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Summary: *The Chief Actuary of Social Security has scored the Ryan-Sununu Social Security reform bill, which provides for large personal retirement accounts, as achieving full and permanent solvency of the program without benefit cuts or tax increases. Eventually there would be substantially higher benefits as well as tax cuts. Additionally, the unfunded liability of Social Security would be eliminated.*

Personal Social Security Accounts That Work:

A Review of the Official Score of the Ryan-Sununu Social Security Plan

By Peter Ferrara

Rep. Paul Ryan (R-WI) and Sen. John Sununu (R-NH) have introduced legislation providing for a large personal retirement account option for Social Security. The Chief Actuary of Social Security has scored this legislation as achieving full and permanent solvency of the program, without benefit cuts or tax increases.

In fact, over the long run, large personal accounts would result in higher benefits than promised under current law, and lower payroll taxes. This is because market returns on real savings and investment are so much higher than returns on the non-invested, purely redistributive system of the current Social Security framework.

The large accounts end up shifting so much of the current system's benefit obligations to the accounts themselves that the long-term deficits are eventually eliminated through this effect alone.

Moreover, in the process of this reform, the current unfunded liability of Social Security would be eliminated.

The Ryan-Sununu bill would produce dramatic, historic, breakthrough gains in personal prosperity for working people, with a vast increase in personal wealth accumulating to $7.8 trillion (in today's dollars) in just 15 years.

Major Provisions of the Ryan-Sununu Plan

Under the legislation, workers would be free to choose to shift their payroll tax money into personally owned individual retirement accounts. The maximum allowable amount would be 10 percentage points of their first $10,000 in wages each year, and 5 percentage points of all wages above that, to the maximum Social Security taxable income. This creates a progressive structure with an average account contribution among all workers of 6.4 percentage points.

- Workers currently in the workforce exercising the personal accounts continue to receive a portion of Social Security retirement benefits under the current system based on the past taxes they already have paid into the program. In addition to that, workers receive the benefits payable through the personal accounts.
- Workers would choose investments by picking a mutual fund managed by a major private investment firm, from a list of funds officially approved for this purpose and regulated for safety and soundness, which is similar to the operation of the Federal Employee Thrift Retirement System.
- The accounts would be backed up by a safety net guaranteeing that workers receive at least as much as what Social Security promises under current law.

Apart from the personal account option, there is no change in currently promised Social Security benefits of any sort. Social Security and the reform's transition financing are placed in their own separate Social Security Lockbox budget, with the surpluses protected and devoted to paying off all transition debt and then to reducing payroll taxes.

The Official Score of the Ryan-Sununu Plan

The official score of the Ryan-Sununu bill by the Chief Actuary of Social Security showed the following:

- **The large personal accounts in the plan are sufficient to completely eliminate Social Security deficits over time, without any benefit cuts or tax increases.** This is because so many of Social Security's benefit obligations are shifted to the accounts. As the Chief Actuary stated, under the reform plan, "the Social Security program would be expected to be solvent and to meet its benefit obligations throughout the long-range period 2003 through 2077 and beyond." **Indeed, the eventual surpluses from the reform are large enough to eliminate the long-term deficits of the disability insurance program as well, even though the reform plan does not otherwise provide for any changes in that program.**
- Not only would there be no benefit cuts or tax increases, but over time, the accounts would provide substantially higher benefits as well as tax cuts. The official score shows that by the end of the 75-year projection period, instead of increasing the payroll tax to over 20 percent as would be needed to pay promised benefits under the current system, the tax would be reduced to 4.2 percent, enough to pay for all of the continuing disability and survivors' benefits. **This would be the largest tax cut in world history. The bill includes a payroll tax cut trigger providing for this eventual tax reduction once all transition financing and debt obligations have been paid off.**
- The accounts would produce substantially more in benefits for working people across the board than Social Security now promises, let alone what it can pay. This is the only reform proposal that achieves that result. With personal accounts of this size, at standard long-term market investment returns, an account invested consistently half in corporate bonds and half in stocks would provide workers with roughly two-thirds more in benefits than Social Security promises (but cannot pay).
- In the process of shifting benefit obligations to personal accounts, the reform would eliminate the unfunded liability of Social Security, currently officially estimated at $11 trillion. **This would be the largest reduction in government debt in world history.**
- The reform would greatly increase and broaden the ownership of wealth and capital through the accounts. **Under the Chief Actuary's score, workers would accumulate $7.8 trillion in today's dollars in their accounts by 2020. Wealth ownership throughout the nation would become much more equal, and the concentration of wealth would be greatly reduced.**

Financing the Transition

Of course, any personal account reform plan involves a transition-financing issue, as some of the funds used to pay current benefits under the present system are saved and invested in the personal accounts instead.

The Ryan-Sununu bill specifies exactly where the funds needed for the transition would come from:

- The short-term Social Security surpluses now projected to last until 2018 are devoted to the transition.
- The bill contains a national spending limitation measure that would reduce the rate of growth of total federal spending by 1 percentage point per year for eight years. The spending savings for those years are then maintained until all short-term debt issued to fund the transition is paid off in full.
- Financing also would come from the increased federal tax revenues resulting from increased corporate and business investment due to the accounts.

To the extent needed in any year, excess Social Security trust fund bonds would be redeemed for cash from the federal government, with the funds used to pay full promised Social Security benefits.

With this transition financing, the official score of the Chief Actuary shows the following:

- Under the Ryan-Sununu bill, Social Security achieves permanent and growing surpluses by 2030. Before that time, an average of about $52 billion (constant 2003 dollars) in surplus Social Security trust fund bonds would be redeemed each year for 25 years, and financed by the sale of an equivalent amount of new federal bonds, ultimately totaling $922 billion in present-value dollars. The amount of such bonds sold each year is shown in the accompanying table.
- The amounts in the table include bonds sold to cover part of the Social Security deficits under the current system now projected to start in 2018, which will not be fully eliminated under the reform plan until 2030.
- Even with the redemption of surplus trust fund bonds, the Social Security trust fund never falls below $1.34 trillion in today's dollars, or 141 percent of one year's expenditures. After 2030, the trust fund grows permanently, reaching close to 10 times one year's expenditures by the end of the projection period, or about $6 trillion in today's dollars.
- Within 15 years after 2030, the reform produces sufficient surpluses to pay off all the bonds sold to the public during the early years of the reform. **So the net impact of the reform on debt held by the public is zero.**

Table 1 The Ryan-Sununu Bill: Social Security Trust Fund Bonds Redeemed to Cover Social Security Deficits

Year	Constant 2003 Dollars*	Present Value Dollars*
2005	144	130
2006	131	115
2007	109	93
2008	89	74
2009	70	56
2010	51	40
2011	30	23
2012	11	8
2013	17	12
2014	24	16
2015	31	20
2016	37	24
2017	43	26
2018	48	28
2019	52	30
2020	56	30
2021	59	31
2022	60	30
2023	57	28
2024	54	25
2025	48	21
2026	40	16
2027	30	11
2028	18	4
2029	2	1
Total:		**922**

*All figures in billions.

Source: "Estimated Financial Effects of the 'Social Security Personal Savings and Prosperity Act of 2004,'" July 19, 2004, Office of the Chief Actuary, Social Security Administration, Table 1e.

The transition to personal accounts under Ryan-Sununu is a one-time financing project meant to liquidate an enormous federal debt. It is not part of the ongoing operations of the federal government and the long-term liabilities it is racking up. So it would be accurate to account for the transition separately from those ongoing operations.

Accounting for the transition in this way has the added benefit of protecting the later surpluses of the reform from being gobbled up in the general federal budget process. These later surpluses would be reflected in the

separate Social Security Lockbox budget, under a policy of devoting those surpluses to paying off the earlier transition debt, and then to reducing payroll taxes.

The federal spending restraint provided for in the bill to help finance the transition is quite modest and achievable. Over the initial eight-year period, it would limit federal spending to grow each year no more than its long-term baseline of the rate of growth of GDP, minus 1 percent. Consequently, during that period, federal spending as a percent of GDP would decline from 20 percent to 18.4 percent. The bill would then allow federal spending to continue to grow at the old baseline rate, keeping spending only 1.6 percent of GDP below that baseline. Once the transition to personal accounts is financed and all short-term debt issued during that transition is paid off, the spending restraint is eliminated.

The spending restraint during the first eight years is actually less than the restraint achieved during the eight years of the Clinton administration, which held federal spending growth to the rate of growth of GDP minus 1.8 percentage points each year.

The Ryan-Sununu spending limits are enforced by new national spending limitation provisions included in the bill. These provisions reorient the whole federal budget process around the spending limitation, and require a stiff two-thirds majority of both houses to get around it. Budgetary procedures are changed to allow any member of Congress to halt a spending initiative inconsistent with the spending targets.

The Real Cost of Personal Accounts

Finally, the transition financing provided by this revenue feedback and the spending restraint involves $7.1 trillion (present value dollars) in general revenues provided to Social Security over the life of the transition. Some erroneously argue that the amount of general revenues used in a reform plan is the measure of how much a reform plan costs. In another IPI study ("The Cost of Personal Retirement Accounts"), this is shown to be fallacious. About 54 percent of the general revenues used for the Ryan-Sununu plan come from the increased revenue feedback. These general revenues were generated by the reform plan itself. They would not exist without the reform. Consequently, they cannot logically be considered part of the net cost of the reform plan. Quite to the contrary, these additional revenues are a benefit of the reform plan, used to offset, and hence reduce, the net transition-financing burden. This leaves the net general revenues used for Ryan-Sununu at $3.8 trillion.

Moreover, to the extent the spending restraint in Ryan-Sununu produces reductions in wasteful or counterproductive federal spending, those reductions also would not represent a cost. Again, quite to the contrary, those reductions in fact would be another benefit of the reform plan, used to offset and hence reduce the net transition-financing burden.

Conclusion

The Ryan-Sununu bill would produce dramatic, historic, breakthrough gains in personal prosperity for working people. The long-term Social Security financing crisis would be completely eliminated, without cutting benefits or raising taxes. Workers would receive through the large accounts in the Ryan-Sununu reform plan much higher benefits than Social Security currently promises.

Ryan-Sununu truly modernizes and expands the Social Security framework. Such reform makes good on the original promise of Social Security, when everyone thought they were going to have individual accounts with the government that would be saved and invested. Moreover, the guarantee of current-law benefits in Ryan-Sununu keeps the current social safety net in place.

With this modernization, Social Security's financial difficulties will end, and workers will be able to gain sharply higher benefits, much lower taxes, and the accumulation of substantial personal wealth. It all adds up to a historic breakthrough in the personal prosperity of working people.

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Editor & Publisher . . . . Tom Giovanetti

IPI *Quick Study* is published by the Institute for Policy Innovation (IPI), a non-profit public policy organization.

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This study is a summary of IPI Policy Report # 164, *Personal Social Security Accounts That Work: A Review of the Official Score of the Ryan-Sununu Social Security Plan,* by Peter Ferrara.

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