

STRENGTHEN SOCIAL SECURITY

...don't cut it.

Mitt Romney Proposes Social Security “Solutions” That Are Dangerous for America’s Families

Republican presidential candidate Mitt Romney portrays himself as the man who will “save Social Security” and “keep it working for millions of Americans.”¹ However, such statements should not fool voters into believing that Romney has Social Security’s best interests in mind. While his policy proposals sound innocuous and reasonable, they would severely damage Social Security, a program that has provided economic security to America’s working families for 76 years. Romney’s comments on Social Security are substantively not so different from the more extreme remarks offered by his fellow Republican candidates. In a November 2011 policy address, Romney explicitly supported raising the retirement age for Social Security and reducing benefits for higher earners, a form of means testing.² Gov. Romney has said:

- Social Security is akin to a criminal fraud. WRONG.
- We should partially privatize Social Security by allowing workers to divert part of their Social Security contributions into individual private accounts. WRONG.
- We need to consider raising the retirement age. WRONG.
- We need to consider means testing Social Security. WRONG.
- He rejects lifting the current \$106,800 cap on wages taxed for Social Security so that everyone pays their fair share – the solution that more than two-thirds of Americans support. Again, Gov. Romney is WRONG.

Below is an analysis of Romney’s statements and writings about Social Security, together with the facts.

ROMNEY COMPARED SOCIAL SECURITY TO A CRIMINAL FRAUD

Romney: “To put it in a nutshell, the American people have been effectively defrauded out of their Social Security... Let’s look at what would happen if someone in the private sector did a similar thing. Suppose two grandparents created a trust fund, appointed a bank as trustee, and instructed the bank to invest the proceeds of the trust fund so as to provide for their grandchildren’s education. Suppose further that the bank used the proceeds for its own purposes, so that when the grandchildren turned eighteen, there was no money for them to go to college. What would happen to the bankers responsible for misusing the money? They would go to jail. But what has happened to the people responsible for the looming bankruptcy of Social Security? They keep returning to Congress every two years.” (*No Apology: The Case for American Greatness*, 2010, p. 172-3)³

The Truth: Social Security is the opposite of a fraud or a Ponzi scheme. There are several key differences between Social Security and a criminal fraud. First, there is a tremendous amount of transparency, oversight, and advance planning in the Social Security system, compared with the secrecy and deception of a fraudulent enterprise. Social Security's funds are held in trust and overseen by a Board of Trustees, including two public trustees, who employ about 40 actuaries who make detailed financial projections about the program. The Board reports to Congress annually about the program's fiscal health. Every annual report, going back to the first report in 1941, is available online. As a result, citizens and the media know exactly how the program is being administered at all times.

In addition, income from a fraud is usually not invested in anything, whereas Social Security is invested in U.S. Treasury Bonds, the safest investment on Earth. And while a criminal front suspiciously promises massive returns over a short time horizon, Social Security promises modest rates of return over decades. This makes sense, since the program is a system of universal insurance, not a wealth-maximizing vehicle as fraud schemes purport to be.

Likewise, there is the stark difference in reliability. The original Ponzi scheme lasted around 200 days. But Social Security has delivered on its promise to support Americans for 76 years, and will continue to do so if we elect politicians who support it. Social Security is a legitimate and hugely successful social program – indeed more successful and reliable than its private sector counterparts.

In fact, Social Security operates the same way as current-funded pension plans: Actuaries determine the cost and the plan sponsor – the United States government—sets the contribution rate. The surplus is invested, but unlike most private pensions, which invest in stocks and bonds, Social Security only invests in United States Treasury bonds, backed by the full faith and credit of the United States. If, in Gov. Romney's example, a bank trustee, with the knowing consent of the grandparents who set up the trust, bought bonds issued by the bank and carrying fair market interest, every penny of which was repaid with interest when the funds were needed, that would be no fraud at all. The bank would of course spend the proceeds of its bond issuance – that's why banks, the government and others issue bonds. Investors understand that.

ROMNEY THINKS THE CREATION OF PRIVATE ACCOUNTS IS A GOOD IDEA

Romney: “One thing that [President Bush] proposed, and it's a good idea, is to take some of that money, or all of that surplus money and allow people to have a personal account. So they can invest in things that have a higher rate of return than just government debt. They can invest in things like our stock market or the world's stock market...so that they can get a better return, and maybe that would make up for some of the shortfall. That's a good idea.” ([Town Hall, Manchester, New Hampshire, June 5, 2007](#))⁴

Romney: “Individual retirement accounts offer a fourth option [to repair Social Security], one that would allow today's wage earners to direct a portion of their Social Security tax to a private

account rather than go entirely to pay the benefits of current retirees, as is the case today. [...] I also like the fact the individual retirement accounts would encourage more Americans to invest in the private sector that powers our economy.” (*No Apology: The Case for American Greatness*, 2010, p. 160)⁵

The Truth: Privatizing Social Security would place all risk on the individual, subjecting benefits to the risks of the stock market. By diverting funds away from Social Security and into private accounts, the proposal undercuts the future financing of the program, effectively ending Social Security as we know it.

Private accounts substitute Social Security’s guaranteed benefits with a risky Wall Street gamble. Currently, workers’ benefits are based on pre-retirement earnings; with private accounts, benefits would depend on how lucky workers are with their investments. Retirement income should not be a gamble. Social Security’s conservative financing, together with its conservative investment strategy, as well as its ability to pool risk through the entire population, enables it to provide guaranteed, inflation-adjusted benefits for as long as a retiree or disabled person lives.

Social Security, unlike private accounts, is an insurance program, so it is better targeted to insure workers against the loss of income due to unforeseen circumstances. It provides life insurance, disability insurance, and old age annuities which Americans cannot outlive. For unlikely but devastating losses, such as premature death or severe disability, we need insurance, not savings. For unpredictable expenses – how long we will live, and thus, how many years we will need income – savings cannot replace the insurance which Social Security provides.

Benefits from private accounts are much less reliable, as they are tied to investment performance, which can fluctuate widely. For instance, IRAs and 401(k) plans lost \$2.7 trillion – 32 percent of their value – when the stock market collapsed from 2007 to 2009.⁶ And unlike Social Security benefits, income from private accounts is not guaranteed to last the lifetime of a beneficiary, nor is it protected against inflation. Studies have shown that private accounts can [produce dramatically different retirement incomes](#) depending on how the stock market is performing at the time workers reach retirement age.⁷

Moreover, private accounts severely undercut the future financing of Social Security. Because Social Security is primarily current-funded, that is, current contributions are used to pay current benefits, transferring those contributions away from Social Security into personal accounts will make Social Security’s projected shortfall in 25 years much larger. To avoid this, those who have proposed personal retirement accounts – including Romney, President George W. Bush, and Representative Paul Ryan (R-WI) – would make up for the losses through deep benefit cuts – for retirees and people with severe disabilities.

Typically proposals to create private accounts do not save enough through deep benefit cuts to pay for the steep transition costs required to maintain promised benefits for current

beneficiaries. Instead those proposals deepen the federal budget deficit. For instance, Rep. Paul Ryan's proposal to divert 2 percentage points of an individual's payroll tax contributions to private accounts would have resulted in [the transfer of \\$1.2 trillion from the rest of the budget](#) to Social Security between 2037 and 2056 to make up for funding shortfalls on top of deep benefit cuts.⁸

ROMNEY WOULD RAISE THE RETIREMENT AGE

Romney: "Alternatively, we could gradually raise the retirement age. This does have a certain logic to it... Increasing the retirement age by even one or two years would help get the system closer to sustainability." ([No Apology: The Case for American Greatness, 2010, p. 158](#))⁹

Romney: "For the next generation of retirees, we should slowly raise the retirement age." ([Remarks at Defending the American Dream Conference](#), November 4, 2011)¹⁰

The Truth: Not only do we not *need* to raise the retirement age, we should not. Social Security's projected long-term funding gap should be closed by removing the cap on wages taxed for Social Security, set at \$106,800 in 2011.

Romney does not seem to realize that raising the retirement age is bad policy. The full retirement age is currently transitioning from age 65 to 67, already a 13 percent benefit cut for persons born after 1959. Raising Social Security's full retirement age from 67 to 69 would amount to an additional [13 percent across-the-board benefit cut](#), no matter what age an eligible worker retires.¹¹ This would be especially unfair to low-income workers and minorities, who are more likely to work in [physically demanding jobs](#).¹² Raising the retirement age also discriminates against the [growing number of elderly unemployed](#), who have a [much harder time finding new work](#) after being laid off.¹³ Mitt Romney is out of touch with the vast majority of Americans who oppose raising the retirement age.

ROMNEY THINKS MEANS-TESTING SOCIAL SECURITY IS A GOOD IDEA

Romney: "Another option is to means test the benefits to some degree. And again, they did a similar thing like that in Great Britain, where instead of using the wage index to calculate the inflation rate, they used the Consumer Price Index, and that lowered the cost somewhat." ([Town Hall, Nashua, NH, August 9, 2011](#))¹⁴

Romney: "For the next generation of retirees, we should slow the growth in benefits for those with higher incomes." ([Remarks at Defending the American Dream Conference](#), November 4, 2011)¹⁵

The Truth: Means testing may sound good, but unless it hits the middle class, it would not save the program much money. More than 90 percent of all benefits go to individuals who have incomes of less than \$50,000 a year from sources other than Social Security. Only 2 percent of benefits go to [individuals with non-Social Security incomes over \\$100,000](#).¹⁶ Limiting or

eliminating benefits for any of the relatively small number of people with earnings over \$100,000 would do little to help the overall solvency of the program, but would greatly harm it.

Means testing would greatly increase Social Security's administrative costs. [Social Security's low administrative expenses—less than 1 percent of total benefits paid—would likely double](#) if the program were means tested, since potential beneficiaries would likely have to produce bank account statements, value of assets, tax returns, gifts to children, and other documentation, to show that they are below the government-approved level to receive benefits.¹⁷

Social Security is not welfare; it is earned. Means testing will greatly undermine public support for Social Security by changing it from a universal, earned insurance system to a government welfare program. The broad and bipartisan support the program currently enjoys will begin to unravel.

ROMNEY OPPOSES RAISING THE PAYROLL TAX CAP

Romney: "One option that should not be on the table is raising the payroll tax or expanding the base of income to which the tax is applied." ([Believe in America: Mitt Romney's Plan for Jobs and Economic Growth, September 2011, p. 142](#))¹⁸

Romney: When asked if he would scrap the payroll tax cap on Social Security, Romney responded, "I'm not going to raise taxes. That's my answer." ([Remarks at Iowa State Fair, August 11, 2011](#))¹⁹

The Truth: Social Security payroll tax contributions are only paid on wages up to \$106,800 in 2011, with employees and employers each contributing. [Just 6 percent of the population has wages above that cap.](#)²⁰ While the vast majority of Americans must make payroll tax contributions on all of their wages, millionaires and billionaires only do so on the first \$106,800 of their earnings in 2011.

Scrapping the cap so that all earnings are subject to the payroll tax would close Social Security's entire projected 75-year funding gap, or come very close to doing so (depending on the technical details of the proposal). For example, Social Security's Office of the Chief Actuary estimates that [eliminating the cap on earnings subject to the payroll tax](#), while maintaining the cap for calculating benefits so they do not climb higher based on the increased contributions, would close over 100 percent of the projected funding gap.²¹

[Seven out of ten \(71 percent\) voters support enacting Social Security payroll tax contributions on wages above \\$106,800](#), according to a bipartisan poll by Lake Research Partners and American Viewpoint.²²

It is time for everyone to contribute their fair share into Social Security. Ensuring that the next generation will benefit from the promise of Social Security is all about choices, such as

maintaining tax cuts and tax loopholes for the wealthy or ensuring financial security for everyone else.

When compared with his Republican colleagues, Romney appears to be more sensible and open-minded about Social Security, often speaking of the various ways to reform the program. He clearly prefers this image of himself. At a recent Republican Presidential debate, [Romney said](#):

“Our nominee has to be someone who isn't committed to abolishing Social Security, but who is committed to saving Social Security. We have always had, at the heart of our party, recognition that we want to care for those in need, and our seniors have the need of Social Security. I will make sure that we keep the program and we make it financially secure.... It is working for millions of Americans, and I'll keep it working for millions of Americans.”²³

Vague appeals like this should not distract from the essence of Romney's position, which threatens the benefits of future Social Security beneficiaries. Raising the retirement age, means testing, and private accounts would fundamentally change Social Security. They are not solutions that will promote the economic security of Americans. While different in style, Romney's plans for Social Security would be just as destructive as those of the other Republican candidates.

¹ Transcript of Republican Presidential Debate, September 7, 2011.

<http://www.nytimes.com/2011/09/08/us/politics/08republican-debate-text.html>

² Mitt Romney, Remarks at Americans for Prosperity “Defending the American Dream” Conference, November 4, 2011. <http://www.mittromney.com/blogs/mitts-view/2011/11/mitt-romney-delivers-remarks-fiscal-policy>

³ Mitt Romney, *No Apology: The Case for American Greatness*, 2010, pp. 172-173.

⁴ Town Hall, Manchester New Hampshire, June 5, 2007.

<http://video.google.com/videoplay?docid=5778702045016883195&hl=en>

⁵ Mitt Romney, *No Apology: The Case for American Greatness*, 2010, p. 160.

⁶ Economic Policy Institute calculation based on Federal Reserve Flow of Funds data, September 17, 2010, Tables L.118.c, L.213, L.225.i, prepared October 7, 2010. Unpublished.

⁷ Gary Burtless, “Social Security Privatization and Financial Market Risk,” May 2000.

http://www.diw.de/documents/publikationen/73/diw_01.c.38569.de/dp211.pdf

⁸ Paul N. Van de Water, Center on Budget and Policy Priorities, “The Ryan Budget's Radical Priorities,” July 7, 2010, p. 3. <http://www.cbpp.org/files/3-10-10bud-rev7-7-10.pdf>

⁹ Mitt Romney, *No Apology: The Case for American Greatness*, 2010, p. 158.

¹⁰ Mitt Romney, Remarks at Americans for Prosperity “Defending the American Dream” Conference, November 4, 2011. <http://www.mittromney.com/blogs/mitts-view/2011/11/mitt-romney-delivers-remarks-fiscal-policy>

¹¹ Social Security Administration, “Effect of Early or Delayed Retirement on Retirement Benefits,” 2010. http://www.ssa.gov/OACT/ProgData/ar_drc.html Each one-year increase represents a cut of 6 percent to 7 percent.

¹² Hye Jin Rho, “Hard Work? Patterns in Physically Demanding Labor Among Older Workers,” Center for Economic and Policy Research, July 2010, p. 1. <http://www.cepr.net/documents/publications/older-workers-2010-08.pdf>

¹³ For rates of early retirement by older laid-off workers: Government Accountability Office, “Raising the Retirement Ages Would Have Implications for Older Workers and SSA Disability Rolls,” November 2010, p. 25. <http://www.gao.gov/new.items/d11125.pdf> For recent increase in age discrimination claims: *Washington Post*, “Age Discrimination Claims Jump, Worrying EEOC, Worker Advocates,” July 2009. <http://www.washingtonpost.com/wp-dyn/content/article/2009/07/15/AR2009071503760.html>

¹⁴ Town Hall in Nashua, New Hampshire, August 9, 2011.

<http://www.youtube.com/watch?v=GndDkYh5Lgg&feature=related>

¹⁵ Mitt Romney, Remarks at Americans for Prosperity “Defending the American Dream” Conference, November 4, 2011. <http://www.mittromney.com/blogs/mitts-view/2011/11/mitt-romney-delivers-remarks-fiscal-policy>

¹⁶ Center on Budget and Policy Priorities, Kathy Ruffing, “Means-Testing No Answer for Social Security,” March 10, 2011. <http://www.offthechartsblog.org/means-testing-no-answer-for-social-security/> It is based on data from a report by the Center for Economic and Policy Research (CEPR), Dean Baker and Hye Jin Rho, “The Potential Savings to Social Security from Means Testing,” March 2011. <http://www.cepr.net/documents/publications/ss-2011-03.pdf> Tabulations reflect all people 62 or older in the March 2010 Current Population Survey who reported receiving Social Security in 2009. For married couples, CEPR divided income equally between spouses.

¹⁷ Estimate that administrative costs would double if means testing were adopted assumes that eligibility review costs would equal the current disability program’s costs, which requires the same extensive review as a means test. See Dean Baker and Hye Jin Rho, “The Potential Savings to Social Security from Means Testing,” Center for Economic and Policy Research, March 2011, p. 12. <http://www.cepr.net/documents/publications/ss-2011-03.pdf>

¹⁸ *Believe in America: Mitt Romney’s Plan for Jobs and Economic Growth*, p. 142. September 2011.

<http://www.mittromney.com/sites/default/files/BelieveInAmerica%E2%80%93MittRomney%E2%80%93PlanForJobsAndEconomicGrowth.pdf>

¹⁹ Remarks at Iowa State Fair, August 11, 2011.

http://www.youtube.com/watch?feature=player_embedded&v=eg1MnscddCs

²⁰ Social Security Administration (SSA), Annual Statistical Supplement, 2010 (released Feb. 2011), “Table 4.B4 – Percentage of workers with earnings below annual maximum taxable, by sex, selected years 1937-2008.” The 2011 version of the table has not yet been produced.

<http://www.ssa.gov/policy/docs/statcomps/supplement/2010/4b.html#table4.b4>

²¹ SSA, Office of the Chief Actuary, “E2.1- Beginning in 2011 make all earnings subject to the payroll tax (but retain the current-law taxable maximum for benefit calculations),” in *Provisions Affecting Payroll Tax Rates*. http://www.ssa.gov/oact/solvency/provisions/charts/chart_run205.html. This estimate is made on the basis of the 2010 Trustees Report, the most recent data available for this particular calculation.

²² Lake Research partners and American Viewpoint, “Medicare, Social Security and the Deficit: Findings from a national survey of likely 2012 voters,” September 2011, p. 3. <http://www.ncpssm.org/pdf/poll.pdf>

²³ Transcript of Republican Presidential Debate, September 7, 2011.

<http://www.nytimes.com/2011/09/08/us/politics/08republican-debate-text.html>