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U.S. Senate Committee on Finance  
"Proposals to Achieve Sustainable Solvency, With and Without Personal Accounts"  
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Chairman Grassley, Ranking Member Baucus, and members of the Committee, thank you for this opportunity to testify on behalf of the National Women's Law Center.

As this Committee considers proposals with profound implications for the future of Social Security and the tens of millions Americans who rely upon it, I would urge you to make your primary goal protecting and strengthening the safety net that Social Security represents, not just for workers when they retire, but for workers who are disabled and their spouses and children when income is lost due to retirement, disability or death. Social Security is truly a family insurance program. Half of all Americans who receive Social Security benefits do so as disabled workers (12%), children (8%), and spouses and surviving spouses (30%). Too often, discussions about how to achieve solvency and whether to create private accounts to replace Social Security in whole or part fail to consider the impact on these beneficiaries, who are overwhelmingly women and children—so they will be the focus of my remarks today.

### **Relying on Benefit Cuts to Achieve Solvency Would Hurt Millions of Americans**

The first step in developing a proposal about the future of Social Security is to be clear about the goal—and the goal of achieving sustainable solvency is not the same as strengthening the Social Security safety net for workers and their families. Improving Social Security's solvency is important—it assures current and future workers that they will get the benefits they have earned and are counting on for themselves and their families. But achieving solvency—making Social Security's books balance over an extended period—is not an end in itself. You can achieve solvency simply by cutting benefits deeply enough. But restoring solvency to the Social Security program primarily by cutting the Social Security benefits Americans depend on is like curing a stubbed toe by cutting off a foot.

Most beneficiaries rely heavily on Social Security as the mainstay of their incomes. Social Security is the largest source of income for most Americans in retirement; two-thirds of beneficiaries receive over half their income from Social Security. And with lower earnings, more time out of the labor force for caregiving, smaller pensions and savings, but longer life spans, women are even more reliant on Social Security than men. For four out of ten single women 65 and older, including widows, Social Security is virtually all they have to live on, providing 90 percent or more of their income; six out of ten single, elderly African American and Latina women get 90 percent or more of their income from Social Security. Without Social Security, more than half of all women 65 and older would be poor. Social Security's life and disability protections can keep families hard-hit by the disability or premature death of a wage-earner out

of poverty—and these protections are especially important for the African American and Latino communities. The vast majority of Social Security beneficiaries could not bear the deep benefit cuts that are part of some proposals.

*“Price indexing” initial benefits would mean deep benefit cuts for all future beneficiaries*

“Price indexing,” the approach recommended by President Bush’s Social Security Commission, in a plan the President has referred to as a “good blueprint” for reform, would dramatically reduce future benefit levels, as initial Social Security benefits would no longer keep pace with wage growth and increases in the overall standard of living. For a child born next year, with average earnings (\$36,500 in 2005 dollars), price indexing would cut benefits 45 percent from current levels by the time she retired, dropping from about \$2,200 to \$1,200 per month (Congressional Research Service, “Estimated Social Security Benefit Levels Under President Bush’s 2005 Individual Accounts Proposal Combined with a Proposal to Price-Index Social Security Benefits, March 31, 2005; all amounts in 2005 dollars). Under the Commission’s plan, which includes private accounts, this reduction—designed to achieve solvency—would apply to her benefit whether or not she contributed to a private account. In addition, the cuts due to price indexing under the Commission’s plan would apply not just to retirement benefits, but to benefits for disabled workers, spouses and surviving spouses, and children.

*So-called “progressive price indexing” does not protect average earners, disabled workers, children, spouses or surviving spouses from deep benefit cuts*

Robert Pozen has proposed a variant of this approach, so-called “progressive price indexing.” As described, the approach would shield workers in the bottom 30 percent of the wage distribution from cuts due to price indexing. But the benefit cuts for the other 70 percent of workers, and the family members who receive benefits on their record, would be substantial.

For an average wage-earner, retiring in 2055, the Congressional Research Service estimates that benefits would be cut by 28 percent under so-called “progressive price indexing.” By 2080, benefits for average earners would be cut by 39 percent. (Congressional Research Service, ““Progressive Price Indexing” of Social Security Benefits,” April 20, 2005.)

Moreover, the cuts from so-called “progressive price indexing” would apply to workers whether or not they contribute to a private account—and benefits for disabled workers, children, spouses and surviving spouses.

*When a plan purportedly “will protect benefits for disabled workers and survivors,” check the details*

It is easy to give assurances that, “This proposal will protect benefits for disabled workers and survivors.” But it is difficult to do so in the context of a plan that relies on benefit cuts to restore solvency and diverts the payroll taxes needed to support those benefits into private retirement accounts. So this Committee should get clear and detailed answers to a number of critical questions before accepting such assurances.

First, follow the money. What do the financial estimates assume about the plan's impact on disabled workers and family members? For example, the report issued by the President's Commission acknowledged that the deep benefit cuts in its plan would cause hardship for disabled workers and that adjustments should be made; but, it relied on the savings produced by those cuts to generate its estimates of the financial effects of its plan.

Similarly, the estimate by the Social Security actuaries that the Pozen "progressive price indexing" would close about three-quarters of the long-term shortfall assumes that in addition to cutting Social Security retirement benefits for 70 percent of future retired workers, the plan also cuts benefits for disabled workers, children, and widows. If Congress wants to protect those beneficiaries from cuts, closing three-quarters of the shortfall would require deeper cuts in someone else's benefits—such as cutting benefits for the lowest earners after all, or cutting benefits for average or higher earners more deeply—if Congress is unwilling to raise revenues.

Second, which benefits, exactly, would be protected? Does the term "survivors," for example, include only the children and widows or widowers of workers who die before retirement—but not elderly widowers or widows, who are especially reliant on income from Social Security?

Third, what new complications would be created? Social Security is an integrated social insurance program that uses the same basic formula to calculate benefits for retired workers, workers who become disabled, and family members who are eligible for benefits on a worker's record. So, for example, when a disabled worker reaches retirement age, the benefits continue seamlessly. If disability benefits were protected from cuts—but not retirement benefits—a disabled worker would face a steep cut in benefits upon reaching retirement age. On the other hand, maintaining the unreduced benefit for disabled workers throughout retirement, while benefits for retired workers who contributed to Social Security for a full working life are being cut, would raise new equity issues and create an incentive for workers to claim disability before retiring.

### **Creating Private Accounts Within Social Security Would Worsen Social Security's Financing and Unravel the Social Security Safety Net for Workers and Their Families**

Americans are counting on the benefits they earn through Social Security to protect themselves and their families. Trying to achieve solvency by cutting benefits would deny them that protection. Adding private accounts financed by Social Security revenue, and designed to substitute for Social Security benefits, to such a proposal, far from being a "sweetener," would actually make matters worse. Private accounts would hurt the solvency of Social Security—and the rest of the federal budget—and the economic security of Americans who depend on Social Security.

*Private accounts would hurt the solvency of Social Security and add trillions to the national debt*

As the Administration now acknowledges, private accounts do nothing to restore solvency to Social Security even over the very long term. And over the shorter term—the next several decades, during the peak years of the baby boomers' retirement—they make the shortfall in Social Security much worse. If payroll taxes are diverted from Social Security into private

accounts, Social Security has *less* money to pay promised benefits to current and near retirees, disabled workers and their families, widows, and children. Social Security would have to start drawing on the interest it earns and the bonds it holds in the Trust Fund more than a decade earlier than it would otherwise and would exhaust its resources more quickly.

To fill the hole that private accounts would create in the Trust Fund, and make good on promises to pay benefits to current and near retirees, the Administration's and most other private accounts plans would require the transfer of trillions of dollars from the rest of the budget to Social Security. Since the general budget is already running record deficits, that money will have to be borrowed. To make matters worse, the added burden of financing the costly and prolonged transition to private accounts would hit at the same time as the government faces growing health care costs and other pressing national needs. Americans of all ages—the young especially, because the debt will be with them for their whole lives, but also those who have already retired—will have to bear the burden of paying off the added debt to finance private accounts, in the form of higher taxes, cuts in vital services such as Medicare, Medicaid, and education, and higher interest rates that make it harder to finance a home, a car, a college education.

*Private accounts would undermine retirement security for workers—especially working women*

There are many problems with expecting a private account to provide the kind of disability and family protections that Social Security provides, as the next section of this testimony explains. But trading the secure benefits that Social Security provides—benefits that do not fluctuate with the stock market, that cannot be outlived, and that keep pace with inflation—is also a bad deal for retired workers, especially women.

A crucial—but often misunderstood—aspect of the Administration's plan for private accounts is that they would *not* provide income on top of Social Security, the way an Individual Retirement Account (IRA) or an account with the federal employees' Thrift Savings Plan would. Under the Administration's proposal, workers who choose to contribute to an account would pay back every dollar contributed—at an interest rate of three percent above inflation—out of their remaining Social Security benefit. This pay-back requirement—sometimes referred to as the “privatization tax” or “offset”—represents a second cut in the Social Security benefit, on top of price indexing, “progressive price indexing,” or any other benefit cut made to achieve solvency.

In its March 31, 2005 report, in addition to looking at the effects of price indexing on future benefits, the Congressional Research Service calculated the size of this second benefit cut for workers who chose a private account, using the three percent real interest rate specified by the Administration. This is what CRS found for a worker born this year, with average earnings, whom I'll call Jamie.

At retirement in 2071, the offset or privatization tax would reduce Jamie's \$2,200 Social Security benefit by nearly \$1,000 (\$989) per month—on top of the \$1,000 cut due to price indexing. So Jamie can look forward to receiving a check from Social Security of just over \$200 per month. That represents the secure part of Jamie's retirement income—and it amounts to less than ten percent of the benefit due Jamie under current law.

Jamie also would have access to a private account. But relying on private investment accounts to replace Social Security benefits involves real risks—as anyone who has watched the stock market over the past couple of weeks or the past five years can attest. Recognizing the risk, using the standard methodology used by the Congressional Budget Office, the Congressional Research Service estimated the risk-adjusted rate of return on the account, assuming a modest 0.3 percent allowance for administrative expenses. Converted to an annuity, as the Administration’s plan would require, the account would provide Jamie with \$924 per month—not enough to cover the \$989 deducted from Jamie’s Social Security benefit because of the choice of a private account, much less anything to counteract the effect of the first benefit cut to achieve solvency. Combining the income from the account (\$924) with the reduced Social Security benefit (about \$200) would give Jamie a total income of about \$1,130 per month: about half (51%) of the benefit due under current law, and less than Jamie would have had without a private account.

Jamie might be a luckier investor than in this example; the Congressional Research Service calculated that with a 4.6 percent real rate of return, the combination of the account and the remaining Social Security benefit would provide income equal to 75 percent of the Social Security benefit due under current law. But remember that the Social Security Trustees and the Congressional Budget Office project that under current law with no changes, even after the assets in the Trust Fund are spent down, Social Security will be able to pay about 70 to 80 percent of promised benefits out of payroll taxes. But, to create private accounts in Social Security, the United States will have borrowed trillions—a debt which Jamie will be paying for throughout life. And the risk-adjusted projection that generates a combined income (from the account and reduced Social Security benefit) equal to just half of current law Social Security benefits is by no means the worst-case scenario. Jamie might get less than the three percent real rate of return assumed by the Congressional Research Service, or pay far more than 0.3 percent in administrative costs.

If Jamie is a woman, she could face other problems relying on a private account to replace her Social Security benefits. With a private account, the timing and size of contributions, as well as overall investment returns, affect the size of the accumulation. If Jamie took several years out of the labor force early in her working life to raise children, she will likely have a smaller account, because of the loss of compounding on contributions in the early years. In contrast, Social Security helps counteract the lifetime earnings gap between men and women, caused by women’s lower wages and more time out of the labor force for caregiving, because it has a progressive benefit formula that provides lower earners with a higher percentage of their pre-retirement income, counts only the 35 highest years of earnings toward the average used to determine benefits, and makes the timing of earnings irrelevant.

In addition, unless Congress acts to overhaul the private annuity market as part of a private accounts plan, Jamie could face other problems when she tries to turn her account into an annuity that will provide income for life. Social Security pays monthly benefits on a gender-neutral basis; in the private annuity market, if a woman and man each buy an annuity with the same sum of money, the woman will get lower monthly benefits. Such gender discrimination must be prohibited in any private accounts plan in Social Security. Social Security provides annual cost

of living adjustments; this is especially important for women, to prevent the value of benefits from being eroded by inflation over the cost of a long lifetime. No private annuities currently offer full protection against inflation, and experts believe they are unlikely to offer such a product without the involvement of the federal government, even if the market for annuities expanded under a private accounts plan (See National Academy of Social Insurance, *Uncharted Waters: Paying Benefits from Individual Accounts in Federal Retirement Policy, Study Panel Final Report*, Reno, Graetz, Apfel, Lavery, and Hill, eds., 2005)(hereafter NASI, *Uncharted Waters*). Moreover, there is a risk that a private annuity company might go out of business before all benefits are paid, as in the case of the Executive Life Insurance Company (see NASI, *Uncharted Waters*). Workers will need an assurance that the annuity they purchase from a private annuity company will be there for the rest of their lives—just like Social Security. This is especially important for women, who are likely to live longer than men but whose lower incomes mean they have less in savings for retirement. According to the Employee Benefits Research Institute, among those aged 21 to 64, the typical woman’s 401(k) balance is 59 percent of the typical man’s (\$10,000 v. \$17,000); the typical woman’s IRA balance is two-thirds of his (\$8,800 v. \$13,000); and women are less likely than men to have either a 401(k)-type plan or IRA.

In short, under a private accounts plan, it is likely that the federal government will have to play an active role in the annuities market, and probably act as a guarantor, to make sure that the annuities purchased with private accounts—which Americans would be counting on to provide their basic retirement security—are nondiscriminatory, adjusted for inflation, and secure for the rest of their lives. But Social Security does that already, and at much lower cost than could be achieved through a new system.

*Private accounts would jeopardize benefits for retired spouses and widows*

What would happen to spouses and surviving spouses if private accounts substituted for Social Security is a question of critical importance to women. Currently, more than half of all women receiving Social Security get a benefit as a spouse, surviving spouse, or divorced spouse. Social Security assures the spouse of a retired worker a benefit equal to 50 percent of the worker’s benefit; the surviving spouse, a benefit of 100 percent, assuming both retire at full retirement age. Divorced spouses and divorced surviving spouses are entitled to the same benefits as current spouses, after a ten-year marriage. Spousal benefits are paid in addition to benefits for the worker; they do not reduce the Social Security benefit the worker receives.

The current recipients of spousal benefits include millions of women who rely entirely on the spousal benefit, because they have not been in the paid labor force for the ten years (forty quarters) necessary to earn Social Security retirement benefits on their own work record. For example, about 7.5 million women age 65 and older receive Social Security benefits as widows, and half of them do not qualify for any other benefit. Recipients of spousal benefits also include millions of women who have earned a benefit on their own work records, but—because their lifetime earnings are lower than their husband’s—get a boost from the spouse or widow benefit.

In the future, because more women are working in the paid labor force, more women will qualify for benefits on their own work record. But women still earn less than men and still are more

likely to take time out of the labor force for caregiving. So their lifetime earnings are still likely to be lower than their husbands'—whom they are still likely to outlive. Thus, the Social Security actuaries project that forty years from now, about 40 percent of women will still be receiving benefits as a spouse or widow, not just on their own work records.

The Administration has provided some information since February about how its private accounts plan would operate for retired workers: what kind of investment options they would be offered; that accounts would have to be saved for retirement; that workers would have to purchase an annuity to assure themselves of monthly income above the poverty level; that workers could leave their accounts to anyone they choose. But the Administration has said almost nothing about how its plan for private accounts would affect benefits for spouses and surviving spouses.

To illustrate what substituting private accounts for Social Security might mean for wives and widows when they retire, let's consider the situation of Michael and Sarah, who marry, live on a small farm in Iowa—or perhaps a small ranch in Montana—and retire in 2071. Assume that Michael's income puts him in the average earner category. Sarah has less than ten years in the paid labor force.

What happens when they retire? Under the current system, Michael will get a retired worker benefit of about \$2,200 a month (the same as Jamie in the previous example). Sarah will get a separate spousal benefit of \$1,100. Together, Michael and Sarah would have a combined income of \$3,300 a month. When Sarah is widowed, her benefit would go up to 100 percent of Michael's benefit, \$2,200, which she would receive as long as she lived.

Now assume that Congress adopts a plan that price-indexes benefits, and includes a private accounts plan like the one the Administration has proposed.

If Michael, like Jamie, another average earner, contributed to a private account, his traditional Social Security benefit would drop to around \$200 per month. Would this be the basis for determining Sarah's benefit as a spouse or widow? If so, Sarah's benefit as a spouse would be about \$100 per month. Together, Michael and Sarah would have a Social Security benefit of only about \$300 a month.

There are various ways the offset reduction, or privatization tax, that reduces Social Security benefits when taxes have been paid into private accounts, could be handled in the case of married couples. (See NASI, *Uncharted Waters*.) But the plans with offsets that have been developed so far have one common feature: they all would reduce Social Security benefits for a spouse or widow who receives benefits on the account holder's work record. (See NASI, *Uncharted Waters*.) In other words, Sarah, too, would end up paying for Michael's choice of a private account with a reduction in her Social Security benefit as a spouse and as a widow.

The concept of the offset or privatization tax is that a worker who chooses to put payroll taxes into a private account instead of Social Security pays back the Trust Fund with interest out of Social Security benefits—but gets the account in exchange, for better or worse. But what is a

spouse or widow assured of getting from the account in exchange for the cut in her guaranteed Social Security benefits?

When Michael retires, under the Administration's plan and most private accounts plans, he would be required to purchase an annuity with his account, because his remaining Social Security benefit is so far below the poverty level. But what kind of an annuity? If he took all the money in his account, and bought a single-life annuity to provide himself with income for the rest of his life, he, like Jamie, would receive payments of about \$924 a month, using a risk-adjusted rate of return, to supplement his \$200 per month Social Security benefit.

And where would that leave Sarah? Together, they would have an income of \$1,230 a month to live on. But, unlike Social Security, Michael's annuity will not provide a separate, supplementary benefit to Sarah as a spouse. And what happens when Sarah is widowed? Because Michael used all the proceeds in his account to buy an annuity to provide himself with a modest income, there's nothing for Sarah to inherit. Because he bought a single-life annuity, when he dies, the payments stop. Sarah would get nothing from the account as a widow to supplement a Social Security widow's benefit that could be about \$200 a month.

Could a widow be left with nothing? The President has said that his plan would require workers to purchase an annuity to make sure they don't spend their accounts too quickly and end up poor. But he has not said that his plan would require a married worker to purchase an annuity that provides a benefit for the surviving spouse. And he has repeatedly said that accounts could be left to anyone you choose; so there is no guarantee that Sarah would inherit, even if there were assets left in the account.

Given the importance of spousal benefits to women, now and in the future, it is disturbing that these benefits have received so little attention. But there may be a reason for the silence on these issues. With private accounts—which represent a finite pool of assets—there are real and difficult trade-offs involved. To provide payments for Sarah as a widow, Michael will have to accept lower payments during his lifetime for the two of them. If Sarah is a few years younger than Michael, rather than the same age, the payments will be lower still. If he also has to make provision for a minor or disabled adult child who may be eligible for Social Security payments on his work record, the account will provide even less income to him and Sarah.

*Private accounts would jeopardize benefits for young widowed mothers and spouses caring for children*

Social Security spousal benefits are not only important to women of retirement age. More than 182,000 young widowed mothers and 150,000 wives of disabled or retired workers caring for children receive Social Security benefits, along with over three million children. The surviving spouse of a deceased worker or the spouse of a disabled worker caring for children is eligible to receive monthly benefits, adjusted for inflation, until the children turn 16; the children of the worker receive benefits until they turn 18 (19 if in school).

For many families, Social Security provides the only life and disability insurance protection they have. And its protections are valuable: for a young family (27-year-old worker with average



earnings, a spouse, and two young children), Social Security provides the equivalent of a \$400,000 life and \$350,000 disability insurance policy.

These benefits are especially important to women of color and their children. For example, African American women are twice as likely as white women to be receiving benefits as a young widowed mother and three times as likely to be receiving a benefit as the spouse of a disabled worker caring for children. About 18 percent of African American beneficiaries are children, compared to only 8 percent of all beneficiaries, and African American children are almost four times more likely to be lifted out of poverty by Social Security than are white children.

These benefits are likely to be cut under a private accounts plan that relies primarily on benefit cuts to restore solvency. And private accounts themselves are likely to provide little if any assistance to these women and children. The account of a worker who dies or is disabled at a young age would be small. It would provide little additional support for a woman raising young children, even if she had access to the funds in the account when disaster struck – and she might not. The Administration has said that accounts could be left to anyone, so a young widow might not inherit. Even if she did inherit, the Administration has said that accounts must be saved until retirement, so a young widow might not have access to the funds until she retired. Moreover, a widow probably would not inherit the account free and clear; she would also inherit the obligation to repay the debt associated with the private account out of her Social Security benefits under the plan developed by the President’s Commission and the so-called “progressive price indexing” proposal. (Under the Commission plan, heirs other than the surviving spouse would not be required to pay back the Trust Fund out of a reduction in their Social Security benefits; this would create an incentive for a worker to leave the account to someone other than the widow, if that was allowed.)

*Dividing private accounts at divorce would involve allocating the cuts in Social Security benefits that accompany the accounts, as well as any assets*

Social Security provides benefits to divorced spouses and surviving spouses who have been married for at least ten years. Benefits for divorced spouses are calculated in the same way as benefits for spouses and surviving spouses, based on the full work history of the higher-earning spouse, not just the earnings during the period of the marriage. As with other spousal benefits, they can be as much as 50 percent of the higher-earning spouse’s benefit while the higher earner is alive, and 100 percent when the divorced spouse is widowed. About a million women receive benefits, at least in part, as a divorced spouse or widow, and these benefits are a crucial source of income for this economically vulnerable group of women.

To receive benefits as a divorced spouse, a woman provides documentation of the marriage and divorce to the Social Security Administration when she applies for Social Security benefits; there is no need to seek these benefits during the divorce. Moreover, the payment of Social Security benefits to a divorced spouse does not affect the benefits paid to the worker or his or her current spouse or surviving spouse, eliminating tension and disputes.

Among the many unanswered questions about private accounts is how they would be divided in case of divorce, and how the division would affect the Social Security benefits of each spouse.

The Administration has said that accounts could be divided at divorce, but it is unclear whether that division would be automatic or whether a spouse would have to get the court to divide the account(s) during the divorce. Many women already lose out on a share of their spouse's retirement plan, either because they had no lawyer and didn't know to ask, or because their lawyer was not knowledgeable about dealing with pensions. And it is unclear what would happen at divorce if only one spouse chose to contribute to a private account—especially if the spouse with the account was the lower earner.

If the divorced spouse gets a share of an account at divorce, there are likely to be other consequences. Every dollar contributed to a private account must be repaid – with interest – out of Social Security benefits. So if a divorced wife gets a share of her husband's private account, she is likely to get the debt that goes with it – which she would have to repay out of her own, probably smaller, already reduced, Social Security benefits.

### **Options for Strengthening Social Security**

While Social Security faces a long-term financing shortfall, it hardly qualifies as a crisis. Social Security can pay 100 percent of promised benefits for over 35 to 45 more years, and 70 to 80 percent of promised benefits from payroll taxes, after the reserves in the Trust Fund have been spent down. In contrast, when Congress acted on the recommendations of the Greenspan Commission in 1983 to extend the solvency of Social Security and build up the Trust Fund, Social Security was within months of exhausting the Trust Fund and being unable to pay full benefits. To put Social Security's financing challenges into perspective: the cost of eliminating the long-term shortfall is just one-fifth to one-third the cost of making the 2001 to 2003 tax cuts permanent. So, while it is better to deal with the shortfall sooner than later, Congress has the time to get this right.

There are various options for strengthening Social Security's finances that would not require cutting benefits for working Americans and their families. For example:

Only earnings up to \$90,000 are subject to Social Security taxes. A clerical worker earning \$25,000 a year pays Social Security taxes on 100 percent of her wages; a manager earning a salary of \$270,000 pays Social Security taxes on only a third of his. Raising the tax cap would raise revenue and improve the progressivity of Social Security.

According to the Office of the Chief Actuary of Social Security, if all wages were taxed and counted toward benefits using the current formula, 93 percent of the long-term shortfall would be eliminated. With an adjustment in the benefit formula for the very highest earners, this approach could eliminate 100 percent of the shortfall. If the tax cap was raised gradually, over the next decade, so that 90 percent of wages were subject to tax as they have been historically, 40 percent of the shortfall would be eliminated. If this change was made effective immediately, or the tax cap was raised above 90 percent, more than 40 percent of the shortfall could be closed.

Alternatively, or in addition, other revenue could be dedicated to Social Security. (Note that the financing of plans for private accounts relies heavily on general revenue transfers, without specifying the source of funds.) For example, retaining the estate tax at the 2009 level—when it

will apply only to estates worth over \$3.5 million for an individual, \$7 million for a couple, exempting all but about 0.5 percent of estates—and dedicating the revenue to Social Security would close about 27 percent of the long-term shortfall. Rolling back the recent tax cuts for the wealthiest one percent of Americans (income above \$300,000 a year) would generate about enough revenue to close the long-term shortfall. (For a discussion of these and other options, see Reno and Lavery, National Academy of Social Insurance Issue Brief No. 18, *Options to Balance Social Security Funds Over the Next 75 Years*, February 2005.)

While Social Security is running surpluses, and assets in the Trust Fund will continue to grow for another two decades, the rest of the federal budget is running huge deficits, primarily as a result of large recent tax cuts. Getting the rest of the government's fiscal house in order by restoring the revenue base will make it easier on the rest of the budget when the time comes to redeem the Treasury bonds held by the Social Security Trust Fund.

Finally, a true Social Security reform plan should consider ways to improve benefits for the most vulnerable Social Security recipients, including lifetime low earners and poor widows and widowers. These should be real improvements, not just measures that mitigate the harsh benefit cuts that are part of a private accounts plan for certain groups. In addition, Congress should consider targeted measures to increase savings among low- and moderate-income individuals and families.

## **Conclusion**

Through Social Security, Americans contribute while they are working to earn protections for themselves and their families when income is lost due to retirement, disability, or death. Risks are shared, across the country and the generations. This system—so vital to millions of families—should not be dismantled by shifting to a system of private accounts that would leave individuals to face life's risks on their own.