



**Social Security....
Has the Season for Reform Arrived?**

A Special Report On

The Politics of Social Security 2005

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The Politics of Social Security 2005

There's a simple reason Social Security reform is on the nation's agenda at this time: the New Deal generation has been departing from this earth. Among all Americans alive in 2004, less than one half of one percent were adults when Social Security was signed into law in 1935. Only nine percent were even alive back then.

A generation ago, when Ronald Reagan took office, just about everyone receiving Social Security could remember Franklin Roosevelt's New Deal...and most remembered it fondly. The New Deal generation felt a deep and visceral attachment to Social Security. They also gained a better financial return than would any subsequent generation—with the first Social Security recipient paying \$22.45 in taxes and receiving \$22,888.92 in benefits.

In those days, Social Security truly was the Third Rail of American politics—touch it and you die.

Later generations neither felt the same loyalty to the program nor enjoyed the same windfall profits from it. As a result, it is now politically possible to reform the program that is itself more than 65 years old.

The change in political viability was highlighted in the voting booth during Election 2004. Despite the Kerry campaign's best efforts to demonize the President's position on Social Security, most voters over 65 cast their vote for George W. Bush.

Hoping to flip a red state to the blue column, Kerry went to Florida late in the campaign raising alarms about secret plans for "privatization." Despite the state's heavy population of senior citizens dependent upon Social Security, Florida went decisively for Bush.

Social Security is no longer the "Third Rail" of American politics.

This change in attitude didn't happen all at once. It has been building for decades. Seventeen years ago, my first survey on the topic found that just 34% of Americans wanted to leave Social Security as it was. Forty-six percent preferred one of four alternatives, but there was no consensus on a single reform. Eighty-eight percent said that those who are retired or about to retire must be fully protected from any changes in the system.

In a *Wall Street Journal* article summarizing those results, I noted that voters in 1988 wanted reform that acknowledged how well the New Deal program had worked for current retirees, but that would also provide a Better Deal for today's workers.

That's still where the public is today.

While Social Security reform is now politically possible, it is far from easy...and public comments from many political leaders in Washington make it clear that they don't understand the politics of the issue very well.

The most important political dynamic in the Social Security debate is the fact that the people it will affect the most are paying the least attention.

Under virtually all reform proposals, those under 40 will face the biggest changes, but just 28% of these younger Americans say they are following the issue “very closely.”

At the other extreme, those over 65 will not face any changes to their Social Security benefits. Still, even though they will not be personally affected, 57% of American Seniors say they are following the debate “very closely.”

	Following “Very Closely”
Under 40	28%
Over 65	57%

The discrepancy is a big problem for President Bush and other reformers. Because those under 40 are very supportive of personal retirement accounts while those over 65 prefer the status quo.

	Favor Personal Retirement Accounts
Under 40	64%
Over 65	27%

These realities mean that the President must find a way either to get younger Americans more engaged in the debate, or to persuade those over 65 to be more supportive of his proposal.

As a practical matter, there is little hope of getting younger voters to pay much attention. Emotionally, they've already written off Social Security: just 14% of under-30 workers expect the New Deal program to be their major source of retirement income. They're already making plans to provide for their own retirement. So this option is a non-starter.

Rather than pitching personal accounts to those who already agree but aren't paying attention, the President and other advocates of reform need to focus more energy on the constituency that *is* paying attention—today's retirees and those about to retire. These voters have no strong position for or against personal retirement accounts. In fact, 59% of senior citizens say that if their benefits are protected, they are willing to let younger workers set up personal retirement accounts.

The priorities of today’s retirees were elicited by a pair of survey questions about personal retirement accounts. First, we asked if respondents favored or opposed a proposal “that would allow workers to invest Social Security payroll taxes in personal accounts so that they could help provide for their own retirement needs.” Just 27% of those over 65 favored the proposal.

However, when we asked about a similar proposal but said it would “fully protect all retirees,” support among senior citizens jumped to 51%. Almost doubling.

	Support Among Senior Citizens
Personal Retirement Accounts, No guarantee mentioned	27%
Personal Accounts with Guaranteed Benefits for Current Retirees	51%

In short, today’s retirees do not have a strong opinion one way or the other about personal retirement accounts per se. But they do have a very strong (and justifiable) opinion about whether they should receive all of the benefits they have been promised.

Their opinion on the topic is strong because they are very worried. A survey conducted before the President’s State of the Union address found that 48% of seniors believed their benefits would be cut if the President and Congress pass Social Security legislation.

Think about that for a moment.

Not a single proposal has been made to cut the benefits of current retirees or those about to retire. In fact, every credible proposal in recent years has been very clear about the need to fully protect this group. Despite that, half of the nation’s retirees believe that if reform were enacted, it would likely cut their benefits.

That perception is the biggest political hurdle for reformers.

It is possible to overcome it. Following the State of the Union address, the number of retirees who thought reform would likely cut their benefits fell nine percentage points to 39%. Conclusion: A concerted effort by the President on this point can make a difference among elderly voters.

Voters Over 65	Before Speech	After Speech
Likely That Reform Will Cut Your Benefits	48%	39%

While protecting their promised benefits is a top priority, retirees are also naturally concerned about what happens to their children and grandchildren. This is another topic advocates of reform need to address.

Most retirees (54%) believe that workers would receive more money by staying in the government program than by setting up personal retirement accounts. Given this assumption, the idea of personal retirement accounts for their grandchildren doesn't seem like a very good one.

Reformers should make it clear to retirees that their children and grandchildren have a different view: they overwhelmingly want the right to set up personal retirement accounts. In fact, even many workers who would stay in the government program believe that their peers should have the right to decide about personal accounts for themselves.

Those who advocate reform should encourage retirees to discuss the issue with their children and grandchildren. Reformers should highlight the fact that today's seniors can have what they want—their promised benefits—while younger generations can have what they want—the chance to set up personal retirement accounts. No generation gap here.

The inter-generational dynamic is obviously very important to any debate on Social Security. Today's retirees do want to receive their promised benefits, but they don't want to unfairly burden others.

For example, we asked about a proposal to change the indexing formula used to calculate Social Security benefits (similar to one option floated recently as a trial balloon). We told respondents that retirees and near-retirees would not see any change, but that “workers under 50 would receive somewhat smaller benefits.”

That proposal was overwhelmingly opposed by all age groups. Overall, just 27% supported the idea while 53% opposed it.

However, we then asked a follow-up question. Suppose that in exchange for these smaller benefits, younger workers were also given the option to set up personal retirement accounts? Support for the proposal then doubled to 54%.

	Favor	Oppose
Change Index Formula, Smaller Benefits for Those Under 50	27%	53%
Smaller Benefits for Those Under 50, Plus Personal Retirement Accounts	54%	29%

Among those under 30, the age group that would bear the brunt of the hypothetical benefit cuts, 63% favored the idea so long as they could set up personal accounts.

This wide support for personal accounts is not based on hype about unrealistically high returns on investments. It's about comfort, security, and confidence that something will be there at retirement. If the only choice they had were to stay in the current government program or put their Social Security tax dollars in a bank, *half of all Americans under 40 would put the money in the bank.*

Although the survey was conducted before he spoke, the proposal sketched above is similar to what the President outlined in his State of the Union address.

A 53% level of support is not overwhelming, but it is far higher than the level garnered by competing proposals.

- Just 27% of Americans support raising the Social Security payroll taxes to maintain current benefit levels.
- Just 23% believe the government should invest Social Security funds in the stock market.
- Doing nothing? Even less popular. Just 17% believe we should wait and address the problem later. 77% believe it should be addressed now.

Given a choice between raising Social Security taxes and letting workers invest, only 35% want to hike taxes to preserve benefits. A slight majority (51%) prefer to let workers invest in personal retirement accounts.

What all this suggests is that defenders of the status quo have political problems of their own. Most Americans believe changes are needed...and personal retirement accounts are the most popular reform.

Furthermore, **even most Democrats under 40 favor proposals allowing personal retirement accounts.** They believe that it's riskier to rely upon the government for Social Security benefits than to let workers invest in such accounts.

Democrats Under 40	Favor	Oppose
Personal Retirement Accounts, Current Retirees Protected	67%	27%
Smaller Benefits for Those Under 50, Plus Personal Retirement Accounts	52%	30%

Defenders of the status quo must contend with the fact that the idea of personal retirement accounts is now clearly in the mainstream. In fact, 60% now believe that Social Security reform is likely to include such accounts.

HOW DID WE GET HERE?

Opponents of the President's proposal sometimes imply that George W. Bush (or Karl Rove) have misled the public by convincing millions that Social Security is in trouble. From a public opinion perspective, nothing could be more mistaken. The belief that Social Security is in trouble was firmly established in the American mind long before George W. Bush took office.

The same is true of personal retirement accounts. My 1988 survey found that working-age Americans at the time overwhelmingly supported making Social Security "voluntary." In fact, the roots of support for personal retirement accounts can be found in the way President Franklin D. Roosevelt sold Social Security to the New Deal generation, 70 years ago.

For pragmatic political reasons, FDR wanted Depression-era voters to think of Social Security as akin to a private pension fund. At all costs, he wanted to avoid giving the impression that the program was just another government-funded relief effort.

So the New Deal President decreed that moneys paid into the Social Security Trust Fund were to be considered, not taxes, but "contributions." FDR wanted workers to feel that these "contributions" gave them an irrevocable right to receive benefits when they retired. He repeated this theme at every opportunity, demanding that "the funds necessary to provide this insurance...be raised by contribution rather than by an increase in the general taxation."

FDR refused to budge on this point even when his doggedness made things tough for his supporters.

For example, to foster the perception that a taxpayer was directly setting money aside for himself, the Social Security Act required "contributions" to be made for three full years before the first monthly benefit check could be issued. Economists in Roosevelt's Administration argued that taking money out of the economy in this way would further weaken already dismal prospects for economic recovery. Even worse, the burden of these payments would fall most heavily on lower-income workers.

While sympathizing with these views, FDR would not change his position. The President understood the political importance of convincing people that they were contributing to their own individual retirement fund.

"I guess you're right on the economics," he would admit, "but those taxes were never a problem of economics. They are politics all the way through. We put those payroll contributions there so as to give the contributors a legal, moral, and political right to collect their pensions and their unemployment benefits. With those taxes in there, no damn politician can ever scrap my Social Security program."

Roosevelt succeeded in creating the most popular government program in American history. Social Security has proven unassailable. Nine out of ten voters reject any proposal that would make even the smallest cut in benefits for today's retirees.

Ironically, however, it is the very logic of FDR's unqualified success which is now driving the movement for personal retirement accounts. Just as Roosevelt would have wanted, today's workers firmly believe that their "contributions" give them the "legal, moral, and political right to collect their pensions." Most now believe that, if it's their money, they should have the right to determine how it's invested. These workers do not see this as a repudiation of FDR's premise. Rather, they are accepting it, building upon it, and taking it one step further to what they see as its logical conclusion.

This push for reform began in the public culture long before most politicians knew what was happening. By the time the reform movement spilled over into the political process, a rough consensus had already formed in support of the concept of Social Security Choice.

The perception that the current system is unstable also originated in the popular culture, not with politicians.

In 1970, on my very first pay day, I expected to find \$15 in my envelope. Instead, I found \$14 and change. The difference, of course, was my FICA deduction. My boss told me that the government had taken my money and claimed it was for my retirement. He then went on to note that I wouldn't get credit for any work I did before turning 21. But in any case, he added, by the time I retired there wouldn't be anything left for me in Social Security.

Over the last several decades that scene, with minor variations, has played out millions of times. It is probably fair to say that those first paycheck encounters with the reality of FICA marked the beginning of the Social Security Reform movement.

Every time a new employee picks up his or her first paycheck, someone—a boss, a co-worker, a relative, or a friend—is obliged to explain the mystery of the missing money. Probably not all of the explanations are as blunt and concise as that of my boss; but as FICA chews up an ever larger chunk of our paychecks, skepticism about Social Security has become the norm among American workers.

These real-world lessons continue after we collect our first paycheck. Young workers meeting with financial planners are routinely told not to count on Social Security in their retirement planning. News reports debating precisely when the system will become insolvent don't exactly bolster public confidence.

Because these trends emerged in the popular culture, they have far more credibility than anything politicians may say. Today's political class cannot change these underlying perceptions. They must work with them.

In many ways, the current appetite for personal retirement accounts resembles the tax revolt of a generation ago. Ronald Reagan did not create the tax revolt, but he rode the wave all the way to the White House. Democrats were unified in their opposition to his tax cuts, and many Washington Republicans had their doubts as well. When all was said and done, though, Reagan's tax-cutting agenda became the foundation for the current Republican majority. Short-term political judgments can be badly misguided if they fail to take into account long-term trends in the public culture.

George W. Bush did not create the desire for Social Security reform, but he is riding a wave that has been building for decades. Democrats are unified in their opposition. Many Washington Republicans have their doubts. But if the President can stay the course, the creation of personal retirement accounts will expand and strengthen the Republican majority that Reagan's tax cuts built.

Can It Get Through Congress?

Social Security reform can be a big winner in the court of public opinion. Retirees and near-retirees can get what they want and have their benefits fully protected. Younger workers can get what they want and have personal retirement accounts.

But the prospects in Congress are much less certain.

As I noted in the beginning of this report, the most important political fact in the Social Security debate is that the people reform will affect the most are paying the least attention. Younger workers who favor reform are tuning out even as older workers who favor the status quo follow the debate's every twist and turn. So lawmakers will hear a lot more about the risks of reform than about the rewards.

At present, Democrats in Congress are united in their opposition to personal retirement accounts. This opposition is partly based on ideology—most congressional Democrats want to see a larger role for government rather than a smaller role. Letting workers have more choice reduces the role of government.

But Democratic opposition is also grounded in short-term, practical politics. It is possible (though far from certain) that they could force some Republican mistakes on the issue, and as a result gain ground in Congress. On the other hand, Democrats also sense that over the long run, the creation of personal retirement accounts would create a tremendous political benefit for Republicans (assuming, of course, that retirees and near-retirees are fully protected).

The party's ideology and political needs compel Democrats as a whole to oppose personal retirement accounts at all costs. Still, it remains to be seen how unified the Democrats will remain as individual congressmen calculate their *individual* political costs and benefits. If the tide seems to turn in favor of reform, maybe some will decide it is a good idea to be on the winning side of a winning issue.

Consider the case of Democratic Senator Ben Nelson of Nebraska, elected five years ago with just 51% of the vote. In 2006, Nelson will run for re-election in a state that George W. Bush carried by 34 percentage points (66% to 32%). You can be sure that Nelson is going to be very careful about which fights he picks with the President.

Nelson and others will be in the same position as the dozen Democrats who voted for the Bush tax cut in 2001. Some weren't all that eager to support the President's plan, but they decided it was better than trying to explain their opposition to voters in 2002.

As for the Republicans, while a few are opposed to personal retirement accounts, most are drawn to the President's plan for both ideological and partisan reasons. Looking ahead to 2006, the Republicans have a modest advantage in that none of their Senators are at risk in any of the solidly "Blue" states.

The greatest threat to the President's plan among Republicans comes from some skittish officeholders who want to make a legislative omelet without breaking any eggs. They favor the John Kerry approach of being both for and against a controversial policy; in this case, by suggesting the creation of "personal accounts" on top of the existing Social Security programs. In their minds, the virtue of this proposal is that no funds will need to be "diverted" from the Social Security Trust Fund.

This plan would appeal to Democrats, but its passage would be the worst possible outcome politically for Republicans. It would subject the party's officeholders to the political downside of tinkering with a popular program while simultaneously sabotaging the political upside. The proposal reflects a basic misunderstanding of how younger workers view Social Security.

Younger workers aren't looking for another tax-advantaged retirement fund. They're not looking for high returns (indeed, workers under 30 are the ones most likely to say they'd put their Social Security tax money in a bank account if they could).

These younger workers support personal retirement accounts because they believe in the principle articulated by FDR 70-years ago...that they have a moral, legal, and political right to their own money. They don't like paying thousands of dollars a year into a program they don't think will be there when they retire.

From this perspective, the greatest value of reform comes from shifting money *out* of the Social Security Trust Fund and *into* a personal retirement account. **Younger workers believe that every dollar they could shift to a personal retirement account makes them a dollar wealthier than they were before.** These workers don't want to spend more of their hard-earned dollars to make up for the shortfalls in Social Security. They want a Better Deal on the money they're already paying in Social Security taxes.

The President appears to understand this, and it is unlikely that he will reverse himself on the need for true personal retirement accounts funded by taxpayers' Social Security "contributions."

The President will eventually back a single proposal to be voted upon in Congress. He will negotiate with Congressional leaders and probably make some concessions on the size, scope, and terms of the personal accounts. Within reasonable limits, these concessions will make little difference over the long run. Once personal retirement accounts become part of the Social Security mix, they will be expanded over time. The amount of money people will be able to invest on their own will grow. The number of investment options will grow.

Regardless of the details, the President's State of the Union address has made clear that the season for Social Security reform has arrived. His clear and skillful case has defined the terms of the debate. The final proposal will almost certainly include full protection of benefits for retirees and near-retirees as well as credible opportunities to establish personal retirement accounts. That's what Congress will be obliged to vote on.

If the argument can be persuasively made to seniors that their children and grandchildren deserve an opportunity for more control over their retirement, there is a good chance of this proposal becoming law in 2005 or 2006. It will need a final push from George W. Bush. Whatever political capital he may have, the President appears determined to spend it on the issue of Social Security.

The level of that capital over the next two years is likely to be determined by events outside the Social Security debate--the war in Iraq, the larger war on terror, the state of the economy, and, possibly, circumstances unforeseen. Where those issues will take perceptions of the President cannot possibly be known at this time.

If Bush can go into a state during the 2006 elections as a strong asset for Republican lawmakers, Social Security reform is likely to be enacted—again, assuming seniors have been brought on board. Republicans will be united and Democrats will be left agonizing over the merits of a filibuster. Meanwhile, Democratic Senators like Ben Nelson in Nebraska will break from their party for the sake of political survival.

On the other hand, if the President is not a clear asset to Republicans in 2006, reform will likely not be enacted in the near term. Democrats will be more united and willing to challenge him, and many Republicans will look for ways to avoid both the President and the issue.

Regardless of the ups and downs of other political factors, the time is ripe for Social Security reform. But proponents must make their case. Younger workers already accept the need for reform but aren't attending to the debate. The retirees and near-retirees are the ones paying the most attention. It is they who must be persuaded.