

Privatizing Social Security:

Benefit Cuts and Increased Debt for African Americans



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Social Security, which celebrates its seventieth anniversary this year, is regarded by many as the most successful domestic program in our nation's history. Social Security has provided guaranteed retirement security for generations of Americans and protected the American dream for millions of families. Unlike private retirement plans, however, Social Security also provides financial security and insurance to spouses and dependent children in the event of a worker's disability or death.

African Americans greatly benefit from the current Social Security system:

- Without Social Security, 60 percent of African American seniors would live in poverty
- African Americans are less likely to have retirement income from employer-sponsored pension plans or private savings
- African Americans have lower earnings and benefit from Social Security's progressive benefit formula
- 45 percent of African Americans receiving Social Security benefits are disabled workers, their spouses and children, widows, or survivors, and not retirees

Democrats are committed to strengthening Social Security and ensuring that Social Security will be there for our children and grandchildren. Democrats believe that it should be done right by first doing no harm, paying the Social Security Trust Funds back, and encouraging greater savings outside of Social Security.

Unfortunately, rather than addressing these challenges, President Bush's privatization plan would make matters worse by dramatically increasing the financial challenges facing the program, significantly cutting Social Security benefits, and increasing the national debt by nearly \$5 trillion.

Social Security's Tradition of Protecting Families

SOCIAL SECURITY LIFTS MILLIONS OUT OF POVERTY. The Social Security Act was signed into law by President Franklin D. Roosevelt on August 14, 1935. Since then, Social Security has provided a basic level of financial security for retired workers and kept tens of millions of Americans from falling into poverty. In 2003, 10.2 percent of all Americans and 23.7 percent of African Americans over the age of 65 were living below the poverty line. Without Social Security, about 49 percent of the nation's elderly, and 60 percent of African American seniors, would be in poverty. (U.S. Census Bureau, "Poverty Status of People, by Age, Race, and Hispanic Origin: 1959 to 2003"; Social Security Ad-

ministration, "Minorities and Social Security: An Analysis of Racial and Ethnic Differences in the Current Program," 1999)

SOCIAL SECURITY PROVIDES PROGRESSIVE GUARANTEED BENEFITS. The Social Security system is funded primarily by payroll taxes paid by workers and their employers. How much a worker and his or her employer pay into the system determines how much a worker will receive in benefits later on. While high-wage earners collect more benefits than lower-wage earners, low- and moderate-wage earners receive a larger percentage of their pre-retirement earnings in benefits due to Social Security's progressive benefit structure. The median income for African Americans of working age (\$22,100) is less than all a median income of working age people (\$28,400). (Social Security Administration, "The Future of Social Security," May 2004; Social Security Administration, "Social Security is Important to African Americans," September 2004)

SOCIAL SECURITY PROVIDES A CRUCIAL SAFETY NET TO MILLIONS OF FAMILIES. Typically associated with retirement, Social Security is actually a comprehensive family insurance plan that protects families of deceased workers, families of disabled workers, and retirees from poverty. More than 156 million workers are covered under Social Security and approximately 47 million Americans, including 3 million under age 18, currently receive Social Security benefits. (Social Security Administration, "Young People and Social Security," September 2004, "The Future of Social Security," May 2004):

- 69 percent of recipients are retired workers and their dependents
- 16 percent of recipients are disabled workers and their dependents
- 15 percent of recipients are survivors of deceased workers

Bush Privatization Plan Will Cut Benefits, Increase The Debt, and Do Nothing to Increase Savings

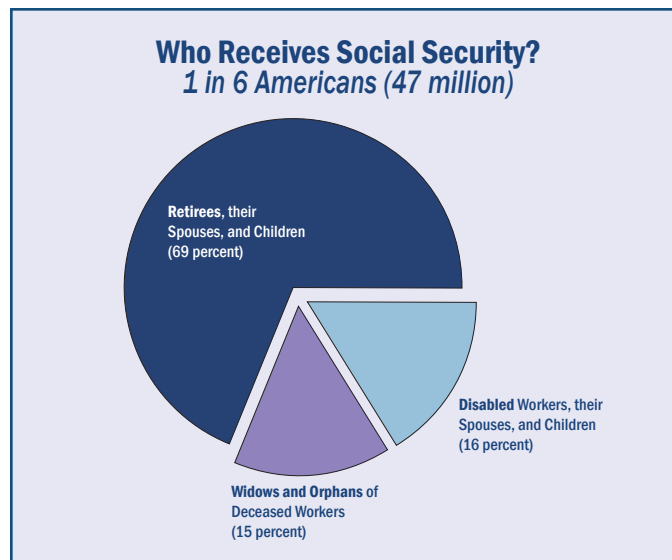
BUSH PRIVATIZATION PLAN CUTS GUARANTEED SOCIAL SECURITY BENEFITS BY UP TO 50 PERCENT. The Bush privatization plan will cut Social Security benefits by tying them to increases in prices rather than wages, as they are currently calculated. This cut will apply to all seniors, even those who choose not to invest in privatized accounts. This means that future retirees will experience a dramatic cut in benefits and would not share in our nation's rising standard of living. Republican Senate Majority Leader Bill Frist and top White House advisor Peter Wehner both support this

idea. Senator Frist told CNN that he “would strongly support, that we adjust benefits according to price increases and not wages.” In a memo earlier this year, White House advisor Peter Wehner wrote, “If we borrow \$1–2 trillion to cover transition costs for personal savings accounts and make no changes to wage indexing, we will have borrowed trillion and will still confront more than \$10 trillion in unfunded liabilities...To ignore the structural fiscal issues — to wholly ignore the matter of the current system’s benefit formula — would be irresponsible.” (CNN, “Social Security Benefits May Change,” 1/4/05; Peter Wehner, Memo on Social Security, Published in the *Wall Street Journal*, 1/5/05)

BUSH PRIVATIZATION PLAN INCLUDES A DRAMATIC TAX ON PRIVATIZED ACCOUNTS. Under the Bush privatization plan, in addition to cuts in guaranteed Social Security benefits, those who risk their benefits in a privatized account would face a steep “privatization tax” which could wipe out most, or even all, of the account. In combination, an average worker born in 2000 who retires in 2065 would receive 50 percent less in benefits than are currently guaranteed under law. (White House Office of the Press Secretary, Background Press Briefing on Social Security, 2/2/05; CBO, “Long-term Analysis of Plan 2 of the President’s Commission to Strengthen Social Security,” 7/21/04; CBPP, “An Overview of Issues Raised by the Administration’s Social Security Plan,” 2/7/05)

BUSH PRIVATIZATION PLAN WOULD COST NEARLY \$5 TRILLION. In the first ten years that this privatization plan is in effect (2009–18), it would add about \$1.4 trillion to the national debt. “Over the next ten years (2019–28), it would add about \$3.5 trillion more to the debt. All told, the plan would add \$4.9 trillion (14 percent of GDP in 2028) to the debt over its first 20 years.” (Center on Budget and Policy Priorities, “An Overview of Issues Raised by the Administration’s Social Security Plan,” 2/7/05)

BUSH PRIVATIZATION PLAN DOES NOTHING TO STRENGTHEN SOCIAL SECURITY OR INCREASE SAVINGS. In a speech on Social Security on February 4, 2005, President Bush admitted, “The private account — the private retirement accounts alone don’t fix Social Security.” When asked if it is true that private accounts do not solve the solvency problem White House Press Secretary Scott McClellan stated, “Yes, personal accounts in and of themselves do not solve the fiscal problem facing Social Security...” Further, Federal Reserve Chairman Alan Greenspan stated that implementing a system of private accounts would do nothing to improve overall national savings. (Transcript of Speech on Strengthening Social Security President by George W. Bush, Tampa Convention Center, Florida, February 4, 2005; Transcript of Press Briefing by Scott McClellan, February 11, 2005; Transcript of Alan Greenspan’s statements to the Senate



Banking Committee, Federal News Service, 2/16/05)

Bush Privatization Plan Will Hurt African American Families

WITHOUT SOCIAL SECURITY THE POVERTY RATE OF AFRICAN AMERICANS WOULD INCREASE DRAMATICALLY. Without Social Security, 60 percent of African American seniors would be in poverty, compared to 24 percent of African American seniors with Social Security. (Social Security Administration, “Minorities and Social Security: An Analysis of Racial and Ethnic Differences in the Current Program,” 1999)

AFRICAN AMERICANS ARE LESS LIKELY TO RECEIVE ADDITIONAL SOURCES OF RETIREMENT INCOME:

- 40 percent of African Americans rely on Social Security as their only source of retirement income. (Social Security Administration, “Hispanic Americans and Social Security,” September 2004)
- 78.2 percent of African Americans over the age of 65 rely on Social Security benefits for 50 percent or more of their total income while over half (52.8 percent) rely on Social Security for 90 percent or more. (AARP Public Policy Institute, September 2003)
- 81 percent of African Americans over the age of 65 receive no income from private pensions and annuities, and 71 percent receive no income from assets. (Social Security Administration, “Income of Population 55 or Older,” 2000)

AFRICAN AMERICANS HAVE LOWER EARNINGS AND RELY ON PROGRESSIVE BENEFIT FORMULA. An average African American working in a job covered by Social Security earns a median income of \$22,100, while the median income for all working people in jobs covered by Social Security is \$28,400. Lower-income workers receive a higher percentage of their earnings in Social Security benefits after they

exit the workforce than higher-income workers. Lower-income working males receive a 6.17 percent rate of return in Social Security net benefits, while their higher-income working male counterparts receive 5.04 percent rate of return. Lower-income working women receive a 9.19 percent rate of return compared with only a 6.12 percent rate of return for higher-income working women. Therefore, removing the progressive benefit formula from Social Security would worsen income disparities among low-, moderate-, and high-income workers even if these workers were receiving the same rate of return on their private accounts. (Social Security Administration, "Social Security is Important to African Americans," September 2004; U.S. Treasury Department, "Progressive Returns to Social Security? An Answer from Social Security Records," November 1995; Congressional Black Caucus Foundation, Center for Policy Analysis and Research "The Social Security Privatization Crisis: Assessing the Impact on African American Families," 1/19/05)

GUARANTEED BENEFITS ARE PASSED ON TO WIDOWS AND SURVIVING CHILDREN. In a speech about Social Security on March 4, 2005, President Bush stated, "[W]hat we're talking about is really changing how the system works so that...when you pass on, you can pass that money on to whomever you want." Yet, under the current system, a worker's spouse and children (under the age of 18) can receive Social Security benefits after his or her death or disability, regardless of the worker's income level. While roughly 13 percent of the population is African American, 23 percent of children receiving survivor benefits and 21 percent of children receiving benefits due to a disabled worker parent are African American.

By contrast, the Bush privatization plan would require retirees whose traditional Social Security benefits are below the poverty line to purchase annuities "to ensure a stream of monthly income over the worker's life expectancy." Unless individuals' account balances are in excess of the "poverty-protection threshold," retirees may not withdraw their money. Only unused money from the seniors' funds, if there is any, can be passed on to heirs. ("President Discusses Strengthening Social Security in New Jersey," Westfield Armory, Westfield, New Jersey, 2/4/05; Congressional Black Caucus Foundation, Center for Policy Analysis and Research, "The Social Security Privatization Crisis: Assessing the Impact on African American Families," 1/19/05; Social Security Administration, "Social Security is Important to African Americans," September 2004; "Strengthening Social Security for the 21st Century," The President of the United States, February 2005)

"SHORTER LIFE EXPECTANCY" IS NOT A VALID REASON TO PRIVATIZE SOCIAL SECURITY. In a speech on January 11, 2005, President Bush stated, "African American males die

sooner than other males do, which means the system is inherently unfair to a certain group of people. And that needs to be fixed." While it is true that African American males have a shorter life expectancy than white males, the answer to that problem is not the privatization of Social Security, but public policies that address of the factors that cause these premature deaths. As stated by Dr. William E. Spriggs, a Senior Fellow at the Economic Policy Institute, "African Americans might note that those concerned about their longevity in the context of Social Security aren't worried enough to push for universal health care or minimal sick leave so low-wage workers can go to the doctor." Moreover, it should be noted that by age 65, when Social Security's full retirement benefits start to be paid (for those born before 1938), the difference between life expectancy for the average African American and white male is less than two years. ("President Participates in a Conversation on Social Security Reform," Washington, D.C., 1/11/05; William E. Spriggs, "Another Mistaken Racial Stereotype; Contrary to the right's claims, Social Security is a good deal for blacks," *The American Prospect*, February 2005; AARP, "Social Security and African Americans: Some Facts," August 2003; Social Security Administration, "Find Your Retirement Age," www.socialsecurity.gov/retiredchartred.htm, accessed 3/9/05)

AFRICAN AMERICANS HAVE A HIGHER DISABILITY RATE AND CANNOT ALWAYS PLAN WHEN THEY WILL EXIT THE WORK FORCE. According to the U.S. Census Bureau, the overall disability rate for American workers in 2000 was 11.9 percent while the disability rate for African American workers was 17 percent. The Government Accounting Office (GAO) found that, "In the aggregate, blacks and Hispanics have higher disability rates and lower lifetime earnings, and thus as a group tend to receive greater benefits relative to taxes than whites." (US Census, Disability Status 2000, March 2003; Social Security Administration, "Social Security is Important to African Americans," September 2004; GAO, "Social Security and Minorities," April 2003)

AFRICAN AMERICANS BENEFIT FROM SOCIAL SECURITY'S GUARANTEED COST-OF-LIVING-ADJUSTMENT. Social Security benefits increase each year to address increased expenses, known as COLA (cost-of-living-adjustment) increase. The COLA protects individuals by increasing benefits over time to keep up with the rate of inflation, allowing Americans to live out their old age with dignity. (Social Security Administration, "Social Security is Important to African Americans," September 2004)