Contact: Mark Primoff
845-758-7749
primoff@levy.org

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NEW SOCIAL SECURITY PLAN WOULD CAUSE REAL PAIN, NO GAIN
System Is Not in Crisis, New Levy Paper Contends, and the Breaux Plan to Save It Unnecessarily Reduces Benefits and Raises Taxes

ANNANDALE-ON-HUDSON, N.Y._While few of the plans now on the table to "save" Social Security offer much benefit, a new plan, proposed by Senator John Breaux and others, would inflict considerable pain and offer no substantial gain for the system and its beneficiaries, according to Dimitri B. Papadimitriou and L. Randall Wray of the Jerome Levy Economics Institute.

In a new Levy Institute *Policy Notes,* ***More Pain, No Gain: Breaux Plan Slashes Social Security Benefits Unnecessarily,*** the Levy economists contend that a closer look at this new plan, which is touted as a simple solution to the system's future solvency problems, finds needless benefit cuts and tax increases. "As usual, the devil is in the details," write Papadimitriou and Wray. "The plan contains a substantial number of major changes to the Social Security program that will have a large and quite complex impact on its costs and revenues."

The paper outlines the Breaux plan's three main components: partial privatization, a government-subsidized savings plan, and benefit cuts with tax hikes. According to the authors' analysis, the plan's major shortfalls include:

- Private fund management of a portion of payroll taxes that will flow into the stock market. The net result: a windfall for Wall Street and benefit recipients left at the mercy of their portfolio's performance.
- Benefit reductions and tax increases. The authors contend that, by slashing cost-of-living increases so that benefits would not rise as fast as the CPI, the plan cuts benefits for retirees. Slower growth of the inflation index applied to tax schedules subjects workers to "bracket creep" or, in other words, a tax increase.
- The plan cuts benefits by extending the number of years of earnings used to calculate benefits and raises the retirement age.
- Taken together, these changes would result in major cuts in benefits and de facto tax increases without necessarily solidifying the system for the future.

The Levy Institute paper also concludes that Social Security does not face a crisis, making the pain inflicted by the Breaux plan particularly needless. "We believe the Social Security

Trustees have used overly pessimistic assumptions to project program revenues and expenditures," the authors write. "But even on the basis of those projections, revenues are sufficient to meet costs far into the future." Even small changes in the long-term forecast for Social Security revenues or demographics would result in a far different picture seventy-five years down the line, according to the authors.

"The most prudent course of action is to leave Social Security alone until changes have to be made. If more of society's output has to be shifted to retirees in 2035, then the most effective and direct method of achieving that shift of distribution will be to use the tax system in the year 2035 to do so," say Papadimitriou and Wray. They note that even the more pessimistic forecasts see only a 2 percent gap between revenues and expenditures by the year 2075--a shortfall that can be managed without generating economic crises. "Cutting benefits over the next few years simply lowers living standards prematurely, without in any way reducing burdens on future workers," the Levy Institute Policy Notes concludes.

Policy Notes 1999/8, *More Pain, No Gain: Breaux Plan Slashes Social Security Benefits Unnecessarily*

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