

## What Women Need to Know about Privatizing Social Security *Key Questions and Answers*

Social Security plays a major role in the retirement security of all Americans, but because women are far less likely than men to have a pension or adequate savings, Social Security is especially critical for women. Social Security also provides crucial life and disability insurance benefits for women and their families. But, President Bush and some in Congress have proposed to privatize Social Security. The President's plan is to allow workers to divert about two-thirds of what they now pay into Social Security into private investment accounts, drastically cut the guaranteed benefits provided by Social Security, and hope that the private accounts cushion the blow.

**Q: How does privatization help Social Security?**

**A: It doesn't. Social Security faces long-term challenges, but privatization would make a manageable problem much worse.**

Social Security may need some modest adjustments, but it's far from facing a "crisis." Even with no changes at all, Social Security can pay promised benefits *in full* for nearly 35 to 45 years, and 70 to 80 percent of promised benefits after that, according to 75-year estimates by the Social Security Trustees and the Congressional Budget Office. The size of that shortfall is significant but manageable: about the same size as making permanent the President's tax cuts for just the richest 1% (those who make \$300,000/year or more).

However, privatizing Social Security – taking money out of Social Security and putting it into private accounts – would make the problem much worse. The President admits that private accounts would do nothing to close the gap; in fact, it would make the Trust Funds run short 11 years earlier than if we did nothing. Rather than dismantling Social Security, we should address the long-term shortfall with sensible adjustments that *strengthen* Social Security for future generations and preserve its uniquely valuable features.

**Q: How would privatizing Social Security affect benefits?**

**A: Privatization would require deep cuts in the guaranteed benefits on which women disproportionately rely.**

Because private accounts do nothing to help close the potential shortfall (and in fact enlarge it), the President's plan relies on deep benefit cuts. The President's plan would change the benefit formula in such a way as to impose deep cuts in benefits for future retirees and survivors (widows, widowers and children) – *whether or not* the worker chose to participate in a private account. Those who do opt for an account would have their benefits cut a second time by a "privatization tax" or "offset:" at retirement, accountholders would have to repay Social Security for every dollar in payroll taxes that was "borrowed" from Social Security and diverted into their accounts – plus interest – in the form of further-reduced Social Security benefits. Many experts, including the nonpartisan Congressional Budget Office and the Congressional Research Service, have concluded that the combination of private accounts and greatly reduced guaranteed benefits will fall far short of what Social Security currently provides, and would eventually wipe out

everyone's guaranteed Social Security benefit, leaving only uncertain investment accounts. Given women's heavy reliance on Social Security in retirement and relative lack of pensions and savings, any substantial cut in Social Security benefits will disproportionately hurt women and leave them at a much higher risk of poverty in old age.

**Q: If payroll taxes go into private accounts instead of Social Security, how will benefits for current and future retirees be paid?**

**A: Privatization would necessitate massive amounts of additional government borrowing, threatening programs women especially depend on.**

Payroll taxes being paid by today's workers are used to pay benefits to today's beneficiaries, but privatization would take much of that money out of the system for private accounts. To get enough money to keep paying benefits for those already in or near retirement, privatization would require the federal government, which is already running record deficits, to incur massive amounts of new government debt – nearly \$5 trillion in the first 20 years alone – and the borrowing would continue for decades thereafter. Reckless borrowing would not only make the Social Security system unstable and mortgage the country's future, it would also create enormous financial and political pressure – just as we are seeing with today's deficits – to cut the federal budget, which means cutting even more programs on which women disproportionately rely, such as Medicare, Medicaid, child care assistance, Meals on Wheels, and housing and energy assistance.

**Q: How do private accounts compare with Social Security's benefits for women?**

**A: Social Security provides valuable protections for women that private accounts can't replicate.**

Private savings are an important supplement to Social Security benefits, but they are not a good substitute for them. Unlike private accounts, Social Security provides guaranteed benefits that cannot be jeopardized by unwise decisions or the ups and downs of the market. Moreover, Social Security benefits cannot be outlived, a feature particularly important to women, who on average live longer than men. And each year, Social Security benefits are adjusted so that their purchasing power isn't eroded by inflation, also important for the long-lived.

But Social Security is much more than a retirement program. It also provides insurance protection throughout the lifespan – the equivalent of a 400,000 life insurance policy and a \$350,000 disability insurance policy for a young worker and family. In the event a worker becomes disabled or dies, Social Security replaces that lost income by paying disability benefits to the worker, and disability or survivor benefits to minor children and spouses and surviving spouses with children in care. But with private accounts, if a worker's career is cut short by early disability or death, private accounts will be too small to provide anything close to the years of monthly benefits payable by Social Security – assuming the family even has access to the funds in the account.

Finally, because women still take more time out of the workforce for caregiving and still generally earn less than men, they are more reliant on the spousal benefits provided by Social Security. Indeed, 98% of the 14 million Americans who receive spousal benefits are women. Social Security provides automatic, lifetime benefits for spouses and surviving spouses, with no reduction in the worker's benefits. Under private accounts, though, it is not even clear if workers will be required to leave their accounts to a surviving spouse or required to purchase the type of annuity that provides widow's benefits (at the cost of lower monthly payments for the worker). Social Security also provides automatic benefits to divorced spouses after a 10-year marriage without the need for a specific court order and without reducing the benefits of the higher-earning spouse or a subsequent spouse. It is not clear how private accounts would be handled in the event of divorce, but dividing a finite pool of funds in an investment account could create winners and losers.

**Q: If privatization isn't the answer, what is?**

**A: Strengthening Social Security to ensure that workers and their families get the benefits they have earned and are counting on.**

Instead of weakening and replacing Social Security with risky private investment accounts, we can and should take some modest, common-sense steps to strengthen the program for generations to come. For example, to bring in more revenues, a sizeable majority of the public supports raising or even eliminating the current cap on the amount of earnings (now limited to \$90,000) subject to the payroll tax. With some targeted changes and improvements, we could make Social Security even more successful in ensuring economic security for women.