

SOCIAL SECURITY FACTS

How Will Individual Private Accounts Affect Social Security?

A Social Insurance Program: Guarantee Fixed Monthly Payments

Social Security provides benefits to 47 million people. They include people who retire, people who are disabled and their families, and family members after workers die. Most workers contribute to the program through their payroll taxes. When workers become disabled, retire or die, they and their family members are entitled to guaranteed monthly payments. This is what makes Social Security a “social insurance” program: people who pay into it get protection for themselves and their families.

Social Security's Long-Term Funding: No Drastic Changes Needed Now

Social Security will face funding issues in the future. When Social Security needs to pay out more for benefits than it collects from payroll taxes, it will face a “shortfall.” Social Security will cost more in the future. This will happen mostly because fewer workers will pay taxes to Social Security to support each person receiving retirement benefits. But, even then, Social Security will be able to pay reduced benefits from the taxes it collects. According to the Congressional Budget Office [CBO], Social Security can pay full benefits until 2052 and 70-80 percent of benefits after that. **Social Security will not be bankrupt.** The system is not in crisis and nothing drastic is necessary now.

Private Accounts: Will Increase Personal Risk & Reduce Guaranteed Benefits

Many proposals would allow younger workers to create individual private accounts. Workers would invest some of their Social Security taxes in certain stocks and bonds to “pre-fund” their own retirement. When they retire, they would get reduced Social Security benefits based on how much money they put into a private account. Under this approach, people lose a future guaranteed fixed benefit. Instead, they risk getting smaller benefits because profits from stock market investments are impossible to predict. There is no guarantee that people with private accounts will do better than people who get fixed monthly Social Security benefits and they could do much worse. In 2001, the Government Accountability Office [GAO] studied several plans to change Social Security. It concluded that, compared to the current program, people with disabilities would get much lower benefits under plans that would use payroll taxes to create individual private accounts.

Private Accounts: Will Increase Government Borrowing & National Debt

If workers create individual accounts, the money that they shift from Social Security's tax base will leave less money to pay current benefits. This “shortfall” is estimated to be almost \$4.9 trillion dollars through 2028. Some people call the shortfall the “transition” cost to switch from a social insurance program supported by a majority of workers to a system of private self-funded accounts. Some suggest that the government can borrow money to cover the transition. But the government will have to borrow so much money that it will increase the national debt for the next 60 years.

Private Accounts: Will Not Fix Social Security's Long-term Funding

Even people who promote individual private accounts admit that they will not fix Social Security's long-term funding. In fact, private accounts will create new problems for the program.

- Private accounts will reduce the tax base. Allowing people to redirect taxes into individual accounts will reduce the funding available to pay benefits. This will make it harder for Social Security to pay everyone who is eligible in the future.

- Private accounts will accelerate the date when Social Security's income is less than what it needs to pay current benefits. A system of private accounts will reduce the tax base. This means that to pay full benefits, Social Security will have to start using money from the "reserve" in the Trust Fund much earlier than it would under the current system. It also means that Social Security will spend the entire reserve 20 years sooner than is now expected.
- Private accounts will require more government support. By starting private accounts, people will contribute less in Social Security taxes. This means there will be less money collected to pay current benefits. To cover the shortfall, Congress will have to borrow money to pay benefits from the budget [called "general revenue"]. This will considerably increase the national debt and leave less money for other government responsibilities.
- Private accounts will require major cuts in benefits. When the reserve is gone, then the program cannot legally pay full benefits. Using the smaller amount of collected taxes, Social Security will only be able to pay benefits that may be 20-30 percent less than what is now expected.

Many people talk about "fixing" Social Security now to avoid later problems. Here are some of the ideas now discussed:

- (1) Increase payroll taxes: This could be done by increasing the payroll tax percentage or raising the limit on the amount of income taxed. In 2005, the payroll tax is 12.4 percent. Workers and employers pay the tax only on income up to \$90,000.
- (2) Raise the retirement age: The current retirement age rises to age 67 for people born in 1960 or later.
- (3) Reduce monthly benefits: By changing the formula used to set payments, the program could reduce what it is required to pay future eligible workers and their families.
- (4) Ask Congress for money: Congress would have to borrow the money and approve using it to help pay Social Security benefits. This would increase the national deficit and leave less funding for other government responsibilities.

Each change means something different for the future of Social Security, but the system is not in crisis. **Nothing drastic is necessary now.** It is possible to meet the program's long-term needs by making modest adjustments that take effect over the next 20 to 30 years.

The disability community urges Congress to request a **beneficiary impact statement** on every major component of any serious proposal. In a program that affects millions of individuals of all ages, it is essential for policymakers to look beyond the budgetary changes to understand the actual impact on people's daily lives.



Produced by the Consortium for Citizens with Disabilities, 1660 L Street NW, Suite 701, Washington, DC 20036. See www.c-c-d.org. CCD, a coalition of over 100 national consumer, provider & advocacy organizations, advocates for national public policy to ensure the self determination, independence, empowerment, integration & inclusion of the 54 million children and adults with disabilities living in the United States.

#5-March 14, 2005