

# THE SOCIAL SECURITY NETWORK

## What Would REALLY Happen Under Social Security Privatization?

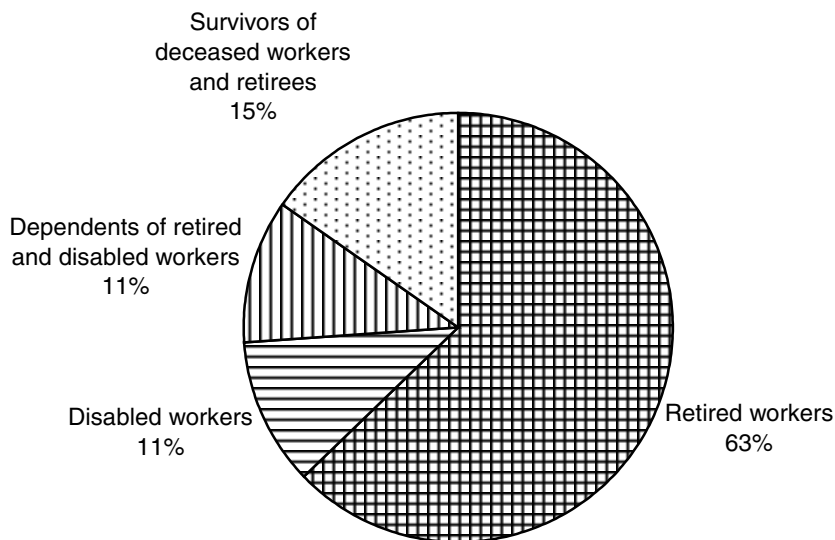
### *Part IV: Insecurity for the Disabled and Dependents of Workers and Retirees Who Die*



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Pop quiz: Who receives benefits from Social Security? If you answered retired workers, you would score just 63 percent. Of the 45 million Americans who collect payments from the Social Security program, almost 17 million are not retired workers. These include 5 million spouses and children of retired and disabled workers, 7 million spouses and dependent children of deceased workers, and 5 million disabled workers.

**Figure 1: Social Security Beneficiaries 2000**



Contrary to a widespread misperception perpetuated by the debate over Social Security privatization, today's program has much more in common with insurance than it does with savings accounts like IRAs

The Social Security Network is a project of The Century Foundation, formerly the Twentieth Century Fund, a research foundation that undertakes timely and critical analyses of major economic, political, and social institutions and issues. Nonprofit and nonpartisan, TCF was founded in 1919 and endowed by Edward A. Filene.

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and 401(k)s. As an insurance program, Social Security protects almost all families, including spouses and children, against a variety of risks that can befall anyone. Those risks include:

- disability
- the death of a working spouse or parent
- the death of a retired spouse or caregiver
- retirement with insufficient personal savings or pension coverage
- outliving a family's assets
- erosion of purchasing power during retirement due to inflation.

Investment accounts, in contrast, provide supplemental income upon retirement. But they are not intended to offer protection against unpredictable risks to entire families throughout the course of lifetimes. When a worker becomes disabled, for example, the value of his IRA or 401(k) is no more or less than it was the night before he became disabled. Indeed, he would usually owe a penalty plus taxes if he wanted to try to gain access to that savings, precisely because the accounts are intended to be available only upon retirement.

Proposals to privatize Social Security involve shifting some of the money financing the current insurance program into investment accounts assigned to each worker. (See [Part I](#)). But the payroll taxes carved out to pay for personal accounts are resources that we need to support today's payments to retirees and families. Simple arithmetic suggests that every dollar shifted from Social Security programs to personal accounts is a dollar less to provide guaranteed income to the 37 percent of beneficiaries who are not retired workers. In fact, even the most detailed privatization plans proposed to date say little or nothing about what the disabled and survivors could expect in the brave new world of individual accounts. At best, the proposals simply assure those groups that their interests will not be neglected, an assurance that is not worth much until it is backed up by a secure and permanent stream of revenue.

As the non-partisan General Accounting Office put it in a recent study of the effects of privatization on disability benefits:

“Although much has been written about the effects of reform on the solvency of the Social Security Program, and on the benefits of retired workers, little attention has been directed to the effects of reform proposals on the Social Security Disability Insurance (DI) program or on the benefits that disabled beneficiaries and their families receive.”<sup>1</sup>

### ***What Would Privatization Do to Family Insurance Protection?***

President George W. Bush has asked his Social Security commission to abide by several principles. Two of these are:

- “to include individually controlled, voluntary personal retirement accounts which will augment the Social Security safety net,” and
- “to preserve Social Security's disability and survivors components.”

Both of these principles certainly could be met by a system of new personal savings accounts to supplement Social Security in its current form. But no one has yet demonstrated how we could divert current Social Security payroll taxes into private accounts and at the same time preserve – in full – Social Security's disability and survivors insurance guarantees.

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<sup>1</sup> *Social Security Reform: Potential Effects on SSA's Disability Programs and Beneficiaries* GAO, January 2001

## ***A Few Basic Questions***

As the president's commission develops its recommendations, Americans will be able to assess whether Social Security's disability and survivors coverage will indeed be preserved by asking for the answers to several questions:

1. What are the specific provisions in the plan for supporting disabled workers before they reach retirement age?
2. What are the provisions for support of disabled workers after they reach retirement age?
3. What are the provisions for supporting survivors of workers who die before retirement age?
4. What are the provisions for support of survivors of deceased retired workers?
5. How will the support provided in the answers to questions 1-4 be financed?
6. How do the levels of support and costs of the proposed system compare to today's Social Security?

## ***No Reassurance So Far***

The General Accounting Office (GAO) report released earlier this year investigates how various privatization proposals would affect Social Security's disability insurance. Among the plans it examined were Congressman Kasich's proposal<sup>2</sup> from 1999, the Kolbe-Stenholm bill and the Gregg-Kerrey-Breaux-Grassley bill in 2000. Using sophisticated simulation models, the GAO report concluded that the "...Kasich, Kolbe-Stenholm, and Gregg-Kerrey-Breaux-Grassley would result in reduced benefits..." in disability insurance compared to commitments under Social Security.

The GAO analysis concludes that "most disabled beneficiaries with the characteristics we studied would receive lower benefits under reform than under ...current law benefits.... This reduction in benefits ...would occur even though we assume an optimum set of conditions for disabled beneficiaries: full-time work until receipt of disability insurance benefits and low administrative costs and no annuitization costs for [individual accounts]."

These are not the only generous assumptions the GAO made. It also assumed that private accounts, which would provide part of retirement income of disabled workers, will earn a return of seven percent annually above the rate of inflation.

The Kolbe-Stenholm and Gregg-Kerrey-Breaux-Grassley plans also involve transfers of general revenues into the new system. But even with the infusion of new tax revenues, disability benefits would be reduced.

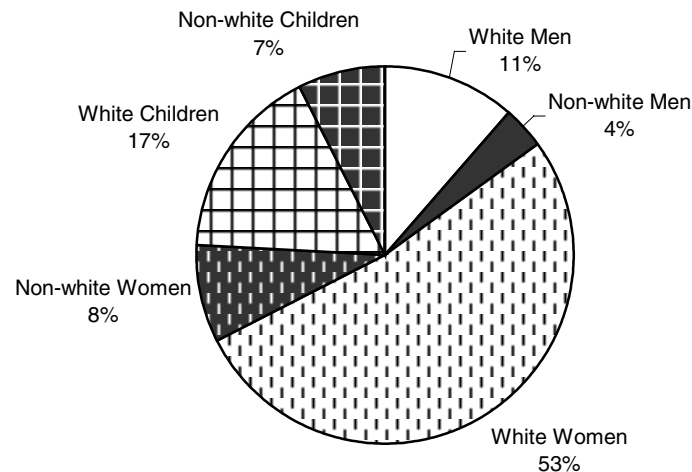
The GAO study focuses narrowly on disabled workers. Similar economic evaluations have not yet been conducted on surviving family members of either workers or retirees who die. So it remains unclear what would happen under those plans to, say, the spouse of a disabled worker who later dies, the spouse of a worker who suddenly passes away, or a retired widow or widower.

Some of those plans simply say without explanation that current benefits would be retained. But they do not specify where the additional money would come from to replace the payroll taxes diverted to private accounts. As [Part 3](#) in this series explains in greater detail, claims that lumps sum accumulated by retirees in private accounts can simply be bequeathed to survivors are not accurate under any realistic scenario.

Because both the Kolbe-Stenholm and the Gregg-Kerrey-Breaux-Grassley bills would substantially reduce the annual cost of living adjustment, they would disproportionately reduce benefits to retirees

who live longest – most commonly women who survive their husbands. As Figure 2 shows, most of the 37 percent of the Social Security beneficiaries who are not retirees are women. While the great majority of white male beneficiaries are retirees (87 percent are retirees), only 57 percent of other beneficiaries are retirees. Women have a particularly large stake in what happens to the benefits of non-retirees under any plan to privatize Social Security.

**Figure 2: 17 Million Disabled Workers, Survivors, and Spouses**



In August 2001, Congressmen Kolbe and Stenholm released a revised version of their plan. They highlight seven differences between the new version and their 2000 bill. All of these adjustments soften politically unappealing aspects of the earlier bill, such as the increase in retirement age and reduction in spousal benefits. On the issue of disability benefits, the bill's authors say simply "the Kolbe-Stenholm bill leaves that issue to be decided elsewhere." Survivor benefits are not even mentioned.

### ***Would Private Insurance and Inheritance Solve the Problem?***

Some advocates of individual accounts point to the account balances, in conjunction with private insurance, as the way to protect dependents. This will not do. Individual accounts will be small if anyone dies or is disabled young. For older workers, too, the size of the account will be unpredictable, depending heavily on luck. Insurance can indeed protect against family tragedies – Social Security after all provides such insurance – but why are we to trust that private insurance will be affordable? Recall that the average annual contribution to the individual account will be less than \$500, hardly a grand sum out of which to pay insurance premiums and accumulate a nest egg. And how will insurance premiums be covered when workers have spells of unemployment, or when they withdraw temporarily from the labor force to pursue education or raise children?

Our Social Security system protects families against unexpected death and disability by guaranteeing income to dependents and survivors (even to divorced ex-wives). No plan for privatization has yet shown how those guarantees will be sustained, or how they will be financed in a system of private accounts.

**Conclusion**

Proponents of privatizing the Social Security system often treat the choice as if it were between investing money well or squandering it. That is not the problem. Social Security provides a guaranteed retirement income and it insures workers and their families if tragedy should strike. Most of our Social Security taxes are used, almost as soon as they are received, to support today's 28 million retirees and 17 million disabled workers, spouses, children, and survivors. There is virtually no waste in the Social Security system. Of all the people who depend on the system, disabled workers, widows, and children are probably the most vulnerable. Yet proposals to privatize Social Security have hardly begun to explain how their vital interests would be protected.

There is one "solution" to the problem of supporting disabled workers and survivors that should not be taken seriously. That is the idea that there will be so much money available with private accounts that all needs would be met easily. If payroll taxes are carved out of Social Security to finance private accounts, hundreds of billions in new revenues will be needed to meet insurance commitments under Social Security.

The billions we spend each year through Social Security effectively lift millions of vulnerable families out of poverty while reassuring everyone else that they and their loved ones will be protected in the event of calamity. But support for disabled workers, dependents, and survivors of deceased workers is an issue on the very back burner of most thinking about privatization of Social Security. It is too important a subject to remain there.

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