

## What Would Privatization Do to Social Security Insurance?

Dr. J. Larry Brown - February 2005

Social Security operates as an *insurance* system, making it the principal way that society shares risks to protect each of us against unforeseen events. This protection is a guaranteed *asset*, safeguarding all participants against a variety of risks: disability, death of an employed spouse, insufficient savings, inadequate pension coverage, sharp increases in the cost of living during retirement, and outliving one's other assets. Unlike company pensions and personal savings, Social Security is dependable (guaranteed) and universal (all participants are protected throughout the various stages of life).

As a social insurance that protects us against significant and unforeseen losses of income, Social Security is the only true safety net that all can enjoy. Converting all or even part of Social Security insurance into a private pension plan could shred this safety net and undermine the protections that Americans have enjoyed ever since the system began under Franklin D. Roosevelt in 1935. This is because Social Security supports all of us when the unexpected happens. Private accounts, on the other hand, help only the individual and operate at the risk of the stock market and other uncertainties.

In terms of building real assets, insurance actuaries (experts in estimating program benefits) report that Social Security alone provides a young family with the equivalent of a life insurance policy worth more than \$400,000. And the disabilities protections of Social Security represent another \$350,000 in disability insurance. While many of us will not have to draw on these disability and death benefits, they are there as an insurance for us if they are needed. They provide us with greater comfort about the future as a guaranteed income in the event of the disability or premature death of a breadwinner. Today, more than five million children whose families have been hit with disability and death receive income from Social Security insurance. And three-quarters of a million adults, many disabled since childhood, receive these insurance benefits. Private accounts do not guarantee such protection. Only Social Security does.

Social Security also guarantees a retirement income to program contributors once they reach old age. The benefit, which often is as high as \$2,000 or more monthly, serves as a rock-solid guarantee against destitution. While it is hoped that each of us will build up private pension savings to augment Social Security during our working lives, Social Security is there no matter whether we earn enough to save, save wisely or poorly, or whether the stock market goes up or down.

President Bush's proposal to privatize part of Social Security is based on the premise that the system is "in crisis." But the nonpartisan Congressional Budget Office says this is not the case. While occasional revisions are needed by Congress, Social Security's projected imbalance over the next 75 years is only 00.4% of GDP. Simply restoring the pre-Bush tax code for the top one percent of earners (all millionaires who don't need Social Security anyway) will make Social Security fully solvent for generations to come.

In addition to not being needed, privatization would end the dependability and safety of Social Security insurance. Taking money out of the system and putting it in private accounts unravels the fabric of support that currently protects us all. While women and families would be particularly hard hit, CBO estimates that partial privatization would lead to much lower retirement benefits – perhaps eventual cuts in retirement income of 50% or more, whether or not one elects to open a private account along with Social Security contributions. Moreover, CBO estimates that total benefits for future retirees (both reduced Social Security benefits and individual private accounts together), would mean less protection and lower income than if Social Security is kept as the national insurance program it has been for nearly seventy years. Keeping Social Security intact is the only way to insure that this valuable asset will be there to guarantee the same protections to our grandchildren that it did to our grandparents.

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