

The New Readiness to Reform Social Security

By Everett Carl Ladd

The prospect of millions of baby boomers retiring early in the next century has given increased urgency to proposals to change the system. The basic goal of keeping it solvent while limiting costs to payers is the main spur to reform. But in the process important structural changes have been put on the table—including letting individuals privately invest part of their Social Security tax payments. Where does the US public stand on these issues?

The Social Security system that the Roosevelt administration introduced in 1937 has long been considered an American policy icon. “Don’t touch it—except to enhance benefits or assure solvency” has been the inviolable political rule. Now, though, much is

private pension and annuity plans are shrinking the ranks of those who feel acutely dependent on the system. An extraordinary 44 percent of all respondents, and 55 percent of people in their thirties, told Yankelovich Partners interviewers last April they believed they could save enough to retire “if Social Security no longer existed.”

What Is To Be Done?

If a proposal for change is described as “reducing Social Security benefits,” it—not surprisingly—gets little backing. But if instead it’s couched in terms of reducing the amount of annual cost-of-living increases, support is much higher. Asked in the March Associated Press survey about “giving smaller yearly raises to retirees when the cost of living goes up,” 53 percent approved, 44 percent disapproved. At the same time, proposals to increase the retirement age to 70, or move up even earlier the already-planned retirement-age jump to 67, find little backing in any segment of the public, young or old, high income or low.

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changing. Americans remain strongly supportive of Social Security, of course, and woe to any official who is seen threatening its integrity. But large segments of the public are now prepared to consider major structural changes in the system and give cautious backing to one major reform idea.

Receptivity to Change

The big shift that’s occurred in public thinking is a widening sense that change really is necessary. Younger people are notably more inclined to this view than are their elders. In a survey done last March by International Communications Research for the Associated Press, respondents were asked to choose between two approaches: [a] “Maintaining the current system with some kind of combination of higher payroll taxes and lower benefits, or [b] making fundamental changes in the current system.” Nearly three-fourths of all respondents opted for the latter, with backing for “fundamental change” ranging from 83 percent among persons 18-34 years of age to 63 percent among those 55-64 and 46 percent for people 65 and older. Worry about the system’s financial status accounts for some of this increased receptivity to change, but other factors enter in. Asked whether they think “the Social Security system is fair or not fair to people your age,” just 40 percent of those in their twenties and thirties said (Yankelovich Partners, April 1998) that it’s fair, compared to 52 percent of all respondents and 64 percent of people 65 and older. We often see such generational differences these days—for the first time in Social Security’s 60-year history.

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Privatization

Allowing individuals to invest privately some portion of their Social Security taxes is the one major reform proposal that gets broad backing. When, in its April 1998 survey, Yankelovich Partners asked whether one favored or opposed “allowing Americans to put a portion of their Social Security taxes into a personal savings account to be used for retirement,” three-fourths backed the idea (Table 1). When the Associated Press poll last March put the question in terms of “letting workers shift some of their Social Security tax payments into personal retirement

accounts that they would invest on their own," four-fifths said yes. The AP question recorded considerably higher support for privatization among the young than the old (Table 1). Backing was also greater among persons with high incomes than low. But the big story was the support's overall breadth: For example, 76 percent of people with incomes under \$25,000 a year favored letting workers put some of their Social Security tax moneys into personal retirement accounts, compared to 87 percent of those with incomes over \$50,000. Asked if they would themselves put some of their Social Security tax payments into private investments such as the stock market (Yankelovich Partners, April 1998), roughly three-fifths of respondents under age 65, and two-thirds of those 18 to 29 years of age, said they would.

When poll questions remind respondents about the risks involved in permitting people to invest privately some of their Social Security tax payments, backing for the private option drops somewhat but remains high—again, especially, among

investment option and wind up doing less well than they would have under the established system.

Let the Individual Do It.

The operative factor here isn't so much a desire to see Social Security tax money invested in the stock market as it is to give individuals control over the funds they contribute. When Yankelovich Partners asked in its April survey whether "the government or individuals should control those investments," four-fifths said the latter themselves (Table 1). Two-thirds of respondents in the AP survey *opposed* "allowing the government to invest the money it holds in Social Security in the stock market," while four-fifths in the same survey *backed* letting workers shift some of their Social Security tax payments into personal retirement accounts "that they would invest *on their own*" [emphasis added].

It's fair to ask what the impact would be on this general

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the young. The NBC News/*Wall Street Journal* question posing the risk factor shown in Table 1 found a small majority of all respondents continuing to favor this element of privatization even when reminded of the risk. More than three-fifths of people under age 50, compared to less than a third of those 65 years and older, approved. As further indication of their acceptance of the risk factor in privatizing a portion of their Social Security tax payments, nearly three-fourths of respondents in the Yankelovich Partners April survey said the government should *not* make up the difference for people who elect a private

receptivity to private investment of Social Security tax moneys, should the stock market experience steep or long-term decline. But such an event—in a society where a large segment of the populace is already in the market one way or another—would have a massive impact reaching far beyond the Social Security issue. What we know for sure is that a large and growing section of the US public wants to have a direct say in the disposition of its Social Security taxes. Backing for privatization is the big new element in public thinking about Social Security.



Everett Ladd is executive director and president, the Roper Center for Public Opinion Research, and professor of political science, University of Connecticut

Thinking About Social Security

Table 1
A Clear if Cautious Yes to Privatization in Social Security

Do you favor or oppose allowing Americans to put a portion of their Social Security taxes into a personal savings account to be used for retirement?

	All Respondents	By Age				
		18-29	30-39	40-49	50-64	65+
Favor	76%	80%	87%	86%	77%	69%
Oppose	20	19	12	13	21	25

Some people have suggested that workers should have the option of taking some of their Social Security taxes and putting them in investments such as the stock market. People who did this would get more money when they retired if those investments did well, but less money if those investments did poorly. Do you think the government should or should not allow Americans to invest a portion of their Social Security taxes in investments such as the stock market?

	All Respondents	By Age				
		18-29	30-39	40-49	50-64	65+
Should	60%	75%	63%	67%	59%	50%
Should not	35	25	34	33	35	41

If this option were to become available, would you put some of your Social Security taxes in investments such as the stock market or would you continue to put all of those taxes into the Social Security system?

	All Respondents	By Age				
		18-29	30-39	40-49	50-64	65+
Put some in investments	59%*	66%	64%	62%	51%	58%
Put all into Social Security	35*	32	31	36	40	34

*Responses of those under age 65

If the government allowed people to invest part of their Social Security taxes in investments such as the stock market, do you think the government or individuals should control those investments?

	All Respondents	By Age				
		18-29	30-39	40-49	50-64	65+
Government	14%	5%	14%	15%	16%	15%
Individuals	80	90	85	84	79	76

If the government allowed people to invest part of their Social Security taxes in investments such as the stock market and individuals controlled their own investments, do you think the government should or should not compensate people who make less money than they would have in the Social Security system?

	All Respondents	By Age				
		18-29	30-39	40-49	50-64	65+
Should	21%	24%	13%	33%	21%	19%
Should not	72	76	83	66	69	68

Source for the above 5 questions: Survey by Yankelovich Partners for *Time/CNN*, April 8-9, 1998.

As you may know, without any changes, the Social Security system will have a financial shortfall starting in the year 2029. Here are a number of reforms that have been proposed to guarantee the financial solvency of the system. For each one, please tell me whether you think it should be a part or should not be a part of the final Social Security reform package...Allowing people to invest a portion of their Social Security payroll tax in stocks and bonds.

Should be a part
Should not be a part

All Respondents	By Age				
	18-29	30-49	50-64	65+	
63%	73%	72%	53%	41%	
31	26	24	38	47	

Some people think that individuals would have more money for retirement if they were allowed to invest and manage some of their Social Security payroll taxes themselves. Others think that it is too risky and could leave some people without adequate money for retirement if the stock market were to decline in value significantly.

Favor
Oppose

All Respondents	By Age				
	18-29	30-49	50-64	65+	
52%	64%	61%	40%	29%	
41	32	33	48	61	

Source for the above 2 questions: Survey by Hart-Teeter Research for NBC News/Wall Street Journal, April 18-20, 1998.

For each proposal, tell me whether you favor or oppose it....Letting workers shift some of their Social Security tax payments into personal retirement accounts that they would invest on their own.

Favor
Oppose

All Respondents	By Age					
	18-29	30-39	40-49	50-64	65+	
80%	90%	82%	83%	67%	64%	
16	8	16	16	21	31	

...Allowing the government to invest the money it holds in Social Security in the stock market.

Favor
Oppose

All Respondents	By Age					
	18-29	30-39	40-49	50-64	65+	
29%	34%	32%	28%	25%	22%	
66	63	65	68	63	70	

Considering how stocks and mutual funds can rise or fall in value, would you shift some of your Social Security into private investments if you could, or would that be too risky?

Yes, would use
No, too risky

All Respondents	By Age					
	18-29	30-39	40-49	50-64	65+	
46%	52%	54%	54%	33%	24%	
53	46	45	45	65	73	

Source for the above 3 questions: Survey by International Communications Research for the Associated Press, March 27-31, 1998.