

Law Paper

I. Introduction

The Bill in focus of analysis is Social Security Bill S. 2774 106th Congress. The bill is entitled as “Bipartisan Social Security Reform Act of 2000.” Its official title as introduced is “A bill to amend title II of the Social Security Act to provide for individual savings accounts funded by employee and employer social security payroll deductions, to extend the solvency of the old-age, survivors, and disability insurance program, and for other purposes. (sso.org, 2005)ⁱ

The Bipartisan Social Security Reform Act of 2000 is being sponsored by Sen. Gregg Judd [NH] as it was introduced on June 22, 2000. Cosponsors are senators John B. Breaux, Chuck Grassley [IA], Robert J. Kerrey [NE], Charles S. Robb [VA], Craig Thomas [WY], and Fred Thompson [TN].

It has been introduced to the Senate Committee. It was read twice and consequently referred to the Committee on Finance.

Senator Judd Gregg and his co sponsors have the following perspectives as regards the “Bipartisan Social Security Reform Act of 2004:”

The Reform Act of 2004 has come into being based on the premise that it is imperative for the government to act on pressing public-policy problem in forms of long-term liabilities. The federal government has made promises that mostly fall under one of these programs: Social Security, Medicare, and Medicaid.

According to Sen. Gregg “Social Security and Medicare are on the verge of being overwhelmed by the largest generation in our nation’s history, the baby-boom generation, which begins retiring in 2008. The unchecked rise in healthcare costs has caused Medicaid spending to

mushroom. These programs represented more than half of all federal spending last year, but in just 10 years they will balloon to two-thirds of the entire federal budget.” (Gregg, J., 2005)ⁱⁱ

Senator Chuck Grassley’s perspective on Social Security focuses on the reform to existing earnings limit on workers 65 to 69. His contention is expressed through his comment "People are living longer. They want to work longer. The government shouldn't get in the way. Older workers have paid into Social Security their entire careers. They deserve to receive their Social Security benefits and earn income without facing a stiff penalty. Many Iowans have contacted me in frustration over this issue. About 7,400 Iowans ages 65 to 69 lose Social Security benefits each year by continuing to work. The House did good work by voting to repeal the earnings limit. I hope the Senate responds in kind. We should repeal the Social Security earnings limit as fast as we can. It doesn't matter to me whether we vote on the House bill or the Senate bill, as long as we get the job done."

Their seemingly negative perspectives on the future threat of too high long-term deficit are speculating that the mandatory entitlement spending could reach 60 percent of federal expenses in ten years. As such that will force the nation to cut out other necessary expenditures or raise taxes and weaken the economy. Presently, spending on mandatory entitlement represents 55% of all federal spending. In line with this, solutions to impending economic weakening have to be decided upon in today’s generation. The nation’s financial house must be put in order and the out-of-control growth in entitlements must be curbed as well.

And the ways by which they could put the country’s finance status in order and curb mandatory entitlement’s growth in control are through reforms in the Social Security Act particularly its Title II. In this connection, Sen. Judd Gregg and Sen. John Breaux have introduced the “Bipartisan Social Security Reform Act of 2004” that would address the unfunded

liability of the country's Social Security's through one-third tax raise and two-thirds reduction of benefits. According to their perspectives, the government will not be able to give 100% of its promised social security benefits after 75 years. Under the existing law, the social security will only be able to deliver 78% benefits of what has been promised. (Gregg-Breaux, 1999)ⁱⁱⁱ

II. Social Problem

From the perspective of the sponsors the problem is defined in terms of entitlement expenditures over the social security system's fund in the years to come. It is their speculation that expenses in form of mandatory entitlements will exceed the social security tax revenues. This will happen because the "baby boomers" are about to move out of their employment status into retirement. They are bound to receive their entitlements that will cause the Social Security to exhaust its revenue which is only sufficient to fund 78 percent of the pensioners' benefits by year 2075. It is the sponsors' projection that the country's demographic situation will stabilize due to uncertainty on changes in life expectancy (the tendency is a slowing rate of increased life expectancy) and that will cause the system to require higher levels of revenue. (en.wikipedia.org, 2005)^{iv}

Definitely the sponsors of the bill see the issue as the system being broken. Many factors have contributed to the breaking up of the system. (heritage.org, 2005)^v One factor constitutes past untoward events like the costs of the war on terrorism, natural calamities and government's huge spending among others. Another factor is seen in direct relation with the soon pending change in the status of baby boomers from the working force condition into retirement. The current social security system can only support the present entitlement benefits. But there is a warning for the future of the government's financial capability as the consequence of the

weakening social security system. The United States of America is facing a bleak future scenario described by inevitable unaffordable entitlement spending, deep federal debt, and economic stagnation.

The system is seen to be crumbling in the face of the future financial failure. The 2015 budget projection shows that the government expenditures will reach past \$4 trillion with a budget deficit of \$873 billion. If not changed, the social security system will have no means to address the future problem. (heritage.org, 2005)^{vi}

The sponsors' perspective assumes that there will be a slowdown in the entitlement growth as opposed to the estimation of the nation's Social Security. They believe that the spending of Social Security along with Medicare and Medicaid costs will increase considerably from 8.4 percent of GDP to 18.9 percent by year 2050.

All those projected figures call for major repairs in the system. Lawmakers must reform programs under the three mentioned areas. If the lawmakers will not act on reforms the United States of America then will be forced to act by increasing taxes, eliminating federal programs and projects, coming out with huge budget deficits that would secure the doom of the entire U.S. economy. Major repairs in the social security systems through reforms can no longer wait. The time spent in waiting for reforms will bring more painful and expensive consequences. (heritage.org, 2005)^{vii}

The projected scenario calls for changes or reforms in the present law concerning taxes, benefits and the retirement age.

The current Social Security in the United States has been the social insurance of the federal government being funded through payroll tax of workers. This is also known as the Old Age, Survivors and Disability Insurance program or OASDI. The United States Social Security program is the largest government program in the world. [\[2\]](#)

The changing of the Social Security system is being considered as the answer to the perceived problem on social security issues.(cbo.gov, 2005)^{viii}

As of 2005, there are existing proposals for changes in the said system. One series of proposals are focused on the formulation of Private Accounts in the 106th Congress years 1999 and 2000. These are among the many proposals aimed at changing the country's Social Security program that until now have not yet been enacted. One of which is the Bipartisan Social Reform Act of 2000 s. 26774 sponsored mainly by Sen. Judd Gregg along with six other co sponsors.

Sponsors of the bill define the problem by pointing three issues to be considered in the proposed reforms to the nation's social security system. The first problem deals with the multiple goals of Social Security in relation with the distribution of income among or within generations and with the provision of insurance to offset lost earnings. In this regard, there is the need for the policymakers to decide on the appropriateness of these goals. The issue is – “Would the changes in the social security aid in the attainment of these goals or would the changes hinder in the realization of those goals and what effect would these bring to various types of beneficiaries and taxpayers.” The problem will have to take into consideration the expected increase in the near coming elderly population.

Second, the problem is about the means to prepare for an aging population's ultimate needs that concern the amount of goods and services the economy will produce. Moreover, what

are the systems of distribution that could be adopted for their entitlements? Take note that the question's concern is on the how they will be distributed and not how much money is credited to the Social Security trust funds. This is a way of saying that the present issue on the impending depletion of fund is not relevant. This is a problem that would be faced whether or not trust funds existed.

Third, the problem is about the consequences of the decisions on aging population in relation with the interest of the present workers as against the future workers and beneficiaries. It is perceived that whatever be the decision, everything will eventually lead for the U.S. population to save today by consuming fewer goods and services to better prepare for the future. The future labor force in connection with today's system is deemed to be incapable of supporting beneficiaries of entitlements. (cbo.gov, 2005)^{ix}

In line with the issue of reforms, proponents of the Bipartisan Social Security Reform Act on Privatization believes that with the change in the system, an individual will be given the right to decide on the risk that he could take with his or her own retirement funds. Moreover, they do criticize the Social Security for the lower returns in the retirement funds. Contrary to seemingly static growth of social security system, they believe that privatization would likely to bring more profit for an individual through investment. Historical facts revealed incidents of success on new investments or revenues had positively revealed growth in their finances.

This means that the Social Security Reform Act of 2000 recognizes the natural tendency given to each individual person in the ideals of freedom, creativity and dignity of the human person. In one word, the ideology in connection with this reform can be said "Liberalism". Based on the premise of Liberalism, it is believed that a privatized system would lead to opening of new funds for investment which in turn would produce real growth.

They further argue that the efficiency of the system relies not on the costs as a part of assets but on the returns after expenses. [\[17\]](#)

Part however of the social security reform in the proposed changes to Social Security systems see the future beneficiaries as the primary gainers in this proposal. On the other hand, the middle class or the working class are said to be the ones to carry the burden to be brought upon by increase in the tax on their part and decrease.

III. Goals, Objective and Mission Statement – (ssa.gov, 2000)^x

Social Security Act's Mission Statement, Goal and Objectives are as follows:

Mission: To advance the economic security of the nation's people through compassionate and vigilant leadership in shaping and managing America's Social Security programs.

Goals and Objectives:

1. Service: (1) Make the right decision in the disability process as early as possible; (2) Increase employment for people with disabilities; and (3) Improve service through technology
2. Stewardship: (1) Prevent fraudulent and erroneous payments and improve debt management; (2) Increase the accuracy of earnings records, (3) Strengthen the integrity of the Social Security Number, and (4) Efficiently manage Agency finances and assets, and effectively link resources to performance outcomes
3. Solvency: (1) Through education and research efforts, support reforms to ensure sustainable solvency and more responsive retirement and disability programs,
4. Staff: (1) Recruit, develop and retain a high performing workforce
5. Values: (1) Respectful, (2) Responsive, (3) Reliable

IV. Attempts to Restore Solvency of Current System

The needs of the changes in the system to deal with the impending in the problem on

Social Security system are identified by the bills' sponsors as vital factors in addressing the said needs. For them the reform ought to be done the soonest time possible for if not they are saying that the consequences will be damaging and costly. They have painted a bleak scenario of the future that calls for immediate action particularly on the part of the lawmakers.

V. Benefits –

The Bipartisan Social Security Reform Act of 2000 has been expected to eliminate its unfunded liabilities through tax rates (one-third) and through the reduction of benefits for about two-thirds. Through the proposed act, people in the workforce will be given the liberty of diverting two percent of their earning into private accounts along with low-income workers who are enjoying the benefits coursed through Federal's matching funds to boost their respective contributions.

At retirement, a portion of the accounts would be used to offset Social Security benefits. In this context, the beneficiaries would receive minimum guaranteed income as the plan affords personal retirement account (PRA) holders investment options. For instance if the workers would make investments in U.S. government funds then they would be assured of getting annuity payment. The annuity payment would be in direct proportion with what the current system would have paid. If the investment is made on riskier forms such as stocks and corporate bonds, then workers have the possibility of receiving either higher or lower monthly pension.(Thomas.loc.gov, 2005)^{xi}

SOCIAL SECURITY ADMINISTRATION (gpoaccess.gov, 2005)^{xii}

Comparison of Costs and Benefits of Currently

Scheduled Payments and Models for Reform

Low Earner	Medium Earner	High Earner	Currently scheduled benefits, 2052 (2001 dollars)	New revenues needed:
1) \$986	\$1,628	\$2,151		\$4.2 trillion

Change in expected benefits, with account proceeds, 2052

2) Change in new revenues needed

3) Model 1 +8.9% +12.0% +14.5% +3.8%

Model 2 +15.0% +2.4% -4.4% -45.0%

Model 3 +19.2% +21.8% +22.7% -33.9% 4

Number 1 item refers to the computations on the net cash flow as determined by the general fund for the next 75 years so as to pay presently scheduled benefits.

Number 2 item refers to the expected percent change from the present scheduled benefits for those who would be new retirees in 2052. The example given presents an assumption of accounts that are invested in 50 % equities, 50 % bonds, purchase of variable annuity upon retirement.

Number 3 item refers to the additional revenues that ought to be produced in any year to supply scheduled entitlements in the next 75 years. (gpoaccess.gov)

These computations do not include the out-of-pocket costs contributions and associated subsidy.

VI. Eligibility –

Under the proposed bill, the beneficiaries' eligibility would mean for this part to those any individual who was born after December 31, 1937. Aside from this specific provision on the proposed bill entitled Bipartisan Social Security Reform Act, there has been no major mentioned of other eligibility requirements. As mentioned in the earlier part of this paper, there would be private accounts under the bill. They would be structured in accordance to the decision of the individual person.

VII. Administrative and Delivery Systems –

Under the current system the administration is basically a wealth transfer system. It operates as a pipeline through which current tax receipts from workers are used to pay current benefits to retirees, survivors, and the disabled. For solvency the present Social Security relies on its tax revenues and broad base of public support. Benefits are funded through FICA tax on wages and salaries. Self-employed people are responsible for the entire tax. The income cutoff is adjusted yearly for inflation and other factors.

If an employee pays excess taxes, due to multiple jobs being held by the employee during a single calendar year, the employee can apply for a refund of the excess taxes withheld from their paychecks on their Form 1040. The excess taxes paid by employers are not returned to the employers.

The Social Security tax benefits are funded through the FICA tax on wages and salaries. A separate payroll tax of 1.45% of an employee's income paid directly by the employer, and an additional 1.45% deducted from the employee's paycheck, yielding an effective rate of 2.9%, funds the Medicare program. This program is primarily responsible for providing health benefits to retirees. The combined tax rate of these two federal programs is 15.3%.

Social Security taxes are paid into the Social Security Trust fund maintained by the U.S. Treasury. Current year expenses are paid from current Social Security tax revenues. When revenues exceed expenditures, as they have in most years, the excess is invested in U.S. Treasury bonds, thus the Social Security Trust fund indirectly finances the federal government's general purpose deficit spending.

VIII. Financing -

For the aim of strengthening the Social Security system there ought to be an object of attaining partial advance funding. This would help in increasing the capital stock and productive capacity of the nation. It would also increase the economic means that would support a large population of baby boomers retirees. Advance funding can be made through personal accounts. Personal account is deemed better than government investment. There is the tendency in government's investment to be led into inappropriate political dealings in the market. There could also instances of inefficiency and the matter of conflicting interest.

As a whole, personal accounts would likely to bring higher benefits to individuals than a social security system without accounts. The plan for a reformed Social Security System has come out with three models intended for balancing finances on Social Security and in the incorporation of personal accounts. Personal accounts are also advantageous for the long term growth of Social Security leading to the attainment of fiscal health in the process. The condition for this chance of alternative investments, the individual would only have to forego the defined entitlement by the Social Security program. This entitlement financed by payroll taxes could only assume low interest rate. The target is for the individual to earn a higher return rate both for the progress of both individual and the nation's Social Security system

However, there has been calculation in this connection made by the Center on Budget and Policy Priorities (CBPP) showing how workers age 25 at present would fare on his or her retirement by year 2045. (aarp.org, 2005)^{xiii}

The 30% lowest paid workers whose earnings are below \$20,000 today would by no means experience change in their benefits in the future. Average-wage earners whose income is about \$36,600 at present would have benefits cut by 16 percent in the future. And the higher-earners whose incomes reach about \$36,600 at present would have a 25% cut in the future.

These calculations are based on the existing Social Security system. Under the plan of partial transformation into private accounts would lead to even more reductions in identified benefits for those who would opt for the private account. It has been said that benefits would be less in order to compensate for the diverted funds from the SSA (Social Security Account) into the private account. Then there would be a great possibility of cut in the benefit that would be brought by price indexing. CBPP speculates that either way, there would be lesser and lesser benefits.

VIX. Summary and Conclusion -

The Bipartisan Social Security Reform Act focuses on the inclusion of privatization of the system. This reform is considered as the first step into a new approach to retirement security and that of personal investing and responsibility. This would cause a fundamental shift from an entitlement society towards an ownership society. The premise to this reform adheres on the reduction of size and the change on the nature of Social Security that at present is paying half a trillion a year and which would only grow as much as it would as time passes by.

The move towards privatizations has not only been about ideals or ideology but it has its focused on the Security's insolvency.

However, there are oppositions to the privatization plan. There are others who are saying that the scenario on the nation's impending finance is just but a trick. As most people are thinking now that the Social Security Program is in serious financial trouble. A strong argument exists that could be a possibility and that is the system is solvent as it is. Although careful deliberations prods for making a fix sooner rather than later, the program is not in crisis, nor is its potential shortfall irresolvable. Ideology aside, the scale of the fixes would not require Social Security to abandon the role that was conceived for it in 1935, and that it still performs today --

as an insurance fail-safe for the aged and others and as a complement to people's private market savings.

Presently, what are being presented are just predictions and best guesses. The current financial status of the nation is admittedly strong. But most of the financial forecasts in the future are being stereotyped in a bleak scenario. The Social Security is having a hefty surplus at present; the payroll tax brings in more dollars than what goes out in benefits. By law, Social Security invests that surplus in Treasury securities, which it deposits into a reserve known as a trust fund, which now holds more than one and a half trillion dollars. But by 2018, as baby boomers retire en masse, the system will go into deficit. At that point, in order to pay benefits, it will begin to draw on the assets in the trust fund.

The debate over Social Security's solvency is really two debates. The first is over how long the trust fund will last. The law requires the Social Security Administration to estimate its financial condition for 75 years into the future, and the agency's conclusions depend on the assumptions it makes about what America will look like decades hence -- how much people will earn, how large their families will be, how long they will live.

What is to be noted are the tendencies of the politicians to speak out on these long term trends regarding the Social Security's finances in manners that portray precision or facts.

There could be a possibility of error on a strong case made to the system on the side of being too pessimistic. If the optimistic prediction or projection would turn out to be correct, then there would be no need for any benefit cuts or payroll-tax increases for the next 75 years.

As it is, no one can really make a one hundred percent prediction of outcome. In previous years of pessimistic forecasting, what turned out usually has been the positive side. Negativism is oftentimes buried under the sand when the time or event predicted comes.

Issues on demographic trends have been causing confusion and pain among people. Actually, the recent demographic trends have been better than what was anticipated before. The same thing could possibly happen in the future.

Personally, as regards privatization, I would agree to those who are saying that it would be better to live the matter as it is. The proposed individual savings account is full of risk. The amount of contribution to social tax poses an issue as well. I think this would bring more difficulty to workers.

As for the baby boomers, it is a pain for them to be treated as such. They are not the invalids that the proponents of SSA are painting about. As they said, the life span has increased therefore they still have time to find ways to support themselves in the future, without passing much burden to the next generation.

The enactment of the Bipartisan Social Security Reform Act of 2000 is bound not to happen. Not in the near future anyway. For those who are intent of betting their money in high stakes in the meantime, they can do so in their own private means. It is just like having the Social Security System enacted. As for the others, they can be content in the entitlement being provided by the current security. That what security is all about: knowing that your money is intact and not at risk.

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