



## PRIVATIZING SOCIAL SECURITY

**LWVUS Statement of Position on Fiscal Policy:** The League of Women Voters of the United States believes that federal fiscal policy should provide for: adequate and flexible funding of federal government programs through an equitable tax system that is progressive overall and that relies primarily on a broad-based income tax; responsible deficit policies; and a federal role in providing mandatory, universal, old-age, survivors, disability and health insurance.

**LWVUS on Funding Entitlements:** The League of Women Voters of the United States believes that the federal government has a role in funding and providing for old-age, survivors, disability and health insurance. For such insurance programs, participation should be mandatory and coverage should be universal. Federal deficit reduction should not be achieved by reducing Social Security benefits.

The League is opposed to measures that allow individuals to opt out of the system or measures to substitute private programs. The League opposes reducing Social Security benefits to achieve deficit reduction.

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Social Security is one of the most successful social welfare programs of the 20<sup>th</sup> century – one that has contributed to unprecedented economic growth, the stability of the U.S. economy, and the making of America as the most powerful democracy in history. American economic power and American cultural influence -- the spread of American values -- have resulted from the "elevation" of the middle class through a long history of programs designed to give all citizens a basic civic and economic stake in American life. In addition to Social Security, compulsory public school education and the G.I. Bill are examples of this tradition in American public policy. By undermining the infrastructure that supports equal economic opportunity for all, we run the risk of undermining -- not enhancing -- American "power." And Social Security embodies the intergenerational, societal responsibility we have shared for 75 years that has given strength and meaning to our belief in a just democracy.

The long-term issues with funding Social Security are not as acute as proponents of privatization are currently forecasting. Proponents of privatizing hope that escalating budget deficits will force cuts in many non-Defense, social welfare programs and reduce the overall size of government. Social Security would be only one casualty.

Even proponents agree that privatizing Social Security will do nothing to resolve the legitimate issues facing the program in the long-term. Since contributions diverted into private accounts will be offset by benefit reductions, the long-term effect on Social Security will be net neutral. In the short-term, there is actually an adverse effect: if money is taken out of the available contribution pool, it will lessen the amount left in the pool on which to earn income and pay retirees. These "transition costs" will need to be replaced through borrowing to meet existing commitments, thus adding to the federal debt.

Privatizing Social Security will not make seniors financially more secure. Social security is intended to be one leg of a three-legged stool in covering people's financial security in retirement: company pensions or tax-deferred investments; personal savings; and Social Security. The other two legs of the stool already have significant market and other risk. Social security is intended to provide a stable safety net to back up the other two. For people whose financial circumstances are fragile, introducing an element of risk into their baseline benefits is unwise; for people whose financial circumstances are secure, it is unnecessary. Such investors should view the guaranteed Social Security benefits as a solid base on which to build a diversified and balanced portfolio for retirement.

Finally, other, less drastic solutions are available to shore up Social Security without endangering its basic principles; these should be considered before taking the radical step of privatization:

- ✦ Raise the income cap from the current \$90,000.
- ✦ Allow the Social Security Trust Fund to invest in total stock and bond market index funds.
- ✦ Reverse the 2001-2004 tax cuts for the wealthiest segment of the population.
- ✦ Reduce benefits slightly by gradually raising the retirement age.
- ✦ Reduce benefits slightly by implementing different ways to index cost of living.
- ✦ Reduce starting benefits slightly to reflect longer life expectancy.

In addition, alternatives could be considered for expanding 401(k) plans, IRAs or other expanded tax-advantaged retirement savings plans.

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