

TOWARD A SECURE RETIREMENT

UNDERSTANDING SOCIAL SECURITY & MEDICARE

The Truth About Privatization

by *Martha A. McSteen*

(NAPSA)—You may be hearing arguments that our nation needs to privatize Social Security to save the program. As you hear about radical proposals to change an otherwise extremely successful program, consider:

Truth #1: Privatization will hasten the insolvency of Social Security. Shifting two percentage points of the payroll into individual accounts will accelerate the date when the trust fund obligations exceed income from 2016 to 2007.



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Truth #2: Privatization would deprive Americans of part of Social Security's insurance protections. The program helps alleviate economic disaster for families when a wage earner becomes disabled or dies. One-third of Social Security benefits go to children, disabled workers and widows and other non-retired workers.

Truth #3: Privatization would put retirement security at risk. Social Security provides a guaranteed income for life, with increases for inflation. Stock market returns can fluctuate dramatically. The stock market fell 45 percent between 1968 and 1978.

Truth #4: Noted economists found that even with very optimistic assumptions for market performance, total retirement benefits from Social Security and individual accounts could fall 20 percent for an average single wage earner and 38 percent for married couples under a reform plan suggested by President Bush during the campaign.

Truth #5: Privatization would be hugely expensive. Today's benefits are paid with today's payroll taxes. If payroll taxes are diverted into private accounts, the government must make up that money,

through reduced benefits, a tax increase, increased borrowing or some combination. Actuaries estimate partial privatization would cost more—at least \$1 trillion over 10 years—money the federal government does not have after the tax cut.

Truth #6: Administrative fees and other charges will reduce the return of individual accounts. In other countries, the administrative costs for individual private accounts average between 13 and 20 percent of workers annual contributions, substantially eroding any gains in the stock market. The fees financial advisors charge average between three and five percent of an individual's accumulated assets. One study of Great Britain's partially privatized system showed that lifetime administration fees lowered the account's value by 45 percent. Current U.S. Social Security administrative costs amount to less than one percent of incoming revenues. A brokerage house or investment bank is going to charge much more than the present system and those high administrative fees will eat into the individual's actual rate of return, particularly for low-income workers.

Truth #7: Social Security can pay full benefits until 2038. Solvency can be extended further by expanding the number of workers participating in Social Security, raising the cap on taxable income or allowing the government to invest the funds in the equity markets.

For more information on Social Security privatization, including a brochure on how to win the privatization debate, call the National Committee at (800) 966-1935 or visit www.ncpssm.org.

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