

Testimony of

Peter Ferrara

Senior Fellow
Institute for Policy Innovation

Senior Policy Advisor
USA Next

**The Potential of Personal Accounts:
A Revolutionary Breakthrough in Worker Prosperity**

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If done right, fundamental reform of Social Security based on personal accounts can produce a new, modernized system that would achieve all of the social goals of the current system better, much better, than the current system. Indeed, personal accounts can produce an historic breakthrough in worker prosperity in America, benefiting the most low and moderate income workers without significant personal savings and investment today. In the 18th century, the Homestead Act greatly expanded land ownership among working Americans. In the 19th century, the FHA greatly expanded home ownership among workers. In the 21st century, personal accounts can produce an explosion of prosperity among working people, empowering all workers across the board to accumulate major sums of personal savings and investment over their lives.

An example of how this can be done is the legislation introduced by Rep. Paul Ryan (R-WI) and Sen. John Sununu (R-NH), providing for a large personal account option for Social Security. The legislation has been scored by the Chief Actuary of Social Security as achieving full and permanent solvency in the program, without benefit cuts or tax increases. Indeed, over the long run, with the large personal accounts, workers would actually end up with higher benefits than promised under current law, and lower payroll taxes. That results because market returns on real savings and investment are so much higher than the returns that can be paid through the non-invested, purely redistributive system of the current Social Security framework.

The key point arising from the official score is that reform plans with large personal accounts like Ryan-Sununu do not need to make any changes in current law benefit provisions, such as delaying the retirement age, or price indexing, to eliminate the long term deficits of Social Security. The large accounts end up shifting so much of the

current system's benefit obligations to the accounts themselves that the long term deficits are eventually eliminated through this effect alone. Sophisticated advocates of personal accounts will recognize that this is a very powerful political argument for adoption of large accounts.

Moreover, because the Ryan-Sununu bill guarantees the payment of at least the full benefits promised under current law, it offers a true prospect of winning broad, bipartisan support and passage. With that current law benefit guarantee, the proposal retains the current defined benefits of Social Security as a backup to the personal accounts. If the defined contribution benefits of the personal accounts are not higher than the current law defined benefits of Social Security, even though that is quite likely, then retirees will still get the current law defined benefits.

The current, non-invested, pay-as-you-go Social Security system cannot pay the benefits promised under current law. But the large personal accounts earning full market returns can do that, and more, much more. Indeed, the bill offers enormous, breakthrough gains in personal prosperity for working people, with a vast increase in personal wealth accumulating to \$7 trillion in today's dollars in just 15 years, as well as ultimately much higher benefits and lower payroll taxes. That is why such reform should ultimately win the support of knowledgeable liberals and Democrats, as well as perceptive conservatives and Republicans.

We will first review below the key provisions of the Ryan-Sununu plan. We will then review the results of the official score of that legislation by the Chief Actuary of Social Security. That review will include a detailed analysis and explanation of the transition financing for the reform plan.

Major Provisions of the Ryan-Sununu Plan

The major provisions of the Ryan-Sununu bill are reviewed below:

- Out of the 12.4% Social Security payroll tax, workers would be free to choose to shift to personally owned, individual accounts, 10 percentage points on the first \$10,000 in wages each year, and 5 percentage points on all wages above that, to the maximum Social Security taxable income. This creates a progressive structure with an average account contribution among all workers of 6.4 percentage points
- Benefits payable from the tax free accounts would substitute for a portion of Social Security benefits based on the degree to which workers exercised the account option over their careers. Workers currently in the work force exercising the personal accounts would continue to receive a portion of Social Security retirement benefits under the current system based on the past taxes they have already paid into the program. Workers would then also receive in addition the benefits payable through the personal accounts.
- Workers choose investments by picking a fund managed by a major private investment firm, from a list officially approved for this purpose and regulated for safety and soundness, similarly to the operation of the Federal Employee Thrift Retirement System.
- The accounts are backed up by a safety net guaranteeing that workers would receive at least as much as Social Security promises under current law.
- Apart from this personal account option, there would be no change in currently promised Social Security benefits of any sort, for today's seniors, or anyone in the future. Anyone who chooses to stay in Social Security would receive the benefits promised under current law. Survivors and disability benefits would continue as under the current system unchanged.
- Social Security and the reform's transition financing are placed in their own separate Social Security Lockbox budget, apart from the rest of the Federal budget. This means the government can never raid Social Security again to finance other government spending, achieving a goal long sought by many seniors. It also means the short term transition deficits and the longer term transition surpluses would be apart from the rest of the budget, with the surpluses thereby protected and devoted to paying off all transition debt and then to reducing payroll taxes.

The Official Score of the Ryan-Sununu Bill

The official score of the bill by the Chief Actuary of Social Security showed the following:

- **The large personal accounts in the plan are sufficient to completely eliminate Social Security deficits over time, without any benefit cuts or tax increases.** That is because so much of Social Security’s benefit obligations are ultimately shifted to the accounts. As the Chief Actuary stated, under the reform plan, “the Social Security program would be expected to be solvent and to meet its benefit obligations throughout the long-range period 2003 through 2077 and beyond.”¹ **Indeed, the eventual surpluses from the reform are large enough to eliminate the long term deficits of the disability insurance program as well, even though the reform plan does not otherwise provide for any changes in that program.**
- The accounts achieve this not only with no benefit cuts or tax increases in Social Security. **Over time, in fact, the accounts would provide substantially higher benefits, as well as tax cuts.** The official score shows that by the end of the 75 year projection period, instead of increasing the payroll tax to over 20% as would be needed to pay promised benefits under the current system, the tax would be reduced to 4.2%, enough to pay for all of the continuing disability and survivors benefits. **This would be the largest tax cut in world history. The bill includes a payroll tax cut trigger providing for this eventual tax reduction once all transition financing and debt obligations have been paid off.**
- Moreover, as shown in a recent IPI study,² at standard, long term market investment returns, the accounts would produce substantially more in benefits for working people across the board than Social Security now promises, let alone what it can pay. This is the only reform proposal that achieves that result. With personal accounts of this size, at standard long term market investment returns, an account invested consistently half in corporate bonds and half in stocks would provide workers with roughly two thirds more in benefits than Social Security promises but cannot pay. An account invested two thirds in stocks and one third in bonds would pay workers over twice what Social Security promises today.
- The reform would also eliminate the unfunded liability of Social Security, currently officially estimated at \$11 trillion, almost three times the current amount of national debt held by the public. This would be **the largest reduction in government debt in world history.**

¹ Estimated Financial Effects of the “Social Security Personal Savings and Prosperity Act of 2004”, July 19, 2004, Office of the Chief Actuary, Social Security Administration.

² Peter Ferrara, A Progressive Proposal for Social Security Personal Accounts, Institute for Policy Innovation, Policy Report 176, June, 2003, pp. 13-15.

- The reform would also greatly increase and broaden the ownership of wealth and capital through the accounts. All workers would participate in our nation's economy as both capitalists and laborers. **Under the Chief Actuary's score, workers would accumulate \$7.8 trillion in today's dollars in their accounts by 2020. Wealth ownership throughout the nation would become much more equal, and the concentration of wealth would be greatly reduced.**

The reform plan would also greatly increase economic growth, through reduced taxes and increased saving and investment. The result would be more jobs, higher wages, and faster growing incomes and national GDP.

The official score includes the estimated cost of the guarantee of current law benefits in Ryan-Sununu. This cost is fully paid for in the financing provided in the bill. The Chief Actuary used the same methodology in scoring this cost as the official budget scorers do in scoring the cost of other government guarantees.

As with any guarantee, there is a moral hazard concern that those who enjoy the guarantee will take excessive risks, as they will reap the gains if they succeed, but they will be protected by the guarantee from the losses if they fail. The Ryan-Sununu bill, however, avoids this moral hazard, because the government retains complete control over what risks those with personal accounts can take. They can only choose investment funds for the personal accounts that are approved by the government for the list of personal account investment options. Moreover, even within that framework, those who choose the more risky options can still suffer a large financial penalty, as only the currently promised Social Security benefits are guaranteed. But conservative investments that just earn the average market return would provide the worker with far higher benefits.

Given this framework, the still substantial cost for the guarantee estimated by the Chief Actuary is probably overstated. Workers can only choose among safe, highly diversified, investment funds managed by highly sophisticated, professional, private sector, asset managers. In addition, since the standard market returns such investments would earn are so much higher than what the current, non-invested, pay-as-you-go, Social Security system even promises, let alone what it can pay, there is a wide margin for error before the guarantee would come into play. Individuals could earn substandard market returns and still receive higher benefits than Social Security promises under current law. Consequently, very few people are likely to fall into the safety net guarantee costing the government any money for the guarantee. This is consistent with experience with a personal account benefit guarantee in the famous reforms adopted in Chile almost 25 years ago.

Financing the Transition

Of course, any personal account reform plan involves a transition financing issue, as some of the funds that are used to pay current benefits under the present system are saved and invested in the personal accounts instead. So additional funds for Social Security must come from somewhere to ensure the continued payment of promised benefits, until the personal accounts start taking over benefit payment responsibilities.

The Ryan-Sununu bill specifies exactly where the funds needed for the transition would come from:

1. First, the short term Social Security surpluses now projected to last until 2018 are devoted to the transition.

2. Secondly, the bill contains a national spending limitation measure that would reduce the rate of growth of total Federal spending, and devote those savings to the transition as well. The limitation would reduce the rate of growth of Federal spending by 1 percentage point per year for 8 years. The spending savings for those years are then maintained until all short term debt issued to fund the transition is paid off in full.

3. The third factor would be the increased Federal revenues resulting from increased corporate and business investment due to the accounts. The money from the accounts used to buy stocks and bonds goes to the business corporations selling the stocks and bonds. The businesses use those funds to expand their operations, start new business ventures, hire new workers, buy new plant and equipment, etc. The businesses earn returns on these new investments, on which they pay taxes. This results in increased tax revenues to the government, which can be used to pay for part of the transition to personal accounts. This factor is based on the work of Harvard Professor of Economics Martin Feldstein, Chairman of the National Bureau of Economic Research. It was first developed for personal account legislation introduced by former Sen. Phil Gramm in the late 1990s.

4. The final factor is to the extent needed in any year, excess Social Security trust fund bonds would be redeemed for cash from the Federal government, with the funds used to pay full promised Social Security benefits. This is exactly what the trust fund bonds are for, to be redeemed when needed to pay full Social Security benefits. Under the current system, those bonds are just going to be redeemed for cash from the Federal government anyway after 2018, until the trust fund is exhausted in 2042. The legislation specifies that the cash to finance these redemptions would be obtained by selling new Federal bonds to the public that would later be paid off in full out of eventual surpluses generated by the reform.

With this transition financing, the official score of the Chief Actuary shows the following:

- Under the Ryan-Sununu bill, Social Security achieves permanent and growing surpluses by 2030. Before that time, an average of about \$52 billion (constant 2003 dollars) in surplus Social Security trust funds bonds would be redeemed each year for 25 years, and financed by the sale of an equivalent amount of new Federal bonds, ultimately totaling \$922 billion in present value dollars. The amount of such bonds sold each year is shown in Table A.
- The amounts in Table A include bonds sold to cover part of the Social Security deficits under the current system now projected to start in 2018, which will not be fully eliminated under the reform plan until 2030. Table B shows the net transition deficit each year that results from the personal accounts alone under the Ryan-Sununu bill, not counting the already existing Social Security deficits under current law.
- Even with the redemption of surplus trust fund bonds, the Social Security trust fund never falls below \$1.34 trillion in today's dollars, or 141% of one year's expenditures, with the official standard of solvency being 100%. After 2030, the trust fund grows permanently, reaching close to 10 times one year's expenditures by the end of the projection period, or about \$6 trillion in today's dollars, far too much.
- Within 15 years after 2030, the reform produces sufficient surpluses to pay off all the bonds sold to the public during the early years of the reform. **So the net impact of the reform on debt held by the public is zero.**
- Moreover, in the process of shifting benefit obligations to the personal accounts, the reform again eliminates completely the unfunded liability of Social Security, currently officially estimated at \$11 trillion, which is effectively the largest reduction in government debt in world history.

The transition deficits and debt shown in Tables A and B are modest given the sweeping magnitude of the reform plan. The amount of transition debt that needs to be issued each year falls to \$60 billion or less after the first 5 years of the reform. Moreover, that shorter term debt only involves borrowing back a minor portion of the savings accumulating in the accounts, which, again, grows to \$7.8 trillion in today's dollars after the first 15 years, and \$16.6 trillion after the first 25 years, when the borrowing stops.

Again, within 15 years after that surpluses generated by the reform completely pay off even that relatively minor effective borrowing from the growing accounts.

In addition, the actual net transition deficits created by the reform itself, not counting the already existing projected Social Security deficits under current law, are even less, as shown in Table B. The deficit falls to \$51 billion or less in today's dollars after the first 5 years, and is completely eliminated after 15 years, for a total of \$645 billion in present value dollars over that time.

Moreover, again, the legislation creates a separate Social Security Lockbox budget apart from the rest of the budget, so even these transition deficits would not increase the deficit in the regular operating budget for the rest of the Federal government. The short term debt shown in Table A would also be separately accounted for in a Social Security Transition Sinking Fund slated to be paid off in full.

Virtually every member of Congress from both parties has supported taking Social Security off budget in a lockbox where it could no longer be raided for other government spending. That virtually unanimous support for the idea has resulted because seniors overwhelming support such a policy. This legislation finally makes good on this concept.

Separating Social Security and the personal account transition from the rest of the budget is also the most accurate accounting practice, for several reasons. Unlike the deficit in the rest of the budget, the reform plan's net transition deficits are not adding new Federal debt and liabilities. The reform plan is instead actually reducing long term Federal liabilities dramatically, ultimately eliminating the unfunded liabilities of Social Security. The shorter term debt resulting from the reform plan, moreover, is just recognizing debt the government

already owes through Social Security's unfunded liability, and even that is fully paid off under the reform plan. In fact, on our current course, we would just effectively start selling these bonds a few more years down the road anyway, to continue financing promised benefits once the current Social Security system starts running annual deficits. But on our current course, there is no plan to later pay off that debt.

In addition, again unlike the deficits in the rest of the budget, the reform plan's net transition deficits do not reflect a net drain on national savings. The debt issued to cover those transition deficits only involves borrowing back part of the savings generated through the personal accounts, quite likely producing a large increase in national savings overall.

So it would actually be quite misleading to account for the net transition deficits under the reform the same as for any deficits in the Federal government's general operating budget. The net effect of the reform and its transition deficits on the economy and the Federal debt is actually the opposite of the net effect of general Federal budget deficits.

Finally, the transition to the personal accounts under Ryan-Sununu is a one time financing project meant to liquidate an enormous Federal debt. It is not part of the ongoing operations of the Federal government and the long time liabilities they are racking up. So it would be most accurate to account for it separately from those ongoing operations.

Accounting for the transition in this way has the added benefit of protecting the later surpluses of the reform from being gobbled up in the general Federal budget process. These later surpluses would be reflected in the separate Social Security Lockbox budget, under a policy of devoting those surpluses to paying off the earlier transition debt, and then to reducing payroll taxes. Any attempt to divert that money to other purposes would be transparent, blatant, and probably politically untenable. Moreover,

accounting for the short term debt in its own separate Social Security Transition Sinking Fund account would provide a scorecard to show whether that debt has, in fact, been paid off.

The Federal spending restraint provided for in the bill to help finance the transition is quite modest and achievable. Over the initial 8 year period, it would limit Federal spending to grow each year no more than its long term baseline of the rate of growth of GDP, minus one percent. Consequently, during that period, Federal spending as a percent of GDP would decline from 20% to 18.4%. The bill would then allow Federal spending to continue to grow at the old baseline rate, keeping spending only 1.6% of GDP below that baseline. Once the transition to personal accounts is financed and all short term debt issued during that transition is paid off, the spending restraint is eliminated.

The spending restraint during the first 8 years is actually less than the restraint achieved during the 8 years of the Clinton Administration, which held Federal spending growth to the rate of growth of GDP minus 1.8 percentage points each year. (Of course, the Republican Congress was a primary factor in that achievement.)

Moreover, the restraint during the first 8 years is exactly the amount of restraint we will have to achieve if we are going to balance the Federal budget while keeping the Bush tax cuts permanent, as shown in a recent study by Larry Hunter³. The Bush tax cuts would leave Federal revenues over the long run at about 18.4% of GDP as well.

³ Larry Hunter, Reducing Government Consumption, Increasing Personal Wealth: Limiting Federal Spending Growth Through Large Personal Retirement Accounts, IPI Policy Report 183, July 14, 2004. The study assumed as well that the Alternative Minimum Tax is fixed so it applies only to the highest income taxpayers as originally intended, and not to the middle class.

Both the Cato Institute and the Heritage Foundation have published extensive material documenting far more in wasteful and counterproductive spending than would be needed to achieve the spending limitation targeted in Ryan-Sununu.⁴ Earlier this year, IPI published a study by Steve Moore also proposing far more in desirable spending restraint initiatives.⁵ The spending restraint measure in the bill is not limited to domestic discretionary spending, or even all of discretionary spending. All of Federal spending outside of Social Security is eligible for restraint to help meet the target. Any and all other entitlement programs can be reformed to meet the target. Corporate welfare can be cut or eliminated. Ditto for long outdated agriculture subsidies. Even the military budget is not off limits. Unneeded military bases, for example, can be shut down.

Over the long run, the bill's modest spending restraint would, indeed, allow Federal spending to grow by more than 50% relative to GDP. That is because after the baby boom generation retires, the Congressional Budget Office projects that Federal spending will explode relative to GDP, eventually growing from about 20% of GDP today to over 30%. The Ryan-Sununu spending limit would just keep Federal spending 1.6 percentage points below this long term baseline, with the limitation removed completely once the funds are no longer needed to complete the transition.

The spending limitation in Ryan-Sununu, therefore, is just a modest first step. Stricter and permanent spending limits are needed to prevent a currently projected, historic, run up in Federal spending relative to the economy.

⁴ See, e.g., Chris Edwards, Downsizing the Federal Government, Cato Policy Analysis No. 515, June 2, 2004.

⁵ Stephen Moore, Putting Taxpayers First: A Federal Budget Plan to Benefit the Next Generation of American Taxpayers, IPI Policy Report No. 174, February 17, 2004.

The Ryan-Sununu spending limits are enforced by new national spending limitation provisions included in the bill. These provisions reorient the whole Federal budget process around the spending limitation, and require a stiff two thirds majority of both houses to get around it. Budgetary procedures are changed to allow any member of Congress to halt a spending initiative inconsistent with the spending targets.

Yes, Congress could still override the spending limits by new legislation in the future. But that is true of any means of financing the transition to personal accounts. Tax increases for the transition can be reversed or offset by future legislation as well. The same is true for measures that attempt to help finance the transition by cutting future promised Social Security benefits.

Moreover, general Federal spending restraint enjoys broad public support. Many, many voters today believe Federal spending has been growing far too fast, and would think the Ryan-Sununu spending restraints are far too modest for general budget needs. With these public attitudes, the Ryan-Sununu spending restraint could not be easily dismissed.

In addition, the Ryan-Sununu bill would powerfully restrain Federal spending simply by taking the money off of the table for Congress to spend. With all of the money going into personal accounts, and the unavoidable mandate to pay all promised Social Security benefits to retirees⁶, Congress will be forced to spend less than it would otherwise. As Milton Friedman has long argued, the best way to restrain the Federal government's spending is just to reduce what is available for Congress to spend. The Ryan-Sununu bill does that, and so is a powerful aid in achieving future spending

⁶ The Ryan-Sununu bill ensures that Social Security will be taken care of in any event and all promised benefits to current retirees would continue to be paid. The bill provides that the Federal government would transfer general revenues to Social Security each year equal to the amount of annual spending restraint provided in the bill, regardless of what Congress actually does in regard to spending. It is then up to

restraint. Congress cannot run future deficits beyond politically acceptable limits, and there are powerful political forces that work to restrain deficits and reduce the duration of deficits over the long run. These forces would further help to enforce the Ryan-Sununu spending limits.

Finally, the Ryan-Sununu bill changes the political dynamics of Federal spending. Basic public choice analysis shows that the beneficiaries of Federal spending largesse have a concentrated interest in maintaining and expanding their particular share of the Federal spending pie. But the general public doesn't have enough of an interest in any one spending program to provide the resources to overcome the special interests benefiting from it.

That fully explains the stubbornness of corporate welfare, for example. The XYZ corporation can have enough direct financial interest in a multibillion dollar Federal subsidy program to hire legions of lobbyists and publicists to promote its cause. But individual members of the general public do not have enough of a financial stake in that one program to provide the resources to counter the predatory corporate welfare boondoggle.

This is why Federal spending restraint can ultimately only be achieved by a general Federal spending restraint as in Ryan-Sununu. Individual members of the public do have enough of a stake in such a general restraint to get involved in providing the necessary political support to adopt and enforce it. Ryan-Sununu adds to this by tying the spending restraint to a very popular large personal account option for Social Security. That greatly increases the likelihood that such a restraint can be adopted, and that it will

Congress to implement the spending restraint, or find the money elsewhere, or affirmatively choose to run larger general deficits.

be maintained over time. Indeed, under the bill workers are enjoying every dollar of spending restraint with that money effectively going into their direct personal accounts instead.

The bottom line is that Congress can avoid running up debt to finance the transition under Ryan-Sununu simply by following the reasonable and moderate spending restraint provided in the bill. If it chooses more spending and debt instead, that would result only because Congress decided that was more desirable.

The third factor in the Ryan-Sununu transition financing, the increased tax revenues resulting from investment of the personal account funds, is again based on the work of Harvard Professor of Economics Martin Feldstein, Chairman of the National Bureau of Economic Research. The methodology for scoring this impact was first developed by the Chief Actuary of Social Security in consultation with Feldstein for legislation introduced in the late 1990s by former Sen. Phil Gramm. That same methodology was used for the scoring of the Ryan-Sununu bill.

This revenue feedback is available for the scoring of any personal account reform plan, because it flows automatically from the operation of the personal accounts. Failing to include it would reflect only an incomplete understanding of the economics of personal accounts.

Moreover, this revenue feedback as scored takes into account just one of the positive economic effects of the reform, which the work of Feldstein and others shows would be far more extensive.⁷ The large personal accounts in the Ryan-Sununu plan are effectively an immediate enormous reduction in payroll taxes on labor of 6.4 percentage

⁷ Peter Ferrara and Michael Tanner, *A New Deal for Social Security*, Washington, DC: Cato Institute, 1998, Chapter 6.

points on average. That is because that money is now going into personal accounts directly owned and controlled by each worker, like a 401k plan, and not to the government as a tax to be redistributed to others. The legislation also provides for further payroll tax relief in later years. This tax relief would provide another major boost to the economy and labor market efficiency, which would result in higher tax revenues.

Increased savings and investment through the accounts would also produce higher wages, as greater capital increases productivity which results in increased wages. These higher wages would also produce higher tax revenues. The higher retirement benefits produced by the personal accounts would also result in higher tax revenues, as those benefits are either spent or saved and invested again.

Feldstein estimates that the present value of the combined economic growth effects of personal account reforms would be \$10 to \$20 trillion.⁸ So many conservative assumptions went into that calculation that the ultimate effect would probably be substantially higher. But, in any event, these full economic growth effects of personal account reform are going to produce substantially more in increased revenues than scored by the Chief Actuary for the Ryan-Sununu bill.

Indeed, Hunter calculates that just an increase in the economic growth rate of one half of one percent due to these personal accounts, still leaving the long term economic growth rate assumed by the Chief Actuary in his score 40% less than the long term growth rate of the economy over the last 50 years, would produce a higher revenue feedback than reflected in the Ryan-Sununu score. If the personal accounts just raised

⁸ Martin Feldstein, "The Missing Piece in Policy Analysis: Social Security Reform" American Economic Review, Vol. 86, p.1 (May 1996).

economic growth to the long term growth rate of the last 50 years, the revenue feedback would dwarf the feedback in Chief Actuary's score of Ryan-Sununu.

With the large accounts in Ryan-Sununu, we are shifting close to 20% of the whole Federal government from a redistribution system to a savings and investment system, with large reductions in taxes to boot. Such an enormous, dramatic change in Federal economic policy cannot be plausibly evaluated without taking at least some of these economic growth effects into account.

Finally, the transition financing provided by this revenue feedback and the spending restraint involves \$7.1 trillion (present value dollars) in general revenues provided to Social Security over the life of the transition. Some erroneously argue that the amount of general revenues used in a reform plan is the measure of how much a reform plan costs. In another IPI study, this is shown to be fallacious.⁹

About 54% of the general revenues used for the Ryan-Sununu plan come from the increased revenue feedback. These general revenues were generated by the reform plan itself. They would not exist without the reform. Consequently, they cannot logically be considered part of the net cost of the reform plan. Quite to the contrary, these additional revenues are a benefit of the reform plan, used to offset, and hence reduce, the net transition financing burden. This leaves the net general revenues used for Ryan-Sununu at \$3.8 trillion.

Moreover, to the extent the spending restraint in Ryan-Sununu produces reductions in wasteful or counterproductive Federal spending, those reductions would also not represent a cost. Again, quite to the contrary, those reductions would, in fact, be

⁹ Peter Ferrara, The Cost of Personal Accounts

another benefit of the reform plan, used to offset, and hence reduce, the net transition financing burden.

Conclusion

The Ryan-Sununu bill would produce dramatic, historic, breakthrough gains in personal prosperity for working people, including the following:

- The long term Social Security financing crisis would be completely eliminated, without cutting benefit or raising taxes. This includes the disability and survivors portion of the program as well as the retirement portion, because the long term surpluses resulting from the personal accounts for retirement benefits are large enough to eliminate the deficits for disability and survivors benefits as well.
- Indeed, because capital market returns are so much higher than the returns that can be paid by the current non-invested, merely redistributive Social Security framework, workers would receive through the large accounts in Ryan-Sununu much higher benefits than Social Security even promises today, let alone what it can pay. At standard market investment returns, the personal accounts would pay roughly two thirds to 100% more in benefits than Social Security now promises workers in the future.
- In addition, instead of increasing the payroll tax from 12.4% today to close to 20%, as would ultimately be necessary to pay all promised benefits under current law, Ryan-Sununu would ultimately reduce the payroll tax to 4%. The bill includes an automatic payroll tax cut trigger to achieve this goal. **This would amount to the largest reduction in taxes in world history.**
- Moreover, in the process of this reform, the current unfunded liability of Social Security would be eliminated. That unfunded liability is currently estimated at about \$11 trillion, about three times the amount of Federal debt currently held by the public. **This would consequently amount to the largest reduction in government debt in world history.**
- By shifting Social Security retirement benefits to be paid through the personal accounts, and financing part of the transition through Federal spending restraint, the Ryan-Sununu bill would ultimately reduce Federal spending as a percent of GDP by about 6.5 percentage points. The bill gains control over runaway Federal spending through a comprehensive national spending limitation measure.
- Through the Ryan-Sununu personal accounts, for the first time workers at all income levels would be accumulating substantial personal savings and

investment. Indeed, after just the first 15 years of reform, the Chief Actuary estimates that the personal accounts would accumulate to \$7.8 trillion in today's dollars. This would dramatically broaden the ownership of wealth and greatly reduce the concentration of wealth.

- The personal account reform would produce major long term increases in economic growth. This would translate into more jobs and higher wages for working people.

The tradeoff for this enormous, historic benefits is the transition financing burden, which is financed under Ryan-Sununu by:

- (1) devoting the short term Social Security surpluses to the transition;
- (2) devoting to the transition the funds obtained by restraining the rate of growth of Federal spending by one percentage point a year for each of 8 years, and maintaining those savings until the transition financing is completed;
- (3) devoting to the transition the increased revenues resulting from the investment of the personal account funds at the corporate and business level;
- (4) to the extent the first three are not sufficient in any one year, redeeming excess Social Security trust fund bonds financed by selling new Federal bonds to the public, with those bonds to be paid off out of the later surpluses of the reform.

Trying to distort this tradeoff with scary, out of context, 75 year summary numbers in 2003 dollars, or by emphasizing irrelevant comparisons based on general revenue transfers, does not advance understanding of personal account reform, and only delays the ultimate success of such reform. Such numbers games do not change the fact that the above summary discussion is an accurate presentation of the tradeoffs involved in the reform as proposed. The enormous, historic, breakthrough benefits discussed above seem

quite easily worth the above transition financing burden, and the public is quite likely to see it as so.

The Ryan-Sununu reform plan truly modernizes and expands the Social Security framework, to bring in real personal savings and investment for a new financial foundation for the program. Such reform really just makes good on the original promise of Social Security, when everyone thought they were really going to have individual accounts with the government that would be saved and invested. Moreover, the guarantee of current law benefits in Ryan-Sununu keeps the current social safety net in place. The bill also maintains a social framework to make personal account investing for even unsophisticated investors.

With this modernization, Social Security's financial difficulties will be ended for good, and workers will be able to gain sharply higher benefits, much lower taxes, and the accumulation of substantial personal wealth for their families. What it all adds up to is an historic breakthrough in the personal prosperity of working people.