



Social Security Myths

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December 2005



colorado fiscal
policy institute

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to the memory of
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Walter Rosenberry
who provided so much
encouragement to this project*

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Introduction

Introduction

The Bush Administration has spent considerable effort focusing on Social Security and seeking to convince Americans that radical changes are needed in the program. The centerpiece of the proposal is the creation of private accounts by diverting approximately two-thirds of an employee's Social Security payroll (FICA) taxes (which is almost one-third of total payroll taxes – from employer and employee combined) from the Social Security Trust Fund (the Trust Fund). This essay considers eleven assertions (“myths”) that underlie this effort.

Our purpose is to set the record straight on the current Social Security privatization debate and provide a firmer foundation for debates that will surely arise in the future. We have consulted many sources; selected ones are listed at the end of the paper. We encourage readers to scan these sources, as there is a great deal being written on this topic almost daily. They consistently reflect the themes laid out in this essay.

Finally, we have provided a table, “Social Security by the Numbers” in the Appendix, for those readers who wish to delve into greater numerical detail.

Social Security Myths

Broad Conclusions

If there are two conclusions that can be drawn from our research over the past year on the Social Security privatization proposal, they are these:

The debate is being framed for the media as if this privatization effort is about “fixing” Social Security, whereas the proposed actions are designed to, and would, if implemented, destroy Social Security.

Social Security is being described as if it were in financial trouble, whereas in fact it is the Federal Budget that is in trouble, and the political focus on Social Security appears to be a ploy to divert public attention from this fact. For decades, Social Security has been in such a strong financial condition that it has bailed out the federal budget, and not the other way around.

These two points must be grasped by Americans if they are to fully understand the debate. This paper will provide the background information that supports these two conclusions.

Myth #1: Social Security is in a Financial Crisis

The Trust Fund is in good shape now, and projections indicate that it will stay so when one uses reasonable and relevant assumptions.

Social Security is a federal social insurance program funded by employee and employer payroll tax contributions to the Trust Fund, which in turn pays benefits to retirees, disabled persons and survivors. At present, the tax is paid on wages up to \$90,000 (no tax is withheld on wages above \$90,000). It provides worker retirement benefits, worker disability benefits, and survivor benefits for qualifying spouses and children. The age for full retirement benefits is currently sixty-five and a half, for persons retiring on July 1, 2005. The current payroll tax rate is 6.2% paid by both employee and employer, for a total of 12.4%.

In recent years as the distribution of income across America has become more skewed, more and more of the income of the wealthy and very wealthy have escaped the payroll tax; thus it has become an increasingly regressive tax. It takes a smaller and smaller portion of earnings the more one earns.

In years when Trust Fund receipts exceed payouts (as at present), a balance builds up and by law is invested in U.S. Treasury bonds (“Treasuries”). These Treasuries pay interest, which accumulates in the Trust Fund. The Trust Fund at present contains \$1.5 trillion in assets, and this balance is growing.

In 1983, in the face of a Social Security Administration (SSA) forecast that the Trust Fund balance would be depleted due to payouts exceeding payroll tax revenues, Congress made certain changes to the tax and benefit structure including (a) raising the payroll tax rates on employer and employee, (b) increasing the maximum wage amount that is subject to the payroll tax, and (c) gradually increasing the age of full pension benefit eligibility. The rationale behind these changes was that as a trust fund, Social Security should be self-supporting or “fully funded” by payroll tax contributions. As a result,

the tax rates that workers and employers have been paying since 1983 have been sufficient to cover current benefits *and* build up a significant balance in the Trust Fund in order to pay for future benefits.

The 1983 restructuring served to substantially push out the year when the fund balance would be depleted.

However, at that time, the SSA began forecasting the fund's solvency in a more conservative manner than before. As a result, every year or so, new forecasts have become the occasion of good news – each one looks better than the last, as actual fund experience turns out better than previous forecasts. In just the past 7 years, for example, the “day of reckoning” has receded into the future by 12 years (from 2029 to 2041). The Congressional Budget Office (CBO) performs its own independent Trust Fund forecasts, and its latest one places this year at 2052, a full ten years beyond that of the SSA.

Independent actuary David Langer analyzed the SSA's past record of forecasts, and found that the “intermediate” forecast proved uniformly pessimistic, while the “optimistic” forecast has been a more accurate forecaster of actual fund experience.

In general, the Trust Fund does better when:

- The economy and incomes grow faster
- Unemployment and inflation are lower
- Immigration increases
- People retire later

among other indicators.

The Trust Fund performs poorly when the economy slows, inflation rises and there is high unemployment. The SSA and CBO utilize different values for some of these variables in their forecasts.

Privatization advocates state that the number of workers per retiree is forecast to fall from 3.3 to 2. However, as a result of increasing *productivity* per worker over time, this worker-retiree ratio, according to the Social Security Advisory Panel, “has almost nothing to do” with the Trust Fund's fiscal position, and that “the ratio was fully taken into account in the 1983 financing provisions.” The use of this statistic is thus irrelevant to the real debate. Productivity in the U.S. economy since 1960 has averaged 2.17% per year (since 1980 it has averaged 2.07% per year). These real economic improvements, compounded over time, more than

compensate for a larger retiree population. In fact, *the proportion of real personal income that will be devoted to the FICA tax will be substantially lower for our children and grandchildren than it is for us today.* Based on that measure, the nation in the future will be more, not less able to afford Social Security in its present form.

The most recent Social Security annual report projects that over the next 75 years, using current benefit projections, the fund would come up short by 1.89% of payroll. If nothing is done now, this implies that either a payroll tax increase of 1.89% (say, in 2041 or 2052), or across the board benefit cuts of 13%, or some combination of the two, would be required in order to maintain benefits under current law. Contrary to the statements of some, the magnitude of this gap does not become larger with time – that is the whole purpose of the actuarial projections performed by the SSA – to estimate how the fund will fare in the future.

However, the SSA report is based on using the “middle” projection, which in the post 1983 era, has a track record of being too conservative. The longevity projections are a good example. Today a 65-year-old male will live, on average, to 82. The middle projection assumes that he will live to age 86. The problem is, over the past generation, increased longevity projections have been repeatedly shown to be too high. Death rates per 100 are today running at 5.3; Social Security projects that number to

fall to only 3.6 by 2080. Improvement in mortality has slowed significantly over recent decades.

Another factor is immigration, which is good for the Trust Fund because it adds new workers paying into the system. Today around 1.2 million immigrants enter the U.S. per year; The SSA projects this number to fall to only 900,000 in 20 years. Why would this happen, when if anything the demand for workers is likely to *rise*?

Wages are another factor where the SSA is forecasting low. Given a worker shortage as a result of an aging population, supply and demand should push wages up, yet the forecast is for real (adjusted for inflation) wages to rise by only 1.1% a year. For the past 40 years, wages have risen by about this rate – but this was during a period when the economy was absorbing huge numbers of women into the labor force, which depressed wages, an event unlikely to be repeated in the future.

Most actuaries who weigh in on Social Security say that making substantial changes to a program based on 75-year projections is a mistake. Not only are the assumptions that go into the models subject to manipulation, but much can change in only a couple of decades, much less three or four generations. Similarly, to

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what extent should a nation place the current generation of workers who have paid handsomely into Social Security under hardship to fix a relatively modest-sized problem that might well not even occur?

Another way to look at the current SSA-projected shortfall compared with decades past is to state it as a percent of payroll. Since the 1950's Congress has tinkered with Social Security from time to time to ensure the Trust Fund's solvency. Following are the comparisons of today's SSA projection vs. the past 5 decades:

	<u>Percent of Payroll</u>
Current shortfall (SSA):	1.9%
Current shortfall (CBO):	0.7%
1950's Shortfall:	3.1%
1960's Shortfall:	2.5%
1970's Shortfall:	1.7%
1980's Shortfall:	3.2%

In each of the past decades listed above, some combination of benefit cuts and increased taxes were utilized to close the gap. The primary reasons that these situations arose were that people were living longer (in the case of the early 1980's, and the economy had also experienced a period of stagflation, which required higher benefits that earnings in the Trust Fund could not match). Recent trends indicate that the pace of increased longevity is slowing down (demographers are not certain why). But with Americans living longer, it makes sense that the overall cost of a pension program would be higher, and adjusting the combination of payroll taxes (perhaps by raising the upper limit of wages subject to it) and benefits (perhaps by gradually raising retirement age) is appropriate. This is the approach that has worked in the past; there is no reason why it cannot work today.

A word about the urgency of "fixing" Social Security today versus waiting till later. As is shown below, *future workers will be enjoying much higher real wages than workers today, even after adjusting for inflation*. For example, wages in 2050 will be 70% higher than wages today, *even after adjusting for projected inflation*. In 2080, *wages will be about three times as high*, again after adjusting for inflation. The same thing has been true through our history – we enjoy higher real incomes than our grandparents. Why? The reason is improved productivity (the value of output per hour of work), which results from improvements in technology, more educated workers, improved organizational methods, and the accumulation of capital infrastructure, equipment, and tools. The same will occur in the future, which means that "solving" any purported Social Security gap today actually unfairly penalizes today's workers. Thus, if part

of the solution is to gradually increase, over time, either the payroll tax rate, or the wage ceiling subject to it, the cost will fall on those best able to afford it. Future generations will be substantially better off than we are, even after such modifications. According to intergenerational equity, there is no inherent reason to spare future, wealthier generations while burdening the current, less wealthy generation. And there is no fiscal need to do so, either.

Myth #2: Social Security Will Run Out of Money

The SSA's latest forecast, using more pessimistic assumptions, predicts that in 2017, the Trust Fund will begin taking in less money from the payroll tax than it pays out in benefits (the CBO predicts 2028). When that point is reached, the Trust Fund will gradually begin drawing down on its fund balance to pay for a portion of benefits. In those first few years, the interest on the Trust Fund's Treasuries alone plus payroll tax revenues, will be sufficient to cover all benefits. The demographics of the baby boom generation will eventually increase the rate at which principal, not just interest, from the Treasuries, will be needed for benefits. The year 2041 (or 2052) is expected to be when the remaining reserve balance in the Trust Fund is used up, at which time payroll taxes (at that time) will be the only source of funds for the payment of benefits. In that year, current payroll taxes are expected to cover between 74% and 80% of current benefits. Incidentally, *those benefits will be worth more, in real terms, than retiree benefits currently being received by retirees*.

Treasuries are debt instruments of the United States government. The federal budget's General Fund is where such revenues as personal and corporate income taxes flow to pay for the operations of government (defense, domestic programs, etc. – not Social Security). In any year in which General Fund spending exceeds revenue, it borrows from anyone who has excess cash (like the Trust Fund, or investors worldwide) by issuing Treasuries. The Trust Fund has been building up a balance that has been invested in these Treasuries and will continue to do so until 2041 or 2052. The federal government (The General Fund), with the exception of a few years in the late 1990's, ran operating deficits and thus had to borrow to make up the difference. The Trust Fund in effect served as a "bank" from which the General Fund borrowed to keep

the government operating. At the same time, the Treasuries that the Trust Fund owns are safe assets that pay interest. So, this arrangement has been beneficial to both entities.

It is important to keep these two entities (the Trust Fund and the General Fund) separate as we think about the nature of the alleged crisis in Social Security. The Trust Fund is more solvent than it has ever been in its 70-year history, having raised the payroll tax sufficiently to not only cover current benefits but also save for its future needs. The General Fund was able to deficit spend by borrowing.

When the time comes when the Trust Fund will need to gradually begin liquidating its Treasuries, the General Fund will have to come up with the money to pay back what it owes the Trust Fund. How will it do so? A number of ways: it can simply borrow by issuing more Treasuries to other investors, as it has done for many decades. It can increase taxes (perhaps reversing recent high-end tax cuts) and use the money to pay off the Treasuries that it previously issued and that the Trust Fund will need to liquidate. Or a combination of both.

Neither of these options are novel, and both are well within the capacity of the U.S. government and of future (much more wealthy) Americans. In fact as productivity in the economy continues to increase, the government's, and the economy's, capacity to handle this situation will actually continue to improve, not worsen, for the reasons stated above. It should also be pointed out that federal *income taxes* for the median American are at their lowest level as a percentage of the economy in recorded history (data kept since 1955) at 5.5%. That figure was over 11% in the early 1980's. The capacity of the economy to bear the level of taxation sufficient to repay the Treasuries held in the Trust Fund is quite strong.

If Social Security is not in the dire straits claimed for it, isn't the federal government facing a severe fiscal crisis? What is the nature of that crisis, and how does it relate to Social Security? It would not be an exaggeration to say that discussion of Social Security is masking two other

problems that ought to be addressed but are receiving insufficient attention at this time.

The first real issue is the federal budget deficit. That deficit is the gap between annual revenues and annual spending for ongoing governmental operations (other than the Social Security Trust Fund, which is taking in far more money than it is expending in benefits). At the end of the 1990's, thanks to a robust economy, federal spending restraint, and tax increases in the early 1990's, the federal budget reached a surplus position in the couple of years prior to the 2000 stock market crash, the 2001 recession, and the September 11 attacks. Then, over the past four years, Congress passed four successive tax cut bills, and simultaneously ramped up spending for defense, homeland security, agricultural subsidies, etc. This is the first time in American history that our nation entered a war while at the same time cutting taxes. As mentioned above, federal General Fund revenues are now at their lowest level as a percentage of the economy. Tax cuts and/or increased government spending are considered stimulative for the economy, according to Keynesian economics (fiscal policy), as a way to leave more dollars in private hands, and supplement lagging private investment and consumption spending with public spending. In sum, deficit spending is often a proper short-term response to recession.

Deficit spending comes at a price, however. Eventually the annual deficits, which cumulatively make up the national debt, have to be repaid to Treasury bond holders. For this reason, economists call for "balancing the budget over the business cycle." This means running deficits in recession,

and surpluses during boom times, that roughly cancel each other out in the long run. Another issue with fiscal policy deals with the distribution of the tax cuts and the spending. Generally lower income households spend more of their incomes than do wealthier households (who save a greater portion of theirs). Thus, if a tax cut is focused on lower income households, it takes a smaller tax cut to obtain the same stimulative effect. While the federal income tax is progressive, the nation's entire tax structure (federal, state, local, and payroll tax) is only mildly progressive taken as a whole. This is because the

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payroll tax is regressive (and is by far the largest tax that middle and lower income workers pay), and state and local taxes (sales, property and income) are generally regressive as well (as an example, in Colorado people in the lowest quintile pay 9.9% of their income in state and local taxes, while those in the top quintile pay around 6%).

The tax cuts enacted by Congress over 2001-2004 were highly concentrated on the wealthiest households (The average tax cut for a median income-earner has been \$742, or 2.6%, whereas for one in the top 1% it has been \$34,948, or 4.6%. Those earning over \$1 million received a tax cut of \$103,086, or 5.4%. For this reason, they have provided *relatively* little additional disposable income to those most likely to spend it. The effect of the tax cuts on the budget has been negative, as we have seen the federal deficit balloon to record highs.

The second problem that is more critical than Social Security's solvency is the growing cost of Medicare and Medicaid. Projections for these two programs are far more serious than for Social Security. In fact, spending for Social Security benefits is forecast to rise modestly and then level off around 2030. By contrast, Medicare and Medicaid spending, including the new Medicare drug benefit, will trend ever upwards. The SSA is projecting a 75-year fiscal gap for Medicare of 91% (vs. 13% for Social Security).

Medical inflation has been outstripping the consumer price index. The two most important contributors to this trend are increased unit costs to serve patients, and an aging society. Unit costs have increased in part due to the development of new technologies and thus of more effective treatment (who would want the 1960 version of heart surgery today?). Medical inflation in the *private* sector actually exceeds inflation in publicly financed medicine (it can be argued that there is cost-shifting occurring when private hospitals and clinics must absorb non-reimbursed services to the indigent. Others have argued that cost-shifting is also occurring in the other direction as the private insurance market has an incentive to eliminate high-cost patients from their rolls). The new Medicare drug benefit lacks some significant cost controls (for instance, it *prohibits* the federal government from using volume purchasing to keep drug costs down), and the new program's projected cost has already risen by 70% above estimates at the time of passage, despite the fact that the program has only recently been implemented.

How do these two issues affect Social Security? A growing General Fund budget deficit is unsustainable, both because increased deficits require more government

borrowing (thus pushing up interest rates and crowding out private investment), and because in 13 (or 23) years, the federal government must begin repaying the money it previously borrowed from the Trust Fund, first gradually and then more rapidly as the baby boomers retire. In effect, the general fund faces future demands based on (a) its previous borrowing, and (b) its new expensive commitments in the health care arena.

The Social Security Trust Fund has provided the General Fund with financing for some 22 years, but the General Fund will need to gradually return to a condition of balance and then surplus, in order to make good on what it owes the Trust Fund.

What if Congress and the Administration decide to default on the Treasury bonds that it has issued to the Trust Fund? Recalling that since 1983 workers have been over-contributing to the Fund (paying in enough to cover their parents' current benefits plus building up a fund for their own retirement), such a default would mean that for the past 22 years the government will have committed a massive breach of trust toward this generation of Americans, by raising a regressive payroll tax so that income taxes could be reduced (during the Reagan years) and again since 2000 on higher income earners. It would also mean that the 1983 rationale of maintaining fiscal integrity in the Trust Fund will have proven to be a sham.

Finally, for the government to default on the Treasuries contained in the Trust Fund would not only be the first time in American History that this would have happened, but it would be at the expense of our nation's seniors, an unthinkable event for such a wealthy nation.

The implied idea that our growing budget deficit is somehow a result of Social Security's finances is not only false, but in fact the opposite is true – it is the Social Security "side" of the government's finances that has been prudently, even conservatively managed, while it is the General Fund that has been in deficit and needs repair. The Social Security Trust Fund has financed the government's deficit; it is disingenuous that some are attempting to frame the issue as if it is Social Security that is in trouble.

Myth #3: Private Accounts Will Improve Social Security's Financial Position

The plan that has been described by the White House would divert 4% of the 12.4% (that is, roughly one-third of the money) of payroll taxes to individual accounts that would be invested in stock and/or bond mutual funds. The remaining payroll taxes after the 4% is removed would continue to be used for current retiree benefits, but the reduced amount would no longer be sufficient to cover current and expected benefits. In order to make up for the lost stream of Trust Fund revenue, the government would have to issue new bonds over and above its current rate of borrowing. Investors (again, individuals, funds, governments) would purchase them as part of their portfolios. This borrowed money adds to the U.S. government's overall debt and pulls money away from investments that investors may have otherwise made. Thus, the government would be increasing its debt and directing this borrowed money into the stock and bond markets. In order to attract investment money that is currently invested elsewhere, the government would likely have to pay higher interest rates. Higher interest rates generally depress the stock market, because (a) investors will move some money from stocks to bonds to get the higher return, (b) they tend to depress the investment activity of businesses, and (c) consumers will purchase fewer big-ticket items that require financing (homes, autos, appliances, furniture, etc.). In effect, the new federal borrowing "crowds out" other investments.

When would this new borrowing be necessary? Almost immediately. This is in contrast with the current situation wherein new borrowing or tax increases will not be needed until 2042 or 2052 (if ever). Thus, the proposed privatization plan converts a future, moderate problem into an immediate, large problem.

It is important to reiterate that this combination of actions does not increase net savings in the economy. It merely transfers national savings from one place (the Trust Fund) to another (private accounts).

But to make it all balance, the White House plan would then require the reduction in traditional Social Security benefits sufficiently to make up for the 4% of

payroll taxes that are no longer available to the Trust Fund. There have been various estimates of how much benefits would have to be diminished in order to break even. But as described by the Bush Administration, retirees' traditional benefits would be reduced *dollar for dollar* by the amount that workers divert money into the private accounts, plus three percent. [A study by economist Robert J. Shiller concludes that a significant percent of workers would fare worse under a private account scenario than under the present Social Security program, and would lose money an estimated 32% of the time.]

Private accounts would place the risk of market volatility upon the individual. A diversified Trust Fund, on the other hand, spreads the risk across tens of millions of workers, exactly as an insurance program is intended to do.

The net new borrowing would make current General Fund deficits worse. As mentioned above, this increased borrowing would impact the capital markets by crowding out other uses for loanable funds. This results in higher interest rates, making financing for households, businesses and governments at all levels, more expensive. The increased borrowing would negate any expected increase in national savings that privatization proponents say they expect; private accounts represent a transfer of savings, not net new savings.

Workers would lose guaranteed benefits dollar-for-dollar for funds that they place into private accounts. But additionally, the Bush plan calls for reducing guaranteed benefits for workers earning over \$20,000 even if they choose not to open a private account. In effect, what the administration is claiming is that Social Security cannot pay currently projected benefits beginning in 2041; so the solution is to reduce benefits. The diversion of payroll taxes into private accounts do absolutely nothing to make the Trust Fund solvent – that is accomplished entirely through benefit cuts.

Myth #4: The Social Security Trust Fund Contains Nothing But Worthless Government IOU's

The assets that the Trust Fund owns are U.S. Treasuries, considered by all to be the world's safest investments and the benchmark against which all other investments are measured from the standpoint of safety. They are backed by the full faith and credit of the U.S. government, a stronger guarantee than any other financial asset contains. In fact, the special issue Treasuries that the Trust Fund contains are superior to standard Treasuries because they are redeemable at par at any time, and thus do not fluctuate with market interest rates.

Treasuries are found in investment portfolios worldwide including those of the largest foreign central banks (including Japan, China, Canada, Korea and Britain), all mutual fund companies (Vanguard, Fidelity, T. Rowe Price, etc.), and thousands of knowledgeable individual investors. In fact in 1935, Congress required that Trust Fund surpluses be placed in Treasuries so that their safety would be beyond question.

To make the claim that Trust Fund assets are nothing but "worthless IOU's" is to imply that the U.S. government (the General Fund) would for some reason default on its bonds. It has, of course, never done so, even through the Civil War, two World Wars, the Great Depression, and the stagflation of the 1970's. The U.S. government has run current deficits in 72 out of the last 100 years, and has never defaulted on a Treasury bond. Further, the U.S. economy has never been larger or more productive than it is now, and there is every reason to expect it to continue to grow in the future. The idea of the government defaulting, i.e., refusing to repay principle and interest on its bonds, cannot be taken seriously. The implied threat that it might do so sometime in the future (whether 2018, 2028, 2042 or 2052) is neither remotely likely nor necessary, and can only be considered a matter of political will, not economic necessity.

The ultimate source of funds that the government will use to pay off these and all other Treasuries is either through taxes or borrowing, or some combination of the two, in an ever more wealthy economy. The government's ability to do so is in direct relation to the size of the economy and the capital markets, which make private savings available to borrowers (household, business or

public sector). So, to believe that the government may not be able to use taxes or borrowing in the future to make good on the Treasuries in the Trust Fund one must believe either (a) that the economy is heading for an unprecedented catastrophe (worse than the Great Depression, by far), or that (b) there will not be the political will to repay the Social Security Trust Fund the money the Trust Fund has loaned the government since 1983.

Workers and employers over the past 22 years have, in good faith, paid higher than necessary payroll taxes so that the Trust Fund could pay current benefits today and that money would be there when the baby boomers began to retire. And this strategy worked, witness the large and growing Trust Fund balance. Further, the American people believed that the United States Government, in borrowing these surplus balances from the Trust Fund for its operating needs, would repay the Trust Fund when the time came. Social Security has done its part; the government will surely do its part.

The idea of creating individual private accounts has no economic justification.

Incidentally, Social Security critics should be asked the following question: "If the Trust Fund should not be invested in Treasuries, what, instead, would you suggest?" The fact is, there is some validity to the suggestion that the Trust Fund should be a bit more diversified. Why not a balance of

Treasuries, stocks, corporate bonds, bank CD's, etc.? Financial advisors recommend such a mix to clients on a regular basis. And if this is a valid individual portfolio, why not for the Trust Fund? And further, doesn't this argue for a system of private accounts to replace the present Social Security system?

Let us take the last question first. Households have the luxury of placing a larger portion of their investments in riskier investments *in part because they have the guarantee of Social Security as a backstop*. President Bush touts the federal employee retirement plan as a model for his proposal. But he often fails to disclose that *federal employees have that plan and Social Security, too*. Were most workers without the guarantee of Social Security, financial advisors would be obliged to recommend a significantly more conservative private portfolio.

Is there a difference between advocating that the Trust Fund diversify, and a system of private accounts? Yes, a huge one. Private accounts would place the risk of market volatility upon the individual. A diversified Trust Fund, on the other hand, spreads the risk across tens of millions of workers, exactly as an insurance program is intended to do. The relative risk-return scenarios are

entirely different from the standpoint of the individual. A market meltdown would reduce the size of the Trust Fund if it was partially invested in equities, and everyone would bear a small portion of this risk, but with private accounts, the same event would almost certainly devastate a significant number of future individual retirees, especially those near retirement. The idea of creating individual private accounts has no economic justification.

Myth #5: A Private Account System Will Give Americans an Asset that They Will Own

The plan that has been described by the Administration would create a private account for each participant from a portion of the worker's payroll taxes. In addition, the participant would be eligible to receive traditional benefits but at a much-diminished rate compared with the current program. The program would require that upon retirement, money accumulated in the private account (principal and earnings) be used first to purchase an annuity for the retiree that would maintain a level of income equal to the official federal poverty level. (The official 2005 poverty line is \$12,830 for a 2-person household). Then, if there were money left over in the account after the purchase of the annuity, the remaining money would become the property of the retiree to be invested as desired by the retiree. It is only this remaining portion of the private account that could accurately be described as being "owned" by the retiree. The more an individual earned over the working years, the more would be available beyond the amount needed to buy the annuity. Workers with lower lifetime earnings could well end up with little or no excess account balance beyond that needed to buy the annuity. Thus, the "ownership" aspect of the plan primarily applies to upper income workers.

What is known about the cost of the annuity that retirees would be required to purchase with their private accounts? Not much, at this time. What is an annuity, and what have been consumers' experiences with private-company annuities in general? Insurance companies market annuities as a product that converts a lump sum paid in by the individual, into a guaranteed stream of income for life. The size of the income stream that a given lump sum may purchase is determined entirely by the insurance company. It performs an actuarial analysis on the individual, estimates the rate of return that the company expects to earn on the money over the balance of the person's lifetime, estimates the person's expected remaining years, figures in a risk factor to insure the company against market volatility, and adds in the company's required profit margin on the deal. All of these factors come out of the money paid in by the individual. After taking these factors into account, the insurance company calculates how much the person's balance will buy in the form of an annuity (stream of life income). In a sense, the income stream can be considered a "residual" amount the individual gets to keep, after the insurance company has protected itself from market risks and ensured its profit margin.

Workers with lower lifetime earnings could well end up with little or no excess account balance beyond that needed to buy a required annuity necessary to maintain a level of income equal to the federal poverty level. Thus, the "ownership" aspect of the plan primarily applies to upper income workers.

Annuities, then, carry a number of overhead burdens that the current Social Security system does not, including a profit margin, volatility risk, and marketing and other business-related overhead costs. The lack of these costs contributes to Social Security's present remarkable efficiency.

Myth #6: Private Accounts Invested in the Stock Market Will Earn More Than the Money in the Present Trust Fund

This is by no means a certainty, and there are valid reasons to predict otherwise. Advocates for private accounts say that historically stock returns are greater than that on U.S. Treasuries. The time period for this comparison is generally the post-World War period, sometimes a longer period encompassing the Great Depression, or even the last century.

Advocates of private accounts fail to account for the difference in *risk* between the current Social Security program and an individual account invested in stocks.

Stock returns are a function of a company's earnings compared with the *prices* of stocks. Analysts use the price-earnings (P-E) ratio to measure how expensive stocks are (that is, it divides the stock's price by a year's worth of company earnings). During the historical periods cited, the P-E ratio for stocks was approximately 14.5:1. A higher P-E ratio implies that investors are paying more (in the price of a share of stock) for each dollar of corporate earnings. Real rates of return tend to approximate the inverse of the P-E ratio. High P-E ratios mean that stocks are "expensive;" low P-E ratios mean that stocks are a bargain. This is important to the discussion of whether stocks will provide a greater return than Treasuries in the future. Why? Because people investing in the stock market today are buying expensive stocks (higher stock price per dollar of corporate earnings) compared with what investors were doing in the historical period cited. The P-E ratio for the S&P 500 today is 20:1. So, during the historical period, when the P-E ratio was 14.5:1, long-run returns were around 6.9%. But now, when the P-E ratio is 20:1, long run returns can be expected to be closer to 5%.

Further, investors will likely not place all of their funds in stocks; if they put 60% in stocks and the rest in bonds, then the overall rate of return would drop to 3.8%. And that is before management fees are taken out (which, in Britain's private account system, take an additional 1.1%).

At the current P-E ratio, for the stock market to grow at the rates that are cited by private account advocates, corporate profits would have to far exceed anyone's wildest expectations, certainly in excess of any sustainable period in history, and they would have to do so decade after decade going forward. *Over the long run, corporate profits rise at approximately the same rate as economic growth in the economy as a whole.* Thus, if corporate profits indeed were to grow at historically unprecedented rates, this would imply sustained *economic* growth of unprecedented magnitudes.

But here's the anomaly in the private account argument: *Such unprecedented economic growth rates are contrary to the very assumptions that are used in the claims of the Trust Fund's fragility.* If economic growth is really going to be that good, then Social Security has nothing to worry about under its present configuration, because productivity levels, profits, and workers' incomes will be so strong that the payroll taxes will pour into the Trust Fund at robust rates. The forecasts used by the SSA, quite pessimistic as noted above, are entirely inconsistent with the economy growing at such unprecedented rates in the future.

The bottom line is, you can't have it both ways – a dismal economic forecast that supposedly pushes the Trust Fund into a hole, along with a wildly optimistic economic forecast that results in the level of stock returns

necessary to make private accounts a better deal than Treasuries. But that is what private account advocates must do to make their argument. Realistic, middle-of-the road forecasts of economic growth, income, corporate profits, inflation, interest rates, productivity, immigration, etc., result in a continued strengthening of the Trust

Treasuries are the world's safest investment, against which all other investments are measured from the standpoint of risk. Needless to say, stocks are far more volatile, and historically have experienced periods of negative growth (loss of principal). Private account advocates have made the claim that over the long term, stocks always outperform Treasuries despite their volatility. The facts are otherwise.

Fund under the current structure, or worst case, long-term Trust Fund solvency by making only very modest changes to the program's terms.

Next, any discussion of the comparison between stock returns and returns on U.S. Treasuries must take into consideration the different levels of *risk* between these two investments. As stated above, Treasuries are the world's safest investment, against which all other investments are measured from the standpoint of risk. Needless to say, stocks are far more volatile, and historically have experienced periods of negative growth (loss of principal). Private account advocates have made the claim that over the long term, stocks always outperform Treasuries despite their volatility. The facts are otherwise.

Over the period 1926-2003 (78 years), there were 24 years when the stock market yielded negative returns (31% of the time). If, under a private account regime, a worker retires when the market is down, the Administration's proposed plan requires them to use whatever money is in their account balance at that time to buy an annuity, as mentioned elsewhere in this paper. This scenario is the very antithesis of a plan to protect retirees from the ups and downs of the market. In many of the countries that replaced their social security systems with private account plans, retirees over the past generation have been left worse off during stock market declines, versus a Social Security-type plan without the private accounts.

There is a significant difference between advocating that the Trust Fund invest some of *its* money in stocks, and advocating private accounts where individuals invest in stocks. Individuals would be subject to "timing risk," where they could have the bad fortune of reaching age 65 at the bottom of a market crash (and increasingly, the decision to "retire" is less one of choice and more at the mercy of an employer or the state of the economy). If the

Trust Fund itself were to place some of its funds into corporate stocks and bonds (in addition to Treasuries), the nation as a whole would bear the market risks, rather than each worker shouldering this risk. Further, the Trust Fund would be able to take advantage of tremendous economies of scale and very low overhead costs in its investment activity, unlike the individual investor. Many individual investors, unfortunately, tend to jump into and out of the stock market at exactly the wrong times. When the market surges, folks are drawn into the market (often when most of the gains have already been made); and when the market falls, they jump out (after most of the losses have already occurred). Investment of Trust Fund assets by the SSA itself, while containing no guarantees, would likely avoid such behavior most of the time, but more significantly, all Americans would share equally in the gains and losses. The impact of an economic downturn on any one individual would be far less than under a private account scheme.

Many individual investors, unfortunately, tend to jump into and out of the stock market at exactly the wrong times. When the market surges, folks are drawn into the market; and when the market falls, they jump out. Investment of Trust Fund assets by the SSA itself, while containing no guarantees, would likely avoid such behavior, but more significantly, all Americans would share equally in the gains and losses. The impact of an economic downturn on any one individual would be far less than under a private account scheme.

Presenting Social Security as an "investment" is inaccurate because *Social Security is a social insurance program, not an investment vehicle.* One key to understanding this difference is to recognize that in 1935, beneficiaries began receiving benefits *almost immediately*, well before workers had contributed sufficient funds to the Trust Fund to sustain such early benefits. This means that there has always been an after-the-fact element to the funding mechanism in Social Security such that current workers pay for the bulk of the current benefits being paid out (this is referred to as a "pay as you go" system). Thus it makes no sense to compare Social Security with a 401K-type investment program, which accumulates funds and compounds earnings during an individual's working years, which is then converted to a stream of retirement income.

Another difference is that Social Security contains

significant *disability* (added in 1954) and *survivor* benefits that a 401K does not contain. To just look at the retirement portion of Social Security and compare it with a 401K is to miss the economic value of this insurance.

Social Security and a private account program also deal with risk sharing in fundamentally different ways. Social Security shares risks across the entire population, whereas private accounts place various types of economic risk solely upon the individual. For this reason, in forecasting the returns for an individual account, no matter where invested, *it is necessary to reduce the expected return by a risk factor*, because there is no spreading of risk across populations as there is in Social Security. Economists confirm this as the appropriate method of comparing the returns of two future revenue streams, one of which is certain and one of which is volatile. Additionally, a private account system would break the bond between the rich and poor by relieving the well to do from any responsibility to share risks across income levels. Currently the benefit structure of Social Security is slightly progressive, with lower income retirees receiving a higher percentage of their lifetime earnings than higher income retirees. Lower income workers receive social security pensions that are about 49% whereas upper-income workers receive about 24% of covered earnings. Lower wage (as well as females and minority) workers are also far more likely to need the disability and survivor benefits under Social Security than are higher-wage workers; thus converting the program to strictly a retirement program would penalize these individuals.

Social Security is a social insurance program, not an investment vehicle.

Myth #7:

A Private Account System Will Provide the Funds to Cover the Actuarial Gap, Making Up for the Guaranteed Future Benefit Cuts

The federal government would have to enter the capital markets and borrow significant funds to make up for the diversion of money from the Trust Fund into private accounts, in order to continue to pay current beneficiaries (retirees, disabled, survivors). Private account advocates like to say that a “mere 4%” would go into these accounts. However, since the present combined contribution (by employee and employer) is 12.4% of payroll (up to \$90,000), this “mere 4%” is roughly *one-third* of the Trust Fund’s annual revenues! Every dollar that is diverted from the Trust Fund, plus interest, must be replaced by a dollar that the government borrows so that current retirees can continue to receive benefits. In effect, the government must wrestle these dollars away from the capital markets as currently invested (stocks, private bonds and public sector bonds, both foreign and domestic).

The theory behind placing more of the Trust Fund money into stocks is that such an investment mix has a higher return than Treasuries, *and this higher total return would be the source of the funds necessary to fill the purported actuarial gap in the present system.* But in fact any net gain to solvency must come from either faster growth in the economy than is currently projected, or from some other group of investors who agree to receive poorer returns.

The diversion of payroll taxes to private accounts and its financing would have the following effects:

The increased government borrowing (Treasury bonds) would result in a bidding up of interest rates in the economy, as demand for borrowed capital exceeds supply. Increased interest rates are the only way for investors now invested elsewhere to be convinced to shift some of their money into Treasuries.

The flood of new money into stocks in the new private accounts would temporarily bid up the prices (and thus lower their returns) of stocks, thus changing the relative attractiveness between equities and bonds.

Stocks would become relatively more “expensive” per dollar of return compared with bonds (price-earnings ratios would rise, as described elsewhere in this paper). Higher interest rates would also have a depressing effect on the economy, because higher rates deter businesses and households from financing investments and big-ticket purchases. It is hard to see how economic growth would be increased when interest rates rise, more money is drawn from stocks into Treasuries, and stocks become a less attractive investment.

One group of Americans would receive a one-time gain, however: those who are already invested in the stock market right now. Their existing portfolios would experience a windfall gain as money flows into the stock market. These investors would then face the decision as to whether to invest their gains in a now-expensive stock market, or shift them to now higher-paying bonds.

Overall, the scheme does not produce a net increase in either economic growth (higher interest rates cancel the effects of the new supply of money into stocks) or in rates of saving by Americans (money is merely shifted from Treasury bonds to stocks in the Social Security system, and from stocks to Treasury bonds outside of Social Security). There might be realignment by corporations in the mix between raising funds through stock issuance or by borrowing, but not in the size of the overall capital markets. In effect, holders of Social Security accounts and present stock market investors would simply trade the same funds among them, but neither the total amount of money invested, nor the average rate of return in the capital markets as a whole would change. This result negates the assertion that private accounts would result in a net gain overall that would be available to fill an actuarial gap.

Myth #8: Social Security is Too Generous – It Has Grown Way Beyond What Was Intended in 1935

Social Security was originally set up to replace about 40% of an average retiree’s previous earnings, and it still does. It has merely kept up with the increase in population, demographic make-up, incomes, the cost of living, and an evolving society. In 1934 the U.S. Commission on Social Security estimated that by the year 2000, 12.7% of the population would be over 65; they were almost exactly right, as the actual figure was 12.4%, a remarkable example of forecasting. Seniors receive a fixed percentage of pre-retirement earnings, and the formula keeps up with average wages in the economy (once the benefit begins for a particular retiree, it is adjusted annually for the cost of living). If the formula to determine

Almost a third of the 48 million Social Security beneficiaries are spouses or children of deceased workers (6.6 million) or disabled workers (8.2 million).

the initial benefit had been tied to prices not wages from the beginning, a typical monthly Social Security payment today would be around \$300 instead of the current \$1,200. Thus any scheme that begins to tie initial retirement benefits to prices not wages, is a recipe for the eventual phasing out of Social Security as any meaningful part of our seniors’ retirement plans.

Presently Social Security benefits – for its 47.7 million recipients – amount to 4.3% of GDP. The Trustees project that this will rise to 6.6% (medium forecast) over 75 years. The optimistic forecast places it at 5.2%. These figures reflect, of course, the increase in the elderly population, and it is reasonable to expect that overall public spending on seniors would rise (at the same time that spending for other segments of the population such as child care would be *proportionately* less). In fact, when actuaries look at the combined per-worker “burden” of children plus retirees, it is in the process of *falling* from its baby-boom peak. To place this increase in resources into another perspective, making the 2001-04 tax cuts permanent would be equivalent to 2% of GDP, roughly equivalent to the size of the increase in the Social Security program.

**Myth #9:
Private Account Systems in Other
Countries Are Proven Successes**

By all reasonable measures, the American Social Security system, when considering its pension, survivorship and disability components, outperforms those foreign pension systems. According to the World Bank, those countries that switched to private accounts have suffered from the predictable loss in shareholder value as a result of market downturns. Overhead costs have proven far higher than those in Social Security (in Chile's system, around 30%), even to the point where those governments have had to step in and place legal caps on fees. And taxpayers have had to fund supplemental appropriations to keep a generation of seniors from penury.

Officials as well as plan participants in these countries are no doubt surprised that the U.S. is considering making such a move, given that this information is available to us. Britain, for example, is now looking to the present U.S. Social Security system as a model to reform their failed "privatized" public pension system.

**Myth #10:
Social Security Can Ignore the
Disability and Survivorship
Benefits for Spouses and Children**

Social Security has three components, a pension for workers who have paid into the system, disability benefits for those no longer able to work but who have not reached retirement age, and survivor benefits for spouses and children of deceased workers. Almost a third of the 48 million Social Security beneficiaries are spouses or children of deceased workers (6.6 million) or disabled workers (8.2 million). Necessarily, then, benefits are paid to such persons without an equivalent matching contribution into the Trust Fund by those workers in order to cover these benefits. Survivor benefits paid to the family of a worker who dies at age 40 are equivalent to a \$400,000 life insurance policy. For this reason, it is incorrect to compare the "rate of return" on payroll taxes paid into Social Security, with a 401-k plan that is strictly a defined-contribution pension plan (without the insurance component). The value of the disability and survivor benefits must be factored in to draw a fair comparison.

Myth #11: Current Social Security System is Unfair to Women and People of Color

Privatization proponents point to the disparity in life expectancy between Whites and African Americans, and the gap in wealth, to argue that private accounts would compensate for such differences.

To look at total benefit comparability between Whites and African Americans, it is necessary to look at all three aspects of Social Security: *pension*, *disability* and *survivor* benefits. It turns out that survivor and disability benefits go disproportionately to African Americans. African Americans are 12% of the populations, whereas 23% of children receiving survivor benefits, and 17% of disability beneficiaries are African American. And recipients of survivor and disability benefits get far more in benefits than the parent, spouse, or worker contributed in payroll taxes. Thus, by virtue of the non-pension aspects of Social Security, it is a very good deal for women, children and many African Americans. Social Security survivor benefits help keep 1 million Americans out of poverty. It is truly an important part of the nation's safety net.

Even the pension portion of Social Security is not the bad deal that it is made out to be. Life expectancies between Whites and African American workers, even for males, are virtually identical. The differential life expectancy between White and African American males occurs because of the higher mortality rates among *younger* Black males (when averaged into the whole population). Most of these individuals paid little into Social Security. So, for most minority workers, Social Security is a very good deal.

Another point to consider is the fact that Social Security's formula for calculating benefits captures a worker's highest 35 years of earnings. African Americans, with a slightly lower rate of college attendance than that of Whites, are said to be penalized by contributing to the system without those dollars going towards pension benefits. However, the employment rate among Blacks is considerably lower in their teenage years; many White workers' teenage earnings go unrecorded for purposes of the benefits formula rather than vice-versa.

Minorities are more dependant upon Social Security in their retirement than Whites, on average (as a percentage of total retirement income). Thus, proponents of privatization say minorities have the most to gain from private accounts. But African Americans depend on Social Security more because employment patterns and

discrimination favor Whites, so that African Americans are less likely to hold jobs that have employer-provided pensions, etc. Private accounts do nothing to change this fact. Converting the system to one of private accounts would exacerbate retirement income differences between Blacks and Whites, because private account balances would be based more exactly on contributions, which are a fixed percentage of earnings. Social Security is progressive because (a) lower income earners receive a higher share of their lifetime earnings in benefits than do higher income earners, and (b) the lowest earning years are ignored in the benefits formula.

Those who earn less during their working years are in greater need of a guaranteed pension, because they are less likely to have one or two of the other two legs of the "three-legged stool:" pension, personal savings, and Social Security. To force the latter into a more risky venture is perverse. This is not to mention the fact that Social Security's disability and survivor benefits would apparently be eliminated or reduced under a privatization scheme.

Summary

Summary

Contrary to many proponents of Social Security privatization, the Social Security program is in sound fiscal health. It is the general fund of the federal government, supported by income taxes, etc., that needs attention. To place the General Fund's ills on the Trust Fund has no basis in fact – indeed, it has been the Trust Fund that continues to bail out the federal government. If there is a fiscal issue that the Administration and Congress should be focusing on, it is reducing the deficit in the general fund. And since by far the largest factor contributing to the deficit has been the recent four years of high-end income tax cuts, that would seem to be the first place to look for remedies.

The Trust Fund by law places its surplus funds into U.S. Treasury Bonds, which are the world's safest investment. Since 1983, the Trust Fund has been growing due to an excess of revenues over expenditures. This is the direct result of reforms made at that time with the express purpose of providing sufficient funds for current retirees, and to set aside money for the retirement of the baby boom generation. Productivity levels in the economy since that time have resulted in the Trust Fund being in the best fiscal condition in its history. The Social Security Administration began using conservative assumptions which have resulted in a projected “paper deficit” two and a half generations from now. With more reasonable assumptions the crisis virtually goes away.

The diversion of one-third of the annual payroll taxes from the Trust Fund to individual private accounts would almost immediately place the Trust Fund into fiscal insolvency, add unnecessary risk to Americans' retirement prospects, and saddle future generations with additional public debt. Such a move would do nothing to solve the supposed crisis, even on its own terms.

If managed properly, the U.S. economy and the federal budget have the capacity to easily cover all

currently projected commitments of Social Security. Revenues flowing into the Treasury are at their lowest level in modern times, mainly due to substantial tax cuts for those in the higher income brackets. The economy is more than capable of supporting our elderly citizens, especially given historic levels in the improvements in productivity.

The private account scheme provides most Americans very little in the way of “ownership” of financial assets that would not only sustain them in retirement but also leave funds that could be passed on. Only those in the upper income brackets would likely see such a benefit – and they would pay for such a privilege by seeing their guaranteed retirement benefits slashed. The private account proposal would require most or all of the balance to be converted into an annuity.

There is no assurance that funds in individual accounts in the stock market would earn a return sufficient to overcome the drastic reductions in guaranteed benefits that would have to occur under such a plan. The assumptions that are used to claim that stock investments will make Americans better off than under the current system simply do not hold up to economic analysis. Households would be placed at considerably more risk than at present despite a world in which there is less and less certainty.

The overall amount of savings in the economy (by households, businesses and government) would not rise under a private account scheme.

The Social Security system is not merely a retirement plan such as a 401(k) plan. Almost one-third of its beneficiaries are under the survivor or disability parts of the program. All Americans now and in the future, would be subject to significantly greater financial risk because the private account schemes provide nothing to replace these social insurance aspects of Social Security.

The U.S. economy becomes stronger every year

that productivity increases. Productivity enables the present generation to live better than our forebears, and the same will be true of our descendants. The funds necessary to keep the present Social Security program solvent in the future will be easier for future generations to afford, not more difficult. There is no evidence that the U.S. economy cannot provide sufficient savings to afford projected Social Security benefits under current law.

Private account systems in other countries have run into predictable problems, including inefficiencies, high fees, and the need for the governments to bail those systems out.

Women, children and minorities in particular would fare worse under a private account system as it has been proposed. The result would likely be increased poverty among these groups.

Thus, privatization would harm the Trust Fund, substantially worsen the nation's already huge budget deficit and grow the national debt, eliminate disability and survivor benefits and inflation protection, and introduce entirely unnecessary risks to individual Americans.

Appendix I

Online Sources for Further Information about Social Security

AARP – Social Security page:

http://www.aarp.org/money/social_security/

American Academy of Actuaries – Social Security page:

<http://actuary.org/socsec/index.htm>

Center for American Progress—Social Security page:

<http://www.americanprogress.org/site/pp.asp?c=biJRJ8OVF&b=289148>

Center for Economic and Policy Research – Social Security page:

<http://www.cepr.net/pages/socialsecuritymedicare.htm>

Center on Budget and Policy Priorities – Social Security page:

<http://www.cbpp.org/pubs/socsec.htm>

The Century Foundation – the Social Security page:

<http://www.tcf.org/2L/Main.asp?TopicId=2>

National Academy of Social Insurance – Social Security page:

http://www.nasi.org/search_site2710/search_site_list.htm?attrib_id=2756

The Social Security network:

<http://www.socsec.org/>

The Social Security Administration:

<http://www.ssa.gov/>

Urban Institute – Social Security page:

<http://www.urban.org/Template.cfm?Section=ByTopic&NavMenuID=62&TopicID=149&TopicName=Social%20Security>

Appendix II:

Social Security by the Numbers

Number of Social Security benefit recipients	47.7 million
Total Social Security benefits paid out in 2004	\$.151 billion
Number of persons working in OASDI-covered employment .....	.159 million
Balance in the Social Security Trust Fund	\$.1.68 trillion
SS Trust Fund balance in 2018	\$.5.3 trillion
SS Trust Fund balance in 2028	\$.6.6 trillion
Total interest paid to the SS Trust Fund annually	\$.89 billion
Percentage of SS revenues presently going towards benefits .....	.86%
Percentage of SS revenues being placed into Treasuries .....	.14%
Age for full retirement benefits (retiring July 1, 2005) .....	.65.5
Age for full retirement benefits (born 1960 or later) .....	.67
Average Social Security retirement check today (2004 dollars)	\$.14,208/yr.
Average SS retirement check in 2080, adjusted for inflation with no action	\$.21,000/yr.
Percent of payroll contributed by employee .....	.6.2%
Percent of payroll contributed by employer .....	.6.2%
Percent of payroll being proposed for diversion into private accounts .....	.4.0%
Year SS Trust Fund outlays will exceed revenues (SSA) .....	.2017
Year SS Trust Fund Outlays would exceed revenues under Bush plan .....	.2006
Size of U.S. outstanding debt	\$.7.78 trillion
Year Balance in SS Trust Fund will be depleted (SSA) .....	.2041
Year balance in SS Trust Fund will be depleted (CBO) .....	.2052
Percent of scheduled benefits still affordable in 2041 .....	.74%
Percent of scheduled benefits still affordable in 2041 (CBO) .....	.81%
Number of years after 2017 the interest alone will cover benefits .....	.10
Number of widows over age 65 receiving survivor benefits .....	.4 million
Number of children receiving Social Security survivor benefits .....	.2 million
Federal revenues are at their lowest point as % of economy since: .....	.1951
Alternative Minimum Tax enacted in .....	.1969
% of economy SS spending will reach in 75 years .....	.5.2% - 6.6%
% of economy Medicare will reach .....	.9.6%
% of economy Medicaid will reach .....	.5.3%
Average interest rate paid on Treasury bonds in the SS Trust Fund (2004) .....	.5.7%

Interest rate being paid on SS-owned Treasuries:	due in 2007	7.375%
	due in 2010 .....	.65%
	due in 2016	5.625%
Year Survivor benefits added		1939
Year Disability benefits added		1954
Year COLA adopted for benefits		1975
Official poverty line for a family of two (2005)		\$12,830/yr
Price/earnings ratio of the stock market (currently)		20/1
Price/earnings ratio at peak of market bubble, 2000		30/1
Price/earnings ratio of the stock market during years 1951 - 2000		14.5/1
Price/earnings ratio needed for a 7% real stock return by year 2074		100/1
Number of 20-year periods that the stock market has returned less than 3%		9
Percentage of time stock market return has been negative since 1926		0.31
Percent of earnings SS provides for "high earning" (\$90,000) workers		24%
Percent of earnings SS provides for workers earning \$50,000		39%
Percent of earnings SS provides for "medium earning" (\$36,000) workers		36%
Percent of earnings SS provides for workers earning \$33,000		45%
Percent of earnings SS provides for "low earning" (\$18,000) workers		49%
Percent of earnings SS provides for workers earning \$10,000		75%
Percent of guaranteed earnings under Bush plan for "high"		12%
Percent of guaranteed earnings under Bush plan for "medium"		26%
Percent of guaranteed earnings under Bush plan for "low"		49%
Bonding requirement under Bush plan		\$2 trillion
Admin. Cost of Bush private acct. plan, 75 yrs.		\$425 billion
Admin. Cost for SS Trust Fund to directly invest in stocks, 75 yrs.		\$15 billion
Percent of every dollar paid in SS benefits used for overhead		0.6 cents
Percent of every dollar paid in Chile/Britain program		15 cents
SSA Commission est. of overhead costs under Bush proposal .....		.5 cents
Percent of retirees under Bush plan who would have no private acct. to bequeath		40-50%
Death rates per 100 pop. Currently		5.3
SSA assumed death rate per 100 in 2040		4.1
SSA assumed death rate per 100 in 2080		3.6

Productivity increases, 1960-2004	2.18%
Productivity increases, 1980-2004	2.07%
SSA assumed productivity increases over 2012-2080	1.6%
Labor force growth (current)	1.2%
SSA assumed labor force growth over 2013-2080	0.2%
SSA assumed net immigration growth going forward	0%
Number of immigrants, decade of the 1990's	11 million
SSA assumed annual increase in pre-tax real wages, next 75 years	1.1%
GNP growth between 1960 and 2002	3.3%
SSA assumed GNP growth over 2013-2080	1.5 - 1.8%
Assumed GNP growth in Bush federal budget assumptions, next 5 years	5.5%
Current longevity of a 65 yr.-old woman .....	.82
SS assumed longevity of a 65 year-old woman (2080) .....	.86
Federal deficit as a percentage of the economy	4.0%
Number of SS recipients for whom SS is only income	7 million
Percent of Social Security recipients for whom SS is their only income	20%
Percent of SS recipients for whom SS is a majority of their income	65%
Percent of SS recipients who would be below the poverty line without SS	48%
CBO projection of real earnings in private accounts w/50/50 stocks/bonds	4.9%
Current rate of real (adjusted for inflation) return of the trust fund	3.5%
Number of state & local employees not under SS	4 million
Average amount in 401K plans of Americans age 55-59 (as of 2001)	\$10,000
SSA assumed Social Security actuarial gap as percent of payroll	1.89%
CBO assumed actuarial gap as percent of payroll	1%
Percent of population that is African American	12%
Percent of children receiving survivor benefits that are African American	23%
Percent of disability beneficiaries who are African American	17%
Percent of adult Social Security Beneficiaries who are women	57%



colorado fiscal
policy institute

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