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SOCIAL SECURITY EXPERTS EXPOSE ERRORS AND MISLEADING CLAIMS IN DRAFT INTERIM REPORT OF PRESIDENT'S SOCIAL SECURITY COMMISSION

WASHINGTON, DC. A joint report released today by the Center on Budget and Policy Priorities (CBPP) and The Century Foundation (TCF) highlights unjustified assertions and errors in the draft interim report of the President's Commission to Strengthen Social Security. The draft report, which was released last week, will be the focus of the commission's discussions at its meeting on Tuesday.

Economists Henry Aaron, Alan Blinder, Alicia Munnell, and Peter Orszag draw on their years of distinguished experience in government and academia to analyze the draft interim report. They conclude that many elements of the draft will alarm the public without an appropriate basis in fact about the current state of Social Security and its future prospects.

The four economists cite specific examples of claims about Social Security in the draft interim report that are either misleading or inaccurate. (See attached executive summary for more information.)

Assertion: In "15 years," "the very same crisis" as occurred in 1983 "will recur."
Fact: In 1983, the Social Security Trust Fund was nearly exhausted. The Social Security Trustees currently project that in 2016, the Social Security Trust Fund will contain reserves of more than $5 trillion (which is more than $3 trillion in today's dollars).

Assertion: "Rather than ending with the life of the beneficiary, it [an individual account system] can be a means of wealth accumulation and long-range investment…."
Fact: The assertion that the existing Social Security program provides no resources to surviving relatives of an individual who dies is simply incorrect. Social Security provides benefits to surviving spouses, children, and parents of deceased workers. In 1999, some $75 billion — roughly 20 percent of all Social Security benefits — were paid to such survivors.

Assertion: "The existing Social Security program does not save or invest for the future."
Fact: In the late 1970s and early 1980s, Congress set Social Security payroll taxes higher than necessary to pay for current benefits. The payroll taxes in excess of current benefits contributed to national saving, because they reduced government borrowing from the public and enabled the government to reduce the public debt. Official statistics compiled by the Bureau of Economic Analysis document that Social Security surpluses are contributing to national saving. Furthermore, national saving would be no higher — and might well be *lower* — if Social Security revenue were diverted into individual accounts.

Assertion: "Despite popular perceptions, recent studies show that Social Security provides little, if any, systematic redistribution from rich to poor."
Fact: Social Security is progressive, despite the lower life-expectancies of low earners, because the benefit formula favors low earners. Furthermore, recent studies demonstrate that Social Security is becoming *increasingly* progressive over time, a finding the commission report ignores. In contrast, most individual account proposals would be regressive. They employ a benefit formula that is proportional to earnings, rather than being disproportionately beneficial to those with lower earnings. Once the longer life expectancies of higher earners

are taken into account, such proposals become *regressive* on a lifetime basis.

Assertion: "African Americans receive nearly $21,000 less on a lifetime basis from Social Security's retirement program than whites with similar income and marital status."
Fact: The statement is misleading because it compares an African-American and white American *at the same earnings level*, even though African-Americans tend, on average, to have lower earnings and therefore to benefit disproportionately from Social Security's progressive benefit formula. Indeed, the study cited on this matter by the commission finds that when life expectancies *and* earnings are taken into account, the average rate of return on Social Security is modestly higher for African-Americans than for whites and much higher for Hispanics than for whites.

The Aaron, Blinder, Munnell, and Orszag analysis begins with basic background information on Social Security and individual accounts and then provides brief analyses of the arguments contained in the commission documents regarding:

- The assets of the Social Security Trust Fund
- The significance of 2016 and 2038 in the Social Security debate
- National saving, Social Security, and individual accounts
- Redistribution and the treatment of minorities under Social Security and individual accounts
- Bequests, wealth, and individual accounts
- The rate of return under individual accounts and Social Security
- The baseline used to evaluate Social Security proposals

"This careful, rigorous analysis, rooted in the leading research in the field, finds serious deficiencies and considerable bias in the draft Commission report," said Center on Budget and Policy Priorities Director Robert Greenstein. Century Foundation President Richard C. Leone added: "The analysis by these scholars indicates that the Commission document is so flawed that, rather than helping to promote a constructive debate about Social Security, it is more likely to push is in the direction of a merely partisan squabble." Greenstein and Leone urged the Commission to send the document back for substantial revision to convert it from a slanted document to the type of balanced, objective document that past Social Security commissions have produced.

The four authors of "Perspectives on the draft interim report of the President's Commission to Strengthen Social Security" are among the nation's most widely respected economists and experts on retirement issues. **Henry Aaron** is the Bruce and Virginia MacLaury Senior Fellow at the Brookings Administration and former Director of the Economic Studies Program at Brookings, author of several leading books on Social Security (including *Countdown to Reform*, a Century Foundation book he wrote with Robert Reischauer in 1998 and updated in 2001), Board Chair of the National Academy of Social Insurance and former Vice President of the American Economic Association; he also served as chair of the 1979 Advisory Council on Social Security. **Alan Blinder** is the Gordon S. Rentschler Memorial Professor of Economics and co-director of the Center for Economic Policy Studies at Princeton University, the former vice chairman of the Board of Governors of the Federal Reserve System, and a former member of the President's Council of Economic Advisers. **Alicia Munnell** is the Peter F. Drucker Professor of Management Sciences at Boston College, the former Senior Vice President and Director of Research at the Federal Reserve Bank of Boston, and a former member of the President's Council of Economic Advisers. **Peter Orszag** is the President of Sebago Associates, Inc., a public policy consulting firm, and the author of numerous papers on Social Security and pension issues; he will join the Brookings Institution in August as a Senior Fellow in Economic Studies.

The Center on Budget and Policy Priorities and **The Century Foundation** have long traditions of devoting time and resources to the examination of Social Security and other social issues. For more information on the Center on Budget and Policy Priorities, visit at www.cbpp.org. For more information on The Century Foundation, visit www.tcf.org and its Social Security Network at www.socsec.org.

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