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WHAT THE NEW CBO REPORT FINDS ABOUT SOCIAL SECURITY "GROW ACCOUNTS"

by Jason Furman

On July 14, Rep. Jim McCrery (R-LA) and various other Republican members of the House of Representatives introduced H.R. 3304. This legislation, similar to a plan proposed by Senator Jim DeMint (R-SC), would establish Social Security private accounts, called "GROW accounts." These accounts would receive total annual contributions equal to the size of the annual surplus in Social Security (not counting the interest that the Social Security Trust Funds earn on their bonds) for as long as the surplus lasted, which CBO estimates is through 2020. Account holders would have their traditional Social Security benefits reduced in return.

Supporters of the DeMint-McCrery plans acknowledge that their plans would not restore Social Security solvency. They argue that their proposals are a first step toward larger accounts and subsequent steps to restore solvency.

In July, the Social Security actuaries released detailed analyses of these plans. The actuaries' analyses formed the basis for a detailed examination of the plans by the Center on Budget and Policy Priorities.[1] Now the Congressional Budget Office has issued its own analysis of the McCrery proposal. The CBO analysis largely confirms the earlier analyses and also contains some striking new findings.[2] Highlights of the CBO report include:

- **GROW accounts would increase federal spending by $1 trillion over the next ten years.** The analysis states that "CBO estimates that H.R. 3304 would increase direct spending by $988 billion over the 2007-2015 period." When the added interest costs on the debt are taken into account, the total increase in spending would add nearly $1.3 trillion to the debt held by the public over the first decade the plan was in effect.

  Some supporters of GROW accounts have pointed to CBO's finding that the plan would reduce federal expenditures from 2021 to 2052. That, however, is a misleading use of the CBO report. The CBO data show that the annual reduction in expenditures in those years would be

[1] Jason Furman and Robert Greenstein, "The DeMint and McCrery Social Security Plans," *Center on Budget and Policy Priorities*, July 20, 2005.

[2] Congressional Budget Office, "Analysis of H.R. 3304, Growing Real Ownership for Workers Act of 2005," September 13, 2005.

very small — much smaller than the *large increase* in expenditures from 2007 through 2020. As a result, over any window of time starting with the beginning of the plan, federal spending would be higher because of the plan, not lower.

- **Without budget gimmicks, GROW accounts would make Social Security's solvency problems worse.** The CBO analysis finds that the proposal would extend Social Security solvency by 11 years, but only because the plan relies on large, unpaid-for transfers of general revenue to the Social Security system. As CBO explains, "That result is made possible by general-fund transfers." Indeed, the CBO findings indicate that by itself — and without the general revenue transfers — the plan's private-accounts component would make Social Security's problems more severe.

  This is quite significant, because the large general revenue transfers that the plan assumes are essentially a budget gimmick. The budget outside Social Security is in deficit as far as the eye can see and has no surplus revenue to transfer.

- **GROW accounts could result in reductions in total retirement benefits for some beneficiaries.** According to CBO, "[The proposal] would create individual accounts (called GROW accounts) and reduce traditional Social Security benefits for account holders; the net impact on total retirement benefits would depend on whether an account earned more or less than the Treasury rate of return."

- **GROW accounts would require spending $25 billion on administrative costs in the first decade.** CBO estimates that administering the accounts would cost $24.7 billion over the first ten years.[3]

- **GROW accounts would increase the debt.** CBO finds that "In 2007 and all later years, federal debt in the hands of the public would be higher than under current law."

  The magnitude of the increase in the debt depends on the baseline to which the plan is compared. The Social Security actuaries find that the McCrery plan would increase the debt held by the public by as much as 6 percent of GDP, compared to a scenario under which no action is taken to restore solvency but full Social Security benefits continue to be paid. In contrast, CBO compares the debt under GROW accounts to the debt that would exist under plans that fully restore Social Security solvency without gimmicks.[4] CBO finds that 100 years

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[3] This is essentially identical to the $25 billion estimate published by the Center on Budget and Policy Priorities on June 22, 2005.

[4] Technically, the Social Security actuaries compare the debt to a "scheduled benefits" baseline that assumes that full Social Security benefits are paid even after the trust fund is exhausted. In contrast, CBO uses a "payable benefits" baseline that assumes that *reduced* Social Security benefits are paid after the trust fund is exhausted so no solvency problem remained. After 75 or 100 years, the CBO method is effectively the same as using a baseline that assumes enactment of a plan that restores solvency without general-revenue transfers, i.e., solely through benefit cuts and/or revenue increases.

The Social Security actuaries treat the general-revenue transfers called for under the McCrery plan as intragovernmental transfers that do not add to the total debt. In contrast, CBO assumes that these transfers reduce the amount of genuine Social Security reform that is undertaken and thus increase costs and debt, relative to the baseline that CBO employs.

from now, the debt held by the public would be dramatically larger — by an amount equal to 33 percent of GDP — with the GROW accounts, as compared to what the debt would be under a plan that restored solvency without gimmicks. This increase in the debt would be nearly as large as the total debt that the U.S. government has accumulated from the founding of the nation to the present time. H.R. 3304 would increase the debt in part because the government would have to borrow money for the accounts and the borrowing would never fully be repaid.

- **CBO debunks the "stop the raid" claim.** Proponents of GROW accounts have argued that their plan would "stop the raid" on Social Security. In reality, there is no "raid:" the Social Security trust fund receives Treasury bonds, the world's safest security, in return for its surpluses. It now has $1.8 trillion in Treasury bond assets, and its assets are projected to reach $6 trillion by 2026 according to the Social Security Trustees. The imminent fiscal problem that the nation faces is that the *rest* of the budget is running a large deficit.

  In any event, CBO found that H.R. 3304 would do nothing to change either the terms of these fiscal problems or the basic relationship between Social Security surpluses and the rest of the budget. CBO wrote: "You asked if H.R. 3304 would change the manner in which the Social Security trust funds interacted with the rest of the federal budget. It would not. Primary surpluses in Social Security… would still be available for use for other programs and activities." Thus, under the terms of the misguided argument which claims that Social Security is being raided, nothing would change and the so-called raid would continue.

CBO did not explicitly analyze S. 1302 (the "Stop the Raid on Social Security Act of 2005") introduced by Senator DeMint in June. Much of CBO's analysis of GROW accounts would apply, however, to the DeMint plan, as well. That plan would increase federal spending by the same amount as the McCrery plan. In addition, like the McCrery plan, it would make Social Security's solvency problems worse, were it not for the inclusion in the plan of a budget gimmick in the form of large, unpaid-for general-revenue transfers. Also, the DeMint plan, like the McCrery plan, could result in benefit reductions for some retirees. Finally, the DeMint plan also would result in a large permanent increase in the debt held by the public, although relative to genuine reform, that increase would be modestly smaller than the increase under the McCrery plan, because the DeMint plan includes slightly smaller general-revenue transfers.