STRENGTHEN SOCIAL SECURITY

...don't cut it.

Introducing Private Accounts into Social Security Would Radically Cut Iowans' Guaranteed Benefits, and Entrust Their Retirement Security to Wall Street

In 2005, Americans from across the political spectrum voiced their opposition to the Bush Administration's attempt to largely privatize Social Security. His plan to replace nearly half of Social Security's guaranteed benefits with risky, expensive, private accounts was soundly defeated. Yet occasionally, Wall Street backed politicians resurrect this reckless idea. In such cases, it is important to recall why privatizing Social Security was rejected in the first place – even before the market crash of 2007/8.

Private Accounts Are a Disguised, Massive Benefit Cut

The most prominent proposal for Social Security privatization was a proposal by the Bush Administration.[i] It would have diverted 2 percentage points out of the 6.2 percent of wages a worker contributes to Social Security into the stock market. Diverting those funds would require radical reductions in benefits – not only for retirees but also for aged widow(ers) and people with severe disabilities. Those who did not choose to participate in the "voluntary" private accounts would be left with even more drastic cuts to their Social Security benefits – **cutting the benefits of our children by a third**, and **those of our grandchildren by nearly 50 percent**, when they retire later in the century.

Estimated Benefit Cuts from Introducing Private Accounts into Social Security

for 2-Earner Couple with Equal, Average Earnings ($44,826 for 2013)

Year Turning 65	**Traditional Benefits** (for those who do not opt into private accounts)	**Expected Combined Benefits** (for those who opt into private accounts)	
		Risk-Adjusted Benefits	Not Adjusted for Risk
2023	-0.9%	-0.5%	0.0%
2043	-18.2%	-15.2%	-8.3%
2063	-32.5%	-26.0%	-6.3%
2086	-45.9%	-39.6%	-20.5%

Source: Stephen C. Goss and Alice H. Wade, "Memorandum to Daniel Patrick Moynihan and Patrick D. Parsons: Estimates of Financial Effects for Three Models Developed by the President's Commission to Strengthen Social Security," January 31, 2002, p. 75. http://www.ssa.gov/oact/solvency/PresComm_20020131.pdf.

Note: Benefit cut estimates are based on "Model 2" of the President's Commission, for a 2-earner couple with a 2/3's joint and survivor annuity. Years are adjusted to reflect plan implementation in 2015.[ii]

Those who "opted" to partially divert their Social Security contributions into private accounts would see slightly less drastic, but still very large, cuts to their *total* benefits – i.e. their guaranteed Social Security benefits combined with the income from private accounts. The table above shows the extent of these benefit cuts for an average, two-earner couple under Bush's plan to incorporate private accounts into Social Security, with the dates adjusted to estimate the effects if a private accounts plan were implemented in 2015, as some politicians are now advocating.

Privatizing Social Security Would Add up to $2.8 Trillion to the Federal Debt

Current Social Security benefits are paid largely out of current contributions. Hence **diverting a portion of Social Security contributions to individual accounts would result in a reduction in the funds needed to pay the benefits promised to today's seniors**, and those who plan to retire in the coming years.[iii] Those advocating private accounts claim that they would protect today's seniors by excluding current beneficiaries and workers close to retirement. Yet it is impossible to shift Social Security contributions into private accounts without adding to the federal debt (or raising payroll tax rates or further cutting benefits).

In the Bush privatization plan, **even with the draconian benefits cuts outlined above, these "transition costs" would have added $2.2 trillion to the federal debt** – or $2.8 trillion if disability benefits were protected.[iv] These costs demonstrate that private savings accounts are far from a solution to Social Security's projected long-range funding shortfall. To the contrary, private accounts would recklessly damage the nation's finances.

Iowa Seniors Cannot Afford Cuts to Their Earned Social Security Benefits

For today's seniors, these transition costs are simply unaffordable. The average retiree receives a Social Security benefit of 15,118.[vi] These benefits are modest, yet vital. In 2012, almost two-thirds of all Americans aged 65 or older relied on Social Security for at least half of their income. For one fifth, these modest benefits were their only source of income.[vii]

Likewise, workers who are currently contributing to Social Security have experienced a decade of stagnating – and for many, declining – wages.[viii] Proposals for private accounts that would shift the burden of transition costs from current to future beneficiaries, by radically reducing future benefits and adding to the federal debt, would make it extremely difficult for our children and grandchildren to achieve a secure retirement.

Guaranteed Social Security Benefits Are Preferable to a Risky Stock-Market Gamble

Supporters of replacing Social Security with private accounts often argue that allowing individuals to invest some or all of their payroll tax contributions would increase benefits by bringing a higher return. However, as every investor knows, higher returns are predicated on higher risk. The recent economic downturn has made the magnitude of these risks especially clear. As a Center for American Progress analysis notes, while investors may have seen excellent returns on the stock market in the 1990s, under a Bush-style private savings system, individuals retiring in 2008 would have seen negative returns on their investments – for an average earner, the loss would have been $26,000.[ix]

Conclusion

Social Security is so attractive to retirees because it provides benefits Americans can count on when they and their families need them most – guaranteed benefits that maintain their purchasing power no matter how long someone lives. Personal accounts would create new retirement risks – risks of market timing, investment performance, choice of funds, inflation after retirement, etc. – and would place these risks squarely on the backs of seniors, people with disabilities, and their children, spouses, and survivors. Moreover, any plan for private savings accounts that promises to improve Social Security's long-range solvency can do so only by means of tax increases, benefit cuts, or adding to the debt.[x] In short, incorporating private accounts into Social Security is a misguided idea that was rejected by the country resoundingly in 2005, and – especially in light of the stock market crash of 2007/8 – should not be revived today. Policymakers who wish to encourage savings should do so in ways that complement Social Security, rather than essentially eliminating (or fundamentally altering) the program that provides the bedrock of Americans' financial security in retirement.

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[i] The "Model 2" plan developed by President George W. Bush's "Commission to Strengthen Social Security" was discussed in detail in the 2004 Economic Report of the President, and hence can be considered the Bush administration's primary plan. Under this plan, a voluntary option was provided for workers covered under the Social Security program to divert up to 4 percent of their earnings covered by Social Security – up to $1,000 in 2002 ($1,333 in 2012 dollars), and wage indexed thereafter – deposited annually in a personal account. This option would be limited to workers who had not yet attained age 55. The personal account contributions would be financed entirely as a "redirect" of Social Security old-age and survivors insurance (OASI) contributions. Benefit estimates by the Social Security actuaries are based on an assumption of a 3-percent ultimate real annual yield on long-term U.S. Treasury bonds. A number of additional assumptions are outlined in the Chief Actuary's actuarial assessment of the plan: http://www.ssa.gov/OACT/solvency/PresComm_20020131.pdf

[ii] Calculations by the Social Security Administration's Chief Actuary's analysis of benefit changes under "Model 2" proposed by the President's Commission to Strengthen Social Security. The Chief Actuary's estimates were made in 2002, based on private accounts being introduced in 2004, and the benefit formula being changed in 2009. We adjusted the years for estimated benefit cuts based on private accounts being introduced in 2015, and the benefit formula being changed in 2020. Because the Chief Actuary's analysis was made in 2002, these estimates do not reflect any changes to the OASDI program and/or the actuaries' economic and demographic assumptions since their initial analysis, although such changes have been fairly minor. Note that the percentage benefit cuts for an individual earner – rather than for a 2-earner couple with a joint and survivor annuity, as in the table above – would be marginally smaller, albeit without survivors benefits associated with the annuitized private savings. Stephen C. Goss and Alice H. Wade, "Memorandum to Daniel Patrick Moynihan and Patrick D. Parsons: Estimates of Financial Effects for Three Models Developed by the President's Commission to Strengthen Social Security," January 31, 2002, p. 75. http://www.ssa.gov/oact/solvency/PresComm_20020131.pdf

[iii] Barry Bosworth and Gary Burtless, "Privatizing Social Security: The Troubling Trade-Offs," *Brookings Policy Brief* 14, March 1997. http://www.brookings.edu/research/papers/1997/03/saving-burtless

[iv] Peter Diamond and Peter Orszag, "Reducing Benefits and Subsidizing Individual Accounts: An Analysis of the Plans Proposed by the President's Commission to Strengthen Social Security," Center on Budget and Policy Priorities and The Century Foundation, June 2012. http://www.cbpp.org/archiveSite/6-18-02socsec.pdf

[vi]SSA, *OASDI Beneficiaries by State and County, 2012,* "Iowa," June 2013, Tables 4 and 5. http://www.ssa.gov/policy/docs/statcomps/oasdi_sc/2012/ia.htmll

[vii] SSA, Income of the Population 55 or Older, 2012, April 2014, Table 8.A1. http://www.ssa.gov/policy/docs/statcomps/income_pop55/2012/sect08.html

[viii] Lawrence Mishel and Heidi Shierholz, "A Decade of Flat Wages: The Key Barrier to Shared Prosperity and a Rising Middle Class," *Briefing Paper* 365, Economic Policy Institute, August 21, 2013. http://s1.epi.org/files/2013/BP365.pdf

[ix] Ben Furnas, “Your Future on the Market: Social Security Private Accounts in a World of Market Instability,” Center for American Progress Action Fund, October 2008. http://wonkroom.thinkprogress.org/wp-content/uploads/2008/10/ss_report.pdf

[x] Matthew Baumgart et al., “Social Security and Private Savings: Complementary Roles,” *Social Security Brief* 29, National Academy of Social Insurance, September 2008. http://www.nasi.org/sites/default/files/research/SS_Brief_029.pdf