

**Senate Democratic Policy Committee Hearing**

**“An Oversight Hearing on President Bush’s Social Security Privatization Plan:  
Will You and Your Family Be Worse Off?”**

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**Trust and the Trust Fund: Do Young Americans Really Want Private Retirement  
Accounts?**

The Bush administration has been enthusiastically courting Americans in their twenties and thirties to support its plan to replace the current Social Security program with personal accounts that can be invested in the stock market. Polls on this topic over the last few years have been interpreted as showing that young workers strongly support privatizing Social Security. However, as a journalist who specializes in financial issues affecting this age group, I have found that when you dig into the polling data, the opinions of this generation are more complex and their supposedly strong support for private accounts is actually relatively soft, especially as they learn more about the details of what such a plan would entail. I would like to use my time here to explain young people’s views toward Social Security and why privatization may not be in their best interest.

There's no question that the Administration is aggressively pitching a privatized system to people in their twenties and thirties as a better deal than what Social Security can offer in its present form. Rhetoric like President Bush's recent attempt to characterize Social Security as an archaic "vinyl LP" compared to the "iPod" of private accounts<sup>1</sup> — or his claim that Congress cannot keep the promises it has made "for a younger generation"<sup>2</sup> — is transparently aimed at this group, and at first seemed to be hitting its target.

A study conducted in February of this year by the Pew Research Center for People and the Press revealed that 66% of 18- to 29-year-olds said they favor the President's privatization proposal.<sup>3</sup> However, when asked how much they knew about the proposal, almost half of this same age group admitted that they hadn't heard anything at all about it — an indication that a significant fraction of these supposedly strong backers of private accounts aren't actually aware of what they say they endorse.

It seems to be the case that the more that young Americans learn the details of what the White House has in mind for Social Security, the less they like it. The President recently embarked on a high-profile "60 cities in 60 days" national tour to tout Social Security reform. During that period, a poll conducted by the Pew Center in late March — about a month into the tour — revealed that this age group's support for private accounts had eroded from 66% to 49%.<sup>4</sup> Significantly, those who consider themselves well

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<sup>1</sup> George W. Bush, "President Discusses Strengthening Social Security." Independent Insurance Agents and Brokers of America National Legislative Conference. Grand Hyatt Hotel, Washington, D.C., April 21, 2005.

<sup>2</sup> George W. Bush, statement at a White House press conference, Washington, D.C., April 28, 2005.

<sup>3</sup> "AARP, Greenspan Most Trusted on Social Security: Bush Failing in Social Security Push," conducted by Princeton Survey Associates on behalf of the Pew Research Center for the People and the Press, February 16-21, 2005. Random telephone polling of 1,502 Americans over the age of 18.

<sup>4</sup> "Disapproval of GOP Congressional Leaders, But Democrats Fare No Better: Public Divided on Alaska Drilling, As Well As Social Security," conducted by Princeton Survey Research Associates on behalf of the

informed about Social Security developments are now more than twice as likely to oppose the plan as those who haven't heard much about it.

Where did this relatively superficial enthusiasm come from and why did it evaporate? The first part of the answer is simple: Young people were eager to back private accounts in part because an atmosphere of rhetoric had led them to believe there was no other alternative. This generation does not believe it will get anything at all from Social Security. For years, they have heard the hype that the system is on the brink of bankruptcy. The President has repeatedly said that Congress will be unable to keep its promises to young people in particular, and young people tend to believe him. A recent *New York Times*/CBS News poll found that 68% of people aged 18 to 44 do not think Social Security will provide any benefits to them when they retire.<sup>5</sup>

Of course this isn't true. While the depletion of the trust fund is now projected to occur sometime between 2041 and 2052 (depending on the forecast)<sup>6</sup> if no changes are made, many reports indicate that even if nothing were done to address the solvency issue, the system would continue to take in enough to pay almost 75% of scheduled benefits.

Unfortunately, overblown language chosen to frighten has resulted in young people believing that they have little or nothing at stake in Social Security as it now operates. That being the case, they feel that they have the most to gain from any change in the system, no matter how risky or ill-advised that change may be. When given a stark choice between either private accounts and what they believe to be a bankrupt system

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Pew Research Center for the People and the Press, March 17-21, 2005. Random telephone polling of 1,505 Americans over the age of 18.

<sup>5</sup> Marjorie Connelly, "Social Security: A View That Changes with Age," *New York Times*, April 12, 2005. Based on random telephone polling of 1,111 American adults, February 24-28, 2005.

<sup>6</sup> Social Security Administration, *2005 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*, March 23, 2005; Congressional Budget Office, "Updated Long-Term Projections for Social Security," March 2005.

with no benefits for them at all, many young Americans have locked onto the privatization approach as being better than nothing. This doesn't mean that they prefer private accounts to the guaranteed benefits Social Security currently provides; many simply believe that private accounts are the only alternative.

In fact, young people's support for private accounts dissipates when they are made aware of the trade-offs. A February AARP/Rock The Vote survey indicates that 68% of 18- to 39-year-olds favor private accounts — in line with the headline numbers reported elsewhere. However, the poll also showed that a majority of the young respondents (57%) opposed private accounts if it meant cuts in their guaranteed Social Security benefits.<sup>7</sup>

It's not just lack of education that has swayed the young. A careful look at the way survey questions are framed shows how strongly the wording of polls about Social Security can influence response. Polling has demonstrated that people in this age group are much more likely to say they support private accounts when asked if they thought they should have “a say” or “the right to control” how the money that comes from their “own hard-earned paycheck” and goes into Social Security is invested.<sup>8</sup> On the other hand, when questions were framed to make it clear that private accounts could become a matter of giving up a guaranteed monthly benefit, the majority no longer favors privatization.<sup>9</sup>

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<sup>7</sup> “Public Attitudes Toward Social Security and Private Accounts,” conducted by Roper Public Affairs for AARP and Rock The Vote, January 15-23, 2005. Based on random telephone polling of 1,000 American adults.

<sup>8</sup> “Social Security Survey,” conducted by the Luntz Research Companies and Mark A. Siegel and Associates for OppenheimerFunds, January 10-12, 1999. Random telephone polling of 804 Americans.

<sup>9</sup> “Social Security Survey,” conducted by Peter D. Hart Research Associates for the National Committee to Preserve Social Security and Medicare and the 2030 Center, July 6-13, 1998. Random telephone polling of 326 Americans 18-34.

Research shows that the idea of a guaranteed monthly benefit clearly holds appeal for young people. And it should. Social Security's historical function as a safety net, a bare minimum for working people to ward off destitution in their old age, has slashed the poverty rate among seniors; without it, about half of all Americans over 65 would be living under the poverty line.<sup>10</sup>

Young people are well aware that they do not have the same pension safeguards in place as previous generations enjoyed. The decline of defined benefit plans in the workplace means that a growing number of young people today will not have any guaranteed employer-sponsored retirement income. Those who are eligible to participate in 401(k) programs know that they must rely on their own investment choices and the performance of the financial markets to accumulate enough money to retire. Adding the possibility that their Social Security payout will also depend on the stock market only heightens their level of vulnerability.

Stocks have historically delivered attractive returns and play a significant role in retirement portfolios. However, there are no guarantees, even over long periods. For example, from 1966 to 1982, stocks on average lost value after adjusting for inflation, which means that \$1,000 invested in 1966 was only worth \$934 seventeen years later.<sup>11</sup> And in Japan, the Nikkei 225 average (Tokyo's equivalent of the S&P 500) has lost 69.4% of its value over the last 15½ years, so \$1,000 invested there in 1989 would be worth only \$306 today in nominal terms.

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<sup>10</sup> Alliance for Retired Americans, "Fact Sheet: Social Security," December 2004.

<sup>11</sup> Ibbotson S&P Classic Year Book.

Here's a chilling thought for a 30-year-old today: It's 2042, I'm 67 years old and the Dow is down 80%. What will it mean for my retirement if all of my money, including my Social Security funds, are invested in the stock market?

I recently gave a financial workshop to a group of young MTV employees. When I asked them how they felt about the plan to privatize Social Security, the majority said they did not like the idea of private accounts given the risks inherent in the stock market. Many talked about the fact that they weren't comfortable investing in their 401(k)s and were overwhelmed by the prospect of additional choices. Others mentioned Enron as an example of how easy it can be to lose everything.

The fact is, many of today's young adults invest little for retirement or stay out of the markets entirely.<sup>12</sup> According to the most recent data available from the Federal Reserve Board, only 45% of households headed by 18- to 35-year-olds have invested any money in 401(k) or IRA accounts, and for those who do have such accounts, the average balance is only \$6,600.<sup>13</sup>

If the administration is truly interested in helping younger Americans invest and save, there are ways to do so without dismantling a program that is intended to keep them out of poverty. Creating better incentives for young people to invest in individual retirement accounts is just one idea.

Meanwhile, there are a number of alternative solutions to Social Security's very real problems. For example, the majority of this age group is in favor of increasing the

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<sup>12</sup> Diane K. Schooley, Ph.D., CCM, and Debra Drecnik Worden, Ph.D., "Generation X: Understanding Their Risk Tolerance and Investment Behavior," *Journal of Financial Planning*, September 2003.

<sup>13</sup> Ana M. Aizcorbe, Arthur B. Kennickell and Kevin B. Moore, "Recent Changes in U.S. Family Finances: Evidence from the 1998 and 2001 Survey of Consumer Finances," *Federal Reserve Bulletin*, January 2003. Data from the 2004 SCF will be available later this year. According to 2005 research from Hewitt Associates, 46% of eligible workers under the age of 30 participate in their companies' 401(k) plans.

cap on wages subject to the payroll tax.<sup>14</sup> Congress could also gradually raise the retirement age of future retirees to keep up with rising life expectancy, or dedicate the proceeds of a revised estate tax to the program.<sup>15</sup> At the same time, Congress should also take measures to keep the trust fund out of the unified budget to ensure that it will be available for future retirees and not used to mask federal spending elsewhere.

Most experts agree that there are many ideas that would address the solvency concerns surrounding the Social Security system in a way that privatization does not. In fact, even the President has admitted that private accounts do nothing to shore up the trust fund.<sup>16</sup> Focusing on real proposals will go a long way toward convincing young people that their Social Security benefits will be there when they retire. It's time to secure the safety net for generations to come, rather than cut it loose.

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<sup>14</sup> See footnote 3.

<sup>15</sup> Robert M. Ball, "Fixing Social Security," The Century Foundation Issue Brief, May 2005.

<sup>16</sup> George W. Bush, statement at a White House press conference, Washington, D.C., March 16, 2005: "Personal accounts do not solve the issue."