Congress of the United States
House of Representatives
Washington, DC 20515

December 18, 2003

SOCIAL SECURITY ACTUARIES HAVE NOT GIVEN FERRARA PRIVATIZATION PLAN THEIR SEAL OF APPROVAL

Dear Colleague:

I am writing to clear up a serious misconception that the Social Security actuaries have given their seal of approval to a plan to privatize Social Security. A December 1 *Wall Street Journal* op-ed by Peter Ferrara, a conservative policy analyst and advisor to the Club for Growth and Americans for Tax Reform, outlines a plan to divert more than half of Social Security payroll tax revenues to personal investment accounts. Ferrara claims that an estimate of his plan by Steve Goss, the chief actuary of the Social Security Administration (SSA), "... shows that such large personal accounts would achieve permanent solvency for Social Security, without benefit cuts or tax increases." An accompanying *Wall Street Journal* editorial in support of the Ferrara plan goes on to say: "The new Goss analysis shows that the White House can afford to be bolder and at a minimum needn't box itself in by agreeing to any '2%-solution' during the 2004 campaign."

The memorandum from the Social Security Administration's chief actuary actually leads to a quite different conclusion. It is clear that the *Wall Street Journal* editorial board either never read the memo or chose to ignore the stubborn facts in the memo that contradict their position.

To make his plan work, Mr. Ferrara apparently told the actuaries that his plan would specify in the law that the government would transfer huge sums from the general fund to the Social Security trust funds. The actuaries estimated that those transfers would total some $68.3 trillion over the next 75 years, measured in 2003 dollars.

The memo also shows the cost of those transfers in "present value" terms. Present value is a way to express costs that occur over many years and acknowledge the time value of money. It is the amount of money which, if invested today, would, with interest, exactly equal the cost over 75 years. In present value terms, the transfers in the Ferrara proposal are $6.9 trillion. (This is equivalent to the $68.3 trillion cost over 75 years.) To put that number in perspective, the actuaries estimate that the present value of the entire Social Security shortfall over the next 75 years is $3.8 trillion.

There are two critical things to understand. First, the superb career actuaries at SSA bend over backwards to maintain their professional integrity and impartiality. Their sole function is to examine proposals to restore solvency to the Social Security trust funds and to score those proposals' impact on the trust finds. They do not comment on or assess the plausibility of being able to make such substantial transfers to Social Security, nor the impact of those transfers on the rest of the federal budget. Second, the actuaries made it abundantly clear in their memorandum that without these massive general revenue transfers, the Ferrara plan would sharply increase the Social Security shortfall over the next 75 years, and cause the Social Security trust funds to be exhausted by 2014 rather than in 2042 as projected under current law.

The general revenue transfers in the Ferrara plan would supposedly be financed from two sources—unspecified reductions in overall federal government expenditures and reliance on dynamic scoring, which assumes increased corporate tax revenues would result from investment of personal accounts in corporate equities. The Ferrara plan also provides that the Treasury could simply borrow more money from the public if the first two sources fail to yield sufficient general revenues.

The actuaries never comment on whether:

- those implausibly large cuts in federal spending—nearly 50 percent of remaining expenditures if interest on the debt, defense, homeland security, Social Security and Medicare are excluded—can be achieved;
- there will be any increase in corporate tax revenues, let alone the more than two-fold increase assumed in the Ferrara plan;
- the general fund can afford to make those transfers, given that both the Congressional Budget Office and the Government Accounting Office estimate that the general fund will be running huge deficits for the foreseeable future.

Thus, the only conclusion reached in the actuaries' memo is that if you pretend you have $6.9 trillion of new money available for Social Security, you can solve a $3.8 trillion problem. It is erroneous to use that result to conclude that a system of large personal Social Security accounts is an economically viable policy.

Sincerely,

Pete Stark
Ranking Member
Joint Economic Committee

Robert T. Matsui
Ranking Member
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