



CONGRESSMAN JOHN W. OLVER

Serving Western & Central Massachusetts

Update: The Social Security Privatization Debate

S P R I N G 2 0 0 5



First Congressional District

Does Social Security Face a Solvency Crisis?

Social Security is 70 years old and is the most effective program at keeping senior citizens out of poverty. According to the Congressional Budget Office (CBO), without any change in law whatsoever, with the amount of young people joining the workforce and those reaching retirement age year by year, more dollars will be paid into the Social Security Trust Fund in each of the next 16 years (through 2020) than must be paid to retirees to maintain the guaranteed income they've already earned.

Also, under current law, the Trust Fund has enough in its reserve from surpluses accrued over the preceding three decades to continue to pay all the promised Social Security benefits to all retirees up to 2052. That's 47 years away. By contrast, in 1983, the last time Social Security was reformed, we had already experienced eight consecutive years when the payments into the Trust Fund were less than the total of monthly benefit checks to retirees.

Throughout history there have been major

changes in demographics and in wages of America's population. As the population and their standard of living changed, Congress accounted for such changes in adjustments to the Social Security system. In 1983, President Reagan, the Republican-controlled Senate and the Democratic-controlled House hammered out a series of changes that will protect guaranteed income for retirees for close to 70 years in total.

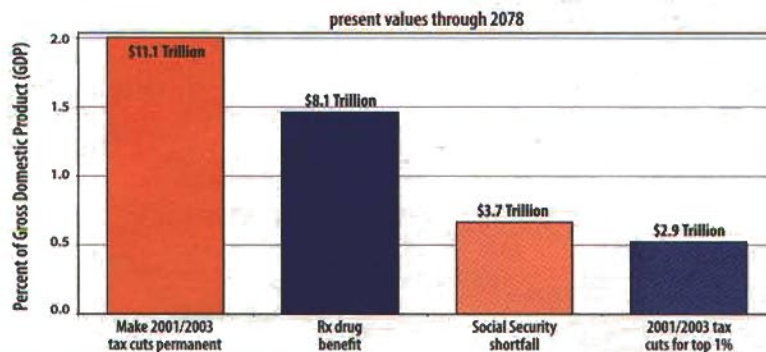
Yet, in support of his insistence that we must partially privatize Social Security, President Bush asserted in his State of the Union speech in January that the system was going "bankrupt."

But there is no crisis. Instead, we face a clearly foreseeable challenge that requires a new set of adjustments – minor compared with those required in 1983 – to assure the full solvency of Social Security for another 50 years beyond 2052.

In fact, the president's proposed cure for the "crisis" is far worse than the problem that needs to be solved. **See inside** →



The Social Security Shortfall Compared to the Cost of Other Administration Policies Over the Next 75 Years



Source: Center on Budget and Policy Priorities, Washington, DC, February 11, 2005

What Would Privatization Mean

▲ **Privatization Means Significant Cuts in Guaranteed Social Security Benefits**

Partially privatizing Social Security by creating private accounts funded by a portion of workers' payroll taxes would cut guaranteed benefits from the "regular" portion of Social Security by as much as 40 - 50%, even for those who don't choose to set up a private account.

▲ **Private Accounts Would Hasten Insolvency of the Social Security Trust Fund**

Private accounts would make the fiscal challenge facing Social Security much worse by diverting trillions of dollars from the system. Diverting Social Security Trust Fund monies turns a long-term fiscal challenge into a much larger, immediate problem.

▲ **Privatization Would Add Trillions of Dollars to Our National Debt**

The transition costs of going to any privatization plan are enormous – as much as \$5 trillion – and these costs would be added to our already burgeoning federal debt. With the red ink already flowing heavily under the current administration's policies, we can ill afford to heap more debt on the backs of our children and grandchildren.

Did You Know?

When Social Security became law in 1935, a large majority of seniors were living in poverty.

“For all of these reasons, I will use my voice and vote in Congress to oppose the president's plan to partially privatize Social Security.”

—Congressman John Olver

▲ **Privatization Means Greater Risk to Workers/Retirees**

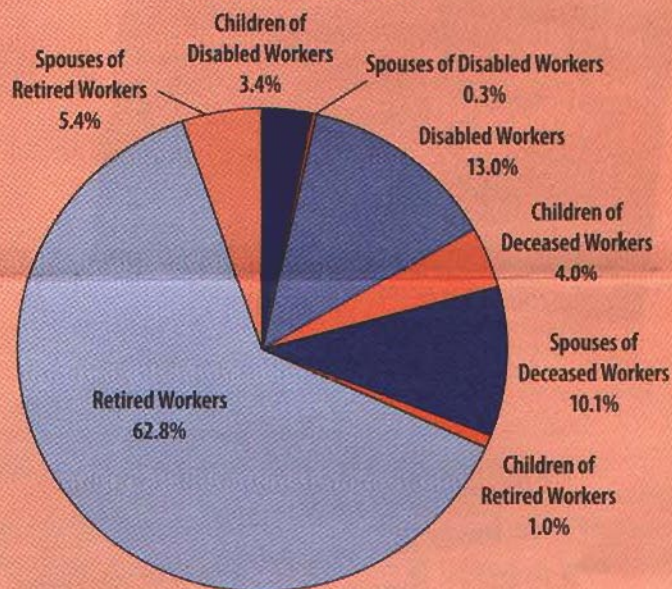
There is no guarantee that private accounts invested in the stock market will pay off for workers and provide them with a minimal amount of livable income the way the current Social Security system does. Workers and their families face a great risk if they do not have significant other retirement assets.

for Social Security Beneficiaries?

▲ **Private Accounts Would Drive Vulnerable Members of Our Society into Poverty**

The current Social Security system lifts low-income workers above poverty in their elder years. Social Security also provides benefits to survivors of deceased workers, disabled workers and disabled children of workers. No one can foresee life-changing events, so the system takes them into account. But a private account-based plan would leave many members of our society largely to fend for themselves.

Distribution of Social Security Beneficiaries by Type of Benefit Received (Approximate)



Source: Social Security Administration

▲ **Privatization Does Not Mean Freedom to Manage Your Own Money**

Private accounts carved out of Social Security would have to be heavily administered by the government, meaning that investment choice would be restricted, and then primarily paid to beneficiaries upon retirement in the form of an annuity. Annuities cannot be passed on to your children.



First Congressional District residents discuss retirement security issues with me. This Congress, the debate on Capitol Hill has shifted from Medicare to Social Security's future.

Negative Reviews of Social Security Privatization

“Social Security has a long-term problem but people should not be scared into thinking there is a crisis that requires drastic changes.”

– Evelyn Morton, Director of Economic Issues, AARP Federal Affairs Department

“Surely you can do better with your investments than a big bureaucratic government agency can, say those who favor private accounts. Well, the truth is, some people may do better. But who’s going to pay for the care and feeding of all those who do worse?”

–Karen Westerberg Reyes, “The Myths and Truths About Social Security,” AARP Magazine, March & April 2005

“The purpose of Social Security is to assure basic income. No private account can achieve that goal.”

– Henry J. Aaron, Senior Fellow, Economic Studies, The Brookings Institute, in “Privatize Social Security? No”

From “10 Reasons Why Privatization Is the Wrong Answer,” Alliance for Retired Americans:

- ▲ Creates an immediate financial crisis for Social Security by draining money from the Trust Fund
- ▲ Explodes the national debt and creates new debt future generations will have to pay
- ▲ Destroys the guaranteed, inflation-proof benefits of Social Security, and replaces with private accounts that reduce benefits and put workers’ money at risk

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