

# Economic Opportunity Institute Blueprint

## Social Security and Public Opinion

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### Key Findings

While Washington residents initially support restructuring Social Security to a system of private accounts, they change their opinion when they learn about the loss of guaranteed benefits and the costs of transition.

- ▶ 57% favor maintaining the current Social Security system.
- ▶ Adults between the ages of 25 and 64 shift from initially favoring to opposing private accounts.
- ▶ Seniors over age 65 overwhelming support maintaining the current system.
- ▶ Democrats and Independents strongly support maintaining the current system even before hearing consequences. Republicans continue to support changing to a system of private accounts after hearing about the costs and changes in benefits.

### Introduction

In a recent poll, Washington state residents strongly preferred keeping guaranteed Social Security benefits over a proposal to allow investment of payroll taxes in personal accounts. When asked if they favored changing Social Security from a guaranteed benefit program to a plan where individuals could invest part of their withholdings themselves, initially half of all respondents said yes.

However, three fourths of women and two thirds of men said they would be likely to oppose a change if it resulted in loss of guaranteed benefits or increased taxes to fund the transition.

and prevent the dismantling of a program that has succeeded in extending economic security broadly to workers, retirees, and their families. Americans want to preserve Social Security's guaranteed basic income. At the same time, Americans would like new policies that provide opportunities to save and invest in addition to Social Security.

The Evans-McDonough Company conducted the poll of 401 Washington state residents over age 18 for the Economic Opportunity Institute. The responses were given between January 18 and 22, 2002.

These poll results indicate that Social Security's supporters can win the debate

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## BACKGROUND

George W. Bush campaigned for the presidency with a promise to let younger workers invest part of their Social Security taxes themselves. In May 2000, he appointed a commission composed of privatization advocates and charged them to come up with a plan by the fall. Instead, however, the commission's final report included rough outlines of three possible approaches, all of which would entail significant reductions in guaranteed benefits – not only for retirement, but also in Social Security's disability and survivor programs. In addition, the commission called for unspecified but large amounts of new funding to pay for the transition to a new system. Because any proposal would be controversial and politically unpopular, the commission recommended waiting a year before taking up reforms.<sup>1</sup> National priorities have shifted since the attacks of September 11 and the onset of recession. Nevertheless, Bush still pledged to move forward with major Social Security restructuring in his State of the Union Address on January 29, 2002.

Social Security has been under assault for over two decades by conservative institutes that advocate transferring most government services into private hands, and by investment industry interests that stand to gain financially.<sup>2</sup> These "privatizers" have succeeded in making major restructuring of Social Security a part of the conservative political agenda, and have pushed those who support Social Security's current structure into a largely defensive policy debate.

The major debate among policy experts has been over Social Security's long term solvency. Social Security is primarily a pay-as-you-go system, with current payroll taxes financing current benefits. For the past twenty years, additional taxes have been collected in order to build up the trust fund

sufficiently to cover the demographic bulge of the baby boom generation. Since the early 1990s, the annual reports of the Social Security trustees have projected that if long term productivity and economic growth are slow, then the trust fund would be depleted before 2040 and payroll taxes would cover only about three fourths of promised benefits. Even under this worst case scenario, the average retiree in 2040 would receive benefits worth about 10% more after inflation than today's retirees. Those same reports have also projected that with moderate productivity and economic growth, the trust fund will never be depleted and future generations of retirees will enjoy much more generous benefits than today's seniors without tax increases.<sup>3</sup>

The conservative think tanks and investment interests that advocate an individualized system have insisted that Social Security's glass is one quarter empty – and often tried to empty it further by asserting that the trust fund assets are not "real."<sup>4</sup> They have proclaimed Social Security's impending insolvency often enough that many Americans have come to believe it.<sup>5</sup> Other analysts insist the glass is full, or at least full enough, especially those who see the value of an insurance system that spreads risk broadly, guarantees every worker a basic income in retirement, and redistributes benefits to those most in need.<sup>6</sup> The popular press, meanwhile, has largely accepted the trustees' mid-range projections of an eventual shortfall in funding as undisputed fact.

The prolonged economic growth and stock market boom of the 1990s fueled fantasies that everyone could become rich by investing. Supporters of privatization played on those fantasies with inflated projections of returns from individual accounts that ignored the inevitable costs. Every detailed analysis of transferring a portion of payroll taxes

into personal accounts concluded that a new system would require major reductions in guaranteed benefits, reductions in total retirement income for the majority of workers even assuming strong returns on investment accounts, and at least \$1 trillion in new money to maintain retirement, survivors, and disability benefits for current recipients while new money was diverted to individual accounts.<sup>7</sup>

Nevertheless, George W. Bush’s campaign rhetoric, that “it’s your money,” played well with voters and nicely complemented the assertion (however groundless) that Social Security was going bankrupt. Those who viewed Social Security’s social insurance structure as an essential component of economic security for working families in a capitalist economy have been less effective at coming up with slogans that resonate well with the American public.

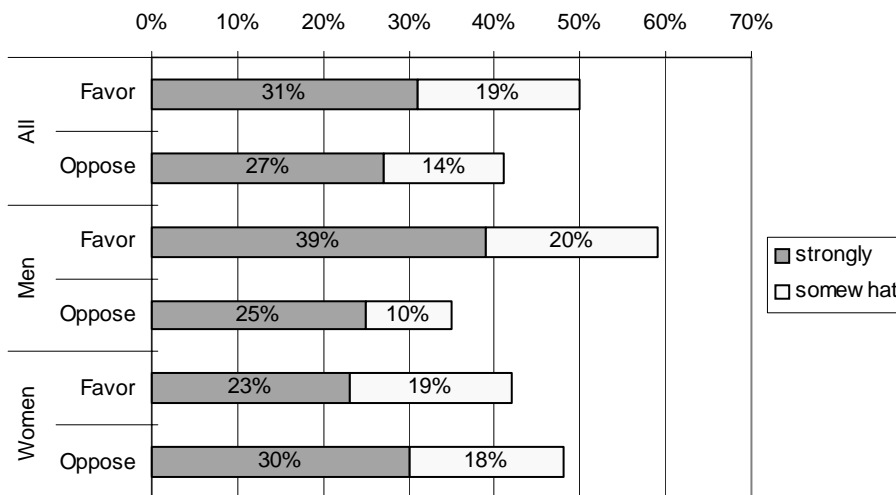
Poll respondents were asked if they favored or opposed proposals to change Social Security from a guaranteed fixed benefit to a plan where individuals could invest part of their Social Security payroll taxes themselves. Initially 50% of respondents favored making such changes to Social Security, and 41% opposed. However, after hearing likely consequences, including reductions in guaranteed benefits, only 38% continued to favor the shift to private

accounts and 57% opposed the change. (See questions in Appendix.)

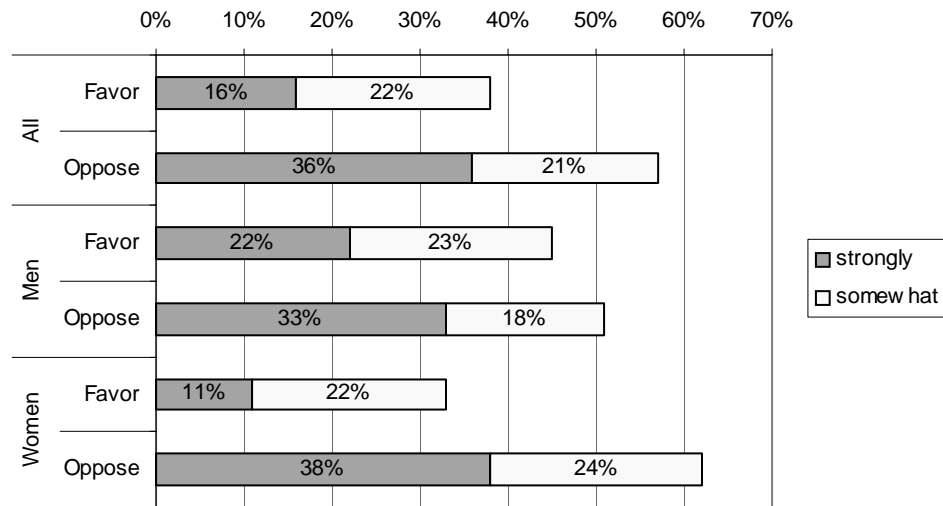
Men were significantly more likely than women to support restructuring Social Security. Initially 59% of men but only 42% of women favored the change to private accounts. After hearing arguments against the change, only 45% of men and 33% of women continued in support.

## POLL RESULTS

**First Response to Proposal to Allow Individual Investment of Social Security Taxes**



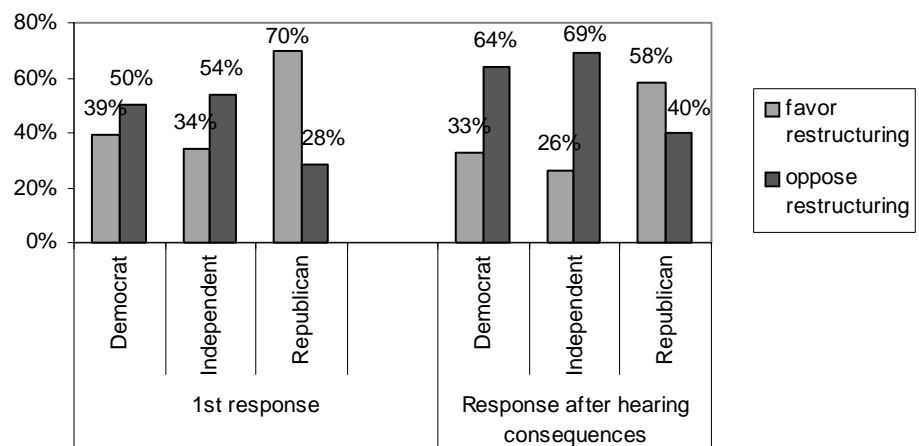
### Response to Proposed Changes in Social Security After Hearing Probable Consequences



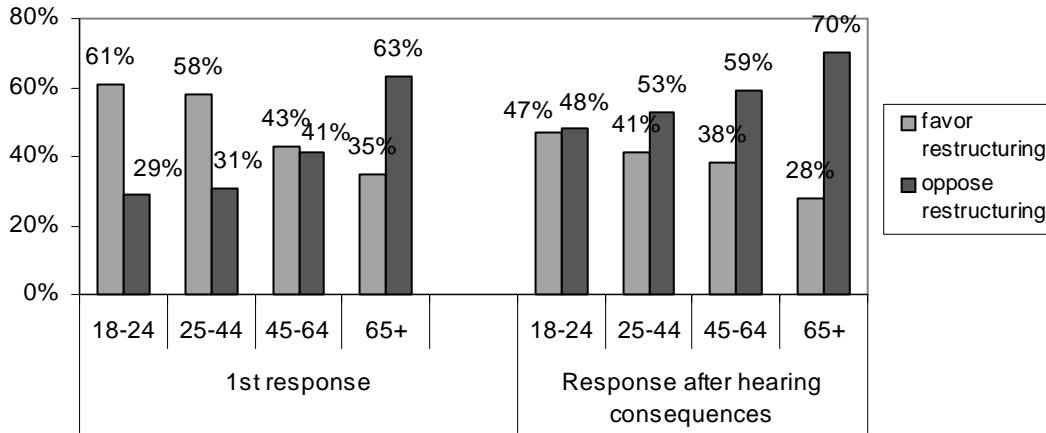
Republicans were far more likely than Democrats to favor a privatized approach. A full 70% of Republicans favored individual investment reforms when first asked, and 58% continued in support after hearing the probable consequences. Among Democrats,

50% *opposed* the reforms initially, rising to 64% when after hearing arguments. Opposition to changing Social Security was strongest among Independents, who also tended to be older than those with a party affiliation, with 54% opposed when first polled and 69% opposed when asked the second time.

### Washington State Residents Favoring or Opposing Individual Investment of Social Security Taxes, by Party Affiliation



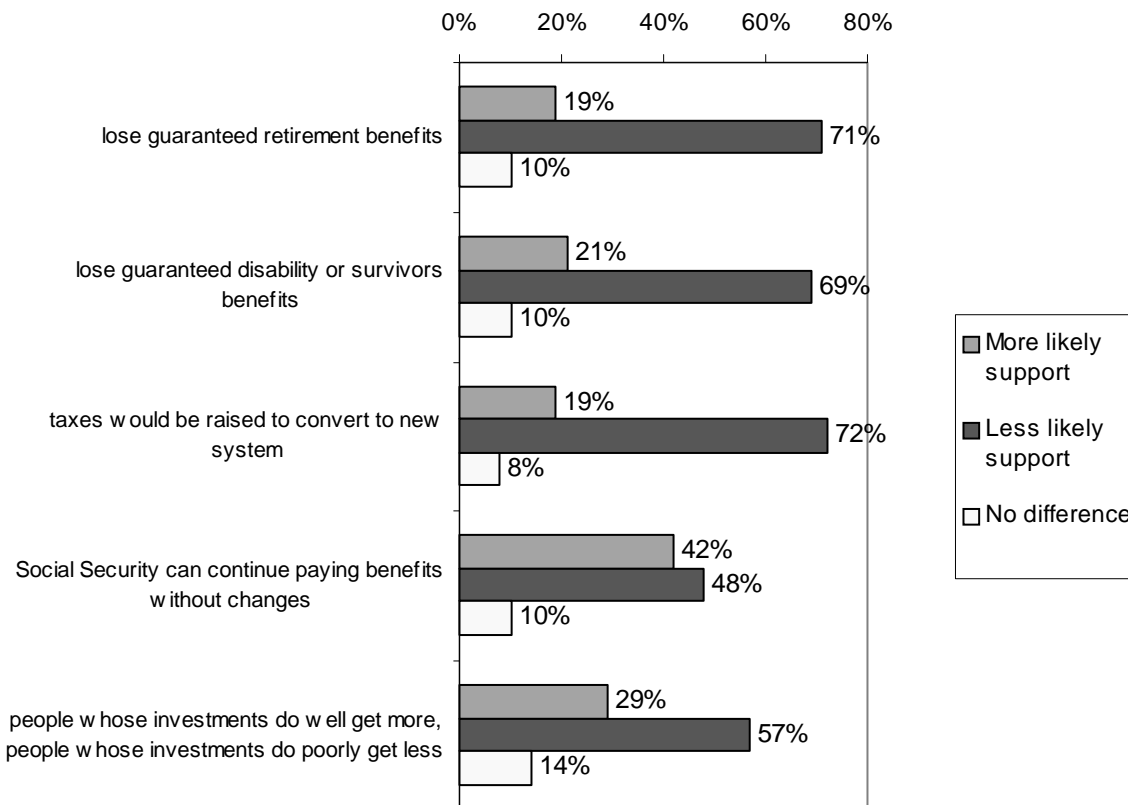
### Washington State Residents Favoring or Opposing Individual Investment of Social Security Taxes, by Age



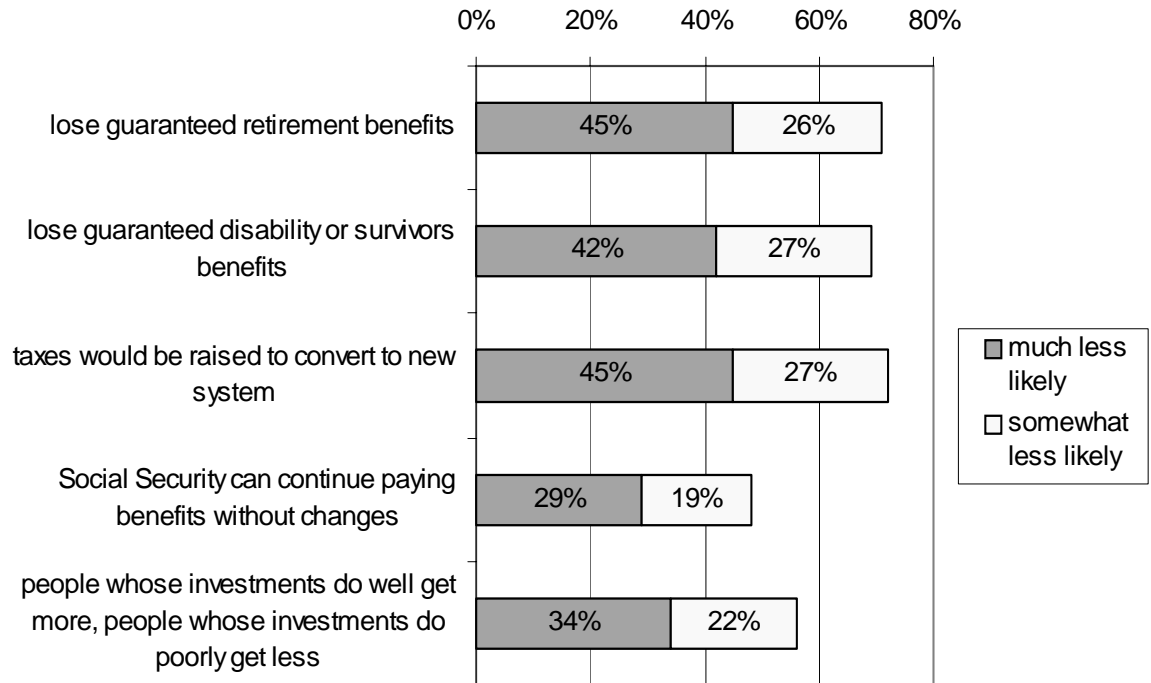
Age is a significant factor in people’s attitudes toward Social Security. The majority of state residents over age 65 strongly opposed changing the current structure, even before hearing likely consequences. This older group is most likely to be receiving Social Security benefits already and to be better informed about the program.

Among younger adults, the majority initially favored changing Social Security to allow individual investments, but many changed their minds after hearing likely consequences. Those under age 25 shifted from a strong majority favoring private accounts to a statistical tie in opinion, while those

### Persuasive Arguments: % Who Would Be More or Less Likely to Favor Changing Social Security to Allow Individual Investment:



**Persuasive Arguments: % Who Would Be Less Likely to Favor Changing Social Security to Allow Individual Investment:**



ages 25 to 64 moved from generally favoring to generally opposing private accounts.

While many people find the notion of investing their payroll taxes appealing, most oppose making such a change to Social Security when they hear the probable consequences. Loss of guaranteed benefits and the possibility of increased taxes to finance the transition have the strongest effect on opinion. Although the public discussion of Social Security has focused mainly on retirement benefits, state residents expressed as much concern with maintaining guaranteed benefits for survivors and disabled workers. Knowing that people whose private investments did well would receive more income and those whose investments did poorly would get less money also influenced people's opinions.

Respondents did not find the financial soundness of the existing system to be as persuasive an argument either for or against restructuring. Evidently, the system's long term fiscal health is not as important a factor for the general public in the debate as it has been for policy professionals.

Poll respondents also expressed a great deal of concern about retirement savings *in addition* to Social Security. Fully 91% agreed that it is important for people to have some kind of retirement plan in addition to Social Security in order to have economic security in their old age. When asked if they would favor the creation of a new, government sponsored 401(k)-style retirement plan that would be open to all workers and employers and be portable as workers moved from job to job, 86% said they would favor such a program, with strong majorities across demographic and political groups.



The attacks of September 11 and the war on terrorism have slowed down the drive for major Social Security restructuring. However, the proponents of transforming Social Security from social insurance into individual accounts have spent decades advocating their cause. They continue to preach the gospel of private markets, individual wealth, and personal accounts. The poll taken among Washington state residents in January 2002 indicates that the majority of Americans want *both* the economic security of guaranteed Social Security benefits and the opportunity to make long-term personal investments.

The policy question before us is not whether long term personal investments would enhance economic security for the majority of Americans. The question is whether such accounts should be carved out of guaranteed Social Security benefits, or whether new policies need to be developed so that all working Americans have genuine opportunities to save for retirement in addition to Social Security.

The idea of investing payroll taxes remains attractive to many Americans, even with dramatic proof over the past two years that stocks don't always go up. At the same time, this poll shows clearly that people continue to want the security of a guaranteed family income in retirement or following the disability or death of a worker. Moreover, they do not want to have to pay additional taxes to finance a transition to a new system. Those with the most knowledge about Social Security - that is seniors already collecting benefits and all respondents after hearing likely consequences of proposed changes - are most opposed to restructuring to personal accounts. The issue that has tended to dominate the debate for policy professionals, the long term fiscal soundness of the system, is not as

important a consideration to the average American.

These poll results indicate that advocates of maintaining and enhancing Social Security's social insurance structure can succeed in winning the debate. However, doing so will require a high level education campaign aimed at Americans under age 45 that includes the following arguments:

1. Social Security provides a guaranteed base of income in retirement that is protected from the ups and downs of the economy, the stock market, and inflation.
2. Social Security provides a guaranteed base of income to the family if a worker becomes disabled or dies.
3. Changing to a different system based on personal accounts will require a major reduction in guaranteed benefits. For most workers, returns on their individual accounts will not make up the difference.
4. Changing to a system of personal accounts will be expensive to American taxpayers, with the transition costing over \$1 trillion.
5. Social Security unites working and retired Americans to provide true economic security for all. If private accounts replace rather than enhance Social Security, workers and retirees will be on their own when times get tough.
6. We can both preserve the highly successful Social Security insurance program of guaranteed benefits and provide new and simple mechanisms for workers to save and invest for additional retirement income. Promising models include the Washington Voluntary Accounts program being developed in Washington state.<sup>8</sup>

## CONCLUSION

Social Security has been one of America's most successful programs. It has reduced poverty among our elderly to less than 10%, and provides economic stability to millions of younger families after the death or disability of a wage earner. Because of its social insurance structure, Social Security protects low earners as well as high earners, weathers recessions and stock market crashes, and insures that no one will out-live their benefits. The

increase in average life spans, the continued and increasing inequities in economic opportunity, the precipitous decline of defined benefit pension plans and the uncertainty of 401(k)s all make Social Security's insurance provisions more important now than ever before. Americans cannot afford to lose Social Security. It's time to conclusively defeat the drive to dismantle this bedrock of economic security.

## Endnotes

<sup>1</sup> President's Commission to Strengthen Social Security, "Strengthening Social Security and Creating Personal Wealth for All Americans," December 21, 2001 ([http://www.commtostrengthensocsec.gov/reports/Final\\_report.pdf](http://www.commtostrengthensocsec.gov/reports/Final_report.pdf)).

<sup>2</sup> Rose Darby & Michelle Celarier, "Where's the Payoff?" August 9, 1999, [www.davidlanger.com](http://www.davidlanger.com); Robert Kuttner, "Rampant Bull: Social Security and the Market," *The American Prospect*, July/August 1998, p. 32; *Wall Street Journal*, 12/3/96. See web pages for the Heritage Foundation at [www.heritage.org](http://www.heritage.org) and Cato at [www.cato.org](http://www.cato.org).

<sup>3</sup> See Annual Reports of the Social Security Trustees, available at [www.ssa.gov](http://www.ssa.gov). See also, Marilyn P. Watkins, "Social Security: A Success Story Under Attack," Economic Opportunity Institute, May 2001, <http://www.eoionline.org/Policy-EconomicSecurity.htm#SocialSecurity>.

<sup>4</sup> Trust fund assets are in fact invested in United States Treasury bonds, considered world wide to be among the safest investments possible. These earn about 7% interest annually.

<sup>5</sup> Examples include: President's Commission to Strengthen Social Security, "interim Report," August, 2001 (<http://www.commtostrengthensocsec.gov/reports/Report-Interim.pdf>); David John, "A Second Look at Social Security's 'Trust Fund,'" Heritage Foundation, February 14, 2002, (<http://www.heritage.org/views/2002/ed021402.html>); Cato Institute, Social Security Privatization: It's Your Money, Your Choice, Your Future," (<http://www.socialsecurity.org/about.html>).

<sup>6</sup> Economic Policy Institute, "Social Security Facts at a Glance," (<http://www.epinet.org/>); Dean Baker and Mark Weisbrot, *Social Security: The Phony Crisis*, University of Chicago Press, 1999; Nicholas Confessore, "Commission Impossible: Bush commission Becomes its Own Worst Enemy," *American Prospect*, December 17, 2001 (<http://www.ourfuture.org/readarticle.asp?ID=1182>).

<sup>7</sup> Henry Aaron, et al, "Governor Bush's Individual Account Proposal: Implications for Retirement Benefits," June, 2000, The Century Foundation, [www.socsec.org/facts](http://www.socsec.org/facts); Dean Baker, "Governor Bush's Individual Account Proposal," November 2000, Center for Economic and Policy Research, [www.cepr.net](http://www.cepr.net); John Mueller, "Three New Papers on 'Privatizing' Social Security, One Conclusion: Bad Idea," <http://www.globalaging.org/pension/us/socialsec/mueller.htm>; Peter R. Orszag and Jonathan M. Orszag, "All That Glitters Is Not Gold: The Feldstein-Liebman Analysis of Reforming Social Security with Individual Accounts," Center on Budget and Policy Priorities, April 26, 2000, p. 15; "Bush uses own brand of math on Social Security," *New York Times*, March 2, 2002, <http://www.nytimes.com/2002/03/02/politics/02SOCI.html>.

<sup>8</sup> See Marilyn P. Watkins, "Washington Voluntary Accounts: A Proposal for Universal Pension Access," Economic Opportunity Institute, June 2001, [www.eoionline.org](http://www.eoionline.org).



## Poll Questions

The following questions on Social Security and retirement savings were included in a poll of 401 Washington state residents over age 18, between January 18 and 22, 2002. Numbers indicate the percentage of respondents giving each answer. Theoretical reliability is  $\pm 4.9$  points.

### Social Security Questions

There have been proposals to change Social Security from a guaranteed fixed benefit to a plan where individuals can invest part of their social security withholdings for themselves. Knowing this, do you strongly favor, somewhat favor, somewhat oppose, or strongly oppose this change to Social Security?

Strongly Favor	31%
Somewhat Favor	19%
Total Favor	50%
Somewhat Oppose	14%
Strongly Oppose	27%
Total Oppose	41%
(Don't Know)	8%

Now I'm going to read you some specific descriptions of proposed changes to social security. For each description please tell me if that description would make you much more likely, somewhat more likely, somewhat less likely, or much less likely to favor a change to social security that would allow individuals to invest their social security withholdings themselves.

#### SCALE:

Much more likely	Somewhat more likely	Somewhat less likely	Much less likely	(Don't know)	(No difference)
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>

(RANDOMIZE Q43-Q47)

Workers will lose guaranteed retirement benefits.

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
11%	8%	26%	45%	5%	5%

Workers will lose guaranteed retirement benefits they or their survivors would get if they become disabled or die during their working years.

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
13%	8%	27%	42%	5%	5%

Taxes would have to be raised to convert to a new system.

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
9%	11%	27%	45%	2%	6%

Most projections show social security would be able to continue paying guaranteed benefits far into the future if no changes are made.

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
21%	21%	19%	29%	4%	6%

## APPENDIX

People whose investments do well might get more money when they retire, but people whose investments do poorly would get less.

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
13%	16%	22%	34%	5%	9%

Given all that you have heard, would you strongly favor, somewhat favor, somewhat oppose, or strongly oppose this change to social security?

Strongly Favor	16%
Somewhat Favor	22%
Total Favor	38%
Somewhat Oppose	21%
Strongly Oppose	36%
Total Oppose	57%
(Don't Know)	4%

### Other Retirement Account Questions

On a scale of 1 to 7, where 1 means not at all important and 7 means extremely important, how important do you think it is that people have some kind of retirement plan in addition to social security to have economic security in their old age?

#### SCALE

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>
Not at all important				Extremely important			(DK)
3%	1%	1%	4%	9%	9%	73%	1%

There is a retirement savings proposal called Washington Voluntary Accounts that would create a new 401K-style retirement plan that would be open to all employers and workers in Washington state. The retirement accounts would be portable and would go with workers from job to job. Knowing this, do you strongly favor, somewhat favor, somewhat oppose, or strongly oppose the Washington Voluntary Accounts?

Strongly Favor	60%
Somewhat Favor	26%
Total Favor	86%
Somewhat Oppose	3%
Strongly Oppose	3%
Total Oppose	6%
(Don't Know)	8%