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PERSONAL RETIREMENT ACCOUNTS: A NEW OPPORTUNITY FOR RETIREMENT SECURITY FOR WOMEN

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earner spouse and lower wage-earner spouse. It is illustrative of the fact that we are seeing women, who very often are the low earning spouse, contributing dollars into Social Security which they are never going to get back. Those dollars are going somewhere else; as such, there is redistribution, perhaps, to non-working spouses.

Turning to the panel: the first person I would like to introduce is Leanne Abdnor.**

PERSONAL RETIREMENT ACCOUNTS: A NEW OPPORTUNITY FOR
RETIREMENT SECURITY FOR WOMEN

Leanne Abdnor

MS. ABDNOR: Thank you. I am firmly in the camp of believing that we should move to a system of personal retirement accounts. I give President Clinton a great deal of credit for having the courage and the willingness to stand up and say we have a major problem with regard to Social Security and that we have to face it. I believe he gave some positive signals regarding Social Security reform in his proposal as described in the State of the Union.¹⁹

Let me tell you a story. Assume you are a woman, a single mother raising your two kids, working two jobs your whole life and making \$20,000 a year contributing your 12 percent to Social Security. You get to age 64, your children are grown and you, unfortunately, die. What happens to all of the money that you contributed? It is gone. Zero. You get nothing. However, if you

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¹⁹ President's Address Before a Joint Session of the Congress on the State of the Union, 35 WEEKLY COMP. PRES. DOC. 79-80 (Jan. 19, 1999) [hereinafter State of the Union Address].

were living in and working for the county of Galveston, Texas, the situation might be different. Galveston, Texas is one of three counties in the United States that was able to opt out of the Social Security system in the early 1980s (Congress quickly closed the door shortly thereafter).²⁰ If you were a county worker in Galveston what you would be doing instead is contributing your money to an alternative fund. The alternative fund does not invest in the stock market; instead, they bid it out every year to an insurance firm like an annuity.²¹ Every year these firms bid on how much of a return they will give to that money, and, since 1981, the return has been 6.5 percent according to Senate testimony by the funds' portfolio manager.²² If the same woman from the previous scenario were in a situation like the Galveston, Texas situation, earning an average of \$20,000 a year, her financial outlook would be vastly different. When she dies at the age of 64 she would have \$383,000 in her account that can go to her grown children or her favorite charity or whatever she would like to do. However, if she were to live into retirement, she would receive an annuity, which would translate into approximately \$2,500 a month. If she had been in Social Security, her monthly benefit would be something under \$800.00 a month.

We are talking about giving people who probably will never have an opportunity to save money, the chance to accumulate some wealth. Generally, people do not get rich from wages. People build wealth through investment and, unfortunately, low wage workers do not have any extra money from month-to-month to invest. I believe passionately in giving workers that opportunity now.

That was the anecdotal story. I think that we are on the Titanic. I think that given 10 years or 20 years we are going to hit an iceberg the likes of which most of us are unaware. Let me give you a

²⁰ See William M. Welch, *Texans Glad They Left Social Security*, USA TODAY, June 1, 1998, at 1A. After several counties in Texas withdrew from Social Security in the early 1980s, in 1983, Congress made "it impossible for local governments to leave Social Security." *Id.*

²¹ See *id.* Under Galveston, Texas's alternate plan, money is "invested in a group fixed annuity with an insurance company, which invests in a balanced portfolio of stocks and bonds." *Id.*

²² See *Locked into Social Security*, WASH. TIMES, Apr. 8, 1998, at A16.

few numbers. The revenue shortfall will begin in 2013. In that year, the shortfall will be relatively small. We are going to be short \$7 billion in 2013.²³ However, by 2020, that year alone, we will be short of money to pay benefits, by \$214 billion.²⁴ In 2025 it is \$433 billion; in 2030, \$684 billion; in 2035, \$720 billion; in 2045, \$1.2 trillion; and in 2055, \$2 trillion.²⁵ That is the revenue shortfall that we are facing. Once you add all the years, the shortfall comes to \$20 trillion (adjusted for inflation).

There is a lot of talk about a trust fund and I have a real problem with a trust fund. Yes, I understand that we have been building up all these bonds in the trust fund and that they are “good,” they are safe assets, and they are valuable to the Social Security Administration.²⁶ In 2013, when the Social Security Administration needs money to pay benefits, it can take these bonds and walk across the street to the Treasury Department and say, “okay, I need this much money now, this is the value of the bonds, give me the money I need to pay benefits.” The problem is that the Treasury Department doesn’t have the money.²⁷ It is one part of government owing it to another part of the government. As far as I am concerned, so long as the trust fund is one part of government owing another, it is a moot issue. Although the Social Security Administration will get first dibs on revenues, those revenues are going to have to come from

²³ *But see* Doug Bandow, *Want to Save Social Security? Privatize it*, WASH. TIMES, Feb. 6, 1998, at A21. Figures show that Social Security will run out of money by 2012. *Id.* By 2015, Social Security will spend \$57 billion more than it collects. By 2020, the revenue shortfall will be \$232 billion. *Id.* After 2020, the deficit rapidly escalates to \$160 trillion through the year 2075. *Id.*

²⁴ *See id.*

²⁵ *See id.*

²⁶ *See generally National Perspective: The Budget, Social Security and the Deficit*, L.A. TIMES, Feb. 8, 1995, at 5. Once Social Security recipients are paid, the government uses the remainder of the money in the Social Security Trust Fund to purchase Treasury bonds. *Id.*

²⁷ *See Surest Route to Social Security Privatization is Inaction*, WASH. TIMES, Jan. 24, 1999, at B5; *see also* Kevin J. Lansing, *Pay-As-You-Go Social Security Can't Pay the Bills*, SAN. FRAN. CHRON., Feb. 11, 1999, at A27. In 2013, there will not be enough money in Social Security to pay benefits to eligible persons. *Id.*

someplace, either payroll tax hikes or income tax hikes.²⁸ The dollars that I am talking about have to come from somewhere or we are going to have to drastically cut benefits.²⁹ Right now, if we do nothing, benefits will drop 27 percent.³⁰ I do not know of any older worker, other than one who is wealthy, that can afford that cut, particularly 7 million older retirees that are currently living solely on Social Security.³¹ They can not afford a \$10.00 cut much less 27 percent, which translates into a cut of about \$200.00 a month to the average Social Security benefit.

That is what we are facing. Any contemplated proposals need to be considered in light of the 25 percent cut we are faced with and not the promised benefit because we all know that the promise can not be met right now unless we do something. We would have to raise payroll taxes from the current 12.4% of earnings to over 18%, or we will have to cut benefits by 27 percent. If you do either one of those, the rate of return, especially for younger workers, gets worse.

Regarding the President's proposal, I was disappointed. First, he builds up the trust fund by injecting general revenues into it.³² He builds up more bonds in the trust fund, in that way, the trust fund holds accumulated bonds such that, were there the money to pay them off, it would last until 2055.³³ As I said, the problem is that we do not

²⁸ See generally *Retired Computer Programmer Worries About Children's Future/ Woman Wants Leaders Who'll Protect Social Security*, COLO. SPRINGS GAZETTE, July 7, 1998, at 3. According to Congress, "Social Security should get first dibs on any future budget surpluses." *Id.*

²⁹ See generally William E. Gibson, *Social Security Overhaul Tied to Income Tax Cut*, SUN-SENTINEL, April 29, 1999, at 13A. In order to "guarantee the promised level of benefits," money would have to come from raising taxes, cutting spending or increasing debt. *Id.*

³⁰ See generally Donna Porstner, *Manufacturers Spin Off Lobby For Taking Social Security Private*, WASH. TIMES, July 21, 1998, at B9. Lea Abdnor, Executive Director of Alliance for Worker Retirement Security, states that benefits will drop by 25 percent by 2032. *Id.*

³¹ But see Susan M. Collins, *Preserve Social Security*, BANGOR DAILY NEWS, Jan. 2, 1999. Approximately 44 million Americans depend on Social Security. *Id.*

³² See State of the Union Address, *supra* note 19, at 79. President Clinton proposed "commit 60 percent of the budget surplus for the next 15 years to Social Security, investing a small portion in the private sector . . ." *Id.*

³³ See *id.* According to President Clinton, his proposal to save Social

have the money to pay them off. Ultimately, the trust fund issue is irrelevant; it merely stands for the proposition that the Social Security Administration will have first claim on someone's income taxes until about 2055.

The second part of the President's plan is for the government to invest in the stock market.³⁴ First, I agree with Alan Greenspan, it is impossible to insulate government purchasing stock from politics.³⁵ There are examples all over the country of state and local funds that have not been able to do that.³⁶ How, for example, can you sue Microsoft and invest in the stock at the same time? Or what do you do about tobacco stocks, what do you do about environmentally unclean companies that are being sued by the EPA. Are we investing in them? I agree with Greenspan. I do not think you can insulate that process.

Second, I think it sets a very bad precedent. Regardless of whether it is only 15 percent of the trust fund, it is an extremely bad precedent for this country to move toward government ownership of private enterprise. The Social Security experts have just finished their analysis of the President's plan and they say that the Federal Government, through Social Security, would hold more than \$1 trillion of stocks in private corporations by 2015 and more than \$2 trillion by 2030.³⁷ Government investment in the stock market is the only proposal that President Clinton put forward that actually does increase revenues into the system, but it does so in a flawed way.

Security "will earn a higher return and keep Social Security sound for 55 years." *Id.*

³⁴ See *id.* at 80. See also Martin Regalia, *Too Good to Believe: Social Security Proposal is Budgetary Trickery*, POST AND COURIER (Charleston, S.C.), Feb. 14, 1999, at A15 (discussing how the President's plan to save Social Security would allow the trust fund "to buy stocks with some of the money transferred to the fund from the government.").

³⁵ See Bill Barnhart, *The Politics of the Surplus; Stock Market Gamble: Big Payoff, Big Risk*, CHI. TRIB., Jan. 21, 1997, at N1 (quoting Alan Greenspan, "I do not believe that it is politically feasible to insulate such huge funds from government direction.").

³⁶ See *Government Investment in Stocks Poses Variety of Problems*, USA TODAY, Jan. 21, 1999, at 14A (discussing how difficult it is for legislatures and governors to keep from mixing social policy with investment choices).

³⁷ See *The Clock is Ticking*, DES MOINES REG., Dec. 7, 1998, at 4 (providing federal projections of the financial status of Social Security).

The last part of President Clinton's proposal was the Universal Savings Accounts.³⁸ Some people in the Clinton Administration said this would "cool off" those of us that want to reform the system by carving out a portion of payroll tax.³⁹ However, President Clinton is proposing it be added on top of the current system. President Clinton is using the budget surplus to create these accounts. The progressive nature of it is probably valuable because the lower wage workers would be allowed to put up more money and the government would match it.⁴⁰ However, what do you do when the surplus goes away? At that time where will the money come from? We will have created another entitlement system that has to be funded. We have done nothing about the existing system.

So what do I want to see done? First, I would like to see the Social Security Administration send us honest statements. The statements that you will start receiving annually next year are a year-by-year list of the contributions that you have made. This statement does not include your employer's contribution. They do not acknowledge that the 6.2 percent that your employer put in was actually out of your pocket also.⁴¹ The Senate and others have tried to tell the Social Security Administration to include the employment share.⁴² It is not an oversight, they have told them this for years. Finally, they were told that they had to, by law, start including the employer's share in federal year 2000 when they are required to begin distributing the reports.⁴³ By not including the employee share, the

³⁸ See State of the Union Address, *supra* note 19; see also Mr. Clinton's Savings Proposal, WASH. POST, Apr. 16, 1999, at A28.

³⁹ See generally E.J. Dionne Jr., *For This Tax Break, You Needn't Be Wealthy*, WASH. POST, Apr. 16, 1999, at A23 (discussing President Clinton's Universal Savings Accounts).

⁴⁰ See Andrew Cain, *Clinton Explains Savings Accounts: Credits Would Go to Middle Class*, WASH. TIMES, Apr. 15, 1999, at A7.

⁴¹ See Bruce Bartlett, *Personal Gauge*, WASH. TIMES, Dec. 7, 1998, at A16.

⁴² See generally *The Future of Social Security for This Generation and the Next: Examining Proposals Regarding Personal Accounts: Hearings Before the Subcomm. on Soc. Sec. of the House Comm. on Ways and Means, 105th Cong.* (June 3, 1998) (containing the testimony of Hon. Robert M. Ball, National Academy of Social Insurance).

⁴³ See *id.*

Social Security Administration is trying to show a fairly high rate of return, which is misleading.

What we would suggest is the following: a strong safety net so that there is a guaranteed minimum retirement benefit for all workers. You can put that at the same current Social Security level, or make it even more progressive, as one of the bills on the Hill had, where lower wage workers would actually get more than they would from Social Security.⁴⁴ Second, you do not make any changes to existing retirees or near retirees. It is too late in the game, we made promises to retirees and we have to keep them. Third, you allow personal retirement accounts as a carve-out of a portion of the 12 percent FICA tax. You do not do anything with disability. Nobody is talking about any changes to that, but, rather, a portion of the FICA tax; it could be two or three or four or five percent, as a personal retirement account, and the remainder would continue to go into the system. No payroll tax increases. Lastly, no government investment in the stock fund. That is what the people that I represent suggest and we especially believe that we have a wonderful opportunity with all the surplus revenue to be able to pay benefits and allow workers the choice. I think this is the key and I will end on this note: Why not give workers the choice to stay in the system or move to a system of private accounts?

I recognize there is strong opposition to these proposals. For example, there is criticism regarding the administration of the accounts. However, what I have not heard are counter-proposals from people who oppose personal retirement accounts. The only counter-proposal is to lift the \$72,000 wage cap.⁴⁵ However, that is insufficient to meet the needs of the current system. I would encourage you to make sure that whomever opposes personal retirement accounts tell you what they would do instead with that \$20 trillion shortfall that is coming. Thank you.

PROF. SCHWAB: Our next speaker is Karen Burke.^{***}

⁴⁴ See H.R. 4824, 105th Cong. 2d. Sess. (1998).

⁴⁵ See Allen Salkin, *New Life to Old Debate Over Social Security; D.C. Conference Set to Kick It Off*, N.Y. POST, Dec. 6, 1998, at 8. Senators Daniel Moynihan and John Kerry propose to push "the cap up at a faster rate". *Id.*

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