

## Social Security and the President's Plan

### What you should know about Social Security:

#### **There is No Social Security Funding Crisis!**

There is only the projection of a funding crisis. According to the Social Security Trustees, the program is financially sound until 2042, or until at least 2052, according to the Congressional Budget Office. Also, according to economists who believe that the American economy will grow for the next 75 years as much as it has grown in the last 75 years, the program is financially sound indefinitely into the future.

The facts and figures the Bush administration has given to the American public are gross and intentional distortions. This administration cannot be trusted to shoot straight with the American public regarding facts about Social Security. In its methods to sell its privatization scheme, the Bush administration is resorting to the familiar tactics of skewing and spinning facts, the same methods we saw in the run up to the Iraqi War with its knowingly false claims of Weapons of Mass Destruction. One example of this according to New York Times economist and columnist, Paul Krugman is as follows:

...Andrew Biggs, the associate commissioner for retirement policy at the Social Security Administration, {has} appeared with Mr. Bush at a campaign-style event to promote privatization. There was a time when it would have been considered inappropriate for a civil servant to play such a blatantly political role. But then there was a time when it would have been considered inappropriate to appoint a professional advocate like Mr. Biggs, the former assistant director of the Cato Institute's Project on Social Security Privatization, to such a position in the first place. Sure enough, The New York Times reports that under Mr. Biggs's direction, employees of the Social Security Administration are being forced to disseminate dire warnings about the system's finances - warnings that the employees say are exaggerated. (Paul Krugman, Jan. 18. 2005)

Thus, the administration is operating a disinformation campaign to sway the public and ultimately reach its goal of destroying the Social Security safety net, the most effective and successful hedge against disability and poverty ever created. As Progressive Democrats we refuse to be duped by another Weapons of Mass Deception

**Privatizers' Assumptions about Future of Stock Market Returns Are Inconsistent with Their Assumptions about the Future Funding Issues for Social Security.**

To forecast financial shortfalls for Social Security four or five decades from now, privatization advocates must use extremely pessimistic assumptions regarding economic growth for America. But if those pessimistic assumptions come true, and economic growth is much slower than it has been in the past, then the glowing stock market returns privatizers' project will not materialize. Stock market returns, which are based on profit and growth, cannot be as great in the future as they have been in the past.

**Social Security: a Monthly Lifeline for More Than 51 Million Men, Women, and Children.** Social Security serves as a family protection plan providing benefits that cover all generations:

- Social Security is the primary source of income for nearly two-thirds of America's senior citizens. Only two in five older Americans receive a pension from a job.
- About one-third of Social Security beneficiaries—approximately 17 million citizens—are not retired workers. Five million are the spouses and children of retired and disabled workers. These 750,000 get lifetime support, even after the parent has died.
- 750,000 adults who have been severely disabled since childhood receive benefits based upon a parent's work record.
- More children receive income support from Social Security than receive support from the Temporary Assistance to Needy Families (the federal welfare program).

### **Who wins with Social Security Privatization?**

Administrative overhead charges for individual account will eat up a big portion of the returns on small individual accounts. In other countries such as Great Britain and Chile, administrative charges for their privatized social security systems are costing account holders between 12 and 22 percent of assets per year. Likewise, overhead or administrative costs in the private insurance industry in the United States run approximately 15 percent of benefits paid.

Staffed by hardworking and modestly paid federal employees, the Social Security Administration reliably administers the entire Social Security program at a cost to taxpayer of 0.9 percent—less than 1 percent—of benefits paid.

**Big business, Politicians, and Corporate Lobbyists: The Real Threat to Social Security is Political!**

The hands down winner would be Wall Street, as fees to manage millions of accounts would pour in to their coffers. (Fees that, not incidentally, would come out of your benefits.) Wall Street could make a pretty penny in bond underwriting and sale fees. But the big money would come from fees for managing the millions of new accounts.

## Who loses with Social Security privatization?

### Retirees, the Disabled, and Families

President Bush's plan for Social Security privatization includes huge benefit cuts. The plan favored by the Bush administration (based on his Privatization Commission's Reform Model 2—which was fashioned by Right Wing think tanks) would cut guaranteed benefits:

- By 25 percent for people born in 1970
- By 40 percent for people born in the 1980s
- By 50 percent for people born in the 1990s

Private accounts are highly unlikely to make up for these cuts; especially for those who retire when the stock market is down (as in the bubble bust of 2000) or for those whose employment history has included periods of unemployment when no "investments" have been made.

### Our Nation's Solvency

Economists estimate that the transition cost for privatizing Social Security could cost \$2 trillion or more in the first decade alone, and would have to be borrowed—most likely from China and Japan. This borrowing will probably not stop there, and puts our nation and national security at risk.

Leading economists believe that as much as \$10 trillion would be required over the next 20 years. Ironically, a senior official of the Bush Administration has admitted that, "In a long term sense, the personal accounts would have a neutral effect on the fiscal situation of Social Security." In plain language, it does not provide the necessary small steps needed to help keep Social Security solvent. This fits well with the Bush Administration's plan to kill FDR's social insurance program, one that has benefited America and Americans like no other program adopted by our nation.

### We don't have to destroy Social Security to save it.

To really save Social Security, sensible and minor adjustments could be made that will strengthen its viability for future generations. With these adjustments, we could make Social Security solvent for at least the next 75 years. Here's what [two noted economists propose \(pdf\)](#):

First, some gradual reductions in benefits and adjustments to payroll taxes:

- Raise the earnings limit for payroll taxes back to its 20-year average level.
- Reduce benefits for the highest-paid 15% of workers slightly
- Include all state and local government workers
- Add a 3% payroll tax on currently untaxed earnings above about \$90,000
- Reduce benefits and increase payroll taxes slightly beginning in 2023.

Next, some benefit improvements for the most needy:

- Increase benefits for minimum wage workers
- Improve widows' benefits.

What does this mean? The disabled and children who have lost a parent and workers age 55 or older in 2004 receive the same benefits as they do today. Younger workers have minor benefit cuts. The payroll tax rises from 6.2% in 2005 gradually to 7.1% in 2055. These modest changes extend Social Security's solvency from 2042 passed 2075 without the help of government funds or exposing benefits to stock-market risk.

[One independent analysis \(pdf\)](#) says this plan would solve the problem without budgetary gimmicks or wishful assumptions. But others propose drastic changes for Social Security, including cutting benefits more and adding government funding in order to privatize it. These changes would ring the death knell for Social Security, the best successful program to poverty for the aged and disabled ever implemented.

As Democrats, we solidly stand behind saving Social Security. Private accounts are not a solution. For us, protecting those least able to protect themselves—the aged, the disabled, and children who have lost a primary wage earning parent—represents the strong commitment we Americans have made generation after generation to building a more just and equitable society based upon mutually caring for one another. The wealth of our nation is only as great as the wealth exhibited in our value of the well-being and dignity we can bring to each other as citizens of this nation. We stand behind and will fight for these values and, we unceasingly opt for the interests of citizens of this nation over those who opt to satisfy the unmitigated greed of corporate interests. Democrats don't want to come up with a counter proposal until private accounts are dropped.

Progressive indexing has been promoted by Democrat Bob Pozen, an investment executive. This would change the benefits workers would receive depending on their income. Those who earn less than \$20,000 would be fully protected. Other worker's

benefits would be reduced on a sliding scale as income increases. In all cases, benefits would at least keep pace with inflation. Mr. Pozen had been supporting President Bush's plan, but has now said Bush should drop private investment accounts and instead focus on "add-on accounts" funded with other revenues.

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