KEY ARTICLES ON PRESIDENT CLINTON'S FRAMEWORK FOR SOCIAL SECURITY AND MEDICARE REFORM, AND LONG-TERM FISCAL DISCIPLINE

- **Summary of Quotes in Support of the President's Debt Reduction Framework**

- **Summary of News Reports on Chairman Greenspan's Support for the President's Debt Reduction Framework** [Testimony on 1/20/99 and 1/29/99]

- **News Articles on the President's Plan:**

  - "*In the Red. No, Black: Debate Over Social Security Proposal Misfires in Focus on Double Counting*" New York Times [1/30/99]

  - "***Our Debt To the Future***" **Op-Ed by Secretary of Treasury Robert Rubin and Director of OMB Jacob Lew, The Washington Post [2/4/99]**

  - "***Greenspan Backs Clinton's Plan for the Surplus***: ***Diverting General Revenues Toward Social Security Will Cut Debt***" **Wall Street Journal** [1/29/99]

  - "***Saving Budget***" The Washington Post Editorial [2/2/99]

  - "***The New Surplus Era***" **The New York Times Editorial [2/3/99]**

  - "***The Shadow Cost***" **The Washington Post Editorial [2/3/99]**

  - "***Clinton's One Big Idea***" **Charles Krauthammer, The Washington Post [1/22/98]**

  - "***Who's Fiscally Responsible Now?***" **Jonathan Chait, The New York Times [1/25/99]**

  - "***Sound Investment***" **by the Editors of The New Republic**

  - "***Social Security: The Basics, With a Tally Sheet***" New York Times [1/28/99]

  - "***The Phony Issue of Double Counting***" Henry Aaron, *Tax Notes* [2/1/99]

  - "***On State Street; Carter Praises the Clinton Plan***" **The Boston Herald**

  - "***Saving Social Security For Us and Future Beneficiaries, from the Call for Tax Cuts Now***" **Jim Wilcox, Professor at Berkeley University, San Francisco Chronicle**

February 1999

A STRONG SHOWING OF SUPPORT FOR PRESIDENT CLINTON'S SOCIAL SECURITY PLAN

The President's plan continues our hard-won fiscal discipline. While helping to keep Social Security solvent until 2055, the President's proposal would reduce the debt held by the public by more than two-thirds, cutting the debt-to-GDP ratio from about 44 percent today to 7.1 percent in 2014 -- its lowest level since 1917. Experts agree that less debt will lead to higher national savings, lower interest rates, higher private-sector investment, and thus, a stronger economy more able to meet future obligations.

Wall Street Journal 1/29/99 -- Greenspan Backs Clinton's Plan For the Surplus: Diverting General Revenues Toward Social Security Will Cut Debt

- "Reserve Chairman Alan Greenspan defended President Clinton's plan to divert general revenues into Social Security suggesting that it may be the only politically possible way to use growing budget surpluses to pay down the national debt."

Testimony of Chairman Alan Greenspan 1/28/99

- "In this light, increasing our national saving is critical. The President's approach to social security reform supports a large unified budget surplus. This is a major step in the right direction in that it would ensure that the current rise in government's positive contribution to national saving is sustained. The large surpluses projected over the next 15 years, if they actually materialize, can significantly reduce the fiscal pressures created by our changing demographics."

The New York Times 1/30/99 -- In the Red. No Black: Debate Over Social Security Proposal Misfires in Focus on Double Counting

- ". . . . The real difference between the President's plan and that of his critics is not double counting. Some people want to use the surplus to cut taxes. Many Republicans want to use it to create individual retirement accounts . . . . The President wants instead to drive down the Federal debt, now about 4 trillion dollars"

- "Mr. Clinton's choices are not the only responsible ones. They may not even be the best. But they raise no issue of budget deceit."

The New York Times 1/28/99 -- Social Security: The Basics, With a Tally Sheet 1/28/99

- "For years, the surplus in the trust fund has been used to meet part of the operating expenses of the Government and to offset part of the overall budget deficit. But this is no longer necessary because, for the next 15 years, the Government is expected to run a total budget surplus of $4.4. trillion"

- "Paying off $2 trillion in public debt over the next 15 years should strengthen the economy by lowering interest rates and opening the way for more productive private investments. A stronger economy would increase the number of people working and the size of their paychecks and make it less painful for workers to pay the taxes needed to support Social Security."

The Washington Post 2/2/99 -- Saving Budget

- "The main proposal in the budget the president sent to Congress yesterday has to do with the unusual prospect of saving money rather than spending it. Mr. Clinton would use the bulk of the projected budget surplus to pay down the debt against the day, not that far off, when the baby boomers will retire and both Social Security and Medicare will lack the funds to cover costs. It's not a glamorous policy, but it's right, and Congress ought to acquiesce in it."

Henry Aaron, Brookings Institution 1/27

- "The purpose of this note is to explain how the president's proposal would work from an accounting perspective. The message is simple: the double-counting issue is bogus. The president's address outlined a bold plan that stands in striking contrast to alternative proposals that would use the projected budget surpluses to justify large tax cuts or spending increases. Faced with a once in-a-generation choice about how to spend large and unanticipated surpluses, the nation should confront the big issue "save the surplus or spend it" and not get mired in accounting pettifoggery."

- "Confronted with truly enormous projected surpluses, unprecedented since the indexation of the personal income tax, should the nation cut taxes or boost spending, two ways or increasing current consumption? Or should the nation save these surpluses to help reduce the deficits of the two largest and most popular programs of the federal government, Social Security and Medicare? The choice is a big issue that should be settled by the electorate in a mature democracy. Legitimate disagreements are possible on the future role of social insurance and on the important of boosting national savings and economic growth relative to supporting current consumption, private and public. But the nation should confront these issues, not spend its time on a petty and misplaced concern about double-counting."

CHAIRMAN GREENSPAN SHOWS SUPPORT FOR PRESIDENT CLINTON'S SOCIAL SECURITY PLAN

While Alan Greenspan did not endorse one aspect of President Clinton's Social Security Plan, he expressed support for most of the President's overall framework for reforming Social Security. The following are excerpts from major papers on Greenspan and his support for the President's overall plan:

Wall Street Journal 1/21/99

- "Federal Reserve Chairman Alan Greenspan disappointed Republicans and pleased Democrats by praising Mr. Clinton's proposal 'to effectively keep a very large part of the unified budget surplus in place by putting most of the money in Social Security and Medicare Trust Fund. . . . My first preference is to allow the surpluses to run for awhile and unwind a good deal of the debt that we have accumulated over the years.'"

- "For once, the Fed Chairman was explicit. He endorsed President Clinton's proposal to let federal budget surpluses accumulate by locking up most of the money in the Social Security and Medicare trust funds."

- "To his fellow Republicans' disappointment, Mr. Greenspan described tax cuts as a second choice to the Clinton plan. He said Congress should use the surplus -- which President Clinton projects to total $4.5 trillion in the next 15 years -- for tax cuts only if Congress doesn't have the discipline to allow the surpluses to continue."

New York Times 1/21/99

- "In testimony before the House Ways and Means Committee today, Mr. Greenspan, whose views on the economic matters carry considerable weight in Congress and on Wall Street, said he supported the President's notion of putting almost two-thirds of the Federal Budget surpluses over the next 15 years into Social Security."

USA Today 1/21/99

- "Federal Reserve Chairman Alan Greenspan supported President Clinton's broad strategy Wednesday of using budget surpluses to save Social Security . . . . Greenspan said he backed the overall strategy because it would effectively mean that the government was using its surpluses to pay down some of its $5.6 trillion on outstanding debt. That would be good for the economy because it would help lower interest rates and free up money for companies."

Washington Post 1/21/99

- "Greenspan offered enthusiastic praise for Clinton's idea of devoting much of the projected federal budget surpluses to Social Security . . . ."

In the Red. No, Black.

Debate Over Social Security Proposal Misfires in Focus on Double Counting

By MICHAEL M. WEINSTEIN

Republicans leaders are accusing President Clinton of budget gimmickry, saying his plan to shore up reserves in the Social Security trust fund is an accounting trick.

News Analysis

Senator Pete V. Domenici of New Mexico, chairman of the Senate Budget Committee, says the President's plan "appears to double count the Social Security surpluses," somehow extending the life of the trust fund "without doing anything."

Senator Judd Gregg of New Hampshire accuses the President of relying on an "accounting trick."

Critics are right that Mr. Clinton's plan double counts surpluses in the Social Security program. But these surpluses have been double counted in the budget for years, so the President's device is no new trick.

Political posturing aside, the real difference between the President's plan and that of his critics is not double counting. Some critics want to use the surplus to cut taxes. Many Republicans want to use it to create individual retirement accounts, which would serve the purpose of raising national savings if individuals did not offset the new accounts by reducing their other forms of private savings. Raising the national savings is widely embraced by economists. Liberal Democrats want to use the surplus to create universal health insurance or for education and other discretionary programs.

The President wants instead to drive down the Federal debt, now about $4 trillion. These are honorable differences in the positions. But, economists point out, most of these proposals double count the surplus in the Social Security program.

The Administration expects Social Security payroll taxes over the next 15 years to exceed outlays by about $2.7 trillion, a surplus that initially goes into the program's trust fund. Mr. Clinton proposes to add $2.8 trillion to the fund, for a total of $5.5 trillion, extending its life by almost 20 years, to 2049.

But most of the $2.8 trillion is the same money that comprises the $2.7 trillion already in the fund. Mr. Clinton, his critics say, proposes adding the first $2.7 trillion twice. To see through the dispute, trace the path of a surplus dollar, a dollar of Social Security payroll taxes that is not currently needed to pay retirees.

Speaking loosely, the dollar passes from a taxpayer to the Social Security trust fund and then on to the Treasury. Treasury Secretary Robert E. Rubin makes the trust fund whole by sending it a $1 bond. He then spends the dollar on public housing, tanks or any other public purpose. Note the double use of the dollar. It is credited first to the trust fund and then to another program.

Under the President's plan, the path is initially the same. Surplus dollars would flow into the trust fund and back out to Mr. Rubin. Mr. Rubin continues to send the fund a $1 bond. But, under Mr. Clinton's proposal, Mr. Rubin would no longer use the surplus dollar to buy tanks or housing. Instead, he would buy back one dollar of Federal debt from the public in the form of a bond. Then he would deposit the repurchased bond into the Social Security trust fund.

The Republicans look at this process and cry double counting: Mr. Clinton has deposited two dollars worth of bonds into the fund from a single dollar of excess payroll taxes. In describing the process, they are correct.

But Administration officials point out that nearly any use of excess Social Security taxes would involve double counting. Indeed, several Republican proposals to reform Social Security would use the surplus to create private retirement accounts, another version of double counting.

So, if the President is guilty of accounting tricks, why aren't his critics?

"All they would change is the use to which the surplus would be put," says the President's chief economic adviser, Gene Sperling.

Behind the Administration's thinking is the assumption that, without the President's program, Congress would spend the surpluses on other Federal programs or, if the Republicans get their way, on a large tax cut. Mr. Sperling estimates that buying back Federal debt would instead reduce Federal debt as a percentage of economic output from about 45 percent today to about 7 percent by 2014.

"It is hard to believe," he says, "that a plan that virtually pays off the nation's publicly held debt in 15 years could be criticized as an obtuse Government accounting trick."

The immediate purpose of buying back debt from the public, the Administration contends, is to pump trillions of dollars into the bank accounts of individual investors. These investors would then be able to lend the money to businesses for investment in new plants and equipment. The process would increase the nation's savings rate, channeling less money into consumption and more into investment.

Mr. Sperling repeats the economists' mantra that the only real way to prepare for the retirement of the baby boomers is to save and invest, thereby building up the capacity of the economy to produce food, clothing and shelter.

Mr. Clinton could have slipped the charge of double counting if he had proposed doing nothing with the expected surpluses other than to buy back debt. That would be the preference of many other economists.

But the Administration believes that Congress would never sit back and let trillions of dollars slip by without siphoning them away for public programs or tax cuts. So Mr. Clinton devised a backup plan, channeling most of the surplus to Social Security. That would commit those dollars to support the elderly sometime in the future. And it would block their use for tax cuts or programs.

Mr. Clinton's choices are not the only responsible ones. They may not even be the best. But they raise no issue of budget deceit.

THE NEW YORK TIMES
SATURDAY, JANUARY 30, 1999

Robert E. Rubin

And Jacob Lew

Our Debt To the Future

Fiscal discipline for our nation and future security for our people. These are the watchwords of President Clinton's budget as we leave behind the era of deficits. Now, as we design a new economic strategy for a new era of budget surpluses, we must not lose sight of how our nation achieved today's unprecedented prosperity.

It was less than a decade ago, after all, that massive, seemingly endless budget deficits loomed over us—a straitjacket on our attempts to invest in the future and a symbol of our inability to meet our responsibilities. Today we are profiting from economic growth in large part because we rose to the challenge of deficit reduction. Now we face a new challenge and a new opportunity: paying down our national debt.

We believe that using our budget surpluses to significantly cut the national debt offers the best possible route to protecting future generations of Americans and the programs we depend on for a secure retirement. No one can guarantee that our nation's remarkable prosperity will continue. But we have it within our power to continue on the path of fiscal discipline, pay down the debt and establish a strong foundation for meeting our obligations to all who will depend on Social Security and Medicare.

Focusing on the economic conditions of recent years and on the strategy that contributed to them may provide very useful guidance as we face policy issues going forward.

As a nation, we have made some tough choices in the past few years to reduce the deficit and, ultimately, to balance the budget. Deficit reduction has led to less government borrowing, which in turn has lowered interest rates and spurred business investment. A combination of smart fiscal policy and the hard work of the American people has given us what many consider to be the best economic conditions in recent memory.

Today, we enjoy a very high rate of job creation, low inflation, the lowest unemployment in decades and real increases in income across all income strata. Last year we began to retire our national debt for the first time in 29 years. The president's budget for the year 2000 offers a third consecutive surplus and a chance to build a strong foundation to protect future generations.

President Clinton has put forth a plan to set aside more than $2 trillion to retire debt that the U.S. government owes the public—a plan to cut that debt by more than two-thirds. His plan continues the path of fiscal discipline that has spurred today's prosperity. It will boost national savings and generate new private economic activity. And this plan will lift a huge burden off our children and grandchildren when our generation retires. Publicly held debt would fall to about 7 percent of GDP in 2014, its lowest level since the United States entered World War I. In addition, actuaries agree this plan would extend the Social Security Trust Fund until 2055 and the Medicare Trust Fund until 2020.

The president's plan to retire such a large amount of debt is also the best pro-growth strategy for our economy. When the government adds to private saving rather than drawing from it, more resources are available for private economic growth, higher standards of living and increased revenues—without any increase in tax rates. In addition, the president's plan would boost national savings by nearly 2 percent of GDP over the life of the plan; the proposed Universal Savings Accounts will encourage saving even more.

Finally, paying down the debt we ran up during the 1980s and giving Social Security a "first claim" on the benefits of debt reduction is the most responsible way to treat the generations that follow us. One simple fact illustrates this point. When President Clinton took office, interest payments on the federal debt were projected to eat up 27 cents of every budget dollar by the year 2015. That would have made it almost impossible for future generations to make basic decisions about how the government should spend their money. Today, we can choose a different course. Under the president's plan, interest payments would shrink to just two cents on every dollar. Our grandchildren would have the power to make their own decisions.

We recognize that some in Congress have different ideas about how to invest the surplus, but large tax cuts oriented toward upper-income individuals and new spending programs would do nothing to address the government's debt burden, nor put Social Security and Medicare on firmer footing. The president's plan, in contrast, puts assets aside today to pay for benefits that are already due in the future.

Robert E. Rubin is secretary of the Treasury. Jacob Lew is director of the Office of Management and Budget.

The Washington Post

THURSDAY, FEBRUARY 4. 1999

The Washington Post
Tuesday, February 2, 1999

Saving Budget

THE MAIN proposal in the budget the president sent to Congress yesterday has to do with the unusual prospect of saving money rather than spending it. Mr. Clinton would use the bulk of the projected budget surplus to pay down the debt against the day, not that far off, when the baby boomers will retire and both Social Security and Medicare will lack the funds to cover costs. It's not a glamorous policy, but it's right, and Congress ought to acquiesce in it.

He does make room, elsewhere in the budget, for a series of initiatives, some of them spending increases, others selective tax cuts, in such fields as child care, health care and defense. The list is familiar. The White House left hardly a line of the budget unleaked this year. Many of them are good ideas, but most are smaller than they were made to sound; in the budget debate, both sides have fallen into the habit of using five-year rather than annual cost estimates. The proposals also are paid for in part by tapping the surplus but mainly through offsetting tax increases, the largest of which would be an additional 55 cents a pack on cigarettes. The administration says the higher price would help deter young people from smoking.

One effect of the initiatives would be to ease, without quite saying so, the appropriations caps to which the president and Congress agreed when they thought they might have to struggle to balance the budget in 1997. The caps, which apply to defense as well as to civilian spending for other than benefit programs such as Social Security, food stamps, etc., have always been artificially and unrealistically tight. They ought to be eased, and to the extent that the easing is financed, so much the better.

Nor will appropriations soar even if the caps are relaxed as the president has proposed. Republicans were quick yesterday to accuse him of reverting to tax-and-spend, but the percentage increases would remain small. Nor need they happen. The president made many similar proposals last year, most of which the Republicans killed; they could again. Their preference, after reserving the money the president proposes for Social Security, is to give an across-the-board tax cut.

But that seems to us the wrong thing to do. The surplus ought not be allowed to induce euphoria. The government's long-run obligations continue to be much greater than the foreseeable revenues. The mostly conservative fiscal position that the president has staked out is correct. He would seem to us to have the political advantage as well, in that if nothing is done—if neither his program nor the Republicans' is adopted—even more of the surplus will be used to pay down the debt. He mostly wins if he simply wields the veto. Maybe they should all go home.

The New Surplus Era

Of all the initiatives in President Clinton's proposed budget this week, the most politically significant may turn out to be a simple forecast. The United States, the Administration says, is on the threshold of an era of budget surpluses, nearly $4.5 trillion in the next 15 years. Far from calling for a major redirection of government, Mr. Clinton wants to set aside a mere 11 percent of the surpluses for new spending. Three-quarters would be used to shore up Medicare and Social Security. Embattled by impeachment but enjoying the highest approval ratings of his Presidency, Mr. Clinton has sketched a vision striking for its essential conservatism.

The approach is also sensible and farsighted. Social Security and Medicare face future deficits unless significant changes are made. Instead of proposing bold new programs to serve as his legacy, Mr. Clinton is calling for a major investment in the two programs that are the greatest legacies of the New Deal and the Great Society. Republicans have seized on the dozens of smaller spending and tax-break initiatives to paint Mr. Clinton as an old-style apostle of big government. But under the President's budget plan, overall spending is projected to shrink to 19.4 percent of the nation's economy, the smallest proportion in 25 years. The dreaded label of liberal does not fit.

The budget has clearly thrown Republicans onto the defensive. Every poll shows that Americans would rather preserve Social Security and Medicare than enjoy a big new tax cut, as Republican leaders want. It is also questionable how much political support there will be for a tax cut that disproportionately benefits the wealthiest Americans. On the other hand, Republicans are right to note that both Social Security and Medicare will need additional fixes beyond the proposed infusion of surplus money.

The extra attraction of Mr. Clinton's approach is that most of the surpluses would actually go to paying down the publicly held Federal debt, a step widely supported by many Americans and endorsed last month by Alan Greenspan. As the Federal Reserve chairman also warned, the surpluses are only a projection. They may diminish if the economy turns sour or plans for spending cuts do not materialize.

Policy makers in Washington are finding it hard to cope with the new political reality of surpluses. Only two years ago, every new proposal for spending increases or tax cuts was challenged as a threat to fiscal balance. Now the familiar budget debates can take place in a context of at least some extra money becoming available. The surpluses make it possible, at least theoretically, for Congress and the President to agree eventually to some kind of combination of tax cuts, money for Social Security and Medicare, spending increases and paying down of the debt. These issues are taking on greater immediacy as the Senate seems to be moving toward winding up the impeachment trial by the end of next week.

Choosing Candidates in Mexico

Mexico's passage to democracy remains uncertain and incomplete. Opposition parties now hold a majority in Congress as well as the country's second-most-powerful electoral post, the mayoralty of Mexico City. But Mexico's presidency, where political power is overwhelmingly concentrated, has been controlled without interruption by the Institutional Revolutionary Party, or PRI, for the past seven decades. That monopoly could well end in next year's elections. What should definitely end is the traditional system of letting the incumbent President from the PRI choose the party's nominee to succeed him. There is still time to act before the general election campaign begins.

Eight months ago, President Ernest Zedillo proposed an American-style primary. But he has done little to bring one about. Party officials indicated that a national party convention would be held last year to set nominating rules. But no nominating rules have yet been set. Mexico's two opposition parties, either of which has a realistic chance of winning the presidential vote, plan to choose their candidates in nominating conventions this fall.

The main contenders for the PRI nomination are Francisco Labastida, now Interior Minister and a close political ally of Mr. Zedillo, and two state governors, Manuel Bartlett and Roberto Madrazo. Both governors are from the party's old guard and have resisted democratic change in the past. Still, they and others should have the right to a fair and democratic contest for the nomination.

The victorious generals of the Mexican Revolution organized the PRI in the 1920's to keep control over presidential succession. Through hand-picked nominations, unfair campaign rules and occasional electoral fraud, they and their PRI successors proved all too effective. Recent reforms have made for fairer campaigns and cleaner balloting. The next step should be to introduce fair competition into the PRI's nomination process as well.

The New York Times

WEDNESDAY, FEBRUARY 3, 1999

The Shadow Cost

THE INTEREST on the national debt last fiscal year was $243 billion; it made up a seventh of the budget. The president's budget projects that, five years from now, that figure will be down to $173 billion if the surplus is used to pay down debt in the ratio he has proposed. There would be further reductions thereafter.

The huge interest savings that will result if the debt is reduced are the sleeper in the current budget outlook. They are a principal reason the surplus is projected to last as long as it is; without them, it would much more quickly disappear. By the same token, they represent a hidden additional cost if, instead of being used to retire debt, the surplus is "spent" either literally or on a tax cut. The cost of a tax cut, by this measure, is not just the revenue the government would give up but the higher-than-anticipated interest it would have to pay on larger-than-anticipated debt. Increased spending comes with a similar shadow cost.

The president incurred such a cost even in his own budget. He proposed using only about three-fourths of the surplus to pay down debt as a way of reserving it to meet future Social Security and Medicare costs. The remaining fourth he would use in part for a tax cut to create the "universal savings accounts" with which he would supplement Social Security and in part for increased defense and domestic spending. Because not all would be used to reduce the debt, interest costs in just the next five fiscal years would be $24 billion higher than otherwise. The cost through the year 2014 would be $387 billion.

It was in the Reagan years that the deficit soared to the heights from which the government is only now recovering. The debt quadrupled; interest costs doubled as a share of the budget, from about 7 percent to 15 percent. A sizable share of the present budget is thus the deferred cost of past indiscipline. The surplus provides an opportunity to reduce that. The effect would be to strengthen the ability of the government to meet its future obligations; among other things, having lowered the debt, it could much more easily borrow again if it had to. In the meantime, the increased savings would in theory add to economic growth.

The president wouldn't use all the surplus for this purpose. Nor perhaps should he; the country has other needs. But on balance, in our judgment, his budget pushes in the right direction. He finessed the cuts that must still be made in long-term Social Security and Medicare costs. But the broad alternative, which is to "consume" in the form of a tax cut what ought to be saved for these and other public purposes, including a sufficient defense, is wrong.

The Washington Post
Wednesday, February 3, 199

Charles Krauthammer

Clinton's One Big Idea

In the State of the Union address two years ago President Clinton declared "the era of big government is over." This year's State of the Union adds: It depends how you define the word "big."

Never again will Clinton—nor any successor—attempt a big new government program like his failed and unlamented HillaryCare health plan. But this State of the Union address, which contained a numbing list of goodies for every voting bloc and interest group, ushered in the new Democratic ideal: little-big government. Government that seeks not to remake the nation in one bold stroke but to control it with a thousand Lilliputian programs.

Emblematic of little-big government is Clinton's passion for fixing leaky school roofs. We've come a long way from the grandeur of Social Security and the Manhattan Project.

The point of these programs is twofold: (a) to show that the liberal vision of active government is alive and well, even if it is not "big government"; and (b) to tie with these thousand Gulliver strings just about every American in blissful submission to the all-beneficent (welfare) state. (There is, of course, a third, more transient reason: to show that the Clinton presidency is still alive and kicking and going "back to work for the American people." What's impeachment when the school roof is leaking?)

We've come a long way, too, from the Founders' vision of a government whose purpose is to secure rights and ensure liberty. The purpose of 20th-century government is to secure comfort and security itself.

That is Clinton's forte. He excels at doling it out. And yet, among his myriad minimalist ideas, there was one big idea—saving Social Security. And Clinton got it largely right.

No, not investing part of the trust fund in the stock market: That idea is guaranteed to corrupt and politicize one of America's greatest assets, its free market in capital. The good idea is dedicating 62 percent of the coming surplus—an estimated $2.7 trillion over the next 15 years—to "saving Social Security."

To be sure, Clinton presented the idea rather disingenuously. He gives the impression that under his plan, your and my Social Security taxes are being set apart and dedicated for future use. They are not. They are not going into a giant strongbox located deep in Cheyenne Mountain—safe from nuclear attack and spendthrift lawmakers—to which government functionaries will be sent in 2014 to withdraw our money and give it back to us aged boomers.

There is no strongbox. Indeed, the Social Security trust fund is nothing but a polite fiction, a bunch of government IOUs saying the U.S. government promises to pay future retirees. That promise is only as good as what the U.S. economy and the Treasury's balance sheet will be when that promise comes due.

Yet Clinton's plan will indeed strengthen the U.S. economy and the Treasury's balance sheet when that promise comes due. How? By reducing the national debt, now approaching $4 trillion.

Clinton's $2.7 trillion for "saving Social Security" will not sit in any trust fund. It can't. By law, every penny will immediately be "lent" back to the U.S. Treasury, where it will then be used to pay off the national debt.

According to this plan, the U.S. national debt will be near $1 trillion, down from almost $4 trillion, in 2014. Today the debt is 44 percent of GDP. It will be reduced to well below 10 percent of GDP.

That helps Social Security in two ways. The amount the Treasury will have to spend on interest on the debt will be cut by about 75 percent. That money can be dedicated to Social Security for retirees.

Moreover, the lower debt will also allow the government to borrow easily and cheaply for that one anomalous generation of retiring boomers, when too few workers will be supporting too many retirees.

Republicans will gripe that the surplus is better used to cut taxes. They should be grateful that a Democratic president is proposing to take $2.7 trillion of government surplus out of the hands of a Congress he has just seduced with his little-big government talk, and dedicating it to retiring the debt in preparation for future needs.

Cutting taxes, which would spur economic growth and produce a future economy larger and thus more able to support retirees, might be a better idea. But retiring the debt is good enough. Good enough to merit bipartisan and grateful support from everyone.

BY BARRIE MAGUIRE

The Washington Post

FRIDAY, JANUARY 22, 1999

THE NEW REPUBLIC

A Weekly Journal of Opinion

February 8, 1999

The Editors: Sound Investment

By The Editors

For the most part, Bill Clinton's State of the Union address, delivered in the shadow of the Senate impeachment trial, was yet another annual exercise in empty feel-good politics. In an hour and 17 minutes, Clinton offered something for everybody, even a guest appearance by Sammy Sosa for the baseball fans in the television audience. If last year's menu of policy proposals--remember the giant cigarette tax increase that Congress argued about for months and then didn't pass?--is any indication, none of the president's focus-group-tested ideas will ever become law. We hope, though, that there will be one exception: the White House's genuinely interesting proposal to shore up Social Security.

Although highly popular and extraordinarily successful at eliminating poverty among the elderly, in 2012 or so Social Security will hit a turning point, thanks to the impending retirement of the massive baby-boom generation. This flood of new retirees will cause Social Security to spend more in benefits than it collects in taxes, eating up the surplus that has been accumulating in the Social Security trust fund. Finally, around 2030, the trust fund's surplus will no longer be able to pay its full obligations.

For years, politicians from both parties have ducked this problem because they assumed, correctly, that solving it meant imposing pain on the public, in the form of higher payroll taxes or lower benefits. But the current budget surplus has opened the door to a different, more politically palatable solution: plowing the surplus back into the trust fund and investing the money in the stock market so the trust fund will grow much faster than it does under current law, which permits investment only in low-yield Treasury bills.

The big question is not whether to put the money into stocks, but how. Conservatives want "privatization"--meaning the conversion of Social Security into a system of individually held investment accounts, much like IRAs, which each person would then invest as he, or, more likely, his broker, decided. The idea of letting every American manage his or her own Social Security account has some intuitive appeal, but it is too risky. Individuals who happen to invest poorly might end up losing out at retirement. More important, privatization would imperil Social Security's ability to transfer money from well-off retirees to struggling ones and to subsidize retirement for the injured and the destitute. In other words, under privatization, Social Security would cease to be social insurance--which was the whole point of the program in the first place.

President Clinton, heeding the advice of sober minds such as Henry Aaron and Robert Reischauer of the Brookings Institution, has chosen an alternative course. Under the Clinton plan, the government itself would invest a small portion of the trust fund in the market via privately managed mutual funds. The massive size of the trust fund would mean individuals' retirement benefits wouldn't suffer even during short-term market downturns. And, by allocating the trust fund among a small number of investment vehicles, the government would save society the fees that would have been charged by the investment advisers who would have been churning everyone's privatized accounts under some schemes. What's more, by using the budget surplus, which is partly the product of progressively collected income taxes, to shore up Social Security, Clinton would partially answer one of the long-standing and valid criticisms of the program--namely, that it relies too heavily on the payroll tax, which is regressive.

Republicans warn that government control over such a huge portion of the private stock market would undermine the free enterprise system. As House Ways and Means Committee Chairman Bill Archer puts it: "If you thought a government takeover of health care was bad, just wait until the government becomes an owner of America's private-sector companies." Don't be alarmed. State and federal pension funds now routinely invest in private stocks, and we still have the freest capitalist system in the industrialized world. What's more, the Clinton plan would limit government's stake in the market to a modest four percent of the nation's private holdings.

Although Federal Reserve Chairman Alan Greenspan has joined the chorus of naysayers who warn about likely political manipulation of the fund, he of all people should know that it's quite possible to create a government board that has great power over the private economy but is still insulated from political influence. Indeed, this is precisely what the administration plans to create. That, plus new laws prohibiting the trust fund managers from exercising shareholder voting power, should keep the economy safe.

A more credible objection is that, revolutionary as it would be, Clinton's plan is still too timid. Clinton's advisers claim his plan would keep the system solvent for 55 years, which is 20 years less than the goal. Additional steps, such as raising the retirement age or reducing the inflation adjustment of benefits, would have extended the trust fund's life even further, but Clinton shied away from asking for even that modest level of sacrifice, at least for now.

Still, Clinton did promise to negotiate with Congress over how to extend the system's solvency further. And guaranteeing Social Security for 50 years would be a significant accomplishment in itself. As always, there's plenty of room for bipartisan compromise and accommodation in the Clinton plan. (As a gesture to privatization advocates, Clinton even offered to augment his plan with a separate set of government-subsidized IRAs for low- and middle-income persons.) The Republicans should take the president up on it--just as soon as they're done trying to impeach him.

Table of Contents: The New Republic 02-08-99 | About The New Republic | Subscribe to The New Republic | Search the Archives | Talk to The New Republic

2ND STORY of Level 1 printed in FULL format.

The Boston Herald

February 3, 1999 Wednesday ALL EDITIONS

SECTION: FINANCE; Pg. 031

LENGTH: 489 words

HEADLINE: On State Street; Carter praises the Clinton plan

BYLINE: By Beth Healy

BODY:
Marshall Carter skipped lunch with Bill Clinton and friends yesterday - he's no Democratic groupie.

But State Street Corp.'s chief is all for the president's Social Security repair proposal. It doesn't contain all the answers, Carter said, but it's a start.

"Clinton has stolen the high ground from the Republican party," Carter told the Herald. "The Republicans had 18 months to put a proposal out there, and they didn't do it."Instead of defending a plan to reform Social Security, the Republicans find themselves merely knocking down ideas put forward by Democrats. That's a losing game, Carter suggested.

He applauded three points of Clinton's plan:

Pouring 62 percent of the government surplus, or $ 2.76 trillion, into Social Security over 15 years, to bolster the system.

Investing a $ 700 billion slice of the surplus in stocks, to boost returns in the Social Security fund.

Giving individual workers new incentives to also invest for themselves in tax-deferred accounts.

Carter deflected Federal Reserve Chairman Alan Greenspan's criticism of Clinton's plan, saying Social Security funds could be invested in the stock market ethically, without corruption.

How? For one thing, individual states have done reasonably well investing pension funds, Carter said. He called instances of cronyism and favoritism "few and far between."

Second, Carter said, a watchdog group should be set up to monitor the process. Such a group might include the likes of Carter, Fidelity Investments chief Ned Johnson or Putnam Investments boss Larry Lasser, Carter suggested, executives with large businesses and reputations at stake.

Carter dismissed the wave of outrage among Republicans who agree with the Greenspan stance on corruption in any government-run investing program: "I don't have the same concerns others have."

A White House fellow during the Ford administration, Carter's interest in Washington politics and Social Security is no secret.

He co-authored a book, "Promises To Keep," with State Street colleague Bill Shipman, on the ailing government retirement safety net in 1996. Carter and his top staffers have the ear of many politicians pursuing Social Security reform. He predicts hearings and debates on the issue in Congress by spring. Call him an optimist. But if he's right, he'll have earned the right to thumb his nose at the naysayers.

Thomson Financial Services of Boston is teaming up with Netscape Communications Corp. to put free, real-time stock quotes on Netscape's Netcenter site. Thomson says other services offer quotes only with 20-minute delays. Thomson will use Netscape's e-commerce software to put content from several of its subsidiaries on-line, making First Call earnings reports, securities filings and M&A data available to ordinary investors.

Thomson President David Flaschen calls the deal "significant," giving both firms a leg-up in the on-line financial information war.

LOAD-DATE: February 03, 1999

Who's Fiscally Responsible Now?

By Jonathan Chait

WASHINGTON

No sooner had President Clinton unveiled his plan to save Social Security than it was savaged as big government run amok.

Republicans are reacting so hysterically precisely because the plan — a solid proposal surrounded by poll-driven vacuities in his State of the Union address — is *not* wild liberalism. Rather, it is fiscal conservatism — what Republicans used to stand for before they invented supply-side economics — devoted to progressive ends.

The gist of Mr. Clinton's proposal, remember, is not to spend the budget surplus but to save it. Three-quarters of the budget surplus would go to the Social Security and Medicare trust funds, which would save some of the money directly and use most of it to reduce the national debt. With the Government soaking up less private savings, more would be available for corporate investment. Most economists — and especially conservative economists — consider this the best way to boost economic productivity.

Indeed, Republicans do not dispute the conservative merits of debt reduction. Instead, they throw up their hands and moan that it is not realistic.

"Knowing the proclivities of democracy, and the Congress particularly," Representative Bill Archer, chairman of the House Ways and Means Committee, sighed last week, "it's very unlikely that that will happen." But the Republicans, not least Mr. Archer, are the very ones who are insuring it won't happen with their insistence that the surplus go toward tax cuts instead. It is reminiscent of the protection racketeer who sadly warns that the neighborhood is a dangerous place when *he's* the one who's making it dangerous.

So Republicans aren't arguing against debt reduction on economic grounds. Instead, they say the budget surplus "belongs to the American people." But what does this mean? Mr. Clinton, after all, isn't planning on giving the surplus to foreigners or setting it on fire; he wants to put it toward an end that benefits the American economy as a whole.

The Republicans, by contrast, are making a distributional argument. They want the surplus to reduce income taxes, most of which are paid by the well off. Mr. Clinton's plan, then, is concerned with enlarging the size of the economic pie, while the Republicans are more interested in how to divide it up.

According to conservatives, the most dangerous part of the Clinton proposal is investing a portion the Social Security trust fund in stocks, so that, in the long run, the higher returns help keep the program solvent. As a scholar at the American Enterprise Institute, Kevin Hassett, put it, "If the Government owned all the equities, we wouldn't really be much different than the old Soviet Union." Really? The absence of free elections, the suppression of dissidents, the state-run economy, the furry hats — all that in one seemingly innocuous accounting shift?

The G.O.P. should love Clinton's plan for Social Security.

If the fearmongering is working, it's because it seems to make sense at first blush. Having the Government own shares of the private sector is indeed dangerous. But listen to what Mr. Clinton actually proposes to do.

He wants to take a small portion of the budget surplus and turn it over to the Social Security trust fund. The trust fund would give the money to an independent board, whose members would be insulated from political influence the same way members of the Federal Reserve are. They would hire private-sector fund managers to invest the money in passive index funds and forfeit all voting rights on those shares. Could future Congresses change the rules if they wanted to attach strings to the money? Sure, but they could do the same thing to the Federal Reserve — a far more tempting target.

There may well be some flaws in this proposal that haven't come to light. But conservatives haven't even tried to figure out what these might be, preferring instead to dismiss it out of hand.

It's not hard to figure out why. Conservatives have never warmed to Social Security, particularly the way it redistributes wealth. Republicans thought Social Security reform would give them an opportunity to privatize the system. Their most politically potent argument was that a privatized system would allow individuals to enjoy the higher returns that the stock market historically yields. But if you can get those higher returns without privatizing, as Mr. Clinton suggests, then privatization loses its appeal to all but hard-core conservatives.

Congressional critics are making much of the fact that Alan Greenspan, the chairman of the Federal Reserve, expressed his opposition to putting the trust fund in stocks. But Mr. Greenspan also said using the surplus for debt reduction — the main element of the Clinton plan — would be preferable to tax cuts. In truth, there is no reason to give special deference to Mr. Greenspan's views on budgets and taxes. He is responsible for monetary policy, on which we quite properly hang on his every word, but on other matters his thoughts should count for no more than those of any other conservative economist

The political genius of Mr. Clinton's plan is that it marries good policy with good politics. This used to be what Republicans called responsible budgeting. How sad that they now see it as unacceptable. □

Jonathan Chait is a fellow at the New America Foundation.

Note to Readers

The Op-Ed page welcomes unsolicited manuscripts. Because of the volume of submissions, however, we regret that we cannot acknowledge an article or return it. If manuscripts are accepted for publication, authors will be notified within two weeks. For further information, call (212) 556-1831.

The New York Times
MONDAY, JANUARY 25, 1999

Greenspan Backs Clinton's Plan For the Surplus

Diverting General Revenues Toward Social Security Will Cut Debt, He Says

By JACOB M. SCHLESINGER
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—Federal Reserve Chairman Alan Greenspan defended President Clinton's plan to divert general revenues into Social Security, suggesting that it may be the only politically possible way to use growing budget surpluses to pay down the national debt.

Republicans have stepped up criticism of the White House Social Security plan in recent days, focusing on its reliance on a massive transfusion of new tax revenues to extend the Social Security trust fund by 23 years to 2055. Currently, Social Security is funded by payroll taxes.

Internet Exuberance?
Fed Chairman Greenspan told Congress that Internet-stock mania is like buying lottery tickets. Article on page C1.

At a Senate Budget Committee hearing, Chairman Pete Domenici of New Mexico blasted Mr. Clinton's plan as "an elaborate game" of "accounting shifts" that will "undercut efforts to achieve real reform." Mr. Domenici noted that in prior bipartisan studies of the retirement program, one of the few points of consensus was opposition to using general revenues.

But Mr. Domenici and other Republicans were unsuccessful in repeated attempts to draw Mr. Greenspan into attacking Mr. Clinton's plan. Mr. Greenspan has in the past opposed using general revenues to fund Social Security and indicated yesterday that he wasn't happy about the idea now. But he implied that Mr. Clinton's plan—which essentially marries future Social Security commitments to current budget surpluses—may be the best political means to an end that Mr. Greenspan strongly supports: paying down the national debt of $3.6 trillion held by the public.

The notion that Congress could rally enough support to pay down debt without such a gimmick "may be totally unrealistic," Mr. Greenspan said, adding that Mr. Clinton's approach may be a "second-best" way to accomplish that goal.

The heart of the complex debate is what Washington should—and can—do with budget surpluses that the White House estimates will total $4.4 trillion in the next 15 years.

Many economists, most notably Mr. Greenspan, feel the money should be used to pay down debt, which they say will lower interest rates, raise national savings and investment, and boost long-term growth rates. Mr. Greenspan called Mr. Clinton's plan for the surplus "a major step in the right direction."

Republicans don't necessarily disagree. But they contend it is unrealistic to expect Washington to sit on surpluses for many years without boosting spending or cutting taxes. "If I look out there and look at Congress, they are going to spend it," Sen. Domenici said. So, he and other Republicans prefer a big tax cut. On that point, they won Mr. Greenspan's qualified endorsement: He repeated his oft-stated view that if the government can't protect surpluses, it is better to cut taxes than increase spending.

Republicans are increasingly vocal in opposing the complex way that Mr. Clinton does pay down the debt. The Clinton plan would use about $2.8 trillion to pay down debt. For every dollar of debt paid down, Mr. Clinton would give an extra dollar of IOUs to the Social Security trust fund to pay for benefits from 2032 to 2055. Under that scenario, those benefits would essentially be paid out of general revenues.

Despite his praise for parts of Mr. Clinton's Social Security plan, Mr. Greenspan agreed with critics that it doesn't do much to solve the long-term cost problems. Mr. Clinton's proposals avoid any painful changes, and Mr. Greenspan said that ultimately, "in all likelihood . . . .taxes will have to be raised, or benefits cut." Mr. Greenspan also cautioned against assuming that the White House's rosy estimates for surpluses will actually materialize.

In his testimony, Mr. Greenspan also reiterated his opposition to another portion of the Clinton Social Security plan that drew the most attention when the package was first unveiled last week: investing some of the trust fund in the stock market. "Even with Herculean efforts, I doubt it would be feasible to insulate, over the long run, the trust funds from political pressures," the Fed chairman said.

THE WALL STREET JOURNAL

FRIDAY, JANUARY 29, 1999

Social Security: The Basics, With a Tally Sheet

By DAVID E. ROSENBAUM

WASHINGTON, Jan. 27 — When President Clinton unexpectedly used his State of the Union Message last week to propose vast changes in the way Social Security is financed, he touched off what may become the hottest policy debate of the year.

No other Government program has ever been relied on by so many people. Nor has one been so popular or so expensive. And probably no other measure affecting the general public is so complicated and so misunderstood.

As a guide in following the debate, here is a primer describing the basics of the program, its problems and its politics and what the President and the Republicans in Congress want to do about it.

Social Security And How It Works

A payroll tax is imposed on almost all workers and their employers — 6.2 percent each on all wages below $72,600. (The workers and employers pay an additional 1.45 percent each in Medicare taxes.)

Nearly 80 percent of the money is now used to pay monthly benefits. Most of the money goes to retirees and their widows and widowers. A much smaller amount is paid to the survivors of workers who died before they retired and to disabled people.

Today's workers are taxed to pay retirement benefits for their parents' generation. When today's workers retire, their benefits will be covered by their children's generation. The principle is different from an investment or an insurance policy, in which individuals pay premiums and the income from those premiums is used to pay their benefits later.

When, as is now true, the Government receives more money in Social Security taxes than it must pay in benefits, the reserves are credited to a trust fund. The money is invested in Government bonds. The interest on the bonds is credited to the fund.

The trust fund is no more than a bookkeeping entry, a collection of Government I.o.u.'s promising to pay benefits to future retirees. This obligation will be fulfilled only to the extent that politicians are willing to raise the necessary money through taxes or borrowing. But as a political matter, it is an obligation that would be hard to ignore.

For years, the surplus in the trust fund has been used to meet part of the operating expenses of the Government and to offset part of the overall budget deficit. But this is no longer necessary because, for the next 15 years, the Government is expected to run a total budget surplus of $4.4 trillion.

The Problem: Graying of the Babies

Despite today's surplus, the future is far from rosy.

The ratio of workers paying taxes to retirees drawing benefits has long been shrinking. In 1950, there were 16 workers for each Social Security beneficiary. Today, there are slightly more than three. By the second or third decade of the next century, when most baby boomers will have retired, actuaries project there will be only two people at work for each person receiving benefits. When that happens, unless changes are made, the trust fund will go into the red.

The latest estimate is that Social Security taxes will continue to exceed benefits until 2013. Because of interest payments owed on the bonds credited to the trust fund, the income in the fund will be more than what is paid out until 2021. After that, the trust fund will begin to shrink rapidly year after year until the money runs out in 2032.

Economists and politicians agree that the sooner the problem is addressed, the less painful and abrupt the solution will be.

The President's Proposal: Surplus, Stocks and Savings

The President's plan would keep the Social Security tax and benefit structure. He has proposed giving 62 percent of the budget surplus over the next 15 years to the Social Security trust fund, $2.7 trillion of the $4.4 trillion projected surplus. (The rest would be spent on Medicare, the military and other programs.)

Of the $2.7 trillion, Mr. Clinton proposed that the trust fund invest $700 million in the stock market. The White House insisted that steps would be taken to insulate the investments from political tampering, but no details were offered.

The other $2 trillion would be used to buy Government bonds from the public to lower the outstanding public debt — the sum of all the annual budget deficits over the decades — from nearly $4 trillion to less than $2 trillion. As a proportion of the total economy, the national debt would fall from about 45 percent today to 10 percent in 2014, the lowest level since the nation entered World War I.

Mr. Clinton sees three advantages for Social Security in this approach:

¶Historically, the average return on stock investments over a long period has been much higher than the return on Government bonds. The return on stocks is about 7 percent above the rate of inflation, as against 3 percent for bonds. Over the next 50 years, based on the long-term average return of stocks, investing $700 billion in the stock market instead of Government securities would extend the life of the trust fund by five years, the White House says.

¶Paying off $2 trillion in public debt over the next 15 years should strengthen the economy by lowering interest rates and opening the way for more productive private investments. A stronger economy would increase the number of people working and the size of their paychecks and make it less painful for workers to pay the taxes needed to support Social Security.

¶The interest on the $2 trillion in additional bonds would be credited by the Treasury to the Social Security trust fund, increasing the amount promised for retirement benefits.

These proposals, the President believes, would extend the life of the Social Security trust fund until 2055.

In addition, the President would allow people ages 65 to 69 to continue to work and receive full benefits. Under the existing law, their benefits are reduced by $1 for each $3 earned. And the President would improve benefits for widows. But he offered no means of paying for these additional benefits.

Outside of Social Security, Mr. Clinton would set aside $500 billion from the surplus to create "universal savings accounts." To encourage workers to save and invest, the Government would give low- and middle-income Americans seed money to invest in their own accounts in financial markets. Then the Government would match a portion of people's own money that they invested, similar to the way that many companies match their employees' contributions to 401(k) plans.

The White House concedes the plan would not fix Social Security's problems for good and that ultimately, to keep the program solvent for the next 75 years, taxes will have to be raised or benefits cut. But Mr. Clinton avoided dealing with this question. For the present, his proposal would not require any sacrifice by taxpayers or retirees.

The G.O.P. Position: A Work in Progress

The Republicans, who control Congress, have not developed a single proposal of their own. But they are united on three points:

¶The Government should not invest in the stock market.

¶The Social Security system should be overhauled so that workers could themselves invest in financial markets some of the money they now pay in taxes.

¶The 62 percent of the surplus that the President wants to use for Social Security is the proper proportion, but much or all of the rest of the surplus should be used for tax cuts.

Republicans say Government investments in financial markets would be a mistake as a matter of principle and of economics. They say it would give the Government too much control over private companies. And they argue that the return on investments would be reduced because politicians could not be prevented from abandoning fiduciary responsibility and voting, for instance, to prohibit investments in companies that make cigarettes or firearms or contraceptives.

One approach considered by Republicans would allow workers to invest part of what they now pay in Social Security taxes. Guaranteed Social Security benefits would have to be reduced accordingly.

Another Republican approach would be to maintain the current Social Security tax and benefit structure but give workers an income tax cut if they invested the money in retirement accounts. This would eventually cause the Federal deficit to rise again if other taxes were not raised or spending cut to offset the income-tax cut.

The Politics: Tinkering With an Icon

Social Security was born in 1935 over Republican opposition, and Democrats from Franklin Roosevelt through Bill Clinton have trumpeted it to their political advantage.

Whenever Republicans have tried to tinker with the system, they have suffered politically. For instance, Republican support for a cut in benefits was seen by many as a reason the party lost control of the Senate in the 1986 elections. In the 1995 budget struggle with Congress and in his 1996 race for re-election against Bob Dole, President Clinton made headway with his accusation that Republicans wanted to cut Medicare, Social Security's close cousin, in order to give a tax cut to the wealthy.

The President and Republicans in Congress agree that sooner or later a solution must be found and that it must be bipartisan. But given this history of political mistrust and the added divisions arising from the President's impeachment, it will be extraordinarily difficult to reach an accord this year.

The New York Times

THURSDAY, JANUARY 28, 1999

Saving Social Security For Us and Future Beneficiaries, from the Call for Tax Cuts Now

James A. Wilcox

San Francisco Chronicle,
Tuesday, February 2, 1999

IN THE BUDGET PRESIDENT Clinton unveiled yesterday, he has forecast $4.5 trillion in federal government surpluses over the next 15 years. But, just as nature abhors a vacuum, politics abhors a government budget surplus. One way or another, surpluses will be spent.

The big question is how the government should spend the budget surplus: on programs or tax cuts or as the president has proposed, on Social Security and Medicare?

What should we do? Liberals will tout opportunities for new and larger government programs. Conservatives will tout opportunities to cut current taxes. Conveniently, neither group will explain how much their proposals require in higher taxes and reduced benefits later.

The president has proposed spending $3.5 trillion of the future surpluses to pay down the national debt. This will protect Social Security and Medicare by strengthening their ultimate underpinning, the economic health of the nation's citizens. Since future beneficiaries rely on future tax payments, strengthening the earning power of future workers helps Social Security meet its obligations.

The less debt the government has outstanding when the Baby Boomers are retired and the stronger the economy, the easier and it will be to deliver on Social Security's promises: to provide income for retirees and their families, and a safety net the unfortunate.

Two decades ago, when faced with substantial surpluses in the California budget, Californians voted resoundingly for Proposition 13, which spent the surpluses on property tax cuts. Since Californians knew the state had already funded its retirement obligations for its huge government workforce through CalPERS, they sensibly saw no particular reason to run more surpluses.

The nation's situation now is different than California's was in the 1970s. Even though the federal government is expected to run sizable surpluses on its day-to-day operations for some years, its retirement and medical programs are not fully funded. Rather, these are ``pay-as-you-go" systems that effectively require payments from to day's workers to fund benefits for today's beneficiaries. The ability pay benefits to millions of beneficiaries in the future hinges on enabling workers and businesses to grow strong enough to afford those payments.

We have known for a long time that our children and grandchildren will face a heavier tax burden than we've faced in providing Social Security benefits. The reason is simple: Today we have three workers for each beneficiary; by 2030, we will have only two. This is not the time to spend the surpluses by cutting taxes or dramatically raising government spending. This is the time to spend the surplus to strengthen the economy by bolstering the earning power of workers and the profitability of businesses, just as the president has proposed.

How do we accomplish that? Paying down the national debt means that the government is reducing its demand for credit. Less demand for credit will reduce interest rates. In contrast to the large deficits that drove up interest rates in the 1980s, devoting large surpluses to Social Security and Medicare will drive down interest rates.

Borrowing costs will be lower for the government -- and for all the rest of us. Lower interest rates benefit the tens of millions of mortgage holders, who potentially can refinance at lower interest rates, and the tens of millions of young families who would like to become homeowners.

But more importantly, lower interest rates will spur businesses to start up, to grow and to develop and upgrade their technologies. In that way, lower interest rates will strengthen the productivity of our workers and the profitability of our businesses. These strengthened pillars of our economy will be better positioned to support Social Security.

Lower interest rates also tend to support higher prices for stocks and bonds. After all, it is not a coincidence that the financial markets have prospered as the government has reduced its deficits in the general government budget in the past 15 years.

The enormous reduction in poverty rates among the elderly and unfortunate clearly demonstrate how crucial Social Security is to their well-being. However, continuing success requires financial discipline from here on. President Clinton's proposal provides that discipline. The Greenspan Commission report led to the bipartisan reforms in 1983 that vastly improved Social Security's financial health by raising taxes and altering benefits. Now, let's stay the course: let's maintain our fiscal discipline and restrain our urge to spend more and tax less.

The Phony Issue of Double-Counting

by Henry J. Aaron

Henry J. Aaron is a Senior Fellow at the Brookings Institution.

The president's budget proposal announced in his State of the Union Address has provoked a good deal of confusion about how the numbers fit together. Some people are criticizing the plan for allegedly "double counting" the social security surpluses. The purpose of this note is to explain how the president's proposal would work from an accounting perspective. The message is simple: the double-counting issue is bogus. The president's address outlined a bold plan that stands in striking contrast to alternative proposals that would use projected budget surpluses to justify large tax cuts or spending increases. Faced with a once-in-a-generation choice about how to spend large and unanticipated surpluses, the nation should confront the big issue "save the surplus or spend it" and not get mired in accounting pettifoggery.

My explanation is built around four tables. The first lays out the president's program in the terms he presented it. The second shows how some can treat it as double counting. The third shows the effect of the president's plan on debt obligations and debt holdings from various perspectives. The fourth recasts the president's plan in terms of the traditional unified budget with an important change in budget rules and shows that the charge of double counting is based on confusion.

Initial Situation

Because I do not have access to the specific numbers in the budget forecast, I illustrate the accounting for the proposal with a hypothetical initial situation. I assume that the budget faces a projected unified budget surplus of 150, consisting of a surplus in social security of 100, and a surplus in other operations of government ("on-budget") of 50.

	Initial Balance
Social security	+100
On-budget	+50
Unified Budget	+150

To keep the numbers whole, I assume that the president proposes to allocate 90 to social security, 22 to Medicare, and 38 to other purposes (including tax cuts, USA accounts, defense, and non-defense discretionary programs). These amounts happen to be equal to 60 percent of the *unified budget* surplus for social security, approximately 15 percent for Medicare, and approximately 25 percent for other purposes. These numbers correspond approximately to the proportions the president presented in his State of the Union address. As with the president's proposal, however, the appropriations for these purposes would be stated as hard numbers, *not as fractions of the projected unified budget surplus.*

Table 1 shows the budget accounting for these transactions. Note that the term "unified budget" does not appear in table 1. I have omitted it because I believe that the budget initiative of the president implicitly adopts a budget framework, used by some but not all Republicans in 1998 to motivate tax cuts, but the president employs that framework to motivate a quite different policy. In 1998, CBO projections indicated that the unified budget would be in surplus over the succeeding decade, but that virtually all of that surplus would be accounted for by social security surpluses. That is, the cumulative "on budget" surplus over the succeeding decade was essentially zero. Nonetheless, some Republicans claimed that projected "surpluses" justified a tax cut.

Table 1: The President's Plan

On-budget surplus	50	Allocation to social security (set at 60 percent of balance)	90
Social security surplus	100		
		Allocation to Medicare (set at 15 percent of balance)	22
		Available for other uses (*tax cuts*, USA accounts, defense, nondefense discretionary)	38
Balance available for various uses	150	*Total uses of funds*	150

The president seems to be saying: "OK. If you wan[t] to treat the unified budget surplus as up for grabs, s[o] will I. But I shall allocate it for my purposes, no[t] yours." One should keep in mind also that the presi[dent], and also many Republicans, have made much o[f] their success in "balancing the budget." But this claim makes sense only if "the budget" refers to the unified budget, as the "on-budget" accounts — that is, the unified budget less social security — remain in deficit. To treat only projected "on-budget" surpluses as available for saving social security or any other purpose would mean admitting that these "on-budget" surpluses have not yet been realized.

This approach has led to the charge by some budget analysts that the president is double counting the social security surplus. Table 2, a "reconciliation" table, indicates how one might reach this conclusion. The social security surplus of 100 appears twice: once by itself and once as part of the unified budget surplus. The president could well respond that it was the Republicans who began this approach by claiming that social security surpluses justified tax cuts, even when the "on-budget" accounts were projected in 1998 to have no surpluses until 2005. As indicated below, however, there is a more fundamental answer.

Table 2: Reconciliation

Sources		Uses	
Unified budget surplus	150	Additions to social security reserves	190
Social security surplus	100	Additions to Medicare reserves	22
		Available for other uses	38
Total	250	*Total*	250

Table 3 shows the changes in debt and asset holdings arising from the president's proposal. It reveals that debt in the hands of the public falls by the amount of the unified budget surplus less uses of funds for purposes other than adding to social security and Medicare reserves, while debt obligations of the Treasury (which are subject to the debt limit) actually increase.

This increase in debt owed by the Treasury does not correspond to an actual growth of government debt, *if one takes benefit commitments under Medicare (part A) and social security as given.* From this perspective, the federal government has a "shadow" debt, in addition to the official debt, equal to the difference between (a) the present value of promised Medicare (part A) and social security benefits and (b) the present value of payroll taxes expected at current rates. President Clinton's proposal replaces a part of this *implicit* debt with *explicit* government debt deposited with the trust funds of these two programs. The president's plan reduces the projected long-term deficit in these two programs. If the president had wished, he could have proposed closing the deficit in these two programs entirely by depositing newly created Treasury obligations in the trust funds — that is, he could have replaced implicit debt entirely with explicit debt. Instead, he declared that additional steps — presumably benefit cuts or tax increases — are necessary to close the projected long-term deficit entirely and invited members of Congress to join him in fashioning such changes.

To see why the charge of double-counting is bogus, one need only translate the president's program into the traditional framework of the unified budget.

Table 4: A Unified Budget Accounting of the President's Program

"On-budget" Accounts — initial situation	+50	
New discretionary spending	-38	
Transfers to		
Social security	-90	
Medicare	-22	
Medicare — transfers from Treasury		(+22)
Subtotal — On-budget	-100	
Social security — initial situation	+100	
Transfer from Treasury		(+90)
Subtotal — social security	+100	
Grand total — Unified Budget	0	

Under the modified unified budget rules, the transfers of bonds from the Treasury to Medicare and social security would count as "on-budget" outlays but not as income to either program (hence the deposits are put in parentheses in Table 4). These transfers, along with the increase in discretionary spending, fully exhaust the budget surplus. This change in rules is essential for achievement of the president's stated purpose of reserving the surplus to increase national saving. Under the old rules, the receipts to the Medicare and Social Security Trust Funds would count as receipts, leaving a unified budget surplus of 112. This sum would be available for tax cuts or increased spending, both of which would boost national consumption, not saving. And if taxes were cut or spending increased by this amount, the federal government would not repurchase any debt from the public. But it is these repurchases that free resources for investment.

Table 3: Debt Reconciliation Under President's Plan

	Public Holdings of Government Debt	Government: Trust Funds: Social Security Reserves	Government: Trust Funds: Medicare Reserves	Government: Treasury: Debt Obligations (subject to debt limit)
Initial social security surplus (100)	-100	+100		
Transfer to Medicare (22)			+22	+22
Transfer to social security (90)		+90		+90
On-budget surplus (50, less 38)	-12			-12
Total	-112	+190	+22	+100

Casting the president's program in terms of a modified unified budget does not in any way change the substance of the program. Aficionados of traditional unified budget accountin may wish that the president had presented his program in that form. To have done so would have defeated the objectives of the program. The modified unified budget framework preserves the substance of the program. The key point is that one should not allow the *form* of the presentation to divert one from the *substance* of the program, which is where debate should focus.

Confronted with truly enormous projected surpluses, unprecedented since the indexation of the personal income tax, should the nation cut taxes or boost spending, two ways of increasing current consumption? Or should the nation save these surpluses to help reduce the deficits of the two largest and most popular programs of the federal government, social security and Medicare?

This choice is a big issue that should be settled by the electorate in a mature democracy. Legitimate disagreements are possible on the future role of social insurance and on the importance of boosting national saving and economic growth relative to supporting current consumption, private and public. But the nation should confront these issues, not spend its time on a petty and misplaced concern about double-counting.

Should Prejudgment Interest Be Taxable?

by Robert W. Wood

Robert W. Wood practices law with Robert W. Wood, P.C., in San Francisco. He is the author of the book *Taxation of Damage Awards and Settlement Payments* (2d Ed. copyright 1998), published by Tax Institute (800/852-5515; e-mail info@taxinstitute.com).

Most tax professionals, and even litigators with only passing knowledge of tax law will answer this question with an unreserved yes. Interest, after all, is interest. A series of cases has, however, analyzed the issue with considerably finer detail.

Related to the structured settlement point made above is to what extent, even outside the structured settlement context, a payment of interest to a personal injury plaintiff should be taxable. Although it may sound simplistic, it is a reasonable assumption that an amount denominated as interest in almost any context will be treated as taxable income. Sometimes the determination of whether "interest" has been paid is nc obvious.

In *Frank L. McShane*,[1] the Tax Court considered settlement agreement arising out of an action for ir juries received in a gas explosion. The IRS argued tha a portion of the settlement amount constituted interes The Tax Court reviewed the settlement agreement an the evidence contained in the record, and conclude that the payments did not include interest because: (1 the agreement provided that the settlement was to b paid without costs and without interest; (2) the inten tions of all parties as stated by their attorneys wer consistent with the payment of no costs or interest; an (3) the taxpayers and the attorneys uniformly testifie that the tax consequences of the settlements were neve considered in the negotiations, and instead that th settlement was based on the risks each party faced i continuing the appeal.

> ***Sometimes the determination of whether 'interest' has been paid is not obvious.***

In *Andrew Benjamin Aames, a/k/a Larimore S. Brooks v Commissioner*,[2] the taxpayer suffered serious persona injuries, and later settled with the defendant. The tax payer then sued his attorney for malpractice, allegin that the lawyer had negligently persuaded him to ac cept an unreasonable settlement. In the malpractic action, the taxpayer received $605,685 in damages, anc interest of $158,283. The taxpayer was also awardec $16,280 in damages on a second count plus $4,254 ir interest. The taxpayer did not include either interes amount in his income. The Tax Court concluded tha the interest was includable in the taxpayer's income Although the underlying damages qualified as per sonal injury damages, the court held that the interes was awarded merely because of delay, and therefor was taxable.

In a properly structured settlement, of course, ther should be no taxable interest element. For example, th IRS held in a news release that payments receive under a settlement fund distributable to victims of ex posure to Agent Orange could receive those settlemen payments tax-free.[3] The exclusion applied not only t the principal of the fund, but also to earnings on it, s that neither the fund nor the recipients are taxable o the interest element.

The subject of interest received considerable atten tion in *Kovacs v. Commissioner*.[4] There, the Tax Cour held that the interest portion of a lump-sum paymer for wrongful death damages is not excludable from th recipient's income under section 104. Kovacs wa killed by a train operated by the defendant, and hi

[1]T.C. Memo. 1987-151, *87 TNT 54-41*.

[2]94 T.C. 189, *90 TNT 47-21* (1990).

[3]IR 90-79 (May 16, 1990).

[4]100 T.C. 124, 93 *TNT* 45-22 (1993); *aff'd* 25 F.3d 1048 9 *TNT 126-16* (6th Cir. 1994); *cert. denied* 513 U.S. 963 (1994).

INSTITUTE FOR WOMEN'S POLICY RESEARCH
1400 20th Street, NW, Suite 104
Washington, DC 20036

TO: Melanne Verveer

FROM: Heidi Hartmann, Chair

SUBJ: Cooperation of First Lady and White House in Public Education on Women and Social Security

DATE: February 4, 1999

First, we'd like to thank you so much for your part in arranging for the First Lady to meet with us on January 21. It was a wonderful opportunity for us to discuss an important issue for women with Mrs. Clinton, you, and other staff members. We were extremely excited by the First Lady's commitment to the issue of women and Social Security and her willingness to help us launch and carry out a public education campaign around this issue.

Our proposed Schedule of Events looks like this:

March 15-16, 1999. Women's Equality Summit-Congressional Action Day (WES CAD). The First of a Biennial NCWO event. Washington, DC.
Launch of our Campaign to Educate US Women about Social Security.

This is our top priority for Mrs. Clinton's participation as a speaker as this would be the launch of the whole series of activities. We may be also be able to organize satellite locations for the Social Security briefing session. (The 1.5 day meeting, from 3 p.m. Monday through Tuesday evening, includes meetings with legislators in Congress and briefings on several other topics as well as Social Security; Social Security is, however, the featured issue.)

April 8, 1999. Pay Equity Day. Any City.
NCPE will be organizing meetings on equal pay in many states.

With the participation of NCWO's other members, we can pick one of the larger meetings for an emphasis on Social Security as well and would like to have an Administration principal there. (As you may recall, in general we spoke of Mrs. Clinton, Mrs. Gore, Secretary Shalala or Secretary Herman.)

May 1999. Town Hall Meeting Organized to Focus on Social Security

AAUW, BPW, OWL, NOW, NCNW, MANA, and other large membership groups in NCWO have strengths in particular cities. We are reviewing these candidate cities and can work with you to select one that works for your end. Again, we may be able to downlink to other sites.

June 19-22, 1999. AAUW Annual Meeting, Washington, DC.

AAUW already has extended invitations to the President and Vice President to speak and would be happy to add a focus on Social Security to their annual meeting addressed by one of the principals we spoke of.

July 14-18, 1999. BPW Annual Meeting, Rochester, NY

BPW's National Conference generally involves approximately 2000 people from across the country. There is a great opportunity to include a panel or a keynote address on Social Security.

August 1999. Most likely, no event.

September 1999. Black Family Day, Washington, DC and several other cities.

An annual event held by the National Council of Negro Women, which can include a focus on Social Security.

October 1999. NCWO Town Hall Meeting Organized to Focus on Social Security.

See note for May, same applies.

November 1999. NCWO Town Hall Meeting Organized to Focus on Social Security.

See note for May, same applies.

Also, for your information, BPW is holding their Legislative Session on February 11-12, and Social Security is the focus this year. Kenneth Apfel is speaking at lunch on the 11th in the Senate Office Building. The timing of this event was too soon for us to include many of our member organizations. However, as Gail Shafer mentioned at the January 21 meeting, if one of the principals we discussed could also participate that would be great as well since BPW has such a strong legislative presence on Capitol Hill through this regular annual meeting of theirs.

cc: Susan Bianchi-Sand
Jenny Luray

history

Bob Greenstein / Ellen

How big a win

antipoverty data

1/2 below →

of ev. 10 - lifted out → 9 are lifted out -

ev. else combined

Non-elderly nearly 2/3 - than other comb.

2/3 - 1/2 income

AA - 76 %

Hisp. - 87 %

SS here - 2/3 rets 1/3 - disabil. / survivor

(conting conserv - but best one - ev. using it).

2032 - under current law, income payroll

tax - (75%)

laborforce growth + product = ec growth.

This April: better - anticipate BLS - CPI (lower .2%/year)

shortfall = 2.19 % - payroll - 75 yr average

+ 2.0 - 2035

25% - fairy

· much smaller than Medicare

putting prob. aside - pros to come up
or no need for radical change - IA.

key q: that structural

do you replace part of SS w/ IA.

1. NO 2. Yes, but on top of SS 3. Yes - diversion.

more reserve - 2032

that's why - 75 ¢/1$

by law - only Treas securities - safest inv in wld -

less risk / lower yield

eliminate 1/2 - diversifying

leaves 1% -

IA: financing problem -

dig hole deeper — draw down quicker reserve

NC Retirement Policy (Breaux, Gregg, Stenholm, Kolbe) -

shifts 2% payroll tax - IA. → 4% = benefit cuts.

Bill:

65 - raises ^law^ 2022 - 67

Bill ↑ 70 - 2029

Bill ↑ 75 - 2035

early retirement : if chose only 62 - 80% over time } average - same

65 - 100%

raises early ^2029^ 65, 67½

changes basic benefit -

wkers - av benefit.

women, low wage wkers - stakes are highest.

bigger % of low-wage wkers salaries

- can't do w/ 2% ....

spousal benefit.

· 35 yrs - highest ~~years~~ of earnings.

· $s for same ....

· higher of own or 50% of spouse -

dies - hers of 100%.

Divorce

10 yrs - married - spousal | survivor - his earnings.

social insurance / redefined ...

indexed fully, cant outlive - Wm's

av stock mutual fund - admin-cost 1.? %
Over a 40 yr. → 20% of $
SS - less than 1% - 1 plan. (148 mil)

Thrift model - c 10%
- 1 IA.

Charges 15, 20% in account. -
salaries, admin, etc.
20-50 %

politically - Breaux, Gregg, → wait so far -
big benefit ↓ spending ↓
big ↑ age
CPI cut

2nd approach - M Feldstein - clever, appealing, pernicious
2% → private account - refundable tax credit
doesn't cost you anything.
1 change - for each $\underline{48¢}$ / IA, you SS ↓ $\frac{3}{4}$.

Feldstein -

use budget surplus — consume all.

to fund refundable tax credit - no surplus dries

2015 - 2030 - not paid for.

aft 2030 - pay for itself - added $ in

IA - ↑ corporate profit &

tax collectn.

surplus - ↑ retirement - but nothing else -

added pensions - ev.

no $ - new circ.

When - 2015 - cut the hell out of it.

3-4 trillion $ - taxes, etc.

Where does it lead -

risk - compare returns & dont care -

hybrid

Since SS -

bulk of ↑ - affluent elderly

Admin principles

~~1. children & future~~

2. ~~fiscal responsibility~~

3. oppose budget Δ shifting bottom to top.

more progressive

Green

IA - flat $ - (not %) on top of SS
no transfer out of SS Trust Fund
do not lower
no redistribut
social insurance

- no Carve out
- Claw back 03/4

$ - surplus - ↑ fed resources for retirement ahead of other priorities.

2nd gen
SS reserves - equities

pay roll tax
cap
amount of empl comp ↓ each yr
b/c % ↑, all inc
68,000 - exempt. -
faster growth.
↓ share payroll.
68,000 - 90,000.

if that's where end up ⇒ start out - dif place - than end up.

In general -
widows who live a long time 23% - elderly widows -

good proposals to increase benefits.
higher of either or 75%. – combined
if both living 50% ~~widow~~ or 100% - hers own
substantially reduce → capping – median.

spousal benefit
50 – 33 1/3 phase down. – lessening
over time.

fraud → consumer price. –

---

worried :– Rep neg. → dif..
we have said nothing critical –
Rep in Hill – Pres – is going to move –
neg. on their terms.
deal – unsound –
squeezing ☐.

SS – who wd public trust –
what for, what not for – problems –

OWL PRESS RELEASE

666 11TH STREET, NW • WASHINGTON, DC 20001 • 202-783-6686 • FAX 202-638-2356

For further information:
Deborah Briceland-Betts or
Roberta Weiner
202/783-6686

FOR IMMEDIATE RELEASE
Wednesday, January 20

OWL CALLS STATE OF THE UNION SPEECH VICTORY FOR AMERICA'S WOMEN AND FAMILIES

OWL, the only national grassroots membership organization to work solely on issues unique to women as they age, today said President Bill Clinton's January 19 State of the Union message is "a victory for American women and their families."

"Women are the mainstay of American families," said OWL Executive Director Deborah Briceland-Betts. "We are America's caregivers--of children, aging parents, and sick spouses--and when we get old, we're the majority of the people who depend on Social Security and Medicare. The initiatives outlined in President Clinton's speech promise the women we depend on today that they won't have to live out their retirement years in poverty or forego medical care because they can't afford to pay tomorrow."

Noting that one in four women today have no other income than their Social Security check, Briceland-Betts praised the President's plan to strengthen Social Security for at least the next fifty years and his recognition of the high poverty in which too many elderly women now spend their final years.

"One of the best-kept secrets in the debate over reforming the Social Security debate is that 74 percent of the elderly poor are our mothers and grandmothers," she said. "The President's proposal would not only address the solvency of Social Security, but also extend the life of Medicare, the nation's health insurance program for the elderly by an additional two decades."

Briceland-Betts said that OWL was particularly pleased with the attention to Medicare. She said that women depend on Medicare more than men. "Very simply, women live longer than men. As we get older--and frailer--we have more chronic conditions. The President says he is committed to ensuring that we will be able to afford the health care that we need." She also praised the speech for proposing a new prescription drug benefit, a significant hole in current Medicare coverage.

-more-

Briceland-Betts called attention to the President's long-term care initiative as a first-step in building a program that can truly serve future generations of aging Americans. "This is a real--and frightening--issue for American families," she said. "More than 70 percent of long-term care patients are women, and many of them are cared for by their daughters and daughters-in-law. With the President's proposal, we now begin to explore ways to support the selfless sacrifice of families with ill and disabled loved ones, and support the enormous expense of long-term care so today's children will not be saddled with impossible costs when the baby boom generation retires."

"When you touch one member of a family, you touch all of us," said Briceland Betts. "OWL has worked for two decades to bring attention to these fundamental issues for women, and we applaud the President for making them an important part of his agenda for the new millennium."

\# # # # # #

PRESS RELEASE

666 11TH STREET, NW • WASHINGTON, DC 20001 • 202-783-6686 • FAX 202-638-2356

For further information:
Deborah Briceland-Betts or
Roberta Weiner
202/783-6686

FOR IMMEDIATE RELEASE
Wednesday, January 20

OWL CALLS STATE OF THE UNION SPEECH VICTORY FOR AMERICA'S WOMEN AND FAMILIES

OWL, the only national grassroots membership organization to work solely on issues unique to women as they age, today said President Bill Clinton's January 19 State of the Union message is "a victory for American women and their families."

"Women are the mainstay of American families," said OWL Executive Director Deborah Briceland-Betts. "We are America's caregivers--of children, aging parents, and sick spouses--and when we get old, we're the majority of the people who depend on Social Security and Medicare. The initiatives outlined in President Clinton's speech promise the women we depend on today that they won't have to live out their retirement years in poverty or forego medical care because they can't afford to pay tomorrow."

Noting that one in four women today have no other income than their Social Security check, Briceland-Betts praised the President's plan to strengthen Social Security for at least the next fifty years and his recognition of the high poverty in which too many elderly women now spend their final years.

"One of the best-kept secrets in the debate over reforming the Social Security debate is that 74 percent of the elderly poor are our mothers and grandmothers," she said. "The President's proposal would not only address the solvency of Social Security, but also extend the life of Medicare, the nation's health insurance program for the elderly by an additional two decades."

Briceland-Betts said that OWL was particularly pleased with the attention to Medicare. She said that women depend on Medicare more than men. "Very simply, women live longer than men. As we get older--and frailer--we have more chronic conditions. The President says he is committed to ensuring that we will be able to afford the health care that we need." She also praised the speech for proposing a new prescription drug benefit, a significant hole in current Medicare coverage.

-more-

Briceland-Betts called attention to the President's long-term care initiative as a first-step in building a program that can truly serve future generations of aging Americans. "This is a real--and frightening--issue for American families," she said. "More than 70 percent of long-term care patients are women, and many of them are cared for by their daughters and daughters-in-law. With the President's proposal, we now begin to explore ways to support the selfless sacrifice of families with ill and disabled loved ones, and support the enormous expense of long-term care so today's children will not be saddled with impossible costs when the baby boom generation retires."

"When you touch one member of a family, you touch all of us," said Briceland Betts. "OWL has worked for two decades to bring attention to these fundamental issues for women, and we applaud the President for making them an important part of his agenda for the new millennium."

# # # # # #

NEWS RELEASE

FOR IMMEDIATE RELEASE
January 21, 1999

Contact: Lisa Cain or Kris Maccubbin
202/785-7729 or 7723
e-mail: media@aauw.org

AMERICAN ASSOCIATION OF UNIVERSITY WOMEN

AAUW APPLAUDS PRESIDENT'S SOCIAL SECURITY PROPOSAL
Statement by Sandy Bernard, President, AAUW

The American Association of University Women (AAUW) applauds President Clinton for his commitment to strengthen Social Security for future recipients. As a longtime advocate for women's equity, AAUW is committed to protecting the Social Security benefits that guarantee the economic well being of women and children. The President's plan to invest 62 percent of the budget surplus in Social Security is the first step toward safeguarding women's benefits.

AAUW calls on Congress to join the President to reform Social Security and protect the economic security of older women. Women—who earn less than men, spend more time out of the paid work force to raise families, and live longer—are more dependent on Social Security than men. For many older women, Social Security is their only source of income.

By preserving some simple protections, Congress can ensure that Social Security reform increases the stability and security of women and families. First, Congress must preserve the full cost of living adjustments to protect against inflation. Second, Congress must maintain a progressive benefit formula. Women and others who earn low wages over their lifetime must continue to be compensated with a larger share of their past earnings to protect them from poverty.

Third, Congress must preserve spousal benefits to protect women. Sixty-three percent of women on Social Security receive benefits based on their husbands' earnings, while only 1.2 percent of men receive benefits based on their wives' earnings. Finally, Congress must protect the benefits that go to children and widows in the event of a premature death or disability of a working parent or spouse.

To help strengthen retirement security, President Clinton has also proposed the creation of new Universal Savings Accounts (USA Accounts) outside of the Social Security system, which would help women increase their personal savings for retirement. AAUW will work with Congress and the Administration to ensure that this proposal is progressive and will help working Americans save for retirement.

We challenge Congress to join the President and AAUW in the crusade to strengthen Social Security and protect the financial stability of older women.

-30-

AMERICAN ASSOCIATION OF UNIVERSITY WOMEN
1111 Sixteenth Street N.W., Washington, DC 20036 202/785-7723 FAX: 202/872-1425 TDD: 202/785-7777
E-MAIL: media@mail.aauw.org http://www.aauw.org

THE WHITE HOUSE

Office of the Press Secretary

Embargoed For Release
Until 10:06 A.M. EST
Saturday, January 23, 1999

RADIO ADDRESS BY THE PRESIDENT
TO THE NATION

The Roosevelt Room

THE PRESIDENT: Good morning. Last Tuesday night, in my State of the Union address, I was honored to report to the American people that our families, our communities and our country are stronger, healthier and more prosperous than ever. But I warned that we cannot let the hum of our prosperity lull us into complacency. Instead, we must use this moment of promise to meet the long-term challenges we face as a nation -- to meet our historic responsibility to the 21st century.

Over the last six years, our hard-won fiscal discipline has given us the chance to meet those long-term challenges. Six years ago, our budget deficit was $290 billion. Last year, we had a budget surplus of $70 billion. We expect another one a little larger than that this year, and we're on course for budget surpluses for the next 25 years.

So now we face a new choice -- what to do with the surplus. I believe we should use it to plan and save for retirement, to strengthen the readiness of our military, to get our children ready for the 21st century. Very simply, I believe we should use the first surplus in three decades and the projected ones in the future to meet America's great challenges. Above all, that means saving Social Security and Medicare.

We all know that the baby boom will soon become a senior boom -- the number of seniors will double by 2030; average life expectancy is rising rapidly, and that means rising costs for Social Security and Medicare.

I propose to keep Social Security strong for 55 years by committing 60 percent of the surplus for the next 15 years, and investing a small portion in the private sector just as any private or state pension would do. We should make further tough choices to put Social Security on a sound footing for the next 75 years, to lift the limits on what seniors on Social Security can earn, and to provide support to reduce the poverty rate among elderly women -- which is twice the poverty rate among seniors as a whole. We can do that with a good bipartisan effort.

Once we've accomplished this, I propose we use one of every six dollars of the surplus over the next 15 years to double the life of the Medicare trust fund.

Then I believe we should dedicate $500 billion of the surplus to give working families tax relief for retirement savings, by creating new Universal Savings Accounts -- USA accounts -- to help all Americans build a nest egg for their retirement.

Under my plan, families will receive a tax credit to contribute to their USA account, and an additional tax credit to match a portion of their savings, with a choice in how they invest the funds -- and more help for those who will have the hardest time saving.

Let me give you an example of how USA accounts could work. With the help of USA account tax credits, working people who save and invest wisely from the time they enter the work force until the time they retire could have more than $100,000 in their USA account, and a more secure retirement. That's the kind of tax relief America needs.

By providing this new tax credit for retirement savings, we can make it possible for all Americans to have a stake in the remarkable economic growth they have worked so hard to create.

Social Security first; then saving Medicare and giving tax relief to help all Americans save in the new USA accounts; investing in defense and education -- that's the right way to use America's surplus. If we squander the surplus, we'll waste a once-in-a-lifetime opportunity to build a stronger nation for our children and our grandchildren. Instead, let's work together to prepare our nation for the great challenges and opportunities of the 21st century.

Thanks for listening.

END

Social Security and the Market

One day after President Clinton proposed shoring up the Social Security system by investing a portion of its assets in the stock market, Alan Greenspan stepped forward to say "Not so fast." It is not often that the notoriously circumspect chairman of the Federal Reserve Board shoots at a major new Administration plan, and his concerns were well taken. As a matter of political reality, both parties appear headed toward investment of Social Security funds in the stock market, either by the system itself or by individual participants. Forced to choose now, we prefer Mr. Clinton's approach to that of the Republicans. But Mr. Greenspan's cautionary comments should be useful in framing the debate.

As most Americans have come to understand, the Social Security system will start to run deficits in the next 15 years, when the baby boomers begin retiring. Various steps can be taken to insure its solvency over the next 75 years, including limiting benefits, extending the age of retirement and raising taxes. But in part because of the astonishing performance of the stock market in the last few years, a consensus has emerged in Congress that some of these steps might not be necessary if some of the system's trust fund, which is generating surpluses at present, is invested in stocks rather than low-yield Treasury securities, as it is now.

Republicans in Congress want to strip away part of the current Social Security tax for use in setting up individual retirement accounts. Some want the entire system supplanted by such a scheme. But individual retirement accounts, while possibly attractive to some beneficiaries, would transform the entire system from a guaranteed government benefit to something that would expose retirees to unacceptable risk. Families of modest means would see a large portion of their meager savings spent on administrative fees of fund managers. Under many of the schemes, disabled people, divorcees and widows who are now guaranteed a benefit would receive far less than they do now. If individual accounts are desirable, they need to be set up outside the Social Security system where they cannot weaken the safety net.

Mr. Greenspan was right to warn that having the Federal Government invest 15 percent of the trust fund in equities carries certain dangers. He is especially worried that Federal overseers will be subjected to political pressures in making investment decisions. But Mr. Greenspan and the Federal Reserve Board are themselves testimony to the ability of Congress to create an administrative body insulated from politics. Even though state and local pension funds have used their assets to boycott South Africa and tobacco stocks, their overarching fiduciary responsibilities have been honored and these funds have protected retirees.

Some idea that harnesses the long-term strength of the stock market will very likely end up as part of any Social Security bailout. But such a momentous proposal will require searching debate over the wisdom of government entry into private markets, and the best mechanism for doing it.

Ending the Arguments

The senators have now heard the House prosecutors and President Clinton's lawyers debate both the evidence and the Constitution. They have heard hours of argument as to whether they should be punitive or forgiving about the fact that Mr. Clinton lied under oath. But what they have not heard is a convincing argument that his misconduct, whether viewed darkly or with compassion, meets the standard for removal spelled out in the Constitution.

That is because former Senator Dale Bumpers, who concluded the President's defense with a geyser of folksy oratory, was right. Mr. Clinton's conduct can be described as indefensible, outrageous and shameless. But it does not constitute the "distinctly political offense against the state" that the Framers regarded as necessary for impeachment.

The majority leader, Trent Lott, suggested that he grasped this by urging the senators to conclude their questioning of the presenters by tomorrow afternoon. That would clear the way for a vote early next week that would demonstrate that the 67 votes required for removal are not there. It is time for such a vote, and it is in the political interests of both sides to have it as soon as possible.

The Democrats want it because they sense that the steam will go out of the prosecution once the public sees a convincing test vote. The Senate Republicans, for their part, want to get loose from this issue. The House prosecutors have not been able to spread their passion to the senators of their own party. Most of them realize that if the Rev. Pat Robertson is willing to concede that the President cannot be removed, it is time to settle up.

Mr. Lott's immediate problem is still that of getting around the question of calling witnesses. It will be an unproductive exercise. We believe, like the big majorities in the polls, that a common-sense analysis of the record shows that Mr. Clinton gave false testimony under oath and tried to impede justice. We also grant that the Clinton defense team raised reasonable questions about whether this conduct would be found by a court to meet the legal definition of perjury and obstruction. Those questions would be worth resolving if the offenses were of sufficient scale. But six days of argument have demonstrated that more testimony about ambiguities and conflicts in the evidence would not raise the constitutional weight of the offenses.

Yesterday Representative Henry Hyde warned against a "rush to judgment" because he sensed that the Senate is ready to conclude. There will be a lot of skirmishing over the witness issue during the weekend. Mr. Lott should insist that none can be called unless they add striking new evidence. If that is the standard, the Senate can be ready to vote down removal and move on to censure early next week.

The New York Times

FRIDAY, JANUARY 22, 1999

Defense Against a Missile Attack

During the cold war, when the only real missile threat to America came from the Soviet Union, building missile defenses was rightly seen as a bad idea. The other side would simply build more offensive missiles so that some got through any shield. Today's world is different, with reckless lesser powers like North Korea developing long-range missiles that could one day reach American soil.

The Clinton Administration is right to devote money and effort to designing a limited missile defense system to counter this potential threat. But America's preparations have to be guided by the imminence of the danger, the technical challenges and the possible diplomatic consequences for managing nuclear relations with Russia and China.

The Administration is acting responsibly in moving ahead with a $4 billion research and testing program over the next six years and setting aside $6.6 billion for possible future construction. But the White House must not let itself be rushed into a premature decision to proceed with construction. North Korea is closer to being able to launch a missile attack on the United States than was previously thought. The three-stage rocket it tested last year, once perfected, would probably be able to reach parts of Alaska and Hawaii. What must now be determined is what kind of technologies can be produced to intercept a limited number of missiles.

Despite 40 years of research and testing, America does not yet have a reliable shield against long-range missiles. The challenge is formidable, akin to shooting at speeding bullets. But some day a reliable system will probably be developed. The actual building of a defense system should wait until it is.

Missile defenses are currently restricted by a 1972 treaty between the United States and Russia. That treaty underpins current nuclear arms reduction agreements between the two countries, since neither would be willing to reduce its arsenal if its missiles were likely to be intercepted in midflight.

Renegotiating the treaty to allow a limited defensive system directed against North Korea and other rogue states may be possible, despite Russia's current reluctance to do so. But the subject must be approached carefully. Defense Secretary William Cohen's threat that America could simply renounce the treaty if Russia resists amendments was a poor way to start this discussion.

The Criminal Code on Pie

Probably no one who has ever gotten a pie in the face thinks the event was remotely funny. But those who find themselves taking creamy globs out of their eyes rarely, if ever, seek to bring the perpetrators to justice. Some no doubt fear that would only subject them to further ridicule for being humorless. But San Francisco's Mayor, Willie Brown, had no such qualms when he pressed charges against the Biotic Baking Brigade, a protest group that pied him last November.

The defendants, known as the Cherry Pie Three, wanted to express their dismay at Mr. Brown's treatment of homeless people. They were charged with assault on a public official and misdemeanor battery. This week a jury found them guilty of battery — an unwanted touching — which could mean a sentence of up to six months in jail.

It is easy to dismiss a whipped cream attack as more comedy than crime. But the jury, while not holding the defendants liable for assaulting an official, which would require intent to prevent the Mayor from carrying out his duties, decided that shoving a pie into anyone's unconsenting face is illegal contact. That is a reasonable judgment.

Pie-throwing has a long cinematic history, but off the stage or screen it is not behavior that anyone, including the pie-throwers, would want inflicted on himself. The protesters have freedom of speech to ridicule and mock politicians, but pie-hurling is a hostile physical encounter.

The New York Times

FRIDAY, JANUARY 22, 1999

Clinton Seeks Funds for Abortion Clinic Security

Increased Violence Spurs $4.5 Million Initiative on Anniversary of Roe v. Wade Ruling

By JUDITH HAVEMANN
Washington Post Staff Writer

The Clinton administration will propose an initiative today designed to protect abortion clinics from the escalating violence that has killed or wounded 30 health care workers and law enforcement officers since 1991.

The $4.5 million is to be used to help clinics purchase closed-circuit camera systems, improved lighting, motion detectors, alarm systems or bullet-resistant windows. The money, to be included in President Clinton's budget, will also pay for security assessments to determine which clinics face the greatest threats.

The initiative will be announced on the anniversary of the Supreme Court's decision legalizing abortion in *Roe v. Wade*, and as abortion opponents march past the U.S. Capitol in protest.

The juxtaposition of the two events underscores the bitter divisiveness surrounding abortion 26 years after the high-court ruling. As thousands of marchers denounce what they call the killing of a quarter of the children conceived in America each year through abortion, the White House is moving to direct more federal funds toward protecting women's health clinics that offer the services.

The administration established a Task Force on Violence Against Health Care Providers last year in the wake of the shooting death of abortion provider Barnett A. Slepian in Buffalo. Slepian, an obstetrician-gynecologist, was shot by a sniper Oct. 23 as he stood in his kitchen after returning from synagogue services with his wife. No one has been arrested in the case.

A survey released yesterday by the Feminist Majority Foundation said about 22 percent the nation's abortion clinics faced "severe" antiabortion violence in 1998, a definition that included death threats, bombings, arson threats, blockades and chemical attacks. This was down slightly from 25 percent the previous year.

"The extremists are targeting a smaller number of clinics, but the level of violence is higher," according to Eleanor Smeal, president of the Feminist Majority Foundation.

Smeal called the White House initiative an "excellent investment" not only because it will save lives and protect women's rights to choose when to bear children, but also because it may trim the high law enforcement costs that local communities currently face in protecting clinics.

Kate Michelman, president of the National Abortion Rights Action League, whose 30th convention first lady Hillary Rodham Clinton will address today, said the budget proposal is a "significant recognition by the administration of the serious problem we have in this nation protecting women's right to choose."

She said abortion clinic violence is a national problem, not a local clinic problem, and needs to be addressed at a national level.

David O'Steen, executive director of the National Right to Life Committee, called the timing of the White House announcement on the *Roe V. Wade* anniversary "obviously political to draw attention away from the 1.3 million children that die from abortion every year."

He said while his organization is "totally, unequivocably opposed to violence at abortion clinics, or any violence," he nevertheless believes that the initiative is unnecessary.

"The abortion industry is a $400 million a year industry that can afford to buy its own security cameras and hardware," he said.

The Washington Post
FRIDAY, JANUARY 22, 1999

Clinton Seeks Funds for Abortion Clinic Security

Increased Violence Spurs $4.5 Million Initiative on Anniversary of Roe v. Wade Ruling

By Judith Havemann
Washington Post Staff Writer

The Clinton administration will propose an initiative today designed to protect abortion clinics from the escalating violence that has killed or wounded 30 health care workers and law enforcement officers since 1991.

The $4.5 million is to be used to help clinics purchase closed-circuit camera systems, improved lighting, motion detectors, alarm systems or bullet-resistant windows. The money, to be included in President Clinton's budget, will also pay for security assessments to determine which clinics face the greatest threats.

The initiative will be announced on the anniversary of the Supreme Court's decision legalizing abortion in *Roe v. Wade*, and as abortion opponents march past the U.S. Capitol in protest.

The juxtaposition of the two events underscores the bitter divisiveness surrounding abortion 26 years after the high-court ruling. As thousands of marchers denounce what they call the killing of a quarter of the children conceived in America each year through abortion, the White House is moving to direct more federal funds toward protecting women's health clinics that offer the services.

The administration established a Task Force on Violence Against Health Care Providers last year in the wake of the shooting death of abortion provider Barnett A. Slepian in Buffalo. Slepian, an obstetrician-gynecologist, was shot by a sniper Oct. 23 as he stood in his kitchen after returning from synagogue services with his wife. No one has been arrested in the case.

A survey released yesterday by the Feminist Majority Foundation said about 22 percent the nation's abortion clinics faced "severe" antiabortion violence in 1998, a definition that included death threats, bombings, arson threats, blockades and chemical attacks. This was down slightly from 25 percent the previous year.

"The extremists are targeting a smaller number of clinics, but the level of violence is higher," according to Eleanor Smeal, president of the Feminist Majority Foundation.

Smeal called the White House initiative an "excellent investment" not only because it will save lives and protect women's rights to choose when to bear children, but also because it may trim the high law enforcement costs that local communities currently face in protecting clinics.

Kate Michelman, president of the National Abortion Rights Action League, whose 30th convention first lady Hillary Rodham Clinton will address today, said the budget proposal is a "significant recognition by the administration of the serious problem we have in this nation protecting women's right to choose."

She said abortion clinic violence is a national problem, not a local clinic problem, and needs to be addressed at a national level.

David O'Steen, executive director of the National Right to Life Committee, called the timing of the White House announcement on the *Roe V. Wade* anniversary "obviously political to draw attention away from the 1.3 million children that die from abortion every year."

He said while his organization is "totally, unequivocably opposed to violence at abortion clinics, or any violence," he nevertheless believes that the initiative is unnecessary.

"The abortion industry is a $400 million a year industry that can afford to buy its own security cameras and hardware," he said.

The Washington Post
Friday, January 22, 1999

Clinton Would Cut U.S. Funds For Poorly Performing Schools

By LINDA PERLSTEIN
and JAY MATHEWS
Washington Post Staff Writers

President Clinton yesterday proposed a broad new slate of education initiatives that, if enacted, would hold states and local school districts accountable to the federal government to an unprecedented degree.

Detailing education reforms he plans to introduce later this year, Clinton urged Congress to pass legislation that would discourage schools from promoting children who did not meet academic standards simply for the sake of keeping them with their age group. He also proposed that teachers teach only subjects in which they have been trained and that states in some cases shut down schools that consistently perform poorly.

Under Clinton's proposal, states and school districts would create their own standards, procedures and specific rules. But they would be judged by a national panel of educators and experts, and if their efforts were deemed inadequate, the Education Department could withhold federal funds.

Clinton's proposals come at a time when parents and legislators are demanding stricter standards from schools, and a public accounting of whether those expectations are being met. Although virtually all states now have educational standards of some sort they have established locally, schools are under no national compulsion to meet them.

That must end, Clinton said in his State of the Union address and in detailing his initiative at the White House yesterday. "Each year, the national government invests more than $15 billion in our public schools," he said. "I believe we must change the way we invest that money, to support what works and to stop supporting what does not work."

His proposals face considerable resistance in Congress, however. Although Republicans champion local efforts to hold schools accountable, they generally bristle at the notion of having the federal government dictate whether they've succeeded. "I stood up and clapped and shouted at one point in his speech, and that was when he mentioned accountability," said Rep. William F. Goodling (R-Pa.), chairman of the House Committee on Education and the Workforce. "Where he's going to run into trouble is mandating from Washington, D.C., everything that happens at the local level when Washington sends only 6 to 8 percent of their funding."

Paul Shaker, dean of the School of Education and Human Development at California State University in Fresno, agreed that the federal government may lack clout. School districts in his area, he said, "don't even like Sacramento dictating."

Under Clinton's plan, states would have to:

■ Allow teachers to teach only subjects in which they are educated, and require new teachers to pass performance exams. Right now, one-quarter of high school teachers do not have a college major or minor in the subject they instruct in. States would have five years to implement these rules.

■ Issue report cards with information on individual schools, including standardized test scores, class size and teacher qualifications. Thirty-six states do this already, according to a recent Education Week study.

■ Implement formal discipline policies at every school.

■ Turn around the worst-performing schools. If a state cannot induce improvement two years after a school is identified, the school would have to be reformed or closed. Clinton's budget will include $200 million for these schools.

■ End "social promotion," by testing students before allowing them to move on to the next grade. Schools would have two or three years to show they have clear standards and ways to assess students—including, in all likelihood, high school graduation exams. To help struggling students, the federal budget for summer and after-school programs would triple, to $600 million.

Robert B. Schwartz, president of Achieve Inc., a national organization that was created by governors and business leaders to help states raise education standards, said that just insisting struggling students be held back a grade would not help if they are not taught in a different way the second time they try to learn the same lessons.

"You can say you are not going to have social promotion," Shaker said, "but that still doesn't say how people are going to meet the standard. What do we do with that student? Do they drop out of school? Is that what we are looking for?"

Top officials in states that fail to comply in any of these areas would be notified by the Education Department. If the state remained recalcitrant, the department would begin to rescind funding. First to go would be administrative funds—about 1 to 2 percent of what a state gets from the federal government for schools.

BY RICK BOWMER—THE WASHINGTON POST

President Clinton announces his education initiatives at White House. Besides holding schools more accountable, plans include training former military personnel as new teachers and recruiting 1,000 Native American teachers for schools with high concentrations of Native Americans.

The Washington Post

FRIDAY, JANUARY 22, 1999

Archer Signals Willingness to Deal on Social Security

By George Hager
Washington Post Staff Writer

House Republicans sent a conciliatory signal to the White House on Social Security yesterday when House Ways and Means Committee Chairman Bill Archer (R-Tex.) said he would agree to President Clinton's proposal to reserve 62 percent of budget surpluses over the next 15 years while negotiators try to come up with a plan to fix Social Security.

"We will accept the president's offer," said Archer, "and work together within that framework." Archer's panel will take the congressional lead in piecing together Social Security overhaul legislation this year.

Archer's commitment came a day after Senate Budget Committee Chairman Pete V. Domenici (R-N.M.) signaled a similar willingness on the part of Senate Republicans to set aside some 60 percent of forthcoming surpluses to help extend the life of the Social Security trust funds, which are projected to go broke after 2032.

In his Tuesday night State of the Union address, Clinton called on Congress to reserve 62 percent of forthcoming surpluses for Social Security, and to invest up to a quarter of that money in the stock market. Together, the White House said, those two initiatives would extend the life of the trust fund to 2055.

Archer and other Republicans have rejected Clinton's proposal to invest part of the trust funds in the market, calling instead for individual investment accounts. Republicans also disagree with the White House over what to do with the other 40 percent or so of future surpluses, demanding that the money be spent largely on tax cuts, instead of devoting it to Medicare, new retirement investment accounts and spending on defense and domestic projects, as Clinton proposed.

While he moved toward the White House position, Archer did not explicitly embrace the administration proposal that Congress promise to devote to Social Security the dollar amount—$2.7 trillion over 15 years—that represents 62 percent of the administration's projections of the surpluses. That would be key if surpluses turned out to be less than forecast.

Coast Guard Seizes 9,500 Pounds of Cocaine

By William Branigin
Washington Post Staff Writer

Federal authorities announced one of the largest cocaine seizures in U.S. history yesterday and local Arizona police said they found a pair of tunnels under the U.S.-Mexican border that they suspect were built to sneak drugs into the Southwest.

The capture of nearly five tons of cocaine aboard a Houston-bound ship and the discovery of the tunnels in Nogales, Ariz., illustrated two of the ways U.S. land and sea borders continue to come under pressure from international drug traffickers despite interdiction efforts by U.S. law enforcement agencies.

The cocaine, totaling about 9,500 pounds, was found last week hidden under a load of iron ore aboard the Cannes, a 580-foot, Greek-owned bulk carrier, after it was boarded by Coast Guard inspectors about 125 miles southwest of Jamaica, officials said. They said the load ranked among the five largest cocaine seizures recorded by U.S. authorities. Its street value was estimated at up to $186 million.

In a statement, President Clinton praised the cooperation of the Coast Guard, the Customs Service and the Drug Enforcement Administration in making the seizure and arrest five of the ship's crew. The commissioner of Customs, Raymond W. Kelly, said it is not yet known who owned the drugs, where they were loaded onto the ship or where they were supposed to be distributed. But he cited unspecified indications that crew members might have been planning to remove the cocaine in Mexico so it could then be smuggled overland across the U.S. border in smaller loads.

The Cannes, registered in Panama but owned by a Greek shipping company, had taken on 26,000 metric tons of iron ore in Brazil last month and had subsequently stopped in Trinidad on its way to Houston. Most of its 24 crew members were from Ukraine.

After the Coast Guard escorted the ship into Houston on Wednesday, Customs agents arrested its Greek captain, two Panamanians and two other ship's officers from Ukraine and Nicaragua, officials said. The rest of the crewmen were being questioned.

In Arizona, police in the border town of Nogales found the two suspected drug-smuggling tunnels during a search of a residence and a nearby tool shed. One of the tunnels, 300 feet long with no supports, began in a drainage ditch on the Mexican side of the border, U.S. officials said. Authorities have not yet determined the starting point of the other tunnel, which is about 400 feet long and buttressed with cement and wooden planks.

Kelly said the tunnels are in an area of the border known as "a notorious avenue for drug-smuggling." However, police do not yet know whether any drug loads had already passed through them by the time they were discovered.

Two other under-the-border tunnels have been found in recent years. One, which led from a private home in Agua Prieta, Mexico, to a lumber warehouse in Douglas, Ariz., was used to smuggle tons of cocaine into the United States until it was shut down after a tip from an informant, DEA officials said. The other, dug 60 feet below ground and stretching half a mile, was intended to come up near the Otay Mesa cargo crossing point in California, but was discovered before it could be used.

The Washington Post
Friday, January 22, 1999

Pentagon Debates Arms Treaty Changes

Plan Aims to Update Long-Range Defense

By Walter Pincus
Washington Post Staff Writer

Pentagon officials are studying a proposal that would allow Russia to deploy a new strategic missile with up to three warheads if, in return, Moscow does not object to U.S. plans to build a limited national missile defense system at two sites with up to 200 launchers, according to administration sources.

The proposal, which is being discussed in the Pentagon but has not been accepted by the administration, would require amending not only the 1972 Anti-Ballistic Missile (ABM) Treaty to permit an expanded missile defense system but also the START II treaty, which claimed as a major goal the elimination of multi-warhead intercontinental ballistic missiles (ICBMs).

Discussion of the plan is one indication that inside and outside the government, arms control experts are considering how Cold War treaties between Moscow and Washington can be retooled to address long-range missile threats from countries such as North Korea, Iran and possibly Iraq that may not be deterred under the approaches worked out more than a decade ago between the world's two major nuclear powers.

Brent Scowcroft, former national security adviser in the Ford and Bush administrations, said during a recent interview that "we have to find a new way of thinking about arms control" instead of balancing numbers between the superpowers.

Pentagon officials involved in arms control issues with Moscow recognize that the Russians are worried that, because their strategic missile force is aging, any new push by the United States to build even a limited missile defense is threatening. The Pentagon officials' plan, according to sources, would allow the economically stressed Russians to put more warheads on their newest ICBM, which otherwise is permitted one warhead under START II. Such a solution would give Moscow a relatively inexpensive guarantee that its offensive force would be able to overcome any new limited U.S. missile defense.

Robert Bell, the National Security Council's senior director for defense and arms control, told reporters yesterday, "The Russian government is wary of changes in the ABM Treaty that could be construed to constitute a threat to their strategic deterrent, that they would deem to have the actual or potential capability to counter their strategic forces."

The limited missile defense system being contemplated is not the "Star Wars" space-based model contemplated by the Reagan administration, but a ground-based system comparable to that allowed under the current ABM Treaty. The old, Cold War idea was that if the two nuclear giants each had far more offensive warheads than the opponent could possibly shoot down, both would be deterred from attacking.

Bell said yesterday that the Pentagon has not approved the two-site, 200-launcher missile defense system version that would fall outside the ABM. However, Bell said any new system would be "primarily aimed at the capability to defeat a rogue state that acquires a very small number of ICBMs equipped with weapons of mass destruction warheads."

Under START II, which the Russian parliament, the Duma, has yet to ratify, both sides would reduce their nuclear arsenals to 3,000 to 3,500 warheads. President Clinton and Russian President Boris Yeltsin have endorsed goals for a START III treaty that would take those totals down to 2,000 to 2,500 warheads.

Unofficially, Russian officials and Duma members have talked about revising downward warhead numbers on both sides, even from START III numbers, which Russian military sources said can't be maintained in the current economic climate, according to Bruce Blair, an expert on Russian weapons at the Brookings Institution. Blair has projected that Moscow can build only 40 to 50 TOPAL ICBMs a year and perhaps 500 of these missiles overall. If, as contemplated by the Pentagon officials, the Russians put three warheads on each missile, the 1,500 total would far exceed the maximum of 200 launchers in the proposed U.S. defense system.

FILE PHOTO

National Security Council's Robert Bell said idea is not yet approved.

Although the Pentagon has not officially adopted the two-site plan, one administration source said yesterday that a decision might come "in two to three months."

"We have to determine whether or not we can defend the entire 50 states from a single site," Defense Secretary William S. Cohen said. "That's a determination that has not yet been made. But in the event that more is needed, multiple sites, we would have to amend it to accommodate that." He added, however, "We have already begun environmental site surveys for potential basing sites in both Alaska and North Dakota, and we have briefed Russian officials on these activities."

Secretary of State Madeleine K. Albright told reporters yesterday that on her upcoming trip to Moscow she will discuss ratification of START II and how new threats of missile proliferation "will affect the ABM Treaty."

Michael Krepon, a former arms control official in the Clinton administration who is president of the Henry L. Stimson Center, which studies arms control, said yesterday that he is not an opponent of missile defense but thinks the Pentagon plan is "the wrong tradeoff. The tradeoff should be deep cuts plus limited defenses. The administration ought to look at this problem whole and not piecemeal."

Inside the Clinton administration, said one senior official, Pentagon planners are arguing that arms control supporters "must choose between cooperative amendments to existing treaties and their old goal of getting rid of land-based multi-warhead missiles."

The Washington Post

Friday, January 22, 1999

TALKING IT OVER

BY HILLARY RODHAM CLINTON

RELEASE: WEDNESDAY, JANUARY 20, 1999, AND THEREAFTER

Molly Lozoff of Miami, Fla., is a retired real estate broker. When she was 35, her husband suffered an incapacitating stroke that left him unable to speak. It was then this mother of four discovered that Social Security was there to provide disability benefits for her and for her children. Molly is now 77, and once again, she has been able to turn to Social Security for support.

Molly's story reminds us that Social Security is not just a retirement program. Many of us don't realize that Social Security protects us in the event that a spouse or parent becomes disabled.

Her story also reminds us of another critical issue: just how important Social Security is for women. Most women earn less than men, and many do not receive private pensions. Women are more likely than men to work part time, to spend some time out of the labor force and to live alone in their retirement years. And, on average, women live longer than men.
For these reasons, women make up more than half of all the elderly recipients of Social Security -- 72 percent of those over the age of 85. For many women, Social Security is literally all that stands between them and poverty.

This week, in his State of the Union address, the President offered a bold framework to help save Social Security. He proposed committing 60 percent of the budget surplus to Social Security and investing a small portion in the private sector in order to earn a higher return for all of us.
Social Security has often been called the "third rail of politics" -- the issue that every politician is afraid to touch. I am proud that my husband has stepped up to the plate and demanded an end to this head-in-the-sand approach. And I am pleased that he made the point Tuesday night of reminding our lawmakers that they must also work together to reduce poverty among elderly women.

As all of us who are aging know, health-care security can be just as important as retirement security, which is why the President also announced a plan to strengthen Medicare.
This week's State of the Union address was my husband's seventh and the last of the 20th century. As such, it offered him a unique opportunity not

only to assess where we stand as a nation but also to chart a strong and sure course for the next generation.

My husband took office at a time when America's economy was troubled, the deficit was high, and citizens feared for their safety. Today, we can all feel pride in our country and confidence in our future.

We are in the midst of the longest peacetime economic expansion in our history. For the first time in three decades, the budget is balanced. Violent crime is dropping, and our environment is the cleanest it's been in a quarter century.

Now, though, is not the time to be complacent.

To strengthen our families for the 21st century, saving Social Security will be our first priority. But there are many other challenges as well. For six years, this President has kept his eyes on the goal of helping America's families who every day do their best to balance the demands of work and home. To further that goal, this week, he called on Congress to increase the minimum wage and to expand the Family and Medical Leave Act to benefit 10 million Americans who work for smaller companies.

More than ever, men and women feel pressed to meet their obligations as workers and their responsibilities as parents. So, the President also laid out a bold agenda to improve child care, expand after-school programs, and provide a new tax credit for stay-at-home parents. He announced a plan to make America's schools the best in the world. He proposed the extension of health insurance to millions who can't afford it. And he urged passage of the Patient's Bill of Rights and action to protect our children from handgun violence and the dangers of tobacco.

When Molly Lozoff visited the White House last October for a roundtable discussion on women and pensions, she said, "I am so proud we have a President who feels a tug on his heart for our plight -- the plight of the elderly." This President is determined that America begin its journey into the next century with every American family solidly on board.

To find out more about Hillary Rodham Clinton and read her past columns, visit the Creators Syndicate web page at www.creators.com.

SOCIAL SECURITY ADMINISTRATION

Brian D. Coyne
Chief of Staff

Cover Plus 3 Pages

DATE: 1/19

FROM: ☒
Office of the Commissioner
DC Office: (202) 358-6013
Fax #: (202) 358-6076

FROM: ☐
Office of the Commissioner
Baltimore: (410) 965-3120
Fax #: (410) 966-1463

TO: Nicole Rabner

Location/Organization:

Telephone Number:

Fax Number: 456-2878

MESSAGE:

Nicole —

Here's a short paper on Women + Social Security that's pretty good. It also includes some ideas we're been playing around with on how to reduce elderly poverty among women.

We're working on identifying compelling stories to highlight various Social Security issues. Should have a package for you tomorrow (Wednesday).

Brian Coyne

Women and Social Security

How Social Security Helps Women Today

Social Security recipients. Women represent 60 percent of all aged Social Security recipients and 72 percent of beneficiaries age 85 and older.

Average Social Security Benefits. In 1996, the women's average monthly benefit was $633, compared to $842 for men.

Reliance on Social Security. Unmarried women – including widows – age 65 and older rely on Social Security for 51 percent of their total income. In contrast, Social Security benefits comprise only 39 percent of unmarried elderly men's retirement income, and only 36 percent of elderly couples' income.

- 75 percent of unmarried elderly women depend on Social Security for at least one-half of their income, and
- 25 percent of unmarried elderly women depend on it for their only source of income.

Several aspects of the current program help women.

- Social Security provides a guaranteed, inflation-protected benefit that lasts as long as you live. Women tend to live longer than men, potentially exhausting other sources of income.
- The current benefit formula provides a higher proportion of pre-retirement earnings to lower earning workers who are more often women.
- Social Security provides dependent benefits to spouses, divorced spouses, elderly widows, and widows with small children.

Socio-economic Characteristics of Women

Median Earnings. The median earnings of full-time, year-round women workers in 1997 was $24,973, compared to $33,674 for men. Women's earnings relative to men have increased from 60 percent of men's earnings in the 1960s to 74 percent in 1997, but the difference is expected to continue.

Labor force participation rates. The labor force participation rate for people age 25-64 was 72 percent for women compared to 88 percent for men in 1996. More recent cohorts of women have entered the workforce at younger ages than in the past and have maintained a consistently higher participation rate. However, women are not expected to reach the same level of participation as men.

Years out of the workforce. Of workers first receiving benefits in 1996, the median woman worked 27 years while the median man had worked 39 years.

Pensions. Elderly women are less likely than elderly men to have significant income from private pensions. Only 30 percent of women aged 65 or older were receiving their own pensions in 1994 (either worker or survivor benefit), compared to 48 percent of men.

- Pension coverage is increasing for women in today's workforce. Currently, pension coverage among current workers is almost equal for men and women: 51 percent of men are covered compared to 48 percent of women. However, women still receive lower pension benefits due to their relatively lower earnings.

Poverty rate. The poverty rate among elderly women is13.1 percent, while elderly men have a poverty rate of 7 percent.

Poverty rates are higher for unmarried women than for married women:
- Married 4.6%
- Divorced 22.2%
- Widowed 18%
- Never married 20%

Life expectancy. Women reaching age 65 in 1998 are expected to live, on average, an additional 19.8 years compared to 16.2 years for men. Life expectancy rates at age 65 are anticipated to increase to 21.1 years for women and 17.2 years for men in 2030.

Specific Issues with Individual Accounts

Individual accounts may provide higher returns in general, but many women may not benefit from them because of a variety of reasons.

- If the accounts were based on a percentage of earnings, women's lower earnings levels and fewer years in the workforce mean that women would have lower contributions to their accounts than men would.
- Women benefit from the survivor's benefits of the current program. These benefits may not be available or guaranteed with individual accounts.
- Women may invest more conservatively than men and therefore may see lower returns on their investment.
- Divorced women may not have access the their ex-spouse's individual account – the specifics may leave the accounts vulnerable to allocation in the divorce settlement.
- While the current program provides an inflation-protected benefit for life, individual accounts may not have this same guarantee. Women's longer life expectancies mean that they would need to spread the money from their accounts over a longer period of time – gender specific annuitization could leave women with smaller monthly payments than men.

Policy Options to Reduce Poverty among Women

(Cost estimates are preliminary)

1. **Increase survivor benefit to the higher of current law or 75 percent of the combined couple's benefit (with a top limit of the average benefit).** Under current law, survivors receive either their own worker benefit or 100 percent of their spouse's primary benefit. This option would provide the widow with a benefit equal to either 100 percent of her spouse's benefit or 75 percent of the combined couple's benefit as long as that 75 percent does not exceed the average worker benefit. The benefit provided by this option would better reflect the total income that the couple received before the spouse died.

Effect on poverty: Would reduce elderly poverty from 12% currently to 11.8%. (based on 1993 poverty estimate). If fully implemented in 1993, 58 thousand people would be lifted out of poverty because of this option.

Cost: $936 million (First year cost assuming the option was fully implemented in 1993)
0.12 percent of taxable payroll if implemented gradually beginning in 2000
0.20 percent of payroll if implemented fully in 2000 for all new beneficiaries
0.24 percent of payroll if fully implemented in 2000 for all new and current beneficiaries.

2. **Increase primary insurance amount (PIA) for men and women age 85 and older to the poverty threshold.** This option would provide all beneficiaries an automatic increase in their PIA at age 85 if it falls below the aged poverty threshold.

   Effect on poverty: Would reduce elderly poverty from 12% to 11.8%.
   If fully implemented in 1993, 70 thousand people would be lifted out of poverty because of this option.

   Cost: $989 million (First year cost assuming the option was fully implemented in 1993)

3. **Establish credits or additional drop-out years for caregivers.** Men or women who take time out of the paid labor force to care for their children or elderly relatives would receive either wage credits or additional drop-out years toward their Social Security benefit.

4. **Establish minimum PIA based on number of years worked.** Workers with 40 years in covered employment would receive a benefit equal to the poverty level. Workers with 20 years in covered employment would receive 60 percent of the poverty threshold (between 20 and 40 years would receive a pro-rated benefit).

   Effect on poverty: Would reduce elderly poverty from 12% to 11.9%.
   If this option were fully implemented in 1993, 23 thousand people would be lifted out of poverty.

   Cost: $338 million (First year cost assuming the option was fully implemented in 1993)

5. **Increase the SSI disregard from $20 to $78.50.** This option would increase the amount of Social Security benefits that are disregarded in the calculation of SSI benefits from $20 to $78.50. Each person currently receiving SSI, and each new applicant, would have their benefit recalculated disregarding $78.50 of unearned income.

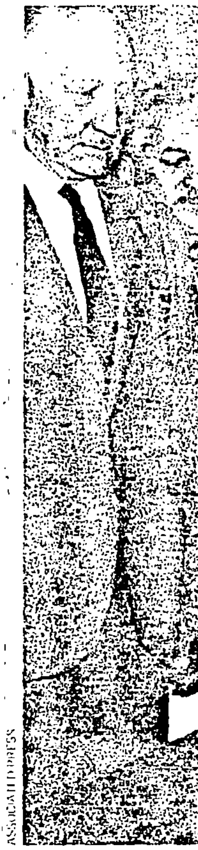
   Effect on poverty: Would reduce elderly poverty from 10.5% (1997) to 10.2%.
   If this option were implemented for all SSI recipients in 1997, 325 thousand people would be lifted out of poverty.

   Cost: The upper bound cost if the disregard were increased for all SSI beneficiaries would be $4.5 billion in 1997. If this were restricted to only SSI beneficiaries aged 65 or older, the upper cost would be $1.4 billion.

SIXTY-FIVE YEARS AFTER ITS BIRTH, SOCIAL SECURITY NEEDS A NEW LEASE ON LIFE.

A Newer New Deal

By Julie Kosterlitz



ASSOCIATED PRESS

On a summer day in 1934, as the nation languished in the grip of the Great Depression, and socialists and populists proposed radical solutions to the nation's economic ills, President Franklin D. Roosevelt sent a message to Congress. It outlined his intention to create a vast safety net for vulnerable Americans and call it Social Security.

Government had to assist the unemployed, the widowed mother and her children, and the elderly, among others, Roosevelt told Congress, because the mutual aid once provided by families, churches, and small communities was no longer possible, or sufficient, in an era of footloose workers, big cities, and behemoth factories. Government aid, he said, did not represent a change in the nation's values, but rather "a return to values lost in the course of our economic development and expansion."

When Congress approved most of Roosevelt's vision a year later, the plan included a tiny "Federal Old-Age Benefits" program, that would later so dwarf its fellows in both size and popularity that it alone would become known as Social Security. As Congress repeatedly expanded its scope and generosity, the program helped boost the standard of living for older Americans and dispelled some popular misgivings about activist government. Even as other elements of Roosevelt's vision have been trimmed or discarded, Social Security's public luster has remained largely undiminished.

and hold up the 7-Eleven store to get enough money to go buy it at these inflated, ridiculous prices that prohibition causes."

A thought hits him. The drug war is a good example of what he calls "legislating stupidity." During the campaign, one of his refrains (another was "Retaliate in '98") was: "You can't legislate stupidity." People do stupid things, always will, and government should get out of the business of passing laws to stop them. "There's too many laws altogether," he says. "If they tell you ignorance of the law is no excuse, then we should all be running around with backpacks. Because you need so many backpacks with those law books so you wouldn't be ignorant."

And so he objects, incredulously, to Minnesota's law against fornication. He suggests that the state legislature devote one year in four to repealing outmoded laws. "And I'm a believer that there should be a sunset provision on anything that's passed." Though he won't renounce the cash, he scorns the recent settlement between the tobacco industry and state attorneys general: "Government has now found a way to raise taxes by using the judicial system rather than using the legislature." He is for abortion rights and gay rights. During a campaign debate in October, he said: "I have two friends that have been together 41 years. If one of them becomes sick, the other one is not even allowed to be at the bedside. I don't believe government should be so hostile, so mean-spirited. . . . Love is bigger than government."

None of this, however, is what is most interesting about Ventura. From the libertarian Right we know what to expect: tax cuts today, tomorrow, forever; jagged antigovernment rhetoric and mistrust of public institutions; revolutionary impatience. Those are the attributes that ignited the Gingrich Congress of 1995 and alarmed the electorate of 1996. In Ventura, oddly, they are missing.

HERE IS RADICALISM IN MODERATION. HERE, TOO, IS POLITICS WITH A SENSE OF HUMOR, AN ATTRIBUTE THAT IS ABSENT FROM NATIONAL POLITICS.

In the campaign, his big platform point was a promise to return the state's burgeoning budget surplus to the voters. But he says he won't return a penny until after the fiscal year ends on June 30 and the projected surplus is "real money in the bank." Predictably, Republicans are demanding that Ventura cut taxes now, before the legislature can spend the surplus. No dice, says Ventura. "I don't deal with speculation. All of these experts that did speculation and statistics and all that—well, they speculated that I wouldn't be sitting here." So much for the supply side.

True, he says, government is too big and does too much. Close down the redundant state Senate, says he—but use the proceeds to *raise* salaries for House members, so they can devote themselves to politics full time. "If you get a decent salary, then it would instill a better-qualified person to want to seek out public service." So much for "Cut their pay and send them home."

School vouchers are a favorite cause of the departing Republican Governor, Arne Carlson. Ventura rejects them in favor of money to reduce the size of classes in public schools. "I'm a product of public schools, and I challenge people, rather than running from public schools, let's band together and make them better. I believe in fighting the fight, not retreating."

Cut government? Yes, but slowly. "I'm going to do it carefully, very prudently. I'm not going to rush in." His first budget is likely to be steady-as-she-goes. The talk of drug decriminalization is personal opinion, he cautions, not political agenda. So much for the revolution.

Here is radicalism in moderation. Here, too, is politics with a sense of humor, an attribute that is remorselessly absent from national politics. In a state whose parties have gravitated toward the extremes (the Republicans are full of evangelism, the Democrats declared their convention "fragrance-free" in consideration of sensitive noses—and just look at the two U.S. Senators), Ventura found an abandoned wilderness in the populist center, and drove through it with a truck.

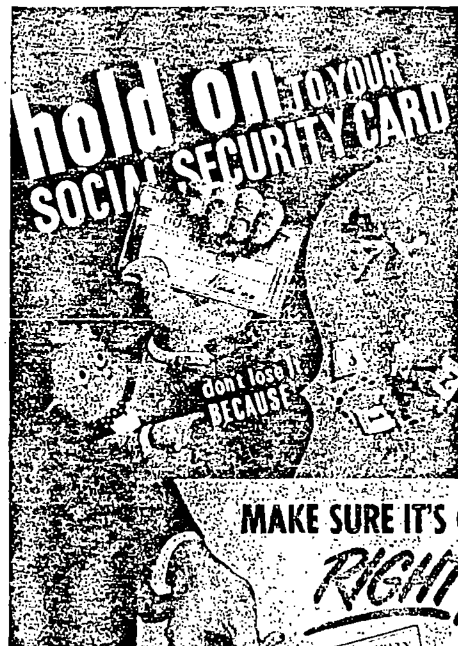
He may, it is true, prove to be a lousy Governor. Plainly, he is no detail man. The testosterone shtick may wear thin with the voters. Then again, one's thoughts stray to another veteran of lowbrow entertainment who eschewed fine points for impolitic pronouncements, honed his message on the talk circuit, and went on to a successful governorship—and beyond.

Ventura will never be President. Nor is he the fierce partisan that Ronald Reagan became. His national significance lies in the place where he is not—in the Republican or Democratic party—and in the place where the Republicans and Democrats are not—in the radical center. "I don't fit into their scope," Ventura says. "I'm fiscally conservative and I'm socially moderate to liberal. How can you be that, and fit into either one of the parties?"

Good question. At a time when the Republicans and Democrats in Washington are clutching one another's throats while pulling both right and left of the electorate, one wonders whether it is a question that either party will have the sense to ask. ■

But as this public pension program itself draws closer to its 65th birthday, its own future security is in doubt.

Some of the problems are well-known: Demographic trends are shrinking the ratio of workers to retirees. That's grim tidings for a program that taxes the wages of current workers to pay benefits to current retirees. At present, Social Security takes in much more than it pays out; indeed, it's amassing big reserves. But, by 2032, as the last of the baby boomers retire, there will be too few workers to pay for the huge number of retirees. Without fixes now, benefits then will have to be cut by a quarter, or taxes raised by a half.



SOCIAL SECURITY ADMINISTRATION

THE ORIGINAL NEW DEAL: President Roosevelt signs the Social Security bill into law on Aug. 14, 1935, in Washington D.C. Posters from the 1940s and 1950s publicize the program.

Well before then, Social Security also will put pressure on the federal budget. Right now, because the program takes in more than it spends, the federal budget looks more flush than it would otherwise. After 2013, when the baby boomers start retiring, the program will take in less in taxes than it owes in benefits and will begin tapping into the interest earned on its reserves. By 2021, the program will start redeeming the Treasury securities in which the reserves are invested, forcing government to come up with substantial sums each year.

And there's another problem: Social Security increasingly strikes the affluent as a bad financial deal. When the program was newer, it could offer generous benefit increases by increasing taxes on a fast-growing crop of young workers—creating large windfalls for rich as well as poor retirees. But as the program ages and demographics change, it's not feasible to raise taxes enough to sustain such windfalls. For new retirees, particularly the affluent, the benefits of Social Security are fading in relative importance to other retirement income; this may diminish political support for the program among wealthy elites and opinion makers.

These financial realities have, in turn, prompted growing questions about the underlying structure and multiple missions of the program, and even about Roosevelt's premise that government is better placed than individuals to provide economic security for Americans in their old age. In short, the debate is no longer merely about how to close the future funding gap, but whether to scrap some or all of Social Security's fundamental design.

Conservative and centrist lawmakers are giving serious attention to the idea of privatization—diverting some or all of Social Security payroll taxes to individual retirement accounts, to be invested in stocks and bonds.

Even liberals who oppose privatization are now hoping that Wall Street's money machine can help close Social Security's fiscal gap. They want government to be allowed to invest program reserves in the stock market and use the higher returns to keep the system solvent.

Some members of both parties are also counting on unexpectedly large budget surpluses to make reforming Social Security a lot less painful.

But while budget and investment windfalls could make reform simpler, there are still plenty of tough issues to resolve. President Clinton's top economic adviser, Gene B. Sperling, says the White House is now wrestling with four basic questions: "How much of future surpluses should be committed to Social Security, how much should be invested for higher returns, what's the best way of investing those"—through government or individual accounts? And last, but surely not least, he said, is "How can we pull this divided government together in a consensus on these difficult questions?"

LIZ LYNCH

EUGENE STEUERLE
"Do we want a society and a government devoted to retirement and health care and little else, or are there other things we want to foster and encourage?"

That would be tough even without a Senate impeachment trial to poison the atmosphere. But there are also good reasons that lawmakers might give it a go.

Waiting makes the solutions far tougher, and it may erode public confidence in both Social Security and government itself. Economic booms don't last forever, and budget surpluses not directed to Social Security will probably be used for something else. And a legacy-minded Democratic President, anxious to redeem himself, could offer political cover to a gun-shy Republican Congress in the brief window before partisan electioneering resumes for the 2000 presidential campaign.

The Vision

Social Security's strength, and perhaps its weakness, lies in its attempt to be so many things to so many people. It aspires to be both a multi-line insurance program and an income redistribution effort.

The insurance is meant to protect workers and their families against a loss of income from a variety of major life risks: the infirmity of old age, disability, or the early death of a breadwinner.

In theory, many people could save enough on their own to guard against such slings and arrows of outrageous fortune. But in practice, the human factors intervene: the hubris of youth, the desire for immediate gratification, the inability to plan ahead, the random devastation of life's unfairness. Without some sort of national retirement plan, society would be left to grapple with a perpetual destitution afflicting a sizable percentage of those too old, infirm, or battered to support themselves.

In exchange for paying a share of their wages to the program—6.2 percent each from employer and employee—workers are entitled to several benefits that guard against this harsh reality: a monthly retirement check equal to a share of their pre-retirement earnings, adjusted annually for inflation, from age 65, or a lesser benefit from age 62, until death; a benefit for the elderly spouse and children of retirees; a disability benefit covering workers and their dependents; survivors' benefits covering children and, often, spouses of deceased workers or retirees; and a one-time $250 death benefit paid to survivors. More than 30 percent of the program's beneficiaries are people other than retired workers.

The income redistribution goal of Social Security is to make sure that low-income workers can retire with dignity. Therefore, Social Security is tooled to replace a greater share of preretirement income for low-income workers than for high-income ones.

In the past 40 years, the program has helped reduce poverty rates among the elderly by more than two-thirds, and has transformed the elderly from the poorest of all age groups to the least poor. Without Social Security, even today, an additional 41 percent of the elderly would be poor.

Although its architects envisioned Social Security as just one leg of what they called the "three-legged stool" of retirement—to be supplemented with employers' pensions and private savings—today, Social Security is the mainstay for many elderly. It accounts for 40 percent of the income of the elderly as a whole, and nearly three-quarters of the income of the poorest 40 percent. The average monthly benefit for retirees is $780.

The Problems

But Social Security hasn't merely given workers a basic safety net. Up until now, Social Security has effectively offered them insurance and a pension benefit as good as or better than what they could get by saving and investing an equivalent amount on their own.

On average, the beneficiaries retiring in 1941, the second year benefits were paid, got the equivalent of a 36.5 percent annual interest rate on their contributions—even after the impact of inflation is factored out. For those retiring in 1965, this inflation-adjusted "rate of return" was just a shade under 12 percent.

The stratospheric returns of the early days resulted from a decision to start paying benefits soon after the program started, and before workers had paid in enough to finance them. This was part of a conscious government subsidy to workers whose careers had been blighted and savings wiped out by the Great Depression. Later benefit increases—financed by expanded participation, a growing work force, fast wage growth, and higher tax rates on workers—have helped keep returns high.

But as more workers pay in at the higher rates for more of their careers, the rate of return falls. By 1990, for example, average returns had fallen to 3.8 percent, with some groups—chiefly single men and the affluent—getting less. From 2015 on, the returns are expected to hover around 2 percent.

Hiking taxes could boost returns once again. But the falling ratio of workers to retirees makes that less feasible. Indeed, the growing imbalance between workers and retirees will leave the program short of funds to pay even current promises.

In 1955, the ratio of workers to retirees was 8.6-to-1; today it is 3.3-to-1, and in 2025, it is projected to fall to 2.2-to-1. Buried in that statistic are several different population trends: declining birth rates, the sheer size of the baby boom generation, earlier retirements—thanks in part to Social Security itself—and longer life expectancies.

Merely making the program solvent out to the 75-year time horizon that Social Security traditionally uses would require an immediate increase of 18 percent in the current Social Security tax on wages—raising the rate from 12.4 percent of wages to 14.6 percent. Waiting until 2032 to make the adjustment would require a much larger hike.

A payroll-tax hike also raises serious issues of inequity: The tax is hardest on lower-income people (though it is partially offset by an Earned Income Tax Credit) and on small employers. Added to the other expected costs of the baby boomers' retirement—skyrocketing health-care expenses top the list—the burden on the next generation of workers could be heavy indeed.

President Clinton—though he has pointedly declined to stake out a detailed position on reform thus far—has all but ruled out a payroll-tax hike. Other alternatives, such as cutting benefits or raising taxes on more-affluent workers, are problematic: Some benefit cuts could throw low-income retirees into poverty, and tax hikes on higher-income workers could further reduce the rates of return for the middle-class and affluent. Raising the retirement age—a rational idea given the continuing increases in life expectancy—is perhaps the most unpopular idea of all, across income groups, according to national surveys.

As the financial frailties of the current system have begun to etch themselves on the public's mind, more questions have been raised about the program's design and philosophy.

The pay-as-you-go system has come in for harsh scrutiny. Critics call it a pyramid scheme that has worked so far only because population growth and payroll-tax increases permitted a handsome payoff to earlier contributors.

Others contend that the program has discouraged individuals from saving for their own retirement—fostering a flight from personal responsibility and depriving the economy of a source of investment funds that could boost economic growth.

Social Security's own attempts to create "savings" by building up reserves within the system after 1983, critics say, has only made things worse by enabling a spendthrift government to live beyond its means. That will make the inevitable, looming belt-tightening that much more painful.

The program's financial troubles also raise questions about national priorities. Workers' earlier exits from the work force and their longer life expectancies have substantially lengthened the time Americans spend in retirement. "How do we want to allocate our future societal wealth?" asked C. Eugene Steuerle of the Urban Institute. "Do we want a society and a government devoted to retirement and health care and little else, or are there other things we want to foster and encourage?"

JUDD GREGG: Instead of an IOU from a government program in financial collapse, you're going to have a physical asset that you own.

Unfortunately, say critics, the entitlement nature of Social Security and its sister program, Medicare, pre-empt a serious discussion of spending priorities, and instead put the budget on autopilot. Thanks to entitlements, said Sen. Robert Kerrey, D-Neb., in a recent speech, "in another 30 years . . . the entire federal budget will resemble an ATM machine: taking money in and transferring it right back out." Kerrey and Sen. Daniel Patrick Moynihan, D-N.Y., are co-sponsors of a reform proposal.

PULLING FOR PRIVATIZATION

Faced with an unpalatable array of options, many lawmakers have become increasingly enamored with the idea of privatization.

The idea, as it turns out, is really three ideas—prefunding, diversified investment, and individual accounts—rolled into one:

Prefunding, or advanced funding, means that workers would set aside funds toward their own retirement, rather than Social Security's current pay-as-you-go system, in which current workers are taxed to pay current retirees.

Diversified investment means that those savings could be invested in common stocks and corporate bonds, unlike Social Security, which is currently required to invest in lower-yield, government-guaranteed Treasury bonds.

Individual accounts means that the funds and their proceeds are owned and controlled in some fashion by individuals.

The attraction of privatization is part pragmatic, and part philosophical.

Advance funding, say advocates, could ease the burden on tomorrow's workers because more assets and the greater returns from investing in stocks over time could permit lower taxes or higher benefits later. If advance funding also gets the nation to save more—a matter of some debate—this will provide more capital for investment, thereby boosting economic growth and leaving the nation wealthier in future generations. Individual accounts, say proponents,

SOCIAL SECURITY: THE BASICS

Social Security was created in 1935 to provide income support for retired workers. It was later expanded to assist their dependents and survivor, as well as disabled workers and their dependents. The primary source of the program's revenues is a payroll tax paid by workers and their employers. Today's workers pay for the Social Security benefits of today's retirees. The level of benefits for retirees is tied to how much they earned while they worked.

[illegible] beneficiaries

Including:

[illegible]

[illegible] Survivors of workers

[illegible] Dependents of retirees

[illegible] Disabled workers, dependents

IN BRIEF

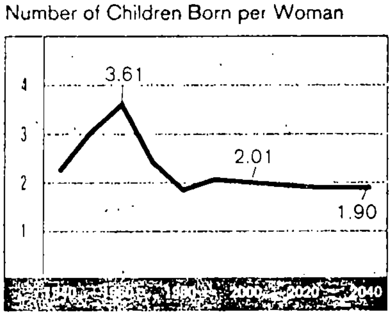
- 147 million workers, and their employers, pay taxes on wages to finance Social Security.
- The payroll tax rate is 6.2 percent for the worker and 6.2 percent for the employer. In 1998, wages up to $68,400 were taxable.
- The average benefit for today's retired workers is $780 a month.

SOURCE: Social Security Administration, Americans Discuss Social Security

WHY IT'S IN TROUBLE

Birth and death rates are two main reasons that Social Security faces long-term problems. High fertility rates after World War II were followed by low rates in the '70s, '80s, and '90s. Meanwhile, Americans have been living longer. The result: When the baby boomers retire, there will be relatively few workers to pay for their Social Security benefits.

Number of Children Born per Woman

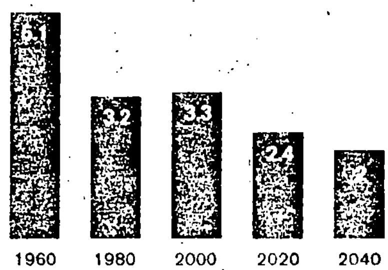


Life Expectancy at Birth

[illegible]	MALE	FEMALE
1940	61.4	65.7
1960	66.7	73.2
1980	69.9	77.5
2000	73.5	79.6
2020	75.7	81.1
2040	77.2	82.3

SOURCE: Social Security Trustees Report

Worker:Beneficiary Ratio

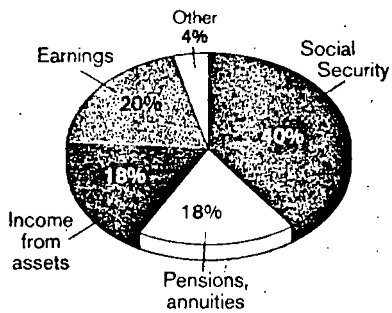


SOURCE: Social Security Trustees Report

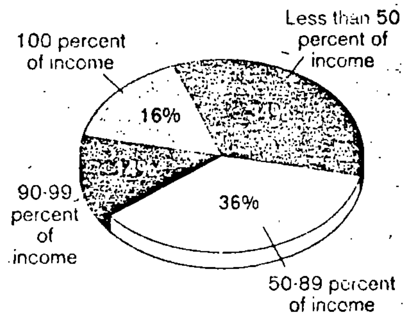
HOW IMPORTANT IS SOCIAL SECURITY?

For millions of retirees, Social Security is essential. It accounts for more than 40 percent of the income of the elderly. Without Social Security, about 50 percent of the elderly would be considered poor, instead of the 9 percent now in that category.

Sources of Income for the Elderly



The Share of Retirees' Income That Social Security Represents

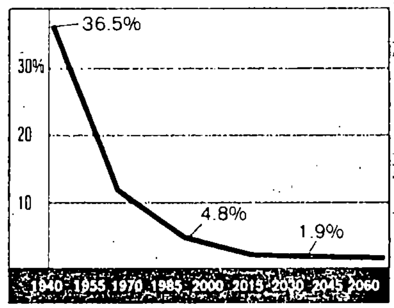


SOURCE: American Institute of Certified Public Accountants

HOW GOOD A DEAL?

The first Social Security recipient, Ida Fuller, paid $22 in Social Security taxes and received about $20,000 in benefits. But Social Security isn't as good a deal as it used to be, particularly for average- and higher-income taxpayers.

Average Inflation-Adjusted Rate of Return



SOURCE: American Institute of Certified Public Accountants

Years to Recover Retirement Portion of Employee-Employer Social Security Taxes, Based on Year of Retirement

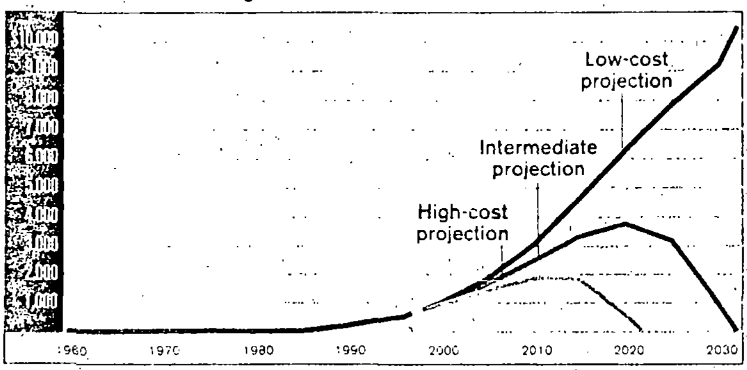
	MINIMUM EARNER	AVERAGE EARNER	MAXIMUM EARNER
1940	0.1	0.2	0.4
1960	0.7	1.1	1.4
1980	2.2	2.8	3.1
1997	9.6	13.9	19.1
2015	15.9	24.2	39.2
2025	16.2	26.2	52.4

SOURCE: House Ways and Means Committee

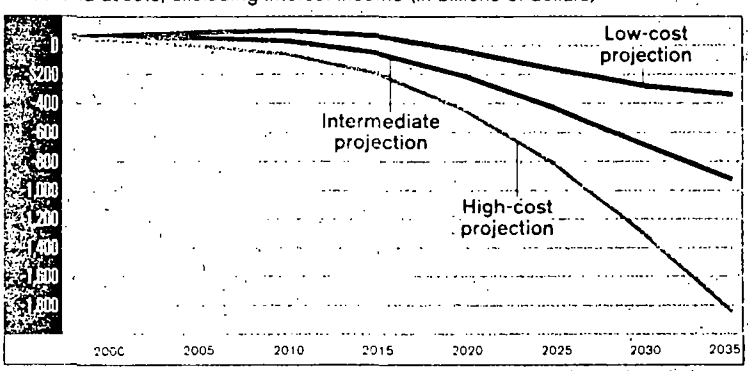
When It Goes Into the Red

Predictions of when the Social Security trust fund will be depleted vary according to economic and demographic assumptions. Every year, Social Security trustees issue three long-range projections: a low-cost projection with optimistic economic and demographic assumptions; a high-cost projection with pessimistic economic and demographic assumptions; and an intermediate projection with consensus assumptions. The timetable for insolvency also depends on whether one counts interest income owed to Social Security. The government doesn't have the interest income on hand and will have to find a way to pay it.

Trust fund assets, including interest income (in billions of dollars)



Trust fund assets, excluding interest income (in billions of dollars)



SOURCE: Social Security Trustees Report

What the Public Thinks

One big unknown in the debate over reforming Social Security is how the public will react. Opinion polls show that the public wants Congress to take action to strengthen Social Security, but doesn't consider the matter a crisis. Young people are the ones most critical of Social Security.

How high a priority should each issue be for Congress?

Improving the nation's education system	85%
Passing legislation to strengthen Social Security	81
Health care reform	76
Tougher crime enforcement legislation	73
A cut in taxes for the middle class	66

SOURCE: Yankelovich Partners Inc. for CNN-*Time* magazine (7/98)

Is the financial condition of Social Security:

A crisis	31%
A problem, but not a crisis	55
Not a problem	10
Not sure	4

SOURCE: Yankelovich for CNN-*Time* (4/98)

COURTESY OF SOCIAL SECURITY ADMINISTRATION

To deal with future financial problems of Social Security, Congress should:

Completely redesign Social Security	31%
Make changes, but preserve it basically as it is	44
Leave Social Security alone	22

SOURCE: Harvard/Chilton (5/98)

Generational Differences

The Social Security program is in crisis:

Age 18-34	30%
Age 35-49	39
Age 50-64	31
Age 65+	16

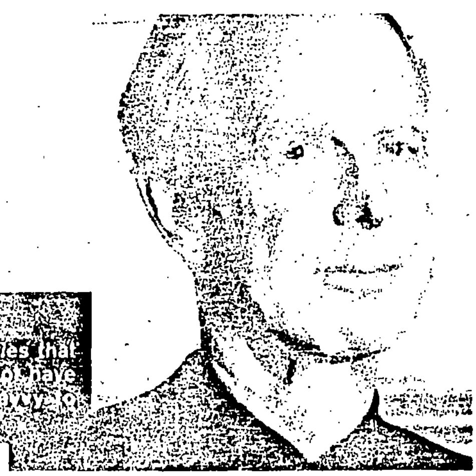
Social Security is not fair to people your age:

Age 18-34	52%
Age 35-49	45
Age 50-64	27
Age 65+	15

SOURCE: Yankelovich for CNN-*Time* (4/98) could allow workers of all income levels—and potentially their heirs—to become self-reliant, accumulate personal wealth, keep retirement savings beyond the reach of spendthrift politicians, and have a more secure retirement.

"Instead of an IOU from a government program in financial collapse, you're going to have a physical asset that you own, which will have expanded dramatically," said Sen. Judd Gregg, R-N.H., in an interview. Gregg is a lead sponsor, with Sen. John B. Breaux, D-La., of the 21st Century Retirement Act, a partial-privatization plan co-sponsored by Reps. Charles W. Stenholm, D-Texas, and Jim Kolbe, R-Ariz.

But comparisons between a privatized retirement investment plan and Social Security have to be approached with caution: There's no gain without some pain.



[illegible] worries that [illegible] may not have [illegible] private accounts.

RICHARD A. BLOOM

If Social Security were privatized starting with today's youth, the program would be short nearly $9 trillion in paying back already promised benefits over the next 75 years.

To completely prefund, today's workers would then have to pay twice: once to put aside investment money for their own retirement, and again to pay for the Social Security benefits promised to the currently and soon-to-be retired. In short, this generation—and especially younger workers—would have to forgo a lot of spending to ease the burden on future generations.

That's a far cry from some of the claims that have been made about privatization. Sure, investing a sum of money in the stock market in the long run can make you a lot richer in retirement than can sending the same amount in payroll taxes to Washington to shore up Social Security. But it isn't an either-or proposition.

Most of the money collected in Social Security taxes, now and for decades to come, is needed to pay off promises already made to retirees, widows, and disabled workers—and those promises will have to be met, whether or not the system is "privatized."

Factoring in those payments, on which workers would earn nothing, substantially reduces the overall rate of return from privatization for years to come.

Workers under privatized Social Security also would have to pay the cost of life insurance, disability insurance, and an inflation-adjusted annuity—to replicate Social Security's panoply of benefits.

The stock market does promise substantially higher yields than money invested in Treasury bonds—7 percent compared with 2.5 percent, after correcting for inflation. But stocks come with higher risks. How any particular individual fares depends on his or her investment acumen and tolerance for risk, and on the state of the market when he or she cashes out.

It's easy to exaggerate the benefits of privatization. The libertarian Cato Institute, which favors full privatization, does so in a booklet designed for the general public, when it says, for example, that a young $15,000-a-year waitress would reap just $13,406 a year from Social Security in retirement but as much as $54,411 a year if she had invested her payroll taxes in a stock fund—with barely a whisper about transition costs, lost insurance benefits, or risks. There are plenty of strong arguments to be made for privatization—but alchemy is not one of them.

Toward Middle Ground?

In reality, however, the choices aren't really just between total privatization and a passel of tax and benefit cuts to preserve the status quo.

Most plans embrace only partial privatization—diverting a portion of payroll taxes to private accounts and combining these with a scaled-back version of Social Security.

Even those—mainly liberal Democrats—who want to preserve Social Security's basic structure are now embracing the idea of prefunding and investing in the stock market—but with one crucial difference. They want to permit the federal government, rather than individuals, to invest Social Security's large and growing reserves in the stock market. And they want the proceeds to help finance the overall program, rather than to become privately owned assets of individuals.

Getting higher yields for the program could go a long way toward restoring its financial health. Robert M. Ball—a former Social Security Administration commissioner and the program's most tireless defender—has drafted a proposal in which he claims that if the program's reserves were invested in stock and bond markets, the higher returns earned would cover more than half of Social Security's shortfall.

Brookings Institution economists Henry J. Aaron and Robert D. Reischauer offer a reform plan that would increase Social Security's reserves substantially beyond what current law anticipates and would diversify the investment. They estimate that this change alone would close 69 percent of the program's long-term deficit.

Investing the reserves, while controversial in its own right, potentially helps blunt some of the other criticisms of the program. Until now, building up reserves in Social Security has effectively meant fueling federal profligacy—sending money Congress could use to make the budget look more in balance, in exchange for later IOUs.

If permitting Social Security to invest in the stock market would put the reserves beyond Congress' reach, and would force greater fiscal discipline—also a matter of some debate—such a step could actually add to national savings, boost economic growth, and lighten the burden on the next generation, much the same way as private accounts could.

Many parties to the discussion are hailing the growing agreement over prefunding and stock market investing as the first step toward a bipartisan solution. But that still leaves a major debate about who should do the investing, government or individuals?

WHO CONTROLS THE MONEY?

Privatization enthusiasts all have their own grim scenarios about what would come of letting Uncle Sam loose on Wall Street with billions of dollars in Social Security reserves. They envisage public pressure for Congress's to chasten companies that move a plant overseas; pressure to sell stock in companies that do business in unpopular countries; or Congress's using an extended bull market to raid Social Security's reserves.

A lot of prominent, and not-so-prominent, people don't like the idea of the federal government's controlling that much investment money on Wall Street. Alan Greenspan, chairman of the Federal Reserve Board, has publicly dumped on the idea. So has Sen. Phil Gramm, R-Texas. "Not one Republican will ever support such a system," he said. "Neither will half the Democrats." Polls also show the public to be dubious about this approach.

But fears of government interference in the markets are overblown, counter those who want Social Security to invest in bulk in private securities markets. Many state governments already do so, through their multibillion-dollar pension funds for state workers. And, they argue, it's possible to insulate the program's investments from political interference. Brookings' Aaron and Reischauer propose a Social Security Reserve Board, modeled on the Federal Reserve Board—among other safeguards—to keep Congress from influencing investment decisions or grabbing investment gains.

Rep. Benjamin Cardin, D-Md., a Ways and Means Committee member who is drafting his own Social Security proposal, says the public will warm to the idea of government investment, once it understands the downsides of other approaches. "The others are far more politically controversial," he said.

For example, individual investment accounts also could be subject to public pressure, say foes of privatization. Individuals could pressure Congress to let them tap into their savings for more-immediate needs than retirement, much as has happened with IRAs in recent years.

Setting up millions of individual accounts could also prove to be very costly and unwieldy—for both employers and workers. In an October speech at Harvard University, Securities and Exchange Commission Chairman Arthur Levitt worried aloud about individuals' investment savvy, investor fraud, and administrative expenses. A management fee of even 1 percent, Levitt noted, could eat up 17 percent of an account balance over 20 years.

But, proponents say, privatization plans that model themselves on the Federal Thrift Savings Plan—a savings plan run by the government for its employees—could substantially lower the administrative costs, investor risks, and the possibilities for fraud.

Social Security boosters contend that letting the program invest minimizes the problems the most.

WHO BEARS THE RISK?

Any private investment scheme entails more risk than the current Social Security program. Wall Street is no place for the faint of heart.

Letting Social Security invest in the markets through a board and keep the proceeds to finance traditional benefits,

RAISE TAXES

OPTION

Increase the payroll tax rate for workers and employers and/or increase the amount of earnings subject to a payroll tax.

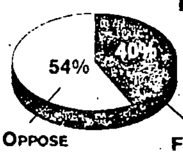
CURRENT SITUATION

A worker and an employer each pay a payroll tax of 6.2 percent of the worker's earnings. The self-employed pay a 12.4 percent tax.

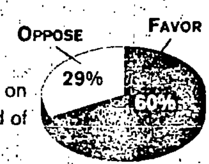
YEAR	TAX RATE: EMPLOYERS & EMPLOYEES	TAX RATE: SELF-EMPLOYED	MAXIMUM TAXABLE EARNINGS
1950	1.5%	–	$3,000
1960	3.0	4.5%	$4,800
1970	4.2	6.3	$7,800
1980	5.08	7.05	$25,900
1990	6.2	12.4	$51,300
1998	6.2	12.4	$68,400

SOURCE: Social Security Trustees Report

PUBLIC OPINION



Would you favor increasing the payroll tax that workers and employers each pay into the system from 6.2% to 6.7%?



Would you favor collecting payroll taxes on earnings up to $100,000 per year, instead of the current cutoff of about $68,000?

SOURCE: Americans Discuss Social Security

OPTION

Increase the amount of Social Security benefits subject to taxation.

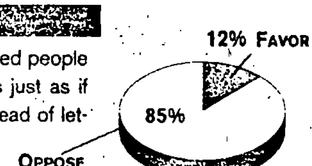
CURRENT SITUATION

Before 1984, Social Security benefits were not subject to income tax. Now, no more than 85 percent of the benefit is subject to income tax.

TAXATION OF BENEFITS		
PERCENT TAXED	INCOME THRESHOLD	FILING STATUS
Up to 50%	$25,000-$34,000	Individual
	$32,000-$44,000	Joint
Up to 85%	$34,001+	Individual
	$44,001+	Joint

PUBLIC OPINION

Would you favor requiring retired people to pay income tax on benefits just as if this were ordinary income instead of letting part be tax-free?



SOURCE: Americans Discuss Social Security

RAISE RETIREMENT AGE

OPTION

Raise the retirement age, perhaps to 70.

CURRENT SITUATION

Full benefits are available at age 65. At 62, a person can start collecting 80 percent of the full benefit. Under current law, the full retirement age will gradually be increased to 67. Early retirement at 62 will still be available, but at 70 percent of the full benefit after a phase-in period.

BIRTH DATE	RETIREMENT AGE
Before 1938	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-54	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
After 1959	67

TRENDS

The percentage of workers taking Social Security benefits before age 65 has risen sharply.

	COLLECT AT AGE 62	COLLECT AT AGE 63-64	COLLECT AT AGE 65 OR OLDER
1955	NA	NA	100%
1965	23%	17.7%	59.3
1975	35.7	24.5	39.8
1985	57.2	21.1	21.7
1995	58.3	19.5	22.3

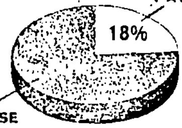
The life expectancy of men and women at age 65 has also increased, and is expected to continue rising.

	MALE	FEMALE
1940	11.9 years	13.4 years
1960	12.9	15.9
1980	14.0	18.4
2000	15.8	19.3
2020	16.7	19.9
2040	17.5	20.8

SOURCE: Social Security Trustees Report

PUBLIC OPINION

Virtually every poll on the subject shows strong opposition to raising the retirement age.



Would you favor raising the age at which a person can collect full benefits to 70?

SOURCE: Associated Press, 12/98

say proponents of the idea, cushions individuals from these risks far more than individual-account plans would. That's because the program would spread the risk across more individuals at any one time and, as an ongoing program, could better weather temporary ups and downs in the market.

As a result, Social Security would still promise a "defined benefit"—a set, predictable level of benefits paid over a period of years. In most private-account plans, by contrast, individuals would have to rely more heavily on the individual performance of their investment choices. If their accounts do well, they could be better off than with Social Security, but if they do poorly, they could be worse off.

"The people we represent are much better off in a collective-risk system," said Gerald M. Shea, AFL-CIO President John J. Sweeney's assistant for government affairs. "They're managed in a highly sophisticated way, and they get higher returns. It does not require [workers] to become experts in investment."

But individual accounts would allow workers to choose the level of risk they want to take, say privatization advocates. Investing within Social Security "would require all participants to absorb some risks that the government is deciding to take," said Carolyn L. Weaver, resident scholar at the American Enterprise Institute for Public Policy Research, who helped advance the idea of privatization as a member of the influential, government-appointed 1994-96 Advisory Council on Social Security. Nor does government investing spare individuals all risks, since benefit cuts or tax hikes are still a possibility. "You can shift risks," she said, "but you can't eliminate them."

FOR RICHER OR FOR POORER?

Another risk of individually owned investment accounts, say opponents, is that they could diminish the income redistribution function of Social Security. In a program that diverts payroll taxes to private accounts, everyone has to make do with the proceeds, no matter how well or poorly they do in investing or how long they live. That could hurt poorer retired workers; it could particularly harm women, who because of their comparatively lower earnings and longer life expectancies get an extra boost from the current Social Security program.

Supporters of both partial and total privatization, however, counter that their approach benefits people with low incomes and others who might otherwise never be able to accumulate wealth, and brings them into the economic mainstream.

Still, some hybrid plans, including Breaux-Gregg, try to compensate for the loss of progressivity inherent in the private accounts, by sharply cutting Social Security benefits for the affluent.

Social Security's defenders, however, worry that this will make the government program even less attractive to high-income earners—and build pressure to privatize the entire program.

IN SEARCH OF THE HOLY GRAIL?

Of course, given their druthers, Americans would just as soon not have to make these choices. Their desire to take some of their payroll-tax money to Wall Street is certainly matched by their dislike for the extra taxes, more years of work, or benefit cuts that the option would cost them. People want to strike it rich in the stock market—but they also want the security of a defined benefit.

But suppose it were possible for individuals to have the best of both worlds: the chance to increase their returns, without losing the security Social Security offers.

Sound too good to be true? Some experts think so, but that hasn't stopped some Republicans and Democrats from trying to devise hybrid plans that purport to do just that.

The pioneer in this effort is Harvard economist Martin Feldstein. Feldstein essentially proposes using the budget surplus to give workers an amount equivalent to 2 percent of their earnings each year to put into a private investment account. At retirement, workers get the proceeds of their private accounts as well as some Social Security benefits. But the Social Security benefits are reduced by 75 cents for every dollar withdrawn from the private accounts. So a monthly withdrawal of $400 from the accounts, for example, would reduce Social Security benefits by $300. The result is that everyone gets at least as much as they were promised under Social Security, and many could get more.

The plan has attracted the attention of the White House and is inspiring knock-offs on both sides of the aisle. Gramm and Senate Budget Committee Chairman Pete V. Domenici, R-N.M., are getting ready to unveil a plan based on the concept, and House Ways and Means Committee Democrat Cardin says he will too. A flier from Gramm promises to "increase benefits for every worker, build up real wealth," and "prevent tax increases of any kind."

Some critics say the numbers don't add up. They say Feldstein is spending budget surpluses that may not materialize. They also say he relies too much on phantom tax windfalls from imagined higher corporate profits. Moreover, Feldstein doesn't specify where the money the government adds to the private accounts would come from, once projected federal surpluses disappear. Feldstein's plan looks better if you assume, as he does, that without it, the budget surpluses would be frittered away, and not used to pay down the deficit as most government budget estimates currently assume.

But beyond questions about the numbers are questions of philosophy.

The Feldstein plan means funneling massive new federal resources to the elderly—and disproportionate benefits to the wealthy. Should surpluses be used not merely to close Social Security's financing gap but to make retirement benefits even more generous? On the national priority list, does Social Security trump Medicare, education, defense spending, or tax breaks?

It's also unclear whether such a hybrid is built to last politically. Though the affluent get the biggest overall income hike from this plan, they will, over time, get a growing share of their retirement income from private accounts and a declining share from Social Security. Why should they acquiesce to paying hefty Social Security taxes, for little or no benefit?

Combining the upsides of individual investment with Social Security's political popularity, its progressivity and its guaranteed benefits is "a very attractive approach," says Brookings' Reischauer, a former director of the Congressional Budget Office, "but I fear it will turn out to be the equivalent of the unicorn. Many can draw ethereal pictures of it, but no one can find it in real life." ■

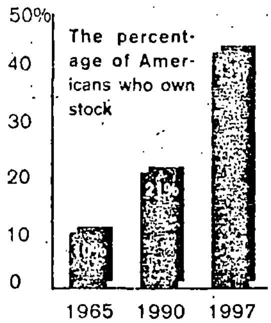
PRIVATIZATION

OPTION

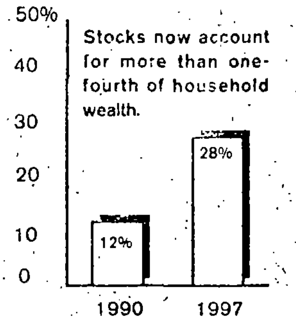
Allow individuals to invest some of the money they would have paid in payroll taxes in individual accounts. Permit the government to invest a portion of the Social Security surplus in the stock market.

CURRENT SITUATION

Workers pay payroll taxes to the government. The money is used to pay benefits to current retirees. Any surplus funds are invested in Treasury securities. Proponents note that more and more Americans have become familiar with the stock market as an investment option.

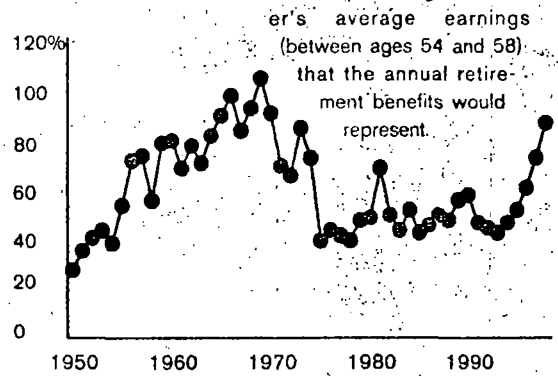


SOURCE: Peter D. Hart Research Associates



SOURCE: Federal Reserve Board

Brookings Institution economist Gary Burtless estimated what would happen if male workers invested 6 percent of their earnings in stocks every year and then converted the money into an annuity upon retirement. The chart estimates the percentage of a worker's average earnings (between ages 54 and 58) that the annual retirement benefits would represent.



PUBLIC OPINION

Poll results show that support for privatizing part of Social Security varies widely depending on how the question is framed.

Should workers be allowed to shift some of their Social Security tax payments into personal retirement accounts that they would invest on their own?

74% FAVOR

SOURCE: Associated Press, 12/98

Should individuals be allowed to invest a portion of their Social Security savings in the stock market?

66% FAVOR

SOURCE: Gallup Organization Inc. for CNN-*USA Today*, 7/98

SIX PLANS IN PLAY

	CURRENT LAW	CATO INSTITUTE	BREAUX/GREGG
BENEFIT CUTS	Full retirement age rises from 65 to 66 between 2003 and 2009 and from 66 to 67 between the years 2020 and 2027. Recent technical fixes to the consumer price index will reduce annual COLAs somewhat. These changes aren't yet factored into Social Security's estimates or many reform plans. Benefits calculated on average earnings during the 35 years of highest-paying work.	Those who choose private accounts get no SS benefits. Workers under 30 who opt out of SS forfeit past contributions. Those over 30 get bonds reflecting past contributions and below-market interest rates. Raises full-retirement age to 70 by 2029 for those who stay in SS. Reduces SS benefits by indexing benefit formula to prices rather than wages.	Raises full-retirement age to 70 and early-retirement age to 65 by 2029, and to 72 and 67, respectively, by 2065. Reduces COLAs by 0.5 percentage point. Reduces higher-income workers' benefits. Lengthens the earnings-averaging period from 35 years to 40 years. Reduces spouse's benefits from one-half to one-third of worker's.
TAXES AND REVENUES	Keeps payroll tax at 12.4 percent: 6.2 percent each for employer and employee. Automatically increases maximum amount of wages subject to payroll tax each year ($68,400 in 1998), pegging change to increase in average national earnings. Taxes up to 85 percent of Social Security benefits of those with incomes of more than $34,000 (single) or $44,000 (married). About one-fourth of state and local government workers remain outside SS, though most become eligible for SS benefits from later jobs or though spouse.	Retains 12.4 percent payroll tax for those remaining in SS. Retains a 2.4 percent payroll tax for those opting out of SS to help pay transition costs for 10 years, then eliminates it. Borrows $370 billion through new government bonds (paid back from later surpluse). Cuts government spending by $502 billion over nine years. Uses SS and operating budget surpluses. Assumes $4.2 trillion in revenues from higher private investment and another $794 billion in revenues from increased economic growth by 2027.	Redirects some existing income taxes on benefits from Medicare program to Social Security. Brings all new state and local government employees into SS.
PRIVATE ACCOUNTS	None	Allows individuals to divert 10 percentage points of 12.4 percent payroll tax into personal retirement investment accounts.	Steers 2 percentage points of payroll tax into private accounts. Allows extra contributions of up to $2,000 a year with tax-free buildup.
BENEFIT INCREASE	Earnings limit reduces SS benefits for some recipients with higher-than-average earnings.	Guarantees minimum benefit.	Creates increased minimum benefit. Ends earnings limit for those at or above the full retirement age.
TRUST FUND RESERVES	Program reserves must be invested in special Treasury securities.	NA	NA
CRITIQUE	Without reform, by 2032 benefits would have to be cut by a quarter or payroll taxes raised by half. SS reserves earn low interest and allow Congress to mask budget imbalances.	Promised high returns have inspired Sen. Rodney D. Grams, R-Minn., and Rep. John Porter, R-Ill. But plan faces charges of unrealistic financing, overstated benefits, less help for low-income workers and a retirement dependent on the tender mercies of the stock market.	Wins praise for facing costs of program's shortfall and of private accounts. But the big hike in the retirement age is a flak magnet. Tries to keep SS's tilt toward low-income retirees by trimming rich folks' SS benefits. But liberals say this could doom SS.

MOYNIHAN/KERREY	FELDSTEIN	REISCHAUER/AARON	BALL
Raises full-retirement age incrementally to 68 by 2023 and to 70 in 2073. Reduces annual COLAs (including those for veterans' and civil servants' entitlement benefits) by 1 percentage point. Lengthens the earnings-averaging period from 35 years to 38 years.	None	Speeds up scheduled rise in full-retirement age to 67 from 2022 to 2011, then adjusts age to keep share of life in retirement constant. Early-retirement age rises from 62 to 64 by 2011, then rises in tandem with full retirement age. Lengthens the earnings-averaging period from 35 years to 38 years. Reduces spouse's benefits from one-half to one-third of worker's. Assumes small drop in annual COLAs.	Lengthens the earnings-averaging period from 35 years to 38 years.
Lowers payroll tax to 10.4 percent (5.2 percent each for employer and employee) for the yeras 2001-2024. Increases payroll tax from 10.4 percent to 13.4 percent between 2024 and 2060. Increases share of wages subject to the payroll tax to $97,500 by 2003, then indexes hikes according to the rise in average wages. Increases the share of SS benefits subject to income tax, regardless of income. Increases income taxes by slowing the rise in personal exemptions, standard deductions, and tax-bracket cut-offs. Brings all new state and local government employees into SS.	Uses budget surpluses–including those already credited to Social Security. After surpluses are gone, relies for a period on unspecified funds–from either borrowing, tax hikes, or budget cuts. Anticipates greater corporate income tax receipts from increased investment. Recoups 75 cents of Social Security benefits for each $1 withdrawn from personal retirement account.	Increases the taxation of benefits and extends it to all recipients. Brings all new state and local government employees into program.	Raises the maximum amount of workers' earnings subject to Social Security payroll tax to 90 per cent over time. Brings all new state and local government employees into program.
Lets employees keep their payroll tax cut or put it in a voluntary investment account with mandatory employer match. Gives kids $1,000 at birth and $500 a year to age 5 for retirement accounts.	Creates refundable tax credit of 2 percent of payroll for investment in personal retirement accounts.	None	Workers could put 2 percent of their wages into a voluntary tax-free investment account.
Repeals the earnings limit.	Lets people keep account earnings after deducting 75 cents for each $1 of SS benefits. All could get more, and no one gets less, than SS.	Raises benefits for survivor spouses to 3/4 of couple's combined benefits.	Workers could put 2 percent of their wages into a voluntary tax-free investment account.
NA	NA	Increases SS reserves and invests all but a safety cushion in corporate stocks and bonds.	Invests 50 percent of program's reserves in stock market by 2015.
Attempts to split the difference between privatizers and SS defenders. But its later, hefty tax hikes–on top of any voluntary savings–are a tough sell. Also, big COLA cuts hit oldest and long-term-disabled hardest.	A politician's dream: all gain, no pain. Sens. Phil Gramm, R-Texas, and Pete Domenici, R-N.M., have a version, and Clinton is intrigued. But plan relies on creative accounting, steers lots of new funds to retirement and disproportionately favors the rich.	Wants to use the power of the stock market to help shore up the existing program, while minimizing tax hikes and benefit cuts. But letting Uncle Sam loose on Wall Street–despite proposed safeguards–is bound to stir up fierce opposition.	Attempts the fewest changes to the program and relies on Wall Street to do the heavy lifting. But besides the political hackles the plan raises, its modest changes won't end the program's long-term fiscal woes.

No Done Deal on the Hill

By Richard E. Cohen and David Baumann

Forget about impeachment and a lame-duck President. Forget about the House Republican leadership meltdown, and the GOP's narrow majorities in both chambers. And forget about the quickly approaching 2000 presidential campaign. Legislating a change in the Social Security program would be a herculean challenge for the 106th Congress even without those impediments.

SOCIAL SECURITY REFORM SEEMS A LONG SHOT IN THE 106TH CONGRESS, BUT SOME LAWMAKERS ARE HOLDING OUT HOPE.

Consider the rigors that Congress faced in the early 1980s, when it enacted the most recent major Social Security reforms. The retirement trust fund was within months of insolvency. With Ronald Reagan's 1980 election sweep, Republicans controlled the White House and the Senate, and—with "boll weevil" Democrats—had a working majority in the House. In a bid to "depoliticize" the Social Security issue, advisers to President Reagan and House Speaker Thomas P. "Tip" O'Neill Jr., D-Mass., agreed to create a bipartisan commission to prepare changes; the panel was chaired by Alan Greenspan, then a respected Wall Street banker. In retrospect, the most striking feature of the reform effort may have been that key players across the political spectrum agreed on the needed solution: In early 1981, before the issue became a political football, the House Ways and Means Social Security Subcommittee—under Chairman J.J. Pickle, D-Texas—unanimously approved a gradual increase in the retirement age from 65 to 68.

THE 1983 MODEL: AFL-CIO official Lane Kirkland, Alan Greenspan and Rep. Claude Pepper confer during the last round of major Social Security reforms.

Despite all the congruence, however, it took two years before a deal was cut. The Greenspan commission failed to reach agreement, although it played a constructive role. It took months of painstaking, behind-the-scenes discussions for a handful of key congressional and Administration officials to reach a compromise satisfactory to both Reagan and O'Neill. Still, the opposition of organized labor, senior citizens groups and their chief ally, Rep. Claude Pepper, D-Fla., forced a fractious debate before the House agreed, on a 228-202 vote in March 1983, to raise the retirement age to 67 by the year 2022. On that vote, said then-Ways and Means Committee Staff Director John Salmon, "we won because it was the right thing and because [Chairman] Dan Rostenkowski [D-Ill.] and the committee liberals were loyal to Pickle."

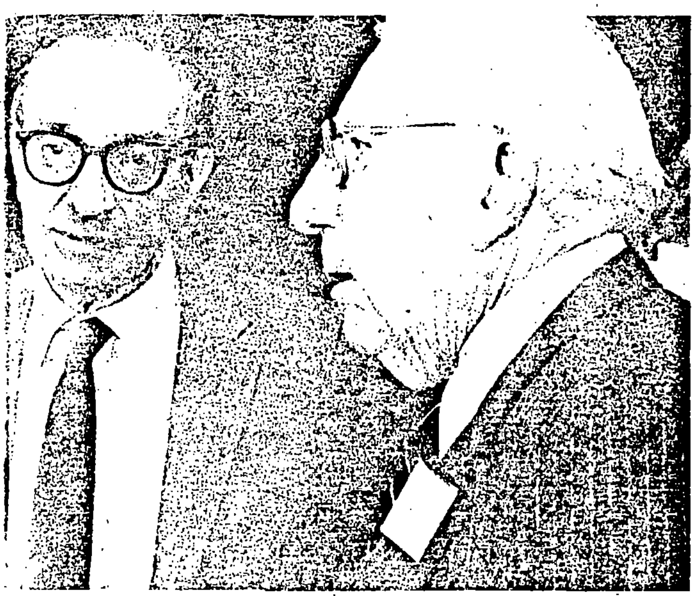
And now? No immediate deadline

looms to force action, because the Social Security fund is not expected to run short until 2032. Bipartisan solutions are embryonic, at best. And there is neither a commission nor early evidence of a strong leader, or leaders, who might weigh in during backroom negotiations and unite disparate factions to forge a deal.

In the face of all that, though, some congressional players still sound upbeat about the prospects for Social Security reform this year. "I'm an optimist," said Rep. E. Clay Shaw Jr., R-Fla., who has taken over as chairman of the Ways and Means Social Security Subcommittee. "It may be incremental and we can't do it all at once. But my goal is to assure the liquidity of the Social Security system through the next century." Sen. John B. Breaux, D-La., a key Senate Finance Committee member, added: "We [on the committee] are as near to consensus on Social Security as anyone. . . . Someone has got to show some leadership around here. We should all be going together."

RICHARD A. BLOOM

ARCHER AND RANGEL: Archer is demanding that Clinton submit a plan. Rangel doesn't even see the debate getting started.



ASSOCIATED PRESS

Likewise, Sen. Ron Wyden, D-Ore., these days is preaching the need to lay down the partisan swords, starting with Social Security. "Most Americans know what needs to be done," said Wyden, who, before his election to the House in 1980, co-founded the Oregon Gray Panthers and who has secured his electoral base by aggressively advocating the interests of senior citizens. "You've got to keep the safety net so that an elderly woman with Alzheimer's won't be wiped out. . . . And you've got to come up with a way to get higher yields on the program's investment. I believe that most members of Congress subscribe to that." As for the Senate impeachment trial, he responded, "It can be done fairly and quickly, with a full recognition that [early 1999] is the most fertile landscape for policy-makers, but that the clock is ticking."

Despite such pockets of congressional optimism, common sense—plus the 1983 experience—warns that it will take more than noble intentions and happy talk to pass a Social Security bill this year. At the very least, a proposal must win the approval of President Clinton and a majority of the Republicans who control Congress. For that reason, Ways and Means Committee Chairman Bill Archer, R-Texas, has argued strenuously, though unsuccessfully, for creating a new Greenspan-type bipartisan commission. Recently, Archer has urged Clinton to provide leadership by making his own recommendations. "To save and strengthen Social Security, Mr. President, you need to lead our nation," Archer lectured Clinton at the White House's Social Security conference in early December. "You need to submit to the Congress a specific plan to save Social Security soon, or the job may not get done."

Regardless of whether Clinton submits a plan, Republicans will proceed "until and unless it's proven that it's not do-able" to pass Social Security reform legislation in this Congress, said Archer spokesman L. Ari Fleischer. But the opposition of House Democrats could present a problem. Many progressive Democrats warn that personal retirement investment accounts (which Republicans strongly advocate and Clinton seems to be inching toward) would undermine the program. "One reason why the President may be reluctant to lead is because of rebellion in his own party," said Fleischer.

Recent interviews with key Democrats illustrated the challenge. "I don't even see the debate getting started," said Rep. Charles B. Rangel of New York, the senior Ways and Means Democrat. African-Americans, who have a shorter life expectancy, are especially troubled by the idea of raising the Social Security retirement age, he said. "As soon as I'm approaching the goal line, you're pushing the goddamn goal line further away." Given last month's impeachment vote, Rangel added, "a head of steam is building up now that may make it impossible for the House of Representatives to accomplish anything."

Rep. Robert T. Matsui of California, the new ranking Democrat on the Social Security Subcommittee, also said that the impeachment vote poisoned the well in the House and increased tensions between the two parties at a time when cooperation will be vital for reaching a Social Security deal. "The lack of trust has to be overcome," and only Clinton can do that, said Matsui, who played a leading role in the unsuccessful 1997 attempt to build bipartisan support for Clinton's fast-track trade proposal.

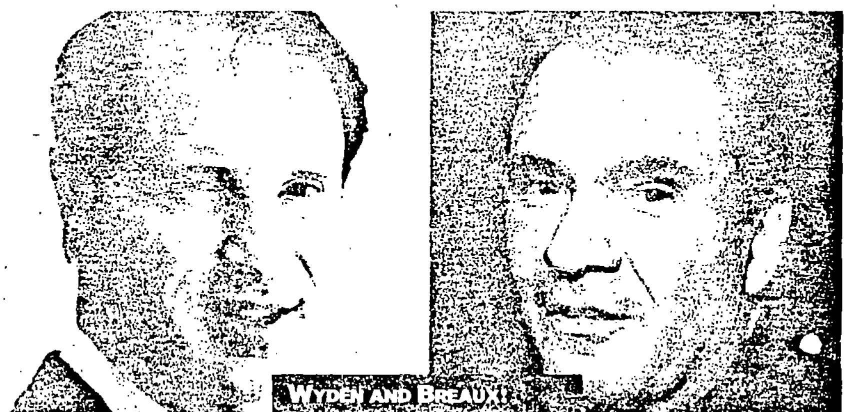
House Minority Leader Richard A. Gephardt, D-Mo., has taken a somewhat more open-minded approach on the Social Security issue, although he has contended that GOP demands for a Clinton plan have not been helpful to the overall reform effort. "We are sometimes too impatient," Gephardt told Clinton's White House conference. "We want a quick fix for a problem that has been building for decades and will continue far into the next century." Individual retirement accounts, he added, should be voluntary and "a supplement, not a replacement, for the foundation of Social Security."

In the Senate, a bipartisan group—including senior Finance Committee Democrat Daniel Patrick Moynihan of New York, Breaux, and other panel members—last fall released principles to guide action on Social Security, including a payroll tax cut, personal savings accounts, and an increase in the retirement age. Moynihan early last year had proposed his own centrist Social Security reform plan, which would allow for some privatization. But similar efforts at bipartisanship have not gained much traction in the House. Instead, the top priority of House Democrats is taking the Social Security program off-budget to assure that revenues are adequate to pay for benefits and that the current federal budget surplus is not used for other purposes, such as a tax cut.

"There can be no shell game or perpetuation of a fiscal lie with a [Social Security] trust fund full of IOUs," said a House Democratic leadership aide. "Once decisions are made to take Social Security off-budget, the opportunity to set up private retirement accounts, for example, becomes smaller. . . . A veto exists in each of the five corners of this debate—Democrats and Republicans in the House and in the Senate, plus the White House."

Republicans, meanwhile, also are finding it difficult to speak with one voice when it comes to Social Security reform. Their efforts may be complicated by the disarray in their House leadership, plus the Senate's preoccupation with the impeachment trial. New House Speaker J. Dennis Hastert, R-Ill., has not revealed what specific steps he advocates on Social Security, although he told the House on Jan. 6 that if Clinton submits a plan, "it will be taken seriously." Shaw, for his part, said, "I asked him only one thing" on Dec. 19, when Hastert and his allies organized his blitzkrieg campaign for the top House post. "I said I want to be in the room when deals are made on Social Security. He said yes."

Senate Majority Leader Trent Lott, R-Miss., has said little on the issue, other than that he would introduce Clinton's proposal as a Senate bill. "I want to go the extra mile and use the standing of my leadership office to facilitate the President's reform efforts with a genuine act of bipartisanship," Lott said last month. He added that without "an explicit presidential proposal," reform is unlikely. On the other hand, Senate Finance Committee Chairman William V. Roth Jr., R-Del., is going his own way. He said last month that if Clinton does not offer a Social Security bill, the committee will seek to use the budget surplus to finance additional retirement be[...] in the tax code. "Personal retiren[...] accounts would be an interim s[...] while we consider the choices we f[...] in saving and reforming Social Secu[...]ty," Roth said.



RICHARD A. BLOOM

WYDEN AND BREAUX: Hoping that their fellow lawmakers will put aside partisanship in order to reach consensus on Social Security.

The Republicans' drive for tax cuts and their disparate ideas about how to use the budget surplus are also sure to tangle Social Security reform. The three issues will be intertwined in this year's congressional budget debate and may not be resolved by this summer, when Social Security reform proponents had hoped to be well on their way to passing legislation.

Lawmakers who are poised to play pivotal roles in the Social Security reform debate say it is crucial that neither party dig in its heels. "A lot of this has to occur privately . . . to pull together the center," said Rep. Charles W. Stenholm, D-Texas, who has worked on Social Security reform with a bipartisan coalition of lawmakers and business leaders. "There is no simple proposal." Likewise, Shaw said: "We have to keep all the options on the table. I won't draw lines in the sand. I hope that the President won't."

Shaw and others said that the atmospherics at last month's White House conference were positive and provide an opportunity for further informal discussions. But some reform advocates contend that setting up a formal Social Security commission, as Archer has suggested, would not necessarily be productive. "We have a commission," Stenholm said. "It's called the Ways and Means Committee. . . . It's very critical that we allow the committee process to move forward." The House Democratic leadership aide said that a commission would make it easier to "punt" on the issue.

The optimists say that once the impeachment debate is concluded, Social Security reform may be one way for both parties to show that they are serious about the nation's business. Last November, noted Wyden, the voters sent a message that "we should stop throwing rotten fruit and start addressing real needs. Both sides have to be willing to drop the old model, in which we argue first and find common ground second." That could happen, but for now, at least, many lawmakers of both parties seem determined to stick with the old and familiar. ■

Staff Correspondent Marilyn Werber Serafini contributed to this report.

to explore the pleasure of wealthier returns before the pain of benefit adjustments or tax hikes says a lot about his reading of where the votes are likely to be found for legislation in 1999.

"The President is the indispensable man in the politics of Social Security, despite his impeachment ordeal," said Will Marshall, president of the Progressive Policy Institute, the think tank of New Democrats.

"Because he straddles these two camps, he's in a position to play the honest broker," Marshall said. "He's in a position to hammer out a deal because he hasn't declared himself in favor of, or unalterably opposed to, individual private savings accounts. I think it would be foolish for the President to advance the 'Clinton plan,' which would instantly become a target for both the Left and the Right."

At the White House, the idea of putting out a 'Clinton plan' at this stage of the debate has no takers, despite the demands from some Republicans that Clinton go first. But the question of how detailed the President wants to be in his State of the Union address, short of a full-blown reform plan, has not been answered, his advisers insisted this week. Instead, making his cautious way forward, Clinton will remain as vague as he needs to be to retain his negotiating flexibility, to nudge divided Democrats together, and to keep Republicans at the table. Last year's mantra of "save Social Security first" may become this year's more urgent "save Social Security now."

In his February budget submission to Congress, Clinton is not expected to be much more precise about how to cure Social Security's future insolvency problems except to continue to "preserve" future budget surpluses until a deal is inked. Many observers expect Clinton eventually to rely on projected fiscal surpluses as a way to avoid more objectionable Social Security remedies that would adversely affect benefits or contributions.

Why would a cautious Democratic President burdened by the historic scar of impeachment risk a whopping legislative failure in his seventh year in office? Because he needs a showy success in his otherwise dismal second term, and because he sincerely thinks that now is the least expensive time to adjust Social Security for future generations.

When he committed himself to Social Security reform in late 1997, before the world knew of Monica S. Lewinsky, Clinton was prepared to attempt something bold and difficult and to accept whatever glory there might be in failure. Now, his mind-set is more sharply locked on success—assuming, as nearly everyone does, that he escapes Senate conviction on impeachment charges. Some argue that Clinton's need for an achievement—any achievement—in a hostile political climate suggests that Clinton will be more willing to sign legislation that takes an incremental approach, or doesn't quite remedy forever the problems created by increasing longevity and a dwindling work force.

One House Democratic aide who deals with the White House on Social Security said that the President's advisers are "hypersensitive to the political pain" of what they think will win votes, what public opinion polls indicate, and how certain tough GOP campaigns last fall exploited retirement fears.

"This White House has probably reaped more political benefit from micro-initiatives than any in recent memory," Marshall noted. "But I hope and believe that's not what the President's angling for in Social Security. He understands the need for structural reform, which is, by definition, large." But Marshall readily concedes that legislation in 1999 that "lays out a course, in two or three bites, that gets you to structural reform," would have a precedent and would "deserve credit."

Arguing against Marshall's hopes, some Republicans suspect Clinton will succumb to the pressures from the left wing of his party to maintain the status quo, although his aides insist that the President is resisting those who would much prefer to save the issue for the 2000 political races. "He needs to decide what his next two years are going to be about," warned House Ways and Means Committee spokesman L. Ari Fleischer.

RICK SANTORUM: "There aren't very many people on the Hill who take his word for very much anymore."

"Is it going to be about paybacks, or principle?"

The GOP appetite for a Clinton reform bill and the warnings about Oval Office cave-ins to organized labor and the Left may have a lot to do with avoiding the blame game down the road. Bruised by past battles over entitlements that gave Democrats an edge with voters in public opinion polls, Republicans are trying to inoculate themselves against future political assaults.

And some, like Republican Ways and Means Committee Chairman Rep. Bill Archer of Texas, appear eager to sweep Social Security reform to the sidelines to work on legislation to reduce taxes, which many in the party think should be 1999's GOP capstone.

"A lot of Republicans want to deny Clinton an achievement," said an aide to Rep. Charles W. Stenholm, D-Texas, one of the centrist lawmakers offering a bipartisan Social Security proposal. "There is a recognition that they need to show that they've made accomplishments. If we don't get Social Security reform done, they want to make sure it's positioned so it's Clinton's fault for not providing leadership, and not their fault for not being serious about it."

Santorum, who hopes to unveil his own bipartisan reform plan by the end of January, concedes that some members of his party are hanging back. "We have a lot of members who are just afraid of dealing with this issue," he said. "They don't want to get too far out in front."

The Senator said that Clinton, to his credit, has thus far kept Social Security in a nonpartisan zone. But the debate is young. "It's not going to come as any shock that there aren't very many people on the Hill who take his word for very much anymore, so what he says really doesn't mean anything," Santorum said. "It's all a matter of what he does, and you have to be very careful about that, too." ■

Can Clinton Lead?

■ BY ALEXIS SIMENDINGER

One month ago, Republican Sen. Rick Santorum of Pennsylvania was at the White House feeling a little frustrated. The occasion was a two-day White House conference on Social Security, and the irritant was a Democratic colleague whose opinions sounded woefully predictable.

THE PRESIDENT WILL NEED TO BE EQUAL PARTS TACTICIAN AND ALCHEMIST TO PULL OFF A DEAL.

CLINTON'S DILEMMA: How does he hold Democrats together and at the same time reach his hand across to Republicans?

In the comfort of a discussion closed to the media, Santorum spoke up in front of President Clinton, other lawmakers, and White House aides. "We're in a mud pit, and we all keep sliding back down into the pit together," he said. "I don't think the solution here is that hard."

Recalling the moment this week, Santorum said, "I had this sense, seeing some members—particularly on the far left—trying to scramble away from all of us, saying, 'You know, we're really not with you.' And then the more they talk, the more they find they're just slipping right back down into the mess with us. The fact is, we're not that far apart, and the more we try to claw our way away from each other, at the end, we just keep sliding right back together."

Santorum, who is one of the Senate majority's leaders on Social Security reform and who is openly no great fan of the President, was expressing a view that was music to Clinton's ears. The President fervently wants to tear down partisan walls, soothe inbred fears, and build Social Security legislation that has a hope of passing this year with a bipartisan, centrist foundation. He will need to be equal parts tactician and alchemist to pull it off.

It does not help that the same Republican lawmakers who say he's unfit to hold his office simultaneously plead for his leadership on Social Security. Nor is it helpful that liberal Democrats who've defended Clinton through the long season of scandal and could reasonably expect ideological loyalty in return, are resistant to the Social Security reform path the President may pursue.

"Clinton has two dilemmas," said an adviser sympathetic to the President. "How does he hold Democrats together enough and, at the same time, reach his hand across to Republicans? And how does he navigate a minefield when, in a month, he knows all the mines are going to change their locations?"

The President has already shaped the debate by joining in the enthusiasm for investing Social Security assets to reap richer returns. He has not blessed either of the two most prominent choices—investment managed either by individuals or by the government—but his desire

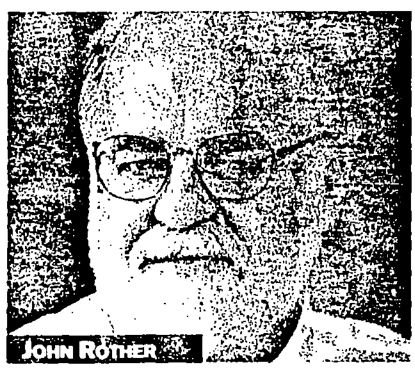
The Playmakers

By Shawn Zeller

The libertarian Cato Institute was pushing for privatization of Social Security when the mere thought was political heresy. Now that personal retirement accounts have gone mainstream, Cato aims to turn its idea into law. The think tank has formulated a proposal modeled on a privatization program in Chile. The framer of Chile's privatization plan, **José Piñera**, and Cato's director of health and welfare studies, **Michael Tanner**, have already garnered the support of some congressional conservatives, including Sens. **Rick Santorum**, R-Pa., and **Rodney D. Grams**, R-Minn., who are planning to introduce the proposal as a bill.

C. Eugene Steuerle and **Rudolph G. Penner**, Urban Institute senior fellows, are behind a bipartisan plan introduced last year by Sens. **John B. Breaux**, D-La., and **Judd Gregg**, R-N.H., and by Reps. **Jim Kolbe**, R-Ariz., and **Charles W. Stenholm**, D-Texas. Dubbed the 21st Century Retirement Act, it would reduce payroll taxes by 2 percent for workers under the age of 55, and require them to invest the money in personal savings accounts. It would also accelerate the increase in the retirement age from 65 to 67, and eventually to 70.

The AARP, the 30-million-member advocacy group for older Americans, co-sponsored last year's Clinton Administration Social Security forums with a competitor, the Concord Coalition. Both groups managed to keep their powder dry, and **John C. Rother**, the AARP's director of legislation and public policy, insists his group hasn't ruled out any policy options. That doesn't mean it would back radical change, however. The Social Security problem, Rother argues, is manageable within the program's current framework, and



JOHN EISELE

privatization is riskier than proponents acknowledge.

The wild card in the Social Security debate may be House Minority Leader **Richard A. Gephardt**, D-Mo. Many of Gephardt's most loyal supporters—liberals, blacks, and union workers—see little gain for themselves in going ahead with reform now, and oppose any plan that would create mandatory private retirement accounts. Gephardt, however, has indicated a willingness to consider voluntary accounts, while criticizing any plan that would end a government guarantee of retirement support for the elderly.

President Clinton's point man on the Social Security issue, National Economic Council Chairman **Gene B. Sperling**, is credited with bringing together the AARP and the Concord Coalition,

RICHARD A. BLOOM

which are known to be longtime rivals, as co-sponsors of policy forums last year. Also having input is the head of the Social Security Administration, **Kenneth Apfel**. But the White House will continue to undergo criticism if it stands on the sidelines and does not propose its own solution.

As chairman of the tax-writing House Ways and Means Committee, Rep. **Bill Archer**, R-Texas, will play an integral role in any effort to change the Social Security system. Archer hasn't said much about his own views on reform, claiming the Clinton Administration would simply attack them to gain political advantage. The White House, Archer insists, needs to lead. Nonetheless, Archer has placed Social Security reform at the top of his 1999 agenda, and he led a delegation of Republican lawmakers to the Clinton

Administration forum on the topic last month. One thing's for certain—Archer won't back any plan that calls for tax increases.

The one man who may be able to bridge all factions is Sen. **Daniel Patrick Moynihan**, D-N.Y. Respect for the former professor and ranking minority member on the Senate Finance Committee is so uniform among politicos that it's virtually a cliché. Last year,


RICHARD A. BLOOM

PATRICK MOYNIHAN

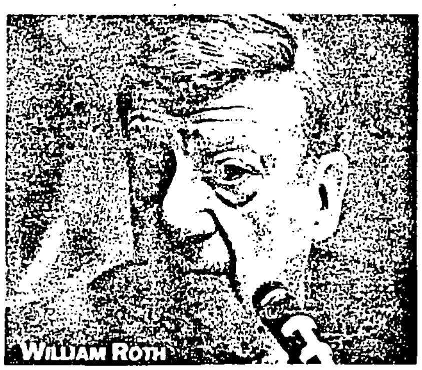
Moynihan and another respected Democratic Senator, **Robert Kerrey** of Nebraska, introduced his own rescue package. It would reduce payroll taxes by 1 percent for both employees and employers. And, if the employee agreed to create a voluntary retirement account with the extra money, the employer would have to match it. Moynihan played a key role in the 1983 Social Security rescue package, and with his own retirement scheduled for 2000, he may have legacy on his mind.

The grand old man of the safety net,


ROBERT BALL

former Social Security Administration Commissioner **Robert M. Ball**, favors incremental change. Ball, who has focused on Social Security issues for half a century and served as SSA chief under three Presidents, argues for complete preservation of the existing system, while adding the option for investment in voluntary retirement accounts. He also backs investment of at least 50 percent of the Social Security trust fund in stocks rather than in Treasury Department securities.

Senate Finance Committee Chairman **William V. Roth Jr.**, R-Del., is also hoping to bridge gaps between Republicans and Democrats using the government surplus. Under a plan introduced by Roth last year, the budget surplus would be used to set up personal retirement accounts managed by the government. House Budget Committee Chairman **John R. Kasich**, R-Ohio, introduced a similar proposal. This strategy, however, has already run up against other budget priorities, such as the military, education, and tax cuts. Even Kasich has backed away from his original proposal, arguing


RICHARD A. BLOOM

WILLIAM ROTH

now for splitting the surplus between tax cuts and retirement accounts. And neither proposal addresses how to keep funding the accounts once the surplus runs dry.

For Democrats, the opposition of labor unions to serious changes in the Social Security system could prove a stumbling block to reform this year. The AFL-CIO has joined forces with other liberal groups, including the NAACP and the National Organization for Women, to beat back any effort to privatize the system. As a social policy analyst at the AFL-CIO and a top aide to union President **John J. Sweeney**, **Gerald M. Shea** will have the ear of liberal Democrats and possibly that of Minority Leader Gephardt. As of now, the union backs the efforts of form SSA Commissioner Ball.

As chairman of the Senate Budget Committee, **Pete V. Domenici**, R-N.M., was integrally involved in negotiating with rival factions in the battle to set up retirement accounts with surplus money during last year's budget process. All along, Domenici has backed efforts to use the surplus to reform Social Security. Now he and Sen. **Phil Gramm**, R-Texas, plan to join forces to introduce as legislation the ideas laid out by Harvard University economist **Martin Feldstein**. The Feldstein plan would require workers to invest an additional 2 percent of their paychecks in retirement accounts. The cost to workers, however, would be offset by tax credits paid for with the budget surplus.

Henry J. Aaron and **Robert D. Reischauer** have cleared out a space for their own moderate proposal by aggressively blasting rival plans. A recent book by the two Brookings Institution senior fellows panned the bill proposed by Sen. Moynihan, giving it a D grade and dubbing it "the My Lai of Social Security reform." The two economists weren't much more charitable when grading the plan of Sens. Breaux and Gregg, or the much-discussed strategy outlined by Harvard economist Feldstein. Both earned C grades. Their own reform strategy, however—which would preserve the essential framework of the Social Security system, tax a greater portion of benefits, and accelerate the increase in the retirement age to 67—earned an A-.

Last, but not least, are the country's top two economic czars, whose views on Social Security reform and how it might affect the economy and federal budget will make everyone listen. Treasury Secretary **Robert E. Rubin** hasn't taken a public position on what shape reform should take, other than to say Social Security ought to be fixed before budget surpluses are devoted to anything else. Federal Reserve Board Chairman **Alan Greenspan** has expressed firm reservations about the government, as opposed to individuals, investing Social Security reserves in the stock and bond markets. ■

OWL PRESS RELEASE

666 11TH STREET, NW • WASHINGTON, DC 20001 • 202-783-6686 • FAX 202-638-2356

For further information:
Deborah Briceland-Betts or
Roberta Weiner
202/783-6686

FOR IMMEDIATE RELEASE
Wednesday, January 20

OWL CALLS STATE OF THE UNION SPEECH VICTORY FOR AMERICA'S WOMEN AND FAMILIES

OWL, the only national grassroots membership organization to work solely on issues unique to women as they age, today said President Bill Clinton's January 19 State of the Union message is "a victory for American women and their families."

"Women are the mainstay of American families," said OWL Executive Director Deborah Briceland-Betts. "We are America's caregivers--of children, aging parents, and sick spouses--and when we get old, we're the majority of the people who depend on Social Security and Medicare. The initiatives outlined in President Clinton's speech promise the women we depend on today that they won't have to live out their retirement years in poverty or forego medical care because they can't afford to pay tomorrow."

Noting that one in four women today have no other income than their Social Security check, Briceland-Betts praised the President's plan to strengthen Social Security for at least the next fifty years and his recognition of the high poverty in which too many elderly women now spend their final years.

"One of the best-kept secrets in the debate over reforming the Social Security debate is that 74 percent of the elderly poor are our mothers and grandmothers," she said. "The President's proposal would not only address the solvency of Social Security, but also extend the life of Medicare, the nation's health insurance program for the elderly by an additional two decades."

Briceland-Betts said that OWL was particularly pleased with the attention to Medicare. She said that women depend on Medicare more than men. "Very simply, women live longer than men. As we get older--and frailer--we have more chronic conditions. The President says he is committed to ensuring that we will be able to afford the health care that we need." She also praised the speech for proposing a new prescription drug benefit, a significant hole in current Medicare coverage.

-more-

Briceland-Betts called attention to the President's long-term care initiative as a first-step in building a program that can truly serve future generations of aging Americans. "This is a real--and frightening--issue for American families," she said. "More than 70 percent of long-term care patients are women, and many of them are cared for by their daughters and daughters-in-law. With the President's proposal, we now begin to explore ways to support the selfless sacrifice of families with ill and disabled loved ones, and support the enormous expense of long-term care so today's children will not be saddled with impossible costs when the baby boom generation retires."

"When you touch one member of a family, you touch all of us," said Briceland Betts. "OWL has worked for two decades to bring attention to these fundamental issues for women, and we applaud the President for making them an important part of his agenda for the new millennium."

# # # # # #

CHAIRMAN GREENSPAN SHOWS SUPPORT FOR PRESIDENT CLINTON'S SOCIAL SECURITY PLAN

While Alan Greenspan did not endorse one aspect of President Clinton's Social Security Plan, he expressed support for most of the President's overall framework for reforming Social Security. The following are excerpts from major papers on Greenspan and his support for the President's overall plan:

Wall Street Journal **1/21/99**

- "**Federal Reserve Chairman Alan Greenspan disappointed Republicans and pleased Democrats by praising Mr. Clinton's proposal** 'to effectively keep a very large part of the unified budget surplus in place by putting most of the money in Social Security and Medicare Trust Fund. . . . My first preference is to allow the surpluses to run for awhile and unwind a good deal of the debt that we have accumulated over the years.'"

- "**For once, the Fed Chairman was explicit. He endorsed President Clinton's proposal** to let federal budget surpluses accumulate by locking up most of the money in the Social Security and Medicare trust funds."

- "**To his fellow Republicans' disappointment, Mr. Greenspan described tax cuts as a second choice to the Clinton plan.** He said Congress should use the surplus -- which President Clinton projects to total $4.5 trillion in the next 15 years -- for tax cuts only if Congress doesn't have the discipline to allow the surpluses to continue."

New York Times **1/21/99**

- "In testimony before the House Ways and Means Committee today, Mr. Greenspan, whose views on the economic matters carry considerable weight in Congress and on Wall Street, said **he supported the President's notion** of putting almost two-thirds of the Federal Budget surpluses over the next 15 years into Social Security."

USA Today **1/21/99**

- "Federal Reserve Chairman Alan **Greenspan supported President Clinton's broad strategy** Wednesday of using budget surpluses to save Social Security . . . . Greenspan said he **backed the overall strategy** because it would effectively mean that the government was using its surpluses to pay down some of its $5.6 trillion on outstanding debt. That would be **good for the economy** because it would help lower interest rates and free up money for companies."

Washington Post **1/21/99**

- "**Greenspan offered enthusiastic praise for Clinton's idea** of devoting much of the projected federal budget surpluses to Social Security . . . ."

Greenspan on Social Security
January 21, 1999

Q: **What's your response to Chairman Greenspan's criticism of your plan to invest part of the Social Security Trust Fund in the market?**

A: **On the Big Issue --What to do with the Surplus -- the Chairman Endorsed the President's Approach.** Chairman Greenspan made clear yesterday that the best way to prepare for America's future is to dedicate surpluses to paying down the debt rather than new tax cuts or new spending. We are pleased that he supports the centerpiece of the President's proposal to do that by setting aside most of the surplus for Social Security. As the Wall Street Journal reported today, Republicans were disappointed that their priority was clearly a "second choice" for the Fed chairman.

We Want Private Sector to Make Investments -- not the Government. We respect Chairman Greenspan's long-standing views on the challenges of insulating equity investments from political considerations. As we seek higher returns, we are committed to working with Congress to ensure that any Social Security investments are made by independent private-sector managers without political interference.

2' 219

ACTION PLAN FOR WHITE HOUSE SOCIAL SECURITY/MEDICARE PROCESS

January 26, 1999

HIGHLIGHTS OF ACTION PLAN FROM LAST WEEK (JANUARY 18)

- Briefings with key constituencies:
  - ✔ Mathews/Luray conference call with women's groups on January 19
  - ✔ Apfel conference call with key seniors groups on January 19
  - ✔ Individual calls by Sperling to Rother, other senior group leaders on January 19
  - ✔ Podesta, Sperling, others spoke with labor leaders on January 19
  - ✔ OPL sent NEC five-pager on Social Security plan to hundreds of groups on January 19-20
  - ✔ FLOTUS/Sperling meeting with women's groups on January 21

- Briefings for key experts/economists:
  - ✔ Sperling briefed Greenstein, Ball, Greenspan, Aaron, and numerous other experts and economists on January 19-21
  - ✔ Treasury, SSA, and other officials conducted outreach to experts and economists

- Briefings for the Hill:
  - ✔ Conference call on Tuesday morning, January 19 with Ways & Means Democrats (Stein, Summers, Sperling, Lew)
  - ✔ Conference call on Tuesday morning, January 19 with Finance Democrats (Stein, Summers, Sperling, Lew)
  - ✔ Briefing for Ways & Means Democratic Caucus on January 19
  - ✔ Briefing for Democratic House Leadership and Steering Committee members on January 19
  - ✔ Individual calls to members from economic principals over the week

- Briefings for Press:
  - ✔ Innumerable briefings of pundits, columnists, correspondents, and others in Roosevelt Room and via telephone by Sperling, Lew, others

ACTION PLAN FOR WEEKS OF JANUARY 25 AND FEBRUARY 1

1. OVERALL SOCIAL SECURITY/MEDICARE GROUP

- Meeting of Social Security/Medicare organization group (four sub-working groups) on Tuesday, January 26

2. <u>SUBSTANTIVE/POLICY GROUP</u>

- <u>Paper/materials</u>. Paper to be cleared on Monday-Tuesday, January 25-26 for the Hill:
  - one-page overall
  - three-pager on why plan is fiscally disciplined, not double-counting
  - Clinton tax cuts vs. Republican tax cuts
  - defense of Clinton's equity investments
  - Q&A

- <u>Policy development to be worked on early this week</u>:
  - Preparing for potential legislation
  - Conference call on Sunday, January 24 with Minarik, Wilcox, Elmendorf, and Goss
  - Development of principles for equity investments
    - -- draft circulating
    - -- to be completed on Monday, January 25
  - Development of USA accounts
    - -- internal Treasury meeting on Monday, January 25
    - -- NEC principals meeting by Wednesday

3. <u>LEGISLATIVE GROUP</u>

- <u>Internal meeting</u>. Hold meeting of legislative sub-group on Monday, January 25

- <u>Paper/materials to the Hill</u>. Distribute paper to the Democratic leadership and the Democratic staffs of the two Budget committees, Ways & Means, and Finance via the policy committees by early the week of January 25
  - one-page overall
  - three-pager on why plan is fiscally disciplined, not double-counting
  - Clinton tax cuts vs. Republican tax cuts
  - defense of Clinton's equity investments

- <u>Week of January 25: Key Hill briefings and meetings</u>
  - ***Wednesday:*** Briefing for Senate Finance Democratic staff with Sperling, Summers, Apfel, Mathews (will include some House and Senate Democratic leadership staff)
  - ***Wednesday/Thursday:*** Briefing for Ways & Means Democratic staff with Sperling, Summers, Apfel, Mathews (will include some House and Senate Democratic leadership staff)
  - ***Wednesday/Thursday:*** Briefing for House and Senate Democratic Budget staff with Sperling, Apfel, Mathews, Wilcox

- ***Thursday:*** Briefing for Blue Dog staff with NEC, SSA, Treasury, OMB
- ***Friday:*** Briefing with Social Security Task Force Democratic members with Sperling, Apfel, and Stein
- ***Friday:*** Briefing for Ways & Means Republican staff with Sperling, Stein, Apfel, and Wilcox
- ***Friday:*** Briefing for Finance Republican staff with Sperling, Stein, Apfel

- Week of February 1: Key Hill briefings and meetings (members return this week)
  - Check on desirability of briefing Democratic caucus on Wednesday, February 3
  - Explore possibility of briefing staff of New Democrats and freshmen this week
  - Meeting with Grassley
  - Set up briefings for members of committees before Administration witnesses come up to testify
    - -- Lew testifies before Budget committees early the week of February 1
    - -- Rubin testifies before Ways & Means on February 4
    - -- Others?
  - Need to attend House Democratic annual issues conference at Wintergreen beginning the weekend of February 6
    - -- possibly Rubin (their request) at plenary session on Monday, February 8
    - -- possibly brief discussion breakout groups on Monday, February 8 (Sperling, Lew, Apfel, Summers)
  - Determine desirability of briefing Republican members for week of February 1
    - -- several individual members may be interested, including Rob Portman, Clay Shaw, Mark Sanford, Jim Kolbe
  - Need to offer one-on-one briefing for Bob Matsui

4. OUTREACH GROUP

- Internal meetings:
  - Sub-group met on Friday, January 22 to work on briefings schedule, validators, and possible event with the President
  - Sub-group meeting on Monday, January 25 to set up briefings for key groups and to work on validators
    - -- Briefings already scheduled listed below
    - -- Complete new list of validators by this week and continue compiling list of quotes from supportive constituent leaders

- Briefings over next two weeks with key constituencies:
  - Sperling to brief business groups on Tuesday, January 26
  - Sperling to brief disability groups on Wednesday, January 27
  - Sperling, others briefing women's groups during the week of February 1
  - Sperling meeting with BRT CEOs on February 10 at their quarterly policy forum

at the Willard Hotel to discuss Social Security

- Follow up briefing with seniors groups early the week of February 1

- Paper/materials to groups. Provide paper on Social Security and Medicare from substantive/policy group to key supportive constituencies by Wednesday, January 27

- Social Security and Medicare Event. Prepare for POTUS/VPOTUS event on Wednesday, January 27
  - Compile invite list from OPL groups

5. COMMUNICATIONS/PRESS GROUP

- Internal meeting. The sub-group will meet on Monday/Tuesday, January 25-26

- Op-eds/paper
  - Working on op-eds starting January 25 to provide to Cabinet officers, validators for publication in major papers and regional papers over next two weeks
    - -- Need to draft op-eds with assistance of policy sub-group
  - Draft paper with complete compilation of editorial praise of the Social Security/Medicare plan by Wednesday/Thursday, January 27-28

- Outreach to Henry Aaron, Bob Reischauer, Bob Greenstein on Sunday-Monday (January 24-25) for validation of both equity investments and debt reduction
  - For validation on Medicare, need to reach out to Marilyn Moon, Judy Feder, Karen Davis (as well as those above)

- Outreach to Wall Street on equity investments
  - Summers making calls on January 25-26

- Additional validators being contacted, including Alice Rivlin, Frank Raines, Rudy Penner
  - Lew making calls

- Develop event ideas for principals and Cabinet for February 1-21

MEETING ON SOCIAL SECURITY AND STATE OF THE UNION

Map Room
January 12, 1999
2:30pm

AGENDA

I. STRATEGIC OVERVIEW AND CRITERIA FOR DECISIONS

II. ON-BUDGET VS. OFF-BUDGET DECISION

III. PROPOSED STATE OF THE UNION PACKAGE

IV. POSSIBLE WIDOW POVERTY INITIATIVES

V. UNIVERSAL PENSION OPTION

VI. POST- STATE OF THE UNION STRATEGY

CRITERIA FOR DECISIONS

1. Will it help maintain support of Democrats?

2. Will it reach out a hand to Republicans and show them that we are serious about bipartisanship?

3. Will the public see the President as showing bipartisan leadership?

4. Will the elite media and Concord Coalition types feel that the proposal demonstrates fiscal courage?

5. Will the proposal lead the process to get polarized, or will it help move things forward?

6. Considering where we would like to end up, does the proposal represent an opening bid that is likely to lead there?

1. *Ways in Which the New Projections Make Taking Social Security Off Budget More Appealing*

- **Under the New Numbers, it is Possible to Take Social Security Off-budget and Still Have a Balanced Budget in FY 2000 or 2001** (However, our current budget proposals assume $25 to $30 billion annually in additional NDD and defense spending that is not included in the numbers shown above).

- **New Numbers May Create a Stampede in Favor of Taking Social Security Off-budget.** *If CBO projections are similar to OMB projections*, the numbers could lead to overwhelming support for taking Social Security off budget.

  -- If there is going to be a stampede in that direction, we might want to get in front of it, and take credit for it.

  -- Democrats who simply want to define Social Security as an issue for the 2000 elections may lead the stampede in order to rule out the possibility of a major Republican tax cut or of individual accounts.

- **Republicans May Themselves Focus on the On-budget Surplus to Strengthen Their Case for a Tax Cut.** Republicans are likely to call for using all $168 billion in five-year on-budget surpluses for a tax cut, or to use a portion for military readiness and the rest for a tax cut.

  -- We could seek to block a tax cut by arguing that Medicare deserves any additional funds that are available. However, this case is weakened by the fact that we will be spending two-thirds to three-fourths of the surpluses on NDD and defense.

2. *Downsides of Taking Social Security off Budget*

- **A Phase-in is Still Needed to Meet NDD and Defense Objectives, but May Be More Difficult Politically Since the Spending Will Take Us from an On-budget Surplus to an On-budget Deficit in FY 2000 and FY 2001.**

- **New NDD Spending Will Be a Large Share of the On-budget Surpluses**. If we retain the unified budget concept, only 7 percent of the five-year unified budget surpluses are dedicated to NDD spending (and less that six percent over 15 years), and this is exceeded by the 10 percent allocated to tax cuts in the form of universal pension contributions. With Social Security taken off-budget, nearly half of the five-year surpluses will be used for NDD spending, and there will be no tax cuts to provide Republicans with a win.

- **<u>It Will Be Difficult to Extend Medicare Solvency Through 2020.</u>** Because the smaller on-budget surpluses would need to be split among discretionary spending, Social Security, universal pensions, and Medicare, it will be difficult to do something major for Medicare in the near term. However, if we were willing to do less on universal pensions, it might be possible to extend the life of the Medicare trust fund by a few years.

- **<u>Difficult to Fund Universal Pensions.</u>** Reduces chance of an add-on pension -- a component of the package that could be critical for achieving bipartisan reform. Without sufficient funds for an add-on in the short-term, we would either need to invest all 12.4 collectively (unacceptable to Republicans), do a carve out plan (unacceptable to Democrats), or wait until 2005 or so to start the universal pensions (may be politically unattractive).

DRAFT SOTU PACKAGE:
MAINTAIN UNIFIED BUDGET CONCEPT
STRENGTHEN SOCIAL SECURITY BY TRANSFERRING 50 PERCENT OF THE SURPLUS TO THE TRUST FUND

PART #1: STRENGTHEN SOCIAL SECURITY

- **Transfer 50 percent of the UB surplus for the next 15 years to the Social Security trust fund.**
  - Total transfer would be roughly 1.7 trillion dollars over 15 years.
  - Announce that the entire 12.4 percent payroll tax should continue to be used to fund the traditional Social Security benefit, and that the 50 percent of the surplus should also be used to strengthen the traditional benefit -- a benefit that you can count on no matter what happens to the economy or to financial markets.

- **Announce that we believe in achieving higher returns for Social Security.**
  - Even without any equity investments, this option achieves solvency through 2044.
  - If a satisfactory mechanism can be found to invest the trust fund's assets with private managers, this option could extend the trust fund's life even further.
    - -- With 15 percent of TF in stocks, the exhaustion date would be 2050 (and the trust fund would own 3-5 percent of the market).
    - -- With 25 percent of the TF in stocks, the exhaustion date would be 2053 (and the trust fund would own 6-8 percent of the market).
    - -- With 33 percent of the TF in stocks, the exhaustion date would be 2056 (and the trust fund would own 8-11 percent of the market).

      50% 2068
  - Social Security should invest its funds with the best private managers just as private, state, and local pension plans do. Need to work in a bipartisan way to protect the funds from political interference.
    - -- Independent Fed-like board hires private investment managers: none of them would manage assets worth more than 1 or 2 percent of the stock market.
    - -- All investments should be in passive index funds commingled with investments of private individuals.
    - -- Ask for bipartisan process to ensure independence and non politicization.

- **<u>Will lead a bipartisan process to make tough choices to extend Social Security further</u>**
  - Surplus transfers and higher returns are not enough. We also need to make tough choices to bring Social Security's obligations and revenues more closely in line in the long run, so as to achieve 75 year actuarial balance.
  - To the extent that these reforms produce additional budget surpluses, the extra funds should be allocated to strengthening Medicare.

- **<u>Proposals to reduce elderly poverty</u>**
  - The poverty rate among Americans age 65 and over has fallen from 35.2 percent in 1959 to 10.5 percent today. However, poverty rates among unmarried (widowed, divorced, never married) women remain high.

Poverty Rates of the Population 65 and Over
By Sex and Marital Status, 1997

	Married	Divorced	Widowed	Never Married	All
Men	4.6%	15.0%	11.4%	22.8%	7.0%
Women	4.6%	22.2%	18.0%	20.0%	13.1%

  - Declines in Social Security benefits at widowhood are an important factor in explaining why the poverty rate is higher for widows than for married women.
  - Proposal: enhanced widow benefit. Currently, a widow receives Social Security benefits that are between 50 percent and 67 percent of the benefit she and her husband received when they were both alive. Under this proposal, widows (and widowers) will have the option of receiving 75 percent of the benefit the married couple received. The new benefit is capped at the average retiree benefit, so as to target the additional resources at low-income widows.
  - We are working on additional proposals to target elderly poverty, and will announce them at a later date.

PART #2: INVEST 10 PERCENT OF SURPLUS TO ESTABLISH UNIVERSAL PENSIONS

- Announce that *in addition* to fixing Social Security, we should also strengthen the second and third legs of the retirement security system by ensuring that every working household can have a new or enhanced savings account to meet the additional costs of retirement and long-term care.

PART #3: USE 18 PERCENT OF SURPLUS TO EXTEND MEDICARE TO 2020

- Dedicate 18 percent of the surplus to Medicare which would allow for a more viable long term Medicare solution or, even without reform, could extend the life of the trust fund to 2020.

PART #4: RESERVE 12 PERCENT OF SURPLUS FOR MILITARY READINESS AND PRESSING NATIONAL DOMESTIC PRIORITIES

- Detailed blue print for military readiness over the next 6 years.
- Set aside block for education and research.

PART #5: RESERVE 10 PERCENT OF SURPLUS FOR RAINY DAY FUND AND DEBT REDUCTION

Presentation of Plan and Release of Further Details

- Release of plan would be presented as putting forth a plan to generate discussion and obtain feedback from all quarters of America including from both Democratic and Republican members of Congress, rather than as locking in and defending every element of the plan. We would take the posture of wanting to hear different ideas and suggestions.

- Universal pension proposal cannot possibly be fully refined within the next 10 days. So either we should present an outline of the plan and ask people to work with us on the details, or we should announce that we will give further details over the next few weeks.

Key Question: Does it make sense to announce a specific data or time period in which the President would put out a more specific Social Security reform plan?

Advantage: Makes clear the seriousness of continuing Presidential leadership in getting Social Security reform done, and forces Democrats to work hard with us.

Disadvantage: Locks us into a future date without knowing what the political situation will be at that point, and may be unnecessary because the amount of detail we release in the State of the Union may be above people's expectations.

UNIVERSAL PENSIONS/ RETIREMENT SECURITY ACCOUNTS

PLAN DESIGN FEATURES

Summary Description	• Automatic contributions for low- and moderate-income workers designated on income tax returns. • Highly progressive incentive to save. • Individuals can direct a portion of tax refund to their RSA.
Eligibility	Workers between age 21 and 64 with compensation over $5,000 are eligible if not covered by employer pensions *or* with income below limits for deductible IRAs ($80,000 for couples in 2007).
Automatic Contributions	Low- and moderate- income workers receive automatic flat-dollar contribution (e.g., $100) from government deposited directly in their accounts.
Matching Contributions	Workers would receive matching contributions. — The match rate would be very high (e.g., $1 for every dollar contributed) for low-income workers, and decline to $0.40 per dollar contributed for higher income workers. — More than 75 percent of families would receive a higher subsidy than under deductible IRA. — Higher match rates could be made available to younger workers (under age 40?) to encourage them to start retirement planning early. — The match would be in lieu of tax deductibility.
Contribution Limits	• Annual individual plus government contribution to RSA would be limited to $1,000. • Total contributions to RSA and IRA accounts would be limited to $2,000.
Investment Choices	Could be modeled after IRA, or government TSP plan, or both. A default option, similar to TSP G-fund, would exist for those who do not set up their own account.
Withdrawal Rules	Withdrawals would be barred until retirement age (e.g., 65). Withdrawals would be fully taxable.

OWL

THE VOICE OF MIDLIFE AND OLDER WOMEN

OWL is the only national grassroots membership organization to focus solely on issues unique to women as they age. OWL believes in keeping Social Security solvent. We welcome this discussion of a full range of options to strengthen Social Security because it is the foundation of women's retirement security.

Any effort to strengthen Social Security must be analyzed for its impact on women. If Social Security works well for women, providing them with adequate and guaranteed benefits, it will work for everybody. Because of their work and life patterns, women rely on Social Security for a greater share of their retirement income than men. Until the structural barriers that prohibit women from achieving retirement income parity with men are removed, we must maintain and strengthen the core of most women's retirement income, Social Security.

Women have a unique stake in this debate:

- **At age 65, women comprise 60 percent of all Social Security beneficiaries, but by age 85, they are 72 percent of all recipients.** The fastest growing cohort of population is women over the age of 85.

- **Women earn, on average, only 74 percent of what men do.** That means, for an average-waged job, they have $250,000 less in lifetime earnings at retirement than their male counterparts. They are almost twice as likely to be living in poverty as older men. Social Security represents 90 percent of income for 27 percent of older women; for 20 percent Social Security is their sole source of income.

- **The average woman spends a median 11.5 years out of the workforce, usually caregiving for children, elderly family members, or ailing spouses.** Those are years she is not paying in to Social Security, vesting in a pension, or saving in any other way for her retirement. Women are being punished in retirement for taking responsibility for their families during their prime earning years. The flexible work that allows women to be caregivers is usually low-waged, with few benefits, and because they stay in jobs an average of 3.5 years, it is difficult for them to vest in pensions, as most plans vest only after five years. Only 14 percent of women over 65 receive any income from pensions.

- **Women live an average of six years longer than men.** Life expectancy at age 65 is currently 19.2 years for women compared to 15.6 years for men. Women have smaller retirement incomes which must last for a longer period of time. Women are three times more likely to be widowed than men. Four out of five women in the 85 plus age group are widowed. As widows women are five times more likely to be poor than women who are in couple.

666 11TH STREET, NW, SUITE 700 • WASHINGTON, DC 20001 • 202-783-6686 • FAX 202-638-2356

OWL's principles for assessing any proposed Social Security reform to insure that it will work for women are:

1. **Social Security must remain an earned right.** Social Security is an integral component of the social insurance compact that America has made with its citizens, and must always provide equitable coverage for those who have paid for it.

2. **Social Security should be an equitable program.** Women, people with disabilities, racial and ethnic minorities, low and moderate income working people, and families must all be treated in way that will provide fair and equal outcomes today and in the future.

3. **Social Security should be genuinely gender-neutral in its outcomes.** The specific inequities faced by women, caused by their traditional employment histories and life patterns, must be specifically addressed so that women of future generations will, when they retire, receive all the benefits to which they are entitled.

4. **Social Security should provide adequacy-maintaining benefit levels for all recipients.** Any proposed benefit cuts implemented in efforts to maintain the program's solvency would disproportionately harm women and minorities; temporary, seasonal and part time workers; and the chronically under- and unemployed.

5. **All existing and new revenue sources must be explored before any changes in Social Security's structure are undertaken to assure its future solvency.** Modification of existing program fundamentals, such as the calculations of cost-of-living increases through the Consumer Price Index, changes in the retirement age, and raising the floor for the taxation of benefits; as well as ideas such as income caps, earnings sharing, taxation of unearned income, shifts in the allocation of spousal and survivor benefits, and the use of general revenues, must be carefully analyzed for their consequences for women, and their distributional impact generally, before any radical changes that could destroy the foundation of the program are proposed.

6. **Social Security must keep Americans secure. No changes should affect current recipients.** There should be no ex post facto effects of legislation on current recipients.

7. **Major changes in Social Security must not be made in isolation.** Any changes in benefits and/or revenues must be considered in the context of projected changes in Medicare, Medicaid, private retirement benefits and other aspects of the government's social insurance programs that have a profound impact on women's lives.

8. **Information on the impact of Social Security reform must be provided to the public by the Social Security Administration. Adequate funding should be provided for comprehensive public education about Social Security and any changes being proposed.** The distributional and other effects of structural reform and other proposed policy options for Social Security and other programs administered by the Social Security Administration must be analyzed and made publicly available.

INSTITUTE FOR WOMEN'S POLICY RESEARCH
1400 20th Street, NW, Suite 104
Washington, DC 20036

CELEBRATING OUR TENTH ANNIVERSARY

MAKING SOCIAL SECURITY WORK FOR WOMEN

Heidi Hartmann, Economist, Ph.D.
President and Director, Institute for Women's Policy Research, and
Chair, Working Group on Social Security
National Council of Women's Organizations

Social Security is a women's issue. Sixty percent of Social Security recipients are women. Women are not a side issue in the debate over how best to finance the current system and whether to replace it partially or totally with a system of indivualized private accounts. Women are central to the debate. Women's views on financing and benefits are critical to the President's and Congress's ability to pass legislation changing Social Security in 1999 or any other year.

Why Individual Private Accounts Won't Work for Women

Women are extremely skeptical that individual private accounts will work for them to provide security in retirement. Women have lower earnings and live longer than men on average; therefore they have to stretch a smaller income over more years. They save less and have much less access to employment pensions. The security of Social Security as it's presently configured--the life-time guaranteed benefits, the higher returns for lower earning workers, the cost of living adjustments, and the spousal benefits (including benefits for widows and divorced women)--is critical to women. None of the privatization plans put forward provide all these assurances to women.

Moreover any transition to a system of pre-paid retirement benefits (saving while working to pay for retirement later) while the current pay-as-you-go system is still in place (today's workers pay for today's retirees' benefits), ***requires the transition generations to pay for two systems at once***. This either requires more taxes or other sources of revenue to support both plans or requires that benefits be reduced for the existing plan. This double payment will be particularly disadvantageous to women, since they earn less and have less with which to make the payments. The benefit cuts will affect women disproportionately as well, since they are more dependent on Social Security benefits than are men and since more women than men are in or near poverty even with the current benefit levels.

"Carving out" a portion of the payroll tax to create a parallel structure of private individual savings accounts alongside the current insurance-based system is completely unnecessary since there are already many vehicles available for saving and since it can't be done without great sacrifice on the part of many. If what is desired is to achieve a higher return on part of the payroll taxes being collected, that can be done through investing part of the Social Security trust fund in equities; collective investment by the government is also much more cost effective administratively than administering millions of private accounts, many of them very small.

Tel: (202) 785-5100 • Fax: (202) 833-4362 • Web: http://www.iwpr.org

Δs to make system better for women (aside from solvency issues)

Both insurance-based systems and savings-based systems are valid forms of facing risk and financing retirement. Most families use both insurance and savings to protect against risks and provide for "rainy days." Most do so now in planning for retirement, and there is no reason to think that our present societal balance between insurance and savings is wrong.

How to Reform Social Security to Better Meet Women's Needs

Despite the many protections in Social Security that meet women's needs, there are still ways in which the system's rules, which are gender-neutral on their face, disadvantage women:

- using 35 years of earnings to calculate benefits, when far fewer women than men have that many years of paid work--proposals to increase the number of years of earnings used will disadvantage women further;

- not providing earnings credits for years taken away from paid work to provide family care;

- inequities between one- and two-earner couples such that, for couples with the same total pre-retirement income, those who shared the responsibility for earning more equitably have lower retirement benefits from Social Security than more traditional families in which the husband worked for pay substantially more than the wife;

- a drop of between 33 percent and 50 percent in the surviving spouse's Social Security benefits relative to the couple's benefits when both were alive, even though research shows the surviving spouse needs all but 20 percent of the couple's previous income to maintain the same standard of living; the surviving spouse is most typically a woman and the drop in benefits is largest when she worked enough to contribute substantially to the family income.

- the application of the "earnings test" (which requires benefit reductions when retirees earn more than the allowed amount) indiscriminately, regardless of how much prior work history the retiree has; some women who began work late may wish to keep working as long as they can to increase their future Social Security benefits;

- the application of the "pension offset" rule indiscriminately, regardless of the size of the government pension and Social Security payments received; many female retired civil servants have small government pensions and small Social Security payments, yet Social Security payments are reduced accordingly. This gender-neutral rule affects women more adversely than men because women's benefits are likely to be much smaller because of life-time low earnings; the loss of even these small benefits hurts them disproportionately. Also private pensions are not required to be offset against Social Security; men are more likely to hold private pensions than are women.

Few reform proposals on the table address any of these issues that affect the size of the benefits women receive. Improving women's benefits is critical to reducing poverty among elderly women. Women over 65 are nearly twice as likely to be poor as men over 65 (13 percent vs. 7 percent), even though without Social Security women's poverty rate would be exceptionally high, 52 percent. Social Security has worked well for women, but it could work even better.

Coalition of Labor Union Women

1126 16th Street, NW • Washington, D.C. 20036 • (202) 466-4610 • Fax (202) 776-0537

Women's retirement security depends on Social Security. More than 20 million women were over age 65 in 1998, as compared to 14 million men. By the year 2030, it is estimated that more than 38 million women will be over age 65. However, it is not only these statistics that prove Social Security is a necessity for older women; it is women's work-life experiences that translate into a need for more, not less, retirement security. This is based on four key facts about their lives: women live longer than men, they spend less time in the paid workforce, they are paid less when they work and they are more likely to be widowed than men.

The effect these facts have on women's economic status translate into a greater need by women for secure retirement benefits . Because women earn less than men in 99% of all occupations and are also more likely to work at temporary or contingent jobs, women's average monthly Social Security benefits are lower than men's. In 1995, the average monthly benefit for female retired workers was $621.30 compared to $810 for male retired workers. Even if pay equity went into effect in 1998, these benefits would not reflect such equalization for more than 30 years.

By the year 2010, it is estimated that 8 million women age 65 and over will live alone. These unmarried women age 65 and older rely on Social Security for three quarters of their income. Older women with low incomes also have a greater chance of becoming ill; the increasing costs of health care mean that these women will spend greater amounts of their fixed incomes on health care costs.

Concern about Social Security's ability to meet all of its promised benefits after 2032 drives the current debate. To date, much of the discussion about Social Security's future has focused on whether part or all of the present system should be eliminated in favor of privatized individual investment accounts. A central feature of individual account proposals, though often left out of the discussion, is the necessity of cutting Social Security's guaranteed benefit levels in order to pay for the individual accounts while at the same time covering the anticipated financing shortfall. Necessary cutbacks would likely include some combination of hikes in retirement ages to age 70, cuts in the automatic cost-of-living adjustment, sharp reductions in guaranteed benefit levels and

Coalition of Labor Union Women

1126 16th Street, NW • Washington, D.C. 20036 • (202) 466-4610 • Fax (202) 776-0537

increases in the number of work years need to earn full retirement benefits. Most privatization proposals contemplate some mix of guaranteed, though greatly reduced, monthly benefit, supplemented by accrued contributions and investment earnings in an individual account.

Changes must be made to soon to ensure that the system can pay full benefits far into the future. However, the key issue for women is whether those changes will weaken or strengthen the social insurance protections that provide them with a foundation of retirement security. The wrong changes, such as those surrounding privatization, will have a devastating impact on women's economic security and their ability to lead independent, comfortable lives in retirement.

Although Social Security's projected financing shortfall must be addressed, at the same time it is essential to preserve the elements that have made the existing system so important for women, and so successful at raising millions of Americans out of poverty. This is especially true for older women, who are much more likely than older men to be living below or near the poverty line. These considerations include:

- Social Security must provide guaranteed benefits that women can count on to provide them a secure foundation of retirement income.
- Social Security must protect against low lifetime earnings that result from work in low-wage jobs or intermittent attachment to the workforce (by replacing a higher percentage of benefits for low lifetime earners).
- Social Security must protect against the risk of outliving retirement income, which increases with greater life expectancy, and against the erosion of the purchasing power of income that results from inflation over time.
- Social Security must provide family-based benefits that protect spouses and widows.

Social Security must provide adequate income to allow women to cope with the increased health care and related costs of aging that presently widen the economic gap for older women.

National Organization for Women, Inc.
1000 16th Street, NW, Suite 700, Washington, DC 20036-5705 (202) 331-0066 FAX (202) 785-8576

STATEMENT OF NOW PRESIDENT PATRICIA IRELAND ON SOCIAL SECURITY REFORM

presented to the White House Conference on Social Security
December 8, 1998

The question before the president and Congress is simple: As we cross the bridge into the 21st century, are we willing to leave seniors -- especially older women -- behind?

The Republican Congress has already turned its back on the working poor by refusing to increase the minimum wage and pulled public assistance out from under the unemployed poor. Now conservatives in Congress are turning their attention not only to the elderly, but also to people with disabilities, widows and orphans. And we have no reason to believe that Social Security will survive a revamp by Livingston and Lott . . . unless our campaign to educate and mobilize the public is successful.

A chicken-little atmosphere has been created by the millions of Wall Street's dollars pushing for privatization of Social Security. (With the Social Security system taking in some $1.5 billion a day, the possible fees for managing even a fraction of that amount are quite an incentive.) But what we are facing is not a crisis; it's a scam. The threat our families face is not the imminent collapse in Social Security funding, but a possible shortfall after 2032.

Congress created the current Social Security Trust Fund (financed by the excess of current payroll taxes over current payments to beneficiaries and currently growing by more than $100 billion a year) to help the system meet the challenge of supporting baby boomers who will begin to retire in 2010. By 2032, when the Trust Funds may be drawn down to zero, the system will be purely pay-as-you-go – as it was from the 1940s through the 1960s.

And those projections are based on a cautious economic forecast. The Social Security Trustees project an annual increase in GDP, adjusted for inflation, of only 1.6% from 1997 to 2029. Growth from 1960 to 1974 averaged 4.1%; from 1975 to 1996, it averaged 2.7%. Maintaining current levels of growth would sustain Social Security through the next century without any changes in the program.

Women must be particularly wary of the remedies proposed to "fix" Social Security. After a lifetime of work, women often find ourselves in dire economic straits during what was supposed to be our golden years. Women are a majority of all Social Security recipients, and roughly three out of four of the recipients over 85 are women. Older women are twice as likely as men to live in poverty. And senior women are twice as likely to depend on Social Security as their sole support.

Privatizers want Generation X to join their attacks against Social Security, but young people should beware. Seniors aren't the only ones who benefit from Social Security. Three million children and their sole caretaker parents depend on Social Security's death and disability benefits to survive. Indeed, Social Security's safety net is wide; without it, vulnerable people of all ages will suffer.

http://www.now.org e-mail: now@now.org

Under the cover of a fantasy funding crisis and in the name of reducing government, conservatives want to revise or even eliminate Social Security in ways that will essentially eliminate the safety net. We must use this opportunity to strengthen and make Social Security more equitable, especially for women.

There are many important benefits under the current program that would not be available under privatization. For instance, 63% of women on Social Security receive benefits based on their husband's earnings (wives or widows' benefits), while only 1.2% of men receive benefits based on their wife's earnings; 37% of these women had no earnings history and 26% had a higher benefit as a wife or widow than as an earner. Under a private plan, the progressive aspects of Social Security that provide a buffer for the poor would be lost, i.e. Social Security replaces a higher proportion of low-wage workers' income when they retire.

In addition, lifelong benefits are especially important to women, who after reaching 65 have a life expectancy of 19.2 years compared to 15.6 for men. What are older women supposed to do if they exhaust their assets before death? Adjustment for increases in cost of living under Social Security is also crucial to saving older women from poverty. Without such protection even a modest 3% inflation rate cuts the purchasing power of a $100 benefit to $74 over 10 years and to $55 after 20 years. Inflation adjusted private annuities are non-existent in this country, and lifetime annuities, if available, would be prohibitively expensive.

As the economy fluctuates, so will the yields of privatized plans. Between 1965 and 1978 the market lost 45% of its value. Seniors need a steady income they can count on, not the booms and falls of the market. The impact on women would be disastrous.

While Social Security is an important program to seniors, the disabled and children who survive the death of a parent, there is a lot of room for improvement. Gender neutral language does not mean equality; women currently receive an average of only $621 in monthly benefits, while men receive $810.

We challenge Congress and the president to change the distribution of spousal and primary earner benefits to make them equitable so that homemakers are no longer penalized for choosing to work in the home instead of the paid workforce. We want the cap on social security taxes raised to remove the extra tax burden on secondary wage earners. And we want to establish earnings sharing that will allocate 50% of both spouses' combined earnings to each individual spouse, at long last allowing both spouses to have benefits in her or his own right. In other words, we want women's work – in and out of the home – to be counted and compensated.

NOW endorses the principles of the New Century Alliance for Social Security and the National Council of Women's Organization's committee on Social Security. NOW is a member organization of both coalitions.

NATIONAL WOMEN'S LAW CENTER

INDIVIDUAL ACCOUNT PROPOSALS THREATEN SOCIAL SECURITY'S ESSENTIAL PROTECTIONS FOR WOMEN AND THEIR FAMILIES

For over 60 years, Social Security has increased the economic security of all Americans -- but its guaranteed benefits and family protections are especially important to women. Women represent 60% of elderly Social Security recipients, and women depend more on Social Security benefits than do men. Social Security provides more than half of the income of elderly women living alone, and is the only source of income for 25% of such women. Elderly women still have a poverty rate that is nearly twice as high as that of elderly men (13.1% versus 7%). But without Social Security, more than half of all elderly women would be poor.

The Social Security system is not in crisis now. It can pay benefits at current levels for more than 30 years. However, by 2032 the surplus in the Trust Fund is expected to be gone, and payroll taxes will be insufficient to maintain benefits. To ensure adequate benefits for future generations of women, Social Security needs to be strengthened by reforms that close the financing gap and improve the economic security of women and their families. Unfortunately, the debate over ways to reform Social Security seems to be focusing on proposals to replace Social Security, in whole or part, with individual accounts which pose serious risks for women. For that reason, this brief statement focuses on the problems inherent in individual accounts.

- **Individual accounts, which lack Social Security's progressive benefit structure and spousal benefits, would disadvantage women who work for lower pay and take time out of the labor force to care for children and family.**

Social Security is a social insurance program designed to provide meaningful retirement benefits to all workers and their families. Social Security's benefit formula is progressive: those who have worked for low wages throughout their lifetime receive retirement benefits that are a larger percentage of their lifetime earnings. And Social Security guarantees benefits to spouses, divorced spouses, and surviving spouses: a vital protection for women who spend time out of the labor force to care for children and other family members.

Although women are working more and earning more than in the past, their lower earnings relative to men's will persist. The wage gap has narrowed, but not disappeared. And women are still more likely than men to spend time out of the labor force or working part-time. Today, 63% of women receive benefits based on their husbands' earning history, because the spousal benefit (50% of the husbands' benefit) exceeds the worker benefit based on their own earnings history. The percentage of women relying on spousal benefits is expected to decline, but will remain high well into the 21st century; in 2060, 40% of women are projected to receive benefits as spouses rather than workers.

In contrast to Social Security, benefits from individual accounts are directly related to the size of the individual's contribution and the return on investment. Protections for low earners could be devised; however, they would be more politically vulnerable than Social Security's integrated, progressive, social insurance approach. And it is unclear in several of the proposals for individual accounts whether protections for spouses, divorced spouses, and surviving spouses would be required -- and if so, how substantial they would be. About 20% of elderly widowed and divorced women are currently poor; they cannot afford a loss of benefits.

- **Protection equal to Social Security's guaranteed, inflation-protected, lifetime retirement benefits would be difficult, if not impossible, for women to secure through individual accounts.**

Social Security provides workers and their surviving spouses with benefits that are guaranteed for life and adjusted for inflation. These protections are especially important to women. Women live longer than men; over 70% of Americans age 85 and older are women. Women are thus at greater risk of outliving their savings, and of seeing other sources of income decline in value due to inflation. And women generally have lower savings than men, and are less likely to have pension income.

Individual savings and investments are an important supplement to Social Security. But to the extent individual accounts substitute for guaranteed Social Security benefits, they put women's economic security at risk. To minimize the risk of losing their investments, women may choose to invest their smaller individual accounts conservatively; studies indicate that women currently invest more conservatively than men. But women then run the risk that their assets will not grow sufficiently to last through their lifetime, or even keep up with inflation.

Women will be especially hard pressed to obtain through the market the lifetime protection that Social Security provides. Lifetime annuities can be purchased. But converting to to an annuity-- which is done all at once -- makes a woman's lifetime retirement benefits extremely sensitive to the state of the stock market at the time of the conversion. In addition, the costs of converting savings to an annuity are high. Economist Henry Aaron estimates that overall, 30 to 50% of the savings in an IRA or 401(k) individual account converted to an annuity are lost to administrative and management fees and the cost of conversion. Few private annuities are indexed for inflation. And most private annuities -- unlike Social Security -- base monthly payments on gender, providing women with lower lifetime benefits for the same investment.

- **Replacing Social Security with private accounts jeopardizes disability and survivors' benefits for workers and their families.**

Social Security is not just a retirement program. It provides benefits for disabled workers, 40% of whom are women. And Social Security provides for the families of workers who become disabled or die. Nearly 4 million children receive Social Security survivors or disability benefits -- and 98% of the parents who receive benefits for caring for them are women. Individual accounts are designed to provide for retirement only. The savings in individual accounts will not protect families that must cope with a wage earner's disability or early death.

WISER[SM]

Women's Institute for a Secure Retirement

Social Security has been the nation's single most successful social program, helping millions of men and women to escape poverty in old age and reducing the financial burdens that their children and grandchildren would otherwise have to bear. But now some members of Congress say that Social Security is living on borrowed time and requires a major overhaul — rather than just a tune-up with the types of minor adjustments that have been made throughout its history. Are they right? Is it time to change Social Security by creating a nationwide system of individual accounts?

The Basics

Women are far less likely than men to have retirement income from a private pension or a savings account, so the Social Security program is crucial for women. In fact, nearly 40 percent of older women living alone depend on Social Security for almost all of their income.

Today, the present system works like a defined benefit plan — when you retire you receive a certain benefit for the rest of your life. You also receive an increase in your benefit to protect the value from declining because of inflation.

The folks who want to totally revamp the system want to change it to a defined contribution plan — when you retire you'll have a certain amount of money in your personal account — and when you reach retirement age, you can cash it out or buy an annuity that will pay you a benefit for the rest of your life — but without inflation protection.

Proceed with Caution

For all the doomsday talk, the fact is that Social Security is not going broke. The most recent report from the Trustees shows that without any change to the present law, full benefits can be paid until 2032. After that, even if no changes were made, the amount of money being paid in would still cover three-fourths of expenses. So we are not looking at bankruptcy of the system we're looking at an eventual shortfall. Changes should be made but there is no immediate crisis. The house is not burning down, it just needs repairs.
Women have a particularly important stake in making sure that any changes to Social Security are carefully considered. Here are some reasons why:

- Women earn less. What happens if you didn't earn much money during your working years? The current system favors lower earners over higher earners, because of the formula used to calculate benefits. Typically women have a record of lower earnings because they leave and re-enter the workforce to care for their families and because women earn only 74 cents for every dollar that men earn. This type of protection is lost in an individualized account system.
- Women live longer. What happens if you outlive your income? The current system pays a benefit for as long as you live. Under an individual account system the size of your benefit

1201 Pennsylvania Avenue, NW, Ste. 619 • Washington, DC 20004 • (202) 393-5452 • Fax (202) 638-1336 • wiserwomen@aol.com

depends on your investments. Because women live longer and longevity is increasing, we should be careful of changes that could make matter worse. Today, more than twenty percent of older single women live in poverty.

- Can you count on the stock market? Having a private account means that you bear all the risk of investing. But even if the stock market continues to climb, a system of private accounts will only do well on average. Because women typically earn less, many will have smaller-than-average accounts.

  And because people with less money are typically conservative investors, women are likely to earn below-average returns. Moreover, you could lose your shirt if because of the timing of your retirement you have to cash out your account or convert it to an annuity when the stock-market is not performing well. Moral: Beware of rosy scenarios based on averages.

- What if you get divorced? Under the present system, a woman who was married for 10 years or more is entitled to half of her former husband's benefit while he is alive. When he dies, she is entitled to the same widow's benefit she would have received if she had stayed married. At this stage, none of the proposals include provisions relating to divorce.

- What about life insurance? The current system provides protection for the spouse and children of a worker who dies or becomes disabled. An individual account system would give less protection by only providing what's in the account at the time of death.

While the present system can clearly be improved — for example, by increasing benefits for widows, who are four times more likely than wives to end up in poverty — but it's hard to justify a major overhaul that would reduce guaranteed benefits unless there's no other choice. And that's not the case. According to the acclaimed financial writer Jane Bryant Quinn, an individual account system would be a losing deal for most people.

Making the wiser choice

Minor changes

Here are a few of the easy fixes being suggested: investing some of Social Security's revenues in the stock market, instead of exclusively in low-yield Treasury bonds as required under present law. This could increase investment returns, just as with private accounts — but without the risks to individuals. Also if the Consumer Price Index was calculated so that adjustments for inflation were on target, much of the shortfall would be eliminated.

As with any proposal that attracts the attention of Congress, we need to look at who's pushing the idea of individual accounts and why. Social Security takes in $1.25 billion every day. Clearly the fees for managing even a fraction of that sum are staggering. But whether it would benefit the majority of working Americans is less clear.

Unfortunately, the current focus on Social Security is distracting attention from what should be a more immediate concern: improving private pension coverage. Less than half of the workforce have pensions — that's the real retirement problem that Congress and the media should be looking at.

BPW/USA
WOMEN MEAN BUSINESS

Business and Professional Women/USA

2012 Massachusetts Ave NW
Washington, DC 20036
202.293.1100
Fax: 202.861.0298

The Leading Advocate for Working Women

Business and Professional Women/USA
2012 Massachusetts Avenue, NW
Washington, DC 20036
Tel: 202/293-1100, Fax: 202/861-0298

Women Are Central to Social Security Reform Debate

Business and Professional Women/USA (BPW/USA) is the leading advocate for working women. BPW/USA represents 70,000 working women across the country in more than 2,000 local organizations nationwide.

BPW/USA's stake in Social Security reform stems from our concern about the prevalence of poverty among women in their senior years. Women live longer than men, earn less and are more likely to be dependent on Social Security for most or all of their retirement income. Thus, working women have a significant stake in the reform options currently being considered. Their voice will be crucial to building the coalition necessary to enact reform legislation.

Several factors contribute to women's vulnerability to economic insecurity in old age. A lifetime of lower wages due to the wage gap between the earnings of men and women translates into significantly less money in retirement. The U.S. Census Bureau estimates the wage gap between the earnings of men and women to be 26%. This means that women are earning on average only 74 cents for every dollar a man is paid. For African-American or Hispanic women, the wage gap is even wider.

Women remain disproportionately represented in lower-paid, female-dominated occupations. Women are much more likely to leave the workforce and three times as likely to work part-time to accommodate care-giving responsibilities. Lower earnings mean lower Social Security benefits and lower pension checks—if women are lucky enough to have pensions at all. The result is a life of poverty for far too many women in their senior years. Compounding the problem is the fact that the average woman lives seven years longer than their male counterparts.

Three out of four working women earn less than $23,000 annually. Even a disciplined saver will have trouble accumulating much in savings at that level. Thus they are more likely to be dependent on Social Security for more if not all of their retirement income.

In addition, most women don't even have a pension, regardless of its size. Women are more likely to be working in low-wage, service, part-time jobs and/or to work for small businesses—where pension coverage is the most sparse. Although about 48 percent of full-time female workers have some form of pension coverage, a majority still do not. And only 39 percent of all female—full and part-time—workers are covered.

Clearly, there has been some progress in expanding pension coverage. However, that progress has been undermined by ongoing structural barriers and by the overall shift away from defined benefit, or "basic pension" plans to do-it-yourself, defined contribution plans like 401(k)s. Again, lower wages mean that women have fewer dollars to invest for their retirement. And again, Social Security becomes even more important.

The size of a beneficiary's benefits is based on the amount of contributions made by the worker. This is fair as long as women are paid what they are worth. Any reforms that address Social Security solvency must consider the economic reality for today's working women.

BPW/USA, working in coalition with the National Council of Women's Organizations, will participate in the public dialogue on Social Security and will assess each reform proposal based on its impact on women—the majority of Social Security recipients. BPW/USA has endorsed the National Council of Women's Organization's Social Security Check List to evaluate each reform proposal.

Women's Checklist on Social Security Reform

Does each reform proposal:

_____ *Continue to help those with lower lifetime earnings, who are disproportionately women?*

_____ *Maintain full cost of living adjustments?*

_____ *Protect and strengthen benefits for wives, widows and divorced women?*

_____ *Preserve disability and survivor benefits?*

_____ *Protect the most disadvantaged workers from 'across the board' benefit cuts?*

_____ *Ensure that women's guaranteed benefits are not reduced by individual account plans that are subject to the uncertainties of the stock market?*

_____ *Address the care giving and labor force experiences of women?*

_____ *Further reduce the number of elderly women living in poverty?*

BPW/USA has had a long-standing interest in retirement security issues and Social Security reform. BPW/USA is working not only to effect change on Capitol Hill, but also to educate BPW/USA members about the importance of retirement planning and working with organizations like the Women's Institute for a Secure Retirement (WISER), to ensure a safe retirement for all Americans. In February 1999, BPW/USA is hosting a conference in Washington, DC, which will bring together several hundred working women to focus on the various Social Security reform options, particularly how they will impact women. Our goal is to empower these women to become active in the Social Security debate by encouraging them to hold Social Security forums in communities across the nation.

Business and Professional Women/USA (BPW/USA) includes 70,000 members and more than 2,000 local organizations nationwide. BPW/USA's mission is to achieve equity for all women in the workplace through advocacy, education and information.

AMERICAN
ASSOCIATION OF
UNIVERSITY
WOMEN

SOCIAL SECURITY REFORM

For more than a century, the American Association of University Women (AAUW) has promoted equity in the workplace, education, and in all aspects of women's lives. AAUW has long been committed to a Social Security program that improves the social status and economic security of the elderly. As the 106th Congress considers proposals to reform the current Social Security system, the economic well-being and security of women must be safeguarded. It is critical that the following factors be considered:

Women are more dependent on Social Security than men.

- *Women earn less than men.* For every dollar men earn, women earn 74 cents, which translates into lower Social Security benefits. In fact, women earn an average of $250,000 less per lifetime than men—considerably less to save and/or invest in retirement.

- *Women are half as likely as men to receive a pension.* Twenty percent of women versus 47 percent of men over age 65 receive pensions. Further, the average pension income for older women is $2,682 annually, compared to $5,731 for men.

- *Women do not spend as much time in the work force as men.* In 1996, 74 percent of men between the ages of 25 and 44 were employed full-time, compared to 49 percent of women in that age group. Women spend more time out of the paid work force than do men in order to raise families and take care of aging parents.

- *Women live longer than men.* A woman who is 65 years old today can expect to live to 85, while a 65 year old man can expect to live to 81. Because women live longer, they depend on Social Security for more years than do men.

Women need guaranteed benefits they can count on.

- *The poverty rate among elderly women would be much higher if they did not have Social Security benefits.* In 1997, the poverty rate among elderly women was 13.1 percent. Without Social Security benefits it would have been 52.2 percent. For elderly men, the poverty rate is much lower at seven percent. If men did not have Social Security benefits, the poverty level among them would increase to 40.7 percent, a smaller increase than for women.

1111 SIXTEENTH STREET NW, WASHINGTON, DC 20036 202/785-7700 FAX: 202/872-1425 TDD: 202/785-77
e-mail: info@mail.aauw.org http://www.aauw.org

- *Social Security benefits are the only source of income for many elderly women.* Twenty-five percent of unmarried women (widowed, divorced, separated, or never married) rely on Social Security benefits as their only source of income. It is the only source of income for 20 percent of unmarried men.

- *Older women of color are poorest in retirement.* Only 25 percent of African American and 33 percent of Hispanic women have income from savings or assets. The poverty rate is particularly high among African American women over age 65, at 28.9 percent.

Any Social Security reform must increase the stability and security of retirement income, including maintaining and protecting:

- *Full cost of living adjustments.* The current Social Security system protects against inflation, a crucial protection against the erosion of benefits. This provision is particularly important to women because they live longer, rely more on Social Security, and lack other sources of income. Pensions and personal savings accounts are rarely indexed to inflation, and retirees may outlive those assets.

- *A progressive benefit formula.* Social Security should continue to replace a larger share of low-income workers' past earnings as a protection against poverty, and beneficiaries who earned higher wages during their work life should continue to receive benefits related to their earnings history. The current benefit formula compensates women for lower lifetime earnings.

- *Spousal benefits.* Social Security's family protection provisions help women the most. Social Security provides guaranteed, inflation-protected, lifetime benefits for widows, divorced women, and the wives of retired workers. Sixty-three percent of female Social Security beneficiaries age 65 and over receive benefits based on their husbands' earning records, while only 1.2 percent of male beneficiaries receive benefits based on their wives' earning records. These benefits offset the wage disparity between women and men.

- *Disability and survivor benefits.* Social Security provides benefits to three million children and the remaining care-taking parent in the event of premature death or disability of either working parent. Spouses of disabled workers and the widows of workers who died prematurely also receive guaranteed lifetime retirement benefits. These benefits have enabled women to hold their families together under tragic circumstances.

Contacts: Nancy Zirkin, Director of Government Relations, 202/785-7720
Ellen Buchman, Field Manager, 202/785-7704

Public Policy & Government Relations Department
December 1998