Highlights of JEC Report
"Unnecessary Risk: The Perils of Privatizing Social Security"

A new JEC report analyzed Social Security proposals recently revived by Republican Representative Paul Ryan to privatize the program and to change the formula for calculating initial benefits, characterized as "progressive price indexing."

The report finds that these Republican proposals would:

- Result in benefit cuts for millions of middle-income workers;
- Jeopardize the solvency of the Social Security Trust Fund; and,
- Undermine the program's ability to keep millions of Americans from living in poverty.

Along with employer-sponsored retirement plans and private savings, Social Security provides economic security for retired workers. GOP proposals that threaten the solvency of the Social Security Trust Fund will jeopardize the program's ability to keep millions of Americans out of poverty.

- Without Social Security, almost half (46 percent) of all senior citizens would be living in poverty. But, with Social Security, the poverty rate among adults 65 and over falls to 10 percent.

- Social Security kept 20.5 million people out of poverty in 2009, including 14.0 million older Americans.

- Almost two-thirds (64 percent) of elderly households received at least half of their income from Social Security in 2008 and 34 percent received more than 90 percent of their income from Social Security.

- Social Security makes up more than three-fourths (76 percent) of total income for middle-income senior citizens (the middle quintile).

The GOP's privatization proposals would subject retirement security to investment risks.

- Retirees will be vulnerable to wide fluctuations in the performance of the stock market. Returns will vary based on overall market returns and individual investment decisions, with significant swings in returns and account accumulations possible from year to year and even month to month.

- An annuity purchased by a worker who retired in 2008, after the Great Recession had begun and the stock market had collapsed, would replace only 40 percent of his final income, down from 87 percent replacement just two years earlier. For example, a worker expecting an annuity of $867 per month in 2006 would have received $399 per month if he retired in 2008.

- The report shows that in the post-World War II period, a worker's annuity purchased at the time of retirement, after investing 7 percent of his earnings over a 40-year career, could replace as much as 156 percent of his final salary or as little as 36 percent, depending on which year the individual retired and purchased the annuity.

The report finds other significant problems with privatization:

- Allowing current contributors to divert funds out of the general Social Security Fund into private accounts will exacerbate the shortfall in revenues for current and future retirees as well as for current and future recipients of disability and survivors insurance.

- Private accounts are unlikely to provide a guaranteed retirement annuity, indexed for inflation, as the current Social Security system provides.

- Private accounts may encourage lower-income workers to borrow against retirement savings in order to provide food and education for their children.

- Privatizing Social Security ignores the value of disability and survivors benefits. These benefits, which are paid out of the Social Security Trust Funds, would be severely diluted if payroll taxes are diverted to private accounts.

Additionally, lower-income households, women, African Americans and Hispanics would be hurt most by privatizing Social Security, since they depend more heavily on Social Security for their retirement income and are less likely to have access to other retirement income, such as employer-sponsored retirement plans or private savings.

- Half of women 65 and older would be living in poverty without Social Security. With Social Security, the poverty rate for elderly women drops to 12 percent.

- Among adults 65 and over, Social Security accounts for 79 percent of income for the poorest 20 percent, but makes up just 25 percent of income for the wealthiest 20 percent.

- Lower-income households are less likely to participate in employer-sponsored retirement plans and tax-favored private saving plans, such as IRAs, and so have less income that supplements Social Security.

    - Only 1.2 percent of IRAs were owned by families with incomes under $20,000 as of 2007, while 50 percent of IRAs were owned by families with household income of $150,000 or greater.

    - Less than one-third of workers with average wages in the bottom 10 percent have employer-provided retirement benefits and only 12 percent participate. By contrast, 90 percent of workers in the top 10 percent have access to such plans and 83 percent participate.

    - Moreover, tax expenditures to encourage private savings and employer-sponsored retirement plans, which disproportionately aid wealthier workers, cost the federal government over $100 billion in foregone tax revenues in FY 2009. Even taking into account future tax payments on tax-deferred savings, the cost to the federal budget of these savings programs is over $200 billion in 2009 dollars.

The report also finds that "progressive price indexing" proposals to change from wage-indexing benefits to price-indexing benefits would result in benefit cuts for most retirees and would have a large impact on middle-class retirees who depend on Social Security for more than three-fourths of their income.

- Under the Republican proposals, a middle-income earner's wage history, instead of being adjusted based on growth in wages, would be adjusted based on a combination of price and wage changes. Higher-income earners' wage histories would be adjusted based on changes in prices.

- Because prices typically grow more slowly than wages, these changes would result in steep benefit reductions for middle-income retirees, and even steeper reductions for retirees with higher earnings.

- Benefit cuts from progressive pricing would grow deeper over time. According to the Center on Budget and Policy Priorities, a new retiree in 2050 with average earnings would receive benefits 17 percent lower than under current law. By 2080, that reduction in benefits would reach 28 percent.

- This 28 percent reduction in benefits would reduce retirement income for middle-income retirees by 21 percent – a worker who expected to receive $2,000 per month would get only $1,574 each month.