Center on Budget and Policy Priorities

Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

June 23, 2005

STATEMENT OF ROBERT GREENSTEIN ON THE DEMINT SOCIAL SECURITY PROPOSAL

Under this DeMint plan, Social Security's current annual surpluses would be shifted to private accounts rather than used to purchase Treasury bonds for the Social Security Trust Fund. This shifting of funds would end when the Social Security surpluses disappeared. This shifting of funds would do nothing to restore solvency to Social Security. Indeed, the proposal's purpose is not to restore solvency, but to serve as a foot in the door for more extensive private accounts in the future.

The plan suffers from three key flaws. First, the analysis of the plan issued today by the Social Security actuaries shows that by diverting substantial sums from the Social Security trust fund to private accounts, the plan would worsen Social Security's solvency problems — were it not for the inclusion in the plan of an assumption that large revenue transfers would somehow be made from the rest of the budget. The actuaries' analysis shows that the plan would drain $1.1 trillion from the Social Security trust fund in the first decade of the proposal.

The plan's designers have attempted to mask this adverse effect of their plan by assuming hefty transfers from the rest of the budget. The Social Security actuaries estimate that the transfers would have to equal $1 trillion (in today's dollars) to prevent the plan from hastening the point at which Social Security would become insolvent. But the assumption of these very large general revenue transfers is essentially a budget gimmick. The rest of the budget has no surplus revenue to transfer; it is in deficit as far as the eye can see. The actuaries' analysis shows that in the absence of these general revenue transfers, the plan would cause Social Security to become insolvent three years sooner than otherwise would be the case, in 2038 rather than in 2041.

The second key problem, which also is documented in the actuaries' analysis, is that the plan would increase the federal budget deficit every year for the next 75 years and beyond. For example, in fiscal year 2007, the deficit would be about $89 billion higher than it otherwise would be. The debt that the federal government owes to outside creditors would increase by $1.1 trillion by 2015.

Third, the proposal would require the hiring of thousands of new federal employees and significantly increase the government's administrative costs. The added administrative costs would amount to at least $25 billion through 2015, with additional costs being incurred for many years after that.

In short, the proposal would fail to strengthen Social Security's finances while adding to already spiraling deficits and debt and carrying substantial administrative costs. Policymakers surely can do better than this.