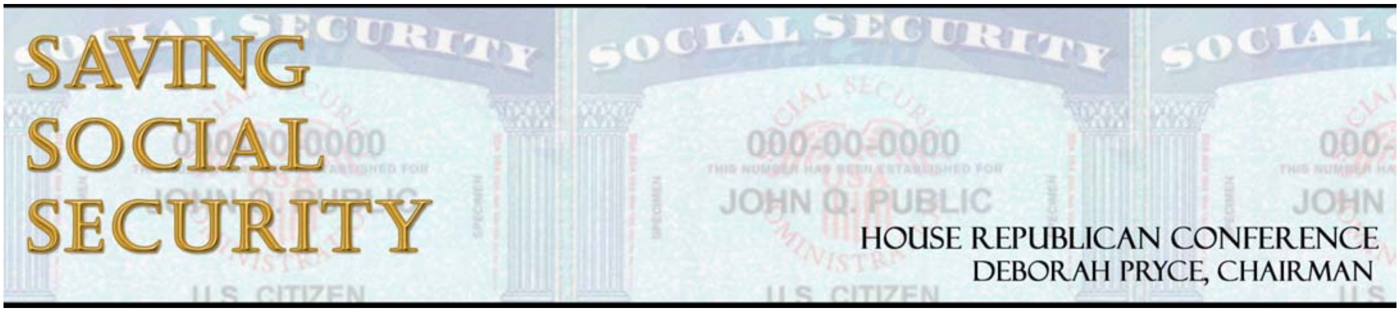

Communicating Social Security Reform

It is key to teach your constituents that Social Security is hurting, but the way in which you go about communicating the problem and the need for reform is critical. You will face the unique challenge of recruiting the support of both current and future retirees—two groups of Americans with very different views on Social Security's reliability. Both must realize what is at stake, why reform is necessary in the very near future, and how they and their grandchildren will benefit from Personal Retirement Accounts. A number of messaging techniques have already been tested in the field—feel free to follow these helpful guidelines as you tailor and communicate the solution to a quickly approaching problem.

Key Recommendations…

- ✓ **"Personalization" not "privatization":** Personalization suggests increased personal ownership and control. Privatization connotes the total corporate takeover of Social Security; this is inaccurate and thoroughly turns off listeners, who are very concerned about corporate wrongdoing.
- ✓ **Talk in simple language:** Your audience doesn't understand financial jargon. Phrases such as "cash flow deficits" and "actuarial imbalance" don't normally crop up in conversation; avoid using them.
- ✓ **Keep the numbers small:** Your audience doesn't know how trillions and billions differ. They know these numbers are large, but not how large nor how many billions make a trillion. Boil numbers down to "your family's share." Also avoid percentages; your audience will try to calculate them in their head—no easy task while listening to a speech—and many will do it incorrectly.
- ✓ **Acknowledge risks:** Many of your listeners will not have a lot of financial education or investment experience, but they know that markets have risk—and nothing is guaranteed. They believe investments can grow over time, but they also know they can lose their investments. They don't trust someone who tells them differently.
- ✓ **Say it the way they can hear it:** Your audience will reject some turns of phrase because of the connotations and associations. The responses are not universal, but they are much less personal than you might imagine.

For example, to most Americans *building wealth* sounds unattainable—especially in the context of Social Security. But on the other hand, *putting aside a nest egg* sounds like common sense. Another example: Calling the trust fund *meaningless* will raise hackles. Taxpayers believe it is the source of the monthly checks paid out by Social Security. But, everyone agrees that it is an *empty promise*.

- ✓ **Lean on indisputable facts:** Your audience will be persuaded by the falling ratio of workers per retiree. Cite the ratios of 16 to 1 in 1950, down to 3.3 to 1 today, and falling to 2 to 1 in 25 years. Be sure to reference the source of the data, the Social Security Administration. The best way to say this is: "The number of workers has been rising since the 1950's, but the number of retirees has been increasing even faster."
- ✓ **Don't say, "Social Security lifts seniors out of poverty":** People don't appreciate all that Social Security does, and believe that despite the program, many seniors are still in poverty. Instead, talk about how Social Security is a "floor of protection" that keep seniors out of the most dire circumstances.
- ✓ **Don't get dismissed by a skeptical audience:** Your audience is skeptical of things that sound perfect or too pat. They will dismiss the notion that the government can help them accumulate a million dollars in a personal account. They do not find it credible that the accounts will be easy to manage.
- ✓ **Don't attempt to demolish every myth:** People "know what they know" and you'll be hard pressed to shake them out of strongly held, erroneous beliefs. Most of these have nothing to do with the case for personal accounts. They are harmless urban myths, such as *Congress doesn't pay FICA taxes,* and *FDR intended Social Security to last only one generation.* Advocates who have educated themselves on the issues sometimes find it hard not to "set the record straight." Stay focused—don't get sidetracked.
- ✓ **Acknowledge concerns, but don't get trapped by them:** Your audience will have concerns that weigh heavily on their minds. However, you need to know that these concerns do not stand in the way of their support for the personal account reform. Two quick examples—one personal, the other more altruistic:
    - First, people genuinely doubt that the money in a personal account will be theirs to keep. They fear it will be taxed or confiscated when they will need the money. Despite this, they still feel personal accounts are safer than the current system.
    - Second, altruistically, Americans want to hear how people without financial savvy will be protected and educated in a system of personal accounts. They feel it is important that those "others" are taken care of. A few rare individuals will admit that they are concerned about their own financial acumen. But, even without an education play, they favor personal accounts over the current system.

Special Issues for Those Over 50

- ✓ **Know how challenging the sale will be:** Start out by asking the audience how many of them think that over the next 50 years the U.S. economy will grow at least as fast as it did during the past 50. Expect those who raise their hands to end up agreeing with you on personal accounts.
- ✓ **Balance family interest with self-interest:** Explain that this reform will help people's children and grandchildren be more secure, while protecting their own benefits for the rest of their lives.
- ✓ **Appeal to their sense of legacy:** Quote theologian Dietrich Bonhoeffoer: "The ultimate test of a moral society is the kind of world it leaves to its children." Almost everyone embraces this notion.
- ✓ **Be clear about revenue source:** Accounts would be funded by current FICA taxes. Stress how the money going into a personal account is not new money, but rather a portion of the FICA taxes workers are already paying.
- ✓ **Offer an alternate reality:** Talk about how much more money they'd have for retirement if they themselves had been investing in a personal account all these years. Add that personal accounts would enable young, minimum-wage workers to enjoy dignity in retirement.
- ✓ **Stress bond investments over stocks:** Assure them that "triple A-rated" bond index funds will be among workers' secure choices.

SAMPLE CONSTITUENT LETTER

Dear John Q. Public,

Thank you for contacting me regarding the Social Security program. I appreciate hearing from you on this issue.

The Social Security program is sound for today's seniors and for those nearing retirement, but it needs to be fixed for our children and grandchildren. Social Security is mainly supported by payroll taxes collected from workers that are used to pay benefits to those seniors collecting from Social Security. Although the Social Security Trust Fund is now running surpluses of income over benefits paid to beneficiaries, the Social Security Trustees project that the Trust Funds will be depleted in 2042. The Trustee project that in 2018 Social Security will begin to pay out more in benefits than it takes in revenue. In 1950, there were 16 workers paying into Social Security for every one beneficiary. Today, there are about three, and when younger workers retire, there will only be two.

The impending financial problems of the Social Security program are why the Congress must work together *now* to strengthen Social Security for our children and grandchildren. The longer we wait, the more difficult and costly it will be to fix the problem. I believe that investing money in personal accounts and allowing younger workers to decide how their money is invested is an idea that deserves serious consideration. Many workers today have opportunities to invest a portion of their own salary in IRAs and 401(k)s for a greater return than what the Social Security system offers. Personal accounts invested in safe, low-cost, broad-based investment funds will earn higher rates of return than the traditional system and help workers enhance their personal savings and their freedom to retire by creating a nest egg that they can call their own and the government cannot take away and they can pass on to their children.

It is important that we debate and begin on serious dialogue today on the future of Social Security and how to strengthen the program. To wait until the program faces an imminent financial crisis would be a disservice to future and near retirees. Doing nothing to fix the Social Security system will cost us, as well as our children and grandchildren an estimated $10.4 trillion, according to the Social Security Trustees. The longer we wait to take action, the more difficult and expensive the changes will be. Rest assured, I intend to be a vocal proponent of the need to reform Social Security in a way that respects the needs of seniors who depend on the Social Security program for their benefits while at the same time shoring up the program for our children and grandchildren

Member, United States Congress

Appendix Two

Sample Speeches

Social Security Speech
For Audiences Ages 18+

Introduction

Good day. My name is ________________. I am here to talk with you about your future, and the future of your children and grandchildren. I have studied the challenges facing our Social Security system. I am going to share with you today what I have learned, and tell you about the solution that I recommend.

The first thing you need to understand is that Social Security has to be fixed. It's not a matter of "I want it to be fixed" or "I think it should be fixed"—it *has* to be fixed.

We need to modernize the system. If we don't, adequate Social Security benefits will not be there for the next generation. When you discover what I have learned, I hope you will join me in the campaign to update and save Social Security. This campaign will not solve every problem, but without action the benefits will certainly be cut dramatically, long before today's high school graduates are ready to retire.

As the bi-partisan Social Security Advisory Board stated in a recent report, "As time goes by, the size of the Social Security problem grows, and the choices available to fix it become more limited."

One Family—Three Generations

Fixing Social Security helps all American families. To illustrate, let's talk about three of the people in one specific family: Arnold, and his son, Bob, and his granddaughter, Cheryl. To remember their names, think of them as A, B and C—Arnold, Bob & Cheryl.

Arnold retired in 1995, after working more than 40 years. He gets Social Security benefits, and he also has a pension and some savings. It's a fairly comfortable retirement. Arnold paid into Social Security during all those decades he was working, secure in the knowledge that the benefits would be there to supplement his income when he retired.

Arnold's son, Bob, and his granddaughter, Cheryl, are working right now, and paying Social Security taxes. Bob hopes to retire in 20 years, and hopes that he will get some Social Security benefits. He fears that he will get less than he has been promised. A quick look at the website for the Social Security Administration shows that his fears are justified. They talk about cutting benefits substantially during Bob's retirement.

Cheryl has been working only for a short time, and she doesn't spend much time thinking about retirement. But she is concerned that she will get nothing from Social Security when she retires 50 years from now. The opinion polls show that Cheryl's attitude is widely shared by her generation. Among Americans below the age of 35, four out of five are not confident in the future financial health of Social Security.

Bob and Cheryl have a problem. But we know that if Bob could put aside some money in a nest-egg, that money would grow over the next 20 years and help him to have a comfortable retirement. And we know that if Cheryl could put even a little money aside, her nest-egg would grow a lot over the next 50 years.

This is what lies at the heart of this movement to update Social Security. We can save Social Security for the next generation, and generations to come, by making a change that allows workers to place a portion of their Social Security taxes in personal retirement accounts. It's a way to help Bob and Cheryl put aside some money for their retirement, and meanwhile Arnold's benefits are fully protected.

This new system would be completely voluntary—I repeat, completely voluntary. Anyone who did not want to participate in personal accounts could stay entirely in the current system. And even for those who do choose to participate, most of their payroll taxes would continue to go into the current system.

The Problem With Social Security Today

Now I'll explain why Bob is worried that Social Security will let him down, and why Cheryl is certain it will not be there for her at all. And then I'll finish up by telling you about the personal accounts that will help fix the system.

If, like Arnold, you are retired, or about to retire, you can rest easy. The personal account program will not reduce your Social Security benefits. This reform is about helping your kids, and especially grandkids, build security for their retirement. Cheryl and her generation deserve the same level of security that her grandfather Arnold enjoys.

Unfortunately, right now, Cheryl does not have that security to look forward to. The fundamental problem is a collision between the aging of our population and the structure of Social Security. By structure, I mean that Social Security is financed as a "pay-as-you-go" system. It takes money from current workers and gives it to retirees. That money is not saved up for the future. No money is invested. It's only transferred from one person to another. You have to hope that when you retire, there will be another generation of workers behind you who will pay taxes to support your retirement. And on and on and on.

This sort of pay-as-you-go system worked fine in 1950, when Arnold got his first job. Back then there were 16 workers supporting every retired person. Have you ever seen that party game, where a group picks up someone sitting in a chair? Sixteen people can easily support anyone.

But today the system is putting more and more financial strain on workers. The number of workers in America has increased since 1950, but the number of retirees has grown much faster. The Social Security Administration says we are down to only three workers for each retiree today. Think of that chair game; it's a challenge for only three to carry that one person. And the ratio continues to shrink.

By the time Bob retires in 2025 it will be closer to two workers for each retired person.

In order to fix Social Security, we need to start planning for that day, now.

Inaction Argument #1: The Trust Fund Will Save Social Security

We've been talking about the problem. But aren't there other solutions? Do we really need to do anything? I've heard a couple of different arguments against taking action.

One argument for doing nothing goes like this: "The Social Security trust fund can tide us over." After all, these people say, this trust fund contains billions of dollars in government bonds.

Unfortunately, no, the trust fund doesn't help at all. Some say that the Social Security trust fund has been looted. But the real problem is that the "Social Security trust fund" is an empty promise.

You see, the trust fund is filled with government bonds. These are an excellent, stable investment under most circumstances. But in this particular case, the bonds are IOUs written by the government to the government. That's the problem.

Think of it this way—normally, a bond works like loaning money to a friend. Let's say you lent $100 to your friend Joe. You trusted Joe to repay you, so for 20 years, you carried around an IOU from him. When it came time to finally get the cash, you just turned that piece of paper over to Joe, and he gave you the money. Clean and simple.

But now suppose, instead of loaning that money to Joe, you had decided to just spend that $100. And let's say you wrote yourself an IOU, promising to pay yourself back for the money you'd spent. You carried it around for 20 years, and then one day you found that you needed cash. Bad news—having that IOU from yourself to yourself doesn't help. If you needed more cash, you'd have to go out and earn it.

And this is exactly the problem with the Social Security trust fund. It's really just one giant IOU. The money that was in the trust fund has been spent by the rest of the Federal government. In order to put that money back into Social Security when it's needed, the government will have to borrow money, make cuts somewhere else in the budget, or raise taxes. And we're talking here about massive amounts of money.

The trust fund does not delay the need for action by a single day or reduce the cost of paying benefits by a dollar.

Inaction Argument #2: Congress Can't Cut Benefits

The second argument for doing nothing is that the government cannot cut benefits. People say to me all the time, "They couldn't get away with that. We wouldn't let them!"

But the bad news is, they have already gotten away with it! Over the past 30 years, the government has cut benefits several times. The last big changes to the Social Security system, in 1977 and 1983, reduced benefits and increased the retirement age. Plus, in 1983, the benefits became subject to income tax, which is really another cut in disguise. And today, the government is making plans for multiple future cuts. You can read all about it on the Social Security Administration's website.

There's a Supreme Court ruling from 1960 that gives Congress the right to cut benefits as much as they want. And today, decades later, millions of retired Americans are living with the consequences in every monthly check. The arguments against taking action don't hold up. If we don't change course, if we stay entirely on the "pay-as-you-go" route, then we'll be faced with a choice between two evils: either increase the tax burden on young workers, or cut the benefits to retired workers.

We don't have to stay on this road. The solution: We can add personal accounts to Social Security. The money that each worker puts into a personal account today will get invested, and grow over time. That growth is the key to fixing the system.

Description of Personal Accounts

Here's what personal accounts will look like. Money will be automatically deducted from your paycheck just as it is now. This is not new money you have to find; it's a portion of the money that currently goes into Social Security from you and your employer. The rest of your payroll taxes will continue to flow directly into Social Security just as it does today.

What portion of your current Social Security taxes will you be allowed to put into your personal account? While this is still being debated in Washington, most experts think it will be about one dollar out of every six that you and your employer pay into Social Security. How much money are we talking about here? Well, your personal account contributions will equal about 2 percent of your annual salary. For example, if you make $50,000 a year, you could put $1,000 into the personal account.

You will have a small number of investment choices—diversified index funds. One fund might be a government bond fund. Another could be a corporate bond fund. And a third might be a broad-based stock index fund. You would decide how much of your money goes into each fund. You will not be picking individual bonds or stocks within a fund. Each fund will consist of hundreds of different companies. This protects first-time investors. They will not be able to go very far astray, due to the safe, limited choices.

And if you're not an experienced investor, you can always choose the automatic option. This means that if you're not comfortable selecting the funds yourself, you can have your money invested for you. This would be done according to a formula, worked out by investment experts, based on your age. For someone closer to retirement, most of your money would be invested in bonds, which are more stable. For young workers your investments would lean toward the stock-based fund, which enables you to take advantage of long-term trends to build a sizable nest-egg. But what's important here is that people who don't want to study up on investment will still be able to participate in personal accounts.

Since the personal accounts will be voluntary, you can choose to not participate at all. Then, all your payroll tax dollars would continue to go into the existing Social Security system.

Would you sign up for a personal account? Richard, a retired gentleman in Arizona, wasn't certain whether personal retirement accounts were the right reform. Then he was asked whether he would advise his son to participate. Richard burst out with: "Of course he should invest, if he has the chance. He'd be foolish not to."

Will personal accounts protect your money better than the current system? People fear that the government will find some way to get at your personal account money, either through taxation or outright confiscation. That is possible. But with a personal account, you can keep track of your money. The money is in your own account, in your name. It's your property, not part of some vague "trust fund" that even the experts don't understand.

And since it's your property, whatever money you don't use from your account you can pass on to your spouse, kids or grandkids. It's important to build a nest-egg, and personal accounts help make that possible. We all want to leave our family with more than memories and photos. This reform will mean that even people who die prematurely have some nest-egg to leave to their heirs.

Why Not 100%?

By now, you might be getting very enthusiastic about personal accounts, and start thinking, "Why only a portion? Let's pull all the money out of the pay-as-you-go system!" That might make sense, except it would mean abandoning Social Security's floor of protection. This guarantee is vitally important and must always be maintained.

If Social Security disappears, 15 million seniors will find themselves living on the streets. No one wants to see that happen. That is why I support moving only a portion of the current payroll tax into personal accounts, while the rest continues to support the guaranteed floor of protection.

Now, there will be some extra costs associated with starting up this system, while continuing to fulfill all our promises to the current generation of retirees. The good news is that these transition costs are manageable—if we take action soon. Let me explain. Social Security will begin running deficits in about 15 years, but today—and you might find this fact difficult to believe—today the Social Security system takes in more money from taxes than it pays out in benefits.

If you are working, the Social Security system takes a lot of money from you: over $6,400 from the average American family, according to the latest figures from the government. Much of that money goes to benefits for today's seniors, but what's left over—one dollar out of every six—the government is just spending. That leftover money is the "trust fund" you've heard about. It's not saved for you; it is just being spent.

This means there is enough money coming into Social Security right now to create personal accounts and keep your grandmother protected at the same time. Personal accounts will not take your grandmother's check away.

Instead, we will take the "trust fund" away from the politicians, and sock it away in a personal account for your future.

You will benefit, and because there will be more money being invested, America's overall economy will benefit as well. A faster-growing economy will mean more jobs and higher wages for American workers.

Cost & Guarantees

One question that always comes up is, "So, what's this going to cost me?" The answer is not much. The costs of running this system would be reasonable—estimated at a yearly charge of three dollars for every thousand dollars in your account. That's right in line with the costs of the least expensive index funds. These fees would be used to employ the people who will be mailing out your quarterly statements and answering your questions on the phone, or via the web, 24/7.

The biggest concern about personal accounts is, what sort of guarantees are there? A lot of us have watched as our 401(k) turned into a 201(k). Will personal accounts be any different? Well, we all know that in the short term, investments fluctuate, sometimes quite dramatically to say the least. But with personal accounts, we're not talking about short-term investing. A dollar you put into your account at age 20 will not be withdrawn until old age, so what matters is the long-term trend in the market.

Investment experts agree that in the long-term the trend is positive. For example, Wharton Professor Jeremy Siegel, the author of the book *Stocks for the Long Run*, has studied the performance of stocks over the last 200 years. He found that the average return from stocks is almost 7 percent a year, after correcting for inflation.

Now, someone who is near retirement cannot benefit from a long-term trend, and this reform takes that into account. Thinking back to the three generations I mentioned earlier, Arnold is already retired and so would not participate in this new system. His benefits would continue unaltered, drawing from the pay-as-you-go system, supported by payroll taxes paid by today's workers.

Arnold's son Bob still has 20 years ahead of him. Bob is at the average income level for an American, and so $1,000 a year will go into his personal account. Remember the long-term growth rate of 7% that Professor Siegel found? Well, at that rate, Bob will accumulate $40,000 by the time he retires. Forty thousand dollars might not seem like a lot, but remember this: That money is not meant to replace Social Security. It will serve as a modest nest egg Bob can use in conjunction with his Social Security benefits.

But it is Bob's daughter Cheryl, with nearly five decades ahead of her, who can really take advantage of the long-term trends to build her security. Of course, we all know that in the short-term the stock market can swing up and down. So, as Bob gets closer and closer to retirement age, he would be wise to gradually transfer more and more of his personal retirement account into bonds, which are more stable. This "locks in" his gains. That way, Bob won't end up being the victim of a short-term dip in the stock market.

When Bob—and much later Cheryl—retire, their monthly Social Security benefit will come from a combination of two sources: the traditional Social Security system, and the fruits of their own personal retirement account. These accounts will build personal security and reduce the burden on Social Security. And this ensures that Social Security—and the floor of protection—will be there for the generations to come.

What's It Gonna Take?

So, let's put personal accounts into Social Security. How do we get there? How do personal accounts move from being a good idea, to being the law of the land?

Well, it is going to take an Act of Congress. Your representatives in Washington—your Senators, your Congressman—have to vote for it, and then the President needs to sign it. That's the reality.

Here's where you can play a part. Let your Congressman know that you support personal accounts, and that you vote. There are easy ways to do this. You can send e-mail, or make a phone call. And easiest of all, you can vote for those people who support personal accounts.

Since getting personal accounts put in place will be a political process, we don't know exactly how it is going to look at the end. While I have described one vision of how it might look, no one can tell you the exact outcome today. But as the debate unfolds, I advocate an open and highly public process. And, to stamp out any whiff of corruption before it even starts, the process for picking investments has to be highly regulated, and well-enforced.

But however those details turn out, we already know that personal accounts will give us more control and more security.

Summary of Key Points

Let's review the four key points.

First, Social Security has to be fixed. Our aging population means that the ratio of workers per retiree will continue to get worse and worse, and we will soon be down to only two workers per retiree.

Second, with voluntary personal accounts, you invest in a retirement savings account that you own and you control. This is not new money you'll have to find; it is a portion of the money you currently pay. And your account will grow over time, through long-term investment.

Third, these personal accounts are about choice. The first choice is whether or not to even participate. Assuming you decide to participate, the next choice is between managing your account yourself versus having it automatically managed for you. The automatic plan is perfect for those who do not want to study up on investing.

And fourth, the current pay-as-you-go Social Security floor of protection will continue to work, funded by the rest of the taxes, just as it has for almost 70 years.

Conclusion

Let me leave you with this thought: Why should young people who will retire in 2035 be forced to live with a system that was invented in 1935?

So many things have changed since then. When Social Security was created the Golden Gate Bridge didn't exist and neither did Mount Rushmore. You couldn't see the Wizard of Oz because it hadn't been filmed. Cheerios hadn't even been introduced as a breakfast cereal. Americans in 1935 couldn't imagine our world of cell phones, computers, or landing a man on the moon—and that was more than 30 years ago!

Times have changed. People live longer, and have fewer children. Cheryl and all the other young people deserve as much security as their grandparents enjoy. So let's move toward change now, and start putting money into personal accounts as soon as we can.

Thank you.

This speech was developed by

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For more information about how this speech was developed,
please contact Rich Thau at Presentation Testing, Inc. at 212-760-4358.

For Our Grandchildren
A Social Security Education Project

Social Security Personal Accounts Speech For Audiences Ages 50 and Older

Introduction

Good day. My name is _________________, and I've long been an advocate for improving Americans' retirement security. Today I am going to talk with you about Social Security, and what we need to do to make it stronger and more effective in the future.

Before I start today, I'd like to see a show of hands. How many of you think that the U.S. economy will grow faster in the next 50 years than it did in the previous 50? *[Pause.]* At the same rate? *[Pause.]* Slower in the next 50 years? *[Pause.]* Thank you. If someone reminds me at the end of the speech, I will be glad to explain why I asked you that question.

[NOTE: Those who say "faster" or "same rate" are likely to agree with your personal accounts speech; those who say "slower" will likely disagree. Asking this question allows you to gauge your audience's attitude toward personal accounts without having to ask them outright.]

When you hear me use the term Social Security today, I am focusing exclusively on old age benefits, that is, benefits paid to retirees. I am not—I repeat not—talking about Medicare, disability benefits, SSI, or any other program. These programs indeed are very important, but they do not make up the majority of Social Security. That is reserved for old age benefits, which is the subject of my talk.

The first thing you need to understand is that Social Security has to be fixed. It's not a matter of whether I want it to be fixed or I think it should be fixed—it *has* to be fixed.

The modernization I am talking about today will make Social Security more secure for you personally. Just as importantly, it will benefit those who retire in the decades to come—people such as your children and grandchildren. In a moment, I'll tell you about the change I recommend, and give you hard evidence to bolster my argument.

But before I launch into that, let's pause for a moment, and look back over the past few decades. You've seen a lot of changes to Social Security during your lifetime, and you know the routine. The government keeps raising payroll taxes and tinkering with benefits. You probably recognize what drives those changes—an aging population where a slowly growing base of workers supports a rapidly growing number of retirees.

At some point in the future, you can see that the system will break down. Either taxes will become unbearably high, or benefits pitifully low. We can't wait until the cupboard is bare to avoid a crisis; it would already be upon us.

No matter our age, or how long we expect to live, we have an obligation to the future. As a famous theologian[1] once said, "The ultimate test of a moral society is the kind of world it leaves to its children."

I know that you don't want to leave, as part of your legacy, a Social Security system badly in need of repair. The good news is that we can do something about it, starting now.

[1] Dietrich Bonhoeffer

So, today, I plan to do two things: First I'll explain the problems facing the current Social Security system and how they could harm your children and grandchildren. Then, I'll tell you about a solution—voluntary personal accounts—that can help solve those problems while making sure that your own benefits are protected for the rest of your life.

Falling Ratio of Workers to Retirees

You're probably wondering what's wrong with Social Security. After all, millions of Americans get their checks every month. Why would we want to change a program that's working smoothly?

Well, the problem is that Social Security, while functioning today, is projected to malfunction when your children will need it in the future. That's due to the way it is structured. Social Security is what experts call a "pay-as-you-go" system. This means that the money your kids pay into Social Security immediately goes, most of it, to people who are already retired. That money is not set aside for your kids. They have to hope that when they retire, there will be another generation of workers behind them who will pay taxes to support their retirement. And on and on and on.

This sort of pay-as-you-go system worked fine when there were a lot of workers supporting each retiree. That was the case in 1950, when we had 16 workers supporting every retired person. Have you ever seen one of those party games, where a group picks up someone sitting in a chair? Sixteen people can easily lift up anyone.

But today we have just three workers per retiree. It's a challenge for three to carry that one person, yet we're doing it. However, with the population aging, the Social Security Administration tells us before too long we'll be down to only two workers per retiree. The burden will be overwhelming—and that's why we need to make changes now, to ensure that your children and grandchildren have adequate Social Security benefits.

Myth 1: The Trust Fund Will Fix The Problem

Do we really need to take action now on Social Security? I've spoken to a lot of people who say things are fine and we should wait to see what happens. Let me share with you three claims they make, and why I respectfully disagree with each one of them.

The first argument people make for doing nothing is that the Social Security trust fund can tide us over. After all, they say, the trust fund contains billions of dollars in government bonds.

Unfortunately, those bonds won't solve the problem. It's not that the Social Security trust fund has been looted. But neither is it, as some say, as good as gold. The real problem is that the Social Security trust fund is an empty promise.

The reason is that the Federal government has been borrowing from the trust fund for years in order to keep the rest of the government functioning. The trust fund contains no diamonds, or bars of gold, or wads of cash set aside for when the Baby Boomers retire. Instead, the trust fund contains a bunch of IOUs from the government, totaling more money than you can ever imagine, promising someday to pay back to the trust fund all that it has borrowed.

As humorist P.J. O'Rourke once remarked, "Having a Social Security trust fund is the exact same thing as not having a Social Security trust fund."

The worst part is, even if we had a fully-functioning trust fund, and the government had never borrowed a cent from it, Social Security would still face a crisis. The aging of the population is such a potent force that it would still cause the trust fund to be completely depleted before your grandchildren will need it for their retirement.

Myth 2: You Have A Legal Right to Benefits

The second argument for doing nothing is that the government cannot cut benefits, because citizens have a legal right to their Social Security. 'You know, I've paid Social Security taxes my whole life. And so I have a right to those benefits, don't I? Aren't those Social Security benefits somehow guaranteed?' Unfortunately, no.

Let me remind you of what happened 20 years ago. Social Security benefits became subject to the income tax for the first time. And benefits are still taxed today. My friends, if your benefits are being taxed, your benefits are being cut. Plain and simple.

You might be amazed to learn that in 1960, the Supreme Court ruled in a case called *Fleming vs. Nestor*, which remains the law today, that Social Security is simply a tax and a government spending program, and that the two are not related to each other in any way. And, in fact, Congress is free to change the benefit formula, or cut your benefits, or even take them away. You have no contract, no property right, no legal right to benefits based on paying Social Security taxes. It's a fact. You can look it up, right on the Social Security Administration's website.[2]

If you think the taxes imposed 20 years ago were painful, wait until the system hits a crisis and Congress tells us it once again has to slash benefits and hike taxes drastically. That's what we will face, if we do nothing now.

Myth 3: I'm Too Old for This to Matter to Me

The third argument for doing nothing is one that really troubles me. I sometimes hear people say, "I'm going to be dead by the time this problem hits. Why should I care about what happens after I'm gone?" In fact, I once heard a gentleman say, "I don't care about the future. I just want my money."

In reality, if all you want is your money, and you want to ignore the future, you are free to do that. The system will provide for you.

But I know that most people in or near retirement are good citizens, and believe they do have an obligation to future generations—just as today's workers have an obligation to today's seniors. And I know that as good citizens you'll want to do something to help fix Social Security.

[2] www.ssa.gov

Fixing Social Security to Meet the Needs of a Changing World

Let's switch gears and talk for a moment about the world you've known, and then spend some time thinking about a better world we hope your grandchildren will live in.

When you were young and the program was new, the basic goal of Social Security was to lift senior citizens out of poverty—to provide a floor of protection against the ravages of poverty in old age. Social Security was largely successful in achieving that goal. Experts tell us that if it weren't for their monthly Social Security benefits, half of all seniors today would be living in poverty.

The world has changed a lot in the past several decades, however. For one thing, Americans are living much longer than they did before. The average lifespan in the U.S. is now 76—and rising.

So we're living longer, which is great—but what's not so great is that a lot of us don't have enough money to live with dignity in old age. And for all the wonders of Social Security, it still has some major shortcomings. One out of every eight seniors remains in poverty despite Social Security. Three out of every 10 widows are in poverty. We know that no one gets rich from Social Security, but most people don't know that many elderly are still barely making it.

With advances in technology and medicine, many of our grandchildren can expect to live very long lives, beyond what many of us can imagine. Experts who study lifespans tell us that it will be common for children born in this decade to live to see the 22nd century! And the question becomes—if our grandchildren are going to live that long, can't we at least give them a better Social Security system, one that's built for the future rather than the past? We should muster the foresight and wisdom to make changes in today's program, changes that will help our grandchildren live in their later years—decades from now—with sufficient financial security.

Personal Accounts: How They'd Work

While the goal in the last century was to lift seniors out of poverty, I believe that for the current century we should aim higher, at creating a Social Security system that brings dignity and independence to all senior citizens. We can do this with a modernized Social Security system. And the centerpiece of this system should contain a long-overdue feature: Workers in the future, such as your grandchildren, should be allowed to put a portion of their Social Security taxes into voluntary, personally-owned retirement accounts. This would allow them to build a nest-egg and control it—and have the later-life financial security so many people in your generation are lacking today.

With these voluntary accounts, younger workers would be able to invest part of their current Social Security taxes. Let me be clear: this is not new money they'd have to find; it's a portion of the money that currently goes into Social Security from them and their employer. The rest of their payroll taxes would continue to flow directly into Social Security as it does today.

Under a system of personal retirement accounts, money would be automatically deducted from their paycheck just as it is now. They would not be required to deposit the money themselves, and there would be no chance that people could take their money and go to the track and gamble it away. The big difference from the current system is that instead of going into the big pool of the Social Security system, some of that money would be going into a personal account where it's being controlled and invested for the future.

You probably want to know the details. These younger workers would have a choice of a handful of diversified index funds, perhaps one each for government bonds, corporate bonds, and stocks. Independent regulators—not the government or a bunch of stockbrokers—would determine the composition of each fund. These regulators would ensure the investment funds were secure, had low administrative costs, and were closely supervised.

Workers could put all their money into one fund, or a portion into each. But what's important to know is that the corporate bond and stock funds would give ordinary workers a stake in the success of literally thousands of different companies across a wide variety of industries.

Workers would not be taking the risk of picking individual stocks from a single company—of putting all their eggs in one basket. No one would be able to put all their money into the next Enron or Worldcom. Choices would be made as simple as possible. They would not be able to go very far astray, due to the safe, limited choice of funds.

Protecting Those Who Have Never Invested Before

Clearly, not everyone is comfortable investing, though millions of younger workers have become adept at it over the past decade—the same way they've become so at ease using computers. But for those of us who still worry about "first time investors"—the millions of Americans, some of them your friends and family who have never invested before—we obviously need to help these folks avoid making bad or ill-informed investment decisions. How would we do this?

If someone is uncomfortable choosing investments for himself, all he'd have to do is say so. The money entering the personal account would be automatically invested in a mix of funds based on that worker's age. If he were young, he would have more money invested the stock fund; as he grew older and closer to retirement, money automatically would be shifted into the bond funds, which are more stable. The great thing about this new system is that people who don't want to study up on investment would still be able to participate in personal accounts.

And, since the personal account system would be voluntary, workers instead could choose to not participate. Then, all their payroll tax dollars would continue to flow into the existing Social Security system, just as they do now.

Some of you might not be convinced of the value of a personal account, so let me share a couple of facts with you. The average retired 65-year-old today receives about $900 a month in Social Security benefits. If this person had built up money in a personal account during his working years, by making the types of modest, safe investments I've described, his monthly benefit would have been several hundred dollars more. That can make a big difference for many seniors in affording just the basic necessities.

Protecting the "Safety Net"/Access to Benefits

When people think about personal accounts, one concern that comes up right away is, what happens to Social Security as a "safety net"? The quick answer is that the safety net is vitally important, and we must maintain it. There's no way we can let millions of seniors be thrust into poverty. So it's really important that Social Security remains secure.

That's why, even with the reform I'm suggesting, we would continue to use most of the current payroll tax to support Social Security as it exists today. This preserves that essential safety net. Only one dollar out of every six will go into personal accounts, to let even low-wage workers build their security with a modest nest-egg.

Now, voluntary personal accounts would be great for the workers and retirees of the future. They'd be accumulating money in their own account, throughout their working life. That money would grow through investment over the years. Because their dollars are growing over the course of decades, they would be able to have a more comfortable retirement without relying entirely on the next generation of workers. They would own and control their account. That gives them more certainty that their Social Security money would be there for them, compared to a trust fund the government can "raid" whenever it needs extra cash.

At what age could someone get access to his or her personal account? It would be the same age that one becomes eligible to receive Social Security retirement benefits. Because the money would be theirs, retirees of the future could take their personal account money in the form of a monthly payout that would supplement Social Security for the rest of their lives, or as a single lump-sum payment, or as a combination of the two.

I hear all the time, "The market moves up and down constantly. What if someone retires in a year when the market is down?" The answer is simple: Remove only a small part of the money from the personal account at that time. Wait to remove the rest, when the account's value rises again, which it will inevitably do. In the meantime, start drawing the traditional Social Security benefits, which are stable and don't fluctuate.

Would the money in the personal account be taxed as the owner withdraws it? Yes, it would be taxed, the same way any investment income is taxed.

When these younger workers retired, any money they didn't use from their accounts they could pass on to their spouse, their heirs, or a charity—something you can't do with Social Security today. It's important to have a nest-egg, and personal accounts can help build one. How many of you would like to be able to leave your family with a financial gift to go along with all the memories and photos? This reform would mean that young people who end up dying before retirement would have a modest nest-egg to leave to their heirs.

I've also heard people say, "Well, if this is such a great idea, why are we the only ones doing it?" Well, the fact is, the U.S. wouldn't be the first. But we'd be the smartest. We'd be building on the experiences of more than 20 other countries—ones that have had systems like this in place for years. Australia, for example, was almost as bad off as we are. They owed far more in retirement benefits than they were going to be able to pay. Now workers put a portion of their income into safe, regulated investments, and today Australia is one of the best countries in the world as far as being able pay full benefits when people retire.

1/6 of FICA, Redirected Into Personal Account

Will personal accounts protect your grandkids' money better than the current system? I've talked to a lot of people all over the country, and *some* say that the government will find some way to get at their personal account money, either through taxation or outright confiscation. Now, that is possible, and it would be their duty to keep the Washington bureaucrats from getting their greedy hands on their personal account.

But with such an account, the money would be kept where they could track it, and it would be a lot harder for the government to misuse it. It's much easier to watch money that's in your own account, in your own name, that's your own property, than to watch a so-called "trust fund" that no one except the experts even understand.

Some of you might be wondering to yourselves, "If they let my kids and grandkids put part of their payroll taxes into a personal account, would that decrease the amount I receive from Social Security?" The answer is no. While Social Security will begin running deficits in about 15 years, today—and you might find this difficult to believe, but it's a fact—the Social Security system takes in more money than it pays out.

For every six dollars the government takes from today's workers for Social Security taxes, five dollars is given to retirees. That remaining dollar goes into the "trust fund" that you've heard about, but it's not being saved there; it is being spent. And what it's being used for is the day-to-day functioning of the rest of the government, which itself is running giant deficits.

I'm all for fiscal discipline. Forcing the government to balance its checkbook, cut its wasteful over-spending, and quit borrowing from the Social Security trust fund surpluses is one of the most important things we could do to strengthen Social Security. In fact, I'd love to see the government pay back to the trust fund the billions and billions of dollars it has already borrowed over the years. But I'm not optimistic this will ever happen. No matter who's in charge, there's just no discipline in our nation's capital.

That's why I believe that to keep workers' hard-earned Social Security contributions out of the hands of wasteful Washington politicians, we need to let people hold on to that *surplus* money—that one-sixth I talked about earlier—and sock it away for themselves for the future. Currently—and then for the next 15 years—the Social Security system will be taking in enough money to create these accounts and keep your benefits protected at the same time. No one will take your check away.

After that 15-year period, to keep the personal accounts system working, we may need to cut spending elsewhere in the budget or raise taxes to meet the government's other obligations. But there's one thing I haven't mentioned—the increased growth to the overall economy that will result from having that personal account money invested. This will spur more jobs, more tax revenues, and a healthier economy overall.

I know I'm stressing how this new system would benefit today's younger workers, and you're probably wondering, "Hey, what's in this for me?" Well, how about this: we'll keep the promise that's been made to you, that the full benefits you expect from Social Security will indeed be the full benefits you receive. Let's be candid: If you're near or at retirement, you wouldn't be able to amass enough money in a personal account for it to make a difference for you financially. But these personal accounts will make a big difference to those with decades of work ahead of them.

Who Manages The Money?

You might be concerned that Wall Street is going to get rich off of this system. It won't, because Wall Street firms will not be managing this money. Instead, an independent agency set up by the government will keep records for each account.

In fact, this agency could be the very same one that administers the retirement accounts that Members of Congress and their staffs pay into right now. Not a penny has been lost to fraud; costs are low; and the people covered are very happy with it.

While no one manages money for free, the best estimate is that the administrative costs for the government to run this system would be reasonable—a yearly charge of three dollars for every thousand dollars in one's account. That's right in line with the costs of the least expensive index funds. This money will be used to fund the thousands of new workers needed to mail out quarterly account statements about one's investments, provide accurate account data via the Internet, and give customer service assistance 24 hours a day, seven days a week.

With the personal account, workers will have full legal ownership rights to their money. The account will be theirs to own and control, similar to an IRA or 401(k). Within the narrow range of investment choices, workers can decide how much to put into each fund. The only limitation is that workers cannot withdraw their money until they reach old age.

Something we probably all know is that there are no guarantees when it comes to investment. I hear all the time: "My 401(k) is now a 201(k). How are you going to keep my kids from losing money in a personal account, like I lost it in my 401(k)?" The answer is that in the short term, investments fluctuate, sometimes quite dramatically, as we've witnessed recently. But we're not talking about short-term investing with these Social Security accounts. A dollar someone puts into an account at age 20 will not be withdrawn until old age, so what matters is the long-term trend in the market.

What's wonderful about this system is that it would give every worker a chance to participate in the fruits of capitalism. And how has capitalism performed? The well-respected Wharton Professor Jeremy Siegel has studied long-term investment over the past two centuries. He found that stocks provided an average annual return of almost 7 percent—and that was after inflation.

For those of you who are still anxious about stocks, let me try to reassure you. There has never been a 20-year period in U.S. history when the stvvvock market has lost money. Never—not even during the Great Depression of the 1930s. While history is no guarantee, it is a guide.

Clearly, people who are already near retirement would not benefit, which is why personal accounts are only for younger workers. They are the ones who have decades ahead of them, and can take advantage of the long-term trends to build income security. Wouldn't you want the young people in your life, some of whom work in minimum- or low-wage jobs, to build a modest nest-egg using a portion of the money they're already paying in FICA taxes? Some of these folks are barely making ends meet and cannot afford to save otherwise. Personal accounts would give them a great chance to get ahead.

I envision that when your grandkids retire, Social Security benefits will come from a combination of two sources: the traditional Social Security system, as well as the fruits of their personal retirement account, which they would have been contributing to over a lifetime of work.

I don't want to oversell you and leave you with the impression that these voluntary accounts will make your family members wealthy. They won't. Nor will they fix all of Social Security's problems all by themselves. The goal is make sure that the seniors of the future live in greater dignity than many of the seniors of today, without placing a crushing burden on the working class who must support Social Security.

Even with all the retirement savings plans out there, it's a sad fact that millions of today's workers will still end up relying on Social Security as their main source of income when they get old. A few hundred extra dollars more per month, coming from a voluntary personal account, will help ease the financial burden these future retirees will face.

I know there are many other steps we could take to fix the Social Security system. And I support some of them; you can read more details about the program on my website. But of all the things we could do, the most valuable would be to adopt the new structure I've described here.

To some of you, this new structure would seem like a considerable change to Social Security. Let me reassure you, however, that it wouldn't happen overnight. First, Congress would have to change the law, and then the President would have to sign it. This is unlikely to occur until after the next presidential election, at the very earliest. And it would, of course, first require that citizens such as yourself supported this change and contacted your elected representatives, with phone calls, letters, and emails directed at their offices.

Assuming voluntary personal accounts did become law, they would then take time to phase in. To protect the tens of millions of new account-holders and their growing investments, we'd need to ensure that record-keeping is accurate, that there is proper oversight by government regulators, that all the other complexities of making this system work are in place.

Once in place, personal accounts will help put the traditional Social Security system back on track. Building assets in voluntary personal accounts today helps reduce the burden on Social Security tomorrow. Put simply, those who put less money into the traditional system today will be owed less when it comes time to pay them benefits when they retire. Personal accounts will give them the security they need, not merely an increasingly creaky "floor of protection."

In Conclusion

Let me summarize.

Our aging population means that soon there will be too few workers supporting an ever-growing number of retirees receiving Social Security.

The system has to be fixed. Some people think that Social Security will go on forever without changes. It won't—and with the problems I just described to you—it can't.

Under a system of personal accounts, younger workers could voluntarily take part of the money they currently pay in Social Security taxes and invest it in a retirement savings account. This is not new money they'd have to find; it's part of the money they currently pay into Social Security.

And for those who might not want, or know, how to manage a personal account, there is an easy way to have the investment decision made for that individual—the only thing they need to do is say that they want an account, and one will be created and managed for them.

Most importantly, voluntary personal accounts would enable younger workers to build greater security for retirement. And with your grandchildren expected to live a long time in old age, retirement security is going to be extremely important.

Let me leave you with a question: Why should young people who will retire around the year 2035 be forced to live with a system that was invented in 1935, especially when that system is in such deep trouble? So many things have since changed then. When Social Security was created the Golden Gate Bridge didn't exist and neither did Mount Rushmore. You couldn't see the *Wizard of Oz* because it hadn't been filmed and Cheerios hadn't been introduced as a breakfast cereal. Americans in 1935 couldn't imagine our world of cell phones, computers, or landing a man on the moon—and that was more than 30 years ago! Times have changed, even if the values behind Social Security haven't. Young people ought to have a chance to do it differently than their grandparents. So let's press our leaders for this change now, and start putting money into personal accounts as soon as possible.

Thank you.

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For Our Grandchildren
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