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Social Security - General

Bruce -
FYI.
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social security

EB - Need recommendation.
You've presented this a # of times in almost same way.
Have to decide how to accomplish most w/ least political fallout.

Key issues in Social Security August 15, 1997

A. Fundamental goals

1. Long-term viability: 75-year or perpetual balance; is the year-to-year path important?
2. Keep some social insurance/progressivity in system
3. Establish Presidential leadership

Each - Need to have more substantive discussions involving staff who know details to really figure out what to do.

B. Key issues/other goals

1. Increase national savings
2. Impact on budget reform
3. CPI
4. Acceptability of partial solutions

EB -
Get policy staff worked out, then come back to process, w/ all people involved.

C. Optional means

1. Expert commission
2. CPI commission
3. Public education advisory board
4. Public education campaign

D. Eventual real process for proposals

1. President simply announces proposal (alone or following commission or public education effort)
2. Leadership-designated negotiating process
3. Non-leadership bipartisan process
4. Commission with fast-track/base-closing vote
5. Key players commission (similar to second possibility above), including chairs of relevant committees, etc.

Timing

September 1997	State of the Union 1998	April 1998	December 1998-January 1999	Post Medicare commission (after March 1999)
<ul style="list-style-type: none"> -- Early marker 	<ul style="list-style-type: none"> -- Announce public education board/long-term process -- Announce commission -- Announce short-term process -- Announce specifics of full package -- Announce partial proposals 	<ul style="list-style-type: none"> -- Announce commission/process for post-election 	<ul style="list-style-type: none"> -- Commission or other process reports -- Proposal by POTUS 	<ul style="list-style-type: none"> -- Commission reports -- Calls for bipartisan negotiating process -- Announce specific proposals

Social Security
August 15, 1997

Scenario 1: Announce whole Administration package at State of the Union

Pre-Announcement

- **Policy making:** Intense internal process from September until December
- **Significant Listening Outreach:** Unless aiming for complete surprise, extensive outreach to Hill and interest groups
- **FY 1999 Budget:** Incorporation of proposals into FY 1999 budget

Possible Responses

- **Maintain Benefits-like plan**
 1. *Senate Republicans and conservative Senate Democrats:* Congratulate the President for addressing the issue, but criticize the package for including tax hikes and benefit cuts rather than privatization.
 2. *House Republicans:* Likely to be sharply critical over taxes and lack of privatization
 3. *Liberal Senate and House Democrats:* Generally support package for saving Social Security, but call for commission.

Major issues:

- Media focus on “what do cuts or tax increases mean to you”
- COLA splits supporters (progressive Democrats)
- Do Dems call for commission or lock in to “no Social Security tax” pledges?

- **Individual Accounts-like plan**

1. *Senate Republicans and conservative Senate Democrats:* Complimentary, eager to work with the President
2. *Liberal Senate Democrats:* Probably attack plan for undermining Social Security
3. *House Republicans:* Perhaps non-committal; instead call for commission

Major issues:

- Does House Dem leadership split off over privatization of COLA
- AARP position

Post-Announcement Process

- Public reaction forces breakdown
- Members call for commission for cover
- Best case: Supercommittee or key member negotiation process
- POTUS goes for all-out public education effort to sell initiative

Ramifications

- Strong courage and leadership points
- If little support, Social Security reform effort may die because of lock-in pledges
- If this initial foray proves unsuccessful, could call for long-term commission to report back after election. But potential lock-in pledges could prove a substantial barrier.

Notes

- Not bipartisan. But bipartisan process may inevitably mean some form of individual accounts. If we favor a MB-like proposal, a bipartisan process may not be auspicious.

Scenario 2: Partial announcement in State of the Union

Pre-Announcement

- **Early marker:** POTUS states in September that we need to deal with Social Security -- an ounce of prevention to help our children's futures. He hopes Republicans will work with him.
- **Policy making:** Intense internal process from September until December
- **State of the Union:** POTUS announces at State of the Union
Options -- alternative or in combination:
 - Detailed national campaign with bipartisan advisory group (Mitchell, Rudman). Asks Lott and Gingrich for special session after election to pass Social Security reform;
 - Announces a commission on CPI to report back after election, with or without Social Security commission
 - Announces one specific proposal, such as accelerating the existing increase in the normal retirement age (could include specific Medicare proposal to extend Medicare age with proposal for expanding coverage for 60-67)

Possible responses

- **Commission or advisory board only**
 1. Elite hit: "Commission-itis," perhaps unless accompanied by very specific reporting date and process
 2. Republicans may argue that we should address Medicare first -- 2008 vs. 2029
 3. AARP will likely support, especially given their own education efforts
- **One specific proposal**
 1. Elite support for demonstrating Presidential leadership
 2. Depending on proposal, seniors groups may criticize -- potentially splitting Democrats and endangering further efforts
 3. Republicans could try to attack by saying that the President should step up to the plate with a significant reform, not a paltry single reform that doesn't move the ball very far.

Post-Announcement Process

- If announcement of single measure: Either use as first step to show leadership, and ask for bipartisan process to address larger challenge. Or focus on the single measure and leave larger issues alone for now.
- Key is ability to create bipartisan process that forces legislative proposals after 1998 or willingness to announce own proposal in 1999 State of Union.
- Ability to create bipartisan process outside of Republican congressional leadership.

Notes

- Recognizes potential power of partial step
- Interactions between Medicare and Social Security: high-income premium, proposal to raise Medicare eligibility age with expanded coverage 60-67

Risks

Early marker

- If not, no action between September and December -- could be hit for not taking lead
- Pressure for steps outside Medicare commission -- high-income premium?
- Lay down a marker if confident that we should act before the Medicare commission reports
- Bipartisan process may limit
- If we ask for action and Republican leadership says no, do we look like leaders? How does outside Republican validation affect perceptions?

Going alone

- Risks of backlash. Republicans criticize our proposals, and then Democrats feel the need to make "no tax increases or benefit cuts" pledges.
- Huge leadership points.

Going bipartisan

- Likely to lead to some form of partial privatization for full solution
- Could still get partial solutions without agreement on partial privatization

COLA commission

- PROS:*
- Most acceptable to Senate Republicans and some Senate Democrats
- CONS:*
- Not acceptable to most Democrats. Highlights benefit cuts without saving Social Security. Also may be better to mix in with other reforms as part of overall "Save Social Security" reform.

Laying marker without Republican leadership support

- PROS:*
- Takes leadership and puts ball in Republican court
 - Pre-empts others who will call for Social Security reform
 - Republican intelligentsia will pressure Republican leadership to not sit back
- CONS:*
- May take us up and limit our options
 - May create expectations we cannot meet
 - Republicans will say Medicare goes bust in 2008 -- should go first. Even a 12 year old will say that we should deal with a problem in 2008 before one in 2029.

Table 1. MB. Estimated Long-Range OASDI Financial Effect
of Advisory Council Maintain Benefits Plan

Proposal	Estimated Change in Long-Range OASDI Actuarial Balance ¹ (percent of payroll)
0. Assume that changes by the BLS will result in 0.21 percent lower COLAs by Dec. 1997.	0.31
1. Cover under OASDI all State and local government employees hired after 1997.	0.22
2. Increase the number of benefit computation years to 36 in 1997, 37 in 1998, and 38 in 1999 and later, effective by eligibility.	0.28
3a. Beginning 1998, subject OASDI benefits to Federal Income taxation in the same manner prescribed for private and government employee defined benefit pension plans, but with \$25,000/32,000 thresholds.	0.15
3b. Phase out the \$25,000/32,000 thresholds for taxation of benefits between 1998 and 2007.	0.16
3c. Redirect revenue for taxation of benefits from HI to OASDI, starting in 2010, fully 2019.	0.31
Subtotal for Proposals 0 through 3	1.37
4. Invest a portion of the OASDI Trust Funds in stocks beginning in 2000, reaching 40 percent of assets in stocks for 2015 and thereafter.	0.82
Subtotal for Proposals 0 through 4	2.19
5. Increase the OASDI payroll tax rate in 2045 by 0.8 percentage points for employees and employers, each.	0.22
Total for Proposals 0 through 5	2.42
Estimated Long-Range OASDI Actuarial Balance	0.24

¹ Estimates for individual proposals do not reflect interaction, except proposal 4 (0.92 without interaction) and proposal 5 (0.39 without interaction).

Based on the intermediate alternative II assumptions of the 1995 Annual Trustees Report.

Office of the Actuary/Social Security Administration
October, 1996

APPENDIX II

Table 1.IA. Estimated Long-Range OASDI Financial Effect
of Advisory Council 1.6 Percent Individual Account Plan

Proposal	Estimated Change in Long-Range OASDI Actuarial Balance ¹ (percent of payroll)
0. Assume that changes in the CPI by BLS will result in 0.21 percent lower COLAs by Dec. 1997.	0.31
1. Cover under OASDI all State and local government employees hired after 1997.	0.22
2. Increase the NRA by 2 months per year for 2000 to 2011, reaching NRA of 67. Index NRA thereafter to increases in life expectancy (by about 1 month every 2 years).	0.50
3. Reduce the 0.32 and 0.15 PIA formula factors by 0.5 percent (multiply by 0.995) for 1998-2011, and by 0.15 percent (mult by 0.985) for 2012-30. Factors for 2030 and later, 0.224 and 0.105.	1.32
4. Increase the number of benefit computation years to 36 in 1997, 37 in 1998, and 38 in 1999 and later, effective by year of eligibility.	0.28
5a. Beginning 1998, tax OASDI benefits in the same manner prescribed for private and government employee defined benefit pension plans (retain \$25,000/32,000 thresholds).	0.15
5b. Phase out the \$25,000/32,000 thresholds for the taxation of benefits between 1998 and 2007.	0.16
6. Reduce the 50 percent aged spouse benefit by 1 percentage point each year 2000 to 2016, reaching an ultimate level of 33 percent.	0.17
7. Gradually replace the current surviving spouse benefit with the highest of own PIA, spouse's PIA, and 75 percent of combined benefits if both were still alive, phased in over 1998 to 2037.	-0.32
8. Starting 1998, require all workers to contribute 1.6 percent of their OASDI taxable earnings to an individual (retirement savings) account. This contribution is in addition to the OASDI payroll tax (6.2 percent for employees, and 12.4 percent for self-employed workers). Proceeds from the accounts would not be taxed.	--
Total for Proposals 0 through 8	2.57
Estimated Long Range Actuarial Balance	0.40

¹ Estimates for individual proposals do not reflect interaction, except that proposal 7 reflects interaction with proposal 6. Based on the intermediate alternative II assumptions of the 1995 Annual Trustees Report.