BOOK REVIEW

Individual Accounts for Social Security Reform: International Perspectives on the U.S. Debate, John Turner (Kalamazoo: W.E. Upjohn Institute for Employment Research, 2006, 195 pp., $18(U.S.), paperback)

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During the past decade, few issues have caused more ink to spill or more trees to fall than Social Security. This outpouring of analysis, critique, and often impassioned polemics seemed to originate with the 1996 Presidential election campaign of Steve Forbes, who proposed "privatizing" Social Security. It ramped up considerably, however, when candidate George W. Bush made Social Security privatization an issue in his 2000 election campaign. After becoming President in the most disputed election in U.S. history, Bush appointed a Social Security reform commission made up exclusively of advocates of one particular strain of reform—namely, creating separate accounts that individual workers would control during their work lives and after their retirement. This Commission to Strengthen Social Security, as it was officially christened, proposed three different scenarios,[1] but the main thrust of its Report was to recast Social Security in the defined contribution mode that private pension arrangements had increasingly adopted.[2]

That Report clearly put the issue of Social Security reform and specifically individual accounts in play, at least among policy analysts and academicians. But the issue really took off after President Bush's

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1. *See* REPORT OF THE PRESIDENT'S COMM'N, STRENGTHENING SOCIAL SECURITY AND CREATING PERSONAL WEALTH FOR ALL AMERICANS (2001), *available at* http://csss.gov/reports/Final_report.pdf. (last visited May 30, 2006); U.S. GEN. ACCOUNTING OFF., SOCIAL SECURITY REFORM: ANALYSIS OF REFORM MODELS DEVELOPED BY THE PRESIDENT'S COMMISSION TO STRENGTHEN SOCIAL SECURITY (GAO-03-310, 2003). *See also* PETER A. DIAMOND & PETER R. ORSZAG, CTR. ON BUDGET & POLICY PRIORITIES & THE CENTURY FOUND., REDUCING BENEFITS AND SUBSIDIZING INDIVIDUAL ACCOUNTS: AN ANALYSIS OF THE PLANS PROPOSED BY THE PRESIDENT'S COMMISSION TO STRENGTHEN SOCIAL SECURITY (2002).

2. *See generally* Richard L. Kaplan, *Enron, Pension Policy, and Social Security Privatization*, 46 ARIZ. L. REV. 53, 60–63 (2004).

2004 re-election when he announced that he had accumulated substantial "political capital" in his election triumph and planned to "spend it" on reforming Social Security. A fevered campaign then began with the President's State of the Union Address to Congress in late January 2005 and continued through a massively orchestrated effort of sixty speeches in sixty days on creating individual accounts in Social Security. Public rallies with pre-screened attendees and carefully controlled interactions made this discussion of the U.S. Social Security system look like another election campaign, except that there were no formal debates. Despite polls showing that the public generally liked Social Security in its present form, President Bush soldiered on, occasionally lapsing into rhetorical excess about Social Security's "bankruptcy," but always trumpeting the virtues of individual accounts.[3] These accounts are the centerpiece not only of President Bush's reform effort but of various "conservative"/libertarian groups as well.[4] And these individual accounts are also the focus of John Turner's new and very important book.

Dr. Turner is an economist (Ph.D. from the University of Chicago) who has written extensively about Social Security and related pension issues for many years, particularly in a comparative context. He is currently a senior policy advisor at the AARP Public Policy Institute in Washington, D.C., though he takes pains to point out that the book under review "was not done during [his] hours of employ by AARP" and that the book does "not necessarily represent the policy positions of AARP."[5] Nonetheless, it should be noted that AARP was in the forefront of groups opposing President Bush's Social Security reform and made rejection of individual accounts the centerpiece of that opposition.[6] AARP's opposition, moreover, arose despite President Bush's pledge to preserve the existing Social Security system for anyone who was already fifty-five years old or older. As of mid-2006, Social Security reform appears to be a dead issue in the United States, and AARP can rightfully claim significant credit for that result.

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3. *See* Richard L. Kaplan, *The Security of Social Security Benefits and the President's Proposal*, ELDERLAW REP., Apr. 2005, at 1, *available at* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=700323.

4. *See*, *e.g.*, PETER J. FERRARA & MICHAEL D. TANNER, A NEW DEAL FOR SOCIAL SECURITY (1998).

5. JOHN TURNER, INDIVIDUAL ACCOUNTS FOR SOCIAL SECURITY REFORM: INTERNATIONAL PERSPECTIVES ON THE U.S. DEBATE ix (2006).

6. *See* Michael W. Wyand, *Social Security: Opposing Creation of Individual Accounts AARP's "Top Priority" in 2005, Official Says*, BNA DAILY TAX REP., Jan. 6, 2005, at G-2.

Dr. Turner's book, however, remains timeless for several reasons. First, it is likely that at some point in the not too distant future, the issue of reforming Social Security will arise anew. Demography may not be destiny, but America is aging, though not as rapidly as its counterparts in the developed world. Indeed, the hot button issue of 2006—namely, unchecked immigration—is partially responsible for keeping the United States from experiencing the same changes in worker-retiree ratios as have befallen other countries. But immigration cannot forever forestall the day when Americans will feel the need to reevaluate their system of providing for retirement income.[7]

Second, Social Security is essentially an intergenerational compact with substantial dollops of trust in government thrown into the mix. This arrangement may have made sense when the program was created more than seventy years ago, but it seems downright anachronistic to many Americans today. Trust in government has declined enormously since 1935, and it is inconceivable that a defined benefit structure like the present system would be adopted if the program were created from scratch today. Indeed, the general disdain toward government as problem solver was a major reason why President Bill Clinton's effort to reform the U.S. health care system in 1993 failed so ignominiously.[8] The fundamental notion that folks will pay their taxes today and the government will pay them benefits when they retire is just so last century, as younger people are wont to say.

Third, the investment landscape is festooned (or littered, depending upon one's point of view) with individual accounts, wherein individuals manage the investments and make withdrawals within a broad scheme of rules that typically are based in the U.S. tax code.[9] Thus, most workers today have access to employment-based retirement accounts under tax code sections 401(k), 403(b), or 457 that defer the taxation of earnings put into these plans. Self-employed individuals can set up similar arrangements under a variety of similar tax provisions. And anyone with earned income can create an individual retirement account (IRA) without regard to whatever his or her employer provides.[10] Moreover, these IRAs can be established

7. *See* Joel Feinleib & David Warner, *The Impact of Immigration on Social Security and the National Economy*, Social Security Advisory Board Issue Brief No. 1 (Dec. 2005).

8. *See generally* THEDA SKOCPOL, BOOMERANG: CLINTON'S HEALTH SECURITY EFFORT AND THE TURN AGAINST GOVERNMENT IN U.S. POLITICS (1995).

9. *See* Edward A. Zelinsky, *The Defined Contribution Paradigm*, 114 YALE L. J. 451 (2004).

10. *See* Richard L. Kaplan, *Retirement Funding and the Curious Evolution of Individual Retirement Accounts*, 7 ELDER L.J. 283 (1999).

at almost any U.S. financial institution, including the local neighborhood bank or employee credit union. Furthermore, workers can invest their IRAs in all manner of stocks, bonds, mutual funds, and bank obligations, as well as U.S. gold and silver coins.[11]

Individual accounts are not just a retirement funding phenomenon. Saving money to pay for the college education of one's children or grandchildren, or even of oneself, can be accomplished through so-called 529 plans that every state has created.[12] Indeed, Americans are not limited to the 529 plan of their particular state and may freely access the plans of other jurisdictions, though there are often local tax incentives to stay with their home state's plan. The Internet, moreover, has made information about such plans and even their enrollment mechanisms accessible to anyone who can get to a computer. Similar individual accounts, called Coverdell Education Savings Accounts, can be established to fund pre-college education costs, including parochial schooling, from kindergarten through high school.[13]

In addition, health savings accounts (HSA) were authorized in 2003 to allow workers and/or their employers to set aside funds to pay for health care costs that are not covered by group insurance plans.[14] Like their counterparts in the retirement and education funding areas, HSAs feature extensive federal income tax benefits, individual control of plan investments, and largely unfettered discretion over the timing and amounts of plan withdrawals. President Bush is currently making a major push to expand HSAs, and coverage levels have grown considerably in the short time that they have been available.[15]

All of these individual accounts respond to the same general desire for individual control and autonomy over one's financial destiny. The very ubiquity of such accounts, moreover, has made Americans increasingly accustomed if not entirely comfortable with assuming individual responsibility for major aspects of their financial existence, and it is a short step from this phenomenon to incorporating individual accounts into the U.S. Social Security system.

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11. *See* I.R.C. § 408(m)(2)(D), (3)(A).

12. *See id.* § 529(a); *see generally* Richard L. Kaplan, *Funding a Grandchild's College Education*, J. RETIREMENT PLAN., Sept.–Oct. 2001, at 15.

13. I.R.C. § 530(a), (b)(1), (2)(A)(ii), (4)(A)(i), (ii).

14. *Id.* § 220; *see generally* Richard L. Kaplan, *Who's Afraid of Personal Responsibility? Health Savings Accounts and the Future of American Health Care*, 36 MCGEORGE L. REV. 535 (2005).

15. *See* Grace-Marie Turner, *HSA Enrollment Tripled in Less Than a Year, Study Says*, HEALTH CARE NEWS, Mar. 2006, at 13.

At that point, Dr. Turner's new book becomes the definitive guidebook for policymakers seeking to reshape the system. Dr. Turner explores the universe of individual accounts with admirable evenhandedness and unfailing accuracy. His book is not a paean to the wondrous virtues of such accounts nor a screed against their proliferation. Instead, he notes that he seeks merely "to provide a better understanding of how individual accounts would work if they were adopted in the United States as part of Social Security reform."[16] This rather neutral approach may disappoint those seeking affirmation of their pre-existing views of individual accounts (and their concomitant adoration or loathing of their proponents), but a plethora of such material already exists. Dr. Turner's contribution is to show what is really involved in this debate as dispassionately as possible.

He begins by noting that "including individual accounts in social security is a political decision."[17] This eminently reasonable proposition is rarely stated quite so baldly. Instead, the issue of including individual accounts in Social Security is usually couched in terms of consumer finance, governmental accounting, and economics generally. In terms usually not found in the Social Security literature, Dr. Turner sets out the essential dichotomy between "social solidarity and communal responsibility for the less fortunate" versus "individual responsibility and free choice."[18] This latter desideratum undergirds President Bush's appeal for an "ownership society" with its unspoken premise that taxpayers would be relieved of carrying the burden for those who did not plan adequately for their own future. In even balder terms than Dr. Turner employs, the basic issue is whether we are all in this together or whether it's everyone for himself. Seen in this light, the continued existence of Social Security with its embedded communitarianism seems downright quaint to a growing proportion of Americans.

Finally, he notes that "it is important to separate the issues of individual accounts and Social Security solvency."[19] Indeed, he points out that "carve-out individual accounts generally worsen solvency issues over a transition period lasting decades because of the need to continue financing the benefits in the traditional social security program."[20] It was this very conflation of individual accounts and

16. TURNER, *supra* note 5, at 7.
17. *Id.* at 3.
18. *Id.*
19. *Id.* at 6.
20. *Id.*

system solvency that made President Bush's 2005 campaign to "save" Social Security by introducing individual accounts so inherently deceptive.

Another major contribution of Dr. Turner's volume is his authoritative examination of Social Security individual accounts in other countries. Such a comparative approach is rarely undertaken in U.S. policy debates, whether the issue is health care financing or tax reform. If the experience of other countries is brought up at all, the discussion is almost always very superficial, devoid of political context, and disengaged from communal values. Dr. Turner's examination is a refreshing contrast, providing substantive details in societal context and showing that there are interesting ideas abroad though rarely any easy answers.

Among the especially valuable parts of this book are his easy-to-understand but straightforward "Eleven Risks in Mandatory Individual Accounts."[21] Some of the risks that he delineates are more obvious than others (e.g., longevity), but they are all quite real and all too often ignored. To his credit, he acknowledges the genuine risks posed by the current Social Security financing mechanism as well, but it is difficult to argue with his ultimate conclusion that "individual accounts are riskier than a well-managed defined benefit social security plan such as found in the United States."[22] No doubt, the privatizers will gag at Dr. Turner's description of the U.S. Social Security system as "well-managed," but many of these people are those whom President Clinton once noted "think that the Government would mess up a two-car parade."[23]

Be that as it may, Dr. Turner analyzes Social Security individual accounts in terms of their impact on capital markets and national savings,[24] real rates of return,[25] and labor market functioning.[26] He also lays out nicely the distinctive features and issues that pertain to carve-out (or substitute) versus add-on (or supplemental) accounts, and mandatory versus voluntary accounts. Too often these important distinctions are obscured. At a minimum, Dr. Turner's exegesis shows that policymakers have a rich palette of choices in designing Social Security individual accounts and that the experiences of various countries demonstrate the range of these options. Dr. Turner clearly

21. *Id.* at 21–26.
22. *Id.* at 26.
23. William J. Clinton, *Remarks on the Reinventing Government Initiative*, 2 PUB. PAPERS 1543, 1544 (Sept. 14, 1994).
24. TURNER, *supra* note 5, at 30–32.
25. *Id.* at 32–33.
26. *Id.* at 32–33.

demonstrates that individual accounts in Social Security systems are neither new nor radical and that they have a track record that is neither as bleak as some opponents hope nor as ebullient as some proponents contend. This sober international evaluation is the book's most interesting contribution.

But three other significant features merit separate mention. First, chapter 5 on "Individual Management Risk" is a welcome antidote to the prevailing sentiment that everyone can be his/her own investment manager and do a better job than the government (i.e., Social Security). In this chapter, Dr. Turner lays out the less appealing truth—namely, that by dint of education, interest, expertise, or just plain bad luck, investors diversify their investments insufficiently, focus on the familiar, play with highly volatile sector funds, ignore fees, and rely on inertia. Similar results were found in the 2004 book, *Coming Up Short: The Challenge of 401(k) Plans,*[27] but Dr. Turner shows that this phenomenon is not limited to U.S. workers. Furthermore, he sets out a list of ten key recommendations that make eminent investment sense but severely curtail the individualistic appeal that President Bush used to portray his proposal for individual accounts.[28] Indeed, the very notion of individual accounts with their concomitant need to make various decisions may be less appealing to a society that is already over-stressed about other aspects of their lives, from job security and health insurance to cell phone plans.

Second, chapter 6 examines the labor market implications of individual accounts, especially the effect of such accounts on hours worked and on retirement age when stock markets record major increases or declines. While proponents of individual accounts love to trumpet Americans' general preference for individual control in their lives, a less prominently noted impact is how such accounts may change workers' attitudes on issues like trade agreements with other countries and support for unionized workers generally.[29] In fact, it is just such ideological realignments that some advocates of Social Security individual accounts find so appealing.

Third, chapter 7 examines how benefits are paid from such accounts and the relevant tax policy considerations. This chapter examines in detail the systems in place in Sweden and Chile and addresses many of the issues that were considered in a U.S. context by

27. ALICIA H. MUNNELL & ANNIKA SUNDÉN, COMING UP SHORT: THE CHALLENGE OF 401(K) PLANS (2004); *see also* Alicia H. Munnell & Annika Sundén, *401(k) Plans Are Still Coming Up Short*, Center for Retirement Research Brief No. 43 (Mar. 2006), at 1.

28. TURNER, *supra* note 5, at 92.

29. *Id.* at 99.

the National Academy of Social Insurance in early 2005.[30] Annuitization is the preferred means of benefit payouts, but this approach conflicts with President Bush's oft-stated promise that individual accounts would "build wealth" that could be passed on to subsequent generations.[31]

Finally, a brief but not-to-be-missed section explores "Twelve Myths About Individual Accounts."[32] Each one-paragraph myth begins with "the element of truth" but then shows why that element is just that—an *element* and not the whole truth. Each myth is important but I will single out two for special mention: (1) investments will be free from political interference, and (2) the rate of return will exceed that of the present Social Security system. The latter contention was a major component of the 2005 privatization campaign and resonates with that wide swath of Americans who believe that they too would be rich were it not for the oppressive yoke of government policies, including Social Security, hanging around their necks. And the former notion—that politics would not affect the range of allowable investments—is hard to square with an Administration that has gone to extraordinary efforts to involve itself in contentious social issues such as gay marriage, abortion, stem-cell research, and physician-assisted suicide, among others.

At bottom, Dr. Turner's new book must be the starting point whenever Social Security is debated in earnest and should be required reading for those who seek to join that debate.

30. NAT'L ACAD. OF SOC. INS., UNCHARTED WATERS: PAYING BENEFITS FROM INDIVIDUAL ACCOUNTS IN FEDERAL RETIREMENT POLICY (2005).

31. *See* Colleen E. Medill, *Challenging the Four "Truths" of Personal Social Security Accounts: Evidence from the World of 401(k) Plans*, 81 N. C. L. REV. 901, 953–57 (2003).

32. TURNER, *supra* note 5, at 144–48.