



**Privatizing Social Security:  
Benefit Cuts and Increased Debt  
for Women**

# Privatizing Social Security: Benefit Cuts and Increased Debt for Women

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 individual 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.

Women greatly benefit from the current Social Security system:

- Without Social Security, more than half of female seniors would live in poverty
- Women have lower earnings and benefit from Social Security's progressive benefit formula
- Women are less likely to have retirement income from employer-sponsored pension plans or private savings
- Women live longer than men and rely more heavily on the guaranteed, inflation-protected benefits of Social Security
- Women benefit disproportionately from widow and spouse benefits

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 1959, 35.2 percent of all Americans over the age of 65 were living in poverty. Today, only 10.2 percent of all Americans over the age of 65 are living below

the poverty line. Without Social Security, about 49 percent of the nation's elderly, and over 50 percent (52.4 percent) of female seniors, would be in poverty. (U.S. Census Bureau, "Poverty Status of People, by Age, Race, and Hispanic Origin: 1959 to 2003"; Social Security Administration, "Minorities and Social Security: An Analysis of Racial and Ethnic Differences in the Current Program," 1999; AARP Public Policy Institute, "Social Security and Women: Some Facts," October 2003)

**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. (Social Security Administration, "The Future of Social Security," May 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 Cuts Guaranteed Benefits, Increases the Debt, Makes Social Security's Financial Challenges Worse, and Does Nothing to Increase National Savings

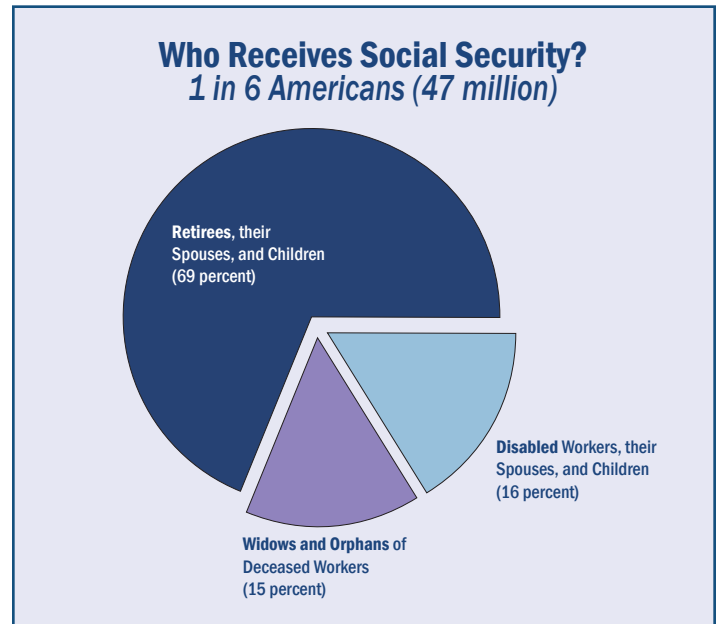
**BUSH PRIVATIZATION PLAN CUTS GUARANTEED SOCIAL SECURITY BENEFITS BY UP TO 50 PERCENT.** The Bush privatization plan will cut Social Security benefits by tying them to increases in prices rather than wages, as they are currently calculated. This cut will apply to all seniors, even

those who choose not to risk their benefits in a privatized account. 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 trillions 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; Memo on Social Security, Peter Wehner, 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 value of the account. In combination, an average worker born in 2000 who retires in 2065 will 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 COSTS 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 OVERALL SAVINGS.** In a speech on strengthening 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 Families

**WITHOUT SOCIAL SECURITY, POVERTY RATE OF WOMEN WOULD INCREASE DRAMATICALLY.** Without Social Security, over 50 percent (52.4 percent) of female seniors would be in poverty; without Social Security, 61.1 percent of African American women, 55.3 percent Hispanic women, and 50.8 percent of white women would live in poverty. (U.S. Census Bureau, "Poverty Status of People, by Age, Race, and Hispanic Origin: 1959 to 2003"; AARP Public Policy Institute, "Social Security and Women: Some Facts," October 2003)

**WOMEN HAVE LOWER EARNINGS AND RELY ON PROGRESSIVE BENEFIT FORMULA.** An average woman working full time earns a median income of \$31,653, while the median income for their male counterparts is \$41,503. Lower-income workers receive a higher percentage of their earnings in Social Security benefits in retirement than higher-income workers. 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 and a 5.04 percent rate of return for higher-income working males. Eliminating the progressive benefit

formula through privatization 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. In addition, many women leave the workforce to raise children or to serve as a caregiver for ill parents or relatives, further lowering a woman's lifetime earnings. (Census Bureau, 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; Anna Rappaport, Mercer Human Resource Consulting, "Women and Social Security: Important Issues for Financial Security of Older Americans," May 21, 2004)

#### **WOMEN ARE LESS LIKELY TO RECEIVE COMPARABLE SOURCES OF RETIREMENT INCOME:**

- Social Security makes up 52 percent of the total income for unmarried women (including widows) aged 65 and over; comparably, Social Security makes up only 38 percent of the total income for unmarried men aged 65 and over and 35 percent of the total income for married seniors. (Social Security Administration, "Social Security is Important to Women," September 2004)
- Women over the age of 65 are about half as likely to receive annual income from a retirement annuity and/or an employment-based pension as men over 65. In 2003, 28 percent of these women received such income, compared with over 45 percent of men. (Ken McDonnell, Employee Benefit Research Institute, "Retirement Annuity and Employment-Based Pension Income," February 2005)
- Women's retirement annuity and/or employment-based pension income is about half that of men. In 2003, the average retirement annuity and/or employment-based pension for women aged 65 and older was \$9,217 compared with \$16,470 for men of the same age group. (Ken McDonnell, Employee Benefit Research Institute, "Retirement Annuity and Employment-Based Pension Income," February 2005)

**MOTHERHOOD IS THE LEADING PREDICTOR OF POVERTY IN OLD AGE.** Many women leave the workforce to raise children or to serve as a caregiver for ill parents or relatives. As a result of women's lower-median salaries and shorter work histories, total earnings — and thus, savings — over the course of a woman's lifetime are dramatically less than men. Privatization exacerbates this since women would have less to contribute to a private account because of lower earnings and fewer years to contribute since they take time out of

the workforce for childrearing and caregiving. (Anna Rappaport, Mercer Human Resource Consulting, "Women and Social Security: Important Issues for Financial Security of Older Americans," May 21, 2004)

**WOMEN BENEFIT FROM SOCIAL SECURITY'S GUARANTEED COST-OF-LIVING-ADJUSTMENT.** Social Security benefits increase each year to address increased expenses, known as a 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)

**WIDOWS AND SURVIVING CHILDREN BENEFIT FROM GUARANTEED BENEFITS.** Under the current system, a worker's spouse and children (under the age of 18) can receive Social Security benefits after the worker's death or disability.

- According to the Institute for Women's Policy Research, "among adult beneficiaries, women are more than 10 times as likely as men to receive benefits as spouses or widows of retired, disabled, or deceased workers — 32% of women versus 3% of men." (Institute for Women's Policy Research, "Women and Social Security Alert," 2/25/05)
- According to AARP, "sixty-two percent of female beneficiaries aged 62 and older receive Social Security benefits as spouses or surviving widows based on the earnings records of their husbands (34 percent) or as dually entitled beneficiaries (28 percent)." (AARP Public Policy Institute, "Social Security and Women: Some Facts," October 2003)
- Over 3 million children under the age of 18 received Social Security benefits in 2003 because one of their parents either became disabled or died. If a working parent dies, 98 out of every 100 children are eligible for Social Security benefits. ("Young People and Social Security," September 2004; Social Security Administration, "Survivor Benefits," May 2004)
- One child in every 25 or roughly 4.2 percent of all children under the age of 18 receive Social Security benefits. ("Young People and Social Security," September 2004; Social Security Administration, "Survivor Benefits," May 2004; ChildStats.gov, "America's Children 2003," 2003)