

The Great Debate:



Social Security Reform,
What's at Stake for Latinos

The National Council of La Raza (NCLR) is a private, nonprofit, nonpartisan, tax-exempt organization established in 1968 to reduce poverty and discrimination and improve life opportunities for Hispanic Americans. NCLR has chosen to work toward this goal through two primary, complementary approaches: (1) capacity-building assistance to support and strengthen Hispanic community-based organizations, and (2) applied research, policy analysis, and advocacy. NCLR strengthens these efforts with public information and media activities and special and international projects. NCLR is the largest constituency-based national Hispanic organization, serving all Hispanic nationality groups in all regions of the country, with more than 300 formal affiliates who together serve 41 states, Puerto Rico, and the District of Columbia – and a broader network of more than 35,000 groups and individuals nationwide – reaching more than four million Hispanics annually.

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Institutions

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* The terms "Latino" and "Hispanic" are used interchangeably by the U.S. Census Bureau and throughout this document to identify persons of Mexican, Puerto Rican, Cuban, Central and South American, Dominican, and Spanish descent; they may be of any race.

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Special thanks goes to Virginia Reno, Vice President for Income Security Policy at the National Academy for Social Insurance, for helping to organize and moderate the debate. Debate participants include: Congressman Chris Cannon (R-UT); Congressman Robert Menendez (D-NJ); José Piñera, senior fellow and co-chairman of Social Security Choice at the Cato Institute; and Peter Orszag, Joseph A. Pechman Senior Fellow in Economic Studies at The Brookings Institution.

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Foreword

The Social Security program provides much-needed social insurance for workers. Today, nearly 41 % of Latino seniors rely on Social Security benefits as their only means of support. Though the system continues to provide retirement and other benefits to workers, children, widows, and families each year, there is a projected long-term financial deficit in the program. Social insurance is critically important to Latinos as is the need to improve retirement savings levels for Hispanic workers. Social Security reform, and in particular "privatization," will impact the economic lives of Latinos, who are becoming a larger share of both American retirees and taxpayers. But reform options can be complex and confusing, making it difficult to understand the issues that Latinos care most about in the unfolding debate.

Seeking to address this, the National Council of La Raza (NCLR) convened "The Great Debate: Social Security Reform, What's at Stake for Latinos," at its 28th Annual Conference in Phoenix, Arizona. NCLR had the pleasure to host several distinguished policy experts and lawmakers with a strong interest in Social Security "privatization" efforts. The participants discussed the issues from divergent perspectives, emphasizing the value of reform to the Hispanic community.

NCLR's goal was to have a substantive and meaningful exchange of ideas and opinions and get at some hard questions including:

- ▼ Why should a young Hispanic worker care about the outcome of this policy debate?

- ▼ Saving for retirement and building wealth is a considerable challenge for Latinos today. Are personal savings accounts as part of the Social Security system the best way to remedy this problem? Why or why not?
- ▼ How might reform influence poverty levels among Latino seniors and future seniors?
- ▼ What can Latinos do to make their voices and concerns heard on this important issue?

We found the discussion rich and valuable and believe others will as well. NCLR recognizes the importance of Social Security and social insurance to the Hispanic community as well as Latinos' strong interest in shoring up Social Security's solvency over the long run. Any change to the program should be done cautiously and must ensure that Latinos' interests are advanced. NCLR looks forward to being involved in the Social Security debate and will work to stay educated and informed as well as to provide an authentic Latino perspective on this issue.

Respectfully,



Janet Murguía
President and CEO

Executive Summary

“**T**he Great Debate: Social Security Reform, What's at Stake for Latinos" shed light on the complexity surrounding policy deliberations over Social Security reform and the debate over "privatization."

Virginia Reno aptly noted that the Social Security system is, "the bedrock of economic security for millions of Americans." Many elderly Latinos know that Social Security benefits are often all that prevent them from slipping into extreme poverty and becoming destitute. The social insurance protection that the Social Security program provides is unquestionably important to Latinos.

Calling Social Security "a bond between generations, something that our community fully understands," Congressman Menendez raised legitimate concerns about the potential for a private accounts system to undermine a crucial relationship that resonates deeply with Latinos.

Congressman Cannon brought important focus to the complicated work status issues that many Latino immigrants experience which can adversely affect receipt of Social Security benefits. He emphasized the importance of providing these workers, many of whom lie outside the current system, a chance to save for themselves in private accounts.

José Piñera emphasized the power of "choice" that "ownership" and wealth through a private accounts system could provide to U.S. Latinos, many longing to build personal wealth and greater retirement savings.

Peter Orszag, on the other hand, emphasized the success of the program, acknowledged the need for reform, but

advised, "Let's not pretend this is a gargantuan deficit that, to use the analogy that's already been put forward, requires changing the car rather than changing the tire." Acknowledging that more has to be done to improve retirement savings for Latinos, he encouraged policy-makers to look closely at private retirement savings options outside of the Social Security system.

One of President Bush's top priorities this term is Social Security reform. The President is emphatic that reform include a private account feature to enhance personal savings and contain no tax increases. Lawmakers in Congress acknowledge that Social Security is facing challenges but disagree on solutions and how best to move forward.

Social insurance and the Social Security system play a vital role in the economic lives of Latinos. The system must be made solvent. The features of the system such as the guaranteed benefit, the progressive formula, and the universal and social insurance character should not be casualties of reform. The debate revealed, among other things, that there are many ways to both preserve the Social Security system and improve retirement savings and ownership levels for Latinos – goals that NCLR supports strongly. Latinos must take informed action in this debate to ensure that neither our retirement security nor that of *nuestros abuelos* (our grandparents) is changed without our input. NCLR is intent on asking the hard, substantive questions of reformers, will work to stay informed of various options, and take tough positions on the merits of proposals that we believe reflect the Latino perspective.

Welcome

Raul Yzaguirre

Then-President and CEO

NCLR, Washington, DC

Welcome, folks. Let me welcome you to this debate. This is a very important debate about the future of Social Security. If all of us are lucky, we're going to be old enough to be able to receive it, and whether it's there or not is one of the great questions that we debate in this country.

My job today is to thank the panelists, who will be introduced to you shortly, for coming. We've got some enormously powerful and well-educated, well-versed experts and certainly decision-makers on this issue, and we're very pleased today that they agreed to join us.

But before we do that, let me thank the Ford Foundation, the Center for American Progress, and particularly our lead sponsor, the Prudential Financial companies, which has been a long-standing supporter of the National Council of La Raza and which serves on our Corporate Board of Advisors.

And to welcome us to this event, let me call on the Managing Director, Greater Southwest Agency [Prudential Financial companies] Mr. Gilbert Valadez. Gil.

Gilbert Valadez

Managing Director, Greater Southwest Agency Prudential Financial companies

Good afternoon. How are you enjoying Phoenix, the Valley of the Sun? Are we living up to our reputation? Good, good. I do have a note from the tourism board asking me to apologize. It seems that someone found a cloud.

And rest assured that we found it, and we'll have it removed right away. We try not to have too many clouds until around September or October around here. But I do want to welcome you, and really, my job here is nothing more than to offer thanks for the privilege of having an opportunity to continue to work with NCLR. We at Prudential are delighted we have been working together and really have a strong partnership across the country, and we couldn't be more pleased with working with an organization and with folks like Raul who obviously are interested in furthering and bringing awareness to the issues that are of great concern to all people, but especially the Latinos in the United States.

And with that, I again want to thank you for being here and to thank NCLR for allowing us the privilege of being here.

Opening Remarks

Virginia Reno

Vice President for Income Security Policy

National Academy of Social Insurance, Washington, DC

My name is Virginia Reno, and I'm the moderator for this session this afternoon. I'm the Vice President for Income Security Policy at the National Academy of Social Insurance. That's a nonprofit group in Washington, DC, that does research on Social Security and other social insurance programs.

We are delighted to be a part of this great debate on the future of Social Security. My job is to be a strict timekeeper so that we stay on time and leave time for your questions at the closing minutes of the session.

At the beginning, I would like to briefly outline three questions: What is Social Security, who pays for it, and what is the problem that we're here to concern ourselves with today?

First, Social Security, as many of you know, is the bedrock of economic security for millions of Americans. Forty-seven million people receive it. In one out of four households someone is receiving a Social Security check. It could be a grandmother or a great aunt, a disabled woman with a dependent child, or orphaned children who are getting benefits because a father has died as a result of an accident, illness, or military service.

The average retiree gets about \$900 a month or about \$11,000 a year, not enough to have a comfortable level of living by itself. Yet Social Security is the main source of

income for most elderly Americans. For nearly two out of three beneficiaries, it is more than half of their total income. For one in five elderly beneficiaries, it is all of their income.

Social Security looms large in the income of the elderly mainly because most don't have pensions and many don't have significant other wealth to supplement Social Security.

Then the question is: Who pays for it? Well, workers and employers pay for Social Security. Each pays 6.2% of earnings out of worker's wages up to a cap of just under \$88,000 this year.

What is the problem that we're trying to face? The problem is that the cost of benefits will rise in the future because we will have more older Americans, and the revenue from the 6.2% tax will not rise as fast as will the benefit bill for the elderly.

By law, the Social Security trustees look at the long-term future of Social Security every year. They forecast out for 75 years. In the near term, Social Security finances are in good shape. It is taking in more money than it is paying out in benefits.

In the long term, however, the trustees forecast that Social Security with its reserves and interest on those reserves will have enough money to pay benefits in full through 2042. After that, the continuing income coming in would cover only about three-quarters of the benefit cost.

The Congressional Budget Office recently issued its own estimate of Social Security's future and found that the problem was somewhat smaller. They found that income

would be enough to carry benefits through 2052. After that, revenue would cover about 80% of the cost.

Nonetheless, in both scenarios there is a shortfall in the future. The problem is how to balance the system. Will it be benefit cuts or tax increases? Even more important, will Social Security be changed from a system of social insurance in which risks are pooled broadly across everyone to a system of personal accounts that are more like individual property where investment risks and returns are borne individually? Those are the key questions; those are the issues our speakers will debate today.

I would like to introduce our four distinguished speakers, and they will come out as I mention their names. The introductions will be brief because the background materials on your chairs contain much more complete biographical information.

Our first speaker is Representative Chris Cannon, Republican, of Utah's Third District. He is Chairman of the Subcommittee on Commercial and Administrative Law of the House Judiciary Committee, and he was elected to Congress in 1996.

Representative Robert Menendez of New Jersey's 13th District is Chairman of the Democratic Caucus. He is the third-ranking Democrat in the House and the highest-ranking Hispanic in congressional history.

José Piñera is a Senior Fellow at the Cato Institute and Co-Chair of its project on Social Security Choice. As Chile's Secretary of Labor and Social Security, he was the architect of the privatization of Chile's Social Security system.

Finally, Peter Orszag is the Joseph A. Pechman Senior Fellow in Economic Studies at The Brookings Institution. He is co-author of a book, *Saving Social Security, A Balanced Approach*. He was an economic advisor in the Clinton administration.

Here are the ground rules for our discussion today. All speakers will have six minutes to make an opening statement, and they will speak in the order in which they came on the stage today.

There will be a one-minute cue and then a final cue when their time is up. We have a little timer here in front.

After Mr. Orszag's statement, I will ask a question, and each speaker will have two minutes to respond. Then I will direct a question to one speaker who will have two minutes to respond, and the other side will have one minute to rebut, if they wish.

We will also have two or three individual questions from me, and then the speakers will have two minutes for their closing remarks, after which we will open it up to questions from the floor. And there are mikes on the floor from which you may ask your questions.

Congressman Chris Cannon

U.S. House of Representatives, R-UT

Chairman of the Subcommittee on Commercial and Administrative Law of the House Judiciary Committee

You know, I'm greatly honored to be here, largely because here you have two or three, with Virginia, huge brains on the issue of Social Security. José Piñera, of course, you'll hear from, but he was the guy who caused, created, and

moved public opinion to get the privatization of Social Security in Chile, and Peter has been a great brain on this issue, as well, so you're going to actually have some good discussions. But actually, I care a lot about this, so if emotion or caring means anything, perhaps I have some value here.

When I ran for Congress, I really wanted to see Social Security privatized, and there are many good reasons for that. I think I may actually add something to the debate today, because I have a peculiar perspective on how it relates to immigration where I'm taking a leading role in Congress.

The fact is, 8 to 12 million people in America today are contributing to the Social Security system. Two years ago \$28 billion went into accounts that had not been set up by the federal government; in other words, there are people who bought a false Social Security card with a number on it that's never been set up or that has been set up but doesn't count with that number. That's \$30 billion a year, more or less, that people who are here illegally are paying into the system, and there is no possibility under the current circumstances to create a context in which those people can ultimately get some benefit from that money. In America, you need to work in the system for ten years, 40 quarters, to do a deal with Mexico. To get a retirement benefit in Mexico is almost impossible, because there you have to work for 28 years. So the systems just don't mesh. You're not going to be able to solve the problem with a payment from the United States to the Mexican government to take care of people who retire after working their lives here.

So what you have are people who pay this huge, huge penalty. Fifteen percent or so of their paycheck goes into a system for which they get zero benefit and under the current scenario are only going to get zero benefit.

Now, the President spoke about the issue, and one of the things he suggested was – and this is very consistent with the message that President Fox has given from Mexico – that the people of Mexico are their greatest asset, and to the degree there aren't jobs in Mexico, President Fox would like people to come to America and work, and to the degree that there are jobs in America and there is no one to fill those jobs. Over the last two or three years, that hasn't been much of the case, but in the booming economy we've had over the last couple of years and having created more than a million jobs in three months, we are coming back in that environment where we're going to have a lot of jobs and not enough people to fulfill them.

And in that circumstance, President Bush would like to see Mexicans come in – or others, people from other parts of the world come in and help us continue to have a very strong and booming economy. And he suggested, in the process of that, that ultimately, we would like to see those people come to America but also feel – and if they want to stay here and become permanent residents, we would like to see that happen. We want to have a program for that. If they want to stay here and become citizens, we're thrilled with that idea. But for those people who want to go back to their home country of Mexico, or whatever other country – of course, Mexico is by far the predominant source of people who are coming in and filling jobs in America – to the degree that people want to

go back to Mexico, they ought to be able to take a savings account with them so that when they go back, they can have wealth, they can buy business, they can add to the economy of Mexico.

So he suggested a program whereby people who are here on temporary visas would be able to take money back to their home country, principally Mexico. Now, the way that could actually work is by creating a system for people who are here on temporary visas to contribute their employer's share into the Social Security system and then contribute their own share into a private account. I think that makes enormous sense for America as a country of conscience.

I don't think it's appropriate that we in America take money from people because they're here illegally. I think we need to create a program whereby they can be here with illegal status and then make choices about what they want out of their future. Those choices should not be constrained by our laws that aren't adequate to cover them.

So people, if you create this context of 8 or 10 or 12 million people who all of a sudden are contributing to a savings – privatized savings account – I suspect that a whole lot of their friends and neighbors are going to say, "I like that idea. I'd really like to have the opportunity to do that myself."

So I see this in solving our problem with those people who are here illegally, who are not getting anything back from what they contribute. We also have a possibility to lay the groundwork for a system that allows others to

come forward and ask for, demand in our system, push for a privatized system of Social Security. A number of other things are happening in America today that I think are leading to that. The fact is we have a crisis. Between José and Peter, you're going to see significant agreement on many of the issues and disagreement on where we go.

But in the end, I think that a part of the solution that we're going to need to have in America is the opportunity for people to choose to opt out of the system.

I personally prefer a system where people could bid out of the system so that the cost may actually fall as people decide to get out and decide that they can do better with a privatized system that has the kind of returns that this economy and the economies of the rest of the world can sustain. But however we do it, I think it is important that we get to the point in America where people have a choice about how they invest their retirement dollars.

Congressman Robert Menendez

U.S. House of Representatives, D-NJ

Chairman of the Democratic Caucus

I want to thank Raul for the invitation to be here and the National Council of La Raza for holding this important debate on the privatization of Social Security, a program that is absolutely essential to the retirement security of our community – the Latino community – and, yes, to the nation as a whole.

I welcome the opportunity to be engaged in a balanced and open discussion on the issue, particularly since it's something that we have not been able to do in the House of Representatives. So I'm glad we have traveled to

Arizona to achieve that opportunity. Let me simply touch on one thing that my colleague, Chris Cannon, whom I have a great deal of respect for, mentioned in this context of privatization, and that's the question of legalization.

As many of you know, Congressmen Gutierrez, myself, and Senator Kennedy have a plan, the "SOLVE Act," that ultimately provides a pathway to legalization – not a pathway to deportation but a pathway to legalization and the American dream – and, as such, gives individuals the opportunity to have retirement security that they don't have now, even though they are contributing to it.

And I would argue that giving them the full possibility of participating strengthens the Social Security system, so that is a good topic for another time.

And I'm glad to see our Attorney General from Colorado, Ken Salazar, here listening to this debate, because he is going to very soon be dealing with it as the next United States Senator from Colorado. So Ken, thank you very much for being here.

The whole privatization debate that you'll hear is premised, I think, on a false assumption that Social Security is going to be bankrupt within the next decade, and that simply isn't true. You'll hear privatizers argue that it will be bankrupt in 2018 or 2019. What happens on that date is that the cash flows from payments into the system no longer equal the amount of claims, but the Congressional Budget Office has projected that there are still huge reserves in bonds and interest that enable the solvency of the fund into about 2050 or 2053, and that's according to the Congressional Budget Office. As a matter

of fact, the solvency of the Social Security Trust Fund has been maintained and even improved over the past decade.

Yes, we all know that we need to do something to shore up the long-term solvency of Social Security, particularly with the imminent retirement of the baby boom generation, but I don't believe that means we have to privatize the system.

If you have a flat tire on your car, for example, you don't get rid of a well-running car. You fix the flat tire. And that's exactly what we should be talking about in the Social Security debate. How can we fix the long-term shortfall without completely discarding a retirement system that otherwise runs just fine?

During the Clinton administration in the '90s, Democrats made some tough choices needed to bring the budget into balance and move our national economy out of the red to a \$5.6 trillion surplus. And we didn't just squander away that surplus. We laid significant portions of that money aside to shore up Social Security.

Since the President took office, however, priorities have shifted from fiscal responsibility to tax cuts for some of the wealthiest people in the country, and with a median income of over \$21,600 a year, Hispanics aren't exactly benefiting from the tax cuts for the wealthy. To put this in perspective, those tax cuts cost a full three times what it would cost to make up for the long-term shortfall in Social Security. So in my mind it just all boils down to a matter of priorities.

Having said that, privatization is a completely different story in the context of how you achieve that balance in

Social Security. I'm perplexed by those who use the argument that the current Social Security system can't be fixed and therefore privatization is the only option, and the irony of that assumption is that privatization actually makes the problem worse, not better. It digs the hole even deeper. It will ensure additional debt for the next 60 years, and it drains about \$1.8 trillion from the Social Security Trust Fund.

It's pretty much a self-fulfilling prophecy. Privatizers argue that we can't fix the Social Security problem as it is, but if they get their way, it will be much more difficult to do so in the future.

And finally, all of this should be of particular concern for the Hispanic community. As the fastest-growing population in the country, more Hispanics will be working and paying into Social Security programs, and more of them will be retiring and relying on Social Security for their income.

And while the Hispanic population is growing, we're also living longer than other populations. Latinos who are 65 years old today can expect to live to the age of 85, and Latinas can expect to live to the age of 88, both longer than the rest of the population. That means that Hispanics benefit more than other populations from the lifelong defined-benefit structure of Social Security, a benefit that is guaranteed as long as you live and is indexed for inflation. For those reasons, this debate is very important to our community.

José Piñera

Senior Fellow and Co-Chair

Project on Social Security Choice

Cato Institute, Washington, DC

Thanks. I come from a small, very long, and very narrow country called Chile, and I am very honored and glad to be here. First, because I know how important Social Security is to Hispanics, to the people who were born here and to those who come to this country to work very hard, save, and send money to their families in their countries. They should have the opportunity also to build financial independence and security for old age. Second, because for the first time in the United States I probably will not be criticized for my heavy Latin accent.

Let me tell you what I did in my country. God gave me the opportunity at a very young age to become the Secretary of Labor and Social Security of Chile. We had exactly the same problems that you have today in the United States. After thinking hard about this issue for a long time, and talking a lot to workers and to the people, I made the following proposition to all workers of Chile: "You pay around 10% of your monthly wages in FICA taxes to the government. Well, we will give you the possibility to put that money in a personal retirement account."

Every worker in Chile has a little passbook, *la libretita* as workers call it. So every month 10% of wages goes there. This money accumulates [with compound interest] during all the working life, maybe 30, 40, or 45 years, and when they reach 65, they look at the last page and they see that they have hundreds of thousands of dollars there for retirement.

They can exchange that capital for a benefit for life, indexed to inflation and with provisions to protect the family. They don't have to look at the government and see whether the government is in deficit or in surplus. They have saved for retirement with a FICA tax. We don't ask them to put in extra money because the worker at the end of the month, after paying food and shelter and so on, doesn't have money for voluntary saving. So we allow them to opt out and have a personal retirement account.

Now, the beauty of this is that the worker is the king in the system. He can choose one company or another. If in three years he doesn't like the red company, he can choose the blue or the white. This one is created by the copper workers, this one by others. See, you have total choice.

Now the government has a very important function. It ensures a safety net for everyone, so everyone will have a decent retirement, and, second, it supervises the system so that nobody will lose money and there will be no fraud or risk investment. The money is very, very safely invested in a thousand different kinds of bonds, mortgages, stocks, and so on. There are rules so you cannot invest more than 2% in stock of only one company. You must put your eggs in different baskets.

We introduced the system in a very unusual way. We gave choice to workers. We didn't privatize the system [from above]. We said to workers already covered, if you like the little passbook system, go to this. Otherwise, stay in the government one. Now, people like to have their money where their eyes can see it, and, therefore, 95% of Chilean workers decided to move to the system of *la*

libretita, but 5% stayed in the government system, and there is nothing wrong with that.

So privatization came because workers decided to move toward private retirement accounts, but it was not imposed from above as a compulsory system. The system has worked [extraordinarily well] for 25 years. It has given workers an annual average rate of return of 10% a year, above inflation, for 24 years; therefore, they have accumulated a large amount of money vis-à-vis their wages, and never, never has one peso been lost in risk investments of fraud, because, as I said, this is very conservatively regulated. I would not have created a system in which you can put all your money in one single Internet stock or any other. This is for retirement. This is long-term management. This is a very serious thing. So we care a lot about that.

Now the system has worked already for 24 years. Every Chilean worker is now also a small capitalist. They own [financial capital in their accounts]. When they educate their children, they build human capital, and when they accumulate for retirement they build financial capital. That's what I would like for everyone, because, after all, freedom and dignity depend on having both a good education and capital for your old age. This has also helped the economy of the country a lot. The savings rate has gone up. The country has doubled its rate of economic growth. There are several other consequences, but the one that I most emphasize always is the fact that the worker is empowered by the system. This is not a system of the right or the left, of the Republicans or the Democrats. This is an idea about empowering workers with financial security.

It is ultimately a Latino idea because it was created in Chile in 1980 [23 years ago]. Then it went to other countries [partially or totally]. I've dedicated my life to this. Mexico adopted it [several years ago], and in Mexico there are a million workers with a personal retirement account. The rate of return has been 7% a year and, again, because of very serious supervision of authorities there, there has never been fraud or loss of money.

Now, I believe this idea can come to the United States, but not copied. There must be adjustments. Countries are different. But I believe there are universal values in owning property and individual choice in freedom. And I believe this is incredibly important for the Latino population because of its special characteristics that we will discuss later.

So I believe this should be a nonpartisan initiative. Thanks again. I am very glad to be here and to be able to debate.

Peter Orszag

**Joseph A. Pechman Senior Fellow in Economic Studies
The Brookings Institution, Washington, DC**

Social Security is one of America's most successful government programs. It helps millions of people each year avoid poverty in old age or when someone becomes disabled or when a family member passes away.

And it has several crucial features. First, it lasts as long as you're alive. This is particularly important for the Hispanic population, which has very long life expectancies. You can't outlive Social Security.

Second, it's progressive. That's also important for the Hispanic population, which unfortunately has lower-than-average wages, again on average.

Third, it's protected against inflation. This is very important, especially for those whose sole source of income is Social Security. That's 20% of all Americans, but it's 39% of elderly Hispanics. It is very important that that source of income be protected against inflation so that it does not erode over time.

Fourth, it doesn't fluctuate with financial markets. We have big ups and downs in the stock market. If the core layer of retirement income is fluctuating up and down like that also, your well-being is at risk.

Finally, it has family benefits. It has benefits for stay-at-home spouses, it has benefits for surviving children, it has a whole variety of family benefits that are also very important.

The program does face a long-term deficit, but let's be clear. This is not the biggest problem facing the U.S. government. As was already mentioned, the tax cuts are three times the Social Security deficit over the next 75 years. The tax cuts just for the top 1% – that's a group with incomes averaging one million dollars – are larger than the entire Social Security deficit over the next 75 years.

The largest financial problem facing the federal government is Medicare and Medicaid. It's not Social Security. So in my view we should deal with this problem – there is a long-term deficit – deal with it, better sooner rather than later. But let's not pretend this is a gargantuan

deficit that, to use the analogy that's already been put forward, requires changing the car rather than changing the tire.

So if we do need changes, what sorts of changes should we be talking about? It's possible to put Social Security on a sustainable basis while preserving those core social insurance features that it has through a variety of relatively small changes.

Let me give you a couple of examples. Over the past 15 to 20 years, what's happening in the United States is that the gap in earnings and equality has gotten much wider. Social Security taxes are imposed only up to \$87,900 in earnings. In 1983, the earnings that were above that cap, and therefore untaxed, represented 10% of the total. Now they're 15% of the total. So higher earners have more of their earnings untaxed under Social Security. It's only the top 6% of workers that are up there, by the way. We could move that payroll tax cap up a little bit over time so that higher earners are contributing the same share as they were before, during the 1980s.

Second, while life expectancy is going up for everyone, it's going up really fast for higher earners, who are better-educated people.

In my view, that justifies a slight, modest benefit reduction for higher earners alone, because they're increasingly living longer than everybody else and getting those monthly benefits for more months than everyone else.

You put those two changes together, that's a quarter and a half of the deficit right there, and I haven't even talked about the tax cuts. You could also use part of the tax

cuts. For example, instead of repealing the estate tax, you could modify the estate tax – have it apply only to estates above \$3 or \$4 million and use that revenue for Social Security. You would then be getting very close to a complete solution right there.

We can talk about the other changes, and there are other improvements for low earners and for widows that could be financed, but it's just important to keep the context and the size of this thing in your head.

Finally, individual accounts. Individual accounts make a lot of sense on top of Social Security. And we already have them: 401(k) plans, IRAs, Keogh plans. There are a whole variety of ways in which people who want to go out and invest in the stock market or invest in other financial assets can do so, and that makes a lot of sense. There is a growing body of evidence that teaches us how to encourage people to save in these types of accounts, but for that core layer of financial security, again, average benefit of about \$11,000 a year, it does not make sense to put that at financial market risk. That core tier should be preserved for a guaranteed defined-benefit kind of approach. And I haven't even mentioned the larger problem with individual accounts, which is financing the transition. Over the next ten years, a lot of the individual account plans that are out there cost a trillion dollars. In present value, over a longer period of time, they can cost many multiples of that, several trillion dollars.

Often in the plans that are introduced in Washington, that money is just assumed to appear from the rest of the budget, manna from heaven. Yes, it would be really easy to solve Social Security if we can just assume trillions of dollars in revenue from the rest of the budget.

If you just take trillions of dollars from the rest of the budget and transfer it to Social Security, you're not solving the problem. You're assuming it away. And it is irresponsible, in my view, for us to pretend we have solved the Social Security problem by assuming it away. So individual accounts have two problems. Even if there were not a financing problem, they're not desirable, because they shift too much risk to the individuals and move away from this social insurance program, and, second, they do face a major financing problem.

In summary, Social Security does face a deficit. It can be fixed through some modest changes. It is a very important program to Hispanics because of its core social insurance features, and it makes no sense to destroy the program in order to pretend to save it. Thank you.

Moderator Questions and Answers

Virginia Reno

In the current federal budget environment, with deficits projected for at least the next ten years, how do we see being able to pay for the cost of fixing Social Security?

Congressman Chris Cannon

Peter has made, I think, some eloquent points here. All we need to do is tax more and even, you could say, have modest taxes, progressive taxes, moving away from taxing

people with the least income to taxing people with the most income, and that may solve the problem.

But there is one definitional point that you should understand. My friend Mr. Menendez talked about debt. We have a reserve. We have the bonds and the interest on those bonds that are available for Social Security. So how does the federal government pay for those bonds? By taxing us all generally and then putting that money back into the general revenues, which then get transferred back to the Social Security system and retired bonds, so there is no way out of this process without taxation.

And so the question is: Is taxation good? And to answer that you have to look at where the tax is coming from and what that is going to do to the people who are paying the tax. It's true you could tax the wealthiest of the people. But who creates the jobs in America? It is the people that make more than \$1 million a year.

If I ask all of you who would like to make more than \$1 million a year to raise your hands, I suspect that, knowing this audience, every single hand would go up.

That said, why do we want to tax the people who are creating the wealth? If they create the wealth and you have an investment in the company that creates the wealth and the whole economy is rising, you get the benefit of the retirement from your savings, you get the benefit of new jobs and bidding up the economy, and you get the benefit of living in a better environment, because we have better technology, better use of resources, and better homes to live in, and over the past 50 years, the number of square feet in our homes in America has

doubled. We are getting the benefits of growth in America. Why would you want to restrict that by hurting or coddling the people who are going to drive the system and create wealth for everyone, including all of us here?

Congressman Robert Menendez

Thank you. First of all, I would say that my friend, Chris Cannon, says that those who make millions or more are the ones who create the greatest jobs in America. I believe if we look at the numbers, the entities that create the greatest jobs in America are small businesses.

And they are overwhelmingly Latino, and I hope they all will be making a million or more. But in any event, this is about shared responsibility. That's what Social Security is. It's a bond between generations, something that our community fully understands.

So to answer your question, I didn't support the proposals that got us into this budgetary environment that we're in. As I said, under President Clinton, we left the country with a \$5.6 trillion surplus, a significant portion of which went to shore up Social Security.

Since President Bush took office, we have seen an \$8.5 trillion swing from that surplus to nearly a \$3 trillion deficit from 2002 to 2011.

And I think it's important to reiterate that the tax cuts and the associated debt service account for \$2.3 trillion of that deficit swing – and those aren't my numbers. They're numbers from the Congressional Budget Office. And the other thing is that what the privatizers fail to say, as Peter pointed out, is that it will deplete about \$1.8 trillion over

the next 60 years. That \$1.8 trillion comes over the next ten years, and it ultimately ensures higher debt for 60 years. In my mind, adding on so much more significant debt is not a way to make the system more secure presently or in the future. So the issue is how do we strengthen, and that's a question of priorities, balancing budgets, using the surplus to invest, and making some tough choices about shared responsibility.

José Piñera

Financing the transition is indeed a complex problem. There are a lot of trade-offs, and, of course, there are many political decisions involved, so I feel a little reluctant to suggest one or the other because it's not my role.

But I would like to make two points. Twenty-five years ago in my country, an underdeveloped country with a small financial market, we were able to find a combination of government public policies to finance the possibility of giving every worker a personal retirement account. We did it without raising taxes and specifically without raising payroll taxes. I believe that the payroll tax is a tax on hiring labor, and maybe the first priority of a society should be to try to have full employment. You should never increase payroll taxes too much as, for example, Europe has done and has created a great unemployment problem. Thank God the United States has not gone that way.

So it can be done. We did it 23 years ago. If someone were to ask me what suggestion would I give, there are many ways. For example, I am surprised in America by the high level, according to my colleagues at the Cato

Institute, of subsidies to private enterprises. They call it "corporate welfare." It seems that every year the government pays around \$80 billion in all sorts of subsidies to private companies. I do believe in private enterprise so much that I believe they don't need subsidies. So maybe you could cut or eliminate corporate welfare and use that money to give every American the possibility of having a personal retirement account.

Peter Orszag

First, according to the Concord Coalition, a group of independent analysts, over the next decade we face a \$5 trillion deficit in this country under current policies. That's before adding the cost of moving to private accounts, if we decided to do that. Now if you add on the cost of private accounts, it depends on the exact plan. I'm going to take one plan, the DeMint plan, of which I think Mr. Cannon is a co-sponsor.

Over the next ten years that costs an extra \$2.9 trillion. Now, \$80 billion a year is a start but it doesn't get us there. So there is a very important difference between our situation and the situation Chile faced, which by the way had a problematic Social Security system that frankly needed to be replaced, and ours doesn't. It had a budget surplus that it could use to finance the transition. We don't. We face massive deficits, which this would just make deeper.

Now, most of the plans assume that we'll just run bigger budget deficits, and what that will ultimately mean is either higher taxes, as was already pointed out, in order to

pay for it or reduced spending on Medicaid, on education, on the Earned Income Tax Credit, on other things that matter crucially to a variety of populations, including the Hispanic population.

So one of the things that is going on in Washington these days is people are running around making it seem like there is no pain involved. We can just transfer money from the rest of the budget.

Unfortunately, we can't do that. If we could just create manna from heaven, that would be wonderful. But in the real world, what we would be doing by increasing the budget deficit is forcing a reduction in spending on key programs, forcing increases in taxes, or shifting more burdens to our kids and grandkids, and who wants to do that?

So I think this issue is a very important one. We already face very large budget deficits over the next years. I agree with Mr. Piñera that it would be great to get rid of many of these corporate welfare programs, but no one's been able to do it. So again, unless we can show the political will to do that, we can't just assume the money will be there.

Virginia Reno

I will address the next question to just one of our speakers, who will have two minutes to respond, and then the other side will have one minute to respond, if they wish.

And it's Mr. Piñera. The question is, what is the most important lesson Americans should draw from the experience of other countries on Social Security?

José Piñera

You should think "outside the box." Go beyond solutions that are simply piecemeal, cosmetic solutions. I believe that when you have a huge problem like the one the United States has with the Social Security system in the long run, you should try to do what is correct in the long run. There are trade-offs, there are difficult short-run decisions, but you should do what is correct, and you should do what is right.

Now, some people say, well, maybe the countries are so different that this system cannot work in other countries. I believe that, of course, countries are different, and therefore the transitions should be different, but I believe strongly in universal values.

I love your Declaration of Independence that says all men are born equal, but some people think that that means all are born equal within the United States. I would say they are all born equal around the world, in dignity, in freedom, in aspirations.

I travel a lot, as you know, and wherever I go I show *la libretita*, and I confirm that everyone would like to have savings for old age. That is not a Chilean or American system. This system is already in place in Poland, in Sweden, in Hungary, in Mexico, in many countries. So I believe there are universal values. I believe that the technical definitions should be different in each country, but the basic idea about individual responsibility, about freedom to choose one system or another, about the government having a compassionate safety net and strict, honest supervision, about saving for old age, all those are universal ideas.

Peter Orszag

I think, again, it is important just to get the magnitudes involved here down. Over the next 75 years, the deficit in Social Security is 0.7% of the size of our economy. That's less than 1%. That's according to the Social Security actuaries. The Congressional Budget Office actually says it's about half that, 0.4%. It's hard to look at something that's 0.4 or 0.7% of gross domestic product over the next 75 years and say it's a massive problem that requires a gargantuan overhaul of the system.

Second point is – let's look across a broad array of countries that have done private accounts. I think the best example for the United States is the United Kingdom. It's a country that's very similar in many ways. They have had, in my view, a horrendous experience with individual accounts. People were misinformed about whether accounts were better for them or not. The financial firms had to pay billions of dollars following the so-called "mis-selling scandal." The government has had to go in now and regulate fees in a way that people haven't talked about here.

So if we want to look for another country as an example, let's look to the United Kingdom. I don't think the results are particularly encouraging.

Virginia Reno

Saving for retirement and building wealth for Latinos is a challenge. Is shifting part of Social Security to personal savings the best way, or are there other better ways?

Peter Orszag

Well, I think probably no one will be surprised when I say no. But let me go into what the better ways are, and, again, I think the key concept here is that you need a core layer of financial security during retirement. Again, the average benefit is just about \$11,000 a year, and we need to build on top of that. How do you build on top of that? What's been shown to work? Several things.

And by the way, only a third of Hispanics participate in private pensions, relative to about half of the rest of Americans as a whole. That's a big problem, and we need to tackle it.

What can we do to try to boost saving on top of Social Security? Because Social Security is never going to be enough by itself, except at the very, very bottom of the income distribution. So we need to build on top of it.

We have in law now something called the Saver's Credit. It's basically sort of a universal 401(k) providing matching tax credit for contributions that you make to an IRA or a 401(k). We should expand it. Evidence suggests that people save a lot more if they're enrolled in a 401(k) unless they specifically sign a form saying they're not in it as opposed to actually having to sign up for the 401(k).

Let's do that.

For many households, the best opportunity to save is when you get your tax refund. But right now, you can take your tax refund and put it into only one account, which is typically a checking account. You don't want to lock up the whole thing in an IRA or in your savings account.

There are proposals to split that amount of money into two different accounts, which has been shown from experiments to really boost savings. There are lots of things we can do to boost savings on top of Social Security. We don't need to go into that core layer of protection and make it even weaker for the families that are entirely dependent on it.

José Piñera

Can I say something? On that, I disagree with Peter. It's precisely what you say – that only a third of Hispanics have private system of pensions – the reason to allow them to use FICA taxes to have a private retirement account.

You asked: Why don't they save more at the end of the month? Well, the fact is that they don't have the money to do it. They have low incomes, and many of them are informal workers. There are several reasons why only a third of Hispanics have private [retirement savings like 401(k)s or IRAs]. So precisely that is an argument for allowing them to choose. They can stay with the full FICA taxes in the government system, but why do you deny them the choice, the opportunity that 60% of Americans with private [retirement savings] have?

So precisely the Hispanic population needs that opportunity. They come here, sometimes they're illegal, they work with the small companies, they are informal, they don't work for the government – they're exactly the type of population that needs the choice to have a private retirement account with the FICA tax.

Virginia Reno

Why should young Hispanic workers care about the outcome of this debate on Social Security and retirement [security]?

Congressman Chris Cannon

I think all young Americans should care dramatically about this issue. When you look at Hispanics as a pool, it's a little bit misleading, because of the fact we have many Hispanics who have been here for a generation or a few generations or 20 generations – well, maybe not that long, but certainly in the Southwest, particularly, we have people who were originally here before the broad movement of the United States toward the West. So we have people who are not typified by the new people coming from Mexico or Central America or South America, and those statistics tend to blur the distinction. So it's important, I think, to get back to José's idea that you need to have global principles. And what drives people to come to America?

What drives people to succeed in America? It's something internal, and I believe that's actually universal, not related just to Hispanics. But, in fact, we have many, many more young Hispanics in America as a percentage than we do other segments of the population, and those people need to be considering what kind of taxes they're going to pay later on in life to carry the system, because when we're talking about all these statistics about how solvent or

insolvent the system is, solvency is decided after you pay back the bonds, and the bonds are going to be paid back only after you have created the taxes to do that. So we're talking about a huge movement of capital from one generation to the next.

So for young Hispanics and young Americans, generally, the cost in the future to them is going to be dramatically greater, and they're going to be funding the retirement of a very large population of people who retire into poverty; \$11,000 a year is not what I want to retire into. And ultimately, here is the key difference: Government investment is not the same thing as private investment. Government doesn't do a very good job creating wealth. Private enterprise does a much, much better job. So if you pull money out of the federal system and put it in a private system, more wealth will be created and everybody retires wealthier rather than in poverty.

Congressman Robert Menendez

Well, young Latinos should be concerned because this is not just about their future. This is about their present. It is about how their parents and grandparents are dealt with right now, and in that respect, whether they are caring for an elderly parent or struggling to make ends meet for their family, how they invest their money wisely is incredibly important.

And I know the choice aspect of this draws applause. The problem with it is who is going to pay the \$1.8 trillion that gets drained from the Social Security fund? Who is the

growing part of the American workforce? It is us. So we are going to pay for that \$1.8 trillion to have choice. Yet at the same time, at this moment, it denies us the foundation for *abuelo y abuela y padre y madre* and therefore drains, I think, a significant part of our retirement security.

We'd all love to have choice, but not if that choice doesn't guarantee, one, the rate of return and, two, the stability and the progressivity that Social Security does.

Virginia Reno

What can Latinos do to make their voices and concerns heard on these issues? What is the right approach?

Congressman Robert Menendez

Well, clearly we need to, one, be educated on the issues, and that's why this forum and others like it are incredibly important, because as Latinos struggle to meet rising opportunities and challenges, they sometimes are not focused on the future. They're focused on the moment.

So this is an incredibly important debate for our community as it is for the rest of the nation. We want to be educated on the issues and the facts on those issues.

Two is to be engaged. You know, the government decides, as it decides in this case, whether there will be privatization that will cost us a lot of money and not guarantee us, as we retire, the opportunities. The government determines everything from cradle to grave.

If we think about it, from the moment we're born, we've got a tax credit our parents got for us as a child. As we go on, we determine what opportunities there will be for a good education; how much money there will be for a college education; when we want to be a professional, what that license is going to be – a governmental decision – and ultimately how much the government is going to take from us in order to give the services that we collectively need as a nation. The government determines whether we will go to war or be at peace, whether we pursue life or death. So we need to be engaged on this issue by getting engaged in the political process, and that means registering to vote and then using that vote on behalf of candidates who express our values and who express a solution to the challenges we have and who offer us a vision of the future, which I think can be incredibly bright. But we as a community must harness that opportunity and put those into office who are responsive to the needs of our community, and that includes Social Security.

You know, I believe that we can strengthen the existing system that provides for a progressive system, both now and in the future, and also something we haven't talked about, widows and those who are left behind and children, which is also part of the Social Security problem when we in fact lose a parent in that process.

These are elements of Social Security that can also be affected.

Participant Closing Remarks

Congressman Chris Cannon

I think it's been a remarkably good discussion. Let me just agree with everything that my colleague, Congressman Menendez, has just said. Getting involved, learning about the system, and particularly the voting are incredibly important, for the Hispanic population in particular, because this is the population that is growing at the fastest rate in America. It is going to have a much more significant role in the future, and that is a role that I personally appreciate.

One of the things you need to understand is, as you learn about this issue, that there are no draconian measures in any of the proposals to privatize Social Security. That is, people who want to stay in the system can stay in the system. For those people who end up with maybe a breadwinner dying, the disability and survivor's benefits continue. So the fundamentals of the system are not being challenged, but the opportunity to opt out in retirement is what the key issue is here.

And let me just hark back to one of the things we said very early. There is a difference between a defined benefit and a defined contribution. In the case of the defined benefit, you get what you agreed to get when you got into the system. Now, unfortunately, we have a history in the federal government of not being consistent, so we set up the Social Security system with a promise to workers that we would take Social Security contributions after tax. In

other words, you pay tax on what you put into Social Security, and then you would retire without tax on your Social Security.

I don't know if we have many people here who are retired. We, as a country, are taxing your Social Security benefits under some circumstances.

So you have to have a lot of faith in the federal government and how it's going to work to want to maintain this walk-step system.

Second, what we have seen dramatically in recent times in every big corporation and every small corporation around the world is that where you have an entrepreneurial incentive, you have greater success.

Government does not have an entrepreneurial incentive, and, therefore, I suspect that as you focus on this issue you will want to ask: What are the benefits of a privatized system where I can invest a defined amount and then have an undefined and maybe – in fact, very likely – a much, much higher benefit when [I] retire?

Congressman Robert Menendez

I want to thank La Raza again for holding this panel discussion, and let me just say, for our community, the fastest growing in the nation, this is of enormous consequence. We will be working and paying into the Social Security program, and more of us will be retiring and relying on Social Security for income.

And remember, when we talk about these privatized accounts, we're talking about, in many ways, the stock

market. When it's good, hey, that number goes up. When it's bad, as it recently was in Chile where the Labor Commissioner urged the labor force to hold off on retiring because the returns weren't that good, there is no absolute guarantee.

Also, the current program works for us because we live longer, and therefore we do not – we cannot – outlive Social Security. You can outlive your savings, but you cannot outlive Social Security, which is a defined (meaning, you know what you're getting) benefit. That is not necessarily true under the privatized systems.

Private accounts, on the other hand, are limited to a dollar amount, so the longer you live, the more likely you outlive your retirement funds. And another pro-Hispanic feature of the Social Security program is the progressive nature of the benefit. We must increase our wages – which we continuously look to do and is one of the fundamental things – I think we should be investing in education so we can ultimately lift our community to higher wage levels that will ultimately provide for greater savings opportunity. You can't save if you don't have money to save. So you have to raise people in that regard. That's very important for future retirement opportunities, so we can take advantage of all the savings plans that we can under the government. But until then, until this workforce gets to the level that we hope it will be, this is the foundation, the bedrock of our retirement security, and we shouldn't squander it away on the stock market.

José Piñera

That statement that retirement funds can only be invested in the stock market is completely wrong. Chileans can choose a fund with zero stocks, as many people do. If you are risk averse, you put the money in your retirement account and instruct the manager, "Please buy me only bonds, government, corporate, mortgage" – whatever you want – and you will get 4, 5, 6% instead of 7, 8, 9%. So you can choose the level of risk. You can have zero risk if you invest all of your private retirement account in Treasury bills leaving you 4% or 5%.

Now, I see that a lot of Hispanics come from Latin America to this great country to work and to save because those governments' bad public policies are squeezing them like toothpaste. But some of them may want to go back to their families or to their culture or to their better food or whatever when they are older.

Now, if they are not here long enough in this country, they lose all the FICA taxes they pay. Some people I know who have been here five, ten, or 15 years pay 12.4% of their wages in FICA taxes, one-eighth of their wages, because ultimately the total tax is paid by the worker, and then they go back and they lose completely what they have paid.

In a system of personal retirement account, you own all the money you have, so you can be here five, ten, 15, or 25 years and then say, "Look, I want to go back." And you will be able to retire your money completely. So that's very important for Hispanics.

[People are different]. Some may like to depend on politicians' decisions. Others prefer to own their retirement money, as you do with your checking account, your savings account, and your home. Why not give them the choice? And we should be debating. Once you give them the choice, some people will say, "I will never take the choice." Some people will say, "I will do it." America is about freedom, and I believe that's why such a system is so important.

Peter Orszag

I also wanted to thank La Raza for having me here today and all of you for coming out. A couple points in conclusion: First, it is very important to keep in mind that Social Security is not just a retirement program. A third of Social Security beneficiaries are spouses, widows, and young kids whose parents passed away; we've been talking about it as a retirement program, but it's not just that.

Second, it's really great to talk about choice, but you've got to ask the question, how are we going to pay for it? More than three-quarters of that payroll tax that is burdensome is going to pay for those benefits for the spouses, the widows, and the current retired workers. We're not going to cut them off, so where is the money going to come from?

Currently in Washington the approach is just to assume it's going to come from somewhere else. Well, that somewhere else could well be education, food stamps, Medicaid. There is pain involved, and you need to be

evaluating that. Choice by itself isn't appropriate for all contexts.

For example, I'm sure a lot of people would like to make paying for the military voluntary. You can opt out if you don't want it. Well, some things have to be done on a community basis. Paying for the military is one of them; social insurance is another. You can't split this program apart and say, "Well, you can choose to participate or not," because you have selection problems. The whole social insurance program then collapses. Final point, we do need to fix this problem. We should start early. It's much more fair if we start sooner rather than just pushing this problem off into the future, and for that very reason and because this is such a modest deficit – we need to change the tire rather than change the car – let's avoid the ideological debate over individual accounts. Let's just shore up the program, get it done, get it off the table, and focus on the real problems facing the federal government, which, by the way, over the long term are Medicaid and Medicare, much larger and much more serious and, frankly, much harder to address than this problem.

The longer we engage in this ideological debate back and forth, delaying the problem, the worse we're going to make the situation because we then don't focus on the real problem, which is health care.

Audience Questions and Answers

Francisco Acosta (Audience Member)

I am Francisco Acosta, president of CASA de Maryland.... Also, I'm the grassroots manager for the National Committee to Preserve Social Security and Medicare.

Since the privatization process has started in South America, thousands of people have immigrated to the United States. Some of them didn't make it through the Arizona desert. [In El Salvador], where I am from, the *libretita* formula was implemented four years ago. Social Security was privatized and passed into five private companies connected with Wall Street. At this point, only one company is alive, four of them were declared in bankruptcy, and thousands of seniors are now without Social Security there.

The same formula has been implemented in Nicaragua and Argentina and has been a complete disaster.

If your formula, Mr. José Piñera, works, why has this created such a huge human disaster?

José Piñera

As I understand the question, you say that in some countries there have been problems. Of course, there are some countries in which there may be some problems. Some people even mention problems in the United Kingdom, which is very interesting, because it is an

Anglo-Saxon country. So instead of mentioning Chile or Mexico, he said the English don't know how to behave with capitalism and private accounts.

If you don't do the reform right, sir, these are not sure things. You always have to be very careful about how you design the reform. The devil is in the details, as you say in this country. And you have to be incredibly honest, especially to design it.

If you don't do it the right way, I'm totally opposed to doing it. I cannot agree more with that. This should be done in a very rigorous, serious, honest, nonpartisan way. I believe the moment this is a partisan fight, then you begin to make compromises that will weaken the system.

As I said, I am responsible only for what I did in my country 25 years ago. There have been many reports around the world – from the World Bank, the International Monetary Fund, the Organization for Economic Cooperation and Development, even the Congressional Budget Office – and they're all saying that the new system has been a huge success in my country.

Now, I do agree some people might say, "Well, we cannot implement it here because of the transition cost." That is a big discussion.

So this would be my answer, once more: choice.

Congressman Chris Cannon

Let me say I'm sorry that we've had pain in El Salvador. I lived there for six months. It's a wonderful country. But we're glad to have you here in America, Mr. Acosta, and everyone else who wants to come to a place where

hopefully we have more transparency and accountability in government, and where a program like this could actually work.

Peter Orszag

Again, I would just say that there is an unfortunate tendency in this debate, at least in the United States, to compare the real-world Social Security system, which has been through the legislative process and inevitably gotten a little bit messy, to this sort of idealized perfect vision that someone can write down on paper. That's a very, very dangerous thing to do, because when you look across the world, the experience has varied a lot, and you can design systems that work a little bit better, although even in Chile a lot of the hopes for the system, such as with participation, have not been fully realized, and along other dimensions there have been concerns. There are concerns about the degree to which people are taking money out in a form that does not last as long as they are alive, the so-called annuity. So there are a variety of problems that are country-specific. In this country, I just don't think this approach makes any sense when it's designed to be the core layer of financial security.

Leopoldo Mendoza (Audience Member)

Good afternoon. My name is Leopoldo Mendoza, and I'm a proud American and former U.S. Marine. Give my brothers over there a shout out.

I'm going to ask Mr. Cannon; he spoke about taxing more, but then he said why would you want to tax the wealthy when they're bringing in the jobs and creating the revenue and so forth, and Mr. Menendez responded that, well, it's because Hispanics lack that income.

I understand because I went from \$58,000 in income to \$30,000 when I volunteered to work for the community. I had to do what the federal government taught me through the United States Marine Corps. I had to adjust, adapt, and overcome. So what I would like to know is why are the policy-makers in our federal government not willing to do the same because they do not participate in the Social Security system that I, the average paying Latino American, participate with? Please answer me what political party decided to introduce that and if you can answer that honestly or if you remember, and answer how come you choose not to introduce positive legislation that will bring us back into the area where we need to be.

Congressman Chris Cannon

A couple of things. You were making \$58,000 when you left and would have been making significantly more, I suspect, than that. Your willingness to take a lower income is remarkably significant, and one of the wonderful things about America is we actually have the choice of what we do and what we get our satisfaction from and how much money we take from it. So congratulations to you on doing that.

I think your question is: Why is it that federal employees don't pay Social Security? And the answer is that when the program began, states and state employees and federal employees were exempted from Social Security. There are now only a couple of state organizations where employees are exempt. For instance, someone was telling me the other day that the teachers in the Houston area are still exempt from Social Security.

We have added to the system over time so that virtually all federal employees, including Mr. Menendez and I, pay into Social Security now.

It's exactly the same deduction. So the system started not being a universal system, and we have essentially made it a universal system since, and my view of that is now it's a universal system of retirement into poverty, and that's a choice for which I think people at least ought to have an alternative.

If you can live on \$30,000 and are married and have a growing family, that's difficult. Retirement is something you can do on \$11,000 a year if you were careful and paid off your house and that sort of thing. That's a choice people ought to be able to make instead of being forced to make.

And recall that any privatization program that's out there is clearly a matter of choice, not a matter of shoving people out of the system. And my and everybody else's employer share would continue to support the system as long as there are people who had stayed or who had opted into the system.

Peter Orszag

Two points quickly: One is that the federal government is adjusting, adapting, and overcoming. It's doing the equivalent of your moving from \$58,000 to \$30,000 and just running up the bill on a credit card. We are borrowing hundreds of billions of dollars a year now, from foreign governments, especially the Central Bank of China, to finance decisions that we're not willing to meet the full

cost of, and I think that is just hugely irresponsible to our kids and our grandkids, because they're going to be left with the bill.

I also think it's irresponsible to run up the bill further, run up that credit card debt further to finance the kind of private accounts that are being discussed here.

Second point, quickly, the 1983 reforms that did bring members of Congress into the Social Security system are exactly the kind of reforms that we need now.

Alan Greenspan chaired that commission that put the reforms together on a bipartisan basis. At that point, it was expected the program would last for 75 years from 1983. According to the Congressional Budget Office, it's going to come pretty close.

So there is a good example in history where policy-makers did come together, address this problem, and make a modest set of changes on both sides, and that's what we need again today.

Miguel Palacio (Audience Member)

My name is Miguel Palacio. I'm from Chicago, Illinois. First I wanted to say that, so far, given the fact that those who are opposed to the Social Security system, who want to privatize it, have both accepted that the system is not in dire trouble, I would then have to go with those who support it and say this is not something that we need to change right now. It's simply something that we need to shore up.

Unfortunately, those arguments from the privatizers have kind of the hysterical tone that have led us to a pretty

questionable war right now. But I have a question of clarification for Mr. Piñera. I'm not sure how the system that you deprecatingly call *la libretita* really differs from the Social Security system in the United States insofar as that you're basically guaranteed your money.

José Piñera

It differs enormously because, as I said, the full FICA tax (in Chile's case, 10% of your wages) goes into your *libretita*, and you accumulate money for retirement. When I explained the reform in Chile, I used [as example only] a 4% rate of return. That has been historic, so I didn't want to use a high number. Thank God it has been 10%.

So the results have been incredibly better than we ever thought because the economy grew more and so on. So the return has been 10% on average for 24 years, and therefore the benefits for the workers of Chile will be much, much bigger than what they would have been under the government system.

What the government guarantees is a safety net. What we told every worker, even a person making minimum wage, is that you put a percentage in your account. Some of my advisors argued that we should exclude the minimum wage earners because they thought they will always be poor. I believe nobody is condemned to poverty at 20 years old. You have a full life of opportunity in front of you. You should be able to save for yourself. But you can be very poor at 65 because you have been unemployed a lot or whatever.

So, the government guarantees everyone – widows, orphans, the disabled – a minimum level of benefits so they will have dignity in life. But above that level, you can have a retirement benefit that is 80%, 100%, even 120% of your last wages if you have accumulated enough money in your savings account. You get out of the account what you put in. It's personal responsibility and personal effort.

Congressman Chris Cannon

Depending on what class you're in, if you're a young person today, the return on your investment in Social Security is going to be in the 1% to 1.25% range.

If you're an older person retiring, who has already retired, you may be in the 4% to 4.25% range. What would happen in Chile is a 10% average return, and I think you'd see a much, much higher return if you have a defined contribution than if you just take the defined benefit.

[The session was concluded with moderator thanks and applause.]

Appendix

Participant Bios

Raul Yzaguirre

Raul Yzaguirre is one of the most widely recognized leaders in the Hispanic community. His involvement in many of the most critical legislative and public policy issues of the last three decades has made him a key national player on behalf of Hispanic Americans. From 1974 to 2004 he served as President and CEO of the National Council of La Raza (NCLR), the largest national Hispanic constituency-based organization in the U.S. and the leading Hispanic think tank in Washington, DC.

Under his leadership, NCLR emerged as the most influential and respected Hispanic organization in the country. In its review of the influence of Latino advocates in Washington, *Hispanic Business* magazine concluded that NCLR is, "by all accounts the most effective Hispanic organization."

Today, continuing his lifelong mission to improve opportunities for Hispanic Americans, he is Presidential Professor of Practice in Community Development and Civil Rights at Arizona State University where he is helping to establish a center focused on community development, education for practitioners, and academic scholarship.

Mr. Yzaguirre has been honored on many occasions for his work. In 1979, he was the first Hispanic to receive a Rockefeller Public Service Award for Outstanding Public Service from the Trustees of Princeton University. From

1989 to 1990, he served as one of the first Hispanic Fellows of the Institute of Politics at the John F. Kennedy School of Government at Harvard University. In 1993, Mr. Yzaguirre received the Order of the Aztec Eagle, the highest honor given by the government of Mexico to noncitizens. Also that year, he was the recipient of the Hubert H. Humphrey Civil Rights Award from the Leadership Conference on Civil Rights. In 1998, he was honored with the Charles Evan Hughes Gold Medal Award for courageous leadership in civic and humanitarian affairs by the National Conference for Community and Justice. Mr. Yzaguirre has also been awarded five honorary degrees, including honorary Ph.D.s from the University of Massachusetts and Arizona State University. He was first listed in *Who's Who in America* in 1980.

Mr. Yzaguirre is a past Chairperson of the Independent Sector, a nonprofit coalition of over 600 corporate, foundation, and voluntary organizations. He serves on the Board of Directors of numerous organizations, including Sears, Roebuck & Co., Educate, Inc., United Way of America, and AARP Services, Inc. (ASI), and is a member of the Council on Foreign Relations. He was the first Hispanic to serve on the Executive Committee of the Leadership Conference on Civil Rights, was Chairperson of President Clinton's Advisory Commission on Educational Excellence for Hispanic Americans, and served on the Visiting Committee for the John F. Kennedy School of Government at Harvard University.

In a 1992 profile, *Hispanic* magazine described him as being "at the center of the Hispanic leadership stage." He

is a frequent commentator on Latino issues; he has appeared on *NBC Nightly News*, *ABC World News Tonight*, *CBS Evening News*, *The Today Show*, *CNN*, and *National Public Radio* and in *The Washington Post*, *The New York Times*, *The Los Angeles Times*, *USA Today*, *The Wall Street Journal*, *The Chicago Tribune*, *Time*, *Newsweek*, and *The National Journal*.

A lifelong community activist, Mr. Yzaguirre was born in the Rio Grande Valley of South Texas. He began his civil rights career at the age of 15 when he organized the American G.I. Forum Juniors, an auxiliary of the American G.I. Forum, an Hispanic veterans organization. After graduating from high school, Mr. Yzaguirre served four years in the U.S. Air Force Medical Corps. In 1964, he founded NOMAS, the National Organization for Mexican American Services. A proposal he wrote for NOMAS led to the creation of what is now NCLR. After receiving his B.S. from George Washington University, Mr. Yzaguirre became a program analyst at the Migrant Division of the U.S. Office of Economic Opportunity (OEO). In 1969, Mr. Yzaguirre founded Interstate Research Associates (IRA), the first Mexican American research association, which he built into a multimillion-dollar nonprofit consulting firm.

Janet Murguia

Janet Murguia has emerged as a key figure among the next generation of leaders in the Latino community. In March 2004, she became the Executive Director and Chief Operating Officer (COO) of NCLR, and on January 1, 2005 she succeeded Raul Yzaguirre as President and Chief Executive Officer.

Prior to joining NCLR, Janet Murguia was the Executive Vice Chancellor for University Relations at the University of Kansas, overseeing the university's internal and external relations with the public, including governmental and public affairs. Murguia coordinated the university's strategic planning and marketing efforts at the four KU campuses with those of the Alumni Association, the Athletics Corporation, and the Endowment Association.

Murguia began her career in Washington, D.C. as legislative counsel to former Kansas Congressman Jim Slattery, serving for seven years. She then worked at the White House in various capacities from 1994 to 2000, ultimately serving as deputy assistant to President Clinton and deputy director of legislative affairs, serving as a senior White House liaison to Congress. Murguia provided strategic and legislative advice to the president on key issues and managed the legislative staff.

Prior to joining KU in 2001, Murguia served as deputy campaign manager and director of constituency outreach for the Gore/Lieberman presidential campaign. In that role, she was the primary liaison between former Vice President Gore and national constituency groups. She also served as a spokesperson for the campaign, working with radio, print, and TV media outlets.

Murguia has served on the National Council of La Raza's Board of Directors and on the Kauffman Foundation Youth Development Board. She is currently a Board member of the Independent Sector, a coalition of leading nonprofits, foundations, and corporations committed to connecting, informing, and advocating on behalf of the nonprofit and philanthropic community. She also serves on the Board of Trustees for YouthFriends, a nationally recognized school-based mentoring effort.

Recently, *Hispanic* magazine selected Murguia for its annual list of "100 Top Latinas" for the second consecutive year. Additionally, she was named by *Hispanic Business* magazine as one of the "100 Most Influential Hispanics" and as one of "80 Elite Hispanic Women."

Murguia grew up in Kansas City, Kansas. She received three degrees from KU: a B.S. degree in journalism (1982), a B.A. degree in Spanish (1982), and a J.D. degree (1985) from the School of Law.

Chris Cannon (R-UT)

Congressman Cannon is Chairman of the House Judiciary Subcommittee on Commercial and Administrative Law. He is also chairman of the Western Caucus, an organization of more than 50 members of Congress leading the debate for rational, balanced, and sound resource management. Representative Cannon was elected to Congress in 1996. Prior to that he served as the Utah Finance Chairman and on the National Finance Committee for Lamar Alexander for President. He also served on the National Finance Committee for President George Bush Sr.'s reelection, and as Finance Chairman for the Utah Republican Party. Congressman Cannon was also a two-time delegate to the Republican National Convention, and in 1996 was one of the five presidential electors. In 1987, he helped purchase and reopen Geneva Steel in Orem, Utah, and three years later he purchased Geneva's new venture division, now called Cannon Industries, Inc.

Congressman Cannon has worked as a consultant to the Assistant Secretary for Productivity, Technology and Innovation at the Department of Commerce, and as Associate Solicitor in the Department of Interior. He also worked as an attorney for four years. He holds a bachelor of science degree and a law degree from Brigham Young University.

Robert Menendez (D-NJ)

Congressman Menendez, who represents New Jersey's 13th Congressional District, is Chairman of the Democratic Caucus. In that post, he is the third-ranking Democrat in the U.S. House, the highest-ranking Hispanic in congressional history, and the only Hispanic ever elected to a leadership position, in either chamber, by either party. Previously, Menendez served two consecutive terms as the Vice Chairman of the Democratic Caucus. He is the ranking Democratic Member of the Western Hemisphere Subcommittee of the House International Relations Committee, and senior Member of the Transportation and Infrastructure Committee. He has also served as Chairman of both the Democratic Task Force on Education and the Democratic Task Force on Homeland Security.

Menendez is a vocal advocate for human rights, for which he was awarded the prestigious Ellis Island Medal of Honor in 1998. He is also a former State Assemblyman, State Senator, and an attorney in private practice. Congressman Menendez received his B.A. from St. Peter's College in Jersey City, and his law degree from Rutgers University.

José Piñera

José Piñera is a senior fellow at the Cato Institute, and co-chairman of Cato's Project on Social Security Choice. As Chile's secretary of labor and social security, he was the architect of that country's privatization of its pension system. As founder and president of the International Center for Pension Reform, Piñera now advises governments throughout the world on the establishment of privatized pension systems. During his public service career, he also designed the labor laws that introduced flexibility to the Chilean labor market and was responsible for the constitutional law that established private property rights in Chilean mines. He is also chairman of Proyecto Chile 2010, a Chilean free-market think tank. He received an M.A. and a Ph.D. (1974) in economics from Harvard University.

Peter Orszag

Peter Orszag is the Joseph A. Pechman Senior Fellow in Economic Studies at The Brookings Institution and a Co-Director of the Tax Policy Center, a joint venture of the Urban Institute and The Brookings Institution. He is the co-author of *Saving Social Security: A Balanced Approach* (Brookings Institution Press: 2004). Dr. Orszag previously served as Special Assistant to the President for Economic Policy, and as a Senior Economist and Senior Adviser on the Council of Economic Advisers during the Clinton Administration. His current areas of research include fiscal and tax policy, Social Security, pensions, higher education, and homeland security.

Dr. Orszag graduated summa cum laude in economics from Princeton University, and obtained a M.Sc. and a Ph.D. in economics from the London School of Economics, which he attended as a Marshall Scholar. He is the co-editor of *American Economic Policy in the 1990s* (MIT Press: 2002), and co-author of *Protecting the American Homeland: A Preliminary Analysis* (Brookings Institution Press: 2002).

Virginia Reno

Virginia Reno is Vice President for Research at the National Academy of Social Insurance. She directed the Academy's study, *Evaluating Issues in Privatizing Social Security*, and prior studies of the Social Security disability programs and of ways to promote rehabilitation and employment of persons with disabilities. Before coming to the Academy, Ms. Reno held research and policy positions at the U.S. Social Security Administration (SSA), where she was staff director of the Policy Council that advised the Commissioner of Social Security on legislative, regulatory, and administrative issues. Before that she served in SSA's Office of Research and Statistics, where she directed the program analysis staff. Ms. Reno has published articles on Social Security, private pensions, retirement policy, and public opinion about Social Security, the income of the benefit, and tax systems. A founding member of the National Academy of Social Insurance, Ms. Reno served in the U.S. Peace Corps and received her B.A. from the Honors College of the University of Oregon.

