill Clinton's former chief of staff, Erskine Bowles. Dole developed a number of specific stands on issues, including investment accounts in Social Security, and distributed her ideas as the "Dole Plan." Bowles attacked Dole on Social Security, but Dole would counter by using blank sheets of paper to show Bowles plan on Social Security. Dole "never ran away from her support of Social Security reforms," and won 54%-45%, almost mirroring Bush's 56%-43% victory in 2000. (Almanac Of American Politics 2004, http://nationaljournal.com, Accessed 1/19/05; Scott Mooneyham, "Dole Combined Style, Substance For Senate Victory," *The Associated Press*, 11/6/02)

Sen. John Sununu (R-NH): John E. Sununu defeated the state's governor, Jeanne Shaheen, despite her attacking Sununu for supporting "privatization" of Social Security. He responded with "an articulate advocacy of voluntary individual investment accounts as part of Social Security—'modernization.'" Sununu defeated Shaheen 51%-47%, and credited his victory, in part, to his willingness to talk about Social Security. "I have ideas about strengthening Social Security. I didn't shy away from them. I talked about them on the stump. I talked about them in debates," Sununu said. (Almanac Of American Politics 2004, http://nationaljournal.com, Accessed 1/19/05; John McLaughlin's "One On One," 11/15/02)

Rep. Ann Northup (R-KY): Northup's opponent was Jack Conway, Deputy Cabinet Secretary to Governor Paul Patton. Northup ran "ads highlighting her opponent's alternative to private accounts: benefit cuts" while O'Brien pummeled Northup with attacks on her Social Security views. Northup faced the attacks head on and won 52%-48%. Northup received 20% of the vote in heavily black legislative districts, which suggests that she may have won the 28% of the black vote shown in the final *Courier-Journal* poll, and thereby making it one of the best performances among blacks by a Republican anywhere in the country in a highly contested race. Almanac Of American Politics 2002, http://nationaljournal.com, Accessed 1/19/05; Gary J. Andres, Op-Ed, "Lessons Learned," The Washington Times, 12/5/02; Ramesh Ponnuru, Op-Ed, "How's The Granny Card Playing?" *National Review*, 11/11/02)

Rep. Pat Toomey (R-PA): In both the 2000 and 2002 elections, Toomey was challenged by Ed O'Brien, the number two United Steelworkers official in Pennsylvania. Toomey said pundits advised him not to talk about his support of allowing younger workers to invest part of their Social Security taxes in the stock market, but Toomey said something needed to be done to keep Social Security solvent. Stephen Moore of the Cato Institute said before the election that a Toomey victory would prove that "pro-free trade, pro-Social Security choice, pro-tax cut Republicans can win in Democratic districts." In the end, Toomey won, increasing his margin of victory in 2002 in the Democratic leaning district, winning 57%-43%. (Almanac Of American Politics 2002, http://nationaljournal.com, Accessed 1/19/05; Keith Herbert, "Toomey Defeats O'Brien For 3rd Term In Congress," *The* [Allentown] *Morning Call*, 11/6/02; Stephen Moore, Op-Ed, "Ten Key Races For Conservatives," *The Washington Times*, 11/5/02)

General Comments About 2002 Social Security Case Studies:

Vin Weber: "The Most Important Political Fact Of This Year's Election Is That A Group Of Brave Candidates -- Pat Toomey And Anne Northup In The House Of Representatives, And Elizabeth Dole, Jim Talent, Norm Coleman And Lindsey Graham In The Senate, Come Immediately To Mind -- Stood Their Ground On Social Security." (Vin Weber, Op-Ed, "'Third Rail' Grail," *The Wall Street Journal*, 11/18/02)

"Nevertheless, In The November Elections, Every Candidate Who Supported Individual Retirement Accounts Won His Or Her Bid For Congress." (Christian Bourge, "Social Security Change 'More Acceptable'," *United Press International*, 12/6/02)

- **"They Did This Despite Attacks Ads And Hostile Rhetoric From Their Democratic Opponents, Which Typically Painted Republicans As Being Reckless With Retirees' Government Benefits."** (Christian Bourge, "Social Security Change 'More Acceptable'," *United Press International*, 12/6/02)

"Here's My Armchair Assessment, Of How The World Of Politics In Washington Changed On November 5. Winner: Social Security Privatization - Dole, Graham, Sununu, And Talent All Campaign On Private-Accounts Option - And Win." (Stephen Moore, Op-Ed, "Winners, Losers, Wannabes, And Has-Beens," *National Review*, 11/12/02)

"Former House Minority Leader Dick Gephardt And His Lieutenants At The Democratic Congressional Campaign Committee Bet The Ranch That This [2002] Election Would Be A Referendum On Social Security. Their Ranch Went Bust." (Gary J. Andres, Op-Ed, "Lessons Learned," *The Washington Times*, 12/5/02)

"House Races Won By Pat Toomey In Pennsylvania And Clay Shaw In Florida Also Stand Out. Both Reform Supporters Represent Districts With Relatively High Percentages Of Older Voters, And Both Won Handily Despite Being Hammered By Opponents For Not Favoring 'Protecting' Social Security." (Jerry Heaster, "Sands Shift On Social Security," *Kansas City Star*, 11/17/02)

"Thus, Although Social Security Reform May Not Happen Next Year, Pro-Reform Leaders Now Know They Can Debate The Issue Honestly And Openly Without Fear It Will Be A Career Killer." (Jerry Heaster, "Sands Shift On Social Security," *Kansas City Star*, 11/17/02)

"Hans Reimer Of The Anti-Private Account Campaign For America's Future Called The North Carolina And South Carolina Races 'Bellwethers' That Would Hinge On The Issue Of Social Security Reform. Neither Elizabeth Dole … Nor Lindsey Graham … Made Any Attempt To Hide Their Support For Individual Accounts. … Given A Clear Choice, Voters Chose Both Mr. Graham And Mrs. Dole By Large Margins." (Michael Tanner, Op-Ed, "Social Security And The Election Outcome," *The Washington Times*, 11/10/02)

Bob Novak: "Victories By Candidates Who Vigorously Endorsed Individual Private Retirement Accounts Shattered A Tenet Of American Political Folklore: Social Security Is The Third Rail For Republicans; Touch It, And You Will Die." (Robert Novak, Op-Ed, "GOP Can't Lose On Privatization," *Chicago Sun-Times*, 11/11/02)

- **Bob Novak: "This Year, Almost All Brave Enough To Touch It Survived. Some Who Did Not Were Losers, Raising Suspicion That They Should Have Taken The Risk."** (Robert Novak, Op-Ed, "GOP Can't Lose On Privatization," *Chicago Sun-Times*, 11/11/02)

Sen. Elizabeth Dole (R-NC):

"Unlike Many Republicans This Year, Dole Never Ran Away From Her Support Of Social Security Reforms, Saying Changes Are The Only Way To Keep The System Solvent In The Future." (Scott Mooneyham, "Dole Combined Style, Substance For Senate Victory," *The Associated Press*, 11/6/02)

"Hans Reimer Of The Anti-Private Account Campaign For America's Future Called The North Carolina And South Carolina Races 'Bellwethers' That Would Hinge On The Issue Of Social Security Reform. Neither Elizabeth Dole … Nor Lindsey Graham … Made Any Attempt To Hide Their Support For Individual Accounts. … Given A Clear Choice, Voters Chose Both Mr. Graham And Mrs. Dole By Large Margins." (Michael Tanner, Op-Ed, "Social Security And The Election Outcome," *The Washington Times*, 11/10/02)

Mort Kondracke Called Dole's Social Security Stance "Gutsy" Because She "Had To Educate People" On The Issue. (Morton M. Kondracke, Op-Ed, "The New Elizabeth Dole Is Anything But 'Uptight,'" *Roll Call*, 12/9/02)

"[Dole] Displayed A Large Blank Cardboard Poster Which, She Said, Was The Democratic Alternative To The Republican Proposals To Reform Social Security. Then She Would Tell Her Audiences That She Was Showing Them The Wrong Side Of The Board And Flipped It. The Other Side Was Blank Too." (Martin Sieff, Op-Ed, "Bush's America: GOP Plays Winning Game," *United Press International*, 11/21/02)

Sen. John Sununu (R-NH):

"New Hampshire Sen.-Elect John E. Sununu Said His Support Of Social Security Reform Was One Of The Keys To His 51-47 Percent Win Last Month Over Democratic Gov. Jeanne Shaheen." ("Sununu Calls Reform Key To His Win," *The Union Leader*, 12/5/02)

"'In Talking About A Social Security Modernization Account, I Was Talking About A Positive Vision,' Sununu Said. All That Democrats Offered In Response Was The 'Status Quo,' He Added. 'That's Not The Kind Of Message -- The Kind Of Tone -- That Voters Want To Hear.'" ("Sununu Calls Reform Key To His Win," *The Union Leader*, 12/5/02)

"Senator-Elect Sununu Never Backed Away From His Advocacy Of Partial Privatization, Despite The Concern Of Some Of His Handlers That Shaheen Would Use This Position As A Club To Beat Him Among Seniors." (Jim Nuzzo, "Mass. GOP Success," *National Review*, 11/6/02)

- **"There Is No Evidence In Analyzing The New Hampshire Returns That Those Communities With Larger Elderly Populations Punished Sununu Whatsoever."** (Jim Nuzzo, "Mass. GOP Success," *National Review*, 11/6/02)

"Sununu, The Republican Senator-Elect From New Hampshire, Won In Part By Advocating Reform Of Social Security By Allowing The Diversion Of Payroll Taxes Into Private Investment Accounts." (Christian Bourge, "Social Security Change 'More Acceptable'," *United Press International*, 12/6/02)

Sununu: "We Were Successful (In The Election) Because On This Issue, And Hopefully On Others, We Were Presenting A Much More Positive Image Of Where We Think (Social Security Reform) And Country Ought To Be Heading…" (Christian Bourge, "Social Security Change 'More Acceptable'," *United Press International*, 12/6/02)

- **Sununu: "I Have Ideas About Strengthening Social Security. I Didn't Shy Away From Them. I Talked About Them On The Stump. I Talked About Them In Debates."** (John McLaughlin's "One On One," 11/15/02)

Rep. Ann Northup (R-KY):

"Another Democratic Strategy That Failed Was The Assault On Social Security Reform. The Three GOP Senate Candidates Who Most Vigorously Defended Personal Retirement Accounts … All Prevailed. So Did Anne Northup In Her House Seat In Louisville, Despite An Amazing Democratic And Union Assault." (Editorial, "The Bush Majority," *The Wall Street Journal*, 11/7/02)

"Incumbents Such As Anne Northup And Pat Toomey Were Pummeled By False Attacks On [Social Security]. Instead Of Walking Away From Reform, These Incumbents Faced It Head On And Won." (Gary J. Andres, Op-Ed, "Lessons Learned," *The Washington Times*, 12/5/02)

Northup Didn't Retreat Against Aggressive Conway Attacks. "Cookie-cutter campaigns were waged coast-to-coast, accusing Republicans of threatening elders with reckless schemes. Nobody was more aggressive than Jack Conway, a telegenic young hope of Kentucky Democrats seeking to unseat three-term Republican Rep. Anne Northup in Louisville's traditionally Democratic 3rd District (carried comfortably by Al Gore against George W. Bush). Northup was made a prime Democratic target nationally. … Northup did not … retreat…" (Robert Novak, Op-Ed, "GOP Can't Lose On Privatization," *Chicago Sun-Times*, 11/11/02)

Campaign Poll Taken Right Before Election Showed Northup Running Strong Among Young Voters. "Among age groups, the poll found that impressions of Northup are most favorable in Conway's age bracket, those 18 to 34. The poll did not include questions to determine the reason, but many young voters are skeptical about the future of Social Security and favor some privatization of it for younger workers, as Northup does." (Al Cross, "Northup Leading Conway," *The* [Louisville, KY] *Courier-Journal*, 11/3/02)

Rep. Pat Toomey (R-PA):

"Rep. Pat Toomey, A Leader In Pressing For Private Accounts, Increased His Victory Margin In His Democratic-Leaning Pennsylvania District." (Robert Novak, Op-Ed, "GOP Can't Lose On Privatization," *Chicago Sun-Times*, 11/11/02)

"Yet Even Though He Dared Touch The 'Third Rail' - A Term Mr. Toomey Said Is Insulting To Seniors, Implying They Are A Unthinking Voting Bloc - He Won In November By His Widest Margin Yet." (James G. Lakely, "Democrats Cited For 'Scare Tactics'," *The Washington Times*, 12/5/02)

Mr. Toomey, Who Won A Third Term In A Majority Democratic District Near Allentown, Pa., Said During The Campaign He 'Pleaded Guilty' To Advocating Social Security Reform And Supporting Even Bigger Tax Cuts Than Those Proposed By President Bush, 'But That Still Didn't Cost Me This Seat.'" (James G. Lakely, "Democrats Cited For 'Scare Tactics'," *The Washington Times*, 12/5/02)

"The Message, Said Mr. Toomey, That 'Everyone Is An Investor, Everyone Is A Capitalist' Resonated Across Party And Demographic Lines." (James G. Lakely, "Democrats Cited For 'Scare Tactics'," *The Washington Times*, 12/5/02)

SOCIAL SECURITY ARTICLES

1) Ramesh Ponnuru, Op-Ed, "An Idea Whose Time Has Come," *National Review*, 1/31/05
2) Holman W. Jenkins, Jr, "Op-Ed, Shall We Eat Our Young?" *The Wall Street Journal*, 1/19/05
3) George Melloan, Op-Ed, "Private Accounts Are What the Doctor Ordered," *The Wall Street Journal*, 1/18/05
4) Albert B. Crenshaw, Op-Ed, "Risk-Reward Gamble," *The Washington Post*, 1/16/05
5) Mike Allen and Jim VandeHei, "Social Security Push To Tap The GOP Faithful," *The Washington Post*, 1/14/05

1) Ramesh Ponnuru, Op-Ed, "An Idea Whose Time Has Come," *National Review*, 1/31/05

People think that Social Security reform is an incredibly complicated and difficult subject. But it's not, really. The program's benefits are rising faster than its revenues, which means we're going to have a lot of trouble paying for those benefits. The program also offers young people a lousy deal. The solution is, first, to keep future benefits from growing so fast. But acknowledging that benefits have to shrink doesn't make the program a better deal for young workers. So, second, something should be done that lets them build up retirement savings to make up for it. Which means their taxes should be cut a bit, too, on the condition that they invest the money they get for retirement. That, in a nutshell, is the reform President Bush seems inclined to propose. There: Was that so hard?

It's not the reform itself, but the politics of reform that is difficult, and may well sink Bush's proposal in Congress. And it's politics that has generated much of the confusion over basic facts in the Social Security debate.

Most Democrats already oppose Bush's reform, and they have many reasons for opposing it - starting, in many cases, with the genuine conviction that it is a bad idea. But it is very hard to have respect for people who are trying to discredit reform by minimizing the program's problems.

Social Security has mostly been a "pay as you go" program. Today's workers finance, with their payroll taxes, the retirements of today's senior citizens. When those workers get old, they will in turn rely on taxes from their children's generation. But increased lifespans and decreased childbearing have made this bargain hard to sustain. In 1950, there were 16 workers supporting each retiree. There are 3.3 today. By 2040, there will be only 2.1.

Benefits are calculated using a complex formula. If you had higher wages, and thus paid more payroll taxes into the system, you'll get a higher benefit. But benefits don't rise in exact proportion to wages: There's some (somewhat haphazard) redistribution to the poor. Homemakers get a benefit, too; the system, it might be said, recognizes that they have contributed to it by nurturing the next generation of taxpayers. During your retirement, your benefits go up every year to keep up with inflation.

A TRILLION HERE, A TRILLION THERE

A worker who has earned the average American worker's wage each year will get $14,854 from Social Security this year if he retires now. Because wages grow over time, so do benefits. By 2050, the average worker's retirement benefit is expected to be $23,811 (adjusting for inflation). That's 60 percent higher than today.

That growth is what is causing the fiscal problem. In 2018, the program is expected to start sending out more checks than it collects in revenues. The system has an expected $283 billion shortfall during the following five years. By 2045, it is expected to lose $394 billion in one year. (There's an asterisk by that number, though, as we'll see below.) One way to measure the financing gap is to estimate how much additional money the government would have to devote to Social Security now to make the program permanently solvent. Depending on how you calculate it, that number is $10 to 11 trillion. That's larger than our entire economy.

The president says that "the crisis is now." That comment has inspired a lot of fairly tedious semantic debate. Let's just say that we have a serious problem. It is true that we do not have to fix it immediately. It is also true that every year we wait, the choices get worse. We can gradually cut benefits if we get started now. If we don't, we will have to cut them (or raise taxes) very sharply. Andrew Biggs, now a commissioner at the Social Security Administration, has estimated that delaying reform for one more year will cost $600 billion - and that cost goes up every year. The Titanic didn't have a crisis until it hit the iceberg, but it would have been better off gently steering a different course beforehand.

Liberals contend that the scenario I have painted above is alarmist. Social Security, they say, will not actually go bankrupt until 2042. The program can be saved with some minor adjustments. Just rolling back Bush's tax cuts would raise the necessary funds. If the economy grows better than expected, the program might have enough revenues to pay for its promises.

None of this is true. The idea that the problem does not start until 2042 depends on sleight of hand. For several decades, the program, in anticipation of the retirement of the Baby Boomers, has collected more revenues than it pays out. The surplus has been banked in a Social Security trust fund. The liberal argument is that when payouts start to outstrip revenues, in 2018, the program can just draw on the trust fund - and it can keep drawing on it until 2042, when it is scheduled to run out.

Liberals - I mean you, Paul Krugman - have spent immense amounts of verbiage obscuring the fact that the trust fund is an accounting fiction. Its assets are IOUs from the rest of the federal government. When 2018 rolls around, the government will have to find the money to pay off those IOUs. It will have to raise revenues or cut spending or borrow elsewhere to do that.

FORMS OF DENIAL

The "minor adjustments," meanwhile, aren't all that minor. The leading liberal plan on Social Security is that of economists Peter Diamond and Peter Orszag. Its backers, such as Jonathan Cohn of The New Republic, prefer to describe it as "a series of tweaks" that "involves both raising taxes and cutting benefits." Likewise, the Washington Post describes Diamond and Orszag as "'balancers,' who would use benefit cuts and tax increases in equal measure." In truth, 85 percent of the improvement in solvency their plan accomplishes would come from higher taxes. (They even propose adding some benefits.) They want to raise the payroll-tax rate. They want to raise the amount of wages to which the tax applies. Then they want to add a "surtax" to high earners.

The Congressional Budget Office (CBO) estimates that the Diamond-Orszag plan would mean that the share of the economy eaten up by Social Security taxes would grow by more than a third. (Those taxes equal 4.9 percent of the economy now but would rise to 6.6 percent by 2080 under the plan.) The cost of their plan over the next 75 years would be almost exactly the same as that of the current program. The CBO also estimates that the plan would reduce economic growth, the capital stock, and work effort.

The idea that merely repealing the Bush tax cut would pay for Social Security's promises is misleading. The people who make that claim are, again, ignoring the problem of paying off the IOUs in the trust fund. (They're assuming, that is, that the trust fund can pay for Social Security benefits painlessly.) And there's another problem. Because the income tax is progressive, its burden grows over time. As wages rise, people move into higher tax brackets. The average tax rate - the share of the economy that the government is claiming through taxes - therefore rises. The Alternative Minimum Tax exaggerates this trend.

In a recent issue of Tax Notes, Brian Jenn and Donald Marron note that current law would have the federal government taking an unprecedented 20.9 percent of the economy in 2018 and 27 percent by 2078. That's just by going on autopilot. The people who say we could pay for Social Security by repealing Bush's tax cuts are assuming taxes would go even higher than that. It's an unrealistic, and undesirable, assumption.

Finally, there is the illusion that we can grow our way out of the Social Security shortfall. One of the business economists at Bush's own economic summit lent credence to this view. But the flaw is pretty obvious. Sure, higher growth would yield revenues. But higher growth would also increase wages - and since benefits are tied to wages, benefits would rise too. Growth is a very good thing, but it can't relieve us of the need to get the program's benefits structure in line with its revenues. Even if economic growth doubled, Social Security would still go insolvent. And to the degree that economic growth does help, it is mostly by swelling the balance of the trust fund, giving the system more IOUs to claim against future taxpayers.

CHECKING THE INDEX

Hence Bush's apparent support for changing the formula by which benefits are calculated. He wants benefits to keep pace with inflation - but not to grow any faster than that. The middle-income worker of 2050 wouldn't get a benefit that's 60 percent higher than that of the middle-income worker of today: He'd get the same benefit. That means that when people retire, Social Security would be replacing a smaller portion of their paychecks.

Moving from "wage indexing" to "price indexing" isn't a minor change. The middle-income worker of 2050 would be getting an annual benefit worth 37.5 percent less than he would have gotten under wage indexing. Price indexing would eliminate Social Security's shortfall all by itself. Would it be a draconian cut in benefits? If wages grow over time, workers will be putting more tax money into Social Security: Shouldn't they get bigger benefits as a result?

What that question ignores is that Social Security is not capable of converting our worker's payments into those massively higher benefits. The only way he could get those benefits is if he agreed to pay more taxes over the course of his working life (and to work in the smaller economy caused by higher taxes on everyone). The system can't pay for the larger benefits without tax increases. So nothing he could actually have, on terms he would want to have, would be taken away from him. If our worker wanted more money for retirement, he would almost certainly prefer to invest additional money himself rather than have the government raise his taxes.

In the debate over Social Security reform, even knowledgeable reformers are being careless in using phrases like "promised benefits" and "current-law benefits" to describe the 60 percent increase our median worker might get under wage indexing. The Supreme Court has ruled that nobody has a legal right to a particular benefit level. And current law includes a provision that automatically slashes benefits when the "trust fund" runs out in 2042. The current projections have benefits getting cut by 27 percent - and not gradually, but in one year, with more cuts following. (And this is after the program has already generated $5.8 trillion worth of debt as the trust-fund IOUs are redeemed.) If you take account of that, Bush's cuts don't look so big after all.

THE CASE FOR PERSONAL ACCOUNTS

If price indexing will balance the books, it might be asked, why does Bush also want to introduce personal accounts? There are three answers to that question.

The first is that solvency isn't the only problem with Social Security's current structure. It takes a lot of money from young workers without giving them much in return. The program can afford to give a middle-income 25-year-old only 91 cents for every dollar he is going to put in over the course of his working life. Price indexing recognizes that reality, but does nothing to improve it. Personal accounts are a way of softening the blow. People would be able to supplement their reduced Social Security checks with the wealth built up in their accounts.

The second way to look at it is that the accounts are a way of putting Social Security on a firm footing. We would be moving from a "pay as you go" model in which each generation funds the retirement of the next to a "pre-funding model" where each generation saves in advance for its own retirement. If the government tries to do the pre-funding for us, without letting us have the money in individual accounts, there's a greater risk that the money will be diverted to other programs. The government could also gain too much influence over the economy if it tries to invest all that money itself.

The third view is that making it possible for millions of Americans to buy a share of the economy through personal accounts would be a good thing in itself. It would give them wealth they could hand on to their heirs. It would make them worker-capitalists with a direct interest in sound economic policies. Edward Prescott, the 2004 Nobel Prize winner in economics, argues that letting people invest payroll taxes would also expand the economy by stimulating them to work more. The CBO has found that a plan including price indexing and personal accounts would lead to a larger economy. National wealth would be 10 to 12 percent larger by 2080. (That's in contrast with the wealth-destroying Diamond-Orszag plan.)

Liberal politicians and journalists persist in speaking of capital-market investment as though it were "speculation" or "roulette." But nobody is talking about having 64-year-olds take all of their Social Security money and put it all on a tech stock. We are talking about letting people invest a portion of their Social Security contributions over a long period of time. There are plenty of ways to reduce the risks - by diversifying stock portfolios, by buying index funds, by buying bonds as well as stocks. People are quite capable of taking advantage of these methods (and a law establishing personal accounts would probably require them to do so). Between the end of 1999 and the end of 2002, broad stock-market indices fell by nearly 40 percent. But a report jointly produced by the Employee Benefit Research Institute and the Investment Company Institute found that the average 401(k) plan fell by only 10 percent. It's established fact that stocks grow less volatile over the long run: There is no 20-year period in American history in which the stock market has declined. The average annual return on stocks has been 6.7 percent above inflation.

Setting up personal accounts does, however, involve a short-term increase in the federal debt. This debt increase is the badly misunderstood "transition cost" to personal accounts. Since we have a pay-as-you-go program, most of today's payroll taxes go to today's retirees. The rest goes, notionally, to the trust fund, but really to fund other government operations (which borrow from the trust fund). If people can put some of their payroll taxes in personal accounts, the government has to find other money to fund its other commitments. The result could be $1 trillion or even $2 trillion of borrowing over the next decade.

Those numbers may look alarming. But it's important to remember that they do not represent new costs. The government is already undertaking to pay for the retirements of today's senior citizens and tomorrow's. Pre-funding part of tomorrow's retirements would not increase the government's total obligations; it would just bring some of them forward in time. If the accounts are part of a long-term deal to reduce the cost of Social Security - as in Bush's price-indexing plan - then temporary debt increases should not deter us. The markets are well aware that the future benefits from Social Security constitute a large off-budget liability for the government. An increase in on-budget debt, even a large one, will not frighten them if they have confidence in the long-term trajectory of the reform plan.

DECISIONS, DECISIONS

Republicans, and Bush especially, face a daunting series of questions as they figure out how to move forward on Social Security. How much should they let people invest in personal accounts? Should it vary by income, so that poorer people can

invest a higher percentage of their wages? How tightly should the government regulate the investments? Should it require people to convert their accounts into annuities when they retire? Should Republicans take the political risk of cutting benefits through price indexing? How should they finance the transition? Should the White House devise a plan at all, or let one emerge from Senate horse-trading?

There are trade-offs attending each choice. Large accounts would give workers a reason to participate, but would also mean higher transition costs. Or take the question of annuities. Frank Keating, the head of the American Council of Life Insurers (many of which sell annuities), argues that people shouldn't be able to take their whole account when they retire and blow all the money in Vegas. If they bought annuities with the money, they would have a guarantee that they will have an income stream as long as they live. That way, they won't end up destitute - and clamoring for Washington to bail them out. Regulations to keep people from impoverishing themselves would help get a reform bill through Congress.

On the other hand, if the whole account has to be made into an annuity, then some of the appeal of personal accounts vanishes. Reformers would not be able to say that the accounts are a way of building wealth that can be handed down the generations. The reformers' argument that Social Security is an especially bad deal for blacks, who have shorter lifespans than whites and thus receive less in benefits, would also lose much of its force. These considerations point to a compromise: Account holders should be required to buy an annuity that keeps them out of poverty, but free to do whatever they want with any additional funds they have accumulated.

There is a political theory that can help guide reformers in making some of these choices - a theory that falls under the heading of "the new investor class." The theory holds, among other things, that participation in capital markets changes people's political attitudes and behavior. Perhaps more pertinently here, it holds that pro-investor policies tend to perfect themselves over time. So, for example, a limited tax break for retirement savings will generate a constituency that wants bigger tax breaks for saving for retirement as well as for health and educational expenses.

A relatively small personal-account option, for the same reason, will generate demands for its expansion. Reformers need not be disappointed if they don't win large accounts this year. Holders of 401(k)s have over time gotten more and more options in how they invest their money. Regulations on personal accounts will probably get looser as well.

But the theory, by itself, is not a substitute for the political judgment required to make the major choices here. The theory is capable of telling conservatives that instituting personal accounts offers the prospect of reshaping American politics in their favor. The upside from the accounts is larger than from policies such as expanded IRAs, which would not do as much to increase the number of investors. But the political risks are greater, too, and the theory cannot tell you whether a specific historical moment is ripe for reform. If reform fails this year, Republicans may rue not having taken a more incremental route.

Congressional Republicans are of two minds about Social Security reform. They know that personal accounts have risen in popularity. They know, too, that Republicans - including Bush - have broached the subject of reform without losing elections in 2000, 2002, and 2004. We have come a long way from 1988, when Jack Kemp denounced Pete du Pont in the presidential primaries for daring to suggest "privatization." But Republicans are also nervous because they don't think there is a mandate for a large debt increase, however temporary, or for price indexing. Unfortunately for them, the leading proposal that avoids price indexing carries a much larger debt with it.

The Democrats have their own divisions. They haven't decided whether to come up with a plan of their own, or to put all their eggs in the there's-no-crisis basket. But what makes it hard to see Bush prevailing is that there isn't a Democrat on Capitol Hill who is afraid to oppose him on this issue. The twelve Senate Democrats who come from states that Bush won by more than 5 points have good reason to think twice before opposing one of his Supreme Court nominees. When it comes to Social Security,

however, all the political pressures on them will be to resist reform. Yet Bush will probably need at least five Senate Democrats to beat a filibuster and enact a bill.

House Republicans are not going to vote for price indexing only to have a reform bill die in the Senate. Once a bill passes, they will be able to tell the voters that the sky hasn't fallen. If it doesn't pass, however, they will face ads saying that they "tried to cut Social Security" - and plenty of older voters will think that the Republicans were going after them, not future oldsters. So House Republicans want the Senate to go first. Many of them also want the president to offer a bill to serve as a template for Congressional legislation. Some Senate Republicans are happy to go before the House, but also want to go before the White House. They want to cobble together a bipartisan deal. If the Senate Republicans can recruit enough Democrats to their side, they will be in a strong position to dictate the terms of an eventual deal.

Whatever emerges from Congress, if anything does, will include provisions that conservatives do not like: perhaps an increase in the progressivity of the payroll tax, or something worse. But what Bush appears to have in mind - creating personal accounts and restraining the growth of Social Security - is the right policy. If he manages to get that policy enacted, it will not only be the signal domestic achievement of his presidency. It will be the biggest legislative victory in the modern history of conservatism.

2) Holman W. Jenkins, Jr, "Op-Ed, Shall We Eat Our Young?" *The Wall Street Journal*, 1/19/05

How lucky can a politician get? George Bush bit off a mouthful with his idea of reforming old-age entitlements with an "ownership society," starting with Social Security. But already critics on the left and right, fearful of the political risks, have adopted a tack of saying there's no Social Security "crisis" -- the real problem is Medicare.

Wonderful.

No, the footdraggers aren't really in favor of reforming Medicare either. They just want an excuse to avoid tackling Social Security . But look at it from Mr. Bush's point of view. He's taken a 25-year-old debate over private retirement accounts and gulled the political class into admitting the problems of Medicare, whose unfunded, present-value liability, at $62 trillion, dwarfs even Social Security's $10 trillion

The facts are out. This generation of politicians, in the end, may be unprepared to deliver voters the bad news about Social Security and Medicare, but they'll do something -- most likely a tax reform to allow Americans to start saving tax-free for health-care and old-age consumption with a quiet understanding that Medicare and Social Security will face a chopping block eventually.

Voila, the ownership society. True, such a kludge would be financed with income tax deductions and therefore would be far less progressive than one financed with payroll tax givebacks (as Social Security reformers seek). If so, you will likely be able to blame Harry Reid and his Senate Democrats for closing off the possibility of reforming entitlements honestly and openly.

Replacing pay-as-you-go transfer programs for old people with a crypto mandatory savings approach may or may not be your cup of tea, but Mr. Bush deserves credit for offering a coherent solution. The leading lights of liberal economic thought, by contrast, seem stuck on the sterile subject of whether the federal government would honor the obligations of the Social Security "trust fund" (stuffed with IOUs from the government to itself) in the event that Social Security were to remain unchanged.

Let's concede the point and then some. If the trust fund didn't exist on paper, we'd still expect politicians (at least those who know on which side their electoral bread is buttered) to honor their promises to seniors, even at the cost of imposing heavy new tax burdens on younger workers and smothering job creation.

That's why we're having this argument -- because funding those promises would blight the prospects of up-and-coming generations and undermine the economy's dynamism and growth.

Mr. Bush has a principle, and soon, presumably, a plan. Democrats, as near as we can tell, want to follow down a path trod by the social democracies of Europe -- though Democrats don't admit to themselves where they want to go, let alone advertise their plans to voters. Al Gore didn't bother to mention he favored European-style universal health until two years after he lost his White House race. There's a reason for this. Europe is not a model of genteel living and social concern, but an encrusted social compact in which the old pull up the ladder against the young.

In France, youth unemployment is running at 20%, and half of those finishing school last year ended up on the dole. In Italy, 27% of job seekers under 25 are unemployed. In Belgium, it's 22%. It's not just the young who are superfluous, of course, in a system geared most richly to support long-term idleness among the middle-aged. For folks in their peak earning years aged 55 to 64, only 38% hold jobs, versus 54% in the U.S. In Holland, for instance, one million working-age people are sidelined and collecting disability benefits out of a working-age population of just nine million.

Don't kid yourself that this reflects Europeans simply opting to enjoy the freedom of leisure. EU polls routinely showing that what locals want above all else is jobs, jobs, jobs.

Nor is this massive structural unemployment buying Europeans a kinder, gentler or more mobile society. Europeans are half as likely as Americans to complete higher education. A German whose parents didn't go to college has only an 8% chance of going to college. In France, Belgium, Italy and the Netherlands, he's also more likely than an American to be victimized by crime.

We're not about to lapse into a chorus of "greedy geezers." We suspect more Europeans feel trapped by this social bargain than delight in it. Large transfer programs create dependent constituencies and foster elites who cater to them, until escape becomes fiendishly difficult, especially given the high propensity of seniors to vote.

That's the choice we're facing here. Critics complain that, in assessing Social Security and Medicare's long-term deficits, the program's trustees assume a U.S. growth rate about half the historical average. True enough, but the projected growth rate is not so oddly similar to that actually experienced by Western Europe in the past two decades, our best example of a high-tax, high-unemployment economy.

Pay special attention to Democratic economists who claim there's no problem because a "trust fund" will tide Social Security over once revenues fall short of outlays in 2018. They know perfectly well that the trust fund is a ledger-book entry, and will do nothing to save politicians from having to raise taxes or cut benefits to meet the promises of the old-age retirement programs.

These opponents are sending a purely political message to oldsters and voters nearing retirement. It's a message that says: "You've got yours and everybody else can go to hell. Just say 'no' to reform." Democrats ought to think again before they stake their party's future on stiffing the young.

3) George Melloan, Op-Ed, "Private Accounts Are What the Doctor Ordered," *The Wall Street Journal*, 1/18/05

President George W. Bush will revisit his chief domestic policy goal, building an "ownership society," in his second inaugural address two days from now. A key part of that project will be an attempt to make private accounts a part of the U.S. Social Security system. Hearing the screams from Teddy Kennedy one might think he was proposing national hara-kiri.

Such excitable types notwithstanding, what the president actually is proposing is to make the U.S. government a little more honest. The Social Security Act of 1935 was the worthy achievement of the New Deal -- almost the only one of any permanence -- that gave relief to a Depression-battered nation. It is enshrined in Democratic Party iconography and any suggested change brings howls from liberals. But it was falsely labeled "insurance" by its designers and never funded. The payroll taxes of working people are simply transferred into benefits to the elderly and infirm.

Workers starting out today only have the government's promise that they will get back what they put in, and since the system has been made actuarially unsound by a rising population of graybeards, that promise has become less and less believable. Youngsters face the prospect of ever-rising payroll taxes or reduced benefits, or both.

What Mr. Bush is proposing to do is to fix the problem before it becomes acute and to do it in a way that will keep it whole for workers starting out today. In short, he will start to fund it. Details haven't been spelled out yet, but in principle workers would set aside some of their payroll taxes into personal accounts that would be invested in securities. They would actually own their accounts. Finally, after almost 70 years, Social Security would become what it was claimed to be at the outset, an old-age retirement insurance program.

Defenders of the 70-year-old status quo cry that the system isn't broke. It isn't, but only because of past increases in the payroll tax. The Bushies respond that another such fix will be necessary to keep it solvent in a few years, so why not go for a permanent solution? At that, the cohorts of Teddy Kennedy, who enjoys the benefits of a huge fortune built by a market-savvy father, raise the "risk" goblin. What if the market crashes and the worker is left with nothing? That's nonsense. The accounts will be restricted to conservative investments, so don't worry about workers taking flyers on dot-coms with no earnings.

It would be unbelievable if a funded system got a lower return than today's unfunded system, which has no return at all. John P. Meehan, a retired pension-fund manager in Orlando, Fla., has taken the trouble to examine payouts on stocks and bonds over 40-year spans that constitute normal working careers. The first such span he checked was from 1871 to 1911.

"It could be that the value of a retirement fund would return less than the total amount put in," he writes, "but that has never happened in the 89 consecutive years from 1911 to 1999. To alleviate such worry, an insurance policy against such an event could be purchased for a small premium or could be self-insured by the government through a reserve fund set aside for that purpose." Indeed, the government would be quite safe in providing a guaranteed minimum return when you consider how much a funded system could be expected to grow.

The fallback argument is that there would be huge transition costs. Setting aside some of the payroll taxes for personal accounts would cut into Social Security's cash flow. That would depend on how much was set aside. But the prospect of having to finance that cash-flow shortage doesn't seem to worry Wall Street, the industry that would be most affected by a sharp rise in federal borrowing.

To the contrary, Treasury Secretary John Snow told a group of Journal editors in New York last week that results of his visits on the Street just before he arrived were universally favorable. Wall Street, he said, is always happy to fund short-term obligations designed to reduce a long-term obligation. And make no mistake, the promises the government has made to future retirees are long-term obligations just as surely as the 30-year bonds Uncle Sam issues, even though they are off-budget. Moreover, there are other big promises out there, like Medicare, that make it all the more important to get some of those obligations off the table.

Present retirees, getting scare messages from the avowedly "nonpartisan" American Association of Retired Persons, need not worry either. As Mr. Snow said, anyone over 55 can simply ignore whatever changes are made. They won't be affected. He notes in passing that AARP doesn't seem to have a compunction about selling mutual funds to its members, one of its many

money-making "nonprofit" sidelines. AARP's claim to speak for all its members, by the way, is a bit like Merrill Lynch claiming to represent all its account holders or GM everyone who drives a Chevy.

One reason Mr. Bush, and not John Kerry, will take the oath of the presidency this week is that he has proved himself more aware than the Democrats of what kind of a country the U.S. has become. It already is an "ownership society," and the voters seem to like it that way. Managing securities is no longer something just for the toffs; some 27% of American households own stocks or mutual funds, according to census data. Nearly 30% have a 401(k) plan and 23% have an IRA or Keogh plan. About 65% own interest-bearing assets at financial institutions. Nearly 70% own their primary residence. Median net worth was $86,100 in 2001 and average net worth $395,500.

It seems safe to say that most Americans feel quite capable of running their financial affairs. Social Security and the New Deal gave Americans hope at a time when an unholy series of government policy errors had thrown the country into Depression. But that was then and this is now, as Mr. Bush is likely to remind us Thursday.

George Melloan is the Journal's Deputy Editor, International. He began writing "Global View" in 1990, when he took over responsibilities for the overseas pages after 17 years as deputy editor in New York. During the first five years of his present assignment he was based in Brussels, traveling extensively from there to write about such events as the fall of the Berlin Wall, the break-up of the Soviet empire and the collapse of the Japan's stock market and real estate bubble. He returned to New York in 1994.

4) Albert B. Crenshaw, Op-Ed, "Risk-Reward Gamble," *The Washington Post*, 1/16/05

Seventy-two years ago, Franklin D. Roosevelt was inaugurated as president, promising the American people what he called a new deal.

The nation at the time was already into the Great Depression, and many Americans, who felt that a few people held all the economic cards, were happy to hear that the government might use its power to deal them in.

This week, George W. Bush will take the oath of office for the second time, promising the American people what he calls an "ownership society."

Today, the nation is adjusting to the aftermath of a boom that made tens of thousands of its citizens rich, a period in which genius, hard work and luck were rewarded on an unprecedented scale. What Bush is offering is a chance for each American to grab for this brass ring.

The appeal to independence, self-reliance and other traditional American virtues resonates with much of the public. The president clearly hopes that its attractiveness is so powerful it will persuade younger people to embrace a Social Security system that allows them to invest a portion of their payroll taxes and benefit from whatever investment success they attain.

This shift -- from the New Deal to the Ownership Society -- is a sea change in the way Americans view the relationship between themselves and the government, and between themselves and the rest of society. Whereas government, unions and other collective organizations were widely seen in the 1930s as placing a safety net under workers and their families, today they are regarded by many people, especially in the "red states," as stifling enterprise and protecting the lazy.

In contrast to the New Deal, the Ownership Society will have optional elements, with greater rewards but also far greater risk. While the administration's Social Security plan taps into taxes that workers are already paying, a key element of the Ownership

Society is that to take full advantage of it, you must put up a great deal more of your own money -- pay to play, if you will. And that principle of pay to play applies in fields ranging from retirement to education to health care.

Private employers, long the source of a truly secure retirement for so many, have already begun their retreat from the social safety net and embraced the ownership philosophy. Consider the increasingly common 401(k) and related retirement plans.

Typically these have attractive tax benefits, and many employers who sponsor them chip in by matching a portion of the money a worker contributes. But the fact remains that the primary driver of these accounts is the worker's own money. To participate in a 401(k) plan, a worker has to take money out of his or her own paycheck and shift it to the retirement account.

And these amounts can be substantial. This year, a worker is allowed to contribute up to $14,000 to a 401(k), plus an additional $4,000 "catch-up" contribution if the worker is 50 or older. Next year, those amounts rise to $15,000 and $5,000. A working couple could conceivably contribute double those amounts.

The couple who sock away $30,000 or $40,000 a year for many years would, absent some economic catastrophe, almost certainly end up with a handsome retirement account.

Truly ambitious savers can tack on an individual retirement account, which also carries substantial tax benefits, or a Roth IRA, funded with non-deductible contributions.

Having a government-sanctioned way to squirrel away thousands of dollars every year, and having those assets accumulate earnings that won't be immediately taxed, is enticing, even empowering. The limiting factor for many families will be their own finances.

In 2003, the median family income in the United States was about $43,500, meaning that half of all families had higher incomes and half lower.

The Ownership Society offers help with college costs, too, so that a family can pay for higher education while sparing both the parents and the children the burden of heavy student loan debt.

The mechanism, for the family that can afford it, is the Section 529 plan.

Contributions to these plans, which are run by the states, are not deductible for federal taxes, but their earnings are tax-free when used for higher-education expenses.

Some states allow contributions of more than $100,000, and a special federal gift-tax provision allows donors to use five years' worth of annual gift-tax exclusions at once -- $55,000 for one parent at current rates, double that for a couple -- amounts potentially sufficient to fund even an Ivy League education, assuming moderate investment returns.

There are no federal income limits on participation in 529 plans.

Besides reducing or eliminating student debt, a big 529 plan may enable offspring of well-to-do families to attend better colleges than their high school grades might otherwise allow. That is because all but a handful of the richest and most prestigious colleges now take ability to pay into account in admissions decisions.

Also available to some families are Coverdell education savings accounts. Contributions to these are also not deductible and are limited to $2,000. Unlike 529 plans, they are restricted to the not really rich. The ability to contribute phases out for a married couple with income between $190,000 and $220,000.

But Coverdells can be used for elementary and secondary education expenses, not just college, allowing families to begin funding for a newborn, and perhaps accumulate enough to pay parochial or private school tuition a decade later.

Many in the upper half may thrive in the Ownership Society. In addition to being able to lower their current taxes and provide generously for their own retirement, they will be able to share benefits with their children and grandchildren, perhaps giving them a leg up in their own lives.

In fact, the right to pass on savings to future generations is a thread running through many elements of the Ownership Society. That, too, is a break with past programs.

Both traditional pensions and Social Security pay a stream of income to the retired worker. But at his death, or the death of his widow, the benefit simply ends. That is not the case with 401(k)s, in which any remaining money can be bequeathed to heirs. Nor, apparently, would it be the case with the proposed personal Social Security accounts, which would be the property of the worker/retiree and part of his or her estate.

Another provision that can help the next generation will be Roth 401(k) plans, which employers will be able to offer beginning next year. Like Roth IRAs, they will be funded with a worker's after-tax dollars; similarly, withdrawals will be tax-free. But Roth 401(k)s will also allow much higher contributions than regular IRAs -- the same as those for other 401(k) plans -- thus allowing an end run around the income limits that make many well-to-do people ineligible for a Roth IRA.

The advantage for the next generation is that those affluent enough to let the money accumulate until they die will be able to name a child or grandchild as the beneficiary of the account. The child will be required to withdraw the money over his or her expected lifetime, receiving what is essentially a lifetime stream of tax-free income.

With this level of asset accumulation, the estate tax could present a problem, but that tax is repealed for 2010 and Republicans are hoping to make that change permanent.

Another factor that adds value for families in the upper part of the income scale is the extra benefit they get from tax deductions, deferrals and exclusions. When a family in the 10 percent bracket deducts or excludes a dollar, it saves a dime. When a family in the 33 or 35 percent bracket does the same, it saves 33 or 35 cents.

In effect, the government picks up the tab for about a third of the wealthy family's "ownership" ante, compared with 10 to 25 percent of it for a low- to moderate-income family.

Taxes later on may be correspondingly higher for the wealthy family, assuming its income remains high. But for the family that is having trouble meeting living expenses, the challenge arises at the beginning, not the end: The initial ante, subsidized though it may be, can be a stumbling block. There are just too many competing daily demands on their income.

In fact, many workers fail even to enroll in a 401(k) plan when it is offered, and employers are struggling to find strategies that will attract them.

Besides the pay-to-play aspect of the Ownership Society, there is the risk factor.

It has been noted that just as the move from a traditional pension to a 401(k) plan shifts the investment risk to the employee, so personal Social Security accounts would move risk to the worker. And, of course, 529 plans, Coverdells, even health savings accounts (see story, Page F1) may still involve risk.

But, like tax deductions, risk doesn't mean the same thing at all income levels. It may also be that lower-income workers, constrained by their own finances or government rules on the amount they can invest, will be forced to take more risk or face the certainty of seeing their ownership accounts fall short of their goals or needs.

Greater risk can produce greater reward, but it doesn't necessarily do so.

A study released last week by the Employee Benefit Research Institute in Washington found that 15 percent of retirees ages 64 to 74 lost half or more of their total wealth between 1992 and 2002, and 30 percent lost half or more of their financial wealth. On the other hand, more than half of the retirees sampled saw their total wealth rise by more than 50 percent during those years.

The study found that white men, married couples and the better educated did best at managing their wealth.

One of the major economic trends of the past decade in this country has been the widening gap between the well-to-do and the rest of society.

Advocates of the Ownership Society argue that these programs have the potential to improve this picture by enabling low- and moderate-income Americans to save and invest and build wealth as they never have before.

Clearly, that potential is there -- for some. The EBRI study found that every demographic group, including low-income people and non-whites, had members who were managing their wealth well. And the people studied did not have a lifetime to accumulate wealth in 401(k) or other personal savings and investment vehicles, which began to become widespread only about 20 years ago.

But will enough of today's workers take advantage of these various vehicles to make a real difference? Most families, if they are honest with themselves, would admit that they could save more. They could eliminate vacations, drive an old car, eat out less frequently or go to fewer movies. But for those who are not willing to do that -- if they find themselves in poverty in old age, will critics say that's what they deserve?

The better-off are already taking advantage of the benefits of ownership, and if they make full use of all the intergenerational strategies that are now allowed, today's parents may be able not only to ensure themselves of much greater wealth for their remaining years but also to lock in wealth's advantages for their children and grandchildren.

5) Mike Allen and Jim VandeHei, "Social Security Push To Tap The GOP Faithful," *The Washington Post*, 1/14/05

President Bush plans to reactivate his reelection campaign's network of donors and activists to build pressure on lawmakers to allow workers to invest part of their Social Security taxes in the stock market, according to Republican strategists.

White House allies are launching a market-research project to figure out how to sell the plan in the most comprehensible and appealing way, and Republican marketing and public-relations gurus are building teams of consultants to promote it, the strategists said.

The campaign will use Bush's campaign-honed techniques of mass repetition, never deviating from the script and using the politics of fear to build support -- contending that a Social Security financial crisis is imminent when even Republican figures show it is decades away.

Bush aides said that in addition to mobilizing the Republican faithful and tapping the power of business, they plan to target minority voters who have not been able to afford to save and might be open to the argument that the president's plan would turn them into investors. The campaign will also court younger voters, including many Democrats, who would potentially benefit the most from the change.

The president plans to ask Congress to allow younger Americans to put at least one-third of the 6.2 percent payroll tax into private accounts, which will offer a set number of investment options similar to the thrift savings plans provided to federal workers. The administration has also signaled that it will propose changing the formula that sets initial Social Security benefit levels, cutting promised benefits by nearly a third in the coming decades.

With resistance hardening among congressional Republicans, the White House is escalating efforts to get Social Security restructured this year. There will be campaign-style events to win support and precision targeting of districts where lawmakers could face reelection difficulties. As Republicans signaled earlier, they have begun hard-hitting television ads to discredit opponents and prop up the Bush plan.

The same architects of Bush's political victories will be masterminding the new campaign, led by political strategists Karl Rove at the White House and Ken Mehlman at the Republican National Committee.

Bush set the tone for campaign-style lobbying earlier this week with a speech promoting his plan. Yesterday, during an appearance at Catholic University, Vice President Cheney sought to counter opponents' arguments about the risks of the plan, saying that limiting investment options should keep the accounts safe, while harnessing the power of the stock market should provide a far higher rate of return than Social Security reserves now receive.

"Young workers who elect personal accounts can expect to receive a far higher rate of return on their money than the current system could ever afford to pay them," Cheney told an audience of college students and administrators.

This morning, White House budget director Joshua B. Bolten will begin courting business on the issue with a speech at the U.S. Chamber of Commerce. And that is all before Bush takes the oath of office for a second term on Thursday and delivers his State of the Union address on Feb. 2.

Mehlman, who was the Bush-Cheney campaign manager and is the RNC's incoming chairman, said the campaign apparatus -- from a national database of 7.5 million e-mail activists, 1.6 million volunteers and hundreds of thousands of neighborhood precinct captains -- will be used to build congressional support for Bush's plans, starting with Social Security.

"There are a lot of tools we used in the '04 campaign, from regional media to research to rapid response to having surrogates on television," he said. "That whole effort will be focused on the legislative agenda."

Democrats, scrambling to organize in the face of a multimillion-dollar juggernaut, have yet to settle on any particular counterargument but said they believe Bush's rollout of the idea has been rocky and new details will give them more ammunition.

"When they put their plan on paper, the numbers will not add up," said Rep. Robert C. "Bobby" Scott (D-Va.). "All these plans will cost more than just coming up with the money to fix the present system. They can spin them and spin them, but that will not change."

Mehlman called the struggle over Social Security "a tremendous opportunity to reach out to African Americans, Latino Americans and others who don't yet have full access to the American dream."

"People who can't save can actually earn some compound interest," he said. "Having the debate helps you build the party."

In addition to their own efforts, White House and RNC officials are working closely with the same outside groups that helped Bush win reelection in 2004, especially Progress for America, a political organization with close ties to Rove. RNC officials have privately told top congressional aides they will work with Progress for America and others to provide political cover through television ads supporting the Bush position and condemning those who oppose it. To coincide with Bush's new drive, Progress for America is running a television ad on Fox and CNN that compares Bush to Franklin Roosevelt, the father of Social Security.

The group also phoned or e-mailed Republicans, culled from its list of more than 1 million supporters, to enlist their help in selling the Bush plan, either by donating money or talking up the plan to neighbors. Brian McCabe, a spokesman for the group, said it is applying the lessons it learned electing a president to selling a public policy.

One lesson was "realizing the importance of getting information in front of a lot of people," he said. "When it comes to Social Security, for instance, few know even the basic facts."

Once the debate intensifies, Progress for America and other pro-Bush groups such as the National Association of Manufacturers plan to target individual congressional members with the precision of an election campaign.

"We have through CNN and Fox painted with broad brushes," McCabe said. "Over time, we will take our messages inside states and communicate with individual members."

DEMOCRATS AND LIBERALS ON SOCIAL SECURITY in LATE 1990s

Senators:

Sen. Harry Reid (D-NV): "[M]ost Of Us Have No Problem With Taking A Small Amount Of The Social Security Proceeds And Putting It Into The Private Sector." (Fox's "Fox News Sunday," 2/14/99)

- **Sen. Harry Reid (D-NV): "We're Visiting Chile Because It Is Doing Interesting Things In Social Security And Other Parts Of Its Free Market System."** (Tony Batt, "Reid To Embark On South America Trip," *Las Vegas Review-Journal*, 3/30/99)

Sen. Dick Durbin (D-IL): "Our Obligations Are To Make Sure That Social Security Is Fiscally Sound For Many Decades To Come, And To Take On The Challenge Of Making Sure Medicare Is Protected." (CNN's "Late Edition," 7/4/99)

- **Sen. Dick Durbin (D-IL) Press Release: "Durbin Said Due To The Increasing Number Of 'Baby Boomers' Reaching Retirement Age, Social Security Will Be Unable To Pay Out Full Benefits … But The Sooner Congress Acts To Avert This Crisis The Easier And Less Painful It Will Be."** (Sen. Dick Durbin, "Reforming Social Security," Press Release, 9/15/98)

Sen. Chuck Schumer (D-NY): "We Have To Move On Now, And Start Fixing Social Security And Preserving It And Reining In The HMOS And Making Our Schools Better." (Fox's "Special Report," 2/12/99)

Sen. Carl Levin (D-MI): President Clinton's "Budget Focuses On The Right Priorities For The Nation – Education, Health Care, Child Care And The Strengthening And Protecting Of Social Security." (Melanie Eversley, "Budget Proposal Has Some Good News For Michigan," *Detroit Free Press*, 2/2/99)

- **Sen. Carl Levin (D-MI): "[President Clinton] Has Got Great Leadership Qualities On Important Issues That People Care About. He's Shown An Ability To Focus … On Saving Social Security And On Education And In Guaranteeing Health Care."** (PBS' "The NewsHour With Jim Lehrer," 2/12/99)

Sen. Byron Dorgan (D-ND): "Fixing Social Security Is An Urgent Priority. It Ought To Be At The Top Of Both Parties' Agendas." (Sen. Byron Dorgan, "Fixing Social Security Must Top Both Parties' Agendas," *Roll Call,* 12/6/99)

- **Sen. Byron Dorgan (D-ND): "The Potential [Social Security] Crisis Should Be Viewed As An Enormous Success, Because It Means That We Are Living Longer And Healthier Lives."** (Betty Mills, Op-Ed, "What Would You Do About Social Security?" *Bismarck Tribune*, 8/5/98)

- **Sen. Byron Dorgan (D-ND) Press Release: "This Report [By The Center On Budget And Policy Priorities] Provides Powerful And Convincing Evidence Of The Need To Save Social Security First."** (Sen. Byron Dorgan, "Dorgan Says New Report Provides Powerful Evidence Of Need To Save Social Security First," Press Release, 7/24/98)

Sen. Ted Kennedy (D-MA): "The President Has It Right And It's A Position That I Think Virtually All The Democrats Support In The Senate. Protect Social Security …" (ABC's "This Week," 7/11/99)

- **Sen. Ted Kennedy (D-MA): "I'll Tell You Exactly What I'd Do. I Would Lift The $65,000 Cap, Let It Go Right Up To The Top Of -- For Payment For Individuals And Then Cut The Payroll Tax For Every American That Pays It And That Would Be Significant -- That Would Be A Significant Reduction For Working Families."** (CNN's "Evans, Novak, Hunt & Shields," 6/27/98)

Sen. Jay Rockefeller (D-WV): "West Virginia Has The Oldest Population Of Any State, So I Share Completely The President's Commitment To Working Quickly To Strengthen Social Security …" (Sen. Jay Rockefeller, Rockefeller Reacts To State Of The Union Address," Press Release, 1/19/99)

Sen. Kent Conrad (D-ND): "I Was At The Social Security Summit At The White House, Along With 40 Of My Colleagues, Republicans And Democrats. And There Was Virtual Unanimity Of Opinion That We Simply Have To Get A Higher Return From The Social Security Investments." (Fox News' "Special Report," 1/20/99)

House Members:

Rep. Sander Levin (D-MI): "People Can See, I Think, A [Social Security] Crisis Where There Immediate Family Is Affected Even If Not Immediately … This Is Something That Affects Almost Everybody's Immediate Family." (Richard A. Ryan, "Social Security Reform Stalls," *The Detroit News*, 2/2/02)

- **Rep. Sander Levin (D-MI): "Social Security Reform Remains Very Much On The Minds Of People, Nothing Will Change That."** (JoAnn Kelly, "Constituent Concerns About Clinton Scandal May Derail Hill Action On Substantive Issues," *The Hill,* 9/9/98)

Rep. Charles Rangel (D-NY): "I Am One Democrat That Truly Believes That Democrats Will Not Benefit By Doing Nothing On Social Security." (Rep. Charles Rangel, Press Conference, 1/21/99)

Rep. Earl Pomeroy (D-ND): "This Investment Of The Trust Fund In Equities Would Bring Social Security Into Line With The Best Practice Of Both Private And Public Sector Pension Plans." (Rep. Earl Pomeroy, Committee On Commerce, U.S. House Of Representatives, Testimony, 2/25/99)

Rep. Edward J. Markey (D-MA): "I Am An Advocate For Investing A Portion Of The Surplus In The Private Sector …" (Rep. Edward J. Markey, Committee On Commerce, U.S. House Of Representatives, Testimony, 2/25/99)

Rep. Jerrold Nadler (D-NY): "[I]t's A Way Of Getting More Money – A Higher Return On The Trust Fund, And Is A Prudent And Good Thing To Do." (Rep. Jerrold Nadler, Press Conference, 1/21/99)

Former Rep. Martin Frost (D-TX), Chairman Of The Democratic Caucus: Called Clinton's Plan "A Starting Point." (Carl P. Leubsdorf, "Clinton Stresses Social Security," *The Dallas Morning News*, 1/20/99)

Former Rep. Dick Gephardt (D-MO): "Why Should Social Security Recipients Be Disadvantaged By Not Getting To Be Able To Have Higher Returns Out Of The Stock Market?" (Rep. Dick Gephardt, Press Conference, 1/21/99)

- **Former Rep. Dick Gephardt (D-MO): "The President's Plan To Save Social Security Well Into The Next Century Is An Historic Step."** (Rep. Dick Gephardt, Press Release, 1/19/99)

President Bill Clinton:

President Clinton: "[F]irst, And Above All, We Must Save Social Security For The 21st Century." (President Bill Clinton, State Of The Union, 1/19/99)

President Clinton: "[Investing] Will Earn A Higher Return And Keep Social Security Sound For 55 Years." (President Bill Clinton, State Of The Union, 1/19/99)

President Clinton: "Now Is The Time To Strengthen Social Security For The Future. … We Can And Must Accomplish This Critical Goal For The American People." (The White House, "Statement On Congressional Inaction On Legislation To Strengthen Social Security," Press Release, 4/23/99)

President Clinton: "We Have An Obligation To Ensure That Social Security Is Safe And Strong Not Only For Today's Seniors But For Our Children And Future Generations As Well." (The White House, "Statement On Congressional Inaction On Legislation To Strengthen Social Security," Press Release, 4/23/99)

President Clinton: "[W]hat I Believe We Should Do Is To Invest A Modest Amount Of This In The Private Sector, The Way Every Other Retirement Plan Does. The Arizona State Retirement Plan Does; Every Municipal Retirement Plan Does; Every Private Plan Does." (President Bill Clinton, Remarks To The Citizens Of Tucson On Medicare And Social Security, Tucson, AZ, 2/25/99)

President Clinton: "I Don't Want To See The Government Having Too Much Influence Over The Stock Market, So I Proposed To Set Up A Totally Independent Board – Like Every Other Retirement Plan Has – That No Politician Can Have Any Influence Over … " (President Bill Clinton, Remarks To The Citizens Of Tucson On Medicare And Social Security, Tucson, AZ, 2/25/99)

President Clinton: "I Proposed To … To Limit The Aggregate Amount Of Our Investments To About 4 Percent. It Will Never Get Over 4 Percent In The Next 20 Years." (President Bill Clinton, Remarks To The Citizens Of Tucson On Medicare And Social Security, Tucson, AZ, 2/25/99)

President Clinton: "[P]eople … In The Investment Community … Said They Thought I Was Right And They Hoped That We Wouldn't Let Initial Criticism Stop Us From Offering A Plan Which Would Demonstrate To The American People That You Could Run This Investment Just Like Any Other Public Pension Investment Is Run. And I Am Confident That We Can Do That." (President Bill Clinton, Remarks To AARP National Legislative Council, Washington, DC, 2/3/99)

President Clinton: "Thanks To Medical Advances, By The Middle Of The Next Century, The Average American Will Live To Be 82 -- Six Years Longer Than Today. These Extra Years Of Life Are A Great Gift, But They Do Present A Problem For Social Security, For Medicare, For How We Will Manage The Whole Nature Of Our Society." (President Bill Clinton, Remarks In Social Security-Medicare Roundtable, The White House, Washington, DC, 1/27/99)

President Clinton: "Here We've Identified It And There Are Obvious Differences About What Should Be Done To Fix Social Security For The 21st Century. But We All Know That There Are Basically Only Three Options: We Can Raise Taxes Again, Which No One Wants To Do Because The Payroll Tax Is Regressive. Over Half The American People Who Are Working Pay More Payroll Tax Than Income Tax Today. We Can Cut Benefits … Or We Can Work Together To Try To Find Some Way To Increase The Rate Of Return." (President Bill Clinton, Remarks At Social Security And Y2K Event, Washington, DC, 12/28/98)

President Clinton: "You Have The Power To Shape A Congress That Will Keep Our Social Security System As Strong For Our Children As It Was For Our Parents. You Have The Power To Elect A Congress Pledged To Save Social Security First." (President Bill Clinton, Radio Address, 10/24/98)

President Clinton: "We Must Act Now Across Party Lines To Make Social Security As Strong For Our Children As It Has Been For Our Parents." (President Bill Clinton, Radio Address, 9/19/98)

President Clinton: "When All The Baby Boomers Retire There Will Only Be About Two People Working For Every Person Drawing Social Security. We Can Make Moderate Changes Now And Make Sure That Those Who Retire Will Be Able To Retire In Dignity, Without Imposing On, Burdening Or Lowering The Standard Of Living Of Their Children And Grandchildren." (President Bill Clinton, Radio Address, 9/19/98)

President Clinton: "[E]ven After You Take Account Of The Stock Market Going Down And Maybe Staying Down For A Few Years, Shouldn't We Consider Investing Some Of This Money, Because, Otherwise, We'll Have To Either Cut

Benefits Or Raise Taxes To Cover Them, If We Can't Raise The Rate Of Return." (President Bill Clinton, Remarks Via Satellite To The Regional Congressional Social Security Forums, Albuquerque, NM, 7/27/98)

President Clinton: "By 2030, There Will Be Only Two People Working For Every One Person Drawing Social Security. The Average Rate Of Return On The Investment Any Worker Makes On Social Security Will Go Down As More People Live Longer And More People Are In The Retirement Funds, Because Government Securities, While They're 100 Percent Certain, Don't Have A Particularly High Rate Of Return, Like Any Kind Of 100 Percent Certain Investment." (President Bill Clinton, Remarks Via Satellite To The Regional Congressional Social Security Forums, Albuquerque, NM, 7/27/98)

President Clinton: "We Know The Problem. We Know That If We Act Now It Will Be Easier And Less Painful Than If We Wait Until Later. I Don't Think Any Of You Want To See America In A Situation Where We Have To Cut Benefits 25 Percent, Or Raise Inherently Regressive Payroll Taxes 25 Percent, To Deal With The Challenge Of The Future And Our Obligations To Our Seniors." (President Bill Clinton, Remarks To The Concord Coalition/AARP Social Security Forum, Albuquerque, NM, 7/27/98)

President Clinton: "Once More I Will Insist That We Save Social Security First." (President Bill Clinton, Remarks On The Report Of The Social Security And Medicare Trustees, The White House, Washington, DC, 4/28/98)

President Clinton: "I Do Agree With Those Of You Who Say It Ought To Be Possible For Us To Save Social Security Without A Payroll Tax Increase." (President Bill Clinton, Remarks Via Satellite In Regional Social Security Forums, Kansas City, MO, 4/7/98)

President Clinton: "But Because A Higher Percentage Of Our People Will Be Both Older And Retired, Perhaps Our Greatest Opportunity And Our Greatest Obligation At This Moment Is To Save Social Security." (President Bill Clinton, Remarks To A National Forum On Social Security, Kansas City, MO, 4/7/98)

President Clinton: "And Above All, To My Fellow Baby Boomers, Let Me Say That None Of Us Wants Our Own Retirement To Be A Burden To Our Children And To Their Efforts To Raise Our Grandchildren. It Would Be Unconscionable If We Failed To Act, And Act Now, As One Nation Renewing The Ties That Bind Us Across The Generations." (President Bill Clinton, Remarks To A National Forum On Social Security, Kansas City, MO, 4/7/98)

President Clinton: "Now, If We Don't Act, The Social Security Trust Fund Will Be Depleted By The Year 2029, And Payroll Contributions Will Only Cover 75 Percent Of Benefits." (President Bill Clinton, Radio Address, 3/21/98)

President Clinton: "It May Seem A Long Way Away From The Time You're Now – Where You Are Until You Will Need Retirement. It May Seem A Long Way Away Before Most Of Your Parents Need Retirement. But It Isn't. And Great Societies Plan Over Long Periods Of Time So That Individual Lives Can Flower And Take Root And Take Form. And That Is What We Have To Do Today." (President Bill Clinton, Remarks At Georgetown University On Social Security, Washington, DC, 2/9/98)

President Clinton: "So That All Of These Achievements – The Economic Achievements – Our Increasing Social Coherence And Cohesion, Our Increasing Efforts To Reduce Poverty Among Our Youngest Children – All Of Them Are Threatened By The Looming Fiscal Crisis In Social Security." (President Bill Clinton, Remarks At Georgetown University On Social Security, Washington, DC, 2/9/98)

President Clinton: "This Fiscal Crisis In Social Security Affects Every Generation." (President Bill Clinton, Remarks At Georgetown University On Social Security, Washington, DC, 2/9/98)

President Clinton: "We Now Know That The Social Security Trust Fund Is Fine For Another Few Decades. But If It Gets In Trouble And We Don't Deal With It, Then It Not Only Affects The Generation Of The Baby Boomers And Whether They'll Have Enough To Live On When They Retire, It Raises The Question Of Whether They Will Have Enough To Live On By Unfairly Burdening Their Children And, Therefore, Unfairly Burdening Their Children's Ability To Raise Their Grandchildren. That Would Be Unconscionable …" (President Bill Clinton, Remarks At Georgetown University On Social Security, Washington, DC, 2/9/98)

President Clinton: "[I]f You Don't Do Anything, One Of Two Things Will Happen. Either It Will Go Broke And You Won't Ever Get It, Or If We Wait Too Long To Fix It, The Burden On Society … Of Taking Care Of Our Generation's Social Security Obligations Will Lower Your Income And Lower Your Ability To Take Care Of Your Children To A Degree That Most Of Us Who Are You Parents Think Would Be Horribly Wrong And Unfair To You And Unfair To The Future Prospects Of The United States." (President Bill Clinton, Remarks At Georgetown University On Social Security, Washington, DC, 2/9/98)

President Clinton: "[I]f Nothing Is Done By 2029, There Will Be A Deficit In The Social Security Trust Fund, Which Will Either Require… A Huge Tax Increase In The Payroll Tax Or Just About A 25 Percent Cut In Social Security Benefits." (President Bill Clinton, Remarks At Georgetown University On Social Security, Washington, DC, 2/9/98)

President Clinton: "If You Gave Them The Option Individually Or As A System To [Invest], That's Something I Think You Could Study. You Could Even – That's Something That Could Be Tested." (The White House, "Transcript Of Interview Of President Clinton By Tom Brokaw," Press Release, 7/16/96)

Right After Bill Clinton Was Elected President, *The Wall Street Journal* Asked Him If Would Entertain "Raising The Retirement Age For Social Security Benefits;" Clinton Responded, "I Think It's Something We Ought To Look At, I Sure Do." WSJ: "Some of your supporters at the Progressive Policy Institute said that there have to be some other deficit-cutting schemes over the longer haul. Let's run a couple by you just to see if you would entertain them: raising the retirement age for Social Security benefits." Mr. Clinton: "I think it's something we ought to look at, I sure do." ("Clinton Previews His Administration," *The Wall Street Journal,* 12/18/92)

<u>Hillary Clinton</u>:

Hillary Clinton: "Clearly, It's In All Our Interests To Preserve And Strengthen Social Security Into The Next Century. And If We Don't Want To Burden Our Children And Grandchildren, If We Want To Make Sure Social Security Remains Solvent Well Into The 21st Century, We Must Make Bold Decisions Now." (Hillary Clinton, Op-Ed, "Bold Decisions Needed For Social Security," *Chattanooga Times Free Press*, 2/21/99)

Hillary Clinton: "The President [Clinton] Believes That The Best Way To Keep The Promise Of Social Security Rock-Solid Is To Avoid Drastic Cuts In Benefits, Not To Raise Payroll Tax Rates And Not To Drain Resources From The System In The Name Of Saving It." (Hillary Clinton, Op-Ed, "Bold Decisions Needed For Social Security," *Chattanooga Times Free Press*, 2/21/99)

Hillary Clinton: "It's Very Important That We Now Take A Look At This System, And That's Why The President Has Proposed A Bold New Framework To Preserve Social Security For Generations To Come." (Remarks By Hillary Clinton, White House Event On Social Security, The White House, Washington D.C., 2/17/99)

Hillary Clinton: "[O]ne Of The Most Critical Challenges Of Our Time [Is] Preserving And Strengthening Social Security For Future Generations." (Remarks By Hillary Clinton, White House Event On Social Security, The White House, Washington D.C., 2/17/99)

Hillary Clinton: "The Future Of Social Security Is, Without A Doubt, One Of The Most Important Issues Facing Our Country And Facing Women In America Today." (Eun-Kyung Kim, "Mrs. Clinton Outlines Impact Of Social Security On Women," *The Associated Press*, 1/23/99)

<u>Clinton Advisers And Third Parties:</u>

Vice President Al Gore: "[D]uring This Whole National Discussion, One Of The Single Most Important, Salient Facts That Jumped Out At Everybody Is That, Over Any 10-Year Period In American History, Returns On Equities Are Just Significantly Higher Than These Other Returns." (Vice President Al Gore, Press Conference, 1/27/99)

Rahm Emanuel: "I Think We Have Very Important Issues – The Most Primary Issue Will Be Social Security. And I Think Democrats Stand United On What We've Got To Do To Strengthen And Preserve It." (NBC's "Today Show," 10/19/98)

- **Rahm Emanuel: "Fixing And Saving And Strengthening Social Security" Will Be Top Priority For Clinton Administration.** (CNN's "Inside Politics," 10/16/98)

- **Rahm Emanuel: "I Think Senator Moynihan's Idea Is What [President Clinton's] Called For -- For People To Put Forward Ideas Of What We Have To Do For The Long-Term Solvency Of Social Security. And I Think That Idea -- The Proposal He Has Here Is Exactly The Type Of Discussion, National Discussion, The President Wants Over The Year."** (CNN's "Late Edition," 3/22/98)

Bruce Reed, White House Domestic Policy Adviser: "This [President Clinton's 1999 Social Security Proposal] Is The Most Ambitious Agenda The President Has Put Forward Since 1993." (Carl P. Leubsdorf, "Clinton Stresses Social Security," *The Dallas Morning News*, 1/20/99)

Gene Sperling, White House Economic Adviser: "Over A Long Period Of Time, There's Every Reason To Believe That People Will Get Higher Returns" If Government Invests Part Of Social Security Surplus. (CNN's "Morning News," 2/17/99)

- **Sperling: ''We Strongly Share The Concern That Such Investment Be Independent And Nonpolitical ... But We Feel That We Are Capable Of Doing This Wisely And Safely."** (Alice Ann Love, "Lawmaker Patient On Soc. Security," *The Associated Press,* 1/21/99)

- **Sperling: "We Can Use This Moment, When The Sun Is Shining, To Lift The Burden Off Future Generations."** ("President Wants To Use Surplus To Preserve Social Security System," *The Baltimore Sun*, 1/20/99)

- **Sperling: "Some Type Of Structure Like The Thrift Savings Plan" For Universal Savings Accounts.** (The White House, "Press Briefing By Senior Administration Officials," Press Release, 1/20/99)

Robert M. Ball, Former Social Security Commissioner Under Presidents Kennedy, Johnson And Nixon: "Social Security Has Been Handicapped Over The Years In Being Made To Invest In Low-Yield Government Bonds." (Larry Lipman, "Wall Street The Right Road To A More Stable Social Security?" *Palm Beach Post,* 1/24/99)

Al From, Chairman Democratic Leadership Council: "Would We Like To Wind Up With Individual Accounts As Part Of The Basic Social Security Program? The Answer Is Yes … But I Think He's Trying To Thread A Needle On Social Security." (Doyle McManus, "Clinton Aimed To Show GOP He Remains A Force," *Los Angeles Times,* 1/20/99)

John Rother, AARP'S Policy Director: "We're Only Talking Here About 15 Percent Of The Total Trust Fund Invested By Professionals On A Very Long-Term Horizon, So The Risk Seems Quite Low Indeed." (CNN's "The World Today," 1/20/99)

- **Rother: "It Really Is Big News, Big In Every Sense Of The Term … I Think He Does Have Something For Everyone. … For The General Public, He Is Saying: 'Look, We Can Do This Without Asking Too Much Of People In Terms Of Sacrifices.' Everything Else Will Look Like Castor Oil Compared To This."** (Robert A. Rankin, "A Bold Plan To Help Retirees," *The Philadelphia Inquirer*, 1/20/99)

- **Rother: "If We Could Do It In A Way That Could Protect Against Political Manipulation, Then It Seems Like It Would Be Worth Trying."** (Steve Kraske and Mark P. Couch, "Social Security Ideas Debated," *Kansas City Star*, 1/21/99)

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KEY THIRD PARTIES AND DEMOCRATS ON SOCIAL SECURITY

Executive Summary:

Opponents Of Strengthening Social Security Are Using Several Lines Of Attack:

- The President's plan "could add up to two trillion dollars in more debt" and "will take money out of the system."
- Opponents say, "let's not stick our kids with the bill."
- Opponents use terms like "privatizing the system" and "private accounts."
- "Social Security is strong now and in no danger of going broke."
- Many opponents say, "Social Security is not facing a crisis" and claim the White House has made this crisis up.
- Opponents accuse the Bush Administration of "crying wolf."
- Social Security "is being hijacked by Wall Street" and "the only people who benefit … are the special interests."
- Opponents warn "benefits would have to be cut almost immediately."

THIRD PARTIES

AARP:

AARP Ads:

- **"Passing The Buck Is One Thing. Passing 2 Trillion Bucks Is Another."** (AARP, Newspaper Ad In *The Washington Post,* 1/11/05)
- **"Let's Not Turn Social Security Into Social Insecurity."** (AARP, Newspaper Ad In *The Washington Post,* 1/11/05)
- **"While The Program Needs To Be Strengthened, Creating Private Accounts That Take Money Out Of Social Security Will Hurt All Generations And Could Add Up To Two Trillion Dollars In More Debt."** (AARP, Newspaper Ad In *The Washington Post,* 1/11/05)
- **"Let's Not Stick Our Kids With The Bill."** (AARP, Newspaper Ad In *The Washington Post,* 1/11/05)
- **"Winners And Losers Are Stock Market Terms. Do You Really Want Them To Become Retirement Terms?"** (AARP, "New AARP Ad Campaign Highlights Danger In Proposals For Private Accounts Carved Out Of Social Security," Press Release, 1/3/05)
- **"Another … Ad Depicts A Man And Woman In Their Early Forties Who Say, 'If We Feel Like Gambling, We'll Play The Slots…There Are Places In Retirement Planning For Risk. Social Security Is Not One Of Them.'"** (AARP, "New AARP Ad Campaign Highlights Danger In Proposals For Private Accounts Carved Out Of Social Security," Press Release, 1/3/05)

AARP President Marie Smith And CEO Bill Novelli: "While Social Security Is Strong Now And In No Danger Of Going Broke, It Is True That The Program Needs Some Changes So It Will Always Be Able To Pay Full Benefits For All Generations Of Americans-Today And Tomorrow." (President Marie Smith And CEO Bill Novelli, "Social Security: Where We Stand," http://www.aarp.org, Accessed 1/7/05)

AARP Dir. Of Federal Affairs David Certner: "The Idea Of Turning Social Security Into Private Accounts Or Privatizing The System Has Nothing To Do With Addressing The Issue Of Solvency." (CNN's "Inside Politics," 1/4/05)

AFL-CIO:

AFL-CIO President John Sweeney: "Social Security Needs To Be Preserved And Strengthened For Future Generations, But In The Rush To Revamp Social Security, We Cannot Lose Sight Of How Private Accounts Will Hurt Working Families." (Campaign For America's Future, News Conference, 12/16/04)

- **Sweeney: "Workers Deserve A Stronger System, Not Risky Schemes That Would Further Burden Their Already Strained Living Standards."** (Campaign For America's Future, News Conference, 12/16/04)

Campaign For America's Future:

Campaign For America's Future Co-Director Roger Hickey Said, "Social Security Is Not Facing A Crisis…" (Warren Vieth and Edwin Chen, "Social Security 'Crisis Is Now,' Bush Says In Pitch For Overhaul," Los Angeles Times, 12/17/04)

- **Hickey: "Most Americans Will Reject A Plan That Dismantles Social Security."** (Ron Hutcheson and James Kuhnhenn, "Bush offers details on privately investing Social Security taxes," *Knight Ridder*, 12/17/04)

National Committee To Preserve Social Security And Medicare:

President And Former Rep. Barbara Kennelly (D-CT): "The Media Will Write 'Crisis' Every Time, And Our Political Leaders Will Do The Same … But We Don't Do A Good Job Of Saying, 'The [Social Security] System Is Not Broke.'" (Gerald Ensley, "Don't Count Social Security Out Yet," *The Tallahassee Democrat*, 10/15/04)

- **Kennelly's Organization's Website Lists As A "Myth" The Idea That "There Will Be No Social Security For Young People" Is A Myth.** (NCPSSM Website, http://www.ncpssm.org/news/archive/myths/, Accessed 1/9/05)

Center For American Progress:

"Even The Administration's Own Figures Show That Social Security Is Not Facing A Crisis. Social Security Can Pay Full Benefits Until 2042 If You Believe The Social Security Administration Or Until 2053 If You Believe The Congressional Budget Office." (Center For American Progress Website, http://www.americanprogress.org, 12/15/04, Accessed 1/10/05)

SENATE

Sen. Harry Reid (D-NV): "This White House Had Made An Art Of Creating Crisis Where A Crisis Does Not Exist." (Jim VandeHei, "Bush Paints His Goals As 'Crises'," *The Washington Post,* 1/8/05)

- **Reid: "The Most Successful Social Program In The History Of The World Is Being Hijacked By Wall Street. … They Are Trying To Destroy Social Security** (NBC's "Meet The Press," 12/6/04)

- **Reid: "[T]hey're Crying Wolf A Little Too Regularly Here. There Is Not An Emergency On Social Security."** (NBC's "Meet The Press," 12/6/04)

- **Reid: "Privatizing Social Security Will Destroy Social Security As We Know It."** (Jed Graham, "Bush Focuses On Social Security, But Reforms Will Be A Struggle," *Investor's Business Daily*, 12/1/04)

Sen. Max Baucus (D-MT): "Social Security Trust Fund Is In Pretty Good Shape Today And We Should Not Embark Upon Risky, Dangerous Schemes Which Will, In Fact, Undermine Social Security." (Sen. Baucus, Press Conference, 9/22/04)

- **Baucus: "Privatization Proposals, Will Actually Result In Less Income For Beneficiaries."** (Sen. Baucus, Press Conference, 9/22/04)

Sen. Kent Conrad (D-ND) Calls Borrowing To Pay For "Long-Term Social Security Challenges … An Absolute Nonstarter." (Darryl Levings, "The Buzz," *The Kansas City Star*, 12/31/04)

Sen. Jay Rockefeller (D-WV) Called Social Security One Of "The Two Most Effective Government Programs We Have" And Called For Rolling Back The Tax Cuts On The Wealthiest 1 Percent To Make Social Security Solid For Next 75 Years. (Chandra Broadwater, "Jay Argues Against Changes Senator Meets With Seniors, Blasts Increase In Medicare Premiums," *Charleston Gazette* [West Virginia], 9/13/04)

Sen. Blanche Lincoln (D-AR): "[President Bush] Still Hasn't Told Us Where He's Going To Come Up With The 2 To $4 Trillion That That Takes Out Of The Current System." (Sen. Blanche Lincoln [D-AR], NPR's "Weekend All Things Considered," 11/7/04)

Sen. Ted Kennedy (D-MA): Administration "Brings Fear … For Future Of Social Security." (Sen. Kennedy, Democratic National Convention, Boston, MA, 7/27/04)

Sen. Dick Durbin (D-IL): "Message No. 1 To Americans: When It Comes To Social Security, The Sky Is Not Falling … There Are People In This Administration Who Have An Agenda That Is Not Friendly To Social Security." (Janet Hook, "Battle Lines Form On Social Security," *Los Angeles Times*, 12/19/04)

- **Durbin: We Should Not "Privatize Social Security At The Expense Of The Stability Of The Social Security System."** Mike Robinson, "Sen. Durbin Says He Has Votes To Become Democratic Whip," *The Associated Press*, 11/5/04)

Sen. Chuck Schumer (D-NY): "Benefits Would Have To Be Cut Almost Immediately ... Or You Would Have To Totally Revise The System So The Young People Here Would Never Get It. I'm Not Going To Fall For One Of These Plans That Would Basically Destroy Social Security." (William F. Hammond Jr, "Second Debate, Schumer Plays Role Of Front-Runner," *The New York Sun*, 10/20/04)

HOUSE

Rep. Nancy Pelosi (D-CA): "All Of The Republican Ideas We've Heard Would Take Money Out Of The Social Security Trust Fund, Undermining The Only Safe And Secure Source Of Retirement Income For Millions Of Americans." (Nancy Pelosi, News Conference, Washington, D.C., 1/6/05)

- **Pelosi: "And The President Has Said That In Our Meeting With Him At The White House. He Says, 'It Isn't A Crisis, It Is A Problem. I Want To Deal With It Before It Becomes A Crisis.' But He Is Creating A Crisis In The Meantime."** (Nancy Pelosi, News Conference, Washington, D.C., 1/6/05)

- **Pelosi: Election Was "Was Not A Referendum On Privatizing Social Security."** (Rep. Nancy Pelosi, Press Conference, 11/3/04)

Rep. Steny Hoyer (D-MD): "The President Said He Wants To Work In A Bipartisan Fashion … As You Have Heard Me Say, There Are Very Few Indications In The Last Four Years That We (Lawmakers) Will Work In A Bipartisan Fashion." (Christian Bourge, "Analysis: Congress Begins Anew, Sort Of," *United Press International,* 1/4/05)

Rep. Bob Menendez (D-NJ): Democrats "Are Concerned About Taking That Generation Of Americans That Has Been Contributing To Social Security And Yanking Their Security Away From Them." (CNN's "Crossfire," 9/1/04)

Rep. Charles Rangel (D-NY): "The Facts Prove That There Is No Imminent Crisis With Social Security. The Nonpartisan Congressional Budget Office Says That Social Security Can Pay Full Benefits For Nearly 50 Years. So, There Is No Crisis. But There Is A Challenge Because People Are Living Longer." (Rep. Charles Rangel, Remarks, "Democratic Response To The President's Weekly Radio Address," 1/8/05)

- **Rangel: "Those Who Support Private Accounts Claim That A Miracle Will Occur In The Stock Market And These Benefit Cuts Will Be Made Up. That's Just Not True."** (Rep. Charles Rangel, Remarks, "Democratic Response To The President's Weekly Radio Address," 1/8/05)

Rep. Benjamin Cardin (D-MD): "The Problem Is Though That The President's Proposal Will Take Money Out Of The System." (Paul Kangas, "Nightly Business Report, *CEOWire*, 10/11/04)

Rep. Rahm Emanuel (D-IL): "The Real Face Of The Republicans' Social Security 'Reform' Agenda: First, Scare. Second, Cut. Third, Privatize. Now That's A Reform Agenda." (Jonathan Weisman and Jim VandeHei, "GOP Is Divided On Social Security Push," *The Washington Post,* 1/7/05)

Appendix One

PowerPoint Presentation

Social Security

"Social Security is a defining American promise… Too many times, Social Security has been demagogued to frighten the elderly for political advantage… The days of delaying, dividing and demagoguing are over… this generation and this President will save Social Security…"

– George W. Bush, May 15, 2000

Why We Must Strengthen Social Security

→Social Security was originally designed in 1935 for a different world.

- Most women did not work outside the home.
- The average American working man did not live long enough to collect retirement benefits.
- The retirees of 2035 need a system that has been modernized to reflect 21st century realities.

→We must strengthen Social Security for our children and grandchildren.

→While benefits for today's seniors are secure, Social Security cannot afford to pay benefits promised to younger Americans.

How Social Security Now Works

Current Payroll Tax Rates

Employee	6.2% =	5.3% +	0.9%
	Social Security Payroll Tax Rate	Old-Age and Survivors' Insurance (OASI)	Disability Insurance (DI)
Employer	6.2% =	5.3% +	0.9%
	Social Security Payroll Tax Rate	(OASI)	(DI)
Total:	12.4% =	10.6% +	1.8%
	Social Security Payroll Tax Rate	(OASI)	(DI)
Self-Employed	12.4% =	10.6% +	1.8%
	(OASDI)	(OASI)	(DI)

The Wages Subject to Social Security Tax are <u>Capped</u>.

→ Current cap: $90,000

→ Wages above $90,000 annually are not subject to Social Security tax.

→ Amount adjusted each year in increments of $300 for increases in the average wage level.

What Types of Social Security Benefits Are Available?

→ Retired Worker Benefits

→ Spousal Benefits

→ Survivor Benefits

→ Dependent Benefits

→ Disability Benefits

How Are Your Retirement Benefits Calculated?

In 4 steps:

Step 1

SSA keeps track of wage history and converts your past earnings into a single number - Average Indexed Monthly Earnings (AIME).

→

Step 2

SSA uses a formula to convert your AIME into a monthly benefit.

→

Step 3

The monthly benefit amount is adjusted by whether you begin receiving it before or after Normal Retirement Age.

→

Step 4

After you begin drawing benefits, they are adjusted annually by a Cost of Living Allowance.

What is the Formula that Determines Your Benefit at Normal Retirement Age?

Now:

→ 90% of your first $627 of AIME, *plus*
→ 32% of your next $3,152 of AIME, *plus*
→ 15% of AIME over $3,779.

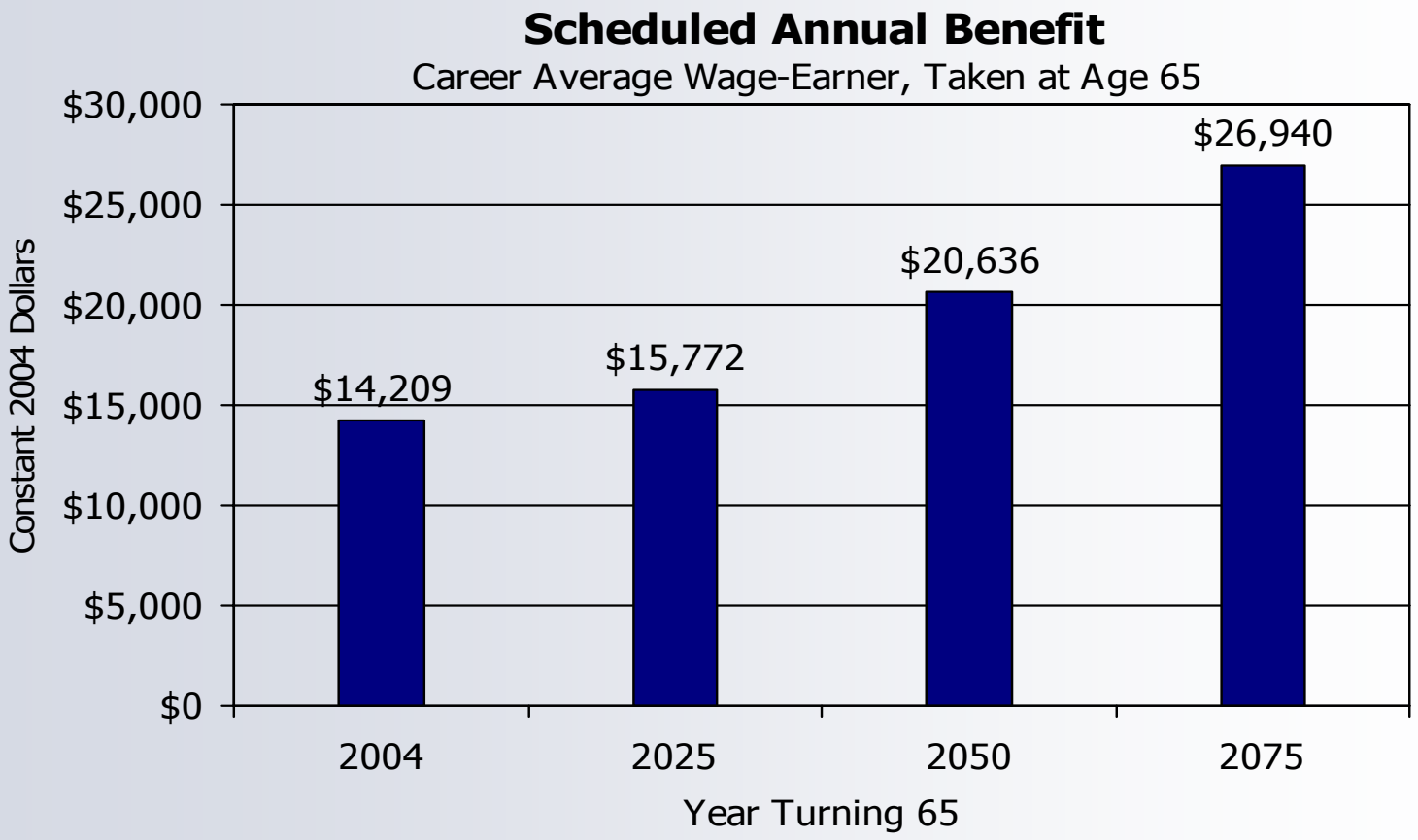
NOTE: In Social Security parlance, the $627 and $3,779 figures are called the "*bend points*" – the points at which different marginal rates start. The 90%, 32%, and 15% figures are called the *bend point factors.*

→ Bend points are indexed each year according to national wage growth. *The faster the economy grows, the bigger the benefits grow. This makes it hard to grow our way out of the problem.*

→ The formula is progressive, giving extra protection to low-earning individuals.

→ After an initial benefit is determined and collected, the beneficiary gets a cost-of-living-increase (COLA) each year based on CPI.

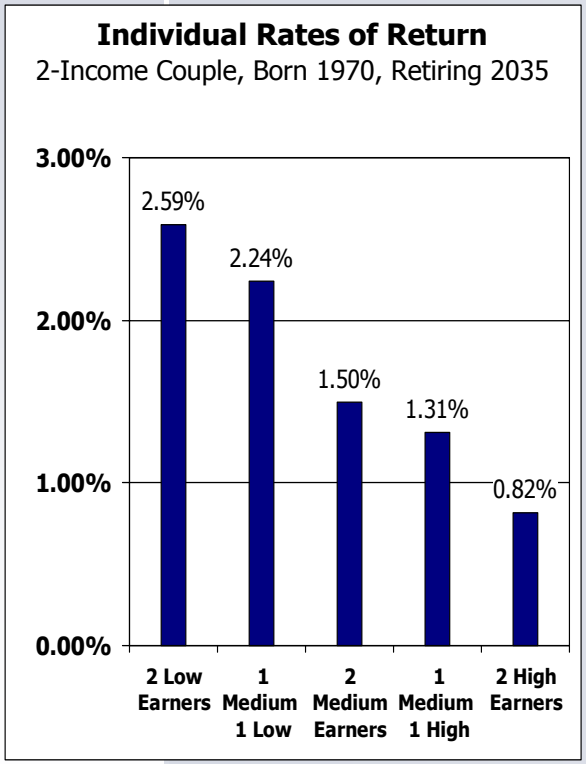
Benefit Levels*



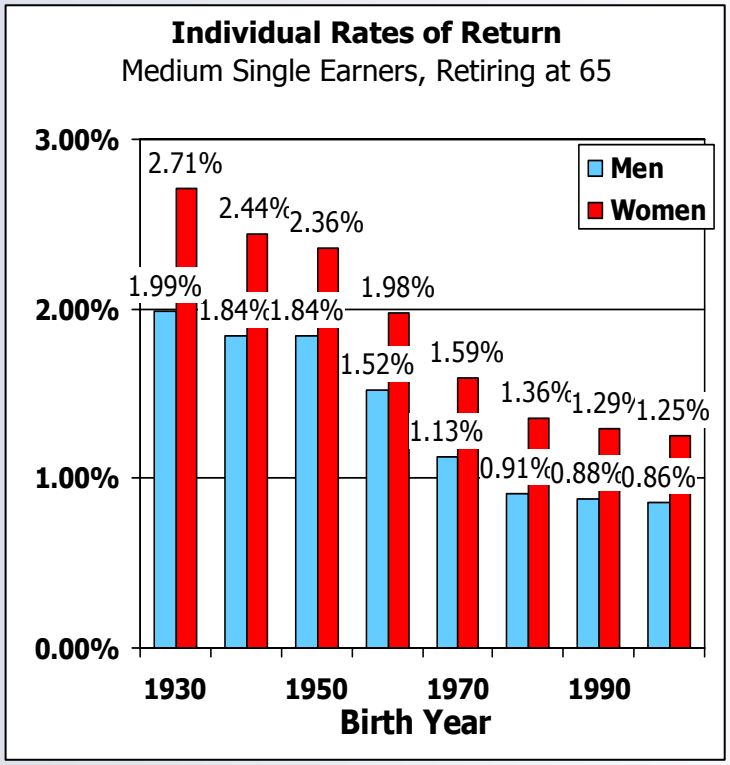
*Adjusted for inflation

Rates of Return for Benefits Payable Under Current Law

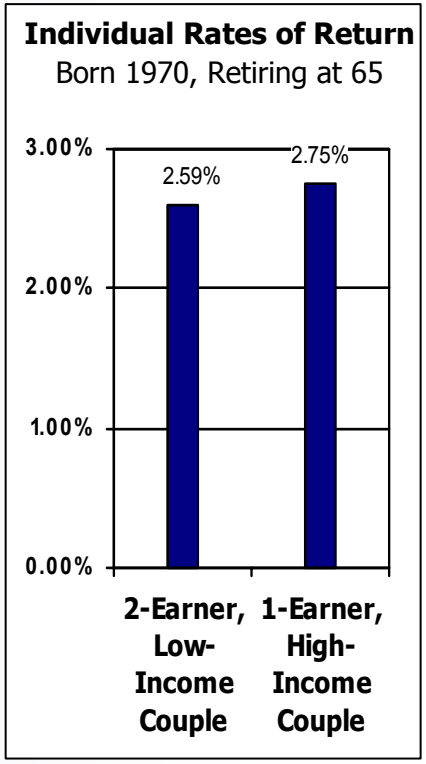
… By Wage Level



… By Birth Year



… By Marital Status



Demographics Drive the Mounting Costs of Social Security

→ In 1950, there were 16 workers paying into Social Security for every person receiving benefits.

16:1

→ Today, slightly more than 3 workers pay into Social Security for every person receiving benefits.

3.3:1

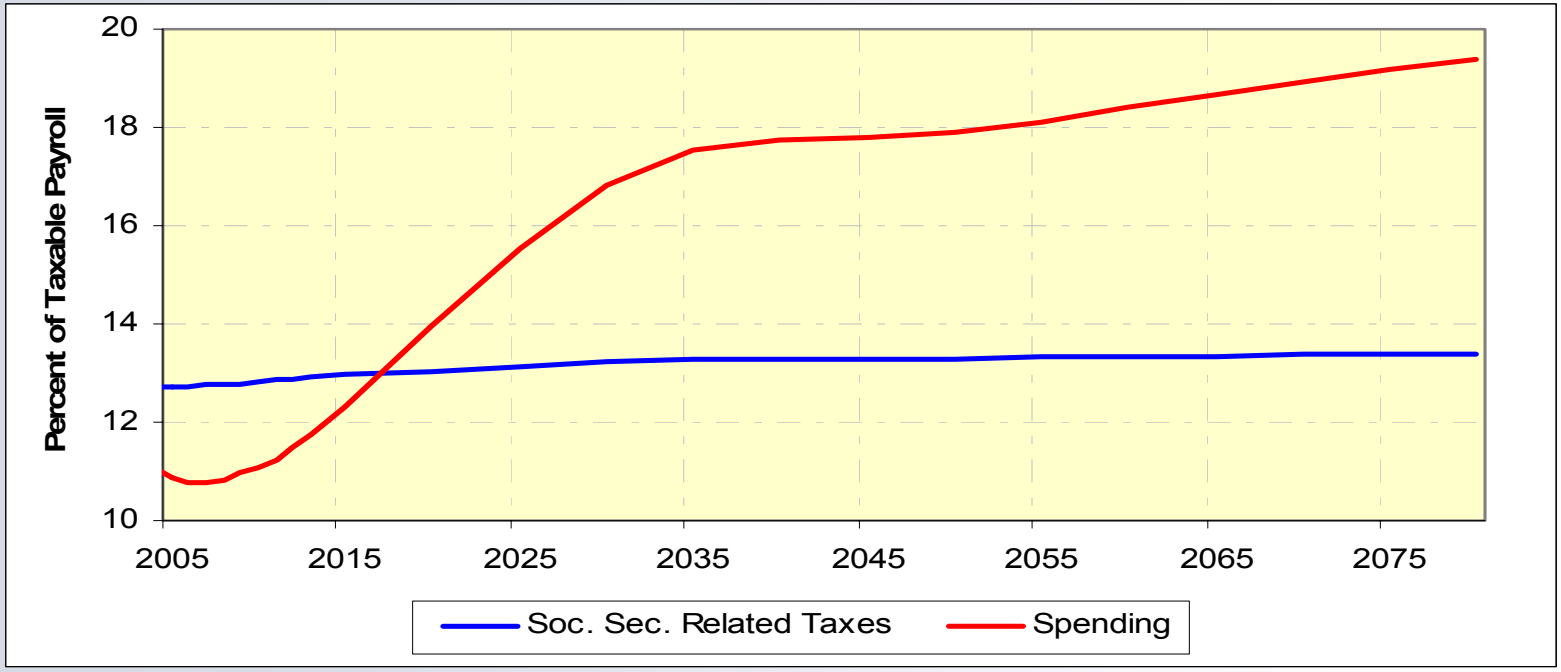
→ By the time today's young workers retire, there will be only 2 workers to support each person on Social Security.

2:1

Major Findings From the 2004 Trustees Report

- In 2018, the Social Security system will move from black to red as annual obligations begin to exceed annual program revenues.
- By 2042, the Social Security program will be insolvent.
- It is misleading to look at fixes to the system over a 75 year time period. The further out one looks in time, the bigger the deficits get.
- The current system has a total of $10.4 trillion in unfunded liability.

Social Security's Annual Costs Will Exceed Income in 2018, With Perpetually Increasing Deficits Thereafter



Social Security Annual Cash Income = Payroll taxation (12.4% of taxable wages) + Benefit taxation

The red line (spending) rises dramatically with the growth of the elderly population. The retirement of the baby boom generation accelerates the problem, and it continues to worsen. The blue line (taxes) is nearly flat because the payroll tax rate is constant. To fix Social Security, the lines depicting taxes and spending must come together and stay together. Spending cannot grow faster than taxes indefinitely.

Social Security Taxes Have Been Raised Repeatedly:

Year	Tax Rate (%)	Year	Tax Rate (%)
1937	2.00	1969	8.40
1950	3.00	1971	9.20
1954	4.00	1973	9.70
1957	4.50	1974	9.90
1959	5.00	1978	10.10
1960	6.00	1979	10.16
1962	6.25	1981	10.70
1963	7.25	1982	10.80
1966	7.70	1984	11.40
1967	7.80	1988	12.12
1968	7.60	1990	12.40

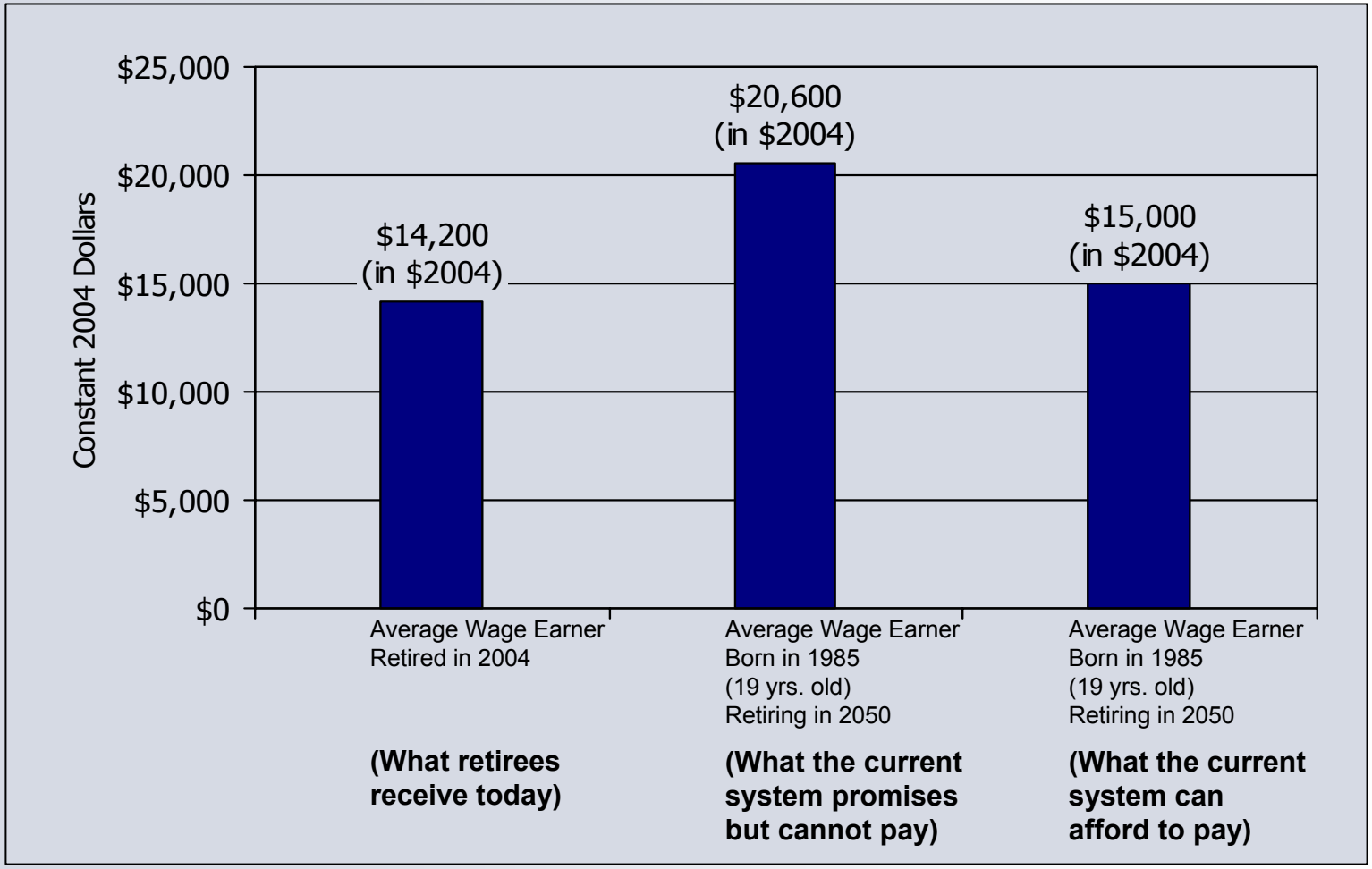
A temporary fix would likely require future generations to raise taxes again.

Note: These are only payroll tax rate increases. There have also been many increases in the payroll tax base.

Would Raising the Cap on Taxable Wages by Itself Fix the Problem?

- No. Even completely eliminating the cap on taxable wages would only postpone permanent deficits by 6 years, from 2018 to 2024.
- This is because under Social Security, generally, the more you pay, the more you get.

The system promises higher benefits than beneficiaries receive today, but <u>cannot</u> afford to pay those benefits with current tax rates.



Personal Accounts as Part of a Social Security Solution

- The current unfunded liability is approximately $10.4 trillion in present value.
- Fixing Social Security fills that $10.4 trillion hole.
- The personal account shifts the *timing* of existing Social Security costs, but doesn't add costs. A comprehensive personal account plan might move a portion of *existing* costs off of our children and grandchildren and into the near term. The President wants to fix Social Security today for far less than the $10 trillion it would cost our children and grandchildren to fix it later in the century.

What the Experts Say about the Effect of Personal Accounts in a Social Security Plan

"Any properly constructed personal account option should increase expected benefits for Social Security participants. This is true regardless of the overall resources devoted to the program. Under plans that retain the current payroll tax, an individual opting for a personal account can expect higher overall benefits than one who does not choose an account. Similarly, under plans that increase revenues available to the system, individuals opting for a personal account can expect to receive higher benefits than those choosing not to have an account."

-President's Commission to Strengthen Social Security, *Final Report,* December 2001

"Across cohorts, median monthly benefits for those choosing accounts are always higher, despite a benefit offset, than for those who do not; this gap grows over time."

-General Accounting Office, *Social Security Reform: Analysis of Reform Models Developed by the President's Commission to Strengthen Social Security,* January 15, 2003

"Assets set aside to fund future obligations are most likely to be insulated by a system in which ownership and control rest with individuals. In that circumstance, each participant has property rights and legal recourse to guard against the diversion of resources. An approach in which the government invests collectively on behalf of program beneficiaries is less likely to succeed."

-Congressional Budget Office, *Acquiring Financial Assets to Fund Future Entitlements,* June 16, 2003

Appendix Two

Sample Speeches

Social Security Speech For Audiences Ages 18+

Introduction

Good day. My name is _____. I am here to talk with you about your future, and the future of your children and grandchildren. I have studied the challenges facing our Social Security system. I am going to share with you today what I have learned, and tell you about the solution that I recommend.

The first thing you need to understand is that Social Security has to be fixed. It's not a matter of "I want it to be fixed" or "I think it should be fixed"—it *has* to be fixed.

We need to modernize the system. If we don't, adequate Social Security benefits will not be there for the next generation. When you discover what I have learned, I hope you will join me in the campaign to update and save Social Security. This campaign will not solve every problem, but without action the benefits will certainly be cut dramatically, long before today's high school graduates are ready to retire.

As the bi-partisan Social Security Advisory Board stated in a recent report, "As time goes by, the size of the Social Security problem grows, and the choices available to fix it become more limited."

One Family—Three Generations

Fixing Social Security helps all American families. To illustrate, let's talk about three of the people in one specific family: Arnold, and his son, Bob, and his granddaughter, Cheryl. To remember their names, think of them as A, B and C—Arnold, Bob & Cheryl.

Arnold retired in 1995, after working more than 40 years. He gets Social Security benefits, and he also has a pension and some savings. It's a fairly comfortable retirement. Arnold paid into Social Security during all those decades he was working, secure in the knowledge that the benefits would be there to supplement his income when he retired.

Arnold's son, Bob, and his granddaughter, Cheryl, are working right now, and paying Social Security taxes. Bob hopes to retire in 20 years, and hopes that he will get some Social Security benefits. He fears that he will get less than he has been promised. A quick look at the website for the Social Security Administration shows that his fears are justified. They talk about cutting benefits substantially during Bob's retirement.

Cheryl has been working only for a short time, and she doesn't spend much time thinking about retirement. But she is concerned that she will get nothing from Social Security when she retires 50 years from now. The opinion polls show that Cheryl's attitude is widely shared by her generation. Among Americans below the age of 35, four out of five are not confident in the future financial health of Social Security.

Bob and Cheryl have a problem. But we know that if Bob could put aside some money in a nest-egg, that money would grow over the next 20 years and help him to have a comfortable retirement. And we know that if Cheryl could put even a little money aside, her nest-egg would grow a lot over the next 50 years.

This is what lies at the heart of this movement to update Social Security. We can save Social Security for the next generation, and generations to come, by making a change that allows workers to place a portion of their Social Security taxes in personal retirement accounts. It's a way to help Bob and Cheryl put aside some money for their retirement, and meanwhile Arnold's benefits are fully protected.

This new system would be completely voluntary—I repeat, completely voluntary. Anyone who did not want to participate in personal accounts could stay entirely in the current system. And even for those who do choose to participate, most of their payroll taxes would continue to go into the current system.

The Problem With Social Security Today

Now I'll explain why Bob is worried that Social Security will let him down, and why Cheryl is certain it will not be there for her at all. And then I'll finish up by telling you about the personal accounts that will help fix the system.

If, like Arnold, you are retired, or about to retire, you can rest easy. The personal account program will not reduce your Social Security benefits. This reform is about helping your kids, and especially grandkids, build security

for their retirement. Cheryl and her generation deserve the same level of security that her grandfather Arnold enjoys.

Unfortunately, right now, Cheryl does not have that security to look forward to. The fundamental problem is a collision between the aging of our population and the structure of Social Security. By structure, I mean that Social Security is financed as a "pay-as-you-go" system. It takes money from current workers and gives it to retirees. That money is not saved up for the future. No money is invested. It's only transferred from one person to another. You have to hope that when you retire, there will be another generation of workers behind you who will pay taxes to support your retirement. And on and on and on.

This sort of pay-as-you-go system worked fine in 1950, when Arnold got his first job. Back then there were 16 workers supporting every retired person. Have you ever seen that party game, where a group picks up someone sitting in a chair? Sixteen people can easily support anyone.

But today the system is putting more and more financial strain on workers. The number of workers in America has increased since 1950, but the number of retirees has grown much faster. The Social Security Administration says we are down to only three workers for each retiree today. Think of that chair game; it's a challenge for only three to carry that one person. And the ratio continues to shrink.

By the time Bob retires in 2025 it will be closer to two workers for each retired person.

In order to fix Social Security, we need to start planning for that day, now.

Inaction Argument #1: The Trust Fund Will Save Social Security

We've been talking about the problem. But aren't there other solutions? Do we really need to do anything? I've heard a couple of different arguments against taking action.

One argument for doing nothing goes like this: "The Social Security trust fund can tide us over." After all, these people say, this trust fund contains billions of dollars in government bonds.

Unfortunately, no, the trust fund doesn't help at all. Some say that the Social Security trust fund has been looted. But the real problem is that the "Social Security trust fund" is an empty promise.

You see, the trust fund is filled with government bonds. These are an excellent, stable investment under most circumstances. But in this particular case, the bonds are IOUs written by the government to the government. That's the problem.

Think of it this way—normally, a bond works like loaning money to a friend. Let's say you lent $100 to your friend Joe. You trusted Joe to repay you, so for 20 years, you carried around an IOU from him. When it came time to finally get the cash, you just turned that piece of paper over to Joe, and he gave you the money. Clean and simple.

But now suppose, instead of loaning that money to Joe, you had decided to just spend that $100. And let's say you wrote yourself an IOU, promising to pay yourself back for the money you'd spent. You carried it around for 20

years, and then one day you found that you needed cash. Bad news—having that IOU from yourself to yourself doesn't help. If you needed more cash, you'd have to go out and earn it.

And this is exactly the problem with the Social Security trust fund. It's really just one giant IOU. The money that was in the trust fund has been spent by the rest of the Federal government. In order to put that money back into Social Security when it's needed, the government will have to borrow money, make cuts somewhere else in the budget, or raise taxes. And we're talking here about massive amounts of money.

The trust fund does not delay the need for action by a single day or reduce the cost of paying benefits by a dollar.

Inaction Argument #2: Congress Can't Cut Benefits

The second argument for doing nothing is that the government cannot cut benefits. People say to me all the time, "They couldn't get away with that. We wouldn't let them!"

But the bad news is, they have already gotten away with it! Over the past 30 years, the government has cut benefits several times. The last big changes to the Social Security system, in 1977 and 1983, reduced benefits and increased the retirement age. Plus, in 1983, the benefits became subject to income tax, which is really another cut in disguise. And today, the government is making plans for multiple future cuts. You can read all about it on the Social Security Administration's website.

There's a Supreme Court ruling from 1960 that gives Congress the right to cut benefits as much as they want. And today, decades later, millions of retired Americans are living with the consequences in every monthly check. The arguments against taking action don't hold up. If we don't change course, if we stay entirely on the "pay-as-you-go" route, then we'll be faced with a choice between two evils: either increase the tax burden on young workers, or cut the benefits to retired workers.

We don't have to stay on this road. The solution: We can add personal accounts to Social Security. The money that each worker puts into a personal account today will get invested, and grow over time. That growth is the key to fixing the system.

Description of Personal Accounts

Here's what personal accounts will look like. Money will be automatically deducted from your paycheck just as it is now. This is not new money you have to find; it's a portion of the money that currently goes into Social Security from you and your employer. The rest of your payroll taxes will continue to flow directly into Social Security just as it does today.

What portion of your current Social Security taxes will you be allowed to put into your personal account? While this is still being debated in Washington, most experts think it will be about one dollar out of every six that you and your employer pay into Social Security. How much money are we talking about here? Well, your personal account contributions will equal about 2 percent of your annual salary. For example, if you make $50,000 a year, you could put $1,000 into the personal account.

You will have a small number of investment choices—diversified index funds. One fund might be a government bond fund. Another could be a corporate bond fund. And a third might be a broad-based stock index fund. You would decide how much of your money goes into each fund. You will not be picking individual bonds or stocks within a fund. Each fund will consist of hundreds of different companies. This protects first-time investors. They will not be able to go very far astray, due to the safe, limited choices.

And if you're not an experienced investor, you can always choose the automatic option. This means that if you're not comfortable selecting the funds yourself, you can have your money invested for you. This would be done according to a formula, worked out by investment experts, based on your age. For someone closer to retirement, most of your money would be invested in bonds, which are more stable. For young workers your investments would lean toward the stock-based fund, which enables you to take advantage of long-term trends to build a sizable nest-egg. But what's important here is that people who don't want to study up on investment will still be able to participate in personal accounts.

Since the personal accounts will be voluntary, you can choose to not participate at all. Then, all your payroll tax dollars would continue to go into the existing Social Security system.

Would you sign up for a personal account? Richard, a retired gentleman in Arizona, wasn't certain whether personal retirement accounts were the right reform. Then he was asked whether he would advise his son to participate. Richard burst out with: "Of course he should invest, if he has the chance. He'd be foolish not to."

Will personal accounts protect your money better than the current system? People fear that the government will find some way to get at your personal account money, either through taxation or outright confiscation. That is possible. But with a personal account, you can keep track of your money. The money is in your own account, in your name. It's your property, not part of some vague "trust fund" that even the experts don't understand.

And since it's your property, whatever money you don't use from your account you can pass on to your spouse, kids or grandkids. It's important to build a nest-egg, and personal accounts help make that possible. We all want to leave our family with more than memories and photos. This reform will mean that even people who die prematurely have some nest-egg to leave to their heirs.

Why Not 100%?

By now, you might be getting very enthusiastic about personal accounts, and start thinking, "Why only a portion? Let's pull all the money out of the pay-as-you-go system!" That might make sense, except it would mean abandoning Social Security's floor of protection. This guarantee is vitally important and must always be maintained.

If Social Security disappears, 15 million seniors will find themselves living on the streets. No one wants to see that happen. That is why I support moving only a portion of the current payroll tax into personal accounts, while the rest continues to support the guaranteed floor of protection.

Now, there will be some extra costs associated with starting up this system, while continuing to fulfill all our promises to the current generation of retirees. The good news is that these transition costs are manageable—if we take action soon. Let me explain. Social Security will begin running deficits in about 15 years, but today—and you might find this fact difficult to believe—today the Social Security system takes in more money from taxes than it pays out in benefits.

If you are working, the Social Security system takes a lot of money from you: over $6,400 from the average American family, according to the latest figures from the government. Much of that money goes to benefits for today's seniors, but what's left over—one dollar out of every six—the government is just spending. That leftover money is the "trust fund" you've heard about. It's not saved for you; it is just being spent.

This means there is enough money coming into Social Security right now to create personal accounts and keep your grandmother protected at the same time. Personal accounts will not take your grandmother's check away.

Instead, we will take the "trust fund" away from the politicians, and sock it away in a personal account for your future.

You will benefit, and because there will be more money being invested, America's overall economy will benefit as well. A faster-growing economy will mean more jobs and higher wages for American workers.

Cost & Guarantees

One question that always comes up is, "So, what's this going to cost me?" The answer is not much. The costs of running this system would be reasonable—estimated at a yearly charge of three dollars for every thousand dollars in your account. That's right in line with the costs of the least expensive index funds. These fees would be used to employ the people who will be mailing out your quarterly statements and answering your questions on the phone, or via the web, 24/7.

The biggest concern about personal accounts is, what sort of guarantees are there? A lot of us have watched as our 401(k) turned into a 201(k). Will personal accounts be any different? Well, we all know that in the short term, investments fluctuate, sometimes quite dramatically to say the least. But with personal accounts, we're not talking about short-term investing. A dollar you put into your account at age 20 will not be withdrawn until old age, so what matters is the long-term trend in the market.

Investment experts agree that in the long-term the trend is positive. For example, Wharton Professor Jeremy Siegel, the author of the book *Stocks for the Long Run*, has studied the performance of stocks over the last 200 years. He found that the average return from stocks is almost 7 percent a year, after correcting for inflation.

Now, someone who is near retirement cannot benefit from a long-term trend, and this reform takes that into account. Thinking back to the three generations I mentioned earlier, Arnold is already retired and so would not participate in this new system. His benefits would continue unaltered,

drawing from the pay-as-you-go system, supported by payroll taxes paid by today's workers.

Arnold's son Bob still has 20 years ahead of him. Bob is at the average income level for an American, and so $1,000 a year will go into his personal account. Remember the long-term growth rate of 7% that Professor Siegel found? Well, at that rate, Bob will accumulate $40,000 by the time he retires. Forty thousand dollars might not seem like a lot, but remember this: That money is not meant to replace Social Security. It will serve as a modest nest egg Bob can use in conjunction with his Social Security benefits.

But it is Bob's daughter Cheryl, with nearly five decades ahead of her, who can really take advantage of the long-term trends to build her security. Of course, we all know that in the short-term the stock market can swing up and down. So, as Bob gets closer and closer to retirement age, he would be wise to gradually transfer more and more of his personal retirement account into bonds, which are more stable. This "locks in" his gains. That way, Bob won't end up being the victim of a short-term dip in the stock market.

When Bob—and much later Cheryl—retire, their monthly Social Security benefit will come from a combination of two sources: the traditional Social Security system, and the fruits of their own personal retirement account. These accounts will build personal security and reduce the burden on Social Security. And this ensures that Social Security—and the floor of protection—will be there for the generations to come.

What's It Gonna Take?

So, let's put personal accounts into Social Security. How do we get there? How do personal accounts move from being a good idea, to being the law of the land?

Well, it is going to take an Act of Congress. Your representatives in Washington—your Senators, your Congressman—have to vote for it, and then the President needs to sign it. That's the reality.

Here's where you can play a part. Let your Congressman know that you support personal accounts, and that you vote. There are easy ways to do this. You can send e-mail, or make a phone call. And easiest of all, you can vote for those people who support personal accounts.

Since getting personal accounts put in place will be a political process, we don't know exactly how it is going to look at the end. While I have described one vision of how it might look, no one can tell you the exact outcome today. But as the debate unfolds, I advocate an open and highly public process. And, to stamp out any whiff of corruption before it even starts, the process for picking investments has to be highly regulated, and well-enforced.

But however those details turn out, we already know that personal accounts will give us more control and more security.

Summary of Key Points

Let's review the four key points.

First, Social Security has to be fixed. Our aging population means that the ratio of workers per retiree will continue to get worse and worse, and we will soon be down to only two workers per retiree.

Second, with voluntary personal accounts, you invest in a retirement savings account that you own and you control. This is not new money you'll have to find; it is a portion of the money you currently pay. And your account will grow over time, through long-term investment.

Third, these personal accounts are about choice. The first choice is whether or not to even participate. Assuming you decide to participate, the next choice is between managing your account yourself versus having it automatically managed for you. The automatic plan is perfect for those who do not want to study up on investing.

And fourth, the current pay-as-you-go Social Security floor of protection will continue to work, funded by the rest of the taxes, just as it has for almost 70 years.

Conclusion

Let me leave you with this thought: Why should young people who will retire in 2035 be forced to live with a system that was invented in 1935?

So many things have changed since then. When Social Security was created the Golden Gate Bridge didn't exist and neither did Mount Rushmore. You couldn't see the Wizard of Oz because it hadn't been filmed. Cheerios hadn't even been introduced as a breakfast cereal. Americans in 1935 couldn't imagine our world of cell phones, computers, or landing a man on the moon—and that was more than 30 years ago!

Times have changed. People live longer, and have fewer children. Cheryl and all the other young people deserve as much security as their grandparents enjoy. So let's move toward change now, and start putting money into personal accounts as soon as we can.

Thank you.

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For more information about how this speech was developed, please contact Rich Thau at Presentation Testing, Inc. at 212-760-4358.

Social Security Personal Accounts Speech For Audiences Ages 50 and Older

Introduction

Good day. My name is _____, and I've long been an advocate for improving Americans' retirement security. Today I am going to talk with you about Social Security, and what we need to do to make it stronger and more effective in the future.

Before I start today, I'd like to see a show of hands. How many of you think that the U.S. economy will grow faster in the next 50 years than it did in the previous 50? *[Pause.]* At the same rate? *[Pause.]* Slower in the next 50 years? *[Pause.]* Thank you. If someone reminds me at the end of the speech, I will be glad to explain why I asked you that question.

[NOTE: Those who say "faster" or "same rate" are likely to agree with your personal accounts speech; those who say "slower" will likely disagree. Asking this question allows you to gauge your audience's attitude toward personal accounts without having to ask them outright.]

When you hear me use the term Social Security today, I am focusing exclusively on old age benefits, that is, benefits paid to retirees. I am not—I repeat not—talking about Medicare, disability benefits, SSI, or any other program. These programs indeed are very important, but they do not make up the majority of Social Security. That is reserved for old age benefits, which is the subject of my talk.

The first thing you need to understand is that Social Security has to be fixed. It's not a matter of whether I want it to be fixed or I think it should be fixed—it *has* to be fixed.

The modernization I am talking about today will make Social Security more secure for you personally. Just as importantly, it will benefit those who retire in the decades to come—people such as your children and grandchildren. In a moment, I'll tell you about the change I recommend, and give you hard evidence to bolster my argument.

But before I launch into that, let's pause for a moment, and look back over the past few decades. You've seen a lot of changes to Social Security during your lifetime, and you know the routine. The government keeps raising payroll taxes and tinkering with benefits. You probably recognize what drives those changes—an aging population where a slowly growing base of workers supports a rapidly growing number of retirees.

At some point in the future, you can see that the system will break down. Either taxes will become unbearably high, or benefits pitifully low. We can't wait until the cupboard is bare to avoid a crisis; it would already be upon us.

No matter our age, or how long we expect to live, we have an obligation to the future. As a famous theologian[1] once said, "The ultimate test of a moral society is the kind of world it leaves to its children."

I know that you don't want to leave, as part of your legacy, a Social Security system badly in need of repair. The good news is that we can do something about it, starting now.

[1] Dietrich Bonhoeffer

So, today, I plan to do two things: First I'll explain the problems facing the current Social Security system and how they could harm your children and grandchildren. Then, I'll tell you about a solution—voluntary personal accounts—that can help solve those problems while making sure that your own benefits are protected for the rest of your life.

Falling Ratio of Workers to Retirees

You're probably wondering what's wrong with Social Security. After all, millions of Americans get their checks every month. Why would we want to change a program that's working smoothly?

Well, the problem is that Social Security, while functioning today, is projected to malfunction when your children will need it in the future. That's due to the way it is structured. Social Security is what experts call a "pay-as-you-go" system. This means that the money your kids pay into Social Security immediately goes, most of it, to people who are already retired. That money is not set aside for your kids. They have to hope that when they retire, there will be another generation of workers behind them who will pay taxes to support their retirement. And on and on and on.

This sort of pay-as-you-go system worked fine when there were a lot of workers supporting each retiree. That was the case in 1950, when we had 16 workers supporting every retired person. Have you ever seen one of those party games, where a group picks up someone sitting in a chair? Sixteen people can easily lift up anyone.

But today we have just three workers per retiree. It's a challenge for three to carry that one person, yet we're doing it. However, with the population aging, the Social Security Administration tells us before too long we'll be down to only two workers per retiree. The burden will be overwhelming—and that's why we need to make changes now, to ensure that your children and grandchildren have adequate Social Security benefits.

Myth 1: The Trust Fund Will Fix The Problem

Do we really need to take action now on Social Security? I've spoken to a lot of people who say things are fine and we should wait to see what happens. Let me share with you three claims they make, and why I respectfully disagree with each one of them.

The first argument people make for doing nothing is that the Social Security trust fund can tide us over. After all, they say, the trust fund contains billions of dollars in government bonds.

Unfortunately, those bonds won't solve the problem. It's not that the Social Security trust fund has been looted. But neither is it, as some say, as good as gold. The real problem is that the Social Security trust fund is an empty promise.

The reason is that the Federal government has been borrowing from the trust fund for years in order to keep the rest of the government functioning. The trust fund contains no diamonds, or bars of gold, or wads of cash set aside for when the Baby Boomers retire. Instead, the trust fund contains a

bunch of IOUs from the government, totaling more money than you can ever imagine, promising someday to pay back to the trust fund all that it has borrowed.

As humorist P.J. O'Rourke once remarked, "Having a Social Security trust fund is the exact same thing as not having a Social Security trust fund."

The worst part is, even if we had a fully-functioning trust fund, and the government had never borrowed a cent from it, Social Security would still face a crisis. The aging of the population is such a potent force that it would still cause the trust fund to be completely depleted before your grandchildren will need it for their retirement.

Myth 2: You Have A Legal Right to Benefits

The second argument for doing nothing is that the government cannot cut benefits, because citizens have a legal right to their Social Security. 'You know, I've paid Social Security taxes my whole life. And so I have a right to those benefits, don't I? Aren't those Social Security benefits somehow guaranteed?' Unfortunately, no.

Let me remind you of what happened 20 years ago. Social Security benefits became subject to the income tax for the first time. And benefits are still taxed today. My friends, if your benefits are being taxed, your benefits are being cut. Plain and simple.

You might be amazed to learn that in 1960, the Supreme Court ruled in a case called *Fleming vs. Nestor*, which remains the law today, that Social Security is simply a tax and a government spending program, and that the two are not related to each other in any way. And, in fact, Congress is free to change the benefit formula, or cut your benefits, or even take them away. You have no contract, no property right, no legal right to benefits based on paying Social Security taxes. It's a fact. You can look it up, right on the Social Security Administration's website.[2]

If you think the taxes imposed 20 years ago were painful, wait until the system hits a crisis and Congress tells us it once again has to slash benefits and hike taxes drastically. That's what we will face, if we do nothing now.

Myth 3: I'm Too Old for This to Matter to Me

The third argument for doing nothing is one that really troubles me. I sometimes hear people say, "I'm going to be dead by the time this problem hits. Why should I care about what happens after I'm gone?" In fact, I once heard a gentleman say, "I don't care about the future. I just want my money."

In reality, if all you want is your money, and you want to ignore the future, you are free to do that. The system will provide for you.

But I know that most people in or near retirement are good citizens, and believe they do have an obligation to future generations—just as today's workers have an obligation to today's seniors. And I know that as good citizens you'll want to do something to help fix Social Security.

[2] www.ssa.gov

Fixing Social Security to Meet the Needs of a Changing World

Let's switch gears and talk for a moment about the world you've known, and then spend some time thinking about a better world we hope your grandchildren will live in.

When you were young and the program was new, the basic goal of Social Security was to lift senior citizens out of poverty—to provide a floor of protection against the ravages of poverty in old age. Social Security was largely successful in achieving that goal. Experts tell us that if it weren't for their monthly Social Security benefits, half of all seniors today would be living in poverty.

The world has changed a lot in the past several decades, however. For one thing, Americans are living much longer than they did before. The average lifespan in the U.S. is now 76—and rising.

So we're living longer, which is great—but what's not so great is that a lot of us don't have enough money to live with dignity in old age. And for all the wonders of Social Security, it still has some major shortcomings. One out of every eight seniors remains in poverty despite Social Security. Three out of every 10 widows are in poverty. We know that no one gets rich from Social Security, but most people don't know that many elderly are still barely making it.

With advances in technology and medicine, many of our grandchildren can expect to live very long lives, beyond what many of us can imagine. Experts who study lifespans tell us that it will be common for children born

in this decade to live to see the 22nd century! And the question becomes—if our grandchildren are going to live that long, can't we at least give them a better Social Security system, one that's built for the future rather than the past? We should muster the foresight and wisdom to make changes in today's program, changes that will help our grandchildren live in their later years—decades from now—with sufficient financial security.

Personal Accounts: How They'd Work

While the goal in the last century was to lift seniors out of poverty, I believe that for the current century we should aim higher, at creating a Social Security system that brings dignity and independence to all senior citizens. We can do this with a modernized Social Security system. And the centerpiece of this system should contain a long-overdue feature: Workers in the future, such as your grandchildren, should be allowed to put a portion of their Social Security taxes into voluntary, personally-owned retirement accounts. This would allow them to build a nest-egg and control it—and have the later-life financial security so many people in your generation are lacking today.

With these voluntary accounts, younger workers would be able to invest part of their current Social Security taxes. Let me be clear: this is not new money they'd have to find; it's a portion of the money that currently goes into Social Security from them and their employer. The rest of their payroll taxes would continue to flow directly into Social Security as it does today.

Under a system of personal retirement accounts, money would be automatically deducted from their paycheck just as it is now. They would not be required to deposit the money themselves, and there would be no chance that people could take their money and go to the track and gamble it away. The big difference from the current system is that instead of going into the big pool of the Social Security system, some of that money would be going into a personal account where it's being controlled and invested for the future.

You probably want to know the details. These younger workers would have a choice of a handful of diversified index funds, perhaps one each for government bonds, corporate bonds, and stocks. Independent regulators—not the government or a bunch of stockbrokers—would determine the composition of each fund. These regulators would ensure the investment funds were secure, had low administrative costs, and were closely supervised.

Workers could put all their money into one fund, or a portion into each. But what's important to know is that the corporate bond and stock funds would give ordinary workers a stake in the success of literally thousands of different companies across a wide variety of industries.

Workers would not be taking the risk of picking individual stocks from a single company—of putting all their eggs in one basket. No one would be able to put all their money into the next Enron or Worldcom. Choices would be made as simple as possible. They would not be able to go very far astray, due to the safe, limited choice of funds.

Protecting Those Who Have Never Invested Before

Clearly, not everyone is comfortable investing, though millions of younger workers have become adept at it over the past decade—the same way they've become so at ease using computers. But for those of us who still worry about "first time investors"—the millions of Americans, some of them your friends and family who have never invested before—we obviously need to help these folks avoid making bad or ill-informed investment decisions. How would we do this?

If someone is uncomfortable choosing investments for himself, all he'd have to do is say so. The money entering the personal account would be automatically invested in a mix of funds based on that worker's age. If he were young, he would have more money invested the stock fund; as he grew older and closer to retirement, money automatically would be shifted into the bond funds, which are more stable. The great thing about this new system is that people who don't want to study up on investment would still be able to participate in personal accounts.

And, since the personal account system would be voluntary, workers instead could choose to not participate. Then, all their payroll tax dollars would continue to flow into the existing Social Security system, just as they do now.

Some of you might not be convinced of the value of a personal account, so let me share a couple of facts with you. The average retired 65-year-old today receives about $900 a month in Social Security benefits. If this person had built up money in a personal account during his working years, by

making the types of modest, safe investments I've described, his monthly benefit would have been several hundred dollars more. That can make a big difference for many seniors in affording just the basic necessities.

Protecting the "Safety Net"/Access to Benefits

When people think about personal accounts, one concern that comes up right away is, what happens to Social Security as a "safety net"? The quick answer is that the safety net is vitally important, and we must maintain it. There's no way we can let millions of seniors be thrust into poverty. So it's really important that Social Security remains secure.

That's why, even with the reform I'm suggesting, we would continue to use most of the current payroll tax to support Social Security as it exists today. This preserves that essential safety net. Only one dollar out of every six will go into personal accounts, to let even low-wage workers build their security with a modest nest-egg.

Now, voluntary personal accounts would be great for the workers and retirees of the future. They'd be accumulating money in their own account, throughout their working life. That money would grow through investment over the years. Because their dollars are growing over the course of decades, they would be able to have a more comfortable retirement without relying entirely on the next generation of workers. They would own and control their account. That gives them more certainty that their Social Security money would be there for them, compared to a trust fund the government can "raid" whenever it needs extra cash.

At what age could someone get access to his or her personal account? It would be the same age that one becomes eligible to receive Social Security retirement benefits. Because the money would be theirs, retirees of the future could take their personal account money in the form of a monthly payout that would supplement Social Security for the rest of their lives, or as a single lump-sum payment, or as a combination of the two.

I hear all the time, "The market moves up and down constantly. What if someone retires in a year when the market is down?" The answer is simple: Remove only a small part of the money from the personal account at that time. Wait to remove the rest, when the account's value rises again, which it will inevitably do. In the meantime, start drawing the traditional Social Security benefits, which are stable and don't fluctuate.

Would the money in the personal account be taxed as the owner withdraws it? Yes, it would be taxed, the same way any investment income is taxed.

When these younger workers retired, any money they didn't use from their accounts they could pass on to their spouse, their heirs, or a charity—something you can't do with Social Security today. It's important to have a nest-egg, and personal accounts can help build one. How many of you would like to be able to leave your family with a financial gift to go along with all the memories and photos? This reform would mean that young people who end up dying before retirement would have a modest nest-egg to leave to their heirs.

I've also heard people say, "Well, if this is such a great idea, why are we the only ones doing it?" Well, the fact is, the U.S. wouldn't be the first. But we'd be the smartest. We'd be building on the experiences of more than 20 other countries—ones that have had systems like this in place for years. Australia, for example, was almost as bad off as we are. They owed far more in retirement benefits than they were going to be able to pay. Now workers put a portion of their income into safe, regulated investments, and today Australia is one of the best countries in the world as far as being able pay full benefits when people retire.

1/6 of FICA, Redirected Into Personal Account

Will personal accounts protect your grandkids' money better than the current system? I've talked to a lot of people all over the country, and *some* say that the government will find some way to get at their personal account money, either through taxation or outright confiscation. Now, that is possible, and it would be their duty to keep the Washington bureaucrats from getting their greedy hands on their personal account.

But with such an account, the money would be kept where they could track it, and it would be a lot harder for the government to misuse it. It's much easier to watch money that's in your own account, in your own name, that's your own property, than to watch a so-called "trust fund" that no one except the experts even understand.

Some of you might be wondering to yourselves, "If they let my kids and grandkids put part of their payroll taxes into a personal account, would that decrease the amount I receive from Social Security?" The answer is no. While Social Security will begin running deficits in about 15 years, today—and you might find this difficult to believe, but it's a fact—the Social Security system takes in more money than it pays out.

For every six dollars the government takes from today's workers for Social Security taxes, five dollars is given to retirees. That remaining dollar goes into the "trust fund" that you've heard about, but it's not being saved there; it is being spent. And what it's being used for is the day-to-day functioning of the rest of the government, which itself is running giant deficits.

I'm all for fiscal discipline. Forcing the government to balance its checkbook, cut its wasteful over-spending, and quit borrowing from the Social Security trust fund surpluses is one of the most important things we could do to strengthen Social Security. In fact, I'd love to see the government pay back to the trust fund the billions and billions of dollars it has already borrowed over the years. But I'm not optimistic this will ever happen. No matter who's in charge, there's just no discipline in our nation's capital.

That's why I believe that to keep workers' hard-earned Social Security contributions out of the hands of wasteful Washington politicians, we need to let people hold on to that *surplus* money—that one-sixth I talked about earlier—and sock it away for themselves for the future. Currently—and then for the next 15 years—the Social Security system will be taking in enough money to create these accounts and keep your benefits protected at the same time. No one will take your check away.

After that 15-year period, to keep the personal accounts system working, we may need to cut spending elsewhere in the budget or raise taxes to meet the government's other obligations. But there's one thing I haven't mentioned—the increased growth to the overall economy that will result from having that personal account money invested. This will spur more jobs, more tax revenues, and a healthier economy overall.

I know I'm stressing how this new system would benefit today's younger workers, and you're probably wondering, "Hey, what's in this for me?" Well, how about this: we'll keep the promise that's been made to you, that the full benefits you expect from Social Security will indeed be the full benefits you receive. Let's be candid: If you're near or at retirement, you wouldn't be able to amass enough money in a personal account for it to make a difference for you financially. But these personal accounts will make a big difference to those with decades of work ahead of them.

Who Manages The Money?

You might be concerned that Wall Street is going to get rich off of this system. It won't, because Wall Street firms will not be managing this money. Instead, an independent agency set up by the government will keep records for each account.

In fact, this agency could be the very same one that administers the retirement accounts that Members of Congress and their staffs pay into right now. Not a penny has been lost to fraud; costs are low; and the people covered are very happy with it.

While no one manages money for free, the best estimate is that the administrative costs for the government to run this system would be reasonable—a yearly charge of three dollars for every thousand dollars in one's account. That's right in line with the costs of the least expensive index funds. This money will be used to fund the thousands of new workers needed to mail out quarterly account statements about one's investments, provide accurate account data via the Internet, and give customer service assistance 24 hours a day, seven days a week.

With the personal account, workers will have full legal ownership rights to their money. The account will be theirs to own and control, similar to an IRA or 401(k). Within the narrow range of investment choices, workers can decide how much to put into each fund. The only limitation is that workers cannot withdraw their money until they reach old age.

Something we probably all know is that there are no guarantees when it comes to investment. I hear all the time: "My 401(k) is now a 201(k). How are you going to keep my kids from losing money in a personal account, like I lost it in my 401(k)?" The answer is that in the short term, investments fluctuate, sometimes quite dramatically, as we've witnessed recently. But we're not talking about short-term investing with these Social Security accounts. A dollar someone puts into an account at age 20 will not be withdrawn until old age, so what matters is the long-term trend in the market.

Owning A Stake In America

What's wonderful about this system is that it would give every worker a chance to participate in the fruits of capitalism. And how has capitalism performed? The well-respected Wharton Professor Jeremy Siegel has studied long-term investment over the past two centuries. He found that stocks provided an average annual return of almost 7 percent—and that was after inflation.

For those of you who are still anxious about stocks, let me try to reassure you. There has never been a 20-year period in U.S. history when the stvvvock market has lost money. Never—not even during the Great Depression of the 1930s. While history is no guarantee, it is a guide.

Clearly, people who are already near retirement would not benefit, which is why personal accounts are only for younger workers. They are the ones who have decades ahead of them, and can take advantage of the long-term trends to build income security. Wouldn't you want the young people in your life, some of whom work in minimum- or low-wage jobs, to build a modest nest-egg using a portion of the money they're already paying in FICA taxes? Some of these folks are barely making ends meet and cannot afford to save otherwise. Personal accounts would give them a great chance to get ahead.

I envision that when your grandkids retire, Social Security benefits will come from a combination of two sources: the traditional Social Security system, as well as the fruits of their personal retirement account, which they would have been contributing to over a lifetime of work.

I don't want to oversell you and leave you with the impression that these voluntary accounts will make your family members wealthy. They won't. Nor will they fix all of Social Security's problems all by themselves. The goal is make sure that the seniors of the future live in greater dignity than many of the seniors of today, without placing a crushing burden on the working class who must support Social Security.

Even with all the retirement savings plans out there, it's a sad fact that millions of today's workers will still end up relying on Social Security as their main source of income when they get old. A few hundred extra dollars more per month, coming from a voluntary personal account, will help ease the financial burden these future retirees will face.

I know there are many other steps we could take to fix the Social Security system. And I support some of them; you can read more details about the program on my website. But of all the things we could do, the most valuable would be to adopt the new structure I've described here.

To some of you, this new structure would seem like a considerable change to Social Security. Let me reassure you, however, that it wouldn't happen overnight. First, Congress would have to change the law, and then the President would have to sign it. This is unlikely to occur until after the next presidential election, at the very earliest. And it would, of course, first require that citizens such as yourself supported this change and contacted your elected representatives, with phone calls, letters, and emails directed at their offices.

Assuming voluntary personal accounts did become law, they would then take time to phase in. To protect the tens of millions of new account-holders and their growing investments, we'd need to ensure that record-keeping is accurate, that there is proper oversight by government regulators, that all the other complexities of making this system work are in place.

Once in place, personal accounts will help put the traditional Social Security system back on track. Building assets in voluntary personal accounts today helps reduce the burden on Social Security tomorrow. Put simply, those who put less money into the traditional system today will be owed less when it comes time to pay them benefits when they retire. Personal accounts will give them the security they need, not merely an increasingly creaky "floor of protection."

In Conclusion

Let me summarize.

Our aging population means that soon there will be too few workers supporting an ever-growing number of retirees receiving Social Security.

The system has to be fixed. Some people think that Social Security will go on forever without changes. It won't—and with the problems I just described to you—it can't.

Under a system of personal accounts, younger workers could voluntarily take part of the money they currently pay in Social Security taxes and invest it in a retirement savings account. This is not new money they'd have to find; it's part of the money they currently pay into Social Security.

And for those who might not want, or know, how to manage a personal account, there is an easy way to have the investment decision made for that individual—the only thing they need to do is say that they want an account, and one will be created and managed for them.

Most importantly, voluntary personal accounts would enable younger workers to build greater security for retirement. And with your grandchildren expected to live a long time in old age, retirement security is going to be extremely important.

Let me leave you with a question: Why should young people who will retire around the year 2035 be forced to live with a system that was invented in 1935, especially when that system is in such deep trouble? So many things have since changed then. When Social Security was created the Golden Gate Bridge didn't exist and neither did Mount Rushmore. You couldn't see the *Wizard of Oz* because it hadn't been filmed and Cheerios hadn't been introduced as a breakfast cereal. Americans in 1935 couldn't imagine our world of cell phones, computers, or landing a man on the moon—and that was more than 30 years ago! Times have changed, even if the values behind Social Security haven't. Young people ought to have a chance to do it differently than their grandparents. So let's press our leaders for this change now, and start putting money into personal accounts as soon as possible.

Thank you.

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