President's State of the Union Rhetoric Doesn't Match Social Security's Reality

In his State of the Union speech, the President began to make his case for privatizing Social Security and described some details about how the accounts would be structured. The President did not, however, address the central issues involved in any plan to introduce private accounts to Social Security:

- Private accounts, by themselves, do not address the underlying imbalance in Social Security.

- In fact, by diverting FICA taxes from the Social Security Trust Fund to the accounts, privatized accounts make the long-range imbalance in Social Security larger, not smaller.

Tonight's speech revealed nothing about how the accounts would be financed, or how the underlying imbalance in Social Security would be addressed.

Fundamental Reality: Privatization Requires Benefit Cuts and Debt

The President's speech was consistent with the plan that he has already described as a "good blueprint" for Social Security, which was developed by the President's 2001 Commission to Strengthen Social Security. That plan features:

- a substantial cut in guaranteed Social Security benefits that grows larger year by year, eventually exceeding 40 percent – even if a worker chooses to remain in the current system rather than open a private account; and

- $2 trillion in borrowing over the first decade – and trillions more in later years – increasing the national debt for 60 years.

No matter what investment funds are offered, private accounts pose the same problem: they worsen Social Security's shortfall by taking trillions of dollars out of the Social Security Trust Fund to pay for the private accounts, forcing steep benefit cuts and exploding the national debt. The details mentioned in the speech simply touch on side issues, and do not relate to the core problem.

Rhetoric Vs. Reality in the President's Speech

Claims about Social Security's Financing

Rhetoric:"The [Social Security] system, however, on its current path, is headed toward bankruptcy."

Reality: Under current projections, Social Security will never go bankrupt. Social Security faces a long-term funding challenge. But it is adequately funded until 2052 and, even with no changes at all, can pay nearly 80 percent of benefits thereafter.

Rhetoric: "I have a message for every American who is 55 or older: Do not let anyone mislead you. For you, the Social Security system will not change in any way."

Reality: Today, the President is promising not to cut seniors' Social Security benefits. But four years ago he promised that he would continue President Clinton's policy of saving every penny of the Social Security surplus. Less than nine months later, the President broke that promise and is now using every penny of those surpluses.

He is now proposing to divert even more money from the Social Security trust fund to finance private accounts. This privatization plan will further widen the massive deficits and debt the President has already created over the past four years. The President may make a promise to today's seniors. But his policies are creating a fiscal crisis that threatens to force future cuts in benefits.

Rhetoric: "Thirteen years from now, in 2018, Social Security will be paying out more than it takes in."

Reality: Social Security will actually take in more than it pays out until 2028, at which point it will begin drawing down its $6.6 trillion in assets. The President's calculation ignores the interest that Social Security earns on its reserves. The President's failure to include this income suggests he has no intention of paying back the money he has been diverting from Social Security. If this were to occur, it would be an unprecedented default on America's financial obligations.

Rhetoric: "Fixing Social Security permanently will require an open, candid review of the options."

Reality: Despite his rhetoric, President Bush is not calling for an open, candid review of options. The only options he cites as being "on the table" involve benefit cuts. At the same time, he continues to insist that private accounts be part of the package. And Administration officials, in leaked e-

mails and a background briefing earlier today, have acknowledged that the centerpiece of his Social Security proposals – privatizing Social Security by diverting Trust Fund assets into private accounts – would do nothing to strengthen Social Security solvency.

***Rhetoric:* "**I know that none of these reforms would be easy. But we have to move ahead with courage and honesty, because our children's retirement security is more important than partisan politics."

Reality: President Bush has created massive deficits and debt that will burden our children with higher interest rates, and higher taxes to pay interest on a debt that will be paid largely to foreign investors. This will threaten future Social Security benefits and make it much more difficult for our children to enjoy retirement security.
***Rhetoric**:* "I will work with members of Congress to find the most effective combination of reforms."

Reality: In today's anonymous background briefing, an Administration official spoke only of private accounts, suggesting "the larger question of the comprehensive plan to fix Social Security permanently is really subject to the details of discussions between the President and members of Congress." This suggests that the President's statement that he will work with Congress on that subject means that he will not offer a real plan of his own.

Claims about the Private Accounts

Rhetoric: "your account will provide money for retirement over and above the check you will receive from Social Security."

Reality: This implies that the account would be a bonus on top of a full Social Security benefit. However, under the President's plan, Social Security benefits would be cut dramatically, by more than 40 percent for future retirees. And according to the Congressional Budget Analysis of the blueprint plan, the private accounts would not make up for this loss of benefits.

Rhetoric: "You'll be able to pass along the money that accumulates in your personal account, if you wish, to your children or grandchildren."

Reality: This statement ignores two realities: retirees would be forced to annuitize their account balances at retirement, leaving nothing for their children to inherit. Moreover, for most Americans, the money in the accounts will be needed to live on, since guaranteed Social Security benefits will have been cut so dramatically – leaving little available to pass on to heirs.

Rhetoric: "The money in the account is yours, and the government can never take it away."

Reality: Workers would be required by the government to turn over their account balances at retirement to an insurance company and convert their accounts into an annuity.

Moreover, workers who diverted some of their Social Security taxes into a private account would be forced to pay back the Social Security Trust Fund, with interest, at retirement. All of their contributions, plus any earnings up to the Treasury Bond rate, would be taken back at retirement in the form of additional cuts in their Social Security benefits.

Rhetoric: "We will make sure this plan is fiscally responsible, by starting personal retirement accounts gradually, and raising the yearly limits on contributions over time"

Reality: Phasing in the accounts is a gimmick to make the trillions of transition costs appear smaller over the conventional 10-year budget window. It does nothing to diminish the real, long-term costs of the accounts, or the need for massive borrowing from foreign lenders to finance them. That's hardly fiscally responsible.

Rhetoric: After lauding the federal employee Thrift Savings Plan, the President says "It is time to extend the same security, and choice, and ownership to young Americans."

Reality: Under the Bush plan, the accounts would bear only a superficial resemblance to the TSP. But at least in two crucial ways, the private accounts would differ from the TSP:

- First, the TSP is totally separate from Social Security. Contributions to the TSP do not reduce the balance in the Social Security Trust

Fund, nor do they result in a reduction in the worker's Social Security benefit, as would occur under the Commission's plan. The TSP, in other words, is on top of Social Security, while the privatized accounts would be in place of Social Security.

- Second, TSP participants have access to their funds in case of emergency, and can borrow from the accounts. The President's plan would bar access to these accounts until retirement. Americans will likely find these accounts much less attractive once they learn that their funds are locked up for 40 years.

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