

## Social Security and the Presidential Candidates

January 1, 2008 has passed and many of us probably did not recognize the significance of that day. Yes, it was New Year's Day and there were plenty of football games to watch, but January first had a much bigger significance than all that. As the ball in Times Square dropped, and we rung in 2008, the first baby boomers, the 78 million Americans born between 1946 and 1964, turn 62 and qualify for early Social Security benefits.

According to projections from the Social Security Administration, Social Security will run a \$189 billion surplus this year, after collecting payroll taxes and paying promised benefits. The annual tax surpluses will continue until around 2016. Beginning in 2017, it is projected that Social Security will start spending more than it gets in taxes. To cover these increased costs, the system will tap the interest it earns on its reserves and then draw down the reserves themselves. By 2041, Social Security estimates that it will use up its reserves and have only that year's tax revenues to pay its benefits. At that point, the system has estimated that it will be able to pay 75% of its monthly obligations.

With this as background, and with the Presidential primaries kicking off, we thought it would be interesting to review the leading candidates' views on Social Security and how they would go about fixing it. Below, we have summarized their plans. As you will see, there is an absence of forward-thinking. In most cases, maintaining the status quo is the answer. Given the magnitude of the problem and its potential effects on the economy and taxation, running in place is actually falling behind.

### How the Candidates will fix Social Security

| Candidate       | Private Accounts | Hike the wage cap? | How they will reform the system   | Proposal to pay for the funding gap   |
|-----------------|------------------|--------------------|---|---|
| Hillary Clinton | No               | No                 | Favors bipartisan panel to explore reform, plus add-on 401(k) like accounts (not funded via payroll tax.) | No specifics beyond saying what she won't do: cut benefits or raise the retirement age. |
| Barack Obama    | No               | Yes                | Favors keeping benefit levels and retirement age as they are now.   | Would impose Social Security payroll taxes on income over \$200,000 a year.             |
| John Edwards    | No               | Yes                | Would create a bipartisan commission to recommend reforms.  | Same as Obama.  |

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| Bill Richardson | No               | No                 | Thinks system does not need major reform; greater economic growth will resolve the problem.                       | Hasn't proposed a specific plan beyond ideas to spur growth; opposes any hike in payroll taxes.           |
| Rudy Giuliani   | Maybe            | No                 | Says private accounts are a possibility for younger workers; would appoint bipartisan panel.                      | Hasn't come out with a position.  |
| John McCain     | Maybe            | ???                | Advocates personal accounts but hasn't said if they'd be funded from payroll tax; would appoint bipartisan panel. | Hasn't come out with a position.  |
| Fred Thompson   | No               | No                 | Plan includes voluntary add-on accounts (not funded via payroll tax) with federal dollar match.                   | Would index benefits to inflation.  |
| Mitt Romney     | Maybe            | No                 | Would consider private accounts (favors putting any surplus in them); no changes for those 50-plus.               | Favors indexing benefits to inflation; might lower benefits for those in the highest income tax brackets. |
| Mike Huckabee   | Yes              | N.A.               | Supports Bush plan for private accounts; would give retirees option of a buyout or an annuity.                    | Would replace Social Security tax with his "Fair Tax," which is based on wealth.                          |

The long term solvency of the Social Security system is a matter of balancing income and expenditures. This may come in the form of higher payroll taxes, removing the cap on wages subject to the tax, reducing benefits for future retirees who earned higher wages, increasing the taxes on social security benefits, scaling back the annual cost of living adjustments, raising the age for full retirement benefits or a combination of these.

The bottom line is the sooner lawmakers and the President get to work on a solution for the long term solvency of Social Security, and there is a solution, the more years they will have to phase it in.