

Saving Social Security: A Proposal for Reform The Diamond – Orszag Plan

Comments by Maya C. MacGuineas
Committee for a Responsible Federal Budget
& Fiscal Policy Program
New America Foundation

Why This Plan Is Important

1) Specific Plan

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2) Gimmick Free

Policy Options

- How much are we going to raise revenues, and through what taxes?
- How much are we going to reduce spending, and through what reductions?
- How much are we going to borrow?

Diamond-Orszag Choices

- Raise payroll taxes.
- Raise the maximum taxable earnings base.
- Put a legacy tax on earnings above the maximum taxable earnings base.
- Reduce benefits in a very progressive manner.
- Expand benefits for the groups they see as vulnerable.
{Low earners; widow(er)s; disabled workers; young survivors.}

Some Shortcomings

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- 3) No Pre-funding

Some Shortcomings

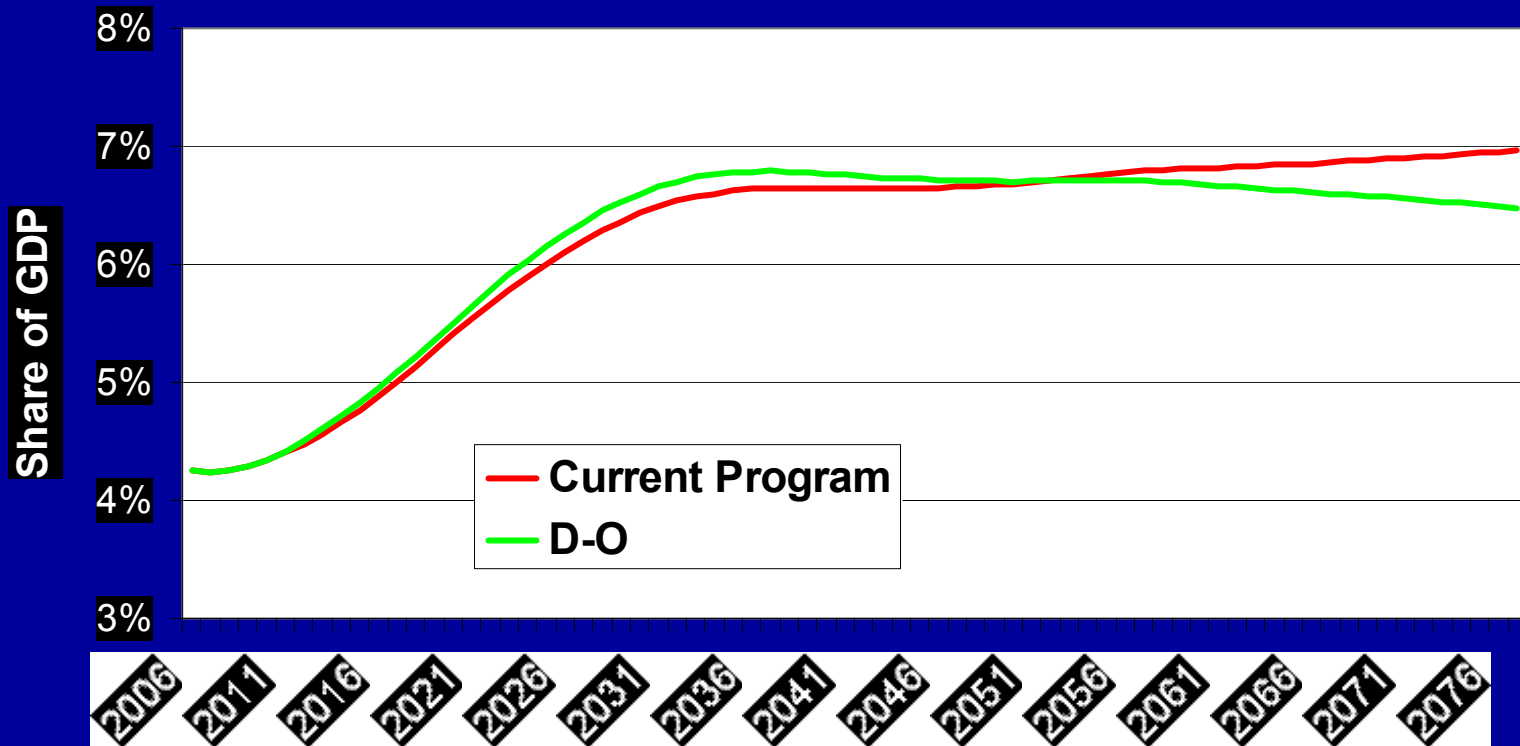
- 1) Missed Opportunity for Policy Changes
- 2) No Fiscal Restraint
- 3) No Pre-funding
- 4) Intergenerational Effects

Missed Opportunity for Policy Changes

- Retirement Age
- Protecting all Retirees over 55
- Outdated Spousal Subsidies

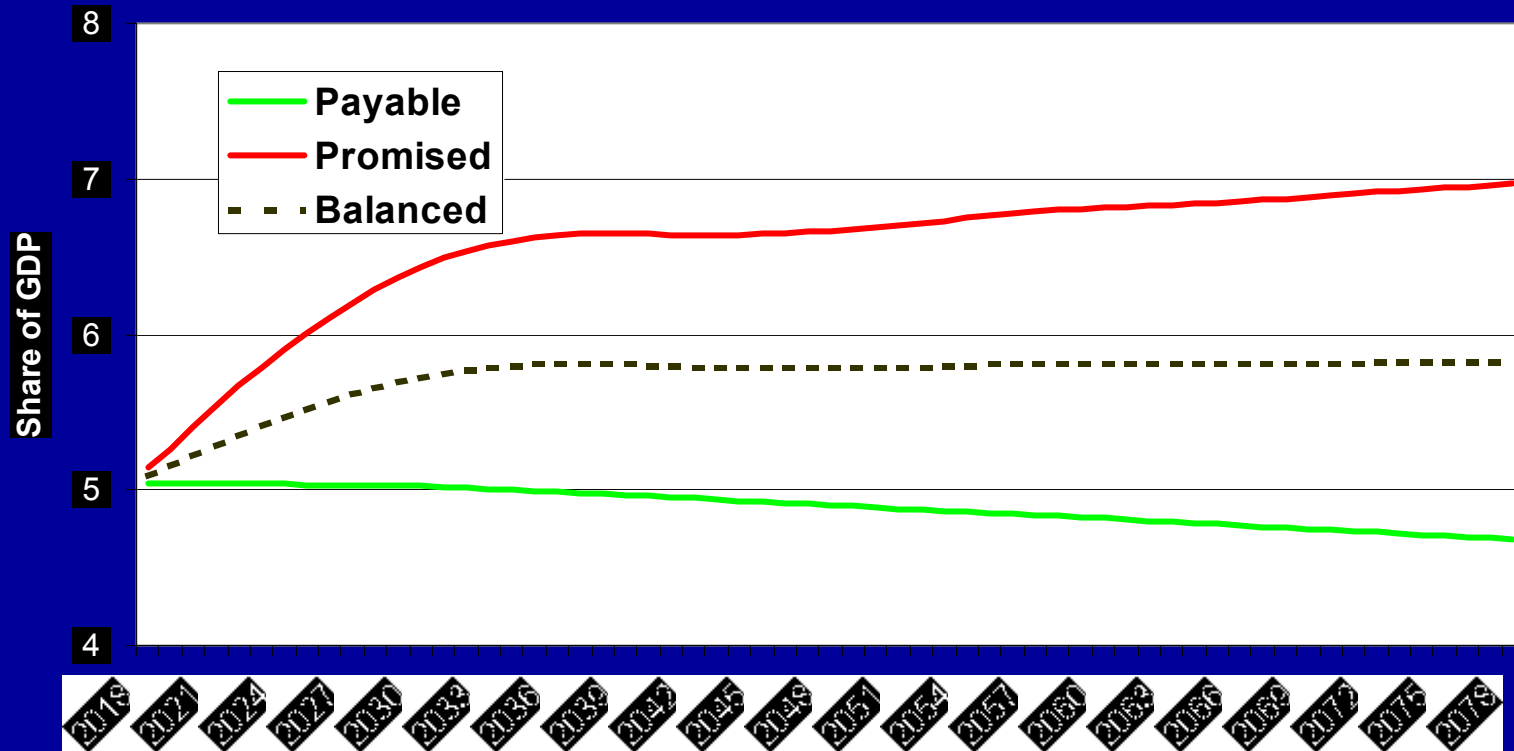
No Fiscal Restraint

Cost of D-O Social Security Plan



A Balanced Approach

A Balanced Approach



No Pre-Funding

- Closer to Pay-As-You-Go System
- Missed Opportunity to Increase National Saving / Grow the Economy

Intergenerational Effects

- Changes Legislated Not Implemented
- Cash Flow Deficits Delayed Only Two Years {2018 to 2020}
- Pushes Costs into the Future

Conclusions

1) Role for Individual Accounts

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- 1) Role for Individual Accounts
- 2) Not So Balanced
- 3) Honest & Comprehensive Plan