

NLWJC - Kagan

DPC - Box 057 - Folder-009

Social Security - Notes & Memos

12/22/98 Social Security POTUS Meeting

- GS: Reads list of criteria
- BC: Why don't we just go jump off the roof right now?
- GS: Explains option 1 - best of both worlds - everyone's attacks are muffled
 worst of both worlds - everyone attacks you, ^{esp. for govt ownership.}
 attacks on govt investment may be moderated
 by indiv accts
- BC: If you ~~invest~~ invested only surplus contrib in equities??
 Can you do it w/out investing at all in equities?
- LS: w/ halt the surplus, you'd solve about 35% of the years.
 (maybe 15 years)
- BC: POT constraints -
1. imposs to dedicate whole surplus to SS - b/c of our derive fund, Medicare, military.
 2. imposs to sell it lots of govt ownership +/w getting into 12.4%.
- May wind up declaring victory at less than 75 yrs.
- KA: Risk of that is repeating 1983.
- LS: Not so bad. Could do worse than 1983.
- BC: But 83 predicated on taxes; this on surplus, which could more easily unravel.
- LS: If surplus don't materialize, ^{it's} not SS that will get screwed, but rest of budget.
- VP: POT nec feal to have govt ownership, if have imulating mechanism -- especially, as compared to what
- a. whether indiv accts will ever be received as win for Dems.
- GS: OK if this is add-on, if suffic. progressive. Mt be nervous about putting it on table so early.
- LS: Use "univ pensions," not "indiv accts"

GS: Worried that you'll be holding your own alone
BC: Been there. We can squander this "massive haul."

~~BC~~ No commission; no one else to take heat.

If Greenspan says opposed!!!

CS: He thinks (1) won't help (2) won't address fundamental problem - all \$ to apt (3) very worried abt credit 75% inf.

CS: You could do bipart process. Just that Dems will go berserk.

VP: You've moved country a long way.

CS: May seem like terrible idea - ^{the} who, I'll do plan.
Looks you in to going left.

But your prob: Dems don't know where they are - This will make them w/ the crazy for 6 weeks.

GS: Opt 2. Adv - no specifics

Disadv - too open cumulative acct sink

Opt 3 - take up budget

Real prob - inabil to control. They could take up budget right away.

CS: Structure wish of this not greater than wish attached to other plans that use surplus.

BC: Makes add on indiv accts imposs? Yes.

Also makes Medicare imposs - you don't have any \$.

Wkin: Not poss to phase it in. If this is the right thing to do, it should be the right thing to do now.

GS: May be thrust upon us.

VP: Every appropriation will be apt; as will tax cutters.

BC: Can't do in context of our budget. We can't do defense, w/ discretionary.

VP: ~~Should~~ In general -

Shouldn't give recog to indiv accts

Put forward essentially Penn plan

Use rest of surplus for when we finish job of SS.

Win the argument of indiv acct - don't give add-on.

VP: shouldn't take "unisex" off table -
I think power in B. Kerney argument.

CS: Disagree w/ VP. Split exp. SS has to be bipartisan -
can't ignore what half of Congress thinks.

Think savings acct would be last thing to do: progressive,
encourage savings.

Would do that now if thought could sell it to Repub Demt.

VP: Gene's issue of IAs interesting.

Don't you go into Repub context of indiv acct ...

Repubs scared silly of this 7's SS proposals.

" on defensive.

CS: Your arg is likely contingent on assuming that we can
sell govt investment.

BC: let the damn thing go broke.

1/6 Budget inty POTUS

Go over numbers - 2000 surplus w/cut SS!

SSO in same ballpark as US ↓

But then spending on defense / WDD
will take you into deficit in 2001.

Repubs looks like they'll use on-bud surp, all for tax cuts

Optical: Need tough choices / coll inv for total fix.
Extend to 2044 w/cut amnt of advnc.
If want more, ...

Only looking at
15 yrs transfer
from surpluses.

Indiv acct - not part of SS; part of other 2 legs of retirement syst
(Gephardt int endorse the way we have here)

(About 20b each yr)

Annual govt contrib to whrs: ?

(matching rate goes down as inc. goes up)

POTUS: 2 or 3 concerns -

a) 15% in stocks probably a prudent risk
(plus 3-5% of whrt)

Assume we do that

what if Dems want 75 yrs no gov. funding?

CS: More years to dip into surpluses

Move of surpluses

Post-trad. returns - averaging period
+ local whrs
pay-SS tax ceiling
ret. age

Need to have in our mind what else we're prepared to do.

Good thing to do some of structural things.

Need to combine w/ shift to reduce welfare payments

have to have in our mind how to get to 75 yrs
rising income level is a problem - answer to do what
withing 1. ml 90,000?

- b) Repubs will hope the indiv acct -
or take it out of 12.4%

Mov toward customer empowerment in all policies is
irrevocable. (Public school choice)

PR: This may take on life of own - p. will want to do only
this.

CS: You have entire Repub msg about wealth creat-,
w/out improving at all on the SS guarantee

CS: Three wishes

a) even a little \$ in the med → it's socialism.

↓ Bc: any under retirement fund. St + local - 9-10 %
↓ some are in/yt

b) Repubs not glow into indiv accts first / not do SS fix
espec. if p decide: SS reform is dead for yr.

CA: 2 other wishes

a) left out see this as indiv acct

CS: good to get Geoph. on board.

CS: Need framework to prevent yf-budget stampede

11/12

Social Security - Mtg w/ President

Gene

cut benefits
Raise revenues
Find other resources
Get higher returns

} Ways to fix
S.S.

All better ^{to do} sooner than later

Set of 3 returns - traditional

Some think that 1 or more - politically unviable -
effective tax ↑ of \$1,000. But no change in benefits. Rev-
raiser.

Less you do here, more pressure elsewhere -

e.g. need a greater lens cut - not 3% as in 35/38
proposal. but up to 10%

Larry

Why should we fix SS?

1. Taxes now don't pay benefits -

can fix this in lots of ways.

2. In 2030, more old people - big burden -

need to make adjustments

from this perspective,
using gen's news to finance s.s. is bad. Prob is that SS

is putting too much pressure on SS.

3. Stop use of surpluses now on crazy tax cut

Danger - if we commit ourselves now, we're not helping
2030 problem. Indeed, may be locking in totally unsustainable
commitment.

Care:

Plan 1 - surplus to SS - bonds only

Low: lots better than tax cut. Essentially buying down debt.

BC: means more, no way to deal w/ health care costs, infrastructure needs. Mandating subst tax \uparrow in other context for other purposes.

Argues for some structural change, however gradual

No pain is $\frac{1}{2}$ bad politics for young people. Problem: their intensity is low; intensity of old people, who will want painlessness, is high.

If we don't do this, and we have Repub Pres, then universality of system is gone - they'll privatize!

GS: Plan 2 - surplus to TF - invest in equities

Boat, Reinshauer. More efficient for trustees to invest in mkt than for indivs - very attractive: even more w/ acct on top
but: gov't ownership issues. True, Fed reserves; state pension funds. But still not clear whether this is allable.
Substantive issue, not just political

~~Indiv~~ ^{trad} indiv. accts: Most proposals - benefit will be less; acct makes up difference - more (supposedly)
how will people react to this?

Repubs now guaranteeing indiv acct in some way.

Dems will only go along if makes syst more progressive, looks more like TSP, has some kind of guarantee
BC: No chance of getting Dem unity w/out those things

Admin costs? Non-basic plans will have higher ~~than~~ ad costs.

Flat dollar add on - elastic compromise