



# Cato Institute Social Security Choice Paper No. 5: Public Opinion and Social Security Privatization

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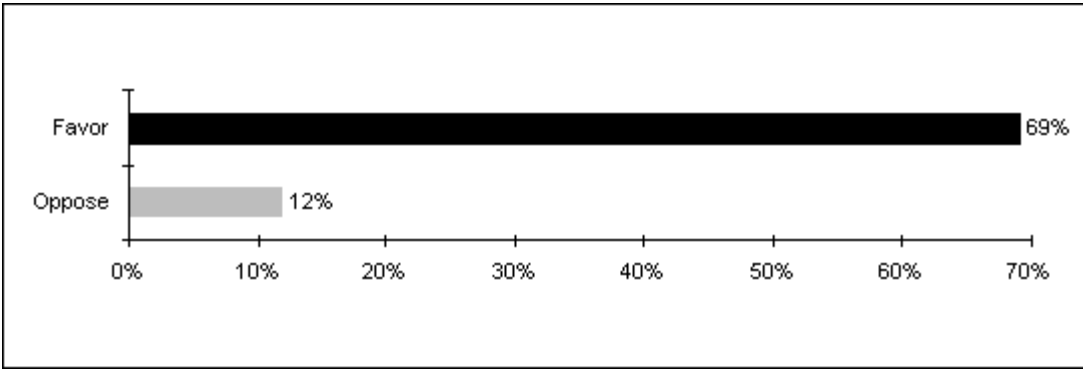
## Executive Summary

Although Social Security remains one of the most popular government programs, most Americans understand that the system faces serious future financial problems and would support privatization of the retirement system, according to the results of a poll conducted by Public Opinion Strategies on behalf of the Cato Project on Social Security Privatization.

Among the poll's findings:

- More than 88 percent of Americans believe that Social Security either is in trouble today or will be in trouble within the next 20 years. Fully 60 percent of all Americans under age 65 believe Social Security will not be there for them when they retire.
- As a result, more than two-thirds (69 percent) believe that Social Security will require "major" or "radical" change within the next 20 years. Among younger voters, approximately half believe that major or radical change is needed today. The support for change cuts across ideological and party lines.
- Voters reject most traditional Social Security reforms such as raising the retirement age, raising payroll taxes, or reducing benefits.
- Approximately two-thirds of voters would support privatization of Social Security, transforming the program into a privatized mandatory savings program. More than three-quarters of younger voters support privatization.

## Privatizing Social Security



[ NOTE: see Figures 10 and 11.]

**Figure 1**  
**Opinion of Various Government Programs**

[Bar graph omitted. Data presented in tabular form]

	Medicare	Social Security	Medicaid	Federal Income Tax System	Welfare
<b>Favorable</b>	71%	68%	58%	28%	25%
<b>Unfavorable</b>	9%	14%	10%	33%	43%

**Introduction**

For more than 60 years the Social Security system has been the primary source of retirement income for elderly Americans. As a result, Social Security has been “and remains” one of the most popular of all government programs. However, despite its popularity, Social Security is facing serious problems.

According to the latest report of the Social Security system's Board of Trustees, Social Security will be insolvent by 2029, down from 2030 in last year's report.<sup>1</sup> This represents the eighth time in the last 10 years that the insolvency date has been brought forward.

But even this does not provide the full story of Social Security's looming crisis. The important date is 2012. Social Security taxes currently bring in more revenue than the system pays out in benefits. The surplus theoretically accumulates in the Social Security Trust Fund. However, in 2012 the situation will reverse. Social Security will begin paying out more in benefits than it collects in revenues.<sup>2</sup> To continue meeting its obligations, it will have to begin drawing on the surplus in the Trust Fund. The trouble is this: the Trust Fund is really little more than a polite fiction. For years the federal government has used the Trust Fund to disguise the actual size of the federal budget deficit, borrowing money from the Trust Fund to pay current operating expenses and replacing the money with government bonds—essentially an IOU.<sup>3</sup>

Beginning in 2012, Social Security will have to start turning in those bonds to the federal government to obtain the cash needed to pay benefits. But the federal government has no cash or other assets with which to pay off those bonds. It can obtain the cash only by borrowing and running a bigger deficit, increasing taxes, or cutting other government spending. All those options pose obvious problems.

Moreover, even if Social Security's financial difficulties can be fixed, the system remains a bad deal for most Americans, a situation that is growing worse for today's young workers. Payroll taxes are already so high that even if today's young workers receive the promised benefits, such benefits will amount to a low, below-market return on those

taxes. While today's retirees will generally receive back all they paid into Social Security plus a modest return on their investment, when today's young workers retire, they will actually receive a negative rate of return—less than they paid in. A young worker today would actually be better off stuffing Social Security taxes in a mattress than counting on benefits from the program.

Those young workers can now get far higher returns and benefits through private savings, investment, and insurance. In fact, a study by financial analyst William Shipman demonstrates that if 25-year-old workers were able to invest privately the money they currently pay in Social Security taxes, they would receive retirement benefits three to six times higher than under Social Security.<sup>4</sup>

Despite these problems, Social Security has long been, in former House Speaker Tip O'Neill's words, the "third rail" of American politics—touch it and your political career dies. This was because of a perception that American voters would not tolerate any major change to the program.

However, a poll conducted by Public Opinion Strategies on behalf of the Cato Project on Social Security Privatization suggests that the public understands Social Security's problems and is strongly supportive of efforts to privatize the system.<sup>5</sup>

### **Social Security Is Popular, But the Need for Reform Is Recognized**

No one should doubt the continued popularity of Social Security. As Figure 1 shows, Social Security remains one of the most popular of all government programs, with two-thirds of Americans holding a favorable view of the program.<sup>6</sup> This popularity is not solely among the elderly. As Figure 2 shows, Social Security retains high favorability among all age groups. Even among so-called baby boomers and Generation X, groups that have expressed skepticism about the program's future, Social Security is viewed as a successful program. Likewise self-described conservatives, moderates, and liberals all have favorable views of Social Security.

However, beneath the surface there is a growing awareness that Social Security is facing problems and needs reform. For example, only 37 percent of Americans believe that the current Social Security system is fair. In addition, far more Americans describe the current system as risky than as safe or secure. Those attitudes are particularly strong among younger Americans.

**Figure 2**  
**Social Security Image by Age and Ideology**  
[Bar graph omitted. Data presented in tabular form]

	<b>Generation X</b>	<b>Baby Boomers</b>	<b>Quiet Generation</b>	<b>Seniors</b>	<b>Conservative</b>	<b>Moderate</b>	<b>Liberal</b>
<b>Favorable</b>	64%	59%	73%	84%	70%	73%	76%
<b>Unfavorable</b>	16%	18%	9%	4%	11%	12%	7%

**Figure 3**  
**Description of Current Social Security System**  
[Bar graph omitted. Data presented in tabular form]

	<b>18-40 Years</b>	<b>41-64 Years</b>	<b>65+ Years</b>
<b>Fair</b>	34%	35%	47%
<b>Safe</b>	21%	19%	35%
<b>Secure</b>	18%	14%	32%
<b>Risky</b>	49%	40%	33%

<b>Confusing</b>	53%	40%	38%
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#### Figure 4 Description of Social Security

[Bar graph omitted. Data presented in tabular form]

Social Security is in financial trouble right now	<b>28%</b>
Social Security will be in financial trouble in the next 5-10 years.	<b>28%</b>
Social Security will be in financial trouble when the baby boomers retire in 15-20 years	<b>32%</b>
Social Security is financially secure for years to come because it is paid for by a special payroll tax. Then invested in a trust fund.	<b>7%</b>

#### Figure 5

#### Percent Who Believe Social Security Will Not Be There When They Retire

[Bar graph omitted. Data presented in tabular form]

All under 65	<b>60%</b>
Generation X	<b>70%</b>
Baby Boomers	<b>69%</b>

#### Figure 6

#### Changing Social Security

[Pie chart omitted. Data presented in tabular form]

#### Needs Change Now

Radical Change	<b>16%</b>
Major Change	<b>26%</b>
Only Some Change	<b>30%</b>
Minor Change	<b>19%</b>
DK/Ref	<b>10%</b>

<b>Radical/Major Change 42%</b>
<b>Minor/Some Change 49%</b>

#### Needs Change in 10-15 Years

Radical Change	<b>36%</b>
Major Change	<b>33%</b>
Only Some Change	<b>12%</b>
Minor Change	<b>11%</b>
DK/Ref	<b>8%</b>

<b>Radical/Major Change 69%</b>
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**Minor/Some Change 23%**

[NOTE DK/Ref = don't know/refused to answer.]

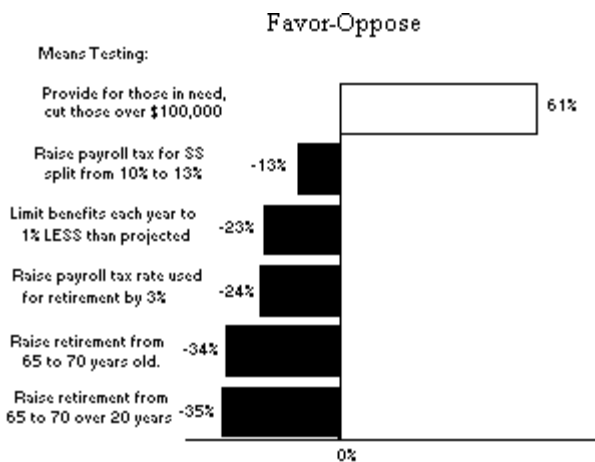
**Figure 7**  
**Amount of Change Needed to Fix Social Security (By Party/Age)**  
 [Bar graph omitted. Data presented in tabular form]

Under 45	GOP	Ind.	Dem.
<b>Radical/ Major Change</b>	54%	50%	52%
<b>Minor/Only Some Change</b>	44%	44%	41%
Over 45	GOP	Ind.	Dem.
<b>Radical/ Major Change</b>	37%	39%	24%
<b>Minor/Only Some Change</b>	55%	53%	67%

**Figure 8**  
**Support for Social Security Reform**  
 [Bar graph omitted. Data presented in tabular form]

	Raise Retirement Age	Increase Payroll Taxes	Limit COLAs	Means Test
<b>Favor</b>	27%	33%	29%	78%
<b>Oppose</b>	62%	57%	52%	17%

**Figure 9**  
**Opinion of Social Security Reforms**



Americans are aware of Social Security's looming financial troubles. As Figure 4 shows, only 7 percent of Americans believe that Social Security is financially sound for the indefinite future. A majority of Americans (56 percent) believe the system either is already in trouble or will be in trouble in the next 5 to 10 years.

That is why young people do not believe that Social Security will be there for them. Fully 60 percent of all individuals under the age of 65 express this belief, with larger majorities among younger voters. (Figure 5)

The results correspond with the findings of other polls. For example, according to an often cited 1994 poll, more young Americans believe in UFOs than believe they will receive their Social Security benefits.<sup>7</sup>

Because Americans recognize Social Security's problems there is growing support for reform. As Figure 6 shows, 42 percent of Americans believe that Social Security needs major or radical change right now. More than two-thirds believe that Social Security will need major or radical reform in 15 or 20 years.

Moreover, as shown in Figure 7, younger Americans support major or radical reform by even larger margins. Of particular interest is the fact that support for radical or major change is relatively constant among Republicans, Democrats, and Independents. Support for Social Security reform is much more a question of age than of ideology or political affiliation..

### **Little Support for Tinkering**

Although there is clear recognition of Social Security's problems, there is little support for many of the reforms frequently proposed for the system. As Figures 8 and 9 show, substantial majorities oppose such commonly cited proposals as raising the retirement age, raising the payroll, tax, and reducing Cost of Living Adjustments (COLAs). Only means testing of benefits for individuals earning more than \$100,000 per year achieves substantial support.

### **Strong Support for Privatization**

While tinkering with Social Security earns little support, privatizing the system has strong backing. Individuals polled were offered the following description of a privatized Social Security system:

The current Social Security system would be reformed to allow people to invest the amount they now pay in Social Security taxes to save for their own retirement. You and your employer would still be required to pay the same amount in taxes, but instead of the money going to the government, you would be allowed to invest the money in your own personal retirement account like an IRA or 401(k). You would control and decide how to invest the money in this account, with some restrictions to avoid very risky investments. The money in this account could be invested in stocks, bonds, or life insurance. The money you invest could not be withdrawn until retirement. Any money left in the account when you die becomes part of your estate and your heirs could inherit the money. There would be no reduction in benefits for current Social Security recipients. People would have the choice of staying in the current Social Security system or moving to the new privatized system. People who choose the new system will receive some benefits under the old system in recognition of what they have already paid into the system.

This proposal strongly resembles the privatized system that has been successfully implemented in Chile.<sup>8</sup>

As shown in Figures 10 and 11, support for this proposal was overwhelming, cutting across all age and ideological groups. Only among individuals over the age of 65 did less than a majority support privatization, and even among this group, support exceeded opposition by better than two to one (with a large undecided group). Moreover, as shown in Figure 12, substantial majorities described the privatized system as fair, safe, and secure.

Not only was support strong for the proposal as a whole but, as Figure 13 shows, the plan's individual elements each had strong support independently.

Individuals were also given a list of arguments in favor of and in opposition to privatization.<sup>9</sup> After being exposed to the most likely arguments they will hear in a future debate over Social Security privatization, support for the privatization proposal remained extremely strong. (Figure 14)

Privatization is far more popular than other proposals for reform. As shown in Figure 15, when offered a choice between a plan of small reforms (such as raising the retirement age, increasing payroll taxes, trimming COLAs, and

means testing) and privatization, voters overwhelmingly supported privatization.

**Figure 10**  
**Opinion of Privatization Plan**

[Pie chat omitted. Data presented in tabular form]

Strongly Favor	38%
Somewhat in Favor	31%
Lean in Favor	4%
No Opinion	12%
Lean Opposed	2%
Somewhat Opposed	6%
Strongly Opposed	6%
DK	2%

**Figure 11**  
**Opinion of Privatization Plan**

[Bar graph omitted. Data presented in tabular form.]

	All Voters	Generation X	Baby Boomers	Quiet Generation	Seniors	Republican	Democrat	Independent
<b>Favorable</b>	69%	80%	77%	69%	47%	73%	60%	70%
<b>Unfavorable</b>	12%	7%	8%	14%	19%	8%	20%	12%

**Figure 12**  
**Percent Who Say Privatization Is...**

[Bar graph omitted. Data presented in tabular form]

	Fair	Safe	Secure	Risky	Confusing
<b>Yes</b>	65%	47%	46%	35%	33%
<b>No</b>	11%	20%	21%	35%	44%

**Figure 13**  
**Percent Favoring Specific Elements of Privatized Plan**

[Bar graph omitted. Data presented in tabular form]

Any money left in account becomes part of estate.	<b>89%</b>
You and employer pay same in taxes but you could choose to invest the \$ into your own IRA or 401 K.	<b>82%</b>
The money could not be drawn until retirement	<b>81%</b>
There would be no reduction in benefits for CURRENT Social Security recipients	<b>79%</b>
You would control and decide how to invest the money in this account, with restrictions on risky investments.	<b>77%</b>

People have choice of staying or moving to new system	<b>74%</b>
The current 55 system would be reformed to allow people to invest the amount they pay in SS taxes	<b>69%</b>

**Figure 14**  
**Opinion of Privatizing Social Security (After Hearing Debate)**  
 [Pie chart omitted. Data presented in tabular form.]

Refused	<b>2%</b>
Favor	<b>65%</b>
Oppose	<b>12%</b>
Unsure	<b>21%</b>

**Figure 15**  
**More People Favor Privatization Than Reform**  
 [Pie chart omitted. Data presented in tabular form.]

Privatize	<b>67%</b>
Reform Current System	<b>20%</b>
Keep Current System	<b>6%</b>
DK/Ref	<b>7%</b>

[Note DK/Ref = don t know/refused to answer].

### Other Polls Yield Similar Results

The results of this poll are not unique. Other public opinion surveys have shown similar support for privatizing Social Security. Indeed, a 1994 Gallup Poll found that 54 percent of Americans thought that participation in the Social Security system should be made voluntary, which is actually a more radical change than privatization.' 10 Another Gallup Poll, this one in January 1995, found that by 47 to 32 percent, Americans thought that Social Security was not "a good program for today's younger workers." The same poll found that by 53 to 23 percent, those interviewed believed that "most people could make more money by investing their retirement funds in the private sector than they could with Social Security."11

Likewise, a poll by GrassRoots Research in November 1995 found that 38 percent of today's workers would withdraw from Social Security if offered the option, *even if they received nothing in return for the taxes they have already paid*. Among workers ages 30 to 39, 48 percent would choose to leave the current system.12

### Conclusion

While Americans recognize that Social Security has done much to help current seniors retire with dignity, they understand that the system will not be sustainable in the future. They clearly understand that reform of the system will be necessary to ensure that today's young workers will also be able to have a secure and dignified retirement.

American voters also understand that measures such as raising the retirement age, reducing COLAs, and raising payroll taxes are insufficient to solve Social Security's problems. They realize that such "reforms" only make the system, a worse deal for future workers. Instead, they strongly support efforts to privatize Social Security and turn the program into a true retirement savings system.



As this public support emerges into the political process, Social Security will no longer be the third rail of American politics. Indeed, a refusal to deal with Social Security's problems may become a new third rail for candidates seeking support among younger voters.

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### Notes

1. 1996 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Trust Funds (Washington: Government Printing Office), p.4.
2. Ibid., p. 5.
3. See Mark Weinberger, "Social Security: Facing the Facts," Cato Institute Social Security Paper no.3, April 10 1996, pp. 4-5.
4. William Shipman, "Retiring with Dignity: Social Security vs. Private Markets," Cato Institute Social Security Paper no. 2, August 14, 1995.
5. The poll was conducted of 800 registered voters on June 12-16, 1996, by Public Opinion Strategies of Alexandria, Va. The margin of error is +3.46 percent. Examination of polling questions is available upon request.
6. All figures are based on data from Public Opinion Strategies, national survey, June 12-16, 1996.
7. "Generation X Believes UFOs but Laughs at Social Security," Washington Times, September 27, 1994.
8. Nor a discussion of the Chilean model, see Jose Pinera "Empowering Workers: The Privatization of Social Security in Chile," Cato's Letters 10, June 1996.
9. Favorable arguments included the following:
  - This proposal gives control to people to plan and manage their own retirement funds rather than risk having the government mismanage the program and funds.
  - This proposal is a needed new idea that will help ensure that younger workers will not have paid thousands of dollars in taxes for benefits that simply will not be there when they retire.
  - Younger and middle-aged workers will receive far more money when they retire if they are allowed to invest their own Social Security payments. For younger and middle-aged workers, assuming even a modest 4 percent rate of return per year, they would receive almost three times more per month in Social Security benefits under this proposal.
  - There would be an explosion of money invested in personal retirement accounts. This money would be reinvested in emerging companies and would help stimulate and improve the nation's economy.
  - This proposal has worked in countries like Chile, Argentina, and Singapore.
- Arguments against privatization included these:
  - It would cost 57 trillion over the next 75 years to continue to pay for people currently on Social Security, and partial payments for all the people who paid into the old system.
  - This proposal would really only benefit wealthy people. They will have more money to invest; they will know more about where and how to invest the money.
  - Critics say, because the money will be invested in stocks and bonds, Wall Street firms will make literally billions of dollars as all the new money flows into retirement accounts.
10. The poll of 1,000 adults was conducted by the Gallup Organization on behalf of the Employee Benefit Research Institute in January 1994. Individuals were asked "Do you think participation in Social Security should be made voluntary?" Fifty-four percent responded "yes"; 44 percent responded "no."

11. "The poll of 1,007 adults was conducted by the Gallup Organization on behalf of the Employee Benefit Research Institute in January 1995.

12. The poll of 1,000 registered voters was conducted November 1-8, 1995, by GrassRoots Research of Charlotte, N.C. The margin of error was +3 percent.