

Three Perspectives on Social Security Choice

On February 27 House Majority Leader Richard K. Armey spoke at a *Cato Forum on the importance of Social Security reform*. On March 19 *Cato* and the National Black Chamber of Commerce sponsored a conference, “*Social Security and African Americans*.” Among the speakers at the conference were Gwendolyn King, former social security commissioner and member of the President’s Commission to Strengthen Social Security, and J. Kenneth Blackwell, secretary of state of Ohio. Excerpts from those three speakers’ remarks follow.

Rep. Richard K. Armey: Social Security is the single most important public policy issue that will be addressed by my generation. Yet the politics of it is so brutal that anybody who responsibly considers the matter is generally driven from office by our current irresponsible, short-sighted, self-serving political mores. What is most regrettable to me is that we as a nation tolerate that.

Why have the political bullies gotten away with this? Because it is a generational thing. For my grandfather, Social Security was a good deal. He paid in for a few years and got a great return. By the time my father retired, he had paid in a larger share of his salary over a longer period of time, and he found that the return was not that good.

And then the benefit/cost ratio went down even further. Americans born in the 1960s can expect a mere 2 percent return on their investment. They can do that well by just putting their money in a savings account—or in a mattress. And they know it. The system is headed for inevitable bankruptcy. In less than 15 years, Social Security will be sending out more money than it takes in. That means it is going to have to start cashing in the IOUs in the trust fund. By the year 2038, the trust fund will be empty. There is nobody in this room who will ever receive a dime of Social Security benefit that is not given to them from current taxes paid by their children. So, one way or the other, your children are going to pay for every benefit you get.

Sooner or later, redeeming the notes in the trust fund will result in a transfer from general revenue to Social Security. Then we’ll have some tough choices: pay more in income taxes to sustain a transfer from general revenue, pay more in FICA taxes so we do not have to go to general revenue, cut people’s benefits, or a combination of the three. If you say, this system is perfect just the way it was; let’s just keep it moving, you are either going to cut people’s benefits, raise people’s payroll taxes, or give people an income tax burden larger than they otherwise would have—or deficit spend.



Dick Armey: “We would allow you, if you chose, to take as much as 8 percent of the 12.4 percent Social Security tax and put it into a private annuity plan.”

We know that now. President Bush deserves an enormous amount of credit for taking on the issue. He went out and campaigned on the basis that Social Security, retirement security for all generations, is a serious matter and we ought to talk about it. He has said he wants retirement security for all generations to be his legacy. And he understands that this means reforming and in some way preserving Social Security.

Now that we have begun to set the stage, we have a greater selection of individual retirement accounts, 401(k) plans, and other instruments out there. People are beginning to be better savers. And I am telling my colleagues in public office that the nation is ahead of us on Social Security. All generations of Americans understand it better

and are beginning to wonder why we in public office don’t.

We must dare to believe in the American people on this point. Because until you can get by the politics of fear, you will never get to the policy of hope. And it is those of us who want to proceed who must go forward.

Here is the gist of the right way to do this. The first thing we do is to make sure we are not cutting one dime’s worth of benefit. We would allow you, if you chose, to take, according to a graduated scale, as much as 8 percent of the 12.4 percent Social Security tax paid on every dollar you earn and put it into a private annuity plan.

The bet is that, with compound interest and real earnings in the real world, you can do well enough to someday have retirement benefits that are personal, owned by you, assigned to you, outside the scope of anybody’s tampering, and greater in amount than what you would have gotten had you elected to stay in the old Social Security program and let the government manage your whole 12.4 percent contributions.

If indeed you receive as much or more than the guaranteed benefit of the government’s traditional program, the government gives you nothing out of the traditional program; you take all your retirement income out of your private capital investments. If you get into the new program late and maybe

do not get that much, then maybe the government pays you some fraction of what it might otherwise have paid.

Some observers say you cannot put people into this risky environment. Ladies and gentlemen, if you talk to one single American today who feels one bit of security about his retirement, ask him what is making him feel secure. And he will tell you that what he holds in the private security markets is what is making him feel secure.

It is obnoxious to me to hear people say that Enron proves you cannot do this. Enron proves that my mama was right when she told me when I was 12, Don’t put all your eggs in one basket.

That is what Enron proves. Enron in no way disproves the viability of a plan that allows me to voluntarily make a decision

“The key to a more prosperous African-American community lies in making it possible to build wealth that can be passed from generation to generation.”

to leave the government-guaranteed plan and to take some portion of my own earnings over into the private capital market under a fairly prescribed formulation and see if, indeed, I cannot do better for myself with my privately owned funds. And if I do better, then I can voluntarily agree that the government is off the hook. In the final analysis, it is all about freedom, choice, and self-control.

Gwendolyn S. King: Let's deal in hard facts. The average life expectancy for an African-American man, according to year 2000 statistics, is 64.8 years. In 1995 it was 65.4 years. About 650 of every 1,000 African-American men won't see their 75th birthday.

That means that millions of working black men are going to devote a healthy share of their lifetime earnings to financing the Social Security benefits of others. When I hear people defend the status quo as something that African Americans should want to protect, I want them to look at one critical number: one of every four African Americans between the ages of 65 and 74 who are receiving retirement benefits from Social Security is living below the poverty line. By contrast, for white Americans, that figure is just 8.8 percent.

I believe the President's Commission to Strengthen Social Security developed proposals for an improved Social Security system that deserve meaningful and thoughtful public debate. Let me take a moment to address some of the major proposals in the commission's report.

Number one, we believe that Social Security would be strengthened by allowing workers to use a small portion of their 6.2 percent Social Security contribution to create a personal retirement account component, so that families would gain a larger return on their money than is currently earned and have the opportunity to build savings instead of just contributing their FICA taxes toward their defined benefit. Those accounts would be voluntary.

In today's world, the median African-American household has barely over \$3,000 in financial assets. That's not enough money to protect a family against a serious finan-



Former social security commissioner Gwen King spoke to the conference by satellite.

cial setback or finance even one year of postretirement life.

One major reason that African-American families have only \$3,000 in assets is because they are contributing 6.2 percent of their wages to the Social Security system, and, let's face it, that doesn't leave much cushion in the paycheck for personal savings.

Our commission did some projections and we discovered that if we take just \$1,000 of an average worker's annual Social Security taxes for 50 years and place that money in a personal investment account, the average-wage earner will enter retirement with more than \$150,000 accumulated, even after inflation adjustments.

Finally, I believe strongly that, if we're going to give people the ability to create personal retirement accounts with a portion of their Social Security taxes, then we must also give them control over those balances when they reach retirement age.

These ideas emanating from the President's Commission were not met with universal acclaim. So let's be clear about what we did and didn't do and not resort to frightening seniors already receiving benefits: We did not propose changing benefits for current and near-retirees. We, quite simply, did not propose any measures that would touch the retirement income of any individual aged 55 or over.

Let me address some of the specific arguments that have been made against the com-

mission's recommendations as they relate to African Americans.

First, it has been said frequently that we minorities are disproportionately reliant on Social Security for our retirement income and that it would therefore be extraordinarily hurtful to us to alter the current system.

It is true that minorities have a heavy reliance on Social Security for their retirement income. Black males who worked in the low wage brackets for most of their lives will depend on Social Security for about 80 percent of their retirement support. The wealthiest 20 percent of wage earners, by contrast, depend on Social Security for only 20 percent of their retirement income needs.

Yet, far from being an argument against reform, this is compelling argument for change. Dependency on Social Security has not, by any means, equaled retirement comfort for African-American retirees. They have little wealth accumulation. Many are living below or barely above the poverty line. That is certainly not a strong rationale for maintaining the status quo.

Furthermore, think about the future of Social Security and about how much we depend on the program. If the day comes—and it will come—when we can't balance the Social Security books without making significant cuts in benefits, who is going to bear the lion's share of that pain?

It has been argued that African Americans are likely to fare worse under private accounts, since Social Security retirement benefits are progressive and our disproportionately low-income recipients receive a larger percentage of benefits relative to earnings than do higher-income recipients. The commission was careful to offer new progressive proposals for funding personal retirement accounts and progressive changes to Social Security's benefit structure. As a result, many minorities would be helped disproportionately by our recommendations.

Another argument voiced against reform is that minorities are the prime beneficiaries of Social Security's disability and survivors' benefits and would be hurt the most

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if those benefits were undermined by proposed reforms. The president specifically directed the commission to preserve Social Security’s disability and survivors’ components.

Saying that we should maintain Social Security exactly as it exists today is no different from saying that a train should stay on the same track even though the bridge is out a few miles up ahead.

The Social Security Trustees Report tells us that, beginning in 2016, the current program will cease producing sufficient revenues to cover full benefit outlays. By 2030, if we’re going to continue to meet current benefit promises, workers will have to pay a 17 percent Social Security tax to finance those benefits. By 2038 benefits would have to be cut by 27 percent just to keep the program solvent.

We have a window of opportunity in which to address this problem. By beginning a serious debate now that could lead to legislative action in two or three years, we can keep Social Security solvent well into the 21st century, and we can create a program that offers promise and prosperity to people who are today experiencing poverty or near-poverty, or not gaining anything at all from Social Security.

In 1884 Frederick Douglass wrote, “A race which cannot save its earnings can never rise in the scale of civilization.” I believe those words ring very true today, that the key to a more prosperous African-American community lies in making it possible to preserve our rich heritage, educate our children, and build wealth that can be passed from generation to generation. Without change, cycles of poverty will continue uninterrupted. With change, we can replace despair with hope, dependency with confidence, and dislocation with home ownership.

J. Kenneth Blackwell: I recently celebrated my 54th birthday. That makes me one of about 76 million baby boomers who grew up, went to work, and supported Social Security. In 11 years, we begin to

retire, hoping Social Security will return the favor. It won’t.

That concerns me not just because retirement looms on the horizon and not just because Social Security data predict that as a black man I will live only another 13 years and receive benefits for only the last 2. What really concerns me as a former state treasurer is the inefficient use of tax dollars. When money is invested, it is working, not idle. I was once held accountable for every



Ken Blackwell: “Given that Social Security benefits are not inheritable, the downward spiral of wealth inequity is compounded from generation to generation.”

idle minute in the life of an Ohio tax dollar. In light of that, I am alarmed by any public program that takes money and does not make money.

The question is not whether Social Security will fail. It will and people know it. If we reform Social Security now, the system will still have enough money to pay benefits during a transition.

Maintaining benefits to older workers will be the toughest part of any transition. The solution may be to supplant retirement accounts of older workers with federal bonds. The bonds should be paid off through cutbacks in general spending, not cuts in Social Security. Privatization offers huge benefits for most Americans by increasing personal wealth, savings, and tax revenue. Since individuals and broader federal budgets will gain from privatization, those gains will offset Social Security’s transition costs. The income from privatization justifies the expense of the transition.

No group has as much at stake in Social Security reform as African Americans.

We are disproportionately dependent on Social Security for our retirement income. Three of four older black households rely on Social Security for half or more of their retirement income, and a third of older African Americans rely on Social Security for all of their income.

Social Security reform is beginning to get the attention that it deserves as a 21st-century civil rights issue. My friends and colleagues, Hugh Price, president of the National Urban League, and Julian Bond, chairman of the Board of the NAACP, have addressed the need to improve and strengthen our current system. Unfortunately, they dismiss private individual investment accounts recommended by the Social Security Commission.

My friends are correct that the higher mortality rate for young blacks affects African Americans’ aggregate rate of return on Social Security contributions. But it is wrongheaded to leave the impression that the mortality rate alone causes the low rate of return. Simply stated, high mortality rates for the young do not have a big impact on Social Security returns

because the young have not had time to develop substantial earning histories. Moreover, there are many factors that make Social Security in its current form a bad deal for African Americans.

Family structure is one factor. To understand, one needs only to look at the demographic group that benefits most from Social Security—married couples with children and a stay-at-home spouse. That living situation is far less prevalent among African Americans than other races.

The list of Social Security disadvantages for blacks goes on. African Americans are less likely than whites to have other forms of savings or wealth. That condition is exacerbated by the 12.4 percent Social Security tax. After paying their living expenses, few low-income workers have the discretionary income needed to invest. Social Security taxes squeeze out other forms of savings and investment.

As a result, many African Americans are unable to accumulate real wealth. Moreover, since Social Security benefits are not

inheritable, the downward spiral of wealth inequity is compounded from generation to generation. Let me underscore that: *Given that Social Security benefits are not inheritable, the downward spiral of wealth inequity is compounded from generation to generation.*

Any Social Security reform should take into consideration the needs and circumstances of African Americans. The only proposal to thoroughly do so is the partial privatization strategy advocated by President Bush and his commission.

By changing the system from an unfunded defined-benefit system to a defined-contribution plan, based on real wealth, privatization would disconnect total benefits from life expectancy. You must separate real wealth and wealth accumulation from life expectancy.

The benefits any individual received would depend on what was paid into the system plus the investment return on those payments. Benefits under the current program are dependent solely on how many years those benefits are received. That would not be the case under a partially privatized system. Individuals would have a property right to their Social Security benefit. Their individual investment accounts would become part of contributors' estates and could be passed on as an inheritance. Survivors' and disability benefits, which are received by many African Americans, would not be affected by any of the privatization plans that have been proposed by the president's commission.

A higher rate of return would create wealth and lift many African-American seniors out of poverty.

It is time for our national leaders to consider the current and long-term consequence of our unfair Social Security system for African Americans.

At the recent National Summit on Retirement Savings, I joined more than 200 political and financial leaders in discussing the future of savings in America. The dialogue on savings is well under way. Social Security will be privatized and transformed into a true market system. It is time for the world's foremost market economy to put the market to work for the future of America and for all Americans. ■

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on Budget and Policy Priorities countered that African Americans benefit from Social Security's progressive benefit formula and survivors' and disability insurance.

Television commentator Tony Brown; the Reverend Al Hurt of Kingdom Church in Brockton, Massachusetts; and two leading African-American investment advisers, Melody Hobson, president of Ariel Capital Management, and Jesse Brown, president of Krystal Investments, discussed the lack of private savings and investment in the African-American community. All agreed that African Americans need to learn more about the need to save for their retirement and more mechanisms to encourage saving and investment.

Should Social Security be privatized? That was the topic of a debate. E. Percil Stanford, former chairman of the National Committee to Preserve Social Security and Medicare, and Hilary Shelton, director of the Washington office of the NAACP, said no. Star Parker, president of the Coalition for Urban Renewal and Education, and former Godfather's Pizza president Herman Cain made the case for privatization.

Dylan Glenn, an economic adviser to



Television host Tony Brown tells Cato's conference participants that black Americans need to use the market to build wealth.

President Bush, discussed the president's commitment to Social Security reform.

The conference was the first of three that Cato is devoting to Social Security's impact on women and minorities. A conference on women and Social Security was held on April 9, and one on Hispanics and Social Security is planned for May 21.

The conference, organized by Tanner, can be viewed online with RealPlayer at the Cato Institute's main Website, www.cato.org, as well as at SocialSecurity.org. ■

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