Institute For Policy Innovation
IPI Ideas
Innovative Insights on Today's Policy Debates
NO. 28 FROM THE IPI CENTER FOR ECONOMIC GROWTH JULY 2004

# SOCIAL SECURITY PERSONAL SAVINGS AND PROSPERITY

*By Tom Giovanetti*

On July 14, the Social Security Personal Savings and Prosperity Act of 2004 was introduced by lead sponsors Rep. Paul Ryan in the House and Sen. John Sununu in the Senate. The bill follows closely the proposal authored by IPI senior fellow Peter Ferrara, published by IPI last summer. The bill's reforms would ultimately provide for a dramatic increase in the personal prosperity of working people in America. It would be the most sweeping change in America's social and economic policy since the New Deal.

The main components of the bill are:

- Out of the 12.4% Social Security payroll tax, workers would be free to choose to shift to personally owned, individual accounts, 10 percentage points on the first $10,000 in wages each year, and 5 percentage points on 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
- Benefits payable from the tax-free accounts would substitute for a portion of Social Security benefits based on the degree to which workers exercised the account option over their careers. Workers exercising the personal accounts would receive Recognition Bonds guaranteeing them the payment of Social Security retirement benefits based on the past taxes they have already paid into the program. Workers would then also receive in addition the benefits payable through the personal accounts.
- Workers choose investments by picking a fund managed by a major private investment firm from a list officially approved for this purpose and regulated for safety and soundness, similar to the operation of the Federal Employee Thrift Retirement System.
- The accounts are backed up by a safety net guaranteeing that workers would receive at least as much as Social Security promises under current law.
- Apart from this personal account option, there would be no change in currently promised Social Security benefits of any sort, for today's seniors or anyone in the future. Anyone who chooses to stay in Social Security would receive the benefits promised under current law. Survivors and disability benefits would continue as under the current system unchanged.
- Social Security and the reform's transition financing are placed in their own separate Social Security Lockbox budget, apart from the rest of the Federal budget. This means the government can never raid Social Security again to finance other government spending. It also means the short term transition deficits and the longer term transition surpluses would be apart from the rest of the budget, with the surpluses thereby protected and devoted to paying off all transition debt and then to reducing payroll taxes.

This proposal has already been scored by the Chief Actuary of Social Security. That official score shows:

- The large personal accounts in the plan are sufficient to completely eliminate Social Security deficits over time, without any benefit cuts or tax increases. That is because so much of Social Security's benefit obligations are ultimately 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.

- The accounts achieve this with no benefit cuts or tax increases in Social Security. **Over time, in fact, 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% as would be needed to pay promised benefits under the current system, the tax would be reduced to 3.5%, 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.**
- Moreover, at standard, long term market investment returns, 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. An account invested two-thirds in stocks and one-third in bonds would pay workers over twice what Social Security promises today.
- The reform also achieves **the largest reduction in government debt in world history**, by eliminating the unfunded liability of Social Security, almost three times the current reported national debt.
- The reform would also greatly increase and broaden the ownership of wealth and capital through the accounts. All workers would participate in our nation's economy as both capitalists and laborers. Under the Chief Actuary's score, workers would accumulate $7 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.
- Finally, the reform plan would greatly increase economic growth, through reduced taxes and increased saving and investment. The result would be more jobs, higher wages, and faster growing incomes and national GDP.

A broad coalition has arisen to support such reform. Leading the way is the Alliance for Retirement Prosperity, with national co-chairs Jack Kemp of Empower America, Dick Armey of Citizens for a Sound Economy, and former Social Security Commissioner Dorcas Hardy. The National Policy Chairman is Steve Moore, President of the Club for Growth, with Empower America Chief Economist Larry Hunter serving as Executive Director. Other founders of the coalition are Charley Jarvis, President of the United Seniors Association, and Grover Norquist, President of Americans for Tax Reform. Newt Gingrich is supporting such reform as well.

These leaders and their organizations are also joined by David Keene and the American Conservative Union, Star Parker and the Coalition for Urban Renewal, commentator Larry Kudlow, Tom Giovanetti and the Institute for Policy Innovation, Lew Uhler and the National Tax Limitation Committee, former Reagan White House policy aide Robert Carleson, Richard Rahn of the Discovery Institute, Curt Winsor, Jim Martin and 60Plus, and others.

In the next few months, numerous additional cosponsors will join in support of this legislation. The bill is also fully consistent with the principles for Social Security reform and personal accounts endorsed by President Bush. The President should closely examine this proposal as the best possible means for carrying out those principles in real, practical reform.

---

Tom Giovanetti is President of the Institute for Policy Innovation.



Direct all inquiries to:

**Institute for Policy Innovation**
1660 South Stemmons, Suite 475
Lewisville, TX 75067

(972)874-5139 [voice]
(972)874-5144 [fax]

Email: **ipi@ipi.org**
Website: **www.ipi.org**