

## Social Security Privatization Is Not Family Friendly

For more than 60 years, Social Security has been a form of social insurance—Americans working together so that all of us, individually, are protected. Today, about 43 million Americans receive monthly cash benefits through Social Security. In 1997 Social Security paid \$362 billion in benefits to not only retirees, but also survivors and disabled workers.

### *Social Security Benefits*

Social Security pays out three basic types of benefits for:

- Retirement,
- Disability and
- Survivors.

Members of four groups receive these benefits, which reflect Social Security's focus on families:

- Workers,
- Spouses,
- Children and
- Parents of workers' children.

These benefits have certain critical features, some of which might not be duplicated under the various proposed plans to reform the system. For example, Social Security benefits are guaranteed. They are what is known as "defined benefits," which means the beneficiary receives a specified monthly benefit. This benefit does not depend on an outside force like the stock market. And these benefits will be provided to you as long as you are eligible to receive them. With Social Security, you cannot outlive your benefits.

Another important feature of Social Security benefits is that they are protected against inflation. Each year they are automatically adjusted to maintain

their purchasing power. This is a critical factor; because, over time, even modest inflation can greatly erode your ability to purchase basic necessities like food and clothing.

Also, Social Security functions as a family protection plan; its benefits are geared toward meeting family income needs when a worker retires, becomes disabled or dies. This means the benefits are provided to family members in addition to the benefits received by retired and disabled workers. In contrast, private pension and other benefit plans typically don't provide increased benefits for families.

Many people don't realize, or tend to forget, the disability and life insurance aspects of Social Security. For example, say a 25-year-old worker receives average earnings and has a newborn child. This worker's Social Security disability protection is equivalent to a \$220,000 disability insurance policy, which the worker might not be able to afford from a private insurance company.

The Social Security survivor's benefit could be equated with a life insurance policy. For a 25-year-old worker with average earnings, a spouse and two young children, this benefit would be equal to \$328,000 in life insurance.



Again, the worker might not be able to purchase such coverage through private insurance providers. But an eligible worker would receive these types of insurance coverage as a result of payroll contributions to Social Security.

### *"R-e-f-o-r-m" May Spell Financial Insecurity for Families*

Most of the current debate over Social Security reform tends to center on the monthly "retirement" benefit a retiree receives. But, as noted earlier, workers' payroll taxes provide a financial security net for a variety of eligible persons who need one.

- Spouses and young children can receive monthly benefits when a worker dies.
- Retired workers with a history of low earnings or of interrupted periods of work can collect a greater amount of money based on their spouse's earnings.

- A divorced spouse can collect a benefit on the ex-spouse's account, as long as the marriage lasted at least 10 years.
- Inflation won't gnaw away your benefit. The check increases annually according to the rate of inflation.

Some privatization proposals being debated could eliminate or cut these important and, in many cases, much-needed Social Security benefits in favor of creating what some people might consider a mandatory 401(k) plan. Sure, your payroll taxes could be deposited into a personal account, the investment of which you would control. However, your retirement standard of living would depend on how you invest your personal account; how well that investment performs in terms of earnings; and, thus, how much money accumulates in your personal retirement account.

Privatization of Social Security would affect workers' future financial security in many different ways. Some workers could fare worse than others; for example, women. How could this be?

- Women generally earn less than men, so less money would be available for women to invest.
- Women generally invest their money more conservatively than men, which could leave them with less money in their retirement accounts.
- Women generally live longer than men. So, even if women earned the same amount as men and invested their private accounts similarly, they would need to withdraw less money to be sure their retirement funds lasted for their lifetime. With Social Security, you cannot outlive your benefits.
- More divorced women could sink into poverty, because none of the

proposals at this time provide a benefit for ex-spouses.

- Spouses would have no income guarantees. A retired worker could choose to receive a lump sum or an annuity, but no privatization proposal includes guaranteed spouse's benefits.

### Do Private Pension Plans Provide Financial Security?

In January, David A. Smith, director of the AFL-CIO's Public Policy Department, testified before the U.S. Senate Budget Committee regarding Social Security in the 21st century. He said:

*Although workers have used the collective bargaining process to secure good retirement benefits, pension coverage for the workforce as a whole has been stagnant. Only two in five workers are covered by a retirement plan at work. At the same time, the shape of the retirement plan landscape has undergone enormous changes, as employers continue to shift away from secure, meaningful, defined benefit plans, which provide guaranteed monthly benefit checks for life, to defined contribution savings plans. The percentage of the private workforce covered by traditional employer-paid plans has fallen significantly over the last decade and a half, going from nearly half of the full-time private workforce to just one-third.*

*As a result, working families must increasingly rely on*

*inadequate individual retirement savings accounts to fund their retirements. This will have profound consequences for worker retirement security. Only two in five families have any retirement account at all (IRAs, 401[k]s or Keoghs). For those that do, half have an account balance that is less than \$15,600.*

### Points to Think About

Social Security is the one part of America's retirement income system that works for everybody. So, should working families trade a system that works for isolated pieces of the retirement system that clearly aren't getting the job done?

The IBEW, as well as the AFL-CIO and its affiliate unions, oppose proposals for the setup of individual accounts. In the first place, this privatization would replace guaranteed, family benefits with risk-based individual investment accounts. Secondly, individual accounts carry a high price tag—huge, misguided reductions in Social Security's guaranteed benefits. Can America's working families afford the risks and the reductions? 

