

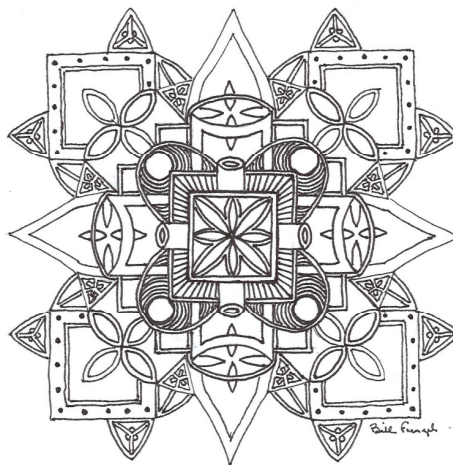


Committee for a Responsible Federal Budget

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**Guide to Social Security:  
The 2008 Presidential Election**

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***US Budget Watch***

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## US Budget Watch

**US Budget Watch** is a project created to increase awareness of the important fiscal issues facing the country through and beyond the election. The project seeks to bring attention to the presidential candidates' tax and spending policies, to help the public become informed about these issues, and to track the new president's fiscal policies after the election. This guide is not intended to recommend voting for or against any particular candidate, nor does it reflect an assessment of the overall merits of any specific policy proposal.

**US Budget Watch** is a project of the Committee for a Responsible Federal Budget, which is a non-profit organization committed to educating the public about issues that have a significant fiscal policy impact. The Committee is a bipartisan group of leading budget experts including many of the past chairmen of the House and Senate Budget Committees, directors of the Congressional Budget Office and Office of Management and Budget, and members of the Federal Reserve Board.

This project is supported by the Pew Charitable Trusts. Neither the Committee for a Responsible Federal Budget nor the Pew Charitable Trusts supports or opposes any particular candidate for public office.

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*Cover artwork by the Honorable Bill Frenzel*



## SUMMARY

	<u>Barack Obama's</u> <u>Social Security Proposals</u>	<u>John McCain's</u> <u>Social Security Proposals</u>
<b>Tax Increases</b>	Proposes a payroll surtax of 2-4% for individuals making over \$250,000 a year. Has not specified the tax base or whether there would be corresponding benefits.	States "everything should be on the table" but has expressed strong opposition to raising taxes to increase revenue for Social Security.
<b>Benefit Cuts</b>	States "everything should be on the table" but has also argued that "cutting benefits is not the right answer."	Would be willing to accept necessary benefit cuts as part of a compromise plan and would consider reducing Social Security's Cost of Living Adjustments (COLAs).
<b>Retirement Age</b>	Does "not believe it is necessary or fair to hardworking seniors to raise the retirement age" and has stated that he would not do so.	Considering a plan that would increase the normal retirement age to 68 from the scheduled age of 67.
<b>Private Accounts</b>	Argues strongly against privatization. Supports implementing "Automatic Workplace Pensions" outside of Social Security.	Supports "add-on" retirement accounts, but not "as a substitute for addressing benefit promises that cannot be kept."
<b>Bipartisanship</b>	Advocates for taking a bipartisan approach to reforming the system. Argues that to reform Social Security, "we should approach it the same way Tip O'Neill and Ronald Reagan did back in 1983."	Points to the 1983 deal between President Reagan and Speaker Tip O'Neill as a model for reform, stating: "I'll reach my hand out to the Speaker of the House Nancy Pelosi. I'll reach my hand out to Harry Reid."
<b>Resolve to Act</b>	Is "committed to ensuring Social Security is solvent and viable for the American people, now and in the future." States "it is common sense that we are going to have to do something about [it]." Does not mention Social Security frequently on the campaign trail.	States he will "submit a plan to save Social Security... and I'll ask Congress to do the same.... no more kicking the can down the road... no more hoping that a future generation of leaders will have the courage we lack." Does not mention Social Security frequently on the campaign trail.



## GUIDE TO SOCIAL SECURITY: THE 2008 PRESIDENTIAL ELECTION

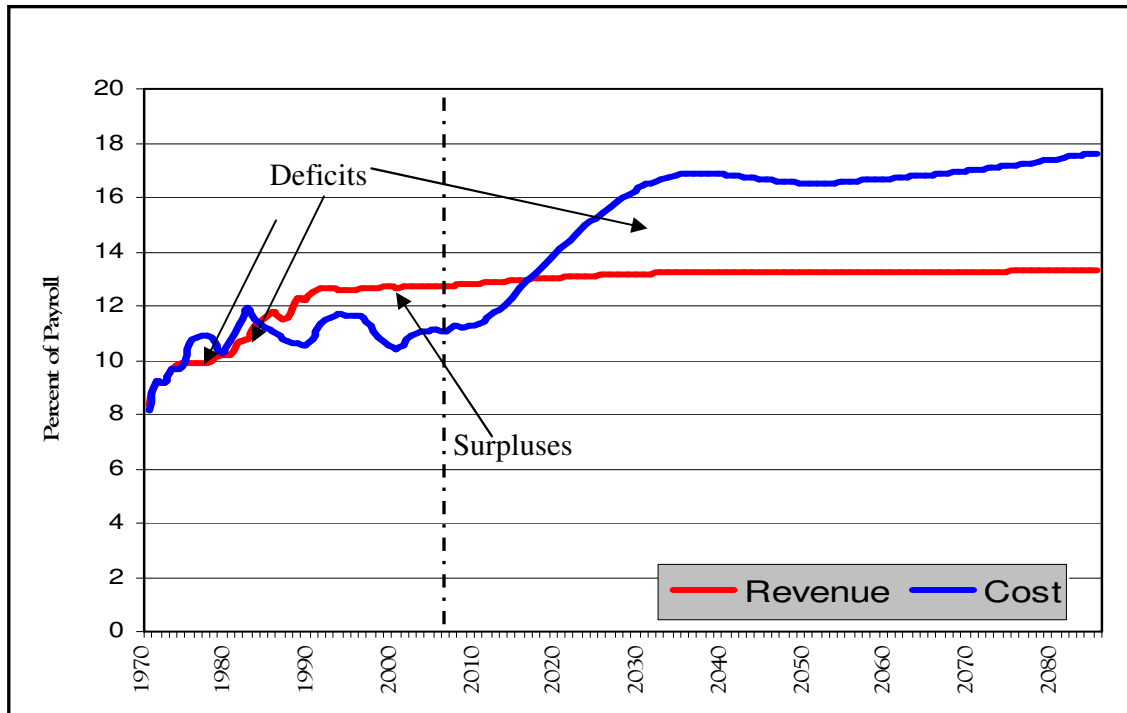
### Background

Social Security is the single largest government program. In 2007, the program cost \$585 billion and provided benefits for roughly 50 million retirees, dependents, survivors, and disabled workers. It is financed primarily through the payroll tax – a 12.4 percent tax on wages up to \$102,000. The tax is split equally between employees and employers. The remaining revenues come mainly from the taxation of Social Security benefits for wealthier recipients.

Social Security is run primarily on a pay-as-you-go basis, meaning that current tax revenues are used to cover today's benefits. Over the past two decades the system has taken in more in revenues than it has paid out in benefits. Those surpluses have been saved in the program's dedicated trust funds and invested in special-issue government bonds. The money is comingled with other government revenues, however, and is spent on general government programs. Currently, the trust fund has \$2.2 trillion in assets, and it is expected to more than double in size as the system continues to run surpluses for the next decade.

Next year, though, the program's surpluses will begin to decline precipitously. The Social Security Trustees have repeatedly warned that the program is on an unsustainable path and that the system will begin running cash deficits in 2017. The trust funds have claims on government revenues sufficient to pay promised benefits until 2041, but redeeming the trust fund assets will require the government to raise taxes, cut government spending, or borrow. To finance promised benefits, payroll taxes would have to be increased from 12.4 percent today to around 16 percent in 2041 and increase gradually after that. Alternatively, benefits could be cut across the board by roughly 22 percent by 2041, and modestly cut on a regular basis thereafter.

Chart 1: Social Security Cash Flow



Source: Social Security Trustees, [http://www.ssa.gov/OACT/TR/TR08/IV\\_LRest.html#154978](http://www.ssa.gov/OACT/TR/TR08/IV_LRest.html#154978).

Changes will have to be made to Social Security. Ignoring the problem and pushing the necessary changes to a later date – as has been done in past years – only makes them more painful. Although there are hundreds of proposals to address Social Security’s long-term gap, most fall into two basic categories: cutting benefits or raising taxes. In the “Options for Reform” box we discuss many options, show the percent of the 75-year actuarial gap they would close, and show what percent of the deficit in the seventy-fifth year would be closed (the latter measurement helps to determine whether solvency is sustainable).

In addition to these options for improving the financial position of Social Security, many politicians and policy experts have argued that the Social Security system should include some type of individual retirement account. The design of these accounts differs dramatically, depending on the proposal. Some would “carve out” a part of the payroll tax to divert to private accounts. Others would include “add-on” accounts to supplement the current Social Security system. Some would make these accounts voluntary, others would make them mandatory. Some would be progressive or include subsidies, others would be flat or uniform. Some would be publicly managed, others could be managed through private financial firms. Most would restrict the types of investments that could be made, although the nature of these restrictions varies. The effect of private accounts on the budget varies greatly depending on how the accounts are financed and how they are linked to benefit changes.

OPTIONS FOR REFORM

Policy	Percent of 75-year gap closed	Percent deficit closed in 75th year	Description
Immediately cut all future benefits of non-retirees by 3%	21%	12%	Social Security benefits are calculated by averaging past earnings and then multiplying the first \$9,288 by 90%, the next \$44,868 by 32%, and remaining earnings by 15%. Social Security benefits could be reduced by cutting any or all of these replacement rates.
Immediately cut all future benefits of non-retirees by 5%	35%	20%	
Gradually cut all future benefits by 23% by 2040	86%	74%	
Immediately raise payroll tax rate from 12.4% to 14.2%	104%	43%	The Social Security payroll tax rate of 12.4% could be increased to help cover expanding benefits.
Raise payroll tax from 12.4% to 14.0% in 2021 and 15.6% in 2051	100%	76%	
Reduce COLAs by 1%	84%	49%	Social Security benefits are updated every year through a Cost of Living Adjustment (COLA) based on the Consumer Price Index (CPI). Some experts believe the CPI that is used overstates inflation.
Reduce COLAs by 0.5%	44%	25%	
Use chained-CPI to calculate COLA	26%	15%	
Calculate benefits based on 40 years of work instead of 35	29%	18%	Benefits are calculated based on a worker's top 35 years of earnings. Increasing this number would have the effect of reducing benefits, since lower-earning and zero-earning years would be averaged in.
Index benefits by prices instead of wages	135%	171%	Benefits are calculated by inflating past wages to reflect growth in average wages. The benefit formula could be changed so that initial benefits would grow with inflation, rather than wage growth. Some proposals would apply this price indexing to wealthier recipients, while wage-indexing the benefits of those at the bottom and offering other retirees a hybrid of wage and price indexing (progressive price indexing.)
Progressive price indexing (maintain benefits for bottom 30%)	80%	98%	
Progressive price indexing (maintain benefits for bottom 60%)	40%	40%	
Index benefits to life expectancy	28%	41%	Social Security benefits could be indexed downward to life expectancy.
Shorten the hiatus in the normal retirement age increase	6%	0%	Under current law, the normal retirement age is scheduled to increase to 66 by 2009, and from 66 to 67 between 2021 and 2026. In order to increase revenues and reduce benefits paid out, the retirement age could be raised to 67 more quickly and/or raised further after that.
Gradually raise normal retirement age to 68	21%	17%	
Gradually raise normal retirement age to 70	30%	34%	

OPTIONS FOR REFORM, CONTINUED

Policy	Percent of 75-year gap closed	Deficit closed in 75th year	Description
Eliminate taxable maximum - without offering new benefits	129%	64%	Payroll taxes are applied to only the first \$102,000 of wages (indexed for wage growth.) Raising or eliminating this “taxable maximum” would bring new revenues into the system. Additional benefits could be offered in conjunction with the new tax, or not. Instead of raising the maximum, some proposals would charge a smaller “surtax” for higher earners.
Eliminate taxable maximum - while offering new benefits	108%	47%	
Raise taxable maximum to cover 90% of earned income - without offering new benefits	55%	32%	
Raise taxable maximum to cover 90% of earned income - while offering new benefits	49%	22%	
Impose a 4% surtax on earnings above \$250,000	16%	8%	
Invest 40% of the trust funds in equities (Assumes 5.4% annual growth. Overall effects of the policy vary greatly depending on other changes to the program.)	30%	0%	Currently, Social Security surpluses are invested in special-issue Treasury bonds. Instead, this revenue could be invested in stocks and/or non-federal bonds.
Limit spousal benefits for wealthy retirees	11%	7%	Although most proposals focus on Social Security’s retirement program, a number of proposals exist for reforming disability and dependents benefits. One such reform would reduce dependent benefits for wealthy households. Another would switch disabled workers into the old-age system at the early retirement age, rather than the normal retirement age, resulting in lower benefits upon reaching old age.
Require disability insurance recipients to convert to old-age benefits at early retirement age	22%	18%	
Tax Social Security benefits like private pensions	16%	4%	Retirees making more than \$34,000 a year are taxed on 85% of their Social Security income, with much of the revenue returned to the Social Security trust fund. Some proposals would tax a higher portion of this income, or reduce (or eliminate) the minimum income to qualify for this tax.
Cover all new state and local government employees	13%	0%	Some state and local government employees are exempt from the Social Security system. Some proposals would require newly-hired workers to pay into the system, and subsequently receive benefits.
<p>Source: US Budget Watch Calculations from Office of the Chief Actuary, Social Security Administration (<a href="http://www.ssa.gov/OACT/solvency/provisions/index.html">http://www.ssa.gov/OACT/solvency/provisions/index.html</a>, <a href="http://www.ssa.gov/OACT/solvency/Warshawsky_20080917.pdf">http://www.ssa.gov/OACT/solvency/Warshawsky_20080917.pdf</a> and <a href="http://www.ssa.gov/OACT/solvency/Kolbe_20051104.pdf">http://www.ssa.gov/OACT/solvency/Kolbe_20051104.pdf</a>), and Andrew Biggs, American Enterprise Institute.</p>			

## Commitment to Reform

Both Senator McCain and Senator Obama have publicly recognized the system's long-term shortfall and proposed that Social Security reform be undertaken.

In describing his support for reform, Barack Obama's official campaign Web site says:

Obama and Biden are committed to ensuring Social Security is solvent and viable for the American people, now and in the future. Obama and Biden will be honest with the American people about the long-term solvency of Social Security and the ways we can address the shortfall.<sup>1</sup>

In a Democratic Debate in October of 2007, Senator Obama recognized Social Security's long-term problem:

We've got 78 million baby boomers who are going to be retiring over the next couple of decades. That means more retirees, fewer workers to support those retirees. It is common sense that we are going to have to do something about it. That is not a Republican talking point. And if we don't deal with it now, it will get harder to deal with later... we can talk about fiscal responsibility... But even after we deal with those issues, we are still going to have an actuarial gap that has to be dealt with. It is not going to vanish. And if we have a moral responsibility to the next generation to make sure that Social Security is there ~ the most successful program to lift seniors out of poverty that we've ever devised ~ then we need to start acting now and having a serious conversation about it.<sup>2</sup>

Additionally, in October of 2007, Senator Obama outlined a specific approach for bipartisan negotiation:

We should approach it the same way Tip O'Neill and Ronald Reagan did back in 1983. They came together. I don't want to lay out my preferences beforehand, but what I know is that Social Security is solvable.<sup>3</sup>

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<sup>1</sup> Obama Campaign, <http://www.barackobama.com/issues/socialsecurity/>.

<sup>2</sup> New York Times, <http://www.nytimes.com/2007/10/30/us/politics/30debate-transcript.html?pagewanted=21&ref=politics>.

<sup>3</sup> Barack Obama, Speech in Des Moines, IA, October 27, 2007.



Senator McCain has shown a similar willingness to reform Social Security. His official campaign Web site states:

In the long-term, the only way to keep the budget balanced is successful reform of the large spending pressures in Social Security, Medicare, and Medicaid.... John McCain will fight to save the future of Social Security.... John McCain will reach across the aisle to address these challenges, but if the Democrats do not act, he will. No problem is in more need of honesty than the looming financial challenges of entitlement programs. Americans have the right to know the truth and John McCain will not leave office without fixing the problems that threaten our future prosperity and power.<sup>4</sup>

Senator McCain has taken this theme further in some of his speeches:

As President, I'll submit a plan to save Social Security and Medicare, and I'll ask Congress to do the same. I'll work on a bipartisan basis to make the hard choices; to protect the retirement security of the American worker, and the growth of the American economy. And if Congress is afraid to make those choices, then they can just let me do it. I'll take the heat. I'll ask Congress to let me submit a comprehensive proposal. I'll prepare it carefully, fairly and honestly. And they can vote yes or no: no amendments; no filibuster; no tricks: no band-aid solutions; no more kicking the can down the road as the problem becomes harder and more expensive to solve; no more hoping that a future generation of leaders will have the courage we lack. If some of their constituents complain, and they will, they can put the blame on me.<sup>5</sup>

Senator McCain has expressed support for a bipartisan model of the sort that led to the 1983 reforms, telling the AARP:

In 1983, the Social Security system was going broke. Ronald Reagan, the conservative former governor and Tip O'Neill, a liberal Democrat from Massachusetts, sat down at the table together and they walked out in the Rose Garden together and they said "we are going to fix it." Now I didn't agree with every part of the fix, but the fact is, they saved Social Security for 20 or 30 years. Now that's exactly the example. I'll reach my hand out to the Speaker of the House Nancy Pelosi. I'll reach my hand out to Harry Reid.... Every day we delay, the more radical the fix has to be.<sup>6</sup>

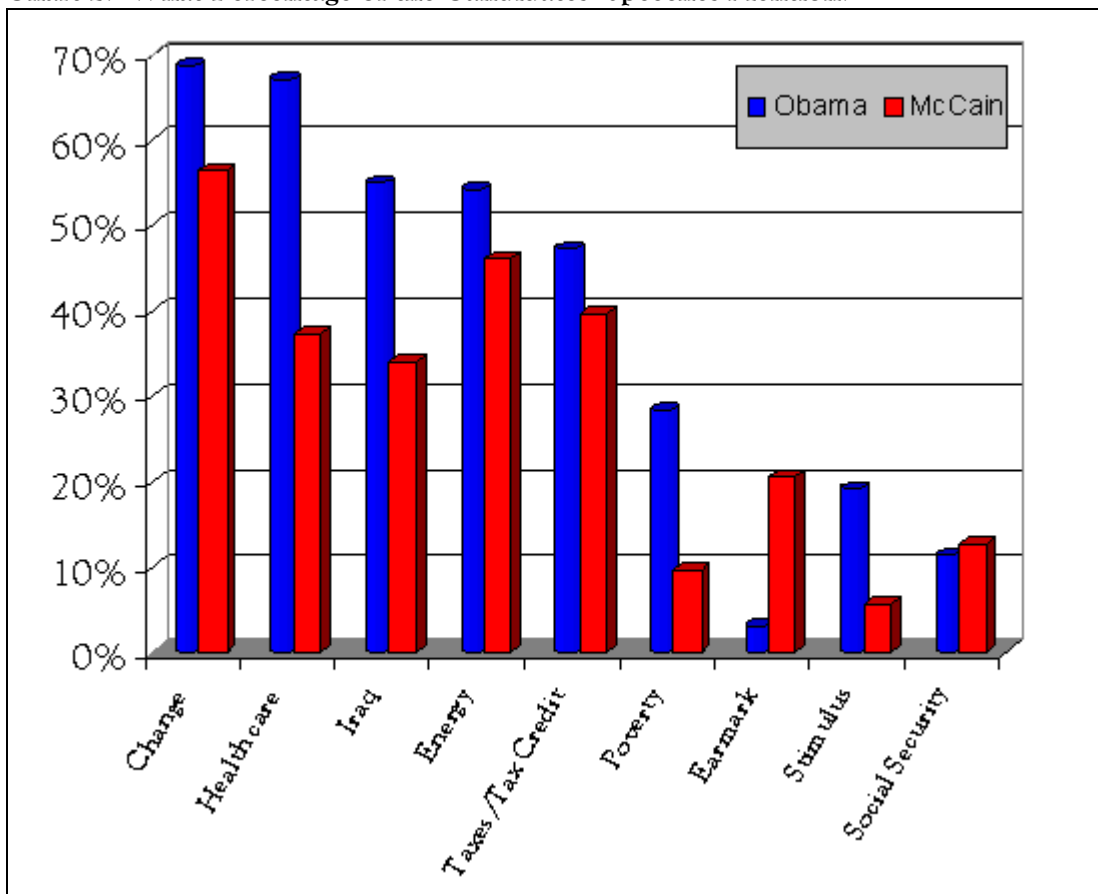
<sup>4</sup> McCain Campaign, <http://www.johnmccain.com/Issues/JobforAmerica/reform.htm>.

<sup>5</sup> New York Daily News, [http://www.nydailynews.com/news/wn\\_report/2007/07/02/2007-07-02\\_the\\_daily\\_news\\_candidate\\_challenge\\_john-2.html#economy](http://www.nydailynews.com/news/wn_report/2007/07/02/2007-07-02_the_daily_news_candidate_challenge_john-2.html#economy).

<sup>6</sup> AARP, [http://www.aarp.org/aarp/events/Life\\_at\\_50\\_dc/](http://www.aarp.org/aarp/events/Life_at_50_dc/).

Yet despite this rhetoric, neither candidate has made Social Security reform one of his top issues. An analysis conducted by US Budget Watch of the speeches posted on the candidates' Web sites finds that Social Security – the government's single largest program – is mentioned in less than 15 percent of the speeches by either candidate. By comparison, Senator Obama and Senator McCain mentioned healthcare in over two-thirds and one-third of their speeches, respectively. McCain mentioned earmarks in one out of every five speeches, while Obama mentioned poverty in well over a quarter of his. Both candidates have discussed taxes in roughly 40 percent of their speeches. And “change” has been mentioned in two thirds of Obama’s speeches, and more than half of McCain’s.

**Chart 2: What Percentage of the Candidates' Speeches Mention:**



Source: U.S. Budget Watch calculations based on Google research tools and candidate Web sites.

## Campaign Proposals

### Senator Obama

Senator Obama has offered a plan for reforming Social Security, but it would only close a small portion of the long-term shortfall. He has also discussed, at various times, what policies are “on and off the table” for reform negotiations.

#### *Raise Payroll Taxes*

Senator Obama supports bringing new revenue in the system by imposing a surtax on wages above \$250,000. According to the campaign’s Web site:

Obama does not support uncapping the full payroll tax of 12.4 percent rate. Instead, he and Joe Biden are considering plans that would ask those making over \$250,000 to pay in the range of 2 to 4 percent more in total (combined employer and employee).<sup>7</sup>

The campaign has not specified the exact rate of the new tax. Nor has it specified whether corresponding additional benefits would be paid, or what tax base the tax would be applied to. The campaign has also not stated exactly when and how the tax would be phased in, although it has said that it would likely not be implemented for a decade or more.

According to an analysis by Andrew Biggs of the American Enterprise Institute, a 4 percent payroll surcharge with no new benefits paid would close roughly 16 percent of the 75-year deficits, and 8 percent of the deficit in the seventy-fifth year.<sup>8</sup> Presumably, a 2 percent surcharge would have roughly half the impact, and offering new benefits would reduce the solvency impact further.

The Tax Policy Center modeled the revenue effects of a slightly different policy, where the employee’s share of the 4 percent surtax is imposed on *all* income above \$250,000, including capital gains and dividends. Assuming immediate implementation and no new benefits, this tax would raise nearly \$400 billion over the next 10 years, or roughly 0.65 percent of payroll. The Tax Policy Center does not project the impact on solvency, but if the federal government continued raising an extra 0.65 percent of payroll it would close more than one-third of the 75-year shortfall, and about 15 percent of the gap in the seventy-fifth year.<sup>9</sup>

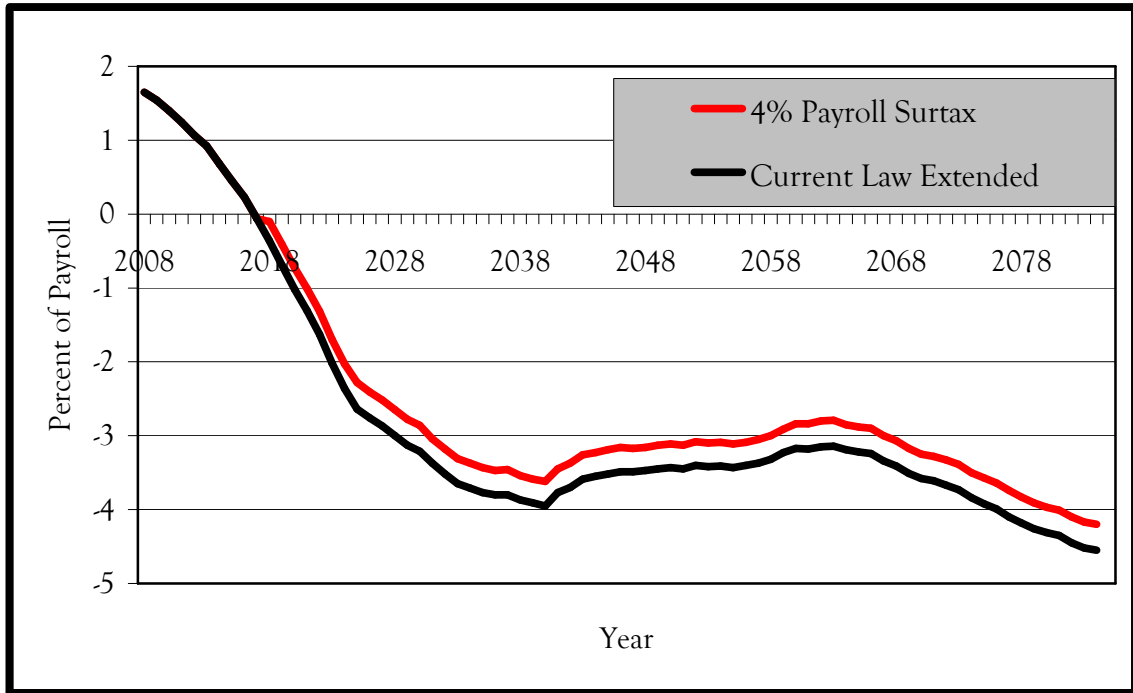
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<sup>7</sup> Obama Campaign, <http://www.barackobama.com/issues/socialsecurity/>.

<sup>8</sup> Based on data modeled by Andrew Biggs of the American Enterprise Institute, using GEMINI and other models developed by the Policy Simulation Group.

<sup>9</sup> Tax Policy Center and US Budget Watch calculations, <http://www.taxpolicycenter.org/numbers/displayatab.cfm?DocID=1957&topic2ID=40&topic3ID=&DocTypeID=5>.

**Chart 3: Social Security’s Cash Flow Balance Assuming 4% Payroll Surtax**



Source: Data modeled by Andrew Biggs of the American Enterprise Institute, using the GEMINI and other models developed by the Policy Simulation Group.

*Benefit Cuts and the Retirement Age*

Because Senator Obama’s plan would likely close, at best, one third of the long-term funding gap (and possibly less than one twelfth), he would need to agree to other tax or spending measure to reach his goal of restoring solvency to the system. It is still not clear exactly what an Obama administration might agree to, although the official campaign Web site says that “Obama and Biden will protect Social Security benefits for current and future beneficiaries alike. And they do not believe it is necessary or fair to hardworking seniors to raise the retirement age.”<sup>10</sup>

Early in his campaign, Senator Obama argued that everything should be “on the table” (except privatization). He explained what he meant in an interview with the television journalist George Stephanopoulos:

**Stephanopoulos:** You’ve also said that with Social Security, everything should be on the table.

**Obama:** Yes.

<sup>10</sup> Obama Campaign, <http://www.barackobama.com/issues/socialsecurity/>.

**Stephanopoulos:** Raising the retirement age?

**Obama:** Yes. Everything should be on the table.

**Stephanopoulos:** Raising payroll taxes?

**Obama:** Everything should be on the table. I think we should approach it the same way Tip O'Neill and Ronald Reagan did back in 1983—they came together. I don't want to lay out my preferences beforehand, but what I know is that Social Security is solvable. It is not as difficult a problem as we're going to have with Medicaid and Medicare.<sup>11</sup>

Since then, Senator Obama has stepped back from this statement somewhat. In October 2007, he cited “protecting benefits” as one of his key principles for reform, and in November 2007 he said: “I believe that cutting benefits is not the right answer.”<sup>12</sup> He has also asserted on many occasions, including in a speech he gave on June 9, 2008, that “we will not raise the retirement age.”<sup>13</sup> His Web site states that he does “not believe it is necessary or fair to hardworking seniors to raise the retirement age.” This last statement was briefly removed from his Web site in mid-September, before being restored less than a week later. Still, Senator Obama has repeatedly recognized that his payroll surtax would be “part of a bipartisan plan” and promised that he “will work with members of Congress from both parties to strengthen Social Security.”

#### *Private Accounts*

As his Web site and speeches make clear, Senator Obama is “strongly opposed to privatizing Social Security”. In the interview with George Stephanopoulos, in which he declared everything should be on the table, he made an exception for partial privatization:

Privatization is not something that I would consider. And the reason is this: Social Security is the floor. That's the baseline. Social Security is that safety net that can't be frayed and that we shouldn't put at risk.<sup>14</sup>

Senator Obama has proposed a plan to strengthen retirement savings outside of Social Security—through Automatic Workplace Pensions. All employers would be required to either offer their employees a retirement plan, or automatically enroll workers in IRA accounts, from which the employee could opt out of if he or she so chose. Businesses would be required to offer a default plan similar to the Federal Thrift Saving Plan. When a worker changed jobs, savings would automatically roll over to new accounts. Additionally, Senator Obama's plan would create special exemptions and incentives for small firms, and would expand the Savers' Credit for low-income workers.

<sup>11</sup> ABC News, <http://www.youtube.com/watch?v=IN7zt6sOoW0&e>.

<sup>12</sup> MSNBC, <http://www.msnbc.msn.com/id/21738432>.

<sup>13</sup> [http://www.barackobama.com/2008/06/09/remarks\\_of\\_senator\\_barack\\_obam\\_76.php](http://www.barackobama.com/2008/06/09/remarks_of_senator_barack_obam_76.php).

<sup>14</sup> ABC News, <http://www.youtube.com/watch?v=IN7zt6sOoW0&e>.

## Senator McCain

Senator McCain has offered four principles for how he would reform Social Security:

1. Taxes should not be raised.
2. People in or near retirement should not be affected.
3. Private investment accounts should play a role in reform, but not as a substitute for restoring solvency, and should not have a direct impact on the system.
4. Efforts to reform the system should be bipartisan.

### *Tax Increases*

Senator McCain has been clear in his personal opposition to any tax increases. However, it remains unclear whether he would be willing to sign a comprehensive Social Security reform bill that included tax increases.

In 2005, when asked if he would be willing to raise the taxable maximum for the payroll tax, Senator McCain responded, “as part of a compromise I could, and other sacrifices, because we all know that it doesn’t add up until we make some very serious and fundamental changes.”<sup>15</sup> Yet when asked the same question in April 2007, Senator McCain responded, “I will not support a tax increase; it’s off the table, certainly, now.”<sup>16</sup>

Ultimately, he appears to be saying that while he would be strongly opposed to any tax increases, he would be willing to engage in negotiations with those who support them – even if he would not agree to them in the final package: “In any negotiation that I might have, when I go in, my position will be that I am opposed to raising taxes. But we have to work together to save Social Security.”<sup>17</sup>

### *Benefit Cuts and the Retirement Age*

Although Senator McCain generally opposes tax increases, he is far more open to benefits reductions and changes in the retirement age. When asked, in April of 2007, whether he would be willing to accept these measures as part of a compromise, he responded:

As part of a compromise, if you come up with a benefit, I can accept almost anything, but it’s got to be part of a compromise.<sup>18</sup>

<sup>15</sup> New York Times <http://www.nytimes.com/2008/08/14/us/politics/14retire.html?pagewanted=print>.

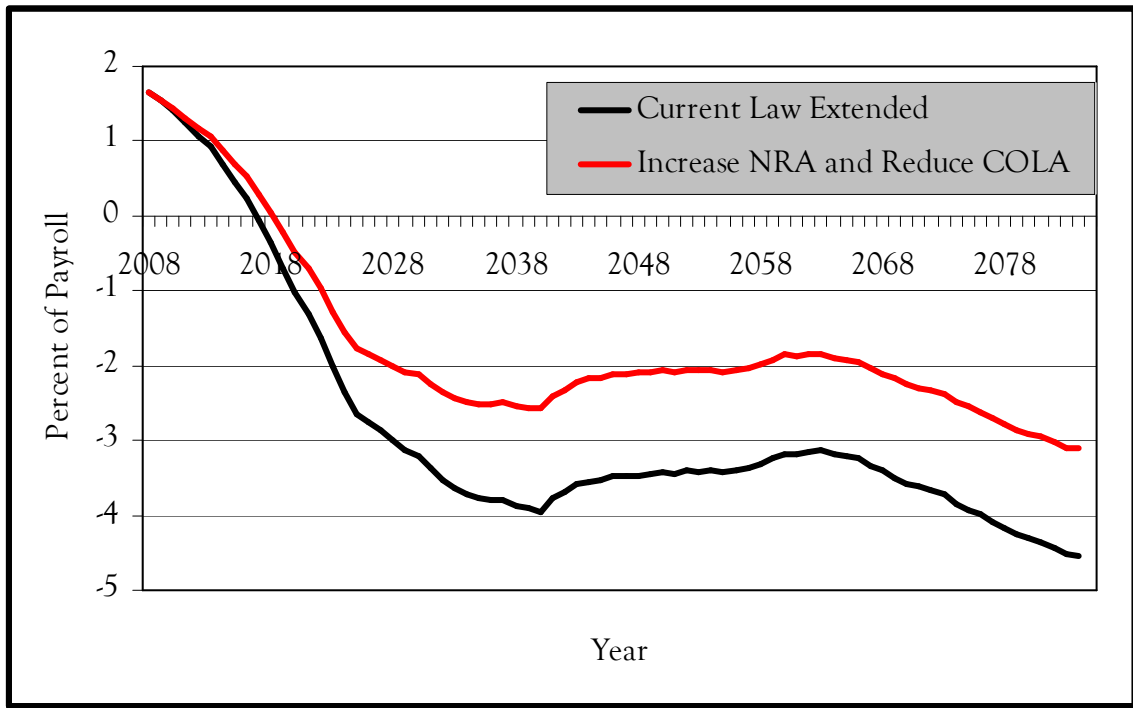
<sup>16</sup> “Choosing the President” interviews, Fox News Sunday, April 2, 2007, [http://ontheissue.org/2007\\_Fox\\_News\\_Sunday.htm](http://ontheissue.org/2007_Fox_News_Sunday.htm).

<sup>17</sup> ABC News, <http://blogs.abcnews.com/politicalradar/2008/07/mccain-on-taxes.html>.

<sup>18</sup> “Choosing the President” interviews, Fox News Sunday, April 2, 2007, [http://ontheissue.org/2007\\_Fox\\_News\\_Sunday.htm](http://ontheissue.org/2007_Fox_News_Sunday.htm).

When asked for specifics, McCain’s chief economic advisor said that the campaign is considering changes such as extending the retirement age to 68 and reducing cost-of-living adjustments.<sup>19</sup> It is important to note that neither of these are official policies of the McCain campaign. Furthermore, the impact of these policies would differ, depending on how deep the COLA reduction was, and how rapidly the retirement age was increased to 68. Assuming that COLA would be calculated using the so-called chained-CPI instead of the CPI-W – approximately a 0.3 percent annual reduction – and the retirement age would increase by one month every two years until it reached 68, Biggs finds that this plan could close nearly 60 percent of the 75-year shortfall and around a quarter of the shortfall in the seventy-fifth year. A larger reduction in the COLA would have a far greater effect on solvency, especially in the later years. (For example, a 1 percent COLA reduction, combined with a retirement age increase, could close the entire 75-year gap and roughly two-thirds of the gap in the seventy-fifth year).<sup>20</sup>

**Chart 4: Social Security’s Cash Flow Balance Assuming a Reduction in the Normal Retirement Age and a Reduction in the COLA**



Source: Data modeled by Andrew Biggs of the American Enterprise Institute, using the GEMINI and other models developed by the Policy Simulation Group.

<sup>19</sup> Wall Street Journal, [http://online.wsj.com/public/article\\_print/SB120451614688707083.html](http://online.wsj.com/public/article_print/SB120451614688707083.html).

<sup>20</sup> US Budget Watch calculations.

### *Private Accounts*

According to his campaign Web site, Senator McCain “supports supplementing the current Social Security system with personal accounts – but not as a substitute for addressing benefit promises that cannot be kept.” Details of how these accounts would be structured have not been presented, but from this and other statements it appears that Senator McCain would likely support an “add-on” account, which asks (or mandates) individuals to make contributions to individually owned (but typically government managed) retirement accounts in addition to their payroll taxes. His recent speech to the AARP appears to indicate that he favors pure add-on account:

[I] have my own principles that say... there ought to be a role for private investment accounts for workers as long as they are not a substitute for ensuring the solvency of the system and does [sic] not affect the system.<sup>21</sup>

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<sup>21</sup> AARP, [http://www.aarp.org/aarp/events/Life\\_at\\_50\\_dc/](http://www.aarp.org/aarp/events/Life_at_50_dc/)