

**April 2005**

## **Frequently Asked Questions: Social Security and Privatization**

### **1. Is Social Security facing a crisis?**

No. Those who want to weaken Social Security are scaring Americans, particularly younger workers, into believing that private investment accounts are the painless way to fix what ails Social Security. Nothing could be farther from the truth.

The fact is Social Security is today more financially sound than it has been throughout most of its 70-year history. **It is not going broke and it is not in danger of going broke.**

Even without commonsense changes, Social Security can continue to pay benefits at least until 2041.

The cost of President Bush's tax cuts for the top 1% of Americans (those whose average income exceeds \$1 million) is five times the system's projected 75-year shortfall.

### **2. Does Social Security need to be strengthened?**

Yes. Social Security faces funding challenges that should and need to be addressed. There are many commonsense solutions for strengthening the system so that young and old Americans will receive the full benefits they earned and deserved.

We must take the time to get it right so Social Security is intact for generations to come.

### **3. What is privatization?**

It is the creation of private investment accounts where a percentage of workers' Social Security payroll tax would be diverted from the Social Security Trust Fund into private accounts that are invested in the stock market.

Privatization will accelerate the drain on the Trust Fund and drastically reduce Social Security's guaranteed benefits by up to 50%.

Advocates of private accounts have misled the American public into thinking private accounts will fix Social Security. Wrong. Privatization does nothing to address the system's long-term solvency challenges.

### **4. Do private accounts cost money?**

Yes. The trillions of dollars needed to finance privatization will have to be borrowed mainly from foreign banks in China and Japan. This means huge

new bills will be passed on to our children and grandchildren just to fund private accounts.

**5. What's wrong with privatizing Social Security ?**

Private accounts weaken the Social Security system, hurt the economy and explode the deficit. They drain the Trust Fund and make Americans' retirement less secure by cutting guaranteed benefits by 30%.

Privatization will also open the Social Security system to corruption and waste because politicians will decide which Wall Street firms will make billions in inflated fees off the private investments.

**6. Why not let younger workers invest some of their Social Security taxes in private accounts?**

Younger workers should be encouraged to plan and save for their retirement. But not by taking money from Social Security. No matter how old you are, everyone needs Social Security's guaranteed income. It is a vital part of every worker's overall retirement plan. Social Security was never intended to provide all of your retirement income, but Social Security is a crucial safety net for millions of Americans that needs to be strengthened.

Along with other savings and investments, Social Security provides a stable, guaranteed benefit on which you can build a secure retirement.

**7. How are retirees affected by privatization?**

If money is diverted from Social Security's Trust Fund into private retirement accounts, there will be less money available to pay current benefits. Privatization will cut benefits as much as 30% and that will leave many seniors in poverty – and dependent on family members to provide them with help. Without Social Security, nearly 13 million American seniors would be living in poverty.

**8. What is the Alliance's position on privatization?**

The Alliance strongly opposes private investment accounts as a replacement for guaranteed Social Security benefits. Private accounts weaken Social Security, are risky and subject to fickle financial market performance.

The Alliance believes Social Security must be strengthened, but we must take the time to get it right. Social Security should not be held hostage by partisan politics.

All Americans deserve the full benefits they earned and any plan that weakens Social Security and cuts benefits is unacceptable.